Key accountability challenges for local government—an audit perspective

John Doyle
Auditor-General, Victoria
Today’s presentation

What are the possibilities of the role of the legislative auditor in relation to local government?

How is this relevant to anti-corruption?
Overview

- **Context:**
  - Snapshot of local government in Victoria
  - External audit of local government
  - Role of audit in accountability and in preventing corruption
  - Specific audit findings of relevance
  - Annual assessment of internal controls
  - Auditing performance indicators
- Future directions for auditing local government in Victoria
Local government in Victoria—what’s at stake?

• **79 councils** with over 42 500 employees

• **Spend $7.2 billion** annually and manage over **$60 billion** of community infrastructure and assets

• **Legislation**—*Local Government Act 1989, Audit Act 1994*

• **Oversight body**—Department of Transport, Planning and Local Infrastructure
External audit of local government—Victoria’s mandate

Victoria has a **mature** local government audit mandate:

- Auditor since 1995
- Seeking **no changes** in current reform process
  
  → In fact, we’re using it to **inform** some desired changes to mandate for **departments**.

- VAGO has **two Sector Directors** and Sector teams for Local Government (Financial Audit and Performance Audit).

**Other jurisdictions**: British Columbia, United Kingdom, South Australia.
External audit of local government—Victoria’s approach

Annual financial audits:

- **Opinions** on financial, performance, standard statements
- **70% outsourced** to audit service providers.

Performance audits:

- **2-3 per year**—part of broader performance audit mix
- **Strong consultation** in annual planning including forums
- Each performance audit usually examines 3-5 councils across Victoria → a lot of travel and field visits.
How can audits help prevent corruption?

1. **Specific findings of relevance**
   → *plus recent and upcoming reports*

2. **Annual assessment of internal controls**
   → *plus value-add of financial audits*

3. **Auditing performance indicators**
1. Specific audit findings of relevance

In depth examination provide specific, relevant findings, eg:

• *Organisational Sustainability of Small Councils* (2013)
  • Reliance on government grants grown substantially
  • Deteriorating financial indicators, significant financial risk
    → flag that councils may be **vulnerable to corruption**.

• *Fraud Prevention Strategies in Local Government* (2012)
  • None of the councils examined managed their exposure to fraud risk effectively
  • No risk-based fraud control plans
    → **direct information about fraud risk** in councils.
Recent and upcoming performance audits

Recent

• *Performance Reporting by Local Government* (2012)
• *Business Planning for Major Capital Works and Recurrent Services in Local Government* (2011)
• *Use of Development Contributions by Local Government* (2009)

Upcoming

• *Asset management and maintenance by councils* (2013-14)
• *Shared services in local government* (2013-14)
• *Effectiveness of councillor training and support* (2014-15)
• *Long-term financial planning by local government* (2014-15)
2. Annual assessment of internal controls

Taking it broader—the value of the annual financial audit.

- Assessment of **adequacy** of internal **control framework**
- Australian Auditing Standard 315
- Have entities **managed the risk** that their financial statements are **not complete and accurate**
- Controls help **prevent corrupt** or inappropriate behaviours, as well as achieve overall objectives

→ **Annual ‘hygiene check’ of basic anti-corruption tools.**
Value-add of financial audits

Five-year financial sustainability risk assessment

Source: Victorian Auditor-General’s Office.
3. Auditing performance indicators

Assurance over a mature local government sector—auditing performance indicators

• Provides assurance over many issues relevant to corruption

Years ending June 2013 and 2014, VAGO will issue an opinion on:
• relevance and appropriateness via management letters
• Fair representation in auditor’s report

Year ending June 2015, VAGO’s opinion will address all three.
Audit assurance—from specific to broad
Future focus for auditing local government

- Governance
- Controls
- Performance indicators
All our tabled audits and information on upcoming audits is available at [www.audit.vic.gov.au](http://www.audit.vic.gov.au).

Level 24, 35 Collins Street Street Melbourne
Victoria 3000
Australia
+61 3 8601 7000

ag@audit.vic.gov.au