

ITEM 15 INITIAL LOCAL GOVERNMENT PERFORMANCE AUDITS

The Auditor-General of NSW has written to Council regarding Local Government Performance Audits and requested the correspondence be tabled at a forthcoming Council meeting.

RECOMMENDATION

Council note the information.

REPORT AUTHORISATIONS

Report of: Brian Jenkins, Manager Finance
 Authorised by: Kerry Hunt, Director Corporate and Community Services - Creative, Engaged and Innovative City (Acting)

ATTACHMENTS

- 1 Letter from Auditor-General of NSW and Performance Audit Guide for Local Government

BACKGROUND

The Auditor-General of NSW has written to Council with information on Local Government Performance Audits. The letter provides an overview of the purpose of the audits, the target areas in the first year and how the results will be reported and used. The Auditor-General has asked that the report be tabled at a forthcoming Council meeting.

CONSULTATION AND COMMUNICATION

Audit Office of NSW

PLANNING AND POLICY IMPACT

This report contributes to the delivery of Wollongong 2022 goal ‘*We are a connected and engaged community*’. It specifically delivers on the following:

Community Strategic Plan	Delivery Program 2012-17	Annual Plan 2016-17
Strategy	5 Year Action	Annual Deliverables
4.4.5 Finances are managed effectively to ensure long term financial sustainability	4.4.5.1 Effective and transparent financial management systems are in place	Provide accurate and timely financial reports monthly, quarterly and via the annual financial statement
		Continuous Budget Management is in place, controlled and reported
		Manage and further develop compliance program
		Monitor and review achievement of Financial Strategy

CONCLUSION

The Auditor-General of NSW has requested the letter and guide be tabled at a forthcoming Council meeting. This report provides that opportunity.



Mr David Farmer
General Manager
Wollongong City Council
Locked Bag 8821
WOLLONGONG DC NSW 2500

Contact Audit Office
Phone No 9275 7100
Our Ref
Your Ref

27th April 2017

Dear Mr Farmer

Initial local government performance audits

As you are aware, recent amendments to the *Local Government Act 1993* have made the Auditor-General of NSW the Auditor of Local Councils in NSW. In addition to auditing Councils' annual financial statements, the new mandate provides for the conduct of "Performance Audits".

I am aware Performance Audits are a new type of audit for Local Government so the purpose of this letter is to tell you a little bit about them and my approach.

Essentially, Performance Audits assess whether selected activities or services are carried out efficiently, effectively and economically. The State Government has provided my Office with funding to conduct two to three Local Government performance audits annually. I have consulted with organisations like Local Government NSW and the Office of Local Government regarding topic selection.

In this first year, I have chosen to focus on the sector as a whole, rather than on any individual council. In this way I hope to improve my Office's understanding of Local Government and to work alongside you to provide some general benchmarking or improvement opportunities. My aim is to support Councils to identify good practice and to make improvements over time.

The first Performance Audit will focus on Councils' own reporting to their communities on service delivery. My Office is conducting a desk top review of reporting in Council annual reports and will select a sample of Councils to profile in more detail.

The second audit will survey fraud controls in place across Councils. And the final performance for the 2017/18 financial year will examine current shared services arrangements.

We will contact you directly if your Council is selected for more detailed examination in any audit.

I am sure it will be helpful if I publish a forward program of possible performance audits for you to provide any feedback on. Matters identified in my annual financial audits will also inform the selection of future topics, which may be a mix of sector wide or more targeted audits. Again, my officers will contact you during the early stages of any audit involving your Council.

Information regarding Performance Audits and my Office's approach to Local Government can be found at <http://www.audit.nsw.gov.au/>. I also enclose our Performance Audit Guide for Local Government for your information.

You may like to view my current program of State Government Performance Audits to get a better insight into the nature of performance auditing. You can also discuss any aspect of the audit of your Council with the Business Team Leader responsible for your Council. Contact details will be provided to you in our Client Service Report.

I am looking forward to working constructively with you and your officers to carry out my obligations under the Act but to also support you in your work. If you have any questions, please feel free to email me (mail@audit.nsw.gov.au).

Please note I have also written to your mayor on this topic. It would be appreciated if you could table this correspondence at a forthcoming council meeting.

With my best regards



Margaret Crawford
Auditor-General of NSW

PERFORMANCE AUDIT GUIDE FOR LOCAL GOVERNMENT

INTRODUCTION

Performance audits assess whether an agency or council is carrying out its activities effectively, and doing so economically and efficiently and in compliance with relevant laws.

This Guide provides councils (the audited agency) with information about the NSW Audit Office's performance audit process. The Guide outlines the legislative framework and the NSW Auditor-General's authority, and what to expect of the Audit Office during a performance audit.

The Guide also informs councils of their obligations to assist the performance audit team to effectively and efficiently complete their work.

LEGISLATIVE FRAMEWORK

Auditor-General's authority to conduct performance audits

The *Public Finance and Audit Act 1983* (PF&A Act) sets out the Auditor-General's functions, mandate and powers:

The Auditor-General's independence is assured by key provisions in the PF&A Act. Specifically, the Auditor-General:

- reports directly to NSW Parliament on audits of agency financial reports and performance
- can only be dismissed by a resolution of both houses of the NSW Parliament
- decides on the program of work undertaken by the Audit Office
- is appointed for a non-renewable eight year period. In addition, performance audits are funded by NSW Parliament, not the agency being audited.

Under the *Local Government Amendment (Governance and Planning) Act 2016* (the Act), the Auditor-General is the auditor of all NSW councils and 'council entities' from 1 July 2016 and has the mandate to conduct performance audits.

The Act gives the Auditor-General authority to choose the topics and agencies for review, and to access required agency information.

The Auditor-General is required to report to the head of the audited agency, the responsible Minister and Treasurer on the result of a performance audit. In many cases, this will include the Office of Local Government and its Minister due to their respective roles.

SUMMARY OF KEY POINTS

In conducting a performance audit, the Audit Office is responsible for:

- obtaining sufficient knowledge of the program or activity being audited
- maintaining a constructive relationship with the audited agency and undertaking adequate consultation (see Table 1)
- securing and keeping confidential all agency information obtained in the course of the audit.

The head of the audited agency is responsible for:

- nominating up to two suitable liaison officers to work with the audit team
- providing full and free access to people and information within requested timeframes. This includes providing all information that is relevant to the audit, even if not specifically requested
- a duty of care to the audit team under WHS and anti-discrimination laws, and harassment free workplace policies.

Performance audits and topic selection

Performance audits assess whether an agency is carrying out its activities effectively, and doing so economically and efficiently and in compliance with all relevant laws. Activities examined by a performance audit may include an individual program or service provided by an individual or group of council's, all or part of an individual council, or it may consider particular issues affecting the sector as a whole and may include state agencies as well as council's. Performance audits cannot question the merits of government or council's policy objectives. The Act gives the Auditor-General authority to select performance audit topics and activities to review. We use a strategic approach to selecting performance audits, which balances our performance audit program to reflect issues of interest to Parliament and the community. We include topics that align with the government's policy objectives and reform agenda to assess progress and impacts.

Each year, the Auditor-General seeks input from the heads of government agencies and certain statutory officers, on proposed topics before publishing the performance audit program. The Auditor-General will also take into account performance audit topic suggestions from the Public Accounts Committee, Members of Parliament, local councils and members of the public.

Authority to access Council information

The Act provides the Audit Office with full access to information irrespective of any agency obligations for confidentiality. This overrides any other legislation that might restrict disclosure, such as secrecy or privacy laws.

The Auditor-General is entitled at all reasonable times to full and free access to information requested of the audited agency.

The only exception to this access is information that is Cabinet information as defined in the *Government Information (Public Access) Act 2009* (GIPA Act). However, as a matter of convention the Secretary, Department of Premier and Cabinet, provides relevant Cabinet documents to the Auditor-General when requested.

Agencies must provide the Audit Office with information requested.

Confidentiality requirements

Under the PF&A Act, any information obtained in the course of undertaking a performance audit must not be disclosed by Audit Office staff to any person other than staff of the auditee, with the exception of information relating to improper conduct as detailed in the Act.

All information that the Audit Office receives, and working papers that the Audit Office creates during an audit, are exempt from the GIPA Act.

FOLLOW-UP PROCESS AFTER THE PERFORMANCE AUDIT IS COMPLETED

Approximately 12 months after each performance audit report is tabled in Parliament, the Public Accounts Committee (the Committee) may follow up action taken by audited agencies in response to recommendations made by the Auditor-General. As part of the follow up process, the Committee questions agencies about their response to the recommendations and, if required, conducts public hearings to examine witnesses. The Auditor-General also provides comments on submissions made by agencies to the Committee.

After the performance audit report is tabled, we write to the head of each audited agency to confirm this process and provide a template to assist the audited agency to report to the Committee when requested.

ROLES AND RESPONSIBILITIES

The Audit Office's obligations

We aim to complete our work efficiently to minimise the impost on each council. The time to complete this work varies depending on the complexity of the audit topic and the number of councils and state agencies that may be involved. This may range from six to 12 months.

Knowledge of the program or activity being audited

The audit team will obtain sufficient knowledge to enable it to identify and understand issues relevant to the program or activity being audited.

Performance audits may be undertaken on topics that require specialised skills and knowledge beyond those possessed by the audit team. In these cases, we engage consultants to provide expert assistance to the audit team and will discuss this with the audited council. The audit team must ensure that any consultant engaged for the audit has the necessary competence, capabilities and impartiality to complete the work required.

No surprises approach

The audit team seeks to establish a constructive relationship with each council so that there are 'no surprises' in the final audit report. The audit team will explain the audit process at commencement and will maintain appropriate communication throughout the audit. Council's General Manager, and executive staff, are encouraged to provide input at appropriate stages of the audit, such as when the audit is being scoped, and when preliminary findings, the draft report and potential recommendations are discussed.

Our audit process outlined in Table 1 provides several formal consultation points for the council to discuss the audit planning, preliminary findings and draft report during the course of the audit. In practice, there is ongoing and frequent communication between the audit team and the liaison officers.

Additionally, the head of the audited council and council executive staff can contact the Auditor General, Deputy Auditor General or Assistant Auditor-General Performance Audit at any time to discuss the audit. Our contact details are provided to the General Manager and council liaison officers at the commencement of the audit.

Audit methodology

Our performance audit methodology is designed to satisfy Australian Audit Standards ASAE 3000 and 3500 on performance auditing. The Standards require the audit team to comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance and draw a conclusion on the audit objective. Our processes have also been designed to comply with the performance audit requirements specified in the Act.

Security of agency information

The Audit Office treats all audit-related information as 'in-confidence'. Our computer network has appropriate security measures in place to mitigate unlawful access. Secure arrangements are also in place to store physical documentation.

Sensitive information that, in the Auditor-General's opinion, is not in the public interest will not be included in public reports. This may include commercial in confidence information. Any issues that the council may have about the Auditor-General's powers and the content of the audit report should be discussed with the audit team at the earliest opportunity.

The audit team will discuss with council's liaison officers suitable options and timing to provide information and documentation for the audit. This may include use of a web based secure file transfer facility to enable audited agencies to securely and efficiently provide requested information.

The audited agency's obligations

We aim to use council staff time efficiently and effectively and request the council's cooperation to facilitate our work. In the planning stage of each audit we will consult with council's liaison officers and agree on timely access to people and information (see Table 1).

Nominate up to two liaison officers

Council's General Manager is asked to nominate up to two liaison officers to work with the audit team. The liaison officers' role is important to both the Audit Office and council.

The liaison officer should be a senior member of the council who will keep the General Manager informed of the progress of the audit, and who has authority to make decisions on behalf of the council, for example, when reviewing the draft audit report and discussing potential audit recommendations.

The liaison officer will be asked to assist with the day to day administration of the audit, such as assistance in arranging meetings, access to people and information. Council's General Manager, or the nominated liaison officer, may wish to appoint a second liaison officer to assist the audit team with these matters.

Regular and open communications between the audit team and management of the council help deliver an efficient audit. The audit team will contact the nominated liaison officers regularly during the audit and will direct most questions and documentation requests through them. Refer to Table 1 for more details.

It is essential the audit team receives prompt responses to its questions and requests for supporting documentation.

Prepare early for the audit

The letter sent to the General Manager when a performance audit commences includes an indication of the issues that the performance audit will examine. This is discussed and refined during the planning phase of the audit outlined in Table 1.

The General Manager can prepare early for the performance audit by:

- reviewing relevant plans, records and source data, and making sure these are up-to-date and available for the audit team
- gathering documentation on how council monitors and measures the effectiveness, economy and efficiency of the audited activity and have the most recent results ready.

Provide full and free access to people and information

The General Manager and council's nominated liaison officers are responsible for arranging unrestricted access for the audit team to relevant individuals and documents and for the completeness and accuracy of the information supplied for the audit.

This is particularly important for performance audits. Each performance audit is unique and, as a result, it is difficult for audit teams to know exactly the documentation relevant to the audit. It is therefore the council's responsibility to ensure it provides:

- all information it is aware of that is relevant to the audit, whether or not it is specifically requested
- all information the audit team requests that is relevant to the audit

- o unrestricted access to all people in the council from whom it is necessary to obtain audit evidence.

The General Manager is also requested to advise the audit team:

- o if they or their council has any knowledge of any actual, suspected or alleged intentional misstatement (such as fraud) or non-compliance with laws and regulations in relation to the audit topic
- o whether there has been any internal or external reviews or audits conducted in relation to the audit topic.

Comply with work health and safety (WHS) and anti-discrimination laws, and harassment-free workplace policies

The Audit Office is committed to maintaining a high standard of work health and safety, and our staff are expected to treat each other and council staff with courtesy and respect.

Councils have a duty of care to Audit Office staff under the *Work Health and Safety Act 2011*, Regulation, Codes of Practice and recognised industry standards, as appropriate.

If the audit team fails to adhere to anti-discrimination laws or the harassment free workplace policy, the council liaison officers should advise the Assistant Auditor-General Performance Audit immediately.

The Audit Office has policies and strategies to prevent and deal with discrimination and harassment.

If the audit team is treated contrary to anti-discrimination laws and the harassment free workplace policy by any council staff, the audit team will advise the Assistant Auditor-General Performance Audit immediately. The incident will be raised with the council liaison officers and, if necessary, with the General Manager and the Auditor-General.

Transmission of agency information

Councils may provide working papers in hard copy or electronic format. Our preferred format is electronic documents in Word, Excel, or PDF formats provided by e-mail or through the Audit Office's secure file upload service. Details of e-mail addresses to use, or the file upload service, are provided by the audit team when information is requested.

The audit team may need 'read only' access the council's electronic systems. If this is required, the liaison officer will be asked to arrange the necessary access including log in IDs or access terminals on-site.

PERFORMANCE AUDIT PROCESS

Once initiated, performance audits have three main stages: planning, conduct and reporting. A description of each of these stages, and the extent of our consultation with the audited council, is outlined in Table 1.

Table 1—Performance audit stages and consultation with audited agencies

Planning	<i>Audit commences</i>	An audit team is assigned and the audit is initiated. Commencement letters are issued to the General Manager, Chief Executive, responsible Ministers, and the Treasurer. The head of each audited council and state agency nominates their liaison officers who will work with the audit team.	<i>Commencement letters</i>
	<i>Scoping work</i>	The audit team meets with council's liaison officers, and other key stakeholders, to gain an understanding of the council and activities relevant to the audit topic. The audit team develops the audit's scope and focus, including the audit objective and potential criteria. The potential audit scope is discussed with council's liaison officers.	<i>Draft audit scope and focus</i>
	<i>Audit plan</i>	The audit team finalises the audit scope and develops the audit plan in consultation with council's liaison officers. In addition to the scope and focus, the audit plan may include: <ul style="list-style-type: none"> • the audit procedures, including how and what information is to be collected to answer the audit criteria • audit fieldwork and approach, including the people and locations the audit team will visit during the audit • audit schedule, including consultation milestones and proposed tabling date. A draft audit plan is provided to the council's liaison officers for feedback before being finalised. Once finalised, the audit plan and audit engagement letter are issued to the General Manager. 	<i>Audit plan and engagement letter</i>
Conduct	<i>Evidence gathering and analysis</i>	Evidence is collected and analysed against the audit criteria. The audit team must ensure they have sufficient and appropriate evidence to answer the audit objective and criteria.	<i>Interviews with relevant council staff</i>
	<i>Preliminary findings</i>	Preliminary findings against the audit criteria are discussed with council's liaison officers. Additional relevant evidence may be requested if needed.	<i>Requests for access to documents and information</i> <i>Preliminary findings discussed</i>

<i>Reporting</i>	<i>Draft report</i>	<p>A draft report is prepared and a meeting held with council's liaison officers to discuss their feedback. The purpose of the draft report is to give the council the opportunity to identify errors of fact or interpretation, and to provide additional relevant evidence that addresses the audit criteria. Responses received from the council are carefully considered and amendments made as necessary. During this process the audit team will also discuss with council's liaison officers potential recommendations to be included in the audit report. The General Manager may wish to meet with the Auditor-General to discuss the draft audit report and recommendations before it is finalised.</p>	<i>Draft report</i>
			<i>Potential recommendations</i>
	<i>Final report</i>	<p>The audit's final report is issued by the Auditor-General to the General Manager, Chief Executive, the responsible Ministers, and the Treasurer, in accordance with the Local Government Act 1993. The audit report includes recommendations to improve accountability and performance. The General Manager is invited to provide a written response to the audit report and its recommendations that will be published with the audit report.</p>	<i>Final statutory report</i>
		<p>The audit report is tabled in NSW Parliament and published on the Audit web site</p>	<i>Tabled report</i>