

IPWEA National Conference 2019

# Are you Audit Ready ?

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# \$793m of assets missing from Qld council registers



Queensland's councils in the last three years have failed to include almost \$793 million worth of assets in public registers, are spending beyond their means and exposing themselves to an unnecessary risk of fraud, an audit has warned.



A new audit has flagged concerns about the financial sustainability of Queensland's councils.



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# Role of State Audit Offices

- conduct financial audits of all state and local government public sector entities
- conduct performance audits of important aspects of public services—examining efficiency and effectiveness, and sharing opportunities to apply best practice
- investigate matters raised about financial waste and mismanagement related to public services
- produce reports about the results of our audits for tabling in parliament, promoting accountability and transparency



# Local Government Performance Audits

State Audit Offices audit the performance of Local Government service delivery. This gives parliament and the community independent assurance that public money has been used well, that results meet expectations and that local governments are delivering services efficiently, effectively and economically.



# Asset Management Audits are NO Longer about a GREEN Tick

There has been a shift from carrying out audits purely as a compliance activity to including assessments of better ways of delivering public services in audit findings, conclusions and recommendations.



## Asset Management Audit Results – Snapshot By State

- State Audit Offices have become very proactive in auditing Local Government Asset Management practices.
- This is due to the believe that Asset management is critical to the long-term financial sustainability of the local government sector.
- Without full knowledge of the type, performance, cost, and age of their assets, councils are limited in their ability to make fully informed decisions about their asset renewal, maintenance and replacement.





# Asset Management Audits – Queensland

## Audit conclusions

Most councils plan poorly for the long term. Their long-term financial forecasts and asset management plans lack substance and rigour. Quality forecasts require investment of time and appropriately skilled resources, which some councils either cannot afford or view as unnecessary overhead. This means they are not well placed to understand the important relationship between future net operating revenues, asset spend and debt, and how these affect their sustainability.





# Asset Management Audits – New South Wales

## High-risk issues

We reported 21 high-risk findings relating to councils' asset management accounting practices.

## Asset management planning

Most councils comply with the requirement to prepare an asset management strategy, policy and plan. However, the quality of these critical planning documents could be improved.

**Recommendation:** Councils' asset management policy, strategy and plan should comply with the *Local Government Act 1993* and the Integrated Planning and Reporting Guidelines issued by the Office of Local Government.

## Asset valuation process

We noted deficiencies in the asset valuation processes resulting in significant errors to the financial statements of \$2.6 billion, including \$1.9 billion of prior period errors.

Our audits found:

- 63 councils did not formally re-assess the remaining useful lives of infrastructure assets
- useful lives of similar assets varied across councils
- 16 councils recorded residual values for road assets, which did not comply with the requirements of Australian Accounting Standards.

## Asset management systems

The accuracy and completeness of councils' asset register data can improve. We found discrepancies between councils' Crown land asset records and the Crown Land Information Database (CLID) managed by the Department of Industry. Five councils recorded \$225 million of previously unrecorded Crown land assets.



## Asset Management Audits – Victoria



Our audits of councils' asset management practices over the past 15 years have found persistent weaknesses and recommended that councils improve their asset management frameworks and their related policies, strategies, and plans.

Our 2014 audit *Asset Management and Maintenance by Councils* found problems with councils' asset management frameworks and strategies, and that asset management information systems at councils were underdeveloped.

More recently, results of our 2016–17 financial audits of local government show that councils are experiencing a gradual decline in asset renewal and maintenance indicators and are forecasting reduced spending in this area.

We also found issues with councils' asset information management practice. In 2016–17, 29 councils identified \$175.3 million in found assets—assets that they had not known about or previously recorded. Assets that are not recorded are not subject to regular maintenance and may continue to deteriorate, resulting in considerable long-term costs. We found that although councils have improved their asset registers through technological advances, including global positioning systems, councils need further work to reduce the number of found assets across the sector.



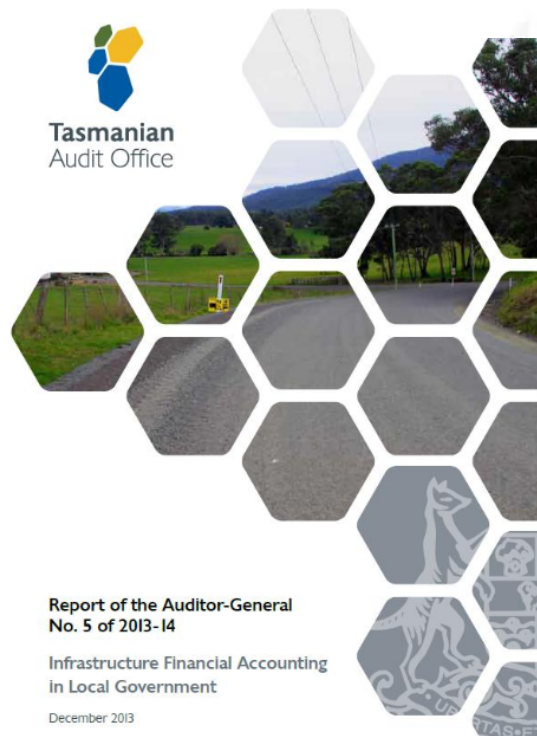
# Asset Management Audits – Tasmania

## Infrastructure Accounting



23 recommendations:

- 👉 Identification of assets
- 👉 Valuation
- 👉 Useful lives
- 👉 Depreciation
- 👉 Asset management
- 👉 Regulator compliance



# Asset Management Audits – Western Australia



- We detail our concerns that valuation methodologies used by various valuers to fair value property, plant, equipment and infrastructure, often differ significantly, potentially affecting comparability of asset values across local governments. (Page 20)
- 2016 WALGA Report found - 47 councils currently have finances that are unsustainable based on existing policy settings.

# National State of the Assets 2018 Report Recommendations

It is recommended local government regulators:

4. Audit asset management and long-term financial plans so that they are aligned, credible, reliable, up-to-date, and compliant with best practice.
5. Assist local councils increase their knowledge and confidence in determining unit costs and useful life of key asset classes.

It is recommended local government:

6. Ensures asset management and long-term financial plans are aligned, credible, reliable, up-to-date, and compliant with best practice.
7. Continues to improve their asset management capability to a position that they can demonstrate and provide a sustainable and affordable service delivery model to their communities.



# How to Prepare For Audit



## Pre-Audit

- At a minimum ensure you have a clearly documented Asset Management Strategy and Improvement Plan
- Utilise the Asset Management National Assessment Framework (NAF) to conduct your own internal Asset Management Maturity Assessment – Refer to NAMS website





# Asset Management National Assessment Framework (NAF)

1. Strategic longer-term plan
2. Budget
3. Annual report
4. Asset management policy
5. Asset management strategy
6. Asset management plans
7. Governances and management
8. Defining levels of service
9. Data and systems
10. Skills and processes
11. Evaluation.



# Manage Internal Working Relationships



# Accountants



What my friends think I do



What my mom thinks I do



What society thinks I do.



What my boss thinks I do.



What I think I do.



What I actually do.

# ENGINEERS

Someone who does precision guesswork on unreliable data provided by those with questionable knowledge

# Manage Internal Working Relationships

- Clearly define roles and expectations
- Communicate how roles contribute to the end game
- Standardise the terminology between Finance & Engineering – IPWEAQ Infrastructure Financial Man Guide
- Managers need to model and encourage teamwork approach between departments
- Need to understand the different people styles at work
- Need to be self aware and importance of Emotional Intelligence (IE)



# Audit – Game Day

- Get Involved!
- Review External Auditors “Audit Strategy Document”
- Know audit objectives, scope, timelines and onsite dates
- Ensure you have documented evidence to show you are implementing Strategy and Improvement Plan

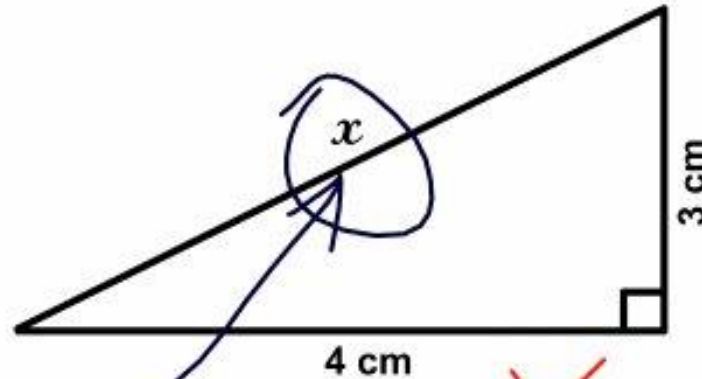


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## Work with the Auditors and Show Workings

3. Find  $x$ .



Here it is

Ocular Trauma - by Wade Clarke ©2005





## What Will be Targeted

1. Accuracy of asset register data
2. Asset types useful lives determination
3. Asset types unit rates determination



Questions

**Thank You**

**BE AUDIT**

**YOU  
CAN  
BE**

