



Local Excellence

Councils Working Together for Communities

Financial Sustainability

Information Paper 5

Efficiency & Economy Audits

Revised January 2012



Introduction

This Information Paper is one of a series of Information Papers about Financial Sustainability and Financial Governance in Local Government.

The series of Information Papers was originally published in 2006 to 2011 as part of the Financial Sustainability Program. The history of that program and a complete list of Information Papers and other resources, including a glossary of terms and abbreviations, is provided on the LGA's "Financial Sustainability" web page: <http://www.lga.sa.gov.au/goto/fsp>.

The entire series of Papers was revised in early 2012 to take account of legislative changes and other developments. These Papers are addressed to, and written primarily for the benefit of Council Members and staff, but they are also available as a resource for the general public and students of Local Government.

What is an Efficiency & Economy Audit?

An efficiency and economy audit ("E & E audit") is quite different to the audit of the annual financial statements. Although it may be conducted by the Council's auditor, there are several key differences:

1. It is not an audit, as that word is usually understood. The [Local Government Act 1999](#) ("the Act") at section 130A, describes it as an "examination and report". Therefore, the person conducting the E & E audit need not be the Council's usual auditor, and does not need to be a qualified auditor at all. The Council needs to be satisfied only that the person chosen is "suitably qualified" for the purpose.
2. An E & E audit is optional. Unlike the Council's annual audit of its financial statements and its internal financial controls, there is no necessity to conduct an E & E audit. It is a matter for the Council's discretion.
3. The information that is gathered and examined for purposes of an E & E audit will be related only to the particular program or activity being examined.
4. Most importantly, an E & E audit must look at information that goes beyond relevant financial data. The primary interest in an E & E audit is resource use, rather than program or activity effectiveness. It is a thorough, rigorous and independent examination of the acquisition and use of resources in a Council program or activity.

An E & E audit should provide both policy makers and management with an opinion on the program or activity under review, to ensure that the Council is actually achieving the policy outcome that is intended. In particular, an E & E audit should provide guidance on whether the delivery of the service is providing an outcome commensurate with the resources that the Council has committed. The E & E audit may include recommendations for future action and identify issues that may require further investigation or consideration. The parameters of the E & E audit will be determined by the nature of the program or activity being audited.

Some of the key questions that may be explored during an E & E audit might be:

- Have alternative means of service provision been considered?
- Are sound and valid procurement procedures in place and being followed?
- Is the Council employing the appropriate amount of resources at the appropriate time to ensure efficiency?
- Are property resources being adequately maintained and protected?
- Is there no (or minimal) duplication of work or unnecessary wasted effort?

- Have optimum resource levels been adequately identified?
- Are internal measures of efficiency and economy valid and appropriate?

The person identified to undertake an E & E audit must do so without undue influence from any individual Council Member or the Chief Executive Officer or other staff of the Council. He or she should be required to develop an understanding of the policy that drives the program in question. Only after the policy is fully understood, can the examiner devise and adopt an appropriate examination procedure.

Handling of the E & E report

Section 130A of [the Act](#) requires that an E & E report must be provided to the Principal Member of the Council (who must ensure that a copy is immediately provided to the Chief Executive Officer). A copy of the report is also to be provided to the Council's audit committee.

[The Act](#) also requires that Council Members formally receive the E & E report at the next ordinary meeting of the Council, or at a special meeting called in accordance with the requirements of the Act. The E & E report must be kept confidential until it is received at a Council meeting. After management has commented and recommendations have been either accepted or rejected at a Council meeting, the report must be released as a public document no more than 60 days later.¹

Overlap with the role and duties of the Chief Executive

An E & E audit is not, and is not intended to be, a means by which the separate but complementary roles of the administration and the elected body become confused.

The provisions in section 130A are complementary to the general duty imposed on Council Members, to "*keep the Council's resource allocation, expenditure and activities and the efficiency and effectiveness of its service delivery, under review*".²

The role of the Council Members is not to become involved in the detailed day-to-day management of the Council but to concentrate on policy development, strategic planning and monitoring of resource use. An E & E audit of a Council activity or program should be undertaken, therefore, only when necessary to properly assist Council Members in the discharge of their obligations by providing comfort that the activity is being managed in an efficient and economical manner.

Nevertheless, there may be some tension or overlap between the question of whether or not to call for an E & E audit, and the role of the Council's Chief Executive Officer. Among other obligations, section 99 of [the Act](#) provides that the Chief Executive Officer is responsible:

- for the day-to-day operations and affairs of the Council;
- to provide information to the Council to assist the Council to assess performance against its strategic management plans;
- to ensure that the assets and resources of the Council are properly managed and maintained; and
- to ensure that records required under this or another Act are properly kept and maintained.

¹ [Local Government Act 1999](#), section 130A (8)

² [Local Government Act 1999](#), section 59 (1)(a)(iii)

The Chief Executive Officer and management team will have various programs for the review of the services provided by the Council. The question of an E & E audit should be considered in the context of the administration's role and performance in continuously monitoring and evaluating all aspects of Councils' administration and functions.

What are the issues for Councils?

Under Section 130A, a Council can commission an E & E audit where Council Members form an opinion that it is a matter of such significance as to justify an examination under that section.

[The Act](#) places an obligation on both Council Members and their Chief Executive Officers to continuously review the efficiency and effectiveness of their service delivery and operations.

An E & E audit should be used only to support, or address failings in, a Council's ongoing monitoring and evaluation of strategic functions where clarification is required on whether a program or activity is achieving its policy outcomes in an efficient and effective manner. A well functioning Audit Committee and an appropriate program of internal audits will reduce the likelihood of the need for a one-off E & E audit. In this context, an ad hoc E & E audit should not be commissioned unless there are exceptional circumstances.

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