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|----------------------|---------------------------------|------------------|-----------------|-----|
| <b>To:</b>           | Chief Executive Officer         | <b>From:</b>     | Policy Director |     |
| <b>Organisation:</b> | All Councils                    | <b>Date:</b>     | 28.09.06        | 289 |
| <b>Reference:</b>    |                                 |                  |                 |     |
| <b>Subject:</b>      | Local Government Accountability | <b>Priority:</b> | medium          |     |

#### IN BRIEF

|                          |   |
|--------------------------|---|
| <b>Operational Area:</b> | Governance  |
| <b>Key Issues:</b>       | <ul style="list-style-type: none"> <li>Public Accounts Committee has tabled its final report into LG accountability</li> <li>Contains 16 findings and 6 recommendations</li> <li>Proposes Local Government Audits be the responsibility of the Auditor general</li> </ul> |
| <b>Action Required:</b>  | Consider and provide comments by October 31 <sup>st</sup> ..  |

The Public Accounts Committee has today released its findings and recommendations on Local Government accountability. These are set out below for information. The complete report is attached in PDF format.

The Government must now respond to the Committee, and the Association will seek discussions with the Minister on the form and timing of that response.

The Association canvassed members widely on accountability issues at the time of its submission to the PAC Inquiry, with major concerns of councils being;

- Concern about **what** the Auditor General's role would be if involved in the Local Government Audit process, rather than whether or not the Auditor General **should** be involved.
- Asking the Auditor General to administer the existing system of audit would seem pointless
- Potential cost increases to Local Governments.

The Association will develop a response to the PAC Report and invites comments from member councils to inform this process.

Comments should be directed to Acting Governance Policy Manager Jeff Flatow at: [jflatow@walga.asn.au](mailto:jflatow@walga.asn.au) by October 31<sup>st</sup>.

## FINDINGS

### Finding 1

In 2003/04 expenditure across the local government sector totalled approximately \$1.6 billion, while revenue sat at around \$1.7 billion.

### Finding 2

Public money accounts for approximately 68 per cent of local government revenue. Council rates make up almost 43 per cent, while 25 per cent is derived from State and Commonwealth grants.

## Finding 3

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The current scope for assurance audits in the local government sector is effectively a 'bare minimum' framework, with a largely financial focus. Individual Councils can choose whether to extend this scope to include more rigorous or more comprehensive auditing and reporting.

## Finding 4

Audits in the State public sector are managed by the Office of the Auditor General (OAG), which conducts a very broadly scoped attest audit that includes an opinion on key performance indicators as well as on controls and legislative compliance. The State public sector is also subject to the OAG's examination of efficiency and effectiveness.

## Finding 5

The 2005 amendments to the *Local Government Act 1995* that require local governments to establish audit committees will facilitate greater elected representative participation in the financial affairs of councils.

## Finding 6

The annual Compliance Audit Return is considered by many local governments to be overly complex and in many instances irrelevant to individual councils.

## Finding 7

The Compliance Audit Return is conducted by council administration as a self-assessment on an annual basis. It is not included in the scope of the annual audit or independently reviewed.

## Finding 8

Local governments believe they do not receive adequate or timely feedback from the Department of Local Government and Regional Development relating to the Compliance Audit Return.

## Finding 9

The 2003/04 audit reports for local governments indicate that almost 42 per cent of councils received a qualified audit certificate or a management letter, and approximately 30 per cent experienced significant compliance issues.

## Finding 10

Approximately 44 per cent of all local governments did not provide the Department of Local Government and Regional Development with copies of their 2003/04 audit opinions by the statutory deadline. This affects the Department's capacity to monitor the sector in a timely manner.

## Finding 11

In 2005/06 there were 4 full time staff in the Department of Local Government and Regional Development with a total budget of \$527,000 allocated to monitoring the finances of 144 individual local governments with combined annual revenue of \$1.7 billion.

## Finding 12

There is a perception amongst local governments that the Department of Local Government and Regional Development (DLGRD) does not have sufficient resources to effectively monitor and support the sector. There appears to be a belief that the DLGRD does not offer assistance or advice early enough and its key focus is on ensuring compliance rather than providing support.

## Finding 13

At the sector wide level the Department of Local Government and Regional Development publishes very little data and, apart from individual local government annual reports, there is virtually no means by which the public can transparently assess or observe council performance.

## Finding 14

Although the Office of the Auditor General performs the annual attest audit of the Department of Local Government and Regional Development, it has no power to examine the performance of local governments in delivering services in an equitable and effective manner and is unable to address issues specifically related to local government

## Finding 15

The model of Local Government audit used in Queensland appears to give the best outcomes for all stakeholders without major impact on local government autonomy.

## Finding 16

Benchmarking the local government sector may facilitate knowledge sharing between individual councils that encounter similar issues. The sector is currently not adequately benchmarked to assist local governments and their constituents in identifying areas of concern.

## RECOMMENDATIONS

### Recommendation 1

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.

### Recommendation 2

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.

### Recommendation 3

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.

### Recommendation 4

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.

### Recommendation 5

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.

### Recommendation 6

In recognition of the problems of financial sustainability in local government, the State Government should ensure the overall compliance burden on individual local governments does not unduly increase. The overall cost impost should be recognised by the State.