

ORDINARY MEETING  16 JUNE 2015	6.1
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NOTICE OF MOTION – CR CAREY – MOTION TO THE 2015 ANNUAL CONFERENCE OF THE LOCAL GOVERNMENT ASSOCIATION OF QUEENSLAND

**NOTICE OF MOTION**

I hereby give Notice of my intention to move the following motion at Council's Ordinary Meeting to be held on Tuesday 16 June 2015:-

*“That the Council submit a motion to the 2015 Annual Conference of the Local Government Association of Queensland as follows:*

*That the Association, on behalf of Local Government across Queensland, seeks an amendment to the Auditor General Act 2009 to enable individual Councils to select from an approved list of accounting professionals for the performance of their annual financial and other audit requirements:*

*That the list of accounting professionals be established via the Association's Local Buy program”.*

**BACKGROUND**

Part 3 Division 1 of the Auditor General Act 2009 mandates that the Auditor General must for each financial year, audit all public sector entities, including Local Governments. These audits include Financial Audits which investigate financial statements to assess whether they are true and fair, and check account keeping methods to ensure they meet prescribed requirements, and Performance Audits which focus on the performance of public sector entities and how effectively, efficiently and economically their objectives are being met.

Whilst the Auditor General does engage some assistance from private sector accounting practices to conduct the audits, many of them are performed directly by the Queensland Audit Office and consequently appear not to be subject to a competitive tender process. In my opinion this situation potentially lacks transparency and an assurance the Council is getting the best possible value for money.

If a list of preferred suppliers was established through a competitive process of evaluation like the LGAQ Local Buy scheme, Council's will be better placed to select accounting practitioners from across the State, and in particular within reasonable proximity to their locations, thereby potentially saving on costly travel and accommodation expenses, to perform their audit requirements. This will eventuate in improved value for money outcomes for Local Government in Queensland in my opinion.

It would then be simply a matter of appointed auditors submitting their audit outcomes to the Auditor General in order that it can meet its obligations under the legislation.

**CEO'S COMMENT:****1. QAO Auditor Appointment Process**

The following information has been obtained from the Queensland Audit Office (QAO) regarding their selection of audit firms to undertake local government audits. The QAO:

- currently contracts out approximately two thirds of its 77 local government audits on a rolling basis
- maintains a contractors register of preferred suppliers and undertakes a rigorous process to determine the eligibility of firms for inclusion on the register, including:
  - o experience, qualifications, quality assurance processes, auditing standards compliance and partner interviews
- usually only audits individual councils for a 3 year period before going out to tender (with the exception of some of the largest councils such as Brisbane City and Gold Coast)
- goes out to competitive tender each year (for those councils whose audit term is due to expire) for a minimum appointment of 3 years plus a 2 year option
  - o tenderers must be on the contractors register
  - o some consideration is factored in for proximity to councils
  - o some selected tenders are undertaken for large / complex / specialised clients

It should also be noted that QAO specialises in local government audits whereas with many private firms it is only part of their overall business. QAO's charge out rates (as listed on the QAO website) also compare very favourably with private audit firms (with an average rate of approximately \$155 per hour). This specialisation has proven to be of considerable assistance in guiding Council through the initial development of its processes and controls.

In addition to the Auditor-General in Queensland being responsible for all local government audits, the Auditors-General in Tasmania and in Victoria are responsible for undertaking all local government audits in their respective states, the Auditor-General in New South Wales will be responsible from this year onwards and changes are also being put into place in Western Australia for the same thing to happen there in the near future.

**2. Motion to the 113<sup>th</sup> Local Government Association of Queensland (LGAQ) annual conference (2009)**

For completeness Councillors are advised that in 2009 WQLGA/Blackall-Tambo submitted a motion with a similar intent to the 2009 LGAQ annual conference, which was adopted by the LGAQ members:

*"That the Local Government Association of Queensland make strenuous representations to the Queensland Audit Office to have recent cost increases for Compulsory Financial Audits reduced to a reasonable amount."*

The reply dated 4 November 2009 from the Auditor General of Queensland is attached for Councillors' information.

**ATTACHMENTS:**

Extract from Local Government Association of Queensland Inc 113<sup>th</sup> Annual Conference – Replies to Resolutions No 42



## Local Government Association of Queensland Inc 113<sup>th</sup> Annual Conference - Replies to Resolutions

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reinvestment of proceeds into community facilities and I have been asked to respond on his behalf.

Under current Government policy, if a community purpose reserve is determined to be no longer needed for the purpose for which it was dedicated and a decision is made to revoke the reserve and offer the land for sale, the proceeds of the sale are required to be remitted to the Consolidated Fund.

These funds are distributed to the Queensland community through the annual State Budget process and contribute to the Government's ability to fund priority projects across the State, maximising benefits for all Queenslanders. There are no plans to alter this approach. I trust this information is of assistance to your association.

### NO. 42

### WQLGA/BLACKALL-TAMBO

#### AUDITING COSTS - REDUCTION SOUGHT IN QUEENSLAND AUDIT OFFICE CHARGES

"That the Local Government Association of Queensland make strenuous representations to the Queensland Audit Office to have the recent cost increases for Compulsory Financial Audits reduced to a reasonable amount."

#### REPLY

*From Mr Glenn Poole, Auditor-General of Queensland, by letter dated 4 November 2009.*

Thank you for your letter of 29 September 2009 regarding *Resolution Number 42 - Auditing Costs - Reduction Sough in Queensland Audit Office Charges*, which was adopted by your members at the 2009 Annual Conference.

In responding to your letter I have provided an overview of the fee setting processes employed by Queensland Audit Office (QAO) for the benefit of your members.

Under s.30 (1) (b) of the *Auditor-General Act 2009*, I am required to audit all public sector entities each financial year. As QAO receives no appropriation funding to conduct financial and compliance audits, all such audits are conducted on a full cost recovery basis.

The audits are conducted on my behalf each year either by staff of the QAO or by private sector auditors who have registered as contract auditors with QAO. I determine annually which audits are to be conducted by QAO and which are to be contracted taking into consideration a number of factors including the sector coverage, relative risk rating of the audit, the location of the entity, the time since QAO last undertook the audit and resources available. It is my intention that all local government audits will be conducted by QAO periodically.

When audits to be contracted have been identified all registered contract auditors are invited to tender for those audits. Tenders are submitted to QAO on a two envelope basis. The first envelope provides details of proposed audit coverage and these are evaluated with the primary focus being on the overall quality of the audit. Tenders that meet QAO's quality standards are ranked and the second envelope containing the proposed audit fee are then opened and the tender assessed to determine which overall tender represents the best value for money having regard to current market prices for audit services.



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For all audits undertaken by QAO staff a budget is established which is based on an assessment of the hours needed to complete the audit in accordance with the Auditor-General of Queensland Auditing Standards, the staff mix appropriate for the audit and the respective hourly charge out rates for the staff employed on the audit. Hourly charge out rates for all QAO auditors are approved annually by the Queensland Treasurer in accordance with the Auditor-General Act. Historically the annual increases in charge out rates were restricted to increases in the Consumer Price Index. However, this did not reflect the additional costs within the audit profession arising from the introduction of quality assurance requirements and other auditing standards issued by the Auditing and Assurance Standards Board (AuASB). Following my representation to the Treasurer, he approved an increase in audit charge out rates of 10.8 per cent for 2009 and this was incorporated into fee estimates for 2009 audits.

Under either scenario of QAO staff or contract auditors undertaking the audit the fee estimate is based upon our knowledge of the entity being audited at the time the fee is determined and presumes a smooth audit process with good quality financial statements, adequately supported by detailed working papers, being provided within the agreed timeframes. Significant changes in operations or accounting systems or breakdowns in internal controls for example could result in an increase in the final fee. Correspondingly, rectification of significant problems experienced in prior years could result in a decrease in the audit fee from one year to the next.

Once the audit fee has been estimated it is my expectation that the respective engagement leader will contact senior management to discuss the fee and provide an explanation of significant variations in the proposed fee from that charged in prior periods.

As you will appreciate, the estimation process for fees of newly created regional councils involved a greater degree of uncertainty than normal and in my experience with machinery of government changes in the state sector the amalgamation process was likely to increase the amount of audit work required over and above the audit effort required for the constituent parts of the regional councils at least in the short term.

In my Report to Parliament No. 2 for 2008, I outlined key areas warranting attention by newly created councils including:

- alignment of accounting and financial policies
- consolidation of information systems
- revaluations of non-current assets
- establishment of reliable opening balances
- recruitment and selection of key financial accounting and asset accounting staff
- training and development of key financial management staff.

The anticipated impact of these factors was taken into account in estimating the fees for the first audit of each of the regional councils.

At the end of each audit the engagement leader will undertake an analysis of the costs associated with the audit to determine the final fee. Where additional costs have been incurred resulting from problems encountered during the audit or from additional work being undertaken, these additional costs will be discussed with senior management of the local government and will be included in the audit fee. Costs relating to audit inefficiencies (for example significant changes to the audit team during the audit) will not be passed on. Where the cost of the audit is lower than the fee advised, the lower amount will be billed.



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I accept that audit fees have increased in recent years but this largely reflects the increase in the cost of providing audit services to the standards required by the AuASB. I am not prepared to undertake audits for less than cost or at level of quality below that required by the auditing profession and the auditing standards I have adopted and tabled in Parliament.

In my experience, the major contributor to higher than normal audit fees relates to an entity's preparedness for the audit. In past Reports to Parliament, I have outlined a number of areas of deficiency, including breakdowns in internal controls, poor quality draft financial statements, lack of suitably qualified and experienced staff and issues associated with valuation of non-current assets which have all contributed to higher audit costs. Attention to these matters would help alleviate the impact of audit fee increases.

As you will be including this response on LGOnline for the information of your members, I do not consider it appropriate to make specific comment in relation to Blackall-Tambo Regional Council but I will be taking up this matter directly with them.

If you would like to discuss this matter further, please contact me or have one of your officers contact Mr Michael Hyman, Director of Audit on 3405 1163.

*From the Honourable Desley Boyle MP, Minister for Local Government and Aboriginal and Torres Strait Islander Partnerships, by letter dated 17 November 2009.*

Thank you for your letters of 23 and 24 September 2009 addressed to me, and your letters regarding resolutions 7, 8, 15, 21 and 31 to the Honourable Stirling Hinchliffe MP, Minister for Infrastructure and Planning, and the Honourable Craig Wallace MP, Minister for Main Roads, respectively.

I will be responding to the resolutions raised in your letters and I will deal with each in turn. Please accept my apologies for the delayed response.

Resolution Number 42 "Auditing Costs -Reduction Sought in Queensland Audit Office Charges. "

Your concerns regarding cost increases for Compulsory Financial Audits and a number of other matters have been identified by the Department of Infrastructure and Planning. These matters include the process of Council's completing and submitting their financial statements and annual reports. As Minister for Local Government, I will be meeting with the Queensland Audit Office in the near future to discuss these matters. I will advise Councils of the outcome of these discussions.

Should you require any further information in relation to this matter, please contact Ms Donna Roberts, Senior Advisor, Local Government Policy and Legislation branch of the Department of Infrastructure and Planning on telephone number 323 79829.