LOCAL GOVERNMENT INVESTING: A FORM OF GAMPLING?

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ABSTRACT: Currently in the state of New South Wales (NSW) local government councils have the authority to invest ratepayers' money. At the end of 2006-07 financial year local councils in NSW had invested $590 million dollars in structured financial products such as collateralised debt obligations (CDO). Six months later the market value of these investments dropped $200 million to $390 million. In the light of these significant losses the NSW state government commissioned a review of the financial investments of NSW local councils to be undertaken. The Review, Cole Report, published in 2008 found that while acting within the parameters of the Local Government Act (1993), local councils had pursued high return high risk investment strategies. This paper reviews and evaluates how the local councils in NSW, identified by Cole as having a high level of financial exposure to investments such as CDOs, have disclosed their financial investments in their 2007-08 financial reports and the type of audit opinion issued on their general purpose financial reports. This paper will contribute to the literature on the 2008 global financial crisis as well as literature on Local Government council financial report audits.

1. INTRODUCTION

Local councils in New South Wales have been given the authority under section 625 of the Local Government Act (1993) to invest monies that are not required for immediate use in a range of financial instruments. This authority to invest monies that has been derived from the ratepayers within each community, has a number of restrictions with respect to the types of allowed investment types, which are imposed by the NSW Department of Local Government.

The NSW Department of Local Government is a State Government regulatory agency responsible for implementing the Local Government Act of 1993. In addition, the department also provides policy advice to the NSW State Government, manages the relationship between councils and the State Government and is responsible for the financial framework under which local governments operate (DLG 2008a). The other major role undertaken by the NSW Department of Local Government is to work with the councils so they are able to appropriately deliver services to their communities (DLG 2008a).

This paper looks at the significant financial exposure, identified in the Cole report (2008), of a number of councils in NSW with respect to their investments in structured financial products such as collateralised debt obligations (CDO) and the impact of the bankruptcy of Lehman Brothers Holding Inc who managed many of the councils' investments. The paper also considers how those councils have disclosed their exposure to CDO's in the financial reports of 2007/08, how their auditors have addressed the problem through their audit reports and the potential impact on local councils in NSW ability to continue to provide services for their constituents.

2. BACKGROUND TO LOCAL GOVERNMENT STRUCTURE IN AUSTRALIA

Australia operates under a three tier government system consisting of Federal (Commonwealth) government; state government and, local government (Boon et al, 2005). The Commonwealth (Federal) government oversee a federation consisting of six states and two territories and have been granted the authority under the Commonwealth Constitution Act 1900 (Burritt and Welch 1997).

Within the States and Territories are local government councils who, in Australia, are responsible for building and maintaining roads; developing infrastructure for essential services, such as water supply and providing waste removal, community sporting facilities and care services such as child and aged care (Boon et al, 2005). The State and Territory governments are responsible for specifying the powers and responsibilities of the local government entities within each state (Boon et al, 2005). Due to the omission of any mention of Local Government authorities within the Commonwealth Constitution (Stilwell and Troy 2000) Local Government councils are reliant on the states and territories for authority to perform their functions and to raise funds. Local Government powers continue to be defined and controlled by State Government ministers who have the authority to remove or reduce Local Government powers and responsibilities, or even change their boundaries (Stilwell and Troy 2000, p. 924). Nevertheless, Local Governments understand and appreciate the local and regional issues better than either the Federal or State Governments and it is the local councils that are the "most sensitive to" community interests, even though they have been "relegated to a subordinate role" (Stilwell and Troy 2000, p. 909). This paper focuses on the local government councils in the Australian state of New South Wales (NSW).

2.1 Councils in New South Wales

In NSW the first piece of legislation to establish a system of local government was passed in 1842 under the NSW South Wales Constitution Act 1842. This Act provided the Governor of NSW power to "create district councils for the purpose of constructing and maintaining roads, police services, water supply and a variety of other local services and infrastructure requirements" (Dredge 2001, p. 358). The Governor was also given the power to appoint the wardens and councillors to the 28 district councils he [and it was always a he] had established (Dredge 2001). This Act was repealed in 1858 when the Municipalities Act 1858 passed. The Act introduced the notion of representative government; however the population of some of the municipalities were of a size that it was not financially possible for them to undertake the tasks for which they were created (Dredge 2001). Like the 1842 Act the Municipalities Act 1858 was repealed and the new Act was passed in 1867; however the problem of financial inefficiencies with small councils continued (Dredge 2001).

After Federation in 1901, when “the separate colonies of the then British Empire in Australia decided to join together” (APH 2008, p.1), a new Act was passed in 1906 which recognised the needs of non rate paying members of the community. According to Dredge (2001) this Act “represented a great advance for local government in NSW, establishing the major principles by which modern local government operated (2001, p. 365). The principles of the 1906 Act were reflected in the 1919 Act which was in place for the next seventy four years until the current NSW Local Government Act 1993 was passed.

The NSW Local Government Act 1993 reflects the changes society has experienced over the past one hundred years including the significant economic and technological changes and the changing requirements of society and society’s expectations of local government. The 1993 Act was meant to include provisions to accommodate the changes society has undergone by emphasising “greater accountability by councils to their communities; more professional management of the day-to-day activities of councils; and increased flexibility to devise methods of efficient service delivery and the performance of regulatory activities” (Dredge 2001, p. 370). However, the two main limitations imposed on local government remain; the relatively small size of councils which inhibits financial effectiveness and the level of power held by the State government.

One way to overcome the associated efficiency problems of small councils has been the development and implementation of a number of reforms to the financial reporting requirements of local governments. These reforms, which included identification and reporting on key performance measures and reporting on a financial year basis rather than a calendar year, occurred in the late 1980s and early 1990s, and were promoted on the basis that they would improve the usefulness for decision making and enhance accountability (Carnegie 2005). The next section will discuss the financial reporting obligations of the NSW local government councils and the audit of those financial reports.

2.2 NSW Local Government Financial Reporting and Audit

Section 413 of the NSW Local Government Act 1993 [hereafter the 1993 Act] requires NSW councils to prepare each year financial reports which include the general purpose financial reports of the council as well as an audit report which includes the opinion of an external auditor on the general purpose financial reports. The general purpose financial reports of the council are to be audited by the council’s auditor within four months after the end of the financial year (section 416) and the auditor is to issue a report which includes a statement “as to whether, in the opinion of the auditor, the council’s accounting records have been kept in accordance with the requirements” (section 417). This is similar to the normal reporting requirements of private sector organisations however the objectives of private sector organisations are significantly different to those of a local government council. The local government councils are there to support and provide specific services to their local community. Many of the assets of local government councils are considered to be public goods which differ to private sector assets because public goods are generally non-rival and non-excludable (Barton 2002, p. 43). For example public parks and roads, which are public goods available for all members of the community and the use of these goods by one member of the community does not deprive another member of the community use of the public good.

The other area of commonality, in relation to the financial reporting and financial accountability, between private sector organisations and local government councils is found in section 422 of the 1993 Act which outlines the requirements for the appointment by the local government council of an external financial report auditor. This commonality creates a level of confusion as the financial reports of most public sector organisations are generally audited by a state audit office. For example Federal government organisations in Australia are required to have their financial reports audited by the Australian National Audit Office, while State government entities are audited by the State government's Audit Office. However, the NSW local government councils are required to "appoint a person as its auditor" who is a registered company auditor, or a partnership or corporation which includes a registered company auditor (section 422). In addition the local government councils are required to undertake compulsory audit tendering every six years (Boon et al, 2005, p. 221). One of the outcomes of compulsory tendering has been the introduction of "significant on-going competition to the local government audit market in NSW to produce long-term savings" (Boon et al, 2005, p. 222); however is this outcome what members of the community would expect? The result of competitive tendering for audit services has resulted in reduced quality of audits due to the necessary budget constraints arising from lower audit receipts (Houghton et al, 2003, Karen 2002).

3. NSW LOCAL GOVERNMENT EXPOSURE

Sikka et al (2009, p. 136) explain that since late 2007 there has been a "deepening banking and financial crisis arising from sub-prime lending practices by banks, which in turn has restricted the availability of credit and has led to what has come to be described as a 'credit crunch'". There have been numerous accusations about who should be blamed for the crisis from the over reliance of neoliberal ideologies believing the market is able to take care of itself, to the excessive greed of those charged with the running and directing the financial institutions (Roskham 2008, p.9) and poor government regulation (Zingales, 2008) and "market complacency brought about by several years of positive returns" (Zingales, 2008, p. 2). Whatever the reason, whoever is the cause, the end result is very clear, the global financial markets have, and continue, to decline. The impact of the financial crisis has been widespread and profound. Many people have lost their jobs, many have lost their life savings and investments and others have seen their superannuation balances decrease or even disappear. Significant impacts have been felt by a wide variety of individuals, as well as organisations such as councils in NSW.

In the financial year 2007-08 the NSW the Local government sector was a $7.3 billion industry with the councils collecting $3.5 billion in rates and charges (DLG 2008b, p. 6). Unlike the majority of other public sector organisations the local councils in NSW have been allowed, under the 1993 Act, to invest in a variety of investment schemes for the purpose of earning additional revenue. As at 30 June 2007 the face value of the total investments of NSW local councils totalled $5.7 billion. Given the size of the investments, which have varying degrees of risk, and the fluctuating economic conditions in 2007 (DLG 2008c) and the growing global impact from the sub-prime crisis in the United States, the NSW Department of Local Government commissioned a review of the councils investments. In April 2008 the final report, the Cole Report, of the commissioned Review of NSW Local Government Investments was published. The purpose of the review was to verify the total investment exposure of NSW local government councils as well as determine the extent of unrealized losses from these investments (Cole 2008, p. 3). This report was commissioned to address the NSW State government's concerns about the impact of the decline in the sub-prime mortgage market in the United States on the investments of councils. Table 1 outlines the exposure identified in the final report

Table 1. Cole Report Estimate of Exposure Levels

Investment Type	**Face Value @ 30/6/07 ($m)**	**Market Value @ 31/1/08 ($m)**	**Estimated Loss ($m)**	**Estimated Loss (%)**
CDO	590	390	200	34%
Capital protected	450	400	50	11%
Managed Funds	2,420	2,350	70	3%
Subordinated debt	600	600	Nil	Nil
Term Deposit, cash, bills	1,630	1,630	Nil	Nil
Total	**5,690**	**5,370**	**320**	**5.6%**

Council funds are primarily composed of two types; short term working capital, which accounts for approximately 70 percent of the total, and longer term funds comprising the 30 percent residual, which includes capital expenditure commitments (Cole 2008, p9). It appears that councils have maintained higher levels of security over the short term funds by investing in traditional fixed interest products, which does not appear to be the case with respect to the longer term investments. The purpose of investing long term funds should be to ensure that the return generated is sufficient to negate the negative impact of inflation on future capital works. However, Cole (2008) highlighted that NSW councils were attracted to higher prospective returns available by investing in new investment types that differed from the traditional fixed interest products (p9-10).

These new investment types were specifically engineered to meet the requirements of the Investment Order and while compliance with the conditions were essential to allow councils to invest, it should not have been the only or sufficient requirement to qualify these types of investment, as NSW councils are also required to comply with their fiduciary responsibilities as trustees of public funds (Cole 2008, p10). Commonly the principle investment amounts were credit rated or bank guaranteed, however the income stream from the investments were not. Simple compliance with the Investment Order was a liberal interpretation, of fulfilling the requirements and expectations associated with managing public monies, and did little to account for the risk associated with these types of financial instruments.

The biggest exposure for NSW local government councils is in relation to the investments in collateralised debt obligations (CDOs) where the investments are in “asset backed securities whose underlying collateral is typically a portfolio of bonds or bank loans” (Duffie and Garleanu 2001, p. 41). The face value of the investments in CDOs dropped from $590m on 30th June 2007 to $390m on 30th June 2008, an estimated loss of $200 million (Cole 2008, p. 3).

The main promoter of CDO’s to the NSW local government councils was Lehman Brothers who were “notorious for marketing investment schemes to local councils which have resulted in those councils losing millions of ratepayer’s dollars” (Roskam, 2008, p. 9). Unfortunately for millions of investors, including NSW local government councils who invested in Lehmans Brothers’ financial investment schemes and the people employed by Lehman Brothers, the investment bank filed for bankruptcy on 14th September 2008. Zingales suggests the aggressive leverage policy of Lehman Brothers’, “bad regulation, lack of transparency, and market complacency brought about by several years of positive returns” (2008, p. 2) led to the collapse of Lehman Brothers. This collapse, of the fourth largest investment bank in the United States, “is generally credited with precipitating the near total collapse of confidence that subsequently engulfed the international monetary system” (Roskam, 2008, p. 9).

In response to the collapse of Lehman Brothers the NSW Department of Local Government issued a Council Circular to all NSW councils, two days after the collapse, on the 16th September 2008 requiring councils to “seek urgent financial advice as to their potential exposure to Lehman Brothers, as a matter of urgency. Councils are required [emphasis added] to identify investments that have direct exposure to Lehman Brothers and outline the effect it may have on the Council’s activities” (DLG, 2008c).

The Cole report (2008) estimates that overall NSW councils have lost $320 million from their investment portfolio, which represents 5.6 percent of total investments and 15.2 percent of long term funds (p11). The problem with interpreting these figures is that most of these losses are from unrealised investment portfolios and the valuations of future returns have generally been provided by those who were also involved in marketing the products to councils. Therefore the future returns may potentially be significantly overstated and Cole (p11) identified the exposure in one case to be 85 percent of the capital investment. Additionally, a number of councils are holding 45 percent of their total investments in financial instruments; such as CDO’s, which potentially have the greatest risk of loss.

NSW councils seem to have pursued a policy of either chasing higher returns or allowing themselves to be lured into investments containing higher risk factors than they have traditionally accepted. It is unclear if there was a true understanding of the relationship between higher risk and return trade-off. The up side of accepting higher risk was capped at "a couple of percent above the risk free rate" (Cole 2008, p11), yet the downside, as stated previously, has been recorded as 85 percent of the original investment. This suggests that some local council's failed to understand that taking on higher risk could generate higher returns or potentially higher losses.

3.1 Audit function

Sequeria and Johnson (2004) state that "the audit function has assumed the role of conferring credibility on the financial statements and ensuring that the statements could be relied on for decision making" (p. 94). Karan (2003, p16-17) illustrated that the accounting professional bodies describe the audit process as serving the public interest by providing increased accountability. ASA 200 (2007) states "the objective of an audit is to enable the auditor to express an opinion as to whether the financial report is prepared in all material respects, in accordance with an applicable financial reporting framework. The auditor is required to obtain a level of certainty that will enable them to provide 'reasonable assurance' about the correctness of the financial reports". This terminology demonstrates that the auditor does not provide a guarantee of complete accuracy, by reason of the normal conduct of an audit. The auditor conducts tests and collects evidence in respect of the accuracy of accounts, but does not audit all transactions or balances. Therefore to reduce the chance of material misstatement, areas that are judged by the auditor to be high risk are likely to attract greater attention.

Boon, McKinnon and Ross (2008, p93) explain that stakeholders need to have confidence that the audit report is reliable so they are able to make appropriate informed decisions on the financial reports. To improve the level of confidence in the financial statements, and the subsequent audit report, organisations use external independent auditors to conduct the financial statement audit. External auditors, "auditors independent from the entity" (Gay and Simnett 2007, p. 765), when conducting an audit of local government councils' General and Special Purpose Financial reports are required to prepare a report on the council's financial reports which includes a statement as to whether, in the *opinion of the auditor* [emphasis added] the financial reports have been prepared as required, are consistent with the council's records and fairly present the financial position of the council (*1993 Act*, section 417 (2)). The purpose of the audit is to provide assurance about whether the financial reports have been prepared in accordance with both the relevant accounting standards and with the Local Government Code of Accounting Practice and Financial Reporting. However, providing assurance does not guarantee there are no errors, omissions or that no fraudulent activities have taken place. Rather the audit reports are supposed to provide a level of confidence that the financial information provided can be relied upon, particularly by the stakeholders of the councils in making decisions based upon the financial information contained in the financial reports.

The audit profession is no different to other professions; it requires its members to be independent through avoiding other economic ties with the client, and to be absolutely objective in their approach to the audit and the client (Umar and Anandarajan, 2004). To be able to issue an appropriate audit opinion, one of the fundamental principles of professional ethics is that of objectivity which is the principle that "an auditor should not allow prejudices or bias, conflict of interest or undue influence of others to override professional or business judgement" (Gay and Simnett 2007, p. 17). To meet the fundamental principle of objectivity it is vital that auditors are and are seen to be independent. This view is consistent with Arens *et al* (2007) who explain that to be independent an auditor must be free from any bias in relation to all aspects of the audit engagement

The following extract from the Code of Ethics for Professional Accountants outlines the requirement of independence of external financial statement auditors:

> *Independence requires:*
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> *Independence of Mind*
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> *The state of mind that permits the expression of a conclusion without being affected by influences that compromise professional judgment, allowing an individual to act with integrity, and exercise objectivity and professional skepticism.*
>
> *Independence in Appearance*
>
> *The avoidance of facts and circumstances that are so significant that a reasonable and informed third party, having knowledge of all relevant information, including safeguards applied, would reasonably conclude a Firm's, or a member of the Assurance Team's, integrity, objectivity or professional skepticism had been compromised. (APES 110, Section 290.8)*

To determine if an auditor is independent, all the relevant circumstances, including all relationships between the audit client and the auditor need to be considered (Hayes, 2002, p6). However there are an increasing number of barriers to audit independence such as the expansion of the provision of non-audit services, which has resulted in a decline in the relative importance of audit fees, co-modification of the audit, resulting in lower profits, reduced skills levels and reduction of resources allocated to the task (Hayes 2002, p. 3).

The independent auditor is required to issue an opinion about whether the financial reports of the council being audited provide a true and fair view of the financial position and are in compliance with the Accounting Standards and relevant financial reporting regulations. There are two main opinions an auditor can issue for a local government council's financial statements: an unqualified opinion which indicates the auditor is of the opinion that the council's financial statements do not contain any material misstatements and are a true and fair view of the council and are in compliance with the Accounting Standards; and a qualified opinion which is where the auditors are of the opinion the council's financial statements contain certain circumstances which are material or are likely to be material (Gay and Simnett 2007) and may, if relied upon by decisions makers, result in an incorrect decision being taken.

The assessment of materiality and relative importance of qualitative and quantitative factors are matters for the auditors' judgement (AuAH 2009, p56). Items that represent more than 10 percent of the balance of any account are normally considered material, items that are between 5 and 10 percent of any account are normally only material at the discretion of the auditor and items that are less than 5 percent are normally considered not material. However, the overriding factor is if inclusion or exclusion of the information would influence the decision making process of the users of the reports. Therefore items that only affect an account by 1 percent may be judged to be material if the auditor believes that providing information about the matter may affect the stakeholders' decision making process.

The importance of independence of financial report auditors cannot be underestimated; however independence does not guarantee an appropriate audit opinion:

> *"As independent experts, auditors claim to be able to mediate uncertainty and construct an objective account of business affairs to enable shareholders and significant other to manage risks. This construction of reality is legitimised by appeals to a variety of standards, benchmarks, techniques and bodies of knowledge, but such claims are precarious as they are routinely undermined by periodic scandals, crisis, frauds, emergence of new technologies, patterns of trade and changes in capitalistic economies" (Sikka et al 2009, p. 136).*

It should be clear that performance indicators (such as financial reports) ought to be "both audited and publicly disclosed" in the interests of accountability and transparency (Carnegie, 2005, p85).

NSW councils invested in CDO portfolios in the hope of generating higher than normal returns from their long term investments. These investments were aggressively marketed, including by Lehman Brothers, as complying with the Investment Order for NSW Local councils. This order requires councils which are able to invest, to invest in those securities that had a minimum credit rating from Moody's Investment Services Inc, Standard and Poor's Investment Services Inc or Fitch Rating. Prior to the downgrades that subsequently occurred, the investments by NSW local councils were AAA, then AA and AA-, which met the minimum requirements, however by February 2008 they were CCC-. Yet even prior to the downgrade the market was strongly suggesting that the "credit rating was far too optimistic and would significantly deteriorate" (Cole 2008 p11).

Funds held by NSW local councils, that they are allowed to invest, fall into two categories and are classed as restricted or unrestricted in respect of their final use. In particular restricted funds may have additional conditions related to them. These funds include monies from developer contributions, environmental levies, or leave entitlements. However reporting by councils appear to pool together these funds leaving it unclear where they have invested funds to meet particular liabilities or long term investment strategies (Cole 2008 p 18-19). Councils seem to fund their long term liabilities from a single pool of investments irrespective of whether the funds have restrictions placed on them or if they are associated with particular liabilities (Cole 2008 p19). This makes assessing councils ability to fund particular long term liabilities extremely difficult. Cole (2008) made some recommendations and suggested that councils should be reminded of their inability to "contract out" fiduciary responsibilities to external funds managers, that product manufacturers be banned from providing advice to councils, and that the NSW DLG should release a formal model of investment guidelines (Cole, 2008 cited in Gold 2008 p42). One of the major impacts of local council losses from CDOs is that much of these funds were earmarked for future projects. These projects will not only be impacted by these losses, but will also be impacted by the decline in value of the funds due to diminished or nil returns. In addition, the impact of inflationary pressures will also make those projects less viable and possibly require additional funds to complete.

3.2 Audit Reports

Analysis conducted of the audited financial reports of NSW council's have shown that a large proportion of external auditors used the exact same wording for reporting on CDO's, and in some cases within specific accounting firms used a standard letter of qualification with spaces to hand write in details such as page numbers. This highlights that these were generic reports, which therefore raises concerns about the independence of these audit reports and the level of effort in undertaking the audit. Commonality of wording both within audit firms and between audit firms could be an attempt to create a common response to the issue which would be an indicator of lack of auditor independence. It also highlights that the reporting of the impacts of the financial crisis has failed to provide sufficient independent evidence of the true losses.

Auditors that conducted audits of a number of councils also formed a variety of opinions. There was no evidence to suggest that they just assumed problems due to the sub prime mortgage market, which suggests that the audits were probably conducted independently. However the format of the qualified report on the sub-prime problems was generally consistent not only within particular audit firms but also between audit firms. This suggests that audit firms have applied a standard reporting form to disclose issues relating to the sub prime mortgage market problems and in the cases of the councils that Cole (2008) identified as at risk, all had qualified audit opinions identifying the uncertainty related to valuation of CDO investments. While this could be expected, it was surprising to discover that the values reported were the same as reported by Cole in February 2008. This implies that councils and in turn the auditors accepted those values without reporting the continued decline in value.

Other findings from the review of the financial reports have shown that the audit fees disclosed within the reports are ambiguous, with separate audit fees relating to a number of audit functions including, but not limited to, audits of the financial reports. This raises questions with respect to the independence of auditors if there is fee reliance on additional audit functions. Craswell (1999) suggested that qualified audit reports are a strong indicator that independence has not been compromised, due to the competitive nature of auditing. However this may not be true in the public sector if there are limited firms willing to engage in auditing of Local Government bodies. Additionally Craswell (2002) suggested that qualified audit reports are a strong indicator that independence has not been compromised, due to the competitive nature of auditing. This may not be true in the public sector if there are limited firms willing to engage in auditing of local government bodies. If it is an indicator then the high proportion of qualified audit reports would show that independence is being maintained.

The introduction of competitive tendering for NSW local government financial statement auditing in the *1993 Act* has introduced the possibility that auditors may experience greater time budget pressures. A recent survey concerning reduced audit quality identified 48 percent of participants admitted to having to reduce audit quality practices during the completion phase of the audit, which includes the review for subsequent events (Coram, Ng and Woodliff. 2003). This would suggest that with complex issues such as the losses related to the collapse of Lehman Brothers, auditors may not allocate sufficient time to determine the full extent of the losses.

4. CONCLUSION

This paper has identified the high exposure that a number of local councils in NSW have to CDO’s. This has resulted in financial investments that are unlikely to provide sufficient returns of both initial capital and capital growth needed to meet the planned obligations and liabilities for which the financial investments were intended. It has also highlighted that there is a need to improve the standards for measurement and reporting of these types of investments. Similarly it suggests that some local council’s either do not understand, or do not have the capacity to properly manage the fiduciary duty requirements associated with controlling public funds. There appears to have been large amounts of trust placed in providers of the financial investment products and a lack of consideration given to the risk versus reward of different financial investment products. Additionally this paper has highlighted a number of areas of interest for further research. Why has there been a standard reporting method of the sub-prime issues? Is it a result of suggestions from the local government association, ease of completion, or a perceived need to be consistent in reporting? As identified by Cole (2008) there is a need for a standard analysis and reporting method to be developed for local councils.

Councils are required to report the fees that they have paid to auditors and the financial reports show these fees. However, from analysis of the financial reports and audit reports, there does seem to be a lack of clarity as to what those fees are for. For example some councils’ have shown an audit fee presumably for the audit of the financial reports, and then have also shown other audit fees. While it is likely, and may be presumed that the other audit fees are for audits of particular sectors such as OHS, water or environment, it needs to be clarified for a number of reasons. For example, if the same firm is conducting the additional audits, and the fees earned from the addition work is substantially greater than from the audit of the financial reports, there may be some compromise of the independence of the financial audit. Likewise it may affect the competiveness of the tender process if some firms are unable to conduct the additional audits.

Another important element arising from this research is that councils do not separate funds that relate to particular liabilities or that have separate restrictions associated with them. There are also inconsistencies among the accounting policies that therefore impede transparency (Cole 2008 p24). Current reporting policies seem to ignore the risk that particular products may need to be liquidated prior to maturity triggering losses that would need to be reported. One solution to this would be to promote the use of current market valuations across the full range of investment products. There seems to be a strong need to improve consistency of the reporting, and the accounting methods used to account for, and value these products, as well as providing additionally support and guidance to local government authorities to enable them to understand financial investment products and the fiduciary responsibilities they have for managing public moneys.

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