

**ADELAIDE HILLS COUNCIL  
AUDIT COMMITTEE MEETING  
Tuesday 20 February 2018  
CONFIDENTIAL AGENDA BUSINESS ITEM**

**RELEASED 20 FEBRUARY 2019**

**Item:** 7.2

**Originating Officer:** Lachlan Miller, Executive Manager Governance & Performance

**Responsible Director:** Terry Crackett, Director Corporate Services

**Subject:** Appointment of External Auditor

**For:** Decision

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**1. Appointment of External Auditor – Exclusion of the Public**

Pursuant to section 90(2) of the *Local Government Act 1999* the Audit Committee (the Committee) orders that all members of the public, except:

- CEO, Andrew Aitken
- Director Corporate Services, Terry Crackett
- Executive Manager Governance & Risk, Lachlan Miller
- Manager Financial Services, Mike Carey

be excluded from attendance at the meeting for Agenda Item 7.2: Appointment of External Auditor in confidence.

The Council is satisfied that it is necessary that the public, with the exception of Council staff in attendance as specified above, be excluded to enable the Committee to consider the report at the meeting on the following grounds:

Section 90(3)(d) of the *Local Government Act 1999*, the information to be received, discussed or considered in relation to this Agenda Item is commercial information of a confidential nature (not being a trade secret) that would, on balance, be contrary to the public interest, the disclosure of which could reasonably be expected to prejudice the commercial position of the business which supplied the information and to confer a commercial advantage on a third party.

Accordingly, on this basis the principle that meetings of the Committee should be conducted in a place open to the public has been outweighed by the need to keep the information and discussion confidential.

## 2. Appointment of External Auditor – Confidential Item

### SUMMARY

The contract for the provision of external audit services has expired and the Administration has undertaken a tender process.

The purpose of this report is to provide details of the tender process to the Audit Committee and to seek the Committee's recommendation to Council for the appointment of an external auditor.

### RECOMMENDATION

The Audit Committee resolves:

1. That the report be received and noted
2. To recommend to Council the appointment of Galpins Accountants, Auditors and Business Consultants for the provision of external audit services for a period of three (3) years commencing with the audit for the financial year ending 30 June 2018, with an option of a further period of up to two (2) years.
3. To recommend to Council that the proposed fee structure for Galpins is appropriate to enable an adequate audit to be conducted
4. To recommend to Council that the Chief Executive Officer be delegated to conduct the final negotiations with regard to the composition and pricing of the external audit contract and to execute all required documentation to give effect to Council's appointment of the external auditor.

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### 2.1 GOVERNANCE

#### ➤ Strategic Management Plan/Council Policy

Goal	Organisational Sustainability
Strategy	Risk and responsibility
Strategy	Governance

External audit is a key accountability function to the community regarding the financial governance of the organisation.

#### ➤ Legal Implications

Chapter 8 – Administrative and financial accountability, Division 4 – Audit of the *Local Government Act 1999* and Part 6 - Audit of the *Local Government (Financial Management) Regulations 2011* set out the requirements regarding the appointment of the external auditor and the conduct of the audit.

➤ **Risk Management Implications**

The appointment of the external auditor consistent with the requirements of legislation assists in mitigating the risk of:

*Poor governance practices occur which lead to a loss of stakeholder (i.e. customer and regulator) confidence and/or legislative breaches.*

Inherent Risk	Residual Risk	Target Risk
Extreme (5C)	Medium (3D)	Medium (3D)

Note that there are many other controls that assist in mitigating this risk.

➤ **Financial and Resource Implications**

Council makes a budget allocation each year for the expenses associated with the conduct of the external audit.

The external audit function is managed by the Governance & Performance Department although the Finance Services Department is most significantly impacted throughout the external audit process.

➤ **Customer Service and Community/Cultural Implications**

There is a high expectation that Council's accounts are audited by appropriately qualified and independent external auditors.

➤ **Environmental Implications**

Not applicable

➤ **Engagement/Consultation conducted with Council Committee, Regional Subsidiary, Advisory Group, the Administration and Community**

Consultation on the development of this report was as follows:

<i>Council Committees:</i>	Not Applicable
<i>Workshops:</i>	Not Applicable
<i>Advisory Groups:</i>	Not Applicable
<i>Administration:</i>	Terry Crackett, Director Corporate Services Lachlan Miller, Executive Manager Governance & Performance Mike Carey, Manager Financial Services
<i>Community:</i>	Not Applicable

## 2.2 BACKGROUND

### Audit Committee's Role in External Auditor Appointment

The Audit Committee's Terms of Reference (**Appendix 3**) set out the following role in relation to the appointment of the external auditor:

The Committee shall:

- 3.5.1 Consider and make recommendations to the Council, in relation to the appointment, re-appointment and removal of the Council's external auditor. The Committee shall oversee the selection process for new auditors and if an auditor resigns the Committee shall investigate the issues leading to this and decide whether any action is required;
- 3.5.2 Oversee Council's relationship with the external auditor including, but not limited to:
  - 3.5.2.1 Recommending the approval of the external auditor's remuneration, whether fees for audit or non-audit services, and recommending whether the level of fees is appropriate to enable an adequate audit to be conducted;
  - 3.5.2.2 Recommending the approval of the external auditor's terms of engagement, including any engagement letter issued at the commencement of each audit and the scope of the audit;

### External Audit Services Procurement

In 2013, following an open tender process, accounting firm, BDO, was awarded the tender to provide external audit services to Council for a five-year term.

The initial engagement partner was Ian Painter however, following his retirement, Geoff Edwards assumed the role and has overseen the last three financial audits.

With the impending expiry of the external audit services contract (following the completion of the 2016/17 audit), the Administration initiated an open tender process to contract a suitable firm for the provision of external audit services for a period of three (3) years commencing with the audit for the financial year ending 30 June 2018, with an option of a further period of up to two (2) years.

The request for tender (RFT), utilising Council's standard procurement documentation, was advertised for a four week period on the TendersSA site and attracted six (6) tender responses. A copy of the tender specification is at **Appendix 1**.

The Tender Evaluation Panel comprised:

- Director Corporate Services, Terry Crackett
- Executive Manager Governance & Risk, Lachlan Miller
- Manager Financial Services, Mike Carey

The tender assessment process was conducted in two stages: non-fee-related assessment and fee assessment. For the non-fee-related assessment component the evaluation criteria and weightings for the tender assessment (aligned to the RFT) were as follows:

Criteria	Weighting
Compliant Tender	Y/N
Statutory Audit/ SA LG Audits	30%
Quals/Capability Experience of Audit Personnel	20%
Organisational Structure Resources Responsiveness	15%
Technical Skills including computerised	5%
Audit Approach/Methodology including how to address critical matters	25%
Value for Money	5%
	<b>100%</b>

The scoring system utilised a 10 point Likert scale, ranging from: 0 (Inadequate offer, many deficiencies, does not meet criterion) to 10 (Outstanding offer, greatly exceeds criterion).

### 2.3 ANALYSIS

As advised above, six (6) tenders were received and were scored individually by the evaluation team and then moderated to produce a final rating. The evaluation matrix has been de- identified for all but the recommended tender, as follows:

Criteria	A	B	Galpins	D	E	F
Compliant Tender	Y	Y	Y	Y	Y	Y
Statutory Audit/ SA LG Audits	6.6	6.6	5.7	5.7	1.5	4.2
Quals/Capability Experience of Audit Personnel	4	3.4	3.8	3.6	2.4	2.4
Organisational Structure Resources Responsiveness	2.85	2.7	2.55	0.9	1.65	2.25
Technical Skills including computerised	0.85	0.85	0.9	0.2	0.6	0.9
Audit Approach/ Methodology including how to address critical matters	4.75	4.75	5.75	3	3.75	3.25
Value for Money	0.85	1	0.95	0.2	0.5	0.95
<b>Non-Fee Assessment Totals</b>	<b>19.9</b>	<b>19.3</b>	<b>19.65</b>	<b>13.6</b>	<b>10.4</b>	<b>13.95</b>
Fee Proposal (3 year)	\$78k	\$87k	\$64k	\$75k	\$67k	\$75k

Based on the combination of the non-fee and fee assessments, the Tender Evaluation Panel identified Galpins as the preferred tender. A copy of Galpins tender is at **Appendix 2**

Referee reports were obtained from two councils that currently contract Galpins for their external audit function. These referee reports were positive in all key areas of performance.

On the basis of the tender assessment and referee reports, the Tender Evaluation Panel affirmed their preference to recommend Galpins to the Audit Committee for appointment as Council's external auditors.

The Panel does however note the desirability of conducting further negotiations with Galpins regarding the final composition and pricing of the audit services and would seek a delegation from Council to the Chief Executive Officer to negotiate the final contract.

## **2.4 OPTIONS**

The Committee has the following options:

- I. To note the actions of the Tender Evaluation Panel and to recommend the appointment of Galpins as Council's external auditors for a period of three (3) years commencing with the audit for the financial year ending 30 June 2018, with an option of a further period of up to two (2) years subject to final negotiations on composition and pricing (Recommended).
- II. To note the actions of the Tender Evaluation Panel and determine an alternative course of action to the above (Not Recommended)

## **2.5 APPENDICES**

- (1) External Audit Tender Specification
- (2) Galpins Tender
- (3) Audit Committee Terms of Reference

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# **Appendix 1**

*External Audit Tender Specification*

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## SPECIFICATION

### Adelaide Hills Council External Audit

Detailed below is the specification and details that tenderers are required to address in their submissions.

Attachment 1 provides a brief overview of relevant Adelaide Hills Council financial and systems details.

#### 1. The Objectives of the Audit

The objective of Council's audit is to provide independent audit opinion of the:

- a. accounts and annual financial reports; and
- b. internal financial controls

of Council for each financial year covered by the term of the audit appointment

The audit must meet both statutory requirements and Australian audit standards.

#### 2. Term of Audit Appointment

Council is seeking to make an appointment for a period of three (3) years commencing with the audit for the financial year ending 30 June 2018, with an option of a further period of up to two (2) years.

Should the legislation change during the term of this contract, which would require that the SA Auditor-General audit South Australian Local Government, the term of appointment may be reduced to reflect the direction of that or any other relevant legislation.

#### 3. Scope of the Audit

The auditor is to: –

- 3.1 carry out such work as is necessary to form opinions as to whether:
  - a) the accounts are properly kept and the annual financial statements:
    - i. are prepared in accordance with the financial records; and
    - ii. represent fairly the results of the operations and cash flows for the financial year and the financial position of the Council at 30 June in accordance with the Australian Accounting Standards, the *Local Government Act 1999* (as amended), *Local Government (Financial Management) Regulations 2011* and other mandatory professional reporting requirements.
  - b) the controls exercised by the Council during the relevant financial year in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities are sufficient to provide reasonable assurance that the financial transactions of the Council have been conducted properly and in accordance with law.
- 3.2 include in his or her audit report any matters identified during the normal audit procedures such as: –
  - (a) any significant adverse trends in the financial position or the financial management practices of the Council;

- (b) any material irregularities in the Council's accounting practices or in the management of the Council's financial affairs identified during the course of the audit;
  - (c) any factors impacting on the adequacy of the depreciation charge for the year. This is after due consideration of an assessment of the depreciation methodology principles adopted by Council and the consistency of the accounting principles applied;
  - (d) the adequacy of the internal controls in operation, in particular those in the critical areas listed below.
- 3.3 plan and undertake the annual standard acquittal audit certification of supplementary statements produced from the same accounting records in respect of Roads to Recovery, Commonwealth Home Support Program Grants, Workers' Compensation employee remuneration, Construction Industry Training Levy and all other grant acquittals as required by the grantor.

#### **4. Audit Methodology and Approach**

- 4.1 The auditor is required to comply with the requirements of the *Local Government Act 1999* and the *Local Government (Financial Management) Regulations 2011*.
- 4.2 An audit is to be carried out in accordance with "Auditing Standards" and "Auditing Guidance Statements" published (and amended from time to time) by the Auditing and Assurance Standards Board established under the *Australian Securities and Investments Commission Act 2001* of the Commonwealth.
- 4.3 The auditor is to provide the Council with a general outline of his or her methodology. This may include the proposed analysis and review of internal controls and the extent to which these controls lead to reliance on the Council's administration systems to produce accurate reports.
- 4.4 The auditor is to provide to the Council, on an annual basis, a plan for the audit including:
  - (a) timing of interim audit visits;
  - (b) final audit visit in accordance with timeframes agreed with Council's administration; and,
  - (c) the method to be used to communicate with, and provide advice and information to, the Council.
- 4.5 The auditor is required to produce two opinions in compliance with section 129(3) of the *Local Government Act 1999* and written advice on particular matters arising from the audit, in compliance with section 129(4).
- 4.6 Prior to handing over a final audit management letter (see Section 6 below) the auditor is to discuss the proposed contents of the letter with senior management and thereafter at a meeting of the Council's Audit Committee or the Council itself.

#### **5. Critical Matters to be Audited**

Council is of the view that the following matters are important to the proper maintenance and reporting of its financial statements.

They are also important to the auditor's responsibility for providing the audit opinions and the written advice required by subsections 129(3) and (4) of the *Local Government Act 1999*.

The auditor should include in his or her proposal the extent to which the matters outlined below will be examined in the course of forming his or her independent audit opinions of the accounts and annual financial reports and the internal financial controls of the Council:

**5.1 Governance and Control**

- a) Roles and Responsibilities
- b) Delegated Authorities
- c) Council/Committee Minutes and Directions
- d) Strategic/Business/Risk Planning
- e) Budget Management
- f) Internal Controls including ICT Security

**5.2 Financial Accounting and Reporting**

**a) Income**

Rates revenue,  
Government grants,  
User pays revenue  
Profit on sale of non-current assets  
Other income

**b) Expenses**

Salary and wages costs  
Depreciation  
Materials and contract expenditure  
Loss on sale or revaluation of non-current assets  
Insurances  
Bad debts  
Other expenses

**c) Current Assets**

Cash at bank and short term investments  
Trade and Other Receivables  
Other Financial Assets  
Inventory

**d) Non-Current Assets**

Financial Assets  
Equity Accounting Investments in Council Business  
Infrastructure, Property, plant, equipment, and accumulated depreciation thereon  
Other Non-Current Assets

**e) Liabilities (current and non-current)**

Trade and Other payables  
Borrowings  
Provisions for employee entitlements

**f) Other**

Statement of changes in equity  
Disclosure of contingent liabilities  
Disclosure of capital commitments

Accounting policies and notes to the financial statements  
Statement of cash flow  
Financial Indicators as set out in the Model Financial Statements  
Any other items as required as per Accounting Standards and/or relevant Legislation

## **6. Audit Management Letters and Opinions**

Without limiting the scope and application of ASA 260 – “ Communication of Audit Matters with Those Charged With Governance” Council requires that the auditor shall after the conclusion of both the interim audit or a final audit (in compliance with section 129(4) of the *Local Government Act 1999*) provide to the Mayor of the Council, the Council’s Audit Committee and the Chief Executive Officer a management letter outlining the audit findings in relation to the following matters where such matters are material:

- 6.1 Any significant adverse trends in the financial performance, financial position or financial management practices of the Council and any material irregularities in the Council’s accounting practices or in the management of the Council’s financial affairs identified during the course of the audit. Where management has taken steps to correct or improve the financial performance, financial position, financial management practices, accounting practices or management of the Council’s financial affairs, the auditor must comment on the efficacy of the correction or improvement.
- 6.2 The appropriateness of the valuation and depreciation methodologies being used in respect of all assets. Depreciation is a significant component of a Council’s operating expenses and any errors in the way in which depreciation is calculated can have a material impact on the calculation of a Council’s operating surplus or deficit. The auditor also needs to ensure that useful lives and residual values of infrastructure are realistic.
- 6.3 The extent to which the internal control environment has been assessed as set out in the audit plan and any material weaknesses in the control environment, based on the application of auditing standard ASA 315 (Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment), other relevant auditing standards, and the LGA’s Better Practice Model –Internal Financial Controls. Where weaknesses have been identified and management has proposed or adopted remedial action to rectify the weaknesses, the auditor must comment on the efficacy of the proposed or adopted course of action. Where weaknesses have not been addressed the auditor must make recommendations for addressing the weaknesses.
- 6.4 Whether the Council, through its Audit Committee, is regularly monitoring and assessing the adequacy and effectiveness of its risk management framework and activities.
- 6.5 Where the Council or management have requested that a specific activity, function or operation of the Council be reviewed during an audit, the auditor must report on the scope of the review, its findings and any recommendations in relation to the activity, function or operation of the Council.
- 6.6 Where an Auditing Standard requires that the auditor must give consideration to the reporting of specific matters to those charged with governance, the auditor must comply with the Auditing Standard and report as necessary.

- 6.7 The auditor must report on the outcome of any remedial action taken by the Council as a result of previous reports. Specific attention must be drawn to situations where the remedial action is not adequate, including the failure to implement remedial action.
- 6.8 Where it becomes apparent to the auditor that a Council has failed to comply with relevant legislation, the auditor must report on significant failures and any remedial action proposed or adopted by management to rectify non-compliance.
- 6.9 Where, during the course of an audit, it becomes apparent that management has failed to comply with Council's policies, the auditor must report on significant non-compliance and any action proposed or adopted by management to rectify non-compliance with the Council's policies.
- 6.10 The requirements set out above do not limit the scope of the auditor's report and the auditor must report on any other matter that in the auditor's judgment may have an impact on good governance and the sound management of the Council's affairs.

Prior to handing over a final audit management letter the auditor is to discuss the proposed contents of the letter with management and thereafter at a meeting of the Council Audit Committee or the Council itself.

The auditor is required to produce two opinions in compliance with Section 129(3) of the *Local Government Act 1999* and written advice on particular matters arising from the audit, in compliance with Section 129(4).

## **7. Hours, Fees and Expenditure**

7.1 The auditor is to provide the following detail:

- a) fees for completing the audit in accordance with this specification, as per Table A in Schedule 9, all relevant costs, discounts, etc should be included;
- an estimate of the hours to be spent on the audit by the lead auditor and audit personnel for a financial year, as per Table B in Schedule 9;
  - the lead auditor and registered company audit number;
  - the experience of the lead auditor in completing Local Government audits;

7.2 In addition the auditor should indicate in the fee structure:

- a) Tenderers are required to provide a detailed list of fees split into the categories listed in Table B in Schedule 9 (ex GST);
- b) Fees for any additional work permitted (on an hourly rate) under section 130A of the *Local Government Act 1999*, or under sub-regulation 22(2) of the *Local Government (Financial Management) Regulations 2011*;
- c) If additional services (those not listed in Section 3) are required, a breakdown and details of the fees and a separate fee is to be arranged prior to commencement of the service; and

The Fee Submission shall include all general administration costs such as telephone calls, facsimiles, courier services, photocopying and travelling.

### Attendance at Meetings

It is envisaged that the Lead Auditor (refer Schedule 3 below) will be required to attend at least two Audit Committee meetings per year to discuss matters associated with the annual Audit Plan and to discuss matters arising from the audit.

The Lead Auditor may also be requested to attend a Council meeting to discuss matters associated with the preparation of the annual financial statements and the audit report.

## **8. Terms and Conditions**

The following conditions should be noted by auditors:

- (a) The auditor shall not sub-contract to a third party without Council approval.
- (b) The auditor shall not, and has no right to, assign the audit contract to third parties.
- (c) The auditor shall not be engaged by the Council to undertake any financial and accounting work that results in financial information that will be the subject of the annual audit.
- (d) The auditor shall confirm that he or she has, and will maintain during the duration of the audit term, professional indemnity insurance covering the legal liability arising out of any neglect, default, error, or omission of at least \$5m in aggregate or \$2m on an "each and every claim" basis with a two year run-off, plus public liability insurance to a minimum of \$10m.

## **9. Termination of Appointment**

The appointment as auditor is terminated if:

- (a) the auditor (being a natural person) dies;
- (b) the auditor ceases to be a registered company auditor;
- (c) the auditor is a disqualified person under Section 128 (5) of the *Local Government Act 1999*;
- (d) the auditor otherwise ceases to be eligible for appointment as auditor;
- (e) the auditor accepts remunerated office or employment from the Council;
- (f) the auditor resigns by notice in writing to Council;
- (g) Council serves notice in writing to the auditor terminating the appointment for reasonable cause;
- (h) the term of the appointment expires.

## **10. Auditor Independence**

Pursuant to regulation 22(5) of the *Local Government (Financial Management) Regulations 2011*, the auditor is required, annually, to provide a declaration that he/she is independent of the Council and nothing has transpired that would compromise his or her independence during the conduct of the audit.

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# **Appendix 2**

*Galpins Tender*

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# Tender for the Provision of External Audit Services

Adelaide Hills Council

2018



ADELAIDE HILLS  
COUNCIL

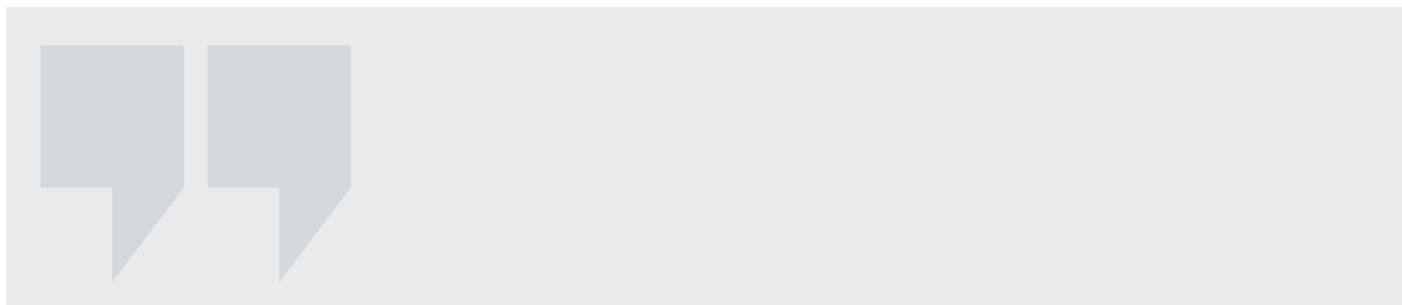
Galpins



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# Executive **summary**



## **Why choose Galpins?**

Galpins is a wholly-owned and managed South Australian audit and accounting firm.

We provide a dedicated, professional and collaborative team that we believe will provide significant value for the Adelaide Hills Council.

We will build an understanding of your strategy, financial objectives, culture and current affairs via a structured auditor transition plan at no cost to Council. We will utilise our understanding of the key financial risks and issues facing Local Government and couple that with the understanding we develop of your Council in order to deliver a personalised value adding audit service.

We believe that when considered as a whole, the key benefits that Galpins offer, as detailed throughout our proposal, strongly distinguish our capabilities to deliver value and insight for the Adelaide Hills Council.

## **Deep Local Government experience and proven ability to deliver**

As auditors and consultants to numerous South Australian Local Government Authorities and subsidiaries, through our leadership role in the SA Local Government Auditors' Group (SALGAG), and as members of Local Government Audit Committees, we understand the local government, legislative and regulatory environment intimately.

We have worked in the Local Government sector in South Australia for more than 30 years, and have built strong relationships with all key oversight and regulatory authorities, including the SA Auditor-General and SA Local Government Association. Our substantial knowledge of Local Government legislative and regulatory frameworks ensures we will always provide your Council with appropriate and considered advice.

Our experience in industry sector roles, combined with our extensive external audit client work, provides our team with the ability to share best practice thinking and business insights with management and staff in your Council. This will assist the Adelaide Hills Council to continue to develop its financial processes, internal controls & accounting practices, and contribute to improved operational efficiency and effectiveness.

# Executive summary

Working with more than 25 Councils across Adelaide and regional South Australia, our experience is extensive with our Audit and Assurance team consisting of some of the state's leading practitioners in the delivery of Local Government audit and internal controls engagements.

We have a proven ability to deliver high quality audit engagements across Local Government and we will do the same for the Adelaide Hills Council.

## Genuine value and quality

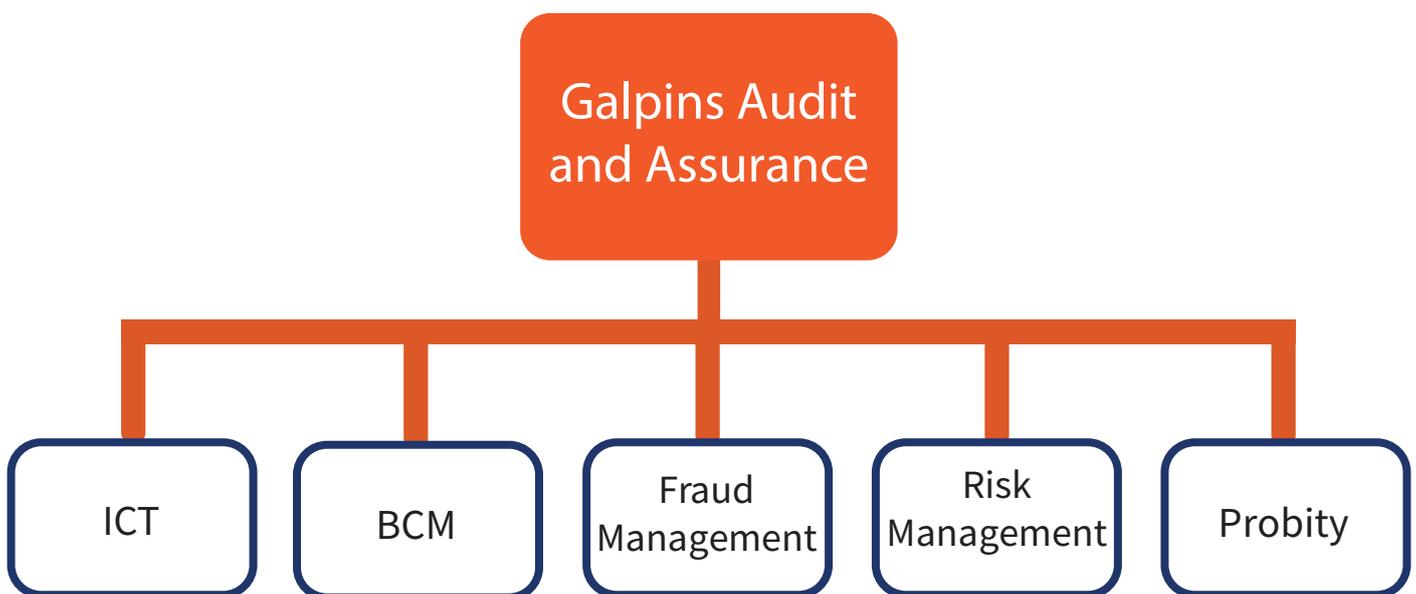
We offer genuine value and quality.

Our Audit and Assurance team is structured to provide you with a high degree of experience and commitment to your Council underpinned by a high level of personal involvement and responsibility.

The Engagement Partner, Tim Muhlhausler, Quality Review Partner, Luke Williams, and Audit Manager, Juliano Freitas, will oversee the conduct of all audit activities to ensure the timely delivery and quality of our work. The Engagement Partner, who will also work on the audit, will act as a hands-on liaison for the Adelaide Hills Council. They will be supported by a team of auditors highly experienced in conducting audits in Local Government.

Our team, specifically the Engagement Partner, Quality Review Partner and Audit Manager, will be directly and consistently available to your staff and management. We will respond to your queries and questions with maximum promptness, always keep you informed of industry trends and developments, and pro-actively advise you of relevant audit issues.

To enhance and complement our existing Audit and Assurance team, Galpins has subject matter experts in the areas of ICT and ICT Security, Business Continuity Management (BCM), fraud management, risk management and probity.



## Subject Matter Experts

## Details of our firm



**Galpins audit team:** (from left to right) Tim Muhlhausler, Luke Williams, Juliano Freitas, Pascal Marrot-Castellat, John Li and Harry Mlaco

As a wholly-owned and managed South Australian firm dating back to 1937, we care deeply about what happens in South Australia.

We understand the vital role that Local Government plays in meeting community needs and see our relationship with Councils as a partnership. We are proud to contribute to the Local Government sector and to its ongoing delivery of essential services to the community.

Galpins provide a comprehensive range of services including audit, taxation, accounting & business services, and financial planning & superannuation services to meet our clients' complete financial needs.

Our audit, assurance and consulting services are provided to a wide range of clients including State and Local Government agencies and authorities, aged care providers, education providers, the not-for-profit sector, superannuation funds and companies.

Our Audit and Assurance department consists of three partners supported by over 15 audit professionals based in Adelaide and Mount Gambier. This team of core staff are supported with expert advisors in disciplines such as ICT, Business Continuity Management, WHS, Risk Management, Forensic Services and Probity.

Galpins is a preferred supplier to the South Australian Government for the provision of Audit and Financial Advisory Services. Originally appointed in 2007, Galpins is consistently one of the largest providers of services under this contract and is the primary contract auditor for SA Health through the SA Auditor General's Department.

# Local government **expertise**

## Relevant Experience

Our audit, assurance and consulting services have been provided to the Local Government sector for more than 30 years. Our Audit and Assurance team is highly skilled in the provision of audit services, financial reporting and governance to Local Government Authorities and subsidiaries.

We have a high level of knowledge and experience with the financial reporting and internal control frameworks relevant to Local Government, and specific reporting and audit requirements of financial statements, internal controls, grant acquittals and sundry compliance requirements. Some of our clients include:

Galpins is the current external auditor for the following local government entities:

- City of Playford
- City of Prospect
- City of Victor Harbor
- City of Mount Gambier
- Clare and Gilbert Valleys Council
- Light Regional Council
- District Council of Mount Remarkable
- District Council of Orroroo Carrieton
- The district Council of Peterborough
- Kingston District Council
- The Flinders Rangers Council
- District Council of Tatiara
- Port Augusta City Council
- Southern Region Waste resource authority
- District Council of Barunga West

Galpins has also been the external auditor for the following local government clients:

- Rural City of Murray Bridge
- The Corporation of the Town of Walkerville
- District Council of Loxton Waikerie
- Wattle Range Council
- Naracoorte Lucindale Council
- Northern Adelaide Waste Management Authority

Galpins has performed internal audit engagements for the following local government clients:

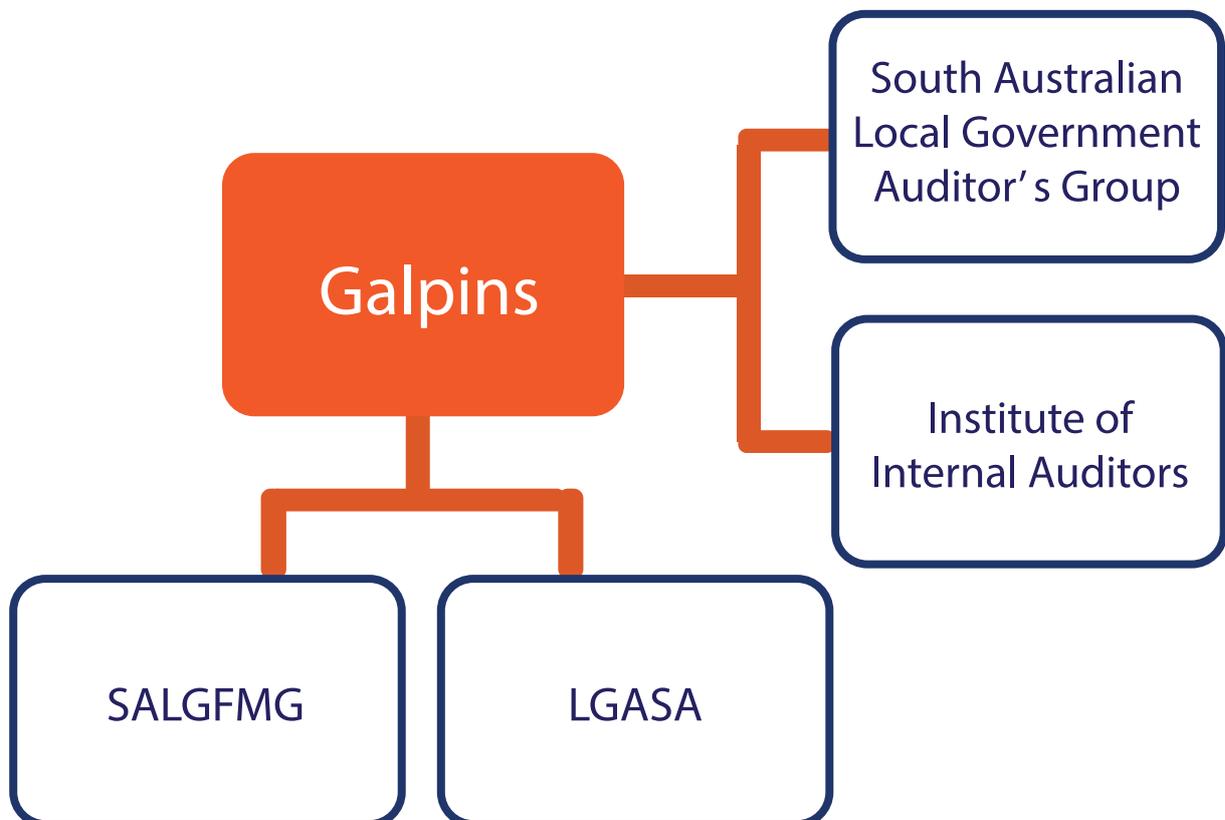
- City of Salisbury
- City of Tea Tree Gully
- City of Burnside
- City of West Torrens
- City of Onkaparinga
- City of Holdfast Bay
- District Council of Yankalilla

# Local government **expertise**

## Leadership in Local Government

Through our leadership roles within the SA Local Government Auditor's Group (SALGAG) and the Institute of Internal Auditors, we are able to provide direct and immediate insights to the Council in relation to accounting and auditing developments in Local Government. Our leadership roles enable us to provide thought leadership to the Council from a national perspective through our consultation with key stakeholders in related local government industry associations situated nationally.

Through our role in setting the agenda for meetings and preparing submissions on behalf of SALGAG, we can ensure that any critical matters identified by the Council are considered at the Auditors' Group. Our Local Government team also played a leading role in the recent feasibility study into the development of a broad Better Practice Model for non-financial controls. Tim Muhlhausler, the Engagement Partner, is the presiding member for the City of Mitcham audit committee and independent member of the East Waste audit and risk committee.



# Local government **expertise**

## **Specialist Advice and Value Added Services for Local Government**

We have undertaken a significant number of projects to provide specialist advice and value added services to Local Government, including:

- Detailed reviews of financial accounting system efficiency
- Internal control and corporate governance reviews
- s48 Prudential reviews
- Training in financial statement interpretation
- Consulting on the application of internal audit functions
- Development and implementation of the internal controls audit approach
- Providing detailed reports on the impact of new and revised accounting standards
- Risk workshops
- CWMS costings
- Assurance mapping

**Please refer to our CVs for further details of the extensive Local Government experience of our team.**

# Critical matters

## Governance and Control

Component of Governance and Control	Why is this important?	How Galpins will provide assurance?
<b>Roles and Responsibilities</b>	Key to establishing an effective organisational structure and delegation framework.	Our review will provide confirmation over the effectiveness of the Councils' organisational structure and delegations, communication and the enforcement of the Councils' integrity and ethical values is maintained. We will also confirm that the philosophy of management is well understood and participation of Council and HR policies is adhered to.
<b>Delegated Authorities</b>	Ensures that expenditure and other discretionary finance decisions are appropriately authorised and carried out in accordance with Council's intentions and objectives.	<p>Review of delegations forms a significant aspect of our detailed internal controls testing across the critical business cycles and functions of the Council as part of our interim and year-end audit procedures.</p> <p>This review includes integration of delegations within Councils' IT environment, determining if transactions are authorised appropriately and to assist in identifying opportunities for improvement.</p>
<b>Council / Committee Minutes and Directions</b>	<p>Council and Committee Minutes and Directions are key to communicating and recording the Council's intentions and direction.</p> <p>Board and Committee member meeting minutes provide a record of the decisions made by those people responsible for the governance of the Council.</p>	<p>The review will identify key transactions, policy changes &amp; issues, and provide assurance around decision making processes and culture.</p> <p>This review will also provide important context for the audit by gaining insights into important matters for the Council and Council Committees.</p>
<b>Strategic/ Business / Risk Planning</b>	These plans establish the Councils direction and vision, how the direction and vision are disseminated throughout the Council and the Framework for risk that the Council puts in place.	<p>Our review will determine the adequacy of Council planning in communicating its direction and vision to key stakeholders, corporate business units and operational functions and how risk management is integrated throughout the Council to form a coordinated planning approach.</p> <p>The insights gained will ensure the audit program considers the key financial and non-financial plans and transactions of the Council that support its strategies and objectives.</p>
<b>Internal Controls including ICT Security</b>	Internal controls are now entrenched in the Councils' operational environment and financial practices with ICT security being a more significant and prevalent risk to Local Government.	<p>Our review of internal controls and ICT security measures the presence, effectiveness and integration of their relevant components across the organisation.</p> <p>Recent Galpins appointments ensure that the Adelaide Hills Council has access to some of the state's leading practitioners in local government internal controls and ICT security.</p>

# Critical matters

## Financial Accounting and Reporting

In consideration of the critical matters identified by the Council, we have detailed below how we will provide assurance to the Council and Audit Committee. The six key components of Financial Accounting and Reporting have been summarised below.

Component of Accounting and Reporting	What are the key risks addressed?	How Galpins will provide assurance?
<p><b>Revenue</b></p> <ul style="list-style-type: none"> <li>• Income</li> <li>• Rates</li> <li>• Government grants</li> <li>• User pays revenue</li> <li>• Profit on sale of non-current assets</li> <li>• Other income.</li> </ul>	<p>Key risks addressed include:</p> <ul style="list-style-type: none"> <li>• Council does not raise the correct level of rate income</li> <li>• Income is either recorded inaccurately or not recorded at all</li> <li>• The Property master file does not remain pertinent.</li> </ul>	<p>Our audit procedures are aimed at addressing the most pertinent risks for revenue paying particular attention to rates revenue and Commonwealth &amp; State grants.</p> <p>Our audit testing covers all aspects of revenue management including calculation, billing, rebates and credit notes, recording, collection, banking and write-off.</p>
<p><b>Expenses</b></p> <ul style="list-style-type: none"> <li>• Salary and wages costs</li> <li>• Depreciation</li> <li>• Materials and contract expenditure</li> <li>• Loss on sales or revaluation of non-current assets</li> <li>• Insurances</li> <li>• Bad debts</li> <li>• Other expenses.</li> </ul>	<p>Key risks addressed include:</p> <ul style="list-style-type: none"> <li>• Expenses being recorded inaccurately or not at all</li> <li>• Payment being made to non-existent or incorrect employees / suppliers</li> <li>• Expenses being calculated incorrectly</li> <li>• Employee provisions being misstated or calculated incorrectly</li> <li>• Unauthorised adjustments being made to payroll master files</li> <li>• Employees being appointed, terminated or paid higher duties incorrectly.</li> </ul>	<p>Our audit procedures for expenditure include detailed transaction testing and review of internal controls and processes during our interim site visits.</p> <p>Specifically, we address key aspects of expenditure such as improper approvals, calculation and recording of salary and wages, inappropriate reimbursements being made and Council not achieving value for money in its purchasing and procurement activities.</p> <p>Depreciation is addressed under non-current assets.</p>
<p><b>Current Assets</b></p> <ul style="list-style-type: none"> <li>• Cash and Investments</li> <li>• Inventories</li> <li>• Receivables &amp; prepayments.</li> </ul>	<p>Key risks addressed include:</p> <ul style="list-style-type: none"> <li>• Fictitious assets being recorded</li> <li>• Assets being recorded inaccurately or not at all</li> <li>• Inventory being valued incorrectly</li> <li>• Prepayments being made inappropriately</li> <li>• Inadequate security over assets</li> <li>• Maintenance of insufficient liquidity</li> <li>• Inadequate provisions for doubtful debts and poor debt collection processes.</li> </ul>	<p>For current assets, we focus our audit activities to understand processes and controls the Council has implemented to safeguard cash, investments and inventories.</p> <p>We also review receivables and prepayments through both substantive testing and analytical reviews.</p>

# Critical matters

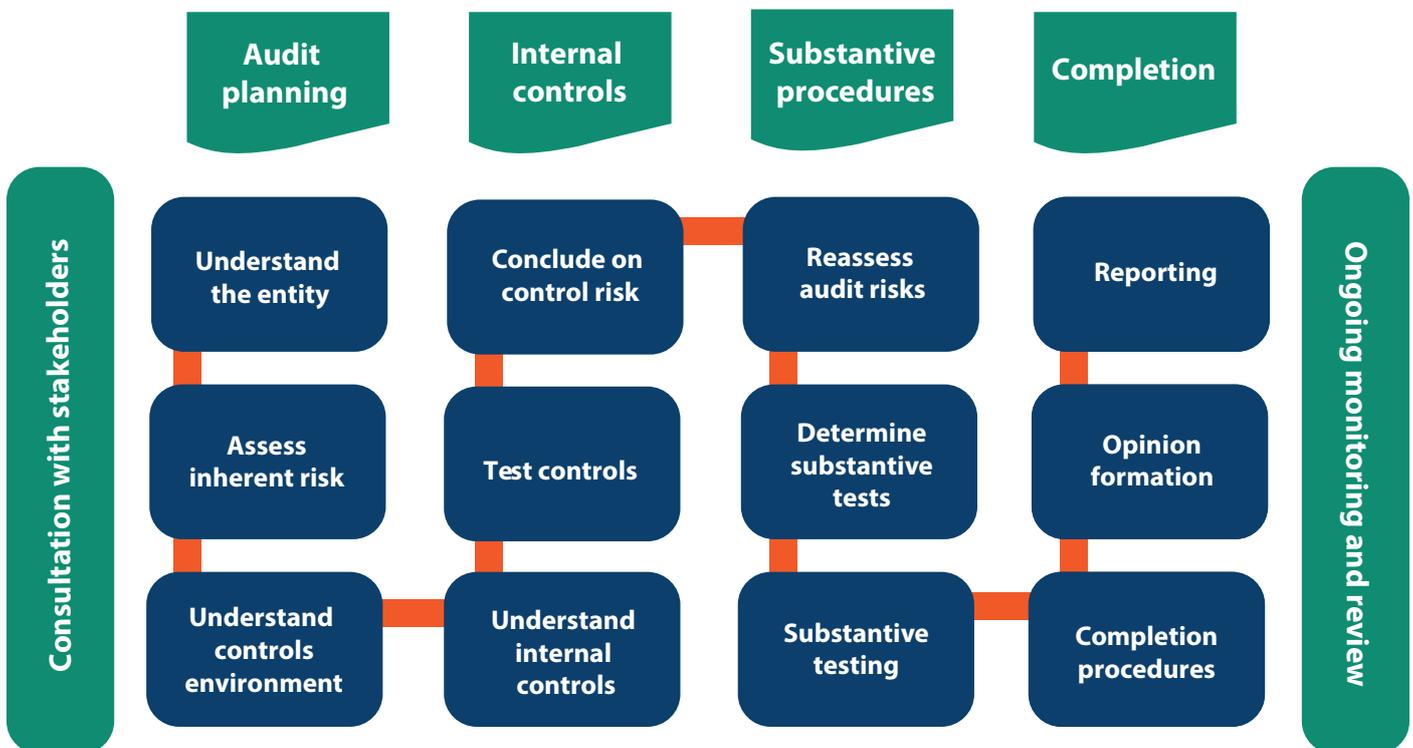
<p><b>Non-Current Assets</b></p> <ul style="list-style-type: none"> <li>• Infrastructure and accumulated depreciation</li> <li>• Property, plant, furniture and equipment</li> <li>• Other receivables.</li> </ul>	<p>Key risks addressed include:</p> <ul style="list-style-type: none"> <li>• Assets being recorded inaccurately or not at all</li> <li>• Poor management of fixed asset maintenance and replacement</li> <li>• Assets being valued incorrectly and inadequate security over assets</li> <li>• Inappropriate depreciation rates for fixed assets and infrastructure.</li> </ul>	<p>A significant amount of audit time and resources is allocated to understanding councils' asset data, and the sufficiency of that data in supporting the operations of Council.</p> <p>Key internal controls considered include responsibilities, authorisations and processes for updating asset information , asset management plans and management of revaluations.</p> <p>We critically evaluate the key assumptions underpinning the calculation of depreciation expense including useful lives, residual values and componentisation.</p> <p>Our year-end audit activities are focused on reconciling asset registers to the general ledger, recording of depreciation and reviewing the fair value hierarchy for each category of asset.</p>
<p><b>Liabilities</b></p> <ul style="list-style-type: none"> <li>• Creditors and Accruals</li> <li>• Loan borrowings</li> <li>• Provisions for employee entitlements.</li> </ul>	<p>Key risks addressed include:</p> <ul style="list-style-type: none"> <li>• Liabilities being recorded inaccurately or not at all</li> <li>• Council failing to service its debts, and debts not being repaid in accordance with contracts</li> <li>• Employee leave entitlements being calculated incorrectly or omitted.</li> </ul>	<p>As part of our review of liabilities, we will identify material long outstanding items (greater than 180 days) and ascertain reasons for non-payment and follow up actions taken.</p> <p>We will obtain detailed annual and long service leave listings, compare these to general ledger and perform recalculations for a sample of employees.</p> <p>For loan borrowings, we will compare the LGFA audit report to the total amounts recorded in the general ledger. We consider the reasonableness of debt levels in the context of Councils' objectives, and assess the affordability of debt using analytical techniques.</p>
<p><b>Other areas</b></p> <ul style="list-style-type: none"> <li>• Statement of changes in equity</li> <li>• Disclosures of contingent liabilities</li> <li>• Disclosure of capital commitments</li> <li>• Accounting policies and notes of the financial statements</li> <li>• Statement of cash flow</li> <li>• Key financial indicators as endorsed by the local LGA Financial Sustainability Advisory Committee or by a Local Government Association General Meeting.</li> </ul>	<p>Key risks addressed include:</p> <ul style="list-style-type: none"> <li>• Incorrect calculation of cash flows and equity movements, including revaluation reserves</li> <li>• Omission of required disclosures due to inadequate internal reporting mechanisms</li> <li>• Insufficient attention to the numerous disclosures required by Councils.</li> </ul>	<p>Our audit program covers all other areas of financial statements, notes and disclosures.</p> <p>We review all material, financial and non-financial information in the notes to ensure it accurately reflects the activities of Council.</p> <p>We re-perform calculations of key disclosures including commitments, financial instrument disclosures, IPPE movement tables, financial indicators and cash flow information.</p>

# Audit methodology

Galpins will conduct its financial statement audit in accordance with the requirements of the Local Government Act 1999, the Local Government (Financial Management) Regulations 2011, Australian Auditing Standards and Auditing Guidance Statements adopted from time to time by CPA Australia and Chartered Accountants Australia New Zealand.

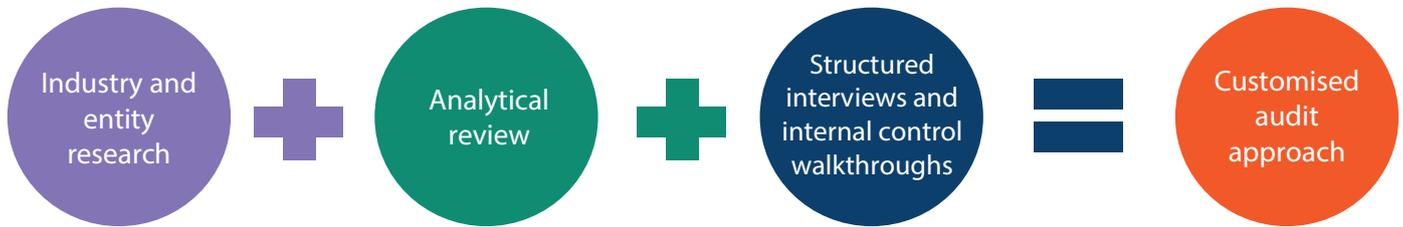
Galpins conducts its internal control audits in accordance with the requirements of the Standard on Assurance Engagements; ASAE 3150 - Assurance Engagements on Controls and ASAE 3000 - Engagements other than Audits or Reviews of Historical Financial Information, issued by the Auditing and Assurance Standards Board. We utilise the principles outlined in the Better Practice Model - Financial Internal Control for South Australian Councils issued by the Local Government Association of SA. We also place high regard to international leading practice models including the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Internal Control - Integrated Framework.

Our Audit Methodology is a risk based methodology consisting of four main stages – Audit Planning, Internal Controls, Substantive Procedures and Completion. Further detail regarding these stages is provided below. The stages are managed in an environment of ongoing monitoring and review and consultation with stakeholders.

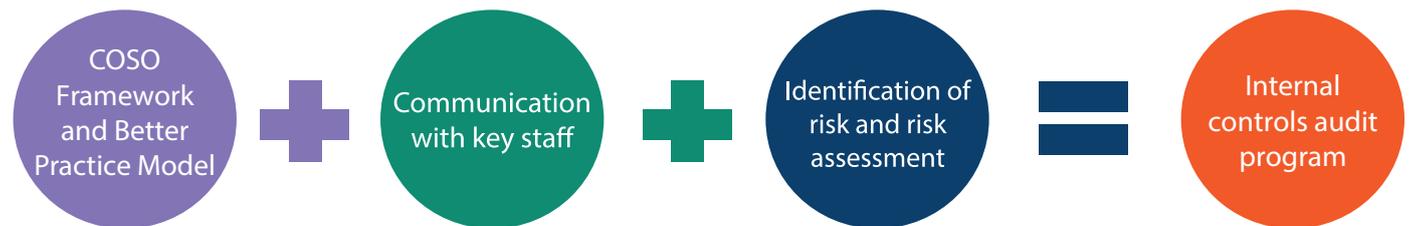


# Audit methodology

## Audit Planning - Financial Statements



## Audit Planning - Internal Controls



The objective of the audit planning stage is to develop a greater understanding of the Council and its unique characteristics and requirements, allowing us to tailor our audit approach accordingly.

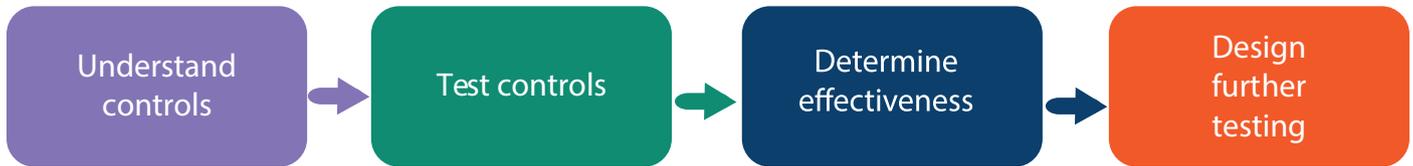
We research and document the Council's strategy, business plans, organisational structure, past financial performance, Long Term Financial Plan (LTFP), financial indicators, regulatory environment, legislative responsibilities, financial reporting environment and internal governance arrangements.

Based on the understanding of your Council that we build, we rank the risks of material misstatement, internal control failure, fraud and non-compliance with legislation. Materiality for the engagement is determined for the financial statements as a whole, for the risk of control failure, for individually significant items and a threshold for clearly trivial differences is also established.

The overall audit strategy is then developed and audit procedures defined to achieve an efficient and effective audit approach to mitigate identified risks.

# Audit methodology

## Internal Controls



We obtain an understanding of the internal controls relevant to the financial statements, and those most important for the efficient and effective financial management of council, and perform tests of design and effectiveness for these controls.

Based on the results of the control testing, we then assess the risks of material misstatement and design further audit procedures to reduce risk where necessary.

Our audit testing measures the presence, effectiveness and integration of the internal control components in order to assess the likelihood of the Council achieving the operational, reporting and compliance objectives applicable to the receipt, expenditure and investment of money, acquisition and disposal of property and incurring of liabilities.

We work closely with management and process owners when performing audit testing.



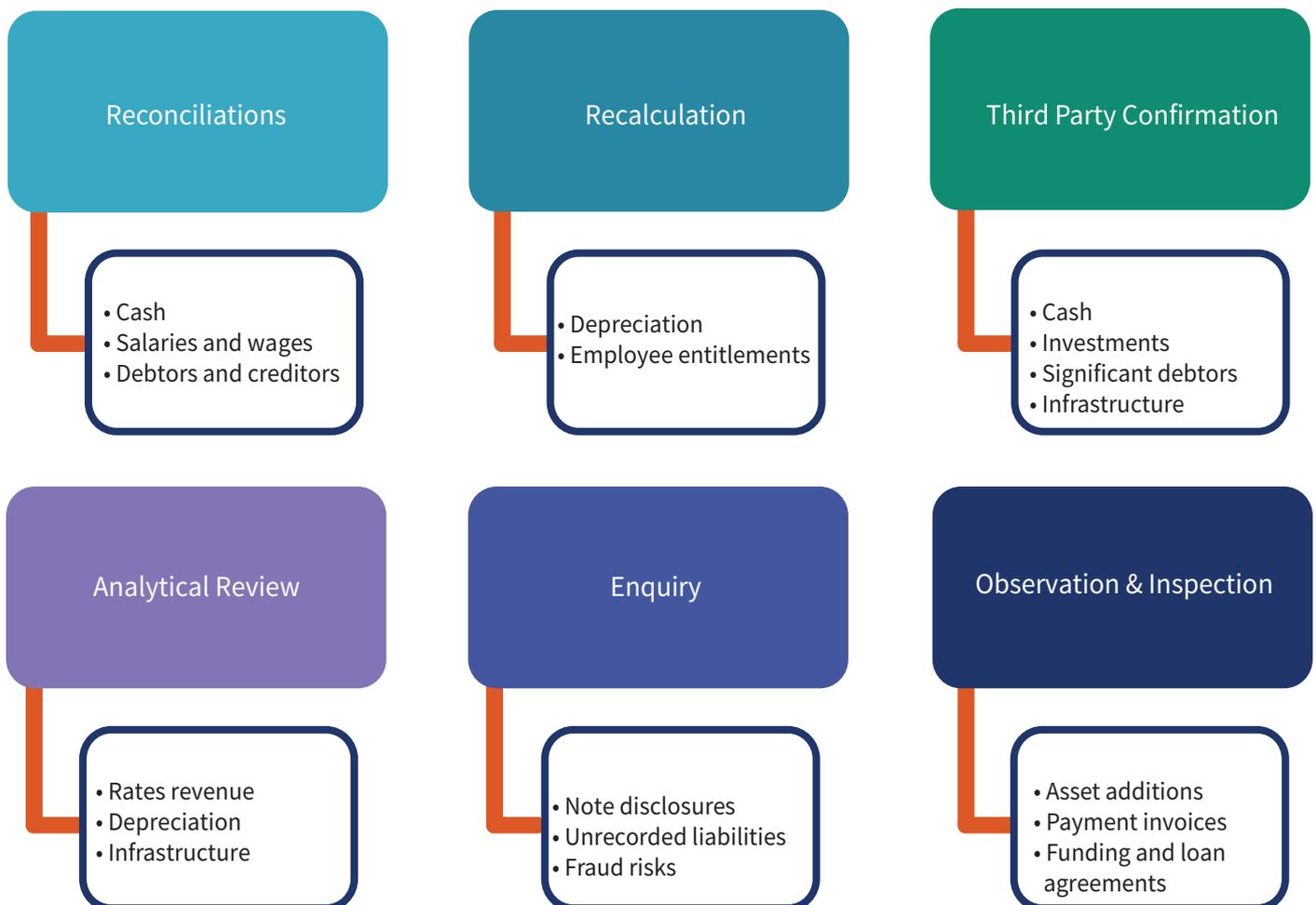
Source: Internal Control Integrated Framework, COSO (2013)

# Audit methodology

## Substantive Procedures

From our risk analysis and results of control testing, we are able to design and refine appropriate substantive procedures, including analytical review and test of details, to address identified risks.

Testing methods applied to account balances and transactions include:



The results of substantive testing performed during the interim audit visit are evaluated to determine the extent to which risks have been addressed. Following discussions with management our findings are communicated to the Council by way of a management letter.

The internal control environment is re-evaluated prior to the final audit to consider any changes made since the interim audit, and final substantive procedures are carried out to enable us to develop a final assessment of the risk of material misstatement.

# Audit methodology

## Completion

The completion stage consolidates the audit work performed during the previous stages. We evaluate the results of audit testing and prepare reports and action plans to be communicated to Council. Prior to finalisation, we determine management's response to our findings and recommendations for consideration in forming our opinion.

Based on our final assessment of the risk of material misstatement, we issue our audit opinions regarding the financial internal controls and presentation of the financial statements.



# Audit methodology

## Consultation with Stakeholders and Ongoing Monitoring Review



The stages are managed in an environment of ongoing monitoring and review and consultation with stakeholders.

Communication with the Council is important to Galpins. Keeping the Council informed and aware of our audit procedures and findings is important to forming a strong working relationship with the Council. We intend to be proactive with our communication strategy and will communicate with the Council regularly on a formal and informal basis.

### Audit Software

Galpins utilises the audit software “Caseware” to manage all audit and assurance engagements electronically in a “less paper” environment. The software provides the platform into which we have incorporated the Galpins Audit Methodology in a structured electronic environment.

Galpins also utilises the data analysis tool “IDEA”. IDEA assists us to apply a statistical basis for determining audit samples in order to obtain reliable audit evidence and helps to ensure compliance with our quality assurance policies. The software also enables a powerful data analytics capability, including trend analysis and identification of “red flags” against transactions that may require additional audit scrutiny.

# Audit management letters and opinions

In addition to the auditor's reports containing our controls opinion and our opinion on the financial statements, we provide three other reports detailing audit matters to be communicated to the Mayor, the Council's audit committee and the CEO as our audit progresses. The following is a summary of the content of these additional value-adding reports:

## Interim Management Letter

- The extent to which the internal control environment has been assessed and any material weaknesses observed in the control environment, based on the application of relevant auditing standards and the Better Practice Model;
- An overall review of the Council's internal controls detailing Council's level of compliance with section 125 of the Local Government Act and an indication of our likely controls opinion;
- An overview of the key internal controls selected for audit and expected to be in place and implemented by the Council in order to form our controls opinion;
- Details of our findings, including a description of the findings, any risk not being adequately addressed as per the Better Practice Model, the applicable controls tested, our recommended corrective actions and management responses;
- Follow up on the outcome of any remedial action taken by the Council as a result of previous reports with special attention to situations where the remedial action is not adequate, including the failure to implement remedial action;
- Details of any breach or non-compliance

## Final Management Letter

- Any finding to be communicated after the application of our final substantive procedures related to the period from the date of our interim audit to the end of the financial year;
- Details of our findings, including a description of the findings, any risk not being adequately addressed as per the Better Practice Model, the applicable controls tested, our recommended corrective actions and management responses;
- Follow up on the outcome of any remedial action taken by the Council as a result of previous reports with special attention to situations where the remedial action is not adequate, including the failure to implement remedial action;
- Any breach or non-compliance with relevant legislation or Council's policies, including any remedial action proposed or adopted by management;

## Final Close Out Report

- An overview of the results of the interim and final audit that provided the basis for our auditor's opinion;
- Summary of key audit activities performed during the interim and the final audit;
- Details of significant matters and areas of focus addressed during the interim and the final audit;
- Audit procedures performed to address significant matters and areas of focus identified during the interim and the final audit (e.g. procedures adopted to conclude as to appropriateness of the valuation and depreciation methodologies being used in respect of all infrastructure and other fixed assets)
- Explanation of significant variances including any significant adverse trends in the financial performance, financial position or financial management practices;
- Any issues in relation to the application of accounting standards and accounting policies adopted by the Council;

Examples of these reports are provided in Appendix B

# Audit time table

The following is an indicative time table for the audit. Actual audit dates will be negotiated with the Council to ensure that dates are convenient.

Key steps in process	Target timeframe to conduct work
<b>Initial Meeting</b> <ul style="list-style-type: none"> <li>Initial discussion with key staff</li> </ul>	On confirmation of engagement
<b>Engagement Letter</b>	Following initial meeting
<b>Audit Plan Development</b> <ul style="list-style-type: none"> <li>Analyse and review key documentation</li> <li>Understand critical control systems and processes</li> <li>Understand risk review</li> <li>Develop audit plan</li> </ul>	March 2018
<b>Audit transition plan</b> <ul style="list-style-type: none"> <li>Offsite research</li> <li>Examine previous auditor's workings</li> <li>Meetings with key Council stakeholders as required</li> </ul>	March 2018
<b>Interim Site Visit</b> <ul style="list-style-type: none"> <li>internal controls and risk management evaluation and testing</li> <li>tests of details</li> </ul>	March/ April 2018
<b>Interim Management Letter</b> <ul style="list-style-type: none"> <li>findings on control issues and report on topics relating to controls opinion</li> <li>recommendations for better practice</li> </ul>	April/ May 2018
<b>Final Audit Site Visit</b> <ul style="list-style-type: none"> <li>completion of controls testing</li> <li>completion of tests of details</li> <li>focus on balance sheet items and financial statement disclosures</li> </ul>	September 2018
<b>Final Review and Responses</b> <ul style="list-style-type: none"> <li>conduct analysis of audit field work</li> <li>liaise with management</li> </ul>	September 2018
<b>Final Management Letter</b> <ul style="list-style-type: none"> <li>Findings on internal controls over financial reporting</li> <li>Findings on test of details</li> <li>Findings on application of accounting policies</li> </ul>	October 2018
<b>Attendance at Audit Committee</b> <ul style="list-style-type: none"> <li>Statutory sign-offs</li> <li>Audit Reports</li> </ul>	October/ November 2018

## Our team



### Tim Muhlhauser

#### Lead Engagement Partner

Tim is a Chartered Accountant and Partner with Galpins. He brings over 14 years' experience in the provision of external audit, internal audit and consulting services to a wide range of organisations in the government, not-for-profit and commerce sectors.

As Partner, Tim has primary responsibility for a number of Local Government audit clients bringing expert advice and broad Local Government experience to issues and challenges facing the Council. He has conducted and managed a wide range of value added services for Local Government, including governance and prudential reviews and accounting standard interpretations. He leads the annual auditor reviews of the SA Model Financial Statements and the Better Practice Model (Financial Internal Controls).

Tim also has involvement in the following roles:

- Chair of the SA Local Government Auditors' Group (SALGAG)
- Chair of the Institute of Internal Auditor's SA Chapter Council
- Presiding Member of the City of Mitcham Audit Committee
- Independent Audit and Risk Committee Member for East Waste
- Review of the SA Local Government independent paper for the recently introduced AASB13 (Fair value)
- Regular Presenter, SA Local Government Finance Managers' Group Model Set of Accounts Workshop and Annual Conference, and
- Working party member for the 2015 update to CPA Australia's Public Sector Guide to Valuation and Depreciation
- Tim is currently assisting IPWEA in the development of International Infrastructure Financial Management Guidelines.

#### Qualifications and memberships:

- Bachelor of Commerce
- Graduate Diploma (ICAAANZ)
- Member, ICAANZ
- Member, Institute of Internal Auditors
- Registered Company Auditor
- Registered SMSF Auditor

#### Relevant Work Experience / Projects

##### *SA Councils - Various*

##### *External Audit*

Tim is the Lead Partner for numerous external audits of South Australian Councils including the City of Playford, City of Prospect, City of Victor Harbor, City of Mount Gambier, Light Regional Council, The Flinders Rangers Council, District Council of Mount Remarkable, and the District Council of Robe.

Tim leads the Galpins Partner group in the design and delivery of external and internal audit engagements to the Local Government sector in SA. As Partner, he has primary responsibility to ensure the external audits of Local Government Authorities and Council bodies meet the requirements of the Local Government

## Our team

### Tim Muhlhausler

#### Lead Engagement Partner

Act, Financial Management Regulations and relevant Australian Accounting and Auditing standards.

Tim achieves value to Local Government clients by ensuring the audit scope is consistent with the strategic direction and objectives of the Council and understanding the Councils key audit matters, issues and challenges and developing strong personal relationships.

#### *State Government Departments and Agencies*

##### *External Audit*

##### *SA Health*

Tim assists the Engagement Partner (Luke Williams) for the delivery of audit and audit related services to the Auditor-General's Department for the audit of, Country Health SA, the Women's and Children's Hospital and SA Ambulance Service. Tim was previously the Lead Engagement Partner for Country Health SA for 3 years which was transferred to other Galpins Partners as part of normal auditor rotation.

He has primary responsible for the external audit of property, plant and equipment valuations for the Department of Health and all Local Health Networks (LHN's) in SA on behalf of the Auditor-General's Department. This is a multi-billion-dollar asset portfolio comprising land and buildings including hospital, research facilities and investment properties, complex medical infrastructure and equipment and intangible assets such as software and licenses.

Tim also facilitates special projects on behalf of the Auditor General's Department such as:

- Asset revaluation reserve adjustment on the introduction of the new asset management system for the whole of SA Health
- Asset transfers between LHN's resulting from Departmental restructures
- Application of the new accounting standard on fair value – AASB 13, and
- Application of AASB 10 in relation to changes to the consolidation standard.

#### *SA Councils - Various*

##### *Internal Audit and Consulting Services*

Tim has overseen and delivered numerous internal audits for SA councils including City of Onkaparinga, City of Salisbury, City of Playford, City of Tea Tree Gully, City of West Torrens, City of Burnside and City of Holdfast Bay.

These audits have covered a broad range of scopes including assurance mapping, project management, event management, asset management, storm water management, fraud management, property lease and license management, building inspections, building maintenance, procurement, risk management, logical security, staff selection, recruitment and probation processes and elected member expenses.

## Our team



### Luke Williams

#### Quality Review Partner

Luke offers substantial experience in Local Government and public sector accounting, audit and risk management through his work on a diverse range of Local, State and Commonwealth Government audits and associated entities.

Luke has managed and supervised the completion of numerous Local Government audits, including financial statement audits, control reviews and prudential reviews under section 48 of the Local Government Act. Luke is an active member of the SA Local Government Auditors' Group (SALGAG) and works closely with Tim Muhlhausler – chair of SALGAG in setting the agenda for Local Government audit issues in South Australia. He is also one of the Independent Audit Committee members of the Rural City of Murray Bridge.

#### Qualifications and memberships:

- Bachelor of Commerce
- Member, CPA Australia
- Registered Company Auditor
- Registered SMSF Auditor
- Associate Member IIA

Luke understands the importance of Councils adhering to the relevant legislative requirements set out within the Local Government Act (1999). Luke delivers value to his clients by providing recommendations that are practical and ensure resources are used efficiently and effectively whilst maintaining a strong internal control environment.

Luke's Local Government clients have included City of West Torrens, The Corporation of the Town of Walkerville, The Rural City of Murray Bridge, City of Mount Gambier, District Council of Wattle Range, Tatiara District Council, Northern Adelaide Waste Management Authority, Southern Region Waste Resource Authority and the District Council of Barunga West.

Luke's major State Government clients include the Department of Health, Auditor-General's Department, Department for Environment, Water and Natural Resources, Return to Work SA and Courts Administration Authority.

Galpins were appointed by the Auditor-General's Department to complete the audit of CHSALHN in 2012. During this time, Luke has been responsible for the audit as a manager and a partner. In 2016, Galpins were reappointed to assist the Auditor General's Department with the audit of CHSALHN and were appointed to audit the Women's and Children's Hospital as well as SA Ambulance Services for the first time. Luke is the partner responsible to ensure the audits are completed on time and to an appropriate standard. Our working papers are reviewed by the Auditor General's Department.

## Our team



### Qualifications and memberships:

- Bachelor of Accounting
- Graduate Diploma (ICAAANZ)
- Member, ICAANZ
- Registered Company Auditor

## Juliano Freitas

### Audit Manager

Juliano is a Chartered Accountant and Audit Manager with Galpins with over 15 years experience in external audit, internal audit and audit related services in Australia and Brazil. Juliano leads the development of audit and assurance programs at Galpins and is an expert on accounting and auditing standard interpretations.

Originally from Brazil, he has been with Galpins for over 6 years and was previously an audit manager at KPMG Brazil in their Sao Paulo office. Juliano's skills and expertise are built on a foundation of high technical knowledge of International Financial Reporting Standards (IFRS) and International Auditing and Assurance Standards (IAASB) which are complemented through practical application into audit methodologies and audit programs.

He is the lead manager for the delivery of audit services to State and Local Government clients at Galpins and was key to developing the audit methodology applied by Galpins for internal controls to meet the requirements of the Local Government Act.

Juliano developed the audit methodology and audit program utilised across all SA Health entities audited by Galpins. Juliano also provides a broad range of internal audit services to Local Government. This has included the City of Tea Tree Gully, City of West Torrens, City of Playford, City of Burnside and City of Salisbury.

### Relevant Work Experience / Projects

#### *SA Councils - Various*

#### *External Audit*

Juliano leads the management and delivery of external audit services at numerous Councils and Local Government bodies across Adelaide and regional South Australia. This includes the City of Playford, City of Prospect, City of Victor Harbor, Rural City of Murray Bridge, City of Port Augusta, Clare & Gilbert Valleys Council, and the Southern Region Waste Resource Authority (SRWRA).

His role includes facilitating the risk assessment and planning meetings, directing and managing the conduct and delivery of the audit activities including controls testing and review of the financial statements and notes as part of the year-end audit activities.

He is primarily responsible for the supervision of audit staff on-site, undertaking review and quality assurance of all field work, communicating relevant audit findings, and drafting & presenting the management letter and final audit report to Council and the Audit Committee.

## Our team



### Pascal Marrot-Castellat

#### Local Government Audit Specialist

Pascal is a Risk and Audit Manager with almost 10 years experience in professional services. Pascal joined Galpins in October 2015 and brings broad audit capability and expertise developed across a wide range of assignments. His experience has been developed through a range of corporate, operational and financial audits, leading the design and development of numerous financial and operational control frameworks and managing complex Sarbanes Oxley (SOX) audit programs in Australia and overseas for large multinational corporations.

#### Qualifications and memberships:

- Provisional Member, ICAANZ
- Bachelor of Commerce
- Diploma of Business Management

Prior to joining Galpins, Pascal spent over 6 years with Deloitte in their audit and risk divisions. He was a key member of the workgroup that developed the Better Practice Model - Financial Internal Controls framework to provide a structured application of internal control for Local Government in South Australia.

More recently, Pascal was responsible for the ControlTrack software application across Australia with a specific focus on South Australia and Queensland. He successfully implemented the application in over 60 organisations nationally ranging from Local and State government, private and publicly listed corporations, universities and government incorporated entities.

#### Relevant Work Experience / Projects

##### *SA Councils - Various*

##### *External Audit*

Pascal has been a welcome addition to the Audit and Assurance team coming in as an internal controls specialist and being a key member as part of the internal controls testing at our Local Government clients. Pascal is also involved in the year-end audit activities at our Local Government clients including the City of Playford, City of Victor Harbor, Port Augusta City Council and all councils we audit in the state's South East region.

##### *SA Government Department and Agencies - SA Health*

##### *External Audit*

Pascal is part of the audit team for the SA Health entities. In his role, he led the internal controls review for the critical areas of purchasing and procurement, accounts payable and the review of major contracts. Pascal is responsible for all the internal controls testing, review of all fieldwork and presentation of all material issues to the departmental executives.

##### *Internal Control Reviews and Health Checks*

Pascal has undertaken a number of internal control reviews and health checks for Councils in South Australia. These reviews and health checks provided the councils with an independent view over the effectiveness of their control environment and key areas for improvement.

## Our team



### John Li

#### Analyst

John has assisted in conducting audits for schools, Councils and more recently, SA Health. He has taken a particular interest in the Local Government sector and the internal controls opinion.

This has seen John develop a strong understanding of the audit program in relation to the internal controls testing conducted for our Local Government clients. He has been involved in controls testing across all major business cycles and has become an invaluable member of our Local Government Audit and Assurance capability.

He has completed a Bachelor of Commerce majoring in accounting and is currently undertaking the Chartered Accounting program.

#### Qualifications and memberships:

- Bachelor of Commerce
- CA program (study underway)

#### Relevant Example Work Experience / Projects

##### *SA Councils - Various*

##### *External Audit*

John has been involved in numerous Council audits since commencing employment with Galpins.

This includes the Rural City of Murray Bridge, City of Victor Harbor, The District Council of Peterborough, Flinders Ranges Council, District Council of Mount Remarkable and Light Regional Council.

To complement his external audit experience gained so far, John has also been involved in internal control reviews at the City of Burnside.

##### *SA Health and Health Advisory Councils*

##### *External Audit*

As part of SA Health, John is a member of the external audit team specifically focusing on assessing the controls in place for fixed assets. This involved assessing policies and procedures in place for numerous regional hospitals, and conducting walkthroughs to understand and analyse controls. John has also conducted revaluation testing to assess compliance with policy requirements.

John has also assisted the payroll team in conducting assessments on payments to doctors and contracted nurses.

John has experience with conducting audits for Health Advisory Councils and associated Gift Fund Trusts.

## Our team



### Qualifications and memberships:

- Bachelor of Commerce
- CA program (study underway)

## Harry Mlaco

### Analyst

Harry joined Galpins in 2016 and has assisted in conducting audits for schools, Councils and more recently, SA Health. He has taken a particular interest in the Local Government sector and external audit.

Harry has developed a strong understanding of the main business cycles and internal controls in local government entities. He has been involved in assisting the firm in gathering appropriate audit evidence to form our controls opinion for a number of councils based on the principles underpinning the Better Practice Model. He has also been involved in performing substantive procedures for a number of account balances and notes disclosures in the financial report for a number of local government entities.

He has completed a Bachelor of Commerce majoring in accounting and is currently undertaking the Chartered Accounting program.

### Relevant Example Work Experience / Projects

#### *SA Councils - Various*

##### *External Audit*

Harry has been involved in numerous Council audits since commencing employment with Galpins. These include, The City of Prospect, City of Victor Harbor, Flinders Ranges Council, District Council of Barunga West, District Council of Mount Remarkable and Light Regional Council.

#### *SA Health and Health Advisory Councils*

##### *External Audit*

As part of SA Health, Harry is a member of the external audit team specifically focusing on assessing the controls in place for cash and cash equivalents. This involved assessing policies and procedures in place for numerous regional hospitals, and conducting walkthroughs to understand and analyse controls. Harry has also been the appointed member in charge of all the bank confirmations for our health (Country Health SA, SA Ambulance Service, Women's and children's Hospital, Health Advisory Councils) and council clients.

Harry has also assisted the payroll team in conducting assessments on payments to doctors and contracted nurses.

# Our contact **details**

**Firm name:** Galpins - Accountants, Auditors and Business Consultants

**Contact person:** Mr Tim Muhlhuasler

**Telephone number:** 08 8332 3433

**Facsimile number:** 08 8332 3466

**Email address:** tim@galpins.com.au

**Partners:**

David Chant CA, FCPA

Simon Smith CA, FCPA

David Sullivan CA, CPA

Jason Seidel CA

Renae Nicholson CA

Tim Muhlhausler CA

Luke Williams CA, CPA

Aaron Coonan CA

Daniel Moon CA

**A.B.N:** 30 630 511 757

**Business address:** 3 Kensington Road, Norwood SA 5067

**Postal address:** PO Box 4067, Norwood South SA 5067

**Website:** [www.galpins.com.au](http://www.galpins.com.au)

**Insurance:** Public Liability \$20 million  
Professional Indemnity \$10 million

# Appendix A

## Tender Response Schedules

**Schedule 1 Tender Form – Formal Offer**

We

**Galpins Accountants, Auditors and Business Consultants**

(Tenderer) on having read, understood and fully informed myself/ourselves/itself of the contents, requirements and obligations of the RFT, hereby tender to provide and complete the Supplies described in the Specifications in accordance with the Contract for the amounts set out in the Tender Response Schedules.

1. The Tenderer is subject to the terms and conditions set out in the Conditions of Tendering.
2. The Tenderer irrevocably offers to provide the Supplies on the terms of the Contract and the Specifications which form part of the Tender Documents, subject only to the variations set out in the schedule titled "Statement of Conformity".
3. The Tenderer confirms that the Tender has been prepared without any consultation, communication, agreement or other arrangement with any competitor regarding:
  - 3.1 prices or methods, factors or formulae used to calculate prices;
  - 3.2 the intention or decision to submit a Tender, or the terms of the Tender;
  - 3.3 the submission of a Non-Conforming Tender; and
  - 3.4 the quality, quantity, specifications or particulars of the Supplies.
4. The Tenderer acknowledges receipt of all addenda issued during the Tender period as follows:

Addendum No.	Date issued by Council
Tender 15/18	29/12/2017

The undersigned acknowledges that he/she is an authorised representative of the Tenderer and has the authority to bind the Tenderer by signing this Formal Offer.

**Signed for the Tenderer**

by an authorised representative in the presence of:



Signature of witness

Luke Williams

Name of witness (print)



Signature of authorised representative

Tim Muhlhausler

Name of authorised representative (print)

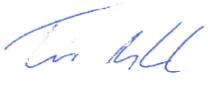
Partner

Position of authorised representative (print)

08/01/2018

Date of Signing

**Schedule 2 Tenderer's Details**

<p><b>1. Name of Tenderer</b></p> <p>State in full the name(s) of the person(s) or the registered name(s) of the company(s) and trading names.</p> <p>ABN number</p>	<p>Galpins Accountants, Auditors and Business Consultants</p> <p>Trading Name: Galpins Accountants, Auditors and Business Consultants.</p> <p>Legal names: Coonan Accounting Trust, David Chant Trust, Simon Smith Trust, David Sullivan Trust, RNN Accounting Trust, Seidel Accounting Trust, Muhlhausler Family Trust and Williams Accounting Trust</p> <p>30 630 511 757</p>
<p><b>2. Contact person</b></p> <p>Nominate a contact person for this tender to deal with any questions or queries that may arise.</p>	<p>Tim Muhlhausler</p>
<p><b>3. Registered address</b></p>	<p>233 Commercial Street West, Mount Gambier SA 5290</p>
<p><b>4. Postal address</b></p>	<p>PO Box 4067, Norwood South SA 5067</p>
<p><b>5. Telephone</b></p>	<p>08 8332 3433</p>
<p><b>6. Fax</b></p>	<p>08 8332 3466</p>
<p><b>7. Email</b></p>	<p>tim@galpins.com.au</p>
<p><b>8. Tender conditions</b></p> <p>Tenderer to sign that it has read and understood this RFT and the Conditions of Tender.</p>	
<p><b>9. Amendments to Tender Documents</b></p> <p>Tenderer to indicate the amendments it requests.</p>	<p>We have provided an alternate tender document which includes information requested as well as relevant details about our services.</p>

### Schedule 3 Licences and Accreditation

#### 1. Licences

List details of any licences or accreditations required or relevant to this Tender. Tenderers will be required to provide copies of all relevant licences for all stage engaged under the Contract.

Licence Type (please indicate)	Details (Licence No, date of expiry, permitted activity)
<input type="checkbox"/> <b>Registered Company Auditor</b>	Tim Muhlhausler (lead auditor) – 382953 Luke Williams (available for rotation if needed) – 450628 Juliano Freitas (audit manager) - 500238
<input type="checkbox"/> <b>Professional membership Registration (CA/CPA)</b>	Tim Muhlhausler – CA 293993 Luke Williams – CPA938594 / CA471458 Juliano Freitas – CA 492548
<input type="checkbox"/> <b>Name of Lead Auditor/Signing Partner</b>	Tim Muhlhausler

An audit is to be carried out in accordance with Auditing Standards and Auditing Guidance Statements published (and amended from time to time) by the Auditing and Assurance Standards Board established under the Australian Securities and Investments Commission Act 2001 of the Commonwealth

## Schedule 4 Organisation Structure and Resources

### 1. Organisation structure

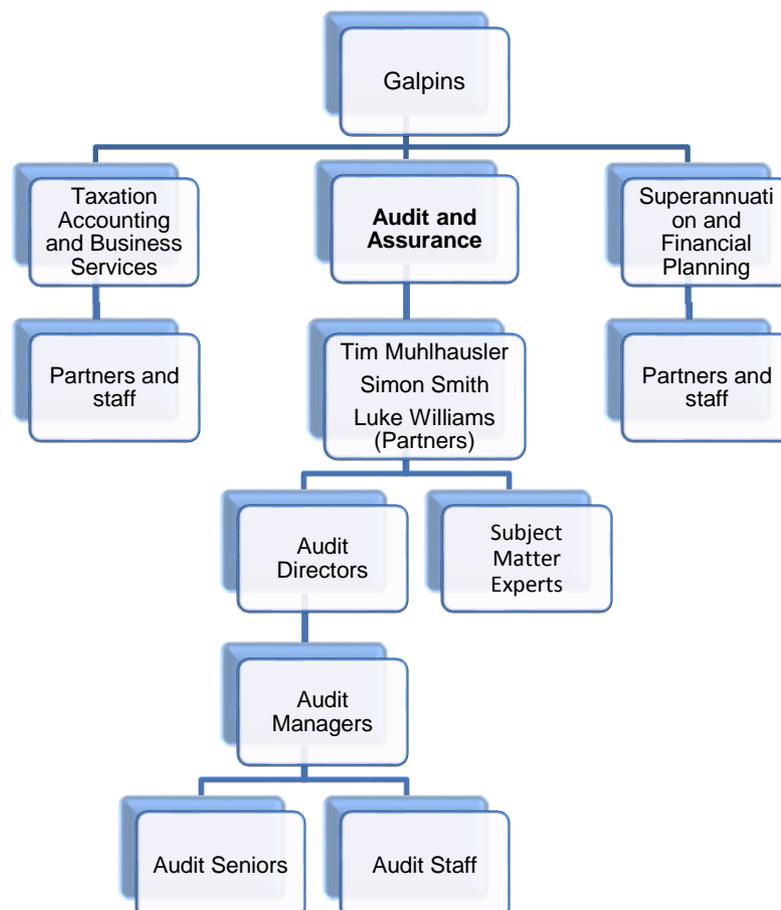
Provide details of the organisation structure proposed to be used for performance of the Services. Details must include but not be limited to:

- Company structure to be used to support the Services including size and location of office, organisation structure
- Details of the award, enterprise agreement, and/or local area workplace agreement, under which staff will be employed, and rates of pay, conditions, or allowances

#### Galpins Organisational Structure:



Galpins is operated as a partnership. The partnership purchases staffing and equipment services from Commercial Financial Services Trust, which has some common and some differential ownership. The partnership rents one office location from Heritage Unit Trust, which has some common and some differential ownership. The following diagram illustrates the organisation structure for the Audit and Assurance Division within the main partnership:



**Galpins Office locations / size:**

Stirling (3-5 Mount Barker Road) – approximately 5 staff

Norwood (3 Kensington Road) – approximately 18 staff

Mount Gambier (233 Commercial Street West) – approximately 21 staff

Mount Gambier (Bay Road Office) - approximately 7 staff

**Galpins Audit Team:**

Galpins has a large audit division of 18 core personnel including three audit Partners (all Registered Company Auditors). We have staff with specialist experience in external audit, internal audit, risk, internal control and governance, with particular expertise in the Local Government sector.

Our in-house team is supported by a network of subject matter experts and sub-contractors with whom we work to deliver a seamless service to clients, providing access to the very best in expert advice and leading practice insights.

Galpins professional employees are under individually negotiated employment contracts and Galpins non-professional staff are under the Clerks – Private Sector Award 2010.

**2. Lead Auditor and Staff**

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Provide details of the following:

- **Number of staff proposed to be used and their qualifications and experience including the nomination of:**
  - **a Lead Auditor to oversee delivery of the Services and undertake functions set out in this Tender Specification;**
  - **a person to act as Lead Auditor in the event of a long term absence (to ensure continuity of service delivery) and**
  - **other proposed Authorised Personnel to be involved in delivery of the Services as part of the Audit Team.**

**Services must be provided by the tenderer and cannot be subcontracted.**

Lead Engagement partner (lead auditor) – Tim Muhlhausler

Quality Review Partner (available for rotation and to act as lead auditor in the event of a long term absence of the current lead auditor) – Luke Williams.

Audit Manager – Juliano Freitas

Local Government Audit Specialist – Pascal Marrot-Castellat

Audit Analyst – John Li

Audit Analyst – Harry Mlaco

Please refer to pages 20-26 of our tender document for full staff CVs.

### **3. Contingency arrangements**

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**Provide details of contingency arrangements should any facilities or sites required to facilitate the Contract become unavailable in the short and long term.**

Galpins team includes three audit partners, all registered company auditors with significant external audit and local government experience.

Supporting these partners is one of South Australia's largest audit teams including 4 audit managers managing a team of experienced audit staff.

Galpins has access to a pool of contracted subject matter experts as required. We regularly work with these contractors to offer our clients a full range of consulting services, with exceptional quality and for a competitive price.

These resources can be readily deployed in the event of unavailability of any persons specified in this tender.

## Schedule 5 Experience

### 1. Past performance

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**For how many years has the Tenderer engaged in the type of work required by the Contract?**

Galpins has been involved in the external audit of SA Local Government Councils for more than 30 years.

**Has the Tenderer had an appointment terminated on a project in the last five years. If yes please provide brief details.**

No.

**Has the Tenderer terminated an audit in the last five years? If yes please provide brief details.**

No.

**Has the Tenderer refused to continue providing services under a contract in the last five years unless the terms or payments were changed from those which were originally agreed. If yes please provide brief details.**

No.

## 2. Current contracts

---

Provide details of current contracts in a local government environment including the range of services provided and the numbers and types of clients serviced.

Project Description	Value	Duration
City of Mount Gambier	\$20,000 p.a.	>15 years to current
City of Victor Harbor	\$15,000 p.a	2016-2020
City of Playford	\$34,000 p.a.	2016 – 2020
Kingston District Council	\$13,600 p.a	>15 years to current
Flinders Rangers Council	\$19,000 p.a	2016-2020
The District Council of Peterborough	\$19,000 p.a	2016-2020
The District Council of Orroroo Carrieton	\$19,000 p.a	2016-2020
Light Regional Council	\$19,000 p.a	2016-2020
Burnside Council	\$50,000	2017
Murray Mallee Local Government Assoc.	\$5,000	2016
District Council of Robe	\$15,000	2016-2020
Port Augusta City Council	\$19,000	2016- 2020
District Council of Mount Remarkable	\$22,000	2016-2020
District Council of Tatiara	\$17,000 p.a	>15 years to current
City of Prospect	\$22,850 p.a	2016-2020
Clare and Gilbert Valleys Council	\$16,000	2016-2020

### 3. Other commitments

Provide details of other work commitments expected to continue during this Contract.

Client	Details
Country Health SA, Women's and Children's Hospital and SA Ambulance Service Estimated fee: \$585,000	Galpins acts on behalf of the Auditor-General of South Australia to provide an audit opinion on whether the client's financial statements present fairly and in accordance with Australian Accounting Standards. Galpins also advises the AG on whether the controls exercised by CHSA in relation to the receipt, expenditure and investment of money; the acquisition and disposal of property; and the incurring of liabilities were sufficient to provide assurance that CHSA financial transactions were conducted properly and in accordance with the law.
Department for Education and Child Development Estimated fee: \$285,000	Galpins provides external audit and compliance audit services to more than 250 high schools, primary schools, preschools and OSHCs (Out of School Hours Care).
Department of Health Estimated fee: \$165,000	Galpins provides external audit services to approximately 42 Health Advisory Councils and 42 Gift Fund Trusts. We also provide compliance audits for a number of aged care providers. Those compliance audits require us to provide an opinion on whether the aged care providers have complied with Division 3 of Part 4 of the User Rights Principles 1997.
Other internal audit engagements	Galpins also provides internal audit services to a wide range of clients including Local Government, State Government and the not-for-profit sector.
Other external audit engagements	Galpins also provides external audit services to a wide range of clients including aged care providers, the not-for-profit sector, superannuation funds and companies.

## Schedule 6      **Audit Approach and Methodology**

6.1 Each Tenderer must provide a detailed, methodology to complete the Audit as required under the Act and Regulations, including the following:

- timing and frequency of on-site and off-site work.
- number of hours,
- level of staff which will be assigned for the level of Audit work to be undertaken
- specific details of technical skills in undertaking such an audit in a well-developed computerised environment

Detailed information about our audit methodology can be seen on pages 12-19 of our tender document. In summary, our audit methodology is comprised by four main stages: Audit Planning, Internal Controls, Substantive Procedures and Completion.

### **Audit Planning**

During this stage we obtain an understanding of Councils unique characteristics and requirements. This understanding is obtained based on initial meeting with management and researching documents as business plans, long term financial plans, financial indicators, governance arrangements and applicable laws and regulations.

Based on the information obtained from the sources mentioned above, we identify risk of material misstatements, set our materiality levels and develop our audit programs with the audit procedures to be performed during our visits.

We estimated the following hours for our audit planning stage:

Audit Stage	Lead partner	Audit Manager	Internal Control Specialist	Total
Audit Planning – off site work	2	5	3	10

### **Internal Controls Stage**

We obtain an understanding of the internal controls relevant to the financial statements, and those most important for the efficient and effective financial management of council. After identifying Council's key controls, we perform test of design and effectiveness of these controls.

Based on the results of the control testing, we then assess the risk of material misstatements and design further procedures to reduce risk where necessary. During this stage we also perform some preliminary substantive procedures. The results of this stage are reported in our interim management letter.

During this stage is when the audit team first visit the council. We estimated the following hours for our internal controls tests:

Audit Stage	Lead Partner	Audit Manager	Internal Controls Specialist	Audit Analyst 1	Audit Analyst 2	Total
Interim site visit – on site work	5	15	10	22.5	22.5	75
Interim review / management letter - off site work	3	4	-	5	5	17
<b>Total</b>	<b>8</b>	<b>19</b>	<b>10</b>	<b>27.5</b>	<b>27.5</b>	<b>92</b>

### Substantive Procedures

From our risk analysis and results of control testing, we are able to design and refine appropriate substantive procedures to conclude as to fair presentation of the figures presented in the financial statements and the note disclosures.

During this stage we visit the council to perform our final substantive procedures to enable us to develop a final assessment of the risk of material misstatement and form our auditor's opinion. Estimated hours for our final substantive procedures are:

Audit Stage	Lead Partner	Audit Manager	Internal Controls Specialist	Audit Analyst 1	Audit Analyst 2	Total
Final site visit – on site work	-	15	-	22.5	22.5	60

### Completion

The completion stage consolidates the audit work performed during the previous stages. We evaluate the results of audit testing and prepare reports and action plans to be communicated to Council. Prior to finalization, we determine management's response to our findings and recommendations for consideration in forming our opinion.

Based on our final assessment of the risk of material misstatement, we issue our audit opinions regarding the financial internal controls and presentation of the financial statements.

Audit Stage	Lead Partner	Audit Manager	Internal Controls Specialist	Audit Analyst 1	Audit Analyst 2	Total
Review and finalisation – offsite work	4	5	-	10	10	29
Audit committee	2	-	-	-	-	2
<b>Total</b>	6	5	-	10	10	31

### Total hours

In total, the estimated hours for the engagement are:

Audit Stage	Total
Audit Planning – off site work	10
Interim site visit – on site work	75
Interim review / management letter - off site work	17
Final site visit – on site work	60
Review – offsite work	29
Audit committee	2
<b>Total</b>	<b>193</b>

### **Audit techniques used to audit well-developed computerised environments**

The use of ERP systems has increased considerably in recent years as entities seek ways to manage and integrate different part of their business using a single system. Galpins has implemented audit techniques to address significant risks related to the use of ERPs and to obtain assurance in relation to the IT application controls embodied in the system.

The following pages describe the adjustments to our audit methodology that are made to reflect the audit of well-developed computerised environments.

#### **Planning**

The implementation of an ERP requires a strong IT control environment. Galpins initially performs an understanding of the IT controls environment focusing on general controls related to the five areas listed below:

1. IT Entity Level Controls (IT governance, IT strategic pan, financial resources, IT personnel resources, IT policies and procedures and IT risk management)
2. Change Management (process for changes to software/programs, process for changes to IT Infrastructure)
3. Information Security (physical access to the Data Centre, logical access to network, remote access to network and logical access to the financial application)
4. Backup and Recovery (backup procedures, IT Disaster Recovery Plan, Business Continuity Plan)
5. Third Party IT providers (outsourced IT services and review of third parties to the network)

#### **Control Testing**

After we understand the Council's IT control environment we then understand and test the workflows and IT application controls included in the ERP system. Examples of these tests include:

- Making an assessment of the appropriateness of the access rights allocated to IT users from different modules from the ERP system (e.g. procurement, creditors master files, payroll, general ledger, receipting, accounts receivable, etc).
- Performing walkthroughs and mapping workflows to obtain evidence of how different modules in the system integrate to the general ledger, and the existence of appropriate workflow controls and data validation
- Obtaining an understanding of the system settings for approval of financial transactions (e.g. users authorised to approve purchase order and delegation of authority allocated to these users).
- Obtaining an understanding of the exception reports generated by the system, testing them and using them to identify any specific transaction occurred that overpassed a control (e.g. list of payments without a purchase order, employees paid without an approved timesheet, etc).
- Testing the interface between the ERP system and any other system that Council may use.

## **Data Analytics and Computer Assisted Audit Techniques**

The existence of a well-developed computerised environment provides significant opportunity for audit to take advantage of data analytics and computer assisted audit techniques, adding efficiency to the audit and extracting more insights and value from the available data.

### **Planning**

During the planning phase of the audit, we develop an understanding of the available data sets within Councils systems, both financial and non-financial. From this understanding, and combined with our broader understanding of the business and risks, we plan the data analytics techniques that can best support the audit.

### **Analysis**

Galpins utilises the data analytics tool "IDEA", together with supporting products including Excel and Access. These tools assist us in applying a statistical basis for determining audit samples in order to obtain reliable audit evidence, and help to ensure compliance with our quality assurance policies. The software also enables a powerful data analytics capacity, including trend analysis and identification of "red flags" against transactions that may require additional audit scrutiny.

Examples of data analytics techniques that may be utilised, subject to data availability and risk assessment, include:

#### **Creditor Master File**

- Supplier Masterfile Pertinence (e.g. duplicate creditors, completeness of supplier details, invalid ABNs)
- Matching of supplier data against the payroll data base (i.e. matching bank account details and/or addresses)
- Analysing usage of suppliers (frequency, volume, unused accounts)

#### **Payments**

- Duplicate Payments
- Unusual payments (e.g. unusual timing, unusual payment patterns or amounts, unusual transaction descriptions, unexpected suppliers)
- Purchase order pertinence (missing PO's, post-dated PO's)
- Payments outside of payment terms
- 'Benfords Law' and 'round-number transaction' tests to detect unusual transaction values
- Reviewing "split transactions" e.g. multiple transactions with a single supplier on the same date across one or more POs or credit cards
- GST reasonableness (regression analysis)
- Invalid pay rates (actual/calculated vs. master file)

## Payroll

- Employee Masterfile Pertinence (e.g. duplicate employees, dormant accounts, completeness of employee details, invalid TFNs)
- Superannuation reasonableness (regression analysis)
- Excessive gross pay
- Excessive overtime
- Recalculation of employee entitlements

## General Ledger / Chart of Accounts (COA)

- Journal Authorisation
- Duplicate journal entries (JEs) (same account/amount, same JE number/amount)
- Split journals (single JE/multiple accounts, multiple JEs/single account)
- Dormant accounts in COA
- Duplicate accounts in COA
- Suspicious keyword in JE description
- Unusual journal postings (e.g. unusual timing, suspicious amounts, unusual posting account combinations, unusual transaction descriptions)

## Infrastructure, Property, Plant and Equipment

- Recalculation of depreciation
- Review of useful lives
- Review of componentisation

## Revenue

- Recalculation of rates revenue
- Review of credit notes (authorisation, unusual timing, segregation of duties)
- Duplicate customers (name, address)

### **Examples of our experience in the audit of ERP systems**

Galpins has experience in auditing organisations using sophisticated IT systems and computerised environments. Examples of these organisations include a number of councils we audit using Technology One which is an ERP system used by a number of metropolitan councils in Adelaide.

Other using ERP systems and sophisticated computerised environments include the Women's and Children's Hospital, SA Ambulance and Country Health SA. These organisations use Oracle as their ERP system and other sophisticated supporting systems such as CHRIS 21 (payroll management system) and EPAS (Electronic Patient Administration System). Specifically for EPAS, Galpins were involved in auditing the implementation of this system in Country Health SA which resulted in a report containing a number of matters to be addressed for the successful application of this system.

Another example of an audit client using a sophisticated ERP system is Banner 10 (a joint venture between Mitre 10 and Banner in South Australia). As part of the audit, Galpins has mapped the IT controls environment surrounding PacSoft (Banner 10 ERP system) and tested the IT application controls in relation to the issue of electronic purchase orders, parameters set up in the system to keep the appropriate level of inventories across multiple hardware stores, parameters used to ensure the appropriate valuation of inventories, controls to ensure the integrity of the pricing list and that sales are generated based on the pricing list, parameters used to apply discounts based on volume and types of clients, etc.

Due to the growing number of clients using sophisticated ERP systems, Galpins keeps the audit team up-to-date with training on the use of technology, and promotes the use of automated processes in our own audit processes.

Galpins has tailored its audit procedures to prioritise IT internal controls when performing our audit tests. Recognising that the existing *Better Practice Model – Internal Financial Controls* has only a minimal focus on IT controls, Galpins has developed our own suite of better practice IT controls for SA local government, informed by our extensive experience across SA Councils and with input from our IT specialists.

Galpins has always promoted the implementation and use of automated internal controls among its clients such as electronic workflow and approval of purchase orders, payments, electronic timesheets, IT user access controls, banking controls, etc. We seek opportunities to share our insights into better practice in the use of IT in our management letters recommendations, providing information on how it can be used and examples of technologies available, or alternative uses of technologies already in use, based on our extensive experience auditing clients using sophisticated ERP systems.

6.2 Each Tenderer must provide a detailed methodology to complete the Internal Control audit as required under the Act and Regulations, including the following:

- timing and frequency of on-site and off-site work
- number of hours
- level of staff and relevant technical skills including IT which will be assigned for the level of Audit work to be undertaken

### Internal Controls Stage

We obtain an understanding of the internal controls relevant to the financial statements, and those most important for the efficient and effective financial management of council. After identifying Council’s key controls, we perform test of design and effectiveness of these controls.

Based on the results of the control testing, we then assess the risk of material misstatements and design further procedures to reduce risk where necessary. During this stage we also perform some preliminary substantive procedures. The results of this stage are reported in our interim management letter.

During this stage is when the audit team first visit the council. We estimated the following hours for our internal controls tests:

Audit Stage	Lead Partner	Audit Manager	Internal Controls Specialist	Audit Analyst 1	Audit Analyst 2	Total
Interim site visit – on site work	5	15	10	22.5	22.5	75
Interim review / management letter - off site work	3	4	-	5	5	17
<b>Total</b>	<b>8</b>	<b>19</b>	<b>10</b>	<b>27.5</b>	<b>27.5</b>	<b>92</b>

For the purpose of issuing a controls opinion we refer to the Better Practice Model and to our understanding of council’s risk framework and practices to assess Council’s inherent risks and to select a list of controls we expect to see in place and operating effectively.

The controls as per the Better Practice Model (or alternative controls per actual Council practice) to be tested by Galpins are selected based on the following risk assessment procedures:

Inherent risk review – we perform an analysis of the inherent risks included in the Better Practice Model and identify the risks that are moderate, high and extreme and then identify the controls that mitigate these inherent risks.

Financial Statement review – we review the Council’s financial report to identify the key accounts and transactions streams. Then, we identify the business cycles related to these key accounts and transactions streams and the controls included in the Better Practice Model within these business cycles.

Internal / External Audit Results review – the findings and recommendations of past internal / external financial audits are reviewed to identify known areas of weakness, and areas known to be attracting audit attention.

After selecting the controls using our risk based approach we perform the test of effectiveness of these controls.

Controls weaknesses are rated according to risk in order to identify any control failure that may represent a significant breach of section 125 of the Local Government act.

Controls weaknesses and opportunities for improvement are reported in our interim management letter.

- 6.3 Each Tenderer must provide details on your organisations ability to commit to response times and other performance related factors and ensure that those undertakings are adhered to during the Audit process.

### Audit Responses and Timetable

Please find on page 19 of our tender document an indicative time table for the audit. Actual audit dates and proposed deadlines will be negotiated with the Council to ensure that dates are convenient.

### Key Performance Indicators (KPIs)

As part of our service to you, we will aim to deliver our external audit service to the highest quality. Below we have outlined a suggested performance framework, including relationship management principles, which we are willing to stand by.

Our initial suggestions are outlined below. These KPIs are indicative only and we are happy to formalise these upon beginning work with you. In summary, we propose an approach to relationship management with you that is real. This will combine genuine contact with our senior staff, clear performance expectations and an honest approach to our work as a basis for success.

	Performance Indicator	Measurement	Target
<b>Relationship</b>	Extent to which Galpins meets the reporting and responsiveness requirements of the Audit Committee & Senior Executive Team	Qualitative assessment by the Audit Committee and by the Senior Executive	High standard of response
	The credibility and value of Galpins advice and support to the Audit Committee & Senior Executive Team	Qualitative assessment by the Audit Committee and by the Senior Executive	High value & credibility
<b>Service</b>	Effectiveness of Galpins planning, liaison and management arrangements for external audit engagements.	Qualitative assessment by Council external audit representative and auditees	Meets Expectations
	Quality of audit reports and management letters	Qualitative assessment by Council external audit contact/ representative and auditees	Meets Expectations
	Extent to which audit plan is met	Number of milestones met	100%
	Extent to which Galpins adequately planned for and managed internal changes including staff availability and transitions	Qualitative assessment by Council external audit contact	Meets Expectation
<b>Risk</b>	Extent to which Galpins adequately planned for and managed changes in the external environment	Qualitative assessment by Council external audit contact	Meets Expectation
<b>Value</b>	Improvement in business processes as a result of the external audit program	Audit recommendations accepted and implemented	90%
	Effective cost and resource management	Audits completed within agreed budget (except for changes in scope or extenuating circumstances)	100%

**Communication**

Prompt appropriate communication is critically important and we aim to be both proactive and responsive in our communications.

Key matters such as the scope and nature of work to be performed are agreed in writing before the commencement of work, in accordance with good practice and the terms of the engagement. We discuss any matters that arise with staff and senior personnel during the performance of work and during an exit interview. We then provide written drafts of any reports for their review. Where appropriate, we attend audit committee meetings to present and discuss our reports.

We undertake to promptly advise the council of any matters, within or outside of our control, that may affect the timing, quality and cost of our services. If we consider that additional work is required to satisfy the scope of the engagement and we wish to charge that additional work to the council, we will discuss this with the council prior to commencing or continuing such work.

## Schedule 7 Value Added Services

The value of an external audit contract goes well beyond the receipt of a statutory audit.

The true value comes from the relationship with your auditor. Having a resource that you can trust to keep you informed of the issues impacting your Council. Having a resource that you can trust to provide expert advice in line with the latest in best practice.

Over the last five years Galpins has significantly extended its reach and influence in the local government sector more broadly. This has been driven by our nominated partner for this engagement, Tim Muhlhausler, and our audit manager Juliano Freitas and our Local Government Specialist, Pascal Marrot-Castellat. Through Tim, Juliano and Pascal, we offer the Adelaide Hills Council deep expertise and broad capability in local government to perfectly complement the outstanding level of local service and strong audit experience that Galpins has always provided.

Galpins is a leader in the development of SA Local Government auditing, financial reporting and controls. You can be assured that we will keep Council up-to-date with all the latest developments, interpretations and best practices appropriate for your Council. Examples of our leadership roles in Local Government include:

- Galpins partner, Tim Muhlhausler, is the Chair of the SA Local Government Auditors' Group. Tim is also the founding Chair of this group.
- Tim is the Presiding Member for the City of Mitcham audit committee and independent member of the East Waste audit and risk committee.
- Tim and Juliano Freitas (our audit manager) are currently assisting IPWEA in the development of an International Infrastructure Financial Management Guideline.
- Luke is an independent member of the Rural City of Murray Bridge.
- Internal Controls Specialist, Pascal Marrot-Castellat, led the refinement of the 2012 update to the Better Practice Model Financial Internal Controls, and led product development of the Control Track software that supports the Model up until 2015.
- Tim and Pascal had leadership roles in the recent feasibility study into the development of a broad Local Government Better Practice Model for non-financial controls.
- Tim was a member of the working party for the latest 2015 update to CPA Australia's Public Sector Guide to Valuation and Depreciation.
- Galpins has provided presenter support at recent IPWEA Australian Infrastructure Financial Management Manual workshops.
- At the request of the SA Local Government Association (SALGA), Galpins reviewed the SA Local Government Interpretation Paper for the recently introduced AASB 13. We are often asked by SALGA to provide opinions on Local Government issues and accounting standards interpretations.
- Galpins leads the annual review process by auditors for both the SA Model Financial Statements and Better Practice Model Financial Internal Controls.
- Galpins assisted Tonkins at a recent workshop on componentisation – a common approach to removing residuals from road asset registers (held in early April 2016).
- Galpins liaises regularly with local government bodies and professionals both in SA and nationally.
- Tim and Pascal recently led a financial sustainability workshop for the NSW Local Government Technical Advisory Group (TAG), which includes representatives of the NSW Auditor-General's Department, NSW Department of Local Government, NSW Local Government Auditor's Association and NSW Local Government Financial Management Group.
- Galpins assisted the SA Local Government Financial Management Group in the development of a submission to the AASB on recent changes to the new revenue standards.

## **Schedule 8      Improvements and Innovation**

One of Galpins strategic advantages over other audit firms is our ability to be adaptable and innovative. We are large enough to have the resources to invest in innovation, whilst operating with a simple management structure and without an interstate head office dictating what methodologies and approaches we must use. This is enhanced by a strong culture of innovation and continuous improvement.

We are continuously improving the way we work, utilising the latest in audit and data analytics technologies to deliver an efficient, effective audit service. In addition, we utilise Subject Matter Experts and specialists in areas such as IT audit, WHS audit and Business Continuity Planning to ensure we can offer the best advice to clients. The benefits of our continuous improvement is two-fold. Firstly, our audit has a lower impact on auditees and secondly, our own team has more time to focus on interpreting results and providing the best solutions.

Our search for innovation and continuous improvement goes beyond our own internal processes – we extend this philosophy to our clients and the industries in which they operate, with a belief that knowledge sharing is a win-win for both the giver and the receiver. The development of our award winning methodology for Local Government internal financial controls monitoring and our feasibility study into the development of a broad better practice model for non-financial controls for SA Councils (recently endorsed by the SA LG Financial Management Group) are two examples of this.

When we find opportunities for improvement, we do not simply copy and paste a standard recommendation from a template. We work hard to understand our client's unique circumstances and culture, and put thought into developing innovative audit recommendations that are tailored to the needs of those affected.

## Schedule 9 Pricing

### All prices must be listed exclusive of GST

Provide a breakdown of the costs for the Services and/or each type of Service (if applicable) and/or breakdown of fixed and variable costs (if applicable).

The tenderer submits the following schedule of rates (before GST):-

#### 1. Annual Pricing - Table A

- Fees for completing the audit, in accordance with this specification (Table A – Annual Pricing).

GST Exclusive	FY 17/18	FY 18/19	FY 19/20	FY 20/21	FY 21/22
Financial Statements - Hours	92	92	92	92	92
Internal Financial Controls – Hours	101	101	101	101	101
<b>Total Hours per annum</b>	193	193	193	193	193
<b>Other Fees &amp; Disbursements</b>	-	-	-	-	-
<b>Total Council per annum - \$</b>	\$21,000	\$21,420	\$21,848	22,285	22,731

#### 2. Personnel – Table B

- The tenderer is required to provide the proposed personnel who will be undertaking the audit services as per Table B below:

Personnel	Proposed Hours	Hourly Rate \$	Proposed \$ of Total Hours Allocated
Lead Auditor (Partner)	16	250	4,000
Manager	44	200	8,800
Internal Controls Specialist	13	200	2,600
Audit Officers	120	100	12,000
Discount			-6,400
<b>2017/18 audit fee</b>			<b>21,000</b>

### 3. Additional Services pricing – Table C

If the tenderer is required to provide any additional services in addition to those outlined in Section D, Part 3 including Section 130A of the *Local Government Act 1999*, or under sub-regulation 22 (2) of the *Local Government (Financial Management) Regulations 2011* :

- Agreed hourly rate for additional services

Personnel	Hourly Rate \$ FY 17/18	Proposed Increase in Hourly Rate - Future Years %
Lead Auditor (Partner)	250	2%
Manager	200	2%
Internal Controls Specialist	200	2%
Senior Audit Officer	150	2%
Audit Officers	100	2%

Any other fees and/or reimbursements for expenditure including but not limited to travel and/or accommodation.	Please specify
None	N/A

**It is expected that for any extension to the Agreement, any fee increase will be capped at the Consumer Price Index (All groups) for Adelaide as published by the Australian Bureau of Statistics on 31 December of the previous year.**

## **Schedule 10 Referees**

Details of at least three references for similar work and information on the approximate date when work was completed and the approximate value of work undertaken.

Reuse this page if more than three references are provided.

**Client Name: City of Prospect**

Address: 128 Prospect Road PO Box 171 Prospect SA 5082

Contact Name: Chris Birch

Telephone: 08 8269 3555

Date of Work: For 2015/16, 2016/17, 2017/18, 2018/19 and 2019/20 financial years

Value of Work: \$22,850 per financial year

Relevant Service: External audit

**Client Name: City of Playford**

Address: 12 Bishopstone Road, Davoren Park SA 5113

Contact Name: Anita Futterer

Telephone: 08 8256 0104

Date of Work: For 2015/16, 2016/17, 2017/18, 2018/19 and 2019/20 financial years

Value of Work: \$34,000 per financial year

Relevant Service: External audit

**Client Name: JAC Comrie Pty Ltd**

Contact Name: John Comrie

Telephone: 0414 516 566

Relevant Service: Chair of the audit committee of the following councils: Light Regional Council, Adelaide Plains Councils, Alexandrina Council, Renmark Paringa Council, District Council of Loxton Waikerie, Berri Barmera Council, District Council of Orroroo Carrieton, Clare & Gilbert Valleys Council, Port Augusta City Council and Port Pirie Regional Council.

**Schedule 11 Insurance**

Provide details of insurance currently held by you to provide cover for work under the Contract.

Insurance type	Policy no	Extent of cover		Expiry date	Name of insurer
		Per incident \$A	In aggregate \$A		
Public and products liability (min \$10 million)	61A438775BPK	\$20,000,000	\$20,000,000	31/03/2018	QBE
Professional indemnity (at least \$5 million in aggregate of \$2 million on each and every claim – with a two year run off)	CPA78673 PID-17	\$10,000,000	\$10,000,000	01/03/2018	Fenton Green
Workers compensation					

**Schedule 12      Conflict of Interest**

Provide details of any interest, relationship or clients which may or do give rise to a conflict of interest and the issue about which that conflict or potential conflict does or may arise.

<b>Conflict of Interest</b>
Galpins does not have any interest, relationship, or clients which may or do give rise to a conflict of interest.



# Appendix B

## Deliverables

# Galpins

Accountants, Auditors & Business Consultants

## Financial Controls Review

City of XYZ

Interim Management Letter

XX/XX/2017

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### Norwood

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[www.galpins.com.au](http://www.galpins.com.au)

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# 1. EXECUTIVE SUMMARY

## 1.1 Background

During our interim audit we perform procedures to gain an understanding of the internal controls in place relevant to the financial statements and perform tests of design and effectiveness for these controls. Based on the results of the control testing, we then assess the audit risks to define the extent and nature of our substantive procedures (e.g. inspection of documents, recalculation, reconciliation, etc) for our final visit.

Amendments to s129 of the Local Government Act 1999 require auditors to provide an opinion regarding internal controls of councils. This applies to prescribed (metropolitan) councils from 2013-14 onwards, and to non-prescribed (regional) councils from 2015-16 onwards. This opinion focuses on councils' obligations under s125 of the Local Government Act 1999:

*“A council must ensure that appropriate policies, practices and procedures of internal control are implemented and maintained in order to assist the council to carry out its activities in an efficient and orderly manner to achieve its objectives, to ensure adherence to management policies, to safeguard the council's assets, and to secure (as far as possible) the accuracy and reliability of council records.”*

The audit opinion is restricted per s129 of the Act to the application of s125 as it relates to financial internal controls, specifically the controls exercised by the council during the relevant financial year in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities.

In order to assist the Council in addressing the requirements of s129, we have reviewed a prioritised list of controls from the better practice model based on our initial audit risk assessment. See more details about our scope in the item 1.2 of this report.

## 1.2 Objectives and Scope

The objectives of our interim audit were to:

- understand Council's business, business cycles and processes relevant to the financial statements
- understand the internal controls in place for the areas we consider critical for the audit of the financial statements
- design internal controls tests for the internal controls identified
- perform the internal controls tests to determine the final risks of material misstatements in the financial statements to be addressed in our final audit.
- review a prioritised list of internal financial controls we consider critical for the purpose of issuing a controls opinion.

The scope of our audit included a review of internal controls we consider key controls to be in place for the purpose of addressing the requirements of s129.

These key internal controls consist of a prioritised list of controls from the better practice model. This list was defined based on our risk assessment to determine the key business cycles, and key risks within these business cycles, that we understand should be the focus of the Council's control self-assessment.

The identification of key core controls and key business risks included the following risk assessment procedures:

**Risk Review** – A review of Council's inherent risk assessment for internal financial controls.

**Financial Statement Review** – A high level financial statement review performed to identify key accounts and transaction streams.

**Internal / External Audit Results Review** – The findings and recommendations of internal / external financial audits are reviewed to identify known areas of weakness, and areas known to be attracting audit attention.

The key core controls for the following key business cycles have been identified as critical for the purpose of issuing a controls opinion next financial year:

- Fixed Assets
- Purchasing and Procurement
- Contracting
- Rates / Rates Rebates
- Payroll
- Accounts Payables
- Debtors
- Receipting
- Banking
- General ledger

We have included a list of key controls identified by the audit for these business cycles as an appendix to this report (see Appendix 1). This list does not represent a complete population of internal controls that the Council should have in place. There is an expectation that controls not in this list will still exist and be operating effectively within Council.

The list of controls is only intended to be a guide for Council to prioritise its resourcing in readiness for the new audit opinion, and for the ongoing monitoring of internal controls i.e. it is a risk based listing of controls which may be desirable for Council to include in its ongoing monitoring program for internal financial controls.

The list should not be considered a minimum standard – rather, it is a starting reference point for Council to consider. It is expected that Council will have performed a risk assessment of financial risks, and given consideration to the need to monitor controls that address High / Extreme risks that may not be included in this listing.

The control descriptions are as per the Better Practice Model, and have not been personalised to the Council. Council may have different descriptions of controls that address the same risk provided by the better practice model. Council may consider tailoring the controls description to better describe the actual controls in place.

### 1.3 Category of Findings

In order to assist the Council in establishing the overall level of control effectiveness and prioritising areas for attention, we have provided an overall assessment of the business cycles for which we have identified performance improvements opportunities (this report is prepared on an exception basis).

We assessed each business cycle using our risk assessment which was focused on the risk of finding material weaknesses which could lead to a modified controls opinion in the 2016/17 financial year. An overall assessment of the risk of a potential modified audit opinion per business cycle is provided in item 1.5 of this report.

Detailed findings including the controls tested as per the Better Practice Model, findings and recommendations are provided in section 2 of this report. The individual findings are also rated to assist the Council in prioritising corrective actions.

The overall assessment of the risk of non-compliance with s125 of the Local Government Act 1999 and the related findings and recommendations were rated as follows:

Category	Description
<b>Potential Material Weaknesses</b>	The issue described could lead to a material weakness in the council's internal controls and non-compliance with s125 of the Local Government Act.
<b>Moderate Weaknesses</b>	The issue described does not represent a material weakness due to the existence of compensating controls. However, the failure of the compensating controls or the existence of any other moderate weakness within the same business cycle may lead to a material weakness in the council's internal controls and non-compliance with s125 of the Local Government Act.
<b>Low Risk Weaknesses</b>	The issue described is a low risk weakness due to the existence of compensating controls and the failure or absence of the internal controls does not impact significantly on the council's financial statements. However, multiple low level risk weakness within the same business cycle may lead to a material weakness in the council's internal controls and non-compliance with s125 of the Local Government Act.
<b>Better Practice Weaknesses</b>	The issue described has been included in this report as an opportunity for better practice.

The Council should also perform its own assessment of priority based not only on audit risks, but also other risks management considers relevant such as non-compliance with pertinent legislations and regulations, and reputational risks.

## 1.4 Overall Review of the Council's Internal Controls

Overall the Council demonstrated significant progress towards the implementation of an internal control framework consistent with the principles within the Better Practice Model.

During our interim visit, we noted that most of the key internal controls reviewed were in place and were operating effectively (59 out of 78 key controls reviewed). The principles underpinning the Model were used by the Council in the identification of its business cycles, the establishment of its internal controls and the implementation of its risk management processes.

A summary of the results of our review is provided in the table below:

Business cycles	Controls Reviewed	Operating Effectively	Findings			
			H	M	L	BP
Purchasing & Procurement / Contracting	7	3	1	3	-	-
Fixed Assets	13	12	-	-	1	-
General Ledger	9	7	-	2	-	-
Accounts Payable	11	7	-	3	1	-
Rates / Rates Rebates	9	5	-	3	1	-
Payroll	15	12	-	2	1	-
Banking	6	5	-	-	1	-
Debtors	6	6	-	-	-	-
Receipting	2	2	-	-	-	-
<b>Total</b>	<b>78</b>	<b>59</b>	<b>1</b>	<b>13</b>	<b>5</b>	<b>-</b>

We recommend that Council addresses high risk findings as a matter of priority, followed by moderate risk findings.

Audit have concluded that there is a high likelihood of issuing an unmodified controls opinion at the end of the financial year. This will depend on the Council ensuring that the core controls in place continue to operate effectively and that the annual internal control activities are performed at year end.

Audit also performed a review of Council's IT general controls. Five areas of IT controls assessed were:

- IT Entity Level Controls
- Change Management
- Information Security
- Backup and Recovery
- Third Party IT Providers

The results of our review of Council's IT general controls are provided in the section 3 of this report.

## 1.5. Summary of Findings

Business Cycle	Findings	Control	Risk
<b>Purchasing/Procurement / Contracting</b>	Audit identified a number of purchases for which evidence of procurement procedures undertaken could not be located.	1	H
	Procurement policy has not been reviewed since its adoption. Inconsistencies between the policy and the Accounting Policy and Procedure.	2	M
	Contract register does not include all contracts in place and is missing some critical data (e.g. amounts, expiry dates, etc).	3	M
	POs issued after the date of the invoice / Purchases without approved POs / POs not approved in accordance with Delegations of Authority.	4	M
<b>General Ledger</b>	Further review required of users' access rights allocated to different modules in Authority.	1	M
	Manual journal entries are not always independently reviewed.	2	M
<b>Accounts Payable</b>	The audit trail of changes to the supplier master file is not reviewed on a regular basis. .	1	M
	Further review required of users' access rights allocated to the accounts payable module in Authority.	2	M
	Improvements necessary in the process of uploading the EFT file into the online banking system.	3	M
	The aged payables listing is not reviewed on a regular basis.	4	L
<b>Payroll</b>	Improvements necessary in the process of uploading the EFT file into the online banking system.	1	M
	Inside workers are not required to have their timesheets approved.	2	M
	Further review required of users' access rights allocated to the payroll module in Authority.	3	L
<b>Rates</b>	A list of non-rateable properties is not formally reviewed to ensure they are still valid before processing the rates modelling.	1	M
	A list of rebates is not formally reviewed to ensure they are still valid before processing the rates modelling.	2	M
	Council does not conduct a regular independent review of the rates aged receivables reports.	3	M
	There is no audit trail of changes to the property master file containing changes in key data such as capital value, rate in the dollar and property type.	4	L
<b>Fixed Assets</b>	Further review required of users' access rights allocated to the Fixed Asset module in Authority.	1	L
<b>Banking</b>	Audit identified two users with admin access to the EFT banking system that are no longer employees of the Council.	1	L
<b>Debtors</b>	Audit did not find any issue that would represent a risk of non-compliance with s125 of the Local Government Act.	1	N/A
<b>Receipting</b>	Audit did not find any issue that would represent a risk of non-compliance with s125 of the Local Government Act.	1	N/A

## 2. DETAILED AUDIT FINDINGS

### 2.1 Purchasing and Procurement / Contracting

Control as per the BPM	Risk	Findings	Recommendations	Management Response
<p>1. Robust and transparent selection processes to ensure effective and qualified suppliers / contractors are selected by Council, including compliance with Code of Conduct, Conflict of Interest and procurement Policies.</p>	<p><b>Potential Material Weakness</b></p>	<p>Audit conducted sample based procurement testing in accordance with Council’s procurement policy.</p> <p><b><u>Purchases greater than \$100,000</u></b></p> <p>The Procurement policy requires open public/selective tenders to be called.</p> <p>No evidence of evaluation forms accompanied by evidence of Request for Tenders and tender responses was provided to the auditors for the following suppliers:</p> <ul style="list-style-type: none"> <li>▪ <b>Supplier 1</b> – In 2016/17 the total spend was \$230,687. Tender documentation was provided only for a contract of \$135,000.</li> <li>▪ <b>Supplier 2</b> – In 2016/17 the total spend was \$132,211. An extension of the contract was executed without undertaking further procurement procedures.</li> </ul> <p><b><u>Purchases from \$50,001 to \$100,000.</u></b></p> <p>The Procurement policy requires a minimum of four tender requests/quotations. The CEO shall certify if it is impractical to obtain four written quotations.</p> <p>No evidence of evaluation forms accompanied by evidence of four quotations, nor CEO</p>	<p>Council to consider cumulative spend per service or per supplier when procuring goods and services.</p> <p>When procurement procedures are not undertaken and an exemption is provided Council should document that in a form where the appropriate officer can sign it off and provide details for the exemption provided. Circumstance where exemptions can be applied should be documented in the procurement policy.</p> <p>Council to ensure that documents related to procurement procedures undertaken (eg. request for tenders, tender responses, evaluation forms detailing the decision made, etc) are retained on file.</p>	<p>[Redacted]</p> <p>[Redacted]</p> <p>[Redacted]</p> <p>[Redacted]</p>

Control as per the BPM	Risk	Findings	Recommendations	Management Response
		<p>exemption, was provided to the auditors for the following suppliers:</p> <ul style="list-style-type: none"> <li>▪ <b>Supplier 3</b>– In 2016/17 the total spend was \$70,495.</li> </ul> <p><b><u>Purchases from \$20,001 to \$50,000.</u></b></p> <p>The Procurement policy requires that a minimum of three quotations. The CEO shall certify if it is impractical to obtain three written quotations.</p> <p>No evidence of evaluation forms accompanied by evidence of three quotations, nor CEO exemption, was provided to the auditors for the following suppliers:</p> <ul style="list-style-type: none"> <li>▪ <b>Supplier 4</b> – In 2016/17 the total spend was \$40,062.</li> <li>▪ <b>Supplier 5</b> – In 2016/17 the total spend was \$30,053.</li> </ul>		

Control as per the BPM	Risk	Findings	Recommendations	Management Response
<p>2. Council has a comprehensive Contract and Procurement Policy that is reviewed regularly.</p>	<p><b>Moderate Risk Weakness</b></p>	<p>Council has a Procurement Policy which was adopted on 26 Oct 2010. The policy has not been reviewed since its adoption. Item 27 of the policy provides that the policy is to be reviewed on an annual basis. Audit has reviewed the policy, and offer the following observations.</p> <p><b>Inconsistencies</b> An Accounting Policy and Procedure manual is also maintained which includes procedures and guidance on purchasing, quotations and tenders. Audit noted that there is duplication and inconsistencies between the Procurement Policy and the Accounting and Policy Procedure manual. For example:</p> <p><u>Purchases from \$3,001 to \$10,000</u> The manual states that a minimum of <i>two written quotations</i> can be obtained for normal suppliers and a minimum of <i>one written quotation can be obtained for preferred suppliers</i>. The Policy provides that <i>two verbal or written quotations</i> are allowed for normal suppliers and a minimum of <i>one verbal or written quotation for preferred suppliers</i>.</p> <p><u>Purchases from \$10,001 to \$20,000</u> The manual states that all quotes obtained requires a <i>minimum of three written quotations</i>. The Policy provides that <i>three written or verbal quotations</i> can be obtained.</p> <p><b>Interpretation of thresholds</b> The Procurement Policy does not provide guidance on what to consider in applying the threshold amounts (e.g. total expenditure over</p>	<p>The Procurement Policy is reviewed. This review considers the following:</p> <ul style="list-style-type: none"> <li>Ensuring that the Policy is consistent with related procedure documents.</li> <li>Providing further guidance on how to apply the threshold amounts (e.g. total expenditure over a life of a contract, annual spend, supplier cumulative spend, etc).</li> <li>Providing specific guidance as to what might be considered reasonable circumstances for a departure from the policy.</li> </ul>	<p>[Redacted]</p> <p>[Redacted]</p> <p>[Redacted]</p> <p>[Redacted]</p> <p>[Redacted]</p> <p>[Redacted]</p>

Control as per the BPM	Risk	Findings	Recommendations	Management Response
		<p>a life of a contract, annual spend, supplier cumulative spend, etc).</p> <p><b>Departure from Policy</b></p> <p>The Policy allows for the Council or CEO to determine not to follow the policy in respect of a procurement activity if, in the opinion of the CEO, the circumstances of the procurement activity warrant a departure from this policy.</p> <p>The policy does not provide any guidance as to what might be considered reasonable circumstances for a departure.</p>		

Control as per the BPM	Risk	Findings	Recommendations	Management Response
3. Council to maintain a contract register.	<p><b>Moderate Risk Weakness</b></p>	<p>Audit reviewed the contract register maintained by the Council and noted the following performance improvement observations:</p> <ul style="list-style-type: none"> <li>▪ The contract register does not include all contracts in place; and</li> <li>▪ A number of contract details, including amounts, file number, commencement and expiry dates, are missing from the register.</li> </ul>	<p>The contract register is updated to ensure all contracts in place are included in the register and that all relevant information is updated for all contracts.</p>	
4. Employees must ensure all purchase orders are approved in accordance with the Delegation of Authority and relevant policies.	<p><b>Moderate Risk Weakness</b></p>	<p>Audit selected a sample of 20 purchases to test the effectiveness of the internal controls over purchasing. Audit noted the following exceptions:</p> <ul style="list-style-type: none"> <li>▪ 8 items selected had a purchase order raised after the date of the invoice;</li> <li>▪ 4 items selected did not have an approved purchase order or a contract in place; and</li> <li>▪ 1 item where an officer approved a purchase order with an amount above their delegation.</li> </ul>	<p>Management ensure that purchase orders are raised before the date of the invoice, purchase orders are in place for all purchases (unless specific exemptions apply) and that purchase orders are approved in accordance with the Delegations of Authority.</p>	

## 2.2 General Ledger

Control as per the BPM	Risk	Findings	Recommendations	Management Response
<p>1. Access to General Ledger maintenance is restricted to authorised personnel.</p>	<p><b>Moderate Risk Weakness</b></p>	<p>Audit acknowledges that the allocation of access rights to the users of the system were subject to a review at the end of the 2015/16 financial year. Overall, the allocations appear reasonable in order to prevent excessive users with access to different modules in Authority.</p> <p>Audit identified the following access that may require implementation of further restrictions:</p> <ul style="list-style-type: none"> <li>▪ There are four different roles with access to processing payroll transactions and to the employee master file (payroll administrator, HR administrator, senior purchasing officer and the governance administrator); and</li> <li>▪ There are four different roles with access to the accounts payable module (financial reporting admin, senior accounts payable officer, IT system admin and finance manager)</li> <li>▪ The financial reporting admin role (comprising multiple users) has access to the fixed asset module.</li> </ul> <p>Further detailed findings and recommendations related to access rights for the Accounts Payable, Payroll and Fixed Asset modules are discussed in detail in sections 2.3.2, 2.4.1 and 2.6.1 of this report respectively.</p>	<p>System access rights are reviewed in accordance with the recommendations made in sections 2.3.2, 2.4.1 and 2.6.1 of this report.</p>	<p>[Redacted Management Response]</p>

Control as per the BPM	Risk	Findings	Recommendations	Management Response
<p>2. Manual journal entries recorded in the register are authorised by the officer preparing the journal and an independent reviewer.</p>	<p><b>Moderate Risk Weakness</b></p>	<p>Audit identified some instances of manual journal entries not being signed by an independent reviewer.</p>	<p>Manual journal entries are signed by an independent reviewer.</p>	

## 2.3 Accounts Payable

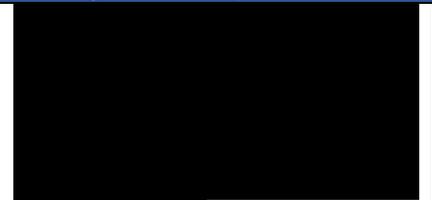
Control as per the BPM	Risk	Findings	Recommendations	Management Response
<p>1. Recorded changes to the supplier master file are compared to authorised source documents to ensure that they were input accurately.</p>	<p><b>Moderate Risk Weakness</b></p>	<p>The audit trail of changes to the supplier master file is not reviewed on a regular basis. Audit noted that the audit trail was reviewed for only one month in the 2016/17 financial year up to the time of our interim audit.</p>	<p>The audit trail of changes to the supplier master file is reviewed on a regular basis. Ideally, the review should be performed before processing each batch of payments. This changes the control from a monitoring control that identifies errors that have already occurred, to a preventative control that allows errors to be fixed prior to payments being processed.</p>	<p>[Redacted]</p>
<p>2. Access to the supplier master file is restricted to authorised officers.</p>	<p><b>Moderate Risk Weakness</b></p>	<p>Audit acknowledges that the allocation of access rights to the users of the system were subject to a review at the end of the 2015/16 financial year. Overall, the allocations appear reasonable in order to prevent excessive users with access to different modules in Authority.</p> <p>The following users/roles have access to the accounts payable module in Authority:</p> <ul style="list-style-type: none"> <li>▪ Financial Reporting Admin;</li> <li>▪ Senior Accounts Payable officer;</li> <li>▪ IT System Admin; and</li> </ul>	<p>Consideration is given to reducing the number of users with access to the accounts payable module, particularly access to the supplier master file. Ideally the supplier master file should only be accessed by the senior accounts payable officer and maybe one backup person.</p>	<p>[Redacted]</p>

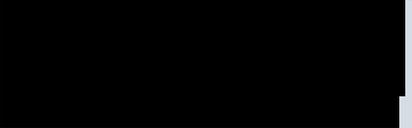
Control as per the BPM	Risk	Findings	Recommendations	Management Response
		<ul style="list-style-type: none"> <li>▪ Finance Manager.</li> </ul> <p>The financial reporting admin role is comprised by the finance manager, the accountant, the senior finance officer, the accounts payable officer, the rates officer and the payroll officer. Consequently, all these users have access to the accounts payable module.</p>		<div style="background-color: black; width: 100%; height: 20px; margin-bottom: 5px;"></div> <div style="background-color: black; width: 100%; height: 20px; margin-bottom: 5px;"></div> <div style="background-color: black; width: 100%; height: 20px; margin-bottom: 5px;"></div>
<p>3. All disbursements must be approved by an authorised officer in accordance</p>	<p><b>Moderate Risk Weakness</b></p>	<p>Audit reviewed the process of payments and noted the following:</p>	<p>Council may wish to contact its IT system provider to investigate whether it is possible to implement a way to</p>	<div style="background-color: black; width: 100%; height: 20px;"></div>

Control as per the BPM	Risk	Findings	Recommendations	Management Response
with relevant policies and/or Delegations of Authority.		Council's financial system Authority generates an ABA file which is stored on council's internal drive prior to being manually uploaded into the online banking system. The ABA file can be opened as a TXT (text format) file and manually manipulated prior to being uploaded.	<p>enable a direct interface between Authority and the online banking system to avoid any manual upload.</p> <p>If the direct interface cannot be implemented, Management should consider the following combined alternative controls:</p> <ul style="list-style-type: none"> <li>▪ Performing independent review of changes to the supplier master file data; and</li> <li>▪ Comparing the bank account details provided by the online banking system to a register of supplier's bank accounts provided by Authority (supplier master file) before authorising the payment. This matching does not need to be a manual process as it can be automated, for example using an Excel spreadsheet. This has been achieved by other councils in SA.</li> </ul>	<p>[Redacted]</p> <p>[Redacted]</p> <p>[Redacted]</p>
4. Authorised officer to review aged payables listing on a predetermined basis and investigate where appropriate.	Low Risk Weakness	The aged payables listing is not reviewed on a regular basis.	Management ensures that the aged payables listing is reviewed on a regular basis.	<p>[Redacted]</p> <p>[Redacted]</p>

## 2.4 Payroll

Control as per the BPM	Risk	Findings	Recommendations	Management Response
<p>1. The transfer of the bank file should be restricted to authorised officers who are not involved in the preparation of the pay run.</p>	<p><b>Moderate Risk Weakness</b></p>	<p>Audit reviewed the process of payroll payments and noted the following:</p> <p>Council's financial system Authority generates an ABA file which is stored on council's internal drive prior to being manually uploaded into the online banking system. The ABA file can be opened as a TXT (text format) file and manually manipulated prior to being uploaded.</p>	<p>Council may wish to contact its IT system provider to investigate whether it is possible to implement a way to enable a direct interface between Authority and the online banking system to avoid any manual upload.</p> <p>If the direct interface cannot be implemented, Management should consider the following combined alternative controls:</p> <ul style="list-style-type: none"> <li>▪ Performing independent review of changes to the payroll master file data; and</li> <li>▪ Comparing bank account details provided by the online banking system to a register of employee's bank accounts provided by Authority (payroll master file) before authorising the payment. This matching does not need to be a manual process as it can be automated, for example using an Excel spreadsheet. This has been achieved by other councils in SA.</li> </ul>	<p>[Redacted]</p> <p>[Redacted]</p> <p>[Redacted]</p> <p>[Redacted]</p>

Control as per the BPM	Risk	Findings	Recommendations	Management Response
<p>2. Relevant staff are required to complete timesheets and/or leave forms, authorise them and have approved by the supervisor/manager.</p>	<p><b>Moderate Risk Weakness</b></p>	<p>Inside workers are not required to have their timesheets approved. Timesheets are emailed to the payroll officer with each respective employee's manager copied into the email. There is no mechanism to monitor whether the manager has actually reviewed the email / timesheet as they provide no formal acknowledgement.</p> <p>Audit notes that Council is investigating the possibility of implementing electronic timesheets in Authority.</p>	<p>Consideration is given to implementing electronic timesheets in Authority with the application requiring electronic approvals from managers.</p> <p>In the interim, consideration is given to having staff email timesheets directly to managers only, and requiring managers to forward these to payroll. This will act as an acknowledgement by the manager that they approve the timesheet.</p>	   

Control as per the BPM	Risk	Findings	Recommendations	Management Response
<p>3. Access to the payroll deduction listing is restricted to authorised officers.</p>	<p><b>Low Risk Weakness</b></p>	<p>Audit acknowledges that the allocation of access rights to the users of the system were subject to a review at the end of the 2015/16 financial year. Overall, the allocations appear reasonable in order to prevent excessive users with access to different modules in Authority.</p> <p>The following users/roles have access to the payroll module in Authority:</p> <ul style="list-style-type: none"> <li>▪ Payroll administrator;</li> <li>▪ HR administrator;</li> <li>▪ Senior Purchasing Officer (CEO); and</li> <li>▪ Governance administrator.</li> </ul> <p>Audit acknowledges that it may be reasonable for these users to have some access rights within the payroll module.</p> <p>Audit noted that the users listed above have access both to processing payroll and to make changes to the employee master file.</p> <p>Audit notes that it is better practice to restrict access to the employee master file to only one or two users (e.g. the payroll administrator and one backup). In addition, it is unusual for CEOs to require full access to the payroll module.</p>	<p>Access rights to the payroll module are reviewed, to ensure that all users who have access require this access to perform their role.</p> <p>Access to the employee master file is restricted to only one or two users (e.g. the payroll administrator and one backup).</p>	 

## 2.5 Rates

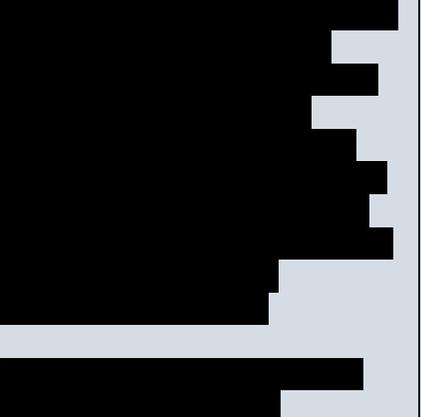
Control as per the BPM	Risk	Findings	Recommendations	Management Response
<p>1. Regular review of exempt properties to ensure still valid, interest flag switched off and rate rebates.</p>	<p><b>Moderate Risk Weakness</b></p>	<p>A list of non-rateable properties is not formally reviewed to ensure they are still valid before processing the rates modelling.</p>	<p>The list of non-rateable properties is reviewed by management before processing the rates modelling.</p>	
<p>2. Council approves rate rebates to rate payers in accordance with Delegations of Authority and as per the legislation.</p>	<p><b>Moderate Risk Weakness</b></p>	<p>A list of rebates is not formally reviewed to ensure they are still valid before processing the rates modelling.</p>	<p>A list of properties receiving rebates is reviewed and approved annually by management to ensure it is still valid.</p> <p>Mechanisms are introduced to ensure that expired rebate approvals are detected and re-approved.</p>	

Control as per the BPM	Risk	Findings	Recommendations	Management Response
<p>3. Regular independent review of the rates aged receivables reports and independent check of rates payable by rates staff.</p>	<p><b>Moderate Risk Weakness</b></p>	<p>Council does not conduct regular independent review of the rates aged receivables reports.</p>	<p>A regular independent review of the rates aged receivables reports is performed.</p>	
<p>4. Recorded changes to property master file data are compared to authorised source documents or confirmed with ratepayers to ensure that they were input accurately. An audit trail is maintained for all changes.</p>	<p><b>Low Risk Weakness</b></p>	<p>Council maintains a 'maintenance audit report' that shows changes in names and addresses of the properties.</p> <p>In addition, council maintains a weekly report showing all the changes in the capital value occurring each week as per the VG report. Supporting documents are attached to the report substantiating the changes in capital value.</p> <p>Council does not produce an audit trail of changes to the property master file containing changes in key data such as capital value, rate in the dollar and property type.</p> <p>Audit understand that the controls described above partially cover the risks of inappropriate changes to the property master file, however the existing reports are missing some key change details.</p>	<p>Council investigates ways to produce and review an audit trail of changes to property master file containing changes in key data such as rate in the dollar, property type and capital value.</p>	

## 2.6 Fixed Assets

Control as per the BPM	Risk	Findings	Recommendations	Management Response
<p>1. Access and on-going maintenance of the fixed asset register is performed by authorised officers only.</p>	<p><b>Low Risk Weakness</b></p>	<p>The allocation of access rights to the users of the finance system were subject to a review at the end of the 2015/16 financial year. Overall, the allocations appear reasonable in order to prevent excessive users with access to different modules in Authority.</p> <p>Audit noted that the financial reporting admin role has access to the Fixed Assets module in Authority.</p> <p>The financial reporting admin role is comprised of the finance manager, accountant, senior finance officer, accounts payable officer, rates officer and payroll officer. Consequently, all these users have access to the fixed asset module.</p>	<p>Consider reducing the number of users with access to the fixed asset module in Authority.</p>	<p>[Redacted]</p>

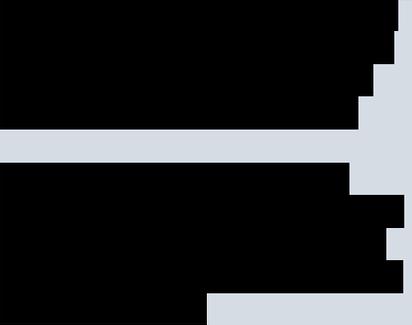
## 2.7 Banking

Control as per the BPM	Risk	Findings	Recommendations	Management Response
1. Access to EFT banking system restricted to appropriately designated personnel.	<b>Low Risk Weakness</b>	Audit identified two users with admin access to the EFT banking system who are no longer employees of the Council.	Council removes these users from the EFT banking system.	

### 3. IT GENERAL CONTROLS REVIEW

IT Control Area	Risk	Findings	Recommendations	Management Response
<p>1. IT Strategic Planning/IT Management/ IT Resources.</p>	<p>Risk  <b>Moderate Risk Weakness</b></p>	<p>The IT Strategic Plan was issued in December 2015. The plan does not map to the objectives of the City of XYZ Strategic Plan as the IT Strategic Plan was completed prior.</p> <p>An IT Risk assessment as part of the IT Strategy has not been performed.</p> <p>The Systems Analyst role is currently 0.6FTE however there is sufficient demand for a full time role.</p>	<p>Update the IT Strategic Plan to map to the objectives of the Council Strategic Plan.</p> <p>An IT Risk Assessment should be performed in conjunction with updating the IT Strategic plan.</p> <p>Consider extending the Systems Analyst to full time, if it is supported financially.</p>	

IT Control Area	Risk	Findings	Recommendations	Management Response
2. IT Policies and Procedures.	<b>Moderate Risk Weakness</b>	Existing IT policies are primarily focussed on Records Management, rather than base IT policies. Current policies are: <ul style="list-style-type: none"> <li>▪ Knowledge and Information Management Policy</li> <li>▪ Elected Members Record management Policy</li> <li>▪ Management of Source Records Policy</li> <li>▪ Human Resources Management System Document Management Policy</li> <li>▪ Mobile Phones and Devices Policy</li> </ul>	It is recommended that the following IT policies be drafted and issued: <ul style="list-style-type: none"> <li>▪ IT Security Policy</li> <li>▪ User Access Policy</li> <li>▪ Internet/Email Policy</li> <li>▪ Network Policy (including remote access).</li> <li>▪ Change Management Policy</li> </ul>	[Redacted]
3. Information Security – Network Access.	<b>Moderate Risk Weakness</b>	Access to the Network is managed via Active Directory. Active Directory default settings for passwords as follows: <ul style="list-style-type: none"> <li>▪ Password complexity enabled</li> <li>▪ Password aging 180 days (6 months)</li> <li>▪ Minimum password length 8 characters</li> <li>▪ Password history (10 passwords)</li> <li>▪ Lockout duration 30 minutes</li> <li>▪ unlimited attempts password failures allowed</li> </ul>	It is recommend that you change the Lockout Threshold to 3 invalid password attempts with a 30 minute lockout.  It is also recommended that the password Aging be reduced to 60 days not 180 days in accordance with good practice.  All users should be linked back to the default settings in Active Directory.	[Redacted]
4. Information Security – Remote Access.	<b>Moderate Risk Weakness</b>	The Manager Knowledge and Information had expected there were 10-12 users with remote access to the network using Citrix.  XYZ have a license for 35 users of Citrix.  Testing indicated there were 73 users (55 staff and 18 third party remote users) with remote access using Citrix.  Tokens are not used but would add another level of authentication of remote users.	It is recommended that the list of Citrix users be reviewed, including last logon date. Remove any former staff and reduce the number with access where possible.  XYZ should check whether the license is for 35 unique or 35 concurrent users.  Consider use of tokens if it can be supported financially.	[Redacted]

IT Control Area	Risk	Findings	Recommendations	Management Response
5. Information Security – Access to Civica - Authority.	<p><b>Moderate Risk Weakness</b></p>	<p>Logical access to the Civica – Authority system is granted from an approved Security Access and Network Login Request form.</p> <p>Users are typically cloned to another user’s access. There are role position groups and users are allocated to groups. There is a separate user ID and password for Authority, however the Authority system does not require password changes. There is a risk that the Authority passwords may become known but another user, enabling the unauthorised user access to additional transactions within Authority.</p>	<p>Investigate whether password ageing can be configured in the Civica Authority system.</p> <p>If not, consider requesting all users to change their own passwords regularly eg at the end of each quarter.</p>	
6. Backup and Recovery Procedure		<p>Daily incremental backups and Full Weekly backups are occurring and documented in the Backup Schedule. The Backup Schedule document does not show the procedure for the storage of backup tapes in the safe or the rotation to Recall.</p> <p>It is unclear from the documentation whether tapes remain in the tape carousel in the server room until they are full. If they remain in there for more than one day, there is a risk in the event of a fire in the server room that the original (SAN) and backup data (tapes) may be destroyed.</p>	<p>Update the procedure to show the rotation of tapes to the safe and Recall.</p> <p>Review the current rotation process and determine if tapes remain in the carousel for longer than one day. If so, change the process to reduce this risk.</p>	
7. IT Disaster Recovery		<p>IT Disaster Recovery Plan is currently in Draft</p>	<p>The IT Disaster Recovery Plan should be updated and issued.</p>	

**APPENDIX 1 – CRITICAL INTERNAL FINANCIAL CONTROLS**

## FIXED ASSETS

### Risks

R1	Fixed asset acquisitions, disposals and write-offs are fictitious, inaccurately recorded or not recorded at all.
R2	Fixed assets are inadequately safeguarded.
R3	Fixed Assets are not valued correctly
R4	Depreciation charges are either invalid not recorded at all or are inaccurately recorded.
R5	Fixed Asset maintenance and/or renewals are inadequately planned.

RISKS	Control	Control Type	CSA Importance	Weighting
R1	Regular verification of fixed assets are conducted and reconciled to the FAR.	Core		4
R1	Recorded changes to the FAR and/or masterfile are approved by management, compared to authorised source documents and General Ledger to ensure accurate input.	Core		5
R1	All fixed asset acquisitions and disposals are approved in accordance with Delegation of Authority and relevant Procurement and Fixed Asset Policies.	Core		5
R1	Access and on-going maintenance of the fixed asset register is performed by authorised officers only.	Core		4
R1	Council has an asset accounting policy which details thresholds for recognition of fixed assets which is monitored to ensure adherence.	Core		5
R1	Reconciliation of fixed assets to the General Ledger is performed regularly.	Core		4
R1	Asset maintenance schedules are prepared, updated, and monitored by management and activity per the asset maintenance schedule. Changes to the asset maintenance history register are compared to source documents to ensure that they were input accurately.	Core		4
R3	Management regularly reviews valuation of fixed assets - methodology and useful lives, to ensure valuation is appropriate and in accordance with reporting requirements. Where appropriate, Council may engage an expert to perform valuations.	Core		5
R3	Management reviews depreciation rates and methodology (at least annually) to ensure that methods used to value fixed assets are still appropriate.	Core		5
R3	Asset revaluations and depreciation reviews are performed in accordance with Australian Accounting Standards.	Core		5
R3	The annual review of assets includes reviewing the appropriateness of categories of assets and impairment testing.	Core		4
R4	Depreciation charges are calculated in accordance with the accounting policy, including the useful life, depreciation method and calculation formulas.	Core		5
R5	Asset Management Plans exist for all major asset classes and all changes to the asset management plan must be approved by Council.	Core		5

## PURCHASING AND PROCUREMENT

### Risks

R1	Council does not obtain value for money in its purchasing & procurement.
R2	Purchases of goods and services are made from non-preferred suppliers.
R3	Purchase orders are either recorded inaccurately or not recorded at all.
R4	Purchase orders are placed for unapproved goods and services.

RISKS	Control	Control Type	CSA Importance	Weighting
R1	Council has a comprehensive Contract and Procurement Policy that is reviewed regularly.	Core		5
R1, R2, R4	Employees must ensure all purchase orders are approved in accordance with the Delegations of Authority and relevant policies.	Core		5
R3	Purchase orders are issued in accordance with the Council's Purchasing and Procurement Policy.	Core		5

## CONTRACTING

### Risks

R1	Council is not able to demonstrate that all probity issues have been addressed in the Contracting process.
R2	Council does not obtain value for money in relation to its Contracting.

RISKS	Control	Control Type	CSA Importance	Weighting
R1,R2	Robust and transparent selection processes to ensure effective and qualified suppliers / contractors are selected by Council, including compliance with Code of Conduct, Conflict of Interest and procurement Policies.	Core		5
R1	Council to maintain a contract register.	Core		4
R1	The Contracts, Tenders and Procurement Policy and Procedures should be reviewed regularly.	Core		4
R2	Council does not release milestone payments to suppliers / contractors until they meet all their associated objectives.	Core		5

## RATES / RATES REBATES

### Risks

R1	Council does not raise the correct level of rate income.
R2	Rates and rate rebates are either inaccurately recorded or not recorded at all.
R3	The Property master file data does not remain pertinent
R4	Pensioner concessions and self-funded retirees are either inaccurately recorded or not recorded at all.

RISKS	Control	Control Type	CSA Importance	Weighting
R1, R2	Rates are automatically generated by the rate system, including the calculation of rate rebates, if applicable.	Core	4	
R1, R2	Management regularly reviews the calculation methodology within the rate application system and for a sample of ratepayers to ensure correct calculation and methodology has been used.	Core	4	
R1	All software changes to rate modelling functionality fully tested and reviewed by qualified personnel.	Core	5	
R2	Regular review of exempt properties to ensure still valid, interest flag switched off and rate rebates.	Core	5	
R2	Council approves rate rebates to rate payers in accordance with Delegations of Authority and as per the legislation.	Core	4	
R2	Regular independent review of the rates aged receivables reports and independent check of rates payable by rates staff.	Core	4	
R3	Recorded changes to property master file data are compared to authorised source documents or confirmed with ratepayers to ensure that they were input accurately. An audit trail is maintained for all changes.	Core	4	
R3	Access to the Property master file is restricted to appropriately designated personnel, with significant changes to the Property master file approved by management.	Core	5	
R4	Authorised officers verify all pensioner concession entitlement information provided annually by government departments.	Core	4	

## RECEIPTING

### Risks

R1	Receipts are either inaccurately recorded or not recorded at all.
R2	Receipts are not deposited at the bank on a timely basis.

RISKS	Control	Control Type	CSA Importance	Weighting
R1,R2	Cash is stored securely at all times including the duration of the cash management process.	Core	5	
R1	Officers who create debtors invoices do not have access to receipting payments and/or reversing receipt transactions.	Core	5	

**PAYROLL**

**Risks**

- R1 Payroll expense is inaccurately calculated.
- R2 Payroll disbursements are made to incorrect or fictitious employees
- R3 Time and/or attendance data is either invalid, inaccurately recorded or not recorded at all.
- R4 Payroll master file does not remain pertinent and/or unauthorised changes are made to the payroll master file.
- R5 Voluntary and statutory payroll deductions are inaccurately processed
- R6 Salary sacrifice transactions are inaccurately processed.
- R7 Employees are terminated in breach of statutory and enterprise agreements.

RISKS	Control	Control Type	CSA Importance	Weighting
R1	Standard programmed formulae perform payroll calculations.	Core		5
R1, R3	Overtime hours worked and payments for such overtime are authorised by management for all eligible employees.	Core		5
R2	The transfer of the bank file should be restricted to authorised officers who are not be involved in the preparation of the pay run.	Core		5
R2	Payroll system generates exception reports detailing all payroll changes that are regularly reviewed by management who investigate & approve variances.	Core		5
R2	Employee records to include employment details and/or contract terms and conditions, authorisations for payroll deductions and leave entitlements.	Core		5
R2	Officers responsible for originating/preparing payroll disbursements are precluded from authorising transfer of same.	Core		5
R2	Employees made inactive in payroll records immediately upon termination. Termination report provided as supporting documentation with request for an EFT. Comparison of subsequent current employee listings made by independent person to verify correctness.	Core		5
R2	All employee deductions must be substantiated with documented approval provided by employee.	Core		5
R3	Total of payment summaries for the year is reconciled to general ledger and payroll.	Core		4
R3	Relevant staff are required to complete timesheets and/or leave forms, authorise them and have approved by the supervisor/manager.	Core		5
R4	Significant changes (supported by adequate audit trail) to the payroll master files approved by management.	Core		4
R4	All payroll suspense accounts are reconciled and reviewed by management or other supervisory personnel on a timely basis. Transactions recorded in the payroll suspense accounts are proper suspense items; other items are investigated and resolved in a timely manner.	Core		4
R5	Access to the payroll deduction listing is restricted to authorised officers.	Core		5
R6	All original salary sacrifice transactions must be approved by the relevant employee. Payroll staff must ensure that such approval has been obtained prior to processing transactions into the payroll system.	Core		5
R7	Establish employee termination policies and procedures, including statutory regulation and union requirements. Regularly review and update these policies and procedures.	Core		4

## GENERAL LEDGER

### Risks

R1	General Ledger does not contain accurate financial information
R2	Data contained within the General Ledger is permanently lost.

RISKS	Control	Control Type	CSA Importance	Weighting
R1, R2	All updates and changes to General Ledger programmes are authorised, tested and documented.	Core		5
R1, R2	Access to General Ledger maintenance is restricted to authorised personnel.	Core		5
R1	General Ledger reconciliations (including control and clearing accounts) are prepared on a regular basis; all reconciliations independently reviewed.	Core		4
R1	Manual journal entries recorded in the register are authorised by the officer preparing the journal and an independent reviewer.	Core		5
R1, R2	Off-site backup of data, program and documentation.	Core		4
R1	System does not allow posting of unbalanced journals.	Core		5
R1	Amendments to the structure of the General Ledger framework are approved by an authorised officer.	Core		5
R1, R2	General Ledger policies and procedures are appropriately created, updated & communicated to relevant personnel in the finance department.	Core		5
R2	Formal disaster recovery plan adopted by Council or Senior Executive.	Core		5

## ACCOUNTS PAYABLE

### Risks

R1	Accounts payable amounts and disbursements are either inaccurately recorded or not recorded at all
R2	Credit notes and other adjustments to accounts payable are either inaccurately recorded or not recorded at all
R3	Disbursements are not authorised properly.
R4	Accounts are not paid on a timely basis
R5	Supplier master file data does not remain pertinent and/or unauthorised changes are made to the supplier master file.

RISKS	Control	Control Type	CSA Importance	Weighting
R1, R2, R4	Statements received from suppliers are reconciled to the supplier accounts in the accounts payable subledger regularly and differences are investigated.	Core		4
R1	Invoices received are authorised and accompanied by appropriate supporting documentation.	Core		5
R1	Payments (Cheques and EFT's) are endorsed by authorised officers separate to the preparer who ensure that they are paid to the specified payee.	Core		5
R2	Access to the supplier master file is restricted to authorised officers.	Core		5
R2, R5	Separation of Accounts Payable and Procurement duties.	Core		5
R3	All disbursements must be approved by an authorised officer in accordance with relevant policies and/or Delegations of Authority.	Core		5
R3	Purchase Orders must be raised for the purchase of goods and services in line with the Council's Procurement policy or over a predetermined amount where applicable.	Core		5
R3	Individuals who authorise payment of suppliers are authorised officers who are independent of the processing of invoices.	Core		5
R4	Authorised officer to review aged payables listing on a predetermined basis and investigate where appropriate.	Core		5
R5	Recorded changes to the supplier master file are compared to authorised source documents to ensure that they were input accurately.	Core		5
R5	The accounts payable system and or supplier master file prevents users from making unauthorised adjustments to supplier accounts.	Core		5

## DEBTORS

### Risks

R1	Debtors are either inaccurately recorded or not recorded at all.
R2	Rebates and credit notes to debtors are either inaccurately recorded or not recorded at all
R3	An appropriate provision for doubtful debts is not recorded
R4	Debtors are either not collected on a timely basis or not collected at all
R5	The Debtors master file data does not remain pertinent.

RISKS	Control	Control Type	CSA Importance	Weighting
R1, R4	Debtor's reconciliation performed on a regular basis to the General Ledger and reviewed by an independent person.	Core		4
R1	Council maintains a Debt Collection Policy.	Core		5
R2, R3, R4	Management and/or Council review and approve all rebates, credit notes, bad debt write-offs and movements in the provision for doubtful debts, in accordance with delegations of authority and Local Government Act.	Core		5
R3, R4	Management reviews debtors ageing profile on a regular basis and investigates any outstanding items.	Core		4
R5	Access to the debtor's master file is restricted to appropriately designated personnel and is reviewed by management for accuracy and on-going pertinence.	Core		5
R5	Recorded changes to debtor's master file data are compared to authorised source documents or confirmed with customers/ratepayers to ensure that they were input accurately.	Core		4

## BANKING

### Risks

R1	Banking transactions are either inaccurately recorded or not recorded at all.
R2	Fraud.

RISKS	Control	Control Type	CSA Importance	Weighting
R1, R2	Blank cheques and/or cheque-signing machine are adequately safeguarded.	Core		5
R1, R2	Access to EFT Banking system restricted to appropriately designated personnel.	Core		5
R1, R2	Bank reconciliations are performed on a predetermined basis and are reviewed by an authorised officer. Any identified discrepancies are investigated immediately.	Core		5
R1, R2	All cash held securely in safe/registers with access restricted to appropriately designated personnel.	Core		5
R2	Cash transfers between bank accounts and investment bodies are approved by authorised officer.	Core		5
R2	Procedures are in place to ensure that all cash collected is banked and properly recorded.	Core		5

# Galpins

Accountants, Auditors & Business Consultants

## Final Management Letter

City of XYZ

30 June 2017

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## 1. Executive summary

### 1.1 Background

We recently completed our final audit for the City of XYZ. Council staff were helpful and professional and readily located records we requested.

During our final audit we performed substantive procedures to obtain reasonable assurance about whether the financial statements are free of material misstatement due to error or fraud.

While we assume no responsibility to design audit procedures to identify matters to report to you, we communicate any matters encountered during the course of our audit which we believe should be brought to Council's attention.

This does not mean that there are no other matters of which Council should be aware in meeting its responsibilities, nor does this report absolve Council from taking appropriate action to meet these responsibilities.

### 1.2 Objectives and scope

The objective of our audit was to obtain reasonable assurance that the financial report presents fairly, in all material respects, the financial position of City of XYZ as at 30 June 2017 and its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards, the Local Government Act 1999 and the Local Government (Financial Management) Regulations 2011.

During our interim audit we performed procedures to gain an understanding of the internal controls in place relevant to the financial statements and performed tests of design and effectiveness for these controls. Based on the results of the control testing, we then assessed the audit risks to define the extent and nature of our substantive procedures for our final visit. An interim management letter was issued on 16 May 2017.

During our final audit we focussed on the account balances and note disclosures presented in the financial report. Examples of substantive procedures performed at final audit include inspection of documents, recalculation, reconciliation, analytical review, external confirmation and re-performing procedures adopted by the entity. Our audit opinion is expressed on the auditor's report. We report in this final management letter matters that we believe should be brought to Council's attention identified during our final audit.

The audit is not designed or intended to detect all weakness related to internal control, nor is it designed or intended to identify all instances of fraud or error. Limitations of the audit process include that it is not performed continuously throughout the period, internal controls tests are focused on key controls based on professional judgement and risk assessment and the tests performed are on a sample basis. Because of the inherent limitations of any internal controls structure, including the reliance on human intervention and the possibility of management override,

it is possible that fraud, error, or non-compliance with laws and regulations may occur and not be detected.

### 1.3 Category of findings

In order to assist the Council in setting priorities we have classified our findings in accordance with our risk assessment. This risk assessment is focussed on risk of material misstatements in the financial statements and material weaknesses in financial controls which are the primary focuses of our audit.

The Council should also perform its own assessment based not only on audit risks but also other risks management considers relevant such as non-compliance with pertinent legislation and regulations or reputational risk.

A table defining the risk ratings used by audit to classify the findings can be seen below:

Category	Description
<b>Potential Material Weaknesses</b>	The issue described could lead to a material misstatement in the Council's financial statements and/or a material failure in internal controls. Generally, the issue results in a single material error or creates systemic uncertainty about multiple transactions or balances.
<b>Moderate Weaknesses</b>	The issue described does not represent a material control risk or risk of error in the financial statements. This may be due to the existence of compensating controls, or by virtue of immaterial dollar values. However, the existence of multiple moderate issues may lead to a material misstatement in the Council's financial statements, or a material control weakness.
<b>Low Risk Weaknesses</b>	The issue described presents a low risk to Council as it does not impact significantly on the Council's financial statements, and/or the failure or absence of internal controls presents an insignificant risk of fraud or error. However, multiple low level risk weaknesses within the same business cycle may lead to a material weakness in the Council's internal controls and non-compliance with s125 of the Local Government Act.
<b>Better Practice Weaknesses</b>	The issue described has been included in this report as an opportunity for better practice.

#### 1.4 New Findings Identified in 2016-17

Finding	Description	Risk
2.1	<p><b><u>Work in Progress (WIP) – Review of Asset Handovers</u></b></p> <p>There are no formal processes in place to ensure that the asset officers/engineers certify the completion of assets transferred from WIP to the asset register.</p>	Better Practice
2.2	<p><b><u>Componentisation of Buildings</u></b></p> <p>Audit noted an opportunity for Council to further componentise its buildings recorded within the asset register.</p>	Better Practice

#### 1.5 Repeat Findings from previous years

Finding	Description	Risk
N/A – No repeat findings		

## 2. Detailed audit findings

### 2.1 WIP – Review of Asset Handovers

**Better  
Practice**

Findings and Impact	Recommendations	Management Response
<p><b><i>Finding</i></b></p> <p>There are no formal processes in place to ensure that the asset officers/engineers certify the completion of an asset/project transferred from the WIP register to the asset registers.</p> <p>It is good practice in local government to have processes in place to ensure that asset officers/engineers formally review and certify the handover of a completed asset before that asset is capitalised in the asset register.</p> <p>It is also good practice for these officers to also sign off the year end WIP register certifying that the projects included in the register but not capitalised are still in progress as at 30 June.</p> <p><b><i>Risk / Impact</i></b></p> <p>Assets being capitalised prior to completion or assets completed as at year end not being capitalised in the asset register and financial statements.</p>	<p>A formal process is introduced to document the certification by asset officers/engineers of WIP project completion. Examples of how this could be achieved include:</p> <ul style="list-style-type: none"> <li>• Creating a manual or digital completion form for each project that is signed by relevant officers; or</li> <li>• Requiring asset officers/engineers to provide a single sign off on a detailed WIP register (listing both projects in progress and projects completed and capitalised) at year end. Council's existing WIP register is in a suitable format for this sign off.</li> </ul>	

## 2.2 Componentisation of Buildings

**Better  
Practice**

Findings and Impact	Recommendations	Management Response
<p><b><i>Finding</i></b></p> <p>Council currently records the majority of buildings in the asset register as a single component (e.g. sheds, civic centre, depot, etc). It is good practice for local government entities to further componentize their buildings assets into sub-components with materially different useful lives or capital works intervention strategies (e.g. flooring, roofing, plumbing, main structure, etc).</p> <p>Whilst this will have the effect of increasing the accuracy of depreciation, the more significant reason for considering further componentization of building structures is to provide better asset management information within the asset management system, increasing the accuracy of asset management plans and allowing for more accurate prediction of the likely timing of capital works and maintenance at a macro level.</p> <p><b><i>Risk / Impact</i></b></p> <p>The asset register does not accurately represent the physical characteristics and estimated useful lives of building assets.</p>	<p>Council gives consideration to further componentizeion of its building structures within the asset register.</p> <p>The upcoming revaluation of buildings and the construction of new Council premises over the next few years may present a good opportunity to further componentize these assets in an efficient and cost effective manner.</p>	

# XYZ Council

## 2016/17 Financial Statements Audit

30 June 2017

Galpins

*Local Expertise : Real Access*

# Contents

- Audit Overview
- Interim Audit Activities
- Controls Opinion
- Key Business Cycles Reviewed
- Benchmarking of controls
- Controls Opinion Conclusion
- Final Audit Activities – Key Risks and Balances
- Final Audit Activities - Other Matters
- Other Matters to report to those charged with Governance

# Audit Overview

## Purpose

- The purpose of this closing report is to communicate significant matters arising from our final audit to the Council. This report has been discussed with management and also summarises the results of our interim audit. Detailed findings from our interim audit have previously been provided.

## Scope

- We conducted our audit of the XYZ Council for the year ended 30 June 2017 in accordance with the terms of our engagement letter and with Australian Auditing Standards to provide reasonable assurance as to whether the financial report is free from material misstatement.
- As per Section 125 of the *Local Government Act 1999* we are also required to provide an opinion on the internal controls established by Council to ensure financial transactions have been conducted properly and in accordance with law. This audit has been performed in accordance with Australian Standards on Assurance Engagements ASAE 3100 Compliance Engagements.

Audit Matters	Responsibility
Financial Statements	Management
Council approval of financial statements	Council
Receipt of Signed Management Representation Letter	Management
Issue of Independent Auditor's Report	Galpins
Issue of the Independent Assurance report on Internal Controls	Galpins

# Interim Audit Coverage

Galpins attended the XYZ Council in April 2017 to perform our interim audit and review the internal control environment of Council.

Interim audit activities included

- Gaining an understanding of the business
- Performing a planning analytical review
- Understanding and documenting the internal controls in place
- Identifying audit risks
- Testing the design and effectiveness of internal controls
- Communicating findings to Management.

# Controls Opinion – Risk Based Approach

## Definition and Internal Control Framework

- Compliance, in all material aspects, with section 125 of the Local Government Act 1999.
- The Better Practice Model – Financial Internal Controls – prescribed, in regulations, as the standard by which auditors must assess the internal controls of Local Government.
- Risk Based Approach - Identification of key business cycles and core controls as defined by the Better Practice Model

# Summary Clare & Gilbert Valleys Council Internal Controls

Business cycles	Controls Reviewed	Operating Effectively		Findings			
		2017	2016	H	M	L	BP
Purchasing & Procurement / Contracting	7	5	4	-	1	1	-
Fixed Assets	13	10	8	-	1	2	1
General Ledger	9	9	5	-	-	-	-
Accounts Payable	11	10	7	-	-	1	-
Rates / Rates Rebates	9	9	5	-	-	-	-
Payroll	15	15	11	-	-	-	-
Banking	6	6	5	-	-	-	-
Debtors	6	6	6	-	-	-	-
Receipting	2	2	1	-	-	-	-
<b>Total</b>	<b>78</b>	<b>72</b>	<b>52</b>	<b>-</b>	<b>2</b>	<b>4</b>	<b>1</b>

# Benchmarking

Local Government Entity	Level of Compliance
Local Government Entity 1	96%
<b>XYZ Council</b>	<b>92%</b>
Local Government Entity 3	92%
Local Government Entity 4	92%
Local Government Entity 5	91%
Local Government Entity 6	91%
Local Government Entity 7	91%
Local Government Entity 8	91%
Local Government Entity 9	91%
Local Government Entity 10	83%
Local Government Entity 11	79%
Local Government Entity 12	76%
Local Government Entity 13	73%
Local Government Entity 14	72%
Local Government Entity 16	71%

# Final Audit Procedures

As part of the final audit we perform a number of procedures including (but not limited to) the following:

- Analytical review at financial statement and account level
- Obtain bank confirmations and reperform reconciliations
- Obtain legal representations
- Recalculate estimates including depreciation and employee entitlements
- Verify supporting documents for all material balances
- Review notes to the Financial Statements including commitments, key management personnel and other note movements
- The audit approach relating to key balances is discussed below

Account Description	Type	2017 \$'000	2016 \$'000	Increase
Rates Revenues	Revenue	\$ 12,188	\$ 11,828	\$360
Grant Revenue	Revenue	\$ 2,789	\$ 1,624	\$1,165

### Significant Matters

- Material balance in the financial statements
- Accuracy of inputs used to raise rates
- Significant variances
- Timing of income recognition

### Main Audit Procedures

- Review of internal controls over rates
- Reconciliation of rate modelling to general ledger
- Verification of valuations used to generate rates
- Verification of grant revenue to schedules
- Recalculation of invoices
- Analytical review

### Conclusion

Rates and grant income is fairly presented.

### Reasons for the Increases:

#### Rates Revenues

- Increase of \$260k (2.7%) in general rate revenue, consistent with the Annual Business Plan 2016-17 which included general rate revenue increase equivalent to 3%.
- Increase of \$79k (23%) in NRM levy collected (offset by increase in NRM levy expense – zero net impact).

#### Grant Revenue

Increase of 72% in grant revenue

- Cash payments for Financial Assistance Grant recognised as income in 2016/17 are greater than the annual allocation – first payment for 2017/18 of \$482k received prior to 30 June.
- Cash payments for Financial Assistance Grant recognised as income in 2015/16 were less than annual allocation - first payment for 2015/16 of \$496k received in prior year.
- As per AASB 1004 Financial Assistance Grant payments are treated as revenue when Council receives control of the grant i.e. when cash is received.
- Increase in Roads to Recovery Grant \$153k.

Account Description	Type	2017 \$'000	2016 \$,000	(Decrease) Increase
Trade and Other Receivables	Asset	\$1,243	\$1,023	220
Trade and Other Payables	Liability	\$1,050	\$791	259

### Significant Matters

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- Increase in payables and receivables
- Risk of overstatement

### Main Audit Procedures – Accounts Receivable

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- Reconciliation – aged debtors trial balance x general ledger
- Test subsequent receipt to verify existence
- Identification of long outstanding debts

### Main Audit Procedures – Accounts Payable

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- Reconciliation – aged creditors trial balance x general ledger
- Subsequent payments
- Completeness testing

### Reasons for the movement

Full debt collection activities not undertaken late last year, debt recovery action delayed to early 2017/18. Some general deterioration in payments, management suspect economic conditions.

Payables increase consistent with increase materials, contracts and other expenses.

### Conclusion

---

Accounts Receivables / Payables fairly presented

Account Description	Type	2017 \$'000	2016 \$'000	Increase
Materials, Contracts & Other Expenses	Expense	\$8,184	\$6,382	\$1,802
Employee Costs	Expense	\$3,958	\$3,559	\$399

### Significant Matters

- 11% increase in employee costs. Risk of misstatement.
- 22% increase in Materials, contracts & other expenses. Risk of misstatement.

### Main Audit Procedures

- Analytical review
- Testing of payroll controls and procure-to-pay controls
- Review of procurement documents
- Review of contracts
- Review of payroll reports
- Verification of invoices
- Verification of subsequent payments
- Comparison of supporting document to the GL

### Conclusion

Employee Costs are fairly stated  
Materials, Contracts & Other Expenses are fairly presented

### Reasons for the increases:

Significant materials, contracts and other expense increases included:

- Response & clean up from storm/flood event \$500k
- CWMS network flushing \$173k
- Donation to Auburn Community Development Committee on transfer of care of Auburn Institute \$239k
- Additional community Events - Masters Games & Variety Bash \$165k
- Increase in NRM levy paid \$79k (offset by increase in NRM levy collected – zero net impact)
- Donation to Saddleworth District Community Association - net proceeds of fire claim insurance received for RSL building \$50k
- Increase in energy costs \$89k

Employee cost increases relates to EB increases 3%, use of some additional casuals when employees on leave, accrued termination payments and extra payments in relation to the change in management of the Valleys Lifestyle Centre.

Account Description	Type	2017 \$'000	2016 \$'000	(Decrease)
Fixed Assets	Asset	\$ 137,284	\$ 160,107	(\$22,823)

### Significant Matters

- Revaluation by Tonkins of roads, bridges, land and buildings
- Significant revaluation decrement to roads

### Main Audit Procedures

- Reconciliation – registers x general ledger x revaluation
- Review estimates used for road revaluation against other similar Councils
- Review of useful lives / componentisation of assets
- Recalculation of depreciation
- Test additions
- Test disposals
- Review revaluation report and methodology

### Conclusion

Fixed Assets amounts are fairly presented  
 Depreciation is fairly presented

### Reasons for the decrease:

Additions	\$5,122
Revaluation Decrement	(\$19,764)
Disposals	(\$1,012)
Depreciation / capitalised & distributed costs	(\$5,116)
Impairment	(\$2,053)
<b>Total Movement</b>	<b>(\$22,823)</b>

### Depreciation expenses

This year	\$4,972
Last year	\$4,131

### Discussion Points

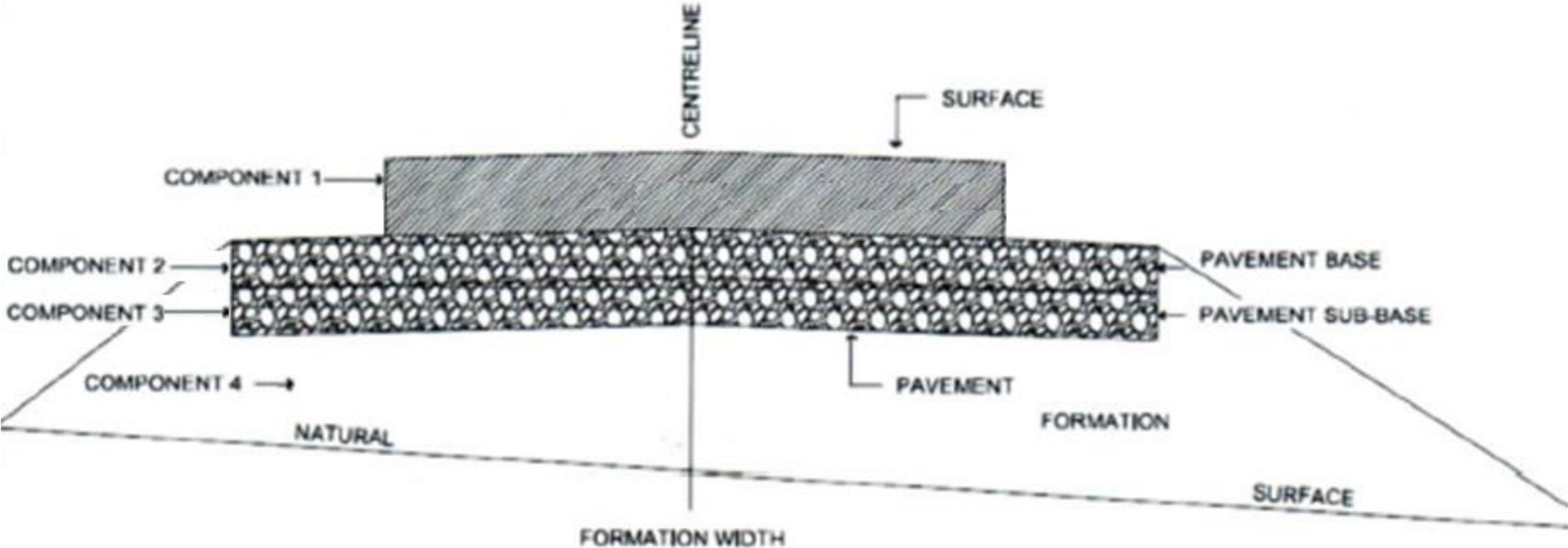
- Impairment expense \$2,053 offset to ARR - storm/flood event \$1,966k, building fire \$87k.
- Revaluation decrement – reconfirmed by Tonkins, reflects improvements in data from componentisation exercise, review of rates.
- Depreciation increase – refer Tonkins report

### WIP

- \$447k (75%) increase in WIP.

<u>Works in Progress as at 30 June 2017</u>	\$'000
Simmos Bridge - project near completion at 30 Jun 17, \$30k to finalise in 2017/18	348
Stormwater drainage projects	130
Sealed Roads, Footways & Kerbs	48
Saddleworth Depot Pit	38
Other Sundry	35
	<u>599</u>

# Roads – Granular Pavement



# Other Areas

- Related Party Disclosures
- Commitments
- Change of Finance System - Synergy
- Independence and ethics
  - The Partner and staff on the Council's audit engagement team for the year ended 30 June 2017 and others in the firm as appropriate have confirmed their independence. This includes compliance with the ethical requirements of APES 110 *Code of Ethics for Professional Accountants*.
- Non-Audit Services
  - No non-audit services were provided to the Council.
- Other Matters
  - We confirm that:
    - We noted no errors or irregularities that would cause the financial report to contain a material misstatement, and noted no apparent illegal acts.
    - There were no difficulties encountered in dealing with management relating to the performance of the audit.

# Conclusion

Auditor's Report	
Controls Opinion	Unmodified
Financial Statements	Unmodified

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## **Appendix 3**

### *Audit Committee Terms of Reference*

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**ADELAIDE HILLS COUNCIL**  
**Audit Committee**



**TERMS OF REFERENCE**  
**Effective from 1 September 2017**

**1. ESTABLISHMENT**

- 1.1 The Audit Committee (the Committee) of Council is established under Section 41 of the *Local Government Act 1999* (the Act), for the purposes of Section 126 of the Act and in compliance with regulation 17 of the *Local Government (Financial Management) Regulations 2011*.
- 1.2 The Audit Committee does not have executive powers or authority to implement actions in areas which management has responsibility and does not have any delegated financial responsibility. The Audit Committee does not have any management functions and is therefore independent from management.

**2. ROLE**

- 2.1 The overall role of the Audit Committee will be to assist Council to accomplish its objectives by monitoring and providing advice on the adequacy and effectiveness of the systems and processes regarding financial management and reporting, internal control and risk management, internal audit and governance functions through the following functions:

**3. SPECIFIC FUNCTIONS**

- 3.1 Financial Reporting and Prudential Requirements

The Committee shall:

- 3.1.1 Provide comment on the assumptions underpinning Council's Strategic Management Plans (Strategic Plan, Annual Business Plan and Budget and Long Term Financial Plan), the consistency between plans and the adequacy of Council's plans in the context of maintaining financial sustainability;
- 3.1.2 Review and provide advice to Council on the degree to which the annual financial statements present fairly the state of affairs of the Council;
- 3.1.3 Monitor the integrity of the financial statements of the Council, including its annual report, reviewing significant financial reporting issues and judgements which they contain.;
- 3.1.4 Review and challenge where necessary:
  - 3.1.4.1 The consistency of, and/or any changes to, accounting policies;
  - 3.1.4.2 The methods used to account for significant or unusual transactions where different approaches are possible;
  - 3.1.4.3 Whether the Council has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor;

- 3.1.4.4 The clarity of disclosure in the Council's financial reports and the context in which statements are made; and
- 3.1.4.5 All material information presented with the financial statements, such as the operating and financial review and the corporate governance statement (insofar as it relates to the audit and risk management);
- 3.1.5 Review prudential reports prepared under Section 48(1) of the Act and provide advice to Council, upon request, on other prudential matters.

### 3.2 Internal Controls and Risk Management Systems

The Committee shall:

- 3.2.1 Ensure that appropriate policies, practices and procedures of internal control (and other financial and risk management systems) are implemented, reviewed and maintained in order to assist the Council to carry out its activities in an efficient and orderly manner to achieve its objectives;
- 3.2.2 Review Council's risk management framework and monitor the performance of Council's risk management program;
- 3.2.3 Monitor the corporate risk profile and significant risk exposures for the organisation to ensure that there are appropriate management plans to manage and mitigate this business risk; and
- 3.2.4 Ensure an appropriate legislative compliance framework exists to identify risks and controls over compliance with applicable legislation and regulations.

### 3.3 Whistle blowing

The committee shall:

- 3.3.1 Review annually the Council's Whistleblower Protection Policy
- 3.3.2 Provide recommendations to Council regarding the Whistleblower Protection Policy to ensure that:
  - 3.3.2.1 There are adequate arrangements for Council employees to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters; and
  - 3.3.2.2 The policy allows independent investigation of such matters and appropriate follow-up action in a manner that is in accordance with the Independent Commissioner Against Corruption Act 2012 and Regulations 2013.

### 3.4 Internal Audit

The Committee shall:

- 3.4.1 Monitor and review the effectiveness of the Council's internal audit function in the context of the Council's overall risk management system;
- 3.4.2 Consider and make recommendation on the program of the internal audit function and the adequacy of its resources and access to information to enable it to perform its function effectively and in accordance with the relevant professional standards.
- 3.4.3 Review all reports on the Council's operations from the internal auditors;
- 3.4.4 Review and monitor management's responsiveness to the findings and recommendations of the internal auditor; and
- 3.4.5 Where appropriate, meet the "head" of internal audit (internal or outsourced) at least once a year, without management being present, to discuss any issues arising from the internal audits carried out. In addition, the head of internal audit shall be given the right of direct access to the Principal Member of the Council and to the Presiding Member of the committee.

### 3.5 External audit

The Committee shall:

- 3.5.1 Consider and make recommendations to the Council, in relation to the appointment, re-appointment and removal of the Council's external auditor. The Committee shall oversee the selection process for new auditors and if an auditor resigns the Committee shall investigate the issues leading to this and decide whether any action is required;
- 3.5.2 Oversee Council's relationship with the external auditor including, but not limited to:
  - 3.5.2.1 Recommending the approval of the external auditor's remuneration, whether fees for audit or non-audit services, and recommending whether the level of fees is appropriate to enable an adequate audit to be conducted;
  - 3.5.2.2 Recommending the approval of the external auditor's terms of engagement, including any engagement letter issued at the commencement of each audit and the scope of the audit;
  - 3.5.2.3 Assessing the external auditor's independence and objectivity taking into account relevant professional and regulatory requirements and the extent of Council's relationship with the auditor, including the provision of any non-audit services;
  - 3.5.2.4 Satisfying itself that there are no relationships (such as family, employment, investment, financial or business) between the external auditor and the Council (other than in the ordinary course of business);

- 3.5.2.5 Monitoring the external auditor's compliance with legislative requirements on the rotation of audit partners; and
  - 3.5.2.6 Assessing the external auditor's qualifications, expertise and resources and the effectiveness of the audit process (which shall include a report from the external auditor on the audit committee's own internal quality procedures);
  - 3.5.3 Meet as needed with the external auditor. The Committee shall meet the external auditor at least once a year, without management being present; to discuss the external auditor's report and any issues arising from the audit;
  - 3.5.4 Review and make recommendations on the annual audit plan, and in particular its consistency with the scope of the external audit engagement;
  - 3.5.5 Review the findings of the audit with the external auditor. This shall include, but not be limited to, the following:
    - 3.5.5.1 a discussion of any major issues which arose during the external audit;
    - 3.5.5.2 any accounting and audit judgements; and
    - 3.5.5.3 Levels of errors identified during the external audit. The committee shall also review the effectiveness of the external audit.
  - 3.5.6 Review any representation letter(s) requested by the external auditor before they are signed by management;
  - 3.5.7 Review the management letter and management's response to the external auditor's findings and recommendations.
- 3.6 Economy and Efficiency Audits
- The Committee shall:
- 3.6.1 Propose and review the exercise of powers under Section 130A of the Act; to examine and report on any matter relating to financial management, or the efficiency and economy with which the council manages or uses its resources to achieve its objectives,
- 3.7 Service Improvement
- The Committee shall:
- 3.7.1 Monitor the benefits achieved through Council's Service Improvement Program with a focus on efficiency and effectiveness.

#### **4. OTHER MATTERS**

The Committee shall:

- 4.1 Have access to reasonable resources in order to carry out its duties, recognising the constraints within Council's Budget;
- 4.2 Be provided with appropriate and timely training, both in the form of an induction programme for new members and on an ongoing basis for all members;
- 4.3 Give due consideration to laws and regulations of the Act;
- 4.4 Make recommendations on co-ordination of the internal and external auditors;
- 4.5 Oversee any investigation of activities which are within its terms of reference;
- 4.6 Oversee action to follow up on matters raised by the external and internal auditors;
- 4.7 Invite Council's external auditors and internal auditors to attend meetings of the Committee, as considered appropriate; and
- 4.8 At least once in its term, review its own performance and terms of reference to ensure it is operating at maximum effectiveness and recommend changes it considers necessary to the Council for approval.

#### **5. MEMBERSHIP**

- 5.1 The Committee will comprise 5 members as follows:
  - 5.1.1 Three (3) Independent Members; and
  - 5.1.2 Two (2) Council Members
- 5.2 All members of the Committee will be appointed by the Council.
- 5.3 Independent Member(s) of the Committee shall have recent and relevant skills and experience in professions such as, but not limited to accounting, financial management, risk management, law, compliance, internal audit and governance.
- 5.4 It is desirable for the Council Members to be appointed to the Committee to have a sound understanding of financial management, risk management and governance.
- 5.5 In considering appointments to the Committee, Council should give consideration to the diversity of the membership.
- 5.6 Appointments to the Committee shall be for a period of up to three (3) years.
- 5.7 Members of the Committee are eligible for reappointment at the expiration of their term of office.
- 5.8 The terms of appointment of the Independent Members should be arranged to ensure the orderly rotation and continuity of membership despite changes to the composition of the Council.

## **6. SITTING FEES**

- 6.1 The applicable Remuneration Tribunal (or its successor) Determination outlines the applicable allowance for Council Members on the Committee.
- 6.2 The Independent Members are to be paid a sitting fee as determined by Council for attendance at meetings and authorised training sessions. Council may determine a higher sitting fee for the presiding member.

## **7. PRESIDING MEMBER**

- 7.1 The Council will appoint the Presiding Member of the Committee.
- 7.2 The Council authorises the Committee to determine if there will be a Deputy Presiding Member of the Committee and, if so, authorises the Committee to make the appointment to that position for a term determined by the Committee.
- 7.3 If the Presiding Member of the Committee is absent from a meeting the Deputy Presiding Member (if such position exists) will preside at that meeting. If there is no position of Deputy Presiding Member, or both the Presiding Member and the Deputy Presiding Member of the Committee are absent from a meeting of the Committee, then a member of the Committee chosen from those present will preside at the meeting until the Presiding Member (or Deputy Presiding Member, if relevant) is present.
- 7.4 The role of the Presiding Member includes:
  - 7.4.1 overseeing and facilitating the conduct of meetings in accordance with Act and the *Local Government (Procedures at Meetings) Regulations 2013* (the Regulations);and
  - 7.4.2 Ensuring all Committee members have an opportunity to participate in discussions in an open and encouraging manner.

## **8. REPORTING RESPONSIBILITIES**

- 8.1 For the purposes of Section 41(8) of the Act, the Committee's reporting and accountability requirements are:
  - 8.1.1 The minutes of each Committee meeting will be included in the agenda papers of the next ordinary meeting of the Council;
  - 8.1.2 The Presiding Member will attend a meeting of the Council at least once per annum to present a report on the activities of the Committee;
  - 8.1.3 The Committee shall make whatever recommendations to the Council it deems appropriate on any area within its terms of reference where in its view action or improvement is needed; and
  - 8.1.4 The Presiding Member may attend a Council meeting at any time that the Presiding Member sees fit to discuss any issue or concern relating to the Committee's functions. Depending on the nature of the matter, this may be held in confidence in accordance with Section 90 of the Act and staff may be requested to withdraw from the meeting.

## **9. MEETING PROCEDURE**

- 9.1 Meeting procedure for the Committee is as set out in the Act, Parts 1, 3 and 4 of the Regulations. Insofar as the Act, the Regulations, or these Terms of Reference do not prescribe the procedure to be observed in relation to the conduct of a meeting of the Committee, the Committee may determine its own procedure.
- 9.2 In accordance with Section 90(7a), one or more Committee members may participate in the meeting by telephone or other electronic means provided that members of the public can hear the discussion between all Committee members.
- 9.3 Only members of the Committee are entitled to vote in Committee meetings. Unless otherwise required by the Act not to vote, each member must vote on every matter that is before the Committee for decision.
- 9.4 Council Employees may attend any meeting as observers or be responsible for preparing papers for the committee.

## **10. SECRETARIAL RESOURCES**

- 10.1 The Chief Executive Officer shall provide sufficient administrative resources to the Committee to enable it to adequately carry out its functions.

## **11. FREQUENCY OF MEETINGS**

- 11.1 The Committee shall meet at least four times a year at appropriate times and places as determined by the Committee. A special meeting of the Committee may be called in accordance with the Act.
- 11.2 If after considering advice from the CEO or delegate, the Presiding Member of the Committee is authorised to cancel the respective Committee meeting, if it is clear that there is no business to transact for that designated meeting.

## **12. NOTICE OF MEETINGS**

- 12.1 Notice of the meetings of the Committee will be given in accordance with Sections 87 and 88 of the Act. Accordingly, notice will be given:
- 12.1.1 To members of the Committee by email or as otherwise agreed by Committee members at least 3 clear days before the date of the meeting; and
- 12.1.2 To the public as soon as practicable after the time that notice of the meeting is given to members by causing a copy of the notice and agenda to be displayed at the Council's offices and on the Council's website.

## **12.2 PUBLIC ACCESS TO MEETINGS & DOCUMENTS**

- 12.3 Members of the public are able to attend all meetings of the Committee, unless prohibited by resolution of the Committee under the confidentiality provisions of Section 90 of the Act.
- 12.4 Members of the public have access to all documents relating to the Committee unless prohibited by resolution of the Committee under the confidentiality provisions of Section 91 of the Act.

## **13. MINUTES OF MEETINGS**

- 13.1 The Chief Executive Officer shall ensure that the proceedings and resolutions of all meetings of the Committee, including recording the names of those present and in attendance are minuted and that the minutes otherwise comply with the requirements of the Regulations.
- 13.2 Minutes of Committee meetings shall be circulated within five days after a meeting to all members of the Committee and will (in accordance with legislative requirements) be available to the public.

**3. Appointment of External Auditor – Period of Confidentiality**

**Subject to the CEO, or his delegate, disclosing information or any document (in whole or in part) for the purpose of implementing the Committee decision(s) in this matter in the performance of the duties and responsibilities of office, the Committee, having considered Agenda Item 16.1 in confidence under sections 90(2) and 90(3)(d) of the Local Government Act 1999, that an order be made under the provisions of sections 91(7) and (9) of the *Local Government Act 1999* that the report and related attachments of the Committee and the discussion and considerations of the subject matter be retained in confidence until the completion of the contract.**

**Pursuant to section 91(9)(c) of the Local Government Act 1999, the Audit Committee delegates the power to revoke the confidentiality order either partially or in full to the Chief Executive Officer.**