

Local Government NSW – response to the Legislative Assembly Public Accounts Committee

Re: Auditor - General

Local Government NSW

1. Would you please tell the Committee what the current accounting and auditing requirements are for local government?

The key requirements are;

- NSW councils operate under the Local Government Accounting Code. The code is maintained by the Division of Local Government (DLG).
- The Local Government Act requires that councils provide Annual Financial Statements. These are to be prepared in compliance with the code and submitted to the DLG. They are also publicly released in mandatory annual reports.
- The Financial Statements are subject to mandatory external audits by qualified auditors.

(Also refer to Q4.)

2. Do you believe the current requirements are sufficient to ensure transparency and accountability?

The current requirements provide for a very high degree of transparency and accountability. With these requirements and given the nature of Local Government, councils are open to a higher level of public scrutiny than any other sphere of government or government authority or state owned corporation. (Also refer to Q9.)

3. Are you aware that in some jurisdictions (e.g. Victoria and Queensland), the Auditor-General has power to audit local government finances?

Yes.

4. Would you please outline your understanding of the current requirements for external audit of local governments?

The requirements are spelt out in the Local Government Act 1993, sections 413, 415 and 417:

413. Preparation of financial reports

(1) A council must prepare financial reports for each year, and must refer them for audit as soon as practicable (having regard to the requirements of section 416 (1)) after the end of that year.

Note: Under section 416 (1), a council's financial reports for a year must be prepared and audited within 4 months after the end of the year concerned, and under section 428 (2) (a) the audited financial reports must be included in the council's annual report.

(2) A council's financial reports must include:

- (a) a general purpose financial report, and
- (b) any other matter prescribed by the regulations, and
- (c) a statement in the approved form by the council as to its opinion on the general purpose financial report.

- (3) The general purpose financial report must be prepared in accordance with this Act and the regulations and the requirements of:
- (a) the publications issued by the Australian Accounting Standards Board, as in force for the time being, subject to the regulations, and
 - (b) such other standards as may be prescribed by the regulations.

415. Auditing of financial reports

- (1) A council's auditor must audit the council's financial reports as soon as practicable (having regard to the requirements of section 416 (1)) after they are referred for audit.
- (2) A council's financial reports must be audited in accordance with the requirements of:
- (a) the publications issued by the Australian Accounting Research Foundation, on behalf of the Australian Society of Certified Practising Accountants and the Institute of Chartered Accountants in Australia, under the titles Statements of Auditing Standards and Statements of Auditing Practice , as in force for the time being, subject to the regulations, and
 - (b) such other standards as may be prescribed by the regulations.
- (3) The regulations may prescribe matters that an auditor must consider and provide comment on in auditing a council's financial reports.

417. Auditor's reports

- (1) A council's auditor must prepare 2 reports:
- a report on the general purpose financial report
 - a report on the conduct of the audit.
- (2) The report on the council's financial reports must include the following:
- (a) a statement as to whether, in the opinion of the auditor, the council's accounting records have been kept in accordance with the requirements of this Division,
 - (b) a statement as to whether, in the opinion of the auditor, the council's financial reports:
 - (i) have been prepared in accordance with the requirements of this Division, and
 - (ii) are consistent with the council's accounting records, and
 - (iii) present fairly the council's financial position and the results of its operations,
 - (c) a statement as to whether, in the opinion of the auditor, any information relevant to the conduct of the audit has been unobtainable by the auditor,
 - (d) a statement setting out particulars of any material deficiency in the accounting records or financial reports that has come to light in the course of the audit.
- (3) The report on the conduct of the audit may contain such statements, comments and recommendations as to the conduct of the audit of the council's financial reports as the auditor considers appropriate to include in the report.
- (4) As soon as practicable after completing the audit, the auditor must send a copy of the auditor's reports to the Director-General and to the council.
- (5) As soon as practicable after receiving the auditor's reports, the council must send a copy of the auditor's report on the council's financial reports, together with a copy of the council's audited financial reports, to the Director-General and to the Australian Bureau of Statistics.

5. Do you think extending the Auditor-General's role to cover local government would be more cost-effective or ensure greater accountability for local government, compared to current practice involving external auditors?

LGNSW does not have any grounds to believe that extending the Auditor-General's role to cover Local Government would be more cost effective. The concern is that it is likely to increase the costs to councils. The Auditor-General would still be contracting private audit firms, but there would be the added costs of oversight and administration.

The major potential benefit would be a greater degree of consistency through the centralised application of auditing standards and uniform service levels.

6. Do you think there is a greater role for resource sharing among councils? If so, do you think benchmarking of resource sharing could be enhanced if the Auditor-General audited resource sharing?

LGNSW strongly advocate resource sharing. It has been well documented (by DLG) that resource sharing is widespread among NSW councils and it takes a multitude of forms in recognition of local needs, capacity and opportunities. Some are short term (e.g. project driven), others are long term. Some arrangements are bilateral while others are multilateral and any one individual council may be involved in several differently structured resource sharing arrangements with different partners. Because of the number and diversity of resource sharing arrangements, LGNSW considers it unlikely that meaningful benchmarking could be undertaken.

Such an exercise would also involve considerable additional costs.

7. Do you think that there is a role for the Audit Office in benchmarking and reporting the performance of local governments across the sector? What do you see as the advantages and disadvantages of this?

There have been attempts to measure managerial and administrative performance and capacity of Local Government. However, such measurements are often based on qualitative research and individual judgements. It is therefore doubtful whether such measurement is suitable for comparison and benchmarking. Furthermore, undertaking regular qualitative benchmarking would be a very costly exercise.

LGNSW questions the value of other generic efficiency indicators, particularly where such measures would make judgements about the appropriateness of council policies. Output measures like the ones used in the Department of Local Government's annual publication Comparative Information on NSW Local Government Councils are misleading as they do not take account of different local circumstances and community preferences. They are also meaningless in the sense that they are not linked to community objectives agreed upon through proper community strategic planning.

It is not desirable to compare measures of efficiency of service provision among councils where the range and level of service differs dependent on local preferences and priorities and the cost of service provision varies dependent on local circumstances.

Therefore, LGNSW supports the establishment of a performance measurement framework that is focused on outcomes agreed upon by individual communities and their council. It should be up to the community to determine and judge the policies of their council.

LGNSW is fully supportive of Integrated Planning and Reporting (IPR). An essential part of this reform is for councils to be required to monitor and report on the achievement of long term community goals through performance indicators agreed upon by the community.

8. How might it assist councillors to focus their attention on Councils' responsibilities if the Auditor-General audited councils?

As Councillors would still be receiving the equivalent reports and information, there is no reason why having the Auditor-General take responsibility for audits would have any effect on Councillors 'focus'. (Also refer to the response to Question 9).

9. If the Auditor-General's role is not increased to include local government, in what other ways might accountability and transparency of local government expenditure be improved?

As noted earlier, NSW Local Government already operates with a very high degree of financial accountability and transparency. It is the most open, visible and accessible sphere of government and is subject to intense public scrutiny. It is also subject to the scrutiny of the DLG and ICAC on a comprehensive basis but also so to a host of other government agencies for many of the specific functions it performs (e.g. EPA, Department of Planning and Infrastructure, RMS etc.).

The introduction of introduction of Integrated Planning and Reporting over recent years has taken accountability and transparency to even higher levels. As noted previously an essential part of this reform is for councils to be required to monitor and report on the achievement of long term community goals through performance indicators agreed upon by the community. This includes community engagement in determining expenditure priorities.

10. Are you aware of the Auditor-General's performance audit function? Do you see benefit in extending this function to local government (independent of what happens with the financial audit function in local government).

Refer to response to Q7.

END.

Shaun McBride

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