

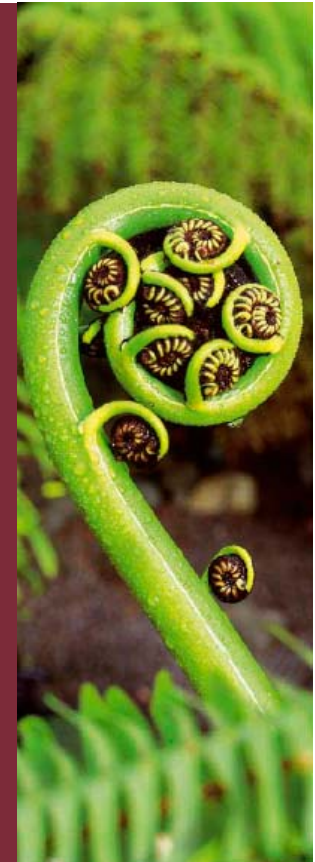


16 November
2005

The audit of the 2006/16 LTCCP

LG *fin* 05 – 16 November 2005

Bruce Robertson – Assistant Auditor-General, Local
Government





■ Outline of presentation

- Where is the sector at?
- The audit process
- Prospective financial information
- Control assurance – self-assessments and control review results



■ Key messages

- We are getting to the “sharp end” of the 2006/16 LTCCP process (including its audit)
- There is substantial auditor-initiated feedback coming out this month
- Where there are significant deficiencies – corrections can be made due to the prospective nature of the information
- There is compression of time due to *just-in-time* practice
- Keep your audit partner or director *in the loop*



■ Where are we at today?

Statutory deadline – an adopted LTCCP (and associated rating action) by 30 June 2006

Local authorities are moving through the basic building block phase of an LTCCP

Many are grappling with the key drivers that determine the future funding requirements on a community



■ Where are you at today?

Prospective information can be changed (corrected) right up to its point of adoption

But dealing with the building blocks takes substantial effort, resources and time

Is there a point of no return?



■ The Audit Process

Control assurance x substantive assurance = audit assurance

Identification and management of risk = controls assurance

Testing of actual data = substantive assurance

Not rocket science; nothing new



■ The auditor's opinion

*... a reasonable basis for **long term integrated decision-making** by the Council and for **participation** in decision-making by the public and **subsequent accountability** to the community about the activities of the Council*



■ The auditor's opinion

*It is not our responsibility to express an opinion on the **merits of any policy content** within the Statement of Proposal for adoption of an LTCCP*

*Actual results are likely to be different from the forecast information since anticipated events frequently do not occur as expected and the variation may be material. Accordingly, **we express no opinion as to whether the forecasts will be achieved***



Auditor's reporting options

	<i>Clear opinion</i>	<i>Except for qualification</i>	<i>Adverse</i>
<i>Legislative compliance</i>	Reflects good practice	Reflects ...except for	Does not reflect
<i>Underlying information</i>	Reasonable	Reasonable ... except for	Not reasonable
<i>Assumptions</i>	Reasonable	Reasonable ... except for	Not reasonable
<i>GAAP</i>	Complies with GAAP	Complies ... except for	Does not comply
<i>Performance framework</i>	Reflects good practice	Reflects ... except for	Does not reflect
<i>Overall opinion</i>	Reasonable	Reasonable ... except for	Not reasonable



■ Consistent auditors' opinions

Two key mechanisms:

- (normal) internal peer review
- OAG *hotline* and review

There will be inconsistent decisions, but we are aiming for them to be minimised



■ Prospective financial information

General purpose prospective financial information is prepared using the **best knowledge and information** available about the future at the time it is prepared

Underpinning best knowledge and information is a local authority's use of **sound underlying information and reasonable assumptions** about the future



■ Prospective financial information

Quality characteristics of prospective financial information:

- understandable
- relevant
- reliable
- comparable



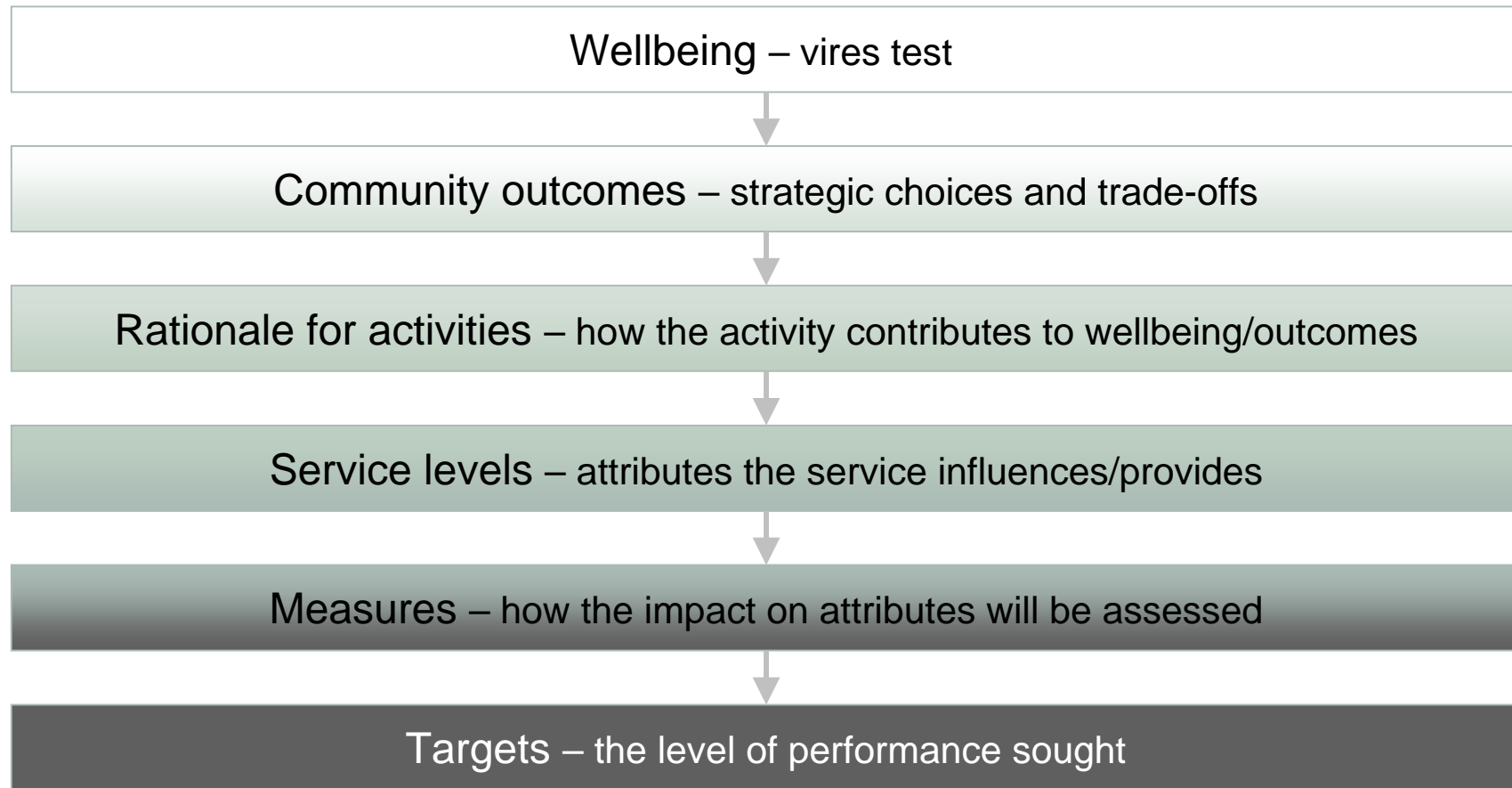
■ Prospective financial information

Underlying information, assumptions and policies:

- information about matters that affect your local authority e.g population, price changes
- information about your local authority's activities e.g. asset management information
- a coherent set of policies – including financial management policies
- integrated and internally consistent information built into an effective (financial) modelling system



■ A key auditor test





■ Control assurance

Primarily provided through the self-assessment on outcomes, consultation and decision-making and the auditor prepared key controls review for the preparation of the LTCCP

Audit partners and directors have the information now to feedback to local authorities

The information is used to plan substantive work (**not** what the opinion will be)



■ Self-assessment

6 groupings based on “constraints” – e.g. staff resources, funding (through considering proxies) etc; groups large enough to enable generalisations but small enough to be meaningful

Review has enabled development of a *group descriptor* and individual feedback

Key areas – consultation, outcomes, governance, decision-making and performance management



■ Self-assessment

The results for an individual local authority feed into assessing:

- legislative compliance – including good practice
- performance management – developing a meaningful framework for measuring performance



■ Self-assessment – common issues

Consultation

- the extent to which options are set out in consulting with the public on major decisions
- assessment of significance – achieving internal consistency on what is significant
- stakeholder information – coverage across the “well beings”



■ Self-assessment – common issues

Outcomes

- adequate debate over what are the community's priorities
- agreement of groups or organisations capable of influencing outcomes to enable monitoring

Governance

- full spectrum of councillor involvement with attendant risks
- alignment of policies – including core asset information



■ Self-assessment – common issues

Decision-making

- risk of inconsistent decisions due to a lack of systems over decision-making (e.g. refer to significance issues)
- core to decision-making and significance are levels of service; still evidence of substantial development needed

Performance management systems

- many councils admitting to difficulties
- substantial work being undertaken



■ Controls review

Undertaken by audit teams but assessment of results and feedback on a similar basis to the self-assessment – except in the extent of group descriptors

Key areas – project management, asset management planning and levels of service, divisional budgets and financial modelling



■ Controls reviews

The results for an individual local authority feed into assessing:

- legislative compliance – including good practice
- underlying information – robustness and completeness
- assumptions – reasonableness and consistent application



■ Controls review – recurring themes

Project plans

- limited in addressing the risk of tasks or information not being complete; important to the generally adopted *just-in-time* approach of Councils

Completeness of LTCCPs

- (over)reliance on senior management for a comprehensive review



■ Controls reviews – common themes

AMPs and levels of service

- pushing the *just-in-time* boundaries for preparation
- inability to effectively input to *capex* and operational plans and/or driven by available funding (*retro-fitting*)

Financial modelling

- integrity checks and consistency flows – particularly when associated with spreadsheets
- modelling systems yet to be written or purchased and implemented



■ Focus areas

- Getting adequate councillor and senior management input on a timely basis
- Developing adequate underlying information – *amps*, levels of service and assumptions
- Implementing reliable modelling systems
- Developing meaningful performance management frameworks
- Developing adequate disclosures – e.g. price changes
- Ensuring internal consistency and integrity – including the logic flow