

# **Auditor General for Local Government: Perspectives on Operations**

**(March 2013 – March 2015)**

July 2015



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## Executive Summary

In March 2015, the Audit Council for the Auditor General for Local Government (AGLG) launched an independent review of the AGLG's governance and operations. This announcement followed upon the release of a provincial government review of the AGLG that documented the inefficient use of resources and insufficient staffing within the AGLG office.

The Terms of Reference for the independent review did not require the reviewer to interview local governments that had been audited by the AGLG, and the subsequent report was delivered to the Audit Council in April 2015 without local government input. In order to address this gap, the Union of BC Municipalities (UBCM) surveyed local governments that have participated in AGLG audit processes and prepared the report that you are now reading.

The survey data and comments provided by local governments substantiate and extend the analysis provided in the provincial government's internal review and the Audit Council's independent review. In particular, the responses highlight how the lack of knowledge by AGLG staff and contractors with regard to local government operations coupled with frequent turnover in the staffing of audit teams contributed to the inefficiency of the AGLG office. The survey responses also show that the communication practices of the AGLG were generally good and that the audit teams were respectful of the time demands that audit processes placed on communities.

The experience of local governments with AGLG operations affects how they view the outputs of the office. If the office is uninformed with regard to local government operations, fails to meet deadlines, appears to be disorganized and mishandles information, the integrity of the office is diminished and its credibility is undermined.

Based on the survey findings, UBCM makes the following recommendations:

### Recommendations for the Audit Council and AGLG

1. Develop and implement a basic course of study in local government operations for all AGLG audit staff and contractors to be completed in advance of undertaking audits.
2. Correct the problem of high turnover on audit teams by a) scaling Annual Service Plans to the capacity of staffing available; and b) reducing the reliance on external contractors.

3. Meet with UBCM to discuss the findings of this report along with the recommendations from the Audit Council's review.

### Recommendations for the Ministry of Community, Sport and Cultural Development

1. Prior to undertaking legislative or administrative amendments to the AGLG, consider and act on the findings within this report in an effort to improve the effectiveness and efficiency of the office of the Auditor General.
2. Consult with local government with regard to alternative governance and administrative models for the AGLG.
3. Commit to undertaking an independent review of the office of the AGLG within two years of the next appointment of AGLG and make this review available to the public.

### Survey Context

The Office of the Auditor General for Local Government (AGLG) was established through the *Auditor General for Local Government Act*, which came into effect on April 25, 2012. Ms. Basia Ruta was appointed as the AGLG to a five-year term in January 2013.

The *Act* states that the purpose of the Office is “*to conduct performance audits of the operations of local governments in order to provide local governments with objective information and relevant advice that will assist them in their accountability to their communities for the stewardship of public assets and the achievement of value for money in their operations.*” The *Act* also sets out the responsibilities of the Audit Council, which include making recommendations for the appointment or removal of the AGLG to the Minister of Community, Sport and Cultural Development, and reviewing and monitoring the performance of the AGLG.

On March 18, 2015, the Audit Council announced an independent review of the AGLG office was to be conducted by Mr. Chris Trumpy. This announcement followed upon the leaked release of a review (*Auditor General for Local Government Work Environment Review*) undertaken by the Ministry of Community, Sport and Cultural Development that showed the AGLG office lacked direction, was inadequately staffed, and subject to shifting priorities that led to the inefficient use of staff resources.

The purpose of the independent review was: to assess the governance structure of the *Act*, including the interaction between the roles of the AGLG and the Audit Council; to assess the organizational structure and audit planning processes of the office; and to recommend benchmarks for future audit planning processes. The terms of reference indicated that consultation with local government was optional. Mr. Trumpy's report notes that local governments were not interviewed and that the report itself is not 'audit quality' since it was produced over a three-week period. The recommendations from the independent review are provided in Appendix Two below.

On March 23, 2015, Ms. Ruta was fired from her position by the government and acting AGLG Arn van Iersel was appointed. In response to Ms. Ruta's dismissal, Premier Clark replied to media questions concerning the office of the AGLG by saying that "all options were on the table" when it came to reviewing the office, including disbanding it. The Premier also said: "*We're going to consult with local government and the [Union of B.C. Municipalities] to figure out something that will also work for them. It's really important that the office of the auditor general for local government is credible with local governments as well*" [from the *Times Colonist*, March 25, 2015].

At an April 2015 meeting with Minister Coralee Oakes, UBCM's Executive advised the Minister that consultation with local government should take place prior to the determination of potential changes to the office of the AGLG. UBCM also indicated that such consultation and consideration would not interfere with the interim AGLG completing the remaining audits still in process. Minister Oakes responded that the Government intended to move quickly in response to the review and that UBCM should send her a letter with suggestions on ways to improve the office.

On June 10, 2015 the Audit Council's review was made public. The accompanying news release as authorized by Minister Oakes stated: "*many of the recommendations will be incorporated through the legislative amendments, improved reporting or better articulated responsibilities. The remainder will be implemented through changes to office procedures and structure already underway. Consultations with key stakeholders will occur but as the amendments are administrative in nature, they are anticipated to be limited.*"

## Survey Purpose and Approach

At its April 2015 meeting, UBCM Executive directed staff to survey local governments that had participated in audits with the AGLG and report back. The Executive was concerned that the Province of British Columbia was proceeding towards implementation of changes to the office of the AGLG without local government input.

The objective of the survey was to gather information on the impact of the audit processes on local governments and the performance of the AGLG office in undertaking audits. In advance of the survey design, UBCM staff met with Acting AGLG Mr. Arn van Iersel on May 13, 2015. Mr. van Iersel provided advice on the scope of the survey, reviewed a draft of the questions, and provided recommendations for improving the survey tool, which UBCM was pleased to adopt.

Seventeen of the eighteen local governments that have been involved in AGLG audit processes opted to participate in the survey. A list of the participating local governments is available in Appendix One of this report. Since only 3 of the 18 audits were complete at the time of the survey, questions focused on matters of process and general effectiveness of the AGLG rather than the efficacy of audit findings to date. Given this operational focus, the survey was directed towards senior staff that had the greatest direct experience of the AGLG office. The survey provided respondents with opportunities to rank and rate their experience of AGLG operations and to provide comments to explain their choices.

## Survey Findings

### 1) Communication and Time Demands

Local government survey respondents expressed appreciation for some aspects of the work undertaken by the AGLG and its contractors. 76.5% of the respondents indicated that the AGLG representatives were respectful of the time demands audit processes placed on communities (Table 1).

Table 1: AGLG staff / contractor communicated in a professional and respectful manner.

Response	Chart	Percentage	Count
Strongly Agree		11.8%	2
Agree		64.7%	11
Neutral		5.9%	1
Disagree		5.9%	1
Strongly Disagree		11.8%	2
N/A		0.0%	0
		<b>Total Responses</b>	<b>17</b>

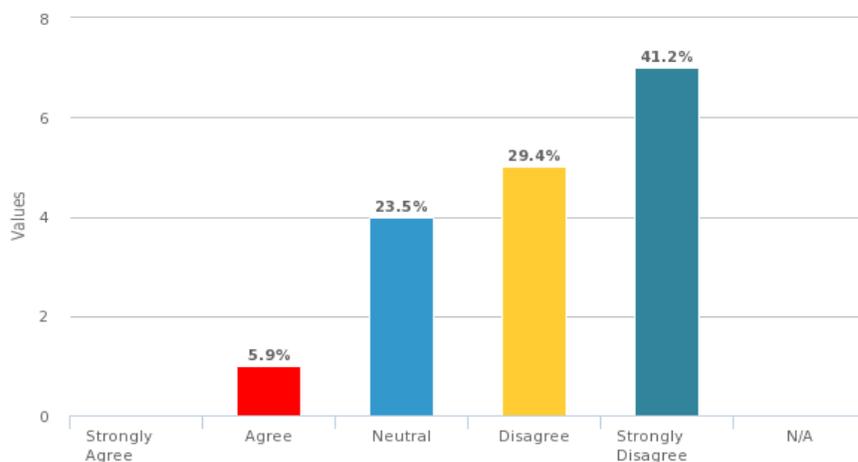
76.5% of those surveyed also “agreed” or “strongly agreed” that AGLG staff and contractors communicated in a professional manner. In the words of one respondent, “[the contractor] was respectful and timely in his dealings with us. [During the] post-examination phase, the AGLG staff member provided regular updates on progress...” Another local government observed, “We were initially working off of different assumptions, which eventually got worked out as the AGLG became more conversant with local government in B.C.”

## 2) Knowledge of Local Government

The purpose of the AGLG is to undertake performance audits of B.C. local governments. Performance audits consider the economy, effectiveness and efficiency of programs and provide recommendations for improvement. In order to provide constructive findings and undertake audits in a manner that is itself economic, effective and efficient, a basic level of understanding of local government operations is required.

The most striking finding from the survey is that only one of the seventeen respondents agreed that AGLG staff and contractors demonstrated knowledge of local government (Table 2) during the audit process. This knowledge gap had multiple impacts on audit processes and the selection of audit topics.

Table 2: AGLG / Contractor demonstrated understanding of local governments



Several communities were audited for their performance in managing policing services despite the fact that they are subject to the *Municipal Police Unit Agreement* (MPUA). The terms of the MPUA mirror *the Provincial Policy Services Agreement*, which is negotiated between the Federal and Provincial governments. One community with

RCMP policing services commented that since they had very little discretion over the terms of their policing contract, “the AGLG is not quite sure how to assess our situation.” Another stated that the “auditors appeared to have very little background information regarding MPUAs.”

In another audit focused on policing services shared between two communities, the AGLG “requested documentation from the police board which was not supposed to be audited since the AGLG does not have jurisdiction.” After more than a year of auditing, this audit was cancelled, but only after the expenditure of an estimated \$20,000 in staff and other costs by the municipality to comply with the process.

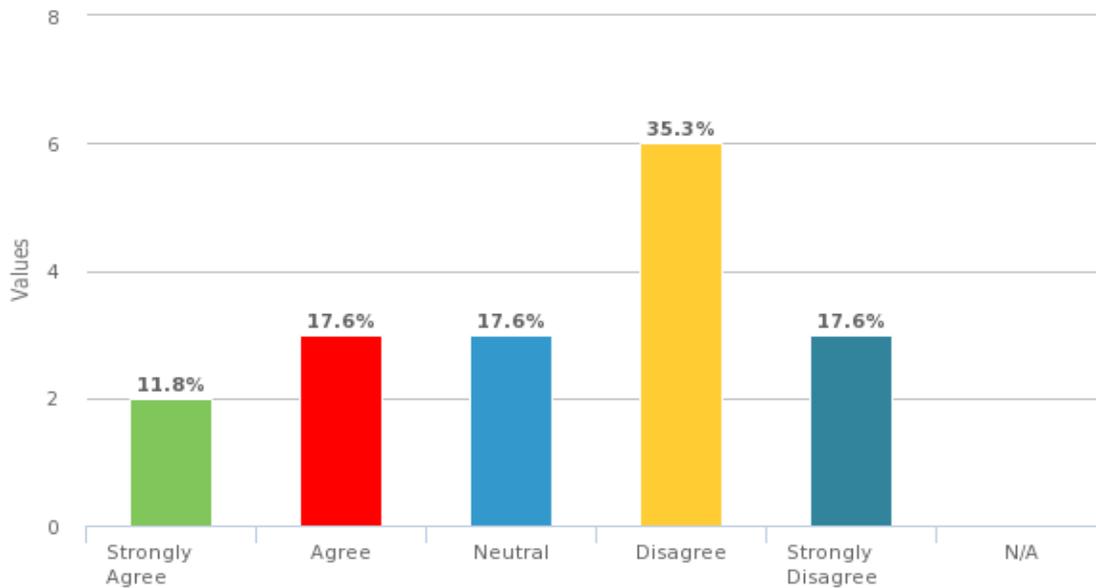
In other cases, a lack of local government knowledge led to additional meetings and repeated information requests. One respondent commented: “the [contractor] demonstrated a serious lack of understanding of local governments and of regional districts in particular.” This knowledge gap “resulted in many hours of explanation and education and recurring questions from the team members. Even then they didn’t seem to grasp that municipalities and regional districts are separate legal entities with separate adopted budgets providing separate services.” In the view of another community, the audit required a considerable investment of time to educate the AGLG on public sector guidelines, corporate policy and the operational processes related to the audit topic. Another respondent also described the audit process as the local government educating the AGLG, adding “They did not bring anything to the table that I would describe as having any value.”

### *3) Scope Clarity*

The definition of the scope of an audit is an important factor in all auditing. The audit scope ultimately establishes how deeply an audit is performed, including the amount of time and the documents that will be involved in the audit.

The views of the survey group were mixed concerning the AGLG’s handling of scope. While a majority of respondents (10 of 17) believed the scope was adhered to, a similar number (9 of 17) thought that the questions asked during the audit process were not consistent with the scope. A narrow majority of those surveyed were of the opinion that the AGLG and staff did not understand the audit topic (Table 3)

Table 3: AGLG staff / contractor demonstrated understanding of the audit topic.



In some instances the scope of audits was expanded as the audits stretched into a second year. Several communities also reported that, after nearly two years of being audited, the scope of the audit was reduced. Comments on the matter of scope ranged from positive to critical:

- “The scope of the audit was clearly articulated and outlined from the outset.”
- “During the examination phase, the documentation/data requests and the interview question/discussions were consistent with the Audit Criteria.”
- “As it relates to the asset management component, their lack of expertise was so blatantly inexistent they could not even define the scope. They were asking anything and everything.”
- “The staff and contractor were not clear as to the scope of their work how they were going to achieve their conclusions.”
- “It appeared as though they [the AGLG] did not understand the operational processes behind the topic of their audit.”

#### 4) Local Government Costs

While much attention has been given to the cost of operating the office of the AGLG relative to the number of audits that have been completed, virtually no consideration has been given to the costs incurred from local governments compliance with AGLG audit requirements. This matter is of particular importance to smaller offices where the diversion of senior staff from regular responsibilities has a greater impact.

The number of local government staff that participated in audit processes varied considerably among communities (Table 4), with the majority of respondents indicating a staff involvement of 6-10 staff members. Fourteen of the responding local governments also provided an estimated cost to fulfill audit requirements, with an average per community of \$12,378. These costs further underscore the need to ensure that AGLG audit reports are substantive and are delivered as efficiently as possible.

Table 4: Number of local government staff participating in audits

Response	Chart	Percentage	Count
1 - 5		31.2%	5
6 - 10		50.0%	8
11 - 15		6.2%	1
More than 15		12.5%	2
		<b>Total Responses</b>	<b>16</b>

One respondent summed up the view of many by saying their staff were “frustrated by being asked the same questions over and over again by auditors who did not understand the business. The [local government’s] Internal Auditor was particularly disappointed by the performance of the audit team and their approach to ‘value-for-money’ auditing which was everything but.”

#### 5) Timelines, Staffing Changes & Information Requests

One of the main inconsistencies in the experience of local governments participating in audit processes is that an overwhelming majority of audits did not complete within the timeline established at the outset (Table 5). Comments from local governments as to the reasons why timelines were extended varied. In some cases the AGLG provided a rationale for a missed deadline, but in others no reason was provided.

Table 5: Did the audit complete within the established timeline?

Response	Chart	Percentage	Count
Yes		5.9%	1
No		94.1%	16
		<b>Total Responses</b>	<b>17</b>

A repeated refrain in the written responses was the impact of changes in the AGLG staff and contractors conducting audits:

- “There was turnover from the beginning and lack of continuity between the [contracted] auditor and the auditor from the AGLG over the course of the audit. There was also a difference of audit approach and philosophy between the two auditors which did not help the dynamic of the audit.”
- “There was a change in contractors midway through the audit and we had to start over.”
- “Different audit teams came in on three different occasions, therefore no continuity of scope.”

The changes in staffing and contractors assigned to the audit contributed to repeated requests for the same information:

- “Due to many staff changeovers through the course of the audit the questions and requests for information seemed to wander all over and never really maintained consistency”
- “On several occasions the same information was requested and subsequently provided to the AGLG. Each time the file changed hands (which was at least three times), there seemed to be a loss of information already provided leading to a request for documents already sent.”
- “Not only the same type, the exact same document was requested multiple times. [Contractors] would lose track of documents already sent, and AGLG staff would then ask for the same document, sometimes two staff would ask for the same document.”

The general impression of disarray created by the AGLG’s failure to meet deadlines, audit leadership changes and repeated information requests is summed up by one respondent: “There was obvious confusion within the AGLG office.”

## 6. Areas for Improvement Identified by Respondents

When asked to provide recommendations to improve the office of the AGLG, the survey respondents provided a range of suggestions. These comments centre around two main themes and may be summarized as follows:

### Staffing and Training

- Ensure AGLG staff and contractors receive training to better understand local government operations.
- Ensure the audit approach provides time for AGLG staff and contractors to research the legislative and regulatory background to audit topics prior to commencing an audit.
- Ensure AGLG staff and contractors model a collaborative, transparent approach to all phases of the audit process.

### Timelines and Scope

- Ensure timelines are realistic relative to the topic.
- Prepare reasonable workplans with clear deliverables.
- Recognize different levels of capacity in local governments.
- Ensure timelines are adhered to.
- Ensure audit topic and scope is clear to both parties.
- Set realistic Annual Service Plans.

These recommendations are reflected in the UBCM recommendations provided in the Conclusion of this report.

## Conclusion and Recommendations

Local governments that have participated in audit processes with the Auditor General for Local Government remain unconvinced of the value of the office. When asked to comment on the value of the three reports publicly available at the time of the survey, only 2 of 17 agreed the audits provide valuable information that will contribute to the improvement of their operations.

The experience of these local governments with AGLG operations during the period covered by the survey undoubtedly impacts how they view the outputs of the office. If the office is uninformed with regard to local government operations, fails to meet deadlines, appears to be disorganized and mishandles information shared, the integrity of the office is diminished and its credibility is undermined.

While it may be possible to renew the operational approach of the AGLG to better serve local governments, it is unlikely this will be achieved without substantive consultation between the Ministry of Community, Sport and Cultural Development, the Audit Council, the Auditor General for Local Government and local government. The changes that are required are comprehensive and interrelated. Greater knowledge of local government operations will improve audit scope definitions and setting of realistic timelines. Better scope definitions and timelines will reduce the likelihood of audit staff turnover prior to the completion of audits, and will make more efficient use of AGLG and local government resources. The achievement of these operational improvements will require concerted attention from the Audit Council and the AGLG, and at a bare minimum, consideration of the “customer feedback” summarized in this report.

### Recommendations for the Audit Council and AGLG

1. Develop and implement a basic course of study in local government operations for all AGLG audit staff and contractors to be completed in advance of undertaking audits.
2. Correct the problem of high turnover on audit teams by a) scaling Annual Service Plans to the capacity of staffing available; and b) reducing the reliance on external contractors.
3. Meet with UBCM to discuss the findings of this survey report along with the recommendations from the Audit Council’s review.

### Recommendations for the Ministry of Community, Sport and Cultural Development

1. Prior to undertaking legislative or administrative amendments to the AGLG, consider and act on the findings within this report in an effort to improve the effectiveness and efficiency of the office of the Auditor General.
2. Consult with local government with regard to alternative governance and administrative models for the AGLG.
3. Commit to undertaking an independent review of the office of the AGLG within two years of the next appointment of AGLG and make this review available to the public.

## Appendix One: Local Government that Participated in this Survey

City of Campbell River  
Comox Valley Regional District  
City of Cranbrook  
City of Dawson Creek  
Corporation of Delta  
Fraser-Fort George Regional District  
City of Merritt  
City of New Westminster  
District of North Vancouver  
City of Port Alberni  
City of Revelstoke  
City of Rosland  
District of Sechelt  
City of Surrey  
City of Victoria  
District of West Vancouver  
City of Williams Lake

## Appendix Two: Recommendations from Report on the Governance and Operations of the Auditor General for Local Government (April 2015)

This report was prepared by Mr. Chris Trumpy for the Audit Council of the Auditor General for Local Government.

### Recommendation 1 – Onboarding

Discussions on accountability and governance are important foundations in building a strong relationship between the Council and the AGLG. The Council is in the process of recruiting a new AGLG and it will be important to take the time to establish shared definitions of roles and responsibilities as the foundation of a strong relationship.

### Recommendation 2 – Accountability Framework

A comprehensive accountability framework is required. It needs to be agreed to between the AGLG and the Council, balancing the independence of the Office and the need to be accountable for spending public money. As a starting point for these discussions the following is proposed.

The AGLG is accountable for:

- a) Audit planning including audit topics and audit selection.
- b) Annual Service Plan.
- c) Annual Report.
- d) Audit reports.
- e) Reporting out to local government.
- f) Budget and staffing decisions in the office.
- g) Reporting to the Council on the status of audits.
- h) Providing a human resources plan that supports AGLG objectives to the Council for comment.
- i) Developing performance metrics for inclusion in the service plan and annual report.

The Council is accountable for:

- a) Providing input to the AGLG on the Audit Plan, Service Plan, Annual Reports and audits.
- b) Monitoring the status of audits.
- c) Monitoring the implementation of the human resources plan developed by the AGLG.
- d) Reviewing the budget plan.
- e) Agreeing to the performance metrics/benchmarks.

### Recommendation 3 – Organizational Structure

The new AGLG should review three aspects of the current organization structure to ensure they are properly aligned with the objectives and goals of the organization:

- the number of support positions relative to those people directly involved in audits.
- the amount of contracted resources relative to staff.
- identify any opportunities to acquire services at a lower cost from other public sector entities that do not jeopardize independence.

### Recommendation 4 – Processes and Procedures

In consultation with the Audit Advisory Committee and the Audit Council, finalize the Audit Plan Manual, dealing with the gaps identified and follow it.

### Recommendation 5 – Benchmarks

The AGLG, in consultation with the Audit Council, establish benchmarks and report out against them for:

- % of audits completed under budget.
- % of audits completed on time.
- % of auditees who felt the audit was well done.
- potential benefits identified in audit.

## Appendix Three: UBCM Survey Questions and Data

Has the audit for your local government been completed?

Response	Chart	Percentage	Count
Yes		23.5%	4
No		76.5%	13
<b>Total Responses</b>			<b>17</b>

We understand that the scope of the audit was outlined in an engagement letter. Did the AGLG adhere to the scope of the audit as first presented?

Response	Chart	Percentage	Count
Yes		58.8%	10
No		41.2%	7
<b>Total Responses</b>			<b>17</b>

If the scope of the audit was changed, did the AGLG explain the change?

Response	Chart	Percentage	Count
Yes		57.1%	4
No		42.9%	3
<b>Total Responses</b>			<b>7</b>

Were the questions asked by the AGLG clear and consistent with your understanding of the scope of the audit?

Response	Chart	Percentage	Count
Yes		47.1%	8
No		52.9%	9
		<b>Total Responses</b>	<b>17</b>

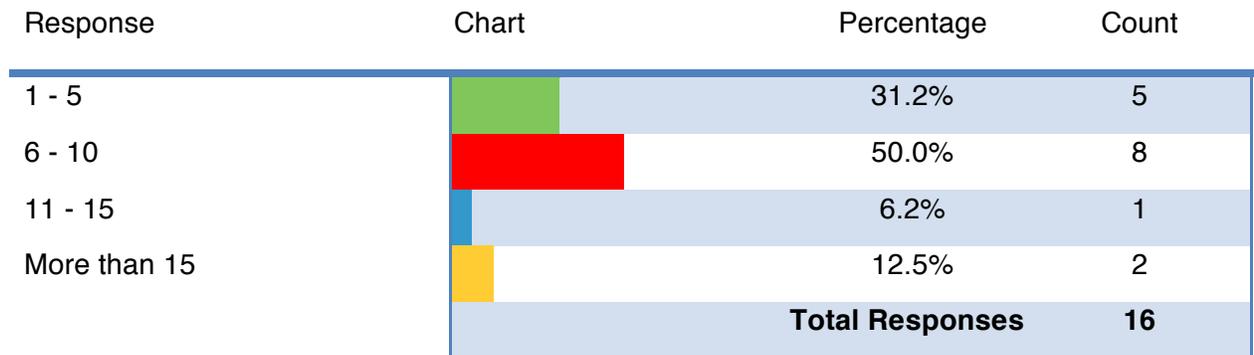
Did the AGLG ask your local government to provide the same type of information more than once over the course of the audit?

Response	Chart	Percentage	Count
Yes		88.2%	15
No		11.8%	2
		<b>Total Responses</b>	<b>17</b>

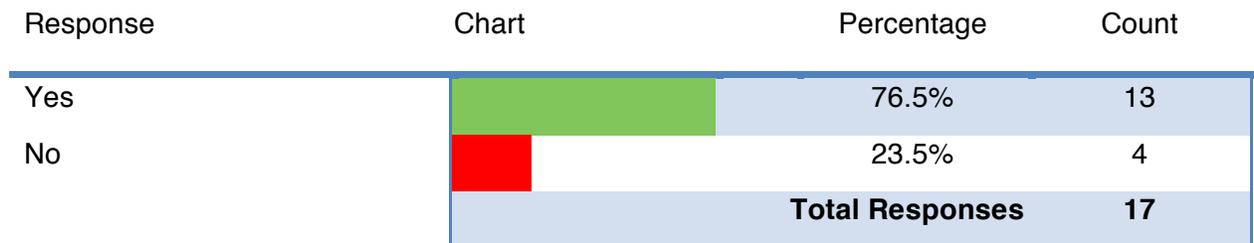
Did you discuss with the AGLG the impact of the audit requirements on your local government?

Response	Chart	Percentage	Count
Yes		88.2%	15
No		11.8%	2
		<b>Total Responses</b>	<b>17</b>

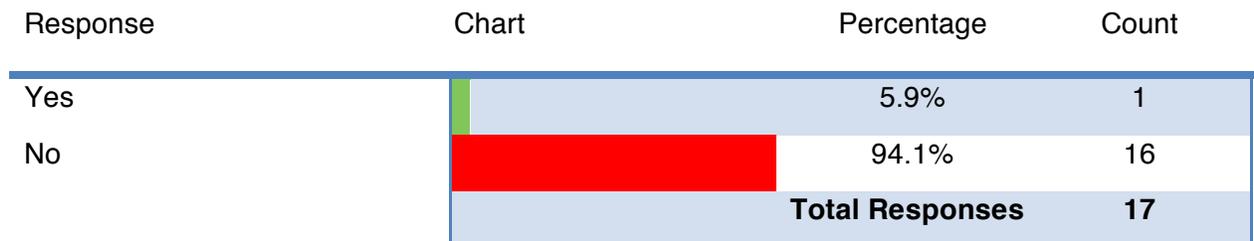
How many staff from your local government participated and/or provided information to the AGLG as part of the audit process?



Was the AGLG staff person or contractor respectful of the time that was required of your staff?



Was the audit completed within the proposed timeline?



Please indicate the reasons why the timeline to complete the audit was extended.

Response	Chart	Percentage	Count
Lack of local government capacity to respond in a timely way to AGLG information requests		0.0%	0
Changes to audit scope		43.8%	7
Changes to AGLG staff or contractors involved in the audit		56.2%	9
Other, please specify...		62.5%	10
<b>Total Responses</b>			<b>16</b>

Was the main contact for the audit process an AGLG staff member, or a contractor?

Response	Chart	Percentage	Count
AGLG staff member		11.8%	2
Contractor		47.1%	8
Other, please specify...		41.2%	7
<b>Total Responses</b>			<b>17</b>

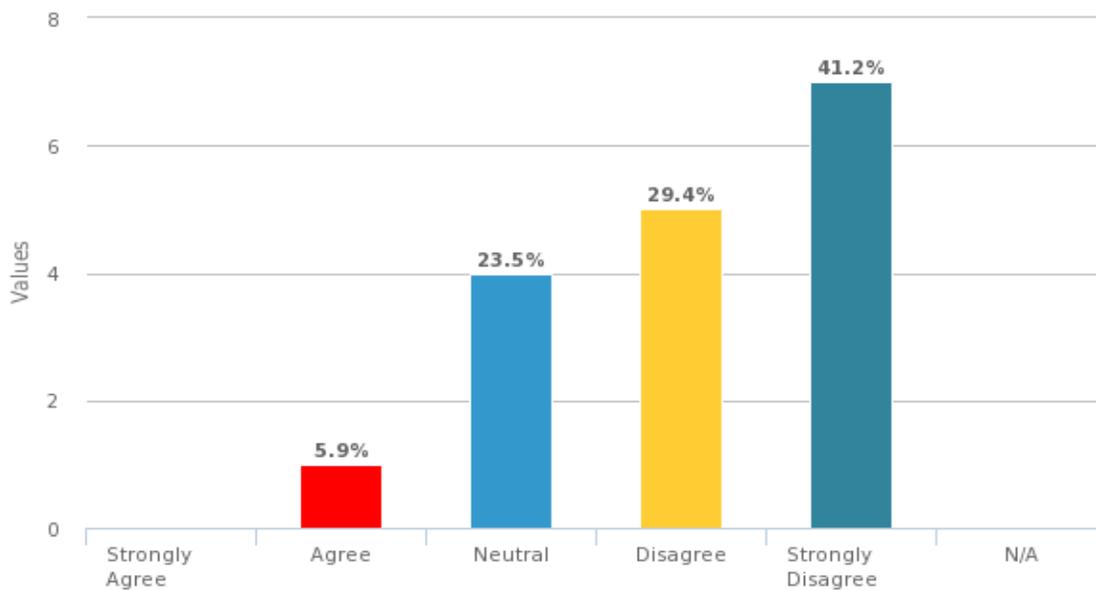
AGLG staff / contractor communicated in a professional and respectful manner.

Response	Chart	Percentage	Count
Strongly Agree		11.8%	2
Agree		64.7%	11
Neutral		5.9%	1
Disagree		5.9%	1
Strongly Disagree		11.8%	2
N/A		0.0%	0
<b>Total Responses</b>			<b>17</b>

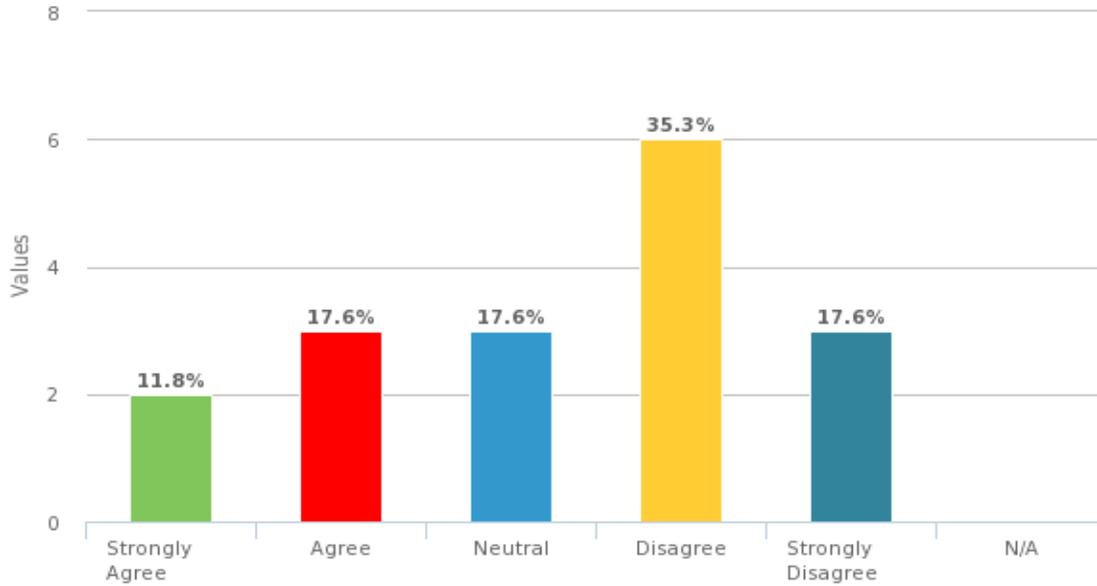
AGLG staff / contractor were accessible and responded to questions in a timely manner.

Response	Chart	Percentage	Count
Strongly Agree		11.8%	2
Agree		47.1%	8
Neutral		29.4%	5
Disagree		5.9%	1
Strongly Disagree		5.9%	1
N/A		0.0%	0
<b>Total Responses</b>			<b>17</b>

AGLG staff / contractor demonstrated understanding of local governments.



AGLG staff / contractor demonstrated understanding of the audit topic.



Please indicate the degree to which you agree with the following statement: The findings of the audits published to date contained valuable information that have been used by our local government to improve our processes and procedures relative to the audit topic.

