



Mr Brad Byrnes
General Manager
Cabonne Council

Contact: Aaron Green
Phone no: 02 9275 7209
Our ref: D2210985/FA1704

By email only

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Dear Mr Byrnes

Rural Firefighting Equipment

I am writing to let you know that our Report to Parliament, 'Local Government 2021' was recently tabled and is available on our [website](#). This report brings together findings and recommendations from our 2020–21 financial audits of local councils and comments on financial reporting and performance, internal controls and governance, and areas of interest that are in focus during the conduct of our audits.

The intent of this letter is to draw your attention to the specific findings and recommendations reported to Parliament about rural firefighting equipment vested to councils. Please refer to the Appendix for the relevant extract from the Report.

Our management letters issued to councils on the 2020–21 financial audits included recommendations to undertake a stocktake of the rural firefighting equipment vested to councils and record the value in the council's financial statement. I trust these recommendations are being actioned. Please share this letter with relevant staff within your council to ensure they consider recommendations when preparing your financial statements for the 2021–22 financial year.

If you wish to discuss this matter further, please contact Aaron Green on 02 9275 7209.

Yours sincerely

Margaret Crawford
Auditor-General for New South Wales

APPENDIX

Sixty-one per cent of the total value of uncorrected errors was due to unrecorded rural firefighting equipment

In 2017, we recommended that OLG should address the different practices across the local government sector in accounting for rural firefighting equipment.

In 2020–21, 68 (2019–20: 68) councils did not record rural firefighting equipment in their financial statements estimated to be \$145 million (2019–20: \$119 million). Forty-one councils recognise this equipment in their financial statements with a total value of \$162.8 million, highlighting the inconsistent recognition practices across the local government sector.

The financial statements of the NSW Total State Sector and the NSW Rural Fire Service do not include these assets, as the State is of the view that rural firefighting equipment that has been vested to councils under section 119(2) of the *Rural Fires Act 1997* is not controlled by the State. In reaching this conclusion, the State argued that on balance it would appear the councils control the rural firefighting equipment that has been vested to them. It is important to note that there are only two parties to the agreements that govern the use of vested rural firefighting equipment, leaving only two parties who would be considered to control this equipment- the NSW Rural Fire Service in the State sector, or councils in the Local Government sector.

The Department of Planning and Environment (inclusive of the Office of Local Government) (the Department) confirmed in the 'Report on Local Government 2020' (tabled in Parliament on 27 May 2021) their view that rural firefighting equipment is not controlled by the NSW Rural Fire Service.

The Local Government Code of Accounting Practice and Financial Reporting confirms the State's view that it does not control these assets but provides that 'Councils need to assess whether they control any rural firefighting equipment in accordance with Australian Accounting Standards'. It would seem however, given the State's view that it does not control these assets, that these assets can only be controlled and therefore recognised by councils in the local government sector.

Despite this, many councils do not report these critical assets in their financial statements.

The continued non-recording of rural firefighting equipment in financial management systems of some councils increases the risk that these assets are not properly maintained and managed. Councils who have rural firefighting equipment vested from the NSW Rural Fire Service should recognise these assets in their financial management systems and consider their condition and useful life.

Recommendation to councils

Councils should perform a full asset stocktake of rural firefighting equipment, including a condition assessment for 30 June 2022 financial reporting purposes.

Consistent with the requirements of the Australian Accounting Standards, councils should recognise this equipment as assets in their 30 June 2022 financial statements.

The Department should intervene where councils do not recognise rural firefighting equipment

The Department, through the Office of Local Government, requires each council to prepare financial statements in accordance with Australian Accounting Standards (accounting standards), as required by the LG Act. The State Government, through NSW Treasury (and in agreement with the Department), has concluded that under accounting standards rural firefighting equipment vested to councils is not controlled by the State, and further on balance that councils in the local government sector control this rural firefighting equipment.

The Department's role includes assessing whether intervention is appropriate with respect to council's compliance with and performance against legislative responsibilities, standards or guidelines. Given the State's clear position, it would appear that any council not recognising this equipment is non-compliant with the relevant accounting standards.

Having considered the accounting position papers prepared by the respective stakeholders, the Audit Office has advised councils and the Department that any council not recognising this equipment is not complying with the requirements of the Australian Accounting Standards.

The Department should now intervene to address this matter as a priority.

Recommendation to the Department

Consistent with the Department's role to assess council's compliance with legislative responsibilities, standards or guidelines, the Department should intervene where councils do not recognise rural firefighting equipment.

We acknowledge that the Department has committed to working closely with NSW Treasury to educate, guide and assist councils to understand the State's view regarding ownership and recognition of rural firefighting equipment in their financial statements.

Non-recognition of this equipment may impact the financial statements audit opinions of those councils. The NSW Rural Fire Service (NSW RFS), a state government entity, has spent in excess of \$1.1 billion over the past ten years on rural firefighting activities and equipment. While confirming the State Government's position that it does not control this equipment, the NSW RFS advised it has a complete listing of the rural firefighting equipment vested to councils under section 119(2) of the *Rural Fires Act 1997*, and has provided this to the Department. The NSW RFS also confirmed that as it does not control the equipment, it is unable to confirm its value or condition.

This raises two general questions: whether these assets are being properly managed as in some instances they are purportedly not controlled by any government sector and are not recorded in either the State or the local government sector financial records, and whether in these instances there is non-compliance with accounting standards if this equipment is not recorded in the financial statements of councils. This may impact audit opinions on the financial statements of councils.

The Audit Office is conducting performance audits of the NSW Rural Fire Service (Planning and managing bushfire equipment) and the Office of Local Government (the effectiveness of local government regulation and support).