



NSW Local Government Asset Management

Audit Preparedness Assessment 2015

Guidance for Councils and Auditors

Introduction

There have been ever-increasing calls for council infrastructure information, as presented in the Report on Infrastructure Assets (Special Schedule 7) within the annual financial statements, to be audited. This reflects both the significant extent to which infrastructure is key to delivering council services and the extent to which council infrastructure management performance is being measured.

The Local Government Infrastructure Audit undertaken by the Office of Local Government (the Office) in 2013 recommended that:

- *“...clearly defined and specific asset management measurement parameters be developed with the local government sector...”*

and for

- *“...aspects of asset management (to) be subjected to an audit. Audit parameters to be developed to ensure a level of assurance that asset management information is reliable.”*

NSW Treasury Corporation (TCorp), in its *Report on Financial Sustainability of the NSW Local Government Sector (2013)* also recommended that Special Schedule 7 be audited to verify the accuracy of the information.

As a result, a commitment was made during the release of the Local Government Code of Accounting Practice and Financial Reporting Code (update 22) that the infrastructure asset information of councils would be audited in 2015.

To meet this commitment, but to also recognise council requirements associated with the Fit for the Future reform process, a three stage approach has been developed to meet the requirement of auditing infrastructure asset information. This staged approach, which incorporates the re-engineering of Special Schedule 7, recognises the importance of

infrastructure assets in the delivery of services and making sure the auditing process is appropriate and measured.

Purpose

The Office has developed the 2015 Local Government Asset Management Audit Preparedness Assessment and related material with the support and guidance of representatives from Local Government NSW (LGNSW), Local Government Professionals Australia, NSW (Finance Professionals), the NSW Audit Office, the Local Government Auditors' Association of NSW (LGAA), the Institute of Public Works Engineering Australasia (IPWEA), senior engineering staff from Bankstown City Council and Morrison Low.

The purpose of this document is to provide information, clarification and guidance to councils and auditors relating to the stages that will be undertaken to implement auditing of asset management information.

It also sets out the process for Stage 1, being an Asset Management Audit Preparedness Assessment. Council officers from engineering, asset management and finance areas within councils should review this process and work together to provide appropriate information to the auditor to make the preparedness assessment.

This guidance information has also been developed to assist the auditors carry out the assessment. The auditor's assessment will be provided to both the council and the Office. Councils should use the assessment to prepare and implement an improvement plan to meet the audit requirements of Stage 3. The assessments will provide the Office with information on the main areas of weakness in the sector and identify those councils that will struggle the most to meet the Stage 3 requirements. The Office will use this information to determine its capacity building priorities.

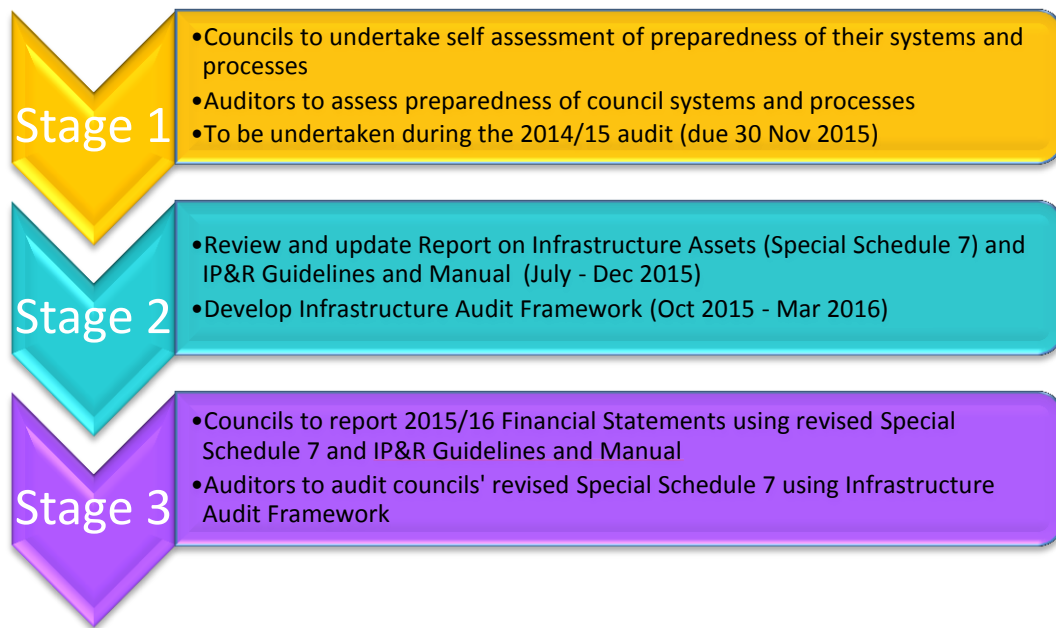
Councils should discuss with their auditor how best to undertake the assessment process. Councils undertaking a self assessment prior to the audit assessment, for example, may expedite the process and will make council officers more familiar with the key areas of priority.

Asset Management Audit – Staged approach

The asset management audit will be implemented in three stages over a two year period. Figure 1 shows the three stages and the various tasks that will be undertaken at each stage.

Stage 1 involves Local Government auditors performing the procedures on the systems and processes councils have in place for the capture, recording and reporting of councils' asset information. The purpose of this is to test how prepared councils are for an audit. Stage 1 will be conducted during the audit of the 2014/15 financial reports and will need to be reported to the Council and the Office by 30 November 2015.

Figure 1: Three stage process over two financial years



Stage 2 will involve a review, in consultation with key stakeholders, of the Report on Infrastructure Assets (Special Schedule 7) and also the information contained within the Integrated Planning and Reporting Manual and Guidelines.

It has been recognised by the industry and the Office that more information needs to be available to councils related to Special Schedule 7 together with a more consistent approach to calculating the cost to bring assets to a satisfactory standard and a more refined definition of what meant by 'satisfactory' and 'condition' (physical state, functionality, capacity and so on).

The plan for Stage 2 is to prepare an updated Special Schedule 7 and to release it to the industry for comment during the period August to October with a finalised version for release later in 2015. This will then ensure that definitions are clear and concise and that Special Schedule 7 is a document that is auditable. A review of the Integrated Planning & Reporting asset management information should also take place at the same time to ensure there is consistency between the two.

The Office will also work with the NSW Audit Office and the LGAA during this stage to develop an audit framework.

Stage 3 involves auditing the information contained within Special Schedule 7. The audit will be conducted on the information reported as at 30 June 2016 (i.e. the 2015/16 financial year) utilising the agreed audit framework.

Stage 1: Asset Management Preparedness

Stage 1 will involve auditors completing a spreadsheet on which no conclusion or opinion is expressed and no assurance is provided to the intended users.

The engagement, is required to be completed with:

- Integrity
- Objectivity
- Professional Competence and due care
- Confidentiality and
- Professional behaviour.

Auditors should also be aware of any threats of independence and apply appropriate safeguards as and when necessary.

The objective of this process is for an independent assessment of how well councils are prepared for an audit of asset management information (especially where it will be reported in the Report on Infrastructure Assets – Special Schedule 7). The report will not form part of a council's financial statements. The information will only be reported to the council and to the Office. Each council should then use the information to improve their systems so that they are able to meet the audit requirements in the following year.

The spreadsheet is in the form of a set of questions, titled *NSW Local Government Asset Management Audit Preparedness Assessment 2015* that has been issued to all councils and council auditors. The questions relate to the information that underlies good asset management practices and therefore provides a robust framework for reliable figures being generated by the council.

In the first instance, it is required strongly recommended that council officers use this tool to perform a self-assessment in preparation for the auditor.

The procedures that are likely to be applied by the auditors in the process are:

- Inspection
- Observation
- Enquiry.

The questions within the assessment are related to four separate areas. They are:

1. Asset Knowledge and Data
2. Strategic Asset Planning Processes
3. Operations and Maintenance Work Practices
4. Information Systems.

1. Asset Knowledge and Data

This element of the assessment looks at the manner in which data is collected and stored, whether there is sufficient information about the assets and the guidelines and policies councils have in place to ensure that this is consistent.

A council fully compliant in this area would have a logical structure for classifying assets, appropriate asset attributes and location information, have asset condition data for its asset groups, collect and use lifecycle cost data and have up to date asset valuation information for all its asset classes. Application of accounting methodologies, such as depreciation, useful life, valuation and condition data should be consistently applied to all asset classes and a corporate policy should be adopted and be consistently applied.

For strong asset knowledge and data there needs to be consistency in the asset classification/hierarchy between asset management plans and the way data is recorded in the accounting system that produce annual financial information reported in Note 9 and in Special Schedule 7. For councils where this is apparent, they would demonstrate a better level of preparedness.

Where there are gaps, auditors should highlight these for councils to use in improvement plans.

2. Strategic Asset Planning Processes

Demonstrating how asset management activities fit within a council's strategic plan is a necessity. The Integrated Planning and Reporting framework provides the structure to enable councils to do this. Linking asset management plans to IP&R documents is essential.

Councils should have an asset management framework that incorporates an asset management policy, strategy and plan(s) that links to the Community Strategic Plan, Delivery Program and Operational Plan.

Within the Strategic Asset Planning Processes two particular areas should be focussed upon. They are asset management plans and risk management.

In assessing the preparedness of councils, auditors could consider if there are plans for each asset class, whether the plans include defined levels of service, demand forecasts, lifecycle management information including maintaining, renewing and disposing of assets an asset management improvement plans.

Where a council's plans have all these items covered for some asset classes but not others, the auditor should note in the comments area the asset classes that council has not yet developed these plans for.

If the council has plans for all asset classes but does not include particular aspects, for example, demand forecasts, this should also be listed in the comments area. Findings such

as these will assist the council implement improvement processes to capture this information prior to an audit.

With regard to risk management, having a council-wide risk management policy and strategy, identifying critical assets, having risk minimisation strategies and emergency management plans should be identified. Any asset class deficiencies should be included in the comments section together with any of the risk management processes that council has not yet undertaken.

3. Operations and Maintenance Work Practices

There needs to be strategies in place in the area of operations and maintenance work practices to ensure that planned and unplanned operational and maintenance activities are managed appropriately. Does the council have these strategies and do they reflect the agreed upon service levels?

For critical assets the auditors should ask councils if they have been identified and whether management strategies have been developed for all asset classes and if not which ones are still to be done?

4. Information Systems

Information systems link with the asset data and the focus within this section is whether the systems are adequate for the council's requirements. The asset register should meet the council's requirements in regard to capturing, managing and reporting on asset management. Is council able to sort data on an hierarchical basis and prepare customised reports to suit various council reporting needs?

Another aspect of information systems is their integration with other council systems, such as the finance system and spatial system.

Reporting on Asset Management Preparedness

Auditors are required to provide a copy of the Asset Management Audit Preparedness Assessment to the council. This may be forwarded to the General Manager via email or letter.

A second copy of the assessment should be individually emailed to the Office, in excel format to: ampreparedness@olg.nsw.gov.au.

Councils should use the information provided to improve their systems and processes to ensure that they are able to and provide good reliable data that will be subjected to an audit in the future.

The Office will compile the data from the assessments to identify where common areas of improvement are needed. We will then work with the sector and individual councils to assist in meeting the audit deadline.

The due date for submission of the assessment is 30 November 2015.

Further information

If you have any questions regarding these guidelines or the audit process, please contact:

Mark Hely
Manager, Performance
Office of Local Government
Ph: (02) 4428 4176
Email: mark.hely@olg.nsw.gov.au

Sonja Hammond
Principal Performance Analyst
Office of Local Government
Ph: (02) 4428 4143
Email: sonja.hammond@olg.nsw.gov.au

References:

Auditing and Assurance Standards Board, *Frameworks for Assurance Engagements*, 2014.

National Asset Management Steering (NAMS) Group, *International Infrastructure Management Manual*, 2011.

NSW Division of Local Government, Department of Premier and Cabinet, *Integrated Planning and Reporting Manual for Local Government in NSW*, 2013.

NSW Division of Local Government, Department of Premier and Cabinet, *Local Government Infrastructure Audit*, 2013.