

## Wellington City Council, Audit and Risk Management Sub-committee – 19 March 2010

**This discussion paper sets out information on changes to Audit Standards that will be applied to the audit of Wellington City Council's Statement of Service Performance this year.**

### **The Auditor-General's Christmas letter**

In the Auditor-General's Christmas letter the Auditor-General (AG) sets out changes arising from improvements to audit standards relating to auditing service performance reports.

The AG's standard on auditing service performance reports is called AG-4. The standard sets out the AG's expectations on the approach to auditing service performance. Auditors who perform audits on behalf of the Auditor-General have to comply with the standard.

Over the last couple of years AG-4 was reviewed and the *revised* AG-4 adopted in June 2009. The revised AG-4 applies to local government audits for the 2009/10 audit.

### **Why has AG-4 been revised and reissued?**

Increasing the emphasis on the audit of service performance was a key area of focus of the previous AG, Kevin Brady. Lyn Provost is also of the view that improvements in public sector service performance reporting remains a key area of focus for the Office.

### **How does AG-4 revised impact on the Council?**

The change is subtle but very important.

**Under AG-4, we form an opinion on whether:** Council has reported accurately against the forecast performance measures as set out in the LTCCP. We were *not* required to express a view on whether the SSP fairly reflected the performance of the entity.

We would only qualify if the service performance framework was "fundamentally misleading or senseless".

### **Under the revised AG-4, we form an opinion on whether:**

- **Council has fairly reflected its actual performance for the year, ie *not* just reports against forecasted service performance. Or to put it another way, we form an opinion on whether Council has fairly reflected its service performance for the year *including* reporting against its forecasted service performance in the LTCCP.**

We have to be able to verify the results.

- **Service performance is based on an appropriate performance framework.**  
An appropriate performance framework means a framework which links outcomes-impacts-outputs and has performance measures, standards/targets that are reliable, relevant, understandable and comparable.

Entities risk qualification if:

- What it reports **does not** fairly reflect its performance for the year.
- The performance framework is inappropriate.

### **Haven't we already audited the Council's performance framework when we audited the 2009-19 LTCCP?**

The short answer is yes we have. The LTCCP opinion states *"in our view the forecast information and performance measures within the LTCCP provide an appropriate framework for the meaningful assessment of the actual levels of service provision"*.

However during the audit we will:

- Reconfirm the appropriateness of the performance framework, taking into account any changes in activity since the time of the LTCCP audit. This will involve updating our understanding of the Council's business (new activities if any), risks and issues. Where significant these should be reflected in the performance framework regardless of whether they were in the LTCCP.
- Ensure the Council tells a compelling story of its achievements and performance for the year.
- Form a view on the reliability/accuracy of reporting, we will review and test systems and controls for capturing information – are the non-financial systems for collecting information as good as the financial ones?
- Ensure the Council reports against its forecast LTCCP performance measures.
- Check for compliance with the requirements and disclosures set out in Schedule 10 of LGA.

We will be reviewing the management control environment, systems and updating our knowledge of the business during the interim audits. Our findings will be reported to the Council.

### **What can the Council do to prepare for the audit?**

- Review the appropriateness of the performance framework.
- Report well on service performance (ie not just against forecast service performance).
- Review systems and controls for capturing information for reporting purposes.

- Check the Council has an internal quality assurance programme that gives you confidence about the quality and relevance of information from internal service performance management and monitoring, and subsequent external reporting.

### **Does AG 4(revised) apply to CCOs, CCTOs and COs in 2010?**

No. It applies to Local Authorities and Regional Councils. No decision has been made at this stage as to when it applies to CCOs, CCTOs and COs.

### **What will the audit opinion look like?**

The OAG is yet to issue their standard audit reports for the 2010 year. However we do know that the opinion will encompass both “appropriateness” of the performance framework and “verification” of reported performance.

### **It appears we will be undertaking more work than we have done in the past. How much is this extra work going to cost?**

Our aim is to make these changes cost neutral to the Council.

During the LTCCP audit we concluded on the appropriateness of the performance framework, at that point in time. We do need to do further work to “bridge the gap” between the LTCCP framework and what is appropriate now, as described above.

In our discussions with Council’s since the LTCCP audit we have been making it clear our expectations – that Councils have in place:

- service performance information and reporting that clearly describes your achievements/progress;
- service performance information systems and controls (including collection, aggregation, and monitoring and reporting systems) to ensure that the information is accurate and relevant; and
- mechanisms in place that provide confidence about the quality and relevance of information from internal service performance management and monitoring, and subsequent external reporting.

If Council does not meet our expectations as to the quality of their service performance information, reporting and control environment, and this results in cost overruns, we may seek fee recoveries, just as in the way we would for the financial audit.

In planning and performing our work we have ensured that:

- We have placed maximum leverage on the knowledge the Council’s operations that we have built up through previous audits and the audit of the LTCCP;
- We are smart and focussed in the way we assess and identify material activities and performance measures – the rationale for our decisions reflects our client knowledge of the specific issues and risks relevant to the Council;

- Our senior staff hold early discussions with the Councils to update our understanding of the business, and assessing the control environment with respect to SSP reporting and performance management. The results of these assessments will direct our audit work;
- We think smart about the way we assign fieldwork to staff. We must not audit the SSP in isolation to the financial statements; and
- If we do have any concerns about the performance framework, our underlying systems we bring them to the attention of Council as soon as possible – this cannot be left to the final audit visit