

Good Governance in the New Auditing Regime

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It is all too easy to let governance issues take the back seat to what might seem to be more urgent operational issues. Everything can be operating as usual in a local government ... that is, until something goes wrong. At that point it's too late to realise that a lack of good governance can result in serious loss of reputation and community support, or worse!

In those governance situations, ignorance is definitely not bliss. In this article, we will outline the key information that your local government needs to know about the new auditing regime.

The new auditing regime

As you probably already know, in August 2017, State Parliament passed amendments to the *Local Government Act 1995*, enabling the Auditor General to audit council finances and performance. This is a big departure from how local government audits had previously been conducted.

From 1 July 2018, the Office of the Auditor General (OAG) will take over responsibility for the audits of Western Australian local governments. The sector can therefore expect future audits to be done in accordance with its normal approach to auditing State agencies.

This is consistent with the Minister's announcement on 28 August 2017, when he highlighted that "*the new auditing laws would raise local government accountability standards and that the Auditor General would have independent oversight to improve those local government standards*". In particular, he pointed out that the new auditing laws will raise the standards of accountability for local governments to "*a level more consistent with public sector departments and agencies*".

The OAG will conduct both financial audits and operational audits to these new standards.

It is therefore more important now than ever before that local governments pay the right level of attention to their governance culture, as reflected in the systems and procedures running through their organisations.

Why have these new auditing laws been passed?

The new auditing legislation appears to be the State Government response to past Corruption and Crime Commission investigations into a number of local governments. Those investigations addressed allegations of serious misconduct and corruption as well as recommendations made by the Public Accounts Committee of Parliament.

The Minister's announcement included the statement that "*the passage of this legislation is an example of the McGowan Labor Government's commitment to restoring public confidence in the local government sector*".

The CCC has investigated over ten local governments in the past few years. In its 2015 *Report on Misconduct Risk in Local Government Procurement*, the CCC used case studies and procurement audits to "*highlight ongoing risks for the local government sector*".

In particular, the CCC identified that the misconduct risks include:

- improper influence;
- conflicts of interest;
- abuse of power;
- bribery and corruption;
- fraud; and
- theft.

In May 2017 the CCC released a report on serious misconduct in the Shire of Exmouth. Importantly, the CCC noted that this report "*underlines disturbing features that have proved common to other local government authorities*". The CCC recommended that "*all local governments*" should focus on and assess these features.

First on that list was "*inadequate governance, whether due to placing friendship above probity, ignorance of robust procedures or some other reason*".

When will the audits happen?

There will be a staged transition. The Auditor General will take responsibility for auditing local governments as the existing audit contracts expire.

By financial year 2020/2021, the Auditor General will audit all local governments, whether their contracts have expired or not. This is set out in the Explanatory Memorandum for the *Local Government Amendment (Auditing) Bill 2017*.

The OAG commenced some special focus local government audits in 2017. These were “*sample audits*”, so not every local government was visited. The first audits focused on credit cards and purchasing. The OAG’s reports are scheduled to be tabled in Parliament by 30 June 2018. The OAG report on credit card use concluded that shortcomings were found in the policies and practices at most of the local governments audited. A further sample audit covering the topic of accounts payable is to follow, and other areas can be expected.

Do these laws impact on any other local government regulations?

Yes, the most relevant of which is Regulation 17 of the *Local Government (Audit) Regulations 1996*.

Regulation 17 requires that a local government conduct a review of its systems and procedures once every two years* to ensure that the systems and procedures of the local government are appropriate and effective. The next review is due in December 2018, unless otherwise changed by the OAG.

If you take governance seriously and take a proactive approach to its improvement within your local government, you will see the benefits. It will help you more fully and more easily comply with Regulation 17, and ensure you to meet the high standards required by the OAG when they come to audit your local government.

What is good governance and how can a local government achieve it?

Good governance comes from compliance with internal processes, policies and guidelines. These in turn are driven by the need to comply with the *Local Government Act 1995* (“the Act”) and associated Regulations.

Local governments should take a proactive approach to governance – specifically, ensuring they have proper systems and procedures to mitigate misconduct risks.

* *Editor's Note: Since the publishing of this article, the OAG has changed the requirement to once every three years.*

Is Civic Legal able to help with governance?

In January 2018, Civic Legal started a pilot programme called Project Aware, a governance support service for Council and Administration. Our team has already received great feedback and it is not too late to join the pilot group as there are a couple of spots left.

Contact

If you’d like to find out more, please get in touch with one of us!



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