

Report on Local Government 2018

28 FEBRUARY 2019



NEW SOUTH WALES AUDITOR-GENERAL'S REPORT

SECTOR REPORT

THE ROLE OF THE AUDITOR-GENERAL

The roles and responsibilities of the Auditor-General, and hence the Audit Office, are set out in the *Public Finance and Audit Act 1983* and the *Local Government Act 1993*.

We conduct financial or 'attest' audits of State public sector and local government entities' financial statements. We also audit the Total State Sector Accounts, a consolidation of all agencies' accounts.

Financial audits are designed to add credibility to financial statements, enhancing their value to end-users. Also, the existence of such audits provides a constant stimulus to entities to ensure sound financial management.

Following a financial audit the Audit Office issues a variety of reports to entities and reports periodically to parliament. In combination these reports give opinions on the truth and fairness of financial statements, and comment on entity compliance with certain laws, regulations and government directives. They may comment on financial prudence, probity and waste, and recommend operational improvements.

We also conduct performance audits. These examine whether an entity is carrying out its activities effectively and doing so economically and efficiently and in compliance with relevant laws. Audits may cover all or parts of an entity's operations, or consider particular issues across a number of entities.

As well as financial and performance audits, the Auditor-General carries out special reviews and compliance engagements.

Performance audits are reported separately, with all other audits included in one of the regular volumes of the Auditor-General's Reports to Parliament – Financial Audits.

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In accordance with section 421D of the *Local Government Act 1993*, I present a report titled '**Report on Local Government 2018**'.

A handwritten signature in black ink, appearing to read 'Margaret Crawford'.

Margaret Crawford

Auditor-General
28 February 2019

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Section one

Report on Local Government 2018

This report analyses the results of the financial statement audits of New South Wales councils in 2017–18.



Executive summary

This report analyses the results of our audits of financial statements of local councils for the year ended 30 June 2018. The table below summarises our key observations and recommendations.



1. Introduction

Local Government sector

New South Wales has 138 councils: 128 local councils serving a geographical area and ten county councils formed for a specific purpose.

This report includes the 2017–18 financial audit results of 135 out of 138 councils and the result of the 2016–17 financial audit of Bayside Council.

Joint Organisations

On 30 November 2017, the NSW Government amended the *Local Government Act 1993* (the Act) to allow councils in regional NSW to form Joint Organisations (JOs). The Act makes the Auditor-General the auditor of JOs from 2018–19 onwards.

Service delivery

Each council provides a range of services, influenced by its population density, demographics, economy, geographic and climatic characteristics. These differences influence the financial profile of councils.



2. Financial reporting

Quality of financial reporting

Unqualified audit opinions were issued for 135 out of 138 council's 2017–18 financial statements. The audits of three councils are in progress. Next year's Report to Parliament will include the outcome of these incomplete audits.

We disclaimed the audit opinion for Bayside Council's 2016–17 financial statements as management were unable to confirm that the financial statements present fairly the performance and position of the Council.

The overall quality of the financial statements needs to improve. Across the sector, our audits identified:

- 7 high-risk and 85 moderate-risk findings on financial reporting processes
- 60 prior period errors totalling \$2.4 billion that required adjustment to the financial statements
- 512 corrected and uncorrected errors with a total value of \$1.4 billion.

Timeliness of financial reporting

The timeliness of financial reporting improved, with 111 councils (100 councils in 30 June 2017) submitting their financial statements before the 31 October 2018 statutory reporting deadline. However, more councils submitted their financial statements during the last week of October.



3. Governance and internal controls

Internal controls

We reported 83 high-risk findings in our management letters.

Recommendation: Councils should reduce risk by addressing high-risk findings as a priority.

Governance

There has been an increase in the number of councils with an audit, risk and improvement committee or an internal audit function compared with the prior year. Seventy per cent of councils have an audit, risk and improvement committee (62 per cent at 30 June 2017) and 67 per cent of councils have an internal audit function (62 per cent at 30 June 2017).

Councils can strengthen policies and practices for procurement, contract management, risk management and legislative compliance.

Councils can improve internal controls over revenue, purchasing, payroll, Treasury, manual journals and reconciliations.



4. Information technology

High-risk issues

We reported 39 high-risk findings relating to information technology.

Governance

Ninety-four councils have not formalised all policies which manage key information technology (IT) processes. Where policies are formalised, 78 councils are not reviewing the policies to ensure they are up to date.

Sixty-five councils do not register their IT risks and 44 councils do not regularly report IT risks to management and those charged with governance.

IT general controls

Our audits identified:

- user access management to IT systems need to be improved
- privileged access is not adequately restricted and monitored
- control weaknesses over changes to IT systems.

Managing service providers

Seventy-two councils outsource at least one IT function to a third-party service provider. Of these:

- 26 councils do not have a complete and accurate inventory of IT service providers engaged, along with corresponding services provided
- 49 councils did not perform an adequate risk assessment before engaging the IT service provider
- 51 councils do not have clearly defined key performance indicators (KPI) in the Service Level Agreements (SLA) with the IT service provider
- 36 councils do not periodically assess the performance of the IT service provider.



5. Asset management

High-risk issues

We reported 21 high-risk findings relating to councils' asset management and accounting practices.

Asset management planning

Most councils comply with the requirement to prepare an asset management strategy, policy and plan. However, the quality of these critical planning documents could be improved.

Recommendation: Councils' asset management policy, strategy and plan should comply with the *Local Government Act 1993* and the Integrated Planning and Reporting Guidelines issued by the Office of Local Government.

Asset valuation process

We noted deficiencies in the asset valuation processes resulting in significant errors to the financial statements of \$2.6 billion, including \$1.9 billion of prior period errors.

Our audits found:

- 63 councils did not formally re-assess the remaining useful lives of infrastructure assets
- useful lives of similar assets varied across councils
- 16 councils recorded residual values for road assets, which did not comply with the requirements of Australian Accounting Standards.

Asset management systems

The accuracy and completeness of councils' asset register data can improve. We found discrepancies between councils' Crown land asset records and the Crown Land Information Database (CLID) managed by the Department of Industry. Five councils recorded \$225 million of previously unrecorded Crown land assets.



6. Financial performance and sustainability

Operating performance and revenue

Operating expenses of 33 councils exceeded operating revenue.

Forty-six councils did not meet OLG's target of 60 per cent for own source operating revenue.

Liquidity and working capital

Most councils met the liquidity and working capital performance measures over the last two years.



1. Introduction

1.1 The Local Government sector

Local Government is the third tier of government. It is established under state legislation, which defines the powers and geographical areas each council is responsible for. There are 128 local councils and ten county councils in New South Wales.

Each council is a statutory corporation. Elected councillors form the governing body to direct council affairs in line with the *Local Government Act 1993* and *Local Government (General) Regulations 2005*.

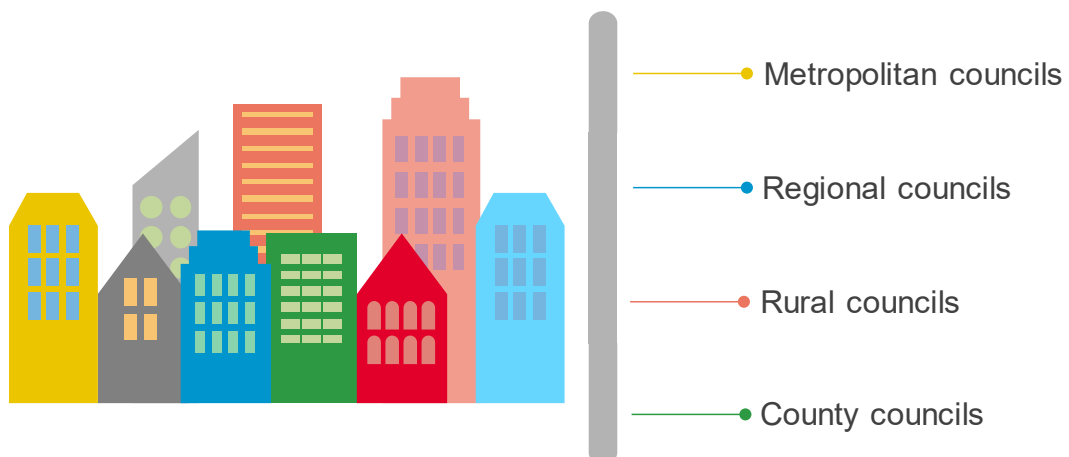
Local councils provide services and infrastructure for a geographical area. County councils are formed for specific purposes such as to supply water, manage flood plains or eradicate noxious weeds.

This report details the results of 2017–18 financial audits of 135 out of 138 councils. It also includes the result of the 2016–17 financial audit of Bayside Council which was completed this year.

In preparing this report, the comments and analysis are drawn from:

- audited financial statements
- our performance audit reports
- data collected from councils
- audit findings reported to councils
- data from the Office of Local Government and the Australian Bureau of Statistics, including population, kilometres of roads and council area.

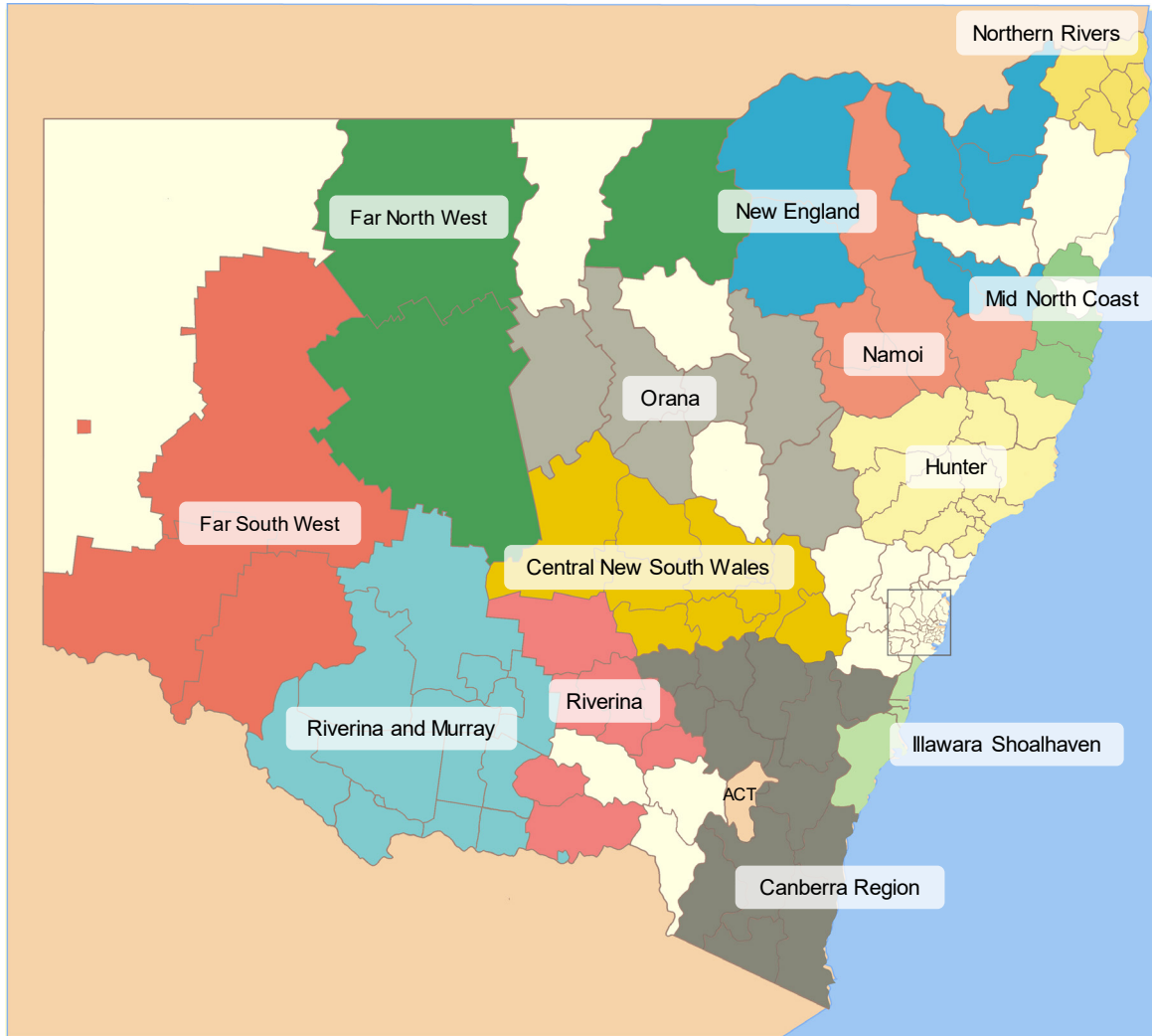
In NSW, councils are classified into four groups – metropolitan, regional, rural and county. Further details are provided in Appendix four.



1.2 Joint Organisations

On 30 November 2017, the NSW Government amended the *Local Government Act 1993* (the Act) allowing councils in regional NSW to form Joint Organisations (JOs). The JOs will be required to prepare financial statements for audit by the Auditor-General from 2018–19 onwards.

Eighty-five councils in regional NSW are members of 13 Joint Organisations.



Notes:

- 1 Metropolitan councils are excluded for Joint Organisations.
- 2 Refer to Appendix seven for a list of the 13 Joint Organisations and their member councils.

The core activities of JOs include regional strategic planning and priority setting, regional advocacy and collaboration with the State and Australian Governments. In addition, JOs can also engage in shared services with neighbouring councils.

Our recent audit '[Shared Services in Local Government](#)' found most councils are not efficiently and effectively engaging in shared services. This is due to three main factors:

- some councils do not have the skills and capability required to establish and manage shared arrangements
- not all councils assess the performance of their current services before deciding on the best service delivery model
- existing governance models used by councils to share services are not subject to the same checks and balances, risking transparency and accountability.

There are opportunities under the Joint Organisation model for councils to engage more efficiently and effectively in shared services.

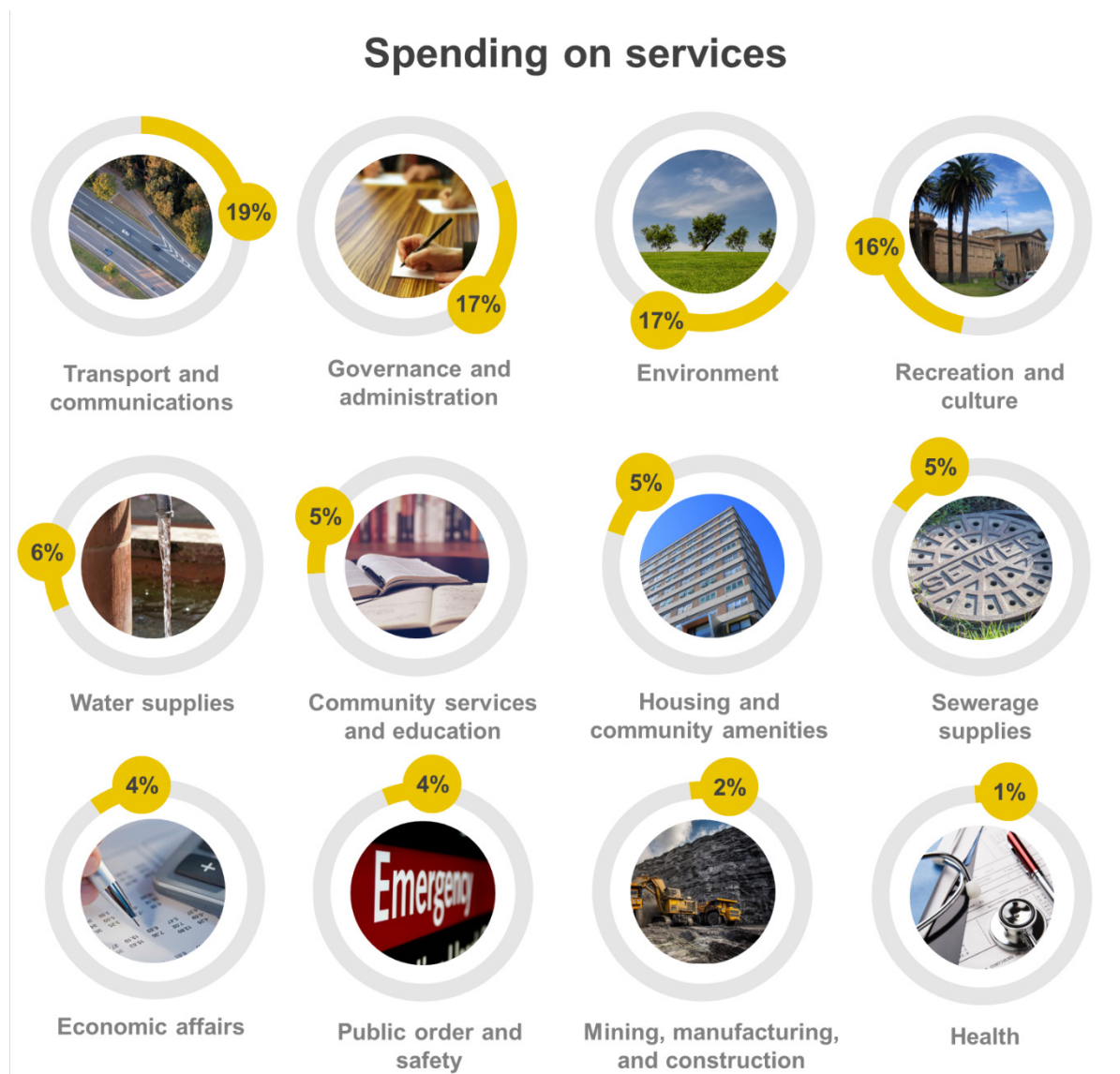
1.3 Service delivery

Councils invest significant resources to deliver a wide range of services to the community. These include waste collection, planning, child and family day care, and recreational services. Councils also build and maintain infrastructure, including roads, footpaths and drains, and enforce various laws.

Council services vary depending on community needs

While core functions, such as waste collection, are similar across councils, the range of services each council provides is variable. The mix is influenced by population density, demographics, the local economy, climate and geographic characteristics.

The following graphic shows councils' expenditure by function in 2017–18.



Note: Appendix eight provides further information on council expenditure by function.

In 2017–18, councils collectively reported expenditure of \$11.4 billion. A large proportion of these funds was spent on the following:

- \$2.2 billion on transport and communications, including sealed and unsealed roads, bridges, footpaths, parking areas and aerodromes
- \$2.0 billion for governance and administration, including corporate and support services, engineering works, council elections, meetings and policy-making committees, members' fees and expenses, subscriptions, public disclosures and legislative compliance
- \$1.9 billion on the environment, including waste management, sanitation and garbage, street cleaning, drainage and stormwater management, and environmental protection
- \$1.8 billion on recreation and culture, including public libraries, museums, art galleries, community centres, public halls and performing arts venues, sporting grounds and venues, swimming pools, parks, gardens and lakes.

1.4 Audit Office Annual Work Program

In addition to forming an opinion on the financial statements of councils, our audits examine a small number of specific topics across councils. We determine which topics to consider by looking for opportunities to improve public-sector accountability, governance and administration. We also consider the risks and challenges to the Local Government sector and how these may be addressed during our audits.

This year, our 2017–18 financial audits focused on:

- Procurement practices and contract management (see Chapter 3)
- Controls over IT systems (see Chapter 4)
- Valuation of infrastructure, property, plant and equipment (see Chapter 5).

The following performance audits are also underway and due to be completed this year:

- Amalgamation: Managing staffing implications
- Waste management in Local Government
- Council's management of development assessments.

1.5 Interactive data tool

We have summarised key financial information included in all council audited financial statements into an interactive data tool.

This is designed to assist users of council financial statements to better understand and compare financial information across councils. It is available on our website and includes the following information for each council:

- revenue, expenditure, operating result, asset and liability data
- key financial performance and sustainability indicators
- minimum, median and maximum values within selected council groupings.

While this information can assist users to compare and understand a council's financial performance and position, a conclusion on good or bad performance cannot be drawn from this data alone.

The 2017–18 financial statement data used in the tool is summarised in Appendix five of this report. It excludes financial statement data for three councils as the audits have not been completed.

The Office of Local Government advised that the Minister for Local Government will consider releasing a website for councils to compare and benchmark council information. This may form part of the Office of Local Government's future performance management framework.

FINANCE REPORT

ACCOUNT REPORT

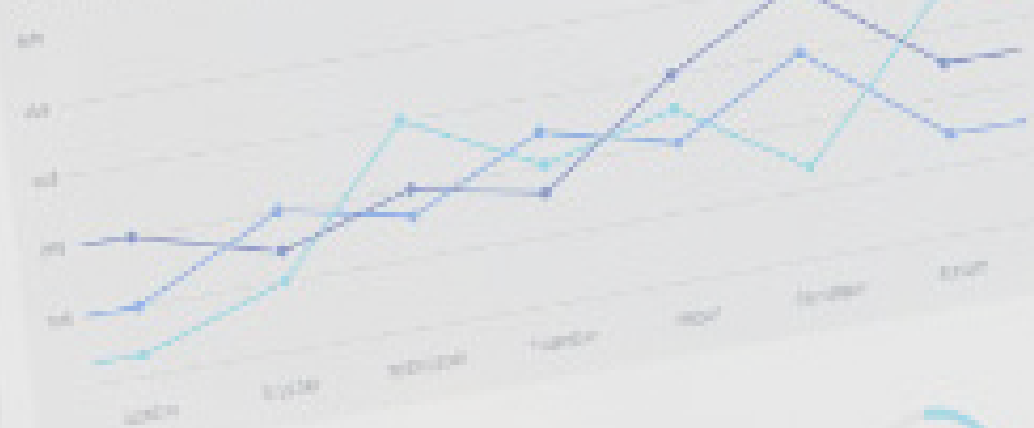
DASHBOARD +

INCOME

OUT GOING

DASHBOARD > INCOME

DAY WEEK MONTHLY



TOTAL INCOME



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LIVE ITEMS SHIPPED 15.15 MB TAXES TOTAL 2.74 MB



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Financial reporting



2. Financial reporting

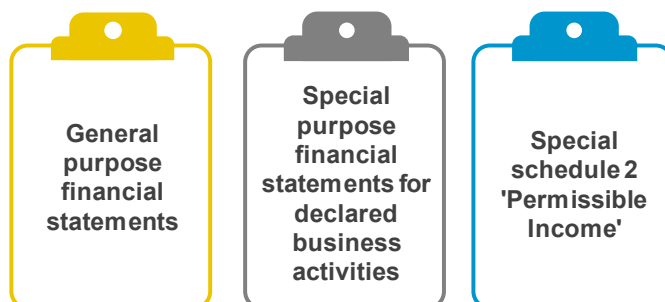
Financial reporting is an important element of good governance. Confidence and transparency in Local Government decision making is enhanced when financial reporting is accurate and timely.

This chapter outlines our financial reporting audit observations across councils for 2018.

Observation	Conclusions and recommendations
2.1 Quality of financial reporting	
<p>Unqualified audit opinions were issued for 135 out of 138 council's financial statements. The audits of three councils are in progress.</p> <p>Three councils, with previously qualified audit opinions, resolved those issues during 2017–18.</p> <p>A disclaimed audit opinion was issued for Bayside Council's 30 June 2017 financial statements as management were unable to confirm that the financial statements present fairly the performance and position of the Council.</p> <p>We were unable to obtain enough evidence to support the financial results reported.</p> <p>The 30 June 2018 financial audits reported:</p> <ul style="list-style-type: none">• 7 high-risk and 85 moderate-risk findings on financial reporting processes• financial statement adjustments for 60 prior period errors totalling \$2.4 billion• 512 corrected and uncorrected errors totalling \$1.4 billion. Most of these errors related to infrastructure, property, plant and equipment (IPPE). <p>We reported 95 instances in our management letters where councils could be better prepared for the upcoming changes to accounting standards.</p>	<p>Sufficient audit evidence was obtained to conclude the financial statements for 135 councils were free of material misstatement.</p> <p>Bayside Council did not resolve all issues related to the former councils, resulting in a disclaimed audit opinion.</p> <p>Our audits continue to identify opportunities to improve the quality of councils' financial reporting.</p> <p>To help councils implement the new standards, the Office of Local Government is running workshops, developing guidance and mandating options with the new standards for councils to adopt on transition.</p>
2.2 Timeliness of financial reporting	
<p>One hundred and eleven councils lodged their 30 June 2018 audited financial statements to the Office of Local Government by the statutory deadline.</p> <p>Almost half of councils performed early financial reporting procedures including valuing IPPE before 30 June 2018.</p>	<p>Eleven more councils submitted financial statements on-time compared with the prior year.</p> <p>Councils performing early financial reporting procedures improved the timeliness of their financial reporting.</p>

2.1 Quality of financial reporting

The Auditor-General is required under the *Local Government Act 1993* to issue an audit opinion on the following reports prepared by Councils.



General purpose financial statements include the financial position and performance for overall Council operations. Special purpose financial statements for declared business activities are required when councils provide services that compete with market participants. Special schedule 2 details the amount councils can levy for rates in the next financial year. This amount is capped by the rate-peg limit set by the Independent Pricing and Regulatory Tribunal NSW.

Indicators of quality financial reporting include:

- unqualified audit opinions
- low number of errors in the financial statements
- low number of reportable matters in our management letters
- an effective project plan to complete the financial statements.

Unqualified opinions issued for 135 councils

One hundred and thirty-five councils received unqualified audit opinions for their 30 June 2018 financial statements. An unqualified opinion means sufficient audit evidence was obtained to conclude the financial statements were free of material misstatement and users can rely on them to make informed decisions.

Central Darling Shire Council

The Council used externally restricted water and sewerage funds for general operations during the 2017–18 financial year. Using externally restricted funds for other purposes requires Ministerial approval under the *Local Government Act 1993*. The Council only obtained Ministerial approval to use the externally restricted funds in June 2018.

The unqualified audit opinion for Central Darling Shire Council's 30 June 2018 financial statements included an emphasis of matter because of material uncertainty about the Council's ability to continue operating in the foreseeable future. Council used restricted funds for its general operations throughout the year, but received Ministerial approval to do so in June 2018.

Qualified audit opinions resolved for three councils

The table below details how issues resulting in qualified audit opinions for 30 June 2017 financial statements were resolved during 2017–18.

Council	Resolved qualified audit opinions
Junee Shire Council	Fair value of roads, bridges, footpaths and bulk earthworks was adjusted at 30 June 2017 to incorporate revaluation results.
The Hills Shire Council	Fair value of land under roads was adjusted from 1 July 2016 to account for restricted land use.
Yass Valley Council	Prior period error was corrected by recognising financial assistance grants on receipt for 30 June 2017 and 30 June 2018.

Audit opinion for 30 June 2017 financial statements of Bayside Council was disclaimed

Bayside Council

The Council did not maintain an adequate internal control environment and sufficient records to support accurate financial reporting.

We reported nine extreme and four high-risk findings to management and those responsible for the governance of this council. These related to:

- control weaknesses in manual journals, reconciliations, accounts payable, and payroll processes
- inadequate and inconsistent accounting policies and procedures
- inadequate accounting records in the fixed assets register relating to land, drainage assets, land improvements and other structures and roads
- untimely recording of depreciation and capitalisation of assets
- potential contamination of council property and the risk of misappropriation of council assets.

These significant control deficiencies contributed to the disclaimed audit opinion issued on the financial statements.

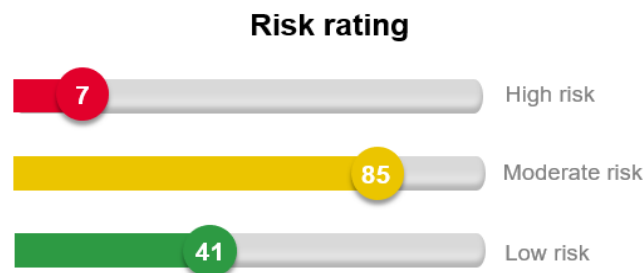
A disclaimed audit opinion was issued for the 30 June 2017 financial statements of Bayside Council.

Management were unable to confirm that the financial statements present fairly the financial performance and position of the Council due to the control deficiencies in the Council's financial accounting systems.

We were unable to obtain enough evidence to support the financial results reported.

Seven high-risk findings on financial reporting processes

Our audits identified 133 issues related to financial reporting processes.



Source: Interim and final management letters for 30 June 2018 audits.

The high-risk issues related to:

- lack of reporting timetables, work plans, and quality assurance process for preparing the financial statements, which resulted in significant errors in the financial statements
- insufficient resources and/or inexperienced staff involved with the financial statement process
- incorrect accounting treatment of a joint operation which led to a prior period adjustment.

Some of the common issues include:

- inadequate financial statement close process which led to submitting poor quality financial statements
- not assessing the impact of the new accounting standards.

These findings typically impact on the quality of financial reporting.

High number of errors continue to be identified

The table below shows the number and dollar value of errors identified in financial statements across NSW councils.

	Year ended 30 June 2018		
	✓	!	—
Less than \$5 million	181	283	28
\$5 million to \$15 million	21	12	18
\$15 million to \$30 million	7	1	4
\$30 million to \$50 million	2	1	3
\$50 million and greater	4	0	7
Total number of errors	215	297	60
Total value of errors	\$1.0 billion	\$0.4 billion	\$2.4 billion
Key	✓ Corrected errors	! Uncorrected errors	— Prior period errors

Source: Engagement Closing Reports issued to councils by the Audit Office.

The errors identified this year were the result of:

- deficiencies in determining the fair value of infrastructure, property, plant and equipment
- inappropriate and inaccurate assumptions used to measure liabilities and other accounting estimates
- recognising assets for the first time
- derecognising duplicate assets
- incorrectly applying Australian Accounting Standards.

Councils corrected all identified material misstatements.

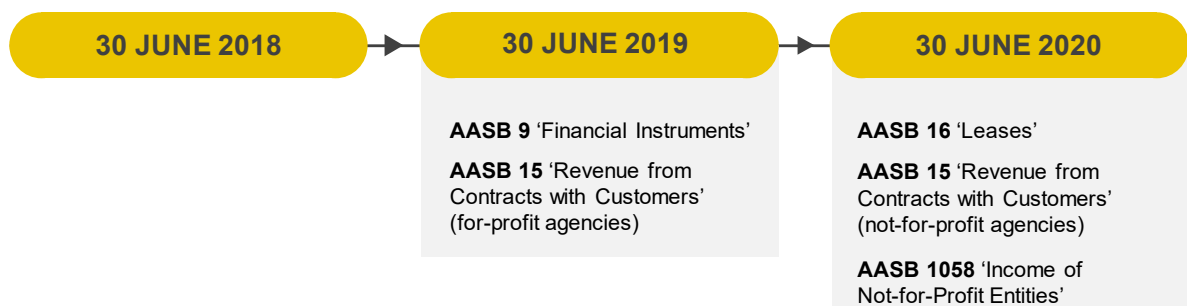
Councils need to implement five new accounting standards over the next two years

We reported 95 instances, in our management letters, where councils could be better prepared for the upcoming changes to accounting standards.

Changes in accounting standards can materially impact a council's financial statements. It is important councils review the impact of upcoming changes and have appropriate systems, processes and resources to prepare for them.

To help councils implement the new standards, the Office of Local Government is running workshops, developing guidance and mandating options for councils to adopt on transition.

KEY DATES



AASB 9 'Financial Instruments' introduces a simplified model for classifying and valuing financial assets. It also introduces a new method for calculating impairment (decreases in asset values), which may result in councils recognising impairment losses earlier.

AASB 15 'Revenue from Contracts with Customers' will change the timing and pattern for recognising revenue and increase related financial reporting disclosures.

AASB 1058 'Income of Not-for-Profit Entities' provides guidance to help not-for-profit entities account for:

- transactions conducted on non-commercial terms
- the receipt of volunteer services.

AASB 15 and AASB 1058 may significantly impact council's financial statements, particularly when recognising grant income.

AASB 16 'Leases' will change the way lessees recognise, account for and report operating leases in financial statements. With a few exceptions, such as low value and short-term leases, existing operating leases will need to be recognised as 'right of use' assets with corresponding liabilities recorded and disclosed in the Statement of Financial Position.

Implementing the new accounting standards will take significant time and effort. Councils will need to:

- review current contracts with customers, grant agreements, lease agreements and arrangements with private sector operators
- ensure contracts and lease registers are complete
- assess whether existing systems can capture the necessary information
- train staff and ensure guidance is given to those who oversee financial reporting
- consider the impact on stakeholders.

This will be an area of focus for our 30 June 2019 financial audits.

Improving presentation and relevance of financial reporting information

Accounting standard setters are moving towards simplifying and rationalising financial reporting disclosures. The 2017–18 Local Government Code (the Code) made some key improvements towards this objective, including:

- allowing financial statement line items and notes with nil balances in the current and prior year to be removed
- moving the accounting policies note from Note 1 to the relevant notes
- repositioning and renumbering notes to be more user friendly
- focusing disclosures on restrictions to cash and investments.

There are further opportunities to declutter the financial statements of councils. For example, the information on developer contributions and performance measures included in the Code are not required by Australian Accounting Standards.

The Audit Office performs an annual review of the Code and provides feedback to the Office of Local Government on where financial disclosures can be further streamlined or removed.

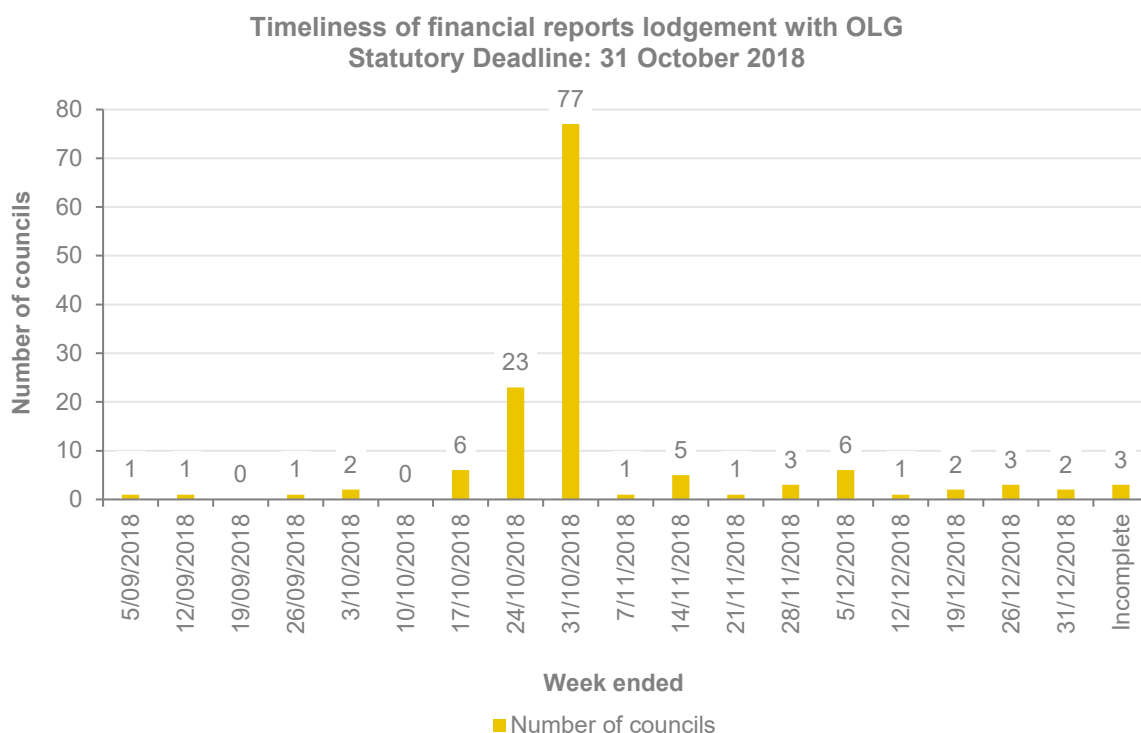
2.2 Timeliness of financial reporting

The *Local Government Act 1993* requires councils to submit audited financial statements to OLG by 31 October or apply for an extension.

More councils submitted financial statements on-time

One hundred and eleven councils (2016–17: 100 councils) submitted their 30 June 2018 audited financial statements by the statutory deadline. This improved by 11 per cent compared with the prior year. More amalgamated councils met the statutory deadline this year.

The graph below shows the lodgement dates of councils' financial statements.



While more councils lodged on-time, 77 councils submitted audited financial statements to OLG during the last week of October 2018. Submitting the financial statements close to the statutory deadline can be risky as there is no contingency in the event of late and unforeseen issues. Three councils missed the statutory deadline without an approved extension from the Office of Local Government.

The Office of Local Government approved a reporting extension for 24 councils. The common reasons include challenges with resourcing, lack of financial records, delayed valuations and moving to new application systems. These issues had flow on impacts to audit resourcing and the ability to complete audits on time.

We are yet to issue an audit opinion on the 30 June 2018 financial statements of the following councils.

Council	Approved lodgement extension date	Reason for extension
Bayside Council	28 February 2019	Incomplete financial records of the former City of Botany Bay Council.
Hilltops Council	28 February 2019	The delay arose from consolidating and migrating financial data from 3 legacy systems into one new system for single entity reporting.
Maitland City Council	30 April 2019	Issues associated with the transition to a new corporate financial management system and rating module, valuation complexities associated with operational and community buildings and the revision of rehabilitation provisions for a landfill site with recently expanded capacity.

Next year's Report to Parliament will include the outcome of these incomplete audits.

Sixty-one councils performed early financial reporting procedures














This year, 61 councils brought forward some procedures, including:

- completing infrastructure, property, plant and equipment valuations before 30 June
- preparing proforma financial statements and associated disclosures
- assessing the impact of complex and one-off significant transactions.

Eighty-five per cent of councils who performed some early close procedures submitted their financial statements within the statutory deadline. For the remaining 15 per cent, most did not prepare proforma financial statements.

It is important councils appropriately plan the financial reporting process to ensure statutory deadlines are met. We have included some better practice guidance below to assist councils to improve the quality and timeliness of their financial reporting.

Better practice financial reporting

	Have a project timetable to effectively plan resources, assign key tasks and set timeframes.		Reconcile key general ledger accounts to subsidiary ledgers and other information such as fixed asset registers.
	Prepare proforma financial statements to enable early review of the format, adequacy of accounting policies and note disclosures, and declutter and remove unnecessary notes.		Engage the audit, risk and improvement Committee early to consider the financial statements, key accounting estimates and significant changes in accounting policies.
	Revisit the project plan regularly to identify and manage delays and key issues.		Assess the impact of new and revised accounting standards effective in the current and future years.
	Analyse budget variances and movements from prior year.		Document proposed action plan to resolve prior year audit issues.
	Organise and manage information requirements from internal and external parties, including valuation experts.		Document key assumptions and judgements used for estimates and financial statement preparation.
	Engaging early and openly with the auditors.		Assess the impact of material, complex and one-off significant transactions.
	Have a clear plan to ensure valuations are managed and documented appropriately. Conduct comprehensive revaluation of Infrastructure, property, plant and equipment (IPPE) by 30 June, including review of the outcomes for quality and reasonableness and resolving any queries. Assess the fair value of IPPE not subject to a comprehensive revaluation by 30 June.		

One of the focus areas for the 2018–19 audits will be to encourage councils to complete financial statements earlier in the reporting period.



Governance and Internal Controls



3. Governance and internal controls

Strong governance systems and internal controls reduce risks associated with managing finances, compliance and delivering services to ratepayers.

This chapter outlines the overall trends for council controls and governance issues, including the number of findings, level of risk and the most common deficiencies. Our audits do not review all aspects of internal controls and governance every year. We select a range of measures, and report on those that present heightened risks for councils to address.

Observation	Conclusion or recommendation
3.1 Internal controls	
<p>The 30 June 2018 financial audits reported 83 high-risk findings.</p> <p>Thirty-nine of these high-risk findings related to information technology. See Chapter 4.</p> <p>Several internal control findings were common across councils.</p>	<p>Recommendation: Councils should reduce risk by addressing high-risk findings as a priority.</p> <p>Control weaknesses in information systems may compromise the integrity and security of financial data used for decision making and financial reporting.</p> <p>There may be opportunities for councils to work together to address common findings through Joint Organisations or other avenues.</p>
3.2 Governance	
<p>Ninety-seven councils have an audit, risk and improvement committee (85 at 30 June 2017).</p> <p>Ninety-two councils have an internal audit function (86 at 30 June 2017).</p> <p>Eighty-three councils do not have a legislative compliance policy and 94 councils do not have a legislative compliance register.</p> <p>Eighteen councils do not have a risk management policy and 38 councils do not have a risk register.</p> <p>Most councils have a procurement policy, a manual, and are providing training to relevant staff. Only 34 per cent of councils have a contract management policy.</p>	<p>Proposed legislative changes will require councils to establish an audit, risk and improvement committee by March 2021.</p> <p>It is envisaged that the <i>Local Government Act 1993</i> will require the establishment of an internal audit function in each council to support the work of the audit, risk and improvement committee.</p> <p>Councils can improve their monitoring of compliance with key laws and regulations.</p> <p>Risk is better managed when there is a fit-for-purpose risk management framework, register and policy to outline how risks are identified and managed.</p> <p>Councils with effective procurement and contract management reduce risks of error and fraud and achieve better outcomes for ratepayers.</p>

3.1 Internal controls

Our financial audits focus on key internal controls that underpin the financial statements councils prepare each year. They assess whether key internal controls are designed, implemented and operating effectively to manage the risk of material error in the financial statements.

We report control deficiencies identified to management and those charged with governance of a council through our audit management letters. The issues are rated as extreme, high, moderate or low risk in accordance with the risk management framework in TPP 12-03 'Risk Management Toolkit for the NSW Public Sector'.



Source: Interim and final management letters for 30 June 2018 audits.

High-risk findings

Our 30 June 2018 financial audits identified 83 high-risk findings.

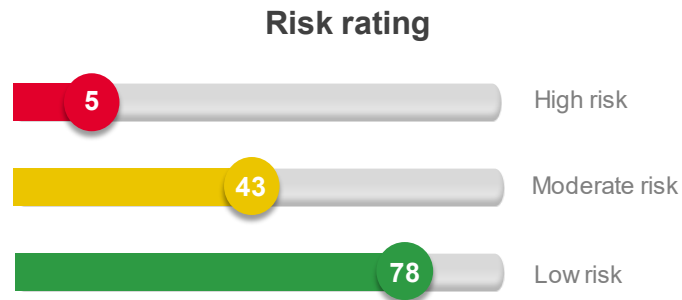
The deficiencies were assessed as high-risk if they could significantly affect the councils' financial statements.

The high-risk findings are in the following areas:

- financial reporting (see Chapter 2)
- information technology (see Chapter 4)
- asset management (see Chapter 5)
- revenue process
- purchasing process
- payroll process
- treasury process
- financial accounting
- governance.

Revenue process

Our audits identified 126 internal control weaknesses related to revenue processes.



Source: Interim and final management letters for 30 June 2018 audits.

The high-risk issues include:

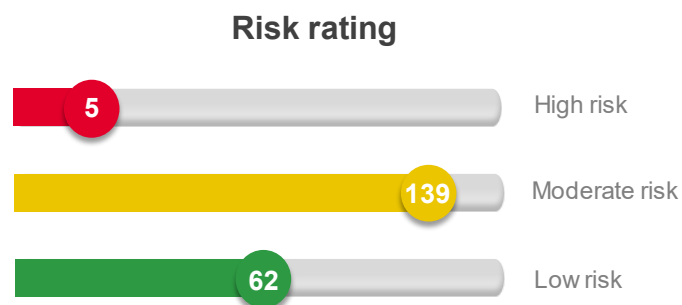
- multiple control deficiencies identified at one council in the rates process
- council displaying the previous year's rates in the operational plan, which is a breach of the *Local Government Act 1993*
- lack of controls over revenue received at a council-owned caravan park
- not reconciling the rates system to the Valuer-General's valuation report, increasing the risk of levying rates on incorrect land values.

Some of the common control weaknesses include:

- outdated revenue policies and procedures
- exception reports to detect irregular or unusual changes were not reviewed
- inadequate segregation of duties in the revenue process
- lack of review of changes to details in the rates master file
- reconciliations not prepared or reviewed.

Purchasing process

Our audits identified 206 internal control weaknesses related to purchasing processes.



Source: Interim and final management letters for 30 June 2018 audits.

The high-risk issues include:

- inadequate controls over credit card usage, including the lack of a credit card policy, sharing of credit cards among staff and no formal review to acquit credit card expenditure
- outdated delegation limits in the finance system
- no formal procurement manual.

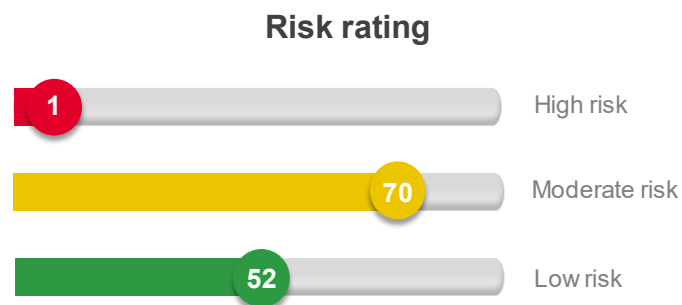
Some of the common control weaknesses include:

- no review of credit card purchases
- inappropriate use of purchase orders and/or not using purchase orders
- deficiencies in the tendering process
- inadequate segregation of duties in purchase and payables processes
- reconciliations not prepared or reviewed.

The Minister for Local Government requested we conduct a performance audit over credit card usage at local councils given the alleged misuse of a corporate credit card at a rural council. This will be a key area of focus for our 2018–19 financial audits.

Payroll process

Our audits identified 123 control weaknesses related to payroll processes.



Source: Interim and final management letters for 30 June 2018 audits.

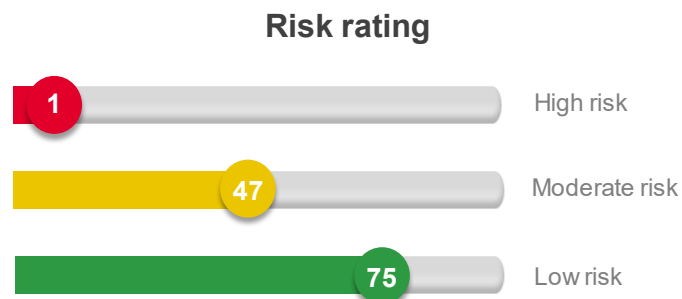
The high-risk issue related to not approving employee termination payments.

Some of the common control weaknesses include:

- no review of changes made to the employee masterfile
- no review of payroll reports and timesheets
- reconciliations not prepared or reviewed
- lack of processes in place to reduce excessive leave balances.

Treasury process

Our audits identified 123 internal control weaknesses related to treasury processes.



Source: Interim and final management letters for 30 June 2018 audits.

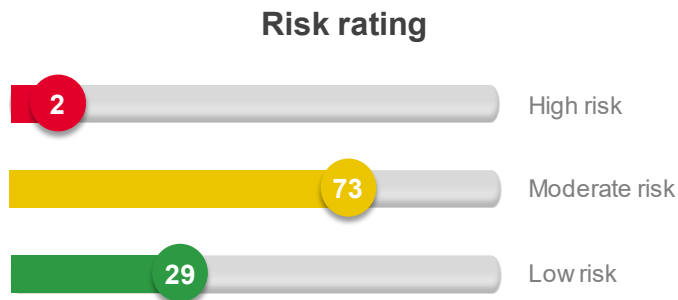
The high-risk issue was a council breaching the *Local Government Act 1993* by using restricted funds for an alternate purpose without Ministerial approval.

Some of the common control weaknesses include:

- no review of bank reconciliations and long outstanding reconciling items
- no review of daily cash receipts
- outdated bank signatories.

Financial accounting

Our audits identified 104 internal control weaknesses related to financial accounting processes.



Source: Interim and final management letters for 30 June 2018 audits.

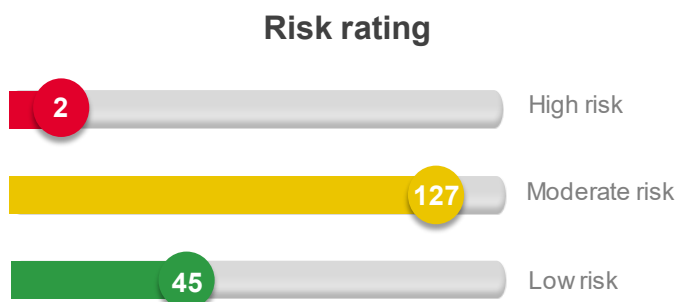
Both high-risk issues were due to councils not reconciling key accounts.

Some of the common control weaknesses include:

- no review of reconciliations
- manual journals not being reviewed by an independent officer
- the finance system not preventing the same officer from posting and approving manual journals
- inadequate supporting documents for manual journals.

3.2 Governance

Our audits identified 174 control weaknesses related to corporate governance.



Source: Interim and final management letters for 30 June 2018 audits.

The high-risk issues related to:

- a restructure that significantly impacted the efficiency and effectiveness of council operations
- over reliance on a single staff member at a rural council to ensure due process and controls are in place.

The common governance issues can be grouped into the following areas, and are explained further below:

- audit, risk and improvement committees
- internal audit
- legislative compliance frameworks
- procurement and contract management
- risk management
- fraud controls.

More councils have established audit, risk and improvement committees

An effective audit, risk and improvement committee is an important part of good governance. An effective committee helps councils to build community confidence, meet legislative and other requirements and meet standards of probity, accountability and transparency.

Twelve more councils established audit, risk and improvement committees during 2017–18 resulting in 97 councils having committees.

Changes outlined in Section 428A of the *Local Government Amendment (Governance and Planning) Act 2016* will require the remaining councils to establish an audit, risk and improvement committee by March 2021.

For those councils with an audit, risk and improvement committee, we assessed their performance against better practice. The table below summarises our observations.

Audit, risk and improvement committee	Percentage (%)
Committee has a charter	98
Chair of the committee is independent	94
Committee is advised of significant, complex or contentious financial reporting issues	90
Committee monitors progress in addressing internal and external audit recommendations	87
Majority of the committee members are independent	83
Committee reviews the enterprise risk register	81
Committee performs an annual self-assessment of its performance	48

More councils have established internal audit functions

Internal audit is another important element of an effective governance framework as it supports a risk and compliance culture. Internal audit provides assurance over council's governance practices and internal control environment and identifies where performance can improve.

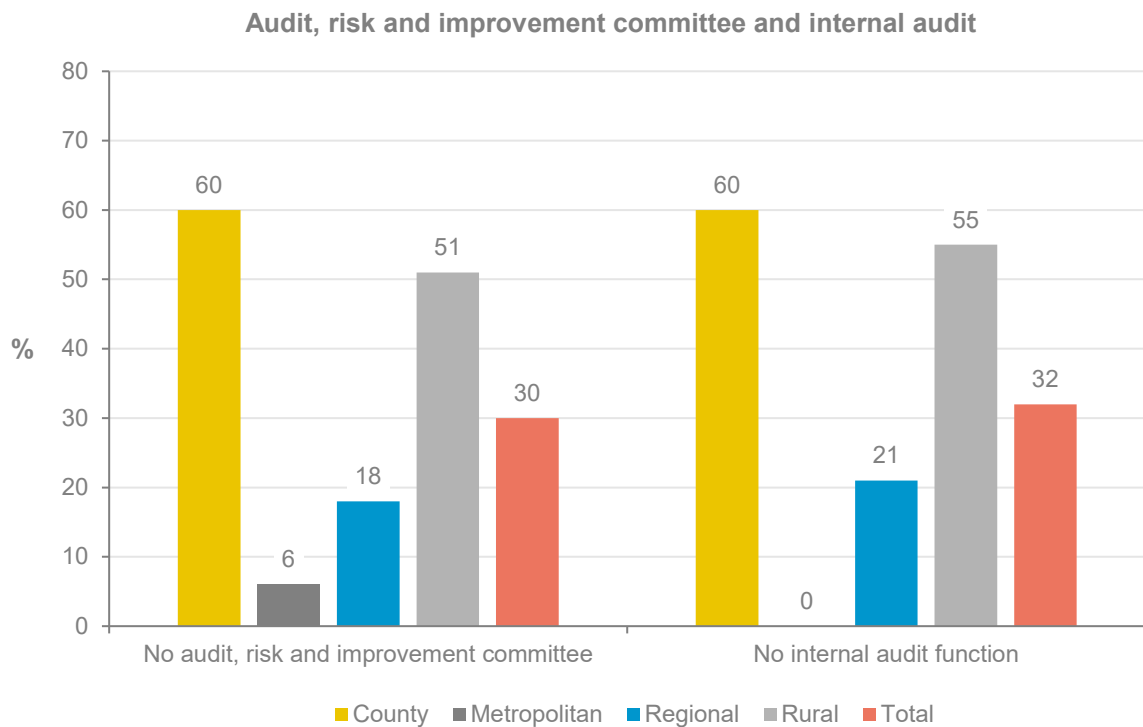
Six more councils established an internal audit function during 2017–18 resulting in 92 councils having an internal audit function.

The Office of Local Government (OLG) intends to release a new internal audit framework for Local Government. It is envisaged the *Local Government Act 1993* will require the establishment of an internal audit function in each council to support the work of the audit, risk and improvement committee. Before this guidance is released, councils can refer to Treasury Policy Paper 15-03 Internal Audit and Risk Management Policy for the NSW Public Sector.

For those councils with an internal audit function, we assessed their performance against better practice. The table below summarises our observations.

Internal audit functions	Percentage (%)
Internal audit plan is documented	95
Audit, risk and improvement committee reviews the internal audit plan	90
Internal audit plan aligns with the enterprise risk register	85
Audit, risk and improvement committee assesses the performance of internal audit	61

The following graph shows the percentage of councils without an audit, risk and improvement committee and internal audit function by council type.



The councils yet to establish an audit, risk and improvement committee and internal audit function are mainly rural and county councils. Most metropolitan councils have an audit, risk and improvement committee and all have an internal audit function.

Councils need to improve practices to comply with key laws and regulations

A legislative compliance framework assists councils to capture and monitor compliance with key laws and regulations.

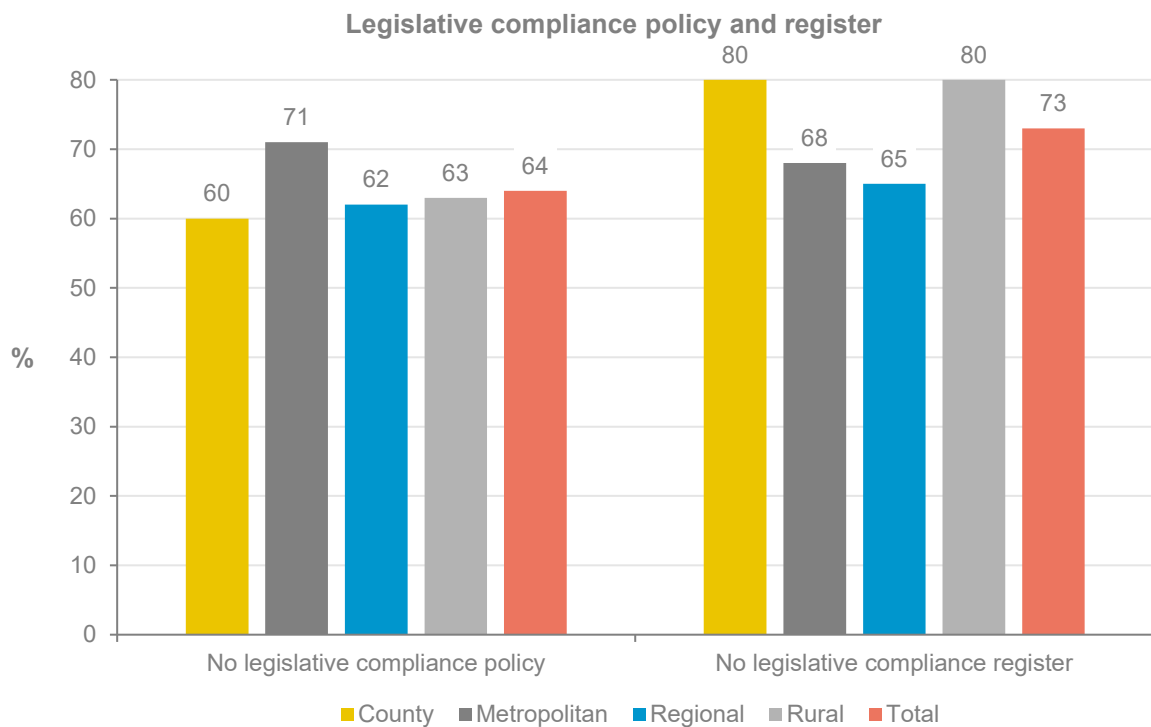
Our audits found:

- 83 councils do not have a legislative compliance policy
- 94 councils do not have a legislative compliance register.

Ineffective legislative compliance frameworks increase the risk of councils breaching legislation. This can attract penalties, affect service delivery and cause significant reputational damage.

A compliance framework should be tailored to the size and risk profile of a council.

The following graph shows the percentage of councils without a legislative compliance policy and register by council type.



This finding is prevalent across all council types. As councils have common legislation there is an opportunity to have common policies and share registers to reduce cost of implementing legislative compliance frameworks.

Some councils can improve risk management practices

Our audits identified:

- 18 councils do not have a risk management policy
- 38 councils do not have an enterprise risk register
- 12 councils' risk registers do not align with their strategic objectives.

A risk management policy helps to provide a framework for managing risks. A risk register, aligned to strategic objectives, can be an effective tool to support decision-making.

Councils may find it useful to assess risk management practices using the Audit Office's Risk Maturity Toolkit. The toolkit is based on the principles and guidance of International Standards on Risk Management AS/NZS ISO 31000:2009 Risk Management. The risk management toolkit needs to be applied in a way that is fit for purpose, considering the size and complexity of each council.

Most councils have a procurement policy, manual and train relevant staff

As outlined in the Audit Office Annual Work Program, a key focus area of our 2017–18 audits was to review councils' procurement and contract management practices.

Councils spend substantial funds each year to procure goods and services. It is important there is appropriate probity, accountability and transparency in procurement to reduce the risk of unauthorised purchases, corrupt and fraudulent behaviour and value for money not being achieved.

Our audits identified:

- 96 per cent of councils maintain a procurement policy
- 69 per cent of councils have a documented procurement manual
- 78 per cent of councils provide training to staff with procurement responsibilities.

We selected a contract over \$150,000 for each council to assess procurement practices and the common findings are in the table below.

Procurement practices	Percentage (%)
Tender evaluation panel members with incomplete conflict of interest declarations	33
Tenderers not disclosing conflicts of interest as part of the tender process	22
No evidence recorded on file to support the tender process	7

Most councils have a centralised contract register, but only 34 per cent have a contract management policy

Councils enter into numerous contracts which vary in nature, size and complexity.

Our audits identified:

- 34 per cent of councils have a contract management policy
- 78 per cent of councils maintain a centralised contract register.

The table below summarises our findings for council contract management practices based on the same selection of contracts over \$150,000 for each council.

Contract management	Percentage (%)
No contract management plan	67
Contract performance evaluation not performed	63
No risk assessment performed before entering into significant contracts	53
Contract variation not evaluated based on value for money grounds	50
Contract variations not approved by an officer with appropriate delegation	48
No key performance indicators to measure the contract performance	32
Contract payments are not linked to satisfactory contract performance	28
Non-action on unsatisfactory performance by contractors	24
Contract not entered into the contract register in a timely manner	23

Councils need to improve their fraud controls systems

The Audit Office of New South Wales' recent performance audit '[Fraud controls in local councils](#)' highlighted that councils often have fraud control procedures and systems in place, but are not ensuring people understand them and how they work. There is also significant variation between councils in the quality of their fraud controls.

Common weaknesses in councils' fraud controls include:

- not regularly reviewing their fraud control approach and tailoring it to their fraud risks
- providing only limited information and training to staff on their responsibilities and how to report suspected frauds
- providing limited information to the community on how they can report fraud in their councils.

The report recommended the Office of Local Government work with other state agencies to better use the data they collect on fraud to provide a clearer picture of fraud within councils.



Information
Technology



4. Information technology

Councils increasingly rely on information technology (IT) to deliver services and manage information. While IT delivers considerable benefits, it also presents risks that council needs to address.

Our audits reviewed whether councils have effective governance and controls in place to manage key financial systems and IT service providers. This chapter summarises the following IT findings:

- governance
- IT general controls
- managing service providers.

Observation	Conclusion or recommendation
4.1 Governance	
<p>Ninety-four councils have not formalised all policies which manage key information technology (IT) processes. Of those policies that are formalised, 78 are not reviewed to ensure they are up to date.</p>	<p>A lack of IT policies increases the risk of inappropriate and inconsistent practices.</p>
<p>Sixty-five councils do not register their IT risks and 44 councils do not regularly report IT risks to management and those charged with governance.</p>	<p>Risks that are not communicated to senior management and those charged with governance may not be assessed and managed appropriately.</p>
4.2 IT general controls	
<p>Most internal control deficiencies related to information technology processes and control environment.</p>	<p>Control weaknesses in information systems may compromise the integrity and security of financial data used for decision making and financial reporting.</p>
4.3 Managing service providers	
<p>Seventy-two councils outsource at least one IT function to a third-party service provider. Of these:</p> <ul style="list-style-type: none"> • 26 councils did not have a complete and accurate list of IT service providers engaged, along with the corresponding services provided • 49 councils did not perform an adequate risk assessment before engaging the IT service provider • 51 councils did not have clearly defined key performance indicators (KPI) in the Service Level Agreements (SLA) with the IT service provider • 36 councils did not periodically assess the performance of the IT service provider. 	<p>Councils can more effectively manage IT service provider by:</p> <ul style="list-style-type: none"> • maintaining inventory of IT service providers and services they provide • identifying and addressing risks • including KPIs in SLAs • monitoring performance.

4.1 Governance

IT governance refers to the strategies and frameworks, policies and processes used to oversee and manage IT risks.

IT policies need to be formalised and kept up-to-date

Ninety-four councils do not have IT policies over one or more of the following critical areas:

- IT security
- IT change management
- IT incident and problem management
- disaster recovery
- business continuity.

For the councils with established IT policies, we found 78 policies are not reviewed in line with the council's scheduled review date to ensure they are up to date.

It is important key IT policies are formalised and regularly reviewed to ensure emerging risks are considered and policies are reflective of changes to the IT environment.

Half of the councils do not identify, monitor or report on IT risks

Sixty-five councils do not have an IT risk register, and 44 councils do not regularly communicate IT risks to management and those charged with governance.

It is important IT risks are identified and appropriately managed as councils rely heavily on IT for service delivery and financial reporting.

4.2 IT general controls

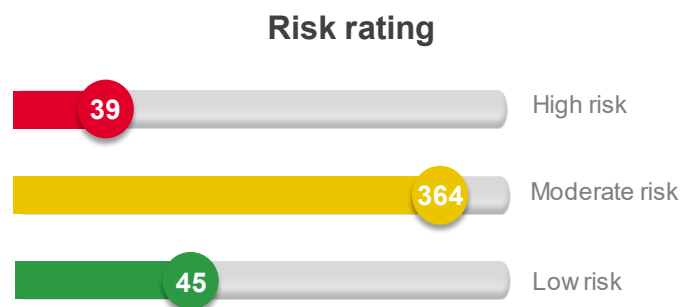
IT general controls relate to the procedures and activities designed to ensure confidentiality and integrity of systems and data. These systems underpin the integrity of financial reporting.

As outlined in the Audit Office Annual Work Program, a key focus area for our 30 June 2018 audits was to review IT general controls relating to key financial systems supporting the preparation of council financial statements. In particular, those addressing:

- user access management
- privileged user access restriction and monitoring
- system software acquisition, change and maintenance.

Our financial audits did not review all council IT systems. For example, IT systems used to support service delivery are generally outside the scope of our financial audit. However, councils should consider the relevance of our findings below to these systems.

Our audits identified 448 control weaknesses related to information technology.



Source: Interim and final management letters for 30 June 2018 audits.

The high-risk issues relate to privileged user access not being adequately restricted and monitored to identify suspicious or unauthorised activity.

The other issues identified can be grouped into the following areas:

- managing user access to IT systems
- controls over changes to IT systems.

We assessed the impact of the IT issues on our audits and alternate procedures were undertaken to provide assurance over the integrity of financial reporting.

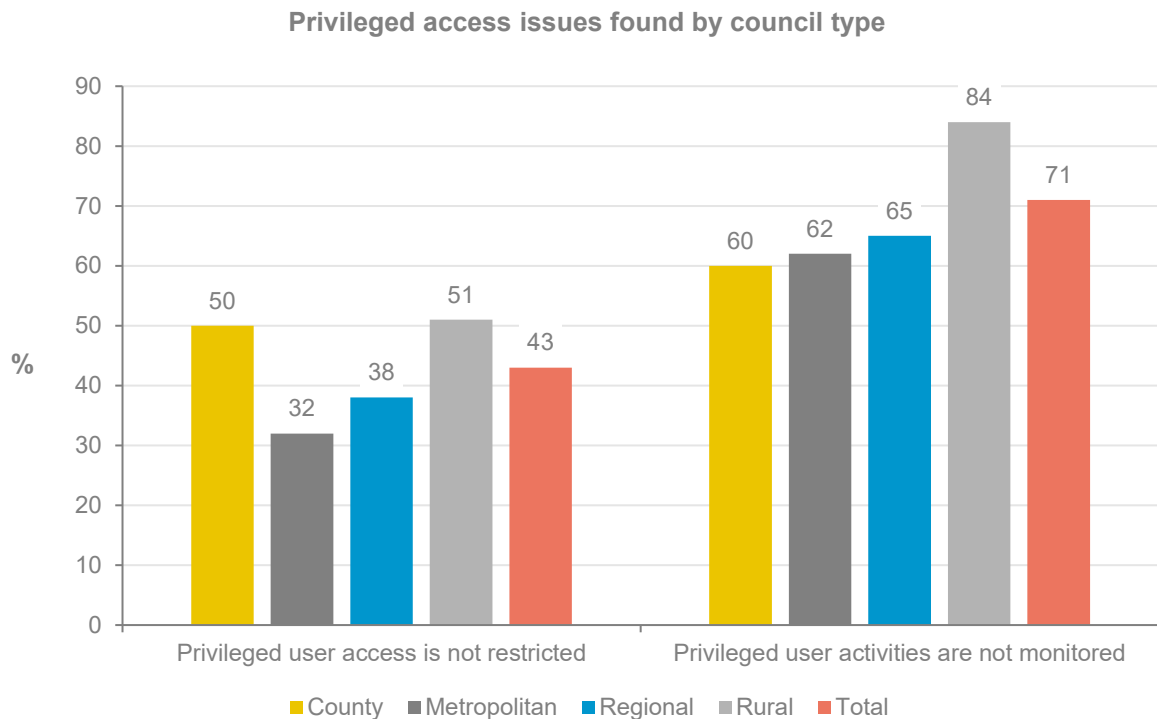
Privileged access is not adequately restricted and monitored

Privileged access occurs when a person can change key system configurations and has wide access to system data, files and accounts. It is therefore essential that privileged access is restricted to only those who require it to perform their role and monitored to detect suspicious activity. The access should be protected with strong password controls to minimise the risk of the account being compromised. Issues found in this area contributed to the number of high-risk IT issues reported in our management letters.

We found:

- 43 per cent of councils not appropriately restricting privileged access
- 71 per cent of councils not appropriately monitoring privileged user account activities.

The graph below shows the percentage of councils with inadequate controls for managing privileged access to IT systems.



User access management to IT systems need to be improved

Information technology is often at the core of how councils deliver services. While IT can improve service delivery, the growing dependency on technology means councils face risks of unauthorised access and misuse.

Key areas of effective user access management are:

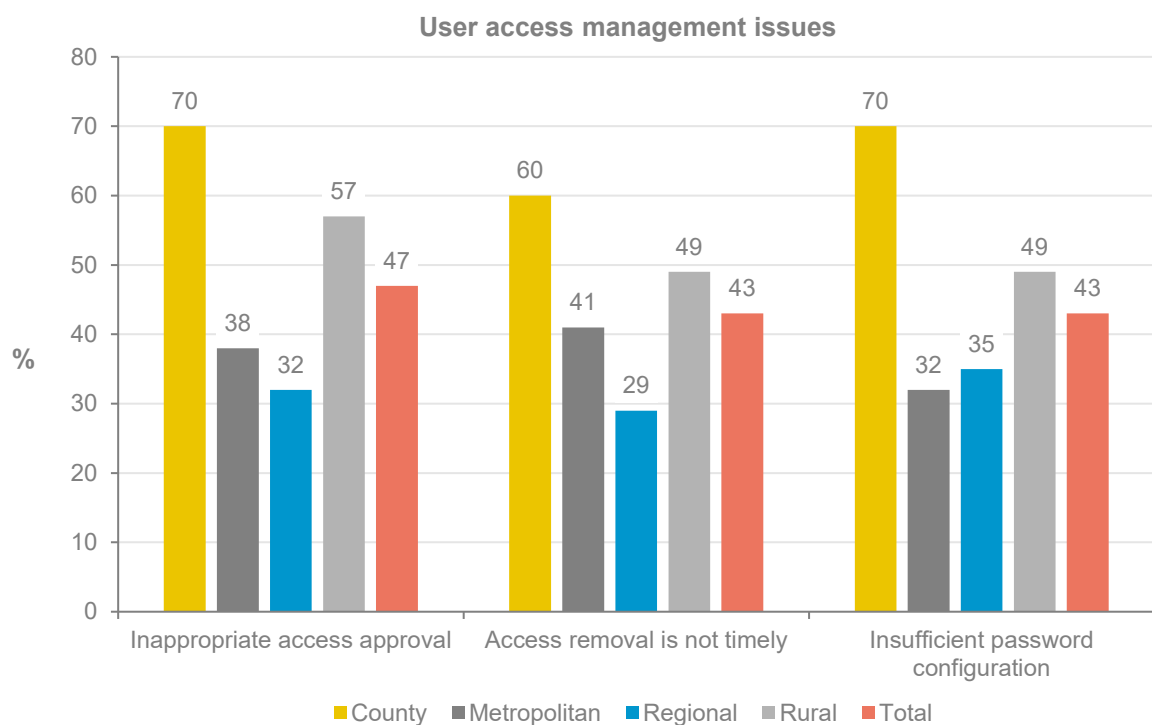
- appropriate approval for new access and changes of access to IT systems
- timely removal of access to IT systems
- strong password controls to avoid user access being compromised.

The graph below shows the number of councils that do not have adequate controls over user access management.

We found:

- 47 per cent of councils without appropriate controls for adding new users
- 43 per cent of councils without appropriate user access removal controls
- 43 per cent of councils without appropriate password controls
- county councils had more issues across the three areas of user management.

The graph below shows the percentage of councils with inadequate user access management controls by council type.



Controls over IT system changes need to be improved

Changes to IT programs and related infrastructure components need to be appropriately authorised, performed and tested prior to implementation. This ensures changes are appropriate and in line with business requirements.

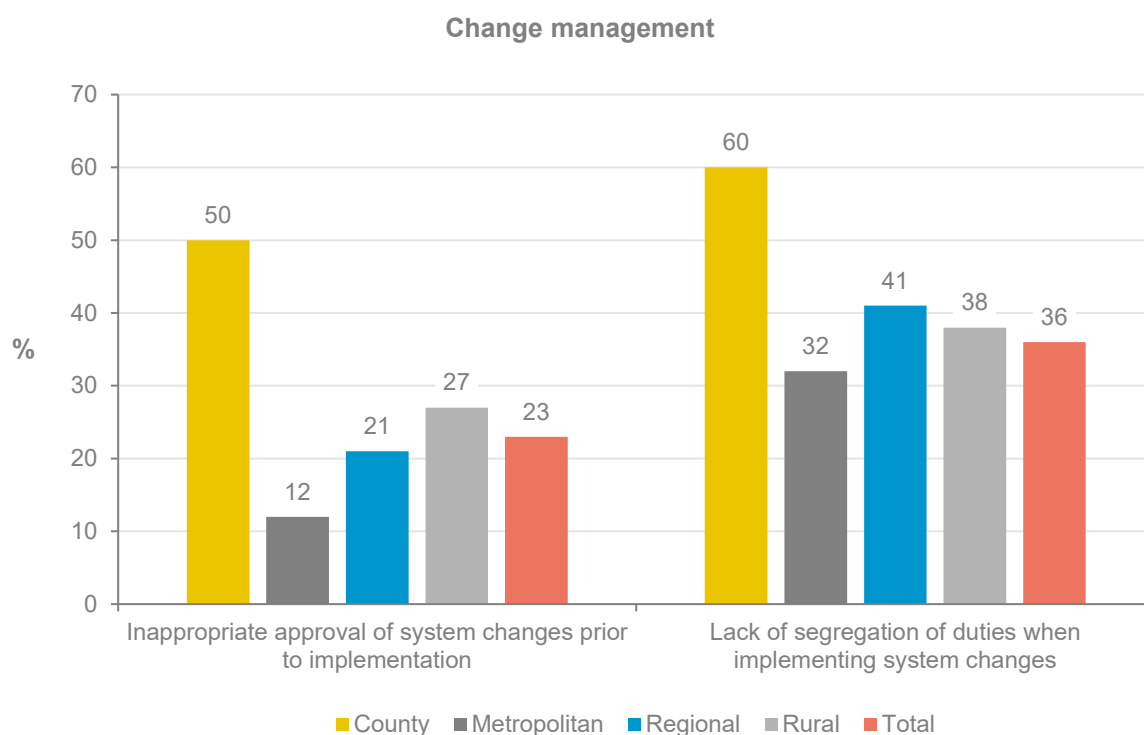
Weak system change controls expose councils to the risk of:

- unauthorised and/or inaccurate changes to systems or programs
- issues with data accuracy and integrity
- inappropriately accepting contractual terms.

We found:

- 23 per cent of councils implementing changes without appropriate approval
- 36 per cent of councils without appropriate segregation of duties between the developer and the implementer of the change.

The graph below shows the percentage of councils with ineffective controls to manage changes to IT systems by council type.



4.3 Managing service providers

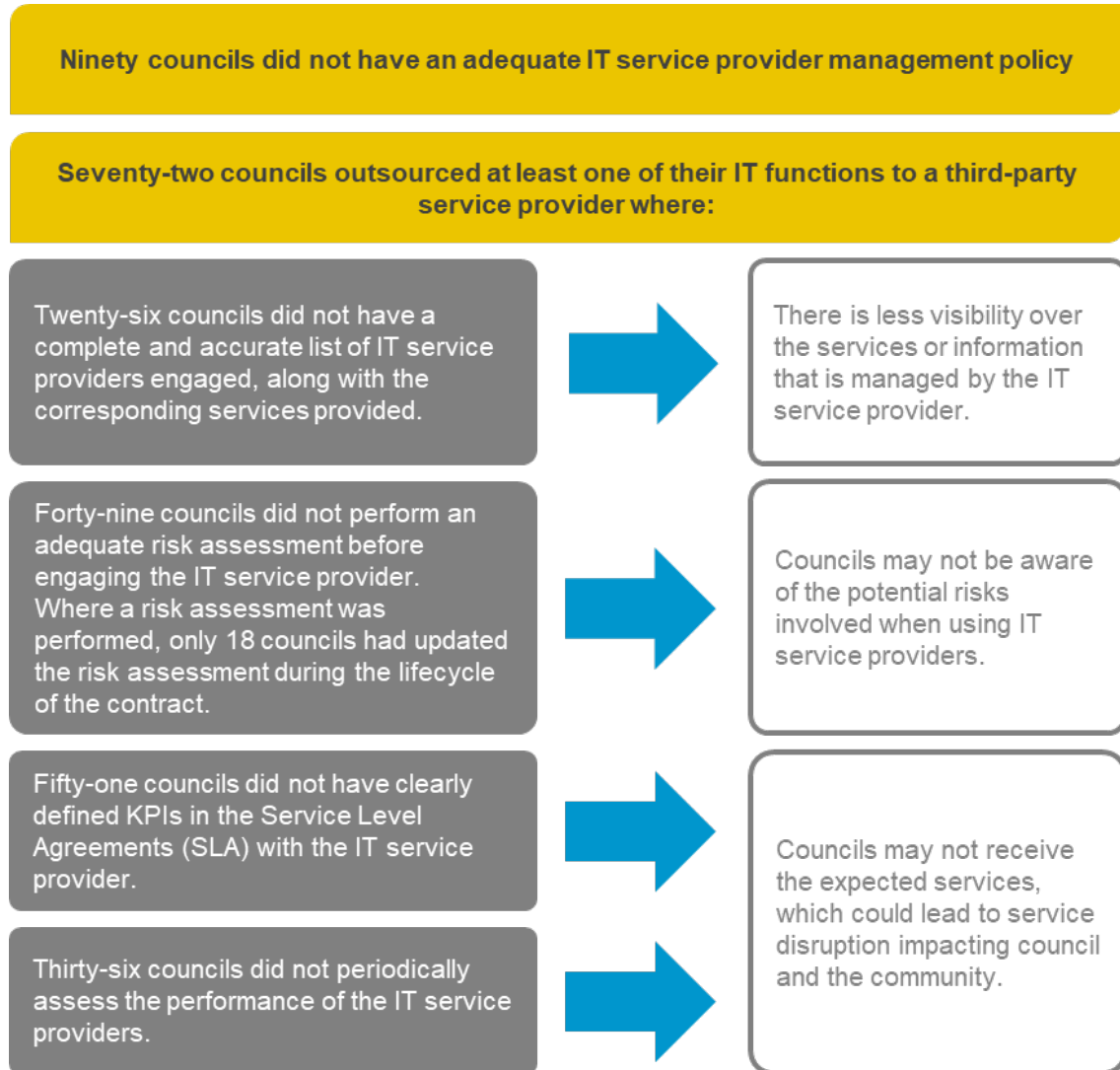
Councils are increasingly contracting out the delivery of key IT services to private sector providers. IT systems are increasingly complex, and the risks are often best mitigated by seeking specialist skills to enhance the council's capability and capacity. However, even when the service is outsourced, the council remains accountable for risks, including:

- interruptions caused by system outages
- loss of confidential information caused by cyber security attacks and data security breaches
- threats to business continuity from failures in core infrastructure
- compliance threats where responsibilities between the council and service provider have not been clearly defined.

Councils need to improve the management of IT service providers

Effectively monitoring and measuring critical IT service provider performance ensures contracted services are being provided and value for money is obtained.

Our observations are summarised in the diagram below.



An aerial photograph of a multi-lane highway. The road is divided into several lanes by white lines. A white car is driving in the upper middle lane, a blue car in the lower left lane, and a dark car in the lower right lane. The highway is flanked by grassy areas and some trees with yellowing leaves. A large white circle with an orange border is overlaid on the bottom right of the image, containing the text "Asset Management".

Asset Management



5. Asset management

Councils are responsible for planning and managing a significant range of assets on behalf of the community. This chapter outlines our asset management observations across councils for 2018.

Observation

Conclusion or recommendation

5.1 Asset management planning

All but six councils have an asset management strategy, policy and plan. However, 11 councils have not reviewed their asset management strategy, policy and plan in the last five years.

We found 86 instances where asset management strategies, policies and plans do not comply with the essential elements in the Integrated Planning and Reporting Guidelines released by the Office of Local Government.

Recommendation: Councils' asset management policy, strategy and plan should comply with the requirements of the *Local Government Act 1993* and the Integrated Planning and Reporting Guidelines issued by the Office of Local Government.

5.2 Asset valuation process

Our audits found:

- 38 instances where councils did not reassess the fair value of assets with sufficient regularity
- 24 instances where councils did not review valuation results.

The deficiencies in the asset valuation process resulted in errors in financial statements of \$2.6 billion, including \$1.9 billion of prior period errors.

We also identified:

- 63 councils did not perform an annual review of the useful lives of their assets as required by Australian Accounting Standards
- considerable variability in the useful lives of asset classes, such as road across councils
- 16 councils with residual values for assets that are not expected to attract sales proceeds upon disposal, which is contrary with Australian Accounting Standards.

Deficiencies in the asset valuation process can result in significant errors to the financial statements.

Depreciation may not be accurately recorded in the financial statements. It may also impact key sustainability indicators reported by the council.

Observation

Conclusion or recommendation

5.3 Asset management systems

Our audits identified 64 instances where councils:

- maintained multiple asset registers
- had inaccurate or incomplete registers on uncontrolled manual spreadsheets
- did not reconcile asset registers with the general ledger.

Weaknesses in asset management systems can impact the accuracy and completeness of asset data, resulting in errors to the financial statements.

Our audits identified discrepancies between the Councils' Crown land asset records and the Crown Land Information Database (CLID) managed by the NSW Department of Industry.

Councils should regularly reconcile asset registers to the CLID and investigate discrepancies to ensure Crown land under their care and control is captured.

Five councils corrected \$225 million of previously unrecorded Crown land assets.

5.4 Rural fire-fighting equipment

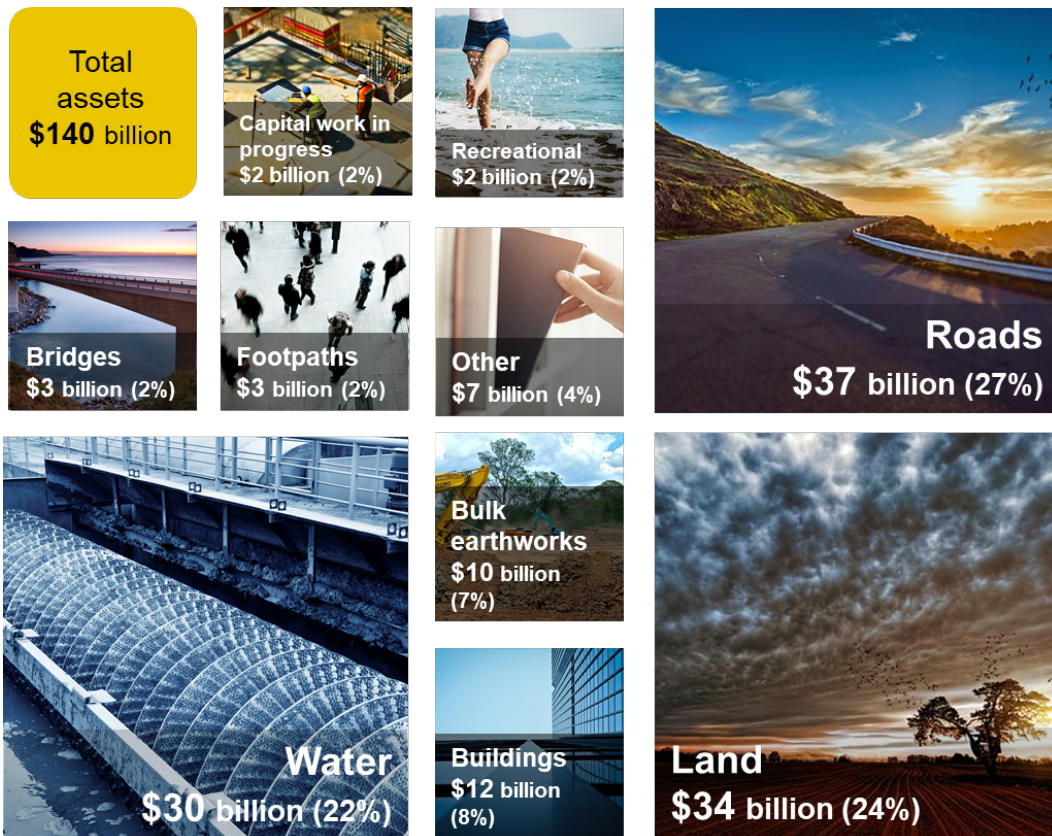
Inconsistent practices remain across the Local Government sector in accounting for rural fire-fighting equipment.

The Office of Local Government should continue to address the different practices across the Local Government sector in accounting for rural fire-fighting equipment. In doing so, the Office of Local Government should continue to work with NSW Treasury to ensure there is a whole-of-government approach.

A number of councils do not record rural fire-fighting equipment, meaning that a significant portion of rural fire-fighting equipment continues to not be recorded in either State or council financial records.

Asset overview

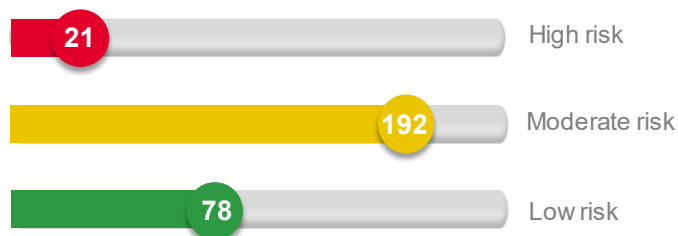
Councils own and manage a diverse range of assets to deliver services to the community. As at 30 June 2018, the combined carrying value of NSW council assets was \$140 billion.



Asset management

Our audits identified 291 control weaknesses related to asset management processes.

Risk rating



Source: Interim and final management letters for 30 June 2018 audits.

The high-risk issues related to:

- non-compliance with Australian Accounting standards such as:
 - failing to assess the fair value of infrastructure assets with sufficient regularity
 - recording residual values for certain infrastructure assets that cannot be sold
- lack of quality assurance review of the asset valuation outcomes resulting in significant errors in the financial statements
- multiple control deficiencies in the asset management process increasing the overall risk assessment, such as:
 - numerous errors when reconciling valuation reports to the general ledger
 - non-timely transfer of assets from work-in-progress to the fixed assets register
 - lack of an asset management strategy, policy or plan
 - reliance on manual asset registers, resulting in numerous errors requiring adjustment to the financial statements.

The common issues can be grouped into the following areas:

- asset management planning
- asset valuation
- asset management systems.

5.1 Asset management planning

Asset management planning is important as it helps councils to manage assets appropriately over their life cycle and to make informed decisions on the allocation of resources.

Councils are required under Section 403 of the *Local Government Act 1993* to incorporate asset management planning in its long-term resourcing strategy. This involves preparing an asset management strategy, policy and plan.

Most councils have an asset management strategy, policy and plan, but some require review

We found:

- 6 councils without an asset management strategy, policy and plan (13 in 2016–17).
- 11 councils have not reviewed their asset management policy, strategy and plan in the last five years. This increases the risk that these documents may not reflect councils' current asset management practices.

The Integrated Planning and Reporting Guidelines issued by the Office of Local Government prescribes essential elements to be included in councils' asset management policy, strategy and plan.

We assessed councils' compliance against the essential elements for asset management planning.

Essential elements of asset management planning		Number of councils not complying
1.1	The asset management strategy and plan must be for a minimum period of ten years.	13
1.2	The asset management strategy must include an overarching council endorsed asset management policy.	10
1.3	The asset management strategy must identify assets that are critical to the council's operations and outline the risk management strategies for these assets.	15
1.4	The asset management strategy must include specific actions required to improve the council's asset management capability and projected resource requirements and timeframes.	5
1.5	The asset management plan must encompass all the assets under a council's control.	17
1.6	The asset management plan must identify asset service standards.	12
1.7	The asset management plan must contain long term projections of asset maintenance, rehabilitation and replacement costs.	14
1.8	Councils must report on the condition of their assets in their annual financial statements in line with the Local Government Code of Accounting Practice and Financial Reporting.	--
Total instances of non-compliance		86

Source: Integrated Planning and Reporting Manual for Local Government in NSW and Financial statement audits for the year end 30 June 2018.

More than half of these breaches were identified at rural councils. We reported all identified breaches to management of relevant councils recommending they improve the quality of their asset management strategy, policy and plan.

5.2 Asset valuation process

Asset valuation processes can improve

The Code and Australian Accounting Standards require councils to re-assess the carrying value of infrastructure assets with sufficient regularity to ensure it does not differ materially from fair value. Councils are required to comprehensively value each asset class at least every five years. If carrying values are not regularly assessed, it may result in significant errors in the financial statements.

The Audit Office Annual Work Program identified asset valuations as a key focus area for 30 June 2018 audits. We assessed the effectiveness of asset valuation process and the reasonableness of asset values reported in the financial statements.

Our audits identified:

- 38 councils did not formally re-assess the carrying value of infrastructure assets with sufficient regularity
- 24 councils did not undertake a quality assurance review over the asset valuation outcomes.

Deficiencies in the asset valuation process resulted in errors totalling \$2.6 billion in the financial statements, including \$1.9 billion of prior period errors. These were corrected prior to finalising the financial statements. A more robust asset valuation process may prevent errors caused by:

- inaccurate information provided to the valuers
- acceptance of key inputs and assumptions applied by the valuers, which were not supported
- calculation errors in the valuation reports.

Valuing infrastructure assets is a complex process. It is important councils start the process early and ensure there is a clear plan to ensure valuations are managed and documented appropriately.

Councils may find it useful to assess their asset valuation practices against guidance released by NSW Treasury TPP 14-01 'Accounting Policy: Valuation of Physical Non-Current Assets at Fair Value' and TPP 18-17 'FY18–19 Timetable for Agency Asset Valuations'. The guidance takes into account the unique nature of the not-for-profit public sector in New South Wales.

Useful lives of assets are not being reviewed annually

Our audits identified 63 councils that did not formally re-assess the remaining useful lives of infrastructure assets.

Australian Accounting Standards require the remaining useful lives of assets to be reviewed on an annual basis. This requires councils to assess the physical condition of its assets.

If a physical condition assessment is not performed with sufficient regularity, useful lives may not be reasonable, resulting in errors in the depreciation recorded in the financial statements. Regular condition assessments help to identify maintenance requirements and minimise service interruptions.

The useful lives of road assets vary across councils

The useful life of an asset is the length of time it should be available for use. The remaining useful life is the time left for a council to use an asset, largely influenced by its physical condition. The useful life estimates determine the amount of depreciation expense reported in councils' financial statements.

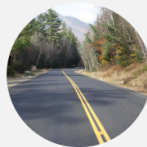
Our audits found a lot of variability in the useful lives for roads reported by councils.

Some variability in the useful lives of roads can be expected due to different soil types, methods of construction, geography and the environment. However, these differences do not fully explain the large variation in the useful lives of similar assets across councils. This variability impacts the depreciation expense reported in the financial statements. This in turn may affect the key sustainability indicators reported by councils.



Sealed roads: Surface

Metro Councils - from 19 to 47 years
Regional Councils - from 15 to 41 years
Rural Councils - from 16 to 36 years



Sealed roads: Structure

Metro Councils - from 56 to 111 years
Regional Councils - from 47 to 120 years
Rural Councils - from 57 to 81 years



Unsealed roads

Metro Councils – from 18 to 34 years
Regional Councils - from 20 to 72 years
Rural Councils - from 30 to 40 years

Sixteen councils recorded residual values for road and stormwater drainage assets

Australian Accounting Standards permit the recording of residual values for infrastructure assets only if the council expects to receive sales proceeds for the asset at the end of its useful life.

Sixteen councils are recording residual values for infrastructure assets, such as roads and stormwater drainage that are not expected to be sold at the end of their useful lives. This may understate the depreciation recorded for these assets and impact the key sustainability indicators reported by councils.

5.3 Asset management systems

Accuracy and completeness of asset data can be improved

Asset registers record key data on councils' infrastructure, property, plant and equipment. Maintaining accurate asset records is important as it enables councils to have appropriate information to make decisions around asset management.

We have summarised the common issues reported in our management letters.

Asset management systems	Number of issues reported
Non-timely recording of asset movements in the asset register	24
Spreadsheets storing asset data outside asset management systems without any controls to protect the data integrity	16
Completed works-in-progress not capitalised as assets on a timely basis	9
Asset registers not being reconciled with the asset management system	6
Assets recorded in incorrect asset classes in the asset registers	6
Asset registers with the same asset being recorded twice	5
Total number of instances	66

It is important councils regularly update asset registers, reconcile their asset registers with asset management systems and have suitable controls in place to ensure the integrity of manual spreadsheets.

Councils may not be recording all Crown land assets they control

The Department of Industry is responsible for overseeing the management of NSW Crown land under the *Crown Lands Act 1989*. The Department maintains the Crown Land Information Database (CLID) containing records of Crown land and the respective Crown land manager. Crown land includes parks, reserves, roads and cemeteries. Councils manage Crown land legally transferred to them and are responsible for its care and maintenance to meet community needs and protect reserves for future generations.

There are discrepancies between the CLID and council Crown land asset records. Nine councils fixed asset registers did not have a separate identifier for Crown land assets. We compared Crown land asset records at local councils with CLID and identified:

- 43 per cent of councils had instances where one or more parcels were recorded in CLID as council managed, but the land was not recorded in the council's register
- 31 per cent of councils had one or more parcel recorded in the council register, but the land was not recorded in CLID as being managed by that council
- 15 per cent of council's records of Crown land were inconsistent with CLID for land size or description
- 2 councils had not recognised any Crown land they manage and control.

Our 2018 Industry Report to Parliament recommended the Department of Industry confirm the completeness and accuracy of the CLID with Crown land managers to improve the reliability of its records.

During 2017–18 audits, five councils identified \$225 million of previously unrecorded Crown land under their care and control. These land parcels were identified when reconciling asset registers with the CLID and operational asset management systems.

Councils should periodically reconcile asset registers to the CLID and investigate discrepancies to ensure Crown land under their care and control is captured.

This will continue to be a key area of focus for our 2018–19 audits.

From 1 July 2018, there were changes to the *Crown Land Management Act 2016*. Crown land managed by councils will be treated as community land, meaning councils will be required to have plans of management in place for these land assets. There is a transition period of three years. Therefore, it is important Crown land records are accurate and complete.

The OLG has released guidance materials and training programs to support councils transition to these new requirements.

A man with glasses and a blue shirt is looking at a laptop screen. The background is a grid of numbers, including 73.5, 50.17, 79, and 10. The text "Financial performance and sustainability" is written in a white circle with an orange border.

Financial
performance and
sustainability



6. Financial performance and sustainability

Strong and sustainable financial performance provides the platform for councils to deliver services and respond to community needs.

This chapter outlines our audit observations on the performance of councils against the Office of Local Government's (OLG) performance indicators.

Observation

Conclusions and recommendations

6.1 Operating performance and revenue measures

Nineteen amalgamated councils received significant one-off grant funding in 2016–17. In 2017–18:

- 8 amalgamated councils reported a negative operating performance (three in 2016–17)
- 14 amalgamated councils met the own source revenue benchmark (eight in 2016–17).

Thirty-five of the 56 rural councils did not meet the benchmark for own source revenue (41 in 2016–17).

The overall operating performance and revenue measures in 2017–18 for amalgamated councils were impacted by lower operational grant income.

The ability to generate own source revenue remains a challenge for rural councils. Rural councils have high-value infrastructure assets covering large areas, less ratepayers and less capacity to raise revenue from alternative sources compared with metropolitan councils.

6.2 Liquidity and working capital performance measures

Most councils met the liquidity and working capital performance measures over the last two years.

Nineteen additional councils would not meet the cash expense cover ratio benchmark when externally restricted funds are excluded.

Most councils:

- can meet short-term obligations as they fall due
- have sufficient operating cash available to service their borrowings
- are collecting rates and annual charges levied
- have the capacity to cover more than three months of operating expenses.

Councils with a higher proportion of restricted funds have less flexibility to pay operational expenses than the cash expense cover ratio suggests.



Each local council has unique characteristics such as its size, location and services provided to their communities. These differences may affect the nature of each council's assets and liabilities, revenue and expenses, and in turn the financial performance measures against which it reports.

The Office of Local Government prescribes performance indicators for council reporting.





The analysis in this chapter is based on performance measures prescribed in OLG's Code of Accounting Practice and Financial Reporting (the Code).

Council's audited financial statements report performance against six financial sustainability measures.





Operating performance and revenue measures

	Operating performance	Measures how well councils keep operating expenses within operating revenue
	Own source operating revenue	Measures council's fiscal flexibility and the degree to which it can generate own source revenue compared with the total revenue from all sources

Liquidity and working capital measures

	Unrestricted current ratio	Measures a council's ability to meet its short-term obligations as they fall due
	Debt service cover ratio	Measures the operating cash to service debt including interest, principal and lease payments
	Rates and annual charges outstanding percentage	Assesses how successful councils are in collecting rates and annual charges
	Cash expense cover ratio	Estimates the number of months a council can continue paying its expenses without additional cash inflow

Council's unaudited Special Schedule 7 'Report on Infrastructure Assets' reports performance against four further asset management measures.

	Building and infrastructure renewals ratio	Assesses the rate at which infrastructure assets are being renewed against the rate at which they are depreciating
	Infrastructure backlog ratio	Shows the amount of infrastructure backlog expenditure relative to the total net book value of a council's infrastructure assets
	Asset maintenance ratio	Compares a council's actual asset maintenance expenditure to the amount planned in their asset management plans
	Cost to bring assets to agreed service level	Compares the estimated cost to renew or rehabilitate existing infrastructure assets, that have reached the condition-based intervention level adopted by a council, to the gross replacement cost of all infrastructure assets

Each audited measure and three of the four unaudited measures has a prescribed benchmark.

6.1 Operating performance and revenue measures

The operating performance and revenue measures indicate whether councils:

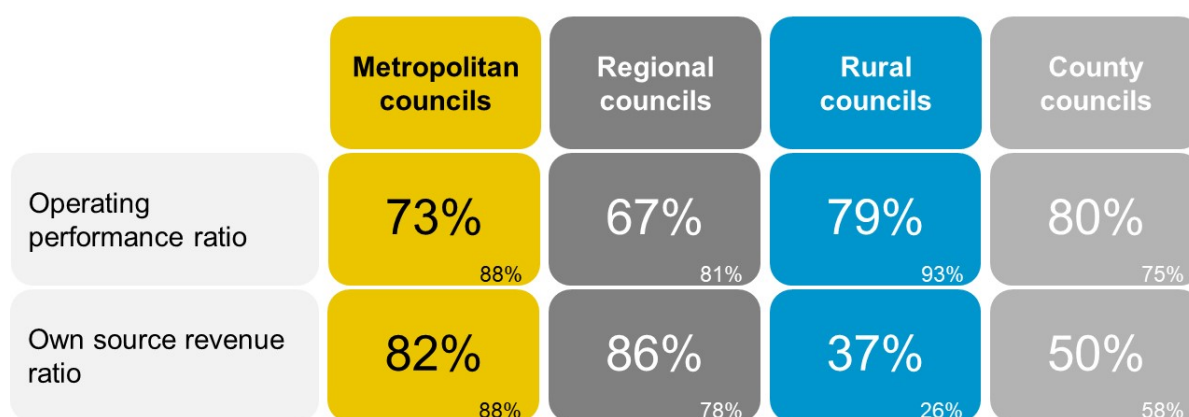
- keep operating expenses within operating revenue
- generate sufficient own source revenue.

Overall more councils:

- reported negative operating performance in 2017–18 compared with 2016–17
- met the benchmark for own source operating revenue in 2017–18 compared with 2016–17.

The ability to generate own source revenue remains a challenge for rural councils.

Percentage of councils meeting OLG's benchmark



Notes:

1 Appendix nine provides a description of operating performance ratio and own source revenue ratio.

2 Appendix eleven lists the performance of each council against operating performance and revenue measures.

Source: Audited financial statements for 2016–17 and 2017–18.

Operating performance and revenue measures for amalgamated councils were impacted by less operating grant income

In the prior year, amalgamated councils received one-off grant funding from the NSW Government's Stronger Communities Fund to assist councils with delivery of projects to improve community infrastructure and services. Each newly amalgamated council also received grant funding from the NSW Government's New Council Implementation Fund to assist councils to cover the up-front costs arising from amalgamation.

The drop in operating grant funding for the 19 amalgamated councils in 2017–18 resulted in:

- 8 amalgamated councils reporting a negative operating performance in 2017–18 (three in 2016–17)
- 14 amalgamated councils meeting the own source revenue benchmark (eight in 2016–17).

Rural councils continue to face challenges in generating own source revenue

In 2017–18, 35 rural councils did not meet the own source operating revenue benchmark (41 in 2016–17). The ability to generate own source revenue remains a challenge for rural councils. Rural councils have high-value infrastructure assets covering large areas, less ratepayers and less capacity to raise revenue from alternative sources compared with metropolitan councils. They have less capacity to generate revenue from alternative sources such as parking fees, property development and rental income.

6.2 Liquidity and working capital performance measures

The liquidity and working capital performance measures indicate whether councils can:

- meet short term obligations
- service their debt
- collect outstanding rates and annual charges
- meet their future expenses.

Most councils met the benchmarks for the liquidity and working capital performance measures over the last two years.

Percentage of councils meeting OLG's benchmark

	Metropolitan councils	Regional councils	Rural councils	County councils
Unrestricted current ratio	100% <small>100%</small>	94% <small>95%</small>	95% <small>98%</small>	90% <small>100%</small>
Debt service cover ratio	96% <small>97%</small>	94% <small>100%</small>	98% <small>100%</small>	100% <small>92%</small>
Rates and annual charges outstanding percentage	91% <small>91%</small>	89% <small>86%</small>	91% <small>86%</small>	0% <small>0%</small>
Cash expense cover ratio	100% <small>100%</small>	100% <small>100%</small>	98% <small>95%</small>	100% <small>83%</small>

Notes:

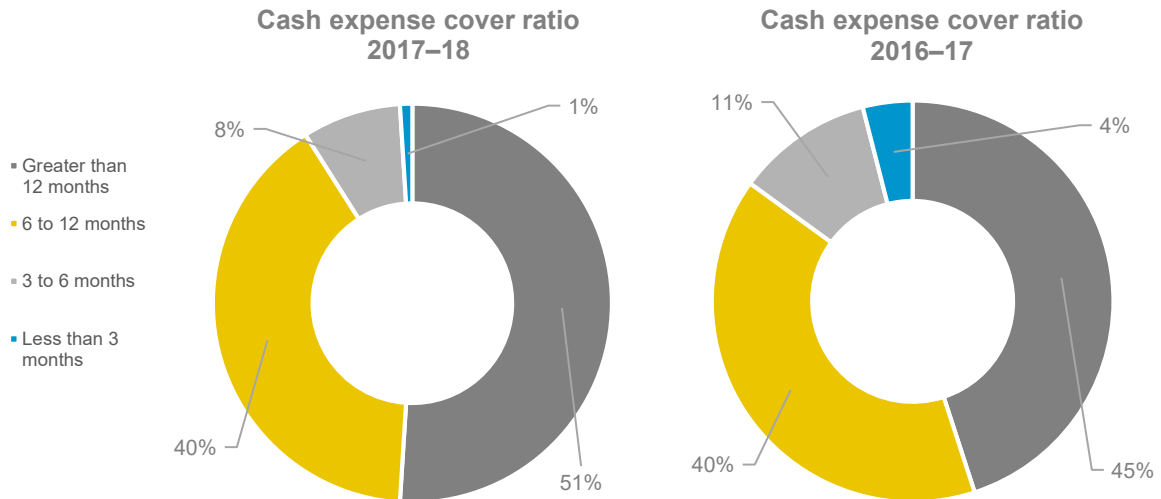
- 1 Cash expense cover ratio includes externally and internally restricted funds.
- 2 Appendix nine provides a description of unrestricted current ratio, debts service cover ratio, rates and annual charges outstanding percentage and cash expense cover ratio.
- 3 Appendix eleven lists the performance of each council against liquidity and working capital performance measures.

Source: Audited financial statements for 2017–18.

An additional 19 councils would not meet the cash expense cover ratio benchmark when externally restricted funds are excluded

Externally restricted assets are those affected by legislation or other externally imposed requirements. Internally restricted assets are affected by council resolution or policy, usually for an identified future works program. All other assets are unrestricted.

In 2017–18, all but one council had the capacity to cover more than three months of expenditure without extra cash inflows. Sixty-nine councils (51 per cent) had enough cash on hand to fund more than 12 months of expenditure. Another 54 councils (40 per cent) had enough cash to fund between six and twelve months of expenditure, and 11 councils (eight per cent) had enough cash to cover three to six months of expenditure.



Source: Audited financial statements for 2016–17 and 2017–18.

Councils are not required to exclude externally and internally restricted funds when calculating the cash expense cover ratio.

If externally restricted funds are excluded from the cash expense cover ratio, an additional 19 councils will not meet OLG’s benchmark for the cash expense cover ratio.

To meet operational needs, councils with low unrestricted funds may need to:

- borrow funds
- seek approval from the Minister for Local Government to use externally restricted funds
- look at ways to reduce expenditure or seek revenue from other sources.

6.3 Asset management performance measures

The asset management performance measures indicate how well councils maintain, renew and report on the condition and cost of infrastructure assets.

Overall:

- most councils face challenges in meeting the asset management performance measures
- no county councils met the building and infrastructure renewals ratio
- less councils met the asset maintenance ratio in 2017–18 compared with 2016–17.

Percentage of councils meeting OLG's benchmark

	Metropolitan councils	Regional councils	Rural councils	County councils
Building and infrastructure renewals ratio	42% <small>36%</small>	26% <small>23%</small>	56% <small>39%</small>	0% <small>67%</small>
Infrastructure backlog ratio	58% <small>55%</small>	34% <small>20%</small>	46% <small>33%</small>	33% <small>33%</small>
Asset maintenance ratio	51% <small>58%</small>	26% <small>29%</small>	42% <small>51%</small>	67% <small>33%</small>

Notes:

- 1 Four rural and seven county councils did not report the results of infrastructure renewals, infrastructure backlog and asset maintenance ratios.
- 2 Appendix nine provides a description of building and infrastructure renewals ratio, infrastructure backlog ratio and asset maintenance ratio.
- 3 Appendix eleven lists the performance of each council against asset management performance measures.
- 4 OLG has not prescribed a benchmark for the 'cost to bring assets to agreed service level' performance indicator and is therefore excluded from the analysis.

Source: Unaudited Special Schedule 7 'Report on Infrastructure Assets' for 2016–17 and 2017–18.

Councils reported insufficient spending to renew and maintain infrastructure assets

Thirty-six councils reported they do not meet the benchmarks for either the buildings and infrastructure renewals ratio, the infrastructure backlog ratio or the asset maintenance ratio. These councils should examine how well they manage their assets and consider if their investment in maintaining and renewing infrastructure assets is sufficient. This assessment should be an input to future asset management plans.

Councils are required to have asset management plans that consider community needs, available funds, the council's risk appetite, and the whole-of-life costs of owning and/or managing the infrastructure assets under their control.

Inconsistent calculation of the buildings and infrastructure renewals ratio

OLG's Code requires the unaudited buildings and infrastructure renewals ratio to calculate renewal expenditure on specific infrastructure assets, excluding work-in-progress, as a percentage of depreciation, amortisation and impairment.

Thirty-six per cent of councils included work-in-progress assets when calculating the ratio. If work-in-progress assets are excluded from the calculation, a further eight councils would not meet the benchmark. This means 81 councils (65 per cent) did not meet the benchmark for renewing their assets. The inconsistency in the calculation of this ratio reduces the comparability of the buildings and infrastructure renewals ratio reported by councils.

A row of books is shown from a low angle, with their spines and pages visible. The books are of various colors and thicknesses. A white circle with a thin orange border is overlaid on the right side of the image, containing the text "Appendices".

Appendices



Appendix one – Response from the Office of Local Government



Office of
Local Government

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Locked Bag 3015 NOWRA NSW 2541

Our Reference: A638505
Your Reference: D1902650
Contact: Sonja Hammond
Phone: 02 4428 4143

Ms Margaret Crawford
Auditor-General of New South Wales
GPO Box 12
Sydney NSW 2001

By email: mail@audit.nsw.gov.au

Dear Ms Crawford

Thank you for your letter dated 8 February 2019 and for the opportunity to respond to your proposed Report on Local Government 2018 that is to be tabled in Parliament.

The Office of Local Government welcomes the contribution of the Audit Office towards strengthening governance, financial management and reporting in the local government sector, and notes your findings and recommendations.

OLG is pleased to note that more councils have appointed audit risk and improvement committees (ARIC) in anticipation of the commencement of section 428A of the *Local Government Act 1993* (Act).

Work has continued on the design of the regulatory framework for internal audit and risk management in councils, which will support the commencement of section 428A. OLG has prepared a position paper outlining the proposed framework and has sought preliminary comment from the Audit Office, other Government partners and industry experts. It is anticipated that the position paper will be issued for public consultation in the first half of 2019 with regulations and guidelines informed by the consultation outcomes to follow.

During the past year OLG has worked towards addressing the recommendations from the Report on Local Government 2017. In this regard OLG has provided information essential for financial reporting, such as the Local Government Code of Accounting Practice and Financial Reporting (Code) which was released on 18 April 2018, before the 30 April date suggested in the Report. OLG intends to also release the update for the 2018-19 Code within this timeframe. OLG has reviewed the Code and confirms that it aligns with the Australian Accounting Standards.

The Report on Local Government 2017 also recommended that OLG should address the different practices across the Local Government sector in accounting for rural fire-fighting equipment before 30 June 2018. I can advise that OLG has amended the Code for councils to record their rural fire-fighting equipment when they determine they have control, consistent with the relevant Accounting Standard, and the Code was released to councils on 18 April 2018. OLG has also

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Strengthening local government

engaged with NSW Treasury and Rural Fire Service representatives throughout the reporting period to progress the issue of accounting for rural fire-fighting equipment.

With regard to entities, draft financial reporting templates have been developed for the newly formed Joint Organisations and I appreciate that representatives from the Audit Office Technical Team have been asked to provide feedback. A register of entities approved under section 358 of the Act has also been updated and will be maintained by OLG.

We look forward to continuing this important work with the Audit Office to ensure that both local and state government work together to better serve local communities in NSW.

Yours sincerely



Tim Hurst
Chief Executive
Office of Local Government

27/2/19



Appendix two – List of 2018 recommendations

The table below lists the recommendations made in this report.



1. Governance and internal controls

Internal controls

Councils should reduce risk by addressing high-risk findings as a priority.



2. Asset management

Asset management planning

Councils' asset management policy, strategy and plan should comply with the requirements of the *Local Government Act 1993* and the Integrated Planning and Reporting Guidelines issued by the Office of Local Government.



Key



Low risk












Medium risk







High risk



Appendix three – Status of 2017 recommendations

Recommendation	Current status
Financial reporting	
Councils can improve the quality of financial reporting by reviewing their financial statements close processes to identify areas for improvements.	While the number of qualified opinions decreased, the number of high and moderate-risk findings on financial reporting increased compared with the prior year. Refer to Section 2.1 for further details. 
Councils can improve the quality of financial reporting by involving an audit, risk and improvement committee in the review of financial statements.	Audit, risk and improvement committees were more involved in the review of financial statements, but more can be done to improve the quality of financial statements. 
The Office of Local Government should release the Local Government Code of Accounting Practice and Financial Reporting and the End of Year Financial Reporting Circular earlier in the audit cycle, ideally by 30 April each year.	The Office of Local Government released the Local Government Code of Accounting Practice and Financial Reporting on 18 April 2018. This improved compared with the prior year when it was released on 7 June 2017. 
	The 2017–18 End of Year Financial Reporting circular was released earlier on 7 June 2018. This improved compared with the prior year when it was released on 25 September 2017.
The Local Government Code of Accounting Practice and Financial Reporting should align with Australian Accounting Standards.	We did not identify further instances where the Code did not align with Australian Accounting standards. 
The Office of Local Government should introduce early close procedures with an emphasis on asset valuations.	The Office of Local Government encouraged councils to engage with their auditors early and ensure early commencement and completion of asset revaluations.  There is still opportunity for councils to improve the timeliness of financial reporting. Refer to Section 2.2 for further details.
Governance and internal controls	
Councils should early adopt the proposed requirement to establish an audit, risk and improvement committee.	Twelve more councils established audit, risk and improvement committees during 2017–18 resulting in 97 councils having committees. Please refer to Section 3.2 for more details. 
The Office of Local Government should introduce the requirement for councils to establish internal audit functions and update its 2010 Internal Audit Guidelines.	Six more councils established an internal audit function during 2017–18 resulting in 92 councils having an internal audit function.  OLG are currently in the process of updating the 2010 Internal Audit Guidelines. Refer to Section 3.2 for further details.
The Office of Local Government should maintain an accurate register of entities approved under Section 358 of the <i>Local Government Act 1993</i> .	The Office of Local Government is in the process of updating the register of entities. 
The Office of Local Government should consider establishing a financial reporting framework for council entities.	The Office of Local Government has prepared draft financial reporting templates for the newly formed Joint Organisations 

Recommendation	Current status
Asset management	
<p>The Office of Local Government should address the different practices across the Local Government sector in accounting for rural fire-fighting equipment before 30 June 2018. In doing so, the Office of Local Government should work with NSW Treasury to ensure there is a whole-of-government approach.</p>	<p>Inconsistent practices remain across the Local Government sector in accounting for rural fire-fighting equipment. </p> <p>A number of councils do not record rural fire-fighting equipment, meaning that a significant portion of rural fire-fighting equipment continues to not be recorded in either State or council financial records.</p>
Key	 Fully addressed
 Partially addressed	 Not addressed



Appendix four – Sources of information and council classifications

Sources of information

This report comments on the results of audits completed on the 2017–18 financial statements of 125 councils and ten county councils. The audit of Bayside Council's 2017–18 financial statements is ongoing as the council received a lodgement extension from the Office of Local Government.

In addition to the audited financial statements, the comments and analysis in this report has been drawn from:

- data collected from councils
- audit findings reported to councils
- data from external sources, including population, kilometres of roads, and council area data from the Australian Bureau of Statistics and the Office of Local Government.

Council classifications

We adopted the following methodology when classifying councils in our report.

OLG classification	Audit Office grouping
Metropolitan	Metropolitan
Regional town/city	Regional
Metropolitan fringe	Metropolitan
Rural	Rural
Large rural	Rural

Source: OLG classifications and Audit Office.

Below is a list of councils and county councils by classification.

Metropolitan councils		
Bayside Council	Blacktown City Council	Blue Mountains City Council
Burwood Council	Camden Council	Campbelltown City Council
City of Canada Bay Council	Canterbury Bankstown Council	Central Coast Council
Cumberland Council	Fairfield City Council	Georges River Council
Hawkesbury City Council	Hills Shire Council, The	Hornsby, The Council of the Shire of
Hunters Hill, The Council of the Municipality of	Inner West Council	Ku-ring-gai Council
Lane Cove Municipal Council	Liverpool City Council	Mosman Municipal Council
North Sydney Council	Northern Beaches Council	Parramatta Council, City of
Penrith City Council	Randwick City Council	Ryde City Council
Strathfield Municipal Council	Sutherland Shire Council	Sydney, Council of the City of
Waverley Council	Willoughby City Council	Wollondilly Shire Council
Woollahra Municipal Council		

Regional councils

Albury City Council	Armidale Regional Council	Ballina Shire Council
Bathurst Regional Council	Bega Valley Shire Council	Broken Hill City Council
Byron Shire Council	Cessnock City Council	Clarence Valley Council
Coffs Harbour City Council	Dubbo Regional Council	Eurobodalla Shire Council
Goulburn Mulwaree Council	Griffith City Council	Kempsey Shire Council
Kiama, the Council of the Municipality of	Lake Macquarie City Council	Lismore City Council
Lithgow Council, City of	Maitland City Council	Mid-Coast Council
Mid-Western Regional Council	Newcastle City Council	Orange City Council
Port Macquarie-Hastings Council	Port Stephens Council	Queanbeyan-Palerang Regional Council
Richmond Valley Council	Shellharbour City Council	Shoalhaven City Council
Singleton Council	Snowy Monaro Regional Council	Tamworth Regional Council
Tweed Shire Council	Wagga Wagga City Council	Wingecarribee Shire Council
Wollongong City Council		

Rural councils

Balranald Shire Council	Bellingen Shire Council	Berrigan Shire Council
Bland Shire Council	Blayney Shire Council	Bogan Shire Council
Bourke Shire Council	Brewarrina Shire Council	Cabonne Council
Carrathool Shire Council	Central Darling Shire Council	Cobar Shire Council
Coolamon Shire Council	Coonamble Shire Council	Cootamundra-Gundagai Regional Council
Cowra Shire Council	Dungog Shire Council	Edward River Council
Federation Council	Forbes Shire Council	Gilgandra Shire Council
Glen Innes Severn Council	Greater Hume Shire Council	Gunnedah Shire Council
Gwydir Shire Council	Hay Shire Council	Hilltops Council
Inverell Shire Council	Junee Shire Council	Kyogle Council
Lachlan Shire Council	Leeton Shire Council	Liverpool Plains Shire Council
Lockhart Shire Council	Moree Plains Shire Council	Murray River Council
Murrumbidgee Council	Muswellbrook Shire Council	Nambucca Shire Council
Narrabri Shire Council	Narrandera Shire Council	Narromine Shire Council
Oberon Council	Parkes Shire Council	Snowy Valleys Council
Temora Shire Council	Tenterfield Shire Council	Upper Hunter Shire Council
Upper Lachlan Shire Council	Uralla Shire Council	Walcha Council
Walgett Shire Council	Warren Shire Council	Warrumbungle Shire Council
Weddin Shire Council	Wentworth Shire Council	Yass Valley Council

County councils

Castlereagh-Macquarie County Council	Central Murray County Council	Central Tablelands County Council
Goldenfields Water County Council	Hawkesbury River County Council	New England Weeds Authority
Riverina Water County Council	Rous County Council	Upper Hunter County Council
Upper Macquarie County Council		



Appendix five – Financial data

We have included a summary of key financial information from the 2017–18 audited financial statements of councils.

Council	2017–18				
	Total revenue	Total expenses	Operating result	Total assets	Total liabilities
	\$m	\$m	\$m	\$m	\$m
Albury City Council	146	106	40	1,474	78
Armidale Regional Council	77	80	(3)	926	50
Ballina Shire Council	129	82	47	1,332	104
Balranald Shire Council	14	13	1	153	5
Bathurst Regional Council	120	99	21	1,407	53
Bayside Council*	N/A	N/A	N/A	N/A	N/A
Bega Valley Shire Council	101	92	9	1,022	58
Bellingen Shire Council	38	30	8	467	15
Berrigan Shire Council	25	18	7	275	5
Blacktown City Council	637	334	303	4,726	160
Bland Shire Council	25	24	1	365	10
Blayney Shire Council	24	17	7	256	9
Blue Mountains City Council	119	120	(1)	1,035	60
Bogan Shire Council	29	20	9	243	6
Bourke Shire Council	32	29	3	257	9
Brewarrina Shire Council	18	15	3	146	5
Broken Hill City Council	29	35	(6)	248	30
Burwood Council	63	47	16	523	23
Byron Shire Council	120	85	35	892	82
Cabonne Council	43	34	9	637	15
Camden Council	275	110	165	1,612	75
Campbelltown City Council	231	148	83	2,448	47
City of Canada Bay Council	98	87	11	1,799	31
Canterbury Bankstown Council	323	296	27	3,983	100
Carrathool Shire Council	25	22	3	232	7
Central Coast Council	651	585	66	7,579	502
Central Darling Shire Council	24	22	2	179	4
Cessnock City Council	121	82	39	817	40
Clarence Valley Council	141	136	5	2,113	152
Cobar Shire Council	37	32	5	320	6
Coffs Harbour City Council	209	171	38	2,284	187
Coolamon Shire Council	18	13	5	196	11

2017–18

Council	Total revenue \$m	Total expenses \$m	Operating result \$m	Total assets \$m	Total liabilities \$m
Coonamble Shire Council	25	23	2	318	6
Cootamundra-Gundagai Regional Council	32	39	(7)	411	10
Cowra Shire Council	39	34	5	619	25
Cumberland Council	206	185	21	2,500	61
Dubbo Regional Council	214	122	92	2,651	98
Dungog Shire Council	22	18	4	325	7
Edward River Council	28	24	4	422	7
Eurobodalla Shire Council	132	110	22	1,437	85
Fairfield City Council	188	162	26	2,066	43
Federation Council	40	37	3	566	14
Forbes Shire Council	48	39	9	322	33
Georges River Council	154	132	22	1,448	39
Gilgandra Shire Council	36	32	4	312	21
Glen Innes Severn Council	33	33	--	297	22
Goulburn Mulwaree Council	97	60	37	1,061	43
Greater Hume Shire Council	40	30	10	517	14
Griffith City Council	64	54	10	747	31
Gunnedah Shire Council	52	42	10	487	29
Gwydir Shire Council	30	36	(6)	417	16
Hawkesbury City Council	95	76	19	1,075	31
Hay Shire Council	12	11	1	98	4
The Hills Shire Council	291	164	127	3,713	50
Hilltops Council*	N/A	N/A	N/A	N/A	N/A
The Council of the Shire of Hornsby	233	121	112	1,894	45
The Council of the Municipality of Hunters Hill	15	15	--	231	6
Inner West Council	254	239	15	2,455	75
Inverell Shire Council	42	32	10	704	13
Junee Shire Council	17	16	1	116	10
Kempsey Shire Council	138	76	62	1,135	60
The Council of the Municipality of Kiama	59	59	--	484	84
Ku-ring-gai Council	156	123	33	1,580	50
Kyogle Council	32	25	7	424	10
Lachlan Shire Council	40	35	5	387	12
Lake Macquarie City Council	296	221	75	2,811	180
Lane Cove Municipal Council	64	41	23	766	16
Leeton Shire Council	32	27	5	255	7

2017–18

Council	Total revenue	Total expenses	Operating result	Total assets	Total liabilities
	\$m	\$m	\$m	\$m	\$m
Lismore City Council	126	110	16	1,474	87
City of Lithgow Council	47	44	3	558	39
Liverpool City Council	300	183	117	2,782	88
Liverpool Plains Shire Council	28	30	(2)	566	9
Lockhart Shire Council	12	10	2	239	6
Maitland City Council*	N/A	N/A	N/A	N/A	N/A
Mid-Coast Council	265	235	30	3,197	291
Mid-Western Regional Council	82	66	16	1,012	30
Moree Plains Shire Council	69	54	15	565	61
Mosman Municipal Council	49	46	3	544	24
Murray River Council	47	40	7	737	12
Murrumbidgee Council	18	25	(7)	285	4
Muswellbrook Shire Council	67	45	22	705	84
Nambucca Shire Council	42	36	6	501	52
Narrabri Shire Council	54	47	7	496	15
Narrandera Shire Council	22	19	3	252	4
Narromine Shire Council	24	21	3	331	6
Newcastle City Council	310	286	24	1,822	191
North Sydney Council	123	106	17	1,194	46
Northern Beaches Council	391	313	78	5,153	148
Oberon Council	19	15	4	297	6
Orange City Council	124	88	36	1,278	43
Parkes Shire Council	54	46	8	723	33
City of Parramatta Council	298	262	36	3,092	129
Penrith City Council	274	206	68	2,103	107
Port Macquarie-Hastings Council	219	159	60	2,264	112
Port Stephens Council	137	117	20	1,047	58
Queanbeyan-Palerang Regional Council	178	132	46	1,506	67
Randwick City Council	160	152	8	1,632	35
Richmond Valley Council	60	54	6	807	40
Ryde City Council	156	124	32	1,494	45
Shellharbour City Council	162	120	42	983	70
Shoalhaven City Council	272	223	49	2,996	222
Singleton Council	65	55	10	962	24
Snowy Monaro Regional Council	74	73	1	1,240	26
Snowy Valleys Council	52	54	(2)	627	18

2017–18

Council	Total revenue	Total expenses	Operating result	Total assets	Total liabilities
	\$m	\$m	\$m	\$m	\$m
Strathfield Municipal Council	52	40	12	418	17
Sutherland Shire Council	254	219	35	2,682	74
Council of the City of Sydney	758	541	217	12,190	185
Tamworth Regional Council	155	138	17	1,629	106
Temora Shire Council	26	20	6	216	7
Tenterfield Shire Council	27	20	7	397	15
Tweed Shire Council	238	186	52	3,429	216
Upper Hunter Shire Council	56	41	15	723	30
Upper Lachlan Shire Council	34	26	8	442	12
Uralla Shire Council	21	19	2	249	12
Wagga Wagga City Council	147	125	22	1,574	83
Walcha Council	16	14	2	446	6
Walgett Shire Council	35	32	3	312	12
Warren Shire Council	16	15	1	195	3
Warrumbungle Shire Council	47	45	2	506	15
Waverley Council	144	127	17	1,276	41
Weddin Shire Council	15	14	1	195	7
Wentworth Shire Council	28	26	2	450	10
Willoughby City Council	138	101	37	1,682	77
Wingecarribee Shire Council	156	104	52	1,628	50
Wollondilly Shire Council	72	73	(1)	536	44
Wollongong City Council	315	266	49	2,566	158
Woollahra Municipal Council	101	92	9	981	110
Yass Valley Council	37	29	8	385	25
Central Murray County Council	1	1	--	1	--
Central Tablelands County Council	7	6	1	77	3
Goldenfields Water County Council	25	21	4	316	3
Rous County Council	32	25	7	519	31
Upper Hunter County Council	2	2	--	723	30
Upper Macquarie County Council	1	1	--	1	--
Hawkesbury River County Council	2	2	--	4	2
Castlereagh-Macquarie County Council	1	1	--	1	--
Riverina Water County Council	33	21	12	383	16
New England Weeds Authority	1	1	--	2	--

* The audit reports of these councils were not finalised at the time of this report.

Source: Audited financial statements 2017–18.



Appendix six – Status of audits

Below is a summary of the status of the 2017–18 financial statement audits, including the type of audit opinion and the date it was issued.

2017–18 audits

Key

Type of audit opinion		Date of audit opinion	
Unmodified opinion		Financial statements were lodged by the statutory deadline of 31 October 2018	
Unmodified opinion with emphasis of matter		Extensions to the statutory deadline (and met)	
Modified opinion: Qualified opinion, an adverse opinion, or a disclaimer of opinion		Financial statements not submitted as at tabling date	

Local council	Type of audit opinion		Date of audit opinion	
Albury City Council	Unmodified		29 October 2018	
Armidale Regional Council	Unmodified		30 October 2018	
Ballina Shire Council	Unmodified		25 October 2018	
Balranald Shire Council	Unmodified		7 December 2018	
Bathurst Regional Council	Unmodified		30 October 2018	
Bayside Council	Not yet issued		Not yet issued	
Bega Valley Shire Council	Unmodified		28 December 2018	
Bellingen Shire Council	Unmodified		26 October 2018	
Berrigan Shire Council	Unmodified		17 October 2018	
Blacktown City Council	Unmodified		23 October 2018	
Bland Shire Council	Unmodified		30 November 2018	
Blayney Shire Council	Unmodified		24 October 2018	
Blue Mountains City Council	Unmodified		30 October 2018	
Bogan Shire Council	Unmodified		22 October 2018	
Bourke Shire Council	Unmodified		12 November 2018	
Brewarrina Shire Council	Unmodified		23 November 2018	
Broken Hill City Council	Unmodified		26 October 2018	
Burwood Council	Unmodified		19 October 2018	
Byron Shire Council	Unmodified		19 October 2018	
Cabonne Council	Unmodified		30 October 2018	
Camden Council	Unmodified		31 October 2018	
Campbelltown City Council	Unmodified		25 September 2018	

Local council	Type of audit opinion		Date of audit opinion	
City of Canada Bay Council	Unmodified		18 October 2018	
Canterbury Bankstown Council	Unmodified		29 October 2018	
Carrathool Shire Council	Unmodified		30 October 2018	
Central Coast Council	Unmodified		3 December 2018	
Central Darling Shire Council	Unmodified (with Emphasis of Matter)		21 December 2018	
Cessnock City Council	Unmodified		18 October 2018	
Clarence Valley Council	Unmodified		19 December 2018	
Cobar Shire Council	Unmodified		30 October 2018	
Coffs Harbour City Council	Unmodified		25 October 2018	
Coolamon Shire Council	Unmodified		22 October 2018	
Coonamble Shire Council	Unmodified		30 October 2018	
Cootamundra-Gundagai Regional Council	Unmodified		30 November 2018	
Cowra Shire Council	Unmodified		29 October 2018	
Cumberland Council	Unmodified		19 October 2018	
Dubbo Regional Council	Unmodified		31 October 2018	
Dungog Shire Council	Unmodified		30 October 2018	
Edward River Council	Unmodified		18 October 2018	
Eurobodalla Shire Council	Unmodified		20 December 2018	
Fairfield City Council	Unmodified		19 October 2018	
Federation Council	Unmodified		30 October 2018	
Forbes Shire Council	Unmodified		30 October 2018	
Georges River Council	Unmodified		30 October 2018	
Gilgandra Shire Council	Unmodified		26 October 2018	
Glen Innes Severn Council	Unmodified		31 October 2018	
Goulburn Mulwaree Council	Unmodified		31 October 2018	
Greater Hume Shire Council	Unmodified		17 October 2018	
Griffith City Council	Unmodified		26 October 2018	
Gunnedah Shire Council	Unmodified		29 October 2018	
Gwydir Shire Council	Unmodified		22 October 2018	
Hawkesbury City Council	Unmodified		19 October 2018	
Hay Shire Council	Unmodified		31 October 2018	
Hilltops Council	Not yet issued		Not yet issued	
Hornsby, The Council of the Shire of	Unmodified		15 October 2018	

Local council	Type of audit opinion		Date of audit opinion	
Hunters Hill, The Council of the Municipality of	Unmodified		19 October 2018	
Inner West Council	Unmodified		31 October 2018	
Inverell Shire Council	Unmodified		29 October 2018	
Junee Shire Council	Unmodified		26 November 2018	
Kempsey Shire Council	Unmodified		30 October 2018	
Kiama, The Council of the Municipality of	Unmodified		27 November 2018	
Ku-ring-gai Council	Unmodified		28 September 2018	
Kyogle Council	Unmodified		30 October 2018	
Lachlan Shire Council	Unmodified		31 October 2018	
Lake Macquarie City Council	Unmodified		31 October 2018	
Lane Cove Municipal Council	Unmodified		29 October 2018	
Leeton Shire Council	Unmodified		29 October 2018	
Lismore City Council	Unmodified		10 October 2018	
Lithgow Council, City of	Unmodified		30 October 2018	
Liverpool City Council	Unmodified		29 October 2018	
Liverpool Plains Shire Council	Unmodified		30 November 2018	
Lockhart Shire Council	Unmodified		25 October 2018	
Maitland City Council	Not yet issued		Not yet issued	
Mid-Coast Council	Unmodified		30 November 2018	
Mid-Western Regional Council	Unmodified		26 October 2018	
Moree Plains Shire Council	Unmodified		22 October 2018	
Mosman Municipal Council	Unmodified		30 October 2018	
Murray River Council	Unmodified		18 December 2018	
Murrumbidgee Council	Unmodified		21 December 2018	
Muswellbrook Shire Council	Unmodified		23 October 2018	
Nambucca Shire Council	Unmodified		17 October 2018	
Narrabri Shire Council	Unmodified		31 October 2018	
Narrandera Shire Council	Unmodified		19 October 2018	
Narromine Shire Council	Unmodified		30 October 2018	
Newcastle City Council	Unmodified		12 October 2018	
North Sydney Council	Unmodified		30 October 2018	
Northern Beaches Council	Unmodified		17 October 2018	
Oberon Council	Unmodified		23 October 2018	
Orange City Council	Unmodified		13 November 2018	

Local council	Type of audit opinion		Date of audit opinion	
Parkes Shire Council	Unmodified	✓	14 November 2018	✓
Parramatta Council, City of	Unmodified	✓	30 October 2018	✓
Penrith City Council	Unmodified	✓	26 September 2018	✓
Port Macquarie-Hastings Council	Unmodified	✓	29 October 2018	✓
Port Stephens Council	Unmodified	✓	29 October 2018	✓
Queanbeyan-Palerang Regional Council	Unmodified	✓	30 October 2018	✓
Randwick City Council	Unmodified	✓	30 October 2018	✓
Richmond Valley Council	Unmodified	✓	17 October 2018	✓
Ryde City Council	Unmodified	✓	31 October 2018	✓
Shellharbour City Council	Unmodified	✓	31 December 2018	✓
Shoalhaven City Council	Unmodified	✓	5 November 2018	✓
Singleton Council	Unmodified	✓	23 October 2018	✓
Snowy Monaro Regional Council	Unmodified	✓	29 October 2018	✓
Snowy Valleys Council	Unmodified	✓	30 November 2018	✓
Strathfield Municipal Council	Unmodified	✓	25 October 2018	✓
Sutherland Shire Council	Unmodified	✓	24 October 2018	✓
Sydney, Council of the City of	Unmodified	✓	30 October 2018	✓
Tamworth Regional Council	Unmodified	✓	30 October 2018	✓
Temora Shire Council	Unmodified	✓	29 October 2018	✓
Tenterfield Shire Council	Unmodified	✓	25 October 2018	✓
The Hills Shire Council	Unmodified	✓	31 August 2018	✓
Tweed Shire Council	Unmodified	✓	29 October 2018	✓
Upper Hunter Shire Council	Unmodified	✓	15 November 2018	✓
Upper Lachlan Shire Council	Unmodified	✓	31 October 2018	✓
Uralla Shire Council	Unmodified	✓	19 October 2018	✓
Wagga Wagga City Council	Unmodified	✓	29 October 2018	✓
Walcha Council	Unmodified	✓	29 October 2018	✓
Walgett Shire Council	Unmodified	✓	30 October 2018	✓
Warren Shire Council	Unmodified	✓	16 October 2018	✓
Warrumbungle Shire Council	Unmodified	✓	9 November 2018	✓
Waverley Council	Unmodified	✓	30 October 2018	✓
Weddin Shire Council	Unmodified	✓	31 October 2018	✓
Wentworth Shire Council	Unmodified	✓	8 November 2018	✓
Willoughby City Council	Unmodified	✓	30 October 2018	✓

Local council	Type of audit opinion		Date of audit opinion	
Wingecarribee Shire Council	Unmodified		17 October 2018	
Wollondilly Shire Council	Unmodified		15 October 2018	
Wollongong City Council	Unmodified		28 September 2018	
Woollahra Municipal Council	Unmodified		30 October 2018	
Yass Valley Council	Unmodified		24 October 2018	

County council	Type of audit opinion		Date of audit opinion	
Castlereagh Macquarie County Council	Unmodified		30 October 2018	
Central Murray County Council	Unmodified		29 October 2018	
Central Tablelands County Council	Unmodified		31 October 2018	
Goldenfields Water County Council	Unmodified		11 October 2018	
Hawkesbury River County Council	Unmodified		12 October 2018	
New England Weeds Authority	Unmodified		24 August 2018	
Riverina Water County Council	Unmodified		21 September 2018	
Rous County Council	Unmodified		19 October 2018	
Upper Hunter County Council	Unmodified		16 October 2018	
Upper Macquarie County Council	Unmodified		9 October 2018	

2016–17 audits

Local council	Type of audit opinion		Date of audit opinion	
Bayside Council	Modified		21 February 2019	



Appendix seven – List of Joint Organisations and their member councils

Joint Organisation name	Member councils
Canberra Region Joint Organisation	Bega Valley, Eurobodalla, Goulburn-Mulwaree, Hilltops, Queanbeyan-Palerang, Snowy Monaro, Upper Lachlan, Wingecarribee, Yass Valley
Central NSW Joint Organisation	Bathurst, Blayney, Cabonne, Cowra, Forbes, Lachlan, Oberon, Orange, Parkes, Weddin
Hunter Joint Organisation	Cessnock, Dungog, Lake Macquarie, Maitland, Mid-Coast, Muswellbrook, Newcastle, Port Stephens, Singleton, Upper Hunter
Illawarra Shoalhaven Joint Organisation	Kiama, Shellharbour, Shoalhaven, Wollongong
Namoi Joint Organisation	Gunnedah, Gwydir, Liverpool Plains, Tamworth, Walcha
New England Joint Organisation	Armidale, Glen Innes Severn, Inverell, Uralla, Moree Plains, Narrabri, Tenterfield
Northern Rivers Joint Organisation	Ballina, Byron, Kyogle, Lismore, Richmond Valley, Tweed
Orana Joint Organisation	Bogan, Gilgandra, Mid-Western, Narromine, Warren, Warrumbungle
Riverina and Murray Joint Organisation	Albury, Berrigan, Carrathool, Edward River, Federation, Griffith, Hay, Leeton, Murray River, Murrumbidgee, Narrandera
Riverina Joint Organisation	Bland, Coolamon, Cootamundra-Gundagai, Greater Hume, Junee, Lockhart, Temora
Mid North Coast Joint Organisation	Port Macquarie-Hastings, Kempsey, Bellingen
Far North West Organisation	Bourke, Cobar, Walgett
Far South West Joint Organisation	Balranald, Broken Hill, Central Darling, Wentworth



Appendix eight – Council spending by function – Definitions from the Local Government Code of Accounting Practice and Financial Reporting

Category	Council expenditure
Governance	Costs relating to council's role as a component of democratic government, including elections, councillors' fees and expenses, subscriptions to local authority associations, meetings of Council and policy-making committees, public disclosure and legislative compliance
Administration	Corporate support and other support services, engineering works and council policy compliance
Public order and safety	Delivery of fire protection, emergency services, beach control, enforcement of regulations and animal control services
Health	Immunisation, food control and health centres
Environment	Noxious plants and insect/vermin control, other environmental protection, solid waste management including domestic and other waste, other sanitation, garbage, street cleaning, drainage and stormwater management
Community services and education	Administration and education, social protection (welfare), migrant, Aboriginal and other community services and administration, youth services, aged and disabled persons services, children's services including family day care, child care and other family and child services
Housing and community amenities	Public cemeteries, public conveniences, street lighting, town planning, other community amenities including housing development, accommodation for families, children, aged persons, disabled persons, migrants and Indigenous persons
Water	Water services
Sewerage	Sewer services
Recreation and culture	Public libraries, museums, art galleries, community centres and halls including public halls and performing arts venues, sporting grounds and venues, swimming pools, parks, gardens, lakes and other sporting, recreational and cultural services
Agriculture	Administration of agricultural services, supervision and regulation of the agricultural industry, operation of flood control and irrigation systems, operation of support services to farmers including vet services, pest control services, crop inspection and crop grading services
Fuel and energy	Gas supplies
Mining, manufacturing and construction	Building control, quarries and pits, mineral resources and abattoirs
Transport and communication	Sealed and unsealed roads, bridges, footpaths, parking areas and aerodromes
Economic affairs	Camping areas and caravan parks, tourism and area promotion, industrial development promotion, sale yards and markets, real estate development, commercial nurseries and other business undertakings



Appendix nine – OLG’s performance indicators from the audited financial statement - Descriptions

Indicator	Formula	Description
Operating performance	Total continuing operating revenue ¹ excluding capital grants and contributions less operating expenses	The ‘operating performances ratio’ measures how well local councils contained expenses within revenue.
	Total continuing operating revenue ¹ excluding capital grants and contributions	The benchmark set by the Office of Local Government (OLG) for the ratio is greater than zero per cent.
Own source operating revenue	Total continuing operating revenue ¹ excluding all grants and contributions	The ‘own source operating revenue ratio’ measures a council’s fiscal flexibility and the degree to which it relies on external funding sources such as operating grants and contributions.
	Total continuing operating revenue ¹ inclusive of all grants and contributions	The benchmark set by OLG for the ratio is greater than 60 per cent.
Unrestricted current ratio	Current assets less all external restrictions	The ‘unrestricted current ratio’ is specific to the Local Government sector and represents a council’s ability to meet its short-term obligations as they fall due.
	Current liabilities less specific-purpose liabilities	The benchmark set by OLG for the ratio is greater than 1.5 times.
Debt service cover ratio	Operating result ¹ before capital excluding interest and impairment, depreciation and amortisation	The ‘debt service cover ratio’ measures the operating cash available to service debt including interest, principal and lease payments.
	Principal repayments plus borrowing costs	The benchmark set by OLG for the ratio is greater than two times.
Rates and annual charges outstanding percentage	Rates and annual charges outstanding	The ‘rates and annual charges outstanding ratio’ assesses the impact of uncollected rates and annual charges on a council’s liquidity and the adequacy of debt recovery efforts.
	Rates and annual charges collectible	The benchmark set by OLG for the ratio is less than five per cent for metropolitan and less than ten per cent for rural councils.
Cash expense cover ratio	Current year cash and cash equivalents, and term deposits *12	The ‘cash expense cover ratio’ indicates the number of months a council can continue paying its expenses without additional cash inflows.
	Payments from cash flow of operating and financing activities	The benchmark set by OLG for the ratio is greater than three months.

¹ Excludes fair value adjustments, reversal of revaluation decrements, net gain/loss on sale of assets, and net share/loss of interests in joint ventures.



Appendix ten – OLG’s performance indicators from the unaudited Special Schedule 7 - Descriptions

Ratio	Formula	Description
Buildings and infrastructure renewals ratio	Asset renewals	The ‘building and infrastructure renewals ratio’ assesses the rate at which assets are being renewed against the rate at which they are depreciating. The benchmark set by OLG for the ratio is greater than 100 per cent.
	Depreciation, amortisation and impairment	
Infrastructure backlog ratio	Estimated cost to bring assets to a satisfactory condition	The ‘infrastructure backlog ratio’ represents the proportion of infrastructure backlog to the total net book value of a council’s infrastructure assets. The benchmark set by OLG for the ratio is less than two per cent.
	Carrying value of infrastructure, building, other structures and depreciable land improvement assets	
Asset maintenance ratio	Actual asset maintenance	The ‘asset maintenance ratio’ compares actual versus required annual asset maintenance. The benchmark set by OLG for the ratio is greater than 100 per cent.
	Required asset maintenance	
Cost to bring assets to agreed service level	Estimated cost to bring assets to an agreed level of service set by council	The ‘cost to bring assets to agreed service level’ reflects the actual value of identified renewal works to be delivered in the future, compared to the total replacement cost of assets. OLG has not prescribed a benchmark for this performance indicator.
	Gross replacement cost	



Appendix eleven – OLG’s performance indicators

We have included a summary of how each council has performed against the performance indicators prescribed by the Office of Local Government (OLG). The first six indicators are audited and reported in councils’ financial statements. The remaining four asset-related measures are not audited and reported in councils’ Special Schedule 7 ‘Report on Infrastructure Assets’.

We present these performance indicators on a consolidated basis. Councils with water and sewer activities present separate performance indicators for general, water and sewer activities.

	Audited						Unaudited			
	Operating performance (%)	Own source operating revenue (%)	Unrestricted current ratio (times)	Debt service cover ratio (times)	Rates and annual outstanding percentage (%)	Cash expense cover ratio (months)	Buildings and infrastructure renewals ratio (%)	Infrastructure backlog ratio (%)	Asset maintenance ratio (%)	Cost to bring assets to agreed service level (%)
OLG Benchmark	Greater than 0%	Greater than 60%	Greater than 1.5 times	Greater than 2 times	Less than 5% for metro and 10% for other councils	Greater than 3 months	Greater than 100%	Less than 2%	Greater than 100%	N/A
Albury City Council	15.2	79.5	2.6	7.2	10.6	18.6	78.7	3.0	83.0	1.8
Armidale Regional Council	(8.7)	71.3	1.5	2.8	7.2	13.4	62.1	8.2	96.3	4.2
Ballina Shire Council	3.1	59.7	4.8	2.4	3.4	10.0	142.6	1.9	96.9	0.9
Balranald Shire Council	(6.0)	39.8	4.6	7.2	4.6	11.0	97.9	2.2	108.7	1.4
Bathurst Regional Council	(6.9)	69.3	1.1	3.7	6.2	10.5	44.2	8.9	81.5	1.8
Bayside Council*	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Bega Valley Shire Council	1.1	69.7	2.0	4.8	4.0	13.0	--	--	--	--
Bellingen Shire Council	1.4	63.4	2.3	6.3	5.2	11.8	165.9	6.4	100.0	4.5
Berrigan Shire Council	18.2	61.2	7.2	48.7	3.3	28.0	131.4	--	103.9	--
Blacktown City Council	(6.7)	46.3	3.1	--	4.3	21.9	63.9	2.2	99.6	1.5
Bland Shire Council	(1.0)	44.7	14.3	16.2	6.9	25.7	55.3	12.1	113.1	8.9
Blayney Shire Council	0.7	58.5	5.8	14.3	2.1	14.3	231.9	8.1	105.0	2.1

	Audited						Unaudited			
	Operating performance (%)	Own source operating revenue (%)	Unrestricted current ratio (times)	Debt service cover ratio (times)	Rates and annual outstanding percentage (%)	Cash expense cover ratio (months)	Buildings and infrastructure renewals ratio (%)	Infrastructure backlog ratio (%)	Asset maintenance ratio (%)	Cost to bring assets to agreed service level (%)
OLG Benchmark	Greater than 0%	Greater than 60%	Greater than 1.5 times	Greater than 2 times	Less than 5% for metro and 10% for other councils	Greater than 3 months	Greater than 100%	Less than 2%	Greater than 100%	N/A
Blue Mountains City Council	(4.4)	83.5	1.6	1.7	3.7	3.4	62.6	1.9	99.0	1.5
Bogan Shire Council	4.9	40.2	4.2	26.9	6.0	8.6	61.9	2.3	99.2	1.8
Bourke Shire Council	9.5	44.3	5.3	7.5	15.2	10.7	67.6	2.7	90.1	1.2
Brewarrina Shire Council	13.0	51.7	4.2	21.0	7.8	12.5	56.5	2.1	88.1	1.5
Broken Hill City Council	(21.7)	77.8	2.0	1.5	12.0	10.7	19.3	24.2	172.7	12.0
Burwood Council	7.0	71.9	4.9	13.5	2.6	10.8	170.6	7.1	120.4	5.0
Byron Shire Council	(1.0)	61.2	3.4	2.6	3.6	12.3	110.4	6.8	96.5	4.4
Cabonne Council	4.2	57.2	5.7	35.5	5.3	24.3	117.1	11.8	96.3	2.6
Camden Council	(3.7)	33.4	2.4	3.7	3.1	14.8	14.4	1.1	91.8	0.9
Campbelltown City Council	8.4	56.2	4.8	8.3	3.4	19.6	81.2	1.6	101.2	1.1
Canterbury Bankstown Council	2.3	84.1	3.1	49.0	4.8	14.3	41.9	1.1	90.5	0.8
Carrathool Shire Council	7.0	44.3	6.6	23.7	3.7	12.8	131.9	0.6	143.9	--
Castlereagh-Macquarie County Council	27.2	16.1	7.7	--	--	9.1	--	--	--	--
Central Coast Council	2.9	79.5	1.5	4.0	7.8	12.0	104.8	2.4	91.4	1.6
Central Darling Shire Council	--	52.0	0.6	20.8	36.3	2.5	96.6	19.1	82.3	--
Central Murray County Council	(11.0)	77.7	7.1	--	--	7.2	--	--	--	--

	Audited						Unaudited			
	Operating performance (%)	Own source operating revenue (%)	Unrestricted current ratio (times)	Debt service cover ratio (times)	Rates and annual outstanding percentage (%)	Cash expense cover ratio (months)	Buildings and infrastructure renewals ratio (%)	Infrastructure backlog ratio (%)	Asset maintenance ratio (%)	Cost to bring assets to agreed service level (%)
OLG Benchmark	Greater than 0%	Greater than 60%	Greater than 1.5 times	Greater than 2 times	Less than 5% for metro and 10% for other councils	Greater than 3 months	Greater than 100%	Less than 2%	Greater than 100%	N/A
Central Tablelands County Council	11.3	95.7	8.4	5.2	--	18.3	43.0	36.6	108.8	1.6
Cessnock City Council	(3.1)	52.2	2.7	4.8	1.7	6.4	88.2	4.3	107.9	12.9
City of Canada Bay Council	0.4	82.9	3.9	21.1	2.2	12.3	91.5	1.8	92.9	1.3
City of Lithgow Council	(2.0)	74.0	1.8	4.5	5.9	12.9	87.0	6.0	74.9	4.2
City of Parramatta Council	(5.2)	77.1	4.9	2.1	4.5	10.9	111.2	1.9	95.8	3.7
Clarence Valley Council	(6.0)	67.3	4.4	2.9	6.0	13.2	21.3	3.9	74.5	2.9
Cobar Shire Council	2.7	49.6	6.1	5.5	5.1	8.5	28.9	1.8	108.1	2.8
Coffs Harbour City Council	3.2	73.2	9.6	2.3	6.6	10.2	59.3	--	100.3	--
Coolamon Shire Council	9.5	47.9	9.7	547.6	5.5	21.4	157.9	0.4	109.7	0.3
Coonamble Shire Council	8.0	61.6	5.1	132.0	5.3	18.4	113.3	0.8	172.4	0.6
Cootamundra-Gundagai Regional Council	(29.6)	65.3	5.4	(0.7)	7.7	13.2	93.9	6.9	--	4.4
Council of the City of Sydney	5.7	79.1	4.1	--	1.3	9.2	61.5	2.1	98.3	1.5
Cowra Shire Council	8.1	77.7	4.1	4.1	9.0	10.6	81.9	0.5	108.9	0.4
Cumberland Council	(5.3)	73.7	4.3	11.2	3.3	7.3	176.1	5.3	115.3	2.2
Dubbo Regional Council	18.4	56.6	5.5	6.2	4.9	25.8	137.1	0.4	100.0	0.3
Dungog Shire Council	(21.8)	42.3	8.4	12.0	6.1	10.2	104.7	8.0	74.7	19.1

	Audited						Unaudited			
	Operating performance (%)	Own source operating revenue (%)	Unrestricted current ratio (times)	Debt service cover ratio (times)	Rates and annual outstanding percentage (%)	Cash expense cover ratio (months)	Buildings and infrastructure renewals ratio (%)	Infrastructure backlog ratio (%)	Asset maintenance ratio (%)	Cost to bring assets to agreed service level (%)
OLG Benchmark	Greater than 0%	Greater than 60%	Greater than 1.5 times	Greater than 2 times	Less than 5% for metro and 10% for other councils	Greater than 3 months	Greater than 100%	Less than 2%	Greater than 100%	N/A
Edward River Council	11.0	64.3	13.2	15.0	8.9	27.8	--	--	--	--
Eurobodalla Shire Council	5.8	74.5	2.5	3.3	2.8	14.8	65.9	6.8	100.0	4.3
Fairfield City Council	8.3	82.6	2.8	123.9	3.4	3.1	121.0	1.9	122.4	1.4
Federation Council	3.8	59.3	1.9	39.7	9.7	24.6	--	--	--	--
Forbes Shire Council	14.3	61.7	7.6	5.6	8.8	15.6	118.0	3.4	58.9	1.5
Georges River Council	(2.6)	78.5	3.9	25.8	3.0	10.9	76.6	2.1	114.6	5.6
Gilgandra Shire Council	4.7	62.4	3.6	8.5	6.5	10.3	138.6	2.1	120.5	2.2
Glen Innes Severn Council	7.7	62.8	4.6	3.6	6.6	9.8	119.9	11.0	100.0	6.9
Goldenfields Water County Council	8.6	91.1	11.1	--	21.4	39.2	--	--	--	--
Goulburn Mulwaree Council	9.4	53.4	3.5	2.1	3.0	17.9	60.2	2.6	96.5	2.1
Greater Hume Shire Council	8.1	47.7	5.0	12.4	6.1	11.3	125.7	0.1	99.6	0.1
Griffith City Council	10.7	79.8	2.9	8.2	7.5	8.6	100.6	1.7	100.0	1.3
Gunnedah Shire Council	15.0	60.9	5.2	12.7	3.8	23.4	184.4	1.7	112.0	1.2
Gwydir Shire Council	0.1	58.7	1.7	4.3	4.3	5.1	60.0	1.3	100.0	--
Hawkesbury City Council	(4.0)	71.0	2.9	13.4	5.6	12.4	65.4	2.3	88.8	--
Hawkesbury River County Council	(4.3)	21.1	1.4	--	--	14.3	--	--	--	--

	Audited						Unaudited			
	Operating performance (%)	Own source operating revenue (%)	Unrestricted current ratio (times)	Debt service cover ratio (times)	Rates and annual outstanding percentage (%)	Cash expense cover ratio (months)	Buildings and infrastructure renewals ratio (%)	Infrastructure backlog ratio (%)	Asset maintenance ratio (%)	Cost to bring assets to agreed service level (%)
OLG Benchmark	Greater than 0%	Greater than 60%	Greater than 1.5 times	Greater than 2 times	Less than 5% for metro and 10% for other councils	Greater than 3 months	Greater than 100%	Less than 2%	Greater than 100%	N/A
Hay Shire Council	2.5	48.9	5.2	15.5	13.0	14.4	92.2	2.2	69.7	1.1
Hilltops Council*	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Inner West Council	3.2	88.8	3.7	6.6	3.9	9.3	64.1	10.3	78.3	3.8
Inverell Shire Council	18.0	63.6	11.7	18.9	5.7	26.6	115.3	0.9	94.1	0.7
June Shire Council	2.2	59.2	1.1	2.9	8.7	4.3	86.1	2.7	127.2	1.7
Kempsey Shire Council	3.1	39.3	2.5	4.3	6.1	11.0	96.4	6.7	86.0	4.2
Ku-ring-gai Council	4.0	77.0	3.0	14.0	3.0	16.8	61.1	2.9	114.6	6.2
Kyogle Council	8.8	52.9	5.6	21.2	6.9	11.1	318.2	4.3	95.8	3.1
Lachlan Shire Council	9.6	43.6	5.2	57.8	8.4	14.1	65.7	6.5	91.5	4.2
Lake Macquarie City Council	5.6	78.2	2.7	8.5	4.1	8.7	100.4	2.4	92.7	1.7
Lane Cove Municipal Council	5.8	69.9	6.4	--	1.5	17.5	274.5	0.8	199.0	0.6
Leeton Shire Council	12.9	71.8	5.1	25.1	3.9	22.5	63.8	2.2	100.0	1.3
Lismore City Council	1.4	71.4	1.4	3.4	9.0	7.5	74.1	13.5	92.6	9.0
Liverpool City Council	5.4	55.1	2.1	6.4	4.6	15.2	94.8	2.6	105.9	2.1
Liverpool Plains Shire Council	(35.1)	57.8	3.7	3.7	6.6	14.7	49.4	2.1	96.7	1.7
Lockhart Shire Council	8.4	34.5	8.4	37.6	5.0	18.9	57.2	1.1	111.4	--
Maitland City Council*	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

	Audited						Unaudited			
	Operating performance (%)	Own source operating revenue (%)	Unrestricted current ratio (times)	Debt service cover ratio (times)	Rates and annual outstanding percentage (%)	Cash expense cover ratio (months)	Buildings and infrastructure renewals ratio (%)	Infrastructure backlog ratio (%)	Asset maintenance ratio (%)	Cost to bring assets to agreed service level (%)
OLG Benchmark	Greater than 0%	Greater than 60%	Greater than 1.5 times	Greater than 2 times	Less than 5% for metro and 10% for other councils	Greater than 3 months	Greater than 100%	Less than 2%	Greater than 100%	N/A
Mid-Coast Council	1.9	76.4	8.6	2.8	6.3	10.7	38.2	8.8	72.9	5.4
Mid-Western Regional Council	11.7	63.3	4.0	9.4	3.5	15.6	156.2	6.7	100.7	3.2
Moree Plains Shire Council	6.8	66.2	1.1	4.5	5.1	8.6	115.7	0.7	96.5	0.5
Mosman Municipal Council	4.3	87.8	1.9	4.7	2.5	4.2	163.0	1.0	124.9	0.6
Murray River Council	6.4	54.4	5.9	14.6	10.3	24.5	113.5	0.9	100.0	0.7
Murrumbidgee Council	(22.5)	49.4	5.7	21.7	8.5	19.9	15.4	--	118.0	--
Muswellbrook Shire Council	13.0	65.8	2.0	2.3	7.7	7.7	97.1	5.5	75.1	2.9
Nambucca Shire Council	6.9	69.7	2.1	2.5	5.1	12.0	91.7	2.9	100.0	--
Narrabri Shire Council	12.0	71.7	4.7	11.8	8.2	17.2	94.3	9.2	100.0	5.7
Narrandera Shire Council	3.7	54.8	7.9	--	5.7	20.1	111.8	0.8	221.7	--
Narromine Shire Council	(0.9)	53.4	6.0	12.7	11.6	18.9	148.4	7.2	97.9	5.0
New England Weeds Authority	10.3	30.5	5.8	17.1	--	--	--	--	--	--
Newcastle City Council	1.7	86.5	2.8	7.4	2.7	7.1	92.3	10.9	95.0	5.5
North Sydney Council	8.6	89.4	3.4	91.2	1.3	6.7	226.6	6.6	107.9	4.1
Northern Beaches Council	8.0	82.2	3.1	4.6	3.9	8.6	99.8	0.5	117.0	0.4
Oberon Council	21.8	64.1	6.7	12.4	8.3	14.5	143.9	1.8	60.6	1.4
Orange City Council	14.0	72.7	2.8	8.0	6.3	16.8	46.8	0.9	11.2	1.1

	Audited						Unaudited			
	Operating performance (%)	Own source operating revenue (%)	Unrestricted current ratio (times)	Debt service cover ratio (times)	Rates and annual outstanding percentage (%)	Cash expense cover ratio (months)	Buildings and infrastructure renewals ratio (%)	Infrastructure backlog ratio (%)	Asset maintenance ratio (%)	Cost to bring assets to agreed service level (%)
OLG Benchmark	Greater than 0%	Greater than 60%	Greater than 1.5 times	Greater than 2 times	Less than 5% for metro and 10% for other councils	Greater than 3 months	Greater than 100%	Less than 2%	Greater than 100%	N/A
Parkes Shire Council	(0.2)	59.9	2.0	7.5	5.4	10.9	200.6	1.2	114.8	0.5
Penrith City Council	7.1	74.1	3.0	3.4	2.9	7.6	48.4	1.1	99.3	1.2
Port Macquarie-Hastings Council	4.7	66.1	2.1	4.0	4.9	26.1	87.6	5.6	91.4	--
Port Stephens Council	(0.1)	78.1	2.1	2.4	2.8	5.5	145.1	1.8	128.3	1.6
Queanbeyan-Palerang Regional Council	0.4	62.4	2.1	6.6	5.0	9.4	81.0	2.6	92.0	1.9
Randwick City Council	6.2	91.1	3.6	--	2.4	3.0	119.6	0.7	159.9	0.4
Richmond Valley Council	(7.3)	64.0	3.1	0.9	13.3	7.8	86.2	1.9	119.2	1.5
Riverina Water County Council	28.3	88.1	9.4	6.8	12.1	16.7	77.0	7.3	102.4	4.9
Rous County Council	11.6	78.3	6.3	2.8	N/A	22.8	19.8	0.6	84.1	1.4
Ryde City Council	13.0	76.9	3.1	33.2	3.9	17.5	180.8	1.8	93.0	1.3
Shellharbour City Council	9.0	77.0	2.1	12.6	4.8	7.7	265.3	1.9	108.7	2.9
Shoalhaven City Council	7.4	80.8	1.8	5.5	8.2	9.4	94.4	3.4	88.2	1.0
Singleton Council	2.3	69.2	3.2	7.9	2.8	15.1	59.8	2.5	80.6	1.3
Snowy Monaro Regional Council	(3.7)	66.4	4.1	14.8	10.6	19.7	44.7	12.4	71.2	3.3
Snowy Valleys Council	(7.9)	66.8	5.7	4.1	3.2	11.3	161.0	0.3	96.2	0.2
Strathfield Municipal Council	7.4	72.3	3.7	--	2.2	17.7	373.1	1.2	102.9	0.8

	Audited						Unaudited			
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OLG Benchmark	Greater than 0%	Greater than 60%	Greater than 1.5 times	Greater than 2 times	Less than 5% for metro and 10% for other councils	Greater than 3 months	Greater than 100%	Less than 2%	Greater than 100%	N/A
Sutherland Shire Council	3.2	84.0	2.9	17.9	3.6	7.7	105.5	2.1	87.4	3.7
Tamworth Regional Council	5.6	77.1	3.9	4.3	4.8	17.2	33.1	0.6	91.9	0.4
Temora Shire Council	7.7	49.9	2.2	18.8	3.7	5.6	130.5	2.5	115.1	2.4
Tenterfield Shire Council	12.8	52.9	4.8	11.8	7.1	15.1	84.7	10.8	100.0	8.2
The Council of the Municipality of Hunters Hill	(3.1)	90.5	8.7	51.2	2.5	17.4	36.4	2.0	78.6	3.2
The Council of the Municipality of Kiama	(1.6)	78.4	2.6	10.7	1.6	9.1	90.4	1.6	94.2	1.0
The Council of the Shire of Hornsby	5.3	49.4	6.7	19.2	1.8	27.4	95.3	0.9	100.5	0.7
The Hills Shire Council	12.0	45.7	17.0	--	3.6	30.4	102.8	--	152.4	--
Tweed Shire Council	11.3	71.2	1.8	3.8	4.0	21.5	67.8	1.4	99.3	1.2
Upper Hunter County Council	13.9	2.5	6.1	--	--	6.0	--	--	--	--
Upper Hunter Shire Council	13.4	65.5	2.7	8.1	6.8	10.3	176.0	1.0	97.0	0.8
Upper Lachlan Shire Council	5.3	56.4	3.0	19.9	2.9	18.5	204.1	0.5	111.5	0.6
Upper Macquarie County Council	0.8	23.3	6.8	--	--	8.7	--	--	--	--
Uralla Shire Council	2.2	69.5	2.2	13.2	5.4	10.3	63.4	0.4	98.0	0.5
Wagga Wagga City Council	(8.1)	65.0	3.0	4.8	4.8	8.9	42.1	23.2	63.1	11.9

	Audited						Unaudited			
	Operating performance (%)	Own source operating revenue (%)	Unrestricted current ratio (times)	Debt service cover ratio (times)	Rates and annual outstanding percentage (%)	Cash expense cover ratio (months)	Buildings and infrastructure renewals ratio (%)	Infrastructure backlog ratio (%)	Asset maintenance ratio (%)	Cost to bring assets to agreed service level (%)
OLG Benchmark	Greater than 0%	Greater than 60%	Greater than 1.5 times	Greater than 2 times	Less than 5% for metro and 10% for other councils	Greater than 3 months	Greater than 100%	Less than 2%	Greater than 100%	N/A
Walcha Council	7.4	59.1	6.5	24.7	3.4	9.6	103.5	4.2	112.7	2.8
Walgett Shire Council	(3.8)	51.0	5.2	7.7	9.5	17.0	59.6	6.5	75.5	4.1
Warren Shire Council	10.9	52.7	6.8	44.5	3.3	13.6	103.6	0.7	152.4	--
Warrumbungle Shire Council	(8.1)	47.4	4.1	7.3	8.7	5.8	107.0	0.6	107.7	5.0
Waverley Council	1.8	86.5	10.2	23.8	3.1	14.8	94.1	1.0	94.2	0.6
Weddin Shire Council	(11.1)	45.6	4.1	5.9	5.4	7.1	225.3	1.7	101.7	1.3
Wentworth Shire Council	1.3	58.4	7.9	16.9	10.0	16.3	58.5	6.8	79.9	4.5
Willoughby City Council	10.7	78.8	4.7	6.8	1.3	18.6	100.9	1.4	100.0	1.1
Wingecarribee Shire Council	6.1	63.5	4.5	6.2	2.2	22.1	64.0	1.6	85.7	1.1
Wollondilly Shire Council	(26.6)	69.5	2.7	1.5	5.1	9.9	99.4	15.3	124.0	8.4
Wollongong City Council	2.8	77.1	2.9	6.3	4.7	5.8	104.3	5.5	98.5	3.5
Woollahra Municipal Council	3.7	91.6	4.5	2.9	3.7	8.6	88.0	1.3	107.2	0.8
Yass Valley Council	5.5	61.5	2.9	3.1	4.1	8.8	107.6	1.9	98.4	--

* The audit reports of these councils were not finalised at the time of this report.

Source: Audited financial statements 2017–18.



Appendix twelve – NSW Crown Solicitor’s advice

Sensitive: Legal



CROWN SOLICITOR

NEW SOUTH WALES

Advice

Local Government Act 1993 - County councils and joint organisations

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Prepared for: AUD018 Audit Office of NSW
Date: 7 August 2018
Client ref: Liz Basey
CSO ref: 201802643 T08 Alexandra Brown

Sensitive: Legal

1. Summary of advice

- 1.1 You seek my urgent advice as to whether the Auditor-General is to be the auditor for joint organisations and county councils under s. 422(1) of the *Local Government Act 1993* ("LG Act").
- 1.2 As to question 1, subject to certain exceptions that are not presently relevant, the *LG Act* applies "to county councils in the same way as it applies to councils" with such exceptions and modifications (if any) as the regulations may provide (s. 400(1), *LG Act*). Part 3 of Ch. 13 (ss. 408-427) of the *LG Act* contains provisions regarding financial management, including auditing, of councils. As there are no relevant exceptions or modifications in the regulations, Pt. 3 of Ch. 13 applies to county councils in the same way as it applies to councils and, by application of s. 422(1), the Auditor-General is to be the auditor for a county council.
- 1.3 As to question 2, other than the "excluded provisions" and any modification or exclusion in the regulations, the *LG Act* applies "to a joint organisation in the same way as it applies to a council" (s. 400ZH(1), *LG Act*). As Pt. 3 of Ch. 13 is not an "excluded provision", that Part applies to a joint organisation in the same way as it applies to a council (subject to the modified application of s. 413(1) by cl. 397N of the *Local Government (General) Regulation 2005*). By application of s. 422(1), the Auditor-General is to be the auditor for a joint organisation.
- 1.4 Please note this is a summary of the central issues and conclusions in my advice. Other relevant or significant matters may be contained in the advice, which should be read in full.

2. Background

- 2.1 You instruct me that it is accepted throughout the sector that the Auditor-General is to be the auditor for county councils. Your office currently contracts out the audits of all ten county councils.
- 2.2 You are concerned because s. 422(1) of the *LG Act* provides that "The Auditor-General is to be the auditor for a council" but there is no specific reference in that provision to the Auditor-General being the auditor for a county council or a joint organisation.

3. Advice sought

- 3.1 By letter dated 30 July 2018, you seek my urgent advice as to the following questions:
 - "1. Is it reasonable to conclude that I do not have the mandate to audit county councils on the basis the Act does not specifically appoint me as the auditor of county councils? Or could it be argued that as the provisions in Chapter 13, Part 3 of the Act on financial management apply to county councils in the same way as councils, county councils are subject to my oversight in the same way as councils? Are there other considerations I should be aware of?

2. Do the principles that apply to the audit of county councils apply in the same way to joint organisations?"
- 3.2 I understand question 2 to be asking whether Pt. 3 of Ch. 13 of the *LG Act* applies to joint organisations, and, specifically, whether the Auditor-General is to be the auditor for a joint organisation.
- 3.3 You also seek my advice on any other issues I consider relevant. Whilst I have not raised any other issues in this advice, I would of course be pleased to provide further advice, if required.

4. Advice

Question 1 – county councils

- 4.1 The provisions with respect to financial management of councils are found in Pt. 3 of Ch. 13 of the *LG Act* (ss. 408-427). Division 2 of Pt. 3 of Ch. 13 is concerned with, among other things, the obligation on a council to prepare financial reports and to refer them for audit (s. 413); the auditing of a council's financial reports (s. 415); the time for preparation and auditing of a council's financial reports (s. 416); and the reports to be prepared by a council's auditor (s. 417).
- 4.2 Division 3, "Auditors", of Pt. 3 of Ch. 13 includes s. 422, which relevantly provides:
 - (1) The Auditor-General is to be the auditor for a council.
 - (2) The Auditor-General may appoint, in writing, a person (whether or not that person is employed in the Public Service) or a firm to be an auditor for the purposes of this Act."
- 4.3 Division 3 also provides for access to and production of documents to the Auditor-General (s. 423), including access to records of deposit-taking institutions (s. 424), in addition to setting out secrecy provisions (s. 425) and imposing an obligation on the Auditor-General to communicate with the Minister (s. 426). Division 2A of Pt. 3 of Ch. 13 includes provision for the Auditor-General to conduct performance audits of all or any particular activities of one or more councils.
- 4.4 County councils are dealt with in Pt. 5 of Ch. 12. Section 400 is concerned with the application of the *LG Act* to county councils, and relevantly provides as follows:
 - (1) This Act (except Part 1 and Divisions 1 and 2 of Part 2 of Chapter 9, Chapter 10, section 365, Part 7 of this Chapter and the provisions of Chapter 15 concerning the making and levying of ordinary rates) applies:
 - (a) to county councils in the same way as it applies to councils, and
 - (b) to the members of county councils in the same way as it applies to the councillors of councils,with such exceptions and modifications (if any) as the regulations may provide."
- 4.5 The effect of s. 400(1)(a) is that the *LG Act* applies "to county councils in the same way as it applies to councils" with the exception of those provisions specified in parentheses

and with such exceptions and modifications (if any) as the regulations provide. As explained above, the provisions relevant to the auditing of councils are found in Pt. 3 of Ch. 13. None of these provisions are specified in s. 400(1) as not applying to county councils, nor do the regulations make any exceptions or modifications to the application of Ch. 13 to county councils (see *Local Government (General) Regulation 2005* ("the Regulation")).

- 4.6 Accordingly, in my view, it follows that the effect of s. 400(1)(a) is that Pt. 3 of Ch. 13 (which contains the financial management provisions) applies to county councils in the same way as it applies to councils. In particular, this means that, by application of s. 422, the Auditor-General is to be the auditor for a county council.
- 4.7 For completeness, I note that I am not aware of anything in the extrinsic materials that accompanied the introduction of the *LG Act*, including the provisions with respect to county councils, which would support a different interpretation of s. 400(1)(a).

Question 2 – joint organisations

- 4.8 Part 7 of Ch. 12 of the *LG Act* contains provisions relating to joint organisations. This Part was inserted into the *LG Act* by the *Local Government Amendment (Regional Joint Organisations) Act 2017* ("Regional Joint Organisations Act"), and commenced on 15 December 2017¹.
- 4.9 Section 400ZH addresses the application of the *LG Act* to joint organisations. Section 400ZH(1) provides:

"(1) Except as provided by subsection (3), this Act applies:

- (a) to a joint organisation in the same way as it applies to a council, and
- (b) to the representatives on the board of a joint organisation in the same way as it applies to the councillors of councils, and
- (c) to the executive officer of a joint organisation in the same way as it applies to the general manager of a council."

- 4.10 Subsection (3) lists "excluded provisions" of the *LG Act* that do not apply to or in respect of a joint organisation. Parts 2 and 4 of Ch. 13 and ss. 438T, 438ZA and 438ZB are excluded provisions (s. 400ZH(3)(i)). The excluded provisions do not include any of the provisions in Pt. 3 of Ch. 13 (which contains the financial management provisions). The regulations may modify the application of any provision of the *LG Act* that applies to or in respect of a council for the purpose of its application to a joint organisation, or exclude a provision of the *LG Act* from applying to or in respect of a joint organisation (s. 400ZH(5)). As your instructions note, cl. 397N of the *Regulation* modifies the application of s. 413(1) of the *LG Act* with respect to the time in which the first financial reports are required to be prepared for a joint organisation under Pt. 3 of Ch. 13 of the *LG Act*.

¹ By proclamation of the Governor dated 13 December 2017 (NSW Government Gazette, Commencement Proclamation No 730, 2017).

4.11 In my view, s. 400ZH(3)(i) evinces a deliberate and specific intention to exclude the application of those provisions of Ch. 13 specified therein to joint organisations and to render the remainder of that Chapter applicable to joint organisations in the same way as it applies to councils, unless modified or exempted by the regulations. Other than cl. 397N of the *Regulation*, I am not aware of any regulation that modifies the application of a provision of Pt. 3 of Ch. 13 of the *LG Act* to joint organisations.

4.12 For completeness, I note that the following comments made on behalf of the Minister in the Second Reading speech accompanying the introduction of the *Regional Joint Organisations Act* provide support, in general terms, for the interpretation of s. 400ZH set out above (Legislative Council Hansard, 15 November 2017, pp.52-56):

"To protect the public interest, the bill will generally require joint organisations to meet the standards of conduct and good governance, transparent reporting, accountability and oversight expected of councils, councillors and council staff.

In new subsections 400ZH (1) and (2), the bill provides that most provisions in the [*LG Act*] apply to joint organisations and their office holders and staff in the same way as it applies to local councils.

...

Where particular provisions of the [*LG Act*] that apply to councils are not appropriate to be applied to a joint organisation, they are explicitly excluded by new section 400ZH (3). There is also a regulation-making power to prescribe further provisions of the [*LG Act*] as either applying or not applying to joint organisations. This allows for some flexibility if it becomes apparent that further or fewer provisions of the Act should apply as joint organisations' governance and operations are further developed and become more complex over time.

Joint organisations are also intended to operate with minimal cost and red tape. For that reason there is a broad regulation-making power that will allow adjustments to be made to a range of standard governance requirements, including planning and reporting requirements that would apply to councils. This will help to make sure that joint organisations remain lean and effective."

4.13 In summary, the effect of s. 400ZH of the *LG Act* is that Pt. 3 of Ch. 13 applies to a joint organisation in the same way as it applies to a council (subject to the modified application of s. 413(1) by reason of cl. 397N of the *Regulation*). Accordingly, by application of s. 422(1) of the *LG Act*, the Auditor-General is to be the auditor for a joint organisation.

Signed:


Lea Armstrong
Crown Solicitor

Sensitive: Legal

OUR VISION

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OUR PURPOSE

To help parliament hold government accountable for its use of public resources.

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Purpose – we have an impact, are accountable, and work as a team.

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