



Local Government Financial Audits

Discussion Paper

August 2007

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INTRODUCTION

This paper has been prepared to assist the LGA and Councils to assess the adequacy of current audit provisions in the *Local Government Act* and the approaches being taken by Councils in support of these provisions.

Recent amendments have been made to the *Local Government Act* to enhance auditing practices in Councils. These amendments were largely advocated by the LGA on behalf of Councils and resulted from consultations with Councils in the lead up to the establishment of the Independent Inquiry into the Financial Sustainability of Local Government in 2005 and from implementation of the recommendations of the Inquiry.

There does appear however to be some continuing interest in requiring Councils to be subject to additional auditing processes similar to those used for State Government departments and authorities, which includes an expanded role for the Auditor-General.

Members of Parliament and the Auditor-General have recently suggested that Local Government audits are not adequate for public sector organisations and have suggested a range of changes.

This paper will assist Councils to assess the current status of audits and includes options for consideration of potential enhancement. Financial management framework practices in Local Government are also identified.

This Paper discusses current and possible future Local Government Financial Audit frameworks and is intended to support consideration of this issue by Councils and key stakeholders for enhancing the governance practices of Local Government, including approaches to auditing. It is presented in three parts:

Part A – Background: This section of the paper provides background information on the work that the LGA has been undertaking in the financial governance area, including auditing and the financial management framework.

Part B – Overview: This section provides an overview of the current audit framework for Local Government in South Australia, including key legislative and policy initiatives, an assessment of how the LGA's new Audit Specification meets the requirements of both the *Public Finance and Audit Act* and *Local Government Act* audit provisions. It also outlines the various costs and benefits that would be incurred by Councils using the specification.

Part C – Comparisons & Options: This section contains a comparison between the audit provisions included in the *Public Finance and Audit Act* against those in the *Local Government Act* to ascertain whether it would be beneficial to seek to have changes made to the *Local Government Act* provisions. It also provides a comparison of interstate Local Government external audit practices, as well as setting out various options and considerations for South Australian Councils.

PART A – BACKGROUND

This section outlines key issues addressed by the LGA prior to the conduct of its Independent Inquiry into the Financial Sustainability of Local Government that relate to financial management practices and auditing as well as recommendations resulting from the Inquiry.

The LGA was a strong advocate for changes to enhance financial governance practices of Councils prior to recent changes to the *Local Government Act* and the conduct of the inquiry.

In August 2004 the LGA State Executive Committee adopted the “Resourcing Council Services” program which comprised 9 proposals to guide the work of the LGA, in enhancing governance mechanisms. The proposals included, amongst other things

- An independent inquiry into the financial sustainability of Local Government;
- A review of the Performance Measurement Mechanisms in Local Government;
- A review of Complaints Mechanisms;
- Possible Amendments to the *Local Government Act 1999*, and
- Promoting good financial management/rating practices.

The joint (then) SA Office of Local Government and LGA project on Financial and Administrative Accountability report, 2005, considered the ‘fit’ between the general public sector review frameworks of the Ombudsman and the Auditor-General. The nature and organisation of Councils and the potential of the LGA in optimising Council’s accountability through these parliamentary review structures was also included. The report provided 11 recommendations in relation to external review of Local Government financial management (See Appendix A: “Financial and Administrative Accountability Report 2005 – Recommendations”).

In 2005, the Local Government Financial Accountability Advisory Committee (Joint State/Local Government) in partnership with the Metropolitan Chief Executive Officers Association developed the Financial Governance Code of Practice. This is currently being considered in the context of the work being undertaken by the Governance Standards Advisory Committee. The Code rests upon ten key principles designed to reflect the specialised nature of Councils’ financial governance and management responsibilities. The principles summarise the objectives of sound financial governance and contain requirements which are measurable.

The LGA’s August 2004 proposals regarding changes to the *Local Government Act* were put to the Government, prior to legislation being prepared, and following feedback from Councils and adoption of final legislative proposals by the LGA State Executive Committee. The LGA sought State Government endorsement for changes to the Act as follows:

- Requirement for Councils to establish audit committees;
- Establishment of long term financial and asset management provisions, to require Councils to take a long term view to financial management practices; and
- Requirement for consultation with communities prior to the setting of Councils’ budgets, consultation to occur on an “annual business plan”.

The LGA’s own independent inquiry endorsed the above amendments to the *Local Government Act* but also recommended that an audit specification be adopted by Councils to ensure that the quality of audits was enhanced and a uniform approach was adopted across the sector.

To support Councils to respond to the changes that were ultimately made to the *Local Government Act* and to implement the recommendations of the inquiry and the Financial and Administrative Accountability report, the LGA has undertaken a number of activities, including:

- Preparation of an audit specification;
- Preparation of a range of discussion papers on auditing in Local Government, establishing audit committees and issues associated to the conduct of efficiency and economy audits; and
- Preparation of a model work program of Council Audit Committees.

The preparation of documents has benefited from input by the Auditor-General.

To support Councils in the use of the above resources a series of training and education programs have been conducted on these issues. Shortly the LGA will invite Chairpersons of Council Audit Committees along with the Mayor/Chairperson of Councils and CEOs to meet and discuss issues emerging from Committees for which further assistance may be required.

The LGA's Governance Standards Advisory Committee has worked with Standards Australia on proposals to adopt national standards for:

- Governance, including financial governance;
- Audit Specifications; and
- Audit Committees.

The first phase in the development of standards by Standards Australia is to prepare a "handbook" for consultation with key stakeholders. The above documents have been prepared by Standards Australia, following consideration of papers already prepared by the LGA with benefit of legal and specialist advice, and are now available for consultation. The LGA has sought and gained the endorsement of these documents, through its Annual General Meeting of all Councils held in October 2006. The LGA is currently now working with the other State LGA's to gain their support to pursue standards in these areas and others identified by Councils.

In November 2006 the LGA released an Interim Discussion Paper entitled - "Strengthening Local Government". This document included a number of proposals for consideration by Councils prepared as a direct response to the issues that were being raised by MPs and in the media regarding a range of Council accountability issues. Importantly, one of the proposals suggested that administrative accountability of Councils' financial activities could be strengthened through a provision for the Auditor-General to conduct "sample" audit assessments of Council audited financial statements, on an annual (or bi-annual) basis, and to provide advice regarding the outcomes of these assessments to the Minister for State/Local Government Relations and the LGA.

Feedback from Councils regarding these proposals was considered by the LGA State Executive Committee in February 2007 and it was resolved to incorporate them into a new work program entitled the "Strengthening Local Government Program". The program incorporates activities of the LGA's Governance Standards Advisory and Financial Sustainability Advisory Committees, the joint State/Local Elections Project. In addition the State Executive Committee considered feedback from the Office of State Local Government Relations and delegated work to each of its Committees to prepare options papers for further feedback from Councils.

While the LGA was developing resources, assisting Councils with the implementation of the *Local Government Act* provisions and recommendations of the inquiry, working with Standards Australia and preparing proposals under the Strengthening Local Government Program, there was a suggestion by the then Auditor-General that *Local Government Act* provisions related to auditing were not as robust as that required under the *Public Finance and Audit Act*. In addition the Hon Bob Such MP has introduced into Parliament a Private Members Bill requiring the Auditor-General to audit Councils (and subsidiaries) and the Economic & Finance Committee of the Parliament has also made a series of recommendations linking activities of the Auditor-General to Councils' auditing processes.

It is noted that the Local Government Financial Management Framework and the State Department of Treasury and Finance, Financial Management Framework share common elements of control (See Appendix B: "Local Government Financial Management Framework").

The following segments of this paper explore current arrangements, assess the framework for auditing in Local Government against that of the State Government and include proposals for further discussions on these matters.

PART B – OVERVIEW

1. Current Local Government Audit Framework

The word "audit" means to check or review and is traditionally used in relation to formal and independent checking of financial statements. All Councils in South Australia have their accounts audited annually by qualified private auditors – as required by the *Local Government Act* and in accordance with the Australian Audit Standards. The auditor's report is published annually to communities (via Councils' annual reports) and as required under the *Local Government Act*, provided to the SA Parliament.

The *Local Government Act 1999* requires Councils to keep accounting records correctly and to record and explain the revenues, expenses, assets and liabilities of the Council. The accounting records are to be kept in such a manner as will enable:

- The preparation and provision of statements that present financial information; and
- The proper audit of financial statements of the Council.

Councils apply a range of controls to their finances, and operations in general and often conduct reviews of projects or programs. Councils also have internal controls which "check" the existence or application of appropriate policies whether financial, legislative or risk management, the safeguarding of assets, the prevention and detection of fraud and error, the accuracy and completeness of accounting records, and the timely preparation of reliable financial performance information.

Issues such as theft or corruption are dealt with in Local Government in the same way as in State Government, with very severe penalties including prison terms for abuse. Internal controls, reviews and audit mechanisms interact with these systems where any such abuse is uncovered.

Councils are also subject to a range of external legislative requirements and powers in parallel with those applying to other governments including under the Criminal Law Consolidation, Freedom of Information, State Records and Ombudsman Acts.

2. Legislative and Policy Audit Initiatives

In 2006 the report of the Independent Inquiry into the Financial Sustainability of Local Government in SA noted amongst other things, that the transparency of financial reporting by Councils is not at a standard achieved by the other spheres of government. The Inquiry provided 5 recommendations for improving Local Government financial auditing standards, which are outlined in Appendix C. In collaboration with the Minister for State/Local Government Relations, the LGA initiated amendments to the *Local Government Act* to address recommendations in the report. The new requirements to take effect from 25 January 2007.

The legislative amendments have introduced three new requirements for Councils:

- a mandated requirement to have an audit committee;
- specific criteria regarding the appointment of auditors; and
- a specific provision regarding the capacity for a Council to conduct an efficiency and economy audit.

These are in addition to the statutory responsibilities Councils continue to have for annual independent auditing of financial statements.

The LGA has also produced a number of good practice information papers to support the new requirements including audit mechanisms, scope of external audits, economy and efficiency audits and a model work program for Council audit committees.

The LGA Information Paper 4: *Scope of External Audit – Audit Specification* (February 2007) comprehensively covers the requirements of the *Local Government Act 1999* in relation to auditing. In particular it meets the appointment process and criteria for auditors, and the methodology they are required to adopt, as contained in the Act. A copy of the LGA Information Paper was forwarded to the Office of State Local Government Relations seeking comment from the Acting Auditor-General on suitability of the specification. The Acting Auditor-General in his reply through the Minister for State Local Government relations noted some technical issues (which have since been incorporated) and generally found that the overall information will assist Councils and auditors with important baseline information and requirements.

Inquiries indicate that most Councils still have continuing contracts, nominally of five years, with their auditors and as such there is limited experience with tender processes utilising the LGA Audit Specification and the new *Local Government Act* provisions.

Councils have raised the issue of the new specification for auditing resulting in increased audit fees. Anecdotal evidence suggests from those using the document to date that this is not necessarily the case. The following examples are provided:

One Council (greater than 10,000 and less than 20,000 population and revenue less than \$15 Million) has utilised the Specifications recently (2007) and subsequently appointed an external audit for the next five years at a cost of: \$8500 in year 1 and incrementing annually to a cost of \$10,300 in year 5 (excl GST). Six tenders were received by the Council during the process with the highest cost tender being \$17,500 in year 1 and incrementing to \$21,250 in year 5 (excl GST). This Council had previously engaged their auditor at an annual cost of \$11,050 ex GST.

(See Appendix D for “Sample Costs of Councils for External Audit”).

PART C – COMPARISONS

1. Comparison between provisions in the *Local Government Act 1999* and the *Public Finance and Audit Act 1987*

Local Government Act 1999

The *Local Government Act* (Sections 125-130) and the *Local Government (Financial Management) Regulations 1999* require Councils to:

- Establish and maintain appropriate internal controls;
- Keep financial records in accordance with Australian Accounting Standards;
- Establish an audit committee with at least one independent member;
- Prepare and publish financial statements in accordance with models established by the LGA;
- Annually have their financial statements audited by a registered company auditor in accordance with standards and statements published by the Australian Auditing and Assurance Standards Board; and
- Appoint auditors on the recommendation of the audit committee and not reappoint auditors for more than 5 years (auditors can not provide consultancy advice to Councils beyond the audit function).

In addition, the Act requires an auditor and the audit committee to give due consideration to the adequacy of the Council's internal control policies, practices and procedures in forming their opinion. Chief Executive Officers of Councils are required to provide information and explanations to the Council auditor on request regarding financial or other matters including internal controls. A penalty of up to \$10,000 can be applied if this provision is not met without reasonable excuse.

The Act also enables the Council (body corporate) to conduct an efficiency and economy audit at any time. The Act also provides a role for the Auditor-General (if desired by the Minister) in circumstances in which investigations are undertaken of individual Councils.

Public Finance and Audit Act 1987

The *Public Finance and Audit Act*

- Requires the Auditor-General to audit the accounts of each public authority. Councils are not captured by these provisions;
- Requires the Auditor-General to examine the efficiency and economy with which a public authority uses its resources;
- Provides for the Auditor-General's discretion to establish methodology to be employed when auditing a public authority's or publicly funded body's financial statements;
- Provides the Auditor-General with power to issue a summons requiring the appearance of persons or production of documents relating to an audit or examination;
- Does not permit the Auditor-General to conduct any functions for government authorities other than the financial statements audit and other examinations expressly prescribed;
- Requires the Auditor-General to prepare an annual report (to be tabled in Parliament) that states whether in his/her opinion the financial statements of each public authority accurately reflects the financial transactions of the authority; and
- Entitles the Auditor-General to fix the quantum of fee for an audit of an entity's accounts.

Issues for Consideration between the Acts

Included as Appendix E is a table which compares the various elements of the *Local Government Act* provisions against those in the *Public Finance and Audit Act*. In summary it would appear that differences exist in the following areas:

- Independence and Rotation of auditors
- Relevant auditing standards
- Auditor's power to obtain information
- Reporting requirements
- Ability to contractually set audit fees in private audits, but not in Auditor-General audits

The LGA is particularly interested to gain an indication of the costs associated to the conduct of audits by the Auditor-General. Informal discussions have indicated that “quotes” are not likely to be available. This is confusing given that private sector companies are required to quote on the basis of a tender specification in Local Government and in the private sector and that these quotes are considered along with the proposals submitted which outline the activities proposed against a specification.

Unless this information is available, it is difficult to ascertain the financial benefits of using the Auditor-General in the future, should support be gained to do so.

Legislative amendments to both the *Local Government Act* and the *Public and Finance and Audit Act* would be required to enable the Auditor-General to generally undertake audits of Councils. The framework for this might look similar to that outlined in Appendix F “Local Government Audit Framework – Flowcharts”.

2. Approaches to Auditing interstate

In relation to interstate, those states that have their audits currently undertaken by their respective Auditor-Generals are Queensland, Victoria and Tasmania.

In Queensland the Auditor-General is the auditor of all public sector entities including Local Governments pursuant to the *Financial Administration and Audit Act 1977* (Qld) and the *Local Government Act 1993* (Qld). The majority of audits of Local Governments’ annual financial statements are conducted by contracted private sector auditors as delegates of the Auditor-General.

In Victoria, Financial statement audits of all Local Governments are performed by the Victorian Auditor-General, directly or by external audit providers as agents. In *the Local Government Act 1989* (Vic) the word “auditor” is defined in section 3 to mean the Auditor-General. Councils are audited either by the Auditor-General or by private auditors “with the approval of and subject to any terms and conditions determined by the Auditor-General”¹. In the year to 30 June 2006, 62 of Victoria’s 79 Councils were audited by external auditors appointed by the Auditor-General.

In relation to Tasmania, the accounts and financial statements of a council are subject to Tasmania’s *Financial Management and Audit Act 1990*. Councils are audited either by the Auditor-General or by private auditors “with the approval of and subject to any terms and conditions determined by the

¹ Source – discussion with representatives of the Auditor- General of Victoria.

Auditor-General” pursuant to s.85 of the *Local Government Act 1993* (Tas). In the year to 30 June 2006, six of Tasmania’s 29 councils used private sector auditors².

The *Public Finance and Audit Act 1987* (SA) establishes the position of Auditor-General within the State and sets out the functions of that office. The equivalent legislation in the other States and Territories are: *Public Finance and Audit Act 1983* (NSW); *Financial Administration and Audit Act 1977* (QLD); *Audit Act 1994* (Vic); *Auditor-General Act 1996* (ACT); *Auditor General Act 2006* (WA); *Audit Act 1995* (NT); and *Financial Management and Audit Act 1990* (TAS).

See Appendix G: “Comparison Table between SA *Public Finance and Audit Act* and equivalent Acts of States using Auditor-General”, which compares the *Public Finance and Audit Act 1987* (SA) with the equivalent Queensland, Victorian and Tasmanian legislation.

In addition, see Appendix H for “Interstate Associations Audit Frameworks”.

3. Options For Councils

Below are a number of options which may be available to Councils and which have been discussed throughout this paper.

OPTION 1:

No change to the current practice of Councils appointing external auditors (See Appendix F1).

OPTION 2:

Councils continue to appoint external auditors with the Auditor-General to conduct “sample” audit assessments of Council audited financial statements, on an annual (or bi-annual basis) and to provide advice regarding the outcomes of these assessments to the Minister for State/Local Government Relations and the LGA so as to provide monitoring of the issue, where corrective legislative or other actions can be taken as required (See Appendix F2).

OPTION 3:

Auditor-General undertakes responsibility for external Council audits and effects audits via subcontracting of accredited auditors. Audit firms are selected via a tendering process that includes the Auditor-General’s office, and the final audit opinion is signed by the Auditor-General who takes ultimate responsibility for the audit. The Auditor-General to advise Councils at completion of each audit informing of results, including any recommendations for improved internal control. Annual report to Parliament summarising results of audits of all Local Governments. Depending on the nature of any concerns, the Minister or the Auditor-General may take these matters up with one or more councils (See Appendix F3).

OPTION 4:

Auditor-General undertakes all aspects of external Council audits. The Auditor-General to advise Councils at completion of each audit informing of results, including any recommendations for improved internal control. Annual report to Parliament summarising results of audits of all Local Governments. Depending on the nature of any concerns, the Minister or Auditor- General may take these matters up with one or more councils (See Appendix F4).

² Source- discussion with representatives of the Auditor -General of Tasmania

4. Summary

The *Local Government (Financial Management) Regulations 1999* reflect a non prescriptive policy and discretion for self management of accounting polices and procedures for Local Government.

The LGA in partnership with the Minister for State/Local Government Relations has worked extensively to enhance the financial governance and financial management framework of Local Government. This has included:

- further changes to the *Local Government Act*;
- the Independent Inquiry;
- development of information papers and audit specifications;
- development of financial indicators and codes of practice; and
- financial sustainability standards.

While these enhancements have significantly improved the audit framework within Councils there is scope to further improve the consistency and comparability of accounting policies across the sector.

The “Strengthening Local Government Program” suggestion that:

1. administrative accountability of Councils financial activities could be strengthened through provision for the Auditor-General to conduct “sample” audit assessments of Council audited financial statements, on an annual (or bi-annual basis), and
2. the Auditor-General to provide advice regarding the outcomes of these assessments to the Minister for State/Local Government Relations and the LGA

should be considered in light of other options included in this paper and feedback received from the State Government, Councils and other stakeholders.

APPENDIX A

Financial and Administrative Accountability Report 2005 – Recommendations

Source: “The SA Local Government System: Administrative and Financial Accountability Structures – Report from a joint project of the SA Office of State/Local Government Relations and the Local Government Association (November 2005)

KEY	EXPLANATION
✓	Recommendations that have been implemented
*	Recommendations under development
#	Recommendations not currently addressed

RECOMMENDATIONS	STATUS
<p>Recommendation 1</p> <p>That early attention be given to developing a Local Government Finance Standard to support good financial management and improved financial and compliance audit in Councils. Development of the Standard should be informed by the Financial Sustainability Review Board's recommendations on key financial indicators and standardised local government accounting policies. The Standard should acknowledge Councils of widely varying resources, should be required to be adopted consistently throughout the sector, and should be accompanied by comprehensive training opportunities for Councillors, chief executive officers, financial managers, and local government auditors.</p>	*
<p>Recommendation 2</p> <p>That implementation of the Financial Sustainability Review Board's recommendations for development of key financial indicators and accounting policies across the local government sector, as well as of a model specification for a Council audit, be strongly supported, and proceed in conjunction with development of the Local Government Finance Standard referred above.</p>	✓
<p>Recommendation 3</p> <p>That consideration also be given to incorporating development of a “Uniform Reporting Code of Practice” (as recommended by the Financial Sustainability Review Board) into the proposed Local Government Finance Standard.</p>	*
<p>Recommendation 4</p> <p>That the Local Government Association (LGA) consider brokering cooperation arrangements enabling lower resource Councils to share human resources for internal audit with each other or with mentor higher resource Councils.</p>	*
<p>Recommendation 5</p> <p>That Councils include skilled members external to the elected membership on their Audit Committees and that this recommendation be included in the forthcoming Code of Financial Practice. The Council's principal member should not chair the Audit Committee. A Council's employees should not be excluded from appointment to the Audit Committee of another Council.</p>	✓

Recommendation 6	That the proposed Local Government Finance Standard's treatment of a model audit specification (see 2 above) include assessment of the minimum amount of time that an auditor can be expected to take on each component, with variations for size of Council.	✓
Recommendation 7	That the LGA consider establishing a list of preferred suppliers of Council audit services in conjunction with the Local Government Financial Managers Group, on the basis of qualifications, public sector experience and fees charged, and encourage Councils to appoint auditors from the list.	#
Recommendation 8	That the Auditor-General should not be given the task of auditing Council's annual financial statement at this time, but that when the regulatory regime outlined earlier has been fully developed, the above arrangements should be reviewed, and further consideration be given to the need for a possible statutory mechanism (either the Auditor-General or another) for appointment of auditors to Councils.	#
Recommendation 9	That the LGA include in training opportunities offered to all participants in the local government sector programs that make clear the role of audit of all kinds in improving management practices.	✓
Recommendation 10	That the LGA initiate a pilot program of volunteer Councils that may be willing to demonstrate good practice in undertaking efficiency and economy audits of specified Council programs. Reports from these pilots should be made readily available to other Councils and, based on the pilot experience, an ongoing program be developed.	#
Recommendation 11	That a similar program be undertaken in which selected volunteer Councils demonstrate evaluations of the effectiveness with which specific programs contribute to achievement of Council objectives and how the resultant information can be used for improvement.	#

APPENDIX B

Local Government Financial Management Framework

SA LOCAL GOVERNMENT		Management Framework						
		Policy Development	Corporate Planning	Service & Resource Allocation Planning	Business Planning	Service Delivery	Reporting	Performance Evaluation
Financial Management Components	Control	✓	✓	✓	✓	✓	✓	✓
	Transaction Processing	✓				✓	✓	
	Asset & Liability Management	✓	✓	✓	✓	✓	✓	✓
	Reporting	✓	✓	✓	✓	✓	✓	✓
	Planning & Analysis	✓	✓	✓	✓	✓	✓	✓

STATE ³ GOVERNMENT		Management Framework						
		Policy Development	Corporate Planning	Service & Resource Allocation Planning	Business Planning	Service Delivery	Reporting	Performance Evaluation
Financial Management Components	Control	✓	✓	✓	✓	✓	✓	✓
	Transaction Processing					✓		
	Asset & Liability Management			✓	✓	✓	✓	
	Reporting					✓	✓	✓
	Planning & Analysis	✓	✓	✓	✓	✓	✓	✓

³ The many relationships between the different elements of the two frameworks show how important the Financial Management Framework is to an efficient and effective general management framework in the public sector
SA Government Financial Management Framework , Dept Treasury and Finance Updated 24 April 2002

APPENDIX C

Report of the Independent Inquiry into the Financial Sustainability of Local Government – 5 Audit Recommendations

Recommendation 1 – That each Council undertakes all *internal* financial reporting of its planned and actual financial performance and position in a format and on a basis that is fully consistent with the *external* financial reporting standards and codes applying to the Council.

Recommendation 2 – That each Council establishes an audit committee that has external membership and does not include the Council's mayor as chair or its CEO as a member.

Recommendation 3 – That Councils adopt as one of the functions assigned to the audit committee the review of the effectiveness of:

- (a) The Council's financial governance arrangements, and
- (b) The Council's planning and monitoring processes in ensuring the sustainability of the Council's long-term finances.

Recommendation 4 – That country Councils or smaller Councils give consideration to establishing regional or joint audit committees aimed at pooling scarce resources and increasing the level of expertise available to individual Councils.

Recommendation 5 – That the LGA develops and publishes guidance for Councils in the conduct of what some have termed "economy and efficiency audits", being reviews aimed at assessing the effectiveness of a range of governance and management arrangements, including a Council's policies and practices relating to financial governance.

¹ Source: "Rising to the Challenge – Towards Financial Sustainable Local Government in South Australia" (August 2005 at page 18).

APPENDIX D

Sample Costs for SA Councils External Audit

The table below illustrates some sample costs for SA Councils and selected States in relation to external audit¹.

South Australian Council Auditor Fees

Council	Budget Range	2005	2006
Adelaide Hills	\$25m - \$30m	\$10,300	
Alexandrina Council	\$25m - \$30m	\$8,100	\$8,625
The Barossa Council	\$15m - \$20m	\$7,580	\$7,955
Campbelltown City	\$25m - \$30m	\$11,400	\$12,000
Ceduna	<\$10m	\$6,470	\$7,300
Coorong	<\$10m	\$7,433	\$7,545
Elliston	<\$10m	\$6,670	\$7,430
Le Hunte	<\$10m	\$5,290	\$6,480

Victorian Council Auditor Fees

Council	Budget Range	2005	2006
South Grampians	\$25m - \$30m	\$25,000	\$25,000
Alpine Shire	\$15m - \$20m	\$22,000	\$39,000
Swan Hill	\$30m - \$35m	\$28,150	\$43,850
Buloke	\$15m - \$20m	\$24,000	\$26,000

Tasmanian Council Auditor Fees

Council	Budget Range	2005	2006
Brighton	\$10m - \$15m	\$12,230	\$18,495
Kentish	<\$10m	\$13,000	\$13,000
George Town	<\$10m	\$14,457	\$12,500
Circular Head	\$10m - \$15m	\$14,440	\$16,339
Flinders	<\$10m	\$10,160	\$14,040
West Coast	<\$10m	\$14,000	\$16,000

¹ Source: 2005/06 Annual Financial Statements derived from Council Websites, where external audit fees could be separately identified.

APPENDIX E

Comparison Table between *Local Government Act 1999* and

Public Finance and Audit Act 1987

Issue	<i>Local Government Act 1999 / Local Government (Financial Management) Regulations 1999</i>	<i>Public Finance and Audit Act 1987</i>
Financial statements audit	<p>Section 128 A Council is required to have a registered company auditor, appointed by the Council's Audit Committee. The auditor cannot be a Council member or potential member, and must be rotated on a five-year basis. A Council must provide details in its annual report of all remuneration and benefits received by its auditor, together with any reasons for ceasing an auditor's term of office. (A copy of the Councils annual report must be provided to Parliament)</p> <p>Section 129 The auditor must perform an annual audit of the Council's financial statements and prepare a report meeting the minimum criteria set out in the section.</p>	<p>Sections 31-32 Auditor-General must audit financial statements of public authorities , each financial year.</p> <p>Auditor-General may examine financial statements of a public authority if directed by the Treasurer. Auditor-General must prepare a report setting out the results of the examination, and provide copies to the Treasurer among others.</p> <p>No requirements for rotation of auditor.</p>
<p>ANALYSIS & COMMENT: Under the <i>Local Government Act</i> ("LG Act"), an auditor must be appointed by the Council's Audit Committee, whereas under the <i>Public Finance and Audit Act</i> ("PFA Act") the Auditor-General conducts the audits. An auditor under the LG Act is required to be rotated every 5 years, whereas there is no requirement for rotation of an auditor under the PFA Act. Both Acts require the auditor to provide a report setting out a variety of information as required in either Act Council must provide in its annual report details of auditor's remuneration under LG Act, no similar requirement for public authorities under the PFA Act.</p>		

Issue	<i>Local Government Act 1999 / Local Government (Financial Management) Regulations 1999</i>	<i>Public Finance and Audit Act 1987</i>
Efficiency and Economy audits & other examination	<p>Section 130A A Council may request that its auditor undertake an examination of its financial management, or the efficiency and economy with which it manages its resources, that would not ordinarily be addressed or included as part of the annual audit. A report on the examination must be provided to the Principal Member of Council, who must provide copies to the CEO, other Council Members, and the Council's audit committee. The report must be placed on the agenda at the next Council meeting for consideration. The report must be kept confidential until such Council meeting.</p>	<p>Sections 31-32 Auditor-General may examine the efficiency and economy with which a public body uses its resources , or in relation to whether a publicly funded project is efficient and cost effective.</p> <p>A report is to be delivered to the Treasurer and to the president of the Legislative Council and the Speaker of the House of Assembly</p>
<p>ANALYSIS & COMMENT: Both the PFA Act and the LG Act indicate that efficiency and economy audits may be made in relation to how a Council / public authority uses its resources. The LG Act provides for the report to be provided to the presiding member and placed on the agenda of the next Council meeting, whereas under the PFA Act the report is to be delivered to the Treasurer and to the president of the Legislative Council and the Speaker of the House of Assembly. Both Acts ensure that the result of any efficiency and economy audit is made public. The PFA Act provides for the audit of the efficiency and economy of publicly funded projects as well as bodies, where as the LG Act is silent on provision for audits of individual projects.</p>		

Issue	Local Government Act 1999 / Local Government (Financial Management) Regulations 1999	Public Finance and Audit Act 1987
Relevant standards	Regulation 14 An audit must be carried out in accordance with the Auditing Standards and Auditing Guidance Statements published by the Australian Auditing and Assurance Standards Board.	Auditor-General's Department applies the Auditing Standards and Auditing Guidance Statements published by the Australian Auditing and Assurance Standards Board.
ANALYSIS & COMMENT: LGA Act requires audits to be carried out in accordance with the Auditing Standards, whereas there is no legislative requirement under the PFA Act. However, discretion is retained by the Auditor-General.		

Issue	Local Government Act 1999 / Local Government (Financial Management) Regulations 1999	Public Finance and Audit Act 1987
Auditor's power to obtain information	Section 130 An auditor may compel the Council's chief executive officer to produce accounts, accounting records and other documents relating to financial or internal controls, or any other matter being examined, together with any explanations. The maximum penalty for breach is \$10,000.	Section 34 Auditor-General possesses wide powers to compel production of information including issuing summons, requiring appearance of persons, or the production of documents. May require a person to appear before him/her to make an oath or affirmation to answer truthfully all questions relating to audit or examination. The maximum penalty for breach is \$5000, or 3 months imprisonment.
ANALYSIS & COMMENT: Under the PFA Act, the Auditor-General has wide powers to compel the appearance and evidence on oath of persons, as opposed to the LG Act which provides for documents to be produced together with explanations. Under the LG Act the maximum penalty is \$10,000, whereas under the PFA Act the penalty for breach is only \$5000 or 3 months imprisonment. The penalty imposed under the LG Act for a breach to provide information required as part of an audit is double that of the PFA Act, although the PFA Act imposes wider powers of production and appearance on the Auditor-General.		

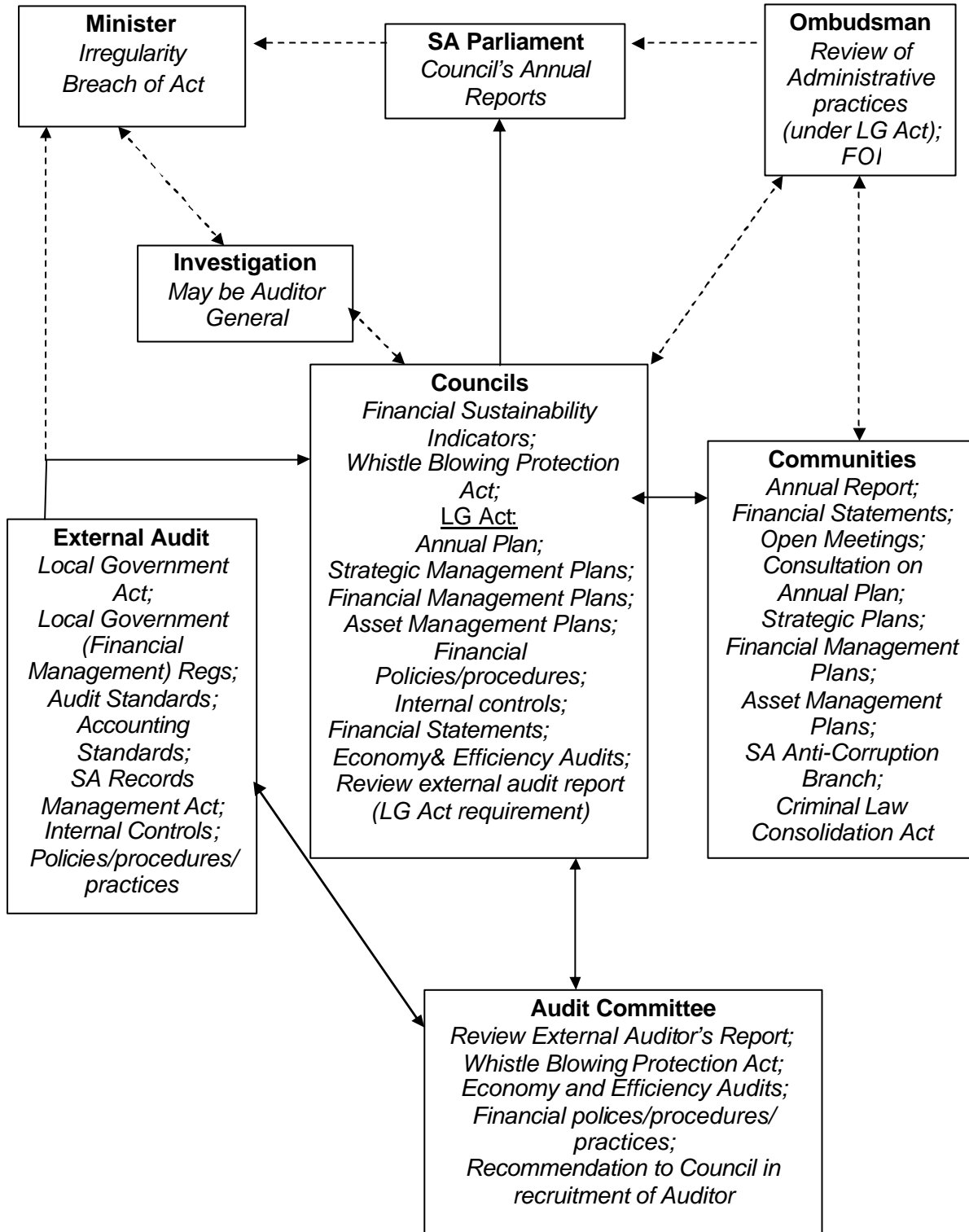
Issue	Local Government Act 1999 / Local Government (Financial Management) Regulations 1999	Public Finance and Audit Act 1987
Independence of Auditor	Section 128(8) Regulation 16A A council must not engage auditor to perform any services outside scope of auditor's functions under the Act. Chief executive officer, presiding member of audit committee and auditor must certify the independence of auditor on annual basis.	Part 3 Sections 26(1), 29 Auditor-General may only perform those functions prescribed under Part 3 – ie financial statements audit and efficiency and economy examinations, otherwise may be suspended from office. Auditor-General must not engage in any other employment/business without consent from Governor. Auditor-General must make a declaration before Executive Council to act impartially in carrying out his/her functions.
ANALYSIS & COMMENT: Both Acts require the auditor to carry out functions independently and not whilst engaged in any other employment/business.		

Issue	<i>Local Government Act 1999 / Local Government (Financial Management) Regulations 1999</i>	<i>Public Finance and Audit Act 1987</i>
Reporting requirement	Section 129 The auditor must report any irregularities which have not been rectified by the Council within a reasonable time, any major breaches of the Act to the Minister, or any major financial irregularity (not minor irregularities or breaches). An investigator, or the Auditor-General may be appointed to investigate any irregularity or breach.	Sections 36-37 Auditor-General must prepare annual report to be tabled to Parliament stating whether, in his/her opinion, financial statements of each public authority accurately reflects the financial transactions of the authority, and whether internal financial controls are sufficient. Report must include any other matters that Auditor-General considers should be brought to attention of Parliament. Auditor-General must provide copies of the report to the Treasurer, responsible Minister and Parliament any matter he/she considers to require action, and to make recommendations where in the opinion of the Auditor-General action is necessary or desirable in the public interest.
ANALYSIS & COMMENT: The LG Act has provision for the Auditor-General where requested by the Minister to investigate any major irregularity or breach occurs. PFA Act gives Auditor-General more scope for reporting "any other matters" that in their opinion should be brought to the attention of parliament, whereas the LG Act refers to the reporting of breaches and irregularities that are "not minor". The LG Act provides for only significant breaches to be reported (breaches that are "not minor"), whereas the PFA Act has scope for both minor and significant breaches to be reported if in the Auditor-General's opinion they should be brought to the attention of parliament and is in the public interest. Hence a greater amount of subjectivity of the auditor is allowed for under the PFA Act. This may capture situations, for example, where there are recurrent minor breaches.		

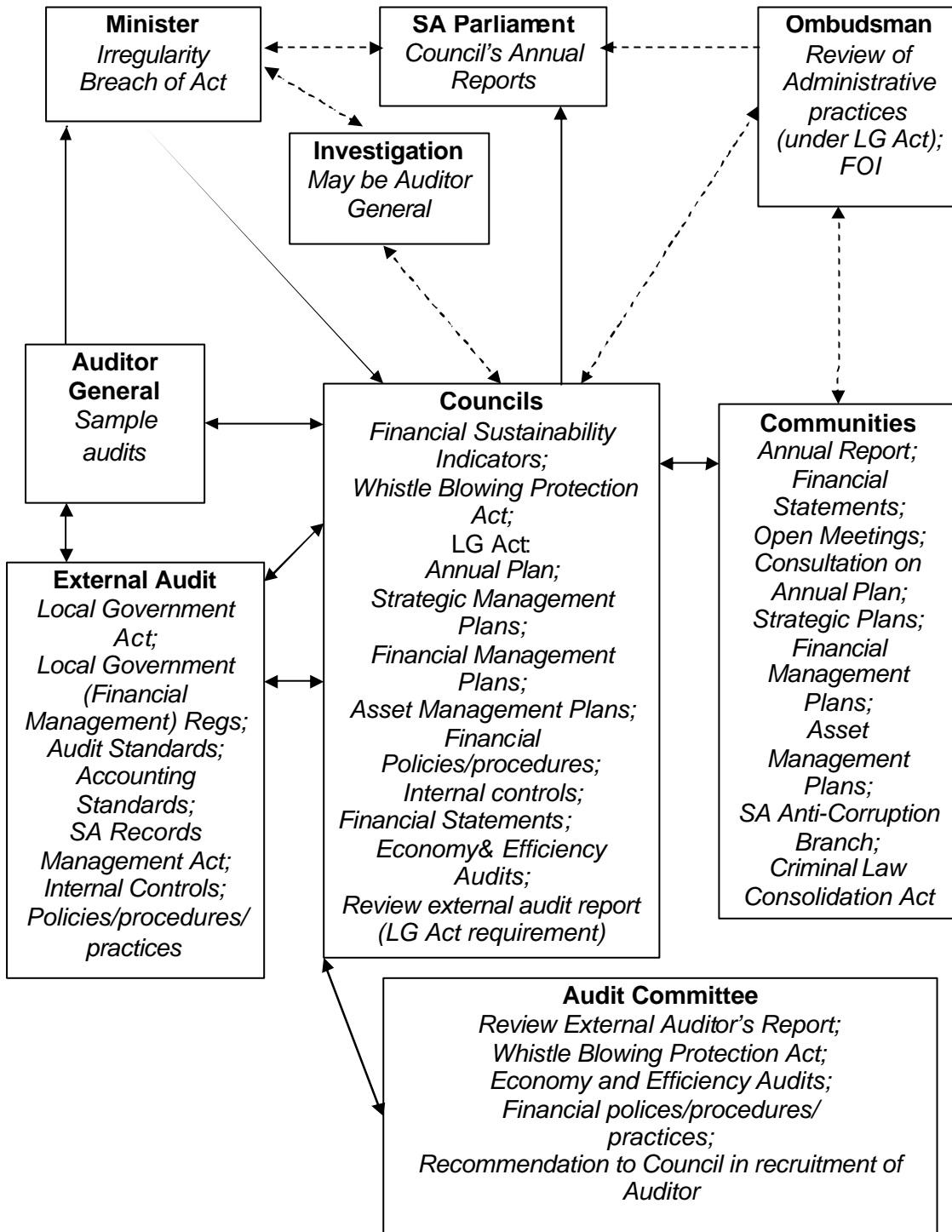
Issue	<i>Local Government Act 1999 / Local Government (Financial Management) Regulations 1999</i>	<i>Public Finance and Audit Act 1987</i>
Fees	A council is free to negotiate auditor's fees according to council's ordinary contracting policies.	Section 39 Auditor-General is entitled to charge a fixed fee with approval from Treasurer.
ANALYSIS & COMMENT: There is no specific provision under the LG Act or Regs regarding charging a fixed fee for audit.		

APPENDIX F – Local Government Audit Framework - Flowcharts

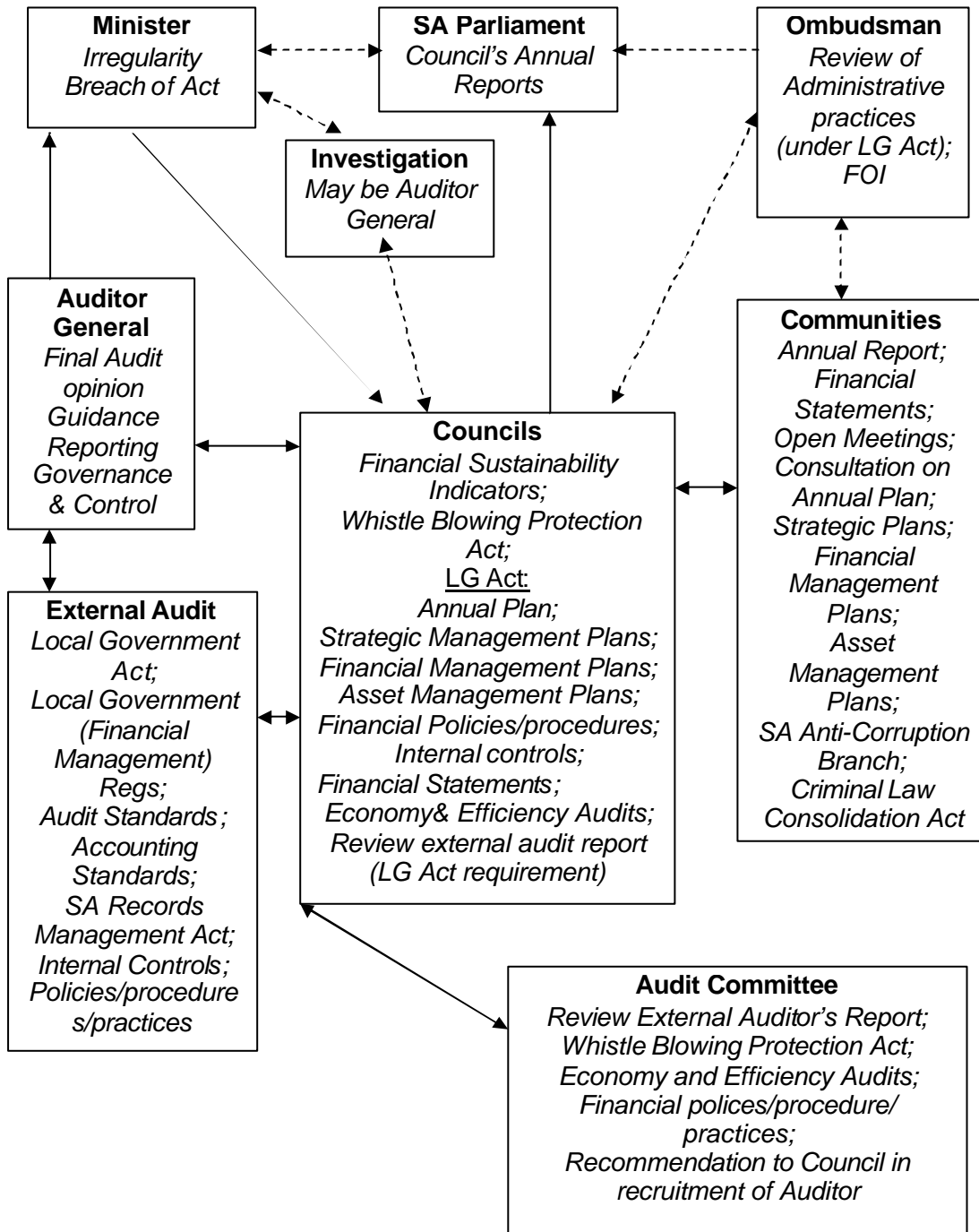
Appendix F1 – Current Local Government Audit Framework



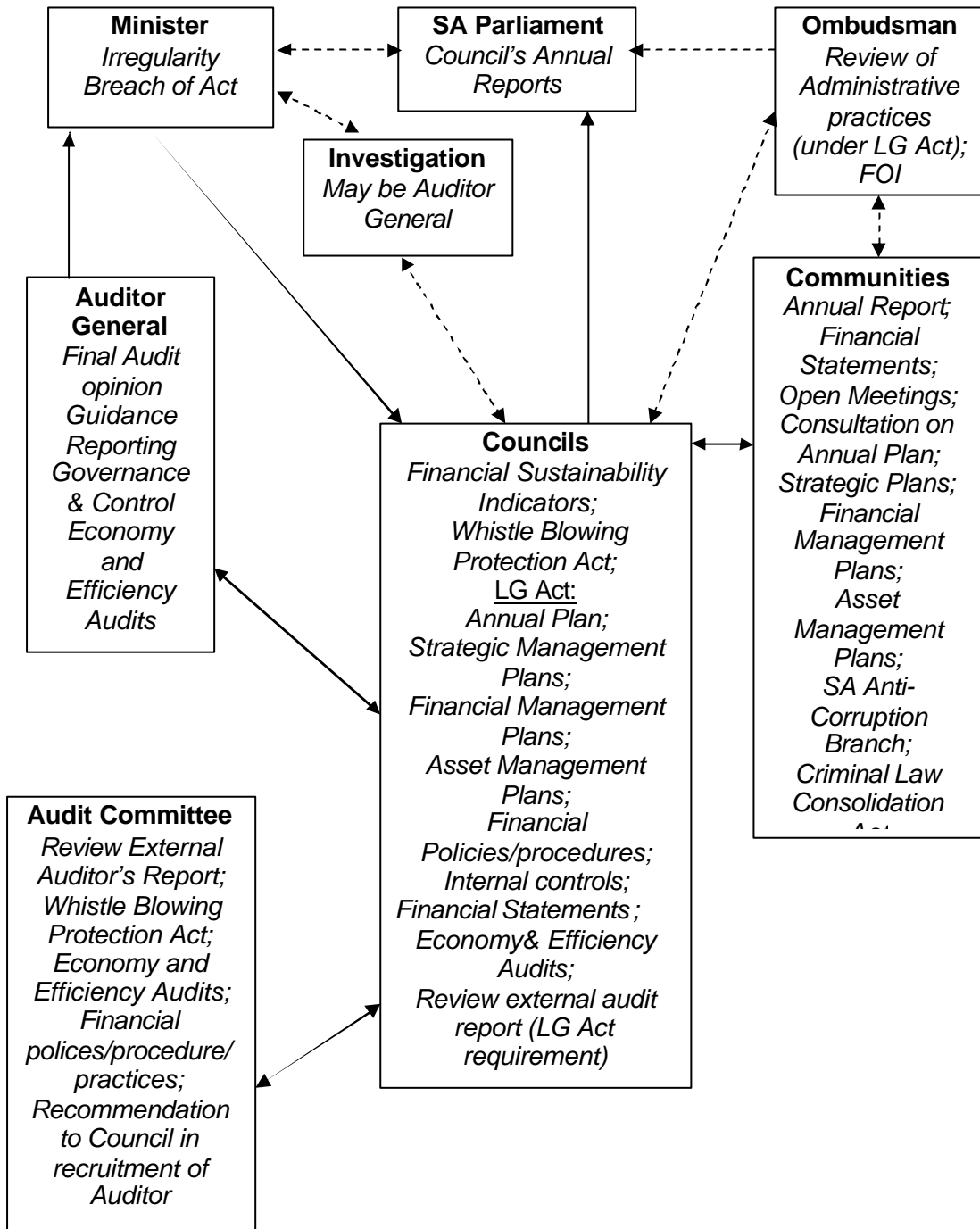
Appendix F2 – Proposed Auditor-General Sample Audits



Appendix F3 – Proposed Auditor-General Contract Audits



Appendix F4 – Proposed Auditor-General All Audits



APPENDIX G

Comparison Table between SA *Public Finance and Audit Act* and Equivalent Acts of States using Auditor-General

State	Act	Role of Auditor-General	Nature of Audits	Auditing Standards	Reporting Requirements	Information Gathering Powers	Fees Payable
SA	<i>Public Finance and Audit Act 1987</i>	<p>Auditor-General required to audit in each financial year:</p> <ul style="list-style-type: none"> · “Public accounts” · Accounts of “public authorities” (<u>does not include local councils</u>) <p>Additionally, if requested by Treasurer, Auditor-General must “examine” accounts of a “publicly funded body” (<u>includes local councils</u>) and the efficiency and economy of its activities.</p>	<ul style="list-style-type: none"> · Auditor-General <i>must</i> audit financial statements of public authorities. · Auditor-General <i>may</i> examine the efficiency and economy with which a public authority uses its resources. · Auditor-General <i>must</i> examine accounts and efficiency and economy of publicly funded bodies where requested by Treasurer. 	<p>Auditor-General is not required to adopt any particular standards or methodologies when conducting audits.</p>	<p>Auditor-General must:</p> <ul style="list-style-type: none"> · Prepare annual report to be tabled before Parliament providing opinion on financial statements of each public authority audited, and public accounts. · Prepare reports as necessary where matter has come to attention of Auditor-General that requires action whilst undertaking examination of efficiency and economy of public authorities, or publicly funded bodies. Report to be presented to Treasurer and responsible Minister. 	<p>Auditor-General may:</p> <ul style="list-style-type: none"> · access all documents and property relevant to an audit · require persons to provide information · issue summons requiring appearance of persons to produce documents or to answer questions · administer oath or affirmation to verify information provided 	<p>Auditor-General determines fee payable for audit undertaken (Treasurer must approve)</p>
QLD	<i>Financial Administration and Audit Act 1977</i>	<p>Auditor-General must in each financial year audit:</p> <ul style="list-style-type: none"> · the “consolidated fund” · all “public sector entities” (<u>includes local councils</u>) 	<ul style="list-style-type: none"> · Auditor-General <i>must</i> audit financial statements of public sector entities. · Auditor-General <i>may</i> conduct an audit of performance management systems of public sector entities (to determine whether system allows entity to assess whether it is operating economically, efficiently and effectively). 	<p>Auditor-General may conduct an audit in the manner that the Auditor-General considers most appropriate.</p> <p>Regard may be had to:</p> <ul style="list-style-type: none"> · the relevant internal control system (including internal audit) of entity being audited; and · recognised standards and practices. 	<ul style="list-style-type: none"> · Auditor-General must provide audit reports to the relevant department heads, and to Ministers where the observations contained therein are of significance. · Auditor-General must prepare reports to the legislative assembly on each audit conducted of consolidated fund accounts and on each public sector entity. 	<p>Auditor-General may:</p> <ul style="list-style-type: none"> · access all documents and property relevant to an audit · require persons to provide information · require persons to attend to answer questions or supply documents · administer oath or affirmation to verify information provided 	<p>Auditor-General determines fee payable for audit undertaken (Treasurer must approve)</p>

State	Act	Role of Auditor-General	Nature of Audits	Auditing Standards	Reporting Requirements	Information Gathering Powers	Fees Payable
VIC	<i>Audit Act 1994</i>	<p>Auditor-General must in each financial year audit:</p> <ul style="list-style-type: none"> Each “<i>authority</i>” (<u>includes municipal councils</u>) <p>Auditor-General has discretion to dispense with all or any part of audit of the financial statements of an authority in any year.</p>	<ul style="list-style-type: none"> Auditor-General <i>must</i> audit financial statements of each authority. Auditor-General <i>may</i> audit any report of operations of an authority to determine whether performance indicators in the report are relevant, appropriate and accurate. 	<p>Auditor-General must employ the standards made by the Auditing and Assurance Standards Board under:</p> <ul style="list-style-type: none"> Section 336 of the Corporations Act; or Section 227B of the ASIC Act. 	<ul style="list-style-type: none"> Auditor-General must prepare a written opinion on the audit of each authority and provide such opinion to the responsible Minister. Auditor-General may make a report to the Parliament on any one or more audits conducted by or on behalf of the Auditor-General. Auditor-General must make a report on each annual financial report of the State. 	<p>Auditor-General may:</p> <ul style="list-style-type: none"> access all documents and property relevant to an audit require persons to provide information require persons to attend to answer questions or supply documents administer oath or affirmation to verify information provided 	<p>Auditor-General determines the fee to be paid by the audited authority into the Consolidated Fund.</p>
TAS	<i>Financial Management and Audit Act 1990</i>	<p>Auditor-General must in each financial year audit:</p> <ul style="list-style-type: none"> the accounts of the Treasurer; all government departments; and all public bodies (<u>includes local councils</u>). <p>Auditor-General may dispense with audits of certain public bodies or classes of public bodies if there is sufficient cause to do so.</p>	<ul style="list-style-type: none"> Auditor-General <i>must</i> audit financial statements of each government department and public body. Auditor-General <i>may</i> conduct investigation concerning any matter relating to the accounts of the Treasurer, government departments or public bodies. Auditor-General <i>may</i> carry out examinations of the economy, efficiency and effectiveness of government departments and public bodies. 	<p>Auditor-General may perform required audits in such manner as Auditor-General considers fit, having regard to:</p> <ul style="list-style-type: none"> the Act and any other law relating to the financial management of the body concerned; and recognised professional auditing standards and practices. 	<ul style="list-style-type: none"> Auditor-General must provide report on the financial statements of an agency to the head of the agency. Auditor-General must as soon as practicable after completing an investigation or examination of an agency submit a report to Parliament. Auditor-General must provide a report to Parliament on the audit of government departments and public bodies for the preceding financial year. 	<p>Auditor-General may:</p> <ul style="list-style-type: none"> access all documents and property relevant to an audit require persons to provide information require persons to attend to answer questions or supply documents administer oath or affirmation to verify information provided 	<p>Treasurer (on consultation with Auditor-General) determines fee charged for audit</p>

APPENDIX H

Interstate Associations Audit Frameworks

Interstate Comparison – External Audit

Queensland¹

The Auditor-General is the auditor of all public sector entities including local governments, pursuant to the *Financial Administration and Audit Act 1977* (Qld) and the *Local Government Act 1993* (Qld) - section 532. The majority of audits of local governments' annual financial statements are conducted by contracted private sector auditors as delegates of the Auditor-General. The Auditor-General does not have a mandate to conduct "effectiveness and efficiency" audits but can review any public sector entity's "performance management system" – mainly used for audits of larger government-owned corporation's not local governments. The Auditor-General writes to councils at completion of each audit informing of results, including any recommendations for improved internal control. Annually the Auditor-General submits a report to Parliament summarising results of audits of all local governments. Depending on the nature of any concerns, the Minister or the Department may take these matters up with one or more councils.

Officer level discussion with the Queensland Department of Local Government, Planning, Sport and Recreation indicates positive support for the Auditor-General's role in auditing of Councils. Benefits are seen to be realised in consistency of process and direction in effort required to meet acceptable governance standards. (per discussion with representatives of the Auditor-General of Queensland)

The office of the Queensland Auditor-General advises that cost indications for the audit of individual Councils are not captured and are subsequently unavailable.

Victoria²

Financial statement audits of all local governments are performed by the Victorian Auditor-General, directly or by external audit providers as agents. In the *Local Government Act 1989* (Vic) the word "auditor" is defined in section 3 to mean the Auditor-General.

Where audits are to be carried out by appointed firms, they are selected via a tendering process that includes the Auditor-General's office, and the final audit opinion is signed by the Auditor-General who takes ultimate responsibility for the audit. In the year to 30 June 2006, 62 of Victoria's 79 Councils were audited by appointed auditors with the Auditor-General providing the remaining audits. Generally a premium of 10% is added to successful market tenders from external firms by the Auditor-General. (per discussion with representatives of the Auditor-General of Victoria)

Tasmania³

The accounts and financial statements of a council are subject to Tasmania's *Financial Management and Audit Act 1990*. Councils are audited either by the Auditor-General or by private auditors "with the approval of and subject to any terms and conditions determined by the Auditor-General" pursuant to the *Local Government Act 1993* (Tas) s.85.

When audits are carried out by the private sector, these audit firms are selected via a tendering process that includes the Auditor-General's office, and the final audit opinion is signed by the Auditor-General who takes ultimate responsibility for the audit. In the year to 30 June 2006, six of Tasmania's 29 councils used private sector auditors.

Cost indications for the Tasmania Auditor-General to manage audit of Councils are

- | | |
|--|----------|
| 1. Large Council greater than \$50 million revenue | \$29,000 |
| 2. Medium Council greater than \$10 million less than \$50 Million | \$19,000 |
| 3. Small Council less than \$ 10 million | \$16,000 |

. (per discussion with representatives of the Auditor-General off Tasmania))

Northern Territory⁴

Under the *Local Government Act 1993* (NT) – section 177 – a council may appoint either the Auditor-General or a registered company auditor.

New South Wales⁵

Under the *Local Government Act 1993* (NSW) section 422, a council must appoint an auditor (a registered company auditor, defined to also include the Auditor-General). The Auditor-General is authorised to audit a council's financial reports if the council fails to appoint an auditor or during any vacancy in the office of auditor (section 425). A council auditor can be removed by council within his/her/its 6 year term only with Ministerial consent.

Western Australia⁶

Local Governments appoint their own external auditors – the Auditor-General is not involved. *Local Government Act 1995* (WA) Part 7. Audit committees, consisting of elected members and external advisors, are mandatory. Audit reports go directly to the mayor or president, CEO and Minister. Adverse reports are dealt with by the Department.

A review of audit processes for Local Government is currently being undertaken in WA which includes investigating considerations for involvement of the Auditor-General in an advisory capacity and conduct of quality control on Local Government audits undertaken.

¹⁻⁶ Source: SA Office State/Local Government Relations