



Department of  
**Local Government, Sport  
and Cultural Industries**

# A Guide to Local Government Auditing Reforms

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# A Guide to Local Government Auditing Reforms

## 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 reforms will result in changes to the way local government audits are conducted.

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.

## Major changes

### **Auditor General will be responsible for financial and supplementary audits**

The reforms expand 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.

Following commencement of the legislation, a local government cannot 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.

During the transition, the Department will publish 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 or not.

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 Parliament's Public Accounts Committee and the Estimates and Financial Operations Committee.

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

### **New category of audits: performance audits**

The reforms introduce 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 for State Government agencies. Performance audits will be paid for by the State Government.

Performance audit reports will be 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 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 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.

### **Role of the Audit Committee**

Changes to the Local Government (Audit) Regulations 1996 will revise the role and functions of a local government's Audit Committee. These changes are discussed in detail below.

## **Amendments to the Local Government (Financial Management) Regulations 1996**

The following amendments to the Local Government (Financial Management) Regulations 1996 and Local Government (Audit) Regulations 1996 are being prepared.

### **Timeframe for review of financial management systems**

Regulation 5 regarding the CEO's duties as to financial management will be 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.

### **Assets valued under \$5,000**

Amendments to Regulation 17A will exclude assets in a local government annual financial report valued under \$5,000. In order to ensure effective asset management of low value assets that are susceptible to theft or loss, local governments will be required to maintain a property register of portable and attractive items. This change brings local governments in line with State Government agencies as specified in Treasurer's Instruction 410 Record of Assets.

### **Timeframe for local governments to revalue assets**

Regulation 17A(4)(b) will be amended to set the timeframe for local governments to revalue their assets to between three and five years, which is consistent with Australian Accounting Standards Board standard 116: Property, Plant and Equipment.

## 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 will be amended so that the Audit Committee will have 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.

This will include helping the CEO to 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 will be required to provide the auditor with a copy of their adopted Long Term Financial Plan, Asset Management Plan, Corporate Business Plan and Strategic Community Plan.

### **Timeframe for reviewing audit systems and procedures**

An amendment to Regulation 17(2) will require 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.

## Further information and liaison

The Auditor General has informed the Department that he intends to commence liaising with local governments in October regarding the transfer of responsibility.

## For more information, please contact:

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### **Audit and Risk Committee - Terms of Reference**

The role of the Audit and Risk Committee is to:

1. guide and assist the City in carrying out its functions:
  - under Part 6 - Financial Management, of the *Local Government Act 1995*
  - in relation to audits conducted under Part 7 - Audit, of the *Local Government Act 1995*
  - relating to other audits and other matters related to financial management.
2. Review the CEO's report into the appropriateness and effectiveness of a local government's systems and procedures in relation to risk management, internal control and legislative compliance, given to it by the CEO under regulation 17 of the *Local Government (Audit) Regulations 1996* and:
  - report to the Council the results of that review
  - give the Council a copy of the CEOs report.
3. Monitor and advise the CEO when the CEO is carrying out functions in relation to a review:
  - under regulation 17(1) of the *Local Government (Audit) Regulations 1996*
  - of the appropriateness and effectiveness of the financial management systems and procedures of the City under regulation 5(2)(c) of the *Local Government (Financial Management) Regulations 1996*.
4. Support the auditor of the City to conduct an audit and carry out the auditor's other duties under the *Local Government Act 1995* in respect of the City and to oversee the implementation of any actions in accordance with regulation 16(f) of the *Local Government (Audit) Regulations 1996*.
5. Review and monitor the internal audit programme and the scope of internal audits.