



Premier of Western Australia

Our ref: D1600175

Ms Kirsten Robinson
Clerk of the Legislative Assembly
Parliament House
PERTH WA 6000

Dear Ms Robinson

GOVERNMENT RESPONSE TO PUBLIC ACCOUNTS COMMITTEE REPORT NO. 12 *IMPROVING LOCAL GOVERNMENT ACCOUNTABILITY*

I refer to Report No. 12 of the Public Accounts Committee entitled *Improving Local Government Accountability* which was tabled in the Legislative Assembly on 26 November 2015.

In accordance with Standing Order 277(1) of the Standing Orders of the Legislative Assembly, I report to the Assembly the Government's response to the recommendations of the Committee.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Colin Barnett'.

Colin Barnett MLA
PREMIER

24 FEB 2016

**RESPONSE TO RECOMMENDATIONS OF THE LEGISLATIVE ASSEMBLY
PUBLIC ACCOUNTS COMMITTEE REPORT NO. 12 *IMPROVING LOCAL
GOVERNMENT ACCOUNTABILITY***

Recommendation 1

Given its access to key documents and data on compliance trends, the Department of Local Government and Communities recommit to providing sector-wide reporting around the outcomes of the annual Compliance Audit Return Process.

Noted.

DLGC is in the process of establishing a Local Government Management Information System that will facilitate the collection and reporting of a range of local government data, including Compliance Audit Returns. A "My Local Government" website is also under development that will provide the public with access to a range of compliance and performance data at both a local and sector-wide level.

The website will provide a snapshot of each local government, and will include the following data:

- Total revenue by category.
- Expenditure by program.
- Reserve funds.
- Seven financial ratios that provide a composite Financial Sustainability Score.
- Full-time equivalent staffing.
- Compliance audit returns.

The website will also enable local governments and the public to interpret and compare this data against other local governments on both a like-to-like and State-wide basis, using the following data:

- Financial Sustainability Scores.
- Percentage of expenditure by program category.
- Rates and percentage increases in rates.
- Capability as measured against Integrated Planning and Reporting (IPR) Framework benchmarks.

Recommendation 2

The Department of Local Government and Communities make copies of completed probity audits available on its website.

Noted.

Probity and compliance audits are undertaken by DLGC in consultation with selected local governments through a collaborative relationship of trust between both parties. This ensures that the best outcomes can be achieved from the process. The primary purpose of the audits is to monitor statutory compliance and to identify and implement specific business process improvements. In some cases, however, confidentiality may be necessary in dealing with matters that adversely reflect on individual officers or elected members. Publication of these reports could expose the government to potential defamation action.

Nonetheless, other than in the circumstances referred to above, it is current practice for DLGC to request the local government that is the subject of a probity and compliance audit to ensure that the completed audit report is tabled at a full Council meeting. Where this has occurred, DLGC will undertake to publish the report on its website.

Recommendation 3

The scope of the Auditor General's powers be broadened to include powers to audit Compliance Audit Returns submitted by local governments under the requirements of Part 7 of the Local Government Act 1995 (WA).

Not supported.

While there is merit in the Office of the Auditor General (OAG) having a role in reviewing local government Compliance Audit Returns on a periodical, targeted basis, it is not considered feasible or of significant value for the OAG to audit all such returns on an annual basis.

Recommendation 4

The Department of Local Government and Communities ensure that a publicly available reporting regime is established, whereby audit findings are rated on a standardised scale. Similarly, financial and asset management ratios should be presented consistently and in a manner that offers the potential for consistent and comparative analysis.

Noted.

As the Auditor General will be responsible for future financial and performance auditing of local governments, the way in which audit findings are rated and made publicly available will be determined as part of the proposed new arrangements.

With respect to financial and asset management ratios, DLGC is planning to publish the following ratios for each local government as part of the My Local Government website:

1. Current ratio.
2. Asset consumption ratio.
3. Asset renewal ratio.
4. Asset sustainability ratio.
5. Debt service cover ratio.
6. Operating surplus ratio.
7. Own source revenue coverage ratio.

These ratios will form a composite Financial Sustainability Score and will allow comparison with those of other local governments.

Recommendation 5

The Department of Local Government and Communities take steps to improve its approach to following-up local governments regarding compliance with statutory requirements relating to financial reporting and auditing.

In particular, the Department undertake a greater number of probity audits to ensure higher level of compliance among local governments.

Noted.

DLGC responds to all financial and auditing compliance matters according to the level of risk and the Department's judgement of 'risk relativities', taking into account factors such as the size and/or strategic significance of each local government. In most cases, matters can be dealt with satisfactorily in consultation with the relevant local government, without the impost of a full probity and compliance audit.

As indicated in Section 4.2.2 of the Report, follow-up actions may include issue-specific advice and ongoing review by the Department, letters to Council requesting remedial action, a Better Practice Review, a Ministerial direction for a follow-up audit to be conducted, or a full probity and compliance audit. All these interventions are subject to follow-up monitoring by the Department.

Full probity and compliance audits are resource intensive and consideration is being given to the introduction of more narrowly targeted probity and compliance audits that could address specific compliance matters, such as, for example, the lodgement of financial interest returns by elected members and staff.

Recommendation 6

As part of any expansion of powers to cover the conduct of financial auditing of local governments, the Auditor General be given responsibility for preparing a report on local governments similar to the Audit Results Report for public sector agencies.

Supported.

Recommendation 7

The Auditor General's scope of powers be broadened to include financial and performance auditing of local governments in order to raise the standard of accountability applicable to local governments to a level more consistent with public sector agencies.

Supported.

Legislative amendments are currently being drafted to introduce auditing of local governments by the Auditor General.

Recommendation 8

The Department of Local Government and Communities further develop its local government information system so that comparative financial performance benchmark reports of all local governments can be made easily accessible to the public.

Noted.

DLGC is in the process of establishing a Local Government Management Information System that will facilitate the collection and reporting of a range of local government data. As indicated in response to Recommendation 1, the associated "My Local Government" website currently under construction will provide the public with access to local government compliance and performance data, including Financial Sustainability Scores, at both a local and comparative sector-wide level.