



# **LGFP Member Survey Audit Committees**

**January 2019**

# LGFP Member Survey – Audit Committees – January 2019

## Background

In January 2019 the LGFP sent out a survey to its membership base seeking feedback on the effectiveness of audit committees in their Council. A total of 35 responses were received from 30 Councils.

The purpose of the survey was to provide information on senior management's perception of audit committees across a range of councils. This information could be used to inform any future changes to provisions regarding audit committees within the *Local Government Act 2009*.

## Summary

In summary, the key themes which emerged from the survey were:

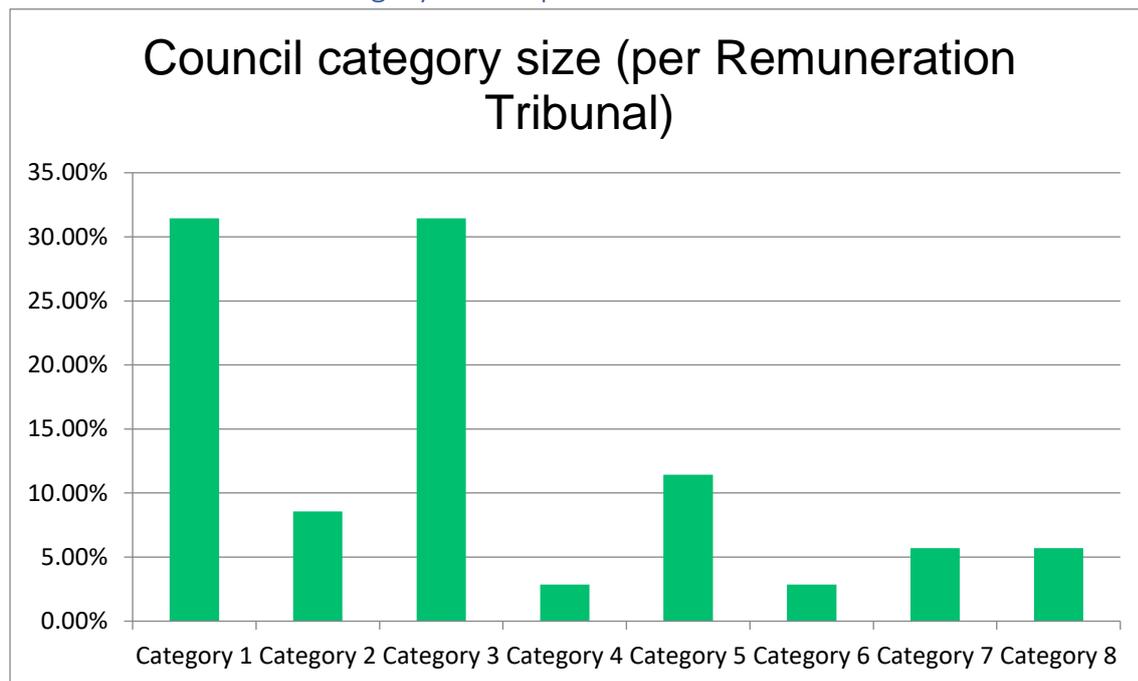
- The majority of respondents had an audit committee function; even councils which are not required to by legislation.
- The majority of respondents indicated that their committee is effective, although some qualified their response in relation to cost versus benefit.
- The main benefits of audit committees include:
  - Independence
  - Additional skills and expertise
  - Broader focus
  - Different views on risk and governance
- Smaller and/or remote councils had difficulty in sourcing appropriately experienced and qualified committee members.
- Internal audit within larger Councils had a broader and more strategic focus than smaller councils.
- The majority of respondents supported mandating internal audit committees although different approaches were suggested for smaller councils
  - Options instead of a committee structure included:
    - Regular reporting on the internal audit function by the CEO
    - Internal audit programs to be reviewed/approved by the Department or QAO
    - External service providers should be used to undertake the internal audit function

## Report

### Questions 1 to 3

Responses to questions 1 to 3 relate to the details of the respondents to the survey. The majority of respondents held senior positions within their council including two CEO's, ten Deputy CEO/Director/Executive Managers, five CFO's, and eleven at a Manager level. The balance included a variety of roles such as Accountant, Internal Auditor, Advisor, or Analyst. Respondents covered disciplines such as accounting, governance, and assurance.

#### Question 4 – Council Category Size as per Remuneration Tribunal



Most respondents were in Category 1 or Category 3, however there was at least one respondent for each of the categories. Two Councils did not provide a response to this question. Audit committees are compulsory for Councils in Category 3 or higher.

#### Question 5 – Do you have an established audit committee?

Three quarters of respondents had an established audit committee with only eight of the councils without one. This indicates that although not required to have an audit committee some of the smaller councils still do with five of the eleven respondents from Category 1 Councils, and all three respondents from category 2 councils indicating that they had an audit committee.

#### Question 6 – Do you consider that your Audit Committee operates effectively and adds value?

All but two respondents believe that their audit committee operates effectively and adds value, although some of those responses were qualified within their comments.

One category 1 council made comment that their committee was not operating effectively because the agenda was driven by officers on a reactive, rather than proactive approach. The other Council commented that there has been no accountability in getting results out of the committee, although this has improved in the last three to six months.

Other qualifications within the comments included:

- “The committee certainly contributes – whether the benefit outweighs the cost is difficult to judge – but I believe there is a small net benefit.” (Cat 3)
- “I believe the Audit and Risk Committee operates effectively and covers all required areas. Does it add value to Council – when compared with the costs associated with this committee I do not believe there is an overall positive cost benefit.” (Cat 5)

The remaining comments made mention of the value of having external members who challenge processes and the politics of decision making (rather than risk-based decision making), as well as adding expertise, and different points of view to the function. QAO input into the committee was also valued.

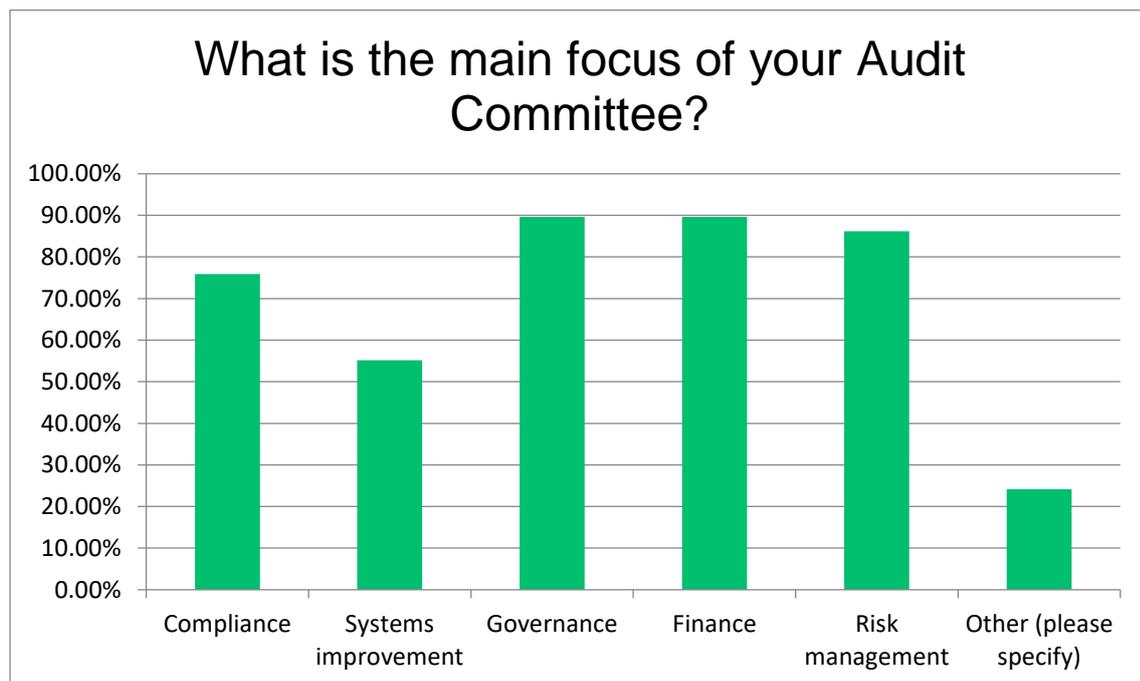
### Question 7 – Do you consider the membership and skills mix of the Committee to be adequate?

Only three of the respondents considered that there could be improvements in the mix of Committee skills and these were from the smaller Category One and Two Councils. Several comments were made that there is difficulty sourcing community representatives with appropriate skills in remote areas, however the majority indicated that they had a good range of skills and experiences between the elected members and independent members.

### Question 8 – What is the main focus of your Audit Committee?

Across all respondents, governance, finance and risk management were the three main areas of focus, followed by compliance and systems improvement. Other specific areas included cyber security, business continuity, sustainability, and fraud prevention.

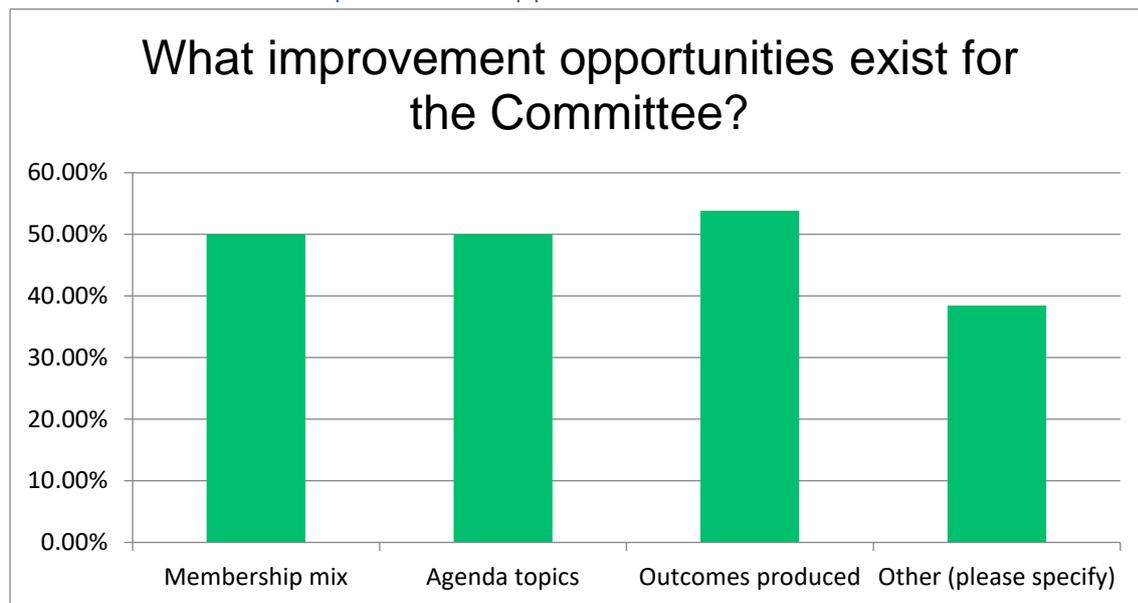
Amongst the Category One Councils, finance was the main focus while the larger Councils indicated that their committees had a broader focus across all of the areas identified.



### Question 9 – Is there a balance between the consideration of operational and strategic items on the agenda?

The majority of responses to this question indicated that there was a balance between operational and strategic items and that generally the committee focused on strategic matters. The comments provided noted that operational items were often included in the agenda for the committee's information, but they were only discussed if there was an issue identified. Risk reporting included both operational and strategic risks.

## Question 10 – What improvement opportunities exist for the Committee?



The opportunity to improve outcomes produced by the committee rated slightly higher than membership mix or agenda topics. Comments on this indicated that a lack of clear direction from the committee about the required outcomes made it difficult for management to understand what was expected of the internal audit function. Other opportunities for improvement included broadening the scope of the committee to other areas such as engineering; improving evaluation of performance; and developing an audit plan to follow.

The larger Councils identified fewer improvement opportunities and one commented that they had conducted a self assessment of their committee's performance and that it was operating effectively.

## Question 11 – What risks do you feel exist that may impact on your Audit Committee's effective ongoing performance?

Responses to this question were varied but a common theme was around the loss of skills within the independent membership and Chair. A number of Councils were concerned that changes in the membership may lead to a reduction in effectiveness. Other aspects in relation to membership which were of concern were member's focussing only on their particular area of expertise or interest and not contributing to the broader committee functions; the commitment of members (both independent and elected) to attending and participating in meeting; and a lack of appropriately skilled and qualified people to make up the committee.

Other areas of risk identified included:

- The time needed to prepare for meetings and then go through the agenda items.
- The growing range of topics indicated through "best practice" advice that the committee should cover leading to the dilution of committee focus and fatigue within members and management.
- Lack of commitment within the organisation to implement audit recommendations or participate in the internal audit process.
- Ability of the committee to monitor progress on issues raised.

### Question 12 – What would you expect to be the key benefits for local governments in having an Audit Committee?

The majority of responses indicated that the key benefit in having an audit committee is the independent oversight of critical Council functions. Additional benefits identified included the additional expertise brought by having external members on the committee; a greater awareness amongst councillors of the importance of governance; and the ability to focus on risk management.

Some of the smaller councils indicated that they did not see many benefits in having an audit committee as opposed to an internal audit function which reports through the normal council reporting processes.

### Question 13 – Do you believe that the mandating of Audit Committees in Queensland local government should occur?

Two thirds of respondents believed that audit committees should be mandated, however many of the comments indicated that a one size fits all approach would not work or be cost effective. For smaller councils the common suggestion was that rather than a committee and the associated administrative overheads, the requirement could be to have an internal audit program/function with the reports provided on a regular basis through the existing council business processes. The program could be conducted or reviewed by an external provider.

### Question 14 – Do you feel there could be alternatives to having an Audit Committee in relation to governance and risk oversight?

As with question 13, responses included focussing on the internal audit function rather than the committee structure. Suggestions on reporting included mandating regular reporting by the CEO, inclusion in the annual report, and oversight of the program by the Department or QAO.

Some respondents commented on the risk of losing independence through a lack of external representation and potentially relying on management to undertake the program. There was one comment that “It is well known that large local governments with Audit Committees have not prevented poor governance or risk”.

### Question 15 – Do you believe that your Council’s internal audit function is effective?

Nearly 95% of respondents believed that their internal audit function is effective. Comments in relation to improvements in effectiveness related to the timely follow up of recommendations, acceptance of responsibility by elected members on the committee, and the appropriate level of detail for reviews being undertaken. Many comments indicated that having the program managed by an external party assisted with its effectiveness.