
Appendix one – Response from the Office of Local Government within the Department of Planning and Environment

Department of Planning and Environment



Ref:
Your Ref: D2306800

Ms Margaret Crawford
Auditor-General for New South Wales
GPO Box 12
SYDNEY NSW 2001

Dear Mrs Crawford

Thank you for your letter of 28 April 2023 and the opportunity to respond to your Report on Local Government 2022 (the Report). I would like to recognise the contribution of the Audit Office towards strengthening governance, financial management and reporting in the local government sector.

Stronger regulatory stance

The Report identifies a clear need for a stronger regulatory stance by the Office of Local Government (OLG). The Report highlights a number of individual and systemic weaknesses across the whole local government sector, notwithstanding that greater intervention may often be needed for individual councils.

Vested Rural firefighting equipment

Regarding a number of references in the Report to rural firefighting equipment, I understand the NSW Government's view is that it does not control rural firefighting equipment and on balance it would appear the councils control the rural firefighting equipment vested to them. I also note the Auditor General's very clear opinion that 43 councils have not complied with the Australian Accounting Standards (AAS) by qualifying their accounts over the failure to account for rural firefighting equipment.

Councils are required to prepare financial statements in accordance with the *Local Government Act 1993* (Act), the AAS and other pronouncements of the Australian Accounting Standards Board and the Local Government Code of Accounting Practice and Financial Reporting (the Code).

OLG will strongly communicate to the local government sector the NSW Government's position that vested rural firefighting equipment is not controlled by the State and on balance councils control the firefighting equipment. OLG will require councils to include rural firefighting equipment in future accounts.

While OLG will take a stronger regulatory stance as recommended by the Audit Office, assistance from the Office on managing the issue of depreciation would be appreciated. Councils have flagged their major objection to the inclusion of rural firefighting equipment is the non-cash impact of depreciation on their accounts. OLG will work on a policy approach to ensure councils are not disadvantaged by depreciation costs for these assets.

Early close procedures

The Department continues to support, in principle, the recommendation that councils adopt early close procedures and recognises a number of councils continue to be unable to meet the statutory deadline for the lodgement of their annual financial statements without applying for an extension. The adoption of a practice which assists councils in meeting the reporting timetable is to be encouraged.

Given the differing levels of resources and capabilities across the local government sector, the arbitrary introduction of early close procedures will be problematic. OLG would like to work across the sector and with the Audit Office on an appropriate introduction timetable that recognises the differing levels of capability and capacity across councils.

While mandatory early close timetables are being developed, a council's Audit, Risk and Improvement Committee remains the most suitable body to identify and implement measures to ensure regulatory requirements are met. Councils are, and will continue to be, encouraged to bring forward various financial reporting activities, such as asset valuations, rather than instituting early close procedures across the range of financial reporting activities. OLG notes there was an increase in the number of councils that performed some early financial reporting procedures, 82% in 2021-22 compared with 59% in 2020-21.

Should you require further assistance in relation to these matters, please do not hesitate to contact Brett Whitworth, OLG's Deputy Secretary on [redacted] or by email at olg@olg.nsw.gov.au

Yours sincerely



Kiersten Fishburn
A/Secretary

8 June 2023