

# The role of audit in local government accountability

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## Today's presentation

- Role of the Auditor-General
- Victoria's broad audit mandate and comparison with other jurisdictions
- Four key accountability issues affecting local government:
  1. financial sustainability
  2. probity/integrity
  3. performance reporting
  4. business continuity management
- How our reporting adds value for financial professionals in local government
- Discussion and questions

Our Purpose: *Providing assurance to Parliament on the accountability and performance of the Victorian public sector*

- Auditing in the public interest since 1851.
- Constitutional safeguard to serve interests of Parliament.
- Constitution Act – ‘*Independent officer of Parliament*’
- A key link in the accountability process
- Accountable to Parliament via the Public Accounts and Estimates Committee
- Auditor-General mandate

## 620+ Client agencies include:

- Government departments
- Companies, trusts & joint ventures
- State Owned Enterprises
- Public hospitals & ambulances
- Financial institutions
- **Local government**
- Water authorities
- Police, emergency services & courts
- Universities & colleges
- Superannuation schemes

## Victorian public sector

- One of the State's largest businesses
- More than 232 000 employees; \$73 billion annual turnover

As many of you would know, the Auditor-General is the auditor of all Victorian **local councils**

- Provides an opinion on all statements:
  - Financial statements
  - Standard statements
  - Performance statements
- We use a mix of in-house and contracted firms
- The appointment of contracted firms is through a public tender process.

- Involvement of Parliament's independent officer in local government audits
- Provides consistency and quality control
- Unique role with regard to Performance Statements
- Ability to undertake performance audits to assess the effectiveness, efficiency and economy
- Contrast to WA, SA and NSW

# Use of Development Contributions by Local Gov't audit

## Audit assessed 3 councils:

- councils' management of development contributions
- arrangements for managing, monitoring and reporting on the collection and use of development contributions
- effective use of development contributions to deliver planned infrastructure.

## Audit findings:

Development contributions were used appropriately, for the intended purpose. Nonetheless, there were control weaknesses and public reporting by councils was insufficient to demonstrate to the community:

- that contributions were being spent for the purposes intended and
- that the associated infrastructure was being delivered as planned.



Despite a broad local government accountability framework in Victoria, 4 key accountability challenges remain for local councils:

1. Financial sustainability
2. Probity/integrity
3. Performance Statements
4. Business Continuity Management.

These all impact on local communities and all relate to accountability for how **public money** is spent.

- Linked closely with local government infrastructure management
- Audit plays a key role
  - Warning of issues
  - Determining councils to be a going concern
  - Use of 5 key financial sustainability indicators
    - Investment gap – replacement of infrastructure
    - Renewal gap (*NEW!*) – rate of spending on existing infrastructure
- Performance audit on cost recovery

- Role of oversight bodies – Ombudsman, Local Government Inspectorate and Auditor-General's office and differences
- Key theme uniting all = accountability
- *Tendering and Contracting in Local Government* audit report assessed:
  - Probity standards
  - Compliance with legislation and procedures
  - Value for money in tendering

Our recommendations included:

That councils strengthen their probity standards in procurement, including:

- training staff to identify and manage **conflicts of interest**, and
- maintaining sufficiently detailed records to **acquit transparency and accountability obligations**.
- It also recommended that councils strengthen their **oversight and monitoring of procurement**.

# Issue 3: Performance Reporting

## 2008 Review - Performance Reporting in Local Government

We recommended that councils self assess against findings to see if performance statements are relevant, appropriate and comprehensive.

We expect that this report will serve as a catalyst for councils to significantly improve the relevance and appropriateness of performance statements.

In this review we found that there was:

- A lack of clarity around targets/measures adopted
- Limited explanations regarding the variances between the targets and the actual results
- Limited use of comparative information – eg: over time/against other councils.



# Issue 4: Business Continuity Management

In the 2008-09 financial audit report we specifically reviewed the following key aspects of Business Continuity Management (BCM):

- Risk Registers
- Business Continuity Plans
- Disaster Recovery Plans.

We recommended that councils should maintain a **current risk register, business continuity plan and disaster recovery plan**. These should be tested at least **annually**.

We are now in the planning stages of a **performance audit** on BCM as a result of this financial audit. We propose to look at:

- whether councils have a sound business continuity plan in place
- whether they regularly test and report on the effectiveness of the plan,
- if they use these outcomes to continuously improve their business continuity practices.



# In summary: Getting value from audit reports

- Focus on delivering value to Parliament from this mandate through our effective **reporting**.
- Creation of separate local government sector report – positive feedback from MPs, the community and local councils.
- Model for other individual sector reports.
- How do you get value....?
  - Use reports to leverage positive change in your councils
  - Early warning about control weaknesses
  - Lessons learnt from other councils

# In summary: Getting value from audit reports

## Audit reporting: has it had an impact?

- **sustainability**: we have found that there has been an overall improvement throughout the sector
- **integrity**: we have focused, for example, on IT security; controls exist, but improvements can be made, and
- **performance reporting**: we have found that it has become more accurate and the quality of the narrative has improved.
- **business continuity management** – while there are positive signs regarding risk registers, there are still improvements to be made in relation to disaster recovery plans and business continuity plans.

For the present and the future:

1. Continue to be, the champions of financial sustainability
  2. Watch out for council lapses in probity and integrity
  3. Assist your council's effective use of performance statements
- .....And a final thought – it all comes back to accountability for the spending of public money.

# Questions/Discussion?

More information

[www.audit.vic.gov.au](http://www.audit.vic.gov.au)