A Guide to Local Government Auditing Reforms - 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 *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 very 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.

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