



NSW AUDIT OFFICE REPORT

ON LOCAL GOVERNMENT 2019

Last week the Auditor-General for New South Wales, Margaret Crawford, released her report on the Local Government sector. The report focuses on key observations and findings from the 2018-19 financial audits of councils and joint organisations.

Unqualified audit opinions were issued on the financial statements for 134 councils and 11 joint organisations. The audit opinion for Bayside's 2017-18 and 2018-19 financial statements were disclaimed. Three audits are still in progress and will be included in next year's report.

The report highlights a number of areas where there has been improvement. There was a reduction in errors identified in council financial statements and high risk issues reported in audit management letters. More councils have audit, risk and improvement committees and internal audit functions. Risk management practices and fraud control systems have also improved.

The report also found that councils could do more to be better prepared for the new accounting standards, asset management practices could be strengthened, and information technology controls and cyber security management could be improved.

Local government in NSW is big business.

In 2019:

Income \$15.3 billion
Expenditure \$12.4 billion
Assets \$166.0 billion
Liabilities \$7.3 billion

The Auditor-General of NSW became responsible for the audit of all NSW Councils for the year 2016/17. I have first-hand experience of the improvement that has been brought about by the change from local firms auditing councils to them being audited by the Auditor-General. There is now greater consistency in financial statements and the performance audits and Audit Management Letters are helping councils to improve their practices.

As well as auditing financial statements, the AG undertakes performance audits that examine a small number of specific topics across councils looking for opportunities to improve public-sector accountability, governance and administration. They also consider the risks and challenges to councils in the Local Government sector and how these may be addressed.

The 2019 report on financial audits highlights how councils can:

- Strengthen the quality and timeliness of financial reporting
- Improve governance and internal controls
- Strengthen IT controls and cyber security management
- Improve asset management practices

Cyber security is an increasingly complex issue for all organisations as I know from my role as a director of a local incorporated association.

An auditor's report provides an opinion on the validity and reliability of an organisation's financial statements to give assurance to the owners, members and stakeholders of that organisation that the people who are managing the organisation on their behalf are presenting a true and fair

view of the results of their management.

I started out as an auditor in the private sector 41 years ago while training as a Chartered Accountant. The Auditor is there to perform an independent audit for the members or owners of an organisation but because they deal with the Directors during the audit, and the Directors make the recommendation to the Annual General Meeting of the organisation about the appointment of next year's auditors, it is very easy to become a little too close to the management. The owners, shareholders or members of the organisation are people the auditor does not tend to meet very often, while they have regular contact with the management.

I have encountered this issue where I used to audit a company like Bunnings in England whose year end was 31st December and they had thousands of lines of products, so the annual stocktake took place over the Christmas and New Year period. I was there at the same time as auditor to make an independent check that the stocktake was accurate. After three years of this, the staff held a party for me when they heard I was leaving my accountancy firm!!! Whilst I maintained my independence in my work this could easily be seen as the auditor not being independent as I was far too popular!

I have been the CEO of organisations that are closely connected to local government, and I have seen the Directors chose an inappropriate auditor as they knew that the auditor would accept their word rather than undertake a fully independent inspection on behalf of the members.

It was my experience in one Council that in the final year (2015 -16) before the Auditor-General of NSW took over the audits of NSW Councils the auditor undertook a much more thorough audit than usual and discovered anomalies with the misuse of the corporate credit card that resulted in him qualifying the accounts for that year. Qualifying the accounts is a serious matter but because it was reported to Council just after the 2016 elections, new Councillors did not understand the seriousness of the issue. It took a long time before two of the more experienced Councillors managed to ensure that the potential corruption and fraud involved reached the light of day by exercising their rights to go to the media after they had exhausted every other avenue.

As a result, the Auditor General was tasked by the Minister for Local Government in November 2018 with undertaking a Statewide performance audit of credit card usage at local councils. In the report on Local Government 2019 she says:

The former Minister for Local Government requested we conduct a performance audit over credit card usage at local councils given the alleged misuse of a credit card at a rural council. This audit is scheduled to be tabled in Parliament during the second quarter of 2020. The audit will assess the effectiveness of credit card management practices at six selected councils, including testing the effectiveness of their policies in practice.

I am looking forward to that report. In the meantime, the following information is included in the AG's 2019 report

Credit card management	%
Council has a periodic credit card acquittal process, which requires cardholders to provide receipts or other supporting documentation	98
Credit card reconciliations are reviewed by an appropriate delegated authority	94
Credit card reconciliations are reviewed in a timely manner	93
Council has a corporate credit card policy	92
New cardholder is required to sign the agreement of terms of use	87
Corporate credit card policy is current	82

The AG provides each Council with an Audit Management Letter raising issues. These letters should be made public, and I will look at how each of our three local councils deal with that in a future column.

This diagram summarises the issues that have been raised with councils in the 2019 audits:

Audit Matters Raised with Councils 2019

Information technology	41%
Asset management	17%
Financial reporting	13%
Financial accounting	11%
Purchasing	8%
Other	10%
	100%



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In 2019 1,947 issues were raised with councils compared with 1,728 in 2018. In 2019, 71 high risk issues were raised compared with 83 in 2018.

If you would like to read the report yourself, you can find it at: <https://www.audit.nsw.gov.au/our-work/reports/report-on-local-government-2019>

I have received feedback that many people find these columns informative and I am happy to receive comments from readers about this column and other issues you would like me to cover so please either contact me at Orange City Life or aes@amandaspaldingconsulting.com