

Appendix C:

Audit scope and method

Context

What councils do

Councils deliver more than 100 different services to their communities. This includes maternal and children’s healthcare, waste management, libraries, and sporting facilities. They own and manage community assets such as local roads, bridges, parks, recreational facilities, buildings, drainage and other infrastructure.

Councillors are elected to make considered and well-informed decisions that represent the interests of their community.

They have a statutory obligation to ensure the ongoing financial viability of their council.

Guiding legislation

The *Local Government Act 2020* sets out the legislative requirements for planning and financial management of councils. The Act requires councils to prudently manage financial risks and operate strategically to provide stability in servicing the municipal community.

Scope of this audit

Who we examined

We examined the following councils:

Council	Their key responsibilities
Greater Shepparton	Councillors have a statutory obligation to ensure the ongoing financial viability of their council.
Maribyrnong	Councils have legislative requirements for planning and financial management including financial responsibilities to prepare and:
Northern Grampians	• adopt a council plan that identifies its strategic direction and objectives
Wyndham	• adopt a financial plan and asset plan for at least the next 10 financial years
Yarra	• adopt a budget for each financial year ensuring it gives effect to the council plan • adopt an annual report on operations including audited performance and financial statements.

Our audit objective

To determine whether local councils manage their resources to meet the needs of their communities in a financially sustainable way.

What we examined

Our engagement assessed whether councils are managing their financial resources in alignment with their strategic planning to enable continued financial sustainability and provide quality financial advice to councillors.

We examined:

- the sector, cohorts and the audited councils' past and current financial results, and expected financial outcomes to assess council financial sustainability
- their processes and procedures to prepare council plans and budgets
- whether their budgeting is evidence based
- whether their asset management and capital program decisions are based on an understanding of asset conditions and renewal needs
- whether they review, adjust and make service delivery decisions based on a current understanding of their service offerings
- whether their executives support councillors in making well informed decisions by providing advice that accurately reflects the underlying information in financial plans and budgets.

Aspects of performance examined

Our mandate for performance audits and reviews includes the assessment of economy, effectiveness, efficiency and compliance (often referred to as the '3Es + C').

In this audit we focused on the following aspects:

Economy	Effectiveness	Efficiency	Compliance
			

Key:

-  Primary focus
-  Secondary focus
-  Not assessed

Conducting this audit

Assessing performance To form a conclusion against our objective we used the following lines of inquiry and associated evaluation criteria.

Line of inquiry	Criteria
1. Council plans and budgets are evidence based and support financial sustainability.	1.1 Council budgeting is based on complete and accurate information including: • current asset condition and renewal needs • service offering, levels and costs • credible forecasts and assumptions on future financial performance.
	1.2 Councils monitor and evaluate past financial results and use this to inform future budgets.
	1.3 Councils align their strategies, long-term financial plans and short-term budgets.
2. Council executives provide quality financial advice about financial plans and budgets to councillors that supports their decision-making.	2.1 Advice to councillors from council executives is: • complete • timely • clearly presented • an accurate reflection of underlying information in financial plans and budgets.

Our methods As part of the audit we:

- reviewed councils' policies, procedures and guidance
- analysed financial data from the last 9 years to help assess performance and accuracy of financial budgets and forecasts over time
- reviewed other relevant documentation such as briefings to executive and councillors, financial reports, training and governance documents
- interviewed staff.

Level of assurance

In an assurance review, we primarily rely on the agency's representations and internally generated information to form our conclusions. By contrast, in a performance audit, we typically gather evidence from an array of internal and external sources, which we analyse and substantiate using various methods. Therefore, an assurance review obtains a lower level of assurance than a performance audit (meaning we have slightly less confidence in the accuracy of our conclusion).

Compliance We conducted our audit in accordance with the *Audit Act 1994* and ASAE 3500 Performance Engagements to obtain reasonable assurance to provide a basis for our conclusion.

We complied with the independence and other relevant ethical requirements related to assurance engagements.

We also provided a copy of the report to the Department of Premier and Cabinet and the Department of Treasury and Finance.

Cost and time The full cost of the audit and preparation of this report was \$1,470,000.

The duration of the audit was 21 months from initiation to tabling.