

FinPro Professional Development Day

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31 May 2019

VAGO

Follow up of initial thoughts

- VAGO's Strategic Plan and impact on audit approach:



Increase
our relevance



Grow
our influence



Invest
in our people



Lead
by example

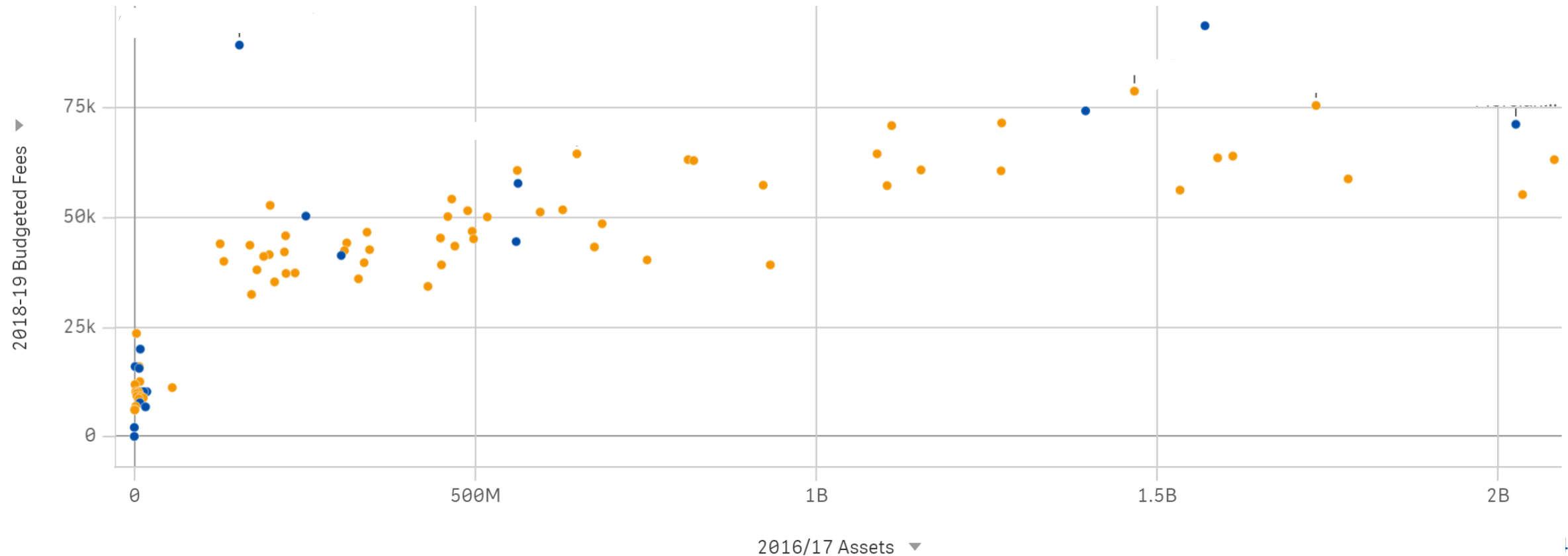
- Continue to share Council findings, issues, learnings across the sector.
- Continue to increase reach throughout Victoria and interstate.
- Further improve effectiveness and efficiency of our audit practices.

Initial thoughts – 3 months later

- Still a very complex sector
 - Multiple revenue streams and systems interfacing – and different ages of systems
 - Geographic spread of offices, assets and services
- Difficulties faced
 - Rate capping and impact on long term sustainability
 - Ageing infrastructure – with at times limited information, especially for older assets
 - Found assets
 - Expectations to do the same (or more) with less
 - Public interaction, scrutiny and potential misconceptions about what Councils do
 - Cyber attacks
 - Valuations of assets

Audit fees

- FY19 – 2.5% – checked for outliers against assets, expenses and liabilities
- Full re-base in FY20.



Audit strategy and audit approach for year-end

- Shell financial statements
- Valuation of assets – Land & Buildings vs Infrastructure assets
 - Methodology
 - Evidence to support CRC / Unit rates etc
 - Percentage movement – consideration of valuation vs approach
 - Management review of valuation is first line of defence
- Employee benefits and landfill provisions
- ITGC
 - User access
 - SoD
 - Audit logs / change management

Year-end preparedness

- Procurement
 - Tenders
 - Corporate Cards
 - SoD / Approval processes
- Contingent items – superannuation, MAV disclosure, cladding
- New AASB requirements
 - AASB 9 – Financial Instruments
 - AASB 15 / 1058 – Revenue
 - AASB 16 – Leases
 - AASB 1052 – Disaggregated Disclosures
- Performance statement quality control and review

Parliamentary report – 2018/19

- Planning completed
- Questionnaire to be issued in June:
 - Procurement
 - Data analytics
 - Outsourcing
 - Preparedness for new accounting standards
- Further improvement to dashboards including more data publicly available
- Data uploaded to Data Vic – pending clearance

Role of external audit / Council / CEO / AC

- **Role of a Council under the Act** is to provide **leadership for the good governance** of the municipality and the local community including maintaining the viability of the Council by ensuring that resources are managed in a responsible and accountable manner.
- **Functions of the CEO** include establishing and maintaining an appropriate organisational structure for the Council and day to day management of the Council's operations in accordance with the Council Plan.
- Audit committees are **advisory committees**.
- Regulations suggest audit committee should oversee the integrity of financial reporting.
- Good practice guide for audit committees is at LGV:
([https://www.localgovernment.vic.gov.au/data/assets/pdf_file/0021/84081/Audit Committees Guidelines-A-guide-to-good-practice-for-local-government.pdf](https://www.localgovernment.vic.gov.au/data/assets/pdf_file/0021/84081/Audit_Committees_Guidelines-A-guide-to-good-practice-for-local-government.pdf))

Role of external audit / Council / CEO / AC

- LGV guidance suggests Audit Committee key responsibilities should be outlined in their charter and address:
 - external reporting (including financial reporting)
 - external and internal audit
 - internal control and risk management
 - fraud prevention (including corruption)
 - related-party transactions oversight.

Role of external audit / Council / CEO / AC

- Regulations and better practice guide suggest **internal audit** should be independent professionals engaged by the Council to provide analysis and recommendations aimed at **improving Council's governance, risk and management controls**. This may include influencing policy generation.
- External audit's mandate is perform an audit to obtain **reasonable assurance** about whether the financial report and performance statement are free of **material misstatement**.
- We consider internal controls relevant to the preparation of the financial report and performance statement, but not to express an opinion on the effectiveness of the internal controls. Therefore risk rating will differ.

Data analytics

- Update on 'Data Strategy'
- Internal processes on each audit
 - Focus on payroll and procurement
- What can Councils do
 - Engage Internal Audit
 - Obtain scripts
 - Ask auditor to outline analytics performed

LG Performance Audit update – Recently Completed

- **Reporting on Local Government Performance**
 - <https://www.audit.vic.gov.au/report/reporting-local-government-performance>
 - Assessed if KPI are relevant and provide accurate, timely, and easy-to-understand information to stakeholders.
 - Interactive dashboard enables councils to compare performance on the nine service areas reported in the LGPRF.

LG Performance Audit update – Recently Completed

- **Reporting on Local Government Performance**
- 11 recommendations, including:
 - Enhancing guidance for improved consistency
 - Increase community awareness
 - Use the LGPRF as a performance improvement tool and setting targets (2021)
 - Improve quality assurance practices.

LG Performance Audit update – Recently Completed

- **Asset Management and Compliance**
- <https://www.audit.vic.gov.au/report/local-government-assets-asset-management-and-compliance>
- Assessed whether local councils accurately document infrastructure assets in their information systems and use this data in their asset management and planning.
- Generally found:
 - Asset Management Plans in place
 - Complex systems to record asset information, but not well integrated
 - Maintenance records could be improved.

LG Performance Audit update – Recently Completed

- **Asset Management and Compliance**
- 7 recommendations, including:
 - Improve data collection
 - Including in relation to Disaster Recovery Funding Arrangements
 - Better integration of asset management systems
 - Identify critical assets, and potential for failure, to inform priorities.

LG Performance Audit update – Recently Completed

- **Outcomes of Investing in Regional Victoria**
- <https://www.audit.vic.gov.au/report/outcomes-investing-regional-victoria>
- Reviewed the effectiveness of Regional Development Victoria's grant programs in supporting regional Victoria.
- Generally found:
 - RDV could not show its grant programs improved social and economic outcomes because it has not successfully evaluated the programs.

LG Performance Audit update – Recently Completed

- **Outcomes of Investing in Regional Victoria**
- 7 recommendations, including:
 - Improve the evaluation framework to ensure it includes objectives that can be measured against
 - Streamline application process
 - Improve transparency
 - Use available social and economic data to understand the areas of greatest need and use this information when assessing grants.

LG Performance Audit update – Audits in progress

- LG annual PA plan:
 - <https://www.audit.vic.gov.au/search/reports?sector=3677&status=planned>
- Fraud and corruption control – tabling June 2019
 - <https://www.audit.vic.gov.au/report/fraud-and-corruption-control-part-2>
 - Examining whether councils have well-designed fraud and corruption controls, and the extent to which these controls are operating as intended.
- Developer Contributions
 - <https://www.audit.vic.gov.au/report/supporting-communities-through-developer-and-infrastructure-contributions>
 - Examining the effectiveness of development and infrastructure contribution schemes and the creation of essential infrastructure to support new and growing communities.

Sourcing strategy

- Currently reviewing our model including:
 - Oversight policy including quality assurance processes.
 - Sourcing strategy (i.e. in-house versus contracted)
- Greater engagement and communication with ASPs
- Improved consistency in audit approach and sector focus

Interstate round-up

- Comparison with NSW, WA, QLD and TAS
 - Sourcing
 - Bundling
 - General approach to audit – ITGC, data analytics, procurement
- Peer review of WA files
- Landfill accounting

Recent sector updates

- Audit Amendment Bill 2018 – Passed both Houses 28 May 2019
- Outsourced providers (e.g. Fines Vic, Parking infringements, cash collection).
- Cladding
 - Council issued building permit
 - Medium risk buildings
 - Council MBS
- Waste and recycling
- New LGV model and accounting standards – including *AASB 1052*
- Rate capping and long-term sustainability
- New / old entities and requirement to assess control

Recent sector updates

- Procurement, especially:
 - “Delegated” approval, Segregation of Duties, Super users, Tender practices and thresholds
- Cyber attacks – phishing and requests for bank account changes
- Councillor and KMP related party declarations
- Risk management practices and frameworks being refreshed
- Asset valuations and communication between Finance and Assets teams
- New engagement and fee letters issued to all councils
- ESC Report – outcomes of rate capping

Questions?

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