



# ***ECONOMICS AND GOVERNANCE COMMITTEE***

## **Members present:**

Mr LP Power MP (Chair)  
Ms NA Boyd MP  
Mr ST OConnor MP  
Mr DG Purdie MP  
Ms KE Richards MP  
Mr RA Stevens MP

## **Staff present:**

Ms M Salisbury (Acting Committee Secretary)  
Ms L Pretty (Assistant Committee Secretary)

## **PUBLIC BRIEFING—AUDITOR-GENERAL'S REPORT NOS. 8, 10, 13 AND 17 OF 2017-18**

### **TRANSCRIPT OF PROCEEDINGS**

**MONDAY, 29 OCTOBER 2018**

**Brisbane**

## MONDAY, 19 OCTOBER 2018

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**The committee met at 9.29 am.**

**CHAIR:** Good morning. I declare open the public briefing on Auditor-General's report No. 8 of 2017-18, *Confidentiality and disclosure of government contracts*; report No. 10 of 2017-18, *Finalising unpaid fines*; report No. 13 of 2017-18, *Local government entities: 2016-17 results of financial audits*; and report No. 17 of 2017-18, *Managing local government rates and charges*.

I want to acknowledge the traditional owners of the land on which we meet. My name is Linus Power, the member for Logan and chair of the committee. Other committee members are Ms Kim Richards, the member for Redlands; Ms Nikki Boyd, the member for Pine Rivers; Mr Ray Stevens, the deputy chair and member for Mermaid Beach; Mr Sam O'Connor, the member for Bonney; and Mr Dan Purdie, the member for Ninderry.

The purpose of the briefing is to provide the committee with an opportunity to ask questions of the Auditor-General and the staff of the Queensland Audit Office about Auditor-General's reports Nos 8, 10, 13 and 17 for 2017-18. This briefing is a proceeding of the Queensland parliament and is subject to the standing rules and orders of the parliament. It is being recorded and broadcast live on the parliament's website. Media may be present and will be subject to my direction. The media rules are available from committee staff if required. All those present today should note that it is possible you might be filmed or photographed during the proceedings and images may also appear on the parliament's website or social media pages. Only the committee and invited officials may participate in the proceedings. Any person may be excluded from the briefing at my discretion or by order of the committee.

**BIRD, Ms Daniele, Deputy Auditor-General, Queensland Audit Office**

**BROWN, Mr Darren, Director Performance Audit, Queensland Audit Office**

**FLEMMING, Mr Patrick, Sector Director, Queensland Audit Office**

**TOMA, Mr David, Director Performance Audit, Queensland Audit Office**

**WORRALL, Mr Brendan, Auditor-General, Queensland Audit Office**

**CHAIR:** We will now hear from representatives of the Queensland Audit Office who have been invited to brief the committee on report No. 8 of 2017-18, *Confidentiality and disclosure of government contracts*. Representing the Queensland Audit Office are Brendan Worrall, the Auditor-General, and David Toma, Director Performance Audit. Good morning and welcome. I invite you to make a brief opening statement to the committee, after which the committee will have some questions for you.

**Mr Worrall:** Thank you for the opportunity to meet with the committee and discuss report No. 8, *Confidentiality and disclosure of government contracts*. We tabled this report on 20 February 2018. The Queensland government has adopted a model of open and transparent government with the proactive and routine release of information. It aims to make information available to the public as a matter of course unless there are good reasons for keeping it confidential. While confidentiality provisions are needed for government to protect sensitive information for itself and its stakeholders, inappropriate use can reduce transparency and public trust in government. The *Queensland procurement policy 2017* requires agencies to publish basic details for awarded contracts valued at \$10,000 and over and additional contract details for awarded contracts at \$10 million and over. In this audit we examined the use of confidentiality provisions in Queensland government contracts. We also assessed whether selected departments met contract disclosure requirements, and as part of this we looked at five departments.

While we have set out to assess the extent and appropriateness of the use of confidentiality provisions in Queensland government contracts, we found we were unable to do this because of poor contract record keeping by departments. While most Queensland government contracts have general confidentiality provisions, we identified only a few contracts containing specific confidentiality

provisions. This was because departments did not record whether contracts used specific provisions or document the reasons for including them. None of the five departments had a complete and accurate record of all of their contracts.

We did find that the Office of the Chief Adviser—Procurement guidance clearly sets out what agencies should disclose regarding reportable contracts, but their process is less clear for where and how these disclosures should occur. This leads to confusion among departments on how to discharge their responsibilities. As a result, several departments did not fulfil the basic disclosure requirements. They appropriately disclosed only a quarter of the 90 contracts we examined. Some 21 per cent were not disclosed at all; they partially disclosed the remainder. This means that they were not delivering on the government's commitment to be open and transparent.

We made four recommendations as part of the report: improve guidance and training on the use of confidentiality provisions and disclosure of contracts; clarify systems and processes needed to achieve the desired outcomes of complete and accurate public record of awarded contracts; ensure all agencies meet all mandatory requirements for contract disclosure; and improve the contract register or contract management systems to ensure a complete record of all awarded contracts. I am happy to take questions that the committee may have.

**Mr STEVENS:** Mr Worrall, thank you very much for your report. As you have alluded to in your opening address, the report found that, for contract disclosure policies in place to attempt to achieve open and transparent procurement by government, there is below-standard guidance as to where and how to disclose those contracts. Could the Audit Office comment in particular on how departments can address that problem? Is it possible for the audit department to put forward a type of proforma format that government departments could follow—like a bible, if you like—on achieving that disclosure appropriateness?

**Mr Worrall:** I might start responding to that and then David might jump in. Part of the problem is that at the moment, as I said, the departments do not seem to have a single point of truth within their agencies for all contracts that they have entered into. They have more than one point of truth or multiple registers, so I think that is part of the problem. That is further compounded by the fact that they really have three choices almost of where they disclose the actual contract information. They have QTenders, where they need to disclose contract details over \$10,000. They have another one called the Queensland contracts directory, which they would use to access existing contracts. They also have the Queensland open data solution. Some contracts are being recorded in two different places, so that is part of the problem. Sometimes they are recording not the contract value but the transactional value, and I think that would be coming from the Queensland contracts directory.

You have all these sorts of variations happening which end up with unreliable data. We did make some recommendations around that. I think there are some recommendations in relation to training. Agencies are not really clear about the requirements in terms of what they need to disclose and where they need to disclose it, so I think that is part of the problem. I think there needs to be better guidance about where they disclose. At the moment they have a choice, and I think that is part of the issue. I do not know if you wanted to add anything, David?

**Mr Toma:** Yes. Our first recommendation addresses your question directly in terms of what needs to happen for agencies to understand how to do these disclosures properly. We recommended that the Department of Housing and Public Works update their guidance material. My understanding is that they have recently done that and it is now publicly available. We have not yet reviewed that document, but we do understand that they have updated that document. The other thing that needs to happen is that the central agency needs to determine which system all of these disclosures should happen in. I am of the understanding that the department has made a recommendation to the Queensland Government Procurement Committee and that they will be making a decision on that.

**Mr STEVENS:** Just back to the point of my question or suggestion, you do not feel it is possible, then, for you as the Audit Office to give them guidance on what they should be supplying in terms of the proforma type of disclosures, if you like? It would set the bar for them.

**Mr Worrall:** We have made recommendations that they need to clarify the requirements.

**Mr STEVENS:** But you are leaving it up to them to come back and then you will obviously critique what they come back with. Is it not better that you come up with some requirements that would satisfy your needs?

**Mr Worrall:** I would say that is probably their responsibility. If they are the lead agency for that, they really need to own those processes. We are happy to provide input, which we would have during the audit beyond what was probably in the report, but I guess we do not really want to be the ones that ultimately—

**Mr STEVENS:** Setting the bar.

**Mr Worrall:** Not setting the bar but setting policy and guidelines, because that can become an issue for us as auditors over time because then we are coming back later on and auditing our own requirements.

**Mr STEVENS:** Caesar judging Caesar; got you. Thank you.

**Mr Worrall:** Yes, so that is why I would be reluctant to go that far.

**Ms RICHARDS:** With regard to the three systems that you mentioned in terms of where the data is recorded, could you give a bit more detail on what each of those represented? Are each of those three systems required for distinct and different purposes in terms of contract recording or could there be some sort of integration to consolidate into one platform?

**Mr Toma:** The QTenders database is essentially used for when government departments go out to tender for a system. What we found is that for contracts that went through the QTenders system the disclosure was made as it needed to be. Then there is the Queensland contracts directory, which is publishing predominantly transactional data. The Department of Housing and Public Works—at least at the time of our audit—was sending the list of transactions to the department to validate, but those were the transactions that they incurred to that period in order for them to then publish that as disclosure. The problem with that is that it was publishing transactional values, not the total contract value, so it does not really achieve the overall objective, which is to provide transparency in terms of the total contract value. It also creates a potential fraud risk because if a department is continually publishing a recurrent transaction over time then that obviously creates an awareness out there that the department is paying that vendor X amount of dollars consistently each month. Then you have the open data, which obviously is linked to the Open Data Strategy. Each of the three systems has its different purpose, but in this audit we looked for whether the department was disclosing the details of that contract. What we are seeing is that QTenders is the place they can do that. The other systems are not fit for that purpose.

**Ms RICHARDS:** So in your mind there should be some form of consolidation so that there is one genuine point of truth?

**Mr Toma:** There should be one point of truth, yes.

**Mr O'CONNOR:** Just on that point of truth, who makes the decision? Are there set guidelines with each department or is it up to the individual department on whether they disclose—or the government on whether they disclose and how they disclose?

**Mr Worrall:** There are some overarching guidelines by the Chief Procurement Office that agencies should follow, but I think there are probably some local interpretations of those which leads to inconsistencies. Then you obviously have these three different systems, which leads to further inconsistencies.

**Mr O'CONNOR:** That is how you get that three-quarters were not properly disclosed or partially disclosed?

**Mr Worrall:** That is exactly right; they are not fully following what they need to disclose. They are just doing it in part, and that is part of the problem. There is a lack of awareness and a lack of training of some of these agency people to fully understand what their obligations are.

**Mr O'CONNOR:** Or is it that it is at the government's discretion to disclose or to not disclose?

**Mr Worrall:** No, it is not really at their discretion. I think some of it is open to interpretation. I would not necessarily say it is deliberate non-disclosure. I think it is just almost accidental non-disclosure because they are not fully aware or maybe they have not been properly trained, so they are not interpreting the requirements properly.

**Mr O'CONNOR:** So that is not concerning in terms of the three-quarters?

**CHAIR:** The member for Redlands had a question.

**Ms RICHARDS:** In your opinion, having audited the three different systems, it is not necessarily that there is a lack of transparency; there is a lack of education around which platform is the correct one to be entering the data into?

**Mr Worrall:** I think that leads to a lack of transparency. That is what we have said in the report.

**Ms RICHARDS:** But not an intent to not disclose? There is just—

**Mr Worrall:** There is a lot of confusion.

**Ms RICHARDS:** There is a disparity in the three non-integrated systems?

**Mr Worrall:** There is a lot of confusion. There is a lot of information out there, but it is either incomplete or in a couple of places.

**Ms RICHARDS:** It sounds to me like the system is guiding the process for entry. It is not that there is an intent to not disclose, but the way those platforms are established is controlling and driving the way data is captured—that is, you are saying one is a transactional basis and obviously has been established in that format and is being followed in that format, so it is absolutely a system integration and not necessarily an intent to not disclose.

**Mr Worrall:** Yes, I would say it is the system and also the governance framework around it that needs work done so that there is a lot more clarity about what is required to be disclosed and where you need to disclose it.

**CHAIR:** For the benefit of those listening, you had response back from the departments and specifically the Premier and Cabinet about your recommendations and the feedback. Would you like to add anything to that?

**Mr Worrall:** We did. We had responses from all of those agencies. I do not know if you want to add anything?

**Mr Toma:** Is your question specifically in relation to the response of the Department of the Premier and Cabinet or just generally?

**CHAIR:** That was the one that I read there, but both the Premier and Cabinet and more generally.

**Mr Toma:** As part of the audit, we provided draft copies of the report. During the audit, overall the departments were very supportive and acknowledged the recommendations that we made. Some of the confusion arises with this whole issue of reporting transactional data versus complete contract values. You can have a department that actually is disclosing its contracts but it is not disclosing all the information it should be disclosing because it is not using the correct system. That is why we have to get consistency across the right systems, so that we are actually disclosing all the information that is required for a contract.

**Mr O'CONNOR:** It is not concerning that three-quarters of the contracts that you audited were not disclosed properly?

**Mr Worrall:** It is concerning, because the context was that the government is wanting to be open and transparent. If we have that many contracts where all the information is not there, that is concerning. The other thing to note is that this audit was really set up to be an audit on the use of confidentiality agreements. We initially went to try to identify contracts where they had used specific confidentiality clauses, because there are some requirements around that where the agencies need to disclose their reasons for using those clauses. We had a lot of difficulty identifying such contracts, mainly because there was not necessarily a single point of truth within the agency or they were not necessarily complying with that requirement to actually document why they had used specific confidentiality clauses.

**Mr PURDIE:** Would the recommendations in this report, particularly around getting clarity around or streamlining the systems and the management of those contracts, help the government departments pay their contracts quicker? Is there any implication on the payment process or is this just the back-end data entry disclosure?

**Mr Worrall:** We only looked at the disclosure requirements; we did not look at the payment requirements. I do not think this would have an impact on the payment requirements. All those payments would be happening within the agencies themselves. The three databases that we are talking about are whole-of-government type databases, whereas the payment processes would be happening within the agency and through their shared service provider, if they use a shared service provider.

**Mr PURDIE:** Would having one point of truth or trying to merge these into one database have an impact on the departments in relation to data entry? Is it an onerous task to try to do that or is it something that would not be that hard in reality?

**Mr Worrall:** Ideally, not re-entering data is probably where any entity should try to be. I think one of those databases is already prepopulated from the initial awarding of contracts. We would be hoping that they would come up with a system that is as automated as possible. All this information would be sitting in their own procurement and payment processes as well, so the fact that they would then have to re-enter something into another database is something that they should probably try to avoid, I would say. Surely they can work out how to get that in there electronically.

**Ms RICHARDS:** Procurement processes have been front and centre of the Audit Office's previous historical audits. I am surprised that this has not been identified previously, given that QTenders is a platform that has been established for many years, as I believe have the directories. Has this been identified previously?

**Mr Worrall:** The topic would have been identified through our strategic audit planning process. It would have emerged sometime in the past several years and that is how it would have found its way onto the strategic audit plan.

**Ms RICHARDS:** This particular issue was not identified in previous audits of the procurement process and the platform was used—

**Mr Worrall:** It may have been.

**Mr Toma:** In relation to having inadequate contract management systems to manage contract information, this is the third report to parliament where we have expressed concerns about departments not having a complete record of contracts.

**Ms RICHARDS:** Has specifically identifying those platforms as fundamental to the issue previously been identified?

**Mr Toma:** We did raise an issue in report No. 1 in strategic procurement, I think it was in 2016. We identified some issues with the central dataset that was being used. That dataset is what—

**Ms RICHARDS:** The dataset or the system?

**Mr Toma:** It was the dataset that the Department of Housing and Public Works was using to manage the procurement function at that time, and it has been doing some work to address that since our original audit. On the issue of the contract management system, it has appeared in three audits since 2013-14.

**Ms RICHARDS:** When is the next planned audit to review the recommendations?

**Mr Worrall:** We would need to put that in our next strategic audit plan, which would be out by 30 June next year. I would not envisage that we would be doing it in the short term. If we do a follow-up, it would be in the medium term—two or three years down the track.

**Ms RICHARDS:** In terms of following up on nonconformances in an audit process, I would have thought there would be follow-up before the two- to three-year mark?

**Mr Worrall:** If you look at our follow-up audits, generally they have happened within that two- to three-year time frame, where agencies have had some time to redress issues. If this was thought to be a high priority, we could do that earlier.

**Ms RICHARDS:** So it is not thought to be a high priority, if you think it is two to three years?

**Mr Worrall:** I am not saying that, either. I am saying that there are a lot more audit topics that we could do than we have the resources to do. On our strategic audit plan there are 10 to 12 new audits that we would hope to do in any one year. Typically, we have been doing one to two follow-ups per year. We are trying to ramp that up and do four follow-ups in the current year.

**Ms RICHARDS:** But on this specific topic—

**Mr Worrall:** Again, we would put this in the next office strategic audit plan. If we thought, yes, it needs to be followed up sooner, it would appear on the plan as a future follow-up.

**Mr STEVENS:** Mr Worrall, in your audits of the five government departments, in your investigations were you ever impeded by matters where cabinet commercial-in-confidence impacted on those government departments?

**Mr Worrall:** In relation to this audit, not at all—not at all in relation to this one.

**Mr O'CONNOR:** In your opinion, does the current system allow the government to easily and intentionally hide how many taxpayer dollars are going towards a particular project or an event?

**Mr Worrall:** I think the current system, given that there is no single point of truth, is actually confusing and it would be confusing to the market, especially where you have transactions being recorded as opposed to contracts or you have duplication of information in two systems. In our report we identified that there was over \$100 million worth of duplication. If anything, it is perhaps overstating the spend on specific contracts because they are appearing in two places.

**CHAIR:** Member for Bonney, if you could frame your questions in a way that does not impute—

**Mr O'CONNOR:** We going to have imputation again, are we?

**Ms BOYD:** It was close; it was very close.

**CHAIR:** I note the question. Can we do this in a reasonable manner that puts the facts of the question rather than imputing some intent behind actions?

**Mr O'CONNOR:** It was a genuine question.

**CHAIR:** No doubt, but I think we can follow the standing orders. There being no further questions on this report, we will move on to the next report. We will now hear from the Queensland Audit Office representatives on report No. 10 of 2017-18, *Finalising unpaid fines*. We have Mr Brendan Worrall, the Auditor-General, and Mr Darren Brown, Director Performance Audit. I invite you to make an opening statement briefing the committee, after which committee members may have some questions for you.

**Mr Worrall:** Thank you, Chair, for the opportunity to meet with the committee and discuss report No. 10, *Finalising unpaid fines*. This report was also tabled on 10 February 2018. Public sector entities issue fines to penalise people who have deliberately or inadvertently broken the law and to deter them from committing similar offences. Most people pay their fines by the due date but a small percentage do not. Some cannot afford to pay their fines; others wilfully choose not to.

The objective of the audit was to assess the effectiveness and efficiency of public sector entities in finalising unpaid fines. We assessed whether the Queensland Police Service, the Department of Transport and Main Roads, the Department of Justice and Attorney-General and the State Penalties Enforcement Registry, otherwise known as SPER, collect sufficient, relevant and accurate debtor data; are effectively managing their unpaid fines; work together to effectively finalise unpaid fines; and use efficient practices and processes that prioritise their timely finalisation.

We concluded that the Queensland Police Service and the Department of Transport and Main Roads do not consider the proactive follow-up of their fines to be their responsibility. The delays that the Police Service and Main Roads have built into their end-to-end fine processes over time have reduced the likelihood of effective and efficient payment. It is, therefore, not surprising that those agencies collected payment for less than half the infringements they issued between 2011-12 and 2016-17, and those rates show no signs of improvement.

SPER's effectiveness in finalising fines remained relatively steady between 2011-12 and 2016-17, but it has not kept pace with the high volume of tolling fines that came in in 2014-15 and again in 2015-16. Over that period, the old and potentially unrecoverable debt has increased. As a result, the unpaid fine debt owed to the state continues to increase. It has grown to the point where further debt write-off is needed. SPER, with the cooperation of issuing and referring entities, has driven legislative, administrative and structural change to help improve the way it fulfils its role of collecting and finalising unpaid fines.

However, all entities can do more to improve the payment and finalisation rate of unpaid fines. The key to this is all entities adopting a more integrated, end-to-end, cross-agency approach to the fine process. We found that the Police Service and Transport and Main Roads do not have efficient and effective processes and practices to maximise the rate of infringements finalised. For example, Transport and Main Roads takes 56 days to refer unpaid fines to SPER, despite the State Penalties Act 1999 only requiring it to provide an alleged offender with 28 days from the date of infringement. While some days may be needed to process fines paid on the 28th day, the additional 28 days is an unnecessary delay, especially given that Transport and Main Roads and the Police Service do not use this time to follow up most of the fines that they issue.

For tolling infringements, it takes an average of 229 days from the time a person drives through a toll to the time that SPER receives the unpaid tolling infringement. A delay to that extent reduces the likelihood of effective and efficient finalisation. Since 2011-12, the percentage of tolling infringements paid to Transport and Main Roads has decreased from 17 per cent to five per cent in 2016-17. We also found that SPER can be slow to take enforcement action. For debtors with one fine, SPER commences enforcement action approximately 52 days after a fine has been referred to it and 109 days after that fine was originally issued. This delay by SPER exacerbates the earlier delays by Transport and Main Roads in referring the unpaid infringement. By this time, the offender has received numerous notifications of the outstanding infringement and has had an extensive opportunity to pay.

I will outline the recommendations in summary. There were nine recommendations. They were to: improve the end-to-end fines collection process, specifically to reduce the time taken to record, refer and enforce fines; identify opportunities to automate the process; improve debt recovery and manage problematic debtors; review the tolling framework to better manage tolling fines; develop processes to assess the cost and effectiveness of enforcement actions; and assess and write off aged and unrecoverable debt.

In terms of progress to date, on 8 October 2018 I received an update from the then Acting Director-General of the Department of Transport and Main Roads in relation to the recommendations regarding the review of the tolling framework. In his initial response to my audit report, the director-general provided a time frame for addressing this recommendation as by quarter 3 of 2018. In this October update to me the acting director-general advised that the department has worked with Transurban Queensland and SPER to review the tolling framework. As part of the framework review, the department has improved its information sharing with Transurban Queensland to enable enhanceability to contact debtors and more timely contact with debtors. Also, since the report was tabled amendments to the Transport Infrastructure Act 1994 have been passed which will allow for aggregation of demand notices. This allows Transurban Queensland to aggregate tolls incurred over a three-day period into a single demand notice, potentially reducing the number of demand notices issued—estimated to be up to 1.6 million fewer—and fees passed on to road users.

These details have been reported to us by the director-general. As yet we have not been able to validate progress on the other recommendations made. We will continue to monitor progress through our strategic audit planning process and assess whether we will undertake a future follow-up audit to assess the effectiveness of actions to implement all of our recommendations. We are happy to take questions.

**Mr STEVENS:** We have had quite a few attempts at addressing the SPER issue through the parliament. I see that you have recommended that SPER should be conducting regular assessments and writing off aged and unrecoverable debt. I notice in your report that the most likely unrecoverable debt is about \$190 million. That is sending a message to someone out there that they do not have to pay. We have \$1,200 million in outstanding SPER debts and you are going to write off nearly \$200 million. How do we explain that and not encourage people to not pay their SPER fines?

**Mr Worrall:** That is a good question. We noted in the report that there are other powers that agencies like SPER would have to pursue unpaid debts which they currently do not use. We have recommended that they consider using their other powers which they have but have not chosen to use to date.

**Mr STEVENS:** Could you elaborate on those other powers?

**Mr Worrall:** Yes, I certainly can.

**Mr Brown:** They include things like the seizure of vehicles. At the time of audit SPER was starting to trial using those powers more frequently. They also include suspending licences and the registration of vehicles. There is a whole spectrum right up to, as a last resort, imprisonment.

**Mr Worrall:** Garnisheeing.

**Mr Brown:** Garnisheeing wages is another option. We see the recommendations as being a package and not stand-alone recommendations. The recommendation around writing off debt we saw as part of addressing the issue around the end-to-end process for fines, using the enforcement powers they have and then after all of that is addressed where there are fines that are unrecoverable then they need to be written off.

There can be a range of reasons a fine might be unrecoverable. We talk about some of those in the report. Some of those may include that the person who is being pursued is subsequently deceased and therefore the fine is not recoverable. There can be a range of other reasons. It may be that a person has gone bankrupt. A whole range of reasons can account for those unrecoverable fines.

**Mr STEVENS:** For \$190 million that is a lot of deceased persons, I would have thought.

**Mr Brown:** The deceased are only one aspect and there are a range—

**Mr STEVENS:** I understand that. I want to be clear about what you are getting at. SPER should be utilising more of their range of collection avenues to finalise how much is actually recoverable?

**Mr Worrall:** Yes, they have other powers which they—

**Mr STEVENS:** And they have not been using them as much.

**Mr Worrall:** They have other powers which they could call upon. We found they were not using those other powers.

**Mr STEVENS:** At all or a percentage?

**Mr Brown:** Not to their full capacity. What we are suggesting is that if they improve the end-to-end process and use the enforcement options that are available to them more effectively and efficiently then the need to write off debt should reduce overtime.



**Mr Worrall:** The other issue about some of that unpaid debt is that some of it is quite old. In terms of any new debt that has been created, I think SPER has been able to demonstrate through the audit that it has been quite effective in managing that. Some of the older debt that has been around for a few years is hard to recover.

**CHAIR:** You make the point that both the agency issuing the fine and SPER acting quickly are the best way to do that recovery?

**Mr Worrall:** That is right. What we found was that the process was not being managed as well as it could have been as an end-to-end process. There were some inherent delays built into the process, both at Transport and Main Roads and the Queensland police. They were both basically adding another 28 days into the collection process, but they were not really doing anything in that 28 days.

**CHAIR:** Proactively.

**Mr Worrall:** We were saying: after 28 days, refer it across to SPER so that they can initiate their action sooner. In any sort of debt collection, the longer you leave it the harder it is to recover.

**Ms BOYD:** These delays are pretty lengthy. We are talking about three to seven months in a lot of instances before the referral gets to SPER. Can you unpack in a little more detail the other powers SPER has once it has been referred to it and the debt remains unpaid?

**Mr Worrall:** In terms of the SPER process where they are pursuing debtors, they will have a range of recovery actions where they are trying to track down the debtor. If the debtor cannot afford to pay, they might put them on a payment plan to recover the debt over a period of time. We probably did not see a lot of evidence of them using the more interventionist type powers.

**Ms BOYD:** Can you give us some examples of what those powers are?

**Mr Worrall:** The sort of things that Darren mentioned before. At one extreme there could be a payroll garnishee—where there is a garnishee through the employer and that money is recovered directly out of a person's pay. That is probably somewhat extreme. Seizing motor vehicles and disposing of those and recovering the proceeds to satisfy the debt is another example.

**Mr Brown:** The process that SPER undertake is: once a matter is referred to them, they are required under legislation to issue a demand notice to the debtor. If the demand notice does not prompt the debtor to pay, the first step will be where possible to issue a warning that the person's licence may be suspended. They start off at licence suspension and then gradually escalate through a range of options which may include, as the Auditor-General has said, garnisheeing wages. It may include immobilisation of vehicles and right through to potentially imprisonment. We found no evidence that imprisonment had been used over the period that we looked at.

**Ms BOYD:** When we talk about the outstanding SPER debt, we talk about it in terms of dollars. I am interested in how many individuals we are talking about here. Do you have that figure?

**Mr Brown:** We do have those figures in the report. The biggest issue is with debtors who refuse to pay. We make the point in the report that 19 per cent of debtors account for 60 per cent of new fines coming in. They are people who have an existing debt with SPER and are continuing to rack up more and more infringements.

**Ms BOYD:** Are repeat offenders dealt with in a different manner at any point in the process? Is there perhaps some intervention or are some other methods used?

**CHAIR:** I think that is a really good question. At the QPS, council or TMR level are those people flagged as people who have an existing SPER debt and need further intervention as part of that end-to-end process?

**Mr Brown:** One of our recommendations addresses that. We made a recommendation that magistrates, when they are issuing fines for example, be advised of a person's debt history. That way, a magistrate or judge can make an informed decision as to whether an additional fine is an appropriate sanction for that particular person. We do highlight that there is some analysis being done at SPER to identify who repeat debtors are. They are aware of those debtors. The length of the process does not necessarily change. Where agencies are providing 56 days rather than the 28-day period to pay a fine, they do not say, 'This person has a long history of existing debts that are outstanding. Giving them an extra 28 days'—

**Ms BOYD:** There is not an intervention, for example, to further educate that person?

**Mr Brown:** No, not in terms of education. They do consider whether financial hardship may be an issue. In some cases that is the case. They do have options for dealing with financial hardships. That may include in some cases writing off debt.

**Ms BOYD:** Through your work do you know whether any universities are looking into that particular component of it? The reason I ask this is that I know a couple of people who have surprisingly excessive SPER debts and yet their mentality is not one of urgency to clear the SPER debt. It is just something that is part of their life. It is part of the ongoing operations of the way they live. As you say, they often get another fine added to it. It is a cumulative effect. Do you know if there has been any research done into that or whether there is any body that is looking at perhaps doing some work on that, because it seems to be a growing problem within the community in terms of repeat offenders?

**Mr Brown:** My understand is that there has been some research, but SPER would probably be best placed to advise you on that. What the analysis of the data does show is that the likelihood of payment varies depending on the type of debt. For example, people may have a differing view of a toll debt as opposed to a fine issued by the police. People view fare evasion type debts and loitering type debts differently to speeding fines, for example. There is a range of factors that can influence people's decisions around paying debts.

**Ms Bird:** I think the changes that SPER are making to the systems will make this far easier so they can do better analysis with the information they are capturing in their system. Even capturing all of the fines of an individual was not the way the system was originally set up; it was set up to do fine by fine. They are some of the changes they are making to their system so they can do some of this analysis and then, hopefully, inform more effective actions.

**Mr Brown:** We do highlight in the report that SPER is doing some of that analysis. What we did find in the report is that information is then not being used by the departments themselves in informing their enforcement regimes.

**Ms BOYD:** That is interesting.

**CHAIR:** They do have access to that information?

**Mr Brown:** They have access through the committee. There is a joint committee—the penalty debt management committee—which all the agencies that were included in our audit are a part of. We did make recommendations that that committee could make further use of its ability to drive some of the changes across the end-to-end process.

**Mr PURDIE:** We probably all know people who have a big SPER debt and it is at the back of their mind and they do not really care about it. You talked about repeat debtors who continually refuse to pay. Do you think if SPER started to use the avenues they have and we changed the culture of people having a SPER debt and not really caring about it—people start going to prison, cars get seized or rego is declined—that might start to trickle through and turn it around?

**Mr Brown:** Quite possibly. I would think it would need to be something that is visible.

**Mr PURDIE:** There could be some media around it maybe?

**Mr Brown:** Quite possibly—making it known that there is a potential that it is going to catch up with you at some particular point and there are potential consequences. Again, it comes down to research around what is going to be most effective in terms of how you go about educating people.

**Ms Bird:** They are obviously going to do analysis. As Darren said, they have started with seizing the vehicles. You take a look at it and say, 'Is that effective? Are they then getting the funds at the end of the day when they are taking those measures?' It is about taking a look at piloting the different enforcement approaches and saying, 'Which ones are effective?' That is what they are intending to do.

**Mr PURDIE:** As you said in your report, SPER are not really using any of this enforcement action, so the culture out there that you can have a debt, you can keep refusing to pay and nothing will ever happen about it is reinforced by them not taking any action.

**Mr Brown:** I suppose they have always used various parts of their enforcement toolkit. They are now starting to focus more on systematically using the options that are available to them and they are taking actions. As Daniele said, they have trialled vehicle immobilisation, but there is no one solution. It is basically a need to use the range of options that are available to them. For example in relation to vehicle immobilisation, there are occasions where they have immobilised the vehicle and, after a period of time that the vehicle has been immobilised and the person still has not paid, they

have to release the immobilisation. They do have the power to seize and sell the vehicle, but if the value of the vehicle is less than what it is going to cost to seize and sell the vehicle, that becomes a useless option for them.

**CHAIR:** I imagine with imprisonment there is a high cost of incarceration and legal processing that might make it problematic for getting value for money for Queensland taxpayers.

**Mr Brown:** Definitely. Imprisonment also comes with a range of other social and health issues that need to be considered around specific individuals and their ability to cope with imprisonment and so forth.

**Mr PURDIE:** Exactly. I agree with that, but I am wondering whether, if they started enforcing it strictly, it could potentially act as a deterrent and change the culture. At the moment a lot of people incur a SPER debt and, as we heard earlier, it goes to the back of their mind and they know they do not have to get to it. I am not suggesting for a second that we send them all to jail, but if we had a bit of a campaign to move to an enforcement type of regime it might spark a lot of people who have a SPER debt that they do not care about into maybe looking at it. I agree that prison is not the answer. That is my opinion.

**Mr Brown:** Our recommendations are certainly that SPER should be using the enforcement options available to it more than it currently is.

**CHAIR:** My experience of people with a SPER debt is that people get onto a payment plan when it is threatened that their licence will be taken away. They then allow another fine to be elevated to SPER without paying it off at the original agency, therefore exacerbating their debt. It is not that they are not on a payment plan—and it is taking up a fairly considerable part of their wages. That is my experience of people: they continue this cycle of fines being allowed to go into SPER with its corresponding extra costs.

**Mr O'CONNOR:** In terms of those options you were talking about, with the cases that make up the \$1.2 billion in unpaid debt, why is SPER taking enforcement action in only 18 per cent of the cases? Why is it such a low figure?

**Mr Brown:** You have that proportion that is potentially unenforceable.

**Mr O'CONNOR:** That is 82 per cent?

**Mr Brown:** No, that was the \$190 million that was potentially unenforceable.

**Mr O'CONNOR:** Of the \$1.2 billion owing in unpaid fines, SPER is currently taking enforcement action on 18 per cent.

**Mr Brown:** Yes.

**Mr O'CONNOR:** It just seems extraordinarily low.

**Mr Brown:** That is because that figure accounts for all the fines. In terms of the fines that have just been referred to it where demand notices are sent out, the enforcement action does not trigger until after that period when the demand notice has expired. It is at that point that SPER takes action. That \$1.2 billion figure accounts for the whole quantity of unpaid fines.

**CHAIR:** There being no further questions, we will move on to the next report. We will now hear from the Queensland Audit Office representatives on report No. 13 of 2017-18 titled *Local government entities: 2016-17 results of financial audits*. The representatives are Mr Brendan Worrall, the Auditor-General, Mr Patrick Flemming and Ms Daniele Bird, the Deputy Auditor-General. I invite you to make an opening statement briefing the committee prior to the committee members asking you some questions.

**Mr Worrall:** I will make a few brief comments. This report summarises the results of our audits of the 2016-17 financial statements of local government entities and the entities they control. I am required by my act to report at least once each year on the results of my financial audits. Recognising its importance, each year we prepare this separate report on local government. The annual report of each local government is its primary accountability document reporting to council, its ratepayers, its residents, other funders and the users of its services. It sets out its operational and financial performance and position.

In addition to certifying each council's general purpose financial statements, I am required to provide an audit opinion on the accuracy of each council's current year financial sustainability statement. Legislation requires councils' annual reports to include their audited general purpose financial statements and their financial sustainability statements. The accompanying audit opinion assures readers that these financial statements are reliable. We aim to issue an unmodified audit opinion. We work closely with each entity each year so it can submit high-quality and timely draft statements for our audit.

Our audit approach includes examining the internal controls each entity has implemented to reduce the risk of error and fraud and to produce accurate and reliable financial information. Whether we qualify or otherwise modify our audit opinion depends on each entity's compliance with its financial reporting requirements. We must also have regard to its future financial state, as council's financial statements are prepared assuming it will remain a going concern. Issues of medium to longer term financial sustainability are therefore important audit considerations.

This report represents the outcomes of our annual attestation audits over the local government entities and their related entities. Consistent with our prior reports, we have included an assessment of each council's financial governance. This is in the form of a traffic light report which also allows a comparison to be made against like councils. The assessment covers the timeliness of financial statements, the quality of financial statements provided to us, the number of significant control deficiencies identified and our assessments of the council's financial sustainability. A red traffic light means that the council has missed the legislative financial reporting deadline; or maybe it has met fewer than three key processes by the agreed date; or maybe it has provided poor quality financial statements to audit; or it has had more than one significant deficiency raised by audit; or it has been assessed as being at a higher risk of becoming financially unsustainable. Our assessments of the individual councils are included in appendix J of that report.

I also note that this report represents my financial audit mandate. Using my performance audit mandate, I have also conducted a performance audit of managing local government rates and charges and prepared a separate report on the results, which is the topic of today's meeting. I might leave my opening statement at that. We are happy to take questions around that.

**Mr STEVENS:** Mr Worrall, you identified that it would be quite difficult for a few of the councils without skilled workforces and appropriate resources to provide the quality of financial statements and accountability that is required to make sure they do not get themselves into trouble. How do you see that these councils, under-resourced and underskilled—we do not need to name them, but obviously there are some out there that have those difficulties—are addressing your requirements? Would it be appropriate for the state government as the mother body, if you like, to financially support those councils that did not have the necessary resources and could not access appropriate financial support to make those a reality?

**Mr Worrall:** That is a good question. I might start by answering it in the reverse, if I may. When we looked at which councils were able to meet the deadlines on the most timely basis for 2017, the results were quite surprising. The first council to get its financial statements signed as audited by QAO was an Indigenous council called Hope Vale on Cape York. It achieved its deadline on 8 August. The next council after that was Brisbane City, the biggest council in not only this state but also the country. That was 17 August. Then we had Goondiwindi, on 31 August. There were only three councils that reported in August. We had five councils that reported in September. One of those was also an Indigenous council, Pormpuraaw. The bulk of the remaining councils reported in October.

The issue of skills is not really an issue that I think is necessarily just related to the Indigenous communities. It is more about the remoteness and being able to attract and retain the requisite skills in these communities. I think it has been an ongoing issue for local government for a long period. For quite a while certain local governments have gotten together and shared a specialist, a town-planner and things like that. There has been some of that. I think there is probably more that local governments could do. Maybe entering into more formalised shared service arrangements amongst a group of local governments may be a way to help combat this skills issue. I am not saying that would necessarily mean jobs disappearing out of those communities; it would mean that people could stay in their community but might do work for a number of councils in an area, not just the one council. That may be an issue. The last part of your question was whether the state should—

**Mr STEVENS:** Would it be appropriate?

**Mr Worrall:** Would it be appropriate to fund this? That is probably a policy issue for the state. I think encouraging local governments to think a bit more laterally about how they might be able to address some of these issues, maybe along the lines I suggested, could be one approach. I was interested in Hope Vale's story. I went up there in May. I thought there was probably more to that story than just financial reporting, so I went up and met with the mayor, the CEO and the CFO. There was more to the story. My take-out from that visit was that they did not just want to be good at financial reporting; they wanted to be good at everything they did and be in control. Their CFO does not live in that community. The Hope Vale CFO is based in Cairns. My understanding is that that person only works on a part-time basis for that council and would visit and spend a short period of time there once every few weeks. I think most of their work is done back in Cairns. That is one council that has been able to make that work.

Another observation is that sometimes arrangements can be good in these local communities and then a key person leaves and things go off the rails. Looking for solutions that are more sustainable is really important. Not thinking that you have to have that person there all the time may be a way to look at it and there can be more pooling of resources with clusters of local governments.

**Mr STEVENS:** As you would be aware Mr Worrall, there are several large accounting firms utilising overseas services for cost measures. Given the world of IT, would it be appropriate for local government to embark on those cost-saving measures?

**Mr Worrall:** Do you mean outsourcing?

**Mr STEVENS:** Outsourcing, yes.

**Mr Worrall:** I certainly know at the state level there would be issues with information being kept out of the country. I am not really sure whether that would be a restriction for local government. Outsourcing to a foreign country is something that you do not want to enter into lightly. You need to fully understand your own costs in the first instance and what opportunities outsourcing may bring and whether it will bring a reduction in costs. You can put services offshore but then you need processes to be able to manage the delivery of those services. There are definitely going to be costs in all of that.

Some of the top four accounting firms have definitely gone that way. There is a large office tower in Hyderabad which is dedicated to Deloitte, for example, and that is how they help service their clients. That can work because of differing time zones. I think a small council would have to be very careful about entering into such arrangements on its own and have really worked it through properly to make sure they will be able to manage that arrangement and that what they perceive as the benefits would actually be delivered. They would also need to be able to manage the perception of that within their community.

**CHAIR:** Your point being that the preparation of financial statements gives councils a better understanding of the value of where they are putting funds and the processes they are using, and putting that to a distant third party might not give them the value that they are seeking in keeping that financial control?

**Mr Worrall:** What I would say is that I think the preparation of financial statements is really a by-product of their accounting and financial management processes. As I said earlier, we have eight out of 77 councils in Queensland that can prepare a financial report within three months of year end. I think the statutory reporting time frame in Queensland is actually quite generous—four months. As you can see, most councils are only falling into that October period. The financial reports should just be a by-product. If they had good month-end processes that were highly automated and driven by checklists and the various people in council knew what to do and that was automated, it should not really take four months to prepare a financial report.

Just outsourcing the preparation process is not really going to solve that problem. If you have not been doing good month-end processes for 12 months then you still have a period of clean-up to do. If a council is having the best firm prepare the financial statements but they are not doing that clean-up and they still have to wait for that clean-up then I think they are not going to get the financial statements any earlier. Councils really need to focus on their monthly accounting processes, to get them bedded down and as automated as possible, and then I think the financial report should be able to be produced in a more timely manner. That is where I think they should focus their attention.

**Ms RICHARDS:** I note the comments with regard to the process. I want to go into a little bit more detail on financial position performance sustainability. The QAO's analysis indicates that overall the risk of councils becoming unsustainable is consistent with last year. Some 44 councils have a high or moderate risk. It was 43 of 77 councils last year. That is substantial. Some 13 councils were assessed as being at a higher risk on average than over the last five years and they have had large operating losses, between 10 per cent and 49 per cent. There are an additional six that would have been in the higher risk category without that grant process. What recommendations are you making within your audit findings to the department of local government with regard to addressing what is a significant risk for a substantial proportion of our local government entities?

**Mr Flemming:** Over the last few years we have made a number of recommendations to the department, both in our financial audit reports and in our performance audit reports, around sustainability and around educating councils on the importance of sustainability, particularly around asset management. Obviously councils manage over \$100 billion worth of infrastructure assets collectively and they are not income producing. You need to manage those at an optimal level to make sure you are getting the best bang for your buck.

We have made a lot of recommendations around education. We have made a lot of recommendations around focusing on those sustainability outcomes. We will talk about sustainability again when we look at the managing rates and charges report shortly where we have made some more recommendations. The main thing is to keep that front of mind for councils. We talked about financial statements previously. The challenge is to make that a priority and important for councils. That is the same with sustainability—make it something important that they are trying to achieve over time.

The three indicators that we use are legislated, but they are only indicators. They are only a lead indicator potentially of how a business is going and whether a council would need to change its revenue and expenditure policies to be sustainable in the future. Obviously you would like to break even over the long term to make sure that you have enough money to pay your bills.

**Ms RICHARDS:** Again, I think that analysis indicates that there is substantial high risk within multiple council entities. You have advised councils of those recommendations. What are the recommendations to the local government department to address the high risk?

**Mr Flemming:** Part of it is working with councils to make sure that they know what good management of your revenue and expenditure policy means—to live within your means. One of the big things we have also been talking about is around levels of service. What level of service can you afford to provide to your community? Equally, they need to have a level of engagement with the community to understand what services you provide: do you need the service and, if you do need the service, what level of service? That might be as simple as how often you seal the roads or grade the roads, which comes at a huge cost each time. Understanding the cost of the service you deliver and then understanding what the community wants in terms of that level of service are two really important points in this sustainability piece.

Obviously some communities do not have a huge rate base to draw from. There will be some communities that are naturally going to draw on more grant funding than others. There is a suite in the middle that can do more with what they have and make conscious decisions about the moneys they can raise. They are the ones that, with better understanding of revenue and expenditure policies, can improve.

**Ms RICHARDS:** I note that there is a substantial number of councils that do not have audit committees in place. Of the ones that do have audit committees, how are they comprised? How can we ensure integrity within the systems of our councils when there are not independent audit processes occurring as a matter of day-to-day business?

**Mr Worrall:** You are quite right that there are some councils that do not have an audit committee.

**Ms RICHARDS:** I think there were 16. Would it be possible to get a list of those, please?

**Mr Worrall:** We can take that on notice. You are quite right that there are a number of councils that have opted out of having an audit committee. Not only in this report but in other forums I have definitely been quite vocal about that. I really see the audit committee as the process to hold management to account in relation to all matters relating to governance and financial accountability. If there is no audit committee in place then the opportunity to hold management to account is missed.

Audit committees are important because they can provide oversight of the financial reporting process, for example. They can provide oversight of any issues that have been raised by an external audit, not only in a report directly to the council but also in broader reports where we have raised recommendations that might affect other entities, like other local governments for example, but may not have been subject to a specific audit. I would definitely like to see audit committees in place.

**Ms RICHARDS:** How would they be established? What would be the composition? Where would they be drawing their pool of resources from?

**Mr Worrall:** For them to be effective they need a cross-section of skills. I think they need some understanding of the business. That is definitely a help. Having some skills in local government on that committee would definitely be a help. Having some financial management skills—having at least an accountant on that committee—would be a help. Skills such as service delivery, customer service and legal skills are all good, relevant skills.

Since I have come into this role I have heard some arguments that some of these councils are too remote so it is difficult for them to find the right skills within their community. The reality is that, with technology as it is today, you do not necessarily need all of those skills living in your community. You can tap into those skills wherever they may be. There are quite a number of councils that already do that. They are having meetings not necessarily face to face but are using technology to have the requisite skills at those meetings.

**Ms RICHARDS:** Would you suggest some independence in terms of the skills and resources not only from within a council's pool but also from the entities themselves?

**Mr Worrall:** That is a good point. We have a performance audit coming up in the next financial year on the effectiveness of audit committees. As part of that we will probably look at the composition of audit committees in different sectors. Better practice would say that the audit committee should at least be chaired by someone independent and have some independent members. In local government that does not always play out like that. Sometimes those committees are probably still chaired by councillors. There are probably examples of that. That is probably not ideal.

**Ms RICHARDS:** Within the mandate to establish audit committees, which is a recommendation to the department, have you detailed further what those committees might look like so that there is—

**Mr Worrall:** Not specifically, but there is quite a bit of better practice already out there. There are some Treasury guidelines that have been around for a number of years in relation to audit committees.

**Ms Bird:** Out of this performance audit that we do in the next 12 months, that is one of the things we are envisaging will be a by-product of doing that audit. Even though, as Brendan said, we will look at different sectors, we might select, for instance, the state that is a bit more mature in this space but we will be able to use it as better practice guidance across-the-board for all public sector entities.

**CHAIR:** We might look at that at that stage. There being no further questions, we might hear from the Queensland Audit Office representatives on report No. 17 of 2017-18, *Managing local government rates and charges*. I invite you to make an opening statement briefing the committee and then members will have questions for you.

**Mr Worrall:** Thank you for the opportunity to discuss report No. 17, *Managing local government rates and charges*. This report was tabled on 17 June 2018. This report is the second one in a series of performance audits on the sustainability of the local government sector. It follows on from our 2016-17 report on forecasting the sustainability of local governments. That was report No. 2 in 2016-17. The next audit in this series is scheduled to commence in 2019, and that will focus on the cost of local government services.

It is important to note that the 2016-17 audit found that 44 out of the 77 local governments were at a high or moderate risk of becoming unsustainable, as the member had noted previously. The 77 local governments collect over \$6 billion in revenue, half of which is through rates and charges. The objective of this audit was to examine whether councils set and administer rates and charges appropriately to support long-term financial sustainability.

We audited one council from each of the five Local Government Association of Queensland segments. These were coastal, resources, rural/regional, rural/remote and South-East Queensland. In assessing the council's rating practices, we concluded whether the councils have robust and transparent processes for setting rates and charges, revenue policies and statements that meet the legislative requirements and whether they effectively administer rates and charges according to the legislation and better practice.

Councils have a high level of autonomy within the bounds of the legislation to tailor their rates and charges at a level they deem appropriate to meet the needs of their communities. However, we have found that the five councils audited do not provide enough information to their communities to help them understand how the different categories are determined and how the rates are set. The rate increase decisions we audited were generally made behind closed doors with limited community input. While councils' final rate decisions are recorded, the decision-making process and the reasons for those decisions are not usually documented. Therefore, it is not clear how rate increase decisions ultimately support long-term sustainability.

Most of the councils we audited could verbally describe the actions they are taking to address the shortfalls in their financial sustainability ratios, but none had documented all of the specific decisions and actions that they are taking in the one place—for example, in an action plan. We found that none of the five councils could demonstrate that their communities had input into their budgets and rate-setting decisions or input into determining the level and the quality of services and facilities the council provides.

Our audit also highlighted the need for councils to improve their understanding of the disclosure and process requirements in the act and regulations to ensure that council documents include all relevant information in a way that can be easily identifiable and comparable across councils. A number of councils' resolutions to adopt their rates and charges for 2017-18 were very similar to those

of the Fraser Coast Regional Council. In November 2017 the Supreme Court found that the Fraser Coast Regional Council's resolution was invalid. This is important for councils to be aware of for future budget resolutions.

We made a total of nine recommendations in the report. Three recommendations were for the Department of Local Government, Racing and Multicultural Affairs, aimed at further improving transparency on disclosure of rates and strategy decisions, supporting councils through best practice tools and templates on budget and rates, and developing resources and tools on community engagement and managing overdue rates and charges. The remaining six recommendations were directed at the councils themselves. These were in relation to: further improve documentation of actions taken to support financial forecasts; implement appropriate costing models; implement appropriate community engagement; publish a hardship policy to assist ratepayers in need; improved documentation for budget and resolution of rates and charges; and train staff on debt collection techniques.

We did not audit any Indigenous communities, mainly because they do not really have rates as part of their funding mechanism. That is why they were not part of the scope. We are happy to take questions on the report.

**Mr STEVENS:** Again, the report refers to the Local Government Legislation (Validation of Rates and Charges) Amendment Bill 2018. As I recall—the chair might be able to help me here—this committee recommended for those councils who may be unaware of their responsibilities in this area that the department should ensure that the processes were there so that all councils in Queensland—all 77—were aware of their responsibilities in this matter. Does the Audit Office have any specific recommendations to make sure that that occurs—that councils are aware of their responsibility to make proper resolutions in relation to rates and charges?

**Mr Worrall:** That is a good question and it goes to the heart of some of the recommendations that we made to the department. It is not necessarily a straightforward area. Even though I think councils are well intended, they are not necessarily strictly complying with the requirements of the regulation. Rather than reinventing the wheel 77 times over around the state, we thought that the department should better support councils through better practice templates and documentation so that they can go to that as the first port of call.

**Mr STEVENS:** Like a proforma.

**Mr Worrall:** It is pretty much like a proforma, and then they can necessarily tailor that for any specific circumstances they may have. What we found is that there is a risk of noncompliance, and that is driven by the complexity of the regulations in this area—not really by the intent of councils not to comply but just because it is complex and not necessarily straightforward. The department doing more to help them comply, I think, is a good thing. It is also going to make it more efficient.

**Mr STEVENS:** Also, some of the legal aspects of their responsibilities might not be clear to a lot of councils, as per the ruling by the judges in a particular case previously.

**Ms Bird:** We workshopped these recommendations with the department to say, 'Clearly there is a gap here. How can we most effectively build our recommendations around this?' Recommendation 1 to the department has looked to amend the Local Government Regulation to require council chief executives to certify to the mayor that the council has adopted its budget and complies with all legislative requirements. We have recommended that. In these circumstances where we have had such widespread misunderstanding of those requirements by councils, we felt it would be helpful to have that as a recommendation and make it overt that they have to do that certification. We workshopped with the department and came up with that—other than obviously what Brendan has mentioned, which is the resources, the tools, for councils to try to make these requirements clear.

**Mr Worrall:** We were quite deliberate in pitching that recommendation at the chief executives, because they are the ones who should have the expertise in this area, especially with elected members coming and going through the election cycles. They would be looking to their chief executives to provide advice around these things. We thought that a certification from the chief executive to the mayor that the resolutions comply was an appropriate way, rather than, for example, getting the mayor to certify that.

**Mr STEVENS:** That would be the best relationship—between the CEO and the department—to be fully trained up on what he has to certify?

**Mr Worrall:** Yes.



**Ms RICHARDS:** Going back to our previous conversation with regard to financial sustainability and the setting of rates and charges, you were saying that that was an issue in our previous discussion. Is there any consideration about sustainability tied to the CEO and the process in terms of evaluating the rates so that residents can be assured that the rates that are being set will ensure that our councils stay in a sustainable position financially?

**Mr Worrall:** What we found was that the linkages between the setting of the rates and charges in the year and how that relates to maintaining sustainability, or moving towards a more sustainable position, generally were not there. That is what we were recommending—that there need to be some clear linkages between the setting of the rates and charges and what is your sustainability goal and how you are going to get there over a period of time. That is the frame of reference in making the decisions about rates and charges. What we found is that rates and charges were being set based on an assessment of what they thought would be acceptable from the community's point of view but without any proper engagement with the community about the level of services they wanted and the quality of services they wanted.

**Ms RICHARDS:** Do you feel confident that we are suggesting the right mechanisms and processes to ensure that there is absolute clarity in terms of ensuring a council remains financially sustainable in the setting of rates and charges and how that is consulted within the community?

**Mr Worrall:** I think there is still a lot of work to take place in relation to all of this. One of the recommendations to the department is that they come up with a framework or some practice that councils can use to engage with the communities. As part of the audit, community engagement around the setting of rates and charges or the standard of services was pretty much non-existent. We are saying that there needs to be a conversation with the community so that they understand the level of services they are paying for and whether they want more or less and the implications for that. That is part of it. The other part is the mechanisms within council of making decisions in a way that is transparent and documented with that financial sustainability view.

**Ms RICHARDS:** It would be pleasing then for the Audit Office to see in the next round of audits next financial year some improvement, rather than an increase, in terms of those in the high risk category when it comes to sustainability. There would be a metric for measurement?

**Mr Worrall:** Yes. As I said in my opening statement, our next piece in the local government space on the sustainability scene is looking at how councils are looking at their costs and what understanding they have of their cost structure. That is the other part of the jigsaw. If you do not have a proper understanding of your cost structure, how do you know whether you are setting the right rates and charges in the first place? If you do not have that underlying understanding, you might be undercharging or overcharging. In a way, that is also linked to sustainability.

**Ms RICHARDS:** I think transparency is also one of the issues in terms of the community being able to understand the process for determination of rates and charges.

**Mr Worrall:** Yes.

**Ms Bird:** That is why we refer to it as a rates strategy, which is different to a policy on their rates. It is actually a rates strategy, which gets to all of those elements. Crafting and then being transparent with what their rates strategy is was where we were going with that.

**Ms RICHARDS:** And consistently applied across the 77 local council entities.

**Ms Bird:** Yes. We only engaged with, as we said, five councils, but off the back of it, as we do with the local government sector because it is so broad, we have crafted some summary notes for the financial audit teams so that when they are in discussions with each of the councils they have those learnings to pass on out of this and what this should look like.

**Ms RICHARDS:** So we should see a more consistent application of process?

**Ms Bird:** That is the goal.

**Mr Worrall:** As we said in the last discussion on the results of the 2017 audits, the average financial sustainability ratio for the 77 local governments was negative 4.13 per cent, from memory. The target ratio is between zero and 10 per cent. A ratio of between zero and 10 per cent means that you are earning more revenue than you are spending. A negative ratio of minus 4.13 per cent means that in general local governments are spending more than they are earning.

**Ms RICHARDS:** We have a bit of work to do.

**Mr Worrall:** That is exactly right. That is why the next piece on cost is really important. If they do not fully understand their costs—you do not know what you do not know. They might be giving some of their services away for a fraction of what it is costing them and for others they might be

overcharging them based on what it is costing them. They need to understand not only the revenue side but also the cost side and the asset side. Once they have the full picture, I think they have all of the ingredients to build a sustainability plan. Of course they will need to engage with the community about the level and quality of services that they want and how much they are prepared to pay or not pay.

**CHAIR:** There being no further questions, the briefing is concluded. Thank you very much for the information you have provided today and thank you to our Hansard reporters. A transcript of these proceedings will be available on the committee's web page in due course. I note that a question regarding those councils that did not have audit committees was taken on notice. Responses will be required by 5 pm on Friday, 2 November 2018. I declare this public briefing closed.

**The committee adjourned at 10.59 am.**