

**Report 11 of 2021**

Examination of the  
Community Wastewater  
Management Systems Program





# Report of the Auditor-General

Report 11 of 2021

## Examination of the Community Wastewater Management Systems Program

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*Tabled in the House of Assembly and ordered to be published, 24 August 2021*

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Second Session, Fifty-Fourth Parliament

By authority: S. Smith, Government Printer, South Australia

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*The Auditor-General's Department acknowledges and respects  
Aboriginal people as the State's first people and nations, and  
recognises Aboriginal people as traditional owners and occupants of  
South Australian land and waters.*



**Auditor-General's  
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Dear President and Speaker

**Report of the Auditor-General:  
Report 11 of 2021 *Examination of the Community Wastewater Management  
Systems Program***

Under section 32(1) of the *Public Finance and Audit Act 1987* (PFAA), I have conducted an examination of the Community Wastewater Management Systems Program.

The objective of the examination was to assess whether the Local Government Association of South Australia had effectively managed the program.

I present to each of you my independent assurance report on the findings of the examination.

A copy of this report has also been provided to the Local Government Association of South Australia.

**Content of the Report**

We examined the arrangements established by the Local Government Association of South Australia to manage the Community Wastewater Management Systems Program.

For the three-and-a half-year period we examined, we concluded that overall, the Local Government Association of South Australia had not effectively managed the Community Wastewater Management Systems Program in a manner that demonstrated the purpose and objectives of the funding were met.

**My responsibilities**

Examinations conducted under section 32(1)(b) of the PFAA are assurance engagements that assess the economy, efficiency and effectiveness of a publicly funded project. These engagements conclude on the performance of the project evaluated against identified criteria.

The Auditor-General's roles and responsibilities in undertaking examinations are set out in the PFAA. Section 32(1)(b) of the PFAA empowers me to conduct this examination while section 32(3) deals with the reporting arrangements.


The examination was conducted in line with the Standard on Assurance Engagements ASAE 3500 *Performance Engagements*. We complied with the independence and other relevant ethical requirements for assurance engagements.

### **Acknowledgements**

The audit team for this report was Andrew Corrigan, Iolanda Telford and Sue Forder.

We appreciate the cooperation and assistance given by the staff of the Local Government Association of South Australia and the chair of the Community Wastewater Management Systems management committee.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Richardson', with a long horizontal flourish extending to the right.

Andrew Richardson  
**Auditor-General**

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# 1 Executive summary

## 1.1 Introduction

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It is important that all South Australians have access to safe and affordable sewerage services no matter where they live.

The SA Government is responsible for providing this service and has provided funding for many years to councils in regional areas to subsidise the construction of Community Wastewater Management Systems (CWMS) schemes in existing townships not serviced by the South Australian Water Corporation (SA Water). Councils can recover the costs of installing and running the schemes through an annual service charge paid by those receiving CWMS services. There are 173 CWMS schemes managed by 50 of the 68 councils across South Australia.

The Local Government Association of South Australia (the LGA) is responsible for administering the subsidy program (the CWMS Program) and establishing a CWMS management committee (the Committee) under a funding deed between the Minister for Local Government (the Minister) and the LGA.

We have completed an examination of the CWMS Program. We assessed whether the LGA had effectively managed the CWMS Program in a manner that demonstrated that the purpose and objectives of the funding were met. Our examination covered the period 1 July 2017 to 31 December 2020.

Over the 10-year term of the funding deed, \$42 million will be allocated towards funding new CWMS schemes worth \$65 million. In 2017, the LGA assessed 18 CWMS schemes as high priority with an estimated cost of \$76 million, a shortfall of \$11 million. So it is important that CWMS Program funding is managed effectively to achieve its outcomes.

## 1.2 Conclusion

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For the three-and-a half-year period we examined, we concluded that overall, the LGA had not effectively managed the CWMS Program in a manner that demonstrated the purpose and objectives of the funding deed were met. This is because we identified fundamental gaps in some important areas during the period we examined. These included:

- the Committee not meeting for the 12 months from July 2018 to June 2019, and key matters not being progressed. Some of these matters were still outstanding at the time of our examination
- a lack of clarity over the permitted use of funding for administration and research and development costs
- the Committee not developing a 10-year rollout program of funding to meet the target of 2500 connections and not setting related milestones

- sound governance arrangements not being implemented as the Committee’s terms of reference were not finalised, and reporting responsibilities and relationships were not clear
- instances where officers could not demonstrate that they acted within their delegated authority
- inaccuracies in reporting on outcomes
- a lack of records to evidence the assessment of applications and approval of funding allocations.

These gaps increased the potential risk of:

- the purpose and objectives of the funding not being met
- funding not being provided to new CWMS schemes that are high priority and critical to preventing environmental and/or public health risks
- not maximising the subsidies by using funds for potentially unauthorised purposes
- the process for assessing applications for funding being inadequate or inconsistent.

The LGA advised us that it is difficult to forward plan and prioritise CWMS scheme projects. This is because:

- it is not empowered to require a council to build a new CWMS scheme, even when local conditions demonstrate high risk levels
- projects may not go ahead because the council was unable to get other funding
- projects are delayed to address community and/or council members’ concerns.

We acknowledge that at times this presents challenges to the LGA in effectively managing the CWMS Program funding and achieving outcomes.

We noted that the current Program Manager is progressively improving the program’s management framework and practices with a focus on priority risk areas. These improvements are listed in section 4.4.

## 1.3 What we found and recommended

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Our key findings and recommendations are summarised in figure 1.1. More details are provided in sections 4 to 7. We also made a recommendation to the SA Government through the Attorney-General’s Department for the finding in section 5.1.

**Figure 1.1: Key findings and recommendations**

Key findings	Key recommendations
<b>Governance arrangements</b>	
The Committee did not meet for a year (section 4.1)	The LGA should document the reason for any changes in established governance arrangements, its consideration of the associated risks and any risk mitigations. This should be reported to the LGA Board.
The Committee’s terms of reference were not finalised and need improvement (section 4.2)	<p>The LGA Board should review and update the Committee’s terms of reference to ensure they clearly set out its role and responsibilities, reporting requirements, activities and structure.</p> <p>The terms of reference should also clearly define the roles, responsibilities and reporting relationship of the Committee Chair and the Program Manager.</p>
Officers could not demonstrate that they acted within their delegated authority (section 4.3)	<p>The LGA Board should consider whether to implement specific delegations for the CWMS Program.</p> <p>Where the LGA Board decides to do so, it should:</p> <ul style="list-style-type: none"> <li>• assign clearly defined delegations of authority to specific positions and/or the Committee</li> <li>• receive regular reports on decisions made to ensure they are in line with the delegations</li> <li>• develop a process for approving funding allocations, including variations from the initial approved amount.</li> </ul> <p>Where the LGA Board decides not to delegate its obligations under the funding deed, it should approve the CWMS Program’s annual budget outlining the funding allocations for that financial year, consistent with the 10-year rollout program.</p>
<b>Funding deed</b>	
The purpose of the funding deed is not clear (section 5.1)	<p>The SA Government should consult with the LGA to review and consider amending the funding deed to:</p> <ul style="list-style-type: none"> <li>• ensure references in the deed and the schedules are correct and consistent</li> <li>• clearly explain the extent to which the program funding is used to achieve the SA Government’s CWMS policy goals.</li> </ul>
Use of the funding for the LGA’s administrative costs and for research and development is unclear (sections 5.2 and 5.3)	<p>The LGA should seek written clarification from the Minister on the use of program funds to recover its internal costs of administering the CWMS Program, as a matter of priority.</p> <p>The LGA should consult with the SA Government to review the funding deed and consider:</p> <ul style="list-style-type: none"> <li>• revising the eligible payment provisions</li> <li>• including definitions or further explaining what administration, management, research and development activities can be funded by the CWMS Program</li> <li>• agreeing on a maximum amount that is considered reasonable to meet these costs.</li> </ul>



Key findings	Key recommendations
<b>Planning, monitoring and reporting</b>	
The LGA has not developed a 10-year rollout program and set related milestones (section 6.1)	<p>The Committee should set annual milestones for delivering outcomes across the remaining term of the program.</p> <p>The LGA should develop a 10-year rollout program that is regularly reviewed and updated to show:</p> <ul style="list-style-type: none"> <li>• each scheme and its prioritisation</li> <li>• approved funding already committed to projects</li> <li>• agreed milestones for each year.</li> </ul> <p>Annual reports to the Minister should report the progress of the CWMS Program rollout against set milestones.</p> <p>The LGA should review its assessment methodology to identify ways to make more timely decisions to reallocate funds to other priority projects and minimise sunk costs.</p>
Reports to the Minister did not accurately reflect progress towards the CWMS Program's target (section 6.3)	The LGA should ensure the CWMS Program annual report to the Minister provides accurate information on the number of connections achieved each financial year against milestones set for that year, and explains variances and any required adjustments to future milestones.
<b>Assessment process</b>	
Lack of records to support the assessment of applications (section 7.1)	<p>The Committee should finalise and adopt the CWMS priority list, which can be then used to prepare a 10-year rollout program.</p> <p>The LGA should maintain adequate records to support the decision-making processes and activities of the CWMS Program.</p>

## 1.4 Responses to our recommendations

The LGA responded to our detailed findings and advised us how it would action our recommendations, which it accepted as positive improvements.

The LGA's response to each individual recommendation is included in the relevant sections of this Report. The LGA noted that our examination considered the operation of the CWMS Program up to December 2020, and that these point-in-time findings do not reflect program improvements implemented in 2021.

The LGA also provided the following feedback on our examination:

*The LGA appreciates the positive and open discussions that have taken place during the examination process and your acknowledgement of the recent improvements in program management ...*

*... Under the LGA Grant Management Framework adopted in February 2020, the LGA also commissioned an independent review of the CWMS Program in December 2020. This review made several recommendations that are consistent with the findings in your draft report, and I am pleased to advise that a significant body of work is underway to progress improvements in the administration of the CWMS Program ...*

*... Recommendations from the examination report have and continue to be taken into account in the review of the operation of the CWMS Program.*

In addition, the Attorney-General's Department separately responded to the recommendation in section 5.1, indicating that the mid-term review of the CWMS Program is due in June 2022. The SA Government will review the funding deed in consultation with the LGA as part of this review and consider amending it to address our findings, including clarifying the purpose of the CWMS Program and better defining key terms in the funding deed.

## 2 Background

### 2.1 Introduction

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It is important that all South Australians have access to safe and affordable sewerage services no matter where they live. It is an essential service that impacts:

- an individual's quality of life by reducing the health risk of exposure to untreated wastewater
- the economic growth and development of communities
- the environment.

The SA Government is responsible for providing this service across South Australia and has a specific policy on providing CWMS schemes in areas of the State not serviced by SA Water. However it considers it more cost-effective for councils to manage and operate this service for new and existing CWMS schemes in regional areas.

The *Local Government Act 1999* enables councils to impose an annual service charge on those receiving CWMS services to recover the costs of installing and running the schemes.

For many years, the SA Government has provided funding to subsidise new CWMS schemes through an agreement between the Minister and the LGA (the funding deed). Known as the CWMS Program, its primary purpose is to distribute State funds to councils to subsidise the installation and operation of new CWMS schemes in areas not serviced by SA Water. The LGA is responsible for administering the CWMS Program.

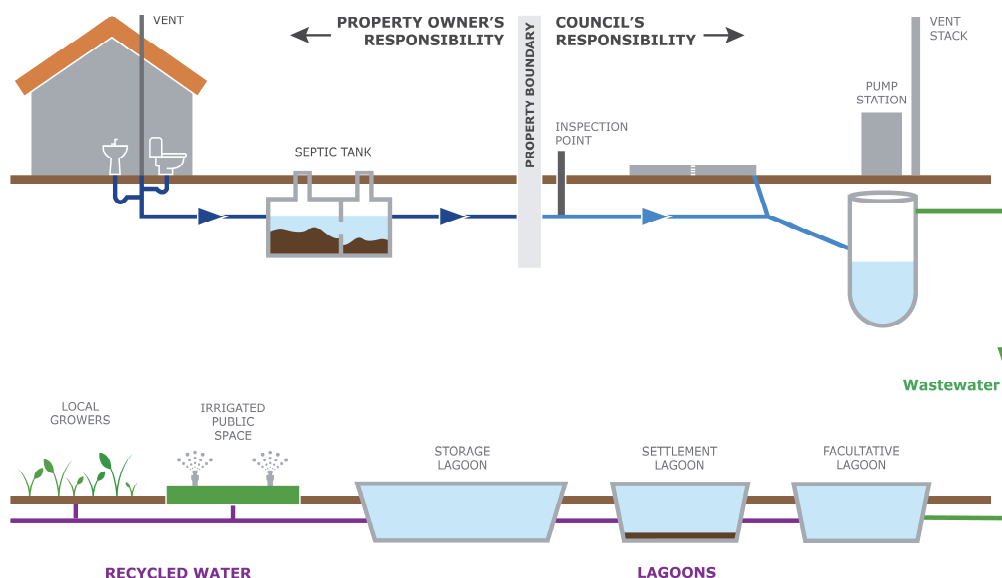
### 2.2 CWMS schemes in brief

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There are 173 CWMS schemes managed by 50 of the 68 councils across South Australia.

Figure 2.1 is a diagram of a typical CWMS scheme, which is a system designed to collect, treat and dispose of primary treated effluent from septic tanks on individual properties. Some more recent CWMS schemes are designed to collect and treat sewage rather than septic tank effluent. Some schemes include infrastructure to enable the treated wastewater to be reused. Appendix 4 provides a map that shows the location of the CWMS schemes and examples of some components of CWMS schemes.

**Figure 2.1: A typical CWMS scheme**



Source: The LGA.

The collection system is a network of pipes and pumping stations that transport the effluent from the property owner's septic tank to the council's treatment site. Some schemes do not require pumping stations because the collection system operates by gravity.

The council owns the assets beyond the inspection point, but its services may include emptying the septic tank every few years. When a council installs a new CWMS scheme, it is the property owner's responsibility to install and pay for the piping from the septic tank to the inspection point.

## 2.3 CWMS Program and funding

The CWMS Program has been in place since 1992. It is funded by the SA Government based on the terms and conditions of the funding deed and managed by the LGA. The current funding deed provides \$4.2 million per year for 10 years (2017 to 2027), which is adjusted annually for CPI. Subsidies of \$42 million will be allocated to fund new CWMS schemes worth \$65 million to achieve a target of 2500 connections.<sup>1</sup> This corresponds to a contribution of around \$17 000 per household/business towards the recipient council's cost to install and maintain the scheme over 50 years.

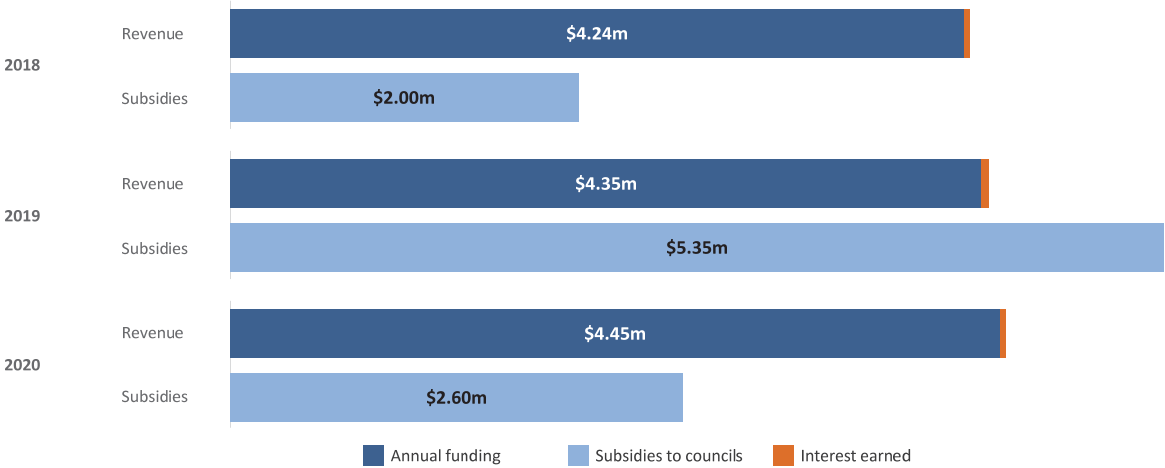
A priority list of communities where CWMS schemes should be installed was prepared in 2005. The schemes were ranked according to the level of risk to public health and the environment. When the CWMS Program was continued in 2017 under a new deed, the LGA called for applications for subsidy funding to be renewed and received 20 submissions from

<sup>1</sup> The basis for identifying the number of connections is not stated in the funding deed. There is generally one physical connection per property at the property boundary, as shown in figure 2.1. A formula has been adopted for commercial connections to account for the increased volume, known as property units. This formula is used by councils to raise rates on CWMS connections to non-residential properties.

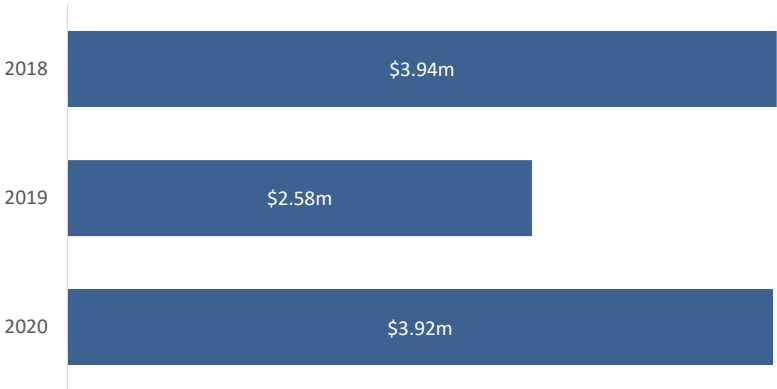
councils, representing 34 individual projects. The LGA assessed 18 of these projects as high priority with an estimated cost of \$76 million. At the time, councils with lower priority were advised that they would be unlikely to receive funding under the current funding deed due to a projected shortfall of \$11 million.

The funding received and distributed since 1 July 2017 is shown in figure 2.2 and the cash balance is shown in figure 2.3.

**Figure 2.2: Financial activity of the CWMS Program**



**Figure 2.3: Cash balance on 30 June**



The cash balance represents the funds that have not been distributed at the end of each financial year. The cash balance at 30 June is slightly lower than the annual funding received for that financial year. It has increased while waiting for new CWMS scheme projects to start. The LGA advised us that some funds are committed to be spent under a CWMS funding agreement and would therefore be paid once project milestones have been achieved.

Appendix 1 provides more information on the funds allocated to councils and a financial analysis.

## 2.4 CWMS funding deed

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The primary purpose of the funding is to subsidise the cost of installing a target of 2500 new CWMS connections in 10 years. The LGA must be able to demonstrate, to the satisfaction of the Minister, that it has met and continues to meet the outcomes set out in the funding deed.

The LGA is responsible for managing and accounting for the funding provided and must comply with the SA Government's policy for CWMS schemes.

The funding deed sets conditions for the use of funding to help assess applications and making funding allocation decisions.

The calculation of each subsidy is intended to promote equity over the life cycle of any scheme between the users of the new CWMS schemes and those who use and are charged for SA Water operated sewerage systems.

The Minister and the LGA will conduct a mid-term review of the CWMS Program by 30 June 2022 to:

- assess and review the need for CWMS schemes in specific locations as nominated by individual councils
- assess the ongoing reform of the community wastewater management sector
- assess progress against agreed milestones
- make any necessary adjustments to the CWMS Program rollout time frames and/or financial arrangements
- review the LGA's performance of its obligations under the funding deed to satisfy the Minister that it has and is complying with the funding deed and has performed satisfactorily relative to the outcomes.

## 2.5 Risks and challenges in managing the CWMS Program

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The risks of not effectively managing the CWMS Program are that:

- the purpose and objectives of the funding are not met
- funding is not provided to new CWMS schemes that are high priority and critical to preventing environmental and/or public health risks
- the installation of necessary new CWMS schemes is not maximised if funding is given for potentially unauthorised purposes
- the assessment of applications for funding is inadequate or inconsistent.

The LGA advised us that it is difficult to forward plan and prioritise CWMS scheme projects. This is because:

- it is not empowered to require a council to build a new CWMS scheme, even when local conditions demonstrate high risk levels
- projects may not go ahead because the council was unable to get other funding
- projects are delayed to address community and/or council members' concerns.

We acknowledge that at times this presents challenges to the LGA in effectively managing the CWMS Program funding and achieving outcomes.

## 2.6 Governance of the CWMS Program

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Sound governance is paramount to service delivery and the economic and efficient use of public money. It provides assurance to the public that decisions made on the use of public money provide value to the public and, in this case, meet the purpose and objectives of the CWMS Program. It also ensures those responsible are held to account for these decisions.

The funding deed requires the LGA to establish the Committee with state and local government representation. The LGA provides the Chair, the Program Manager and administrative support to the Committee.

The Committee is responsible for overseeing the funding distributed through the CWMS Program and performs tasks such as:

- assessing applications for CWMS funding from councils and establishing funding priorities
- overseeing the equitable and cost-effective distribution of funds
- establishing milestones for performance reporting
- resolving any issues that arise in fund distribution and in overseeing the projects.

The SA Government representatives include officers of the Environmental Protection Authority and the Department for Health and Wellbeing to help ensure compliance with relevant standards and statutory requirements.

The funding deed provides reporting requirements to the Minister. This includes annual reporting on the rollout of the program against milestones established by the Committee and audited financial statements.









## 2.7 Eligibility criteria and assessment process

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The CWMS Program subsidises the construction and management of new CWMS schemes in existing townships where there is a demonstrated need for them. The funding deed sets the eligibility criteria for these subsidies, shown in figure 2.4.



**Figure 2.4: Eligibility criteria**

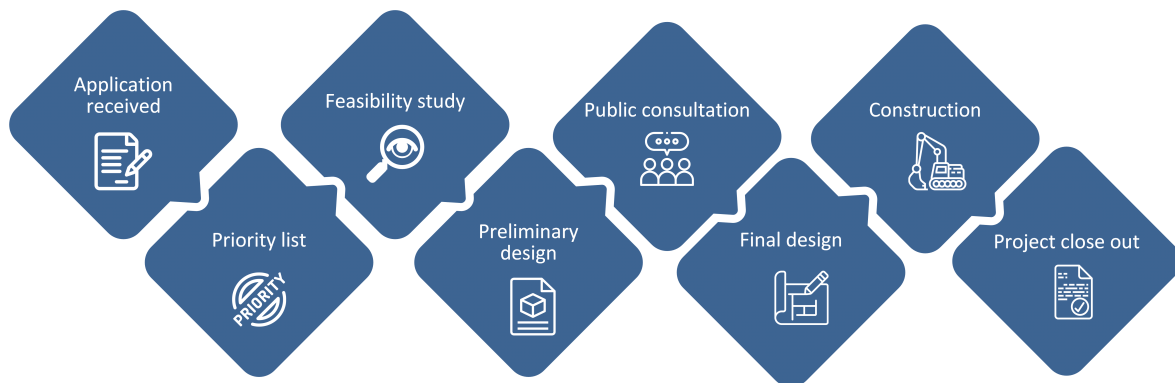
 <p>Demonstrated need to install a new CWMS scheme</p>	 <p>There is no satisfactory cost-effective alternative</p>
 <p>Funding is not permitted for new developments</p>	 <p>No subsidy if construction costs can be recovered from ratepayers at SA Water pricing</p>
 <p>Maximum 85% of construction costs or \$21,000 per connection unless specifically approved</p>	 <p>Council must agree to fund and maintain the new scheme for its whole life at sustainable performance levels</p>
 <p>Council must sign a written subsidy agreement</p>	 <p>Funding of replacement schemes only in exceptional circumstances</p>

The funding deed requires a transparent and rigorous assessment of:

- public health risks of existing conditions as assessed by the Department for Health and Wellbeing
- environmental hazards as assessed by the Environment Protection Authority
- clear evidence that there is no satisfactory cost-effective alternative to a CWMS scheme as assessed by the Committee.

The LGA’s assessment methodology for a CWMS project has phases to determine the necessity and cost of a proposed new CWMS scheme as shown in figure 2.5.

**Figure 2.5: Assessment methodology**



Appendix 3 provides further information on the assessment process.

## 2.8 Key reviews of the CWMS Program

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### 2.8.1 Risk review

The LGA engaged a consultant in December 2018 to review its risk management practices and facilitate workshops to identify and rank strategic risks, including those related to the CWMS Program. Risk treatment plans were finalised in October 2019.

The key risks identified for the CWMS Program were:

- ratepayers and councils being uncertain about the costs and benefits of a new CWMS scheme due to a lack of information or poor preliminary investigations
- breach of the funding deed
- project management risks of cost increases and inadequate cash flows.

The current Program Manager is progressively improving the management framework and practices for the CWMS Program, focusing on priority risk areas based on the consultant's report.

### 2.8.2 Internal audit review

After our preliminary planning meetings with the LGA, it engaged an accounting firm to review the operations of the CWMS Program with a focus on governance, transparency, decision-making processes, contract management and compliance with the funding deed.

The accounting firm reported its findings and proposed recommendations in March 2021. The main findings were:

- improving financial oversight, control and reporting
- formalising the Committee's membership and initiating self-review mechanisms
- further development of documentation for the CWMS Program operations and oversight.

The LGA accepted all of these recommendations and prepared a plan to implement action.

## 3 Audit mandate, objective and scope

### 3.1 Our mandate

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The Auditor-General conducted this examination under section 32(1)(b) of the *Public Finance and Audit Act 1987* (the PFAA), which allows the Auditor-General to examine the accounts of a public funded project and the efficiency, economy and effectiveness of the project.

The CWMS Program is a publicly funded project under section 4 of the PFAA, which defines such a project to include a project or activity entirely or substantially funded out of money provided by the State.

### 3.2 Our objective

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We assessed whether the LGA effectively managed the CWMS Program in a manner that demonstrated that the purpose and objectives of the funding were met.

Our examination covered the period from 1 July 2017 to 31 December 2020.

### 3.3 What we reviewed and how

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We assessed whether the LGA had:

- adequate governance arrangements to manage the CWMS Program funding
- a clear understanding of its role and responsibilities in managing the CWMS Program
- adopted a plan that identified and prioritised the funding requirements to meet the purpose and objectives over the life of the funding deed
- regularly monitored and evaluated the performance of the program to ensure its purpose and objectives were met and that it complied with the reporting requirements in the funding deed
- a robust methodology to assess subsidy applications
- distributed funding in line with the funding deed
- adequate records in place to demonstrate the approval and distribution of funds under the CWMS Program and the decision-making process for unsuccessful applications
- adequate systems in place to provide the information to distribute and manage program funding
- arranged for the accounts of the CWMS Program to be audited.

Our assessment considered:

- the key requirements of the funding deed
- the LGA's constitution
- the Committee's terms of reference
- generally accepted standards of good governance.

As a result of what we considered to be ambiguity in the funding deed, we obtained additional information to help us interpret it. We formed the view that the purpose and intent of the CWMS Program is predominantly to construct and manage new CWMS schemes in existing communities. The LGA's Chief Executive Officer confirmed this view in writing at the start of our examination.

We reviewed some projects to evaluate the assessment process, the involvement of key technical experts in that process and how the LGA addressed any issues arising from the process.

We reviewed documents in detail and held discussions with LGA staff, who went to considerable effort to respond promptly to our information requests and inquiries during the examination.

### 3.4 What we did not examine

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We did not conduct a technical assessment of the effectiveness of activities to construct new CWMS schemes.

We did not audit the financial reports of the CWMS Program referred to in this report. They were audited by the accounting firm engaged by the LGA for this purpose.

## 4 Governance arrangements

### 4.1 The Committee did not meet for a year

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#### Recommendation

The LGA should document the reason for any changes in established governance arrangements, its consideration of the associated risks and any risk mitigations. This should be reported to the LGA Board.

#### Finding

The Committee met in June 2018 and endorsed 2018-19 funding allocations of \$8.4 million. It also required all allocations from the fund to be subject to ongoing review and referral back to the Committee to authorise any changes.

The Committee then did not meet until June 2019, 12 months later. During this time certain matters were not progressed, such as finalising the prioritisation schedule beyond 2018-19, finalising the Committee's draft terms of reference, reviewing the 2017-18 annual report on the CWMS Program's performance and finalising the forward planning process (the rollout program). Some of these matters were still outstanding at the time of our examination. Appendix 2 has further information on the Committee's meeting dates and outcomes.

There was no documentation to explain why the Committee did not meet or to evidence how it maintained its oversight role for the CWMS Program during that time. We believe it is sound practice to document the reasons for not meeting and the consideration of any associated risks.

We noted that the Committee met every quarter after June 2019. We consider this to be sound practice for the Committee to discharge its role and responsibilities.

#### LGA response

*The LGA acknowledges this finding and notes that Committee meetings were deferred due to limited availability from State Government representatives and difficulty achieving a meeting quorum.*

*During the period when the Committee did not meet, the Program operated within the approved funding allocations.*

*Since the current Program Manager commenced in July 2019, Committee meetings have occurred quarterly and there is an ongoing schedule of quarterly meetings.*

#### Our response

While the LGA advised us that the program operated within the budgets approved or noted by the Committee, we found that the budgets that provided the funding allocations were not approved by a delegated authority. On this basis, we concluded that the funding allocations were not approved. Section 4.3 provides more details on this finding.

## 4.2 The Committee's terms of reference were not finalised and needed improvement

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### Recommendation

The LGA Board should review and update the Committee's terms of reference to ensure they clearly set out its role and responsibilities, reporting requirements, activities and structure that is, where relevant, consistent with the funding deed. The terms of reference should also clearly define the roles, responsibilities and reporting relationship of the Committee Chair and the Program Manager.

The Committee's revised terms of reference should be approved by the LGA Board for approval.

### Finding

The funding deed requires the LGA to establish a committee to oversee the funding distributed through the CWMS Program.

Although the Committee was established some time ago under a previous funding deed, its terms of reference were not finalised. The Committee noted the draft terms of reference at its September 2020 meeting, but they were not finalised and forwarded to the LGA Board for approval at the time of our examination. Also, the LGA could not provide us with documentary evidence of the Chair's appointment, role and responsibilities.

The draft terms of reference outline the role of the Committee and the agreed body of works. We noted that not all of these were in line with the funding deed. For example, the terms of reference include a role to provide services to councils to support the sustainable management of existing CWMS schemes, which is not mentioned in the deed.

We consider that there needs to be a clear distinction between the Committee's activities to deliver the CWMS Program and those activities to achieve the broad SA Government policy goals.

Also, the draft terms of reference do not explain the Committee's:

- responsibilities and that of the Chair in administering the CWMS Program
- reporting requirements to the LGA Board and the LGA's audit and risk committee
- meeting procedures, including quorum requirements and frequency of meetings.

The need for improvements to the Committee's terms of reference with clearly defined roles was raised in the CWMS Program risk treatment plan. A lack of formality to the Committee's membership and appointments was identified in the internal review of the CWMS Program in March 2021.

### Why this is important

It is important the Committee has terms of reference that clearly set out its role and responsibilities, activities and structure that, where relevant, is consistent with the funding deed.

Where there are inconsistencies, there is an increased risk that the Committee will undertake activities beyond its role and/or without proper authority, which may breach the funding deed provisions and put the program funding at risk.

## LGA response

*Draft Terms of Reference were provided to Committee members, but were not formally adopted by resolution. These draft Terms of Reference have been used in practice to guide the Committee's operations.*

*The Terms of Reference have been updated to address the draft findings and were adopted by the Committee in June 2021...*

*...The Terms of reference ... were approved by the LGA Board on 29 July 2021.*

## 4.3 Officers cannot demonstrate that they acted within their delegated authority

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### Recommendation

The LGA Board should consider whether to implement specific delegations for the CWMS Program.

Where the LGA Board decides to do so, it should:

- assign clearly defined delegations of authority to specific positions and/or the Committee
- receive regular reports on decisions made to ensure they are in line with the delegations
- develop a process for approving funding allocations, including any variations from the initial approved amount.

Where the LGA Board decides not to delegate its obligations under the funding deed, it should approve the CWMS Program's annual budget outlining the funding allocations for that financial year, consistent with the 10-year rollout program. The approved budget should be provided to the Minister.

### Finding

Except for the general financial delegation to the Chief Executive Officer, the LGA Board had not made any delegations for the CWMS Program. We noted two instances where the Committee and the Chair may have acted outside their authority.

### *Approval of funding allocations*

In line with the funding deed, the Committee oversees the funding distributed through the CWMS Program and performs tasks such as assessing applications and establishing funding priorities. In the absence of delegations to the Committee, funding allocation decisions would be made by the LGA Board on the Committee's recommendation.



We found that the draft terms of reference for the Committee propose that CWMS Program funding allocations be recommended to the LGA Board for approval.

We did not find evidence of the approval of the total amount of subsidy by the LGA Board or of the individual payments and any variations to the payments. We determined that the previous Program Manager prepared budgets for the 2017-18 and 2018-19 funding allocations that the Committee approved without delegated authority. The budgets for the 2019-20 and 2020-21 funding allocations were noted by the Committee, but not approved by the LGA Board. The 2019-20 budget provided to the Committee did not match the one provided to the Minister.

We note that the internal review of the CWMS Program in March 2021 identified a lack of project funding oversight and control.

### *Signing contracts*

The funding deed requires the LGA to obtain a written agreement from the recipient council. We noted that the Chair has been signing subsidy funding agreements on the LGA's behalf without authority.

### Why this is important

It is important that effective delegations are implemented and maintained. They help delegates to make decisions on the LGA Board's behalf that are consistent with the required outcomes and that they will be accountable for.

In the absence of effective delegations, there is a potential increase in the risk of unauthorised allocation of funding, breach of funding deed requirements and mismanagement of funds.

### LGA response

*The LGA reviewed its financial delegations in 2018-19, which included CWMS expenditure. The LGA has further improved and provided clarity on these delegations, with the new Terms of Reference specifying that the LGA Board is responsible for approval of financial budgets and funding distribution, based on recommendations received from the Committee.*

## 4.4 Recent improvements in program management

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A new Program Manager, an LGA employee, was appointed in July 2019 to provide support to the Committee. We noted that the Program Manager is progressively improving the management framework and practices for the CWMS Program, focusing on priority risk areas based on a risk assessment report dated October 2019.

The Program Manager has implemented the following key improvements:

- guidelines and templates
- standardised modelling of whole-of-life costs against recoverable costs
- seed funding agreements
- criteria for feasibility study consistency and comparability
- hold points in the assessment process to improve effectiveness
- independent site supervisors to oversee construction
- proposed prioritisation from 2020-21.

We were not able to assess these improvements as no new CWMS scheme projects had commenced since the Program Manager started in the role and some were implemented after the period we examined.

## LGA response

*The LGA notes and appreciates the Auditor-General's finding that the LGA has progressively made improvements in the management framework for the CWMS Program since July 2019.*

*The LGA is committed to continuous improvements to the governance and implementation of the CWMS Program.*

*In February 2020, the LGA adopted a new Grant Management Framework for all LGA managed grant programs.*

# 5 The funding deed

## 5.1 The purpose of the funding is not clear

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### Recommendation

The SA Government should consult with the LGA to review and consider amending the funding deed to:

- ensure references in the deed and schedules are correct and consistent
- clearly explain the extent to which program funding is used to achieve the SA Government's CWMS policy goals
- define key terms, such as 'new developments'.

### Finding

The SA Government provides funding to subsidise new CWMS schemes (the CWMS Program) in line with the funding deed signed by the Minister and the LGA.

We found that the funding deed does not provide a clear understanding of the CWMS Program's purpose. This is because it contains conflicting references and includes the SA Government policy as a schedule (schedule 2). This policy is broader than the CWMS Program's purpose, provided in schedule 1 to the deed. The funding deed provides the application of funding for the purposes in schedule 2. This creates ambiguity as to the purpose of the CWMS Program.

This issue of ambiguity in the funding deed was also raised in legal advice the LGA received in December 2020 on the permitted use of funding for new developments. The funding deed prohibits funding of a new development but does not define the term and does not indicate that it is intended to have a specific meaning.

The mid-term review of the CWMS Program is due in June 2022. This is an opportunity for the funding deed to be improved to clarify its purpose and intent.

### Why this is important

In our view, including the broad SA Government policy goals without a clear reference to the CWMS Program's purpose may increase the risk of:

- the mismanagement of funds if they are not being administered as intended
- not achieving agreed outcomes.

Ambiguity also leads to incurring costs for legal advice, reducing the amount of funding available for the CWMS Program's primary purpose.

### LGA response

*The LGA recognises that there are aspects of the State Government's Funding Deed that require clarification, including the purpose of the CWMS Program.*

*The ambiguities identified by the Auditor General should be clarified by the State Government as part of the mid-term review of the Program in June 2022.*

*Any issues regarding ambiguity of the Funding Deed and the State Government Policy that have an immediate impact on the current operation of the CWMS Program will be clarified with the Minister for Local Government prior to undertaking the mid-term review.*

## Attorney-General's Department response

*The mid-term review of the CWMS Program is due in June 2022. The State Government will undertake a review of the funding deed in consultation with the LGA as part of this review and consider amending the funding deed to address these findings, including a clarification of the purpose of the CWMS Program, and providing a better definition of 'new development' in the funding deed.*

## 5.2 Use of funding for the LGA's administrative costs is unclear

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### Recommendation

The LGA should seek written clarification from the Minister on the use of program funds to recover its internal costs of administering the CWMS Program, as a matter of priority.

The LGA should consult with the SA Government to review the funding deed and consider:

- revising the eligible payment provisions
- including definitions or further explaining what administration and management activities can be funded by the CWMS Program
- agreeing on a maximum amount (or a percentage of total annual funds) of CWMS Program funds that is considered reasonable to meet these costs.

The LGA should ensure that documented agreements are in place for services provided to the CWMS Program.

### Finding

Program funds are used to pay the CWMS Program Manager's employment costs, an LGA employee. The LGA also recovers a fixed amount for corporate support services it provides to the Committee.

Paragraph 6.3 of the schedule 1 to the funding deed states that:

*Unless agreed by the Minister in writing, the Association [LGA] must not allocate the funding provided for the purposes of the CWMS Program under this Deed to any entity other than:*

- (a) a council constituted under Local Government Act 1999 (SA); or
- (b) an entity engaged by the Association [LGA] for the purposes specified in Paragraph 2 above [ie, the reasonable costs of administration, management, research and development]

This could be interpreted as meaning that the LGA cannot use program funds to recover internal costs it has incurred, unless the Minister gives written approval, as it is not a council or an entity engaged to provide these services.

We found no written evidence that the Minister agreed to the LGA using the program funds to recover these costs.

Although, in our view, the nature of the costs the LGA incurred would be considered reasonable in administering the CWMS Program, it is unclear whether the LGA requires the Minister's approval to recover these costs.

As mentioned in section 4.4, the management arrangements for the CWMS Program have changed since the funding deed was signed. Previously, the LGA engaged a consultant as the Program Manager and the use of program funds to pay the consultant was in line with the funding deed.

We note that program funds are also used to cover a proportion of the costs for the Chair and an administrative support officer, both employees of LGA Procurement (a subsidiary of the LGA). We found that there was no written agreement between the LGA and LGA Procurement to support the scope and cost of services provided for the CWMS Program.

### Why this is important

It is important that both parties to the funding deed agree on the costs that can be funded from the CWMS Program.

Where costing arrangements are unclear, there is a risk that funds may be used for unintended purposes. This can reduce the benefits of the CWMS Program and its effectiveness in meeting program outcomes, and increase the potential risk of not complying with the funding deed.

### LGA response

*The LGA notes the Auditor-General's finding that the costs recovered by the LGA to administer the CWMS Program are considered to be reasonable. This view is shared by the members of the Committee, which includes a representative from the State Government's Office of Local Government.*

*The LGA's interpretation of the Funding Deed is that written approval of the Minister is not required for the recovery of reasonable program management and administration costs by the LGA.*

*An annual report is provided to the Minister each year and includes LGA administrative costs in the budget. While there is an agreed and accepted practice in place, the LGA agrees that clarifying this issue in the Funding Deed will put this matter beyond doubt.*

*As recommended, the LGA has written to the Minister for Local Government to confirm the use of program funds to recover its internal costs of administering the CWMS Program.*

*On 2 August 2021, the Attorney General [the Minister] wrote to the LGA, agreeing that it was appropriate for the LGA's reasonable administrative costs to be recovered from the fund.*

*The Funding Deed should be amended, in consultation with the Office of Local Government, to clarify this issue through the mid-term review in 2022.*

## 5.3 The use of funding for research and development is unclear

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### Recommendation

The LGA should consult with the SA Government to review the funding deed and consider including definitions or further explaining what research and development activities can be funded by the CWMS Program. Further, both parties should consider agreeing a maximum amount (or a percentage of total annual funds) of CWMS Program funds that is considered reasonable to meet these costs.

The LGA should prepare an annual budget that details the proposed research and development activities and costs. The Committee should review the budget and present it to the delegate for approval.

### Finding

The funding deed allows funds to be used for research and development associated with the CWMS Program. We found that the funding deed does not provide any further information on the nature of the research and development activities and whether it is intended these activities focus on the primary purpose of the CWMS Program, which is to install new CWMS schemes.

An SA Government policy goal is to support innovative technical and management tools across the entire CWMS sector. The Committee allocates around 2.5% of program funding each year to broader sector reform projects. For example, funds were used to pay for guidelines for CWMS designs and the annual CWMS conference, which benefit the whole CWMS sector including councils with existing systems.

Program funding was also used to pay a consultant to help councils apply for Federal grant funding towards installing new CWMS schemes. While it involves a new CWMS scheme, it is not clear whether the use of funds for this purpose is a reasonable cost of research and development associated with the CWMS Program. It could be argued that submitting funding applications for government funding is an administrative cost of the council. While it may result in a good outcome, it may not be a permitted use of program funding.

We also found that the CWMS Program research and development budget prepared by the Program Manager was not provided to the Committee and/or the LGA Board for review and approval.

### Why this is important

Without documented guidance on research and development activities associated with the CWMS Program, there is an increased potential risk that program funding is used for activities that are not permitted/covered.

Providing financial assistance to some councils to assist in a grant funding application process may also be perceived as inequitable treatment of other applicants. This could put the integrity of the management of the CWMS Program at risk.

### LGA response

*The LGA believes that it is appropriate to continue to fund research and development activities that support the sector in the sustainable operation of CWMS, which is a highly specialised field. It is acknowledged that there needs to be certainty regarding the use of funding for these activities, as well as the amount of funding used for this purpose.*

*A CWMS reform agenda is under development, which will include a research and development work plan and budget. Once completed, the work plan and budget will be presented to the CMC and the LGA Board of Directors for review and approval.*

*An annual budget and work plan will be prepared and submitted to the LGA Board for approval at the July 2021 meeting.*

*The amount of funding for research and development (maximum percentage of total amount of funding) will be determined through the mid-term review of the funding deed in 2022.*



## 6 Planning, monitoring and reporting

### 6.1 The LGA has not developed a 10-year rollout program and set related milestones

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#### Recommendation

The Committee should set annual milestones for delivering outcomes across the remaining term of the CWMS Program.

The LGA should develop a 10-year rollout program that:

- identifies and prioritises CWMS Program funding to meet its purpose and objectives
- provides the approved funding already committed to projects
- provides the agreed milestones set by the Committee for each year.

The rollout program should be regularly reviewed and updated for changes in project status.

Annual reports to the Minister should report on the progress of the CWMS Program rollout against the set milestones for that financial year.

The LGA should review its assessment methodology to identify ways to make more timely decisions to reallocate funds to other priority projects and minimise sunk costs.

#### Finding

The LGA is required to provide the Minister with an annual report that shows the CWMS Program rollout for that financial year against milestones set by the Committee.

Planning for the CWMS Program was limited to a short-term budget. The LGA did not have a rollout program for the 10-year term of the CWMS Program that provided how and when (by year) the funding was expected to be distributed to meet the target 2500 connections.

We found that the Committee had not set milestones to be achieved each year of the 10-year CWMS Program.

In 2017 the LGA assessed 18 projects as high priority with an estimated cost of \$76 million. This information could have been used to develop the initial 10-year rollout program.

Preparing a 10-year rollout program would enable the Committee to set annual milestones to achieve the target 2500 connections and report progress against them each year.

The Chair and the Program Manager explained the complexities and limitations of forward planning. For example:

- a project may stall because the local council's community or elected members are not in favour of a new CWMS scheme after initial feasibility studies and costings are done. The program funding provided to pay these costs is not recoverable

- some projects may not proceed because the council had not secured Federal grant funding.

While the funds can be allocated to the next priority project, councils may defer the funding offer. There is no expiry date on this offer for the Committee to then make a timely decision to reallocate the funds to other projects and meet agreed milestones.

The LGA is not empowered to require a council to build a new CWMS scheme even when local conditions demonstrate high risk levels. This means any preliminary funding provided for projects that do not proceed are sunk costs. A long delay is likely to require the whole process to start again, incurring further costs in feasibility studies and increases in the construction costs of CWMS schemes.

### Why this is important

While we acknowledge the challenges identified, we think it is important that the LGA maintains a 10-year rollout program to ensure the necessary funds are available to subsidise approved high priority CWMS schemes; to ensure the funds are timely, cost-effectively and equitably distributed; and to demonstrate that the outcomes are likely to be achieved.

The LGA is required to conduct a mid-term review of the CWMS Program. This includes identifying and making any necessary adjustments to the CWMS Program rollout time frames and/or financial arrangements. Having a rollout program and regularly assessing progress against it would provide information to assist the mid-term review process and help justify any necessary adjustments.

The LGA's ability to monitor, report and be held accountable for its effectiveness in managing the CWMS Program is reduced without milestones to assess its performance against delivery targets.

### LGA response

*The LGA notes that the development of a 10-year rollout program is not a requirement of the Funding Deed, but acknowledges that setting and regularly reviewing program milestones is good practice.*

*A CWMS Priority list is maintained by the Committee and was updated in June 2021.*

*In order to provide more certainty for the remainder of the CWMS Program, a Program Plan has been developed and milestones for the remainder of the Funding Deed were adopted by the Committee in June 2021 and will be presented at the July LGA Board meeting. A key Milestone is the completion of Feasibility Studies in FY21-22 to ensure that projects on the Priority list qualify for funding.*

## 6.2 Performance reporting could be improved

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### Recommendation

The LGA should improve its performance reporting to the Committee and the LGA Board on the effectiveness of the CWMS Program, including establishing key performance indicators.

### Finding

We found that at the commencement of the funding deed the LGA did not develop a process to regularly evaluate, monitor and report on the performance of the CWMS Program in achieving its outcomes (ie target connections).

From September 2020, the LGA Board and the Committee received regular performance reports. We reviewed them and found they could be further improved by including agreed key performance indicators for the CWMS Program to monitor and explain variances between budgets and actuals, how the funding is maximised and the overall effectiveness of the program.

The Program Manager advised us that annual reporting to the LGA Board on the effectiveness of the CWMS Program is proposed but had not commenced at the time of our examination.

The CWMS Program risk treatment plan also raised the need to monitor and report progress to the Committee in delivering 2500 connections over the 10-year program and the cost per connection (budget to actual). The internal review of the CWMS Program in March 2021 also identified the need for budget to actual variance reporting and key performance indicators.

### Why this is important

The LGA must demonstrate to the Minister's satisfaction that it has met and continues to meet requirements of the funding deed. This includes the LGA's economic and efficient use of resources to achieve funding outcomes and its performance against required undertakings and obligations.

Performance reporting by the Committee provides assurance to the LGA Board that it is meeting its obligations. Without measures to make an objective assessment of performance, there may be uncertainty over the effectiveness of the program and whether the LGA has and continues to deliver the required outcomes.

### LGA response

*There have been improvements to performance reporting to the Committee and the LGA Board in FY20-21 and these will be further improved by proposed changes to the Committee's membership and Terms of Reference, and by aligning committee meetings with LGA Board meetings.*

*Templates for reporting have been developed and used by the CWMS Program Manager, to provide greater transparency to Committee members.*

### 6.3 Reports to the Minister did not accurately reflect the progress towards the CWMS Program’s target

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#### Recommendation

The LGA should ensure the CWMS Program annual report to the Minister provides accurate information on the number of connections achieved each financial year against the milestones set for that year. The report should also explain variances between planned and achieved connections and whether an adjustment to future milestones is needed.

The LGA should consult with the SA Government to consider amending the funding deed to clearly state how the number of connections is to be measured.

#### Finding

The funding deed requires an annual report on the rollout of the CWMS Program for the financial year against the milestones established by the Committee. The milestones are towards delivering a target of 2500 connections in 10 years. As mentioned in section 6.1, the Committee had not set these milestones.

The funding deed does not define how the number of connections is calculated. There are two calculation methods that provide different results. The Committee resolved to use the property unit method<sup>2</sup> to calculate the number of connections. The alternative is to count each physical connection to the property.

We noted that the 2019-20 annual report to the Minister introduced key performance indicator reporting on the number of connections achieved. Figure 6.1 shows that 1042 connections were achieved under the funding deed since 1 July 2017.

**Figure 6.1: Reported connections achieved from 1 July 2017 to 30 June 2020**

CWMS scheme	Connections
Cowell	52
Orroroo	57
Peterborough	720
Arno Bay	148
Cowirra	65
Total number of connections	1 042

Source: 2019-20 annual report to the Minister.

The number of connections includes a pro rata amount for CWMS schemes from the previous program that received funds under the current funding deed. We found that construction of the CWMS schemes at Cowell and Peterborough were complete at the commencement of the current CWMS Program. The number of connections shown as achieved in figure 6.1 is based on proportions adopted by the Committee.

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<sup>2</sup> The Property Units Code provides a weighting where a single physical connection to a non-residential property would have a larger flow of effluent (eg a motel). The calculation is set by the LGA and adopted by Regulations under the *Local Government Act 1999*.

Our analysis of the CWMS Program’s annual reports found that the number of connections achieved under the current funding deed on 30 June 2020, shown in figure 6.2, is 205 connections in the first three years.

**Figure 6.2: Number of connections achieved**

CWMS scheme	Previous deed	Current deed		
	2016-17 Number	2017-18 Number	2018-19 Number	2019-20 Number
Truro	145	-	-	-
Wirrabara	185	-	-	-
Cowell	625	-	-	-
Mallala	385	-	-	-
Peterborough	1 200	-	-	-
Orroroo		-	57	-
Arno Bay		-	-	148
Cowirra				
Total connections	2 540	-	57	148
Cumulative total	-	-	57	205
Connections reported to the Minister	2 765	3 435	6 235	1 042

Source: Audit analysis of annual reports and records of the CWMS Program.

In our opinion, the number of connections reported in the 2019-20 annual report was significantly overstated.

We found that the 1042 connections reported included connections for:

- CWMS schemes constructed before 1 July 2017 that continued to receive funding under the current deed
- funds allocated in 2017-18 and 2018-19
- a CWMS scheme that had yet to be built.

This approach also increased the amount of allocated funding reported, as shown in figure 6.3.

**Figure 6.3: Funding allocated each year compared to annual reports to the Minister**

	2017-18 \$million	2018-19 \$million	2019-20 \$million	Total \$million
Funding allocated to councils	2.0	4.8	2.4	9.2
Funding reported to Minister	27.1	27.5	9.2	63.8
Discrepancy	25.1	22.7	6.8	54.6

Source: Audit analysis of annual reports and records of the CWMS Program.

## Why this is important

The information reported to the Minister is not meeting the reporting requirements of the funding deed. Reporting a cumulative number of connections and funding allocated does not provide the outcome for that year against what was planned.

The adopted approach resulted in reporting inaccurate information, which increases the risk of misleading the users of the report because the reported outcomes for that year are more than what was actually achieved. Accurate reporting of the outcomes for each financial year is important for transparency and accountability.

## LGA response

*The LGA acknowledges the need to agree on appropriate performance measures and a consistent method of reporting against them both annually and over the longer term. Improvements to performance reporting are being implemented.*

*Appropriate amendments to the Funding Deed will be progressed as part of the mid-term review in 2022 to clarify how the number of connections will be measured.*

*The Funding Deed will need to be amended to reflect KPI definitions including connections, attribution of funds to projects commenced but completed under the current funding deed etc. This will be progressed with the State Government as part of the mid-year review in 2022.*

## 6.4 Annual reports to the Minister were not reviewed by the Committee or the LGA Board

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### Recommendation

The LGA should implement a reporting structure where annual reports are provided to the Committee for review and recommended to the LGA Board for endorsement before they are forwarded to the Minister.

The Committee's terms of reference should clearly outline the reporting responsibilities to the LGA Board.

### Finding

The LGA is responsible for managing the CWMS Program and reports annually to the Minister.

We noted that the meeting minutes of the Committee and the LGA Board did not record that they had reviewed and/or endorsed the annual reports sent to the Minister on the performance of the CWMS Program.

As discussed in section 4.2, the Committee's draft terms of reference did not explain the Committee's reporting responsibilities to the LGA Board. In our view this could have contributed to the lapse in the reporting process.

## Why this is important

Regular reporting from the Committee to the LGA Board is important to ensure the Committee discharges its responsibilities. It provides assurance to the LGA Board that the CWMS Program is being managed effectively to meet the outcomes and requirements of the funding deed.

## LGA response

*Under Section 11.3 of the proposed new Terms of Reference, the Annual Report will be developed by the Committee and will be presented to the LGA Board. This will bring the Committee's processes into alignment with other LGA Committees.*

# 7 Assessment process

## 7.1 Lack of records to support the assessment of applications

### Recommendation

The Committee should finalise and adopt the CWMS priority list, which can be then used to prepare the 10-year rollout program. Refer to section 6.1 for related recommendations.

The LGA should document the process to prioritise and approve funding allocations based on approved delegations of authority and a planned 10-year rollout program.

The LGA should maintain adequate records to support the decision-making processes and activities of the CWMS Program.

### Finding

The Committee is responsible for assessing and prioritising funding applications. The Committee also oversees the distribution of funds, ensuring that available funds are cost-effectively and equitably distributed.

We noted that a draft priority list of funding allocations was prepared. It was based on the outcome of the assessment of applications received in December 2017. The Program Manager has since updated the priority list, however the Committee has not adopted it and is due to consider it at its June 2021 meeting.

For the projects we reviewed, there was no documentary evidence of:

- the Committee's assessment of the applications against the established assessment methodology
- the Committee's recommendation to the LGA Board to approve funding allocations.

Further, the current Program Manager was unable to locate some key documents to support the assessment process by the previous Program Manager. These included the assessment of risks and cost-effectiveness and the subsidy calculation. We acknowledge that the current Program Manager was not responsible for managing the projects and the associated records we reviewed. The Program Manager is also taking action to improve the CWMS Program's records management practices.

### Why this is important

It is important that adequate records are maintained to support decision-making for the assessment of applications, prioritisation and approval processes, to demonstrate transparency and effective management of the CWMS Program and to hold those responsible to account.

It is important that all applications are assessed against the established methodology to minimise the risk of inadequate and inconsistent assessments and mismanagement of funding.



## LGA response

*Project updates were provided at each Committee meeting, however were not formally approved and captured in the meeting minutes. This has now been addressed.*

*The updated Terms of Reference provide clarity regarding the assessment and approval of applications.*

## 7.2 No evidence of committee approval of funding allocations that exceeded set limits

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### Recommendation

The document recommended in section 7.1 should include the process to approve funding allocations that exceed the limits set by the funding deed.

The Committee's meeting minutes should clearly record the approval of variances and funding that exceed the set limits. Reports to the LGA Board and the Minister should list what has been approved by the Committee.

### Finding

The funding deed limits the Committee's authority to approve funding allocations. The Committee can only approve subsidies that fund more than 85% of the projected whole-of-life costs or those subsidies that exceed \$21 000 per connection. Most applications require the LGA Board's approval.

We found examples where the amount of funding allocated exceeded the prescribed limits in the funding deed but there was no documentary evidence of the Committee's approval. We note that this matter was also raised in the internal review of the CWMS Program.

### Why this is important

It is important for the integrity of the CWMS Program that funding allocations are reviewed and considered, and any variances or funding higher than set limits are endorsed. For transparency, equity and accountability, annual reports to the Minister should provide justification where limits are exceeded.

## LGA response

*It is noted that this is an historical issue relating to past operation of the Program.*

*Processes and procedures are being developed and put in place so that any funding allocations that exceed set limits are approved.*

## 7.3 Inadequate documentation of outcomes for replacement CWMS schemes applications

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### Recommendation

The document recommended in section 7.1 should include an assessment methodology when considering applications to replace existing CWMS schemes based on the criteria in the funding deed.

### Finding

CWMS Program funding is primarily for the installation of new CWMS schemes. It can be used to fund a portion of the replacement costs of existing older schemes but only in exceptional circumstances and when specific requirements are met, including the Minister's approval.

An external consultant assessed the only funding application to replace an existing older scheme as part of prioritising the applications received in December 2017.

We reviewed that application and found that the documented assessment against the required criteria did not clearly record the outcome of the assessment of sustainability or cost recovery criteria. The Committee's meeting minutes did not record its review of the outcome of the external consultant's assessment and its support that the council was ineligible for funding. Further, there was no formal record of how the outcome was communicated to the council.

In the absence of delegations to the Chair or the Program Manager, any recommendation to deny a subsidy must be made to the LGA Board and the applicant should be appropriately informed of the outcome of the decision in terms of the conditions in the funding deed.

### Why this is important

It is important that assessments and approvals are recorded to maintain the integrity of funds allocation and accountability for the CWMS Program. Without this, there is a risk that funds could be allocated or denied to those who meet the criteria without proper authority.

If unsuccessful outcomes are not communicated to councils in a way that links to the criteria in the funding deed, there is a risk that they will challenge being denied funding.

### LGA response

*A methodology for considering applications for replacement CWMS will be incorporated in the Program plan and associated procedure.*

## Appendix 1 – Interpretation and analysis of financial information

The following analysis is based on financial information provided in the CWMS Program’s annual reports, audited financial reports (not audited by the Auditor-General) and other accounting records.

A summary of the financial activity of the CWMS Program is provided in figure A1.1, which shows a balance of \$3.9 million on 30 June 2020.

**Figure A1.1: Summary of CWMS Program funding received and distributed**

	2018 \$000	2019 \$000	2020 \$000
Opening balance	2 010	3 940	2 580
Annual funding and interest received	4 294	4 352	4 449
<b>Funding available for distribution</b>	<b>6 304</b>	<b>8 292</b>	<b>7 029</b>
Funding to councils	2 001	5 347	2 599
Program costs	363	365	511
<b>Closing balance</b>	<b>3 940</b>	<b>2 580</b>	<b>3 919</b>

Source: The financial information presented has been obtained from the CWMS Program’s audited financial reports (not audited by the Auditor-General).

The cash balance represents the funds that have not been distributed at the end of each financial year. The cash balance at 30 June is slightly lower than the annual funding received for that financial year. It has increased while waiting for new CWMS scheme projects to start. The LGA advised us that some funds are committed to be spent under a CWMS funding agreement and would therefore be paid once project milestones have been achieved.

The 2019-20 annual report to the Minister indicated that the \$3.9 million funds held would be used for a CWMS scheme in the Yorke Peninsula Council’s area. Annual reports to the Minister showed distributed funds to be higher than the audited financial reports. For a summary see figure 6.3. Figure A1.2 provides a breakdown of funding given to councils.

**Figure A1.2: CWMS Program funding distributed to councils**

Township	2018 \$000	2019 \$000	2020 \$000	Total \$000
Wirrabara <sup>3</sup>	51	-	-	51
Cowell	530	42	-	572
Mallala	900	217	200	1 317
Peterborough	350	2 250	500	3 372
Orroroo	170	1 286	-	1 601
Arno Bay	-	920	950	1 870
Cowirra	-	100	750	1 350
Funds distributed for new CWMS	2 001	4 815	2 400	10 133

<sup>3</sup> The LGA advised us that the notes to the 2017-18 audited financial report contain a reporting error in funding for Wirrabara.

Township	2018 \$000	2019 \$000	2020 \$000	Total \$000
Other funds distributed to councils	-	532	199	796
Total funds distributed to councils	2 001	5 347	2 599	10 929

Source: Audit analysis of annual reports and accounting records of the CWMS Program.

The distribution of funding to councils demonstrates that the projects to construct new CWMS schemes often take several years. The first four CWMS schemes in figure A1.3 were completed under the previous funding deed and continued to receive funding under the current deed. The CWMS schemes at Orroroo and Arno Bay commenced under the current funding deed and the CWMS scheme at Cowirra was under construction at the time of the examination.

The cost per connection of new CWMS schemes varies. This may be due to councils sourcing other funding such as Federal grants or the type of CWMS scheme that is installed. A summary is shown in figure A1.3.

**Figure A1.3: Subsidies per connection for funded CWMS schemes**

Township	Cost \$million	Subsidy <sup>4</sup> \$million	Percentage of cost	Number of connections	Subsidy per connection \$000
Wirrabara	4.12	3.65	88%	185	20
Cowell	11.05	6.72	61%	625	11
Mallala	6.90	4.93	71%	385	13
Peterborough	21.00	5.87	28%	1200	5
Orroroo	2.12	1.66	79%	57	29
Arno Bay	2.75	2.45	89%	148	17
Cowirra	1.20	0.85	71%	65	13
Average	7.02	3.73			15

Source: Annual reports of the CWMS Program (not audited by the Auditor-General).

The funding deed sets a maximum subsidy of 85% of construction costs or \$21 000 per connection, unless approved by the Committee. Two of the CWMS schemes that commenced under the current funding deed, Arno Bay and Orroroo, are showing subsidies above these limits (see section 7.2).

The amount of funding that is distributed to councils is impacted by external factors that are outside of the Committee's control (see section 6.1). This may prevent budgeted funding allocations from occurring. The variances from the budget are shown in figure A1.4.

**Figure A1.4: Analysis of CWMS Program budget in annual reports to actual amounts allocated**

Funding allocation	2017-18			2018-19			2019-20		
	Budget \$000	Actual \$000	Variance \$000	Budget \$000	Actual \$000	Variance \$000	Budget \$000	Actual \$000	Variance \$000
Wirrabara	55	51	4	20	-	20	180	-	180
Cowell	675	530	145	100	42	58	-	-	-
Mallala	1 375	900	475	700	217	483	600	200	400
Peterborough	950	350	600	1 100	2 250	(1 150)	650	500	150
Orroroo	1 120	170	950	470	1 286	(816)	600	-	600
Arno Bay	620	-	620	1 350	920	430	1 170	950	220

<sup>4</sup> Includes subsidies under the previous funding deed.

Funding allocation	2017-18			2018-19			2019-20		
	Budget \$000	Actual \$000	Variance \$000	Budget \$000	Actual \$000	Variance \$000	Budget \$000	Actual \$000	Variance \$000
Cowirra	65	-	65	120	100	20	1 350	750	600
Other CWMS funding	149	-	149	720	532	188	1 290	199	1 091
Funding to be allocated	1 513	-	1 513	1 260	-	1 260	1 610	-	1 610
Sub-total	6 522	2 001	4 521	5 840	5 347	493	7 450	2 599	4 851
Program administration	200	331	(131)	220	293	(73)	260	462	(202)
Reform program	40	32	8	40	72	(32)	40	49	(9)
Total	6 762	2 364	4 398	6 100	5 712	388	7 750	3 110	4 640

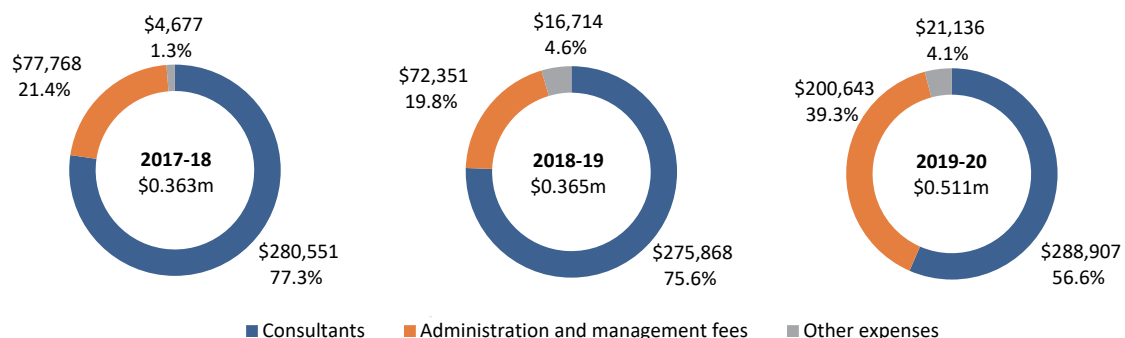
Source: The financial information presented has been obtained from the CWMS Program audited financial reports (not audited by the Auditor-General) and records of the CWMS Program.

We did not find evidence of the approval of the total amount of subsidies by the LGA Board, or of the individual payments or variations to budgeted allocations shown in figure A1.4. We noted that there was inconsistency in budget reporting to the Committee and to the Minister (see section 4.3).

We did not find any performance reporting providing this information to the Committee, the LGA Board or the Minister, or reasons for the variances (see section 6.2).

The CWMS Program costs are shown in figure A1.5 and are mainly costs for consultants and administration and management fees.

Figure A1.5: CWMS Program costs



Source: The financial information presented in the charts above has been obtained from the CWMS Program audited financial reports (not audited by the Auditor-General).

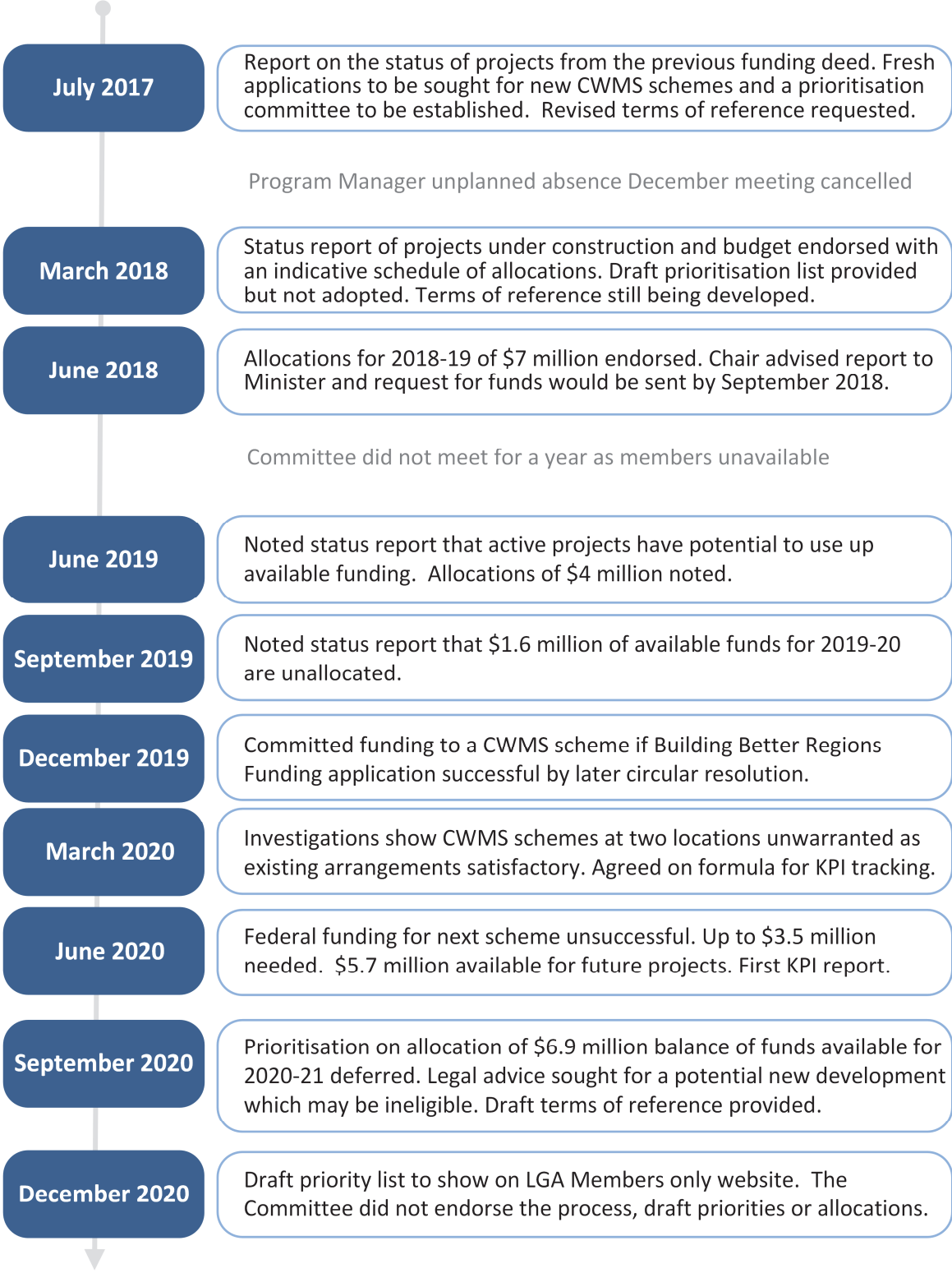
In 2019-20 administration and management fees were much higher, reflecting the appointment of an LGA employee as Program Manager. Consultancy fees did not reduce as the services of the previous consultant continued during that financial year.

The LGA advised us that the amount shown for the cost of consultants in figure A1.5 includes both contractors and consultants. Consultants are engaged on behalf of councils to conduct feasibility studies and to undertake research and development projects. Contractors are under the direct control of the LGA for project management services.

At the time of our examination, the only CWMS scheme under construction was for a small community at Cowirra on the River Murray near Mannum. Other potential CWMS schemes with high priority have experienced delays and as a result the prioritisation and allocation of funding were deferred.

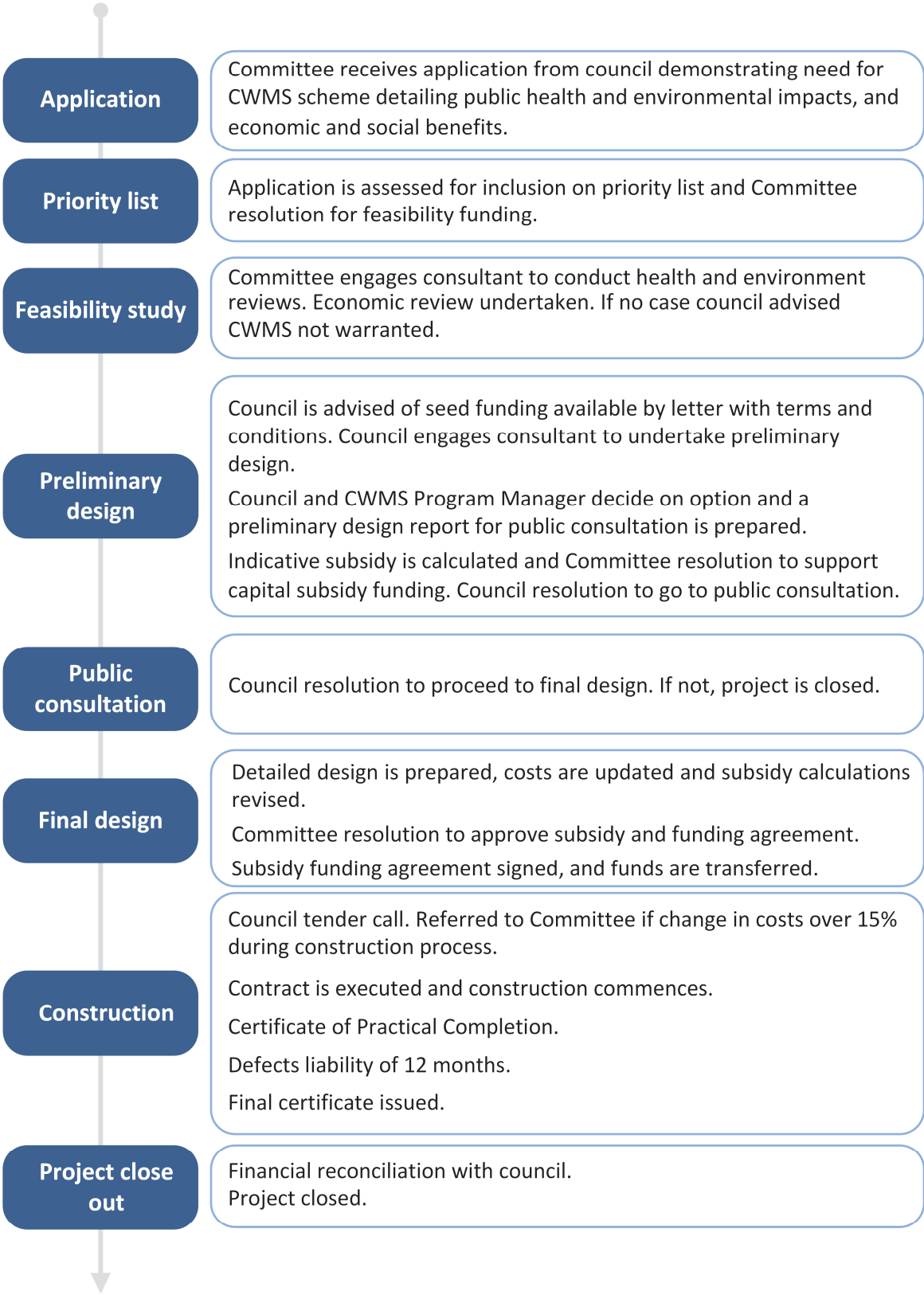
# Appendix 2 – Timeline of Committee meetings

Figure A2.1 shows the Committee meetings in the examination period and key outcomes.



Source: Audit review of minutes and agenda papers of the CWMS Management Committee.

# Appendix 3 – Assessment methodology



Source: Based on information provided by the LGA.

# Appendix 4 – A map and examples of CWMS scheme components

Figure A4.1: Map of existing CWMS schemes in South Australia



Source: Compiled from information provided by the LGA.



The following photos are examples of some components of CWMS schemes supplied by the LGA.



District Council of Orroroo’s wastewater treatment plant lagoon. The CWMS scheme cost \$2.12 million.

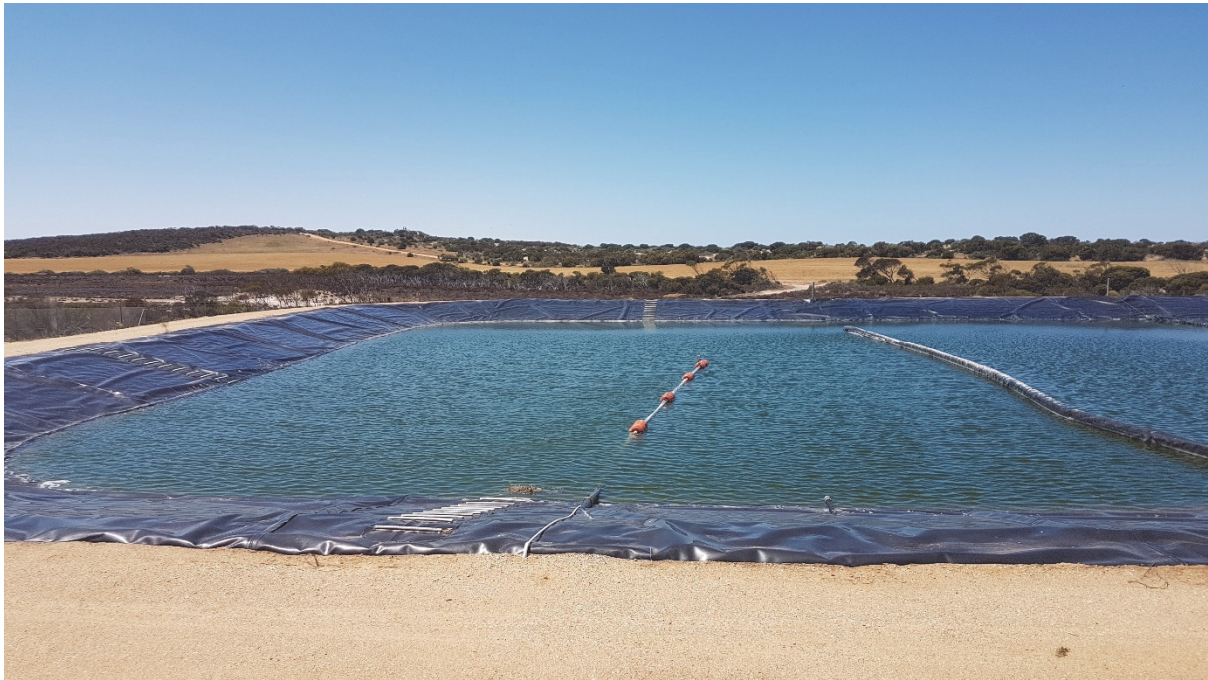


District Council of Peterborough’s CWMS scheme showing the high-rate algal ponds. The CWMS scheme cost \$21 million.





District Council of Peterborough's wastewater treatment plant anaerobic lagoon.



District Council of Tumby Bay's wastewater treatment plant lagoon at Port Neill. The CWMS scheme cost \$4.54 million.



Mallala Council's wastewater treatment plant's treatment tanks. The CWMS scheme cost \$6.9 million.

## Appendix 5 – Glossary of abbreviations and terms

<b>Term</b>	<b>Description</b>
CWMS	Community Wastewater Management Systems
CWMS project	A CWMS project involves all of the phases to determine the necessity and cost of a proposed CWMS scheme prior to approval of a subsidy for its construction (see figure 2.5)
CWMS scheme	The underground system of infrastructure that provides the wastewater service (see figure 2.1)
LGA	Local Government Association of South Australia
PFAA	<i>Public Finance and Audit Act 1987</i>
SA Water	South Australian Water Corporation
The Committee	The Community Wastewater Management Systems Management Committee
The Minister	The Minister for Local Government





