

Mr Jonathan O'Dea MP  
Chair  
Public Accounts Committee  
Parliament House  
Macquarie Street  
SYDNEY NSW 2000

16 July 2013

Dear Mr O'Dea

### Question on Notice

#### **Inquiry into the efficiency and effectiveness of the Audit Office of NSW**

#### **Different Approaches to Appointing External Auditors Local Government, Universities and Aboriginal Land Councils**

Thank you for the opportunity to take on notice your question on the different approaches in New South Wales to appointing external auditors to Local Government, Universities and Aboriginal Land Councils.

In my view, as a general principle, where a person is a steward for other people's money an auditee should not appoint their external auditor because the independence, or perceived independence, of the auditor can be compromised.

For audit independence, quality and consistency reasons, I believe my Office should control external audits of all New South Wales local government entities and universities.

Currently in New South Wales, local government entities appoint their own external auditor. The results of these audits are therefore known only to the local governments who engaged the auditor. There is no overview of the performance of councils in general, nor comparisons between councils. Local councils are audited by the Auditor-General in a number of other States in Australia, for example Victoria and Queensland.

Having the Auditor-General control all the external audits within a particular jurisdiction has the added benefit of providing a high level of confidence that financial reports are consistent and supported by the same rigorous and independent audit processes. It also allows an Auditor-General to confidently comment on whole-of-sector findings and issues.

New South Wales universities' external audits are currently conducted by my Office and I believe my Office should continue to control all external audits of the ten New South Wales public universities. The sector overview is reported in Volume Two each year in my reports to Parliament.

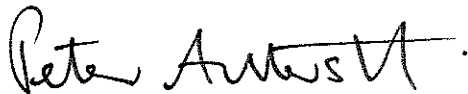
My Office also conducts the external audit of the NSW Aboriginal Land Council. However, we do not do the external audits of individual Local Aboriginal Land Councils. Their external auditors are appointed by the NSW Aboriginal Land Council. For consistency my Office could control these audits. However, due to the small size of these Local Councils and the very local nature of these activities, I am accepting of the NSW Aboriginal Land Council continuing to appoint the external auditors. I certainly do not believe it would serve the public interest if the individual Local Aboriginal Land Councils choose their own external auditors.

By controlling all external audits of all New South Wales government agencies, local government entities and universities I will be able to provide key decision makers with a higher level of confidence about the integrity and consistency of financial reports they use to make so many decisions on allocating limited public monies.

The attachment provides a more detailed analysis of differences between Local Government, Universities, the NSW Aboriginal Land Council and Local Aboriginal Land Councils.

Please contact me if you have any questions or would like any further information.

Yours sincerely

A handwritten signature in black ink that reads "Peter Achterstraat". The signature is written in a cursive style with a long horizontal stroke at the end.

Peter Achterstraat  
Auditor-General

	Local Government	Universities	NSW Aboriginal Land Council (NSWALC)	Local Aboriginal Land Councils (LALC)
Stakeholders	<p>Wide ranging and large number of individual stakeholders</p> <p>Stakeholders have limited individual capacity to influence decisions</p> <p>Councils do not compete for major funding source (ratepayers)</p>	<p>Wide ranging and large number of individual stakeholders</p> <p>Stakeholders have limited individual capacity to influence decisions</p> <p>Universities compete for students, rankings and research funds</p>	<p>Wide ranging and large number of individual stakeholders</p> <p>Stakeholders have limited individual capacity to influence decisions</p> <p>NSWALC do not compete for constituents</p>	<p>Wide ranging but fewer individual stakeholders (compared to local government, universities and NSWALC)</p> <p>Local stakeholders may have some individual power.</p> <p>LALC do not compete for constituents</p>
Governance	<p>Councillors elected by ratepayers. There are provisions for the Minister for Local Government may appoint an administrator in limited circumstances</p> <p>Some oversight and policy settings by the Division for Local Government with some Ministerial oversight</p> <p>Not-for-profit</p> <p>Functions defined by legislation</p> <p>Other State bodies have oversight role eg Independent Commission Against Corruption and the NSW Ombudsman</p>	<p>Council composition set by legislation. Limited positions are elected by stakeholders. Minister can make direct appointments to the Senate/councils</p> <p>Oversight by the NSW Parliament</p> <p>Not-for-profit</p> <p>Functions defined by legislation</p> <p>Other State bodies have oversight role eg Independent Commission Against Corruption and the NSW Ombudsman</p>	<p>Councillors elected by the regions</p> <p>Registrar can determine if a Councillor is disqualified</p> <p>Oversight by the NSW Parliament</p> <p>Not-for-profit</p> <p>Functions defined by legislation</p> <p>Other State bodies have oversight role eg Independent Commission Against Corruption and the NSW Ombudsman</p>	<p>Elected by members The Minister may appoint an administrator in limited circumstances</p> <p>Oversight is by the NSWALC with some Ministerial oversight</p> <p>Not-for-profit</p> <p>Functions defined by legislation</p> <p>Other State bodies have oversight role eg Independent Commission Against Corruption and the NSW Ombudsman</p>

Attachment

	Local Government	Universities	NSW Aboriginal Land Council (NSWALC)	Local Aboriginal Land Councils (LALC)
Funding	<p>Direct levy upon ratepayers (major source).</p> <p>Commonwealth Government State Government</p> <p>IPART regulates rate increases levied on ratepayers</p>	<p>Student revenue</p> <p>Commonwealth Government (major source)</p> <p>State Government</p> <p>Mix of regulated and unregulated revenue</p>	<p>Investment earnings. Capital base provided by State Government</p> <p>Revenue not regulated</p>	<p>NSWALC (major source) NSWALC can, in some circumstances cease funding</p> <p>Funding can resume with the Minister's approval.</p> <p>Revenue not regulated</p>
Product/service	<p>Services to the public including local roads, public amenities, some health care, some aged care services, planning approvals and other services.</p> <p>Service substitutes range from none to many.</p>	<p>Education, research, training. Local and overseas</p> <p>Reasonable service substitute for some service lines eg foreign service providers, alternate education path</p> <p>There are limited substitutes for other service lines</p>	<p>Land acquisition, monitoring of ALC's, representative in native title claims, protect aboriginal culture and heritage, financial stewardship</p> <p>Limited to no effective service substitute</p>	<p>Land acquisition, Land use and management, Aboriginal culture and heritage, Financial stewardship, Other functions prescribed by regulations.</p> <p>Limited to no effective service substitute</p>
Audit arrangements	<p>Each council appoints their auditor. If none is appointed, the Auditor-General is the auditor of last resort.</p> <p>Financial statements and annual reports not presented to Parliament</p>	<p>Auditor-General by virtue of the Public Finance and Audit Act, 1983</p> <p>There are limited substitutes for other service lines</p>	<p>Auditor-General by virtue of the Public Finance and Audit Act, 1983</p>	<p>Currently appointed by the NSWALC. In the future, the LALC may be able to appoint an auditor from a pre-approved panel. NSWALC may manage the audit panel</p>