

Auditor General for Local Government Act and Office Review

(2012-2017)

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November 2018

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Executive Summary

The five-year 2012-2017 review of the *Auditor General for Local Government Act* (the “Act”) and the Auditor General for Local Government (AGLG) office, required by legislation, was conducted through a series of interviews, a best practices scan, and three different surveys of local governments across BC. This approach was designed to determine:

- the perception of the efficiency and effectiveness of the office,
- the degree to which the findings of the performance audit reports were being implemented by local governments that were audited, and
- the extent to which all local governments in the province were using the performance audit reports and Perspectives booklets (i.e., booklets identifying best practices found from performance audits) to make changes to policy or practices in their jurisdictions.

In the beginning, the office of the AGLG suffered significantly from:

- over promising the number of audits it could complete in the first year,
- staff that was unfamiliar with local government operations, and
- major concerns with respect to the strategic direction of the office.

After the Trumpy review in 2015 and the departure of the first AGLG that same year, a number of legislative amendments and the appointment of a strong interim AGLG started the turn-around in the effectiveness and efficiency of the office. The permanent appointment of the current AGLG continued to strengthen the operation and the reputation of the office. The local governments that were surveyed after 2015 indicated a marked improvement in how they experienced the process and general effectiveness of the AGLG office.

Twenty interviews were held with stakeholders of the AGLG that included members of the Audit Council (i.e., the body that oversees the AGLG office), provincial government staff, AGLG staff, Union of British Columbia Municipalities members, Local Government Management Association, and Government Finance Officers Association, as well as a number of private sector interests.

One of the issues raised during the interviews was the high average cost per performance audit. Performance audits range from \$40,000 to \$300,000 not taking into account overhead costs. The costs vary depending on the size of community, complexity of the service being audited, and scope of the audit. If the annual budget of approximately \$2,500,000 is divided simply by the annual average of five audits, the cost per audit is \$500,000.

It is difficult to quantify value for money. Local governments have not tracked savings from efficiencies or reductions in risk from implementing recommendations in the audit reports or Perspectives booklets. However, a significant number of local governments, both those being audited and those that have not been audited, receive value from the AGLG documents. While value for money may not be an issue for local government, because the Province funds the AGLG office, the Province will have to address the issue in determining the future of the office.

The three surveys that were conducted all had strong return rates. The survey of audited communities had a return rate of 68%, the survey of all local governments not audited had a response rate of 58%, while the survey of the eight communities audited since 2015 had a 50% response rate.

The critical findings from these surveys were:

1. Of the local governments that responded to the survey and had a performance audit completed in their organization:
 - a. 71% felt they benefited a medium to high degree from the audits,
 - b. 76% felt they were on track with implementing the recommendations from the performance audit reports, and
 - c. 76% felt they would implement 80% to 100% of the recommendations.
2. Of the local governments responding to the survey that had not been audited:
 - a. 86% indicated that someone in their organization had read a performance audit report or Perspectives booklet,
 - b. 71% of those who indicated that someone in their organization had read a performance audit report or Perspectives booklet had incorporated practices or made changes to policy found in these documents, and
 - c. 53% of the local governments responding to the survey indicated that they use the performance audit reports and/or Perspectives booklets to do a comparative check on similar services that they provide.

The fundamental question to answer in this review is whether the performance audits are significantly aiding local governments in improving the delivery of service and providing accountability and value for money to the citizens of their communities. The survey results leave little doubt that the performance audit recommendations are being implemented in organizations being audited and that these organizations believe that they are improving the delivery of services they provide. In a broader context, the performance audits and Perspectives booklets are being read by a majority of the local governments that have not been audited and many of these organizations are incorporating practices or changing policy as a result of these documents.

That being said, more could be done by the office of the AGLG to continue to improve its service and to increase its credibility with local governments. Local governments report that onerous amounts of staff time are required to support the audit process. This can be a particular burden on small-to-medium-size local governments that are already feeling the strain of operating with scant resources and high expectations for service. There is also a sense from many of these local governments that the recommendations from the performance audits are often unrealistic for them to implement given their size, shortage of staff and limited financial resources. Alternatives to a comprehensive audit that still provide value and assistance to these local governments need to be explored.

The conclusion of this review is to retain the office of the AGLG. A number of recommendations are made to strengthen the office, provide further input by local governments into the AGLG process, and to support the pursuit of excellence in local governance by the municipalities and regional districts serving the people of British Columbia.

Background

Context for the Review

Legislation creating the office of the Auditor General for Local Government came into force in April 2012. Part 5, section 29 provided for a review of the *Act* and the functioning of the office after the *Act* had been in force for five years.

The Ministry of Municipal Affairs and Housing (MMAH) created a Working Group made up of the President and Executive Director of the Union of British Columbia Municipalities (UBCM), a representative from the Local Government Management Association (LGMA), and three members from MMAH, including the Assistant Deputy Minister who functioned as the Chair. The role of the Working Group was to provide input, suggestions and advice to the consultant throughout the review process and provide feedback on the final report. The role and tasks related to the terms of reference for the review can be found in Appendix I.

History

The office of the Auditor General for Local Government was established with the adoption of the *Auditor General for Local Government Act*. The government of the day promised, without prior meaningful consultation with local government, to create an AGLG office.

Opinions were divided over the creation of the office. The BC Chamber of Commerce and BC Chapter of the Canadian Federation of Independent Business welcomed the announcement and saw it as a positive response to policy papers they had previously developed calling for the creation of such an office to provide oversight of increasing taxation and spending by local governments across the province.

The Union of British Columbia Municipalities, on the other hand, saw it as an unnecessary expense, an institution created without adequate rationale or consultation for a system of government that already had significant oversight and controls. They wrote in a report at the time that local governments in British Columbia are “heavily reliant on statutory limitations imposed by the Province, and Provincial oversight roles, including the Inspector of Municipalities.” The UBCM membership has passed resolutions calling for “the Province to eliminate the Auditor General for Local Government due to the fact that the requirements of such an office are already met under existing local government legislation and regulations.”

Implementation of the Legislation

The Province decided to enhance the functional independence and accountability of the office by creating it as a standalone entity rather than housing it within an existing ministry or within the office of the Auditor General. While the Audit Council has an oversight role of the office, the office is ultimately accountable to the Minister.

The first Auditor General for Local Government was appointed in November 2012 and commenced her duties in January 2013. An ambitious agenda was set promising 18 reviews, six each on three topics, that would be completed the next year. In fact, only one performance audit was released in 2014 and by mid-2015 only four reports had been released.

In March 2015, the AGLG was relieved of her duties and Mr. Arn van Iersel was appointed Acting Auditor General for Local Government. The Audit Council announced an independent review of the AGLG to be conducted by Mr. Chris Trumpy.

The review was to:

- assess the governance structure of the Act, including the interaction between the roles of the AGLG and the Audit Council,
- assess the organizational structure and audit planning process of the office, and
- recommend benchmarks for the future audit planning processes.

The report resulted in five major recommendation areas as well as recommendations for legislative and regulatory amendments that would provide clarity and certainty on governance issues.

In April 2015, prior to the release of the Trumpy report, UBCM decided to conduct its own survey of local governments, focusing on “matters of process and general effectiveness of the AGLG rather than the efficacy of audit findings to date.” This focus was taken because only three audits had been completed at the time of the survey. The survey revealed that most local governments surveyed found the AGLG office “uninformed with regard to local government operations, failed to meet deadlines, appears to be disorganized and mishandles information shared...”

In September 2015, Mr. Gordon Ruth was announced as the new Auditor General for Local Government and currently holds this position.

To date, the AGLG has completed 26 performance audits on 25 communities (Appendix II) and has released five Perspectives booklets focusing on best practices learned as a result of the performance audits in the areas of:

- Improving Local Government Procurement
- Policing Services Performance Assessment
- Asset Management for Local Governments
- Oversight of Capital Project Planning and Procurement
- Improving Local Government Emergency Management

Purpose and Mandate

The AGLG Act stipulates the following:

Purpose and mandate

- 3 (1) The purpose of the auditor general 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.
- (2) A performance audit conducted under this Act by the auditor general consists of
 - (a) a review of the operations of a local government, as the operations relate to a matter or subject specified by the auditor general, to evaluate the extent to which
 - (i) the operations are undertaken economically, efficiently and effectively,
 - (ii) financial, human and other resources are used in relation to the operations with due regard to economy and efficiency,
 - (iii) the operations are effective in achieving their intended results, or
 - (iv) procedures established by the local government are sufficient for the local government to monitor the economy, efficiency and effectiveness of those operations, and
 - (b) recommendations to the local government arising from the review referred to in paragraph (a).
- (2.1) In planning and conducting a performance audit and in preparing a performance audit report under this Act, the auditor general must comply with the auditing or assurance standards or guidelines or parts thereof, if any, as adopted by regulation.
- (3) The auditor general may identify and develop and publish or otherwise provide information about recommended practices, arising from a performance audit, that the auditor general considers may be applicable or useful to other local governments.
- (4) The auditor general, if permitted by regulation, may, on request of a local government and in accordance with the regulations, enter into an agreement to conduct a performance audit of the operations of the local government that relate to a matter or subject that is specified in the agreement.
- (5) In carrying out the powers and duties under this Act, the auditor general must not call into question the merits of policy decisions or objectives of a local government.
- (6) The auditor general may not act as an auditor under
 - (a) Division 2 of Part 6 of the *Community Charter* or as that Division applies to a regional district under section 377 (1) of the *Local Government Act*,

- (b) section 60 (1) of the *Greater Vancouver Sewerage and Drainage District Act*,
- (c) section 24 of the *Greater Vancouver Water District Act*,
- (d) sections 230 to 235B of the *Vancouver Charter*, or
- (e) a prescribed enactment relating to the financial audit of a local government.

Governance

A significant aspect of the AGLG is the independence from both provincial and municipal governments. While the *Act* establishes that the AGLG must adhere to the Province's core administrative policies there are characteristics, noted in AGLG documents, that reflect the governance relationship of the AGLG:

- The Lieutenant Governor in Council officially appoints the Auditor General on the recommendation of the Minister of Municipal Affairs and Housing who considers the recommendation of the Audit Council.
- The Legislature allocates the budget of the AGLG through a separate voted appropriation.
- The AGLG has sole discretion to select the audits that the office carries out, subject to the annual service plan.
- The office issues reports and recommendations without ministerial or other government approvals.
- The office functions with professional independence and adheres to CPA Canada auditing standards.

The Audit Council is a unique aspect of the AGLG legislation that fills the accountability role required of any such office. The Audit Council is responsible for reviewing and monitoring the performance of the Auditor General apart from a number of responsibilities that are listed in the *Act* including;

- recommending the appointment of the AGLG and the suspension or removal of the AGLG,
- commenting on, or recommending, various aspects of the role of the AGLG,
- commenting on changes to the annual service plan,
- commenting on audit reports, and
- disseminating information about the practices developed in the performance audits.

The Audit Council is currently made up of five individuals with diverse backgrounds. There are three members who have experience in local government, one is a retired local government administrator and two have served as elected officials.

About Performance Auditing

A number of cities, states and countries are implementing performance auditing programs of one form or another. Performance audits conducted by the AGLG are guided by professional standards established by the Auditing and Assurance Standards Board. They are different from financial audits that all local governments are required to conduct annually. Performance audits, also known as value for money audits, review local government operations to evaluate the extent to which operations are undertaken economically, efficiently and effectively. They are intended to assist local governments in being accountable to their communities and help them achieve value for money in their operations.

The AGLG office develops a three-year audit plan based on research and consultation that includes:

- an environmental and media scan,
- a performance audit planning survey of local government Chief Administrative Officers (CAOs),
- interviews with Audit Council members and elected officials and CAOs from a cross section of local governments across the province,
- input from correspondence received from stakeholders,
- requests for audits from local governments, and
- a performance audit planning workshop with various stakeholder groups including local government.

The AGLG considers all of this input to identify and prioritize audit topics for inclusion in the audit plan for the next three years. Individual local governments, that will be the subject of an audit, are selected based on the importance of the subject matter to the local government's operations and to achieve a good cross section of local governments based on size and geographic location around the province.

The AGLG office will make initial contact with any local government selected for an audit and then will follow up with an in-person meeting to answer any questions the local government may have about the audit process and to discuss the objectives of the performance audit. Initial interviews with key local government officials and other audit fieldwork activities follow.

The planning and execution of each performance audit may be different depending on the local government's approach to program delivery, complexity of the audit topic and size of the local government.

At times, AGLG audit staff may bring in subject matter experts to assist when they do not have the required expertise or resources in-house.

Review Methodology

The methodology for the review focused around collecting data primarily in five distinct areas:

1. *A best practices scan of local government performance auditing programs*

The Ministry of Municipal Affairs and Housing conducted a scan of approaches to performance auditing across Canada, the United States, Australia, New Zealand and the United Kingdom. The purpose was to obtain knowledge from these countries on the extent of performance auditing in their jurisdiction and to understand their approaches to performance auditing.

2. *Interviews with key individuals and stakeholder organizations*

Interviews were held with 20 stakeholders with knowledge of the creation of the AGLG legislation and office as well as the purpose and mandate of the AGLG. Interviewees included individuals from organizations such as the AGLG Audit Council, AGLG staff, UBCM executive, a UBCM Board member who was not a member of the Working Group, Ministry of Municipal Affairs and Housing staff, and a number of stakeholder organizations, such as the Local Government Management Association, Government Finance Officers Association, Canadian Federation of Independent Business, and Columbia Institute – Center for Civic Governance.

The focus of the interviews was to determine:

- whether the mandate and role of the office is appropriate,
- if the office is achieving the objectives,
- the mandate and purpose as set out in the legislation,
- if there are enough tools in the legislation to allow the office to do its work effectively,
- if there are areas in the legislation that need to be broadened,
- if the role and mandate of the Audit Council are effective and appropriate,
- if changes should be made to the role of the Audit Council,
- if the Province is receiving good value for money from the work of the office, and
- where the AGLG should focus its efforts in the next three to five years.

3. *A survey of the eight local governments that had gone through a performance audit after the 2015 UBCM survey*

In 2015, UBCM conducted a survey of local governments that had been audited or were in the process of being audited. This survey focused on matters of process and general effectiveness of the AGLG. For this review, a similar survey was administered to the eight local governments that had been audited since the 2015 UBCM survey to determine if their experiences were the same or different from that of the first 17 local governments.

4. *A survey of all 25 local governments that have participated in performance audits since the creation of the office in 2012*

This survey focused on determining the value that local governments derive from the performance audits and whether they implement the recommendations in the reports.

5. *A survey of all local governments in British Columbia that have not participated in a performance audit (164 local governments)*

This survey focused on how aware local governments are of the AGLG office, the performance audit reports and the Perspectives booklets. Of particular interest was whether local governments had read the material from the office and had made changes to policies or implemented new practices as a result of the recommendations in those documents.

The review process was introduced to local governments through an introductory letter explaining the reason for the review and the process to be followed. Letters were sent to the Mayor, Chair or Chief of the local or First Nation government and the Chief Administrative Officer indicating that a survey would be forwarded to their jurisdiction and a follow-up email indicated that the surveys were to be filled out by the CAO.

The surveys were constructed in such a way to provide as quantifiable data as possible. It was felt that the CAO was the individual most likely to have the information being asked for in the survey. The letter was sent to the Mayor, Chair or Chief so they were aware that the review and survey were being undertaken.

Key Findings, Interview Input and Survey Results

Best Practices Scan

As a component of the review, the Ministry of Municipal Affairs and Housing conducted a scan of selected jurisdictions around the world to find out about their audit structures and practices (Appendix III). The countries were Canada, United States, Australia, New Zealand and the United Kingdom.

The scan found that there are no audit structures across Canada or worldwide like the AGLG. There is, however, a wide range of performance audit functions in place for local governments in these countries as jurisdictions introduce different ways to help local government achieve value for money in the services they provide. In Canada and the United States, larger cities generally take the initiative to establish auditor general offices or internal audit departments. In the United Kingdom and New Zealand, the national government carries out the function of the auditor general, while in Australia state governments are primarily responsible.

In just about every jurisdiction surveyed, smaller communities are not required to undergo performance audits. In Canada, other than BC, the only jurisdiction with a provision for auditing smaller communities is Quebec, which in 2018 passed legislation that broadened the mandate of the Commission Municipal du Quebec to include communities with populations between 10,000 and 100,000.

A common characteristic in most systems is the focus on identifying best practices and assisting local government through training opportunities and the provision of resource documents, self-assessment tools, on-line training, etc.

Key Finding:

1. There is a general move, or recognition, by the jurisdictions canvassed toward providing some form of performance auditing and best practices resource to assist local governments in continually improving value for money to the citizens in their communities for the services they provide.
2. The AGLG Act and office are unique, among all the jurisdictions canvassed, in their accountability and functional independence structure as well as their ability to conduct performance audits on very small local governments.

Interviews with Key Individuals and Stakeholders

Interviews were held with a diverse range of individuals and organizations. This, of course, resulted in just as wide a range of opinions and attitudes about the office and legislation. However, common themes emerged that, while not indicating a unanimous opinion among the interviewees, were supported by the majority of people interviewed.

a. *How the AGLG office conducts their business*

The most consistent opinion expressed was that the AGLG office is now operating efficiently and effectively and was seen as understanding and following the mandate of assisting local governments. There are still issues related to how they do their work but, for the most part, respondents are happier about the approach in the last two and a half years than they were in the first half of the AGLG operation. A concern was raised that, if the current AGLG leaves the office, the philosophy and approach of the office might change in a negative way.

b. *AGLG is operating within the role and mandate as stated in the legislation*

The consistent view in the interviews was that, since the Trumpy amendments to the legislation in 2015, the AGLG has sufficient scope and authority to conduct the work that was originally envisioned and that they are operating within their role and mandate. The Trumpy report recommendations have all been implemented.

c. *Role and mandate of the Audit Council*

The Audit Council's role and mandate are seen as appropriate and adequate to maintain the oversight and direction required. However, it was felt that the Audit Council could spend more time supporting the work of the AGLG, by explaining the work the AGLG office does and the role of the Audit Council, at local government and private sector functions and events.

d. *Current reporting structure and legislation are appropriate and working*

The importance of the current structure that allows for functional independence from governments and accountability to the Audit Council, a non-government body made up of private citizens, was consistently stressed throughout the interviews. This structure is also one of the fundamental characteristics that make the AGLG unique. It was not only seen as extremely important to the credibility of the office among local governments but was found to be functioning well and requiring no changes or amendments.

As noted earlier, with only a few minor amendments, the legislation appears to be appropriate and functional.

e. *Concern that the average cost per audit is high*

It is the objective of the AGLG that the office conducts approximately five to six audits per year. This results in an average cost of approximately \$400,000 to \$500,000 per audit. Individual audits can cost between \$40,000 and \$300,000 of direct costs when not taking into account overhead of the office. This also does not take into account costs that the local government incurs in staff time to support the audit, estimated by one small-to-medium-size community to be between \$25,000 and \$30,000.

Many interviewees were concerned about the value for money of the AGLG office. It is difficult to quantify the value when there is no data to indicate money saved,

or efficiencies gained, by improvements to service from a performance audit. A number of local governments are implementing changes to policy or practices as a result of performance audits completed in other organizations, which increases the value for money. (The survey findings of all non-audited local governments (Appendix VI) suggest this is a significant number of local governments.)

The value for money can be further improved if findings in the audits and best practices publications can be used more by other organizations, such as the Local Government Managers Association, Government Finance Officers Association, Local Government Leadership Academy, and BC Water and Wastewater Association, to enhance their training programs. This is in fact happening to a minor degree already but the AGLG office could establish stronger working relationships with these organizations and collaborate with them more often to ensure their training programs are up to date with the most current best practices. This notion was tested and supported by many interviewees.

In the end, the Province will need to be satisfied with the value for money realized by the financial savings and efficiencies to audited communities, savings to non-audited local governments who implement recommendations from the AGLG publications, and value from increased collaborations with BC professional associations.

f. *AGLG staff interviews*

The AGLG and staff suggested a number of changes that they felt would improve their ability to function. While not all of the proposed changes are supported in this review, there were a number of suggestions that do merit consideration for implementation:

- *Remove the requirement within the legislation for the Deputy AGLG to be a Chartered Professional Accountant (CPA).*
The requirement for the Deputy to be an auditor under the *Business Corporations Act* is inconsistent with provincial and federal legislation for similar audit offices. This inclusion limits succession opportunities and is not needed as long as the AGLG is required to be a CPA.
- *Require the Minister to consult with UBCM on future amendments to the AGLG Act.*
- *Include a requirement for a review every five years for both the Act and office.*

These last two proposed amendments would help to dispel some local governments' residual concerns regarding the creation of the office.

Suggestions that were not supported at this time because they would fundamentally change the nature of the AGLG mandate were:

- Providing for the ability to come back to a local government in three to five years and review their progress in implementing the audit recommendations.
 - The ability to include non-local government agencies, such as improvement districts, when that agency provides a portion of the service being audited.
- g. *Concern that, when the current AGLG leaves, the office might revert to the previous style of auditing philosophy and approach*

While the legislation has been strengthened to focus on the role of assisting local governments, there was a suggestion for the creation of a foundation document that would strengthen the intent of the legislation by providing a practical tool that would give further life to the tone, philosophy and approach required of the office. The document could confirm the values and relationship the AGLG office would be required to maintain with local government. It would be a document created through, and agreed to, by a joint effort of the Ministry, AGLG office and Audit Council, UBCM and Local Government Management Association. There are similar documents clarifying other relationships with the Ministry that have proven to be effective and valuable tools in maintaining relationships between entities.

Key Findings:

1. The approach, performance and professionalism of the AGLG office have improved significantly in the last two and a half years as compared to the first two and a half years.
2. The accountability structure and independent nature of the AGLG is a critical characteristic that must be retained if it is to be seen as credible by local governments.
3. The role and mandate of the AGLG, as defined in the legislation, is appropriate for the time being with only a few minor changes proposed. The office could continue to focus on improving its approach and credibility among local governments over the next three to five years, not look to expanding its power and authorities.
4. The Audit Council's role and responsibilities are appropriate to provide the necessary oversight of the AGLG. They could focus on supporting the AGLG more, by explaining the work the AGLG does and the role of the Audit Council, at key functions and events.
5. The legislation is sufficient for both the operation of the AGLG office and Audit Council, but amendments could be made to:
 - a. remove the requirement for the Deputy AGLG to have a CPA designation,

- b. include a requirement for the office to consult with UBCM on legislation changes, and
 - c. require a review of the *Act* and office every five years.
6. The value of the performance audits to the local government that was audited is only one factor to be taken into consideration when determining the value for money of the audit itself. Two other considerations affect the value. One is that other BC local governments use the performance audits to amend their practices and policies. The other is for the best practices learned in these performance audits to be a significant resource to BC professional associations and other organizations to keep their training programs current.
7. A foundation document should be developed between the Ministry of Municipal Affairs and Housing, AGLG office and Audit Council, UBCM and Local Government Management Association confirming the relationship and approach the AGLG office will maintain with local government in doing their work.

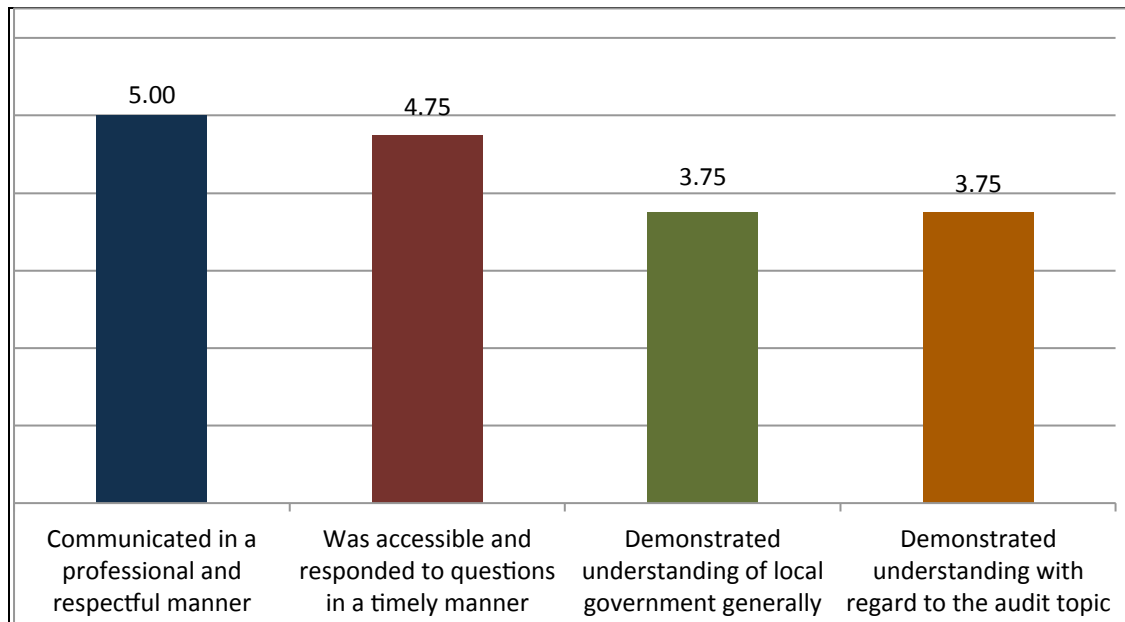
Survey Results of Eight Local Governments Audited Since 2015

The eight local governments surveyed had not been surveyed before by UBCM. Surveys were completed by 50% or four local governments. The complete survey and responses can be found in Appendix IV.

The responses indicated a dramatic turn-around in the way these communities experienced the performance audit process and the conduct of AGLG staff. The 17 local governments originally surveyed by UBCM in March 2015 found the audit process to be long, staff asked repeatedly for the same information, and staff had a poor understanding of local government and the audit topic. The respondents also felt strongly that the audits completed, up to the date of the survey, did not contain valuable information that have been used by their local government to improve their processes and procedures. It was generally a negative experience. Only 12% of the local governments surveyed indicated that the audit report contained valuable information used by their local government to improve processes and procedures.

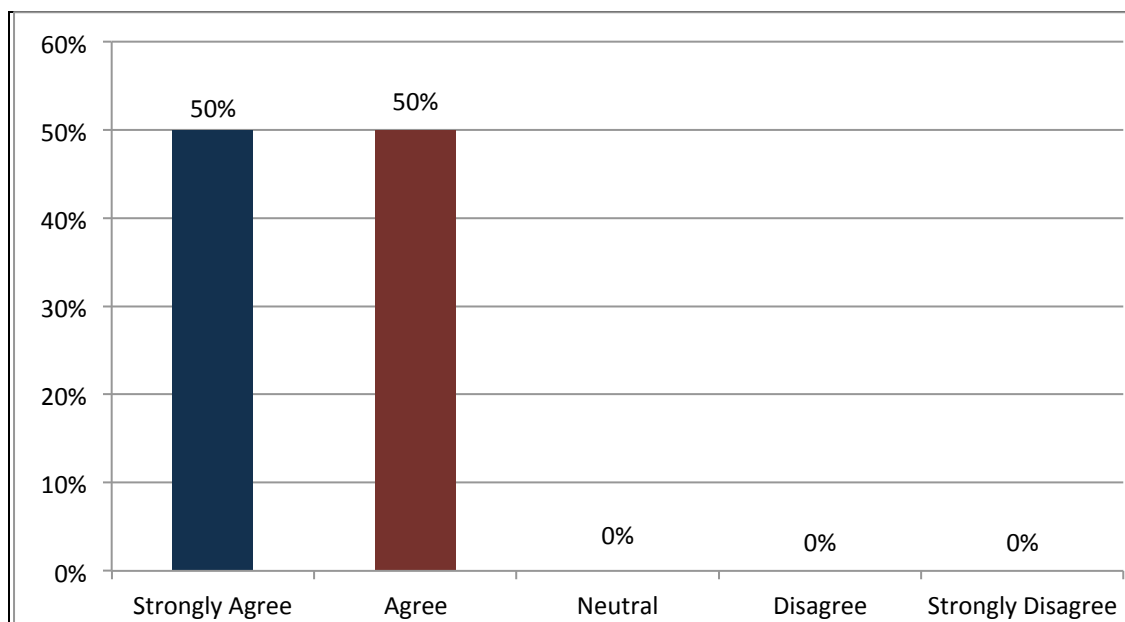
The September 2018 survey illustrates a different picture with the four respondents indicating a more positive experience and a much higher level of satisfaction with process.

The Mean from Key Questions (on scale of 1 to 5, with 1 being low and 5 being high).



They also felt strongly that the audit results contained valuable information that has been used by them to improve processes and procedures.

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.



Key Finding:

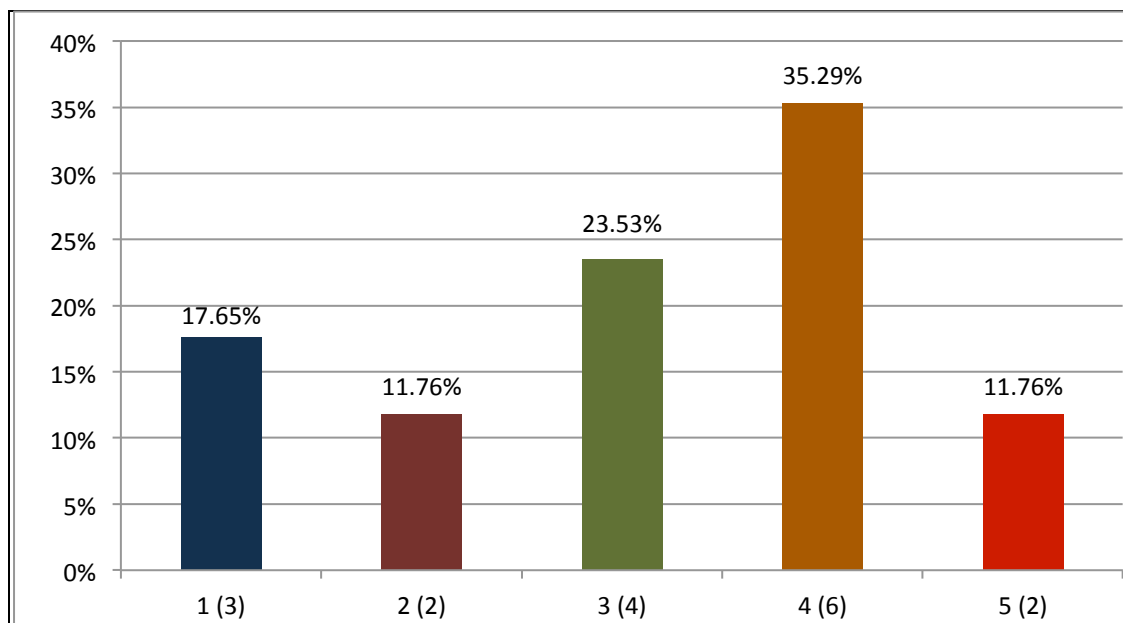
There has been a significant improvement in the process and general effectiveness of the AGLG since 2015 when the legislation was amended and senior leadership changed at the AGLG office.

Survey Results of 25 Audited Local Governments

The survey of the 25 local governments that have had a performance audit conducted on their organization since 2012 achieved a 68% return rate. This survey focused on the value of the performance audits to their organizations and whether or not they were implementing the recommendations. The complete survey and responses can be found in Appendix V.

The results indicated that 71% of the respondents felt that they benefited from the performance audit to a moderate to high degree.

On a scale of 1 to 5, with 1 being low and 5 being high, to what degree do you believe your local government has benefited from the performance audit? Respondents: 17



The comments from CAOs, while generally supportive of the audit findings, were somewhat mixed. They highlighted that, for some of the smaller local governments, the recommendations were not appropriate for the organization size and budget restrictions. The notion of a less onerous audit process, particularly for smaller communities, was suggested. The significant amount of staff time required to support the audit team was also raised, particularly for smaller communities. As mentioned previously in this report, one small-to-medium-size community estimated their cost in staff time to be between \$25,000 to \$30,000. Another community kept a detailed log of

hours spent by staff to support the audit team. Staff logged 148.75 hours, which is significant for a small community or organization.

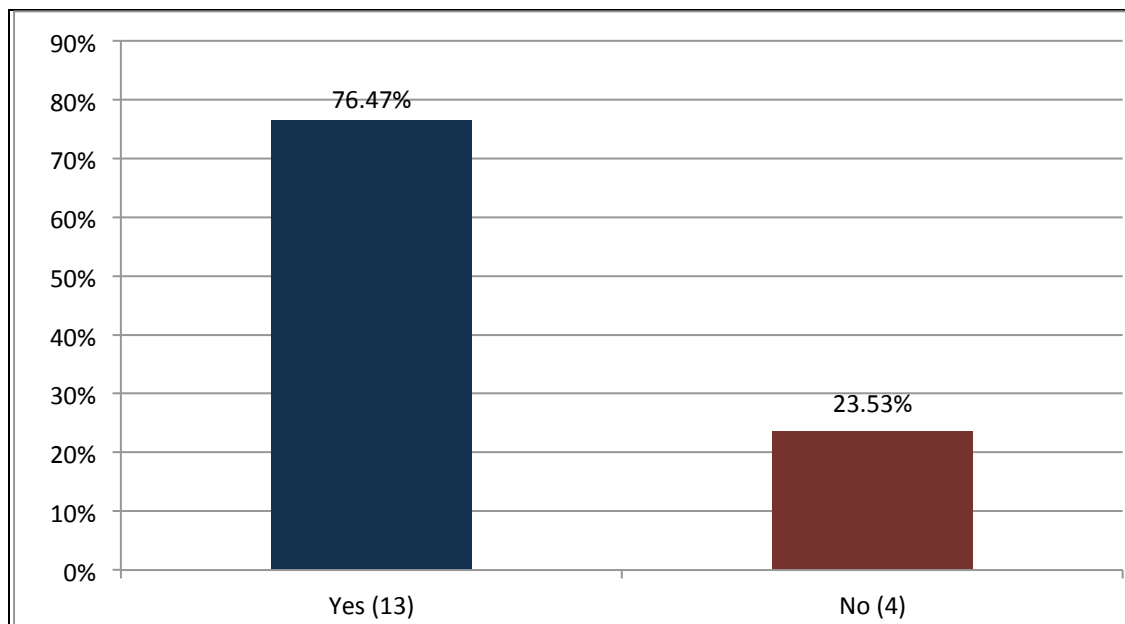
Generally, the predominant comments were positive, such as:

- the recommendations were very helpful in improving our practices and increasing transparency
- these audits are required and provide a valuable service to local governments
- this is a very helpful program which provides a lot of opportunity to find value and increase service delivery
- was great to have an external source look at our practice and give recommendations for improvement

Local governments also appeared to be taking strong steps to implement the recommendations from the audits. Seventy-six percent indicated they were on track with the implementation of the action plans that are appended to all performance audit reports.

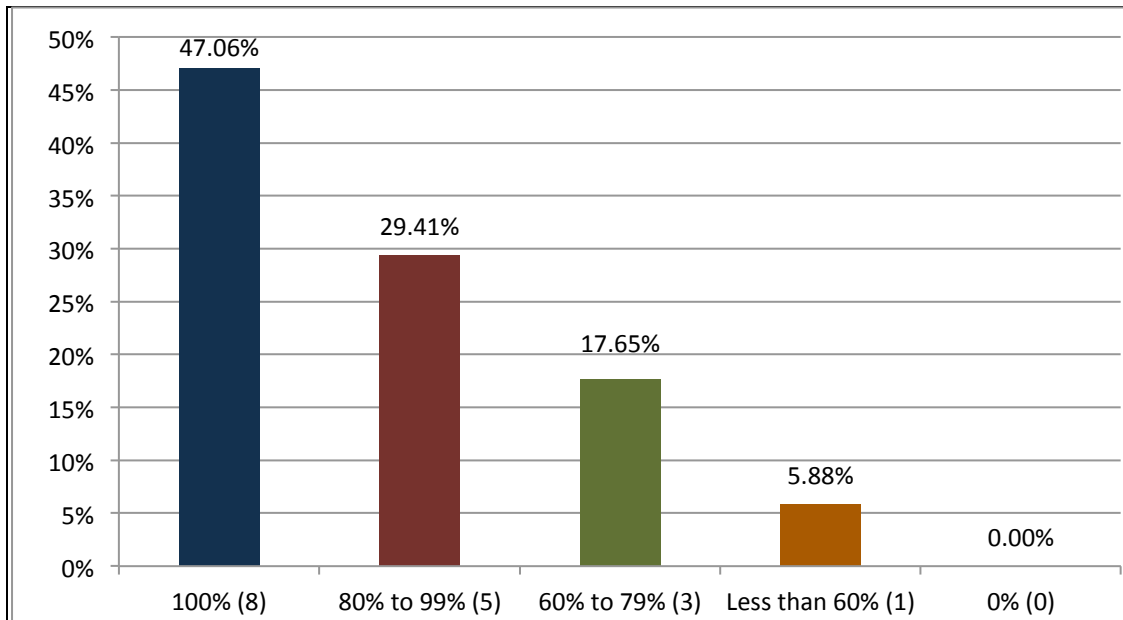
Is your local government on track with the implementation of your Action Plan?

Respondents: 17



Seventy-six percent of the respondents indicated they expect to implement 80% to 100% of the recommendations. The primary reasons given for not implementing all the recommendations were “other budget priorities” and “insufficient staff time” to an equal degree.

Approximately what percentage of the recommendations do you expect to implement over time? Respondents: 17



Key Findings:

1. A strong majority of local governments responding to the survey indicated a moderate to high level of benefit received from the performance audit.
2. A strong majority of local governments responding to the survey (76%) indicate they are on track to implement the recommendations from the performance audits.
3. 76% of the local governments responding to the survey expect to implement 80% to 100% of the recommendations.
4. Issues were raised regarding the amount of staff time required to support the audit team and that recommendations are sometimes not scaled to the size of the local government.

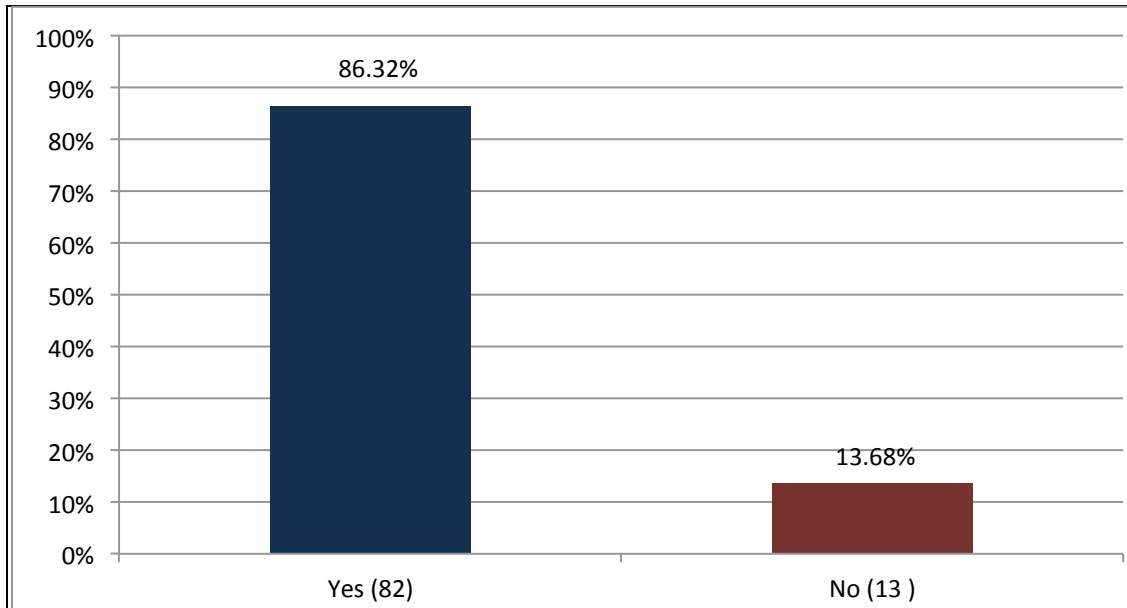
Survey Results of Non-Audited Local Governments in BC

A survey was conducted of the 164 local governments in BC that have not been a participant in a performance audit. A response rate of 58% (or 95 of the 164 local governments) was achieved. The complete survey and responses can be found in Appendix VI.

This survey focused on determining to what extent these local governments had read the performance audit reports and Perspectives booklets and if they used the recommendations and best practices from these documents to change policies or implement new practices.

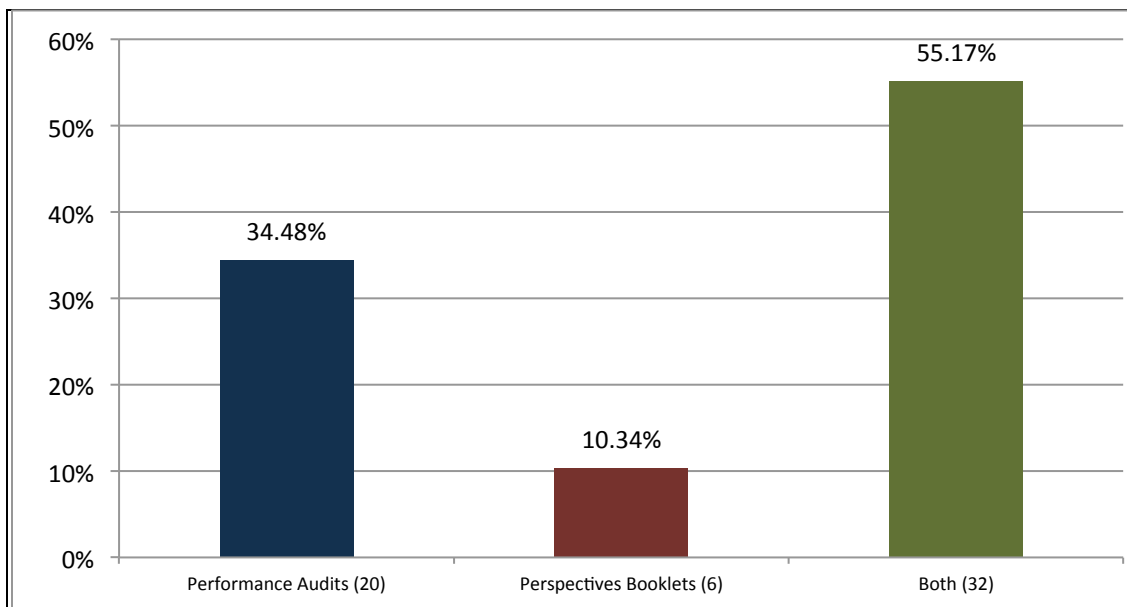
Eighty-six percent of the respondents (or 82 local governments) indicated that someone in their organization had read a performance audit report or Perspectives booklet. Of these local governments, 71% indicated they had implemented practices found in these documents.

To the best of your knowledge, has anyone in your organization read a performance audit report or Perspectives booklet? Respondents: 95



If yes, please advise if your local government incorporated practices or made changes to policies found in performance audits, Perspectives booklets or both.

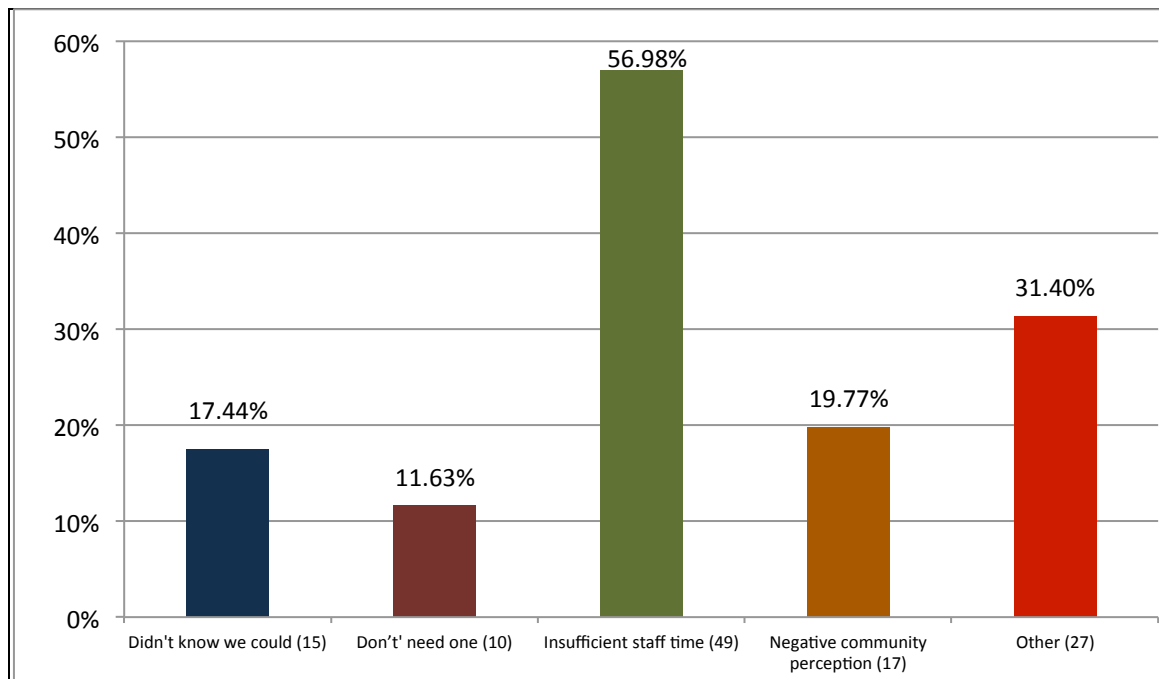
Respondents: 58



While not everyone uses the documents to implement policies and practices, 53% indicate they used the performance audit reports or Perspectives booklets to do a comparative check on similar services they provide.

Ninety-one percent of local governments responding indicated they have not considered requesting a performance audit. Of the local governments that provided a reason why they had not considered requesting a performance audit, 57% indicated “insufficient staff time” as the primary concern, 20% indicated “a negative community perception” being a deterrent, and 17% not knowing they could ask. (Note: While all 95 local governments responded to the question, only 86 indicated the reason)

If your local government has not considered requesting a performance audit be conducted in your organization, why not? Respondents: 86 (Some respondents selected more than one option.)



Almost 50% of the CAOs answering the survey took time to add additional comments. Of the comments received, 63% were positive and supportive in some form of the work of the AGLG, such as:

- keep up the great work
- some good information that is both thought provoking and a catalyst for making change
- we have found great value in the report and booklets both at an elected official and staff level
- very informational and relevant

Of the remaining 37%, concerns were raised about the lack of scaling of the recommendations to fit smaller communities or outright rejection of the need for the office, such as:

- the recommendations are not scalable and therefore not applicable to small communities
- we feel this institution to be redundant and not useful
- haven't received much value from them
- local governments do not need more reports on what they should do given limited resources

Key Findings:

1. 86% of the local governments responding to the survey indicated they had read the performance audit reports or Perspectives booklets and of those 71% (58 out of 82 answering this question) indicated they had made changes to policy or practices from the recommendations in the documents.
2. 53% of local governments answering the survey indicated they used the AGLG documents to do a comparative check on similar services they provide.
3. The majority of comments received from CAOs about the office were positive and supportive of the value of the office.
4. Staff resources, scalability of the recommendations, and general negativity towards the creation of the office from the outset tend to be the overriding themes from those who speak negatively about the AGLG office.
5. There is often a negative perception in the community when the Auditor General for Local Government comes into an organization to perform a performance audit.

Conclusions

Good return rates from all three surveys, and clear themes coming out of the best practices scan and the interviews, resulted in clear findings from all five data collection areas supporting the following conclusions:

- The AGLG is meeting its role and mandate as established in the *Act*.
- The Audit Council is meeting its role and mandate as set out in the *Act*.
- The recommendations in the 2015 Trumphy report have been implemented.
- The office of the AGLG had a tumultuous first two and a half years of operation but, under new leadership and with legislative changes made in 2015, it has experienced a positive turn around in the process and general effectiveness of the office.
- Local governments that are recipients of a performance audit benefit to a significant degree from the audit findings and recommendations.
- Action plans created by local governments from the recommendations in performance audit reports are on track and the majority of the recommendations will be implemented.
- Local governments that have not been audited are generally reading, and many are implementing, recommendations found in the performance audit reports and Perspectives booklets.
- Many local governments compare the services they provide with best practices found in the performance audit reports and Perspectives booklets.
- The average cost per audit performed by the AGLG is seen as very high.
- The value for money related to the performance audit is impossible to quantify. It is improved, however, by the high percentage of local governments, both those that have been audited and those that have not been audited, utilizing the documents to improve their services.
- The amount of staff time required to support the audit process is seen as onerous.
- The AGLG should consider rebranding the office, while retaining the Auditor General for Local Government name, to something like Auditor General for Local Government – Center for Continuous Improvement to counteract the negative perception of being audited.
- Smaller communities often find the recommendations not scalable to the resources and size of their community.
- The AGLG needs to continue to focus on its core mandate over the next three to five years instead of expanding its role any further.

- There is still a negative feeling towards the AGLG office among many politicians and CAOs because the AGLG Act was imposed on local governments without meaningful consultation prior to the decision to establish the office.

The fundamental question to answer in this review is whether the performance audits are significantly aiding local governments in improving the delivery of service and providing accountability and value for money to the citizens of their communities. The survey results leave little doubt that the performance audit recommendations are being implemented in organizations being audited and that these organizations believe that they are improving the delivery of services they provide. In a broader context, the performance audits and Perspectives booklets are being read by a majority of the local governments that have not been audited and many of these organizations are incorporating practices or changing policy as a result of these documents.

That being said, more could be done by the office of the AGLG to continue to improve its service and to increase its credibility with local governments. Local governments report that onerous amounts of staff time are required to support the audit process. This can be a particular burden on small-to-medium-size local governments that are already feeling the strain of operating with scant resources and high expectations for service. There is also a sense from many of these local governments that the recommendations from the performance audits are often unrealistic for them to implement given their size, shortage of staff and limited financial resources. Alternatives to a comprehensive audit that still provide value and assistance to these local governments need to be explored.

The conclusion of this review is to retain the office of the AGLG. A number of recommendations are made to strengthen the office, provide further input by local governments into the AGLG process, and to support the pursuit of excellence in local governance by the municipalities and regional districts serving the people of British Columbia.

Recommendations

To the Ministry of Municipal Affairs and Housing

1. That, in consideration of the degree to which the AGLG performance audits are being used by both local governments that have been audited and those that have not been audited, the Auditor General for Local Government office be retained.
2. That the *Auditor General for Local Government Act* be amended to:
 - a. delete the requirement for the Deputy Auditor General for Local Government to be an individual who is authorized under section 205 of the *Business Corporations Act* to act as an auditor,
 - b. require the review of the *Auditor General of Local Government Act* and office every five years; and
 - c. require the Minister to consult with the Union of British Columbia Municipalities on amendments to the *Act*.
3. That a foundation document be developed between the Ministry of Municipal Affairs and Housing, Union of British Columbia Municipalities, Local Government Management Association, Audit Council and Auditor General of Local Government that would operationalize the purpose and mandate of the AGLG 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.

To the AGLG Office and Audit Council

1. That the Auditor General for Local Government and Audit Council explore different approaches to providing performance audits, particularly for smaller communities, that would not require onerous staff time to support the audit team.
2. That the AGLG consider re-branding the organization to emphasize its more positive role of assisting local governments in their pursuit of continuous improvement of service delivery.
3. That the AGLG office broaden its reach to local government professional associations, such as the BC Water and Waste Water Association, Local Government Management Association, Government Finance Officers Association and Local Government Leadership Academy, to collaborate on best practices learned in the performance audits being incorporated into training opportunities provided by these organizations.

Auditor General for Local Government Legislated Five Year Review

TERMS OF REFERENCE AGLG REVIEW - CONSULTANT

Purpose:

Conduct the legislated five year review of the Office of the Auditor General for Local Government (AGLG) and *Auditor General for Local Government Act* (the Act) with oversight by a working group of Ministry staff and local government stakeholders. The review will culminate in a report with findings and recommendations for the Minister of Municipal Affairs and Housing to consider.

Scope:

Specifically the consultant will undertake a review of the AGLG and the Act that assesses the following two areas and related questions:

2012-2017 Chronological Review:

- The accomplishments to date compared to the objectives of the 2012 legislation (understanding the history of the creation of the AGLG);
- The implementation of the Trumpy recommendations;
- The effectiveness of the 2015 amendments to the Act; and
- Role of the Audit Council and AGLG Office in supporting the mandate to date.

Options for Change:

- Options and recommendations will be determined based on the findings of the consultant's review.

Role and tasks:

A consultant will be hired through a competitive short request for proposal (SRFP) process. The end product that the consultant will be expected to produce is a report with the findings of the review and recommendations for the Minister of Municipal Affairs and Housing. The report will be reviewed and finalized by the working group prior to being presented to the Minister. To undertake the review and produce recommendations for the Minister, the consultant will:

- Become familiar with the structure and functions of the Office of the AGLG and Audit Council (this will include receiving background information and input from the working group and the Ministry);
- Receive input, suggestions and advice from working group members throughout the review;
- Conduct interviews, and if necessary, surveys with relevant stakeholders, such as the AGLG, AGLG staff, the Audit Council, the Audit Council Secretariat, the Minister of Municipal Affairs and Housing, Ministry of Municipal Affairs staff and legal counsel, UBCM and client local governments;
- Review the AGLG legislation (this may be done indirectly through the interview process);

- Review AGLG documents such as performance audit reports, perspective series booklets, annual service plans and annual reports;
- Incorporate a best practices jurisdictional scan into the findings (this will be completed by Ministry staff);
- Report back to the working group on findings and receive input prior to presenting the final report and recommendations;
- Incorporate working group input and finalize a report with recommendations for the Minister.

Consultant Skills/ Experience:

- Experience in providing research and analysis on legislation and policy related to government.
- Experience using data collection methods such as interviews and surveys.
- Experience in drafting up reports for the public sector.
- Experience in providing advice and recommendations to senior executive and elected officials.
- Understanding of performance auditing and the local government system.

Approximate timelines:

Task	Timing
Working Group meeting – finalize terms of reference and work plan	Mid-April
SRFP finalized	June
Consultant retained and briefed about role	July
Consultant conducts interviews (and surveys if necessary)	July-August
Working Group meeting – consultant presents preliminary findings	October
Working Group meeting – review draft report and recommendations	November
Report finalized	November/December

Deliverables and outcomes of the consultant’s work:

The results of the review will be presented in a report with recommendations for the Ministry and involved stakeholders, including the working group.

PERFORMANCE AUDITED LOCAL GOVERNMENTS

Local Government	Year Audit Completed
<i>Those surveyed by UBCM:</i>	
1. City of Rossland	2014 and 2015
2. Comox Valley R.D.	2015
3. City of Dawson Creek	2015
4. Corp of Delta	2015
5. City of Merritt	2015
6. City of New Westminster	2015
7. District of North Vancouver	2015
8. City of Port Alberni	2015
9. District of Sechelt	2015
10. City of Surrey	2015
11. District of West Vancouver	2015
12. City of Vernon	2015
13. City of Campbell River	2016
14. City of Williams Lake	2016
15. Fraser-Fort George R.D.	2016
16. City of Cranbrook	2016
17. City of Revelstoke	2016
<i>Those Audited Since 2015 Survey:</i>	
18. City of Nelson	2016
19. District of Squamish	2016
20. R.D. of Okanagan-Similkameen	2017
21. District of Tofino	2017
22. District of Port Edward	2017
23. City of Fernie	2017
24. Town of Sidney	2018
25. City of Kelowna	2018

Introduction

There are a number of local government performance audit structures across Canada and the world, ranging from City Auditors General to state responsibility for local government auditing; however, there is no other audit body with a similar structure, role and mandate as the AGLG. As part of a larger review of the AGLG, this paper outlines a number of the local government performance audit structures and practices found across Canada, the United States, Australia, New Zealand and the United Kingdom. Although the paper primarily explores performance auditing and best practices, it also touches on the auditing of local government financial statements (attest auditing) in some jurisdictions where relevant.

Jurisdictions

CANADA

Overview and Trends

Outside of BC, local government performance auditing is dealt with at the local government level. There are no provincial audit structures in Canada similar to the AGLG. Some municipalities, such as Toronto and Halifax, are required by legislation to appoint an internal municipal auditor general to conduct performance audits. Other municipalities, such as Winnipeg and Ontario municipalities are empowered to appoint a municipal auditor general, but are not required to. These internal audit functions are distinct from the auditing of municipal annual financial statements, which is conducted by an external auditor, as required for most municipalities by provincial legislation.

Research conducted by the Canadian Audit and Accountability Foundation found that of the 58 municipalities in Canada with populations greater than 100,000, about 70 percent have some type of audit function. These functions vary significantly from one municipality to the next and generally fall into one of three models: Internal audit, Auditor General, and hybrid (characteristics of both). Municipal auditors general are generally empowered or required by provincial legislation, report to council (most often through an audit committee), and provide assurance services to help municipal councils safeguard public assets, comply with policies and legislation, and improve operations. Municipal auditors general in Quebec are also responsible for auditing their municipality's financial statements. Audit functions are primarily found within larger municipalities; few, if any, smaller municipalities in Canada have their own audit function.

In 2014, a study was conducted on the extent of performance auditing in major cities in Canada and the United States. Surveys were sent out to city auditors in all major cities (populations greater than 150,000) in the United States and Canada, along with several smaller cities. Surveys were completed by 126 audit functions and follow up interviews were conducted with 36 audit leaders from these cities. The main finding from this survey was that city auditors in Canadian cities spend 10% less time on performance auditing than their American counterparts. The average time spent by respondents in Canada is 48%, compared to 58% in the United States. Additionally, 25% of Canadian respondents reported spending only 10% of their time on performance auditing.

The primary barriers to performance auditing identified by this study were inadequate formal education, insufficient funding and a lack of affordable training. Other barriers identified by the report were a lack of provincial legislation, a lack of city bylaws, and immature governance and performance reporting processes. Additionally, the study found that small cities experience more barriers to performance auditing and need additional support than larger cities.

Alberta

In Alberta, generalized legislative authority enables Alberta's local governments to appoint a municipal auditor general. Edmonton and Calgary have employed this authority to set up municipal auditor general offices that provide internal audit services including performance auditing. Legislation to create a municipal auditor general office responsible for carrying out random audits of municipalities similar to the AGLG was introduced in 2009. This legislation was subsequently dropped in favour of other accountability measures, such as enhancing access to municipal financial information, which the government believed would meet the intent of the bill without the creation of a new body.

Calgary established its own City Auditor's Office in 2004 for the purpose of providing value to its council and senior management through objective assurance and insight into the effectiveness and efficiency of governance, risk management and internal control processes. The Office is accountable to council and subject to oversight by the audit committee. Examples of topics that the Office has conducted audits of include the effectiveness of corporate succession management processes, procurement and transit fares.

Edmonton's Office of the City Auditor was established in 1977 and currently has 15 staff and a budget of \$2.6 million. Edmonton's City Auditor is appointed by its council and provides a number of audit services including comprehensive reviews to determine whether a department, service or program operates efficiently, effectively and economically, and whether risks are minimized.

Saskatchewan

Saskatchewan's legislation does not contain a provision for the appointment a municipal auditor general or city auditor. The legislation does, however, include a provision that enables the public to petition for a municipality to conduct a management or financial audit, upon receiving support from one-third of the voting residents in that municipality. The purpose of a financial audit is to determine instances of fraud, unauthorized transactions, and non-compliance with statutes and bylaws. The purpose of a management audit is to review if a municipality's operations are undertaken economically, efficiently and effectively, and proposes solutions to any issues identified. This authority is not used often, but has been used as recently as March, 2018.

To help municipalities assess the sustainability of their operations and find areas for improvement the Government of Saskatchewan, in consultation with the municipal sector, developed the Municipal Government Sustainability Self-Assessment Tool. Although this is not an auditing function, this tool provides municipalities with an informal resource to help them assess their own performance. The tool is an interactive Microsoft Excel workbook that asks municipalities to provide answers to a number of scenario-based and quantitative questions. The tool collates the answers from the questions to provide municipalities with sustainability scores in eight areas: governance, administration finance and financial management, service delivery, public safety, infrastructure, demographics and economic trends, and partnerships.

Saskatoon is the only municipality in Saskatchewan with an identified municipal audit function. The municipality does not have a municipal auditor general, but instead has a Corporate Risk Division

responsible for overseeing the internal audit function of the municipality. The Division works with contracted auditors responsible for evaluating the effectiveness of risk management, control and government processes.

Manitoba

In Manitoba, all municipalities are empowered to appoint a municipal auditor general, except for the City of Winnipeg, which is statutorily required to appoint one. Winnipeg's City Auditor is appointed by its council, reports to its council through an audit committee and is independent of the City's public service. The mandate of the Winnipeg City Auditor includes reviewing the performance of the City's operations with respect to economy and efficiency; examining internal controls, compliance with legislation and bylaws; and providing advice and assistance in the development of performance measures. The City also has a 24-hour fraud and waste hotline that is available to all citizens and is operated by an independent third party.

The Auditor General of Manitoba also has a limited mandate for auditing municipalities. The mandate primarily includes responding to citizen concerns and does not include performance auditing. For example, the Rural Municipality of Lac du Bonnet was audited by the Auditor General of Manitoba in 2013 following allegations of poor administrative practices. Prior to this, four other audits were conducted on rural municipalities dating back to 2002. The Office reported that despite these five audits and on-going training and information provided by the Manitoba government to municipalities, between 2011 and 2013, about 23% of the citizen concerns forward to the Office involved municipalities.

The Auditor General of Manitoba also provides best practice guides on audit committees and internal auditing; however, these are general practices for all organizations and are not specific to municipalities.

Ontario

In Ontario, the City of Toronto is required to appoint an auditor general and all other municipalities are empowered to appoint one. Ontario's legislation requires municipal auditor generals to report to council and provides them with responsibility for assisting council and the administration in holding themselves accountable for the quality of stewardship over public funds and achieving value for money in municipal operations. This is primarily done through performance and compliance auditing.

In addition to Toronto, some of the larger municipalities in Ontario have implemented auditor general offices, largely with mixed success. Both Ottawa and Toronto established their auditor general offices in the early 2000s. These two offices also operate 24-hour fraud and waste hotline programs which are accessible to city staff and the public.

Other municipalities in Ontario which have established internal audit functions include:

- **Sudbury:** Established a municipal auditor general office in 2009 which is still in operation. The Office was vacant for one year between 2014 and 2015 when the previous auditor general took a leave of absence to run for mayor.
- **York Region:** Does not have a municipal auditor general but has an internal audit services branch which was established in 2000. The branch is headed by a director that reports to an audit committee and council. Since 2005, the Audit Services Branch has provided audit services to six of the smaller municipalities located within the York Region on a fee for service basis.

- **Windsor:** Had a municipal auditor general until 2012 when the then auditor general was fired without cause by council. Since then, auditing services has been provided by an external contractor. There is currently a public campaign requesting municipal candidates to proclaim their support for an auditor general for Windsor. To date, nine out of 60 candidates have signed on.
- **Markham:** Hired its first auditor general in 2008; however the person left the position for another job in 2009 and the position remained vacant until 2015. The auditor general role is now being filled by an independent accountancy firm.
- **Hamilton:** Does not have an auditor general office, but has an internal audit department that provides audit services, including value for money audits.
- **Oshawa:** Council removed their auditor general in 2013 following a scathing audit report that alleged the city manager of misleading council on the purchase of land. A lawyer was hired to investigate the audit and cleared the city manager of wrongdoing and questioned the auditor general's credibility. The auditor general in question was hired by Sudbury in 2015.

In addition to municipal auditor general offices or internal audit functions, in 2006 the Province of Ontario initiated the Ontario Municipal Benchmarking Initiative (OMBI). The purpose of OMBI was to identify and develop performance measures, capture performance data, and analyze and benchmark results in order to identify best practices of service efficiency and quality in Ontario municipalities.

In 2016, OMBI was formally changed to the Municipal Benchmarking Network Canada to reflect the inclusion of municipalities from outside of Ontario. There are now 16 Canadian municipalities from six provinces involved in the organization. Every year, the organization publishes a Performance Measurement Report sharing and comparing the performance of participating municipalities across 37 service areas—everything from accounts payable to drinking water. Participating municipalities use the data to support council decisions, set policy, inform reviews, evaluate programs, support budget recommendations, identify trends, and develop data dashboards.

Quebec

In Quebec, legislation requires all local governments with populations of over 100,000 to appoint a municipal auditor general, whose mandate include financial, legal, regulatory and value for money auditing. This legislation was introduced in Quebec to strengthen municipal accountability and transparency following the amalgamation of a number of smaller municipalities into large municipalities. There are currently 10 municipalities in Quebec with populations over 100,000.

In April 2018, Quebec adopted legislation that expanded the mandate of the Commission municipale du Québec (CMQ) with respect to municipal auditing. The CMQ was created in 1932 to control and monitor the finances of municipalities, school boards and factories. The 2018 amendments provide the CMQ with responsibility for conducting performance audits in municipalities with populations between 10,000 and 100,000. Prior to this, the CMQ only conducted performance audits on municipalities with populations of less than 10,000 and the performance audits of municipalities with a population between 10,000 and 100,000 was conducted by an external auditor (also responsible for auditing financial statements).

Each municipality that the CMQ has performance auditing responsibility for, must undergo a performance audit once every two years. Additionally, those municipalities with populations of over

100,000 may, by resolution, request the CMQ to conduct a performance audit on their own auditor general.

Nova Scotia

A municipal auditor general office was proposed for Nova Scotia in 2011. The proposed plan for the Office was: the minister would appoint the municipal auditor general on the recommendation of the Union of Nova Scotia Municipalities, the province would pay the auditor general and staff, Nova Scotia's 55 municipalities would cover the cost of operating the office and each municipality would have to pay for a value-for-money audit once every four years. The Office was never created and the plan was shelved following a provincial election.

Although a municipal auditor general office was never realized for Nova Scotia's municipalities, the City of Halifax has its own auditor general office, as required by the *Halifax Regional Municipality Charter*. The Office was established in September 2009 and is responsible for assisting the council and the municipal administration in holding themselves accountable for the quality of stewardship of public funds and for achieving value for money in operations. The Halifax Auditor General reports to council and can hold the position for a maximum of seven years.

New Brunswick

There is no legislative provision for a municipal auditor general in New Brunswick. The City of Moncton has its own internal audit office headed by an internal auditor that reports functionally to the city council and administratively to the city manager. The role of the internal auditor is to examine and evaluate the economy, efficiency and effectiveness of the City's governance, risk management, system of internal control, performance levels in delivering municipal services and programs and make investigations into suspected fraudulent activities and other acts of misconduct. Similar to other internal audit functions or municipal auditors general, the City's internal auditor does not audit the City's financial statements, as this function is conducted by an external auditor.

Prince Edward Island (PEI)

In December 2017, new legislation came into force that requires municipalities with more than \$50,000 in annual budgeted expenditures to appoint an external auditor to produce yearly financial statements by April 2020. There is no requirement in PEI for a municipality to appoint an auditor general or undertake performance auditing.

PEI's legislation also enables the Minister to appoint a person to audit the accounts of a municipality or cause an inspection into the management, administration or operation of a municipality. The costs of an audit or inspection ordered by the Minister are to be borne by the municipality. No data is available on whether or not this power has been exercised.

Assembly of First Nations

In July, 2016 the Assembly of First Nations and Indigenous and Northern Affairs Canada signed a memorandum of understanding to research and develop proposals and recommendations for the design of a new fiscal relationship between First Nations and the Government of Canada. As part of this process, consideration is being given to a new accountability regime that would establish new First Nations institutions, including a First Nations Auditor General. The Canadian Audit and Accountability Foundation (CAAF) conducted research to consider the potential roles and requirements for a First Nations Auditor General structure. The study focused on the establishment of single First Nations

Auditor General. The research suggested that a First Nations Auditor General could be mandated to carry out two primary functions:

- Providing capacity-building resources to First Nations leaders and managers that help demonstrate accountability and improve the management of financial and human resources and community-based programs. A resource centre could be developed to provide guidance, training, support and capacity building resources to help First Nations citizens hold their governments to account.
- Conducting performance, compliance and financial audits. Primarily performance audits because they have the greatest potential to drive improvements to socio-economic outcomes. These audits would focus on economy, efficiency and effectiveness of policies and programs and services.

The CAAF research examined the AGLG as one of its reference points because it is a unique institution in BC that provides performance auditing across the Province and is responsible directly to local governments. Small municipalities in Canada generally do not have their own audit function, and it would be impractical to have a First Nations Auditor General office for each First Nations, therefore a similar structure to the AGLG may be a viable option.

AUSTRALIA

In Australia, performance auditing of local governments is primarily dealt with at the state level. Of the four states (excluding Australia Capital Territory) and three internal territories in Australia, six have some form of state or territory local government auditing function that includes performance auditing (or examinations) of local governments (see table below). The inclusion of local government performance auditing under the purview of a state auditor-general has been a recent trend in Australia, with five of these jurisdictions assuming this function within the last 10 years.

State/Territory	Auditing Function	Year of effect
New South Wales	State auditor-general is the auditor of local governments and mandate includes performance audits.	2016
South Australia	State auditor-general can examine the accounts or economy and efficiency of local governments or local government programs (similar to a performance audit). It is not the auditor for local governments.	2013
Queensland	State auditor-general is the auditor for local governments and mandate includes performance audits.	2011 (performance audits)
Tasmania	State Auditor-General is the auditor for local governments and mandate includes performance audits.	2008
Victoria	State Auditor-General is the auditor for local governments and mandate includes performance audits.	1995
Western Australia	By fiscal year 2020/2021 all local governments will be audited by the state auditor-general and mandate includes performance audits.	2020/2021
Northern Territory	The state auditor-general does not have a mandate for local governments.	N/A

New South Wales

In 2016-17 the Audit Office of New South Wales's mandate was expanded to include local councils and includes the authority to conduct sector wide performance audits. This change was part of a broader local government reform agenda by the New South Wales Government aimed at creating a modern system of local government with strong performing councils. Since this mandate was introduced, the Office has conducted local government performance audits on share services, fraud controls and for 2018-19 is planning to complete audits on waste management and staff implications. Performance audits are generally conducted on a sample of local councils or all local councils; they are not conducted on individual local councils.

The New South Wales audit office developed "better practices guides" up until 2015 on state government topics. No better practices guides have been, or are planned to be developed for local governments.

A local news article reported that Local Government New South Wales, an organization representing local councils, applauded the first local government performance audit by the Audit Office of New South Wales. The audit recommended that residents be given more detailed information about how local councils spend their money and what they receive for it. The organization said that they had been waiting years for reform from the state government to set a higher bar for local government reporting.

South Australia

In 2013, the mandate of the Government of South Australia's Auditor-General Department was expanded in relation to local governments to allow the Auditor-General to examine the accounts, economy and efficiency of local governments or local government projects. These examinations are generally conducted on either a specific local government project or multiple local governments for a specific topic such as indemnity schemes or governance.

In June 2016, a Parliamentary Committee report recommended that councils be subject to a thorough auditing process under the auspices of the Auditor-General; however this did not come to fruition. The Auditor-General did not think there was a great advantage to the Auditor-General auditing all local government accounts in the way that an external auditor would. To date, the Auditor-General is only responsible for conducting specific local government examinations.

Queensland

In Queensland the Auditor-General is the external auditor for local governments in Queensland. Since 2011, the mandate of the Auditor-General includes performance audits to determine if local government objectives are being conducted economically, efficiently and effectively and in compliance with relevant laws. Local government audits are paid for by the local government that is audited. Examples of audits to date include managing local government rates, fees and charges; forecasting long-term sustainability of local governments and traffic management systems. Audits are generally conducted on a sample of local governments or a survey of all local governments.

Tasmania

The Tasmanian Auditor-General has a similar role to the Queensland and New South Wales Auditors-General. The Auditor-General can conduct financial, compliance and performance audits on local governments. Examples of audits include compliance with legislation, bushfire management, road management in local governments and fraud in local governments. Audits are generally conducted on all 29 Tasmanian local governments or a sample of local governments.

In addition to financial, performance and compliance audits, the Tasmanian Audit Office also offers an excel spread sheet to local governments to help them prepare their financial statements. Tasmanian local government legislation also requires all Tasmania local governments to establish and maintain an audit panel. The audit panel provides an independent mechanism to review council processes and decision making. A successful audit panel provides assurance that council decisions are made in the interest of the community, with particular attention to proper management practices and compliance with legislation and policy.

Victoria

The Victorian Auditor-General's Office has had responsibility for local government auditing, including performance auditing since 1995. Local government performance audits conducted by the Office determine whether a local government is performing effectively, economically and efficiently and in compliance with all relevant legislation. Since 1999 the Office has conducted 62 local government audits. Performance audit topics include waste management by municipal councils, land use and development, management of local roads and performance reporting in local government. The Office has also published select best practices materials such as best practices for internal financial reporting.

In addition to the work that the Victorian Auditor-General's Office conducts, Local Government Victoria, a division in the Victoria State Government, provides a number of better practice guides for local governments. Some of these guides are produced with oversight by, or with support from, the Auditor-General's Office. Examples of better practice guides developed by Local Government Victoria include planning and reporting, model budgets and asset management.

Western Australia

Western Australia is the most recent Australian jurisdiction to place the auditing of local governments under the purview of the state auditor-general. The new legislation requires all local governments to be audited by the Auditor-General by 2020/2021, primarily by an external firm under the supervision of the Auditor-General. The legislation also places an obligation on local governments to publish their annual reports online. Additionally, if the Auditor-General reports any significant matters arising through a performance report, the audited local government is required to report the actions it has taken to address this issue to the Minister and publish a copy of the report online. The first planned performance audit by the Office is local government procurement to determine whether local governments have established policies and procedures for procurement of goods and services and whether there is effective oversight and control of procurement activities.

NEW ZEALAND

In New Zealand the Controller and Auditor-General is the auditor for every public entity, including local governments. The Auditor-General's mandate includes performance audits on local governments and auditing of the draft and final long-term strategic plans of local governments. Performance audits have been conducted on New Zealand's local governments since the 1960s despite the absence of a mandate until 1977 to do so. The Auditor-General employs staff in two different offices:

- *Office of the Auditor-General:* responsible for the overall planning and reporting, and carries out performance audits, special studies and inquiries. This office has its own dedicated local government audit team.

- *Audit New Zealand*: responsible for carrying out annual audits on the Auditor-General's behalf. Private sector accounting firms will also carry out annual audits on the Auditor-General's behalf.

The Office has conducted a number of audits on local governments in New Zealand. Sometimes these audits assess all local councils, other times audits are an inquiry into a specific local government following concerns raised by the public. The Office has also produced audit documents that are similar to a lessons learned or best practices guide through the assessment of specific local governments. Areas that the Auditor-General has conducted performance audits on include insuring public assets, monitoring the use of water for irrigation, conflict of interest, and funding and management challenges of water and roads.

UNITED STATES

Washington State

The Office of the Washington State Auditor General is required to examine the financial affairs of local governments. The Office is responsible for auditing more than 3,000 local governments. A range of audits are conducted by the Office including:

- *Performance audits*: evaluations of the effectiveness, economy and efficiency of public services, at both the state and the local level.
- *Accountability audits*: assess how local governments manage, use and safeguard public resources. It evaluates whether there is reasonable assurance the local government adhere to applicable state laws, regulations and its own policies and procedures.
- *Financial audits*: determines if local government financial statements are accurate and complete.
- *Single audits*: conducted on local governments that spend \$750,000 or more in federal financial assistance annual to determine whether local governments have complied with federal compliance requirements.

The Office also issues accounting and reporting requirements for local governments and collects and reports their revenues and expenditures. This information is provided through the Local Government Financial Reporting System. The data inputted into this system allows for trend analysis, identifying red flags in financial areas or identifying compliance areas for local governments.

In addition to auditing, the Office periodically produces special reports on specific local government issues such as "Local Governments: Improving Transparency and Accountability". Most of the performance audits conducted by the Office are focused on large state-level programs, so to help local governments solve problems, reduce costs and improve the value of their services, they created the Local Government Performance Centre. This centre brings the performance management lessons to local government through training, tools and technical assistance. Some of the tools offered through the centre include:

- Free training to local government elected officials, managers and staff to improve performance, financial management, customer satisfaction and transparency (both through scheduled classes and specific training to the local government).
- An online training library with eLearning courses covering topics such as capital assets management and fraud.

- *Lean Academy*: Offers training to local government employees, so they can learn lean processes and improvement techniques with peers from similar organizations. Academy workshops are usually three days of training on Lean techniques followed by a one-week workshop analyzing their processes. Following this training, one county was able to reduce the time it takes to issue a single family home construction permit from 31 days to 9.
- *Financial Intelligence Tool*: Is an online interactive program that displays historical financial information in a trend format, with graphs and charts that allow for easy analysis.

New York State

In New York State, performance auditing is conducted by the Office of the New York State Comptroller's Division of Local Government and School Accountability. Local officials use audit findings to improve program performance and operations, reduce costs and contribute to public accountability. Audits are generally conducted about a specific topic in a single local government, similar to performance auditing by the AGLG. Examples of topics include internal controls over the treasurer's office, budget reasonability, internal controls over capital projects and community development activities. Performance audit objectives can vary widely but generally include an assessment of program effectiveness, economy and efficiency, internal control, compliance and prospective analysis.

The Office also provides a number of online resources for local governments to help them achieve value for money. For example, the Office has posted a series of 'cost saving ideas' resources for local governments. Twenty-two documents on varying cost saving topics such as how to reduce energy costs and cost savings in capital planning and management have been prepared and posted online. Online resources also include a number of local government management guides on topics such as strategic planning, seeking competition in procurement and capital assets.

Navajo First Nation

The Navaho First Nation has its own auditor general, which reports directly to the Budget and Audit Committee for the First Nation and is politically appointed by the Speaker of the Navajo First Nation Council. The position and responsibilities of the Auditor General are established under the Navajo Nation Code. The Office of the Auditor General is responsible for providing independent and objective assessments of the Navajo Nation programs, enterprises and political subdivisions. The Office conducts performance audits of government programs, departments and entities and financial-related audits of the internal controls structure and accounting systems chapters (compliance and fraud investigations).

This office is not specifically responsible for conducting performance audits of local chapters; however, local chapters are required to adopt and operate a five management system includes accounting, procurement, filing, personnel and property. The Office is responsible for reviewing the chapters' five management system policies and procedures. The review includes obtaining an understanding of the internal control policies and procedures established by the chapters' five management system, evaluating the design effectiveness of the internal control procedures and determining whether such procedures have been placed in operation. Upon completion and governance certification, the successful Navajo Nation chapter is delegated governmental authority with respect to local matters.

Cities in the United States

Similar to Canada, there are a number of cities in the United States that have independent audit offices, many of which conduct performance audits. For example, the City and County of Denver, Colorado has an Auditor's Office and Audit Services Division which conduct independent performance audits of City agencies, programs and contracts. The Division, under the leadership of the elected Auditor, is

responsible for keeping residents informed about the activities of the City and County government. The role of the Auditor was amended in 2008 to enhance the independent standing and authority of the Auditor in conducting its work. In 2011, the Division issued 17 performance audit reports.

The City of San Diego also has an independent Office of the Auditor General which reports to an audit committee and its council. The mission of the Office is to advance open and accountable government through accurate, independent, and objective audits and investigations that seek to improve the economy, efficiency, and effectiveness of the San Diego City government. In 2017 the Office conducted 16 performance audits, one procedures review and seven fraud hotline investigations.

Examples of additional cities in the United States with audit functions include Portland, Oregon; San Antonio, Texas; Las Vegas, Nevada; Nashville, Tennessee; Honolulu, Hawaii and Seattle, Washington.

UNITED KINGDOM

England

In 1983 the Audit Commission was established as a statutory corporation in the United Kingdom responsible for appointing auditors to local governments. In 2015 the Audit Commission was closed to reduce government spending and a new local audit and accountability framework for local public bodies in England was introduced. Oversight for local government audits was moved from the Audit Commission to the Financial Reporting Council, a private sector body, new mandatory transparency requirements were instituted for smaller local authorities in place of routine audits, and local governments were made responsible for appointing their own auditors. The changes also encouraged a focus on value for money by enabling the National Audit Office to undertake value for money examinations relating to thematic issues faced by local public bodies.

Northern Ireland

In Northern Ireland, every local government's financial statements must be audited by an external auditor assigned by the Department for Communities, with the consent of the Comptroller and Auditor General for Northern Ireland. The Department may designate a member of the Northern Ireland Audit Office as the local government auditor. The local government auditor is required to carry out its work in accordance with the Code of Audit Practice.

In preparing its annual financial statements, local governments are required to prepare Annual Governance Statements which cover arrangements and internal controls for securing economy, efficiency and effectiveness in the use of resources. Local government auditors are responsible for determining if local governments have the proper controls in place to secure economy, efficiency and effectiveness and for evaluating council performance improvement systems. If the local government auditor determines it is appropriate, they can conduct a special inspection into a council's performance improvement responsibilities. The results of the local government auditors work is reported to local council members and local government bodies.

Wales

In Wales, the Auditor General for Wales is responsible for auditing local governments through the Wales Audit Office. The Office audits the financial accounts of councils, reports on how services are being delivered, assesses whether value for money is being achieved and checks how they are planning and delivering improvements. An annual assessment of each council is conducted by the Office every year,

in addition to a more in-depth Corporate Assessment every four years. Annual Improvement Reports are prepared for each council every year that comment on governance, improvement and performance planning and reporting arrangements.

The Auditor General for Wales also undertakes a programme of local government studies that focus on a single issue or policy area and review the performance and use of resources by public bodies across Wales. For example, a recent study assessed “How local governments manage demand – homelessness”. The study included audit field work of five local governments, a survey of citizens, website and document reviews, interviews and analysis of data and expenditures on homelessness services. Topics slated for future studies include using data effectively, how well do public services provide services to rural communities and value for money of planning services.

Scotland

The Accounts Commission is the public spending watchdog for local governments in Scotland. It holds councils and various joint boards and committees to account and helps them improve. It operates impartially and independently of councils and of the Scottish Government, and meets and reports in public. Audits are undertaken by Audit Scotland’s Audit Services Group or by private firms, on appointment by the Audit Commission.

In Scotland, achieving “best value” is a statutory duty for local authorities, such as councils. Best value is about ensuring that there is good governance and effective management of resources, with a focus on improvement, to deliver the best possible outcomes for the public. Audit Scotland audits local authorities against the requirements for best value and produces best value reports and performance audit reports. To support the audit process, it has also published toolkits on topics including financial management, community engagement, risk management and public performance reporting.

Summary of Findings

Although there are no audit structures across Canada or worldwide identical to the AGLG, the best practices scan indicates that internationally, there are a number of mechanisms to support the provision of services by local governments to maximize their services and programs. Performance audits are an auditing tool that are used by a number of jurisdictions around the world and Canada to help local governments achieve value for money and increase the effectiveness of the services that they provide.

The scan has demonstrated a wide range of auditing functions for local governments. In Canada and the United States, there are a number of cities that have taken the initiative to establish auditor general offices or internal audit departments to conduct performance audits and help hold council and the administration accountable to their citizens. In other jurisdictions, such as Australia and the UK, this function is primarily carried out by a state or nation auditor general. Most often these jurisdictions also provide financial, compliance and auditing for local governments.

In addition to providing auditing services, a number of auditor general offices provide tools and best practice material to help local governments maximize their efficiency and effectiveness. For example, the State of Washington has developed a suite of tools and resources, including online training and Lean Workshops to support local governments. Another example is the State of Victoria, Australia where the Victorian Government provides resource manuals to local governments through the Local Government Department in partnership with the Auditor-General’s Office. The Government of Saskatchewan is

another example of a jurisdiction that provides less formal performance support to local governments through its Municipal Government Sustainability Self-Assessment Tool.

The research has also pointed to a gap in performance auditing by smaller local governments. A number of the larger cities in Canada and the United States have their own internal capacity (or requirement) to develop auditor general or internal audit offices to conduct performance and compliance audits. There were no examples of small municipalities undertaking this type of work on their own behalf. Australian states and territories appear to address this gap and ensure consistency in local government auditing by placing the responsibility for local government audits with the state or territory auditor general office. The CAAF research also points to the challenges in establishing audit offices for all First Nations' communities by proposing the establishment of a single First Nations Auditor General, similar to the AGLG model.

In conclusion, there are a number of performance auditing mechanisms and arrangements in place across Canada and the world to support local governments in achieving value for money and providing transparency and accountability to their citizens. These structures can vary largely by jurisdiction. Performance auditing is also often viewed by jurisdictions as a positive tool to help support local councils and administrations in providing quality services and accountability to their communities.

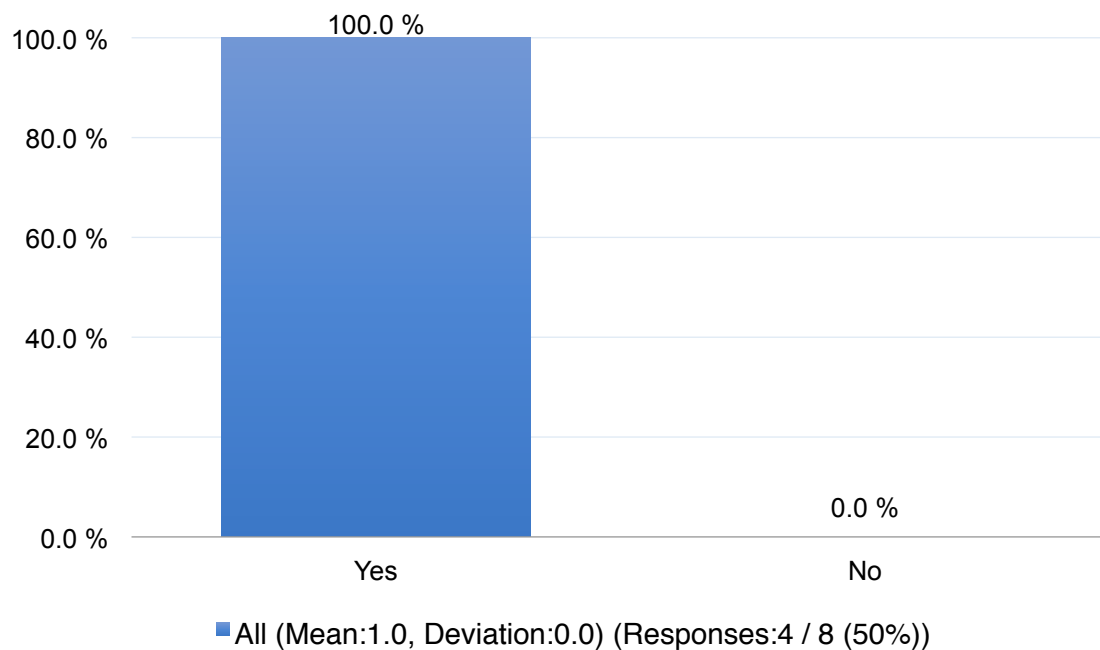
Survey Results of Eight Local Governments Audited Since 2015

September 2018

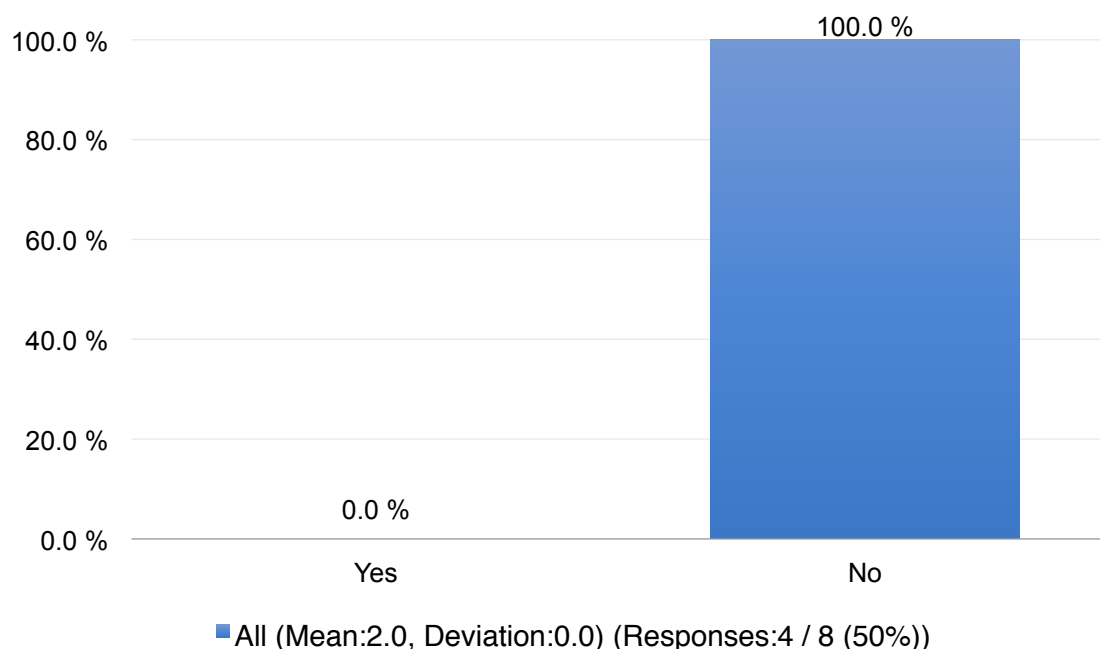
(Please note that some sections have been removed for confidentiality purposes.)

Audit Scope and Information Requests

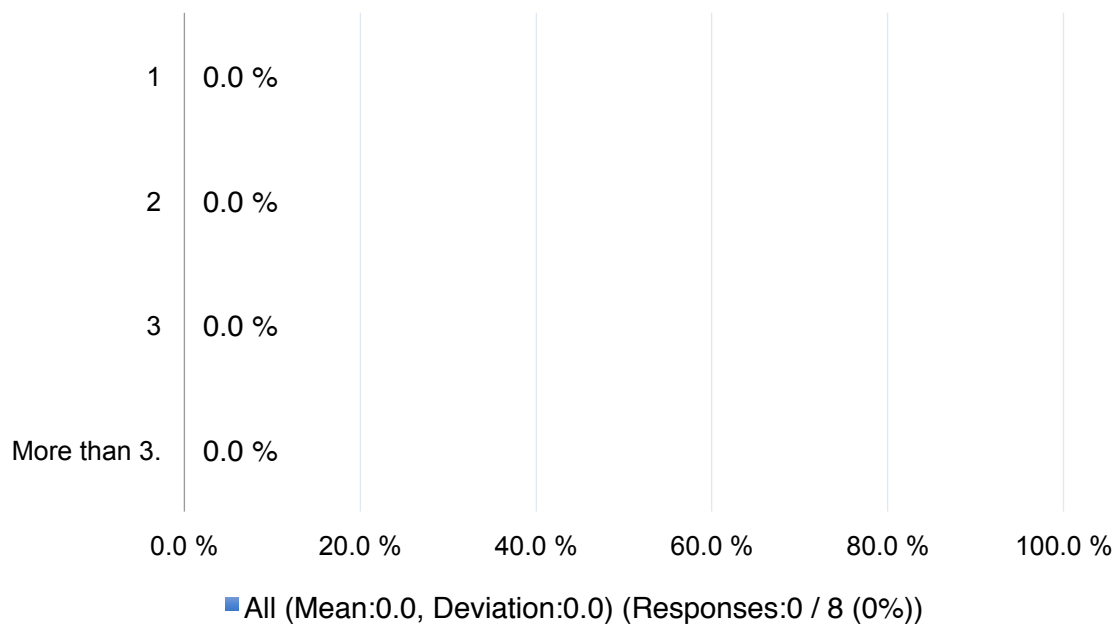
4. Did the AGLG define the scope of work for the audit topic selected for your local government?



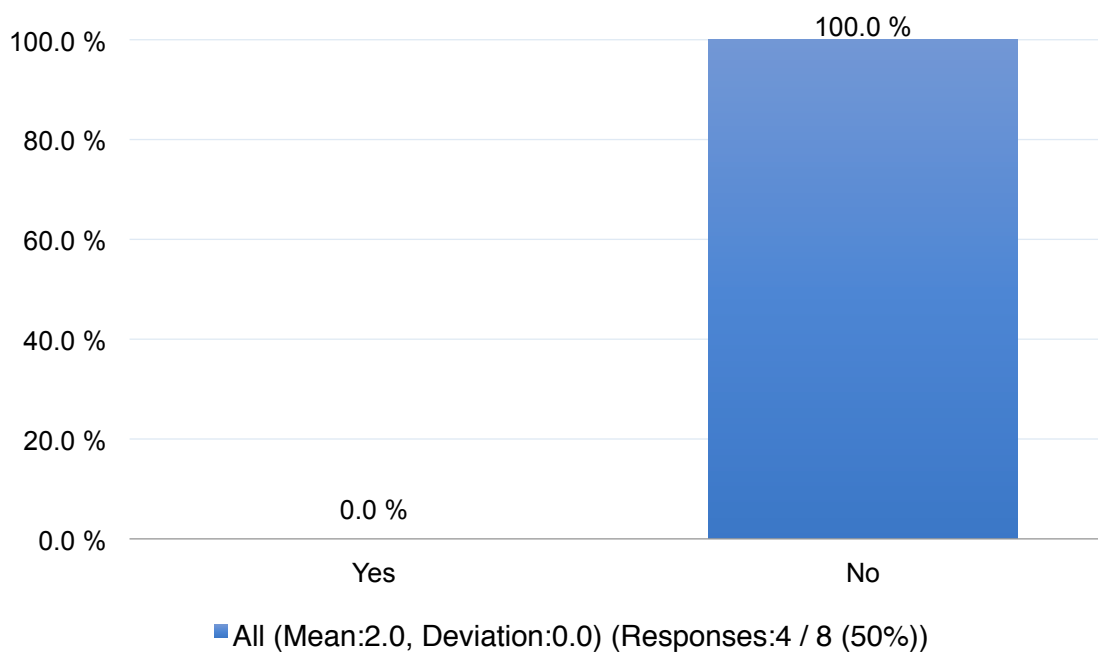
5(a). Did the AGLG request scope changes during the course of the audit?



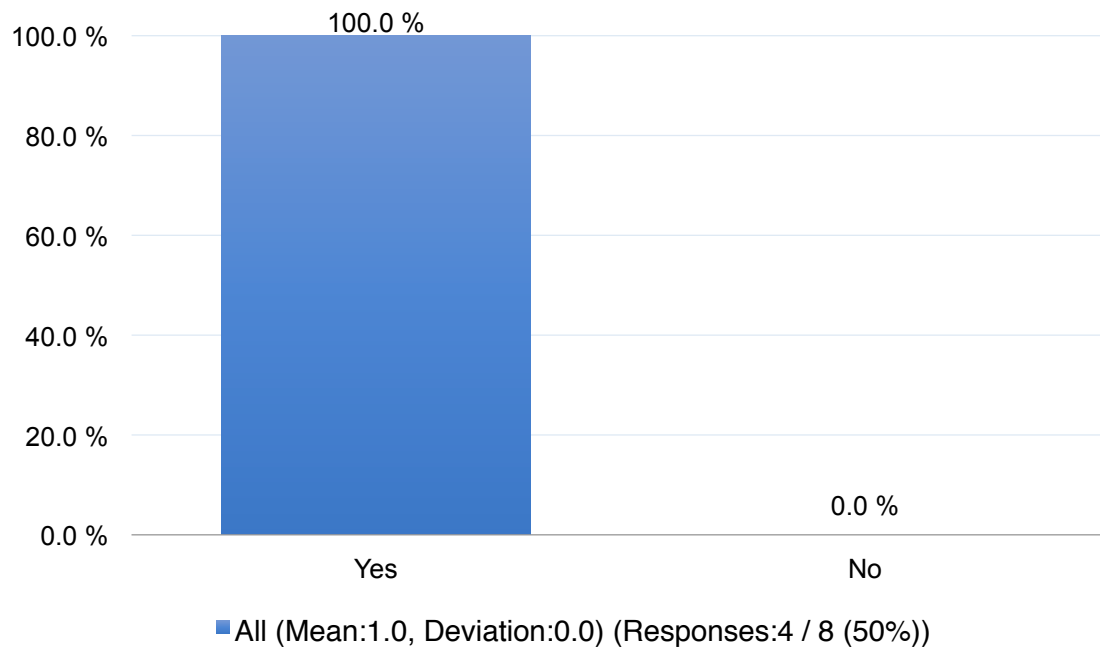
5(b). If scope changes were requested by the AGLG, how many requests were made?



6. Were there repetitions in requests for information made by the AGLG?

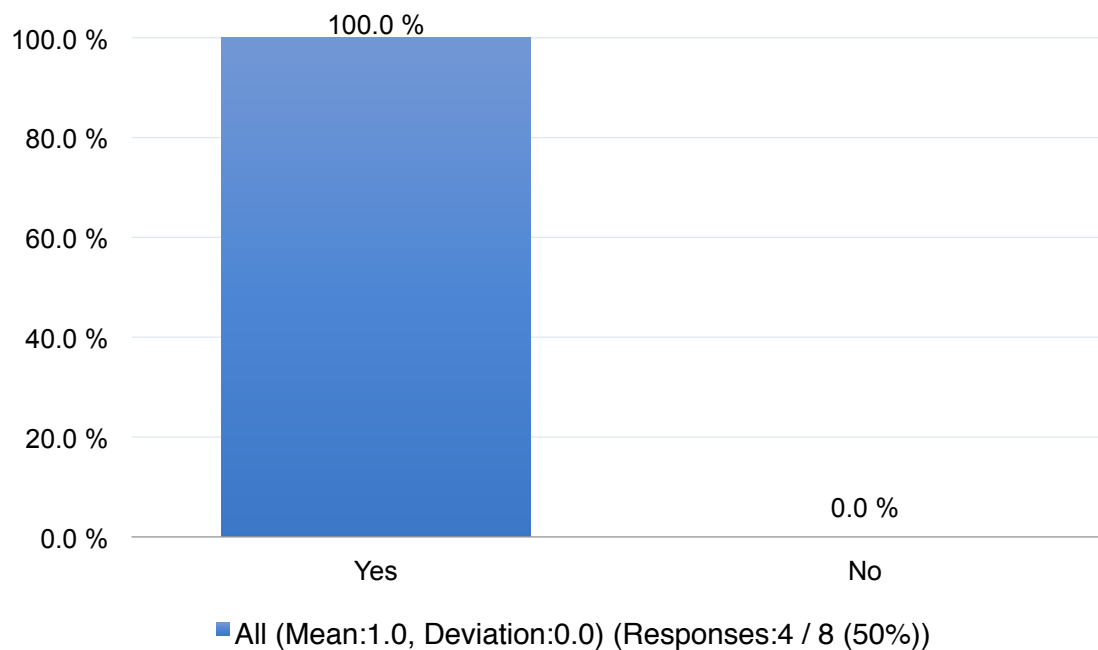


7. The purpose of the AGLG as stated in the Auditor General for Local Government Act is as follows: to conduct performance audits of the operations of local governments in order to provide local governments with objective information and relevant advice that will assist them in their accountability to their communities for the stewardship of public assets and the achievement of value for money in their operations. Were the information requests of the office in keeping with the stated purpose of the AGLG office?

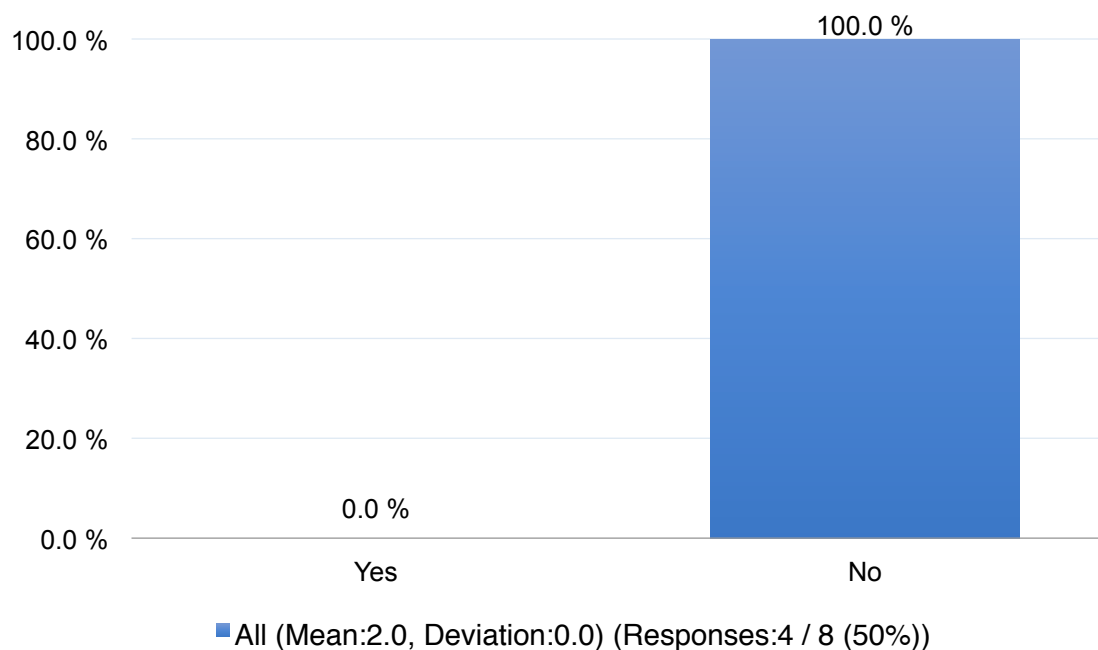


Local Government Capacity

8. Did the AGLG discuss and consider in advance the local staff and resources that would be required to comply with the audit?



9(a). Did your local government keep records of the staff time and other resources necessary to comply with the audit?

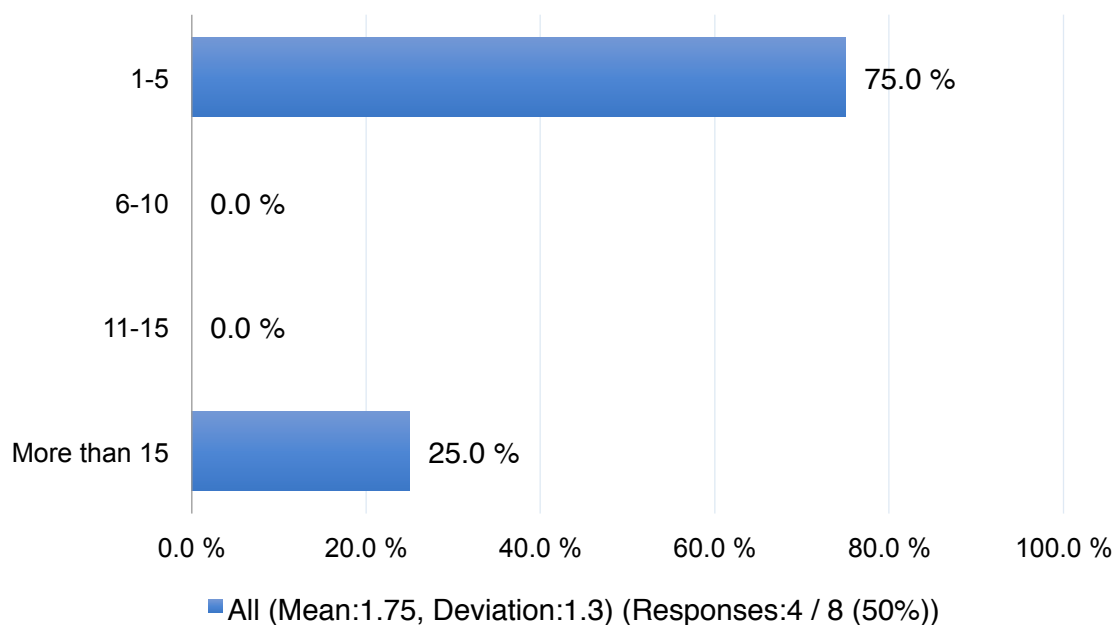


9(b). If yes, please provide the number of staff hours that have been required to fulfill AGLG audit requests to date. (All)

9(c). If no, please provide an estimate of the number of staff hours that have been required to fulfill AGLG audit requests to date. (All)

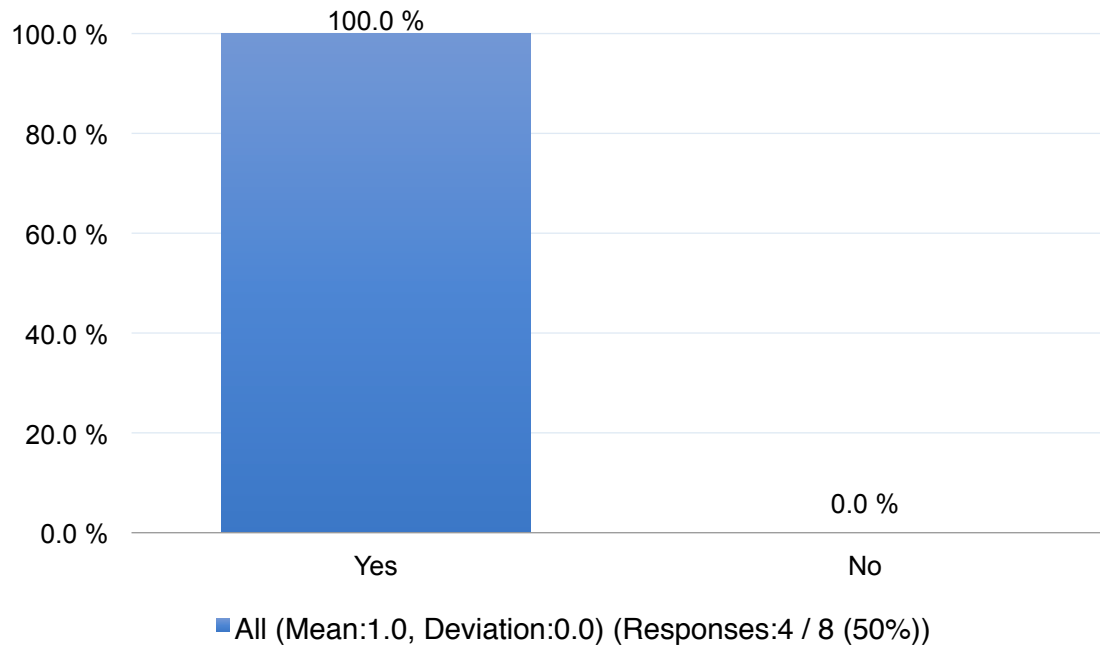
- approx 10 hours
- 60-70 staff hours
- 250
- 250

10. How many staff members made contributions to the AGLG audit process from your office?

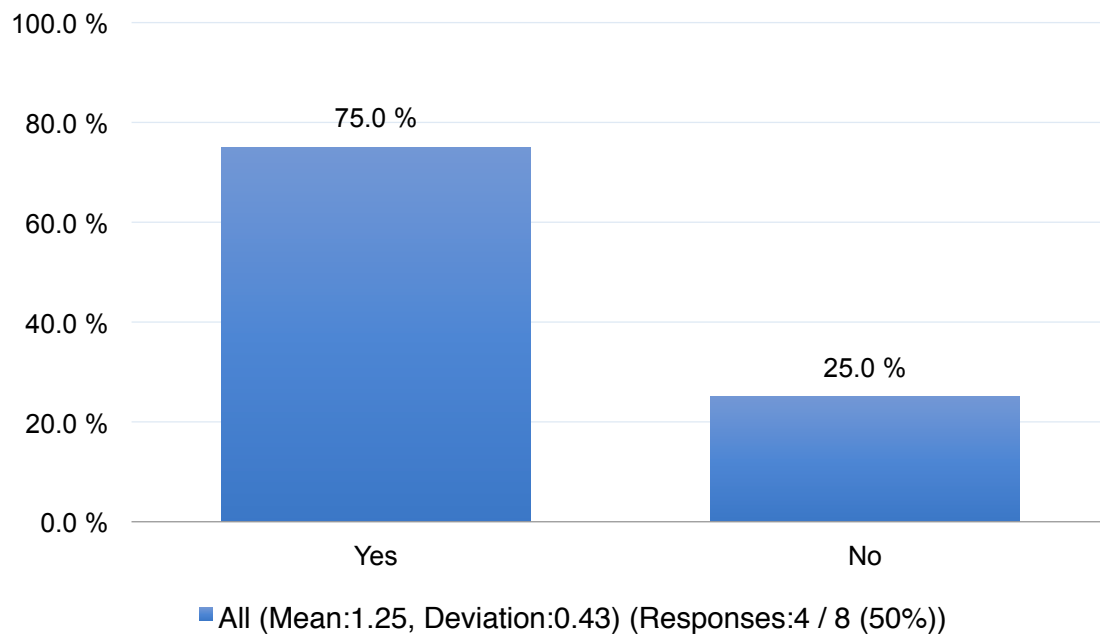


Timeliness

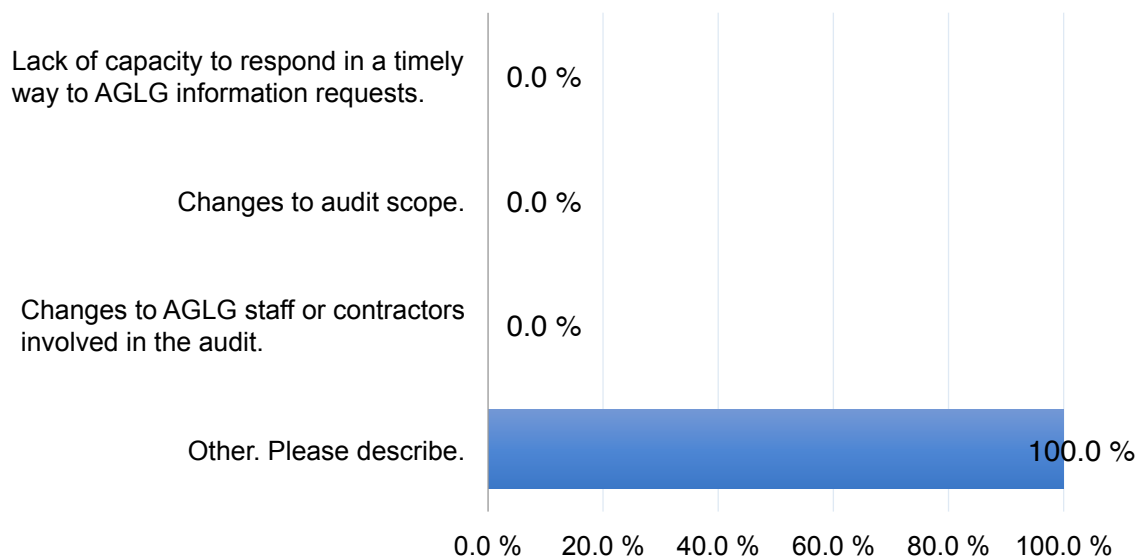
11. Did the AGLG propose a timeline for the audit?



12. Was the timeline adhered to?



13. If the timeline to complete the audit was extended, please select reasons from the following list to describe why that was so:



■ All (Mean:4.0, Deviation:0.0) (Responses:1 / 8 (13%))

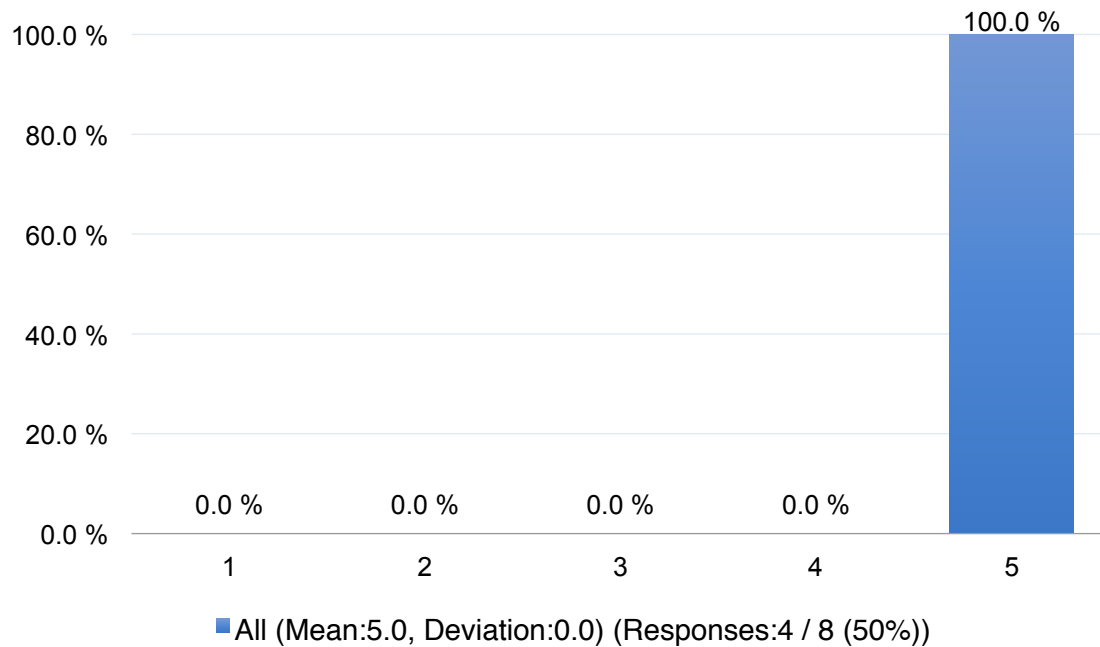
13. If the timeline to complete the audit was extended, please select reasons from the following list to describe why that was so: - Other. Please describe. (All)

- Timeline was slightly lengthened, however not significantly. I believe it was done due to the amount of information to compile, assess and report on.

AGLG Office

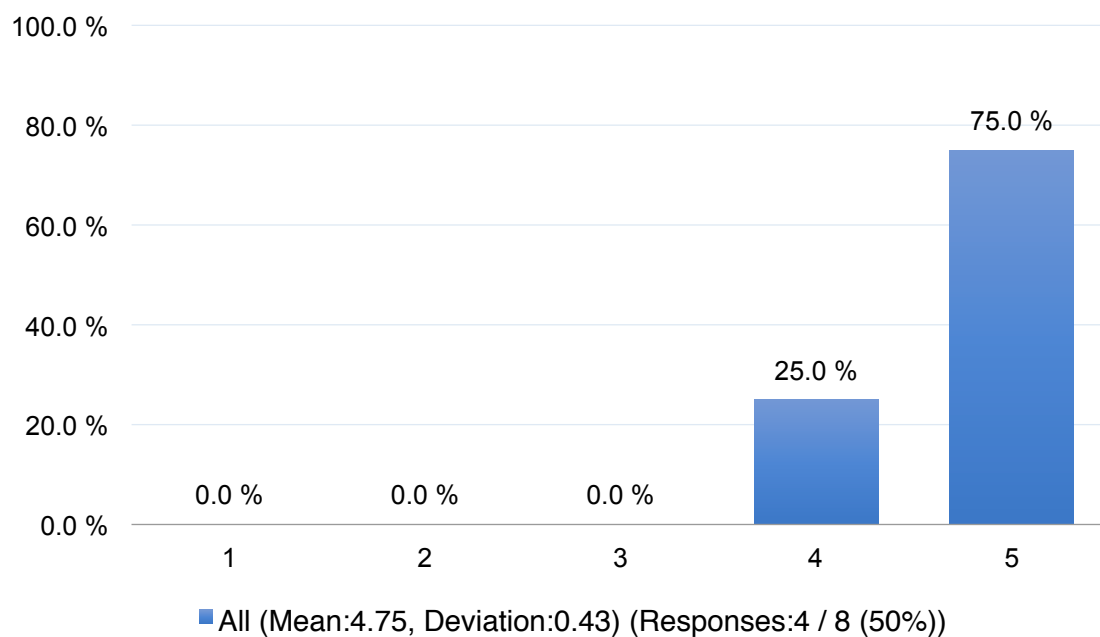
Communicated in a professional and respectful manner

(1 = Worst, 5 = Best)



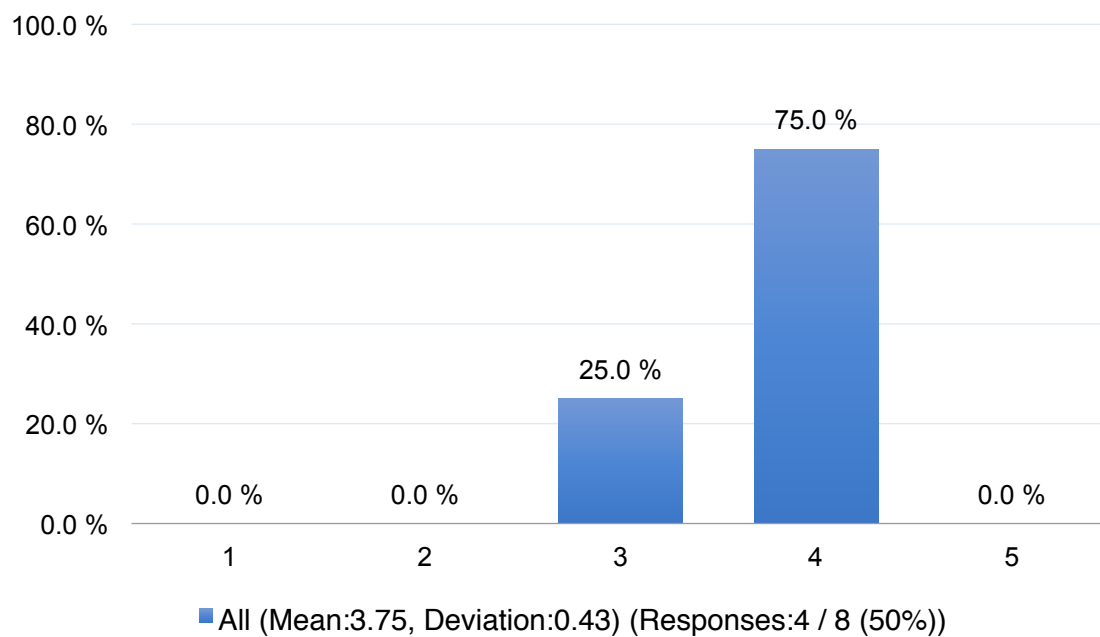
Was accessible and responded to questions in a timely manner

(1 = Worst, 5 = Best)



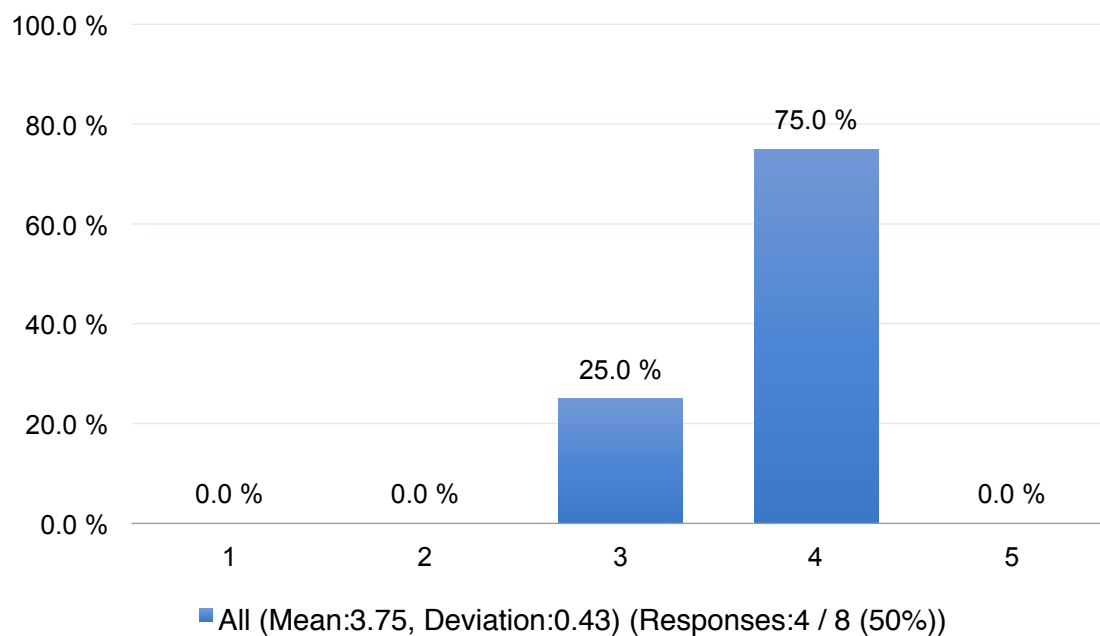
Demonstrated understanding of local government generally

(1 = Worst, 5 = Best)



Demonstrated understanding with regard to the audit topic

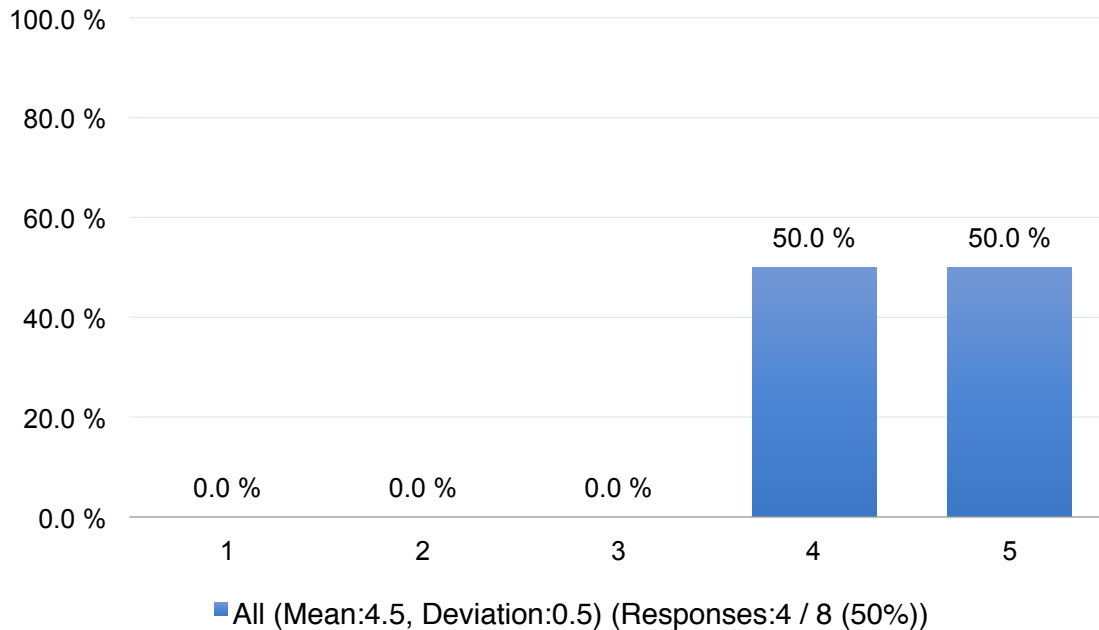
(1 = Worst, 5 = Best)



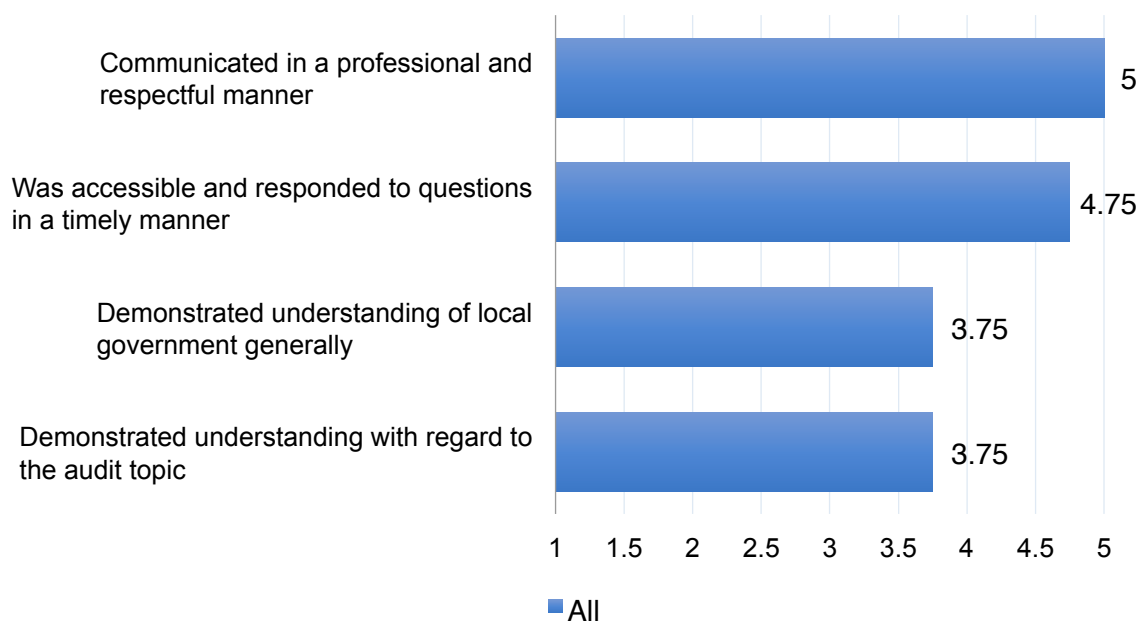
General Comments

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.

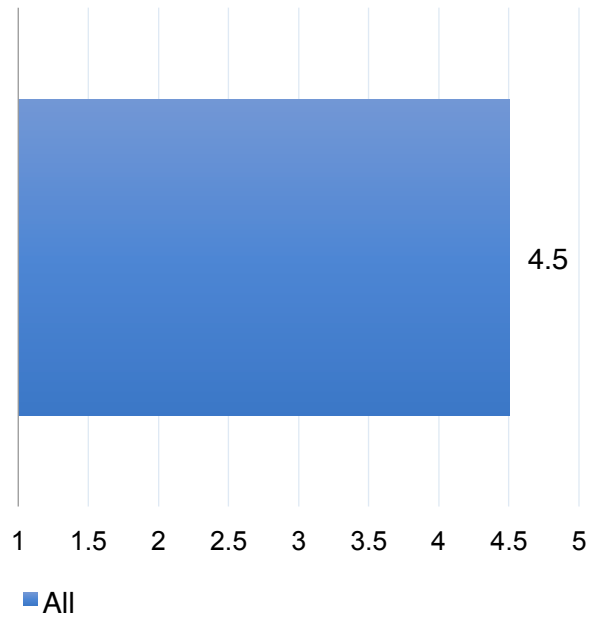
(1 = Strongly Disagree, 5 = Strongly Agree)



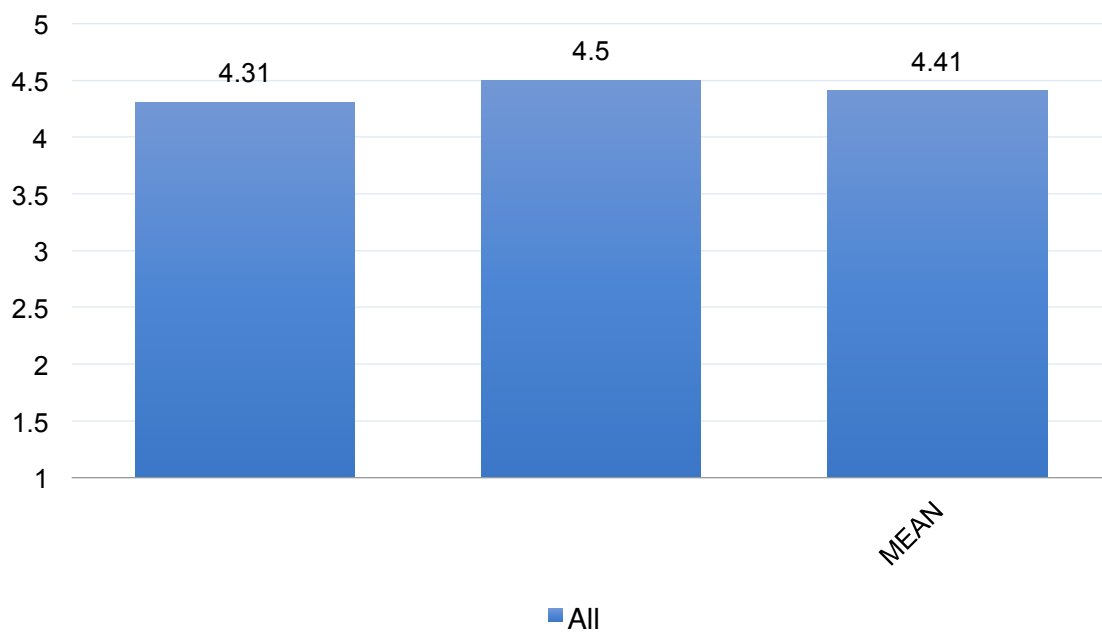
16. Please provide suggestions to improve the effectiveness of the AGLG in the conduct of audits. (All)



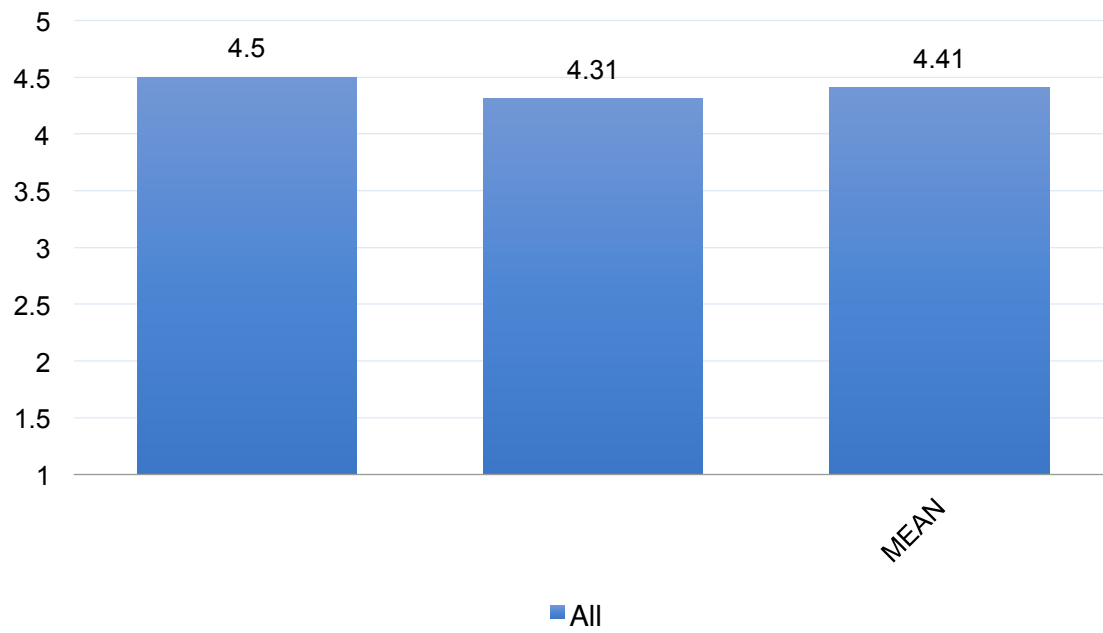
The findings of the audits published to date contained valuable information that have been used by our local government to improve our processes and procedures relative to the audit topic.



Overall means



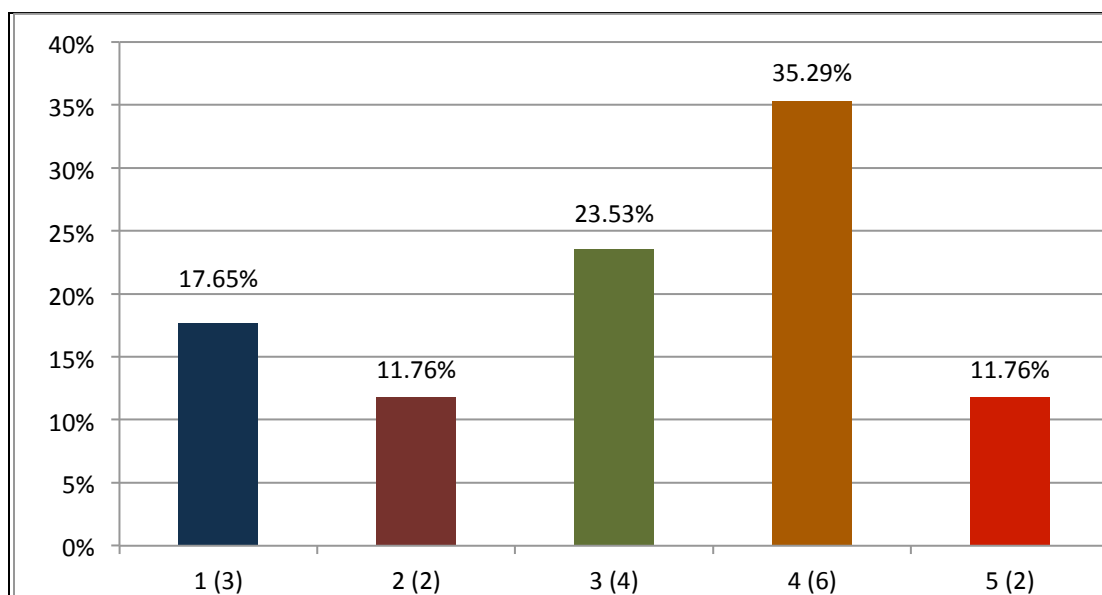
Means of the divisions in order of magnitude



Review of the Auditor General for Local Government Survey of Audited Local Governments Since 2012

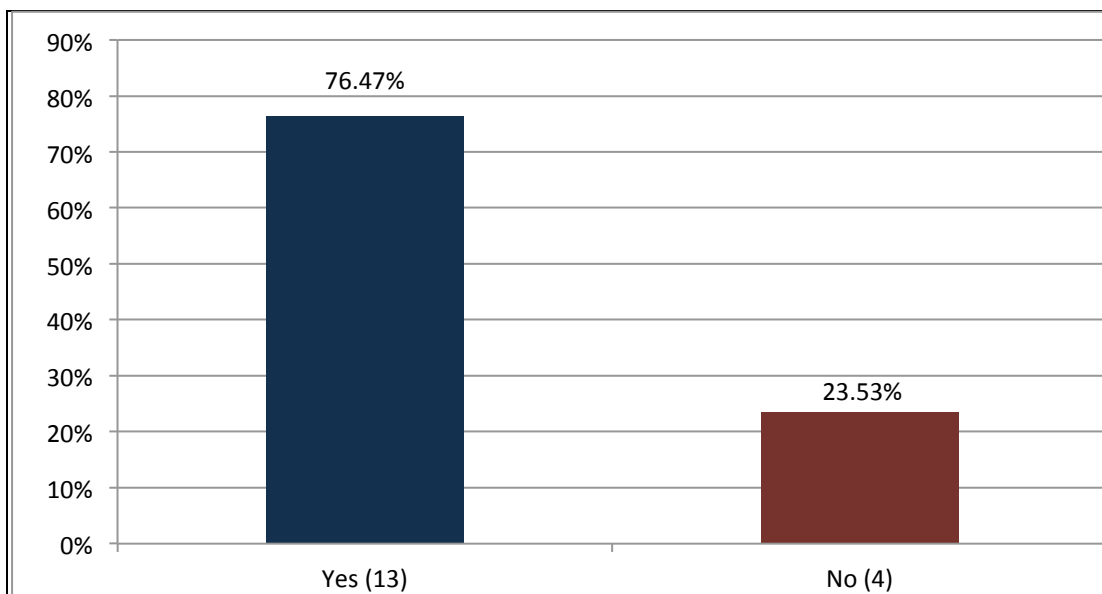
1) On a scale of 1 to 5, with 1 being low, 3 being medium and 5 being high, to what degree do you believe your local government has benefited from the performance audit?

Respondents: 17

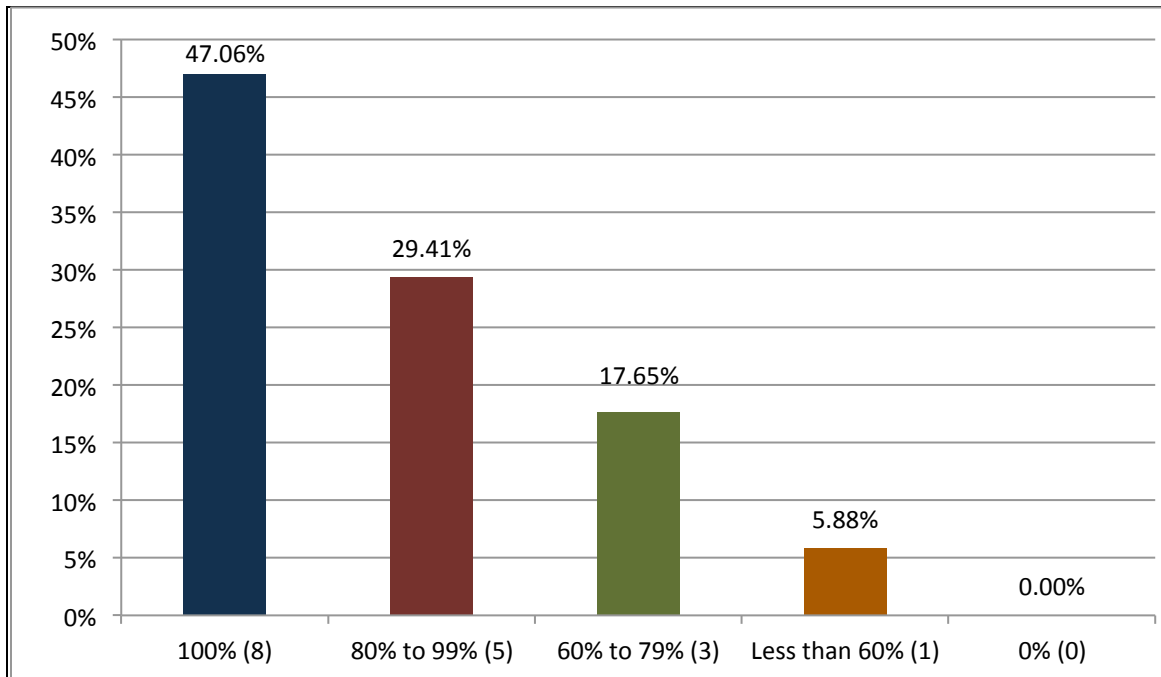


2) Is your local government on track with the implementation of your Action Plan?

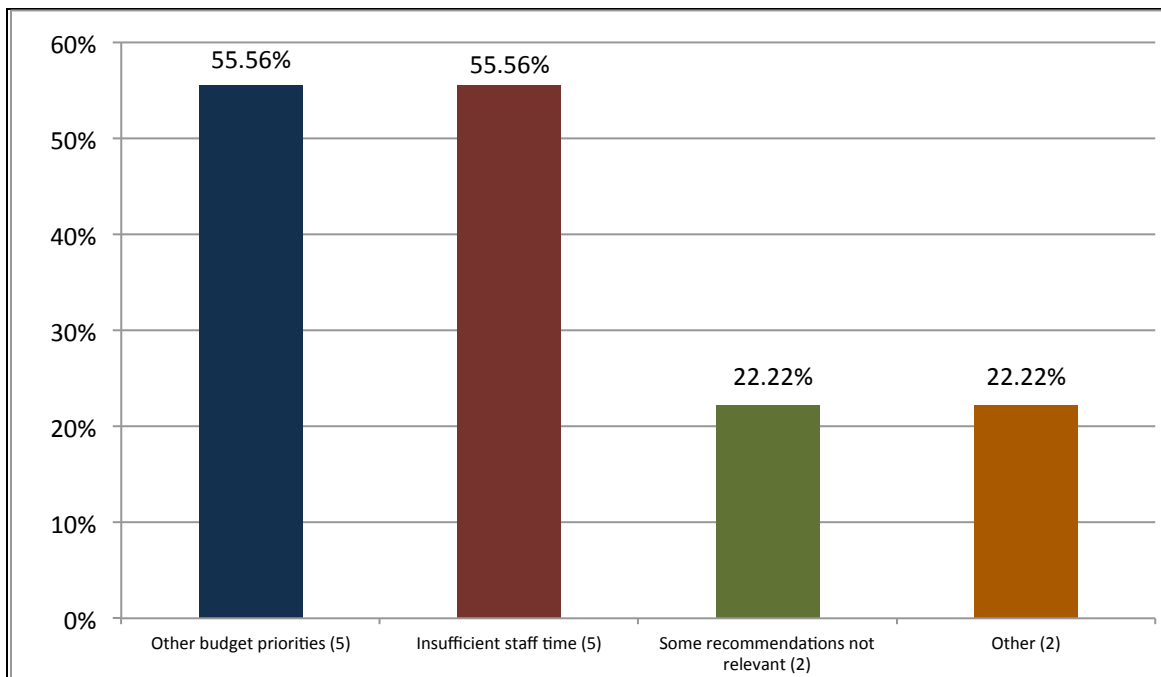
Respondents: 17



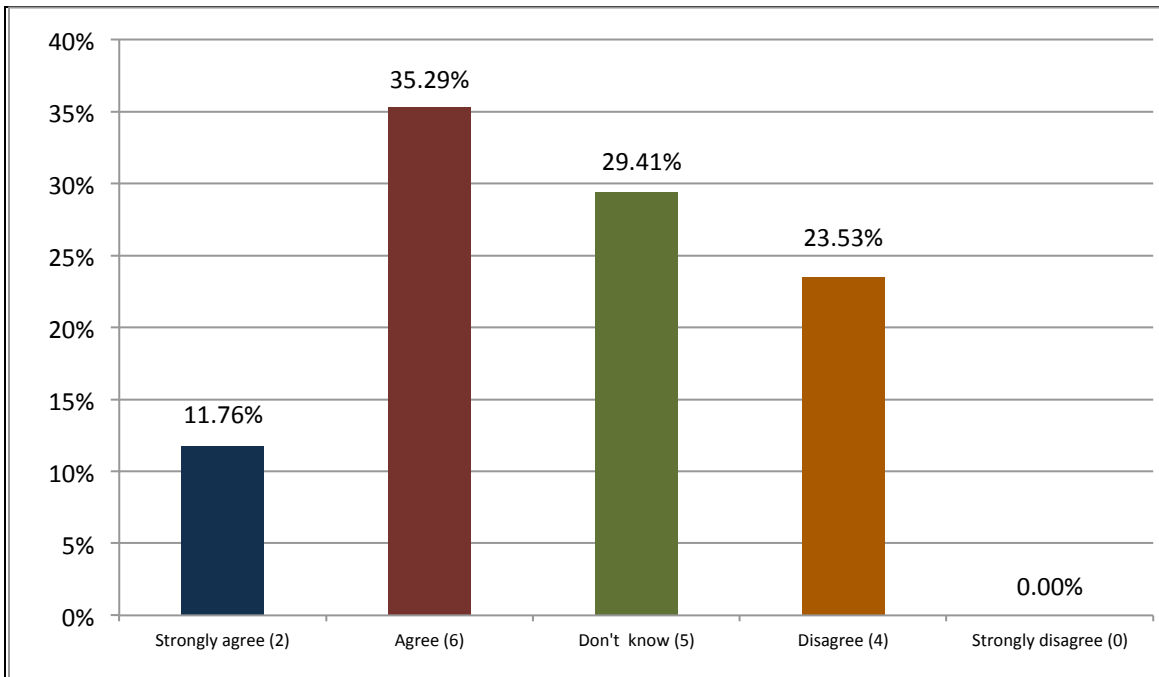
3) Approximately what percentage of the recommendations do you expect to implement over time? Respondents: 17



4. If the answer to Question 3 is less than 100%, what are the primary reasons? Respondents: 9 (Some respondents selected more than one option.)

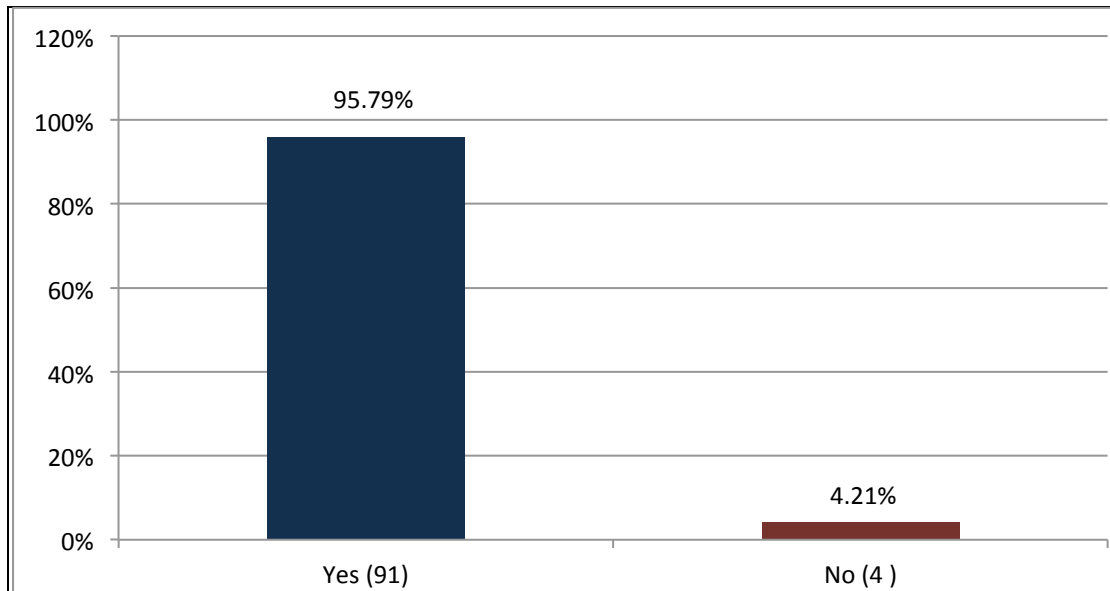


5. Our local government would participate in a second performance audit on a different topic if we were asked. Respondents: 17

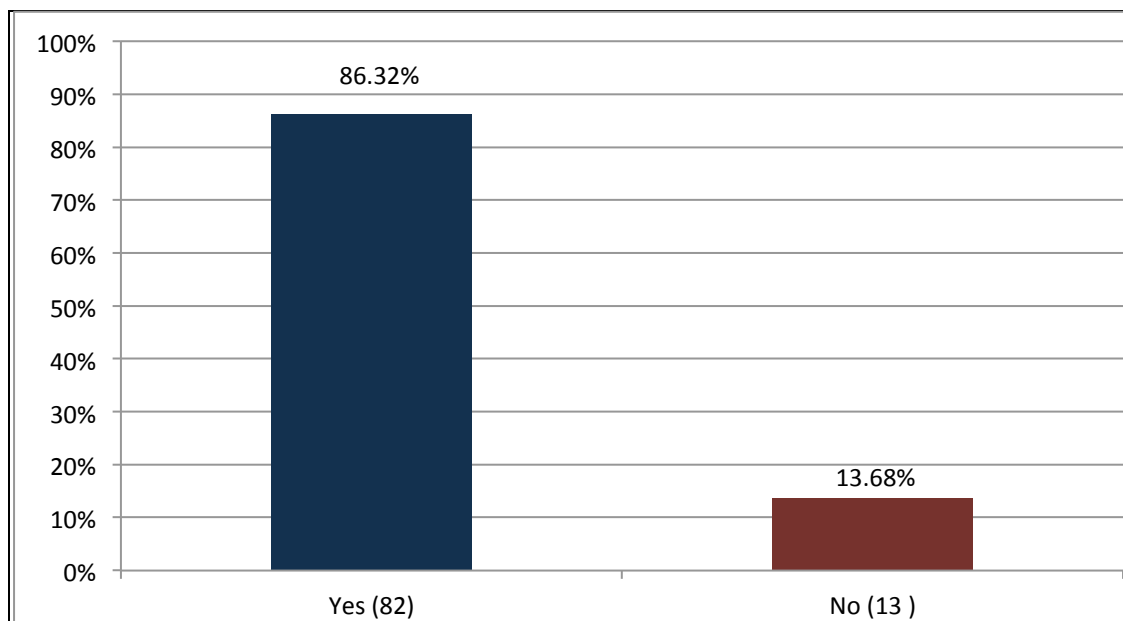


Review of the Auditor General for Local Government Survey of Non-Audited Local Governments

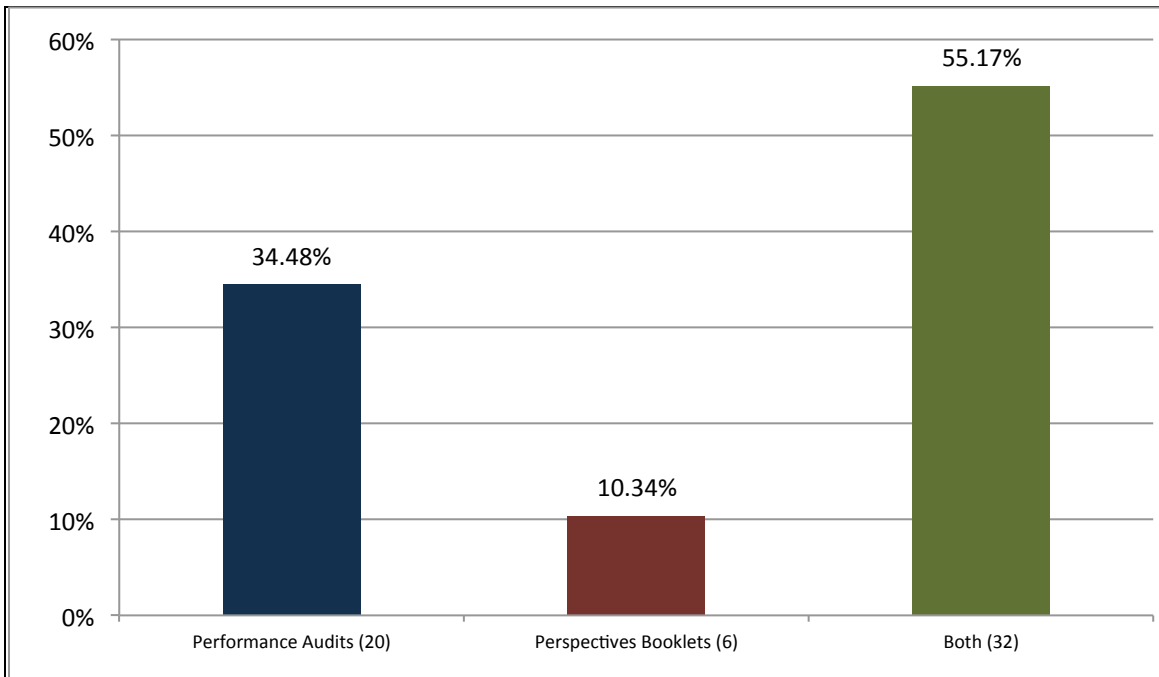
1. Is your local government aware of the performance audit reports and Perspectives booklets published by the AGLG office? Respondents: 95



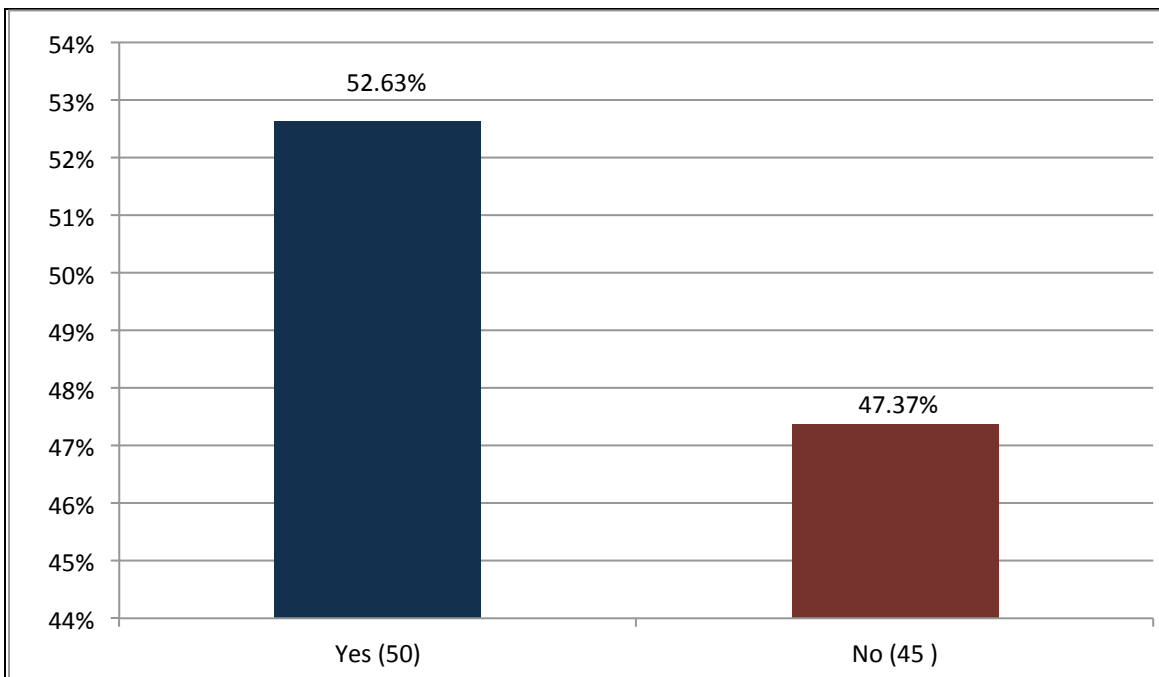
2. To the best of your knowledge, has anyone in your organization read a performance audit report or Perspectives booklet? Respondents: 95



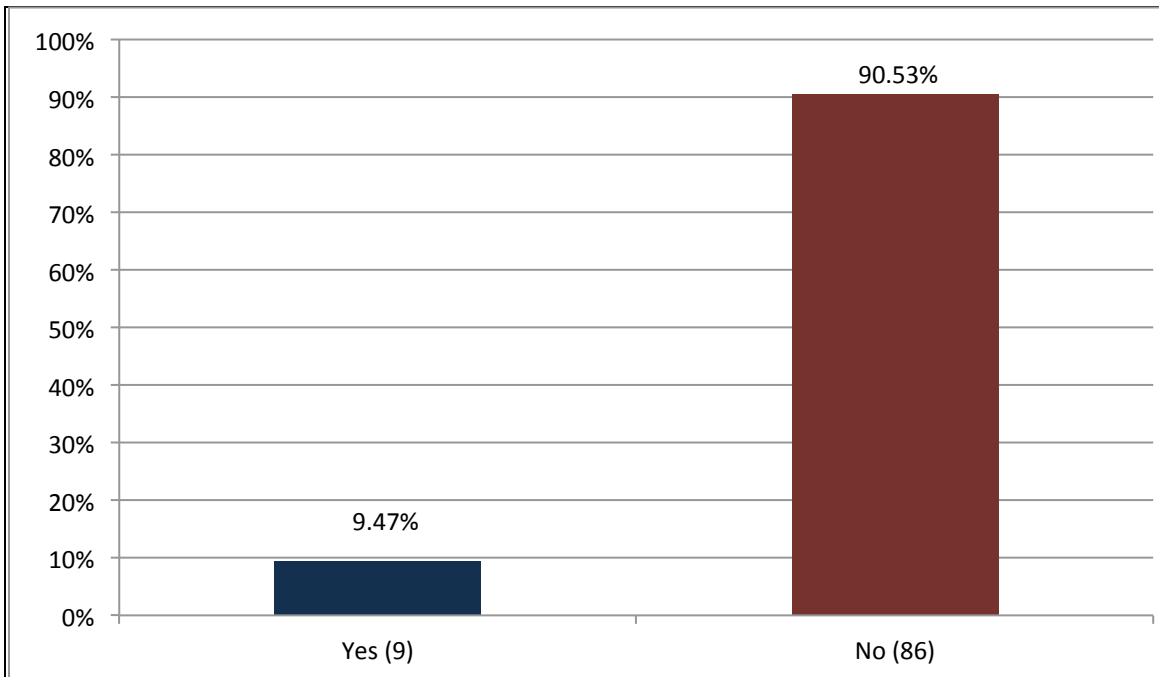
3. If yes, please advise if your local government incorporated practices or made changes to policies found in performance audits, Perspectives booklets or both. Respondents: 58



4. Has your local government used the performance audit reports or Perspective booklets to do a comparative check on similar services that you provide? Respondents: 95



5. Has your local government considered requesting a performance audit be conducted in your organization? Respondents: 95



6. If not, why not? Respondents: 86 (Some respondents selected more than one option.)

