



Public Accounts Committee

Improving Local Government Accountability

Report No. 12
November 2015

Legislative Assembly
Parliament of Western Australia

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Public Accounts Committee

Improving Local Government Accountability

Report No. 12

Presented by

Mr S.K. L'Estrange, MLA

Laid on the Table of the Legislative Assembly on 26 November 2015

Chairman's Foreword

For the 2014–2015 financial year, it has been estimated that Western Australia's 140 local governments will receive a combined total of \$1.9 billion from rate revenues, with a further \$282 million coming to the sector via the Local Government Grants Commission. While it is important that elected councillors and local government employees are held sufficiently accountable for the manner in which these monies are spent, the reality is that WA's local governments have tended to avoid the degree of scrutiny applied to agencies in other tiers of government.

In February 2015, the Corruption and Crime Commission (CCC) tabled its *Report on Misconduct Risk in Local Government Procurement*, which echoed the sentiments of a 2006 PAC Report that had called for the Auditor General to be given audit responsibility for local government. The CCC repeated this call with the view to raising local government accountability standards to be more in line with the public sector.

The following month, the Minister for Local Government confirmed that he had asked his department to explore options for an expansion of the Auditor General's role to include the local government sector.

Having observed these ongoing developments, the Public Accounts Committee of the 39th Parliament (the Committee), requested the Department of Local Government and Communities (the Department) to appear at a hearing on 19 August 2015. The purpose of the hearing was to learn more about what actions the Department had taken in response to the 2006 PAC Report and the extent to which these actions—and other statutory responsibilities discharged by the Department—had improved the oversight and accountability of local governments. Following that hearing, the Committee requested copies of the independent audit reports prepared for each local government for the 2013–2014 financial year. Having considered the content of those audit reports, and the issues raised therein, the Committee requested the Department to appear at a second hearing on 11 November 2015.

As a result of these hearings the Committee has recommended in this report that the Auditor General's scope of powers be broadened to include financial and performance (effectiveness and efficiency) audits.

The Committee has further recommended that the Auditor General be given the authority to audit the Compliance Audit Returns, submitted by local governments to the Department, under the requirements of Part 7 of the *Local Government Act 1995* (WA).

These recommendations reflect the Committee's view that the Office of the Auditor General can bring a level of independence and expertise to the monitoring and

oversight of local governments. This should mitigate some of the shortcomings the Committee has identified in the current local government accountability framework including:

- A notable inconsistency in the level of detail and general quality of financial audit reports prepared for local governments. This issue was highlighted in 2006, but does not appear to have been the focus of any meaningful corrective action over the last nine years.
- A Compliance Audit Return process that is ultimately undermined by the fact that responses from individual local governments are not subject to verification or independent scrutiny.
- A lack of rigour and a seemingly inconsistent approach by the Department in its monitoring and follow-up of local governments regarding compliance with statutory requirements.
- A lack of transparency across the sector around the findings of financial audits.
- A lack of transparency on the non-compliance among local governments with regards to key statutory requirements of the *Local Government Act 1995* (WA) and associated regulations.

The Committee sees scope for the Auditor General to complement the work of the Department. In particular, under a reformed accountability framework, staff from the Auditor General's office could deliver informed and objective guidance that would enable the Department to target its advice, education, and support tools towards the areas of non-compliance that present the most serious or systemic risks.

The Committee has directed several recommendations to the Department that are aimed at improving local government accountability by addressing the current lack of transparency in the sector. These recommendations call for the Department to make public:

- Sector-wide reports on the outcomes of the annual Compliance Audit Return process;
- The final results of all probity audits;
- Financial and asset management ratios presented in a manner that offers the potential for consistent and comparative analysis; and
- Comparative financial data for each local government (e.g. rates and additional service fees) in a format similar to that currently provided by the Department's counterparts in Queensland and Victoria.

The Committee has resolved to table all the evidence it has received from the Department during the course of its examination. This includes 132 independent audit reports for the 2013–2014 financial year that were provided by the Department in response to a request from the Committee. The decision to table these documents was taken, in part, to promote greater transparency in the sector. However, the primary reason was to illustrate the basis of the Committee’s concerns around the inconsistent nature of audit reporting, the variable quality of financial administration across the sector, and the extent to which a significant number of councils are failing to comply with statutory requirements around financial reporting and audit readiness.

A strong case exists to improve the current local government accountability framework. The focus of any change needs to be centred on providing the Auditor General with the authority to scrutinise local government performance. In addition, there must be improved transparency including easier access to key information for ratepayers, the wider public, and the Parliament.

I would like to thank fellow committee members for their efforts with regards to investigating this topic, Mr Ben Wyatt MLA (Deputy Chairman), Mrs Glenys Godfrey MLA, Mr Bill Johnston MLA, and Mr Matt Taylor MLA. I would also like to thank the committee secretariat for their hard work in supporting the committee, Mr Tim Hughes (Principal Research Officer) and Ms Michele Chiasson (Research Officer).

MR S.K. L'ESTRANGE, MLA
CHAIRMAN

Contents

Executive Summary	i
Ministerial Response	v
Findings and Recommendations	vii
1 Introduction	1
2 The Current Local Government Accountability Framework and Renewed Calls for Reform	5
The 2006 Public Accounts Committee Report	5
Formal Response to 2006 Public Accounts Committee Report	8
The Local Government Accountability Framework in 2015	9
Part 5 – Administration	9
Part 6 – Financial management	11
Part 7 – Audit	11
Part 8 – Scrutiny of the Affairs of Local Governments	12
The Department’s Compliance Model	13
Current Role of the Auditor General in Local Government Accountability	15
Default Auditor	15
Audit by Arrangement	15
Follow the Dollar Powers	15
Audit of the Department	15
Developments since the 2006 Public Accounts Committee Report	16
Shift Towards Greater Involvement of Auditors General in Other Jurisdictions	16
Corruption and Crime Commission Report Recommends Broadening the Auditor General’s Remit	19
Minister for Local Government and Communities Indicates Support for Reform	19
Committee Action	20

3	Compliance Audits	23
	2006 PAC Report - Recommendation One: Compliance Auditing	23
	Background to Recommendation One from the 2006 PAC Report	23
	Summary of the Government Response to the 2006 PAC Report Recommendation	24
	Current Status of the Compliance Audit Process	25
	Committee Considerations on Compliance Auditing	28
4	Financial Audits and Performance Audits	33
	2006 PAC Report - Recommendation Two: Financial Audits/Performance Audits	33
	2006 PAC Report - Recommendation Three: Financial Audits	33
	2006 PAC Report - Recommendation Four: Financial Audits	33
	Background to Recommendations Two through Four from the 2006 PAC Report	33
	Summary of the Government Response to the 2006 PAC Report Recommendations	36
	Current Status of the Financial Audit and Performance Audit Process	37
	Committee Considerations – Financial Auditing of Local Government	42
	Committee Considerations – Performance Auditing of Local Government	51
5	Comparative Reporting	53
	2006 PAC Report - Recommendation Five: Comparative Reporting	53
	Background to Recommendation Five from the 2006 PAC Report	53
	Current Status around Comparative Reporting	54
	Committee Considerations – Comparative Reporting	55
Appendices		57
1	New Audit Model for Local Government (Departmental Reference Group Response to 2006 PAC Report)	57
2	Department of Local Government and Communities – Local Government (Compliance) Risk Profile	59
3	Financial Ratios Explained – Excerpt from Audit Management Report	61

4	Extract of Queensland Local Government Comparative Reports	65
5	Extract of Victorian Local Government Council Sector Reports	67
6	Committee's Functions and Powers	69
7	Hearings	71
8	Bibliography of Online References	73

Executive Summary

*The community has a reasonable expectation that government at all levels is open and accountable, and local government is no exception.*¹

For the 2014–2015 financial year, it has been estimated that Western Australia’s 140 local governments will receive a combined total of \$1.9 billion from rate revenues, with a further \$282 million coming to the sector via the Local Government Grants Commission. While it is important that elected councillors and local government employees are held sufficiently accountable for the manner in which these monies are spent, the reality is that WA’s local governments have tended to avoid the degree of scrutiny applied to agencies in other tiers of government.

Concern around this issue is not new. In 2006, the Public Accounts Committee of the 37th Parliament tabled a report entitled *Local Government Accountability in Western Australia* (the 2006 PAC Report). That report included a series of recommendations aimed at expanding the scope of the Auditor General’s powers to include the audit of local governments with view to holding councils to a similar level of accountability as public sector agencies. Ultimately, the majority of the recommendations were not fully supported and, in the period since, the transparency around decision-making and quality of governance at the local government level has continued to be called into question.

In February 2015, the Corruption and Crime Commission (CCC) tabled its *Report on Misconduct Risk in Local Government Procurement*, which echoed the sentiments of the 2006 PAC Report. The CCC repeated the call for the Auditor General to be given audit responsibility for local government, again with the view to raising local government accountability standards to be more in line with the public sector.

The following month, the Minister for Local Government confirmed that he had asked his department to explore options for an expansion of the Auditor General’s role to include the local government sector.

Having observed these ongoing developments, the Public Accounts Committee of the 39th Parliament (the Committee), requested the Department of Local Government and Communities (the Department) to appear at a hearing on 19 August 2015. The purpose of the hearing was to learn more about what actions the Department had taken in response to the 2006 PAC Report and the extent to which these actions—and other statutory responsibilities discharged by the Department—had improved the oversight and accountability of local governments. Following that hearing, the Committee

¹ Hon Tony Simpson MLA, Minister for Local Government, Legislative Assembly, *Parliamentary Debates* (Hansard), 26 February 2015, p. 771e.

requested copies of the independent audit reports prepared for each local government for the 2013–2014 financial year. Having considered the content of those audit reports, and the issues raised therein, the Committee requested the Department to appear at a second hearing on 11 November 2015.

The Committee has subsequently taken the opportunity to prepare this report to inform Parliament of the outcome of those hearings. The Committee has resolved to table this report under the provisions of Legislative Assembly Standing Order 272, which states that:

A committee may report on its deliberations and present its minutes, evidence or other documents from time to time.

The examination of the Department was not conducted as a formal inquiry. Rather, it was undertaken primarily as an agency follow-up of the recommendations made in the 2006 PAC Report.

At the second hearing, the Department confirmed that a policy decision has been made to extend the jurisdiction of the Auditor General to include the auditing of local governments. This development, which appears to relate to the financial audit of local governments, is welcomed by the Committee. However, the Committee has recommended in this report that the Auditor General's scope of powers be broadened to include financial and performance (effectiveness and efficiency) audits. Notably, Western Australia and New South Wales remain the only states not to have enacted such reforms.

The Committee has further recommended that the Auditor General be given the authority to audit the Compliance Audit Returns, submitted by local governments to the Department, under the requirements of Part 7 of the *Local Government Act 1995* (WA).

These recommendations reflect the Committee's view that the Office of the Auditor General can bring a level of independence and expertise to the monitoring and oversight of local governments. This should mitigate some of the shortcomings the Committee has identified in the current local government accountability framework including:

- A notable inconsistency in the level of detail and general quality of financial audit reports prepared for local governments. This issue was highlighted in 2006, but does not appear to have been the focus of any meaningful corrective action over the last nine years.

- A Compliance Audit Return process that is ultimately undermined by the fact that responses from individual local governments are not subject to verification or independent scrutiny.
- A lack of rigour and a seemingly inconsistent approach by the Department in its monitoring and follow-up of local governments regarding compliance with statutory requirements.
- A lack of transparency across the sector around the findings of financial audits.
- A lack of transparency on the non-compliance among local governments with regards to key statutory requirements of the *Local Government Act 1995* (WA) and associated regulations.

The Committee sees scope for the Auditor General to complement the work of the Department. In particular, under a reformed accountability framework, staff from the Auditor General's office could deliver informed and objective guidance that would enable the Department to target its advice, education, and support tools towards the areas of non-compliance that present the most serious or systemic risks.

The Committee has directed several recommendations to the Department that are aimed at improving local government accountability by addressing the current lack of transparency in the sector. These recommendations call for the Department to make public:

- Sector-wide reports on the outcomes of the annual Compliance Audit Return process.
- The final results of all probity audits.
- Financial and asset management ratios presented in a manner that offers the potential for consistent and comparative analysis
- Comparative financial data for each local government (e.g. rates and additional service fees) in a format similar to that currently provided by the Department's counterparts in Queensland and Victoria.

Chapters One and Two of this report provide an introduction to the topic and an overview of the factors that prompted the Committee to undertake its examination. Chapter Two also describes the current local government accountability framework and outlines the respective roles and responsibilities of the Department and the Auditor General.

Chapters Three through Five consider separate aspects of the local government accountability framework, namely: compliance audits; financial and performance

audits; and sector-wide comparative reporting. These aspects are considered in the context of relevant recommendations from the 2006 PAC Report. Each chapter starts with a brief summary of the argument put forward by the 2006 committee in support of its recommendations and the initial response to those recommendations by a departmental reference group on behalf of the Government. This is followed with an examination of current practices in the area that was subject to the particular recommendations and a summary comment from this Committee as to the adequacy or otherwise of these practices.

The Committee has resolved to table all the evidence it has received from the Department during the course of its examination. This includes 132 independent audit reports for the 2013–2014 financial year that were provided by the Department in response to a request from the Committee. The decision to table these documents was taken, in part, to promote greater transparency in the sector. However, the primary reason was to illustrate the basis of the Committee’s concerns around the inconsistent nature of audit reporting, the variable quality of financial administration across the sector, and the extent to which a significant number of councils are failing to comply with statutory requirements around financial reporting and audit readiness.

A strong case exists to improve the current local government accountability framework. The focus of any change needs to be centred on providing the Auditor General with the authority to scrutinise local government performance. In addition, there must be improved transparency including easier access to key information for rate payers, the wider public, and the Parliament.

Ministerial Response

In accordance with Standing Order 277(1) of the Standing Orders of the Legislative Assembly, the Public Accounts Committee directs that the Minister for Local Government and Communities, and the Treasurer report to the Assembly as to the action, if any, proposed to be taken by the Government with respect to the recommendations of the Committee.

Findings and Recommendations

Finding 1

Page 7

In its 2006 report entitled *Local Government Accountability in Western Australia*, the Public Accounts Committee of the 37th Parliament ‘strongly’ recommended that the Auditor General conduct the audit of the local government sector in Western Australia.

Finding 2

Page 7

In its report, the former Committee described the Victorian model in place at the time as ‘comprehensive and well developed.’ That model vested the Auditor General with responsibility for financial statement, compliance, and performance (effectiveness and efficiency) auditing.

Finding 3

Page 7

While the former Committee agreed that the ‘full involvement’ of the Western Australian Auditor General (including performance audit powers) was the ‘ideal scenario’, it went on to describe the regime in place in Queensland in 2006 as the ‘intermediate option’ between the Victorian model and the less-developed systems in other states and territories. The Queensland model gave the Auditor General responsibility for all financial audits of local government.

The former Committee went on to recommend that the Government ‘should examine the benefits of involving the Auditor General in the audit of local government in line with the Queensland model.’

Finding 4

Page 8

Within the Government response to the 2006 PAC Report, the Department of Local Government and Regional Development Reference Group argued that it was ‘not necessary to divide responsibility for local governments’ financial, compliance and probity health between the [Auditor General] and the Department in order to achieve the benefits inherent in the Queensland model.’

Finding 5

Page 18

The local government sector in Western Australia is not subject to the same accountability measures that are placed upon public sector agencies under the *Auditor General Act 2006* (WA) and the *Financial Management Act 2006* (WA).

Finding 6

Page 18

Four of Australia’s six states have now legislated to give their Auditors General jurisdiction to conduct the financial audit of local governments and powers to conduct

performance audits of local government expenditure. Western Australia and New South Wales remain the only states not to have enacted such reforms.

Finding 7

Page 19

In its 2015 *Report on Misconduct Risk in Local Government Procurement*, the Western Australian Corruption and Crime Commission (CCC) recommended that ‘the jurisdiction of the Auditor General be extended to include local governments.’ In the same report, the CCC argued that the local government sector should be subjected to the same level of accountability as the public sector.

Finding 8

Page 20

In correspondence to the Public Accounts Committee following the tabling of the 2015 Corruption and Crime Commission report, the Minister for Local Government confirmed that he had asked the Department of Local Government and Communities to commence discussions with the Auditor General ‘to explore options’ for an expansion of the Auditor General’s role to include the local government sector.

Finding 9

Page 30

Under the provisions of Part 7 of the *Local Government Act 1995* (WA), local governments are required to submit a Compliance Audit Return, confirming whether they have complied with various financial and non-financial statutory requirements as prescribed under Regulation 13 of the *Local Government (Audit) Regulations 1996* (WA).

Finding 10

Page 30

Within the Government response to the 2006 PAC Report, the Department of Local Government and Regional Development Reference Group indicated that the Compliance Audit Return process would be streamlined. It was suggested that the subsequent changes would enable the close monitoring of trends and lead to sector-wide reporting, while further assisting in the development of feedback.

While the Department has substantially reduced the number of compliance items local governments are now required to address, other outcomes have fallen short of expectations.

Finding 11**Page 31**

There does not appear to be a mechanism by which constructive feedback is provided regarding the content of a Compliance Audit Return, unless the return is included as part of a probity audit which looks into a wider range of compliance matters within a local government. These probity audits have been conducted relatively sparingly since 2011, particularly given the number of local governments that have reported non-compliance around issues such as financial interest disclosure requirements in their Compliance Audit Returns.

Finding 12**Page 31**

Despite assurances that the streamlined Compliance Audit Return process would lead to sector-wide reporting this has not occurred. While the Department retains data on the number and nature of compliance breaches voluntarily reported through the submitted returns, such data is not published.

Finding 13**Page 31**

Currently there is no information published regarding the identity of local governments who fail to submit their Compliance Audit Return within the statutory timeframe. Moreover, anyone interested in the content of a particular return has to approach the local government concerned and request to view the document, which is required to be adopted by the Council and tabled along with its minutes.

Recommendation 1**Page 31**

Given its access to key documents and data on compliance trends, the Department of Local Government and Communities recommit to providing sector-wide reporting around the outcomes of the annual Compliance Audit Return Process.

Recommendation 2**Page 31**

The Department of Local Government and Communities make copies of completed probity audits available on its website.

Finding 14**Page 31**

The value of the current Compliance Audit Return monitoring process is undermined by its reliance on a self-assessment mechanism where the responses from local governments are neither verified by the Department of Local Government and Communities nor subject to independent scrutiny.

Recommendation 3**Page 32**

The scope of the Auditor General's powers be broadened to include powers to audit Compliance Audit Returns submitted by local governments under the requirements of Part 7 of the *Local Government Act 1995* (WA).

Finding 15**Page 44**

The Committee has observed a notable inconsistency in the level of detail and general quality of reporting from the various independent auditors engaged by local governments to conduct financial statement audits. This was an issue highlighted in the 2006 PAC Report from which no meaningful corrective action seems to have eventuated.

Finding 16**Page 44**

The Committee has reviewed the independent audit reports for 132 of WA's 140 local governments for the 2013–2014 financial year and found that 11 different audit firms were engaged across the sector, each using a different format for presenting its findings. The inconsistency in reporting is underlined by the fact that 58 of the audit reports provide no data or comment on the financial and asset management ratios that local governments are required to include in their annual financial reports. Similarly, of the 423 findings or issues for management that were raised by the respective auditors in these reports, only 154 were assigned a rating (e.g. minor, moderate, or significant). Where ratings were assigned, the terminology and criteria differed across the various audit reports.

Recommendation 4**Page 45**

The Department of Local Government and Communities ensure that a publicly available reporting regime is established, whereby audit findings are rated on a standardised scale. Similarly, financial and asset management ratios should be presented consistently and in a manner that offers the potential for consistent and comparative analysis.

Finding 17**Page 45**

The Department of Local Government and Communities has confirmed that a policy decision has been made to extend the jurisdiction of the Auditor General to cover the auditing of local governments.

Finding 18**Page 45**

The Auditor General is ideally placed to assume responsibility for overseeing the financial auditing of local governments and establishing a uniform reporting regime and the Committee supports the decision to extend the Auditor General's jurisdiction in this area.

Finding 19**Page 49**

There is scope for the Department of Local Government and Communities to exercise a greater degree of rigour in its monitoring and follow-up of local governments regarding compliance with statutory requirements relating to financial reporting and auditing.

The Committee notes that:

- Over the last three years, 59 local governments have not provided the Department with their audited annual financial report within the timeframe required under the *Local Government (Audit) Financial Regulations 1996* (WA).
- The Department is yet to receive the independent audit reports of four local governments relating to the 2013–2014 financial year despite the *Local Government (Audit) Regulations 1996* stipulating that the auditor should provide a copy of their report to the Minister (through the Department) within 30 days of the audit being completed.
- A total of 111 local government audit management reports for the 2013–2014 financial year included either findings or comments on compliance issues and suggested improvements. Within these 111 reports, 45 local governments received comments around issues of non-compliance, while 80 local governments received comment on suggested improvements.

Finding 20

Page 50

The Committee’s analysis of a sample of independent audit management reports indicates that the risk profiling methodology adopted by the Department of Local Government and Communities to determine the manner of its follow-up approach is inconsistently applied.

In one example, a local government does not appear to have been classified as a low, moderate, or high overall compliance risk, despite receiving an audit management report that included four significant findings, five moderate findings, and seven minor findings.

Recommendation 5

Page 50

The Department of Local Government and Communities take steps to improve its approach to following-up local governments regarding compliance with statutory requirements relating to financial reporting and auditing.

In particular, the Department undertake a greater number of probity audits to ensure higher level of compliance among local governments.

Finding 21

Page 50

The decision to extend the jurisdiction of the Auditor General to cover the financial audit of local governments should provide an opportunity to improve the quality of oversight currently observed.

The introduction of the Auditor General into the realm of local government financial auditing should assist the Department of Local Government and Communities in its

compliance monitoring role by providing independent and authoritative input regarding areas of non-compliance—both systemic and at an individual local government level—that require the most urgent attention.

Finding 22

Page 50

The Auditor General will bring increased transparency to the local government accountability framework.

Recommendation 6

Page 50

As part of any expansion of powers to cover the conduct of financial auditing of local governments, the Auditor General be given responsibility for preparing a report on local governments similar to the Audit Results Report for public sector agencies.

Recommendation 7

Page 52

The Auditor General's scope of powers be broadened to include financial and performance auditing of local governments in order to raise the standard of accountability applicable to local governments to a level more consistent with public sector agencies.

Finding 23

Page 56

The Department of Local Government and Communities does not currently prepare or publish comparative material relating to the performance of local governments. However, it is soon to roll out a local government information system that will allow it to collect financial data and other information from local governments in an online format.

Finding 24

Page 56

The Department of Local Government equivalents in Queensland and Victoria both publish comparative data on local government performance across a range of financial performance benchmarks.

Recommendation 8

Page 56

The Department of Local Government and Communities further develop its local government information system so that comparative financial performance benchmark reports of all local governments can be made easily accessible to the public.

Chapter 1

Introduction

- 1.1 In this report, the Public Accounts Committee of the 39th Parliament (the Committee) presents the findings of its follow-up of a 2006 Public Accounts Committee report entitled *Local Government Accountability in Western Australia* (hereafter “the 2006 PAC Report”). This follow-up was conducted as part of a broader examination of the current accountability framework applicable to the state’s local government sector as administered by the Department of Local Government and Communities (the Department) under the *Local Government Act 1995* (WA).
- 1.2 As the third tier of government, the local government sector plays a major part in the lives of Western Australians. In the 2014–2015 financial year, the state’s 140 local governments were expected to collectively raise \$1.9 billion in revenue from rate payers with an additional \$282 million received via the Local Government Grants Commission.² While these revenues are used to provide a wide range of local services, it is critical that elected councillors and council staff are held sufficiently accountable for the manner in which ratepayer monies are spent and local government affairs are conducted.
- 1.3 As it stands, the adequacy of the local government accountability framework in Western Australia (WA) has been a topic that has continued to attract public interest with the transparency around decision-making and the quality of governance at numerous councils being called into question over the last three years.³
- 1.4 Particularly noteworthy was the Corruption and Crime Commission (CCC) *Report on Misconduct Risk in Local Government Procurement*, tabled in

2 Hon Tony Simpson MLA, Minister for Local Government, Speech Notes from 2015 WALGA Annual General Meeting, 5 August 2015, p. 2.

3 See, for example, J. Bajkowski, ‘Perth’s Canning City Facing Suspension’, GovernmentNews (Online), 19 November 2012; R. Preston, ‘Pilbara Shire Suspended Over Failures’, WAtoday.com.au, 12 December 2012; K. Emery, ‘Size of Rate Rise Baffle Residents’, *West Australian*, 31 July 2014, p. 7; G. De Poloni, ‘York Shire Suspended by WA Local Government Minister Tony Simpson Following Complaints’, ABC (Online), 6 January 2015; Corruption and Crime Commission (WA), *Report on Misconduct Risk in Local Government Procurement*, 4 February 2015; D. Emerson, ‘CCC Warns of Council Corruption’, *The West Australian* (Online), 27 February 2015; J. Strutt and J. Kagi, ‘Inquiry Needed into Cambridge High-Density Housing Plans, REIWA Chief says’, ABC (Online), 3 July 2015; P. Kennedy, ‘State Puts Councils on Notice, Again’, *WA Business News*, 10 August 2015, p. 36; Corruption and Crime Commission (WA), *Report on an Investigation into Acceptance and Disclosure of Gifts and Travel Contributions by the Lord Mayor of the City of Perth*, 5 October 2015.

Chapter 1

February 2015, which argued that local governments should be subject to a similar standard of accountability as that applied to public sector agencies. The CCC report included a recommendation that the Auditor General's jurisdiction be extended to cover the local government sector.

- 1.5 In light of these developments, the Committee thought it timely to revisit the findings and recommendations of the 2006 PAC Report, which had made similar arguments nine years earlier. In that report, the former PAC 'strongly recommend[ed] that the audit of WA local governments should be brought under the authority of the Auditor General'.⁴ It appears that the intent of several recommendations from that report was to promote a framework of accountability that brought local governments into line with public sector agencies.
- 1.6 While the call to expand the responsibilities of the Auditor General to cover the local government sector was ultimately not supported at the time of the 2006 PAC Report, momentum for such reform has continued to build in light of similar developments in other states, the continuing concerns around governance and administration in some WA local governments, and the recent CCC report.
- 1.7 The Committee has recently conducted two hearings with the Department to receive an update on the actions that were taken in response to the 2006 PAC Report and to learn more about the accountability provisions of the *Local Government Act 1995* (WA) and associated regulations. Following these hearings, the Committee resolved to prepare this report to add its support to the argument for broadening the Auditor General's remit as a way of improving local government accountability.
- 1.8 The second chapter of this report provides a background of the relevant events—starting with the 2006 PAC Report—that influenced the Committee's decision to follow-up on this matter. To provide context, this chapter also outlines the relevant accountability provisions of the *Local Government Act 1995* (WA) and explains the current limited scope of the Auditor General in the oversight of the local government sector.
- 1.9 Chapters Three through Five provide a summary of the Committee's hearings in the context of the Department's response to five of the recommendations from the 2006 PAC Report. These chapters are broken into various component parts of the accountability framework, namely: compliance auditing; financial and performance auditing; and comparative benchmark reporting. The

4 Public Accounts Committee (37th Parliament), *Local Government Accountability in Western Australia*, Report No. 4, 28 September 2006, p. xv.

Committee was aware that not all of these recommendations from the 2006 Report were fully accepted. However, it was still interested in receiving an update on the actions that were taken and the extent to which these actions have improved the oversight and accountability of local governments.

- 1.10 Throughout these chapters, the Committee discusses several issues of concern arising from the hearings regarding the manner in which the Department exercises some of its oversight functions. These concerns relate mainly to the degree of rigour exercised by the Department in its monitoring and oversight role and a general lack of transparency around the level of statutory compliance throughout the local government sector.
- 1.11 Throughout the course of its follow-up, the Committee liaised regularly with the Department and took the opportunity from general briefings it held with the Auditor Generals of both WA and Victoria to gather further information regarding this topic. The Committee would like to thank all of these parties—in particular the Department—for the assistance they provided.

Chapter 2

The Current Local Government Accountability Framework and Renewed Calls for Reform

This chapter outlines the relevant events that influenced the Committee's decision to follow-up on recommendations from the 2006 Public Accounts Committee report entitled *Local Government Accountability in Western Australia*. To provide context, this chapter also outlines the relevant accountability provisions of the *Local Government Act 1995 (WA)*, explains the limited scope of the Auditor General in the oversight of the local government sector, and refers to recent developments that have resulted in renewed calls for this scope to be broadened.

The 2006 Public Accounts Committee Report

- 2.1 In September 2006, the Public Accounts Committee of the 37th Parliament (former PAC) tabled the report from its Inquiry into Local Government Accountability in Western Australia (the 2006 PAC Report). The former PAC initiated the Inquiry having noted several instances where the State Government was required to provide financial assistance to troubled councils.
- 2.2 The 2006 PAC Report acknowledged that the local government sector was 'subject to parliamentary scrutiny' in a range of areas (e.g. equal opportunity, public interest disclosure, and corruption provisions), but noted that local governments were not subject to the financial and audit provisions applicable to public sector agencies under the *Financial Administration and Audit Act 1985 (WA)* (FAAA).⁵ The significant point of difference was that local government audit requirements focused mainly on 'straight financial checks', whereas state government agency audits could also involve 'efficiency, effectiveness and probity measures', the results of which were tabled in Parliament via financial audit results and performance audit reports from the Auditor General.⁶
- 2.3 The 2006 PAC Report went on to argue that the level of public funding for local governments in WA 'warrant[ed] consideration of a broader scope of

5 Public Accounts Committee (37th Parliament), *Local Government Accountability in Western Australia*, Report No. 4, 28 September 2006, p. xiv. The 1985 legislation was repealed by the *Financial Legislation Amendment and Repeal Act 2006*, which provided for the introduction of the *Financial Management Act 2006 (WA)* and the *Auditor General Act 2006 (WA)*.

6 *ibid.*

Chapter 2

audit' more in line with the audit regime applicable to state government agencies under the FAAA.⁷

- 2.4 In the second of its recommendations, the Committee 'strongly recommend[ed]...that the Auditor General conduct the audit of the local government sector' in WA.⁸ However, the Committee's view regarding the ideal scope of the Auditor General's powers was not reflected clearly in this recommendation.
- 2.5 The Committee described the Victorian model in place at the time as 'comprehensive and well developed'. That model vested the Auditor General with responsibility for financial statement, compliance, and performance (effectiveness and efficiency) auditing.⁹ Nonetheless, after comparing the local government accountability models across all Australian jurisdictions, and noting that 'each model contain[ed] elements worth contemplation'¹⁰, the Committee urged the Government to 'examine the benefits of involving the Auditor General in the audit of local government in line with the Queensland model.'¹¹ While the Committee had agreed that the 'full involvement' of the Auditor General (including performance audit powers) was the 'ideal scenario'¹², it went on to describe the regime in place in Queensland in 2006¹³ as the 'intermediate option' between the Victorian model and the less-developed systems in other states and territories. Features of the Queensland model included:
- Local governments defined as public sector entities and subject to the Auditor General's scrutiny.
 - The Queensland Auditor General was responsible for all financial audits, but delegated approximately 85 per cent to contract auditors.

7 Public Accounts Committee (37th Parliament), *Local Government Accountability in Western Australia*, Report No. 4, 28 September 2006, p. 66.

8 *ibid.*, p. 68.

9 *ibid.*, p. 67. See also p. 46.

10 *ibid.*, p. xiv.

11 *ibid.*, p. 68.

12 *ibid.*, p. 67.

13 The current Queensland model differs from the model recommended in the 2006 PAC Report. Local governments in Queensland are currently governed by the *Local Government Act 2009* (QLD) and the *City of Brisbane Act 2010* (QLD). Both pieces of legislation were enacted in that jurisdiction after the 2006 PAC inquiry. In addition, the role of the Queensland Auditor General in relation to local government has now broadened with passage of the *Auditor-General Act 2009* (QLD). More detail on this is provided at paragraphs 2.43 and 2.44 below.

- All financial audits were conducted in accordance with Queensland Audit Office Auditing Standards.¹⁴
- 2.6 Notably, the powers available to the Auditor General in Queensland in 2006 did not extend to conducting performance audits into the effectiveness and efficiency of local government expenditure. However, the Auditor General could undertake ‘performance management systems auditing’, which involved determining whether performance management systems enable a local government ‘to assess whether its objectives are being achieved economically, efficiently and effectively.’¹⁵
- 2.7 In a separate recommendation, the 2006 PAC Report also called for the WA Auditor General to publish an annual sector-wide report to facilitate transparency regarding the comparative performance of individual local governments.¹⁶

Finding 1

In its 2006 report entitled *Local Government Accountability in Western Australia*, the Public Accounts Committee of the 37th Parliament ‘strongly’ recommended that the Auditor General conduct the audit of the local government sector in Western Australia.

Finding 2

In its report, the former Committee described the Victorian model in place at the time as ‘comprehensive and well developed.’ That model vested the Auditor General with responsibility for financial statement, compliance, and performance (effectiveness and efficiency) auditing.

Finding 3

While the former Committee agreed that the ‘full involvement’ of the Western Australian Auditor General (including performance audit powers) was the ‘ideal scenario’, it went on to describe the regime in place in Queensland in 2006 as the ‘intermediate option’ between the Victorian model and the less-developed systems in other states and territories. The Queensland model gave the Auditor General responsibility for all financial audits of local government.

The former Committee went on to recommend that the Government ‘should examine the benefits of involving the Auditor General in the audit of local government in line with the Queensland model.’

14 Public Accounts Committee (37th Parliament), *Local Government Accountability in Western Australia*, Report No. 4, 28 September 2006, p. 48.

15 Section 80(3) *Financial Administration and Audit Act 1977* (QLD). (Version 7C, 16 June 2006).

16 See Recommendation 5, Public Accounts Committee (37th Parliament), *Local Government Accountability in Western Australia*, Report No. 4, 28 September 2006. pp. 68-69.

Chapter 2

Formal Response to 2006 Public Accounts Committee Report

- 2.8 A reference group was established in response to the 2006 PAC Report, to provide comment on the findings and recommendations. Membership of the reference group included representatives from the then Department of Local Government and Regional Development, the Western Australian Local Government Association (WALGA) and the WA division of Local Government Managers Australia. The reference group's report was tabled in Parliament in March 2007 as the Government's formal response to the 2006 PAC Report (hereafter the "Government response").¹⁷
- 2.9 The Government response will be discussed in greater detail in the next chapter. In summary, it indicated support for adopting aspects of the recommendations, but did not deem it necessary 'to divide responsibility for local governments' financial, compliance and probity health between the [Auditor General] and the Department' in order to achieve beneficial outcomes.¹⁸ Rather, the role of the Auditor General should be limited to the provision of quality control and the assessment of the activity of contract auditors.¹⁹

Finding 4

Within the Government response to the 2006 PAC Report, the Department of Local Government and Regional Development Reference Group argued that it was 'not necessary to divide responsibility for local governments' financial, compliance and probity health between the [Auditor General] and the Department in order to achieve the benefits inherent in the Queensland model.'

- 2.10 The Government response did note the need for adequate resources 'to ensure the successful implementation of an improved [WA] audit model.'²⁰
- 2.11 Included in the response was a new audit model developed by the Department of Local Government and Regional Development Reference Group (see Appendix One). It was argued that this new model would 'incorporate all of the strengths of the Queensland system in a more collaborative and less costly' way.²¹

17 Department of Local Government and Regional Development Reference Group Report, *Audit Considerations in the Public Accounts Committee Report No. 4*, December 2006. Legislative Assembly Tabled Paper No. 2460, Tabled on 20 March 2007.

18 *ibid.*, p. 4.

19 *ibid.*

20 *ibid.*

21 *ibid.*, p. 19.

The Local Government Accountability Framework in 2015

- 2.12 The *Local Government Act 1995* (the Act), and the associated regulations, continue to provide the framework under which local governments in Western Australia operate. It should be noted that the Act was amended in 2005, just prior to the former PAC's investigation. While those amendments do not appear to have been wholesale²², their impact could not have been effectively ascertained at the time of that report. The Act and regulations have also been subject to regular amendments since the 2006 PAC Report, including the introduction of numerous changes to the governance and administrative structures of local governments.²³
- 2.13 In its current form, there are four parts of the Act relating to the local government accountability framework that are relevant for the purposes of this report:
- Part 5 – Administration
 - Part 6 – Financial management
 - Part 7 – Audit
 - Part 8 – Scrutiny of the affairs of local governments
- 2.14 In the summary below, the Committee outlines the broad details of these parts, including details of the roles and responsibilities of individual local governments and the Department.

Part 5 – Administration

- 2.15 Part 5 of the Act, along with its associated regulations, is wide-ranging and makes provisions for: the conduct of council meetings; the terms and conditions of employees; and the preparation of annual reports and strategic planning documents such as a 'strategic community plan' and a 'corporate business plan.'²⁴ The Department has published an *Integrated Planning and Reporting Framework and Guidelines* to assist all local governments in the preparation of these strategic planning documents. The development of these

22 In its response, the Department referred to a 2005 amendment that introduced the requirement for each local government to conduct a half-yearly review of its budget position and to report the results to its council. Department of Local Government and Regional Development Reference Group Report, *Audit Considerations in the Public Accounts Committee Report No. 4*, December 2006, p. 4.

23 See, for example, *Local Government Amendment Act 2009* (WA); *Local Government Act 2012* (WA).

24 Section 5.56(1)-(2) *Local Government Act 1995* (WA); Regulations 19C and 19DA *Local Government (Administration) Regulations 1996*, (WA).

Chapter 2

documents is a collaborative effort requiring input from the community, the Council and the local government administration.²⁵

- 2.16 Part 5 (Divisions 1 through 9) of the Act also aims to establish minimum standards of probity among elected officials and local government officers through provisions relating to:
- the disclosure of financial interests in matters affecting local government decisions;
 - the declaration of gifts;
 - the treatment of confidential information;
 - the development of codes of conduct within a local government applicable to council members and employees;
 - the establishment of sector-wide 'rules of conduct' for council members²⁶;
 - the establishment of a mechanism for lodging and dealing with complaints relating to alleged 'minor breaches' by council members (e.g. contravening rules of conduct or local laws);²⁷
 - the establishment of a mechanism for lodging and dealing with complaints relating to alleged 'serious breaches' by Council members (offences under a written law, other than a local law made under the Act);²⁸
- 2.17 Part 5 establishes a Local Government Standards Panel to adjudicate upon complaints relating to minor breaches that might be referred to it by a 'complaints officer' employed by the local government concerned, who receives and assesses all complaints lodged.²⁹ The Panel is comprised of three-members appointed by the Minister of whom: one is an officer of the Department; one is a person 'who has experience as a member of a council'; and the other is a person 'having relevant legal knowledge'.³⁰ The Department provides administrative support to the Panel.

25 Department of Local Government, *Integrated Planning and Reporting – Framework and Guidelines*, Government of Western Australia, October 2010, p. 7.

26 Section 5.104(1) *Local Government Act 1995* (WA).

27 *ibid.*, Section 5.105(1)-(2), see also Part 5 Division 9.

28 *ibid.*, Section 5.105(3), see also Part 5 Division 9.

29 *ibid.*, Sections 5.102(A) and 5.107, see also Part 5 Division 9.

30 *ibid.*, Clause 2 Schedule 5.1.

- 2.18 Complaints regarding a possible serious breach are made directly to the departmental CEO (the Director General). The local government's complaints officer may also elevate a complaint initially lodged as a potential minor breach to the Director General. In either instance, the Director General, if they 'consider it appropriate to do so', may make an allegation that a serious breach has occurred and send the matter to be heard before the State Administrative Tribunal.³¹

Part 6 – Financial management

- 2.19 This part of the Act, together with the *Local Government (Financial Management) Regulations 1996* (the Financial Management Regulations), outlines the requirement for local governments to prepare an annual budget;³² conduct a mid-year review of the annual budget;³³ and prepare an annual financial report³⁴. Each local government must submit a copy of these three documents to the Department within the timeframe set out in the Financial Management Regulations.³⁵ The legislation does not appear to require the Department to do anything other than receive these reports.
- 2.20 Since 2013, the Financial Management Regulations have also required local governments to include in their annual financial report seven ratios relating to financial and asset management. These ratios provide an indicator of the liquidity and overall financial health of a local government.³⁶

Part 7 – Audit

- 2.21 Part 7 of the Act, together with the *Local Government (Audit) Regulations 1996* (the Audit Regulations), outlines the requirements for the audit of the accounts and the annual financial report of local governments; including the appointment of auditors and the conduct of audits.
- 2.22 The Audit Regulations stipulate that an independent auditor is required to provide a copy of their audit report to the Mayor or President of the local government, the Chief Executive Officer, and the Minister (via the Department) within 30 days of the audit being completed.³⁷ The audit report is to include an opinion on the financial position of the local government, and the results of the operations of the local government. The report should also

31 Section 5.116(2) *Local Government Act 1995* (WA). See also sections 5.105, 5.114-5.116.

32 *ibid.*, Section 6.2.

33 Regulation 33A(1) *Local Government (Financial Management) Regulations 1996* (WA).

34 Section 6.4, *Local Government Act 1995* (WA).

35 Regulations 33, 33A(4), and 51(2) *Local Government (Financial Management) Regulations 1996* (WA).

36 *ibid.*, Regulation 50.

37 Section 7.9(1) *Local Government Act 1995* (WA).

Chapter 2

include comment on a range of issues including any matters indicating non-compliance with the Financial Management Regulations or events that, in the Auditor's opinion, reflect 'significant adverse trends' in the financial position or financial management practices of a local government.³⁸

- 2.23 Under amendments to the Act passed in 2004, local governments are required to establish an audit committee³⁹ to assist and guide the local government in fulfilling 'its governance and oversight responsibilities in relation to financial reporting, internal control structure, risk management systems, legislative compliance, ethical accountability and the internal and external audit functions.'⁴⁰
- 2.24 Part 7 also includes a provision that requires local governments to carry out 'an audit of compliance' with various statutory requirements as prescribed in a table included under Regulation 13 of the *Local Government (Audit) Regulations 1996*.⁴¹ The statutory requirements within this regulation relate to both financial and non-financial compliance matters and have been amended regularly since 1999.⁴²
- 2.25 After undertaking the audit of compliance in accordance with these requirements, a local government must prepare a Compliance Audit Return (CAR).⁴³ A copy of the CAR form is available to local governments on the Department's website. Once completed, the CAR must be submitted by the local government to the Department in both hard copy and electronic form.⁴⁴
- 2.26 The purpose of the electronic copy of the CAR is to allow the Department to 'provide timely feedback to local governments.'⁴⁵

Part 8 – Scrutiny of the Affairs of Local Governments

- 2.27 This part of the Act deals with, among other things, inquiring into the affairs and performance of local governments. It provides the Director General with the authority to 'inquire into all local governments and their operations and affairs'; alternatively, the CEO has the power to delegate this authority to

38 Regulation 10(1)-(3) *Local Government (Audit) Regulations 1996* (WA).

39 See section 5 *Local Government Amendment Act 2004* (WA), which inserts section 7.1A into the *Local Government Act 1995* (WA).

40 Department of Local Government and Communities, *Local Government Operational Guidelines No. 9: Audit in Local Government*, September 2013, p. 2. .

41 Section 7.13(1)(i), *Local Government Act 1995* (WA).

42 Regulation 13 *Local Government (Audit) Regulations 1996* (WA).

43 *ibid.*, Regulation 14(2).

44 Department of Local Government and Communities, '2014 Compliance Audit Return for Local Government (Departmental Circular 35-2014)'. Available at the Department's website under 'Publication Search'. Accessed on 20 November 2015.

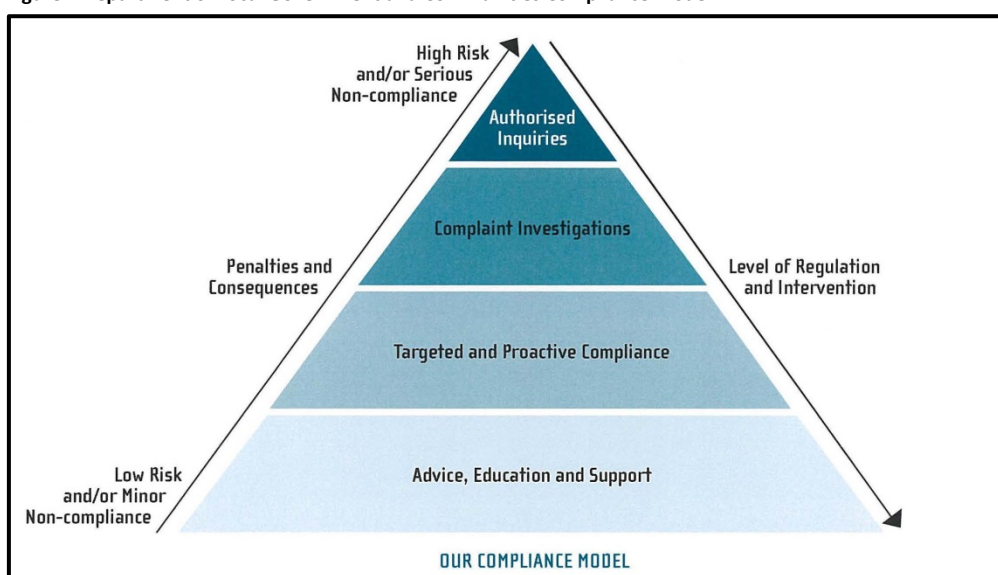
45 *ibid.*

'another person'.⁴⁶ This part also provides the Minister the authority to direct the departmental CEO to authorise an inquiry.⁴⁷

The Department's Compliance Model

2.28 The "Authorised Inquiry" function described in 2.27 above sits atop the Department's Compliance Model pyramid (the compliance pyramid), which is taken from the Department's *Compliance Framework* brochure and illustrated below in Figure 1.

Figure 1 Department of Local Government and Communities Compliance Model



2.29 According to the brochure, the Department's compliance functions are overseen by its Governance and Legislation Division. The aim of the compliance model is:

*... to build good governance by promoting and enforcing compliance [with the legislative requirements] and by encouraging all local governments to move beyond minimum compliance through continuous improvement.*⁴⁸

2.30 The compliance pyramid indicates that the provision of advice, education and support forms the basis of the Department's main regulatory oversight activities. The Department relies on these services to build the capability of the sector through the delivery of 'accurate, consistent and timely information to

⁴⁶ Section 8.3(1)-(2) *Local Government Act 1995* (WA).

⁴⁷ *ibid.*, Section 8.3(3).

⁴⁸ Department of Local Government and Communities, '*Compliance Framework*', 2012, p. 1.

Chapter 2

help the sector understand its obligations.’⁴⁹ As part of these activities, departmental officers may attend council meetings and provide subsequent feedback and training on meeting procedures. When requested, the Department may offer ‘interpretive advice relevant to the legislation, but it is not able to provide legal advice or opinions’.⁵⁰ At this level of the compliance pyramid, the Department is aiming ‘to assist local governments who want to comply and deter those who don’t.’⁵¹

- 2.31 The next level up the compliance pyramid refers to targeted and proactive compliance measures. These include Better Practice Reviews and Probity Audits, which, according to the Department’s brochure, are used ‘to gather information about compliance at a specific level.’⁵² The Department may also seek further information by letter or by phone, or it may hold discussions with the Council Auditor in order to determine whether further investigation of a particular matter is warranted. From these systems and processes, the Department seeks to ‘enable local governments to comply and routinely detect those who don’t.’⁵³
- 2.32 Where the findings of targeted and proactive compliance warrant it, or where complaints regarding local governments indicate the possibility of more serious or systemic non-compliance issues, the Department may commence a formal Complaint Investigation or proceed through to an Authorised Inquiry under the parameters of Part 8 of the Act. The Department has confirmed that Authorised Inquiries are only undertaken ‘in situations where we have formed the view that there are some systemic failures of governance and compliance, or there is a particular issue we want to really investigate.’⁵⁴
- 2.33 Depending on the nature and the severity of its findings from a Complaint Investigation or an Authorised Inquiry, the Department may refer a matter to the Corruption and Crime Commission or the State Administrative Tribunal. Alternatively, recommendations can be made that the Minister suspend or remove a local government, while the most serious breaches of the Act may lead to prosecution action being taken against employees or elected members.⁵⁵

49 Department of Local Government and Communities, ‘Compliance Framework’, 2012, p. 2.

50 *ibid.* See also, pp. 4-5.

51 *ibid.*, p. 3.

52 *ibid.*, p. 4.

53 *ibid.*, p. 3.

54 Mrs Jennifer Mathews, Director General, Department of Local Government and Communities, *Transcript of Evidence*, 19 August 2015, p. 3.

55 Department of Local Government and Communities, ‘Compliance Framework’, 2012, p. 5.

Current Role of the Auditor General in Local Government Accountability

- 2.34 In Western Australia, under the current legislation, the Auditor General has limited capacity for involvement in the audit and governance of local government.⁵⁶ While local governments are not within the scope of the *Auditor General Act 2006* (WA),⁵⁷ there are circumstances under which the Auditor General can be involved in the local government accountability framework:

Default Auditor

- 2.35 Under section 7.7b of the *Local Government Act 1995* (WA), if the local government has not appointed an auditor by 30 November, the Department may appoint the Auditor General as the default financial auditor for that local government.⁵⁸

Audit by Arrangement

- 2.36 Section 7.3 of the *Local Government Act 1995* (WA) sets out the requirements for a local government to appoint an external auditor.⁵⁹ Section 22 of the *Auditor General Act 2006* (WA) allows the Auditor General to provide audit or audit type services for any person or body.⁶⁰ Accordingly, a local government may appoint the Auditor General as its external auditor.

Follow the Dollar Powers

- 2.37 Section 18.2c of the *Auditor General Act 2006* (WA) provides the Auditor General with 'follow-the-dollar' powers that allow him to investigate any matter relating to public moneys or property; this includes state government monies provided to local governments.⁶¹

Audit of the Department

- 2.38 While the Auditor General cannot conduct a performance audit of an individual local government, his office may conduct a performance audit of the

56 Mr Colin Murphy, Auditor General (WA), Office of the Auditor General, Letter, 15 January 2015.

57 *Auditor General Act 2006* (WA).

58 Section 7.7b *Local Government Act 1995* (WA).

59 *ibid.*, Section 7.3. *Local Government Act 1995*(WA).

60 Section 22 *Auditor General Act 2006* (WA).

61 Mr Colin Murphy, Auditor General (WA), Office of the Auditor General, Letter, 15 January 2015. For an example of where local government expenditure of state monies was audited, see Auditor General Western Australia, *Use of CCTV Equipment and Information*, Report No. 9, 19 October 2011.

Chapter 2

Department with a focus on the Department's monitoring and support of local governments.⁶²

Developments since the 2006 Public Accounts Committee Report

Shift Towards Greater Involvement of Auditors General in Other Jurisdictions

2.39 Since the 2006 PAC Report was tabled there has been a shift towards greater involvement of the Auditor General in local government accountability in other Australian states. Table 1 below provides the current status of the scope of audit powers for the state and territory Auditors General as they relate to local government.

Table 1 Comparison between the legislative authority of Australian Auditors General in relation to local government⁶³

Legislative Authority	WA	VIC	TAS	QLD	SA	NSW	NT
Financial Audit	x	✓ ⁺	✓	✓	✓ [#]	x	x
Financial Audit by Arrangement	✓	✓	✓	N/A	N/A	✓ [^]	✓
Default Financial Auditor	✓	N/A	N/A	N/A	N/A	x	x
Performance Audit	Limited [~]	✓	✓ ⁺	✓ ⁺	✓	x	x
Follow-The-Dollar Powers	N/A	✓	✓	✓	✓	N/A	N/A

[~] Follow-the-dollar powers can be used to investigate the use of state money or property provided to local government as part of a performance audit.

⁺ Includes an audit of local government indicators.

[^] Only on a request from Treasury, a Minister, or both House of Parliament.

[#] Legislative change in 2013 gave the Auditor General authority to choose to conduct a financial audit but he has not yet done so.

NOTE: the ACT is not shown in the table as it does not have local governments.

Victoria

2.40 The Victorian Auditor General has had the authority to audit local government since 1995 following amendments to the *Audit Act 1994* (VIC). Under that legislation the Auditor General has a mandate to audit the financial statements of local governments and to conduct performance audits when it is considered necessary.⁶⁴

62 Mr Colin Murphy, Auditor General (WA), Office of the Auditor General, Letter, 15 January 2015.

63 *ibid.*

64 Mr John Doyle, Victorian Auditor General, Briefing, 11 May 2015.

Tasmania

- 2.41 Under the *Tasmanian Audit Act 2008* (TAS) the Auditor General is the external financial auditor for local governments and has the authority to conduct performance audits.⁶⁵
- 2.42 The legislation also provides for the Tasmanian Treasurer and the Public Accounts Committee to request the Auditor General conduct an audit of a local government.⁶⁶

Queensland

- 2.43 The Queensland Auditor General, governed by the *Local Government Act 2009* (QLD), is the 'external financial auditor of Queensland's 77 local governments...'⁶⁷
- 2.44 Local Government in Queensland is defined as a public sector entity and the Auditor General now has authority to 'examine and report to Parliament on the efficiency and effectiveness of any aspect of public sector finances and administration'⁶⁸, including performance audits.

South Australia

- 2.45 Amendments made in 2013 to the *Public Finance and Audit Act 1987* (SA) provided the South Australian Auditor General with a mandate to conduct financial and performance audits of local governments, local government projects and local government indemnity schemes.⁶⁹
- 2.46 Similar to the Tasmanian legislation, the South Australian legislation provides for the state Treasurer to direct the Auditor General to perform an audit.⁷⁰

New South Wales

- 2.47 In New South Wales (NSW) the Auditor General does not have a mandate to audit local governments, but following an Independent Local Government Review,⁷¹ the matter is now under consideration by the State Government.

65 Sections 4, 16 and 31(2) *Tasmanian Audit Act 2008* (TAS).

66 *ibid.*, Section 25.

67 Mr Colin Murphy, Auditor General (WA), Office of the Auditor General, Letter, 15 January 2015.

68 Queensland Audit Office, *Auditor-General of Queensland*, 2010-2012.

69 Sections 31 and 32 *Public Finance and Audit Act 1987* (SA).

70 *ibid.*, Section 32.

71 NSW Government, *Independent Local Government Review Panel - Final Report*, no date.

Chapter 2

General Observations

- 2.48 As Table 1 above illustrates, at present ‘four of the five other state Auditors General have legislative authority to undertake both financial and performance Audits’.⁷²
- 2.49 It is interesting to note that in most other states (Victoria, Queensland, South Australia and Tasmania) local governments are considered state or public sector entities under their respective legislation.⁷³
- 2.50 In contrast, the local government sector in Western Australia is not subject to the same accountability measures placed upon public sector agencies under the *Auditor General Act 2006* (WA) and the *Financial Management Act 2006* (WA).

Finding 5

The local government sector in Western Australia is not subject to the same accountability measures that are placed upon public sector agencies under the *Auditor General Act 2006* (WA) and the *Financial Management Act 2006* (WA).

Finding 6

Four of Australia’s six states have now legislated to give their Auditors General jurisdiction to conduct the financial audit of local governments and powers to conduct performance audits of local government expenditure. Western Australia and New South Wales remain the only states not to have enacted such reforms.

72 Mr Colin Murphy, Auditor General (WA), Office of the Auditor General, Letter, 15 January 2015.

73 Section 3 *Audit Act 1994* (VIC); Section 4 *Tasmanian Audit Act 2008* (TAS); Section 4 *Local Government Act 2009* (QLD); Section 4 *Public Finance and Audit Act 1987* (SA).

Corruption and Crime Commission Report Recommends Broadening the Auditor General's Remit

- 2.51 In February 2015 the Corruption and Crime Commission (the CCC) tabled its *Report on Misconduct Risk in Local Government Procurement*. This report recommended 'that the jurisdiction of the Auditor General be extended to include local governments'.⁷⁴ The CCC added that doing so would be 'an appropriate way to ensure external oversight of financial governance in procurement by local governments.'⁷⁵
- 2.52 The CCC argued that the local government sector should be aligned with the public sector and be subjected to the same standard of accountability.⁷⁶
- 2.53 Interestingly, the CCC had made similar comments in its submission to the 2006 PAC Report when it suggested 'local government financial policies, standards and procedures should be commensurate with those in the state public sector and a similar oversight framework applied'.⁷⁷
- 2.54 In supporting its recommendation, the CCC also made reference to the fact that the Auditors General of Victoria, Queensland, South Australia, and Tasmania all had 'jurisdiction' to conduct performance audits and financial statement audits of local governments.⁷⁸

Finding 7

In its 2015 *Report on Misconduct Risk in Local Government Procurement*, the Western Australian Corruption and Crime Commission (CCC) recommended that 'the jurisdiction of the Auditor General be extended to include local governments.' In the same report, the CCC argued that the local government sector should be subjected to the same level of accountability as the public sector.

Minister for Local Government and Communities Indicates Support for Reform

- 2.55 Following the release of the CCC Report, media articles reported that the Minister for Local Government and Communities, the Honourable Tony Simpson MLA, would support the CCC's recommendation 'to expand the Auditor General's remit'.⁷⁹

74 Corruption and Crime Commission, *Report on Misconduct Risk in Local Government Procurement*, 4 February 2015, p. 21.

75 *ibid.*

76 *ibid.*

77 As cited in: Public Accounts Committee, *Local Government Accountability in Western Australia*, 28 September 2006, p. 45.

78 Corruption and Crime Commission, *Report on Misconduct Risk in Local Government Procurement*, 4 February 2015, p. 18.

79 D. Emerson, *CCC warns of council corruption*, The West (Online), 27 February 2015.

Chapter 2

- 2.56 In March 2015 the Committee wrote to the Minister seeking confirmation of his position. In reply, the Minister advised that the Department had been asked to commence discussions 'with the Auditor General to explore options for an expansion of his role to include the local government sector.'⁸⁰
- 2.57 In a speech to the Western Australian Local Government Association (WALGA) in August 2015, the Minister reiterated his concerns regarding the accountability and transparency of the local governments and reconfirmed his intentions to 'extend the powers of the Auditor General'.⁸¹
- 2.58 In that same month, the Department confirmed that it had commenced preliminary discussions with the Auditor General and the local government sector regarding the proposed changes.⁸²

Finding 8

In correspondence to the Public Accounts Committee following the tabling of the 2015 Corruption and Crime Commission report, the Minister for Local Government confirmed that he had asked the Department of Local Government and Communities to commence discussions with the Auditor General 'to explore options' for an expansion of the Auditor General's role to include the local government sector.

Committee Action

- 2.59 Since coming together in May 2013, members of this Committee have retained an interest in the quality of governance, the standard of accountability, and the transparency of decision-making within the local government sector in WA. Having noted the trend towards greater Auditor General involvement in local government accountability in other Australian jurisdictions; the recent recommendation by the CCC and subsequent endorsement of the Minister for Local Government for expanding the Auditor General's remit in WA; and the ongoing public concerns regarding the operation of local government (see 1.3 above), the Committee decided to call in the Department of Local Government and Communities for a public hearing on 19 August 2015.
- 2.60 The purpose of the public hearing was to learn more about the actions the Department had taken in response to the recommendations from the 2006 PAC report and the extent to which these actions—and other statutory responsibilities discharged by the Department—have improved the oversight and accountability of local governments.

80 Hon Tony Simpson MLA, Minister for Local Government, Letter, 15 April 2015.

81 Hon Tony Simpson MLA, Minister for Local Government, Speech Notes from 2015 WALGA Annual General Meeting, 5 August 2015, p. 3.

82 Mrs Jennifer Mathews, Director General, Department of Local Government, *Transcript of Evidence*, 19 August 2015, p. 19.

- 2.61 Following that hearing, held on 19 August 2015, the Committee requested copies of the audit reports prepared for each local government for the 2013–2014 financial year. The Committee’s preliminary analysis of these reports indicated that independent auditors had issued a combined total of at least 423 findings, or issues for management to address, relating to financial management and controls.⁸³ Having considered the content of the audit reports, and given the number of issues raised, the Committee resolved to call the Department in for a second hearing on 11 November 2015, to discuss the reports and to learn more about how the Department monitors and responds to issues raised by auditors.

83 Of these 423 items, 69 were rated as ‘minor’, 77 were rated as ‘moderate’, 8 were rated as significant, and 269 were not assigned a rating. The Committee stresses that this figure of 423 is an approximation taken from its analysis of the 132 audit management reports that were provided by the Department of Local Government and Communities. It is difficult to arrive at a definitive figure because of inconsistent use of terminology and reporting formats. In its analysis, the Committee has sought to include items identified under the following categories: areas of non-compliance with Part 6 of the *Local Government Act 1995* (WA) and the *Local Government (Financial Management) Regulations 1996* (WA); findings; issues for management; matters requiring attention.

Chapter 3

Compliance Audits

In each of the next three chapters, the Committee considers separate aspects of the local government accountability framework: compliance audits; financial and performance audits; and sector-wide comparative reporting. These aspects are considered in the context of relevant recommendations from the 2006 PAC report. Each chapter will start with a brief summary of the argument put forward by the former committee in support of its recommendations and the initial response to those recommendations by the Department on behalf of the Government. This will be followed with an examination of current practices in the area that was subject to the particular recommendations and a comment from the current Committee as to the adequacy of these practices.

2006 PAC Report - Recommendation One: Compliance Auditing

*The Department of Local Government and Regional Development should, in conjunction with key stakeholder groups, conduct a review of the Compliance Audit Return to address concerns about its complexity and relevance.*⁸⁴

Background to Recommendation One from the 2006 PAC Report

- 3.1 As noted at 2.24 and 2.25 above, local governments are required under the Act to complete a Compliance Audit Return (CAR). The CAR is an annual self-assessment tool completed by individual local governments. Items to be checked off in a CAR cover a variety of significant protocols relating to: the development of business plans for trading undertakings and land transactions; disclosures of financial interests of elected members and designated employees; tenders for procuring goods and services; and the establishment of audit committees.⁸⁵ At the time of the 2006 PAC Report, the CAR included 150 compliance checks although at one time it had required local governments to answer approximately 340 questions.⁸⁶

84 Public Accounts Committee (37th Parliament), *Local Government Accountability in Western Australia*, Report No. 4, 28 September 2006, p. 68.

85 Department of Local Government and Communities, 'Compliance Audit Return 2014'. Template copy provided to the Committee by the Department of Local Government and Communities.

86 Public Accounts Committee (37th Parliament), *Local Government Accountability in Western Australia*, Report No. 4, 28 September 2006, p. 19; Mrs Jennifer Mathews, Director General, Department of Local Government and Communities, *Transcript of Evidence*, 19 August 2015, p. 2.

Chapter 3

- 3.2 The former Committee made a number of observations regarding the CAR process in its 2006 report. The Committee noted that CARs were not independently reviewed, and once submitted to the Department ‘there d[id] not appear to be any verification as to the accuracy of the CAR’.⁸⁷ As a result, there was ‘little, if any, effective and timely feedback’ to local government on its content.⁸⁸
- 3.3 Providing evidence to the 2006 Inquiry, the Department indicated that:
- Every single one of those compliance returns is reviewed. We identify those that have significant non-compliance issues, and we follow them up.*⁸⁹
- 3.4 The Department also confirmed that it had three full-time equivalent (FTE) staff within its Compliance and Advice Branch monitoring CARs.⁹⁰
- 3.5 The 2006 PAC Report found that while most local governments saw the CAR as ‘more of a benefit than a burden’, they nonetheless wanted it streamlined. Prior to the former PAC tabling its report, the Department stated its intention to review the CAR.⁹¹
- 3.6 The former PAC noted this undertaking by the Department and urged that any such review should also consider the relevance of the CAR as an accountability tool. The Committee saw potential in the CAR process, but was concerned that it remained primarily a self-assessment tool that did not ‘provide the sort of performance evaluation that an independent organisation may.’⁹²

Summary of the Government Response to the 2006 PAC Report Recommendation

- 3.7 Following the 2006 PAC Report, the Department commenced a review of the CAR. This review included consultation with local governments and resulted in a revised document that was subsequently distributed to each local government in a newly adopted electronic format.⁹³
- 3.8 It was suggested that the changes made to the CAR, along with a ‘recent increase in resources and staffing’ would facilitate ‘close monitoring of trends

87 Public Accounts Committee (37th Parliament), Local Government Accountability in Western Australia, Report No. 4, 28 September 2006, p. 20.

88 *ibid.*, p. 24.

89 *ibid.*

90 *ibid.*, pp. 27,35.

91 *ibid.*, p. 24.

92 *ibid.*, p. 24.

93 Department of Local Government and Regional Development Reference Group Report, Audit Considerations in the Public Accounts Committee Report No. 4, December 2006, p. 7.

at individual council and sector-wide levels and [would] be used to produce sector-wide reports and to inform feedback'.⁹⁴

Current Status of the Compliance Audit Process

- 3.9 The Department has advised that since the 2006 PAC Report, it has continued to streamline and simplify the CAR through regular stakeholder engagement in an effort to find an appropriate balance between what it describes as 'accountability to community' and 'overburdening the sector with compliance'.⁹⁵
- 3.10 Director General, Mrs Jennifer Mathews, confirmed that the CAR now contains 78 questions relating to 'commercial enterprises, delegation of powers, disclosures of interest and local laws.'⁹⁶ Earlier questions relating to financial management and auditing are covered elsewhere in the regulations and have been removed from the CAR to avoid duplication.⁹⁷
- 3.11 The CAR remains a self-assessment tool and the responses still do not appear to be subject to independent verification. The compliance return is generally not included in the annual audit of a local government unless a local government negotiates with the auditor to include it within the audit's scope. The Department was not aware of any instances where this had occurred and confirmed that it would not be standard procedure for an audit to consider a CAR.⁹⁸
- 3.12 Nor does the Department audit CAR responses to confirm their veracity:
- ... we rely on the answers in that [the CAR] as to whether we do any further work or any further monitoring. We do not go out and actually audit that itself; we simply accept the responses they give to us, and we have to take those in good faith.*⁹⁹
- 3.13 However, the Department has confirmed it now has a team of five FTE checking all compliance audit returns for self-reported instances of non-compliance by local governments. Each member of this team has accounting qualifications, but none have formal auditing qualifications. Local governments

94 Department of Local Government and Regional Development Reference Group Report, *Audit Considerations in the Public Accounts Committee Report No. 4*, December 2006, pp.7 and 19.

95 Mrs Jennifer Mathews, Director General, Department of Local Government and Communities, *Transcript of Evidence*, 19 August 2015, p. 6.

96 *ibid.*

97 *ibid.*, p. 2.

98 Mr Vernon McKay, Manager, Sector Monitoring, Department of Local Government and Communities, *Transcript of Evidence*, 19 August 2015, p. 11.

99 *ibid.*, p. 2.

Chapter 3

that do not submit their completed CAR form within the statutory timeframe of 31 March are followed-up, although no penalty has been prescribed within the Act or Regulations for failing to meet this deadline.

- 3.14 The number of self-reported breaches in CAR forms is maintained on a database within the Department. The Department does not appear to have a formal process in place whereby it formally rates these breaches by order of magnitude (e.g. significant, moderate, and minor). Instead, it directs its 'focus' to the questions in the CAR regarding requirements under Part 5 Division 6 of the Act that relate to 'financial interests and the disclosure of financial interests.'¹⁰⁰ From its data, the Department was able to confirm that in the CARs for the 2014 calendar year, 38 local governments reported breaches of statutory compliance in these areas.¹⁰¹
- 3.15 At the second hearing, the Committee sought confirmation on the number of local governments that had what the Department would consider 'significant matters of non-compliance' in their CARs for each of the last three years.¹⁰² The Department subsequently confirmed that there were 57 local governments in 2012, 68 in 2013, and 67 in 2014 that met this criterion.¹⁰³
- 3.16 The Department went on to emphasise that checking of CAR forms is only one element of its broader oversight of local government compliance. The Department also monitors the extent to which local governments comply with legislative requirements regarding the submission of annual budgets and financial reports (see 2.19 above), performance against the seven prescribed financial ratios (see 2.20 above), and issues arising from ratepayer complaints and audit management reports. Mrs Mathews advised the Committee that:
- In terms of our role in oversighting the sector and determining where action or intervention is required, we look at all of these—all of these come into play, not just the compliance audit.*¹⁰⁴
- 3.17 At its second appearance before the Committee, the Department elaborated on its broader compliance monitoring approach and provided a flowchart illustrating the Department's approach to assessing the overall level of compliance risk for a local government. This flowchart is provided at Appendix

100 Mr Vernon McKay, Manager, Sector Monitoring, Department of Local Government and Communities, *Transcript of Evidence*, 11 November 2015, p. 7. See also, p. 6.

101 *ibid.*, p. 7.

102 Public Accounts Committee (39th Parliament), Letter to Mrs Jennifer Mathews, Director General, Department of Local Government and Communities, 11 November 2015.

103 Mrs Jennifer Mathews, Director General, Department of Local Government and Communities, Letter, 20 November 2015, p. 2.

104 Mrs Jennifer Mathews, Director General, Department of Local Government and Communities, *Transcript of Evidence*, 19 August 2015, p. 3.

Two and confirms that the CARs are one of seven sources of data collection that make up the Department's risk profiling of local governments.

- 3.18 As a result of this broader approach to risk assessment, the Department does not appear to have a direct "feedback" process linked exclusively to the content of a completed CAR form. When asked whether such a process was in place, the Department responded by providing the Committee with copies of two letters that were recently sent to local governments regarding a variety of broader non-compliance matters, not just those relating to the content of the CAR.
- 3.19 In the letter addressed to a local government that had been assessed as a 'moderate' compliance risk, the Department drew attention to the fact the CAR had not been submitted within the statutory timeframe for the years 2011 through 2014 as one of several compliance-related matters. The letter, addressed to the Shire President, does not provide feedback. Instead it 'request[s] that the Council review the various matters identified and ... consider strategies to ensure the Shire ... improves its statutory practices.'¹⁰⁵ The Council is then requested to advise what action it intends taking to address the issues raised in the letter.
- 3.20 The letter to the Council assessed as a high risk advised that CARs had not been submitted within the statutory timeframe for the last two years and highlighted several other compliance and financial performance matters. In this instance, the letter requested that the Council 'considers inviting the Department' to undertake a probity audit.¹⁰⁶ Probity audits (referred to at 2.31 above) examine a range of documents—including CARs—in an attempt to determine the level of overall compliance with the Act and its associated regulations. They are not conducted under any statutory power,¹⁰⁷ hence the requirement to seek a local government's agreement to participate. Following a probity audit, where a need for support to ensure better governance and/or business improvements has been identified, the Department will develop an action plan. The local government is required to comply with this plan and needs to demonstrate how it is going to implement the recommended

105 Copy of letter from Department of Local Government and Communities to the Shire of Boyup Brook (July 2015). Department of Local Government and Communities, *Transcript of Evidence*, 11 November 2015. Supplementary Item C.

106 Copy of letter from Department of Local Government and Communities to the Shire of Coolgardie (July 2015). Department of Local Government and Communities, *Transcript of Evidence*, 11 November 2015. Supplementary Item C

107 Mr Brad Jolly, Executive Director, Sector Regulation and Support, Department of Local Government, *Transcript of Evidence*, 11 November 2015, p. 16.

Chapter 3

improvements.¹⁰⁸ The Department has confirmed that seven probity audits have been undertaken since 2011, with an eighth soon to be conducted after the abovementioned high risk council agreed to the Department's request.

- 3.21 Finally, despite the maintenance of a database that confirms self-reported breaches and the late submission of CARs, no sector-wide reporting on compliance matters emanating out of the CAR process has been initiated.

Committee Considerations on Compliance Auditing

- 3.22 As noted at 3.7 and 3.8 above, the Department reviewed the CAR process following the 2006 PAC Report and indicated that subsequent changes would enable the close monitoring of trends and lead to sector-wide reporting, while further assisting in the development of feedback.
- 3.23 The Committee acknowledges the efforts of the Department in streamlining its CAR, by substantially reducing the number of compliance items local governments are now required to address. This is consistent with the intent of the recommendation in the 2006 PAC Report.
- 3.24 However, in most other areas outcomes have fallen short of earlier expectations.
- 3.25 Regarding the issue of timely feedback on CARs, it appears from the answers provided to the Committee that constructive comment requiring action by a local government is contingent upon the conduct of a probity audit into a wider range of compliance matters. These audits have been conducted relatively sparingly since 2011 given the number of local governments reporting non-compliance around issues such as financial interest disclosure requirements (see 3.14 above). Local governments not subject to a probity audit might be sent a letter asking them to advise what actions they will take to correct the issues of non-compliance. Alternatively, a local government might be placed on a 'watching brief' if it is deemed to be at the lower end of the Department's overall compliance risk profile.¹⁰⁹ In either case, feedback from the Department by way of the advice, education, or support functions, referred to in its compliance pyramid (see 2.30 above), seems to be lacking.
- 3.26 Another area of concern for the Committee is the general lack of transparency around the CAR process. Despite assurances that the streamlined CAR process

108 Mrs Jennifer Mathews, Director General, Department of Local Government, *Transcript of Evidence*, 19 August 2015, p. 5.

109 Mr Brad Jolly, Executive Director, Sector Regulation and Support, Department of Local Government, *Transcript of Evidence*, 11 November 2015, p. 8. The Department's risk profiling strategy and subsequent follow-up approaches is discussed further from 4.22 below.

would lead to sector-wide reporting this has not occurred. While the Department retains data on the number and nature of compliance breaches voluntarily reported through the submitted CAR, such data is not published. Nor is there any information collated and published regarding the identity of local governments who fail to submit their CARs within the statutory timeframe. Anyone interested in the content of a particular CAR has to approach the local government concerned and request to view the document, which is required to be adopted by the Council and tabled along with its minutes. Currently, the Department does not coordinate and publish CARs despite holding them all for compliance monitoring purposes.

- 3.27 There is a similar lack of transparency around the final outcomes of probity audits. Currently, the Department refrains from publishing the results of a probity audit. Instead, it sends the final audit report to the local government with a recommendation that it be tabled at the next council meeting.¹¹⁰
- 3.28 The Committee is of the view that probity audit reports, individual CARs, and the data collated on areas of non-compliance identified through the CAR process, should all be published as a means of improving accountability and promoting compliance. The current approach of the Department to transparency is too passive and reliant upon individual councils tabling CARs and departmental follow-up letters at council meetings. This does not enable easy access for rate payers or the broader community. Given its access to key documents and data on compliance trends, the Department should recommit to its earlier pledge and take responsibility for providing sector-wide reporting around the outcomes of the annual CAR process and make copies of completed probity audits available on its website.
- 3.29 A further concern for the Committee—which was shared by the former PAC—is that the value of the CAR process is ultimately undermined by the fact it relies on a self-assessment mechanism where the responses from local governments are not verified or subject to independent scrutiny. The absence of such scrutiny increases the risk that a local government might not be full and frank with its responses. Therefore, it is difficult to be assured that the information generated through the CAR process always reflects the true state of compliance within an individual local government, or across the sector.
- 3.30 Given this concern, the Committee supports the expansion of the scope of the Auditor General’s powers as a means by which CARs can be independently

110 The Department confirmed at the follow-up hearing with the Committee that all seven probity audits conducted between 2011 and 2014 had been tabled by the respective councils. Mrs Jennifer Mathews, Director General, Department of Local Government and Communities, *Transcript of Evidence*, 11 November 2015, p. 10.

Chapter 3

audited. This could enable the accuracy of responses to be confirmed, and trends around significant and systemic non-compliance to be identified and reported in a way that is currently not available.

- 3.31 The conduct of such an audit would be consistent with the Auditor General's current narrow-scope performance audit functions for public sector agencies, which examine, among other things, '...compliance with legislation, public sector policies, an agency's own internal policies and accepted good practice'.¹¹¹ Alternatively, it could be included in the scope of financial audits, undertaken by an Auditor General with expanded powers in that area.¹¹²
- 3.32 The Auditor General is ideally placed in terms of independence and expertise to perform an audit of CAR responses. Moreover, the work performed by staff at the Office of the Auditor General would likely assist the Department in determining its compliance risk profiling and the manner in which it targets its advice, education, and support tools.

Finding 9

Under the provisions of Part 7 of the *Local Government Act 1995* (WA), local governments are required to submit a Compliance Audit Return, confirming whether they have complied with various financial and non-financial statutory requirements as prescribed under Regulation 13 of the *Local Government (Audit) Regulations 1996* (WA).

Finding 10

Within the Government response to the 2006 PAC Report, the Department of Local Government and Regional Development Reference Group indicated that the Compliance Audit Return process would be streamlined. It was suggested that the subsequent changes would enable the close monitoring of trends and lead to sector-wide reporting, while further assisting in the development of feedback.

While the Department has substantially reduced the number of compliance items local governments are now required to address, other outcomes have fallen short of expectations.

111 Auditor General Western Australia, *Audit Practice Statement*, August 2015, p. 4 (emphasis added).

112 The issue of expanding the Auditor General's scope to include performance audits will be discussed in Chapter Four.

Finding 11

There does not appear to be a mechanism by which constructive feedback is provided regarding the content of a Compliance Audit Return, unless the return is included as part of a probity audit which looks into a wider range of compliance matters within a local government. These probity audits have been conducted relatively sparingly since 2011, particularly given the number of local governments that have reported non-compliance around issues such as financial interest disclosure requirements in their Compliance Audit Returns.

Finding 12

Despite assurances that the streamlined Compliance Audit Return process would lead to sector-wide reporting this has not occurred. While the Department retains data on the number and nature of compliance breaches voluntarily reported through the submitted returns, such data is not published.

Finding 13

Currently there is no information published regarding the identity of local governments who fail to submit their Compliance Audit Return within the statutory timeframe. Moreover, anyone interested in the content of a particular return has to approach the local government concerned and request to view the document, which is required to be adopted by the Council and tabled along with its minutes.

Recommendation 1

Given its access to key documents and data on compliance trends, the Department of Local Government and Communities recommit to providing sector-wide reporting around the outcomes of the annual Compliance Audit Return Process.

Recommendation 2

The Department of Local Government and Communities make copies of completed probity audits available on its website.

Finding 14

The value of the current Compliance Audit Return monitoring process is undermined by its reliance on a self-assessment mechanism where the responses from local governments are neither verified by the Department of Local Government and Communities nor subject to independent scrutiny.

Chapter 3

Recommendation 3

The scope of the Auditor General's powers be broadened to include powers to audit Compliance Audit Returns submitted by local governments under the requirements of Part 7 of the *Local Government Act 1995* (WA).

Chapter 4

Financial Audits and Performance Audits

This chapter follows the same format as that adopted in Chapter Three, but focuses on the financial audit of local governments and the extent to which local governments are subject to performance auditing into the effectiveness and efficiency of their expenditure. The chapter considers three recommendations from the 2006 PAC report collectively, reflecting the inter-related manner in which those recommendations were originally drafted.

2006 PAC Report - Recommendation Two: Financial Audits/Performance Audits

*The Public Accounts Committee strongly recommends that the Auditor General conduct the audit of the local government sector in Western Australia. The State Government should examine the benefits of involving the Auditor General in the audit of local government in line with the Queensland model.*¹¹³

2006 PAC Report - Recommendation Three: Financial Audits

*The Public Accounts Committee recommends that the Auditor General should audit no more than 15 per cent of councils on a rotating basis, with the remainder to be tendered out to the private sector.*¹¹⁴

2006 PAC Report - Recommendation Four: Financial Audits

*The parameters of audit for the Western Australian local government sector should be set by the State Auditor General to ensure consistency of reporting across the State.*¹¹⁵

Background to Recommendations Two through Four from the 2006 PAC Report

- 4.1 As noted at 2.21 above, Part 7 of the Act, together with the *Local Government (Audit) Regulations 1996* (the Audit Regulations), sets out the requirements for local governments regarding the audit of their financial accounts. This includes the processes for the appointment of auditors and the conduct of audits.

113 Public Accounts Committee (37th Parliament), *Local Government Accountability in Western Australia*, Report No. 4, 28 September 2006, p. 68.

114 *ibid.*

115 *ibid.*

Chapter 4

These statutes also stipulate that copies of completed audit reports—including details of any errors, deficiencies, or matters requiring attention—are to be forwarded to the Minister (through the Department).¹¹⁶

- 4.2 Conversely, neither the Act nor the regulations provide for the conduct of audits that look into the effectiveness and efficiency with which local governments spend ratepayer dollars.¹¹⁷
- 4.3 In its 2006 report, the former PAC noted that the ‘provisions relating to audit in local government [were] ... largely limited to financial attestation, or “tick and flick” audits’.¹¹⁸ That committee noted in its report that there were four full-time staff within the Department at that time allocated to the financial monitoring of 144 local governments before expressing its concern that ‘this may be inadequate’.¹¹⁹
- 4.4 To demonstrate its point, the former PAC studied a sample of audit reports (and Compliance Audit Returns) from which it reported that:
- ... 30 per cent of the 144 local governments in WA encountered significant compliance issues, while just under half did not submit the required information in a timely manner.*¹²⁰
- 4.5 The former PAC acknowledged that there had been a recent increase in resourcing at the time of its Inquiry, but nonetheless reported ‘a perception amongst local governments’ that the Department ‘did not have sufficient resources to effectively monitor the sector’.¹²¹
- 4.6 Some evidence to the 2006 Inquiry also suggested that a potential for conflict existed within the Department in relation to its oversight role and its provision of advice, education and support for local governments around audit requirements.¹²²
- 4.7 These issues formed the basis of Recommendation Two in the 2006 PAC Report, which ‘strongly’ recommended that the Auditor General be given responsibility for conducting the audit of the local government sector. It was

116 Section 7.9 *Local Government Act 1995* (WA); Regulation 10 *Local Government (Audit) Regulations 1996* (WA).

117 Mrs Jennifer Mathews, Director General, Department of Local Government and Communities, *Transcript of Evidence*, 19 August 2015, p. 5.

118 Public Accounts Committee (37th Parliament), *Local Government Accountability in Western Australia*, Report No. 4, 28 September 2006, p. 24.

119 *ibid.*, p. 36.

120 *ibid.*, p. 40.

121 *ibid.*

122 *ibid.*, p. 37. The Department’s advice, education and support roles were outlined in paragraph 2.30 above.

thought that such a move would result in ‘the provision of reliable, consistent information ... [that would be] accessible to Parliament and members of the public’.¹²³ The potential for conflict in the Department’s monitoring and support roles would be mitigated ‘because the Auditor General ha[d] very limited powers to provide other services to its audit clients.’¹²⁴ In addition, it was thought that the Auditor General’s pre-existing capacity to audit the Department’s regulatory functions (see 2.38 above) would be ‘significantly enhanced’.¹²⁵

- 4.8 Following on from Recommendation Two, Recommendation Three of the 2006 PAC Report called for the Auditor General’s office to audit ‘no more than 15 per cent of councils on a rotating basis, with the remainder to be tendered out to the private sector.’¹²⁶ This was seen as a way of maintaining a cost-effective approach for individual councils, while enabling the Auditor General to keep ‘a watch on the sector as a whole.’¹²⁷
- 4.9 In the event that Recommendations Two and Three were not accepted by the government of the day, Recommendation Four reflected the former PAC’s view that the Auditor General should at least have responsibility for setting the parameters of financial audits for the WA local government sector to ensure consistency of reporting across the state.¹²⁸
- 4.10 In regards to performance auditing of local governments, the overarching position of the former PAC was not reflected clearly in Recommendations Two through Four. As noted at 2.5 through 2.6 above, Recommendation Two urged the Government to examine the benefits of the model in place in Queensland at that time. Notably, this model limited the Auditor General’s powers to financial audit functions. Yet, in the concluding comments of the 2006 Report, the former PAC expressed its clear preference for a broader remit in WA that included performance audit powers:

The Committee is of the view that the full involvement of the Auditor General is the ideal scenario, given that the OAG is the specialist

123 Public Accounts Committee (37th Parliament), *Local Government Accountability in Western Australia*, Report No. 4, 28 September 2006, p. 50.

124 *ibid.*, p. 59.

125 *ibid.*

126 *ibid.*, p. 67.

127 *ibid.*

128 *ibid.*, p. 68.

Chapter 4

*agency ... and offers independent expertise in both financial attestation and performance auditing.*¹²⁹

- 4.11 The former PAC's interest in the merit of performance auditing was driven by the fact that local governments were not subjected to the same level of accountability as public sector agencies in this area. Given the amount of revenue that local governments were raising, the former PAC thought that consideration of a broader scope of audit (to include performance auditing) was warranted.¹³⁰

Summary of the Government Response to the 2006 PAC Report

Recommendations

- 4.12 The Government response to Recommendation Two, as coordinated by the Department (see 2.8 above), acknowledged that aspects of the Queensland model might have been beneficial to the local government sector in WA. However, it argued that any expanded audit duties should rest with the Department as the agency responsible for ensuring effectiveness and efficiency of local government.¹³¹ It was noted that the Department would need to be adequately and appropriately resourced should its audit responsibilities be expanded.¹³²
- 4.13 The response to Recommendation Three indicated that while the Department did not see 'any significant' benefit in the Auditor General conducting audits of 15 per cent of all local governments, it did see value in the Auditor General having an oversight role of the private sector auditors.¹³³ It was further suggested that the Auditor General could best add value to local government accountability in this area through the 'provision of quality control; the central management and review of the work of contract auditors'.¹³⁴
- 4.14 Regarding Recommendation Four, the response acknowledged that consistency of reporting is essential, but stressed that the responsibility for setting the parameters of audit should rest with the Department rather than the Auditor General.¹³⁵ Under the revised model proposed in the Government response (see Appendix One), the Department—through a Peak Audit Advisory Group that would include the Office of the Auditor General and WALGA among

129 Public Accounts Committee (37th Parliament), *Local Government Accountability in Western Australia*, Report No. 4, 28 September 2006, p. 67.

130 *ibid.*, p. 66.

131 Department of Local Government and Regional Development Reference Group Report, *Audit Considerations in the Public Accounts Committee Report No. 4*, December 2006, p. 16.

132 *ibid.*

133 *ibid.*, p. 15.

134 *ibid.*, p. 16.

135 *ibid.*, p. 17.

its membership—could determine the audit standards and the scope of audit.¹³⁶

Current Status of the Financial Audit and Performance Audit Process

- 4.15 The WA local government sector remains outside the financial and performance audit jurisdiction of the Auditor General, with the Department retaining both oversight and support roles.

Auditing of Financial Statements

- 4.16 The Department has confirmed that in the period since the 2006 PAC Report, the Peak Audit Advisory Group was not established. The Department reported that this was ‘largely because at the time the Office of the Auditor General had concerns with the model proposed.’¹³⁷ The Department also confirmed that the Auditor General did not assume responsibility for the central management of auditors contracted by local governments.
- 4.17 Currently, the parameters of financial auditing are set by the *Local Government (Audit) Regulations 1996*, which specify that ‘an audit must be carried out in accordance with the “Auditing Standards” and “Auditing Guidance Statement”.’¹³⁸ However, as local governments have retained discretion regarding their choice of audit firm, the consistency and quality of audit reporting is variable.
- 4.18 The Committee has viewed the audit reports for 132 of WA’s 140 local governments for the 2013–2014 financial year and can confirm that 11 different audit firms were engaged across the sector, each using a different format for presenting its findings. The inconsistency in reporting is underlined by the fact that 58 of the audit reports provide no data or comment on the financial and asset management ratios that local governments are required to include in their annual financial reports (see 2.20 above). Similarly, of the 423 findings or issues for management that were raised by the respective auditors in these reports, only 154 were assigned a rating (e.g. minor, moderate, or significant). Moreover, where ratings were assigned, the terminology and criteria differed across the various audit reports.¹³⁹

136 Department of Local Government and Regional Development Reference Group Report, *Audit Considerations in the Public Accounts Committee Report No. 4*, December 2006, p. 21.

137 Mrs Jennifer Mathews, Director General, Department of Local Government and Communities, *Transcript of Evidence*, 11 November 2015, p. 5.

138 Regulation 9(1) *Local Government (Audit) Regulations 1996* (WA).

139 Note that the numbers provided by the Committee are approximate estimates, based on its preliminary analysis of the 132 audit reports that were provided on request by the Department. Refer to Footnote 83 for further details.

Chapter 4

- 4.19 In terms of the Department's role monitoring the content of the audited financial reports of local governments, the same five staff that monitor and review submitted compliance audit returns (see 3.13 above) also read the findings of each independent auditor's report once it is submitted by the auditor as per the requirements of the *Local Government (Audit) Regulations 1996* (see 2.22 above).
- 4.20 The Department has confirmed that information extracted from its review process—including data on the number of qualified opinions, audit findings, and comments on financial management practices and financial ratios—is recorded on a database.¹⁴⁰ This data provides the Department with the capacity to quantify a variety of financial compliance and performance issues, both at an individual local government and sector-wide level, and to determine the number of local governments that require following-up.
- 4.21 In response to a question from the Committee, the Department advised that for the 2013–2014 financial year, 111 audit management reports 'included comment on compliance issues or suggested improvements.'¹⁴¹ Within these reports, 45 local governments had comments around issues of non-compliance, while 80 local governments received comment on suggested improvements.¹⁴² While, the Department reported that 'a significant number' of these local governments have been followed-up¹⁴³, the approach taken appears to be dependent upon the perceived level of compliance risk assigned by the Department.
- 4.22 Based on its risk profiling methodology (see Appendix Two), local governments deemed as high risk may be subject to a probity audit or a Ministerial direction to the auditor to re-examine the accounts. Those deemed a medium risk may receive a letter requesting the Council to take corrective action, while those classified as a low risk may be subject to advice or ongoing monitoring from the Department. The Department provided the Committee with a document illustrating the risk profiling results for the current year.¹⁴⁴ This document, which is replicated in Figure 2 below, shows that 55 local governments have

140 Mr Vernon McKay, Manager, Sector Monitoring, Department of Local Government, *Transcript of Evidence*, 11 November 2015, pp. 3-4.

141 Mrs Jennifer Mathews, Director General, Department of Local Government and Communities, Letter, 18 September 2015, p. 2.

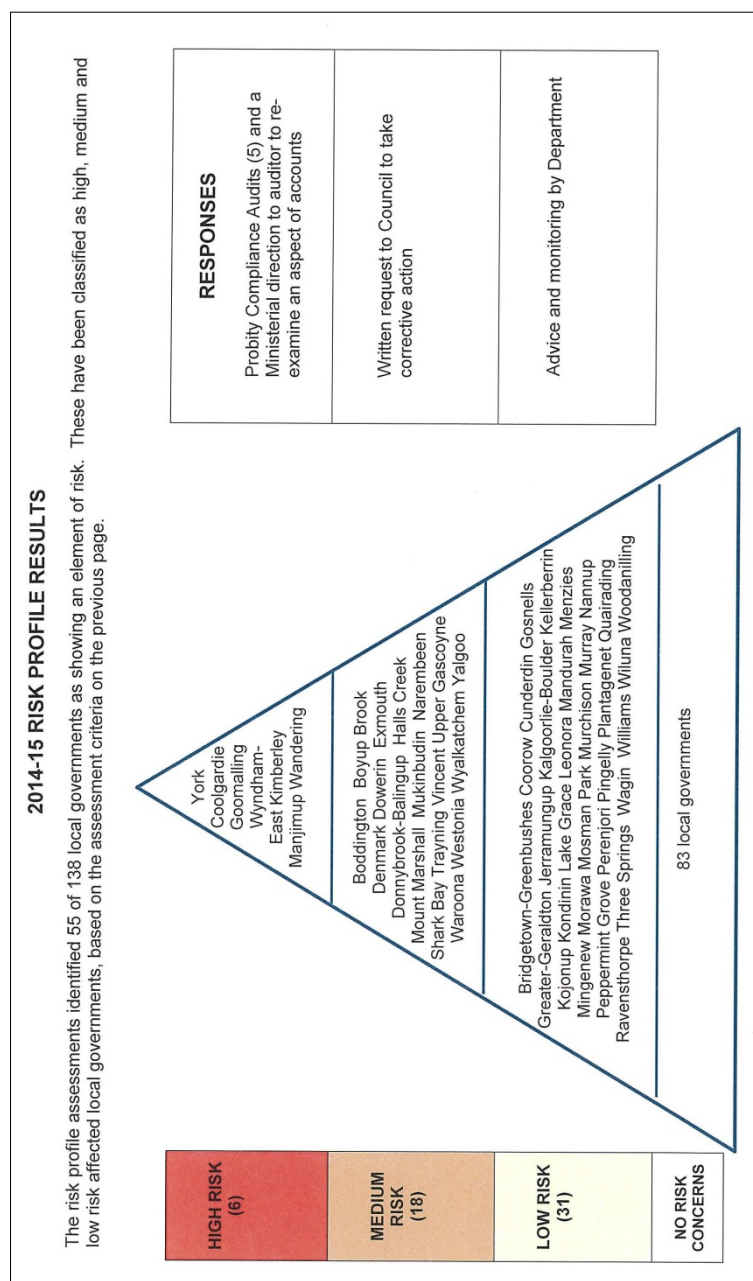
142 For the 2012/2013 financial year, 52 local governments had comments around issues of non-compliance with 102 receiving comment on suggested improvements. For the 2011/2012 financial year, the figures were 40 and 110 respectively. Mrs Jennifer Mathews, Director General, Department of Local Government and Communities, Letter, 20 November 2015, p. 1.

143 Mr Vernon McKay, Manager, Sector Monitoring, Department of Local Government, *Transcript of Evidence*, 11 November 2015, p. 4

144 These results appear to be based on the 2013–2014 financial year reports due to the fact the auditing of the 2014–2015 accounts and financial reports would not yet be completed.

been assigned a level of risk from which some form of follow-up might occur. Of the six local governments at the apex of the pyramid, four have been subject to a probity audit, another (Coolgardie) is in the midst of a probity audit, while the Shire of Manjimup is in the process of a follow-up audit at the direction of the Minister (through the Department).¹⁴⁵

Figure 2 Department of Local Government and Communities - Risk Profile Results 2014–2015



145 Mr Brad Jolly, Executive Director, Sector Regulation and Support, Department of Local Government, *Transcript of Evidence*, 19 August 2015, p. 10.

Chapter 4

Auditing of Local Government Financial Performance

- 4.23 The Department has a range of mechanisms available under its Compliance Model (see Figure 1 and paragraph 2.28 above) to monitor and review compliance and the general efficiency and effectiveness of the local government sector. These include: Financial and Asset Management Benchmarks; Better Practice Reviews; and the Integrated Planning and Reporting Framework.

Financial and Asset Management Ratio Minimum Benchmarks

- 4.24 As noted at paragraph 2.20 above, local governments have been required since 2013 to include in their annual financial report data on seven financial and asset management ratios prescribed under the *Local Government (Financial Management Regulations) 1996*. For the Department, analysis of these ratios provides an indication of how a local government is performing against national financial sustainability benchmarks and is 'of particular importance' in terms of assessing the current level of overall compliance risk.¹⁴⁶

Better Practice Reviews

- 4.25 Better Practice Reviews are collaborative reviews designed to assess the efficiency of individual local governments. The local government's performance on a range of functions (including financial management) is assessed and the Department provides feedback on where performance is done well and where opportunities for improvements exist.¹⁴⁷ The Department does not use the reviews to investigate and identify issues of non-compliance, with the focus instead on attempting to build better practice across the sector.¹⁴⁸ Under the current funding framework, these reviews are limited to country local governments, as they are funded through the Royalties for Regions program.¹⁴⁹
- 4.26 Seven Better Practice Reviews have been undertaken in 2015 and a further three reviews have been scheduled for 2016. Of these 10, only two of the reviews scheduled for 2016 apply to local governments that have been placed

146 Mrs Jennifer Mathews, Director General, Department of Local Government and Communities, *Transcript of Evidence*, 11 November 2015, p. 2.

147 Mr Brad Jolly, Executive Director, Sector Regulation and Support, Department of Local Government, *Transcript of Evidence*, 19 August 2015, pp. 7-8.

148 Mr Vernon McKay, Manager, Sector Monitoring, Department of Local Government, *Transcript of Evidence*, 11 November 2015, p. 9.

149 Mr Brad Jolly, Executive Director, Sector Regulation and Support, Department of Local Government, *Transcript of Evidence*, 19 August 2015, p. 5. See also same witness, *Transcript of Evidence*, 11 November 2015, pp. 9-10.

on the current risk profile pyramid: Wyalkatchem (medium risk); and Murray (low risk).

Integrated Planning and Reporting Framework

- 4.27 Since 2013, under the Integrated Planning and Reporting Framework, local governments have been required to develop a Strategic Community Plan that ‘provides the long-term view informed by community aspirations’; and a Corporate Business Plan, that ‘activates the Strategic Community Plan, integrates other plans for specific outcomes and sets out the resource strategies’.¹⁵⁰ It is a requirement under the *Local Government (Administration) Regulations 1996*, for a Strategic Community Plan ‘to contain a description of the involvement of the electors and ratepayers of the district in the development of the plan or the preparation of modifications of the plan.’¹⁵¹
- 4.28 Within its annual report a local government must include ‘progress of [its] Corporate Business Plan delivery and how this relates to achieving Strategic Community Plan priorities’.¹⁵² A copy of both plans and the annual report are published on the local government’s website.
- 4.29 At its first hearing with the Committee, the Department indicated that it monitors the Integrated Planning and Reporting Framework to measure the effectiveness of local governments and to evaluate whether community aspirations are being met through the Strategic Community Plan and the Corporate Business plans.¹⁵³ At the follow-up hearing, the Department advised that it had assessed every local government Strategic Community Plan and Corporate Business Plan after they were first submitted to see whether the documents included all the required criteria. The Department did not intend to repeat that process, but stressed that local governments are required to report on the performance and ongoing relevance of their planning documents in their respective Annual Reports.¹⁵⁴

150 Department of Local Government, *Integrated Planning and Reporting – Framework and Guidelines*, Government of Western Australia, October 2010, p. 7.

151 Regulation 19C(10) *Local Government (Administration) Regulations 1996* (WA).

152 Department of Local Government, *Integrated Planning and Reporting – Framework and Guidelines*, Government of Western Australia, West Perth, October 2010, p. 49.

153 Mrs Jennifer Mathews, Director General, Department of Local Government, *Transcript of Evidence*, 19 August 2015, p. 7.

154 Mr Vernon McKay, Manager, Sector Monitoring, Department of Local Government, *Transcript of Evidence*, 11 November 2015, p. 14.

Chapter 4

Other Mechanisms

- 4.30 The Department can also use a range of other mechanisms to monitor the performance of local governments, such as:
- the number of allegations made against the local government and the extent to which these allegations have been sustained;
 - probity audits; and
 - Compliance Audit Returns.¹⁵⁵
- 4.31 According to the Department, these various methods for monitoring local government performance enable the Department to ‘form a view of the level of relative risk at any given point in time.’¹⁵⁶
- 4.32 The Department referred to the number of local governments with a long-term financial plan (87 per cent, up from 18 per cent in 2009) and an asset management plan (86 per cent, up from 19 per cent in 2009) to demonstrate some of the improvements to emerge from its oversight and regulatory roles.¹⁵⁷

Committee Considerations – Financial Auditing of Local Government

- 4.33 The Committee has two main concerns regarding the current monitoring and oversight of the financial audit process. The first relates to the ongoing inconsistency in the level of detail and general quality of reporting from the various independent auditors engaged by local governments. This was an issue highlighted in the 2006 PAC Report from which no meaningful corrective action seems to have eventuated.
- 4.34 As noted at 4.18 above, 11 different audit firms were engaged in 2013–2014 and the quality of reporting was variable. It is imperative that a reporting regime is established, whereby audit findings are rated on a standardised scale. Similarly, financial and asset management ratios should be presented consistently and in a manner that offers the potential for consistent and comparative analysis. The Committee noted one particular style of reporting that is intuitive and easy to comprehend and might be worthy of consideration as a benchmark. This reporting approach, illustrated in Figure 3 below, includes explanatory comments when ratios are sitting below the required benchmark

155 Mr Brad Jolly, Executive Director, Sector Regulation and Support, Department of Local Government, *Transcript of Evidence*, 19 August 2015, p. 14.

156 *ibid.*

157 Mrs Jennifer Mathews, Director General, Department of Local Government, *Transcript of Evidence*, 19 August 2015, p. 14.

level.¹⁵⁸ The fact that a minority of audit reports currently present data in this manner, while 58 of 132 reports from the 2013–2014 financial year provided no readily discernible data or commentary on ratios, is a stark illustration of the problems that emerge in the absence of uniform reporting guidelines.

Figure 3 Extract of independent audit management report - financial ratios¹⁵⁹

	Target Ratio ¹	Council's Actual Ratios			3 Year Trend ²
		2014	2013	2012	
Current Ratio	≥ 1	1.44	1.27	2.48	↓
Asset Sustainability Ratio	≥ 1.1	1.26	4.92	6.49	↓
Debt Service Cover Ratio	≥ 15	5.28	10.56*	11.18	↓
Operating Surplus Ratio	≥ 0.15	0.09	0.26*	0.25	↓
Own Source Revenue Coverage Ratio	≥ 0.9	1.07	1.31	1.27	↓
Asset Consumption Ratio	≥ 0.75	0.73	0.68	N/A	↑
Asset Renewal Funding Ratio	≥ 1.05	0.98	0.97	N/A	↑

Key

Above target as per guidelines	Within acceptable banding as per guidelines	Below acceptable banding as per guidelines
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¹ Target ratios per Department of Local Government and Communities Guidelines (DLGC) except the Debt Service Cover Ratio which is a target devised by UHY Haines Norton (and based on experience). For information, DLGC Guidelines establish a target Debt Service Cover Ratio of 5.

² The 3 year trend compares the 2014 ratio to the average of the last 3 years (except for the Asset Consumption and Asset Renewal Funding Ratios which are the 2 year trend).

* Adjusted for "one-off" non-cash items.

- 4.35 The Committee notes that the Department has acknowledged the current shortcomings around the consistency and quality of local government audit reports. When discussing this issue with the Committee, the Department agreed that price is a determinant for some local governments in the engagement of an auditor. This had resulted in 'some variety or variation in the detail and quality of some of those reports', with the Department expressing particular concern around the 'consistency and quality' of some reports at 'the lower end' of the audit fee scale.¹⁶⁰
- 4.36 It is significant to note at its second hearing with the Committee on 11 November, the Department formally confirmed that a 'policy decision' had been made 'to extend the jurisdiction of the Auditor General to cover the [financial] auditing of local governments.'¹⁶¹ The Department added that ongoing concerns around the quality and consistency of audit reporting had

158 For examples of these explanatory comments, refer to the excerpt from one of this firm's audit management reports at Appendix Three.

159 Taken from the 2013–2014 series of audit management reports for WA local governments as provided to the Committee by the Department of Local Government and Communities in response to a question on notice taken on 14 October 2015.

160 Mrs Jennifer Mathews, Director General, Department of Local Government and Communities, *Transcript of Evidence*, 11 November 2015, p. 5.

161 *ibid.*

Chapter 4

been ‘an important reason’ behind this decision.¹⁶² Discussions are now taking place as to how this policy change will manifest.

- 4.37 The Committee supports this decision and sees the Auditor General as ideally placed to assume responsibility for overseeing the financial auditing of local governments and establishing a uniform reporting regime. The Auditor General already undertakes a similar duty for the financial audits of public sector agencies and universities, where a proportion of the workload of his audit team is outsourced to private sector auditors. These auditors are required to comply with standards set by the Auditor General around the conduct of the audit and the manner in which final reports are presented. It seems a logical step to have the local government sector subject to the same regime.
- 4.38 The Committee acknowledges there may be cost implications for local governments who have hitherto utilised the services of auditors at the lower end of the audit fee scale.¹⁶³ While the potential cost burden is an issue that will need to be worked through in discussions between the relevant stakeholders, the reality is that an increase in the quality and consistency of local government financial audit reporting standards is long overdue.

Finding 15

The Committee has observed a notable inconsistency in the level of detail and general quality of reporting from the various independent auditors engaged by local governments to conduct financial statement audits. This was an issue highlighted in the 2006 PAC Report from which no meaningful corrective action seems to have eventuated.

Finding 16

The Committee has reviewed the independent audit reports for 132 of WA’s 140 local governments for the 2013–2014 financial year and found that 11 different audit firms were engaged across the sector, each using a different format for presenting its findings. The inconsistency in reporting is underlined by the fact that 58 of the audit reports provide no data or comment on the financial and asset management ratios that local governments are required to include in their annual financial reports. Similarly, of the 423 findings or issues for management that were raised by the respective auditors in these reports, only 154 were assigned a rating (e.g. minor, moderate, or significant).

162 Mrs Jennifer Mathews, Director General, Department of Local Government and Communities, *Transcript of Evidence*, 11 November 2015, p. 5.

163 This issue was also discussed in both the 2006 PAC Report and the Government response, the latter of which referred to ‘substantial cost implications’ of expanding the scope of audit to reflect the model in place in Queensland at that time. See, Department of Local Government and Regional Development Reference Group Report, *Audit Considerations in the Public Accounts Committee Report No. 4*, December 2006, pp. 14,24.

Where ratings were assigned, the terminology and criteria differed across the various audit reports.

Recommendation 4

The Department of Local Government and Communities ensure that a publicly available reporting regime is established, whereby audit findings are rated on a standardised scale. Similarly, financial and asset management ratios should be presented consistently and in a manner that offers the potential for consistent and comparative analysis.

Finding 17

The Department of Local Government and Communities has confirmed that a policy decision has been made to extend the jurisdiction of the Auditor General to cover the auditing of local governments.

Finding 18

The Auditor General is ideally placed to assume responsibility for overseeing the financial auditing of local governments and establishing a uniform reporting regime and the Committee supports the decision to extend the Auditor General's jurisdiction in this area.

- 4.39 The Committee also has concerns around the degree of rigour currently applied by the Department in its monitoring and follow-up of local governments regarding compliance with the statutory requirements relating to financial reporting and auditing.
- 4.40 This concern is founded upon several examples that arose during the Committee's interactions with the Department. These include:
- Over the last three years, a total of 59 local governments did not provide the Department with their audited annual financial report within the timeframe required under the *Local Government (Audit) Financial Regulations 1996*.¹⁶⁴
 - The Department is yet to receive the independent audit reports of four local governments relating to the 2013–2014 financial year. The *Local Government (Audit) Regulations 1996* stipulate that the auditor should provide a copy of their report to the Minister (through the Department) within 30 days of the audit being completed. The Committee was not able to ascertain from its hearings with the Department whether this late lodgement was the fault of the

¹⁶⁴ This figure comprises: 10 local governments in the 2011–2012 financial year; 24 local governments for the 2012–2013 financial year; and 25 local governments for the 2013–2014 financial year. Mrs Jennifer Mathews, Director General, Department of Local Government and Communities, Letter, 20 November 2015, p. 1.

Chapter 4

auditor or due to a local government being late in submitting its accounts for audit.

- A total of 111 local governments for the 2013–2014 financial year (see 4.21 above) with audit management reports including findings or comments on compliance issues or suggested improvements.

- 4.41 In addition, it appears to the Committee that the risk profiling methodology adopted by the Department to determine the manner of its compliance follow-up approach is inconsistently applied.
- 4.42 By way of example, the Committee is surprised that the Department has only recently elevated the Shire of Coolgardie to high risk on its compliance risk pyramid (Figure 2 above) and thereby approached the Council seeking to conduct a probity audit. The most recent audit management report for Coolgardie noted that for the last two years, auditors have found their documentary requirements ‘had not been fully met’ at the time of the audit.¹⁶⁵ The auditors went on to advise that ‘accounts were far from fully reconciled ... and the annual financial report was not completed.’¹⁶⁶
- 4.43 The Committee is also surprised that the Shire of Boddington is only rated a medium risk on the pyramid given its independent audit report included 11 non-rated findings. Included among these findings was reference to the fact that accounts and financial reports have been lodged late with the auditors for two years in a row, the annual budget was not submitted to the Department within the statutory timeframe, and minutes of three council meetings remained unsigned by the presiding member. The auditors also reported that the Shire’s operating surplus ratio is negative—which indicates that the shire is experiencing an operating deficit—and had been trending down for three years.¹⁶⁷ Based on the Department’s testimony to the Committee, the current follow-up of the Shire of Boddington, as a medium overall compliance risk, will entail a written request to the Council seeking information on what corrective action will be taken.
- 4.44 Equally surprising to the Committee was the fact that the Shire of Corrigin does not appear at any level on the Department’s current compliance risk pyramid despite being subject to four significant findings, five moderate findings, and

165 Independent Auditor’s Report for the Shire of Coolgardie, 11 March 2015. Provided to the Committee by the Department of Local Government and Communities in response to a question on notice taken on 14 October 2015.

166 *ibid.*

167 Independent Auditor’s Report for the Shire of Boddington, 27 March 2015. Provided to the Committee by the Department of Local Government and Communities in response to a question on notice taken on 14 October 2015.

seven minor findings in its independent audit report for the 2013–2014 financial year. The audit report refers to ‘significant difficulties and delays’ due to accounts and the financial report not being finalised in time for the audit that was scheduled for October 2014. The auditors also noted at least five accounting processes that were not completed by the time of the audit and reported that the previous year’s audit management letter had not been reviewed by the Council’s Audit Committee. As the Shire of Corrigin does not appear on the Department’s risk pyramid, the Committee cannot be confident that any follow-up of the Shire will be undertaken in the near future.

4.45 These three examples are taken from one batch of 20 independent audit reports that the Committee selected for further examination. While the Committee cannot be sure of the extent to which similar inconsistencies might exist throughout the full batch of audit reports, it nonetheless finds it difficult to comprehend that stronger, or at least more timely, intervention would not have been undertaken already by the Department with the of Shires of Coolgardie, Boddington, and Corrigin.

4.46 The Committee engaged in an extended debate with the Department on this issue, in particular why the Department would not undertake authorised inquiries in instances of repeated non-compliance with statutory requirements around financial reporting and auditing. The Director General explained the position of the Department in the following terms:

It really is about the outcome we are trying to achieve here. We have to judge what is the best mechanism, what is the best strategy or tool to get the outcome we want. The outcome we want is that the local government is able to respond and address the issues we have identified. In the case of Coolgardie, where we have the cooperation of the local government [to conduct a probity audit], it is a timely and appropriate intervention—the probity compliance audit will enable us to go in there, conduct the relevant audit and investigations without an authorised inquiry. Authorised inquiries are generally used when we do not have the cooperation of the local government to conduct an investigation. So we need the powers under the act to actually compel the provision of information; it is not the case in the Shire of Coolgardie.¹⁶⁸

4.47 The Department has also indicated that part of its aversion to a greater reliance upon authorised inquiries is due to cost considerations, with previous

¹⁶⁸ Mrs Jennifer Mathews, Director General, Department of Local Government and Communities, *Transcript of Evidence*, 11 November 2015, p. 17.

Chapter 4

inquiries having reached in excess of \$500,000.¹⁶⁹ While there may be some validity to this argument, the Committee is still left to question why the Department does not make greater use its probity audits to ensure higher level of compliance. As noted at 3.20 above, only seven probity audits have been conducted since 2011, with an eighth having just commenced at Coolgardie. If more probity audits were proposed by the Department, it would only be when a local government refused to cooperate that an authorised inquiry might need to be contemplated.

- 4.48 Notwithstanding the rationale offered by the Department, the Committee remains of the view that the local government sector could be subject to a greater degree of oversight regarding its statutory financial and audit reporting requirements. The magnitude and nature of non-compliance issues, as demonstrated by the Committee in this summary section, lends credibility to this argument.
- 4.49 The decision to extend the jurisdiction of the Auditor General to cover the auditing of local governments should provide an opportunity to improve the quality of oversight currently observed. The involvement of the Auditor General in this sphere offers at least two significant benefits.
- 4.50 Firstly, the Office of the Auditor General brings a level of independence and expertise not available to the Department in its oversight role. This should help mitigate some of the problems that might be contributing to what the Committee sees as a relative lack of rigour in the Department's current approach.
- 4.51 The 2006 PAC Report had expressed concern that the Department may not have been adequately resourced for its monitoring and oversight role. The report also referred to evidence suggesting that the Department was potentially conflicted in relation to its oversight role and its provision of advice, education and support for local governments (see 4.3 through 4.6 above). These concerns remain relevant in the current climate. Therefore, the introduction of the Auditor General into the realm of local government financial auditing should assist the Department in its compliance monitoring role by offering independent and authoritative direction regarding the areas of non-compliance—both systemic and at an individual local government level—that require the most urgent attention.
- 4.52 Secondly, the Auditor General will bring increased transparency to the local government accountability framework. With the scope of the Auditor General

¹⁶⁹ Mr Brad Jolly, Executive Director, Sector Regulation and Support, Department of Local Government, *Transcript of Evidence*, 11 November 2015, p. 21.

expanded, a report similar to the Audit Results Report for public sector agencies could be prepared and published for the local government. The Audit Results Report is a comprehensive document that ‘summarises the results of the annual audits of [public sector] agencies’.¹⁷⁰ Items covered in the Audit Results Report include: audit opinions (including matters of significance raised); financial reporting accountability and audit issues; significant financial transactions; financial ratios; key performance indicators; management issues; and quality and timeliness of reporting. Much of the data is provided in summary form, which provides an indication of sector-wide performance. However, individual agencies are also rated against each other in certain categories (audit readiness) or singled out as demonstrating best practice (financial reporting and financial controls).¹⁷¹

- 4.53 In addition to the opportunity for public scrutiny that such a report affords, an Audit Results Report for local government would also assist the Department in further framing its compliance monitoring and follow-up activities and directing its training, education, and support activities to areas of greatest need.

Finding 19

There is scope for the Department of Local Government and Communities to exercise a greater degree of rigour in its monitoring and follow-up of local governments regarding compliance with statutory requirements relating to financial reporting and auditing.

The Committee notes that:

- Over the last three years, 59 local governments have not provided the Department with their audited annual financial report within the timeframe required under the *Local Government (Audit) Financial Regulations 1996* (WA).
- The Department is yet to receive the independent audit reports of four local governments relating to the 2013–2014 financial year despite the *Local Government (Audit) Regulations 1996* stipulating that the auditor should provide a copy of their report to the Minister (through the Department) within 30 days of the audit being completed.
- A total of 111 local government audit management reports for the 2013–2014 financial year included either findings or comments on compliance issues and suggested improvements. Within these 111 reports, 45 local governments

170 Auditor General Western Australia, *Audit Results Report Annual 2014-15 Financial Audits*, Report No. 24, 11 November 2015, p. 4.

171 *ibid.*, pp. 41-48.

Chapter 4

received comments around issues of non-compliance, while 80 local governments received comment on suggested improvements.

Finding 20

The Committee's analysis of a sample of independent audit management reports indicates that the risk profiling methodology adopted by the Department of Local Government and Communities to determine the manner of its follow-up approach is inconsistently applied.

In one example, a local government does not appear to have been classified as a low, moderate, or high overall compliance risk, despite receiving an audit management report that included four significant findings, five moderate findings, and seven minor findings.

Recommendation 5

The Department of Local Government and Communities take steps to improve its approach to following-up local governments regarding compliance with statutory requirements relating to financial reporting and auditing.

In particular, the Department undertake a greater number of probity audits to ensure higher level of compliance among local governments.

Finding 21

The decision to extend the jurisdiction of the Auditor General to cover the financial audit of local governments should provide an opportunity to improve the quality of oversight currently observed.

The introduction of the Auditor General into the realm of local government financial auditing should assist the Department of Local Government and Communities in its compliance monitoring role by providing independent and authoritative input regarding areas of non-compliance—both systemic and at an individual local government level—that require the most urgent attention.

Finding 22

The Auditor General will bring increased transparency to the local government accountability framework.

Recommendation 6

As part of any expansion of powers to cover the conduct of financial auditing of local governments, the Auditor General be given responsibility for preparing a report on local governments similar to the Audit Results Report for public sector agencies.

Committee Considerations – Performance Auditing of Local Government

- 4.54 As noted at 4.12 above, the Government response to the 2006 PAC Report rejected the need for expanding the role of the Auditor General and suggested that any additional audit duties should be under the jurisdiction of the Department as ‘the agency responsible for ensuring efficiency and effectiveness of local government’.¹⁷² The response included the qualification that any expansion in responsibilities would require additional resourcing. In the years that have followed, the Department has developed a suite of tools aimed at monitoring the performance of the sector. These were described in paragraphs 4.23 through 4.32 above. While the Committee acknowledges these initiatives, it nonetheless shares the view of the former PAC that an expansion of the Auditor General’s scope of powers to include financial and performance auditing of local government represents the ‘ideal scenario’ in terms of accountability and transparency.
- 4.55 The reality, as noted by the former PAC, is that the Auditor General is a ‘specialist agency’ offering ‘independent expertise in both financial attestation and performance auditing.’¹⁷³ Moreover, report findings can be used to highlight examples of best practice, while recommendations provide audited agencies with opportunities to ‘improve governance and control environments and the cost effectiveness and responsiveness of their services.’¹⁷⁴ Critically, the transparency attached to these reports allows other public sector agencies to consider ways to improve their own practices. It also gives the Parliament and the public an insight into the performance of particular agencies and a means by which this performance can be scrutinised.
- 4.56 The Committee sees the expansion of the Auditor General’s powers to enable the performance auditing of local governments as a logical extension of any decision to transfer responsibility for the conduct of financial audits. Such a move would raise the level of accountability applied to local governments to a level more consistent with public sector agencies.

172 Department of Local Government and Regional Development Reference Group Report, *Audit Considerations in the Public Accounts Committee Report No. 4*, December 2006, p.16.

173 Taken from quote referred to in paragraph 4.10 above.

174 Auditor General Western Australia, *Audit Practice Statement*, August 2015, p. 4.

Chapter 4

Recommendation 7

The Auditor General's scope of powers be broadened to include financial and performance auditing of local governments in order to raise the standard of accountability applicable to local governments to a level more consistent with public sector agencies.

Chapter 5

Comparative Reporting

In this final chapter, the Committee looks at the issue of comparative reporting on the performance of local governments. This accountability mechanism was the focus of Recommendation Five from the 2006 PAC Report.

2006 PAC Report - Recommendation Five: Comparative Reporting

*The Auditor General should ensure there is an annual comprehensive comparative report of each Local Government in Western Australia to facilitate transparency and provide an accurate assessment of the performance of individual local governments.*¹⁷⁵

Background to Recommendation Five from the 2006 PAC Report

- 5.1 The 2006 PAC Report found that there was a distinct lack of any sector-wide understanding of local governments, no process in place to effectively identify systemic issues and 'no means for the public to transparently assess or observe council performance'.¹⁷⁶
- 5.2 Through its research the former PAC adopted the view that benchmarking the sector would facilitate knowledge sharing and enable councils to identify common areas of concern.¹⁷⁷
- 5.3 The former PAC saw benefit for individual councils, rate payers, and the sector more broadly, in publishing an annual comprehensive comparative report of each local government and recommended the Auditor General be charged with the task.¹⁷⁸

Summary of the Government Response to the 2006 PAC Report Recommendation

- 5.4 The Government Response acknowledged the benefit of an over-arching sector-wide analysis of local governments and publishing an annual

175 Public Accounts Committee (37th Parliament), *Local Government Accountability in Western Australia*, Report No. 4, 28 September 2006, p. 69.

176 *ibid.*, pp. 40 and 67.

177 *ibid.*, p. 58.

178 *ibid.*, p. 68.

Chapter 5

comprehensive comparative report, noting such a report would be advantageous in identifying trends and problems.¹⁷⁹

- 5.5 However, the response highlighted the need to differentiate between a sector-wide “snapshot” audit report and a detailed comparative report, citing Queensland as an example where the Auditor General published the “snapshot” and the Department of Local Government in that jurisdiction published the latter.¹⁸⁰ The response ultimately concluded that there did ‘not necessarily appear to be any advantage’ in giving the Auditor General responsibility for the production of a comprehensive comparative report.¹⁸¹

Current Status around Comparative Reporting

- 5.6 At the first hearing with the Committee, the Director General confirmed that the Department does not currently prepare or publish comparative material relating to local governments.¹⁸² Notably, there is no requirement under the current legislation compelling the Department to report on the performance, financial or otherwise, of the local government sector.
- 5.7 At the same hearing the Committee queried if there were any legislative constraints preventing the Department from publishing comparative material on local governments. The response from the Director General indicated this was not the case, but that its approach to date had been on using the information collected through its monitoring role ‘for internal purposes and in a direct dialogue with the local government concerned.’¹⁸³ Following this, the Director General admitted there was ‘certainly scope for that information to be used in a more transparent way’, and that this was something that would be discussed further in consultation with the Auditor General.¹⁸⁴
- 5.8 At the second hearing, the Committee continued on with this theme and referred the Department to the current benchmarking reports that are published by the Department of Local Government equivalents in Queensland and Victoria. A screen shot of these reports is included at Appendix Three and Four respectively. Of the two approaches, the Queensland model appears to be the most comprehensive with comparative spreadsheet reporting available across a variety of local government indicators including: rate revenue;

179 Department of Local Government and Regional Development Reference Group Report, *Audit Considerations in the Public Accounts Committee Report No. 4*, December 2006, p. 14.

180 *ibid.*, p. 17.

181 *ibid.*

182 Mrs Jennifer Mathews, Director General, Department of Local Government, *Transcript of Evidence*, 19 August 2015, p. 11.

183 *ibid.*, p. 12.

184 *ibid.*

financial performance indicators, waste performance indicators; and water sewer charges.¹⁸⁵

- 5.9 When asked whether the Department was putting something similar together, or whether it has the capacity to, the Director General replied:

*That is something we are exploring. We are very close to launching a new tool for local governments and for ourselves called the local government management information system.*¹⁸⁶

- 5.10 In response to a follow-up question that asked whether this tool would provide consolidated data for the public, Mrs Mathews added:

*At this point it is a new tool and we are starting with providing local governments with a tool to provide their financial data and other information to the department in an online format. There is certainly scope to explore how that tool might be used to develop and present data in a comparative fashion.*¹⁸⁷

Committee Considerations – Comparative Reporting

- 5.11 The Committee sees comparative reporting of local governments as a key accountability tool. While the former PAC saw merit in the Auditor General taking responsibility for presenting an annual comprehensive comparative report of each local government, this Committee believes that under any expanded powers the Auditor General's focus on reporting should be limited to the same regime currently applicable to public sector agencies (e.g. Audits Results reports and Performance Audit reports).
- 5.12 However, the Committee sees scope for the Department to collate and publish comparative data in a manner similar to that currently provided by its counterparts in Queensland and Victoria. The impending launch of the local government management information system, in addition to the data already retained on financial ratios, leaves the Department well placed to establish a platform by which the public can obtain easily accessible comparative information on local government performance.

185 Department of Infrastructure, Local Government, and Planning (QLD), '[Local Government Comparative Reports](#)', 16 October 2015.

186 Mrs Jennifer Mathews, Director General, Department of Local Government, *Transcript of Evidence*, 11 November 2015, p. 12.

187 *ibid.*

Chapter 5

Finding 23

The Department of Local Government and Communities does not currently prepare or publish comparative material relating to the performance of local governments. However, it is soon to roll out a local government information system that will allow it to collect financial data and other information from local governments in an online format.

Finding 24

The Department of Local Government equivalents in Queensland and Victoria both publish comparative data on local government performance across a range of financial performance benchmarks.

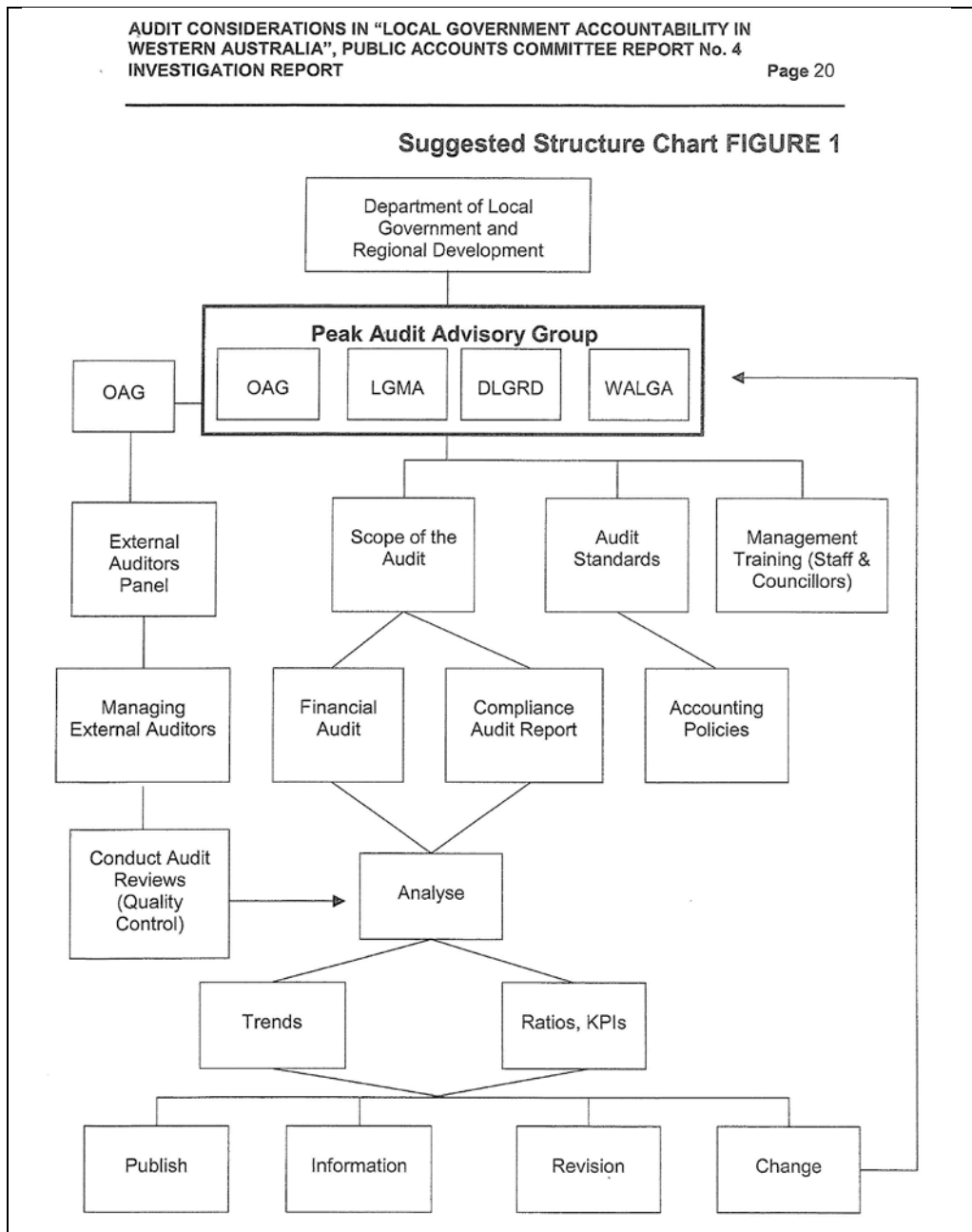
Recommendation 8

The Department of Local Government and Communities further develop its local government information system so that comparative financial performance benchmark reports of all local governments can be made easily accessible to the public.

Mr S.K. L'ESTRANGE, MLA
CHAIRMAN

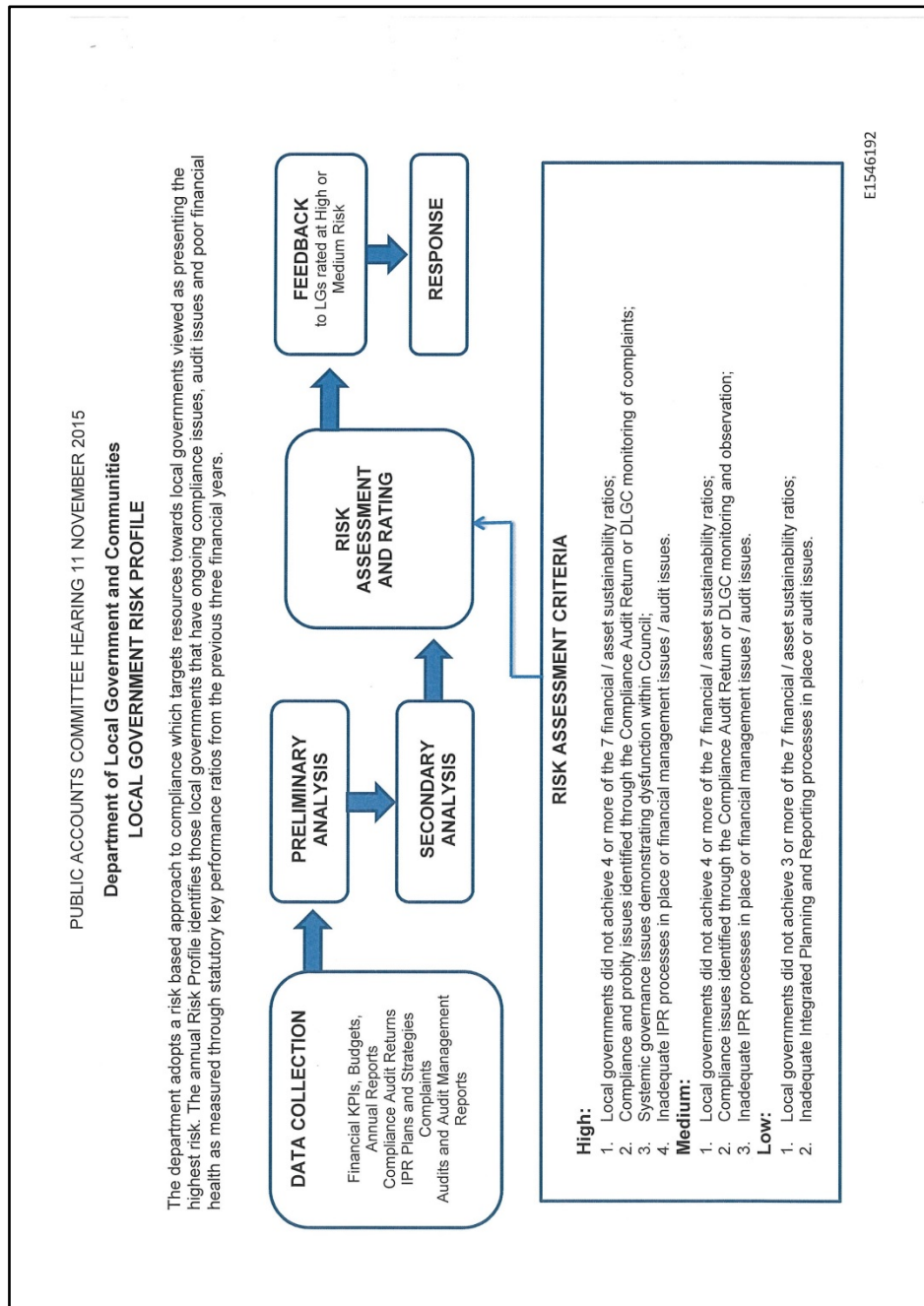
Appendix One

New Audit Model for Local Government (Departmental Reference Group Response to 2006 PAC Report)



Appendix Two

Department of Local Government and Communities – Local Government (Compliance) Risk Profile



Appendix Three

Financial Ratios Explained – Excerpt from Audit Management Report

OTHER MATTERS (CONTINUED)

DISASTER RECOVERY PLAN (DRP)

During our review of Council policies, we noted the DRP was in draft form.

To help ensure risk is mitigated as well as the continuity of Council operations in the case of a disaster or emergency, the DRP should be finalised and adopted.

In addition, procedures should be implemented to help ensure the DRP is in operation, staff are aware of its processes and it is tested/reviewed on a timely basis.

Staff should also be made aware of the procedures to be followed in an emergency situation.

COMMENT ON RATIOS

Last year (the year ended 30 June 2013) saw the introduction of new financial reporting ratios for local governments in Western Australia.

This year (the year ended 30 June 2014) is the second year of these new ratios and the information relating to these ratios is summarised below:

	Target Ratio ¹	Shire's Actual Ratios			3 Year Trend ²
		2014	2013	2012	
Current Ratio	≥ 1	0.48	0.77	1.07	↓
Asset Sustainability Ratio	≥ 1.1	3.14	1.59	0.47	↑
Debt Service Cover Ratio	≥ 15	2.29*	1.59*	4.75	↓
Operating Surplus Ratio	≥ 0.15	(0.18)*	(0.13)*	(0.05)	↓
Own Source Revenue Coverage Ratio	≥ 0.9	0.68*	0.67*	0.83	↓
Asset Consumption Ratio	≥ 0.75	0.63	0.56	N/A	↑
Asset Renewal Funding Ratio	≥ 1.05	N/A	N/A	N/A	N/A

Key

Above target as per guidelines	Within acceptable banding as per guidelines	Below acceptable banding as per guidelines
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¹ Target ratios per Department of Local Government and Communities (DLGC) Guidelines except the Debt Service Cover Ratio which is a target devised by UHY Haines Norton (and based on experience). For information, DLGC Guidelines establish a target Debt Service Cover Ratio of 5.

² The 3 year trend compares the 2014 ratio to the average of the last 3 years (except for the Asset Consumption Ratio which is the 2 year trend).

* Adjusted for "one-off" non-cash items.

Ratios provide useful information when compared to industry and internal benchmarks and assist in identifying trends. Whilst not conclusive in themselves, understanding ratios, their trends and how they interact is beneficial for the allocation of scarce resources and planning for the future.

We provide commentary on specific ratios (identified as red in the table above) as follows:

Current Ratio

This ratio is below the target level and is trending downwards.

This ratio is a measure of short term (unrestricted) liquidity. That is, the ability of the Shire to meet its liabilities (obligations) as and when they fall due.

As we noted in the previous year, the Shire has been experiencing a rapid increase in the level of operations in recent years.

COMMENT ON RATIOS (CONTINUED)

Current Ratio (Continued)

During the 2013/14 financial year, two significant capital projects were also completed being the Shire Administration Centre and Retirement Village Units.

Council has adopted a balanced budget for 2014/15 and is confident of improving this ratio as the rapid increase in the level of operations is better understood and managed. Notwithstanding this, it is imperative the actual results are carefully monitored to help ensure the budgeted outcomes are in fact achieved.

Debt Service Cover Ratio

This ratio is also below target.

This ratio measures the Shire's ability to service debt out of its uncommitted or general purpose funds available from its operations.

Whilst there is a significant decrease in loan repayment in this financial year compared to the 2012/13 financial year, the ratio is below the benchmark due to a decrease in the net operating result.

Also, the Administration Centre loan drawdown was towards the end of the financial year under review and Council should be aware of the impact future repayments of this loan will have on the Debt Service Cover Ratio in the future.

Operating Surplus Ratio

This ratio is below the target level and has been trending downwards over the last three years.

The Operating Surplus Ratio measures the Shire's financial sustainability having regard to asset management and the community's service level needs.

A negative ratio indicates the local government is experiencing an operating deficit. A sustained period of deficits will erode the Shire's ability to service debt and maintain both its operational service level and asset base over the longer term whilst a positive ratio which is consistently above 0.15 provides the Shire with greater flexibility in meeting operational service levels and asset management requirements.

Asset Renewal Funding Ratio (ARFR)

During our audit, we noted the Long Term Financial Plan (LTFP) did not cover a 10 year period starting from the 2014/15 financial year as it has not been subject to any review since being initially completed.

In addition, the Asset Management Plan (AMP) as presented does not appear to contain sufficient information to calculate the ARFR.

As a consequence the ARFR was not calculated and presented in the financial report.

To help ensure compliance with statutory requirements, the LTFP should be reviewed on a timely basis so it always provides the information necessary for the Shire to meet its reporting obligations. Likewise the AMP should contain sufficient information to allow for the calculation of the ARFR.

Summary

As illustrated, a number of these ratios are below the accepted industry benchmark. Notwithstanding this, lower ratios may be expected and acceptable in the short term given operational considerations and provided other measures/strategies are maximised.

COMMENT ON RATIOS (CONTINUED)

Summary (Continued)

As an example, to help alleviate the continued erosion of the operating surplus ratio over time, both Council and Management will need to consider ways to improve the operating position. This is either via increasing own source revenue or by decreasing expenditure (or a combination of both).

This is dependent upon the Council and management understanding the circumstances and the interaction own source revenue has on other ratios and operations in general.

In addition, one off assessments of ratios at a particular point in time can only provide a snapshot of the financial position and operating predicament of the Shire.

As is the case with all ratios and indicators, their interpretation is much improved if they are calculated as an average over time with the relevant trends being considered.

Whilst all ratios, with the exception of the Current Ratio, are relatively new and we accept it may take some time for their implication to be fully understood, they should duly considered as part of the overall financial management of the Shire.

In addition to other financial practices, we suggest it is prudent for Council and management to monitor all ratios in future financial years as they strive to manage the scarce resources of the Shire.

UNCORRECTED MISSTATEMENTS

We advise there were no uncorrected misstatements noted by us during the course of our audit.

We take this opportunity to thank the Chief Executive Officer and all staff for the assistance provided during the audit.

Should you wish to discuss any matter relating to the audit or any other matter, please do not hesitate to contact us.

Yours faithfully



Encl.

Appendix Four

Extract of Queensland Local Government Comparative Reports¹⁸⁸

Queensland Local Government Comparative Information			
Finance and Funding Branch			
Department of Infrastructure, Local Government and Planning			
Financial PIs (2)			
<i>All data is provided by councils and may not have been audited.</i>			
Local Government	Rates arrears ratio - 2013/14	Rates arrears ratio - 2012/13	Community equity ratio - 2013/14
Aurukun Shire Council	92.3%	22.0%	4.1%
Balonne Shire Council	6.4%	5.4%	8.8%
Banana Shire Council	3.7%	5.6%	13.1%
Barcaldine Regional Council	9.3%	6.0%	5.0%
Barcoo Shire Council	4.3%	8.7%	-1.8%
Blackall-Tambo Regional Council	0.1%	0.9%	18.4%
Boulia Shire Council	21.0%	21.2%	-5.6%
Brisbane City Council	1.8%	2.0%	4.4%
Bulloo Shire Council	2.1%	1.6%	25.3%
Bundaberg Regional Council	6.2%	7.8%	0.2%
Burdekin Shire Council	4.6%	5.2%	4.7%
Cairns Regional Council *	7.8%	9.5%	-79.2%
Carpentaria Shire Council	7.6%	7.9%	-7.7%
Cassowary Coast Regional Council	15.3%	14.6%	18.3%
Central Highlands Regional Council	16.3%	14.7%	22.1%
Charters Towers Regional Council	4.5%	2.0%	1.5%
Cloncurry Shire Council	3.9%	4.9%	-9.9%
Cook Shire Council	16.9%	17.3%	-11.6%
Croydon Shire Council	15.9%	10.5%	9.7%

¹⁸⁸ Department of Infrastructure, Local Government, and Planning (QLD), 'Local Government Comparative Reports, 16 October 2015. Available at: <http://www.dilgp.qld.gov.au/resources-ilgp/plans-strategies-reports/local-government-comparative-reports.html>. Accessed on 17 November 2015

Appendix Five

Extract of Victorian Local Government Council Sector Reports¹⁸⁹

2014 Source Data

		OVERALL PERFORMANCE	ADVOCACY	ENGAGEMENT	ALL RATES	RESIDENTIAL RATES	OPERATING COSTS
Council Group	Council Name	Community satisfaction overall performance of council	Community satisfaction advocacy and community representation	Community satisfaction engagement in decision- making	Rates and charges per assessment \$	Residential rates and charges per assessment \$	Operating expenditure per assessment \$
S	Alpine				1,712	1,505	3,122
S	Ararat				1,961	1,615	3,298
R	Ballarat	58	53	53	1,554	1,364	2,682
I	Banyule	68	55	57	1,577	1,492	2,274
L	Bass Coast	50	48	49	1,460	1,393	2,279
L	Baw Baw	45	47	47	1,869	1,629	2,706
I	Bayside	65	53	53	1,766	1,776	2,220
S	Benalla	55	53	51	1,801	1,516	3,358
I	Boroondara	74	61	63	1,978	1,980	2,361
O	Brimbank	73	54	56	1,631	1,384	2,220
S	Buloke	53	54	58	1,687	1,150	4,007
L	Campaspe	60	58	58	1,679	1,465	3,649
O	Cardinia	63	55	55	1,745	1,625	2,588

189 Department of Transport, Planning, and Local Infrastructure (Victoria), 'Local Government Council Sector Reports', Available at: <http://www.dtpli.vic.gov.au/local-government/publications-and-research/council-sector-reports>. Accessed on 17 November 2015.

Appendix Six

Committee's Functions and Powers

The Public Accounts Committee inquires into and reports to the Legislative Assembly on any proposal, matter or thing it considers necessary, connected with the receipt and expenditure of public moneys, including moneys allocated under the annual Appropriation bills and Loan Fund. Standing Order 286 of the Legislative Assembly states that:

The Committee may -

- 1 Examine the financial affairs and accounts of government agencies of the State which includes any statutory board, commission, authority, committee, or trust established or appointed pursuant to any rule, regulation, by-law, order, order in Council, proclamation, ministerial direction or any other like means.
- 2 Inquire into and report to the Assembly on any question which -
 - a) it deems necessary to investigate;
 - b) (Deleted V. & P. p. 225, 18 June 2008);
 - c) is referred to it by a Minister; or
 - d) is referred to it by the Auditor General.
- 3 Consider any papers on public expenditure presented to the Assembly and such of the expenditure as it sees fit to examine.
- 4 Consider whether the objectives of public expenditure are being achieved, or may be achieved more economically.
- 5 The Committee will investigate any matter which is referred to it by resolution of the Legislative Assembly.

Appendix Seven

Hearings

Date	Name	Position	Organisation
19 August 2015	Mrs Jennifer Mathews	Director General	Department of Local Government and Communities
	Mr Brad Jolly	Executive Director, Sector Regulation and Support	
	Mr Vernon McKay	Manager, Sector Monitoring	
11 November 2015	Mrs Jennifer Mathews	Director General	Department of Local Government and Communities
	Mr Brad Jolly	Executive Director, Sector Regulation and Support	
	Mr Vernon McKay	Manager, Sector Monitoring	

Appendix Eight

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