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Common Misconceptions Within Local Governments About Audit Regulation 17

By now, most of you would have heard of Regulation 17 - the latest addition to the Local Government (Audit) Regulations in recent years.

However, before you dismiss it as more compliance for the sake of compliance or get your assistant to whip out the old clipboard and pen, make sure you fully understand the significance of this regulation.

Here are five of the most common misconceptions Civic Legal sees in local governments across WA...

1 ■ Misunderstanding the Purpose of Regulation 17

It is a common mistake to think that Regulation 17 is just another exercise in compliance. In fact, it is about operational improvement.

Regulation 17 exists to make sure that local governments examine and improve their systems and procedures, with the aim of achieving greater operational effectiveness.

This is important because new laws will subject local governments to 'performance audits' from 1 July 2017. Under the Local Government Amendment (Auditing) Bill 2016, the Auditor General will examine the economy, efficiency and effectiveness of any aspect of a local government's operations.¹

2 ■ Thinking 'Close Enough' Is Good Enough

Many CEOs think that they only need to cover any one of the three arms mentioned in the regulation (risk management, internal control and legislative compliance).

This is incorrect. All of the three regulatory requirements must be reviewed once every two years. They may be done at the same time, or in multiple reviews.

A local government must review all three arms of Regulation 17.

¹ The Local Government Amendment (Auditing) Bill 2016 makes legislative changes to the Local Government Act 1995, and provides the Auditor General with the responsibility for auditing local governments.

3 ■ Assuming ‘Tick Box’ Reviews Fulfil Regulatory Requirements

It is very tempting to assume that a typical audit report will fulfil the requirements of Regulation 17. Tasks get a tick if the end result exists and most audits only check a sample of processes and tasks.

Such an approach does not examine the process of how the end result was obtained, or whether that process is appropriate or effective for the local government. Furthermore, faults in system designs or frameworks may have significant consequences for other procedures that were not in the sample.

The “tick box” audit approach is not sufficient.

4 ■ Treating an Internal Review as Cheaper, Better or More Efficient

It can potentially be false economy to undertake a Regulation 17 review using internal resources only. It is tempting because your staff are familiar with your systems and procedures and could therefore be efficient in conducting the review.

However, it is very likely that familiarity can blind a reviewer to the flaws in the systems, especially if they have been using those systems for years. Any savings in cost of an internal review might therefore be negated in the long run because of continuing long-term non-compliance. In addition, you miss out on the opportunity to have an objective eye look at ways to improve.

An external review provides an objective critique of the systems and identifies and recommends improvements to assist with risk management, internal controls and legislative compliance. As a result, the local government will have a better understanding of its strengths and weaknesses.

An external review is more likely to help a local government build appropriate and effective administrative systems and procedures.

5 ■ Delaying the Time in between Regulation 17 Reviews

If your review was done late, this does not remove your local government's obligation to do the next review two years after that one.

The Department of Local Government and Communities has confirmed that reviews have to be done every two calendar years. For example, doing a review in 2017 instead of 2016 means the next review still needs to be done in 2018, not 2019.

Stay within the regulated two-yearly timetable!

