



MINUTES

OF CITY AUDIT COMMITTEE HELD IN THE COMMITTEE ROOM,
ADMINISTRATION CENTRE, 7 ORCHARD AVENUE, ARMADALE ON
WEDNESDAY, 27 OCTOBER 2004 AT 4:30PM

PRESENT: Cr L Reynolds JP (Chair)
Cr J Everts
Cr D L Hopper JP
Cr J H Munn JP CMC

APOLOGIES: Cr H A Zelones JP

OBSERVERS: Nil

IN ATTENDANCE: Mr A Maxwell – Executive Director Corporate Services

DECLARATION OF MEMBERS' INTERESTS

Nil

DEPUTATION

Nil

PUBLIC QUESTION TIME

Note:

Meetings of the City Audit Committee are closed to the public on the basis that matters to be dealt with by Committee will generally be of a sensitive and confidential nature which, if disclosed, could reasonably be expected to impair the effectiveness of the audit process – Council resolution CS18/2001 refers.

CONFIRMATION OF MINUTES

RESOLVED

Minutes of the City Audit Committee Meeting held on 28 June 2004, were confirmed.

Moved Cr Munn

MOTION CARRIED (4/0)

I N D E X

CITY AUDIT COMMITTEE

27 OCTOBER 2004

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TENDER FOR EXTERNAL AUDIT SERVICES

WARD All
FILE REF: FIN/6
DATE 13 October 2004
REF AFM
RESPONSIBLE Executive Director
MANAGER Corporate Services

In Brief:

- The report proposes the calling of public tenders for the provision of external audit services.
- The report presents the proposed key tender requirements, upon which public tenders are invited.

Tabled Items

Nil

Officer Interest Declaration

Nil

Strategic Implications

The effective governance and administration of the City's services

Legislation Implications

- Local Government Act 1995 – Part 7 – Audit – appointment of auditor(s) and the conduct of audits,
- Local Government (Audit) Regulations 1996

Council Policy/Local Law Implications

Nil

Budget/Financial Implications

A \$15,000 provision per annum has been made in the Fifteen Year Financial Plan for the Provision of External Audit Services.

Consultation

Nil

BACKGROUND

The City's current audit contract will expire on 30 June 2005 thereby necessitating a new contract for a further period commencing 1 July 2005.

This report presents for Council's consideration and determination, the following matters:

- the proposed key audit tender requirements,
- the proposed timeline for inviting, evaluating and selecting the successful tenderer.

Details of Proposal and Comments

In accordance with the following audit provisions of the Local Government Act and related Regulations, it is proposed that public tenders be invited for the provision of external financial audit services, i.e.

*Local Government Act*7.2. *Audit*

The accounts and annual financial report of a local government for each financial year are required to be audited by an auditor appointed by the local government.

7.3. *Appointment of auditors*

- (1) *A local government is to, from time to time whenever such an appointment is necessary or expedient, appoint* a person to be its auditor.*
- (2) *The local government may appoint one or more persons as its auditor.*
- (3) *The local government's auditor is to be a person who is —*
 - (a) *a registered company auditor; or*
 - (b) *an approved auditor.*

** Absolute majority required.*

7.6. *Term of office of auditor*

- (1) *The appointment of a local government's auditor is to have effect in respect of the audit of the accounts and annual financial report of the local government for a term of not more than 5 financial years, but an auditor is eligible for re-appointment.*

7.8. *Terms of appointment of auditors*

- (1) *Subject to this Part and to any regulations, the appointment of a person as auditor of a local government is to be made by agreement in writing on such terms and conditions, including the remuneration and expenses of the person to be appointed, as are agreed between that person and the local government.*

7.9. *Audit to be conducted*

- (1) *An auditor is required to examine the accounts and annual financial report submitted for audit and, by the 31 December next following the financial year to which the accounts and report relate or such later date as may be prescribed, to prepare a report thereon and forward a copy of that report to —*
 - (a) *the mayor or president;*
 - (b) *the CEO of the local government; and*
 - (c) *the Minister.*

*Local Government (Audit) Regulations*7.10 *Audit agreements*

An agreement between a local government and an auditor is to include —

- (a) *the objectives of the audit;*
- (b) *the scope of the audit;*
- (c) *a plan for the audit;*
- (d) *details of the remuneration and expenses to be paid to the auditor; and*
- (e) *the method to be used by the local government to communicate with, and supply information to, the auditor.*

The “key tender requirements” as detailed in the following report recommendation are explained as follows:

Contract Period

The Act limits the term that an auditor can be appointed to not more than five (5) years. The term of the current audit contract is three (3) years.

It is recommended that the proposed contract be for a five (5) year term with the reasons for the longer term being that:

- It better suits the nature of the services and working relationship (it is important that there is an opportunity to build and develop a business relationship based upon mutual trust and respect and an understanding of the City's business),

- Provides greater opportunity for prospective tenders to be more competitive in the pricing of their tendered services (the longer the term the greater the ability to assuage establishment costs), and
- The added cost and imposition upon resources of inviting tenders at more regular intervals.

Scope and Specification of Services Required

The proposed Scope and Specification of Services for the purposes of the tender and subsequent contract, is presented in the following report recommendation. Aspects to note about the recommended scope of services include:

- Whilst the scope contains elements of internal audit services, the primary focus is upon external financial audit services. Internal audit services are generally distinct from external audit services in that they primarily equate to a business process that provides assurance that the internal control structure of the organisation remains effective. The provision of internal audit services (at an estimated cost of \$30k per annum) is currently listed in the Fifteen Year Financial Plan as an initiative for consideration and implementation in the 2006-07 year.
- It is consistent with the minimum requirements of the Act and Regulations and the current audit contract,
- It will deliver to the City the required outcomes at an affordable cost.

Tender Selection Criteria

The proposed tender selection criteria, is presented in the following report recommendation. Aspects to note about the recommended selection criteria include:

- Is tailored for the provision of professional services, and
- Is consistent with the selection criteria used in the prior audit services tender and the more recent legal services tender which on both occasions worked well.

Finally, the proposed timetable for inviting tenders, evaluating tenders, selecting the successful tenderer and finalising the contract documentation, is as follows:

Date OR by When	Task	By Whom
27 October 2004	Consideration and recommendation to Council of the key tender requirements for the provision of external audit services	City Audit Committee
1 November 2004	Resolution to invite tenders for the provision of external audit services	Council
22 January 2005	Tender to be publicly advertised	EMBS
16 February 2005	Close date for receipt of tenders	EMBS
17 Feb to 4 Mar 2005	Evaluation of Tenders received and preparation of report and recommendation to City Audit Meeting	EDCorpS & EMBS
14 March 2005 (say at 5.30pm prior to the City	Consider and make recommendation to Council on the	City Audit Committee

Date OR by When	Task	By Whom
Strategy Meeting that evening)	successful tenderer	
21 March 2005	Council to resolve successful tenderer	Council
By mid April 2005	Agreement/contract documentation to be finalized and signed	EDCorpS
NOTE: EDCorpS = Executive Director Corporate Services EMBS = Executive Manager Business Services		

Committee Discussion

Committee made two minor changes to the recommendation, they being as follows:

- The words “**NB: An auditor is eligible for re-appointment at the end of the contract term**” were added to the section headed ‘Contract Period’ for clarification purposes, and
- The words “**and liaison/consultation with Council’s Audit Committee**” were added to part 4 (a) of the recommendation so as to more clearly emphasise the necessary involvement of Council’s Audit Committee in the audit process.

CA7/10/04 RECOMMEND

That Council invite public tenders for the Provision of External Financial Audit Services on the basis of the following key tender requirements:

Contract period

The contract shall be in force for a period of five (5) years commencing 1 July 2005 and covering the financial years June 2006, June 2007, June 2008, June 2009 and June 2010. (NB: An auditor is eligible for re-appointment at the end of the contract term.)

Scope and Specifications of Services Required

Scope:

To carry out such work as is necessary to form an opinion as to whether:

- **The accounts are properly kept; and**
- **The annual financial report –**
 - **Is prepared in accordance with financial records, and**
 - **Represents fairly the results of the operations of the City of Armadale and financial position of the City of Armadale at 30 June in accordance with Australian Auditing Standards, Australian Accounting Standards, Local Government Act 1995 and the Regulations under that Act, and other mandatory professional reporting requirements.**
- **Expenditure has been made in accordance with the adopted annual budget and/or Council resolution.**

Specification:

1. The audits are required to be conducted in accordance with “Australian Auditing Standards” and “Auditing Guidance Statements” adopted from time to time by the Australian Society of Certified Practising Accountants and Institute of Chartered Accountants in Australia, to provide reasonable assurance as to whether the financial statements are free of material misstatement.
2. The audit is to be planned and conducted in accordance with the Local Government (Audit) Regulations 1996.
3. In addition to the report on the financial statements, a separate letter concerning material weaknesses in the internal control structure that come to notice is to be provided following each interim and annual audit assignment.
4. Further requirements include:
 - a) A general outline of the audit objectives and methodology for both the interim and final audits, including the planning, systems review, risk assessment, the preparation and conduct of the audit programme, reporting phases and liaison/consultation with Council’s Audit Committee.
 - b) A proposed timetable of audit visits (NB: the required completion dates for the interim and final audits are 31 March and 30 September respectively each year during the contract period).
 - c) A written procedure for ensuring clear communication between the City of Armadale and the auditors.
 - d) Details of the level and extent to which the tenderer is capable of providing staff resources for additional specific project and other services within the scope of the contracted services.

Special Conditions of Contract:

The City, on an annual basis, is to be provided with written confirmation as to the Auditor’s continuing eligibility as a local government auditor pursuant to the requirements of the Local Government Act 1996 (section 7.3 refers).

Persons being members of the audit team are not to be used to provide specific project and other advisory services to the City except in relation to matters within the scope of the contracted services.

Selection and Evaluation Criteria**Compliance Criteria**

These criteria relate to the fundamental conditions of the Request for Tender and will not be point scored. Each Tender will be assessed on a Yes/No basis as to whether the criterion is satisfactorily met. An assessment of No against any criterion may eliminate the Tender from consideration.

Description of Compliance Criteria	Yes/No
(a) Compliance with the Conditions of Tendering of this Request.	Yes/No

Description of Compliance Criteria	Yes/No
(b) Compliance with the Specification contained in the Request.	Yes/No
(c) Compliance with the Special Conditions of this Request.	Yes/No
(d) Compliance with the Financial Capability criteria.	Yes/No
(e) Correct completion of the Price Schedule.	Yes/No

Selection Criteria:

In determining the most advantageous tender, the City will score each tender against the Selection Criteria to the extent to which they are relevant to the individual requirements of each tender.

It is essential that tenderers address each criterion and failure to provide the specified information may result in a tender being eliminated from the evaluation process.

The selection criteria for this request are as follows:

Description of Selection Criteria	Weighting
Demonstrated capability/competence of tenderer to perform the work required.	25%
Demonstrated experience of tenderer in supplying similar services especially details of experience in working with local government.	25%
Demonstrated understanding of requirements.	10%
Tendered price.	40%
TOTAL	100%

**Moved Cr Munn
MOTION CARRIED (4/0)**

FINAL AUDIT REPORT FOR THE YEAR ENDED 30 JUNE 2004

WARD All
FILE REF: FIN/6
DATE 13th October 2004
REF NC
RESPONSIBLE EMBS
MANAGER

In Brief:

- Review of the Auditors' Final Audit Report for the year ended 30 June 2004.
- Report for information and discussion.

Tabled Items

Nil

Officer Interest Declaration

Nil

Strategic Implications

Effective governance and administration of the City's services.

Legislation Implications

Local Government Act 1995 – Section 7.2 – Audit

“The accounts and annual financial report of a local government for each financial year are required to be audited by an auditor appointed by the local government.”

Local Government Act 1995 – Section 7.9 – Audit to be conducted

- “(1) An auditor is required to examine the accounts and annual financial report submitted for audit and, by the 31 December next following the financial year to which the accounts and report relate or such later date as may be prescribed, to prepare a report thereon and forward a copy of that report to –
- (a) the mayor or president;
 - (b) the CEO of the local government; and
 - (c) the Minister.
- (2) Without limiting the generality of subsection (1), where the auditor considers that-
- (a) there is any error or deficiency in an account or financial report submitted for audit; or
 - (b) any money paid from, or due to, any fund or account of a local government has been or may have been misapplied to purposes not authorized by law, details of that error, deficiency or misapplication are to be included in the report by the auditor.

Local Government (Audit) Regulations 1996 – Regulations 9 and 10.

Council Policy/Local Law Implications

The City Audit Committee's Terms of Reference includes the following:

- Ensure that the external audit strategy addresses all significant business and other risks.
- Ensure that external audit reports are considered and that management implications of any recommendation are monitored.

Budget/Financial Implications

Nil

Consultation

Council's appointed auditor, Mr A Macri.

BACKGROUND

Each year Council's auditors conduct an independent external financial audit. The purpose of the audit is to provide reasonable assurance to Council and the Armadale community as to whether the financial report (as prepared by Council officers) is free of material misstatement. This includes examination of evidence supporting the amounts and other disclosures in the financial report as well as evaluating accounting policies and significant accounting estimates. The report from the independent audit is assessed by Council officers as well as being included in Council's Annual Report.

DETAILS OF PROPOSAL

The independent audit report for the year ended 30 June 2004 has been received and was presented at **Attachment "A-1" - Summary of Attachments.**

Comments & Analysis

The independent audit report has highlighted that, during the course of the audit, there were no instances that the auditors were aware of where Council did not comply with the requirements of the Local Government Act and Regulations under that Act.

The Auditor's report is a good outcome and one that reflects favourably upon the financial management performance of the City's Audit Committee and officers.

CA8/10/04 RECOMMEND

That Council receives the auditor's final audit report for the year ended 30 June 2004 as presented at Attachment "A-1" to these minutes noting that during the course of the audit, the auditor identified no instances of:

- **any error or deficiency in an account or financial report submitted for audit,**
- **any money paid from, or due to, any fund or account of the City that has been or may have been misapplied to purposes not authorised by law,**
- **any material matters that in the opinion of the auditor indicate significant adverse trends in the financial position or the financial management practices of the City, and**
- **any matters indicating non-compliance with Part 6 of the Act, the Local Government (Financial Management) Regulations 1996 or applicable financial controls in any other written law.**

Moved Cr Hopper

MOTION CARRIED (4/0)

MEETING CLOSED AT 5:05 p.m.

CITY AUDIT COMMITTEE

SUMMARY OF "A" ATTACHMENTS

27 OCTOBER 2004

Attachment No.	Subject	Page
A-1	FINAL AUDIT REPORT FOR YEAR ENDED 30 JUNE 2004	16

BARRETT & PARTNERS – DFK

Certified Practising Accountants

INDEPENDENT AUDIT REPORT

TO: RATEPAYERS OF THE CITY OF ARMADALE

PARTNERS

Ronald E Barrett FCA

Anthony D Macri FCPA

Domenic A Macri CPA

Scope

We have audited the financial report of the City of Armadale, comprising the Operating Statement, Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flows, and the notes to and forming part of the financial report for the year ended 30 June 2004. The Council is responsible for the preparation and presentation of the financial report and the information contained therein. We have conducted an independent audit of the financial report in order to express an opinion on it to the ratepayers of the City of Armadale.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance as to whether the financial report is free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion as to whether, in all material respects, the financial report is presented fairly in accordance with the requirements of the Local Government Act 1995 and Regulations under that Act, Australian Accounting Standards and other mandatory professional reporting requirements so as to present a view of the City of Armadale which is consistent with our understanding of its financial position, the results of its operations and its cash flows.

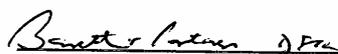
The audit opinion expressed in this report has been formed on the above basis.

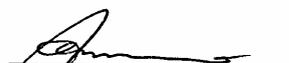
Audit Opinion

In our opinion, the financial report of the City of Armadale:

- (a) present fairly the financial position of the City of Armadale as at 30 June 2004 and the results of its operations for the year then ended in accordance with applicable Accounting Standards; and
- (b) are prepared in accordance with the requirements of the Local Government Act 1995 and Regulations under that act and other mandatory professional reporting requirements.

We did not during the course of our audit become aware of any instances where the Council did not comply with the requirements of the Local Government Act and Regulations under that Act.


BARRETT & PARTNERS – DFK
Certified Practising Accountants
Level 1, 28 Thorogood Street
BURSWOOD WA 6100


A MACRI
PARTNER

PERTH
DATED THIS 4TH DAY OF OCTOBER 2004.

28 Thorogood Street Burswood Western Australia 6100
PO Box 398 Victoria Park Western Australia 6979
Telephone: 08 9470 4848 Facsimile: 08 9470 4849
Email: mail@dfkperth.com

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