



Shire of Northam
Heritage, Commerce and Lifestyle

Shire of Northam

Minutes

Audit Committee Meeting

13 November 2018



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1. DECLARATION OF OPENING

The Shire President, Cr C R Antonio declared the meeting open at 3:02pm.

2. ATTENDANCE

Committee:

Shire President
Councillors

Cr C R Antonio
Cr A J Mencshelyi

Staff:

Chief Executive Officer
Executive Manager Corporate Services
Accountant
Payroll Officer

J B Whiteaker
C Young
Z.Macdonald
J.White

Auditor:

Moore Stephens

Greg Godwin

2.1 APOLOGIES

Councillors

Cr C L Davidson
Cr J Proud

2.2 APPROVED LEAVE OF ABSENCE

Nil.

3. DISCLOSURE OF INTERESTS

Nil

4. CONFIRMATION OF MINUTES

4.1 COMMITTEE MEETING HELD 7 SEPTEMBER 2018

RECOMMENDATION / COMMITTEE DECISION

Minute No: AU110

Moved: Cr A J Mencshelyi

Seconded: Cr C R Antonio

That the minutes of the Audit Committee meeting held on Friday, 7 September 2018 be confirmed as a true and correct record of that meeting.

CARRIED 2/0

5. COMMITTEE REPORTS

5.1 IT AUDIT SERVICE REPORT

Address:	N/A
Owner:	N/A
Applicant:	N/A
File Reference:	1.6.1.6
Reporting Officer:	Colin Young Executive Manager Corporate Services
Responsible Officer:	Colin Young Executive Manager Corporate Services
Officer Declaration of Interest:	Nil
Voting Requirement:	Absolute Majority
Press release to be issued:	No

BRIEF

This report is for Council to receive the IT Service Report and the adoption of a budget amendment.

ATTACHMENTS

Nil – I/T audit was provided to all Committee Members and is available to all Elected Members. Is not contained in the appendix due to the confidential nature of the report.

BACKGROUND / DETAILS

In June 2018 via the audit committee Council adopted that an internal audit was to be carried out on the resourcing requirements of Council's Information Technology Resourcing. Furthermore, Council's network was hit by a crypto virus on 18 August 2018, this attack highlighted the need for a review of Council's network to be reviewed immediately, as such Focus Networks was contracted to carry out a review of Councils IT Infrastructure including a written quote to remedy any problems found. The objectives were;

1. Review the Current IT Environment
 - a. Physically inspect certain core IT areas
 - b. Electronically inspect certain core IT areas
 - c. Document current configurations
2. Compare to Industry Best Standards
 - a. Generate a Technology Scorecard
 - b. Generate a priority Timeframes

- c. Highlight the differences
3. Make Recommendations for the Future
 - a. Rate core IT areas based on risk
 - b. Document areas of concern
 - c. Suggest the implications
4. Suggest Budget Estimates
 - a. Propose alternative solutions
 - b. High and medium IT areas
 - c. Include hardware/software/labour

The Audit was designed to provide the CEO and the Council with an overview of the current status of vital IT infrastructure and the requirements needed moving forward.

The core areas audited and documented where;

1. Plans Procedures & Designs
2. Environment & Communications
3. Computers & Network Hardware

An additional call for quotes including a needs assessment was called from JH Computer Service and Perfect Computer Solutions (Councils current provider).

At the time of reporting Perfect Computer Solutions had not supplied a needs assessment, JH Computer Service had highlighted the same areas requiring urgent attention, as raised in the audit by Focus Networks.

CONSIDERATIONS

Strategic Community / Corporate Business Plan

Theme Area 6: Governance & Leadership

Outcome 6.3: The Shire of Northam council is a sustainable, responsive, innovative and transparent organisation.

Financial / Resource Implications

\$2,200 plus GST for the report. Recommended expenditure for the upgrading of Councils infrastructure of \$79,830 plus GST.

Legislative Compliance

There is no legislative requirement to hold an IT Service Review, however it is best practice.

Policy Implications

N/A.

Stakeholder Engagement / Consultation

All senior staff were asked to review the document and make any comments.

Risk Implications

- Reputational – Moderate
 - Any disruption to Councils IT infrastructure impacts members of the community whom need assistance either in person or through Councils online services. These delays inconvenience the Community giving them a poor reflection of dealing with Council.
- Financial - High
 - Any failure of the IT network impacts the productivity of all office employees and emergency fixes cost more than programmed maintenance.
- Compliance – N/A
- Legal – N/A

Failure to carry out the recommended Network upgrades may result in lost time due to ICT disruptions, resulting in productivity loss and inconvenience to the Shire of Northam’s residents.

OFFICER’S COMMENT

On Wednesday 5 September 2018 Focus Networks conducted an IT Audit on the Shire of Northam’s IT Infrastructure, after the site visit, a follow up analysis was carried out to give an insight into the current IT infrastructure and future requirements of Council.

A copy of the report is attached for Council’s perusal. The major areas identified as high risk for improvement works are detailed below;

- Anti-virus
- IT Support
- Server Upgrade
- Storage
- Backups
- Windows
- Domain

The following assessment was carried out on the 3 IT companies that quoted on the upgrading of Councils infrastructure;

IT Company		Timeliness	Experience of Key Personnel	Previous Company Experience	Total
		20%	60%	20%	100%
Prefect Solutions	Computer	N/A	N/A	N/A	
	Focus Networks	20%	58%	20%	98%

JH Computer Services	20%	58%	20%	98%
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Due to past IT issues not being resolved and the failure to submit a proposal, Perfect Computer Solutions have been considered by staff not to be a viable option.

Both Focus Network and JH computer Services have been assessed as meeting Council's current and future needs. The quote received from Focus Network is based on the main servers being hosted offsite, whilst the quote from JH Computer Service is for the servers remaining on site. The following table sets out the associated costs with each option.

Upgrading of Server and Network			
Company	Ongoing Maintenance per hour	One off Costs	Annual Costs
JH Computer Services	\$160	\$79,830	\$7,300
Focus Networks	\$180	\$32,286	\$95,172
PCS	\$170	N/A	N/A

After reviewing the received quotes, staff have appointed JH Computer Services to carry out critical components of the upgrade including backups, firewalls and the new server, it will require the following budget amendment, the amendment has a nil effect on the overall budget, the amendment will enable finance staff to capitalise the entire works. Budgeted salaries relating to IT are under budget due to the timing of the appointment of the IT officer and reduced hours due to the transitioning period from their previous job.

IT Budget Amendment				
Account	Description	Current Budget	Adjustment	Amended Budget
	Capital			
04059034	Servers	30,000	49,830	79,830
04057002	General IT	134,496	-20,000	114,496
04052122	IT Consulting	30,000	-10,000	20,000
04052122	IT Consulting	20,000	15,000	35,000
	Insurance			
14563003	Claims	-15,000	-15,000	-30,000
	Admin building			
04052142	(materials)	45,223	-5,000	40,223
04051002	Admin Salaries	134,496	-14,830	119,666
Total Budget		379,215	0	379,215

RECOMMENDATION / COMMITTEE DECISION

Minute No: AU111

Moved: Cr A J Mencshelyi

Seconded: Cr C R Antonio

That Council

1. Receive the IT Service Report as attached.
2. Report back to Council on progress made at against items highlighted in the report.
3. Adopts the budget amendment as presented
 - Increase GL Account 04059034 \$49,830
 - Decrease GL Account 04057002 \$20,000
 - Increase Insurance Revenue \$15,000
 - Increase GL Account 04052122 \$5,000
 - Decrease GL Account 04052142 \$5,000
 - Decrease GL Account 04051002 \$14,830

**ABSOLUTE MAJORITY VOTE REQUIRED
CARRIED 2/0**

Discussion

- Cr Antonio asked whether the Audit Committee needed to propose additional resources at the budget review, Mr Young highlighted that he believed the current allocations were enough; however, will conduct a review and present it at the budget review if required. Mr Young explained the matter of urgency following the Cyber Attack to award the works and address all high risk areas immediately.
- Cr Antonio drew attention to the Scorecard on Page 19. Mr Young informed the committee that all the critical items had now been attended to and that the server and upgrades were scheduled and progressing quickly
- Cr Mencshelyi asked about the Telstra contract and looking at getting improved performance. Mr Young explained that the new NBN contract in place with Telstra had resolved the majority of Councils connectivity issues.

5.2 SHIRE OF NORTHAM 2017/18 ANNUAL REPORT

Address:	N/A
Owner:	N/A
Applicant:	N/A
File Reference:	8.2.7.5
Reporting Officer:	Chief Executive Officer Jason Whiteaker
Responsible Officer:	Chief Executive Officer Jason Whiteaker
Officer Declaration of Interest:	Nil
Voting Requirement:	Absolute Majority
Press release to be issued:	Yes – public notice

BRIEF

For Council to consider and if acceptable receive the Annual Report for the year ended 30 June 2018 for the Shire of Northam.

ATTACHMENTS

The below attachment has been provided to Elected Members as a separate attachment to this agenda and minutes.

Attachment 1: Annual Report 2017/18.
Attachment 2: Management Report

BACKGROUND / DETAILS

The Annual Financial Report for the year ended 30 June 2018 was completed and presented to the Shire of Northam's auditor for audit. The Audit was completed and signed off on 9 November 2018.

Section 5.54 'Acceptance of Annual Reports' of the Local Government Act 1995 requires an Annual Report to be accepted by Council by 31 December in each year unless the Auditors Report is not available in time. The Local Government Act 1995 Section 5.54(2) requires that if the Annual Report is not accepted by the Local Government by 31 December then it must be presented within two (2) months of the Auditors Report becoming available.

CONSIDERATIONS

Strategic Community / Corporate Business Plan

Theme Area 6: Governance & Leadership

Outcome 6.2: Residents and other stakeholders are actively listened to and their input into decision-making processes is valued.

- Decisions made by the Shire of Northam are communicated and the reasoning clearly articulated to residents and stakeholders; and
- Effective and efficient two-way communication between the Shire of Northam and stakeholders.

Outcome 6.3: The Shire of Northam council is a sustainable, responsive, innovative and transparent organisation.

- Improve community access to information to ensure they are able to be informed of our activities;
- Encourage active community participation in our local government;
- Maintain a high standard of corporate governance; and
- Undertake our regulatory roles in a safe, open, accountable and respectful manner.

Outcome 6.4: The Elected Members of the Shire of Northam provide accountable, strong and effective community leadership.

- Open, accountable and effective decision making.

Financial / Resource Implications

It is estimated that advertising costs for the availability of the Annual Report and Annual Electors General meeting will be approximately \$1,500.00 including GST which will be charged to account 040521920 (Advertising).

Legislative Compliance

Local Government Act 1995 Section 5.53 Annual Reports;

- (1) *The local government is to prepare an annual report for each financial year.*
- (2) *The annual report is to contain -*
 - (a) *a report from the mayor or president; and*
 - (b) *a report from the CEO; and*
 - [(c), (d) deleted]*
 - (e) *an overview of the plan for the future of the district made in accordance with section 5.56, including major initiatives that are proposed to commence or to continue in the next financial year; and*
 - (f) *the financial report for the financial year; and*
 - (g) *such information as may be prescribed in relation to the payments made to employees; and*
 - (h) *the auditor's report for the financial year; and*
 - (ha) *a matter on which a report must be made under section 29(2) of the Disability Services Act 1993; and*

- (hb) details of entries made under section 5.121 during the financial year in the register of complaints, including —
- (i) the number of complaints recorded in the register of complaints;
 - (ii) how the recorded complaints were dealt with; and
 - (iii) any other details that the regulations may require; and
 - (i) such other information as may be prescribed.

Local Government Act 1995 Section 5.54 Acceptance of Annual Reports:

- (1) Subject to subsection (2), the annual report for a financial year is to be accepted* by the local government no later than 31 December after that financial year.

* Absolute majority required.

- (2) If the auditor's report is not available in time for the annual report for a financial year to be accepted by 31 December after that financial year, the annual report is to be accepted by the local government no later than 2 months after the auditor's report becomes available.

Local Government Act 1995 Section 5.55 Notice of Annual Reports:

The CEO is to give local public notice of the availability of the annual report as soon as practicable after the report has been accepted by the local government.

Policy Implications

Nil.

Stakeholder Engagement / Consultation

Should the 2017/18 Annual Report be endorsed at the Ordinary Council meeting held on 21 November 2018, it is intended that local public notice be published advising of the Annual Electors Meeting and 2017/18 Annual Report availability. The notice shall be placed into the following;

- West Australian – Saturday, 24 November 2018;
- Avon Valley Advocate - Wednesday, 28 November 2018.

Notices will also be placed on our Notice Boards, Facebook and the Shire of Northam website.

Risk Implications

- Reputational – Nil.
- Financial – Nil.
- Compliance - Low
 - Measures taken to ensure compliance with relevant legislation.
- Legal – Nil.

OFFICER'S COMMENT

The preparation of the Annual Report has adopted a different methodology in calculating the (supplementary ratio) asset consumption ratio which better reflects the condition of Councils infrastructure. As such the 2016/17 & 2015/16 ratios have also been adjusted for consistency.

The table below outlines the reconciliation between the budgeted surplus and the actual surplus as presented in the Annual Report, the required timing adjustments will be carried out as part of the budget review process. A small surplus of \$31,514 exists which staff are recommending is transferred to the Stormwater & Drainage Projects Reserve.

Surplus Reconciliation	2017/18	Adjustment
Budgeted Surplus	5,448,818	
WANDRRA Accrued Income	(389,592)	This income had been initially accounted for as accrued income, however as not yet received, it will be accounted for as revenue in the 2018/19 financial year
Jennapullin Road	(146,600)	C/fwd to the 2018/19 financial year however expended 2017/18
Roadwise Grant	18,000	This grant fund expenditure was not carried forward
CCTV Grant Income	10,723	Income was budgeted to be received 2017/18 however was actually received 2018/19
Cemetery Toilets	(10,000)	C/fwd to the 2018/19 financial year however expended 2017/18
Adjusted Total	4,931,349	
Financial Report Actual Surplus	(4,962,863)	
Unallocated	(31,514)	

Council is requested to accept the Annual Report for the year ended 30 June 2018 for the Shire of Northam.

Discussion with Auditor

Mr Godwin Thanked the Audit Committee for inviting him to attend the meeting in person.

- Mr Godwin ran through the Shire of Northam's Audit Report in the order presented, key items discussed include:
 - The method and standards that the audit was undertaken in accordance with, and the authority and requirements for the Auditor.

- It was outlined that the Report has been presented in a timely manner with minimal adjustments required which demonstrates sound financial management.
- Mr Godwin ran through the Shire of Northam's Management Report stating where there were no areas mentioned within the report
- Mr Godwin raised the adjustments that were carried out to the Asset Consumption Ratio, and that it was still greater than the required benchmark which is .50. He explained the recalculated ratio is based on current replacement cost over depreciated replacement cost whereas previously it had been based on Fair Value over depreciated Fair Value.
- Mr Godwin also spoke about changes that may be expected under the Auditor General
 - Ratios, the Auditor General reports poor ratios as compliance issues
 - Will not report on compliance issues if they believe they are not significant
 - Scope, the Auditor General requires additional documentation to be supplied
 - The probability of the choice of Auditor being the existing Auditors for the first 12 months. The process is then put out to Tender and once appointed will remain the same for a 5 year period
- Mr Godwin suggested the Council review its treatment of annual leave balances as there were a small number of employees with significant balances of annual leave. This could cost the Council more in payments as time goes by and hourly rates increase.
- Councillor Antonio asked how Councils Ratios were tracking, Mr Godwin advised that currently all of Councils ratios met the Department of Local Governments benchmarks so would not expect to have a problem. Mr Whiteaker highlighted that the ratios were purely an indicator and that councils Asset Management Plan was the preferred management tool for Council to consider when attaining the condition of their assets.
- Councillor Mencshelyi raised the question regarding a decrease in fair value of some assets. It was explained that where council was in the cycle and the unit value of assets could significantly affect the ratio. With regards to the placing of the Shire with other Shires, Mr Godwin highlighted that Council was one of only a few audited by Moore Stephens that meet the benchmark for all ratios.
- Mr Young explained that a 10 cent movement in unit cost per square meter in the roads valuation would result in a 1.4 million dollar movement on the Fair value of the asset group.
- Mr Godwin illustrated that operating ratios could be influenced by depreciation charges as an operating expense and that it would be

prudent to review remaining useful life and depreciation rates after the fair valuation of asset classes has been undertaken.

- Mr Godwin highlighted contaminated sites as being an area raised by the Auditor General for Councils to consider.

RECOMMENDATION / COMMITTEE DECISION

Minute No: AU112

Moved: Cr A J Mencshelyi

Seconded: Cr C R Antonio

That Council endorse by Absolute Majority;

1. In accordance with Sections 5.53 and 5.54 of the *Local Government Act 1995*, accepts the Annual Report for the 2017/18 financial year; and
2. In accordance with Section 5.55 of the *Local Government Act 1995*, authorise the Chief Executive Officer to give public notice of the availability of the Annual Report from Saturday, 24 November 2018.
3. Transfer the unallocated surplus funds of \$31,514 to the Stormwater & Drainage Projects Reserve.

**ABSOLUTE MAJORITY VOTE REQUIRED
CARRIED 2/0**

5.3 2017/18 ANNUAL ELECTORS GENERAL MEETING

Address:	N/A
Owner:	N/A
Applicant:	N/A
File Reference:	8.2.7.1
Reporting Officer:	Chief Executive Officer Jason Whiteaker
Responsible Officer:	Chief Executive Officer Jason Whiteaker
Officer Declaration of Interest:	Nil
Voting Requirement:	Simple Majority
Press release to be issued:	Yes – public notice

BRIEF

For Council to consider and endorse the date for the Annual Electors General Meeting set by the Chief Executive Officer.

ATTACHMENTS

Attachment 1: Nil.

BACKGROUND / DETAILS

The Annual Electors General Meeting is to be held within 56 days of the local government accepting the Annual Report.

A requirement of setting the date is that 14 days local public notice is required for advertising the meeting. Providing the Annual Report is endorsed at the Ordinary Council meeting held on 21 November 2018, it is recommended that this be held prior to the December Council Forum which is scheduled on 12 December 2018.

CONSIDERATIONS

Strategic Community / Corporate Business Plan

Theme Area 6: Governance & Leadership

OUTCOME 6.2: Residents and other stakeholders are actively listened to and their input into decision-making processes is valued.

- Decisions made by the Shire of Northam are communicated and the reasoning clearly articulated to residents and stakeholders; and

- Effective and efficient two-way communication between the Shire of Northam and stakeholders.

Outcome 6.3: The Shire of Northam council is a sustainable, responsive, innovative and transparent organisation.

- Improve community access to information to ensure they are able to be informed of our activities;
- Encourage active community participation in our local government;
- Maintain a high standard of corporate governance; and
- Undertake our regulatory roles in a safe, open, accountable and respectful manner.

Outcome 6.4: The Elected Members of the Shire of Northam provide accountable, strong and effective community leadership.

- Open, accountable and effective decision making.

Financial / Resource Implications

It is estimated that advertising costs for the availability of the Annual Report and Annual Electors General meeting will be approximately \$1,500 including GST which will be charged to account 040521920 (Advertising).

Legislative Compliance

Local Government Act 1995 Section 5.27 Electors' general meetings:

- (1) A general meeting of the electors of a district is to be held once every financial year.
- (2) A general meeting is to be held on a day selected by the local government but not more than 56 days after the local government accepts the annual report for the previous financial year.
- (3) The matters to be discussed at general electors' meetings are to be those prescribed.

Local Government (Administration) Regulation No 15 Matters for discussion at general electors' meetings - s. 5.27(3)

For the purposes of section 5.27(3), the matters to be discussed at a general electors' meeting are, firstly, the contents of the annual report for the previous financial year and then any other general business.

Local Government Act 1995 Section 5.29 Convening Electors' Meetings:

- (1) The CEO is to convene an electors' meeting by giving –
 - (a) at least 14 days' local public notice; and
 - (b) each council member at least 14 days' notice, of the date, time, place and purpose of the meeting.
- (2) The local public notice referred to in subsection (1)(a) is to be treated as having commenced at the time of publication of the notice under

section 1.7(1)(a) and is to continue by way of exhibition under section 1.7(1)(b) and (c) until the meeting has been held.

Policy Implications

Nil.

Stakeholder Engagement / Consultation

Providing the 2017/18 Annual Report is endorsed at the Ordinary Council Meeting held on 21 November 2018. It is intended that public notice shall be placed into the following;

- West Australian – Saturday, 24 November 2018;
- Avon Valley Advocate - Wednesday, 28 November 2018.

Notices will also be placed on our Notice Boards, Facebook and the Shire of Northam website.

Risk Implications

- Reputational – Nil.
- Financial – Nil.
- Compliance - Low
 - Measures taken to ensure compliance with relevant legislation.
- Legal – Nil.

OFFICER'S COMMENT

Council is requested to endorse the date proposed, in accordance with the Local Government Act, for the Annual Electors Meeting.

RECOMMENDATION / COMMITTEE DECISION

Minute No: AU113

Moved: Cr A J Mencshelyi

Seconded: Cr C R Antonio

That Council holds the Annual Electors General Meeting on Wednesday, 12 December 2018 at 5.00pm in the Shire of Northam Council Chambers and authorise the Chief Executive Officer to give public notice of the meeting from Saturday, 24 November 2018.

CARRIED 2/0

5.4 Local Government Auditing Reforms

Address:	N/A
Owner:	N/A
Applicant:	N/A
File Reference:	8.2.7.5
Reporting Officer:	Zoe Macdonald Accountant
Responsible Officer:	Colin Young Executive Manager Corporate Services
Officer Declaration of Interest:	Nil
Voting Requirement:	Simple Majority
Press release to be issued:	No

BRIEF

For Council to receive the guide as supplied by the Department of Sport and Cultural Industries. A Guide to Local Government Audit Reforms June 2018

ATTACHMENTS

Attachment 1: A Guide to Local Government Auditing Reforms June 2018

BACKGROUND / DETAILS

On 24 August 2017, amendments to the *Local Government Act 1995* were passed by State Parliament that will enable the Auditor General to audit council finances and performance.

The changes to the Act have been supported by amendments to the, *Local Government (Financial Management) Regulations 1996* and *Local Government (Audit Regulations)* gazetted on Tuesday, 26 June 2018,

Unless otherwise specified, the changes to the regulations commence on 27 June 2018. Regulations 13 and 14 of the *Local Government (Financial Management) Regulations 1996* commence on 1 July 2018.

CONSIDERATIONS

Nil

Strategic Community / Corporate Business Plan

Theme Area 6 Governance and Leadership

Outcome 6.3: The Shire of Northam Council is a sustainable, responsive, innovative and transparent organisation.
Maintain a high standard of corporate governance;
Ensure robust financial management

Objective:

Financial / Resource Implications

Nil

Legislative Compliance

Local Government (Financial Management) Regulations 1996

Local Government Act 1995

Local government (Audit) Regulations 1996

Policy Implications

Nil

Stakeholder Engagement / Consultation

Nil

Risk Implications

- Reputational – Nil
- Financial - Nil
- Compliance - Nil
- Legal –Nil

OFFICER'S COMMENT

The following changes have been made to the *Local Government Act 1995*

Auditor General will be responsible for financial and supplementary audits

The reforms made in 2017 have expanded the Auditor General's scope of powers to undertake and report on local government financial audits and provide for the independent oversight of the local government sector.

The Auditor General will take over responsibility for financial audits on a transitional basis as existing audit contracts expire. From 2020-21, all local governments will be audited by the Auditor General, regardless of whether their auditing contracts have expired. As the Council's contract for audit has expired at the end of the 2017/2018 financial year, Council now falls under the umbrella of the Auditor General.

New category of audits: performance audits

The 2017 reforms introduced a new category of audits: performance audits. These audits examine the economy, efficiency, and effectiveness of programs and organisations, including compliance with legislative provisions and internal policies.

The new legislation gives the Auditor General the power to conduct such audits, which may focus on a particular issue or theme, such as procurement practices, and may include individual or multiple local governments and related bodies. This is in line with the approach adopted in other jurisdictions

and with what applies to State Government agencies. Performance audits will be paid for by the State Government.

Publication of financial reports

Commencing with their 2017-18 annual report, local governments will be required to publish the annual report, including audit reports on the local government's official website within 14 days after the report has been accepted by the local government

Local government duties with respect to audits

Legislation now requires local governments to examine an audit report it receives and implement appropriate action in respect to the significant matters raised.

The following amendments are to the Local Government (Financial Management) Regulations 1996

Timeframe for review of financial management systems

Regulation 5 regarding the CEO's duties as to financial management has been amended to require the CEO to undertake a review of the appropriateness and effectiveness of the financial management systems and procedures from no less than once in every four financial years to no less than three financial years.

Timeframe for local governments to revalue assets

Regulation 17A(4) has been amended to require a local government to revalue an asset:

- whenever the local government is of the opinion that the fair value of the asset is likely to be materially different from its carrying amount; and
- in any event, within a period of at least 3 years but not more than 5 years after the day on which the asset was last valued or revalued.

Assets values under \$5,000

Amendments to Regulation 17A excludes assets valued under \$5,000. This regulation commences on 1 July 2018. It is recommended these are no longer capitalised rather they will be held on property registers.

The following are the Amendments to the Local Government (Audit) Regulations 1996

Role of the Audit Committee

With the transfer of auditing to the Auditor General, local government Audit Committees will have a new and important role.

The role of the Audit Committee has been amended so that the Audit Committee has greater involvement in assisting the CEO to carry out the review under Regulation 17 of the Audit Regulations of systems and procedures concerning risk management, internal control, and legislative compliance. The Audit Committee is empowered to 'monitor and advise'

the CEO in reviews of certain systems prescribed by the audit and financial management regulations

The Audit Committee will also support the auditor as required and have functions to oversee:

- the implementation of audit recommendations made by the auditor, which have been accepted by council; and
- accepted recommendations arising from reviews of local government systems and procedures

Role of the council assisting the auditor

Local governments are required to provide the auditor with a copy of their Strategic Community Plan, Corporate Business Plan or another plan or informing strategy. The powers to request documentation are consistent with the Auditor General's powers to request information of State Government agencies when conducting audits.

Timeframe for reviewing audit systems and procedures

An amendment to Regulation 17(2) requires the CEO to undertake a review of audit systems and procedures no less than once in every three financial years. This change will introduce consistency in CEO responsibilities to review financial management and audit systems and procedures in a timely manner.

Compliance Audit Return

Questions regarding the adoption of Integrated Planning and Reporting documents have been included as fields in the Compliance Audit Return.

RECOMMENDATION / COMMITTEE DECISION

Minute No: AU114

Moved: Cr A J Mencshelyi

Seconded: Cr C R Antonio

That Council receives the guide to Local Government Audit Reforms June 2018

CARRIED 2/0

Discussion

- Mr Young informed the Committee that the Fair Valuation cycle change to once every five years from once every three years would save the Council around \$20,000 in fees each year the valuation was not undertaken.
- That the audit cost to Council would likely double, due to the Auditor Generals involvement and attendance.
- Mr Young explained that it was now a requirement for the Audit Committee to be more involved with the regulation 17 audit under the Audit Regulations by ensuring risks highlighted are reviewed, it was noted that audit risks and actions taken by staff were already reported to the Committee.



A Guide to Local Government Auditing Reforms - June 2018

Attachment 1

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June 2018

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A Guide to Local Government Auditing Reforms – June 2018

Introduction

On 24 August 2017, amendments to the *Local Government Act 1995* were passed by State Parliament that will enable the Auditor General to audit council finances and performance.

The changes to the Act have been supported by amendments to the *Local Government (Financial Management) Regulations 1996* and *Local Government (Audit Regulations)* gazetted on Tuesday, 26 June 2018,

Unless otherwise specified, the changes to the regulations commence on 27 June 2018. Regulations 13 and 14 of the *Local Government (Financial Management) Regulations 1996* commence on 1 July 2018.

This guide has been prepared by the Department of Local Government, Sport and Cultural Industries (the Department) to inform local governments and auditors about the changes and replaces the guide published in September 2017.

Changes to the *Local Government Act 1995* made in 2017

Auditor General will be responsible for financial and supplementary audits

The reforms made in 2017 have expanded the Auditor General's scope of powers to undertake and report on local government financial audits and provide for the independent oversight of the local government sector.

The Auditor General will take over responsibility for financial audits on a transitional basis as existing audit contracts expire. From 2020-21, all local governments will be audited by the Auditor General, regardless of whether their auditing contracts have expired.

The Department has received advice that this termination requirement will not expose the State, the Director General, or local governments to any liability if audit contracts are cancelled as a result of the changes.

A local government may not appoint a person to be its auditor.

The Auditor General will be able to contract out some or all of the financial audits but all audits will be done under the supervision of the Auditor General.

As is currently the case, local governments will be responsible for meeting the costs of financial audits. The Auditor General will determine the fees for a financial audit.

The Department has published the status of each local government's audit arrangements. This will provide transparency so that members of the community are aware of whether or not the Auditor General has responsibility for a local government audit.

Amendments mean that regional subsidiaries and regional councils will be audited by the Auditor General in the same way as local governments. The Auditor General will have the power to dispense with a financial audit of a local government or regional subsidiary where the Auditor General believes this is appropriate.

The Auditor General must consult with the Minister for Local Government before exercising this power. This could be used, for example, if a regional council has ceased to operate but has not yet been wound up. If this power is exercised, the Auditor General must notify the Public Accounts Committee and the Estimates and Financial Operations Committee of Parliament.

The Auditor General must give the report on the financial audit to the Mayor / President of the local government, the CEO of the local government, and the Minister for Local Government.

New category of audits: performance audits

The 2017 reforms introduced a new category of audits: performance audits. These audits examine the economy, efficiency, and effectiveness of programs and organisations, including compliance with legislative provisions and internal policies.

The new legislation gives the Auditor General the power to conduct such audits, which may focus on a particular issue or theme, such as procurement practices, and may include individual or multiple local governments and related bodies. This is in line with the approach adopted in other jurisdictions and with what applies to State Government agencies. Performance audits will be paid for by the State Government.

The Auditor General publishes its audit program on the Auditor General's website.

Performance audit reports are submitted to both Houses of Parliament for the Public Accounts Committee and the Estimates and Financial Operations Committee. The report is also provided to the relevant local governments.

Publication of financial reports

Commencing with their 2017-18 annual report, local governments will be required to publish the annual report, including audit reports on the local government's official website within 14 days after the report has been accepted by the local government.

Local governments will be required to publish their annual report online regardless of who undertakes the audit.

Local government duties with respect to audits

Legislation now requires local governments to examine an audit report it receives and implement appropriate action in respect to the significant matters raised.

Local governments must prepare a report addressing the significant matters identified in the report and state what action the local government has taken or intends to take. This report must be provided to the Minister within three months of receiving the audit report. Within 14 days after the local government gives the report to the Minister, the CEO must publish a copy of the report on its official website.

Amendments to the Local Government (Financial Management) Regulations 1996

The following amendments to the *Local Government (Financial Management) Regulations 1996* have been made.

Timeframe for review of financial management systems

Regulation 5 regarding the CEO's duties as to financial management has been amended to require the CEO to undertake a review of the appropriateness and effectiveness of the financial management systems and procedures from no less than once in every four financial years to no less than three financial years. This change in combination with amendments to the provisions in the Audit Regulations related to reviewing auditing systems, will achieve greater consistency.

Timeframe for local governments to revalue assets

Regulation 17A(4) has been amended to require a local government to revalue an asset:

- whenever the local government is of the opinion that the fair value of the asset is likely to be materially different from its carrying amount; and
- in any event, within a period of at least 3 years but not more than 5 years after the day on which the asset was last valued or revalued.

These changes have been introduced to achieve greater consistency with the Australian Accounting Standards.

Assets values under \$5,000

Amendments to Regulation 17A excludes assets valued under \$5,000. This regulation commences on 1 July 2018.

Regulation 17B requires the CEO to take steps to protect excluded portable and attractive assets. This regulation requires a CEO to take all reasonable steps to prevent the theft or loss of non-consumable assets that are susceptible to theft or loss due to their portable nature and attractiveness for personal use or resale.

The language of this requirement is consistent with State Government requirements contained in Treasurer's Instruction 410 Record of Assets and has been revised following consultation with the local government sector.

A property register for portable and attractive items may be an appropriate means to properly record portable and attractive assets. The steps necessary to protect portable and attractive assets are a decision for each local government CEO.

Terminology

Amendments to the terminology used in the *Local Government (Financial Management) Regulation 1996* have been made to achieve consistency with the Australian Accounting Standards:

1. the statement from the CEO specified in Schedule 2 Form 1 has been modified replacing the part that states that annual financial report is in the opinion of the CEO properly drawn, with a statement that the annual financial report is 'based on proper accounts and records.'
2. clarification that the annual financial report complies with the *Local Government Act 1995* and, to the extent that they are not inconsistent with the Act, the Australian Accounting Standards.

Amendments to the Local Government (Audit) Regulations 1996

Role of the Audit Committee

With the transfer of auditing to the Auditor General, local government Audit Committees will have a new and important role.

The role of the Audit Committee has been amended so that the Audit Committee has greater involvement in assisting the CEO to carry out the review under Regulation 17 of the Audit Regulations of systems and procedures concerning risk management, internal control, and legislative compliance. The Audit Committee is empowered to 'monitor and advise' the CEO in reviews of certain systems prescribed by the audit and financial management regulations. The terms 'monitor and advise' have been selected following consultation with the sector.

The reforms are intended to help CEOs formulate recommendations to council to address issues identified in the reviews.

The Audit Committee will also support the auditor as required and have functions to oversee:

- the implementation of audit recommendations made by the auditor, which have been accepted by council; and
- accepted recommendations arising from reviews of local government systems and procedures.

These roles reflect the importance of the Audit Committee as a section of council charged with specific responsibilities to scrutinise performance and financial management. The regulations continue to allow for external membership of Audit Committees. Councils are encouraged to consider inviting appropriate people with expertise in financial management and audit to be members of their Audit Committee.

Role of the council assisting the auditor

Local governments are required to provide the auditor with a copy of their Strategic Community Plan, Corporate Business Plan or another plan or informing strategy. The powers to request documentation are consistent with the Auditor General's powers to request information of State Government agencies when conducting audits.

Timeframe for reviewing audit systems and procedures

An amendment to Regulation 17(2) requires the CEO to undertake a review of audit systems and procedures no less than once in every three financial years. This change will introduce consistency in CEO responsibilities to review financial management and audit systems and procedures in a timely manner.

Compliance Audit Return

Questions regarding the adoption of Integrated Planning and Reporting documents have been included as fields in the Compliance Audit Return.

Terminology

The following amendments for the terminology used in the Audit Regulations have been made:

- references to Executive Director have been replaced by Departmental CEO to reflect Machinery of Government changes; and

- references to the conduct of audits in regulation 9 have been updated to reflect language used in the Australian Accounting Standards.

For more information, please contact:

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6. URGENT BUSINESS APPROVED BY PERSON PRESIDING OR BY DECISION

Nil.

7. DATE OF NEXT MEETING

The next Audit Committee meeting is expected for early 2019. A date will be confirmed at a later date.

8. DECLARATION OF CLOSURE

There being no further business the Presiding Member, Cr C R Antonio declared the meeting closed at 4:15pm.

"I certify that the Minutes of the Audit Committee Meeting held on Tuesday 13 November 2018 have been confirmed as a true and correct record."

_____ President

_____ Date