



PUBLIC ACCOUNTS COMMITTEE

LOCAL GOVERNMENT ACCOUNTABILITY IN WESTERN AUSTRALIA

**Report No. 4
in the 37th Parliament**

2006

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PUBLIC ACCOUNTS COMMITTEE

LOCAL GOVERNMENT ACCOUNTABILITY IN WESTERN AUSTRALIA

Report No. 4

Presented by:

Mr J.R. Quigley, MLA

Laid on the Table of the Legislative Assembly
on Thursday 28 September 2006

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COMMITTEE'S FUNCTIONS AND POWERS

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

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

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.

CHAIRMAN'S FOREWORD

I am pleased to present to the Legislative Assembly the fourth report of the Public Accounts Committee in the 37th Parliament. This report concludes the Committee's Inquiry into Local Government Accountability in Western Australia.

Firstly, I would like to acknowledge those people who took the time to make submissions and appear before the Committee. Their contributions have formed the basis of the Committee's deliberations for the duration of the inquiry.

The Committee commenced this inquiry in August 2005, following discussions with the Auditor General on some of the financial problems that have occurred in the local government sector in recent years. The Committee was concerned to hear comments suggesting that up to 80 of the State's 144 councils face issues of financial sustainability. It appears the audited accounts of local government across Western Australia may not necessarily reflect these concerns and the Committee considered this may be due to the minimal audit requirements applied and the absence of an over-arching report on the sector as a whole. The Committee was interested in learning more about the current audit practices of the local government sector, and whether there may be value added by broadening the scope and involving the State Auditor General in the process.

At the outset and on behalf of the entire Committee, I wish to recognise the work undertaken by the Department of Local Government and Regional Development, which provided the Committee with unfettered access to its files and offered the Committee unfailing cooperation throughout the inquiry. Our thanks go to all of those Officers directly involved in this respect.

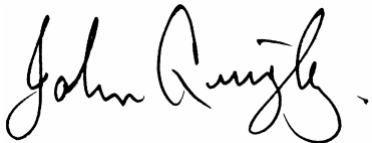
In undertaking this inquiry, the Committee received briefings, held formal hearings, and visited Queensland, New South Wales and Victoria to examine models of Local Government accountability in those jurisdictions. My thanks are also extended to those people who provided the Committee with their frank and honest advice.

On 27 October 2005 I met with the WA Local Managers Association and addressed their concerns over how the Inquiry's Terms of Reference were being interpreted. The Committee then released a discussion paper in November 2005 to further clarify the background of the inquiry and extended the submission deadline. Following its discussion paper the Committee received a substantial number of submissions, and then undertook a series of metropolitan hearings and regional visits to provide local governments with an opportunity to offer direct feedback to the Committee. These meetings afforded Committee members the chance to tease out some of the issues raised in submissions. Once again the advice received was direct and to the point and all Committee members agreed that those meetings provided them with a very clear understanding of the issues that regional local governments face.

I wish to thank the members of the Committee for their contribution to this report and acknowledge those members who contributed but no longer serve on the Committee, in particular Mr Norm Marlborough MLA, Member for Peel, and Mr Tony McRae, MLA, Member for Riverton.

Finally, on behalf of the Committee I thank the staff for their professionalism and support - the Principal Research Officer, Ms Liz Kerr; the current Research Officer, Ms Nicole Burgess; the previous Research Officer, Mr Simon Kennedy; and Ms Carolyn Simmonds, from the Office of the Auditor General who assisted the Committee with some aspects of this report.

I commend this report to the House.

A handwritten signature in black ink, reading "John Quigley". The signature is written in a cursive style with a small flourish at the end.

MR J.R. QUIGLEY, MLA
CHAIRMAN

ABBREVIATIONS AND ACRONYMS

AO	Audit Office
ACAG	Australasian Council of Auditors General
CAB	Compliance and Advice Branch
CAR	Compliance Audit Return
CCC	Corruption and Crime Commission
CEO	Chief Executive Officer
CFGP	Community Facilities Grants Program
DLGRD	Department of Local Government and Regional Development
FAAA	<i>Financial Administration and Audit Act 1985</i>
GECZ	Great Eastern Country Zone
KPI	Key Performance Indicator
LGAB	Local Government Advisory Board
LGAQ	Local Government Association in Queensland
LGDF	Local Government Development Fund
LGDP	Local Government Development Program
LGMA	Local Government Managers Association
OAG	Office of the Auditor General
OSLGR	Office for State/Local Government Relations (South Australia)
QAO	Queensland Audit Office
RIFP	Regional Infrastructure Funding Program
SDB	Support and Development Branch
VAGO	Victorian Auditor General's Office
WALGA	Western Australian Local Government Association

EXECUTIVE SUMMARY

In recent years some local governments have experienced financial difficulties and have required supplementary financial assistance and support from the state government. This has highlighted the connection between state and local government and the importance of sound procedures relating to the expenditure of public money.

The Inquiry into Local Government Accountability in Western Australia (WA) was established by the Committee, on its own initiative at its meeting on Wednesday 17 August 2005, following discussions with the Auditor General on some of the financial problems occurring in the local government sector.

Local government raises revenue from a number of sources and expends that revenue on a wide range of goods and services within each local community. Although the sector's greatest source of revenue is rates at approximately 43 per cent, almost 25 per cent of local government revenue is derived from State and Commonwealth grants. In short, around 68 per cent of the sector's revenue comes from the 'public purse'.

Although the Commonwealth government provides financial assistance to local government, the requirement to account for the use of those funds, and the responsibility for co-ordination and support of the sector rests largely with the State. The Committee is of the view that the level of public funding provided to local government, warrants consideration of a broader scope of audit.

Chapter 2 outlines the legislative framework that prescribes how local governments must deal with financial management and the conduct of council members and staff. Evidence suggests local government auditors are increasingly paying attention to matters indicating significant adverse trends in a council's financial position and non-compliance with the financial management aspects of the Local Government Act. Nevertheless, provisions relating to audit in local government are largely limited to financial attestation, or 'tick and flick' audits.

While there is a requirement for local governments to complete a Compliance Audit Return (CAR), those returns are not included in the scope of audit and result in little, if any, effective and timely feedback.

The Committee believes the CAR has potential for reducing or deterring poor accountability by reminding council management and staff about their key compliance responsibilities. However, the Committee notes the CAR is a self-assessment tool and does not provide the sort of performance evaluation that an independent audit organisation may.

Chapter 3 looks in closer detail at the role of the state in the scrutiny of local government expenditure and examines the capacity of the Department of Local Government and Regional Development (DLGRD) to monitor the performance of local government, raising the question of whether there is a role for the Office of the Auditor General (OAG) in the process.

Local government audit reports and CARs provide the basis for the DLGRD's monitoring of local government accountability. Based on a limited study, the Committee found that 30 per cent of the

144 local governments in WA encountered significant compliance issues, while just under half did not submit the required information in a timely manner.

At the sector wide level the Committee found the DLGRD publishes very little data and, apart from individual local government annual reports, there is virtually no means by which the public can transparently assess or observe council performance. There is a perception amongst local governments that the DLGRD does not have sufficient resources to effectively monitor the sector, although evidence suggests there have been increases in resourcing for this purpose.

In the Westminster system of government, all authority for government agencies stems from the Parliament. Chapter 4 examines the role of the Auditor General in the scrutiny of public expenditure and discusses the potential benefits of a similar approach to the WA local government sector. Public sector agencies are accountable to the Parliament, in terms of their use of public money and their conduct in carrying out the functions of the state. In WA, public sector agencies are subject to the full scrutiny of the OAG.

The local government sector is subject to considerable parliamentary scrutiny, specifically in relation to equal opportunity, corruption and crime and public interest disclosure, with one notable exception. Local government is not subject to the accountability framework outlined in the *Financial Administration and Audit Act 1985* (FAAA).

The Committee understands that local government accountability mechanisms in relation to the expenditure of public money differ significantly to those applied to expenditure by public sector agencies. The key difference lies in the fact that the minimum requirement for local government audits focuses largely on straight financial checks, whereas state government agency audits involve efficiency, effectiveness and probity measures, the results of which are tabled in the Parliament.

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.

Following an examination of models of state involvement in local government audit, the Committee formed the view that each model contains elements worth contemplation. In some ways, QLD represents the 'intermediate option' between the comprehensive and well developed Victorian model, and those States where there is no involvement of the Auditor General. However, the Committee believes any consideration of the Auditor General's involvement will require a unique approach given the diversity of local government in WA.

The Committee recognises that both QLD and Victoria have adopted a reporting system that aims to give the best outcomes to councils, community and state government. Importantly, both allow for a comparative analysis of councils. The Committee also recognises the success of both models

in value adding to the work of councils and as such strongly recommends that the audit of WA local governments should be brought under the authority of the Auditor General.

The Committee is of the view that in the event that the OAG is not given audit jurisdiction over Local Government Authorities, at the very least the parameters of audit for WA local governments should be set by the Auditor General to ensure consistency of reporting across the state.

In line with practice elsewhere, the Committee believes that the Auditor General should audit no more than 15 per cent of councils on a rotating basis, with the remainder to be tendered out to the private sector. This will enable a cost-effective approach, whilst ensuring the Auditor General has the capacity to maintain a watch on the sector as a whole.

The Committee is also of the view that the State Government should ensure there is an annual, comprehensive comparative report of each local government. By bringing the Auditor General into this process, the Committee believes the focus will be on value adding for the benefit of citizens and councils to allow an accurate assessment of the performance of individual local governments.

Finally, in light of the focus on 'value-adding' and the problems of financial sustainability in the sector, the Committee believes that the overall compliance burden of each local government should not unduly increase, and that the overall impost on each local government should be recognised by the State Government.

FINDINGS

Page 11

Finding 1

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

Page 11

Finding 2

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

Page 17

Finding 3

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

Page 17

Finding 4

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

Page 19

Finding 5

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

Page 22

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.

Page 22

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.

Page 23

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.

Page 29

Finding 9

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

Page 29

Finding 10

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

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Finding 11

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

Page 39

Finding 12

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

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Finding 13

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

Page 43

Finding 14

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

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Finding 15

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

Finding 16

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

RECOMMENDATIONS

Page 25

Recommendation 1

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

Page 68

Recommendation 2

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

Page 68

Recommendation 3

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

Page 68

Recommendation 4

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

Page 69

Recommendation 5

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

Page 69

Recommendation 6

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

MINISTERIAL RESPONSE

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

CHAPTER 1 INTRODUCTION

1.1 Introduction

Public confidence in public administration can be reduced to three fundamental principles of transparency, accountability and trust. These principles are embodied in laws and procedures that govern the administration and expenditure of public money. Where there is administration of public money, the public expectation is that all organisations, whether public or private, should be accountable to the community in which they exist.

The Public Accounts Committee (the Committee) was appointed by the Legislative Assembly on 7 April 2005. Pursuant to Assembly Standing Order 284 the Committee may inquire into and report on any proposal, matter or thing connected with the receipt and expenditure of public moneys, including moneys allocated under the annual Appropriation bills and Loan Fund. Assembly Standing Order 285 (4) provides that the Committee may consider whether the objectives of public expenditure are being achieved, or may be achieved more economically. The Committee can initiate its own inquiries, as it has done in this case.

1.2 Background to inquiry

In recent years some Western Australian local governments have experienced financial difficulties and have required supplementary financial assistance and support from the State Government. This has highlighted the connection between state and local government and the importance of sound procedures relating to the expenditure of public money.

Historically, the Committee has enjoyed a cooperative and supportive relationship with the Office of the Auditor General (OAG), characterised by the 1996 *Statement of Understanding between the Auditor General and the Public Accounts and Expenditure Review Committee*.¹ More recently the Committee has adopted the practice of following up on reports of the Auditor General tabled in the Parliament. The Committee meets the Auditor General on an informal basis from time to time, to discuss issues of mutual interest. The Inquiry into Local Government Accountability in Western Australia (WA) was established by the Committee, on its own initiative at its meeting on Wednesday 17 August 2005, following discussions with the Auditor General on some of the financial problems occurring in the local government sector.

Local government raises revenue from a number of sources and expends that revenue on a wide range of goods and services within each local community. Although the sector's greatest source of revenue is rates (at approximately 43 per cent), almost 25 per cent of local government revenue is derived from State and Commonwealth grants. In short, around 68 per cent of the sector's revenue comes from the 'public purse'. The Committee is of the view that the level of public funding provided to local government, warrants consideration of a broader scope of audit.

¹ Available at: <http://www.parliament.wa.gov.au/web/newwebparl.nsf/iframewebpages/Committees+-+Past>.

In undertaking this inquiry, the Committee recognises the importance of preserving a strong relationship between state and local government, based on an understanding of its significant role in serving local communities. The Committee has viewed this inquiry as an opportunity to evaluate the key accountability mechanisms in the local government sector and has attempted to facilitate a rational discourse on ways to enhance those mechanisms for the benefit of the sector as a whole.

1.3 Terminology

Within the text local governments are taken to mean the councils and shires that make up the local government sector (the sector), whilst the word ‘submission’ may represent evidence taken by the Committee in both formal and informal settings.

‘Councillors’ are the democratically elected representatives, and ‘administrative staff’ are the people employed to manage the day to day operations of the council on behalf of the elected representatives.

Accountability mechanisms are taken to mean legislative and other arrangements that provide stakeholders (such as rate and tax payers) with an opportunity to scrutinise the expenditure of public money.

1.4 Submissions and evidence

An advertisement calling for public submissions was placed in *The West Australian* newspaper on Saturday 20 August 2005. Submissions were directly invited from a number of State Government Departments, all WA Local Governments, and stakeholder groups with an apparent interest in the local government sector.

The call for public input produced a strong response, and the Committee received 68 submissions, principally from local governments but also from private citizens and peak bodies such as the WA Local Government Managers Association (LGMA) and the WA Local Government Association (WALGA). The submissions are listed at Appendix 1 of this report.

The Committee visited other Australian jurisdictions to study models of local government accountability (refer Appendix 2), and held hearings and briefings in both metropolitan and regional locations within Western Australia (refer Appendix 3 and 4 respectively).

Initial feedback indicated concern that the Committee had a preconceived view that there is a financial and governance dilemma in the local government sector.² In response to those concerns, the Committee Chairman attended the LGMA annual conference on 27 October 2005 for an informal question and answer session. The Committee subsequently produced a Discussion Paper in which it restated its Terms of Reference and clarified the two main questions that had emerged to that point:

² Submission No 24 from WA Local Government Association, Part II, p.2.

- Should the Auditor General be involved in local government audits?
- 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?

Subsequent submissions revealed a range of views on the matters covered in the Terms of Reference broadly grouped here under the following key, but diverse issues:

- concerns about diminished autonomy;
- difficulties with attracting and retaining staff;
- the complexity of the sector and the reporting regime;
- the larger question of sector sustainability;
- support for consistency in reporting;
- broad support for the work of the Department of Local Government and Regional Development (DLGRD); and
- guarded support for the work of this Committee.

The Committee wanted the inquiry to reflect the views of both metropolitan and regional local governments and resolved to write to all local governments and propose a series of regional visits and metropolitan hearings to provide an opportunity for feedback. Expressions of interest were called for, dates proposed and local government representatives were encouraged to discuss issues related to the inquiry with members of the Committee.

The Committee received 27 responses and as a result held meetings in Katanning, Albany, Busselton, Northam, Kalgoorlie and Geraldton.

(a) Response to Terms of Reference

The Committee's first Term of Reference involved an examination of "current accountability mechanisms for local government in Western Australia, including finance, probity and performance". Views raised in submissions and meetings included:

- concern about additional reporting requirements in addition to an already extensive compliance regime;
- the substantial cost of compliance to local governments;
- frustration at the focus on regulation instead of service; and

- the belief that, due to compliance requirements, local government is restricted in serving the local community.

The capacity of the DLGRD to examine local government finance, probity and performance issues was explored through the Committee's second Term of Reference. Points raised included contrasting views as to the capacity of the DLGRD in carrying out both a support and regulatory role, with the key concerns being:

- a perceived decline in the provision of advice, support and guidance to local governments;
- an absence of feedback and analysis of information provided by councils to the DLGRD; and
- concern about rates of attrition within the DLGRD and the consequential impact on corporate knowledge.

The third Term of Reference, questioned whether the State Auditor General should have a role in local government audit processes, and was perhaps the most divisive question the Committee asked. Views varied significantly across a spectrum, from support for maintaining the status quo, limited support for Auditor General involvement in setting audit parameters, and support for total oversight and coordination by the OAG.

Whilst many submissions suggested that the current accountability mechanisms embedded within legislation and regulations are wide-ranging enough, there was a difference of opinion as to the level of influence the State should have on local government financial management. Some indicated support for the involvement of the OAG, while others suggested the responsibility for scrutiny of local government finance should remain linked to the DLGRD. Concern over increased complexity and associated costs featured, yet most agreed there needs to be a consistent, coordinated approach.

A common theme discussed by local governments, both individually and collectively, was that recent budgetary problems, as highlighted by this Committee in its November 2005 discussion paper, did not necessarily indicate that sound administrative procedures relating to the expenditure of money had not been followed in those particular cases.

(b) Related issues

(i) *Financial sustainability*

Individual local governments have varied capacity to raise the funds required to provide a diverse range of community infrastructure. In 2003/04 the sector recorded \$1.6 billion in expenditure with a revenue base of just over \$1.7 billion (refer Chapter 2). The diversity of services provided within local areas, and the capacity of individual councils to deliver them has highlighted the issue of financial sustainability and was a topic raised in a number of submissions.

In October 2005, the State Government announced a review into local government structural and electoral reform in WA. The review was conducted by the Local Government Advisory Board (the LGAB), a statutory body established under the *Local Government Act 1995* to provide advice to the Minister on local government constitutional matters. In its report of April 2006, *Local Government Structural and Electoral Reform in Western Australia - Ensuring the Future Sustainability of Communities* the LGAB raised the possibility of amalgamations and suggested that a move to greater resource sharing has the potential to have a positive impact on the levels of accountability in local government.

Whilst the Committee does not hold a firm view on the notion of amalgamations within the local government sector, it has considered the recommendations of the review in terms of their applicability or relevance to this inquiry. The recommendations with particular relevance here are listed at Appendix 5.

In January 2006, WALGA commissioned its own *Systemic Sustainability Study*, and produced an interim report in August 2006. The Committee notes the intention of the study is to present a final report towards the end of 2006, following discussion and engagement with councils on how to address the systemic challenges ahead. The Committee awaits the final report with interest.

(ii) Resource sharing

A related issue that arose throughout this inquiry related to resource sharing between local governments. The Committee heard evidence to suggest local governments are engaging in resource sharing activities in an effort to streamline services and provide the most effective use of resources. The Committee concurs with the LGAB view that:

there are many parts of the State where resource sharing and regional cooperation could be more extensively pursued as the most effective and efficient method of achieving future economic, environmental and social sustainability.³

The Committee commends local governments for initiating resource sharing activities and is of the view that such actions should be supported at the state level where possible.

The remainder of this report endeavors to cover the range of issues the Committee has deliberated on over a period of 12 months and all care has been taken to represent views as understood by Committee members.

³ Government of Western Australia, Local Government Advisory Board, 'Local Government Structural and Electoral Reform in Western Australia', *Ensuring the Sustainability of Communities*, April 2006, p.xxii-xxiii.

CHAPTER 2 LOCAL GOVERNMENT IN WESTERN AUSTRALIA

Local government in WA is a diverse and complex creature. There are 144 local governments, 29 located in the metropolitan area and 115 in regional WA and the sector employs approximately 12,300 people in a fulltime capacity.⁴

Local government is not recognised in the Australian Constitution. Rather, State governments have a constitutional responsibility for local government, which includes a primary role in:

- managing local government within their jurisdictions;
- legislating for and regulating local government;
- setting new policy directions; and
- distributing Commonwealth general purpose assistance grants to local government.

The legislative authority for the establishment of a local government system is provided for under S52 of the WA *Constitutions Act 1889*.

Approximately 1,350 councillors represent communities within geographic boundaries that differ greatly, with the Shire of East Pilbara, the largest council by area in the whole of Australia, covering 372,000 square kilometres (population 9,500) in contrast to the Shire of Peppermint Grove, which measures just 1.5 square kilometres (population 1,500).⁵ Although almost half of local government revenue is derived from municipal rates, the Commonwealth and State Governments provide the sector with significant financial assistance.

This chapter provides a broad outline of the structure of local government in WA, including its history, key sources of revenue and expenditure and the legislative framework for financial management.

2.1 Legislative background

The legislative link between state and local government was established some 63 years before federation, with the introduction of the *Towns Improvement Act 1838*. That Act established town and country trusts to deliver a form of local government that had roads as its primary focus.⁶ In 1839 a further Act empowered Town Trusts to levy a rate “for any specified object connected with the improvement of the town”.⁷ The Municipalities and Local Roads Board Acts were introduced

⁴ Submission No 40 from Department of Local Government and Regional Development, November 2005, p.6.

⁵ *ibid*, p.5.

⁶ *ibid*, p.3.

⁷ B.K de Garis, 1981, ‘Political Tutelage’, in *A New History of Western Australia*, C.T Stannage (ed), University of Western Australia Press, p.308.

in 1871 and included provisions for municipal boundaries and ward limits, giving local government a sound footing.⁸

The first proposal to amalgamate local government legislation in Western Australia arose in 1926, but it was not until 1948 that the first composite Local Government Bill was presented to the Parliament, and a further 12 years before it was finally adopted.⁹

The *Local Government Act 1960* provided the framework under which local governments operated, until it was repealed and replaced by the *Local Government Act 1995* (herein referred to as the Local Government Act), which came into operation on 1 July 1996 with the intent of providing:

*more efficient and effective local government: greater accountability of local governments to their communities; better decision making by local governments; and greater community participation in the decisions and affairs of local governments.....[by] providing a framework for the administration and financial management of local government and for the scrutiny of their affairs.*¹⁰

The 1995 Act devolved a range of plenary powers to local government to make laws and provide services and facilities for individual districts. Prior to 1995 there were approximately 150 areas where local governments were required to seek ministerial approval in decision making. These were reduced to around 30. At the same time, changes were made which aimed to strengthen the mechanisms by which individual local governments could be held accountable for the use of these powers.

There have been three amendments to the Local Government Act since it came into operation in 1996, the most significant being the 2004 amendment to remove “inefficient and impractical provisions” and to improve “accountability and probity provisions”.¹¹ Those amendments followed a 2003 report of the WA Legislative Council’s Standing Committee on Public Administration and Finance, which contained 11 recommendations for the implementation of various ‘best practice’ administrative procedures (refer Appendix 7).

(a) Local government audit

Both the DLGRD and the OAG have a history of involvement in the auditing of local government in WA, demonstrated by the following timeline:

- **1960 - 1980:** Department of Local Government audits conducted by auditors employed by the Department of Local Government;

⁸ *ibid*, p.330.

⁹ Department of Local Government Western Australia, *Proposed New Local Government Act Principles and Issues*, June 1989, p. ii.

¹⁰ Hon P. Omodei, Minister for Local Government, Legislative Assembly Hansard, Thursday, 31 August 1995, p.7547.

¹¹ Submission No 40 from Department of Local Government and Regional Development, 11 November 2005, p.10.

- **1981:** State Audit Department took responsibility for local government audit function from the Department;
- **1 July 1983:** Private sector took over auditing of local governments and Local Government Auditors Board was established;
- **December 1994:** Review into Auditors Board recommends Board no longer required; and
- **1995:** *Local Government Act 1995* gives local governments the power to select and appoint the auditor of their choice.¹²

2.2 Local government expenditure and revenue

The expenditure and revenue of local government has increased significantly in recent decades, as has the sector's responsibility for a range of community and other services. In 2003/04 expenditure across the local government sector totalled approximately \$1.6 billion, while revenue sat at around \$1.7 billion.¹³

Local governments fund their operations from three primary sources of revenue: rates; charges for fines, goods and services; and grants from the Commonwealth and State governments. Although local governments have traditionally been associated with the provision of roads and the collection of municipal waste, hence the adage 'roads, rates and rubbish', they have assumed some responsibility for a range of other important amenities, including but not limited to:

- infrastructure and property services;
- provision of recreational and cultural facilities, including parks, sports fields and libraries;
- health and safety services;
- community care, accommodation and welfare services; and
- building services, planning and development approval.¹⁴

(a) Expenditure

Table 2.1 provides a breakdown of areas local government expenditure and suggests transport, recreation and cultural services are the key areas of expenditure. Governance, sanitation and refuse also feature.

¹² *ibid*, p.36.

¹³ WA Local Government Grants Commission, *Annual Report 2005*, pp.14-15.

¹⁴ Western Australian Local Government Association, Available at: http://www.walga.asn.au/about_lg Accessed on 24 July 2006.

Table 2.1**Local Government expenditure 2003 - 2004¹⁵**

Category	Total Expenditure	Percentage
Governance	163,392,914	9.85
Law, order and public safety	58,158,990	3.51
Health, education & welfare	127,199,531	7.67
Housing	10,323,696	0.62
Sanitation and refuse	133,174,196	8.03
Other community amenities	92,467,605	5.57
Recreation and culture	383,564,110	23.13
Transport	527,741,421	31.82
Economic services	63,015,856	3.80
Other property and services	99,604,132	6.01
Total expenditure	1,658,642,451	100

(b) Revenue

The following data (Table 2.2) relates to sources of local government revenue and indicates that combined public funds, at around 68 per cent, are the greatest source of revenue across the sector.

Table 2.2**Sources and percentage of Local Government revenue 2003 - 2004¹⁶**

Rates	Invest & Loan Scheme	Fines, charges	General purpose grants	Specific purpose grants	Other revenue	Total
754,890,993	44,344,075	456,256,739	177,336,747	264,406,281	76,848,236	1,783,083,070
42.34 %	2.49 %	26.09 %	9.95 %	14.83 %	4.13 %	100 %

¹⁵ Source of data for Table 2.1: Local Government Information returns to the ABS/WA Local Government Grants Commission - 2003/2004, WA Local Government Grants Commission, *Annual Report 2005*, p.15.

¹⁶ Source of data for Table 2.2: Local Government Information returns to the ABS/WA Local Government Grants Commission - 2003/2004, WA Local Government Grants Commission, *Annual Report 2005*, p.14.

Finding 1

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

Finding 2

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

2.3 Commonwealth grants to local government

The Commonwealth Government provides financial assistance to local government via the States through the *Local Government (Financial Assistance) Act 1995* (Cth), which aims to maintain the financial capacity of local governing bodies and their capacity to provide their residents with an equitable level of services. The Commonwealth Minister is required to report 'as soon as practicable' after 30 June each year on the operation of the Act.¹⁷ The reports must include an assessment of the performance by local governing bodies of their functions including their efficiency. The results are then reported annually by the Commonwealth. For further discussion see section 4.8 of this report.

The WA *Local Government Grants Act 1978* makes provision for the establishment of a Local Government Grants Commission (the Commission) and for the distribution of Commonwealth funds.

There are two forms of financial assistance grants to local governments:

- General purpose grants
 - General purpose grants are distributed to the states on a per capita basis and can be used by local governments in any way they see fit.
- Identified local road grants
 - Although these funds are 'untied', local governments invariably spend the grants on roads.

¹⁷ Commonwealth Department of Transport and Regional Services, *2003-2004 Report on the Operation of the Local Government (Financial Assistance) Act 1995* Local Government National Report, National Office of Local Government, p. xi.

Commonwealth scrutiny of these grants is limited to a statement (certified by the State Auditor General) specifying payments made to each local government. The Commission is required to make recommendations to the Minister on the amount of these funds to be allocated to each local government following Commonwealth advice of the level of funding available to local government in Western Australia. The Commission requires detailed information from individual councils to assist with its grant determination and its Chief Executive Officer (CEO) is required to certify that the information is consistent with the audited accounts of the local government.

The Committee notes that although the Commonwealth government provides financial assistance to local government and requires annual reports on performance, the requirement to account for the use of those funds, and the responsibility for co-ordination and support of the sector rests largely with the state.

(a) State grants programs

The State Government provides financial assistance in the form of the Community Facilities Grants Program (CFGP) with grants of between \$2,000 and \$25,000 to help fund the capital cost of providing community facilities in regional areas, and the Regional Infrastructure Funding Program (RIFP) which provides financial assistance of between \$100,000 and \$5 million for construction ready infrastructure projects.

Both CFGP and RIFP funds are administered by the DLGRD and all recipients are required to provide detailed acquittals to the DLGRD within 12 weeks of the conclusion of the project.¹⁸

The remainder of this chapter examines the current financial accountability framework for local government in WA and will focus on the legislation that provides for local government financial management, including audit.

2.4 Framework for Local Government financial management

A number of Acts impact on the operations of local government. The most relevant in terms of this inquiry is the *Local Government Act 1995* (the Local Government Act) and its associated regulations.

Both the Local Government Act and the *Local Government (Financial Management) Regulations 1996* contain provisions relating to finance and governance. The Local Government Act contains provisions that address financial management and accountability, specifically: Part 6 Financial Management; Part 7 Audit; and Part 8 Scrutiny of the Affairs of Local Government.¹⁹

¹⁸ Department of Local Government and Regional Development, *Regional Infrastructure Funding Program Guidelines 2005*, pp.1-7.

¹⁹ Refer Appendix Six for a comprehensive table identifying provisions related to accountability measures.

(a) Transparency

The Committee recognises that the availability and accessibility of financial and other documents are an important element in ensuring transparency and accountability. Under the Local Government Act, a member of the public can inspect both the annual budget and the annual report of a local government, once the council has accepted them.²⁰

Section 5.94 of the Act provides that any person can attend the office of a local government during office hours and free of charge inspect, subject to section 5.95, information in relation to the local government, including but not limited to the:

- (a) code of conduct;
- (b) register of financial interests;
- (c) annual report;
- (d) annual budget;
- (e) schedule of fees and charges; and the
- (f) plan for the future of the district.

These documents provide citizens (and other interested parties) with the capacity to compare their own council against others. It appears the onus of accessing financial (and other) documents falls largely to individual citizens. Access via the internet is an emerging method of access; however, the availability of such documents is sporadic across councils. A cursory scan of council websites indicated limited availability of annual and other reports and the Committee recognises there are broader internet access issues to be considered in this regard.

(b) Role of the Council

There are approximately 1,350 councillors democratically elected to the 144 Western Australian local governments, including the Indian Ocean Territories (Christmas Island and Cocos (Keeling) Islands). The number of councillors within a local government is governed by section 2.17 of the Local Government Act. Where the Mayor or President is designated by the electors the Act provides for a minimum of 5 and a maximum of 14 councillors in addition to the Mayor or President. Where the Mayor or President is elected by the council the minimum is 6 and the maximum is 15.

Although Mayors or Shire Presidents are elected as leaders of individual local governments, the whole council has a significant oversight role in relation to its finances. Under section 2.7 (2) (a) of the Local Government Act, a council has responsibility for overseeing the allocation of local finances and resources and does this primarily by considering and adopting the annual budget,

²⁰ Section 5.94 (c) (d) *Local Government Act 1995*.

reviewing the statement of financial activity, considering the mid-year budget review and the annual audit report.

Councils decide and vote on significant capital expenditure in much the same way as boards of directors in the private sector and depend on the administrative staff of the council to provide guidance and support in the decision making process.

(c) Role of the Chief Executive Officer

The person charged with the responsibility of overseeing the implementation of council decisions is the CEO.

Section 6.5 of the Local Government Act requires a CEO to ensure that accounts and records of the transactions and affairs of the local government are kept in accordance with regulations, and *Local Government (Financial Management) Regulations*, Clause (5) requires the establishment of efficient systems and procedures for the financial management of local governments.²¹

(i) Annual reports

Section 5.53 of the Local Government Act, requires all local governments to produce an annual report which must include, among other things:

- an overview of the plan for the future of the district, including major initiatives that are proposed to commence or to continue in the next financial year;
- the financial report for the financial year; and
- the auditor's report for the financial year.²²

(ii) Annual budgets

Local government budgets must include a plan for the future, setting out the council's broad objectives for a specified period (minimum two years). Section 6.2 (2) of the Local Government Act states that:

In the preparation of the annual budget the local government is to have regard to the contents of the plan for the future of the district made in accordance with section 5.56....

The budget must be submitted to the DLGRD within 30 days of its acceptance by council, and the Committee understands the DLGRD is developing an operational guideline to assist local governments with the budget review process.

Amendments to the Local Government Act and regulations effective from 1 July 2005 established detailed requirements with respect to monthly reporting and annual budget reviews. The

²¹ Submission No 40 from Department of Local Government and Regional Development, 11 November 2005, p.15.

²² Section 5.53 *Local Government Act 1995*.

Committee was advised that while prior to the amendments it may have been considered best practice for local governments to complete an annual budget review, there was neither the “compunction to do so nor any requirement which could be questioned, ‘enforced’ or reported on by either Auditors or [the] DLGRD.”²³

(iii) Financial plans

Section 5.56 of the Local Government Act requires local governments to:

- plan for the future of the district; and
- ensure that plans made under subsection (1) are in accordance with any regulations made about planning for the future of the district.²⁴

However, there were suggestions put to the Committee that both the DLGRD and the Local Government Act appear to focus more on budgets than forward plans. Evidence suggests that forward financial planning is not a key priority for local government, particularly in regional Western Australia, but that local governments view it as an important measure. The Committee understands that processes such as 5, 10 and 20 year planning is perhaps more feasible for larger than smaller councils, indeed one participant at the regional meetings noted that the smaller councils were struggling to survive, let alone develop long term financial plans.

In Busselton the Committee heard that it was one thing to monitor a local government’s performance but in terms of indicators the need is to look forward, not back. Most suggested more focus should be given to assisting local governments in future planning. Local government representatives in Albany spoke of formally establishing longer term financial plans across the sector.

In Kalgoorlie and Northam the Committee heard how the community looked at 5 year plans as a great indicator of what was on a local government’s agenda. Most suggested the key focus of local governments should be to find a balance between long term financial planning and long term asset management planning.

In this regard the Committee notes the recent LGAB review of Structural and Electoral Reform in which it recommended that the local Government Financial Management Regulations be amended to make 10-year financial plans mandatory.²⁵

The difference between the concept of compliance and performance was also discussed and the Committee noted how compliance with the Local Government Act can still result in financial failure. The challenge, it appears, is in the development of valid and relevant indicators that could be used to independently measure and assess local governments.

²³ Submission No 52 from Mr David Tomasi, Partner, UHY Haines Norton, 14 December 2005, p.2.

²⁴ Section 5.56 *Local Government Act 1995*.

²⁵ Government of Western Australia, Local Government Advisory Board, ‘Local Government Structural and Electoral Reform in Western Australia’, *Ensuring the Sustainability of Communities*, April 2006, p.133.

2.5 Audit arrangements

One of the most critical accountability mechanisms in the local government sector is the legislative requirement for an annual audit. Part 7 of the Local Government Act and accompanying regulations makes provision for the audit of the financial accounts of local governments and the appointment of auditors.

(a) Private sector audit

The external audit of local governments in WA is conducted by private sector audit firms which are appointed by the individual local governments. Although the Auditor General is available for appointment by the DLGRD as a ‘last resort’, the Committee understands this has not occurred since the introduction of the legislation.²⁶

Part 7 of the Act and the *Local Government (Audit) Regulations 1996* contain minimum standard specifications to guide auditors of local government. Clause 9 of the regulations states that:

- (1) *An audit is to be carried out in accordance with the “Auditing Standards” and “Auditing Guidance Statement” adopted from time to time by the Australian Society of Certified Practising Accountants and The Institute of Chartered Accountants in Australia.*
- (2) *An auditor is to carry out such work as is necessary to form an opinion as to whether -*
 - (a) *the accounts are properly kept; and*
 - (b) *the annual financial report-*
 - (i) *is prepared in accordance with the financial records; and*
 - (ii) *represents fairly the results of the operations of the local government and the financial position of the local government at 30 June in accordance with the Australian Accounting Standards and the Act.*

Further, operational guidelines produced by the DLGRD clearly outline the responsibility of councils in relation to financial management and contain advice to guide both councils and auditors of local government.²⁷

The Committee was advised that the capacity of private auditors to report problems with local government audits has improved in recent years. Regulations now require auditors to report on

²⁶ Submission No 42 from the Office of the Auditor General, 11 November 2005, p.2.

²⁷ Refer Guidelines No. 9 Audit Committees in Local Government: their appointment, function and responsibilities, Revised March 2006, available at: http://www.dlgrd.wa.gov.au/localGovt/_pubBin/GuidelineNo9_AuditCommitteesinLocalGovernment.pdf.

any “material matters indicating significant adverse trends in a council’s financial position” and “non-compliance...to the financial management provisions of the Act”.²⁸

Mr David Tomasi, a Partner at UHY Haines Norton, the external auditor for 59 local government authorities across WA, highlighted that private audits involve more than simply reporting on the financial position of a council:

Where we notice matters of non-compliance with Part 6 of the Act or the Financial Management Regulations we report them as matters of non-compliance within our audit report (as required by Audit Regulation 10 (3)(b)).

*In addition, other matters which we believe require Council attention will be reported in our management letter.*²⁹

The Committee recognises these improvements pertaining to audit and acknowledges the professionalism of private sector auditors. Nevertheless, the Committee notes that the current scope for assurance audits in the local government sector is effectively a ‘bare minimum’ framework, with a largely financial focus. Individual Councils can choose whether to extend this scope to include more rigorous or more comprehensive auditing and reporting.

Finding 3

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

This compares with the State public sector, where all annual audits are done or managed by the OAG, which conducts a very broadly scoped attest audit that includes an opinion on key performance indicators (KPIs) as well as on controls and legislative compliance. The State public sector is also subject to the OAG’s efficiency and effectiveness jurisdiction, which is covered in more detail in the following chapter.

Finding 4

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

²⁸ Clause 10 (3) *Local Government (Audit) Regulations 1996*.

²⁹ Submission No 52 from Mr David Tomasi, Partner, UHY Haines Norton, 14 December 2005, p.5.

(b) Audit committees

Under amendments to the Local Government Act that became law in 2005, Parliament required local governments to appoint Audit Committees and stipulated that the appointment of an auditor must be made by the local government on the recommendation of the audit committee.³⁰

The idea behind the introduction of audit committees was to promote greater accountability and scrutiny of the audit function by requiring councillors to take an active role in the audit process.

In evidence, the DLGRD advised the Committee that:

A difficulty has been to try to get elected members intimately involved in the financial operations and performance of their councils. The Act gives them that role. In establishing these audit committees - they are the only committees that councils are now required to establish under the act - and without having staff who are able to be involved in those committees, it really means the councillors must pay attention to the appointment selection of auditors and what they want the audit to cover.³¹

Members of the Audit Committee are to be appointed by an absolute majority decision of the Council and at least three of its members are to be elected members of the Council. To ensure an appropriate level of independence, the amendments specifically exclude employees of a local government being a member of the Audit Committee, although the Committee understands that in practice, council staff can and do provide assistance and support where required.

Most regional local governments commented positively on Audit Committees, noting that the process encourages direct interaction between the auditor and councillors. However, it was noted that time constraints and councillor availability, particularly in regional areas, may impact on their success (refer section 2.6).

(c) Internal audit arrangements

Internal audits look at a wide range of financial and other controls and are generally performed by an internal auditor, not the external auditor. There are no legislative requirements for local governments to have internal audit arrangements. The Committee understands that the DLGRD is currently developing an operational guideline to assist in the establishment of effective internal audit processes.³²

2.6 Training and staff retention issues

At its hearings and regional visits, the Committee heard that councillors do not always possess the information or knowledge to allow them to comply with requirements under the Local

³⁰ Section 7.3(1), Part 7 *Local Government Act 1995*.

³¹ Mr Ian Cowie, Director Strategies and Legislation, Department of Local Government & Regional Development, *Transcript of Evidence*, 16 November 2005, p.3.

³² Submission No 40 from the Department of Local Government and Regional Development, 11 November 2005, p.17.

Government Act, and received a mixed response to the suggestion that they may benefit from training in this area.

The Committee met with a number of councillors who clearly took their responsibility seriously and who valued experienced staff and sound procedures to ensure their role is carried out with due diligence. The bulk of advice received suggested the DLGRD should focus on the capacity of small rural councils to attract and keep adequately trained staff.

Although some stakeholders suggested councillors should be trained to understand the complex financial documents they are required to authorise, a number raised the fact that councillors are 'ordinary people' with jobs and lives outside of their work on council and usually do not have the time, or inclination to undertake training courses. While councillors that met the Committee liked the idea of access to training, their preference was to attract good staff and maintain a level of consistency in decision making.

The Committee recognises that local government elected representatives have a significant workload and responsibility. Positions on council are usually held in conjunction with another vocation or career and represent a significant opportunity cost in terms of personal time.

The Committee supports the establishment of audit committees and believes they will facilitate greater elected representative participation in the financial affairs of councils. The Committee concurs with the view that it is too soon to establish the effectiveness of the audit committees³³ and does not intend to recommend changes to these arrangements.

Finding 5

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

2.7 Compliance Audit Return

The *Local Government (Audit) Regulations 1996* require local governments to complete a Compliance Audit Return (CAR) which is forwarded to the DLGRD to enable an assessment of the sector's compliance with a number of Acts. The CAR covers approximately 150 compliance checks and encompasses non financial matters; for example probity and health and safety. The checklist includes questions relating to compliance with tender requirements, caravan park inspections, local laws and thoroughfares. The Committee notes, however, the CAR is a self-assessment, conducted by council administration on an annual basis. It is not included in the scope of the annual audit or independently reviewed.

³³ Submission No 34 from City of Fremantle, 8 November 2005, p.3.

Discussion on the CAR elicited considerable feedback from councillors and administrative staff alike. At its hearings and meetings with local governments, the Committee was advised that whilst time consuming, the CAR was regarded as a good checklist that could be used for reference throughout the year. There were some concerns, however, about its effectiveness, given that it is a self-assessment and relies on the honesty of respondents.

The Committee also heard concerns relating to a lack of timely feedback, its relevance to smaller councils and the complexity of the return.

(a) Feedback

The regional local governments that met the Committee confirmed the view that, once submitted to the DLGRD, there does not appear to be any verification as to the accuracy of the CAR, or that there is any relevant or timely feedback. This view was echoed in submissions, where it was noted that:

The duplication of compliance requirements and the apparent inability of the Department to provide a timely and effective response to the issues on which there does not appear to be compliance is, in the Shire's view, an indication the Department is inadequately resourced to follow up outstanding matters in a timely manner.³⁴

This view was supported at a public hearing, where the Committee was advised that:

The question that has to be asked is: how correct is the information that is coming back in that compliance return....[and] if the information that comes back from that return is not correct, what steps is the department taking, and is the department following up on those returns? A lot of situations have arisen in which those returns have come back as being true and correct, but the following year the local government is experiencing difficulties in terms of compliance³⁵

At a public hearing the DLGRD responded to such concerns, noting:

It is fair to say that there is an impression out there that local government does not think that we are doing a lot of follow-up. We get an awful lot in at one time. There are 144 local governments giving us all that sort of material. The process we would use is that we acknowledge all those. Every single one of those compliance returns is reviewed. We identify those that have significant non-compliance issues, and we follow them up. We are presently following up 15 local governments. We are in direct correspondence with those checking what sorts of changes they are making and what processes and improvements they are making. The other local governments that were satisfied with their CARs are

³⁴ Submission No 61 from the Shire of Augusta-Margaret River, December 2005, p.7.

³⁵ Mr Andrew Sharpe, Executive Finance and Client Services, City of Canning, *Transcript of Evidence*, 28 June 2006, p.13.

*waiting for someone to pat them on the back to say that they have done a good job, whereas our resources are more geared towards those that are not complying.*³⁶

The Committee understands the DLGRD must carefully consider where its resources are directed in terms of providing feedback to local governments. However, the Committee is of the view that annually reported results on local government performance may go some way to address the concerns raised regarding feedback (refer section 4.7).

(b) Complexity

There exists a view amongst the sector that the current compliance requirements are extensive, onerous and include reporting functions that are not warranted, with some stakeholders highlighting that smaller local governments must comply with accountability and reporting mechanisms that may not be relevant to their local community needs. Some suggested the CAR led to duplication and resource wasting:

*The current annual compliance return is not an effective tool, covering too many issues, a number of which have already been reported to the Department in some way during the year.*³⁷

The Committee was consistently advised, by both metropolitan and regional local governments, of a need to make compliance less rather than more complex:

*The compliance return that we are now faced with.....is an abbreviated summary of about 600 provisions in the act. We end up with about 450 questions to which the organisation is supposed to respond in a professional way. It is basically impossible to do so and the result is meaningless.*³⁸

In its submission to the Committee, the Great Eastern Country Zone (GECZ), representing 16 shires, suggested that:

*Local Government is currently subject to significant over-regulation that results in unnecessary administrative and compliance burden. The general consensus of the Councils is that the Local Government Act and other legislation needs to be reviewed to remove the unproductive elements and red-tape.*³⁹

The GECZ further noted that the imposition of requirements in the Local Government Act placed added strain on resources and appear to be an ‘over-reaction’ to isolated circumstances, a theme supported throughout submissions.

³⁶ Mr Brendan Peyton, Acting Manager, Compliance and Advice, Department of Local Government and Regional Development, *Transcript of Evidence*, 23 August 2006, p.5.

³⁷ Submission No 61 from Shire of Augusta-Margaret River, 22 December 2005, p.4.

³⁸ Mr Cliff Frewing, Chief Executive Officer, City of South Perth, *Transcript of Evidence*, 28 June 2006, p.15.

³⁹ Submission No 58 from Great Eastern Country Zone, 21 December 2005, p.1.

(c) A tiered approach?

One solution offered to the Committee entailed the introduction of a tiered approach. Different levels of compliance could be required from local governments based on size, population and resources. All agreed the standard of audit should remain high, with a difference in the “scope”. The Committee put this idea to the DLGRD and was advised that:

There has been suggestion that we have a tiered system that comprises one level of compliance for one sort of local government and another level of compliance for a different type of local government. The reaction we have received has been pretty mixed. At the meetings the director general attended some people said that it would restrict career opportunities for people wanting to move from a small to a large local government. In a two-tiered system the requirements of the lower tier would be considerably less, and that would mean less training in compliance issues than would be the case if a person were covering the whole lot. Other people have said that we should have a two-tiered system. In terms of giving you a definitive answer, I do not know. I would prefer one tier. To change the system to more than one tier would require legislative changes which, I know, is no big deal. Another implication is that the different levels would make it more complex for us to do the monitoring.⁴⁰

An important element of the CAR is its attention to matters of probity and section 3.4 examines how the DLGRD use the CAR in this regard.

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.

⁴⁰

Mr Quentin Harrington, Director, Governance and Statutory Support, Department of Local Government and Regional Development, *Transcript of Evidence*, 23 August 2006, p.3.

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.

The DLGRD advised the Committee that they intend to review the CAR program in the near future.⁴¹ The Committee is of the view that the review should be conducted in conjunction with key stakeholder groups to enhance its effectiveness.

2.8 Probity

Probity, as the Committee understands it, is the evidence of ethical behaviour in a particular process and is defined as complete and confirmed integrity, uprightness and honesty.⁴²

There are a number of public sector organisations (in addition to DLGRD), which have a role in, or contribute to the maintenance of appropriate standards of probity in local government, including but not limited to the:

- Corruption and Crime Commission;
- WA Electoral Commission;
- State Administrative Tribunal;
- State Ombudsman;
- Public Sector Standards Commission; and the
- Office of the Information Commissioner.

The Committee received a submission from the State Ombudsman, which provided details of the nature of allegations received relating to local government. In the period from 2002/05, allegations about local government constituted 8.7 per cent of all allegations received by the Ombudsman. Around 40 per cent were resolved informally, through means such as providing complainants with information or an explanation of their rights and obligations in regard to council services, or by referring them back to their council's internal complaints resolution processes. The remainder were investigated by the Ombudsman's office. The complaints cover a

⁴¹ Submission No 40 from the Department of Local Government and Regional Development, 11 November 2005, p.33.

⁴² Australia Government, Department of Finance and Administration, Procurement Guidance, Ethics and Probity in Government Procurement, Available at: http://www.finance.gov.au/ctc/ethics___probity-background.html, Accessed on 7 June 2006.

wide range of matters, with the most frequent source of complaint being administration and customer service.⁴³

There are also provisions in the Local Government Act that relate to ethics and integrity, for example those relating to conflict and disclosure of interest and the use of confidential information. Under Division 9 of the Local Government Act, councils are required to prepare and adopt a code of conduct to be observed by council members, committee members and employees.

The Local Government (Official Conduct) Amendment Bill, was introduced into the Parliament in November 2005. During the second reading for the Bill the Minister stated:

*The original principles for the draft legislation were developed through a reference group chaired by the DLGRD, with representatives from the Western Australian Local Government Association, Local Government Managers Australia, the state Ombudsman's office, the then Anti-Corruption Commission and the Law Society of WA.*⁴⁴

The Committee notes the proposed laws are expected to have a significant impact on how issues of misconduct of elected members will be dealt with. At the time of publishing this report, the Bill was yet to pass the Legislative Council.

2.9 Chapter summary

There exists a comprehensive legislative framework that prescribes how local governments must deal with financial management, administration and the conduct of council members and staff.

Although evidence suggests local government auditors are increasingly paying attention to matters indicating significant adverse trends in a council's financial position and non-compliance with the financial management aspects of the Local Government Act and regulations, provisions relating to audit in local government are largely limited to financial attestation, or 'tick and flick' audits. Whilst there is a requirement for local governments to complete a Compliance Audit Return, those returns are not included in the scope of audit and result in little, if any, effective and timely feedback.

The Committee believes the CAR has potential for reducing or deterring poor accountability by reminding council management and staff about their key compliance responsibilities. However, the Committee notes the CAR is a self-assessment tool and does not provide the sort of performance evaluation that an independent audit organisation may.

Although individual local governments have suggested the CAR is too complex and ineffective, on the whole most view the CAR as more of a benefit than a burden, and would prefer it to be streamlined, rather than abolished altogether.

⁴³ Submission No 18 from Ms Deirdre O'Donnell, Ombudsman, Parliamentary Commissioner for Administrative Investigations, Western Australia, 30 September 2005, p.2.

⁴⁴ Hon John Bowler, MLA, Minister for Local Government and Regional Development, WA, Legislative Assembly, *Parliamentary Debates (Hansard)*, 16 Nov 2005, p.7381.

The following chapter looks in closer detail at the role of the state in the scrutiny of local government expenditure and examines the capacity of the DLGRD to monitor the performance of local government, raising the question of whether there is a role for the Office of the Auditor General in the process.

Recommendation 1

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

CHAPTER 3 MONITORING LOCAL GOVERNMENT ACCOUNTABILITY

The DLGRD is responsible for policy development, regulation and capacity building in local government and has two key divisions of particular relevance to this inquiry, Compliance and Advice and Support and Development.

This chapter focuses on the Committee's second term of reference, which relates to the capacity of the DLGRD to examine local government finance, probity and performance issues. A number of submissions raised concerns about the potential for conflict between the regulatory and support branches of the DLGRD and questioned its capacity to effectively monitor the performance of the sector.

3.1 Role of the DLGRD

(a) Compliance and Advice Branch

The DLGRD's regulatory role stems from its responsibilities under the Local Government Act. The responsibility for examining finance, probity and performance rests primarily with the Compliance and Advice Branch (CAB), which plays a major role in the DLGRD's capacity to monitor compliance with legislation and, apart from monitoring the finances of local governments, deals with complaints and undertakes investigations into local governments where necessary.

The CAB monitors local government CARs, budgets, financial reports and auditors' reports as part of its core activities.

(b) Support and Development Branch

The DLGRD's capacity building role in local government rests with the Support and Development Branch (SDB). The SDB provides advice, training and support to elected members and employees with regard to the operation of the Local Government Act and Regulations and other local government operational issues. The SDB conducts programs and delivers training to assist new CEOs and elected representatives adapt to their roles.⁴⁵

3.2 Monitoring local government activity

Local governments are required to provide compliance returns, budgets, financial reports and copies of their annual reports to the DLGRD. Local government auditors are required to provide the DLGRD with copies of the audit certificate, any management letters and a statement of their fees and charges. The CAB monitors the financial activities of local government on the basis of information contained in these documents.

⁴⁵ Submission No 48 from Department of Local Government and Regional Development, November 2005, pp. 8-9.

The Committee was interested in the process that follows the receipt of that information and attempted to get a feel for the capacity of the DLGRD to monitor the sector. To facilitate this, the Committee requested the following information for the 2004/05 financial year:

- the number of local governments required to provide audit opinions/reports;
- the deadline for providing the audit opinions/reports;
- the number of local governments that met that deadline;
- the number that had still not met it at 31 January 2006;
- the number of qualified audit opinions and reports that raised significant compliance issues; and
- details of the DLGRD response to those qualified audit opinions and compliance issues.

Although the Committee requested data for 2004/05, the most recent data available related to the 2003/04 financial year. While the Committee makes some preliminary findings relative to the data, it strongly suggests further testing and verification would be required to establish concrete findings in relation to this information.

(a) How is local government performing?

Audit certificates are divided into three parts:

- (i) “Audit Opinion” indicates whether, in the auditor’s opinion, the Council’s financial report “presents, fairly in accordance with” various legal and professional accounting standards the Council’s financial position as at the end of a particular financial year and the results of its operations and its cash flows for that year;
- (ii) “Statutory Compliance” - lists any instances of non-compliance with the Local Government Act or Financial Management Regulations that the auditors picked up during the audit; and
- (iii) “Other matters” - includes a report on a number of relatively proforma matters but also includes the auditor’s opinion about whether there are any “material” matters that indicate significant adverse trends in the financial position or the financial management practices of the council.

The Committee’s preliminary analysis revealed that, for 2003/04, 59 councils or almost 42 per cent of all local governments received either a qualified audit certificate or a management letter (a letter to senior management that conveys significant audit findings), or both. Based on the information provided to the Committee, 63 councils, representing about 44 per cent of all local governments, did not provide the DLGRD with copies of their 2003/04 audit opinions by the statutory deadline of December 31 2004, and 22 councils had still not done so by January 31 of

the following year. The Committee notes that in its role as regulator of local government, the DLGRD relies on this information to begin the process of reviewing financial performance.

The DLGRD also assessed 45 councils (approximately 30 per cent) as having “significant compliance issues” based on its analysis of management letters provided by auditors to council management in relation to the 2003/04 financial year audits.⁴⁶

Finding 9

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

Finding 10

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

To take the analysis a step further, the Committee requested and received unfettered access to DLGRD files and scanned some additional information. Time and resources limited the scans to a small sample focusing on those councils whose 2003/04 audit certificates had been qualified.

The Committee scanned the files of 6 councils whose audit certificates were qualified for ‘non-compliant borrowings’ and generated the following information:

A list showing -

- which councils, if any, also received qualified audit certifications for the years ending 30 June 2003 and 30 June 2002;
- copies of all qualifications relating to these councils for the years ending 30 June 2002, 2003 and 2004; and
- details on action taken by DLGRD in response to the 30 June 2004 qualifications, council responses and any tangible outcomes.

The Committee then analysed the list for:

⁴⁶ Letter from Department of Local Government and Regional Development, 14 March 2006, p.6.

- ‘recidivists’, which may suggest problems with the monitoring process; and
- ‘significant councils’ (large metropolitan or regional), which may reasonably be expected to have the resources to ensure they do not receive a qualified audit certificate.

The Committee conducted an analysis of the actions taken and council responses to assess:

- the type of action taken, its timeliness, and whether appropriate;
- the type of response, its timeliness, and whether appropriate; and
- any departmental testing/monitoring to ensure council had taken remedial action.

(b) Issues arising out of testing

The DLGRD was provided with an opportunity to comment on the Committee’s findings, and where applicable these comments have been included within the text.

(i) Follow-up

Although the files indicate that in general the CAB followed up on compliance issues and performed its function effectively, the Committee found a number of instances where it considered some sort of follow-up would have been justified but little evidence that it was either provided or effective. For example, in the years 2000 through 2003, the files of two councils indicated the DLGRD did not follow up auditors who failed to send in audit certificates, management letters or information on fees, or did so belatedly and not always successfully. The file scans did, however, indicate the DLGRD has ‘stepped up’ its follow-up activities more recently, but consistency appeared to be an issue.

The DLGRD advised the Committee that the economic and geographic diversity of local governments in WA presents many challenges from an operational perspective, a factor which needs to be recognised when making assessments and drawing conclusions about levels of accountability and performance in local government.

(ii) Monitoring of auditors

In relation to the audit process, and drawing upon DLGRD data, the following general observations can be made.

- There have been occasions where auditors have failed to provide documents to the DLGRD; and
- Local Government auditors are not required to include a statement of independence in their audit certificates, although the Committee’s scan showed some are doing this voluntarily.

The Committee noted the current requirement for auditors to provide “a detailed statement of ... the remuneration and expenses due to the auditor by the local government” can be read narrowly

to mean only money due to the auditor for audit work. Local Government auditors are also not required to include a statement of independence in their audit certificates although the Committee's scan showed some are doing so voluntarily. The following case study illustrates these points to some extent and includes some comments subsequently provided by the DLGRD. The Committee resolved not to name individual councils in this exercise.

3.3 Case studies

(i) *Council X*

2000/01 - In the management letter, the auditors reported a deteriorating financial position, but there was no evidence on file of DLGRD follow-up. The DLGRD advised that in this example it had measured the Shire's financial position in addition to the auditor's advice, and that it considered the deterioration did not represent a significant adverse trend, and no further action was necessary.

2001/02 - No apparent problems with audit, however, it appears the DLGRD did not receive the audit certificate until February 2004, more than one year after the required date.

2002/03 - Received by the DLGRD in July 2004. No qualification, however auditors raised four matters in the management letter.

DLGRD advised the Committee that the audit certificate and management letter was not received by the due date in December 2003. This was followed up and received in July 2004. It was at that time that the DLGRD first become aware of the four matters raised in the management letter, which were not breaches of the *Local Government Act 1995*, but are more accurately described as suggestions to improve the Shire's financial management practices. In this regard the breaches were not considered a compliance issue.

DLGRD subsequently received information which showed a clear conflict of interest - the auditor's fees information showed they earned more on accounting work than on the audit. In response to this finding, the DLGRD advised the Committee that it is not responsible for 'policing' conflicts of auditors and that the council's own Audit Committee, during the appointment process, is the more appropriate avenue to address this type of issue. There is evidence on the file to suggest the council has taken this issue into consideration and has appointed new auditors.

2003/04 - New auditors qualified the audit under the Statutory Compliance heading, primarily because of eight instances of non-compliance, including non-compliant formatting of the annual budget. Other documents on the file suggested this resulted in 'errors' (which were picked up by DLGRD) that created a deficit budget of \$937,489. The new auditors raised a further six matters in the management letter, including an unexplained line item adjustment to the fixed assets register of \$482,089.

The DLGRD advised the Committee it had already identified what it considered was a significant issue and was actively engaged in seeking an explanation for the \$937,489 error.

The Committee was subsequently advised that the \$937,489 error in the 2003/4 budget was detected by the DLGRD in March 2004 and discussed verbally with the CEO. Adjustments were received from the Shire on 10 March 2004 and the revised deficit was \$121,024.

In May 2004 a follow up was made with the new CEO who was very critical of previous auditors.

2004/05 - Auditors qualified the audit certificate again under the heading of Statutory Compliance. There were four instances of non-compliance on this occasion, although two had been reported the previous year. The auditors also raised four matters in the management letter, all of which had been raised in the previous year.

(ii) Council Y

Council Y's 2002/03 audit certificate was qualified under "Statutory Compliance" because of non-compliance under three headings. One was "Differential General Rates" and included text listing two instances of non-compliance:

Local public notice of the intention to levy differential general rates in respect of the 2002/03 financial year was not given as required by Section 6.36(1) of the Act;

Council imposed a differential general rate in the 2002/03 budget year which was twice more than the lowest differential rate without obtaining the approval of the Minister as required by Section 6.33(3) of the Act.

DLGRD followed this issue up more than six months later noting: "As Ministerial approval required was not obtained prior to the issue of the rate notices, the rates levied are unlawful." DLGRD went on to put forward two courses of corrective action and requested Council's advice within 30 days.

Council Y, in its reply, nominated one of the options which required DLGRD to effect further action. There was no evidence on the file that the action was taken.

The following year Council Y's audit certificate was again qualified in relation to Differential General Rates but not for lack of Ministerial approval. DLGRD followed up the qualifications and there was a note on the file indicating requesting an officer to check "to see if Y was one of the councils whose rates we intended to validate". This was responded to in the affirmative; however, there is no evidence on the file that the rates were ever validated.

The DLGRD subsequently informed the Committee that the request from this local government to validate differential rates, pursuant to section 9.64 of the *Local Government Act 1995*, was not received until late 2004 and was then held by the DLGRD while it waited for a similar request from another local government. The formal request was then made in August 2005 to allow two other requests for 'validation orders' to be submitted at the same Executive Council meeting as opposed to separately.

It appears that DLGRD is now regularly following up suggestions of adverse financial trends. However, it does not appear to consistently pick up repeat issues, or those that appear in the latest management letter (or audit qualifications) that were also highlighted in previous notifications.

The Committee emphasises that the case studies outlined above are indicative only and serve to illustrate the complexity of issues raised in management letters and audit qualifications. The Committee notes that while its examination of local government files reveal some inconsistencies and an issue with timeliness, it does not believe this is a reflection on the individual officers employed to carry out these tasks. Rather, these issues are likely to be related to resourcing, a topic followed up in section 3.5 of this report. Further testing and analysis would be required to draw reliable conclusions.

3.4 Monitoring the Compliance Audit Return

The DLGRD developed the CAR to help it identify issues related to, among others, probity. The CAR consists of a series of compliance checks under various headings, with each compliance check highlighting a single legislative or regulatory requirement relating to the particular heading.

Using the CAR responses as a guide, the Committee attempted to evaluate their potential as a probity checklist and as an early warning for potential problems.

‘Probity’ in this context is defined in terms of disclosures of interest and appropriate independent decision making at council level (Schedule G of the template Compliance Audit Return) and the tender process (Schedule C).

To test the level of probity in local government the Committee put together a random sample of 15 councils, and scanned their CAR responses to checks related to *Tenders for Providing Goods or Services* and those covered under the heading *Disclosure of Interest*.

The test involved scanning the 2003/04 files of the random sample of 15 local governments, collecting the following information:

- copies of Schedules C and G of their Compliance Audit Return (CAR) for calendar year 2004;
- copies of 2003/04 audit opinions and qualifications (if any);
- copies of 2003/04 management letters; and
- details of any DLGRD action taken as a result of identification of probity issues in CAR, audit opinions and/or management letters.

The Committee then generated a list of probity issues identified:

- by the councils themselves in their CARs;

- by the auditors during the audit and requiring audit qualifications; and
- by auditors, but at management letter level only.

The Committee then analysed the lists for common/recurring probity issues. The aim was to determine if there is the potential for sector-wide/endemic probity issues.

(a) Monitoring probity

The 2004 CAR Isted 31 compliance checks under the heading *Tenders for Providing Goods or Services* and 13 under the heading *Disclosure of Interest*.

Five councils, or a third of the random sample, reported not complying with at least one of the *Tenders for Providing Goods or Services* compliance checks, and one council reported not complying with four compliance checks. Without further analysis, it is difficult to surmise if this figure is indicative of the rate of non-compliance across the sector. The preliminary results indicate, however, that as many as one in every three councils may have problems in this area.

Two councils in the sample (13 per cent) reported not complying with at least one of the *Disclosure of Interest* compliance checks. Once again, if this sample is indicative of the rate of non-compliance across the sector it suggests one in very ten councils in WA may have problems in this area.

Annual returns require councillors and designated staff to disclose, among other things any interests held in property, sources of income, trusts, gifts received (including contributions to travel) and interests and positions in corporations. One council reported instances of non-compliance relating to the failure of approximately half of all its councillors and staff to lodge their annual returns by the due date, and that there had been similar problems the previous year following which the council had undertaken, on the advice of DLGRD, to inform all parties about their obligations.

While the Committee heard evidence to suggest the CAR's focus on the date of annual return lodgement is 'a waste of resources', it believes it is important that returns are lodged in a timely manner and accurately recorded. Councillors and employees may be subject to significant personal penalty (\$10,000 or imprisonment for 2 years) for a contravention of sections 5.75 and 5.76 of the *Local Government Act 1995*.

3.5 Capacity of DLGRD to monitor the sector

The DLGRD appears to have all the information it would need to make a reasonable assessment of risk and how serious the risk might be. However, submissions and evidence suggested the DLGRD may not have the resources to do a thorough assessment or take much action based on the information provided by councils.

Historically, the audit of local government had been conducted by in-house auditors before it was transferred out, first to the OAG and then to the private sector (refer section 2.1 (a)). The Shire of

Sandstone highlighted the loss of the State based audit system which provided experience, mentorship and access to ready advice, which they believe was “eliminated at the stroke of an ideological pen with the privatisation of [audit] functions”.⁴⁷

On the question of whether the OAG has a greater level of expertise in this area than DLGRD, Mr Cliff Frewing of the City of Fremantle noted that:

From my knowledge of the workings of the Department of Local Government and Regional Development and the structure of the department, it seems to me that it is absolutely threadbare on people with accounting qualifications.....I do not think the department has the expertise or the resources to get too involved in this topic, and that is probably why we have seen little action from the department as a result of auditors submitting their reports to the department. If the reports do end up with the Auditor General, obviously we would like to see some result from that, because clearly a lot of benefit could be derived from some overall view of the local government auditing process, which is not what we are getting now.⁴⁸

The Committee questioned the DLGRD in terms of the number of financially qualified officers and was advised that there are three Full Time Equivalent positions (FTEs) in the section that monitors the CAR, comprising a senior compliance officer and two assistants with financial qualifications who assist in that area..⁴⁹

(a) Resources allocated to monitoring local government

The Committee requested a breakdown of the overall unit cost of monitoring the sector over a period of 6 years (refer Table 3.1). A unit, in this regard, is an individual local government.⁵⁰ Figures have been averaged across the sector.

⁴⁷ Submission No 46 from Shire of Sandstone, 30 November 2005, p.2.

⁴⁸ Mr Cliff Frewing, Chief Executive Officer, City of South Perth, *Transcript of Evidence*, 28 June 2006, p.22.

⁴⁹ Mr Brendan Peyton, Acting Manager Compliance and Advice, Department of Local Government and Regional Development, *Transcript of Evidence*, 23 August 2006, p.5.

⁵⁰ The unit costs listed above include, for each year, the costs of only one Level 5 FTE position, on costs and corporate service (overhead) costs, but does not include an allowance for a proportion of the Director’s or Manager’s salary.

Table 3.1**Department of Local Government and Regional Development unit cost of monitoring local government sector financial years 2000-2005**

Financial year	Cost
2001/02	958
2001/02	980
2002/03	1056
2003/04	1089
2004/05	1137
2005/06	3660

The data in Table 3.1 indicates an incremental increase in resourcing for monitoring the sector until 2004/05, when there appears to be a sharp increase in the unit cost of monitoring individual councils.

As discussed earlier, the responsibility for examining finance, probity and performance rests primarily with the CAB. The CAB examines local government statutory compliance returns, auditor's reports, examines local government budgets, financial reports and undertakes compliance audits on local governments as part of its activities. The Branch also deals with complaints about local governments and undertakes investigations into local governments.

In 2001/02 there were 10.8 FTE's in the CAB. This increased to 14.8 in 2003/04 and has increased to 17.8 in 2005/06 with the creation of a further 3 positions to bolster the Local Government Compliance Audit Program and the financial monitoring of local governments. In addition, through the 2006/07 budget process the DLGRD received an additional \$280,000 for compliance and monitoring purposes. In 2005/06 there were 4 full time staff allocated to the financial monitoring of 144 individual local governments with a total budget of \$527,000.⁵¹

The Committee is concerned that this may be inadequate; given that local government is a sector with annual revenue of \$1.7 billion, 68 per cent of which is made up of public money.

⁵¹ The staff figure includes 20 per cent of the Director Governance and Support's salary and 25 per cent of the Manager Compliance and Advice's salary and an additional Level 5 officer allocated to financial monitoring for 2005/06.

Finding 11

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

Dr Shayne Silcox, CEO of the City of Belmont, questioned whether:

the [OAG] should be doing performance audits on the Department of Local Government and Regional Development to determine whether it has undertaken the roles it should have.⁵²

Submissions further suggest the DLGRD does not have the capacity to effectively examine matters pertaining to its financial management, probity and performance for reasons including the:

- historical lack of adequate resourcing;
- diminished knowledge base resultant from the retirement of experienced staff; and
- the increased regulatory role the DLGRD has as a result of recent amendments to the Act.⁵³

3.6 Dual roles of the DLGRD

Some submitters suggested there should be a separation between regulation and capacity building within the DLGRD and acknowledged the potential for conflict between these two divisions. Others expressed a view that some confusion may exist in the DLGRD as to how it should fulfil this twofold role. For example, the Committee heard that:

The Department in its dual role of regulator and a support institution for the industry appears to lack the resources to meet both of these roles.....Benchmarks, industry trends, resources, strategies and mentoring should be the role of the Department whereas the focus is on the regulatory side, if the measure suggested that is the support and advisory role is increased then as a result of a better supported sector there will be less requirement for the prescriptive measures.⁵⁴

In response to Committee questions on this issue the DLGRD noted that this:

....is not a new issue. Certainly, the potential for conflict was identified some time ago before this department was formed. Prior to the formation of this department the

⁵² Dr Shayne Silcox, Chief Executive Officer, City of Belmont, *Transcript of Evidence*, 28 June 2006, pp.22-3.

⁵³ Submission No 57 from Local Government Managers Australia, 16 December 2005, p.7.

⁵⁴ Submission No 37 from Town of Vincent, 11 November 2005, pp.2-3.

regulatory role versus the support role - if you want to call it that - was actually in the same branch..... That regulatory role is now in governance and statutory support ...[and] the support role is in another division..... That keeps the two apart. That is not to say that we do not work together. The regulatory people can identify systemic issues and bring those to the attention of the support people. The support people can go out and run workshops on that. It is not uncommon. The Corruption and Crime Commission also has an education role as well as an investigative role. I suspect that a lot of other departments do as well.⁵⁵

Most submitters acknowledged the expertise and knowledge of DLGRD staff and wanted the good work and support they provided to the industry recognised. However, it was a common response that the capacity of the DLGRD was hindered due to a shortage of appropriately qualified staff, and that this created potential for administrative delays and poor information provision. The general focus of the issue appears to be a perception that the DLGRD does not offer assistance or advice early enough and its focal point is on ensuring compliance rather than providing support. The Committee was told that:

The DLGRD should place more emphasis upon guidance and assistance to Local Government Authorities rather than the “big stick” approach of compliance beyond the realistic capabilities of Local Government Authorities.⁵⁶

In a large number of responses it was agreed that resourcing should be reviewed to ensure the DLGRD can supervise and support local govt. This view was supported by the Shire of Kondinin, advised the Committee that the DLGRD:

...should be more pro-active in assisting Councils.... It appears that the Department is well understaffed and under resourced to properly assist local governments in achieving their aims and objectives.⁵⁷

Many submissions suggested further roles that the department could play. In evidence, Mr Wayne Scheggia, the Policy Director for WALGA, advised the Committee that:

the notion of a mentoring outreach function from the department would be valued by local government and would be seen as contributing substantially to their understanding of departmental interpretation of regulation and the most appropriate way to account for it.⁵⁸

The DLGRD submitted that it was adequately resourced but acknowledged that “the task of monitoring local governments for statutory compliance and financial health is a significant task”.⁵⁹

⁵⁵ Mr Quentin Harrington, Director, Governance and Statutory Support, Department of Local Government and Regional Development, *Transcript of Evidence*, 23 August 2006, p.5.

⁵⁶ Submission No 27 from Shire of Coorow, 24 October 2005, p.2.

⁵⁷ Submission No 33 from Shire of Kondinin, 7 November 2005, p.1.

⁵⁸ Mr Wayne Scheggia, Policy Director, Western Australian Local Government Association, *Transcript of Evidence*, 16 November 2005, p.6.

⁵⁹ Submission No 40 from Department of Local Government and Regional Development, 11 November 2005, p.26.

With reference to the CAB, which is responsible for examining finance, probity and performance, DLGRD advised the Committee that:

The workload has increased significantly since 2001 and this has been addressed through the provision of additional resources to cope with complaints and investigations. These resources will also be applied to the Department's statutory compliance and financial monitoring responsibilities.⁶⁰

It is worth noting that when the Committee secretariat examined the audit file series they noticed a greater number of follow-up letters had gone out relating to the 2004/05 audit reports compared with previous years.

Finding 12

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

On face value, it appears the DLGRD monitors the sector at the individual council level only. Although the publication of annual reports are an important element in local government transparency, the Committee believes transparency could be enhanced if the DLGRD collated the information into categories across the sector, thus building a cross sector picture of probity and compliance and as a means for citizens and councils alike to measure their performance.

The Committee notes that between 1994 and 1997 the then Department of Local Government produced an annual set of *Comparative Indicators for Western Australian Local Governments*, statistical reports about how local governments in Western Australia had performed in a broad range of activities (refer section 4.6 of this report).

Finding 13

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

⁶⁰ *ibid.*

The Department recognises this and is developing more sophisticated monitoring tools to improve the quality of information available. The CAB receives in excess of 600 documents (annual budgets, budget reviews, annual financial statements, auditor's reports, compliance audit returns) each year from local governments in Western Australia. The information forms the basis of analysis to monitor local governments' statutory compliance and their financial position.

The DLGRD is currently developing a financial modelling tool that will allow it to perform a more detailed analysis on the financial health of local governments. This is a significant project and will ostensibly provide the DLGRD with the tools to better identify local governments in financial difficulty. It is anticipated that where such situations arise, the DLGRD, in conjunction with the affected local government, will have greater capacity to work collaboratively to a put a remediation plan into place.⁶¹

3.7 Chapter summary

Local government audit reports and CARs provide the basis for the DLGRD's monitoring of local government accountability. Based on a limited study, the Committee found that 30 per cent of the 144 local governments in WA encountered significant compliance issues, while just under half did not submit the required information in a timely manner.

At the sector wide level the Committee found the DLGRD publishes very little data and, apart from individual local government annual reports, there is virtually no means by which the public can transparently assess or observe council performance.

There is a perception amongst local governments that the DLGRD does not have sufficient resources to effectively monitor the sector, although evidence suggests there have been increases in resourcing for this purpose.

The following chapter examines the role of the Auditor General in the scrutiny of public expenditure and discusses the potential benefits of a similar approach to the local government sector.

⁶¹ Letter from Ms Cheryl Gwilliam, Director General, Department of Local Government and Regional Development, 13 September 2006, p.2.

CHAPTER 4 **ROLE OF THE AUDITOR GENERAL IN THE SCRUTINY OF PUBLIC EXPENDITURE**

In the Westminster system of government, all authority for government agencies stems from the Parliament. Public sector agencies are accountable to the Parliament, in terms of their use of public money and their conduct in carrying out the functions of the state. In WA, public sector agencies are subject to the full scrutiny of the OAG.

The local government sector is subject to considerable parliamentary scrutiny, specifically in relation to equal opportunity, corruption and crime and public interest disclosure, with one notable exception. Local government is not subject to the accountability framework outlined in the *Financial Administration and Audit Act 1985* (FAAA).

Local government audits differ significantly to those carried out in the public sector, principally because: each local government arranges its own audit; all audits are done by the private sector and tend to be limited to financial attestation, sometimes termed the ‘tick and flick’ audit.

4.1 Functions of the Auditor General

The range of entities for which Auditors General are responsible is a matter for Parliament to determine. The Parliament usually appoints the auditor of all public sector organisations because these organisations derive their authority from and are accountable to Parliament.

An audit is an “official examination and verification of accounts and records, especially of financial accounts”.⁶² Auditors General provide independent assurance to Parliament that public sector functions are carried out, and accounted for, consistent with Parliament’s intentions.⁶³

There are two broad types of audit carried out by Auditors General:

- **The Regulatory Audit** - including the audit of the financial and other information in the accountability statements of an entity, the audit of systems of internal control and the consideration of probity and propriety; and
- **The Performance Audit** - including the consideration of economy, efficiency and effectiveness.⁶⁴

In recent years the mandates of most Auditors General have been expanded to include audits of non-financial performance as well as controls and compliance.

⁶² Delbridge, A et al (eds), *The Macquarie Dictionary 3rd ed*, Macquarie Library, North Ryde NSW, 1997, p.129.

⁶³ Australasian Council of Auditors-General, *The Role of the Auditor-General*, <<http://www.acag.org.au/acagrole.pdf>> (13 April 2006), p.3.

⁶⁴ *ibid*, p.7.

A recent review of the current systems for external audit of local government in other States and New Zealand found Auditors General play a role in some cases, although there are significant differences in the type of role and the way in which it has been exercised in practice.⁶⁵

4.2 WA public sector audits

In WA, the Auditor General undertakes four types of audit across two broad streams, ‘assurance’ and ‘efficiency and effectiveness’.

(a) Assurance audits

‘Assurance audits’ check the assertions made by public sector agencies about their financial and non-financial performance by conducting audits of:

- financial statements and controls; and
- performance indicators.

The OAG test financial statements in much the same way as private sector auditors, to determine whether they are presented “fairly in accordance with applicable Accounting Standards”.⁶⁶

The Auditor General also assesses key performance indicators (KPIs), to provide independent assurance to Parliament that the indicators are relevant and appropriate and fairly represent the performance of an agency.

The Committee acknowledges the widespread debate within the parliamentary and public sphere about the effectiveness of KPIs, with much of the debate focussed on the inherent difficulties in developing relevant, reliable indicators. The Committee does not propose to discuss their merits or otherwise within this report, other than to establish they are a point of difference between public and private audits.

(b) Efficiency and Effectiveness

The use of ‘Efficiency and Effectiveness’ audits are where public and private sector audits differentiate most. This type of audit is understood to “reinforce the accountability of elected officials and public sector managers for their performance, as well as recognising and advising...stakeholders of management initiatives and achievements”.⁶⁷

The Auditor General undertakes two types of performance examinations:

- compliance examinations to assess internal controls and legislative compliance, and

⁶⁵ Andrew Harrington, *The External Audit of Local Government: A Review of Current Practice in the Australian States and New Zealand*. The Report was commissioned by the Office of the Auditor General for Western Australia.

⁶⁶ Submission No 42 from the Office of the Auditor General, 11 November 2006, p.2

⁶⁷ *ibid.*

- performance examinations, which evaluate whether an agency is effectively meeting its objectives and using its resources economically and efficiently.

Performance measurement assists in the determination of whether public moneys have been spent wisely, or whether spending decisions have resulted in stated objectives, specifically in terms of value for money and the quality of the goods and/or services procured.

The overall objective should be to make it possible for those who fund government (taxpayers) to hold managers of public money to account.

The critical pre-requisite to achieving these objectives is information. Statistically valid information enables interested parties to make informed decisions about the efficiency and effectiveness of both individual local governments and the sector as a whole.

4.3 The role of the Auditor General in local government in Western Australia

The OAG held responsibility for conducting the external audit of local governments between 1981 and 1983. This involved the transfer of responsibility for local government audit of 139 authorities (including functions and personnel) from the then Department of Local Government. In 1983, amendments to the Local Government Act transferred those powers away from the Auditor General to the private sector.⁶⁸

Although the OAG performs the annual attest audit of the DLGRD, which involves sample testing of grant payments made to local authorities, it has no power to examine the performance of local governments in delivering services in an equitable and effective manner and is unable to address issues specifically related to local government.

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

By contrast, other Western Australian oversight agencies, such as the Ombudsman and Corruption and Crime Commission (CCC), have powers to respond to allegations and conduct investigations relating to local government (Table 4.1), a gap commented on by the Auditor General in a submission to this inquiry:

⁶⁸ Submission No 42 from the Office of the Auditor General, 11 November 2006, p.2.

...the Financial Administration and Audit Act 1985 does not apply to the local government sector, the sole piece of significant accountability legislation not to do so.⁶⁹

Table 4.1

A comparative sample of legislative reporting and oversight requirements across WA public authorities⁷⁰

Legislation	Oversight	State Sector	Local Government	Public Universities	Government Business Enterprises
Corruption and Crime Commission Act 2004	Corruption and Crime Commission Commissioner	✓	✓	✓	✓
Public Interest Disclosure Act 2003	Standards Commissioner	✓	✓	✓	✓
Equal Opportunity Act 1984	Equal Opportunity Commission	✓	✓	✓	✓
Occupational Safety and Health Act 1984	Department of Consumer and Employment Protection	✓	✓	✓	✓
Financial Administration and Audit Act 1985	Auditor General	✓	×	✓	✓
Freedom of Information Act 1992	Information Commissioner	✓	✓	✓	✓

4.4 Areas of risk

Contrary to the opinion of most local governments, the Corruption and Crime Commission (CCC) viewed the current accountability framework as inadequate and identified it as one of four key areas of corruption and misconduct risk in local government. The other areas for concern identified by the CCC were:

⁶⁹ Submission No 42 from Office of the Auditor General, 11 November 2005, p.1.

⁷⁰ Submission No 30 from Corruption and Crime Commission of Western Australia, 31 October 2005, p.6.

- the management of tenders and contracts;
- the disclosure of financial and non-financial interests; and
- the declaration of gifts and benefits.

The key issue for the CCC in relation to accountability framework is the:

*.....distinct lack of centralised policy and procedures, and accountability frameworks in local government when compared with the state sector.*⁷¹

The CCC suggested that:

*local government financial policies, standards and procedures should be commensurate with those in the state public sector and a similar oversight framework applied.*⁷²

It is the CCC's view that the local government sector is at a disadvantage by not having the same financial management standards as apply in other sectors, leaving it "more vulnerable to corruption and misconduct risk."⁷³

4.5 Who audits local government in other jurisdictions?

The question of whether local government should be audited by the State Auditor General has been asked in a number of other jurisdictions. Tasmania, Queensland and Victoria are the Australian jurisdictions in which the Auditor General oversees local government audit to a greater or lesser degree. Table 4.2 represents a summary of the roles of Australian Auditors General in the external audit of local governments.

⁷¹ Submission No 30 from Corruption and Crime Commission of Western Australia, 31 October 2005, p.1.

⁷² *ibid.* p.2.

⁷³ *ibid.* p.7.

Table 4.2 Roles of Australian Auditors General in external audit of local government by jurisdiction⁷⁴

Jurisdiction	Financial	Performance Indicators	Compliance audits	Performance examinations
Victoria	✓	✓	✓	✓
Queensland	✓	×	×	×
New South Wales	×	×	×	×
Tasmania	✓	×	×	✓
South Australia	×	×	×	×
Australian Capital Territory	×	×	×	×
Northern Territory	×	×	×	×
Western Australia	×	×	×	×

4.6 Models of state involvement in local government audit

In October 2005 as part of the inquiry process, the Committee visited Queensland, New South Wales and Victoria to gain a greater understanding of how local governments are audited in other jurisdictions. Both the Queensland and Victorian Auditors General supervise local government audits to different degrees. In practice, a majority of Local Government audits are conducted by private auditors contracted by the Auditor General.

(a) Victoria

The *Victorian Audit Act 1994* establishes the legislative framework governing the ongoing role and functions of the Auditor General and identifies the statutory powers and responsibilities of the Victorian Auditor General's Office (VAGO). Section 3 of that Act includes municipal councils within the definition of a 'public body' for which the Auditor General has responsibility.⁷⁵ Further clarification is found within the *Victorian Local Government Act 1989*, in which the term 'auditor' is clearly designated as the Auditor General.⁷⁶

There are around 105 local government bodies in Victoria (79 councils, 13 regional library corporations, and sundry subsidiary companies and trusts owned or controlled by the councils).

⁷⁴ Submission No 42 from the Office of the Auditor General, 11 November 2005, p.7.

⁷⁵ Section 3 Definitions *Audit Act 1994*. (Victoria).

⁷⁶ Section 3 *Local Government Act 1989* (Victoria).

The VAGO directly audits 27 of these bodies, a mixture of metropolitan and regional cities and shires spread across the state, to facilitate an understanding of the issues facing councils of all sizes and in remote locations. The VAGO also directly audit some regional library corporations and companies and trusts so that they are exposed to all types of local government entities.

The balance of local government audits are outsourced to around 15 audit firms with about 22 service providers (partners). The VAGO outsource to both metropolitan and regional firms and contract out councils for a period of 3 years with a further 2 year option to extend. The Committee was advised that the last time the VAGO refreshed its panel of service providers it took the opportunity to bring additional local government audits in-house, to move toward their strategic target of directly auditing 35 per cent of entities in each sector of government.

The intention of the VAGO is to rotate direct resourced local government audits when they next put out tenders in 2008. It is considered this will allow them to benchmark their audit costs with the private sector by directly comparing the tendered fee with their own fees.

The VAGO is unique in Australia in auditing the performance statements (including performance indicators), financial statements and comparative standard statements of local governments, as well as conducting performance and compliance audits when considered relevant. The results of these audits are reported to Parliament, including comparative analysis and identification of key sectoral issues and trends.

The Victorian Auditor General, Mr Wayne Cameron, advised the Committee that the current arrangements allow sensible comparison between councils and their management of finances, such as investment levels as a proportion of income. Mr Cameron advised that a key benefit associated with this approach is that it allows identification of thematic problems, for example:

- asset management - valuation of natural assets and heritage sites; and
- consistency in measurement of assets and liabilities.

The Committee was further advised that the VAGO does not impact or influence council decisions or policies (directly). It was acknowledged that in the 'early days' there was concern amongst the sector about too much state interference, but more recently many councils have requested the VAGO do their audit directly.

The VAGO first issue individual management letters to each council on the results of their audits. From these the major sector-wide auditing and accounting issues are summarised, and combined with some extra value-add analysis to produce an annual report to Parliament. This report is a chapter in their annual report on the results of all financial statement audits (tabled around November/December each year).

In 2005, for the first time, the VAGO introduced a 'plain English' version of the report chapter that was emailed directly to all CEOs. The strategy aims to provide trend data that councils can use to benchmark their financial performance and aspects of their financial management and

control frameworks (such as internal audit). The VAGO informed the Committee they have received positive feedback from local governments on this approach.

(b) Queensland

The QLD local government sector is not unlike WA in that it consists of 125 councils dispersed across a vast, diverse state. There are a further 15 'joint local governments', established to administer specific activities, and 44 'controlled entities'. The three key pieces of legislation that apply to local governments in QLD are: the *Financial Administration and Audit Act 1977*; the *Local Government Act 1993*; and the *Local Government Finance Standard 1994*.

Under the *Financial Administration and Audit Act 1977* the QLD Audit Office (QAO) has responsibility for all local government audits. Schedule 3 of that Act includes local governments within the definition of 'public sector entity' which are therefore subject to the Auditor General's scrutiny.

As is the case in Victoria, although the QAO has responsibility for all local government audits, the work is performed by either QAO staff or delegated to contract auditors. Of the 125 council and 15 joint local government audits performed in 2003/04, 110 councils (88 per cent) and all of the joint local governments were conducted by contract auditors.

All audits are conducted in accordance with the *QAO Auditing Standards* to enable the Auditor General to provide an independent opinion as to whether, in all material aspects, the financial report is presented fairly, in accordance with the prescribed requirements. The scope of local government audits include:

- examining information on a test/sample basis to provide evidence supporting the amounts and disclosures in the financial report;
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the council;
- obtaining written confirmation regarding the material representations made in conjunction with the audit; and
- reviewing the overall presentation of information in the financial report.⁷⁷

The QAO audits financial statements annually, but not performance indicators or performance examinations. However, the Auditor General can conduct Performance Management System audits, which look at controls and systems in place rather than the actual performance.

The Committee was advised that the biggest challenge currently facing QAO in auditing local government is ensuring the continuing good quality and appropriate scope of the contracted audits for the smaller and (largely) remote rural councils, as little local choice is available and few

⁷⁷ Information provided by the Queensland Audit Office to the WA Public Accounts Committee on 5 October 2005.

second tier firms find this work commercially attractive. The Committee notes this is likely to be an issue in WA, a point that must be considered in any evaluation of possible changes.

The QAO produces an annual consolidated *Results of Local Government Audits* report that contains a 'watch list' which the Department monitors for potential issues. The Committee met with the Local Government Association in QLD (LGAQ), who advised that they obtain great benefit from the QAO audit report which provides an across sector picture - providing analysis and benchmarking data for the Department, the LGAQ and individual councils (refer section 4.7(c)). It is the view of the LGAQ that publication of results is a clear disincentive to receiving an adverse report.

LGAQ also noted the QAO's important capacity building role. LGAQ has built a relationship with the QAO to assist councils to prepare for audits. The Department, QAO, Local Government Managers Association and LGAQ hold quarterly meetings to facilitate building links/relationships and knowledge sharing.

(c) New South Wales

There are 152 general purpose councils and 14 special purpose councils, or county councils, in NSW. Each council appoints an auditor for a period of six years, unless the office becomes vacant in that period.

Similar to the situation in WA, the NSW Department of Local Government reviews and monitors the financial performance of the 166 councils under the legislative framework of the *Local Government Act 1993* (NSW). The Department sees its role as ensuring compliance and only acts if specific reference is made by an auditor to possible non-compliance.

Legislation provides only a limited role for the NSW Audit Office (AO) in relation to local government. The Committee learned that in the early 1990s there was an attempt to reform audit of the NSW Local Government sector, which had previously relied on internal auditors. The 1993 rewrite of the Local Government Act included a provision that requires audits to be carried out by registered company and/or private auditors. Although there is no requirement for local government to use the Auditor General as external auditor, the NSW AO may tender for council audit appointment.⁷⁸ The Committee understands that the only council the NSW AO has successfully tendered for is the Sydney City Council.

Councils that are considered to have less than satisfactory financial performance are subject to supplementary monitoring and review (at least quarterly) in order to ensure that financial performance improves. The Department also provides guidance to councils and auditors.

It was the view of NSW AO representatives that Audit office involvement would improve consistency and allow cross-sector trends to be observed.

⁷⁸ Submission No 48 from NSW Department of Local Government, 8 December 2005, p.1.

Finding 15

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

4.7 Benchmarking local government across Australia

Questions were raised as to what the benefit would be of having the Auditor General oversee and/or conduct local government audits, rather than the current arrangements. The Committee sees one of the key benefits as the provision of reliable, consistent information that is accessible to Parliament and members of the public.

Throughout Australia there has been significant interest in the development of local government performance indicators over the past decade.

(a) New South Wales

In 2005 the New South Wales Government released the 14th edition of its annual *Comparative Information on New South Wales Local Government Councils*. The publication provides comparative information on the performance of all local councils in NSW on a financial year basis and in the foreword to the latest edition the Minister for Local Government explained:

It is designed to help both the community and councils assess the performance of their council across a broad range of activities. You can, for example, see whether your council's performance has improved over the last three years and compare its performance with similar councils. This enhanced transparency and public accountability helps to develop performance benchmarks and industry best practice models.⁷⁹

In recognition of the fact that there are obvious socioeconomic differences between councils and that they have different capacities to deliver services to the community, the publication classifies councils according to whether they are urban or rural. The urban category is further divided into metropolitan developed, regional town/city and fringe. Rural councils are divided into two categories - agricultural and remote. In addition, both urban and rural councils are classified on the basis of population size - small to very large.

Data is collected on rates, finances, corporate performance, and provision of key services. The data is then assessed using 30 key performance indicators (KPIs). For instance, there are four KPIs for rating:

- average rate per assessment;

⁷⁹ Hon Tony Kelly MLC, in NSW Department of Local Government (2005), *Comparative Information on NSW Local Government Councils 2003/2004*, p.3.

- outstanding rates, charges and fees;
- percentage movement in rates and annual charges revenue from previous year; and
- percentage movement in user charges and fees revenue from previous years.

The final publication provides an explanation of the significance of each indicator in plain English, demonstrates how it was calculated, and explicitly acknowledges environmental factors that can affect the indicators. The results are presented at both the individual council level, the group level and for the whole-of-local-government-sector. In the latter context state wide means, highs, lows and medians are provided.

(b) Victoria

The Victorian Department of Local Government uses 11 indicators which are reported annually in *Local Government in Victoria*, a publication that can trace its origins back to 2001. The indicators were developed in consultation with Victorian local governments and are also reported annually in each council's annual report, covering community satisfaction, rates, debts and expenditure as well as operating results and infrastructure renewal.⁸⁰

The use of survey information as part of the performance indicator framework is noteworthy as it places the citizen at the centre of a process that is, after all, meant to measure how well local government is meeting their expectations.

Another interesting feature of the Victorian model is the inclusion in the report itself of comments by the councils on their results.⁸¹ Not all councils saw fit to comment but providing the opportunity to do so is a way of ensuring natural justice. This point is made succinctly in the 2005 report:

Indicators are measures of outputs or outcomes. Individually and without associated explanations, they can only ever tell part of the story.

It is important to put indicator results in context and to remember that they only give an explanation of where to start looking for the reasons behind differences.....

Local government responsibilities and priorities vary with the circumstances, needs and expectations of their communities. Any evaluation of performance needs to be informed by consideration of the challenges faced by different local governments.⁸²

⁸⁰ Victorian Department of Local Government (2005), *Local Government in Victoria 2005*, p.1.

⁸¹ *ibid*, pp.9-11.

⁸² Victorian Department of Local Government (2005), *Local Government in Victoria 2005*, p.5.

(c) Queensland

The Queensland Department of Local Government has produced seven *Comparative Information* reports to date. The reports are similar in outline to the New South Wales model, with information on what are described as the key local government financial and functional areas of:

- financial operations;
- personnel;
- road maintenance;
- water, sewerage and waste management services;
- library services; and
- parks and gardens.

Additional financial information, including residential rates and charges, rate revenue and rate arrears for each Council, is also provided.

In the introduction to the 2005 edition, which covers the 2003/04 financial year, it is stated that:

The Report is not designed as a 'ranking table', but rather as a performance assessment tool to assist local governments in the evaluation of their performance through comparisons with each other.

The aim of the Report is to enable each local government to assess, at a broad level, its performance for each activity against the performance of the same activity of another local government, and for local governments to use this assessment of performance to initiate improvement processes through benchmarking with other local governments.⁸³

The QLD Minister highlights the fact that the report represents a partnership between councils and the State Government, noting that:

The information contained in it has been supplied voluntarily by 114 of Queensland's councils. It is their contribution to a healthy system of local government that is transparent and accountable. My hope is that all councils will contribute to next year's report.⁸⁴

Given the voluntary nature of the Queensland system, it is noteworthy that the 114 councils involved represent more than 90 per cent of all Queensland councils.

⁸³ Queensland Department of Local Government, Sport and Recreation (2005), *Queensland Local Government Comparative Information 2003/04*, p.5.

⁸⁴ Queensland Department of Local Government, Sport and Recreation (2005), *Queensland Local Government Comparative Information 2003/04*, p.2.

Further to the information provided by the Department, the Queensland Audit Office (QAO), which has statutory responsibility under the QLD FAAA for auditing local government, produces annual *Results of Local Government Audits* reports, discussed earlier at section 4.6(b). The QAO report includes information on joint public sector entities and controlled entities, current year issues and future trends and provides a comprehensive snapshot of the local government sector in that state.

(d) South Australia

The South Australian Office for State/Local Government Relations (OSLGR) have, in collaboration with the broader local government sector, decided to adopt a suggestion by a recent independent *Inquiry into the Financial Sustainability of Councils in South Australia* to restrict the measures of financial performance and position to a small number of key measures/indicators.

The OSLGR has developed a draft Financial Governance Code of Practice, including a proposed list of the key measures/indicators, based on the following ten principles, each of which incorporate a stated aim and a number of corresponding requirements. The principles are designed to ensure councils:

- (i) are financially sustainable;
- (ii) effectively manage infrastructure;
- (iii) maintain transparent budgeting and financial reporting systems;
- (iv) promote strategic decision making on service delivery;
- (v) promote a strategic and transparent funding approach;
- (vi) adopt a rigorous and accountable rating process;
- (vii) maintain clear treasury management strategies;
- (viii) recognise and manage risk;
- (ix) encourage enhanced performance; and
- (x) safeguard the integrity of financial reporting systems.⁸⁵

The OSLGR advised that they anticipate the Code of Practice will be accepted at the next Annual General Meeting of all Councils and will be adopted on a voluntary basis.

⁸⁵ Email Correspondence from South Australian Office for State/Local Government Relations, 8 June 2006, p.1.

(e) Tasmania

The Local Government Division within the Tasmanian Department of Premier and Cabinet annually publish KPIs for all local governments, with a view to:

- enhance performance measurement by Councils;
- enable benchmarking and identification of best practice;
- establish performance trends over time; and
- improve accountability to the community.⁸⁶

The 2003/04 report provides some useful trend data. For example, after five years the following trends had become apparent:

- a consistent downward trend in the debt-service ratio on a state-wide basis;
- an increase in the reliance of smaller Councils on grants as a source of revenue, reflecting the availability of grants;
- a consistent reduction in the level of rates outstanding at the end of the financial year, indicating that Councils are working hard to reduce the level of outstanding rates;
- a strong trend in the reduction of numbers of hours lost through injury; and
- a doubling in the number of building applications lodged in the state.

Further to the above report, the Tasmanian Auditor General annually publishes a report on all government departments and public bodies, including local government authorities. The Tasmanian Auditor General provides commentary on groups of Councils, categorised into:

- City Councils;
- Larger Urban and Rural Councils; and
- Other Councils.

In addition to a comparison of individual councils' current year financial information, there is a five-year comparative analysis of financial information for each group.

⁸⁶ Tasmanian Department of Premier and Cabinet, Local Government Division, Available at: <http://www.dpac.tas.gov.au/divisions/lgo/information/kpis.html>, Accessed on 10 April 2006.

(f) The Northern Territory and the Australia Capital Territory

The 2003/04 Commonwealth report on the operation of the *Local Government (Financial Assistance) Act 1995* indicated that, while comparable performance indicator information has been collected in the Northern Territory since 1997/98, not all local governing bodies embraced the reporting of such:

*Despite early enthusiasm there was an increasing decline in councils willing to collect performance data. The reporting of performance information was well within the capacity of the municipal and larger councils, but the capacity to provide the required information was more difficult for the smaller and remote councils.*⁸⁷

In the Australia Capital Territory, benchmarking has focused on roads and urban parks and places. Additional benchmarking activities were also underway in 2003/04 in relation to environmental management of waste.⁸⁸

The Committee notes that the level of effective benchmarking of the local government sector varies across states and territories. QLD, Victoria, Tasmania and New South Wales appear to provide the most comprehensive series of data, enabling a transparent, meaningful comparison between their local governments.

4.8 Benchmarking local government in Western Australia

As discussed earlier, information is a key element in ensuring accountability and transparency. One way to track the recent history of benchmarking in WA is through the annual reports provided by the Federal Minister for Local Government under the Commonwealth *Local Government (Financial Assistance) Act 1995*, which requires a report to Parliament ‘as soon as practicable’ after 30 June each year on the operation of the Act.⁸⁹ The reports must include an assessment of the performance by local governing bodies of their functions including their efficiency.

The Committee examined these reports over a period of four years and found that work on establishing and maintaining comparative indicators within the local government sector had been initiated by the then WA Department of Local Government and was promoted within the sector by WALGA. Between 1994 and 1997 the Department of Local Government produced an annual set of *Comparative Indicators for Western Australian Local Governments*, statistical reports about how local governments in Western Australia had performed in a broad range of activities.

⁸⁷ Commonwealth Department of Transport and Regional Services, *2003-04 Report on the Operation of the Local Government (Financial Assistance) Act 1995*, Local Government National Report, National Office of Local Government, p.276.

⁸⁸ *ibid*, p.277.

⁸⁹ *ibid*, p.xi.

While the reports did not attempt to provide a benchmark for satisfactory level of performance, they provided local governments and their citizens, with useful data to undertake more detailed investigations of specific areas of concern.⁹⁰

The publications were produced in collaboration with representatives from the Department of Local Government, the Western Australian Municipal Association and the Australian Bureau of Statistics and covered thirty comparative indicators over a broad range of local government activities, including:

- health services;
- welfare;
- building control; and
- waste management.⁹¹

In the 2000/01 Commonwealth report, the WA Department of Local Government indicated it had:

*recommended work...on comparative indicators aiming initially at improving the quality of financial data being received for central processing. In the past, the method for allocating costs, such as administrative overheads, was not clearly understood because councils believed the list of their functions did not adequately describe all their separate activities. The comparative indicators now include 30 key functional and financial performance indicators that highlight significant areas of local government operations in Western Australia.*⁹²

For the following three years, the Department continued to note its intention to re-establish a sector wide system of comparative indicators; however, in the last available report for 2003/04 stated that:

*obtaining reasonably reliable data from local governments is still difficult.*⁹³

The Committee questioned the current DLGRD as to why the publications were discontinued and were advised that:

The demand for this publication, or more specifically the information contained in the publication was not sufficiently high enough to warrant the investment of time and

⁹⁰ Department of Local Government (WA), *Comparative Indicators for Western Australian Local Governments* 1996/97, January 1999, p.3.

⁹¹ *ibid*, p.3-10.

⁹² Commonwealth Department of Transport and Regional Services, *2000-2001 Report on the Operation of the Local Government (Financial Assistance) Act 1995* Local Government National Report, National Office of Local Government, p.64.

⁹³ Commonwealth Department of Transport and Regional Services, *2003-2004 Report on the Operation of the Local Government (Financial Assistance) Act 1995*, Local Government National Report, National Office of Local Government, p.269.

resources into producing [it] on an annual basis....While the publication can be used for comparative purposes, its use as a management tool is limited and as such this possibly contributed to the decline in demand.⁹⁴

DLGRD further advised that it:

...has not undertaken an assessment of the frequency of use or application of this publication by local governments [because] it was produced as a guide only and did not impose mandatory obligations on local governments.⁹⁵

It appears the sector is still not adequately benchmarked. By comparison, similar information on State Public Sector Agencies has been collected for more than a decade, and every year its benchmarks are becoming more rigorous and comprehensive.

The Committee discussed the idea of benchmarking with the DLGRD, and was advised that there have been some improvements in the methods of handling information, largely due to the introduction of a new database:

There is a phenomenal amount of data that we collect associated with the CARs and also with the financial data. The benefit of now entering that onto a database has already identified some significant benefits in analysing what is going on with local governments. That, I think, will help us address some of the concerns of local governments that they are not getting some good information back from those CARs.⁹⁶

A key issue raised in submissions to the Inquiry was the impact of the loss of the Local Government Development Fund. In its submission WALGA stated that the:

....loss of the Local Government Development Fund needs to be reviewed as this fund enabled the industry to deliver low cost initiatives to the sector which are not now available, including sector benchmarking initiatives, elected member professional development initiatives and sector wide research.⁹⁷

One of the initiatives referred to by WALGA was the publication of performance measurement guidelines, distributed to all local governments by the former Department of Local Government in 2001.

The Committee requested information on the development fund and was advised that there were two programs operating at around the same time:

- the Local Government Development Fund (LGDF); and

⁹⁴ Letter from Ms Cheryl Gwilliam, Director General, Department of Local Government and Regional Development: provision of additional requested information, 6 June 2006, p.6.

⁹⁵ *ibid.*

⁹⁶ Mr Brendan Peyton, Acting Manager, Compliance and Advice, Department of Local Government and Regional Development, *Transcript of Evidence*, 23 August 2006, p.2.

⁹⁷ Submission No 24 from Western Australian Local Government Association, December 2005, p.3.

- the Local Government Development Program (LGDP)

The LGDF was funded through National Competition Payments to the State Government via the Consolidated Fund from 1998/99 to 2000/01. The major projects funded under the LGDF were:

- direct grants to all 142 local governments;
- development of an Agendas and Minutes Manual for local governments;
- training for local government elected members; and
- development of a manual for use by local government returning officers.

The LGDP was funded by the Commonwealth Department of Transport and Regional Services on a grant basis direct to the former Department of Local Government from 1998/99 to 1999/00. Approximately a quarter was funded via the Consolidated Fund. The major projects funded under LGDP were:

- financial assistance to local governments to examine structural reform options such as resource sharing and boundary changes; and the
- development of Performance Measurement Guidelines for Western Australian Local Governments.⁹⁸

Clearly benchmarking initiatives require coordination and adequate resourcing. The loss of the Development Fund appears to have had some impact in this area. The Committee is of the view that the re-establishment and maintenance of annually benchmarked data would contribute to assisting local governments and their constituents in identifying areas of concern, and may facilitate knowledge sharing between individual councils that encounter similar issues.

Finding 16

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

4.9 How the Auditor General might make a difference

The OAG regularly provides Parliament with big picture analysis of its audit work in the state public sector. The Ministerial Portfolio series of reports includes comments on the timeliness of reporting and audit results, including audit qualifications. They also provide information on

⁹⁸ Email from Department of Local Government and Regional Development, 29 May 2006, p.1.

common compliance and control issues. The Committee considers this practice beneficial for a number of reasons, including that:

- it is a transparent process and history suggests the possibility that poor accountability might be exposed to parliamentary scrutiny helps to prevent it occurring in the first place;
- the potential for a conflict of interest would be reduced significantly because the Auditor General has very limited powers to provide other services to its audit clients;
- the Auditor General's ability to audit the DLGRD's role as a regulator would be significantly enhanced; and
- the information provided greatly assists Parliament and the public to make informed judgements about how well public sector management is performing.

The Committee considers that separating the oversight role from the support role may remove the potential for conflict within the department. The reintroduction of the Auditor General as the independent auditor of individual local governments may enable the Department to focus greater resources on its support role to assist good practice by local governments.

(a) Consistency in audit parameters

The Committee considers that the audit requirements across local governments are as diverse as the local councils themselves.

While some submissions supported the Auditor General having some role to play in the local government audit process many questioned the value the Auditor General would add to the existing process. Indeed many local governments did not believe that the Auditor General should be involved in supervising Local Government audits, in many instances reiterating that Local Government is an autonomous level of government and not an agency of the State.

Most agreed, however, that there is potential to involve the OAG at some level in conjunction with other sector stakeholders, to develop a standard appropriate for Western Australian local governments. In evidence to the Committee Dr Shane Silcox noted:

What I think is missing in the industry - perhaps this is something the Auditor General could do, or perhaps the department should do, and it would not seem hard to me; I think this is where you are coming from - is that you could have some modelling done and you could put in some standard statistics from the local governments that would give you an idea of what issues are associated with that and would give you an audit plan for the state to look at problem area local governments. However, there is no such thing. We put in our audit reports to the Department of Local Government and Regional Development each year. One would ask: what happens with that information?⁹⁹

⁹⁹ Dr Shayne Silcox, Chief Executive Officer, City of Belmont, *Transcript of Evidence*, 28 June 2006, p.10.

In support of the Auditor General being appointed as auditor for all local governments, the Australasian Council of Auditors General (ACAG) outlined the main benefits as follows:

- greater independence in the audit process;
- consistency of the audit approach throughout the sector;
- stronger focus on probity, propriety and compliance aspects rather than minimum assurance;
- improvements in the overall quality of the audit process and reporting to the community;
- ability to collect and collate sector wide information to provide more informative reporting to Parliament;
- ability to conduct sector wide audits or reviews of specific areas of interest;
- ability to conduct performance audits of the local government sector; and
- a greater degree of interaction with the Department of Local Government and Regional Development and local government associations to improve the overall accountability of the local government sector.¹⁰⁰

The Committee met with a number of local government professionals who recalled, with varied enthusiasm, the period within which the then Department of Local Government had responsibility for local government audit. Most agreed that a return to that level of intervention is unnecessary and uncalled-for in contemporary Western Australia. However there was some support for the previous state audit system, with one submission noting:

...the disbandment of the Departmental/State audit system of local government which saw hundreds of years of collective and accessible local government knowledge and experience, eliminated at the stroke of an ideological pen with the privatization of these functions.¹⁰¹

In contrast other submissions supported the use of private auditors, as in the submission from the City of Geraldton, in which it is stated:

...no one with any experience of the old days of departmental audits would argue against the present system of licensed private industry auditors being vastly superior.¹⁰²

Submissions that commented on the departmental Auditors Board tended to agree that it became inadequate and bureaucratic, noting:

¹⁰⁰ Submission No 45 from Australian Council of Auditors General (ACAG), 24 November 2005, pp. 1-2.

¹⁰¹ Submission No 46 from Shire of Sandstone, 30 November 2005, p.2.

¹⁰² Submission No 43 from City of Geraldton, 9 November 2005, p.2, emphasis in original.

*.....we had an auditors' board initially when we moved to private auditing and away from state government controlled auditing. What we found in the end was that the auditors' board was basically creating another layer of bureaucracy and was not particularly effective in achieving good outcomes, so we moved away from that process.*¹⁰³

(b) Implications associated with the diversity of local government

In Western Australia the population and geographic size of councils differ greatly. At one end of the scale is the Shire of East Pilbara, the largest council by area in the whole of Australia, which covers 372,000 square kilometres (population 9,500). In contrast to this the smallest in area is the Shire of Peppermint Grove which measures 1.5 square kilometres (population 1,500).¹⁰⁴

Many submissions saw strength in this diversity and suggested that under the current processes there is scope for each local government to individualise their audit contracts, add any specific services needed, and meet any necessary budget requirements.

The majority of submissions were not in favour of a 'one size fits all' approach to local government audits. The proposal to develop a standard set of performance indicators for use across all local governments in WA, as suggested for comment in the Committee's discussion paper, raised concerns as to how the application of a minimum set of standards may reflect the diversity of the local governments across the State. Some submitters noted that smaller Local Governments were meeting their compliance obligations and reporting on issues that were not necessary to the local community needs using limited resources, while others proposed the development of a number of models reflecting the different size and functions of individual local governments. Another suggestion was to use the Australian Classification of Local Governments to determine requirements of different councils.¹⁰⁵

4.10 Cost of Auditor General involvement

The Committee acknowledged in its discussion paper that the "cost of any change is an important factor requiring comprehensive assessment". It is aware that considerable concern exists about resourcing and that many local governments are concerned at the cost implications if the OAG was introduced into the audit process.

Evidence to the Committee suggests there is apprehension about local governments being required to use state government entities to perform functions for them. The often quoted example was the Western Australian Electoral Commission experience with respect to the conduct of postal elections. Another example given was the requirement to use the Valuer General's Office for property valuations. There is a perception that a much greater cost has been incurred by local governments for a service they are required to source from the nominated state government entity.

¹⁰³ Mr Ian Cowie, Director Strategies and Legislation, Department of Local Government & Regional Development, *Transcript of Evidence*, 16 November 2005, p.3.

¹⁰⁴ Submission No 40 from Department of Local Government and Regional Development, 11 November 2005, p.5.

¹⁰⁵ Submission No 49 from Central Great Southern Local Government Alliance, December 2005, pp.7-9.

The DLGRD is aware that cost is an issue for many local governments, and expressed its concern to the Committee regarding the quality of local government audits, specifically that “local governments may choose their auditor on the basis of price rather than quality”.¹⁰⁶ However, the City of Fremantle noted that:

*...the current requirements provide local government with the flexibility and autonomy to ensure that the audit contract provides the best fit for each individual local government. If the Auditor General were to become involved in this process then local government would lose its ability to control the cost of audits.....The current process allows local government to add services it needs to the contract individually and allows for this to be competitively tested with market place tendering.*¹⁰⁷

The Committee understands that in QLD, fees are based on hours worked and rates set by QLD Treasury, whereas in Victoria, under section 10 of the *Audit Act 1994* (Vic), an authority must pay to the Consolidated Fund an amount determined by the Auditor General to defray the *reasonable costs and expenses* incurred by or on behalf of the Auditor General.

At its 2005 meeting with the LGAQ the Committee was advised that the cost for councils to use the QAO is offset by the thoroughness of the audit and the use of consistent standards. LGAQ advised that most local councils are happy with and prefer to use the QAO because of its expertise and the oversight and support it offers.

The Committee was interested in testing the claim that the involvement of the Auditor General in local government audits may result in an increase in costs to individual local governments in WA and on that basis requested that the OAG provide a current fee policy, including details of how a fee for service may be determined for local government audit work, including non financial performance audit work.

(a) Current fees charged to local governments

Currently local governments have their financial statements audited externally by private sector audit firms which must adhere to the 1987 Australian Accounting Standard AAS27. The audit terms of reference are determined by an individual council’s Audit Committee.

The DLGRD provided the Committee with data on the cost of audit across the sector for the year 2003/04, which suggests the sector currently pays just over \$1 million for audit. The data indicated significant variation between cost to individual councils, which may reflect factors such as budget, revenue base and population. While the Committee recognises there are limitations in the data provided to the Committee, it forwarded the information to the OAG to assess how it compares with the cost for public sector audit.

¹⁰⁶ Submission No 40 from Department of Local Government and Regional Development, 11 November 2005, p.36.

¹⁰⁷ Submission No 34 from City of Fremantle, 8 November 2005, p.2.

(b) Current fee policy for the Office of the Auditor General

The OAG charges clients on a cost recovery basis for the conduct of attest audits. These fees are administered moneys passed directly to the State Treasury. The OAG does not charge fees for the conduct of performance examinations and other special projects funded from time to time, such as investigations into public interest disclosures.

As discussed earlier, the OAG undertakes four types of audits across two broad streams, in line with the functions of audit outlined under the FAAA. Under the assurance audit stream, the OAG audits the financial statements and controls and performance indicators of government agencies. Under the efficiency and effectiveness audit stream the OAG conducts compliance and performance examinations.

(i) Costs

Each attest audit fee includes direct, indirect and overhead costs. Direct costs include the actual costs (including office overheads) of time spent on conduct of the attest audit work leading to both financial statements and performance indicator opinions. This also includes estimates for planning, information systems reviews, control assessment, fieldwork and preparation of management reports. Financial and performance indicator work are not tracked separately by the OAG, but are treated as part of the attest process.

Direct costs reflect a number of factors including the history of the client, complexity of the client's operations, special issues (previous control concerns or technical work) and other matters. If the work done exceeds the budgeted number of hours due to issues deemed to fall within the client's control or unavoidable as part of the regulatory framework, an increase in fee is likely. Clients able to demonstrate quality processes will pay comparatively less than those with poor processes whose charge will be an appropriate rate for the actual work undertaken.

Each fee also includes an overhead cost that comprises the cost of running the OAG corporate functions and an allocated portion of indirect costs, including:

- additional attest work on controls and compliance, considering and investigating sector wide management issues;
- information systems audit costs;
- compliance audit costs; and
- costs for reporting attest audit results to Parliament.

(c) Determining a fee for service for the Local Government sector

The OAG advised the Committee that it appears likely that the addition of local government assurance audit, comprising direct, indirect and overhead costs and some limited performance

examination capability would increase the OAG annual costs by approximately \$2.08 million.¹⁰⁸ It is believed that this investment would allow the Auditor General to add substantial additional value to the local government audit process.

Based on the current cost of local government audits provided to the Committee by the DLGRD for 2004, this represents a real increase of \$1 million in audit expenditure across the local government sector. This expenditure must be considered in the context of a sector with over \$1 billion in expenditure in 2004/05, and over 15,000 employees.

The OAG advised the Committee that:

*the minimum standard specified by the Department of Local Government conforms to an exceptionally limited view of the requirements of external audit, more in keeping with private sector audit as practiced.*¹⁰⁹

Pending a review of the existing audit working papers for the local governments, OAG could not provide the Committee with definitive statements of the likely cost of individual audits, or confirm the overall costs. However, the OAG was able to provide an indication as to how it might proceed to estimate fees should their mandate be extended to include this sector.

The hourly rates for audit work conducted by the OAG are not significantly different to those charged by top tier private sector firms. Should the scope of audit remain limited to financial attestation it is likely that direct cost and overhead component of any OAG fees would be roughly equivalent to the 2004 costs paid by individual local governments. If the scope was expanded to include performance indicator audits, then the direct costs would be increased accordingly, depending on the number of indicators and the conditions surrounding the audit.

¹⁰⁸ Letter from Mr Des Pearson, Auditor General, 26 June 2006, p.4.

¹⁰⁹ *ibid.*

Table 4.3

Estimated cost per annum of extending the Auditor General's mandate to the Local Government sector¹¹⁰

Direct costs	Indirect costs
Approximate cost of Financial audit \$1.6 million <ul style="list-style-type: none"> • \$1.08 million per annum -2004 costs plus CPI/wages indexation • \$0.3 million - expansion of scope • \$0.2 million per annum - Capacity building - initial period, and continuing if performance review work is to be undertaken. 	Approximate cost \$0.5 million <ul style="list-style-type: none"> • this allocation could include provision for a small number of performance examinations reported to parliament each year, depending on the extent of the work undertaken in controls and review.

4.11 Other matters raised in submissions**(a) Local government tenders**

The revision of the tender regulation threshold of \$50 000, which has remained unchanged for approximately ten years was one of the issues that arose during the Inquiry.¹¹¹ Clause 11 (1) of the *Local Government (Functions and General) Regulations 1996* stipulates that local government councils must go to public tender for contracts over \$50,000. The Committee was advised that:

*..delays in making necessary amendments to such things as Tender Regulations are actually impediments to the good governance role within local governments. For example the minimum amount before tenders are called has been \$50, 000 for a number of years and delays in increasing this sum is actually causing local governments to inadvertently breach the regulations particularly in high cost areas such as road construction and maintenance.*¹¹²

The Committee heard that:

*Councils are saying to us that whereas previously they may not have had to go to tender for certain purchases, now, because of the lack of a shift in the threshold, they do have to do that.*¹¹³

However, in its submission, the CCC expressed the view that it had concerns regarding the “virtually non-existent” accountability checks and balances to oversee the procurement of goods and services in local government.¹¹⁴ The CCC stated that:

¹¹⁰ Figures provided in a letter from Mr Des Pearson, Auditor General, 26 June 2006, pp.4-5.

¹¹¹ Submission No 24 from Western Australian Local Government Association (WALGA), December 2005, p.4.

¹¹² Submission No 29 from Shire of Merredin, October 2005, p.1.

¹¹³ Mr Wayne Scheggia, Policy Director, Western Australian Local Government Association, *Transcript of Evidence*, 16 November 2005, p.6.

*In contrast with the state public sector, in local government, all that is needed for tender approval, including tenders of several millions of dollars, is council approval. Councillors rely on senior officers to have followed an adequate tender selection process. The only imperative in the local government Tender Regulations is that contracts over \$50 000 must go to public tender.*¹¹⁵

There has been some suggestion that the tender threshold may be increased from \$50,000 to \$100,000 and will not be capped to any size of Local Government. Mr Bruce Wittber, a private consultant to the local government sector, raised a concern from an accountability viewpoint that many smaller councils may be spending a significant proportion of their budget/income in one expenditure without there being the need for any form of competitiveness to be demonstrated. The key issue being that an amount of just less than \$100,000 could be up to 5 to 8 per cent total of the total operating revenue for some councils.¹¹⁶

Mr Wittber suggested that the amount should remain at \$50,000, but Local Governments that have larger operating revenue should have a sliding scale upwards based on a percentage of their revenue before they need to call tenders. Mr Wittber proposed that the upper limit for larger councils should be capped at around \$250,000, and used the following example to demonstrate his point. If a Council has an operating revenue of \$3m and the percentage as far as tenders was concerned was 1 per cent, then the Council would have to call tenders for any expenditure above \$30,000. However, the minimum cut in point of \$50,000 would still apply.

The Committee notes these issues and believes any revision to the tender threshold for the local government sector should take these concerns into consideration.

4.12 Concluding observations and recommendations

The Committee understands that local government accountability mechanisms in relation to the expenditure of public money differ significantly to those applied to expenditure by public sector agencies. The key difference lies in the fact that the minimum requirement for local government audits focuses largely on straight financial checks, whereas state government agency audits involve efficiency, effectiveness and probity measures, the results of which are tabled in Parliament. Although local government operates autonomously, the Committee is of the view that the level of public funding provided to local government (refer Chapter 2) warrants consideration of a broader scope of audit.

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 and answerable to electors, not to Parliament.¹¹⁷ The Committee does not propose to recommend changes that would encroach on the independence or autonomy of

¹¹⁴ Submission No 30 from Corruption and Crime Commission of WA, 31 October 2005, p.11.

¹¹⁵ *ibid*, p.13.

¹¹⁶ Email correspondence from Mr Bruce Wittber, Consultant, 12 July 2006, p.1.

¹¹⁷ Submission No 57 from Local Government Managers Association, 20 December 2005, p.11.

the sector and further notes that under the Local Government Act, Parliament has delegated its right to appoint the auditor of a local government to the local government itself.¹¹⁸

The Committee does, however, believe 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.

Currently, local government audits are conducted by private sector auditors. As a consequence, no one auditor or body has a finger on the whole-of-sector pulse. This means there is a risk that systemic issues or problems will not be picked up. At the sector wide level the DLGRD publishes very little data and, apart from individual local government annual reports, there is virtually no means by which the public can transparently assess or observe council performance.

Following an examination of models of state involvement in local government audit, the Committee formed the view that each model contains elements worth contemplation. In some ways, QLD represents the 'intermediate option' between the comprehensive and well developed Victorian model, and those States where there is no involvement of the Auditor General. However, the Committee believes any consideration of the Auditor General's involvement will require a unique approach given the diversity of local government in WA.

The Committee recognises that both QLD and Victoria have adopted a reporting system that aims to give the best outcomes to councils, community and State Government. Importantly, both allow for a comparative analysis of councils.

The Committee also recognises the success of the both models in value adding to the work of councils and as such strongly recommends having the Auditor General conduct the audit of the local government sector in Western Australia.

The Committee is of the view that the full involvement of the Auditor General is the ideal scenario, given that the OAG is the specialist agency in this regard and offers independent expertise in both financial attestation and performance auditing. In line with practice elsewhere, the Committee is of the view that the Auditor General should audit no more than 15 per cent of councils on a rotating basis, with the remainder to be tendered out to the private sector. This will enable a cost-effective approach, whilst ensuring the Auditor General has the capacity to maintain a watch on the sector as a whole.

¹¹⁸ Section 7.2, Part 7, *Local Government Act 1995*. An amendment to the Act in 2005 introduced a requirement that all local governments establish an audit committee and stipulated that the appointment of the local government's auditor is to be made "on the recommendation of the audit committee" (Section 7.3(1), Part 7).

Recommendation 2

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

Recommendation 3

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

The Committee recognises, however, that there might be other factors to be considered which may result in a lesser level of input by the OAG and considers that, in the event that the Auditor General is not given audit jurisdiction over local government authorities, the parameters of audit should be set by the Auditor General to ensure consistency of reporting across the State.

Recommendation 4

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

The Committee is also of the view that there should be a comprehensive comparative report of each local government, compiled by either the OAG or the DLGRD, or both. By bringing the Auditor General into the audit process of local government, the Committee believes the focus will be on value adding for the benefit of citizens and councils to allow an accurate assessment of the performance of individual local governments.

Recommendation 5

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

In light of the focus on 'value-adding' and the problems of financial sustainability in the sector, the Committee believes that the overall compliance burden of each local government should not unduly increase, and that the overall impost on each local government should be recognised by the State Government.

Recommendation 6

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

APPENDIX ONE

SUBMISSIONS RECEIVED

Sub no:	Date	Name	Position	Organisation
1	16.09.2005	Mr Alan Summers		
2	19.09.2005	Mr Dale Stewart	Chief Executive Officer	Shire of Wongan-Ballidu
3	22.08.2005	Mr Steve Bethell	Creative Consultant	Prospective Marketing
4	15.09.2005	Mr Don Burnett	Chief Executive Officer	Town of Northam
5	20.09.2005	Mr Neil Walter		
6	19.09.2005	Mr Andrew Macnish	Chief Executive Officer	Shire of Busselton
7	23.09.2005	Mr Peter Bradbrook	Chief Executive Officer	Shire of Boddington
8	22.09.2005	Mr Brendan Kelly	Senior Natural Resource Management Officer	Department of Environment
9	25.09.2005	Mr Kim Hastie	Chief Executive Officer	Shire of Dundas
10	7.09.2005	Mr John Wilkins	Director	South West People Care
11	28.09.2005	K.H. Weston		
12	27.09.2005	Mr Peter Clarke	Chief Executive Officer	Shire of Yilgarn
13	29.09.2005	Mr Gary Martin	Local Government Consultant	
14	30.09.2005	Mr Dennis Grimwood		
15	30.09.2005	Mr Ralph Prestage		
16	30.09.2005	Messrs Terry & Peter Ackland		
17	29.09.2005	Mr RJ Priest		
18	30.09.2005	Ms Deirdre O'Donnell	Ombudsman	Ombudsman WA

Sub no:	Date	Name	Position	Organisation
19	29.09.2005	Mr Clive Malcolm	Chairman	Friends of the Denmark Community Park Inc.
20	29.09.2005	Mr Graeme Hill		Stanbee Nominees
21	10.10.2005	Mr Ian Craven	Chief Executive Officer	Shire of Dumbleyung
22	21.09.2005	Mr Maurice Battilana	Chief Executive Officer	Shire of Chapman Valley
23	23.09.2005	Mr John Comrie	Executive Director	Office of Local Government
24	20.10.2005	Mr Wayne Scheggia	Director Policy	Western Australian Local Government Association
25	19.10.2005	Ms Margie Bass		
26	18.10.2005	Mr Ian Fletcher	Chief Executive Officer	City of Kalgoorlie-Boulder
27	24.10.2005	Mr Gary Sherry	Chief Executive Officer	Shire of Coorow
28	26.10.2005	Mr Ned Fimmano	A/Chief Executive Officer	City of Rockingham
29	25.10.2005	Mr FB Ludovico	Chief Executive Officer	Shire of Merredin
30	31.10.2005	Mr Kevin Hammond	Commissioner	Corruption and Crime Commission
31	26.10.2005	Ivor Bell		
32	1.11.2005	Mr Clem Kerp	Chief Executive Officer	Shire of Goomalling
33	3.11.2005	Mr Peter Webster	Chief Executive Officer	Shire of Kondinin
34	8.11.2005	Mr Glen Dougall	Director Corporate Services	City of Fremantle
35	3.11.2005	Mr Mario Carosella	Chief Executive Officer	City of Bayswater
36	9.11.2005	Mr Steve Magyar		

PUBLIC ACCOUNTS COMMITTEE

Sub no:	Date	Name	Position	Organisation
37	11.11.2005	Mr Mike Rootsey	Executive Manager Corporate Services	Town of Vincent
38	11.11.2005	Mr John Sherwood	Convenor & Spokesperson	South West Environment Centre
39	14.11.2005	Cr Clem Edwards	Councillor	
40	11.11.2005	Ms Cheryl Gwilliam	Director General	Department of Local Government & Regional Development (WA)
41	11.11.2005	Mr Paul Sheedy	Chief Executive Officer	Shire of Capel
42	11.11.2005	Mr Des Pearson	Auditor General	Office of the Auditor General
43	9.11.2005	Mr Rob Jefferies	Chief Executive Officer	City of Geraldton
44	21.11.2005	Ms Leanne Parola	Executive Officer	Town of Kwinana
45	21.11.2005	Mr Glenn Poole	Auditor-General of Queensland	On behalf of the Australasian Council of Auditors General (ACAG)
46	25.11.2005	Mr W.T. Atkinson	Chief Executive Officer	Shire of Sandstone
47	5.12.2005	Mr Charles Johnson	Chief Executive Officer	City of Wanneroo
48	8.12.2005	Mr Garry Payne	Director General	Department of Local Government & Regional Development (NSW)
49	12.12.2005	Mr Peter Fitzgerald	Executive Officer	Central Great Southern Local Government Alliance
50	8.12.2005	Mr Dominic Carbone	Chief Executive Officer	City of Canning
51	9.12.2005	Mr T J Harken	Chief Executive Officer	Town of Mosman Park
52	12.12.2005	Mr David Tomasi	Partner	UHY Haines Norton

Sub no:	Date	Name	Position	Organisation
53	12.12.2005	Dr Shayne Silcox	Chief Executive Officer	City of Belmont
54	15.12.2005	Mr Will Pearce	Chief Executive Officer	Shire of Boyup Brook
55	16.12.2005	Mr Ian Fitzgerald	Chief Executive Officer	Shire of Wagin
56	16.12.2005	Mr John O'Malley	President	Local Government Auditors Association of NSW
57	16.12.2005	Mr John Watson	Chief Executive Officer	Local Government Managers Australia
58	15.12.2005	Mr Niel Mitchell	Executive Officer	Great Eastern Country Zone
59	19.12.2005	Mr Kevin Robinson	Manager Audit & Executive Services	City of Joondalup
60	21.12.2005	Mr Marten Tieleman	Director Corporate Services	City of Melville
61	22.12.2005	Mr James Trail	Chief Executive Officer	Shire of Augusta-Margaret River
62	21.12.2005	Mr Cliff Frewing	Chief Executive Officer	City of South Perth
63	23.12.2005	Mr David Crann	Secretary	CARRA
64	14.03.2006	Mr Keeble	Chief Executive Officer	Cunderdin Shire Council
65 & 65.1	14.03.2006	Mr Dale Quinlivan		
66	26.05.2006	Mr Stan Scott	Chief Executive Officer	Shire of Perenjori
67	2.09.2005	Mr Murray Brown	Chief Executive Officer	Shire of Mount Magnet
68	7.07.2006	Mr Mark Chester	Chief Executive Officer	Shire of Dardanup

APPENDIX TWO

INTERSTATE BRIEFINGS

Date	Name	Position	Organisation
5.10.2005	Mr Peter Bettess	Deputy Director General	Department of Local Government (Queensland)
	Mr Geoff Baker	Strategic Policy Coordination Unit	Department of Local Government (Queensland)
	Mr Malcolm Duce	Financial Management	Department of Local Government (Queensland)
5.10.2005	Mr Glenn Poole	Auditor General	Queensland Audit Office
	Mr John Harten	Assistant Auditor General	Queensland Audit Office
5.10.2005	Ms Natalie Kent	Manager, Finance, Governance and Community	Local Government Association of Queensland
	Mr Mark Leyland	Finance and Governance Policy Advisor	Local Government Association of Queensland
6.10.2005	Mr Tony Whitfield	Deputy Auditor General	Audit Office of New South Wales
	Mr Stephen Horne	Assistant Auditor General, Performance Audit Branch	Audit Office of New South Wales
	Mr Jack Kheir	Business Team Leader, Financial Audit Branch	Audit Office of New South Wales
10.10.2005	Mr Wayne Cameron	Auditor General	Victorian Auditor General's Office
	Mr Tony Brown	Director, Strategic Audit Planning, Policies and Standards	Victorian Auditor General's Office

Date	Name	Position	Organisation
	Mr Andrew Greaves	Field Audit Director	Victorian Auditor General's Office

APPENDIX THREE

METROPOLITAN HEARINGS

Date	Name	Position	Organisation
16.11.2005	Mr Wayne Scheggia	Policy Director	Western Australian Local Government Association
	Mr Duncan Watson		Department of Local Government and Regional Development
	Mr Ian Cowie		Department of Local Government and Regional Development
	Mr Ross Earnshaw	Project Officer	Department of Local Government and Regional Development
	Mr Quentin Harrington	Director, Governance and Statutory Support	Department of Local Government and Regional Development
23.11.2005	Mr Des Pearson	Auditor General	Office of the Auditor General
	Mr Donald Cunninghame		Office of the Auditor General
	Ms Jacquie Stepanoff	Executive Officer of Planning and Coordination	Office of the Auditor General
28.06.2006	Mr Dominic Carbone	Chief Executive Officer	City of Canning
	Mr Andrew Sharpe	Executive Finance and Client Services	City of Canning
	Dr Shayne Silcox	Chief Executive Officer	City of Belmont
	Mr Jamie Blanchard	Principal Legal and Compliance Adviser	City of Belmont
	Mr Stuart Cole	Director, Corporate and Governance	City of Belmont
	Mr Cliff Frewing	Chief Executive Officer	City of South Perth

Date	Name	Position	Organisation
	Mr Michael Kent	Director, Financial and Information Services	City of South Perth
	Mr Glen Dougall	Director, Corporate Services	City of Fremantle
23.08.2006	Mr Quentin Harrington	Director, Governance and Statutory Support	Department of Local Government and Regional Development
	Ms Jenni Law	Acting Manager, Local Government Support and Development	Department of Local Government and Regional Development
	Mr Brendon Peyton	Acting Manager, Compliance and Advice	Department of Local Government and Regional Development

APPENDIX FOUR

REGIONAL BRIEFINGS

Date	Name	Position	Organisation
06.07.2006	Mr Kenneth E. Pech	Farmer, Councillor, Deputy President	Shire of Gnowangerup
	Mr Pascoe Durtanovich	CEO	Shire of Denmark
	Mr Kim Barrow	Shire President	Shire of Denmark
	Mr Ken Richardson- Newton	Deputy Shire President	Shire of Denmark
	Ms Alison Goode	Mayor	City of Albany
	Mr Andrew Hammond	CEO	City of Albany
	Mr Desmond J. Wolfe	Farmer, Councillor	City of Albany
	Mr John M. Walker	Farmer, Councillor	City of Albany
07.07.2006	Ms Anne Ryan	Councillor	Shire of Busselton
	Mr Darren Whitby	Manager, Financial Services	Shire of Busselton
	Mr Paul Sheedy	CEO	Shire of Capel
	Mr James Trail	CEO	Shire of Augusta- Margaret River
	Mr Bruce Wittber	Consultant	Shire of Augusta- Margaret River
	Mr Mark R. Newman	CEO	City of Mandurah
	Mr Ron Wortley	Councillor	City of Mandurah
	Mr Mark L. Chester	CEO	Shire of Dardanup
25.07.2006	Mr Gary Clark	CEO	Shire of Brookton
	Mr Garry Gregan	Acting Deputy CEO	Shire of York

Date	Name	Position	Organisation
27.07.2006	Mr Don Burnett	CEO	Shire of Kalgoorlie-Boulder
	Mr Eddie Piper	Director Corporate Services	Shire of Kalgoorlie-Boulder
	Mr Mal Osborne	CEO	Shire of Coolgardie
	Mr Gavin Turner	Shire President	Shire of Coolgardie
	Cr Alec Mills	Councillor	Shire of Coolgardie
	Mr Kim Hastie	CEO	Shire of Dundas
	Mr Barrye Thompson	CEO	Shire of Laverton
	Cr Robert Wedge	Shire President	Shire of Laverton
28.07.2006	Mr Neil Wilson	Chief Financial Officer	City of Geraldton
	Mr Bill Perry	CEO	Shire of Greenough
	Mr Brian Seale	Deputy CEO	Shire of Cue
	Mr Kevin Johnson	Councillor	Shire of Cue
	Mr Maurice Battilana	CEO	Shire of Chapman Valley
	Mr Graham Wilks	CEO	Shire of Carnarvon

APPENDIX FIVE

LOCAL GOVERNMENT ADVISORY BOARD RECOMMENDATIONS¹¹⁹

No	Recommendation
1.18	That local governments give consideration to making further use of community consultation mechanisms and that the Minister for Local Government consider measures to formalise the methods local governments are to use to engage the community in their decision making processes.
1.23	The Local Government Advisory Board strongly endorses the State Budget submission made by the Department of Local Government and Regional Development in relation to the provision of financial and nonfinancial support for local governments undertaking structural reform initiatives and that it be supported by the Government.
1.24	That the Local Government Advisory Board recognises the impact that structural reform can have on regional communities and supports structural reform models where these impacts will be minimised, including arrangements where the delivery of specific services is undertaken from each of the administrative centres of the local governments that existed prior to an amalgamation, and the use of specified area rating to maintain service levels in local governments where there are multiple towns.
1.30	That local governments individually assess and address their asset renewal requirements, giving consideration to the means of funding this requirement including increases in rates and own source revenues, reductions in services to release funds to apply to asset renewal, and increased use of debt.
1.31	That the Local Government Financial Management Regulations be amended to make it mandatory for each local government to: <ul style="list-style-type: none"> 1. Develop and annually update a 10-year financial management plan, linked to the local government's plan for the future. 2. Develop appropriate asset management plans that are to be reflected in the 10 year financial management plan. 3. Apply depreciation rates based on a standardised schedule, which takes into account the different circumstances in different parts of the State, with local governments to provide justification for variations from the schedule.

¹¹⁹ Selection of recommendations considered most relevant in the context of this inquiry, Local Government Advisory Board, *Local Government Structural and Electoral Reform in Western Australia - Ensuring the Future Sustainability of Communities*, April 2006, p.xxv - xxx.

APPENDIX SIX

ACCOUNTABILITY PROVISIONS IN THE LOCAL GOVERNMENT ACT 1995¹²⁰

Provision	Act	Regulations
Districts and Wards	Pat 2 (Constitution of Local Government). Division 1 contains provisions for boundary changes and ward representation.	Local Government (Constitution) Regulations 1998
Elected Members	Part 2 (Constitution of Local Government). Divisions 3,4 & 5 contain provisions as to how offices of council are to be filled, membership and size of the council and qualifications for holding office on the council.	Local Government (Constitution) Regulations 1998
Local Laws	Part 3 (Functions of Local Government), Division 2 contains provision for the making of local laws.	Local Government (Functions and General) Regulations 1996.
Tenders	Part 3 (Functions of Local Government). Division 6 requires a local government to invite tenders before it enters into a contact as prescribed.	Local Government (Functions and General) Regulations 1996
Local Government Elections	Part 4 (Elections and other polls) of the Act contains provisions for the election of mayors and Presidents, Councillors and polls and referendums.	Local Government (Elections) Regulations 1997
Council and Committee Meetings	Part 5 (Administration). Divisions 1, 2 & 3 contain provisions for convening and conducting council and committee meetings and electors meetings.	Local Government (Administration) Regulations 1996
Local Government Employees	Part 5 (Administration) contains provisions relating to local government employees.	Local Government (Administration) Regulations 1996

¹²⁰

Submission No 40 from Department of Local Government and Regional Development, 11 November 2005, pp.11-12.

Provision	Act	Regulations
Access to Information	Part 5 (Administration). Division 7 contains provisions for access	Local Government (Administration) Regulations 1996
Financial Management in Local Government	Part 6 (Financial Management) contains extensive accountability provisions relating to budgeting, financial accounting, financial reporting and the ways in which the activities of local government are financed.	Local Government (Financial Management) Regulations 1996
Auditing Local Government	Part 7 (Audit) contains provisions relating to the audit of financial accounts of local governments.	Local Government (Audit) Regulations 1996
Scrutiny of the Affairs of Local Government	Part 8 (Scrutiny of the Affairs of Local Government) contains provisions for inquiring into the affairs and performance of local governments, suspension and dismissal of councils and making elected members of local government employees accountable for the misapplication of property.	N/A

APPENDIX SEVEN

RECOMMENDATIONS MADE BY THE STANDING COMMITTEE ON PUBLIC ADMINISTRATION AND FINANCE¹²¹

Number	Recommendation
Recommendation 1	The Committee recommends that the Department of Local Government and Regional Development and the Western Australian Local Government Association undertake a review of the procedures adopted by local governments in executing official documents and applying their common seal, with a view to establishing clear best practice guidelines
Recommendation 2	The Committee recommends that the Department of Local Government and Regional Development and the Western Australian Local Government Association should give consideration to developing a general best practice recruitment process for local government which is aligned, where practical given the unique situation of local governments, to that currently applying in the State public sector for the recruitment of Senior Executive Service staff
Recommendation 3	The Committee supports the proposed amendment to section 5.36 of the <i>Local Government Act 1995</i> , and recommends that it be mandatory for vacant local government chief executive officer positions to be advertised in at least one statewide circulation newspaper, and that in the case of large local governments also one nationwide circulation newspaper. Furthermore, there should be an express exception to this requirement for those circumstances where there is an extension or renewal of an existing contract between a local government and its Chief Executive Officer

¹²¹ Western Australia, Legislative Council, Standing Committee on Public Administration and Finance, *Report of the Standing Committee on Public Administration and Finance in Relation to the Local Government Act 1995*, December 2003, pp. ii - v.

Number	Recommendation
Recommendation 4	<p>The Committee recommends that:</p> <p>(a) the Government give consideration to amending the <i>Local Government Act 1995</i> to require local governments, prior to advertising a vacant Chief Executive Officer position, to obtain advice from the Salaries and Allowances Tribunal as to an appropriate range in which to negotiate a remuneration package for the position;</p> <p>(b) the Government give consideration to amending the <i>Local Government Act 1995</i> to permit local governments to advertise a Chief Executive Officer position with a remuneration package within a specified negotiable range as determined by the relevant Council after its consideration of the advice from the Salaries and Allowances Tribunal; and</p> <p>(c) Councils be required to follow a public and accountable process, to be developed by the Department of Local Government and Regional Development and the Western Australian Local Government Association, which may require the re-advertising of the position, in circumstances where a Council wishes to appoint a candidate to the advertised position on a total remuneration package in excess of the advertised range.</p>
Recommendation 5	<p>The Committee supports the preparation by the Western Australian Local Government Association of a 'Guide for Employing Local Government Chief Executive Officers', to be distributed to all local governments in Western Australia along with details of the Western Australian Local Government Association's existing recruitment and selection service for local governments.</p>
Recommendation 6	<p>The Committee does not support the reintroduction of minimum academic and experience qualification requirements in the <i>Local Government Act 1995</i> for local government chief executive officers. The Committee, however, recommends that, in conjunction with any amendment to the <i>Local Government Act 1995</i> introducing a prescribed mandatory advertising requirement for vacant local government chief executive officer positions, a further requirement be prescribed that any such advertisement must contain a statement indicating that minimum selection requirements have been established for the position by the relevant local government Council and that these minimum selection requirements are contained in a publicly available document.</p>
Recommendation 7	<p>The Committee recommends that any guidelines prepared by the Department of Local Government and Regional Development and/or the Western Australian Local Government Association relating to the employment of local government chief executive officers should state that a Council must satisfy itself as to the existence of any academic qualifications and experience claimed by an applicant in those circumstances where the Council has determined the minimum academic qualifications and experience required for the position.</p>

PUBLIC ACCOUNTS COMMITTEE

Number	Recommendation
Recommendation 8	The Committee recommends that the Department of Local Government and Regional Development and the Western Australian Local Government Association liaise on the development of a suitable education campaign or guidelines for local governments on the specific requirements of section 5.36(2)(b) of the <i>Local Government Act 1995</i> .
Recommendation 9	The Committee recommends that the Department of Local Government and Regional Development, the Western Australian Local Government Association, and Local Government Managers Australia (WA Division Inc) undertake consultation and jointly develop a model contract of employment for local government chief executive officers. Furthermore, a formal process must be put in place by Councils to ensure that any variations to such a model contract of employment for chief executive officers are public, accountable and consistent with the <i>Local Government Act 1995</i> .
Recommendation 10	The Committee recommends that the <i>Local Government Act 1995</i> be amended to provide that copies of the employment contracts of local government chief executive officers are to be available to all electors of the relevant local government area, subject to the deletion from the contract of any bank account information and private contact details.
Recommendation 11	The Committee recommends that all Western Australian local governments should note and endeavour to implement the recommendations of the New South Wales Independent Commission Against Corruption's Report on investigation into Mr Glen Oakley's use of false academic qualifications, and that they be noted in any guidelines developed for the employment of local government chief executive officers.

MINORITY REPORT

Although all Committee members agreed that the Auditor General conducts what may be termed 'best practice' audits, one member disagreed with the recommendation that the Auditor General should be the designated auditor for the local government sector.

Whilst the bulk of the Committee Report is supported, the Member for Stirling is of the view that the DLGRD should be further resourced to enable it to more effectively monitor the current system of private sector audits.

MR D.T REDMAN, MLA
MEMBER FOR STIRLING