# Annex 6 – Approach of other state auditors to performance audit

## Audit Scotland

Audit Scotland audits the financial accounts of Scottish Government and most Scottish local authorities on behalf of the Auditor General for Scotland.

Audit Scotland's Code of Audit Practice[1] requires auditors to *demonstrate compliance with the wider public audit scope by reviewing and providing judgements and conclusions on the audited bodies'*:

- *effectiveness of performance management arrangements in driving economy, efficiency and effectiveness in the use of public money and assets*
- *suitability and effectiveness of corporate governance arrangements*
- *financial position and arrangements for securing financial sustainability*

- *and additionally for local authority auditors:*
    - *effectiveness of arrangements to achieve best value*
    - *suitability of arrangements for preparing and publishing statutory performance information.*

When scoping, planning, performing, and reporting on their 'best value' work, auditors in Scotland are required to consider four audit dimensions. These are:

- Financial sustainability – which interprets the short term going concern opinion and requires auditors to look *"forward to the medium (two to five years) and longer term (longer than five years) to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered."*
- Financial management – which *is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.*
- Governance and transparency - which *is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision-making, and transparent reporting of financial and performance information.* There is a specific requirement to consider these matters in respect of partnership working.
- Value for money - *is concerned with using resources effectively and continually improving services.* The auditor is required to assess whether the authority can evidence whether it is demonstrating value for money in use of resources, whether there is a clear link between resources used and outcomes achieved, and whether there is a focus on continuous improvement.

Reporting on the results of this work is more detailed than practice in England. The Code states:

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[1] https://www.audit-scotland.gov.uk/uploads/docs/report/2016/code_audit_practice_16.pdf

- *All annual audit reports should include a summary on each dimension that states any work done in the year by the appointed auditor and the assurances, risks and any good practice that they have identified. A simple description of the arrangements in place is not sufficient. Appointed auditors should provide clear judgements and conclusions on the effectiveness and appropriateness of the arrangements in place based on any work that they have done. If there are still significant risks, appointed auditors should make recommendations for improvement.*

The results of these audits tend to produce quite rich reports, which the Accounts Commission, the public spending watchdog for local government in Scotland, uses to identify and highlight key trends and risks across the sector. For example, the *Local Government in Scotland, Financial Overview Report 2018-19 (Dec 2019)*[2] found that Scottish councils were increasingly drawing down on their revenue reserves; and whilst all councils had medium term financial planning covering the next three to five years, long term financial planning had not improved since the last report.

## Wales Audit Office

The Wales Audit Office audits the accounts of the Welsh Government and Welsh local authorities on behalf of the Auditor General for Wales.

The value for money audit opinion an auditor of a Welsh local authority is required to provide is the same as that in England; that is an opinion on the "*arrangements for securing economy, efficiency and effectiveness in its use of resources".*

The Welsh Code of Audit Practice provides more detail about the work that auditors are required to undertake to enable them to form their opinion. The Code states[3]:

- *The programme must include review of the design of significant arrangements to secure value for money, and, where appropriate given the assessment of risk, testing of the operating effectiveness of those arrangements. As testing in one year may have ongoing relevance to the assessment of risk and other review work, the depth of coverage may vary from year to year.*
- *In designing the programme, my auditors must consider both corporate and service level arrangements, including strategic planning, financial planning, performance and risk management, workforce planning, asset management, collaborative working and overall governance.*

The specific requirement to review the design and operating effectiveness of significant arrangements to secure value for money goes beyond what is required in England, where such arrangements are only required to be reviewed should a significant risk be identified.

Where an auditor identifies notable financial resilience or other value for money concerns, the Auditor General for Wales has the statutory power[4] to publish a separate substantive report. These reports are publicly available on the Wales Audit Office's website and

[2] https://www.audit-scotland.gov.uk/uploads/docs/report/2019/nr_191217_local_government_finance.pdf
[3] https://www.audit.wales/system/files/publications/code-of-audit-practice-2018-english_0.pdf
[4] under Section 17 of the Public Audit (Wales) Act 2004 and section 18 of the Local Government Wales Measure 2009

provide an in-depth assessment of the issues identified and the appropriateness of the plans that the local authority has to address these.

## US Government Accountability Office (GAO)

The GAO audits the US federal government and federal agencies. Individual states have state audit offices.

GAO financial audit work does not normally include a VfM opinion or the equivalent. Instead the GAO commissions Performance Audits, which are defined as "*engagements that provide objective analysis, findings, and conclusions to assist management and those charged with governance and oversight to, among other things, improve program performance and operations, reduce costs, facilitate decision making by parties with responsibility to oversee or initiate corrective action, and contribute to public accountability.*"

In practice, GAO performance audit objectives vary widely and can include assessments of program effectiveness, economy, and efficiency; internal control; compliance; and prospective analyses of preparedness to deliver objectives or manage risks.

Whilst much of this work is closer to the value for money studies carried out by the NAO or investigatory work local auditors might undertake to follow up on objections, there are two interesting aspects to the GAO's work that OLAR could reflect on. These are:

- GAO maintain an open and fully searchable database of all audit recommendations yet to be implemented https://www.gao.gov/reports-testimonies/recommendations-database/?browse=orgdesc_s&rec_type=priority#results
- Most Performance Audit outputs include a one-page Highlights Report, specifically designed to highlight key issues to Congress. https://www.gao.gov/assets/710/708171.pdf

## Audit New Zealand

Audit New Zealand audits government departments, local authorities and health bodies in New Zealand on behalf of the New Zealand Auditor General.

Local authorities in New Zealand are required to report performance in the Annual Report and Accounts against a range of financial prudence benchmarks specified in legislation. The auditor is required to report on the completeness and accuracy of the local authority's disclosures against these benchmarks.

The purpose of this statement is to disclose the Council's financial performance in relation to required benchmarks in order to assess whether the Council is prudently managing its revenues, expenses, assets, liabilities and general financial dealings. As all of the benchmarks have pass/fail thresholds, they lend themselves to a binary audit opinion.

Benchmarks cover:

- Whether revenue is in line with thresholds set in the local authority's Long-Term Plan;
- Affordability of long-term debt;
- Whether long-term debt in line with planning assumptions;

- Affordability of debt servicing;
- Liquidity and whether net cash outturn from operations is in line with planned outturn;
- Whether the local authority has achieved a balanced budget; and
- Levels of capital investment on core service delivery.

The benchmarks are backwards looking covering the year of account and the four prior years. Where a local authority fails to achieve a financial benchmark it is required to briefly explain why. This provides a good picture of the financial resilience of the local authority.

NZ local authorities are also required to include an Activities and Service Statement within their Annual Report and Accounts. This statement discloses performance against operational targets as set in the authority's Long-Term Plan, along with expenditure against budget, reconciled to the financial statements, with explanations provided for significant variances. The Activities and Service Statement can be very lengthy, running to well over 100 pages in both examples inspected.

The Activities and Service Statement is subject to audit. The auditor is required to certify that the levels of service disclosed in the statement and the funding statement for each group of activities are presented fairly in all material respects.

Unsurprisingly audit fees paid by local authorities in New Zealand are higher than those paid in England. However, the difference does not seem to be that significant. In both examples inspected the audit fee equated to between 0.06% and 0.07% of total revenue.