



PUBLIC ACCOUNTS COMMITTEE

INQUIRY INTO LOCAL GOVERNMENT ACCOUNTABILITY DISCUSSION PAPER - NOVEMBER 2005

Aim of this paper

Public Accounts Committee Chairman, Mr John Quigley MLA, addressed the WA Local Government Managers Association on 27 October 2005, where concerns were raised over interpretation of the Inquiry's Terms of Reference. In response to that meeting, the Committee would like to clarify that two main questions have emerged to this point of the inquiry:

- i. Should the Auditor General be involved in supervising local government audits?***
- ii. If yes, should audits go further than financial attestation to include compliance and performance examinations, similar to the Auditor General's powers regarding public sector agencies?***

The Committee is essentially seeking responses to those two issues, although the remaining terms of reference are broad enough to enable comment on any other issue considered relevant by local government.

The Queensland and Victorian Auditors General supervise local government audits. In practice, a majority of the audits are conducted by private auditors contracted by the Auditor General, who ultimately signs off on the audit. South Australia may be moving towards a similar system.

Submissions

This paper provides additional background information for people and organisations considering contributing to the inquiry.

The Committee encourages interested parties to contribute submissions. The closing date for submissions has been extended to **Friday, 16 December 2005**.

The Committee intends to conduct regional and metropolitan hearings early in 2006.

Public Accounts Committee

The PAC is established under the Standing Orders of the Legislative Assembly. It is not a Government committee; it is a bipartisan, parliamentary committee that can initiate its own inquiries, as it has done in this case.

The PAC's mandate is to inquire into and report to the Assembly on any proposal, matter or thing it considers necessary, connected with the receipt and expenditure of public moneys. It also considers whether the objectives of public expenditure are being achieved, or may be achieved more efficiently.

The Inquiry into Local Government Accountability was established on 17 August 2005 and the Committee expects to report to the Legislative Assembly in April 2006.

Inquiry terms of reference

The Public Accounts Committee will examine and report on:

1. Current accountability mechanisms for local government in Western Australia, including finance, probity and performance;
2. The capacity of the Department of Local Government and Regional Development to examine local government finance, probity and performance issues;
3. Whether the State Auditor General should have a role in local government audit processes; and
4. Other matters deemed relevant by the Committee.

For the purpose of the inquiry:

- “Probity” refers to honesty and integrity in decision making.
- “Attestation” refers to straight financial reporting.
- “Control audits” assess whether appropriate procedures have been followed.
- “Legal compliance” refers to whether statutory provisions have been met.
- “Performance examinations” assess efficiency and effectiveness.

Inquiry background

The Committee resolved to undertake this inquiry after learning that local government accountability measures are not as comprehensive as those applied to expenditure by State or Commonwealth Governments. Further, in recent years some local governments have experienced budgetary problems, highlighting the importance of sound administrative procedures relating to the expenditure of public money.

The Committee recognises the importance of a strong relationship between state and local governments, as well as local governments’ crucial role in our communities. It is the Committee’s intent to facilitate a rational discourse on ways to enhance local government accountability.

Does Western Australia need an overarching accountability mechanism for local government?

Jurisdictions with a coordinated approach to local government accountability appear to have access to a level of information and support not currently available in WA.

Information gained through comprehensive audits can provide crucial information to identify trends and issues affecting the entire sector. Policies can then be more effectively geared to address the challenges in local government. This type of information enables the setting of benchmarks and the identification of best practice across the sector.

Are current accountability mechanisms adequate for local government in Western Australia?

Local governments must adhere to reporting and audit requirements outlined in the *Local Government Act 1995*. Councils are required to undergo financial attestation audits, but there may be scope to amend the Act or regulations to provide for reporting and auditing of councils in terms of probity, efficiency and effectiveness.

In 2004, the WA Government reviewed the Act and introduced amendments aimed at assisting councils in fulfilling corporate governance, stewardship, leadership and control responsibilities. The legislation now requires local governments to establish an Audit Committee to provide independent oversight. By comparison, legislation in Victoria and Queensland provides a centralised and standardised approach.

The Committee’s deliberations have focussed on possible benefits for state and local governments through the improvement of accountability measures. Stronger checks and balances lead to greater public certainty and may add further confidence in council decisions. Councils will be able to use improved information to benefit decision making processes in their local community.

The Committee is guided in its inquiry by a number of key questions:

1. Do recent amendments to the *Local Government Act* provide an adequate audit process?
2. Is there scope for greater uniformity across the local government sector?
3. Should an overarching body, such as the Auditor General or Department for Local Government and Regional Development coordinate local government auditing?
4. Should local government audits go further than simple attestation to consider probity, efficiency and effectiveness?
5. Would this facilitate councils’ decision making processes?

How will changes impact on local governments?

The cost of any change is an important factor requiring comprehensive assessment.

Councils currently pay private companies to fulfil auditing requirements. In other jurisdictions, councils pay for auditing by the Auditor General's Office, which may contract nominated private firms from time to time.

In terms of a proposed overarching system of auditing, the Committee is aware that there is difficulty in implementing a 'one size fits all' model. There are many differences between councils in WA, each with varying budgets and specific challenges to service their local area.

In summary, there may be benefits in establishing a co-ordinated and overarching approach to local government accountability. Cost and other concerns held by local government must be factored into any consideration of change and it is hoped that the remainder of the inquiry process will allow assessment of these issues.

Further information

Please send your submission to:

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*This paper and other Public Accounts Committee publications are available on the Western Australian Parliament website at:
<http://www.parliament.wa.gov.au/index.htm>*

*Submissions are required by Friday,
16 December 2005.*

Committee Members

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