

EF18/46

7 June 2021

Mr Scott Phillips
Chief Executive
Local Government NSW
GPO Box 7003
SYDNEY NSW 2001



LEETON
SHIRE COUNCIL

Dear Scott,

Many thanks for taking the time to meet with me last Thursday to discuss important issues in relation to the control of and accounting for Rural Fire Service assets and in particular plant and equipment.

I note your written response and support for my letter to the Auditor General on this matter and our meeting confirmed our mutual desire to ensure that proper probity and accountability is applied to this long unresolved issue. I have also been encouraged by letters of strong support from the Country Mayors Association of NSW and RAMJO.

The Auditor General's report to the NSW Parliament which was delivered on the 27th May, 2021 has elevated the urgency of this matter. The Auditor General in her report stated that factual errors were made in relation to the RFS Red Fleet as follows:

Rural fire fighting equipment

"Twenty seven per cent of unrecorded errors were due to unrecorded rural fire fighting equipment.

In 2017, we recommended that OLG should address the different practices across the Local Government sector in accounting for rural fire fighting equipment.

In 2019-20, 68 councils did not record rural fire fighting equipment worth \$119m in their financial statements.

The financial statements of the NSW Total State Sector and the NSW Rural Fire Service do not include these assets. NSW Treasury and the NSW Rural Fire Service have stated that rural fire service fighting equipment is not controlled by the State.

The non recording of rural fire fighting equipment in financial management systems increases the risk that these assets are not properly maintained and managed."

Recommendation

"The Office of Local Government should communicate the State's view that rural fire fighting equipment is controlled by councils in the local government sector, and therefore this equipment should be properly recorded in their financial statements."

The Department of Planning, Industry and Environment, which includes OLG, has confirmed that the NSW Rural Fire Service does not control rural fire fighting equipment. It is now the responsibility of the OLG to determine what action will be taken to ensure that \$119 million of assets held by 68 councils are properly recorded and accounted for."

This is of course a most concerning position taken by the Audit Office and must be addressed and debunked by local government.

Firstly, allow me to clearly state our Council's thoughts and opinions on this accounting issue. We are one of the 68 Councils who have carefully examined our obligations and responsibilities in relation to the control of Rural Fire Service plant and equipment and have determined that Council does not control Rural Fire Service plant and equipment. In making this determination we have carefully considered the requirements of the accounting standards and in particular SAC 4 and AASB 116. Our work and findings have been well documented and included in our position paper made available to the Audit Office.

It is my contention that this is a cost shifting exercise by the State Government which has been incorrectly reported by the Audit Office.

I will now address the Auditor General's Local Government Report to Parliament.

"The financial statements of the NSW Total State Sector and the NSW Rural Fire Service do not include these assets. NSW Treasury and NSW Rural Fire Service have stated that rural fire fighting equipment is not controlled by the State.

Response 1

It is not up to either the NSW Treasury nor the NSW Rural Fire Service to determine control – both of whom have a vested interest in keeping the Rural Fire assets in Councils financial statements. In accordance with the Code of Accounting Practice it is up to Councils to determine control and it is then up to the NSW Audit Office to assess if Council's have made the correct determination.

Control for the purposes of the financial statements must be determined by the auditor in an independent capacity and in compliance with the requirements of the Australian Accounting Standards, namely SAC 4 and AASB 116. The financial statements clearly state that they have been prepared in accordance with:

- The Local Government Act 1993
- The Australian Accounting Standards and other pronouncements of the Australian Accounting Standards Board.

Note: No reference is made to the Rural Fire Service Act and in any event the Australian Accounting Standards would prevail.

The Audit Office web site states inter alia:

*"The Audit Office conducts financial and performance audits, principally under the Public Finance and Audit Act 1983 and the Local Government Act 1993. The financial audits must provide an **independent opinion** on NSW entities' universities and **council's financial statements. They identify whether their financial statements comply with accounting standards and relevant laws, regulations and government directions.**"*

It is quite obvious why the NSW Government and the NSW Rural Fire Service do not wish to account for these assets in their financial statements. The associated depreciation expense on Rural Fire Service plant and equipment would represent a considerable "hit" to their operating results. Although I have been unable to quantify the financial impact on both the NSW Government and Rural Fire Services financial statements it would not be surprising if asset values were approaching \$200 million with annual depreciation of approx. \$20 million. Given that the Rural Fire Service has adopted this practice for decades the adjustments required to the NSW Government and Rural Fire Service accounts would be massive.

Frankly, in my opinion this is **State Government cost shifting exercise** to the significant detriment of Local Government.

I note that I have attempted to discuss my concerns with local state members of Parliament however my calls have not been returned.

The non recording of rural fire fighting equipment in financial management systems increases the risk that these assets are not properly maintained and managed.

Response 2

Factually incorrect. Under the Agreements it is the Rural Fire Service that has the responsibility to maintain and manage rural fire fighting equipment. Why wasn't the Audit Office cognisant of this arrangement.? To my knowledge the Audit Office has never requested a copy of the Service Agreement and I question what audit evidence (if any) has been obtained by the Audit Office to support this statement.

The Department of Planning, Industry and Environment, which includes OLG, has confirmed that the NSW Rural Fire Service does not control rural fire fighting equipment

Response 3

Refer Response No1. As a practicing local government auditor with approx. 40 years experience and having worked closely with the OLG (formally DLG) during this time I am acutely aware of their position on this matter. Since the introduction of the Local Government Act and Code of Accounting Practice in 1993 I conducted an annual accounting conference up until my retirement in 2016. The OLG attended annually and actively participated in all conferences. The accounting for Rural Fire Service plant and equipment was a regular topic for discussion and the attendant Councils (approx. 25) and the OLG were in agreement that control of these assets rested with the Rural Fire

Service. To my knowledge this is still situation. Is it possible that the OLG position was overturned by higher authorities in the Dept. of Planning, Industry and Environment?.

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Many questions remain, including but not limited to:

- Has the NSW State Parliament been misled by the Audit Office Report?
- Is this a NSW Government cost shifting exercise?
- Has the Audit Office not acted in accordance with their charter and displayed the independence and expertise necessary to audit local government councils?
- Why has the Audit Office ignored to report the work performed by local government to determine control and their stated position?
- In accordance with Australian Accounting Standards SAC 4 and AASB 116 what was the criteria used by the Audit Office in determining that Councils controlled rural fire service plant and equipment?
- Is the current position of the Audit Office directly influenced by their alleged failure to properly identify and bring to account the plant and equipment assets in the Rural Fire Service financial statements over the past years?

Having to now correct this prior period error would have a massive impact on the Rural Fire Service accounts and make for a very embarrassing conversation with the NSW Government.

- Has the Auditor General's position now become untenable?

Given our above mentioned concerns it is my intention to propose a motion at our next ARIC meeting that Leeton Shire Council terminates the current Zone Rural Fire Service Agreement by giving six months notice in writing and that no new agreement be entered into until such time as District Equipment is clearly identified as being owned and controlled by the NSW Rural Fire Service.

In my discussions with numerous other Councils I believe that my proposed motion will be widely replicated.

I request that my concerns be relayed to the Audit Office and the NSW Government and responses demanded.

Yours faithfully,



Graham Bradley FCA
Independent Chair
Leeton Shire Council Audit Risk and Improvement Committee