

Hon Donna Faragher; Hon Rick Mazza; Hon Dr Steve Thomas; Hon Robin Chapple; Hon Samantha Rowe; Hon Alannah MacTiernan; Hon Dr Sally Talbot; Hon Adele Farina; Hon Sue Ellery

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## LOCAL GOVERNMENT AMENDMENT (AUDITING) BILL 2017

### *Second Reading*

Resumed from 15 August.

**HON DONNA FARAGHER (East Metropolitan)** [12.45 pm]: I rise to speak as the opposition's lead speaker on the Local Government Amendment (Auditing) Bill 2017. I indicate to the house that the opposition will support this bill. Essentially, the bill is identical to the bill that was introduced in the other place last year by Hon Tony Simpson, the former Minister for Local Government, albeit with one minor amendment, which is the inclusion of regional subsidiaries. That did not come into effect until, I think, 20 January this year. Obviously, when the bill was introduced in the other place last year, regional subsidiaries were not recognised. They were recognised only as a result of legislation that was subsequently passed in this house to enable the formation of regional subsidiaries. The bill essentially provides for the auditing of local governments by the Auditor General. I thank the minister's office for the briefing it provided to me. As I understand it, in reality the Auditor General will deal with around 10 per cent of the financial audits of local governments, with the remainder to be contracted out by auditors accredited by the Office of the Auditor General. Irrespective of who undertakes the financial audit, audits will be done under the supervision of the Auditor General, as well as the Office of the Auditor General.

I recognise the school students who have just appeared in the public gallery.

**Hon Sue Ellery:** That'll be Yanchep Beach Primary School students.

**Hon DONNA FARAGHER:** Yanchep Beach Primary School students, welcome to the Legislative Council; it is exciting today!

I understand that transitional arrangements under this bill will be staged over a period in recognition of the fact that local governments will already have auditing contracts in place. The transitional arrangements will enable those contracts to expire over time. However, from 2020–21, all local governments, irrespective of whether a contract remains in place, will be audited by the Auditor General, and the minister might just confirm that for me. Although it is expected that obviously during the transitional period, a number of contracts will expire with the effluxion of time, there is also a mechanism in clause 21 of the bill in new section 51 in new division 4. This will enable the departmental chief executive officer to terminate a contract. As I understand it, that will be available to the departmental CEO at any time prior to 2020–21 if it is required.

In addition, the bill provides a new category of audits, which are to be known as "performance audits". According to the explanatory memorandum, these audits will examine the economy, efficiency and effectiveness of any aspect of a local government's operations. I understand that the Auditor General will have the capacity to determine the scope of a performance audit and that it might be specific to a particular local government or encompass a few. The audits will have the capacity to look at a range of matters, such as procurement arrangements, as well as tendering processes that might be undertaken by a particular local government. In my briefing I was informed that it was likely that one or two performance audits were expected to be undertaken every year, but the minister might confirm that for us. In recognising that the opposition will support this bill, I have a couple of questions for the minister. I indicate that I gave some notice to the officials that I would do this when I had my briefing, so hopefully it should be fairly painless. For the record I would like the minister to outline for the benefit of the house the mechanisms by which the Auditor General can request or order a performance audit. Can the minister also confirm my understanding that unlike financial audits, the costs incurred for a performance audit will be met by the state? It is my understanding that the costs incurred for financial audits will continue to be met by local governments, as is current practice, but the costs incurred for performance audits will be met by the state. I would appreciate it if the minister would confirm that for me. They are my only two questions of the minister. If she can respond to those, I indicate that the opposition will not seek to go into Committee of the Whole on the bill.

In summing up, I indicate that the opposition supports the bill. It is sensible legislation, and some might say it has been a long time coming, given that there were parliamentary committee reports tabled in the other place in 2006 and 2015 that examined in detail local government accountability. My colleague Hon Dr Steve Thomas is out on urgent parliamentary business, but I am sure he will be back before the conclusion of this debate, and I understand he will be saying a few words about the 2006 committee inquiry, of which I believe he was a member when he was in the other place.

Importantly, this bill provides a new layer of accountability on local government authorities that is currently not there. Given the significant budgets that local governments manage and oversee on behalf of their ratepayers, it is only proper that local governments have the same standards of accountability and transparency as state government entities. That is what I believe and I am sure what all members in this house would believe, and what ratepayers

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expect of their local government and its officers and elected representatives. With that, I indicate that the opposition supports this bill, which was first introduced in 2016, albeit with one minor amendment.

**HON RICK MAZZA (Agricultural)** [12.51 pm]: I rise to make a contribution to debate on the Local Government Amendment (Auditing) Bill 2017. Of course, local governments have always been audited, but in the past they were done by private auditors, and the auditing methods vary from council to council. It is pleasing to see that there is going to be a more stringent process for auditing local governments. I think most local governments do a very good job with their finances, but there have been occasions when there have been some probity issues. Having the Auditor General involved is a positive step forward for trying to minimise some of those problems.

I am informed by the officers who gave the briefing that under the current system of using private auditors, it can sometimes take up to two years before a qualified audit comes to the attention of the Department of Local Government, Sport and Cultural Industries. By that time, quite a bit of damage could have been done within the local government involved, so having the Auditor General involved is a positive step. It will take some time, as the Auditor General starts to take over these audits. I have been in contact with Colin Murphy, the current Auditor General, on a few occasions when he has reported to estimates hearings. He is a very thorough Auditor General and it is a bit of a shame that he is currently on a temporary basis until a new Auditor General is found, because he has exceeded his 10 years.

Over the next four years or so, the Auditor General will take over auditing these local governments; he will undertake about 10 per cent of them, and contract the rest out to authorised auditors. As we all know, local government plays a very important role in the community and is often at the front line for issues that arise within communities—everything from Mrs Kerfoops' dog barking all night to the state of the local public conveniences. They play a major role, particularly in the country, where there are a lot of roads to be maintained; a lot of work goes into that. They also have to maintain plant and equipment and employ people to undertake road maintenance, particularly in the Agricultural Region, where a lot of grain trucks and fertiliser trucks have to use them. It is a very important function to maintain those roads, so it is a little disappointing to see cuts to road funding, but hopefully the government will restore that as time goes on. As well as financial audits, there are also going to be performance audits. I am not quite sure how they are going to take place, but we will wait to see as the Auditor General begins to roll it out to make sure there are efficiencies within those local governments.

**Hon Sue Ellery:** Member, can you just repeat that? I was distracted for a moment. Could you repeat the question that you just raised?

**Hon RICK MAZZA:** It was not a question; it was a statement that a lot of the country shires in particular have to maintain a lot of roads—thousands of kilometres of roads—and of course the cuts to the road funding will affect them dramatically.

**Hon Sue Ellery:** I thought you raised the issue of performance audits.

**Hon Alanna Clohesy:** You were saying that you don't know how they're going to be undertaken.

**Hon RICK MAZZA:** I am not quite sure what shape performance audits will take, so we will wait to see the detail of them to make sure there is more efficiency within those local governments.

An elected councillor would have to be confident that having the Auditor General in place provides a layer of probity with the executive council. If I were an elected councillor, I would take a bit more comfort having the Auditor General involved to make sure of this oversight of the government executive. It is a positive step forward.

Currently, having a private auditor involves negotiations with them about cost. It will be interesting to see what additional cost there will be having accredited auditors working under the Auditor General and the effect it might have on rates. There could be cost involved, but it is expected the benefits will outweigh the costs over time.

The crossbench has indicated that it will support this bill and we will see how this issue plays out over the next few years.

**HON Dr STEVE THOMAS (South West)** [12.56 pm]: I rise to speak on the Local Government Amendment (Auditing) Bill 2017. My apologies that some urgent parliamentary business dragged me away.

Let me begin by saying in relation to the local government audit process that it is about damn time! I say that as the then Deputy Chair of the Public Accounts Committee in the other chamber in 2006 and the originator of the investigation into the accountability of local government, which was a problem in 2006. Just before members on any side of Parliament suggest that this is a criticism of the recent conservative government, let me say that the first Treasurer to reject the advice of the Public Accounts Committee of 2006 was a very good man called Hon Eric Ripper, who said no, and there was no action on this report for a number of years. This is an issue that both sides of government have failed to progress until, under the previous government, Hon Tony Simpson, given freedom in his portfolio to advance benefits to Western Australia, introduced a bill that is remarkably similar to

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this one. I commend Hon Tony Simpson, as I commend the current Minister for Local Government, Hon David Templeman, for this legislation. I think it is well and truly long overdue. Before I progress, let me thank the other members of the 2006 Public Accounts Committee of the other place, who have all generally gone on to make a contribution to the Parliament. I am the only one who absented myself for some period of time. The chair of that committee was Hon John Quigley, now the state Attorney General. The newbie on the committee, who was introduced late, was Hon Ben Wyatt, who is now Treasurer. Hon John Quigley and I took him on as our padawan in economic terms and tried to educate him on the important parts of the economy. We like to think he has actually progressed since then. I will have some questions for him in the budget process, though, so we will see how good that education was and whether he has come up to the mark significantly. The other addition who came in little bit later was the member for Albany, who is still the member for Albany, Hon Peter Watson, and now the Speaker of the Legislative Assembly. The National Party played its part with the provision of Hon Terry Redman, who remains in that place.

**Hon Sue Ellery:** What happened to you, then?

**Hon Dr STEVE THOMAS:** The Labor government introduced a piece of legislation called one vote, one value and took seven seats out of regional areas and put them into the city, one of which was unfortunately the seat of Capel; the seat of Capel disappeared.

**Hon Alannah MacTiernan:** It was not that you were voted out, but that your seat disappeared!

**Hon Dr STEVE THOMAS:** The seat of Capel did disappear, never to be seen again. The seats of Collie–Preston and Vasse each took half of the seat of Capel. I had a crack at the member for Collie–Preston and got reasonably close.

**Hon Rick Mazza:** You became redundant, then.

**Hon Dr STEVE THOMAS:** I became redundant, yes.

*Sitting suspended from 1.00 to 2.00 pm*

**Hon Dr STEVE THOMAS:** Before we were so rudely interrupted by lunch, we were discussing local government auditing and the need to make sure that there is good accountability in the local government sector. I ask members to briefly consider the role and function of local government and its constitutionality before we move into some of the technical details of the audit process, the recommendations of the 2006 committee, which were mirrored by various groups that followed, and the eventual presentation of a bill by Hon Tony Simpson followed by Hon David Templeman, giving us the situation of today. I first ask members to consider the constitutional position of local government. In effect, it is an extension of the Constitution of Western Australia and not of the federal Constitution, although the federal government has looked numerous times at whether it might make it an extension of the federal Constitution, which the Western Australian Parliament has frequently opposed, as I understand it. It is a reflection of the Constitution of Western Australia alone, although it is an elected body in its own right. This forms a bit of a dichotomy for us in that in holding local government to account, it arises from the Constitution of Western Australia and is answerable to the government and the Parliament of Western Australia, but at the same time, it is a group of elected people who are also answerable to their constituency. That causes some conflict, as it rightly should do. When a councillor stands up and says, “I am elected by the people to represent them on this local constituency”, there is some validity to that. It makes it difficult for a state government or a state Parliament to override that with ease and comfort, and that should be so. I suggest that to account for that process, the best way the state Parliament and the state government can ensure that local government functions well is not necessarily to override the functions of local government and use the big stick, but to hold local government to account in a way that the constituency struggles to do to some degree, because local government, until the passing of this bill, has not been held to the same level of accountability as the state government, the Parliament and state government departments. That is why this is a particularly important piece of legislation.

The 2006 Public Accounts Committee examined local government accountability on the basis that there were some concerns around local government. At that time in 2005 and 2006, many local governments were struggling. Many local governments were subject to orders by the Minister for Local Government at the time and there was obviously a problem. I will identify some of those problems a little later. Not all were the fault of local government at the time, which I will come to in a bit, but there were obviously concerns—enough concern that the Public Accounts Committee of the thirty-seventh Parliament instigated its own investigation in 2006 because it was so concerned about the accountability of local government. The beginning of the executive summary of that committee’s report is pertinent to read into *Hansard*. It states —

In recent years some local governments have experienced financial difficulties and have required supplementary financial assistance and support from the state government.

That has not changed. Things have not got significantly better in the 11 years that have passed since this particular set of recommendations came out. The 2006 Public Accounts Committee looked at this issue and looked for

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a better way to provide accountability. I will come back to compliance returns. The committee visited a large number of local governments. It went to most of the regions and obviously held discussions with representative bodies. There was a large degree of local government resistance at the time to the proposition that the Auditor General was in the best position to provide proper audit parameters for local government. To some degree, I can see why. Obviously, many local governments have a very stringent and robust accountability process, and many of their audits are exemplary. We can get a good picture of where a local government stands on the basis of its audit process. But many local governments do not have the same accountability process. I go back to the original proposition that if, in a constitutional sense, local government is an extension of state government, surely the best thing that we can do to bring about good reform in local government is to ensure proper auditing and accountability. That was ultimately the recommendation of the 2006 Public Accounts Committee. It took the view, quite rightly and quite strongly, that the best organisation for the provision of good audit was the Western Australian Auditor General. That remains the position of every member of that group and it underpins the provisions of the Local Government Amendment (Auditing) Bill 2017.

In support of those arguments, I will read into *Hansard* a couple of sections from the original 2006 report. It states —

The Committee notes a view amongst some sector stakeholders that local governments are not a collection of state agencies but independent, democratically elected corporate entities established under the *Local Government Act 1995* and answerable to electors, not to Parliament. The Committee considers, however, that because local government derives its authority from an Act of the Parliament, and because there have been instances where the State has been called upon to assist individual councils that are in financial difficulty, there are grounds for considering closer accountability to Parliament for both the use of public resources and the powers conferred on local governments by Parliament.

That is absolutely critical in underpinning the legislation before the chamber today. Despite the fact that local governments are elected bodies that have responsibilities to their electors, it is also incumbent on this Parliament to make sure that we deliver good outcomes by having a robust audit process. That led to the Public Accounts Committee's recommendation 2, which stated —

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.

I will talk about the Queensland model versus the Victorian model of local government audit so that members understand where I am coming from. Unfortunately, that was not a universal committee recommendation because National Party representative, Hon Terry Redman, put in a minority report. I understand the National Party will support this bill in full and I hope that its members will stand to make a contribution to this debate.

It was strongly recommended by the Public Accounts Committee at the time that the Auditor General take over the audit of local government. What will that look like in practical terms? First, the Auditor General will set the parameters by which local audits occur. The Auditor General will have a list of approved auditors who are allowed and trusted to do local government audits. I would be very surprised if the audits conducted in the local councils in my electorate in the South West Region are not already fulfilling the requirements and using auditors approved by the Office of the Auditor General. If members want to work out whether their local councils are using an appropriate audit, a rough scale of fees will indicate whether they are providing a reasonable level of audit that can be trusted. Current audit fees for a year's audit for small to large local governments in the south west vary between \$20 000 and \$40 000. Some of the bigger cities tend to be around that \$40 000 mark. Obviously, I would expect that the audit fees paid by the City of Stirling would be considerably more; the business model is considerably bigger and proper compliance is more difficult. On occasions, particularly during the period investigated by the 2006 Public Accounts Committee inquiry, many local governments were paying for a very cheap what we call "tick-and-flick" audit. A tick-and-flick audit is when the auditor simply asks, "Did cheque A come out of account B and get paid to business C?" If the answer is "Yes, we wrote that cheque", it is tick, tick, tick. That is as far as an unsatisfactory audit generally goes. It is purely about the accountability of the transfer of money. In that sort of audit there is no capacity to ask whether the function to which the money was attributed was delivered. In the delivery of that outcome, was that the most effective way that outcome could be delivered? A tick-and-flick audit does not look at whether the spending was appropriate, merely that the transfer of money occurred. In 2006 we found that it was a very common process to see a tick-and-flick audit go through in a lot of local governments. That cannot be satisfactory in any sense.

Of course reviews were done by the then Department of Local Government and Regional Development, and we looked into those as well. Local government was beset with pages and pages of compliance documents, some of them that thick, on the accountability of local government. They were not necessarily about financial compliance beyond the basic structure, but they would seek information relating to all sorts of issues, such as human resources

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and infrastructure, which was of no use to anybody. The department may as well have had those reports stacked up to hold the doors open, because there was no actual process to determine what outcome was delivered by all these pages of data that were collected. Most often the outcome was nothing, because there was no capacity for anybody to look at the surveys. This was in one of the findings of the original 2006 Public Accounts Committee inquiry. The report of that inquiry stated —

**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.

Compliance audits were wholly inadequate in examining the accountability of local governments in Western Australia. They made very good doorstops and pretty good dust collectors and, to be honest, not much beyond that. We needed a better system. That was the reason that the 2006 Public Accounts Committee strongly recommended that the Auditor General take over the function of the audit of local government. As a specialist in audit in Western Australia, the Office of the Auditor General was obviously the right organisation to set the parameters for local government audit, and not just the financial components. The Auditor General would still require local governments to check that cheque A came out of account B and was paid to company C, but he would also set a whole pile of other parameters.

This comes back to the issue of probity audit. We talked about a tick-and-flick audit, which is the first part of that financial process. The second part is what we call the probity audit; that is, did that money transfer for a reason that was delivered in an effective manner? I cannot come up with a better definition of a probity audit than that. Was this appropriate? We will probably get into some interesting debate about what is an appropriate delivery for a local council in Western Australia. I have some particular views on that, some of which will, surprisingly to most people, be controversial. I think it is absolutely critical that we get to a probity audit. Some of those will involve key performance indicators. That is a buzzword—the good old KPIs, most of which in state budgets are a complete waste of our time and most people tend to jump over them and go to the important bit of where the dollars go. However, I hope that the Auditor General's job, in consultation with the government because the work is yet to be done, will be to make sure that audit parameters and key performance indicators are set for local councils that provide real return for the work that is done, and then the community, constituents and ratepayers of the local government will be able to assess whether they are getting value for money and support from their council. That will be critical. I know that work is yet to be completed but I hope we will see that happen in the not-too-distant future. I would like to think that we will have a robust debate at some point about the parameters set by the Auditor General's office for those probity audits, which are absolutely essential. I turn back to the recommendations in the 2006 committee report. Recommendation 4 states —

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.

It is absolutely critical that a probity audit occur. I am glad to see that the legislation will develop that aspect. A couple of things will trickle out of that process. This whole investigation started because there were problems with local government administration, and there are still problems with local government administration. Let me say that this is the only appropriate way to start to fix those problems. I will comment about the size of local government and whether amalgamating local governments is a solution that fixes the problem, because it is extremely questionable whether simply changing the size of a local government has any impact on its viability in the long term. I will come back to that in a bit more detail, and there is plenty of research along those lines, some of which I will quote. However, the Auditor General was originally asked to, and still will, put out some comparative reports of the performance of local government. Recommendation 5 of the original report by the 2006 Public Accounts Committee states —

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.

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As well as running an audit using good parameters, the second critical part is that the community, the Parliament and the ratepayers are made aware of the results. This is something that the Auditor General can do absolutely better than anybody else in the state. His office can look at the KPIs that it provides for local governments and set recommendations on where they should sit. This gives the opportunity for future state governments to have a rational conversation with local government about their future. Rather than simply talking about changing boundaries, we can say that the parameters of local government need to sit within a certain profile. Future governments might change those parameters a little. However, it would be easy for the state government to say, based on an audit of local government, “If your debt structure is between this level and this level, if your repayment schedules are between here and here, if your approvals are within this time frame, and if your asset management plan sits between here and here, we, as a state government and a state Parliament, have decided these are all appropriate measures and we will leave you alone. You are a sustainable local government as measured by the Auditor General and recognised by Parliament and government.” However, if a local government sits outside those parameters, if its debt structure is extreme and it cannot manage its assets, the state government can give that local government a certain time in which to get its structures back to within acceptable parameters. If the local government—its councillors and administrators—cannot do that, the state government has the opportunity to say that it will do that for the local government because it has given it the chance and demonstrated that it can make it better and it has not been able to do so. Only at that point can the state government conscientiously take the high moral ground and start talking about taking over and changing local government, because this will provide the moral standing to do so. I think it will happen. I suspect that on occasion amalgamations will be one of the solutions that the state government will have to look at, particularly for low population local governments. I have some unsolicited advice for the Minister for Local Government, Hon David Templeman.

**Hon Sue Ellery:** He doesn't get much of that.

**Hon Dr STEVE THOMAS:** I am sure that he does not get adequate advice, so I am happy to add some—free of charge.

Whatever the minister does, he should not pull out a map, get out a texta and draw lines with it.

**Hon Alannah MacTiernan:** Did someone do that before?

**Hon Dr STEVE THOMAS:** I have no idea. I have not been in government to tell the Minister for Regional Development, so I am not saying.

Here is a bit of advice. The minister should not do that. The government needs to demonstrate the parameters by which local government needs to operate. This legislation will give the government the capacity to do that. If local governments are unable to meet those capacities, the government can step in appropriately on behalf of the ratepayers. Do members know what I think will happen? I think the ratepayers will come with the government. If the government goes out to a local council and says that it has given that council 12 months or two years to get its debt structure within X and Y because it was worried that ratepayers would carry the burden, and the council has not been able to do that, so the state government is going to do it, I think it will take the community with them; I think that is a good thing. Even though councils exist as an extension of the state constitution and of the Parliament of Western Australia, they are elected bodies and deserve respect, and to be given the chance to succeed in their own right.

It is like raising children; give them the chance to succeed and reward them when they do. It is only when that does not happen that the big stick has to be used—not that we believe in corporal punishment. That is the process by which local government reform will progress in a very positive manner. That is the basis of the process.

I am interested to see that the good work of the 2006 Public Accounts Committee—this is not just us blowing our own trumpet and talking ourselves up—became a reference point for a number of other reviews. A Corruption and Crime Commission investigation report into the accountability of local government called, “Report on Misconduct Risk in Local Government Procurement” was released on 4 February 2015. Section 89 of that report states —

In the Commission's view the concerns expressed by the Public Accounts Committee in 2006, and its recommendation that the audit of local governments be brought under the authority of the Auditor General, are still relevant. There is a need for external audit of local government procurement.

The 2006 committee was a reference point for the CCC, which I think is completely appropriate. History shows that the Public Accounts Committee of the era of the thirty-ninth Parliament released a report that was effectively based on the Public Accounts Committee report of 2006. I love reading the 2015 report because most of the chapter headings refer to chapters in the Public Accounts Committee's 2006 report. There was a fairly lengthy delay in the process but we have eventually got here. It is absolutely critical for the future of not only governance, but also local government in Western Australia, that proper accountability is put in place and that ratepayers and constituents can examine the performance of their local government.

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I promised that I would speak a bit on the general viability of local government. It is not the case that a local government's size is directly related to its viability. Some very small local governments are immensely viable and are, I must admit, largely based on the average assets and income of their ratepayers. Some small local governments do particularly well.

**Hon Alannah MacTiernan:** Including the Monaco of the south?

**Hon Dr STEVE THOMAS:** I was not going to pull out any individual local governments, Minister for Regional Development, even though I am under parliamentary privilege.

I make these points. In 2003, the Legislative Council of New South Wales held a review titled "Local Government Amalgamations". One of its conclusions was, and I quote —

No persuasive evidence was given regarding the circumstances in which amalgamations would deliver financial benefits.

The conclusion to an often-quoted 2002 report by Byrnes and Dollery from the University of New England reads —

Advocates of amalgamation have premised their arguments on the proposition that substantial efficiency gains would flow from the formation of larger local authorities. It seems clear that the extant literature on economies of scale in municipal governance does not support this proposition.

In 2005, the South Australian Financial Sustainability Review Board presented a report titled "Rising to the Challenge: Towards Financially Sustainable Local Government in South Australia". That report was referred to by Byrnes and Dollery, who wrote — I am going to be careful with this —

... 'size does not seem to matter much, ... with both the larger and smaller councils both typically registering operating deficits in 2003–04'.

It is not the case, as found in multiple jurisdictions, that size is the determinant of financial viability. It is all about making sure that the operating parameters, as measured by a proper audit, are in place. It is critical that the Local Government Amendment (Auditing) Bill 2017 be passed to allow that to happen. Usually, when we get into this debate someone will jump up and say, "What about Victoria?" We usually apologise to Victoria, but that is a different story. Victoria has the absolute top-of-the-line audit of local government today —

**Hon Samantha Rowe:** As a Victorian, I take offence! A former Victorian!

**Hon Dr STEVE THOMAS:** Is Hon Samantha Rowe a Victorian? Are we prepared to go to the High Court? Is Hon Samantha Rowe allowed to sit in this chamber?

**Hon Samantha Rowe:** I thought I would declare it now!

**Hon Dr STEVE THOMAS:** Do we have to have a ruling to see whether Hon Samantha Rowe should be —  
Several members interjected.

**Hon Dr STEVE THOMAS:** Where is Hon Samantha Rowe's allegiance? Hang on: which football team does Hon Samantha Rowe follow?

**Hon Samantha Rowe:** Do you really want to know? Essendon, and proud—and proud!

**The ACTING PRESIDENT (Hon Matthew Swinbourn):** Orders, members—particularly the Essendon supporters!

**Hon Dr STEVE THOMAS:** It is outrageous, Mr Acting President!

**The ACTING PRESIDENT:** That is right!

**Hon Dr STEVE THOMAS:** I was going to move a private member's motion condemning the new government, but I may have to do something about the allegiances of Hon Samantha Rowe!

**Hon Alanna Clohesy:** And me.

**Hon Dr STEVE THOMAS:** Hang on: other people are owning up. We should stop now whilst we are ahead!

**Hon Stephen Dawson:** Collingwood.

**Hon Alanna Clohesy:** Collingwood.

**Hon Dr STEVE THOMAS:** That is nearly enough to make me sit, but not quite.

**Hon Stephen Dawson:** What's yours?

**Hon Dr STEVE THOMAS:** There is only one team over here, is there not?

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**Hon Stephen Dawson:** The Dockers!

Several members interjected.

**Hon Dr STEVE THOMAS:** If Hon Stephen Dawson is going to be silly, he will have to go outside as well.

**The ACTING PRESIDENT:** Order, members! Can we come back to the question at hand.

**Hon Dr STEVE THOMAS:** Yes.

In Victoria it is often pointed out that Jeff Kennett forcibly amalgamated local governments and made significant savings and rates went down, and, boy, was it not wonderful! Let me say that it did not quite work that way. We all tend to remember history to our best benefit, and there is a little bit of that happening in the state of Victoria as well. In the state of Victoria, Jeff Kennett legislated for the reduction of rates when he merged local governments. For the period of the legislation, of course rates went down. As soon as the legislation ran out, rates again sky-rocketed. It worked briefly while it was legislated, and to claim that that was a cause and effect so that amalgamation caused the lowering of rates and more efficient delivery of service was actually a nonsense. But of course everybody remembers the first couple of years when the rates went down, but it is not historically accurate. For those who promote the process of just purely amalgamating, it just has not worked.

I will tell members an interesting story. In the south west a council wanted to take over its neighbours—I note Hon Adele Farina laughing—and it brought in a new CEO from the east; he was a wise man from the east! The mayor at the time said that the new CEO was an expert in amalgamation. I thought: this might be interesting. The local councils surrounding that city did not want to be amalgamated. I was a supporter of the local councils around the city and said so publicly at the time. As it turned out, the chief executive officer of the city council was an excellent guy. His work was exemplary. He never raised the issue of amalgamation unless he was asked to do so. He has since moved on, and I wish him all the very best. I hope he does very well. He is a good man. I will not name him, even though I have said he is a good man; I will let him know some other time.

It is very interesting, because he came from an amalgamated local government. I did what I always do—I did a bit of research and crunched the numbers on his amalgamated local government. I looked at the rates and expenditure per person before amalgamation and after amalgamation. I thought that would be an interesting experiment if the issue of amalgamation came up. A similar thing happened in Geraldton. When the City of Greater Geraldton was formed, everybody assumed that rates would come down and services would go up. In fact, the reverse occurred.

I looked at a Queensland local government, Fraser Coast Regional Council. At Fraser Coast Regional Council, in 2006–07, rates were \$620 per person. In 2007–08, rates were \$910 per person. After amalgamation, there was a drop in rates to \$838 per person. However, one year later, rates went up to \$1 112 per person. Therefore, the suggestion that amalgamation will save money is not necessarily true. We only need to look at the wages bill. The year before amalgamation, the wages bill was \$28.5 million. Two years after amalgamation, when rates hit \$1 112 per person, the wages bill was \$51 million. A similar thing happened in Victoria. What happens is that local governments are answerable to their constituency and are expected to provide a certain level of services. The assumption that local governments can reduce the cost of providing services works only if they genuinely do that. Most local governments have found that in order to make savings, they have to reduce services. That is not effective and has been proved not to be effective. What will be effective is putting in place a proper audit process. That is effectively the crux of the bill before the house. This bill is absolutely essential and absolutely overdue. I blame Hon Eric Ripper for not doing this in 2007 when we asked him to do so. However, we are catching up now.

I will leave the house with these thoughts: Good reform of local government starts with greater accountability. Greater accountability occurs only under the sort of audit process that is proposed in this bill. I give credit, of course, to the Public Accounts Committee of 2006 for that.

**Hon Sue Ellery:** The deputy chair, in fact.

**Hon Dr STEVE THOMAS:** Particularly the deputy chair. It was a great Public Accounts Committee. We will share the credit. I have a feeling that the then chair of the committee has made comments about that in the lower house. I am sure we are all in furious agreement that this is a good piece of legislation. I hope the crossbench, the National Party and the Greens will also support this extremely important legislation.

One of the concerns raised by local government about this audit process is cost. It is incumbent upon the government to manage this process so that it does not become major impost on local government, and hopefully also not a huge impost on the state. There will be a cost to the state, because additional requirements and additional work will be placed on the Office of the Auditor General, and that will require a budget allocation. The proposal was that the Office of the Auditor General would do a proportion of the audits, maybe 10 to 15 a year, and the remaining 120 or 130 audits would be farmed out to approved audit companies. I believe that is the proposal the government is running with. We need to ensure that the cost for local government is manageable. In my region,



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a local government audit costs between \$20 000 and \$40 000. That is the sort of ballpark figure that we need to toss around.

If those local governments were suddenly to find that the parameters of the Office of the Auditor General required a \$100 000 audit, we would have a significant problem. It is incumbent on this house, because of its diversity, to make sure that the impost on local governments is manageable. The greatest financial impact of this probably will not be in the south west region. It will be in those regions with a large number of very small councils, some of which have very small audit budgets; I personally question the accountability of some of those councils. There will be an impact there and I do not think we should resile from that. I think we need to hang tough and say that in some cases local government will need to meet additional costs, but it is incumbent upon government to make sure that those local governments are capable of meeting them. The last thing we want to do is bankrupt a local government trying to prove that it is financially viable. I think that is probably one of the large major steps that the government needs to look at.

After the fact, we will need to examine one more thing; that is, what is appropriate for local government to deliver? I raised this matter towards the start of my address and I asked all honourable members to think about this. What if a town quite distant from Perth, probably in the wheatbelt, lost its local doctor? The provision of health care is not the purview of local government; it is not its prime business. We do not necessarily have to go back to saying that local government is just about roads, rates and rubbish, although, believe me, plenty of people I know and associate with in the right wing of politics say that; I hear that line all the time. Is it the purview of local government to provide health services? Some of those local governments have provided a house and a car and a business. If it costs the council half a million dollars a year to keep a doctor in town and its entire local government budget is \$1.5 million or \$2 million, it has a financial issue, and this process will identify that. At some point, the state government and/or Parliament will have to make a decision about the appropriate service that local government should be delivering. My view is that everybody who wants to keep a doctor in town is going to struggle, and I do not think that is necessarily the most appropriate use of local government funds. I would probably deal with that a little differently from most. I said that I would probably be controversial and it is unlike me to stand and not be, so I am keeping my record intact.

**Hon Adele Farina:** What about the view of the community who are paying the rates?

**Hon Dr STEVE THOMAS:** That comes into the process. That is a good point. The Auditor General points out, for example, that a shire with a budget of \$1.5 million is spending one-third of it to maintain a doctor because it does not want the people to have to drive 50 kilometres to the next town. It will make a recommendation based on that. The community will back either its local council or the position of the Auditor General's office, but so will the state government, because the state government will have to make a decision in the end. Unless we change the commonwealth legislation and enshrine local government in its Constitution and make it a separate entity, ultimately, under this proposal, the state government will have to decide whether that is an appropriate use of funds. If it continues for a long time, the state government will end up picking up the bill. The state government cannot abrogate its responsibility in that process. Are we going to allow the ratepayers to elect a group of people who are going to bankrupt the council in the long term because they want this service? It is a decision that every government will have to make repeatedly.

**Hon Adele Farina:** Why would the state government have to make it? Is that not a matter for local government?

**Hon Dr STEVE THOMAS:** No, because the state government still underpins local government. If local government goes bust, it does not just go bust; the state government has to step in. It has no choice. Constitutionally, it is an arm of state government. That is the whole point of what we are doing. State government will have to have the tools to know whether it needs to step in. The city local governments provide a whole range of social services. Somewhere down the track, the next step is to work out what is appropriate for local government to deliver and in what circumstances. If there are 350 000 people in a local government area and they are paying good rates, that local government could probably afford to put in a few social workers. Local governments can put in as many as they like; Parkinson's law of social work will absorb them. That is fine, but would that be an appropriate use of state and local government finances? That will be the next step in the process of full and proper accountability of local government auditing. I look forward to some very interesting debates in this chamber based on exactly that—what are the appropriate parameters that the Auditor General should set for local government and what action will the state take if those parameters are not met, particularly if they are not met by reason of the provision of social services? I think it will be an interesting, sometimes challenging, but quite exciting couple of years as this thing gets bedded down. With that, I leave it to the next member.

**HON ROBIN CHAPPLE (Mining and Pastoral) [2.40 pm]:** Before I start, I thank the three officers who provided me with briefings on the Local Government Amendment (Auditing) Bill 2017—Julie Knight from the

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former Department of Local Government and Communities, and Tarnya Widdicombe and Sheryl Siekierka from the Department of the Premier and Cabinet.

I want to go back a bit. Between 1986 and 1994 I was a local government shire councillor. In those days before the Local Government Act 1995, councils operated very much like Parliaments. There were councillors, the mayor and/or president, and a clerk who administered the council. After the 1995 legislation was introduced, we ended up with a local government manager. In my view an inherent problem in local government since that day is that councillors to a large degree have abrogated a lot of responsibility to local government managers, and quite often agendas and financial management are now set by the managers and not by councils. When I was first elected to council, a very wise old councillor, Arnold Carter, took me aside and said, “Before every meeting, go into treasury and go through the books; actually look at what has been expended, where, when and how,” so that when I went to the council meeting, the councillors and the mayor would be fully across the finances of that council and could deliberate on those matters. After 1995, we heard a lot of, “It’s not our responsibility anymore; the CEO is going to deal with that.” I preface a lot of what I am going to say around my view that the Local Government Act to a large degree is not as democratic in many ways as it used to be prior to 1995. Interestingly enough, the council I was involved in was the first council to seek special permission —

**Hon Sue Ellery:** Member, can I interrupt? Can you advise whether you are the lead speaker for the Greens?

**Hon ROBIN CHAPPLE:** Yes, I am.

The council I was involved in sought special dispensation from Ian Taylor to bring in a manager. A report by Bardsley and others looked into the affairs of the council and found that the council needed better fiscal management, so it brought in its first manager before the 1995 act. But the council still operated very much on the basis that the manager was a clerk and the clerk provided advice as opposed to direction to the council. That is a very important but subtle difference.

I have been involved with local government in this place since 2001 and have watched all the problems that have existed in local government over that time. Clearly, we are very supportive of this legislation. Hon Dr Steve Thomas said that this matter had been on the books of the previous government. I gave a commitment when I was dealing with some issues in my electorate that should the Labor Party not introduce this as its first bill when it came into government, I would move to introduce such a bill because it is clear that local governments need independent oversight. I am going to differ from the honourable member opposite Hon Dr Steve Thomas by pointing out that local government is an extension of state government. That is a truism of today. That is where it sits. We in the Greens have always been of the view that the third tier of government—the very important tier of government—should be recognised in the commonwealth Constitution as a proper third tier of government. Having said that, part of the problem of local government is that it has always had oversight from state government. State government tends to, in some cases politically, for its own benefit or otherwise, pressure local governments to do certain things. We have seen the involvement of the development assessment panels, which have the ability to override, in many ways, the directions that local governments want to go in. I have a fundamental problem with the whole democratic principle that if a community elects a local government, the local government should be able to operate in an unfettered manner. Having said that, it is clear that we need a better auditing process of local government. Hon Dr Steve Thomas mentioned the 2015 Corruption and Crime Commission’s report “Report on Misconduct Risk in Local Government Procurement” and the Public Accounts Committee’s 2006 report. They dealt with many issues and found there had been systemic problems for a long time. I have also raised the issue of a particular council with both the former and current Minister for Local Government and I will touch on that shortly.

Quite clearly, we need to ensure that there is a good process for the whole operation. I will talk at length about how we will manage this financially. Obviously, the budget has not come down yet, but we need to understand where we will get the funds for the Auditor General to carry out his work. As I said, we had a really thorough briefing; it was very good. The current Office of the Auditor General operates under relatively new legislation. In July 2006, the Auditor General and Financial Management Bills were tabled in Parliament. They provided for the separation of audit and financial management legislation in order to enhance the independence of that office. That has been a great thing for Parliament because, as other members have already said, we have had a really good, strong Auditor General who, without fear or favour, has investigated many things over different governments and pointed out failings and mismanagement. This is what we need in local government because self-auditing or employment of local auditors tends to mean some political involvement in the process. If we have a small local authority with only one auditor in the community, it gets a little bit murky. I want to talk about whether, in this case, the Auditor General will be able to appoint other auditors to do the work. I hope that I will hear back from the Leader of the House that, in appointing auditors, the issues of local pecuniary interests and local relationships will be addressed in the future.

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With regard to enabling legislation, the Auditor General is appointed by the Governor under the Auditor General Act 2006. The Office of the Auditor General is established as a department of the public service under the Public Sector Management Act 1994. As a chief executive officer, the Auditor General is also responsible for arranging staffing functions under the act. The Auditor General's role is to audit the finances and activities of the Western Australian public sector. In undertaking this task, the Auditor General will scrutinise the public sector for potential instances of wastage, inefficiency or ineffectiveness, and report his findings to Parliament.

That is important, because one of the things we currently find with auditing local government is that it shows only whether the books are correct, and therein lies a problem, because if the shire has been administered in a really bad way, the books might still be correct but the financial mismanagement might be significant. The Corruption and Crime Commission report identified that a number of councils had for various reasons managed their matters in ways that, although not picked up by the local auditor, were still problematic. Quite clearly, audits were going through and no faults were being found. For example, a number of contracts had been let without proper process at the City of Stirling; the awarding of contracts was found to be incorrect at the Town of Cottesloe; fraudulent activity was found to be taking place at the Shire of Murchison; employees at another council were fraudulently acquiring toner cartridges; tenders were going out without due process at the Shire of Kalamunda; and, contracts were being awarded to personal friends at the City of Bayswater. A number of things were dealt with in that report, which also indicated that these activities might be much more widespread than just the ones that were investigated. Hopefully, in bringing in the Auditor General—for whom I have the greatest respect—he or she will have a mandate to look beyond pure auditing. In that regard, we will be well served.

When the Local Government Amendment (Auditing) Bill 2017 passes and becomes an act, which I think will happen very, very quickly, we will need to have in place a good transition from the current process to the new process. It is really important that the government articulates how that is going to occur.

**Hon Dr Steve Thomas** interjected.

**Hon ROBIN CHAPPLE:** Yes. I am certainly —

Several members interjected.

**Hon ROBIN CHAPPLE:** Lovely, thank you. We are having a love-in here; it is great!

There was quite a bit of correspondence back and forth from various offices after our questions.

The issue is how long it will take the Auditor General to do the performance audits. Obviously, contracts will be let by the Auditor General to other auditors to do that. It will be interesting to see what the time frame is. The very pertinent point that comes to my mind is the need to ensure the budget provisions allocated in the 2016–17 financial year. In the original budget we noted that local government auditing transition costs were estimated to be \$241 000 for 2016–17. That amount had been approved under the former government to meet the transition costs, including salaries and training associated with undertaking financial and performance audits of local government authorities from 1 July 2017, as was the plan. I understand that the budget is yet to come out, but we need to know, if the Auditor General is going to get these powers and responsibilities, that the requisite amount of funding will be made available for the auditor's office to do its job. The net hire cost of the service in 2015–16 and 2016–17 mainly reflected the growth of employee expenses, particularly due to the expansion of the Office of the Auditor General's mandate to include local governments. The net cost went from \$6.726 million to \$7.612 million. There was a significant increase. Again, it will be very difficult for the Office of the Auditor General to carry out its responsibilities without an increase in funds to the office.

I have an issue with the failure of local governments to do certain things—specifically the Shire of Carnarvon, which I think a member in the other place also has had some issues with. In my view, the Shire of Carnarvon certainly needs the Auditor General to spend some time reviewing its operations. The shire has had a number of audits and probity exercises conducted, but not to my satisfaction or, indeed, to the satisfaction of a large number of residents in that area. I wrote to the former minister in 2017, who wrote in response to my concerns —

As you have stated, recent media reports highlight that the Shire Council agreed to participate in a governance review to be conducted by the Australian Institute of Company Directors ...

The AICD review will focus on governance probity, transparency, accountability and consolidation of procedures and processes; in particular, the areas of financial performance, resources, risk mitigation and efficiency in the performance of the local government's functions. The aim of the review is to identify areas for improvement and develop strategies to address concerns. Council members will also undertake training on 'effective community leadership' in early March 2017.

Instances of bullying and harassment have been reported to WorkSafe, which is the appropriate agency to investigate these matters.

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The minister also stated —

I acknowledge that a level of discomfort exists within the Carnarvon community in relation to the performance of the Council. If there are ongoing concerns, the community should continue liaising with the Shire, for example, by asking questions during Public Question Time at Council meetings. I also encourage community members to vote in the 2017 local government elections to ensure that their voice is heard in selecting a representative Council.

Subsequent to that, I had further correspondence with the minister at the time, Paul Miles, in which he said in relation to the problems that I had articulated around the contracting and purchase of materials for the fascine wall —

There can be no doubt that the fascine wall project and tender has been problematic for the Shire, of major concern to the local community and is creating ongoing concern to date.

I point out to the house that those concerns are still there and are prominent. A lot was sheeted back to a previous local government manager for inappropriate contracts. That manager has gone, but what is important is that the former Department of Local Government and Communities, as stated by the former minister, and I think the same is true today —

... is not able to investigate the suitability of technical specifications in a contract, only that the correct procedure for conducting a tender is being followed.

We know that the wrong steel was purchased, that it was purchased for well over the price for which it should have been bought, and that the whole fascine wall is now eroding to the point at which it will shortly have to be replaced. This has been an expense incurred by the council without proper due diligence. The minister went on in that letter to me of 9 March 2017 to say —

Regardless, I appreciate the frustration of the Carnarvon community and for that matter the local council with the current situation, so I have requested that my department will visit the shire to determine how community concerns will be addressed and for confidence in the community to be restored in its local government.

I really want to know which aspect of the Auditor General's involvement in this will enable him to look at the more systemic issues of purchasing and those sorts of issues, rather than just the fact that local governments meet auditory requirements. Therein lies one of the major problems. There can be an audit trail that shows that the money was spent properly on X, Y and Z, but the function of the council in doing its job was not up to standard. I also have subsequently written to the new minister, who indicated in a letter to me on 5 July —

I am visiting Carnarvon soon, and will take your advice to reach out and meet with the Carnarvon Chamber of Commerce.

That group has also had significant problems with the way contracts have been let. Interestingly, in that letter the minister also said —

My announcement of a major review of the *Local Government Act 1995* will, I am sure, be of interest to you.

We wait with bated breath for that announcement to come through. Hopefully, it will enable better diligence around the sorts of activities that some local authorities undertake. I go back to the point Hon Dr Steve Thomas made that there are incredibly good councils out there that are doing a sterling job.

**Hon Dr Steve Thomas:** Especially in the south west!

**Hon ROBIN CHAPPLE:** I was going to say in the north west, but there you go! Having said that, the key issue is that we want the ability to ensure that proper processes and proper due diligence are carried out by local authorities.

I go back to the point that in some shires that I deal with, unfortunately, the only person I meet with is the local government authority manager, not the mayor or councillors. LGA managers now seem to speak with abject authority for local governments. Local government is the third tier of government and has elected members, a mayor, a deputy mayor and other officers, and it is those people whom the community entrusts to run its council. They do not abrogate their responsibility immediately to some chief executive officer. I must admit that if we looked at CEO salaries, most staff here would be incredibly envious. In that regard, I flag that that is one of the systemic issues with local government. As we saw with the recent Exmouth inquiry, it was not the council per se that did the wrong thing; it was, again, the management.

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With that, I totally support the bill. I hope that it goes a long way towards addressing the issues raised in the Public Accounts Committee's twelfth report of November 2015, "Improving Local Government Accountability", which rightfully refers to the work done by the deputy chair when a previous committee dealt with this issue. Unless we get this right, local government will be an ongoing problem into the future.

**HON SAMANTHA ROWE (East Metropolitan — Parliamentary Secretary)** [3.06 pm]: I rise to support the Local Government Amendment (Auditing) Bill 2017. Given the extensive contributions made by members of the chamber, I do not intend to take up too much of the house's time. A lot of really good points have been made and clearly we are all in furious agreement that this bill is a very good piece of legislation. I dare say that it is probably a long time coming. I want to put on the record a few comments about transparency and accountability, because I think that the public now expects a lot more transparency and accountability from all tiers of government—local, state and federal. There is greater expectation that those in public life will be fully transparent and accountable. I will make a few points about that.

The Minister for Local Government has taken a positive step by bringing forward this bill. In some ways it is the first step. I look forward to the minister doing a full review of the Local Government Act because, as we have heard from other contributions, we need to look at further issues to make sure that local government is more transparent and accountable. I will not touch on points to which other members have referred.

There have been a number of recent scandals in different local governments, such as the City of Perth and the Shire of Exmouth. When those things happen, members of the public come to us as members of Parliament, as their representatives, and demand that we take action because they do not want corrupt behaviour at any level of government. It is very timely that this bill has come to this place now. I know that the former Minister for Local Government was going to introduce a similar bill, and I commend him on the work he did. That is great. I will mention others as I go on.

As I said, the community expects transparency and accountability at whatever level of government. Significant local government reviews have been undertaken. We have already heard from Hon Dr Steve Thomas, who was part of the 2006 review. There was another review in 2015. The reviews that were undertaken were by the then Public Accounts Committee in its fourth and twelfth reports, both of which concluded that we need more comprehensive, transparent reform in the WA local government sector. I know that other members have commented on what was recommended in those reports. I do not want to repeat what Hon Dr Steve Thomas has already said, and I do not need to requote members, but both those reports made really important findings. They were tabled back in 2006, so it has taken a while to get here, but at least we are finally at this point.

Without holding up this legislation, I want quickly touch on the situation in other states. I want to talk about my former state, Victoria—I am a full Western Australian now! Victoria has a very robust framework for local government auditing. The Victorian Auditor General provides analysis of the financial results of 79 local councils, including their financial sustainability risks. That is important to note. The Auditor General also informs the Victorian Parliament about significant issues identified during the audit. Any internal controls that might have issues are raised at the level of the Parliament. There is also an assessment of whether processes and practices contributing to financial risks have been identified. That provides very clear accountability to ratepayers and the community more broadly, on current financial reporting, and also establishes whether genuine reform is taking place. That is a really positive step towards broader reform that we might want to look at as well.

The bill before the house will benefit not only the community but also local government. Local governments will benefit under the new regime, as the Auditor General will be able to identify any instances of noncompliance, wastage, inefficiency or ineffectiveness, and bring these to the attention of local governments. That can only be seen as a good thing. Obviously, for the community, this allows greater transparency and accountability. It means the community can now hold its local government to account. There is nothing for local governments to be afraid of in that. In 2017, people expect that level of information to be made available. Given that it is 2017, transparency is needed on whether local councils are keeping up with technology. Some councils provide online information that is easy to access, but some do not. For example, I would like to throw out the idea that maybe some councils might want to consider in the future whether they video and live stream their meetings. It is becoming increasingly difficult for the general public and ratepayers to attend council meetings. They will not always be convenient for people to get to, and councils need to keep up with the times. I do not think it is unreasonable for a local council to live stream its meetings. The public should be able to log on from home with that option. I just bring that to the attention of the house.

I would like to mention very quickly the hard work of my parliamentary colleague John Carey, the member for Perth. When he was the Mayor of Vincent, he did some outstanding work. He led the way in introducing reform into this sector. He introduced the register of contact with developers. He always advocated for greater transparency in local government to the point at which he went to the Western Australian Local Government Association conference and asked its members to consider a package of reforms that WALGA could take to all

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political parties for consideration before the next election. It is well documented that he was defeated by, I think, 172 votes to 46. I want to make this point: he was not asking for a firm commitment to exact reforms; he was asking them to consider reforms. What annoys me is that the leadership of local government would not even consider looking at reforms, which is disappointing. It is timely that we are now bringing in the Local Government Amendment (Auditing) Bill 2017. It is long overdue and I am really excited by what will be taking place. I am also excited that the minister is going to look at reviewing the entire act, because there is a lot that we can do in this space.

The last point that I would like to touch on is the direct election of mayors. If we really want full accountability and transparency, it needs to start with the democratic election of mayors. Rather than simply having, in some situations, councillors deciding behind closed doors who will fill that position, it should be open to the ratepayers to decide who will be the mayor. I know that that is not fully supported by everyone, but that is what I would like to see because that encourages more community engagement. Ratepayers would be more involved in the process if they got to have a say on who will be their mayor.

**Hon Alannah MacTiernan:** Member, do you think that we should perhaps ask the constituents if they want this? Perhaps we could let each local government area decide whether or not they want it.

**Hon SAMANTHA ROWE:** I absolutely support that. I am a big fan of engagement and consultation with the community; this gives its members the opportunity to have a better say.

**Hon Aaron Stonehouse** interjected.

**The ACTING PRESIDENT (Hon Dr Steve Thomas):** Members! There is far too much banter in the chamber. It has been like that all afternoon.

**Hon SAMANTHA ROWE:** This is what happens on a Thursday afternoon when we all start to get a bit tired. I do not want to hold up the passage of the bill. I want to finish on the point that it would be a good idea to look at having directly elected mayors, which encourages greater community involvement. The turnout rate of people who vote in a local council election is very low. Perhaps if they had a chance to participate in saying who they wanted as their mayor, we would get a higher rate of participation—I am not sure. Anything that encourages greater community involvement with local government is a good thing. I am really supportive of the changes that are coming forward through this bill. It is a great first step and I look forward to many more reforms in this area.

**HON ALANNAH MacTIERNAN (North Metropolitan — Minister for Regional Development) [3.18 pm]:** I agree wholeheartedly with Hon Samantha Rowe that if we had directly elected mayors, we would really see some quality candidates put up their hand. Although there are some really good substantive and administrative reasons that could enhance local government, and I will outline these reasons later, it does bring with it some challenges. Firstly, I want to congratulate the Minister for Local Government, who, with his typical energy, has got out of the starting blocks early to bring in this incredibly important legislation.

**Hon Donna Faragher:** Reintroducing a bill of the former government.

**Hon ALANNAH MacTIERNAN:** It was reintroducing a bill that, in the last eight and a half years—I am not being critical, but given the minister —

**Hon Donna Faragher:** I bet you will!

**Hon ALANNAH MacTIERNAN:** The member has interjected! As the Acting President (Hon Dr Steve Thomas) pointed out, the report on which this legislation is based was available to the previous government during the whole eight and a half years it was in government. I acknowledge that Hon Tony Simpson brought this legislation forward in the last year of the former government. Although I have great regard for Hon Tony Simpson, members opposite could not really hold up local government reform up as one of the achievements of their administration while they were in government. There may be some other things, but I think I would be on pretty firm ground in saying that this is not an area in which the previous government distinguished itself.

I want to pick up on some reflections that have been made by other members. This provision, particularly in relation to financial auditing, is something that elected members of local governments should embrace and see as a positive thing. From my experience as a mayor, it is very difficult to get an independent read on the finances of an organisation. I have a particular beef. When I became Mayor of the City of Vincent, I had a number of causes for concern. I contacted the former Department of Local Government and Communities because I did not have the capacity as mayor to independently seek advice from outside agencies. On many occasions I went to the department of local government to raise the concerns I had and to ask for a briefing and a discussion. I never got anywhere! Much to my surprise, a couple of years after, when I was no longer mayor, I discovered that, notwithstanding I had been making those overtures, the department of local government had written to the CEO

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on several occasions raising concerns about the issue. Guess what? They were not raised with the council. The department, in high dudgeon, finally contacted the new mayor and asked why those issues had not been dealt with. The letter that had been sent to the CEO about the performance of the council over a number of years had never been brought to the attention of the elected members. I am very pleased that this piece of legislation, which has been brought forward by the Minister for Local Government, makes it very clear that the audit reports are to go to the mayor or president of the local government, the CEO and the minister. We will then have some disclosure about these matters.

I think there are some very considerable problems in local government culture. I am not saying that all the problems are on one side but very often within the administration of local government—some absolutely fantastic and brilliant people work within the administration of local government—there is somewhat of a culture that suggests that councillors and elected people come and go but the administration stays around forever. The elected members are very often described as “amateur hour” and something that has to be endured. That culture influences many of the decisions that we see about disclosure and transparency. The lack of transparency around CEO salaries is extraordinary. Every person who is in a senior position—the CEOs of state and federal government institutions and we as elected members—has every cent and every Bravo apple that they might buy for a promotion listed. But then we have this incredible secrecy around the salaries of CEOs. This really is, I think, quite a corrupting process. I found as mayor that when we were having to review salaries, I was not allowed to actually get a copy of the CEO’s salary. I was able to read a copy but I was not able to take a copy, and there was limited ability for us to disclose this. This is all absolute, complete and arrant nonsense. I think one of the problems we have seen in local government—I think the Western Australian Local Government Association has played a real part in this—is that it privileges incumbency. I know this from my participation in an interview panel: a variety of skills may have been required for the position, but the underlying theme from the representatives of local government and through WALGA was that knowledge of the Local Government Act had to be privileged above all else. The person might have been the most fantastic planner, had great administrative skills and have been able to go out there and articulate an argument and show leadership, but the critical thing was knowledge of the Local Government Act. I think this has to change. I think local government needs to be brought into the twenty-first century. We need more people moving in and out of local government. We need to bring people in from state and federal government and, likewise, recognise that people who have been in local government can play roles elsewhere. It should not all be about someone’s knowledge of the Local Government Act. I think some pretty profound cultural changes need to take place.

The Acting President referenced the need for probity auditing. I absolutely agree. I will give an atrocious example. A group of printers came to see me. They could not understand why with a green council like Vincent, they—being the only people who had met a whole variety of sustainability standards—could not ever win a printing contract with the City of Vincent, and that the same company got contract after contract. I thought I would just do the normal thing and write and ask for a briefing note. I asked for a briefing note and asked for a briefing note. After about three months I said that if I did not get a briefing note by the next day, I would be submitting an FOI to find out what had happened. Anyhow, it eventually transpired that the person in charge of issuing these contracts had this nice little arrangement whereby the companies would submit their tenders and the preferred company would be shown the tenders of the other companies and then be given an opportunity to rematch.

**Hon Samantha Rowe:** That is outrageous!

**Hon ALANNAH MacTIERNAN:** I regret that I never personally took this matter to the Corruption and Crime Commission, but I was advised that the CCC had said it did not want to investigate it. I think we need probity auditing, because these arrangements can become very, very comfortable. Mind you, that having been said, I would not say that that applies to local government only. In my experience, there have also been instances in state government of these things happening. I am not saying that it is only in local government that that can happen, but I think we need the capacity to bring someone in from the outside. Hon Robin Chapple raised the issue of regional audit firms. That is a very positive suggestion, and it is consistent with this government’s overall policy. We are keen to ensure that in this process, there is not a drift of work from the country into the city. Therefore, we have said that regional accounting firms that have traditionally provided audit services to local government will be given the opportunity to skill up. However, the alarm that Hon Robin Chapple has raised is important. Many local governments are in communities of fewer than 1 000 people. The relationships in small communities may be such that it is difficult for people to make negative findings against other people in their community, particularly people on whom they are dependant for their work. This is a challenge that we will need to meet. Another issue is that from my experience, it is extremely unhealthy for the same company to audit the same local government year after year. Therefore, although we want to ensure that the audit work remains within the regions, audit companies should not audit within their own communities. That would be my strong advice, and that will also help deal with the challenge that I have mentioned.

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Hon Dr Steve Thomas, the Acting President, made an important comment about how financial sustainability is not related to the size of the council. We need to be careful about sustainability reports. I note that when I was a councillor at the City of Vincent, we were often presented with sustainability reports that had been prepared over the years that showed that the finances were incredibly sustainable. However, although we certainly might have been sustainable, because of the way the finances were being managed at that time, that was not the case. When we talk about developing sustainability standards, we should have a clear way of making those determinations. We should also ensure that it is an external assessment and not a self-assessment.

It is a tragedy that over the last eight years, so much time, effort, management capability and focus in local government has been spent dealing with various iterations of local government reform that at the end of the day led nowhere. Hon Samantha Rowe made the same comments. That effort detracted from properly engaging with these issues. We need to strengthen local government. However, it is important that we do not make local government so onerous that no-one would want to go into it. Local government is an important tier of government. We want to create an environment that encourages good people to put up their hand for local government. In my view, external auditing and greater disclosure and transparency in local government will make it easier for people to put up their hand because it will lessen the risk associated with local government.

I feel the need to comment very quickly on the issues relating to the Shire of Carnarvon, which Hon Robin Chapple raised. Unfortunately, I lost the middle part of what he said as I was moving from the cell into the chamber.

**Hon Nick Goiran:** Don't you like your office? Did you say "cell"?

**Hon ALANNAH MacTIERNAN:** I did. Who says I do not like cells? But it is a bit squashy. We have six people working out of one room, so it is tiny, but I am very fond of them all; I love the company.

**Hon Peter Collier** interjected.

**The ACTING PRESIDENT:** Members, can we return to the substance of the bill, please.

**Hon ALANNAH MacTIERNAN:** Yes. I did provoke them by using a colourful word. I must stop being colourful. There clearly have been massive problems with the fascine project that was funded under royalties for regions, but I am not sure that I would blame the elected officers of the shire.

**Hon Robin Chapple:** I agree with you to some degree. There is a lack of oversight over the problematic person.

**Hon ALANNAH MacTIERNAN:** Quite possibly. I am working with the Minister for Local Government because such significant sums of royalties for regions money was spent and there are now question marks about the integrity of the steel that was used in construction. I believe that the elected members have really genuinely tried to get to the bottom of the matter. I am not sure that local government has always been best assisted by the department when these sorts of issues have come up. I am particularly interested in getting to the bottom of it. When the council expressed concern about a particular contractor, to get a degree of neutrality it asked the Western Australian Local Government Association to take over the process of putting the next stage to tender. It seems almost inconceivable that WALGA could have come up with the same contractor that had been so problematic in the first instance. Precisely how this happened and the composition of that panel needs to be teased out. It has created an enormous division in Carnarvon. It is an ongoing conflict and it would be very helpful if we were able to get to the bottom of what happened once and for all, because what happened seems so absolutely improbable.

I will finish by saying that this is an important piece of legislation. It will be good for local government. It will create a real transition into the twenty-first century; local government will be more attractive to a wide range of people in the administration; and standing for local government will be de-risked for many in our community.

**HON Dr SALLY TALBOT (South West)** [3.39 pm]: I want to make just a few comments on the Local Government Amendment (Auditing) Bill 2017. I note that this bill is slightly different from the bill introduced by the previous government because it mentions "regional subsidiaries". I was a member of the Standing Committee on Legislation—Hon Donna Faragher might remember this—at the time it did a short, sharp inquiry into regional subsidiaries, which had been suggested in this place by Hon Max Trenorden.

**Hon Donna Faragher:** I think we actually looked at his bill.

**Hon Dr SALLY TALBOT:** We did indeed look at his bill. It was a very interesting experience for me, because I had heard Hon Max Trenorden speak in this place about the concept of regional subsidiaries. Like you, Mr Acting President (Hon Dr Steve Thomas), he also came from that other place, and I must say that you have adapted very quickly. I think it took Hon Max Trenorden a couple of weeks longer than perhaps it did for you.

I was not convinced of the merits of his idea until the committee actually did that inquiry. During the course of the inquiry, the committee received an enormous number of submissions—I have quickly checked this and it must



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have been about 30 or more submissions—and also conducted a series of hearings. I found that enormously persuasive. I think that in the end the committee report recommended in favour of that adoption. That report gradually trundled its way through the process and here we are some years later—I hope Hon Max Trenorden is marking this moment—seeing his idea come to fruition. That is why I was a little concerned and wanted to read in more detail the reasons the Robson review, commissioned by the previous government, had recommended that our current regional councils be disbanded. I suspect that that had a lot to do with the management of waste. I think that is something that will undoubtedly occupy the two phases of the inquiry that the Labor Minister for Local Government, Hon David Templeman, has put into the Local Government Act. I genuinely think that Hon Max Trenorden's idea had merit; however, I can also see the absolute wisdom of the recommendations made by Alan Robson that we should not be deferring certain functions to those regional conglomerations of local governments because it is simply not working. Yesterday's headline in *The West Australian* was a clear marker of a turning point in how to handle waste management in this state. I know that is a subject that is probably almost as close to Hon Donna Faragher's heart as it is to mine. I am not going to say anything about that. I was going to say something in an earlier debate today, but I did not get the opportunity to speak.

**Hon Donna Faragher:** I thought you were going to ask the Minister for Environment a question on waste.

**Hon Dr SALLY TALBOT:** I will keep my powder dry on that one.

It has been a long time to get to this point. I also wanted to point out that this is only the first and quite minor tranche in a series of local government reforms that we can expect to see over the next four years. As I mentioned the other day in my contribution to the debate on the motion on the previous government's financial mismanagement of this state, we really do have to call that eight and a half years the "lost years". Nowhere is that more evident than in the area of local government, when—I will not say that it ground to a halt, because local government is actually a very efficient sector by and large in delivering vital services to local communities—the development of the sector went through some dead years. That was particularly the case in the south west. I know Mr Acting President, you will be as familiar as I am with the views of the many local government authorities in the south west about what happened in the last eight and a half years. It is probably one of the reasons we do not have "John from Collie" as one of our colleagues in this place, Mr Acting President! However, I will move swiftly along.

The Robson review was an attempt to break the stalemate that happened. We now know—we have yet to read the full account—that the Robson review was a way of trying to bring that stalemate to an end and to break the vicious cycle that was started when the then Premier insisted on proceeding with some forced amalgamations. I do not say this just to score political points although, as honourable members know, I am always happy to do that. I know, Mr Acting President, you are now having the same conversations with local governments as I am. A number of our local governments were eager to move forward. They were eager to see what rationalisations they could bring about. Many of them already have shared arrangements in place including shared payroll and infrastructure arrangements. However—I think it is a very sad thing for the sector—because of what happened in the last eight and a half years, they did not proceed with any of them. They have drawers full of the stuff and I hope this government is now signalling that local governments should have the confidence to take those plans out of the drawers, put them back on the table and be fully engaged participants in the process that the Labor Minister for Local Government has now put in place with a review of the Local Government Act. The minister has already said that it will take place in two stages, so there is plenty of time for everybody to dust off their plans, put them back on the table, and start talking to us about how the state government can assist the local government sector in moving well and truly into the twenty-first century.

We have already taken significant steps towards professionalising the role of local government officers. Local Government Professionals Australia WA is one group that supports this legislation. Chief executive officers are frequently paid very handsomely, as Hon Alannah MacTiernan referred to in her contribution to the debate. I absolutely agree that there should be more transparency and that is one thing that will take place with this bill. Without going into any of the specifics that have already been well canvassed by my colleagues on this side of the house, including Hon Robin Chapple, I am making the general point that those roles have largely been professionalised. Sadly, I do not think we have managed to take those same significant steps with elected councillors. I do not say that to demean or disparage the work that they do in any way; I say it because I think that few people outside the government sector have any true appreciation of the extent of the work that is involved for a person who puts up their hand to become a local councillor. I spoke recently to an old acquaintance of mine. About five years ago, she retired from her job as an academic and moved to the south west. Within about five minutes, she found she was elected to the local council. This person is used to dealing with complex documents and sitting down with material that she is not familiar with and getting her head around it. She told me that she has to spend one full day every week on her council papers. She is supposed to be retired but she does not mind doing it because she sees it as part of a way to repay the community of which she is now a part, but that is an enormous amount of work. She does eight to 10 hours of solid reading apart from going to any meetings or attending official

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local government functions—opening things and closing things. It is an enormous amount of work. I am absolutely certain, because I know lots of our councillors in the south west, that she would be one of the few who reads every word of the documents that are given to her. She would be one of the few who can sit down with material, which we know is pretty complex, and find her way through it. We ought to be doing more training and professional development for people who take on these roles.

By way of an aside, I will make only one more comment and I have a couple of colleagues who have things they want to say.

Several members interjected.

**Hon Dr SALLY TALBOT:** I am trying to be collaborative.

To give an absolute, contemporary flavour to the debate today in this chamber, it would not have escaped the attention of honourable members that about 10 days ago, Hon David Templeman, the Minister for Local Government, remarked that about 22 councils were on his current watchlist. Although we have talked about Carnarvon and the Shires of Exmouth and Dowerin in recent months, and, of course, the issues with the City of Perth continue with the Lord Mayor, 22 councils are on the minister's concern list. I am very glad to see that local government is not resisting this move, because I think local government sees this as a way of taking that important step towards professionalising the sector and increasing the degree of transparency so that it is on an equal footing with other public agencies. That is quite proper and exactly how it should be and I am very pleased to be supporting this legislation today.

**HON ADELE FARINA (South West) [3.50 pm]:** I am happy to speak on the Local Government Amendment (Auditing) Bill 2017; I think it is long overdue. As members have stated, it provides for the independent oversight of the local government sector, including regional subsidiaries, by the Auditor General. There have been two really substantial reports on this debate, as was mentioned by an earlier speaker, by the Public Accounts Committee in 2006 and 2015. If members have not had an opportunity to read those reports yet, I highly recommend them because they really highlight the problems within local government that need to be addressed. The fact that they were initially identified in 2006 and it has taken this long for this bill to come before Parliament for us to consider independent oversight of local government is very disappointing.

During the intervening period, there have also been a number of reports by the Corruption and Crime Commission following investigations into local government. Some of those reports are absolutely damning. If members have not had an opportunity to read the CCC's "Report on Matters of Serious Misconduct in the Shire of Exmouth", they might want to, because it is particularly damning. I will just read some parts of the introduction of the report. It states —

- [1] Mr Bill Price was appointed CEO of the Shire of Exmouth in July 2010.
- [2] By 2016, any good that he had done was overshadowed by his arrogation of power. He was a law unto himself.

That pretty well sums up the CCC's view of the extent of the problem at the Shire of Exmouth. The report goes on to identify a number of instances in which the problem was brought to council's attention and the council had an opportunity to act, but did not, which is an awful indictment on the council. As a result of that, the then Minister for Local Government took the decision to dismiss the CEO and eventually appoint Ian Fletcher as administrator with the powers of the council, so both the CEO and the council were dismissed. An interesting aspect of this report is that it acknowledges —

... there is limited ability for a council, even when conscientiously carrying out an annual performance review, to properly supervise a CEO who disregards the policies and procedures and who deliberately lies to council.

I think that is really important. Time and again, I have been approached by councillors who are concerned about what is happening within their own local government and there is a lot of confusion about the extent to which councillors can actually oversight the duties of the CEO. This report highlights this fact and states —

There continues to be confusion as to the extent to which a councillor can make enquiries of administrative staff because of the limitation imposed by the *Local Government (Rules of Conduct) Regulations 2007* reg 9 which prohibits a council member from undertaking tasks that contribute to administrative matters without authorisation by the Council or CEO. The difficulties in this bifurcation of responsibilities are exacerbated when a council is dominated by individuals or the force of the CEO's personality.

By providing independent oversight of financial aspects of local government, this bill goes some way to addressing this governance issue in local government and the structural weakness that the Corruption and Crime Commission

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identified, but there is clearly more to be done. At some point we need to look at the implications of regulation 9 of the Local Government (Rules of Conduct) Regulations 2007, which is continually read to councillors by CEOs and council staff to tell them they need to butt out and that they are not allowed to make any inquiries. It creates a problem with the oversight of the administration of local government. In my view, the Local Government Act has swung too far in favour of the administration staff and taken away powers that should rest with the councillors. I think that is a real problem and certainly has been a problem with some of the local governments in my area.

I note the time, so I do not want to speak on this for too long. I also know that the bill extends the power of the Auditor General to audit regional subsidiaries, which I fully support; I think that is great. However, I have a question for the minister to provide some clarification on when she replies to second reading debate. I note that clause 6 extends the power of the Auditor General to undertake audits of regional subsidiaries, but proposed section 3.70A(2) states —

The application of a provision under subsection (1) is subject to any prescribed or necessary modifications to the provision provided for in the regulations.

This regulation-making power provides for the regulations to amend the principal act. I have stood in this place on numerous occasions expressing my very strong concerns about provisions in legislation that allow regulations to amend an act. As legislators, we should not be passing legislation that allows that to happen, and we certainly should not be doing it without adequate explanation and being satisfied that it is absolutely necessary. I turned to the explanatory memorandum to find the explanation about why this provision is considered necessary and, as is often the case, there is no explanation about why this is being proposed. I have some very serious concerns about this provision and I would really appreciate the minister clarifying why the drafters of the bill were unable to identify what these necessary modifications might be and incorporate them into the drafting of the bill, and why they are leaving it to regulations at a later time. I stress again my really strong objection and remind all members in this place that as legislators we should not be passing legislation that provides for regulations to amend the principal act. It is something that we should not be doing and it is completely unnecessary. It is just lazy drafting and lazy preparation work ahead of the bill, in my view. It also takes away from parliamentary sovereignty. We as a Parliament should be making the decisions about legislation; we should not be leaving that to the executive. So, unless there are some really good reasons, I have problems with that.

The other aspect of this is that it provides for the regulations to amend the principal act as it applies to regional subsidiaries, but not as it applies to local government. The question then becomes why we are now differentiating between local government and regional subsidiaries. I am not too sure. There is no explanation in the explanatory memorandum, so I would certainly like some clarification so I can explain it to local governments in my region when they ask to meet.

The other provision I have some interest in is division 3B, “Supplementary audit”. I have no problem with the minister having the power to require or request a supplementary audit, but I find proposed section 7.12AH(3) interesting. It states —

The Minister —

- (a) may give a copy of the report to the mayor, president or chairperson of the local government, and to the CEO of the local government; and
- (b) may request the CEO of the local government to publish the report on the local government’s official website.

Proposed section 7.12AH(4) states —

The CEO must publish a copy of the report on the local government’s official website within 14 days after receiving a request under subsection (3)(b).

What I do not understand is that if this bill is all about transparency, why would there be any circumstances in which the minister would require a supplementary audit and then not provide it to the chief executive officer or the mayor and not require it to be published? This bill requires all the annual audits to be made public, so if there is a situation in which a supplementary audit is required, it also should be made public and published on the official website. They are just two questions that arise from my review of the bill, and I would appreciate the minister addressing those in her response. With those concluding comments, I commend the bill to the house.

**HON SUE ELLERY (South Metropolitan — Leader of the House)** [4.00 pm] — in reply: I thank members for their contribution to the debate on the Local Government Amendment (Auditing) Bill 2017 and for their support. A couple of members raised some issues of concern on a similar theme, so I will refer to those in a decent response. Where there were specific issues that nobody else raised, I will deal with those last. I will begin with the questions about the performance audits. Performance audits will examine the economy, efficiency and effectiveness of any aspect of a local government’s operations. A number of members raised a question about what were the likely

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things that a performance audit might look at. It might look at systemic issues or it might look at a specific theme. For example, a performance audit might be carried out on procurement and tendering practices. The bill will also allow for the Auditor General to audit legislative provisions and the internal policies of a local government. A performance audit may be conducted across the whole sector, on a number of local governments or even on a single local government, and these would be initiated by the Auditor General. The Minister for Local Government can request the Auditor General to undertake a performance audit, but the final decision on whether to accept that request and conduct the audit rests with the Auditor General.

Questions were asked about whether there was any anticipation of how many performance audits might be expected to be undertaken in any given year. It is anticipated that that will be entirely up to the Auditor General to determine. It could be influenced by a huge range of factors, including whether issues come to public attention, whether they are brought to the attention of those departments that are monitoring local governments, or whether they are raised by other investigative bodies such as the Corruption and Crime Commission.

In respect to reporting on a performance audit, the Auditor General may prepare a report following a performance audit, and if he does, it must be given to local government. A performance audit may be across the whole of local government, and in those cases the Office of the Auditor General may not provide a report to an individual local government. If a local government is given a report, it is to address any matters identified as significant and provide details of the action it intends to take, or has taken, to the minister. The action report is to be provided to the minister within three months after the report has been received. That will allow time for matters to be considered by council and acted upon. The CEO is to publish a copy of the action report on the local government's website within 14 days of giving the report to the minister.

Questions were raised about whether performance audit reports would be provided to the minister when completed. A report on the performance audit will be tabled in Parliament through the Auditor General's report. Depending on the nature of the report or the performance audit, and depending on whether there are any legal matters associated with it, it will be up to the Auditor General whether he wants to provide a copy of the report to the Minister for Local Government and/or the department. Ultimately, it is a discretionary issue. Section 25(2) in part 3, division 3 of the Auditor General Act 2006 states, in part —

... the Auditor General must —

- (a) give a summary of findings to the Treasurer, agency or audited local subsidiary, as the case may be, and any other person who, in the Auditor General's opinion, has a special interest in the report; ...

The Office of the Auditor General expects to audit 10 per cent of local governments and contract out the rest, but it is important to note at this point that 10 per cent is a working guide. The Auditor General cannot be certain that that is exactly the right balance until Office of the Auditor General staff have been in the sector and seen firsthand the audit risks and the quality of audit work being done. The Auditor General will select the 10 per cent based on covering a mixture of metropolitan and regional local governments and local governments of various sizes.

I now refer to the Auditor General's assessment of audit risk at each local government. Audit risk is made up of inherent and control risk. Inherent risk is about the complexity of business and associated transactions. Control risk is the likelihood that the organisation's control arrangements may be weak and will fail to detect material error or fraud. In assessing these risks, the Auditor General will draw upon information held by the department as well as other sources that are available. Question were also asked about whether a different 10 per cent would be selected in the second or subsequent years. The answer is no. Audit continuity is important to delivering an efficient and effective audit. The local governments that the Auditor General selects to audit using Office of the Auditor General staff will be audited by them for a minimum of three years.

Questions were asked about the standard of audits that will be done under contract. Members may already be aware that the Auditor General currently contracts out about 40 per cent of state agency audits, and, as a result, those firms have considerable experience ensuring the quality of audits done under contract. Every contracted local government audit will be done according to a documented, well-established approach. The engagement leader for the audit will be an Office of the Auditor General staff member who approves the audit approach and all key decisions about the audit. The engagement leader will review the audit firm's working papers and the local government's financial statements. The signing of the audit opinion will not be delegated to the private firm; rather, it will be signed by the Auditor General or a senior officer delegated by the Auditor General. The Office of the Auditor General's contract management approach will be overseen and quality assured by its technical and quality branch.

Issues were raised about the standard of audit firms that the Auditor General might use. Local governments are currently using 11 firms. The following local government audit firms are accredited—Deloitte Australia, Grant Thornton Australia, RSM, Butler Settineri, AMD Chartered Accountants, and Moore Stephens. UHY Haines

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Norton merged with Moore Stephens on 30 June 2015. I am advised that we think that the Moore Stephens part of that joint venture that does local government audits.

The following audit firms are not accredited—Byfields, mCloud, Corporation, Lincolns, Anderson Munro and Wyllie and Macro Partners. Questions were asked about whether support would be provided to the audit firms that are not accredited and whether funding would be allocated to the Auditor General, and, if so, how much. No extra funding will be required to work with the firms that are not accredited. The Auditor General has given a clear indication that his office will work closely to upskill those firms not accredited.

Questions were asked about monitoring the standard of audit firms and their audits. As I said earlier, about 40 per cent of state government agency audits are contracted out, and, as a result, they have considerable experience in ensuring the quality of audits done under contract. Every contracted local government audit will be done according to a documented, well-established approach. The engagement leader for the audit will be someone from the Auditor General's staff who approves the audit approach and all key decisions about the audit so there will be very strong oversight. That leader will review the audit firm's working papers and the local government's financial statements. The signing of the audit opinion will not be delegated to a private firm; rather, it will be signed by the Auditor General or a senior Auditor General office delegate. The Office of the Auditor General's contract management approach will be overseen and the quality assured by its technical quality branch. Questions were asked about the transition arrangements. The Auditor General will take over responsibility progressively over a three-year period, as local government audit contracts expire. Figures that are correct as at today's date indicate that 26 contracts will expire in 2017–18, 41 in 2018–19 and 14 in 2019–20. The expiry dates of nine contracts are unknown at this time. Provision exists to terminate an existing contract early. That might occur if a local government is identified as being at risk.

An issue was raised about Carnarvon in particular, and I just want to touch on that. I am advised that Minister Templeman is to visit Carnarvon next week. All 26 recommendations of the probity report have been implemented. The Minister for Regional Development is investigating the spend on the fascine wall, and is getting an independent report on the state of the wall. I am advised that \$600 000 is available to spend on the remedial action to halt corrosion on that wall, and that council reports indicate that the wall is sound. The Auditor General examined procurement procedures, and performance audits will examine Carnarvon's spending et cetera. I understand that, in that visit, the Minister for Local Government will meet with the local chamber of commerce as well as the local government.

Two issues were raised by Hon Adele Farina. The first was about audit requirements for regional subsidiaries. The question raised by the honourable member went to Henry VIII provisions, in which the act includes reference to regulations that, it may be arguable, override the Parliament's power to set the policy it wants in the legislation. An amendment is proposed to the act—proposed section 3.70A—setting out the audit requirements for regional subsidiaries. Proposed section 3.70A(2) reads —

The application of a provision under subsection (1) is subject to any prescribed or necessary modifications to the provision provided for in the regulations.

I am advised that that amendment ensures that regional subsidiaries are able to be audited by the Auditor General in the same way as local governments. The Auditor General will have the power to dispense with an audit of a regional subsidiary when the Auditor General believes this is appropriate. The amendment makes provisions for regulations on the audit of regional subsidiaries to be made if necessary. These regulations are limited, I understand, to substituting references to local government and the CEO with terminology relevant to the regional subsidiary. It is not the intention that regulations will change the provisions or the conditions but, for example, in the local government authority, the chief executive officer is the senior manager, whereas in a regional subsidiary, that person may be referred to as the manager. It is about, if necessary, changing the terminology to reflect that exactly the same kind of audit conditions are done to a subsidiary, but that the terminology is right. If it is about interviewing or dealing with a CEO in local government; in a subsidiary, that person would be referred to as the manager.

The second issue that the member raised was on discretion about reports. I am advised that the minister may give a copy of the report to the local government and may request that the CEO of the local government publish the report on the local government's official website. It is at the minister's discretion whether a supplementary audit report is published on a local government's website. In some cases, a number of local governments may be included in an audit, and it may not be practical.

Debate interrupted, pursuant to standing orders.

[Continued on page 3223.]

**Extract from *Hansard***

[COUNCIL — Thursday, 24 August 2017]

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Hon Donna Faragher; Hon Rick Mazza; Hon Dr Steve Thomas; Hon Robin Chapple; Hon Samantha Rowe; Hon Alannah MacTiernan; Hon Dr Sally Talbot; Hon Adele Farina; Hon Sue Ellery

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*Sitting suspended from 4.15 to 4.30 pm*