

# Setting local government audit fees

Western Australia local government auditing  
May 2020



This information sheet deals with the drivers for OAG financial audit fees and outlines the benefits that this Office aims to bring the sector through its audit work. In time, we hope to see enhanced governance mechanisms and strong financial controls along with a streamlining of financial reporting requirements, resulting in minimised financial reporting and audit costs overall.

## Why the OAG audits local government

In 2017, legislation was passed requiring the Auditor General to audit local government (LG) entities. This was in response to recommendations by the Public Accounts Committee, and brought WA in line with other States.<sup>1</sup> The Minister for Local Government noted that the legislation would:

[...] address issues concerning the lack of accountability and transparency in some local governments. There is absolutely no reason why local governments should not have the same accountability standards as State Government departments and agencies. This legislation brings them in line with the rest of the public service and other jurisdictions.<sup>2</sup>

When the Select Committee for Local Government was established in June 2019, a Member of Parliament noted that “We are already seeing dividends from the greater scrutiny offered by the Auditor General.”<sup>3</sup>

## OAG audit quality and value

The OAG charges financial audit fees for State and LG entities on a cost recovery basis, that is, we do not make a profit. Performance audits are funded by appropriation from the Parliament of Western Australia. In order to provide the high standard of assurance and communication expected by Parliament and the community, OAG financial audits are more involved in both coverage and reporting than the sector has previously experienced.

### Audit design, quality and accountability

Every OAG audit is fully resourced to deliver a high quality financial audit that meets Australian auditing standards and Western Australian legislative requirements. Based on information from audit firms, some LGs and our own review of files, it appears that competition among private sector audit firms may have previously resulted in tender prices that represented ‘bare minimum’ financial auditing, and which would not meet the standards required and expected for OAG audits.

Furthermore, we have found that in most cases, additional fees were incurred for other services delivered by the auditor, so direct comparison of the previous financial audit fee and the OAG fee is not possible. In particular, as part of our annual financial audit, we conduct controls assessments under auditing standards and include this cost in our overall fee. Audit firms have traditionally charged local governments for the controls assessments required under the *Local Government Act 1995*, separate to the financial audit fee. We have made a recommendation to the Department of Local Government, Sport and Cultural Industries that controls assessments should not be a separate task and cost to be incurred by LG entities, but rather form part of a robust financial audit.

We have also seen that, now they are under the OAG’s supervision, grant acquittal and certification costs that are charged separately to the financial audit fee are lower overall.

As with our State sector financial audit program, additional reporting to the Parliament, appearances before and submissions to committees, and input on matters such as the LG financial framework, as well as liaison with peak bodies and the Department is required. This is time incurred by senior OAG officers for the benefit of the sector overall.

<sup>1</sup> [New auditing laws raise local government accountability standards](#)

<sup>2</sup> [Independent oversight to improve local government standards](#)

<sup>3</sup> [Hansard extract, Select Committee into Local Government – Establishment, 26 June 2019](#)

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## Local government accounting and reporting practices

Although our audit fees are determined on a cost recovery basis, we may need to charge additional fees for work that was not anticipated during our original audit cost estimate, if:

- financial statements and/or the evidence supporting them are provided to us in an unsatisfactory condition, or
- there have been significant errors of complex accounting judgement.

We do endeavour to keep additional fees to a minimum across the State and LG sector and regularly absorb small excesses, as do our contract firms.

We continue to identify inconsistent approaches across the LG sector to key accounting practices, such as asset valuation methodologies or accounting treatment for bonds. This leads to differing standards of financial controls and reporting, and varying levels of susceptibility to financial mismanagement or reporting errors, requiring a great deal of engagement and direction on the part of our staff, including the release of position papers or comprehensive letters to CEOs. Senior OAG staff also spend a significant amount of time engaging with some LGs to communicate the seriousness of certain management letter findings.

## Enduring benefits for the sector

A number of initiatives, made possible by having one auditor for the sector, aim to increase support and reduce unnecessary red tape across LGs.

The OAG has been consistent in advocating for a reduced financial reporting burden for the LG sector. In our [2020 annual report on LG financial audits](#), we made a number of recommendations which provide opportunities for streamlining LG accounting practices and reassessing the amount of detail required to be included in annual financial reports for small and medium sized entities. Such improvements would in future help stabilise annual financial reporting and audit costs.

Our [LG focus area and performance audits](#) on topics such as procurement and fraud provide examples to support small and large entities. These audits are funded by appropriation from the State Parliament. We also include [better practice guidance](#) in our performance audit reports to help LGs, including those not audited, to implement sound processes in a cost-effective manner.

As we take on the last of the 148 LG audits, the OAG and our contract audit firms are becoming more acquainted with the size differences, regional particularities and other complexities across the LG sector. We are seeking to allocate a region to 1 or 2 audit firms to reduce travel costs, as auditors can visit several LGs in one trip. This should also promote consistent financial management advice and build local expertise and skills across a region.

## COVID-19 impact on audit work and fees

The OAG is aware that audit requirements are just one of many considerations for the LG sector as entities endeavour to continue delivering services while focusing on response and recovery in their local economies. While we cannot change *what* we audit (particularly for financial audits), please be assured that we will work with your officers around the *how* and *when*, especially in terms of arranging access to relevant staff and information.

At the time of writing, to provide a small level of certainty, the OAG aims to maintain financial audit fees for LGs at the same level we set in 2019. When we review audit costs in September 2020, we will assess the impact of COVID-19 on our auditing processes. We note there may not necessarily be savings in the current year from increased remote auditing due to additional time spent by auditors (and entity staff) clarifying information requirements and verifying what's been sent electronically when next back on-site.