



Office of the Auditor General Western Australia

# Local Government Audit

## Frequently Asked Questions

Serving the Public Interest



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# General

## What is the Auditor General's mandate regarding local government?

The Auditor General has been given the mandate to:

- audit the annual financial reports of WA's 148 local governments and regional councils (LG entities)
- conduct performance audits of LG entities
- perform supplementary audits requested by the Minister for Local Government
- report to Parliament on the results of financial and performance audits.

## Why has the Auditor General been appointed as the auditor of LG entities?

Parliament expects this will raise the standards of accountability for LG entities to a level more consistent with State government entities. This follows recommendations by the Public Accounts Committee and the Corruption and Crime Commission.

The change brings Western Australia in line with most other Australian jurisdictions and New Zealand.

Read the Government's media statement: [New auditing laws raise local government accountability standards](#).

## When did the Auditor General's appointment as local government auditor start?

The *Local Government Amendment (Auditing) Act 2017* was proclaimed on 28 October 2017.

Performance audits could start from this date while there was a 4 year staged transition for financial audits as LG entities' existing audit contracts expired. By the financial year 2020-21, all LG entities will be audited by the Auditor General, regardless of whether or not their existing audit contracts have expired.

## Does the OAG have the expertise to audit LG entities?

Our Office is made up of highly trained, professional, qualified and experienced auditors and support staff who are well placed to perform LG entity financial and performance audits. The expertise our staff have developed auditing State government entities puts us in a strong position to add value to the local government sector.

We have an ongoing comprehensive and highly valued professional development program for staff which includes specific local government training and awareness topics.

We currently contract out about 35% of our State government financial audits to private sector audit firms and therefore have the experience to contract manage outsourced LG entity financial audits.

Many of our auditors have direct local government experience from previous jobs and from working on OAG financial and performance audits that crossed into local government activity. These audits include: [Pilbara Underground Power Project](#); [Royalties for Regions – are benefits being realised?](#); [Safe and Viable Cycling in the Perth Metropolitan Area](#) and [Western Australian Waste Strategy: Rethinking Waste](#).

## **How does the Auditor General report the results of financial and performance audits of LG entities?**

The results of individual LG entity financial audits are reported to the mayor/president/chair and CEO. The entity is required to publish the auditor's report with their annual financial report on its website. If the Auditor General has reported other significant matters, then the LG entity is required to report the action it has taken about the matters to the Minister for Local Government and publish a copy of that report on its website.

We report to Parliament on the results of all LG entity financial audits in a similar way to how we report for State government entities. The report includes details of the audits completed, information about significant accounting, control, and information technology issues identified, and relevant financial ratios and other statistics. See our [first local government Audit Results Report here](#).

The results of performance audits are reported in a similar way to our performance audits of State government entities. Our [Local Government Procurement](#) report is an example of how the results of our performance audits are presented to Parliament and LG entities.

## **Will this mean fewer audits of State government entities?**

No, we will continue to conduct annual financial audits of all State government entities.

## **Who audits the Auditor General?**

Many people do! We are subject to various internal and external review processes which we value as they provide us with assurance that our processes are effective, efficient and evolving. View our [Annual Report](#) for more information.

## **Can I subscribe to receive reports produced by the Auditor General?**

Yes, [sign up here](#) to be notified by email when we table a report in Parliament.

## **Can we make management letters public?**

Sometimes during our planning or interim audit visit, we issue interim management letters to the CEO and mayor/president/chairperson, to provide them early advice of our audit findings, to enable them to take timely remedial action.

We regard these as working documents until we issue them formally to the mayor, president or chairperson, the CEO and the Minister for Local Government as part of our final report. They are not suitable for other purposes.

As such, LG entities should not make interim management letters public unless specific urgent needs warrant their earlier release.

## **What is an audit report in relation to a local government financial audit and a local government performance audit?**

It is important to know what an audit report is because LG entities have obligations under the *Local Government Act 1995* relating to an audit report. Section 7.12A requires a LG entity to examine an audit report it has received and take action on any matters raised in the audit report, if required.

If the auditor has identified any matters as significant, the LG entity must prepare a report stating what action will be taken with respect to those matters. A copy of the LG entity's report must be sent to the Minister for Local Government and published on the LG entity's website as required by section 7.12A(5) of the Act.

For financial audits, an audit report includes:

the independent auditor's report (which is to be included in the annual report)

interim and final management letters (which are not required to be published).

For performance audits, an audit report includes the reports tabled in Parliament for performance audits and focus area audits.

When conducting performance audits, we may send various documents to a LG entity including management letters, emerging or indicative findings, and summary of findings. We have determined that it is a LG entity's responsibility to decide whether these documents are an audit report for the purposes of the *Local Government Act 1995*.

### **What is a significant matter in an audit report?**

A significant matter is a matter clearly identified by the auditor as significant in an audit report (e.g. a management letter).

For the independent auditor's report, a significant matter includes:

- a matter included in the Basis for Qualified Opinion section
- a matter (i.e. a deficiency) included in the Report on Other Legal and Regulatory Requirements section.

For performance audit reports tabled in Parliament, a significant matter includes the recommendations in the reports. We identify recommendations as significant matters by including the following paragraph in these reports.

Under section 7.12A of the *Local Government Act 1995*, sampled LG entities are required to prepare an action plan addressing significant matters arising from the audit relevant to their entity. This action plan should be submitted to the Minister for Local Government within 3 months of the audit report being received by the local government, and published on the LG entity's website within 14 days after giving the action plan to the Minister.

# Complaints, referrals and enquiries

## Can community members make a complaint about a LG entity to the Auditor General?

The Auditor General welcomes feedback from the community about LG entities in relation to our role in auditing LG entities' annual financial reports or conducting performance audits. However, the Auditor General does not report back to members of the public on the outcomes of any investigation or other work on complaints. Therefore, individual concerns about one-off issues are generally better directed to other more appropriate integrity agencies such as the [WA Ombudsman](#), [Public Sector Commission](#) or the [Corruption and Crime Commission](#).

You can find information about making a complaint on our [contact us page](#).

## Can a public official make a complaint about a LG entity to the Auditor General?

A public official can make a complaint in the same way as a member of the general public, which includes the option of making a public interest disclosure under the [Public Interest Disclosure Act 2003](#). This Act sets in place a system to encourage people to report serious wrongdoing without fear of disciplinary action, dismissal or being sued for defamation or breach of confidence.

The Office of the Auditor General is the appropriate authority to receive public interest disclosures that relate to substantial unauthorised or irregular use of, or substantial mismanagement of, public resources. For other kinds of public interest disclosures the OAG is not the correct authority. More information about making a public interest disclosure is available from the [Public Sector Commission website](#). Details about making a disclosure to the Auditor General are on our [contact us page](#).

## How can I make a complaint about a LG entity?

In the first instance you should always direct your complaint to the LG entity concerned. Their websites usually have details on how to make a complaint.

There are also other complaint handling agencies that may be able to better deal with your complaint:

- [WA Ombudsman](#) investigates complaints about the decision making of WA public authorities including State and LG entities, statutory authorities and public universities
- [Corruption and Crime Commission](#) investigates allegations of 'serious' misconduct by public officers, including those in the local government sector
- [Public Sector Commission](#) deals with allegations of 'minor' misconduct including LG entities
- [Department of Local Government, Sport and Cultural Industries](#) investigates complaints about LG entities' non-compliance with the LG Act and regulations, and complaints about members of council.

## Can I make a complaint about the OAG or its staff?

While we hope you never have to make a complaint about us, we certainly welcome your views even if they are critical of us or our staff. Details about how to submit a complaint are on our [contact us page](#). You can be assured that we take all complaints against us seriously and have a comprehensive complaint management policy in place to act on these.

# Financial audit

## What are financial audits?

Financial audit is the audit of an entity's financial statements and associated audits. For State government entities a financial audit includes the audit of their financial statements and where applicable their controls and key performance indicators. For LG entities a financial audit refers to the audit of their annual financial report and any other matters required by the local government audit regulations.

## How will the Auditor General improve the quality of local government financial audits?

The Auditor General conducts a much broader financial audit than previously received by most LG entities. Our audits provide greater transparency about controls, probity and governance matters.

Previously, external auditors were engaged by LG entities following a tender process with the lowest quote generally the successful tenderer. The decision on the scope and level of assurance provided by the audit often came down to the cost of the audit. This has led to varying levels of audit with some LG entities traditionally choosing to go for a low-cost minimum audit.

We don't do minimum audits. The OAG will apply the same high level of rigour across the entire local government sector as we do currently for the State government sector.

## Will your audit fees be much more than LG entities are currently paying?

LG entities we have audited in the first 3 years of transition have generally found our audit fees to be considerably higher than they had paid previously. This is primarily because the Auditor General conducts a much broader financial audit than currently received by most LG entities. Our audits will give assurance on financial statements and provide greater transparency about financial controls, probity and governance matters.

## How will the OAG determine fees for LG entity audits?

Quite simply our fees are set purely to recoup the full cost of conducting a financial audit. The fee is based on the staff hours used on the audit plus any directly related costs such as contract fees and travel expenses.

## Will all financial audits be conducted in house? Does the OAG have the capacity to take on all WA LG entities?

The majority of LG entity financial audits will be contracted out to accredited audit firms with oversight and signing by the Auditor General.

Auditors General outsourcing audits is common practice across jurisdictions and is something we currently do for State government entity audits. Our contract management processes will ensure that outsourced audits are efficient and cost effective and meet the OAG audit quality standards.

## What are the benefits of contracting out?

We have been contracting out audits for many years. The many benefits for the OAG and our auditees, include:

- allowing us to better respond to the risks and needs of our clients

- partnering with accredited audit firms to develop innovative audit practices
- accessing specialist knowledge or skills we might not have or is costly to maintain
- learning from accredited audit firms to improve our audit processes, quality and reporting
- providing a mechanism for us to benchmark our cost effectiveness, audit processes, quality and reporting
- allowing us to complete and report on all audits in a timely manner.

### **Will the OAG or its contract auditors be able to do other ‘non-audit’ work for LG entities?**

For ‘other work’ at LG entities including internal audit, consultancy, preparation of financial statements, or advice about specific transactions, the general rule is that, for independence reasons the auditors cannot audit their own work. We recognise there may be instances in regional areas with limited access to other accounting firms in that area, where our audit teams may need to provide contained additional guidance. In these instances, we will need to apply additional safeguards to ensure the independence of those staff/contract firms performing the OAG’s audit.

Contract audit firms will generally be able to do other statutory/regulatory audit tasks such as grant acquittal certifications, including Royalties for Regions certifications. Using the same audit team typically has efficiencies, although it will not be mandatory for LG entities to use our staff or contractors for that certification work.

### **Will the OAG or its contract auditors be able to provide advice and training to local government entities that they are auditing?**

Contract audit firms performing financial audits on our behalf for State government entities typically offer general training in accounting and other matters. Some also provide general guidance such as model financial statement formats. Our approach will be no different for our LG entity audits. Contract firms working for the OAG will be able to provide general advice and guidance, including those that they are auditing on our behalf. However, to maintain independence, our OAG staff and contractors will not provide detailed advice on how to perform a financial/accounting transaction that is specific to the particular LG entity they are auditing.

### **Who pays for the financial audit?**

Under the *Local Government Amendment (Auditing) Act 2017*, the Auditor General is to determine the amount of audit fees for financial audits. The OAG will invoice the LG entity who will pay the audit fees direct to the OAG. This arrangement is similar to the current practice for State government entities. The fees will be based on cost recovery. If a contract audit firm is used, the contract will be between the firm and the OAG, so the OAG will pay the contract fee to the firm.

# Performance audit

## What are performance audits and why are they important?

The role of the Auditor General is not simply about ensuring public money is spent according to the rules – it is also about ensuring that the community receives value for its tax dollars. Our performance audits primarily focus on the effective and efficient management and operation of public sector programs and activities. Topics are selected by the Auditor General following a comprehensive [topic selection process](#) which may also include requests for audits from Parliament, the government or the broader community.

We table the results of our performance audits in Parliament and publish them on our website. These reports often receive media attention and are regularly referred to in parliamentary debate. This increases transparency and accountability of public sector activities and encourages all public sector entities (not just those audited) to pay attention to and act on the findings and recommendations of these reports.

## How many performance audits of LG entities would you want to do each year?

Unlike financial audits, which are paid for by each entity to cover the cost of doing the audit, performance audits are funded by Parliamentary appropriation. The number and size of performance audits is therefore determined by the level of appropriation received and the priority given to these by Parliament. We publish our [audit program](#) on our website and this will be updated as local government audit topics are determined.

## Will all LG entities be subject to a performance audit?

The Auditor General has a comprehensive [topic selection process](#) in place to choose audit topics. While we would eventually like to involve every LG entity in a performance audit, this is not possible in the short term and may not actually be the most effective use of our resources. In choosing topics we consider factors such as risk, materiality and impact, which may lead to some LG entities being involved in multiple audit topics while others will be rarely involved.

Importantly, the findings and recommendations of our local government performance audits will often be applicable across the sector, and not just to those subject to the audit.

## Who decides performance audit topics, and how?

The Auditor General decides the performance audit topics, and the entities to be audited. The OAG has a comprehensive [topic selection process](#).

You can contribute to our list of topics by suggesting one via our [contact us page](#).

## How does the OAG ensure performance audits are fair and balanced?

The Office of the Auditor General's [Audit Practice Statement](#) provides a detailed description of the principles we apply in conducting our audits.

The 5 key principles that guide our audit work are:

- all audits are conducted in accordance with auditing standards
- the highest standards of ethical and personal behaviour are demonstrated
- all audits are approached in a fair and constructive way
- audits are conducted and reported in an impartial manner

- matters of significance arising from audits are reported to Parliament.

We work closely with the entities we are auditing and have a 'no surprises' approach, which means they are made aware of potential audit findings as our work progresses and they are given the opportunity to respond and comment on the report before it is finalised. This approach helps ensure we end up with a report that is fair, balanced and accurate.

### **What performance audits does the OAG have planned for LG entities?**

Our [audit program](#) is regularly updated with audit topics as they are approved by the Auditor General.

### **Who pays for performance audits?**

Unlike financial audits, which are paid for by each entity to cover the cost of doing the audit, performance audits are funded by Parliamentary appropriation.

### **When will we find out if our LG entity is being audited as part of a performance audit?**

Audit topics that have been approved through our topic selection process and are likely to commence as audits in the next 12 months will be listed on our [audit program](#). Entities selected to be included in the audit will be contacted directly at the start of the audit process.

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