

Controller and Auditor-General

Local Government: Results of the 2012/13 audits

<https://www.oag.govt.nz/2014/local-govt/docs/local-govt.pdf>

Excerpt 1 - page 5

Elected members are responsible for what the local authority does and how it does it – they are responsible for “getting it right”. It is the elected members who the public hold accountable for those decisions and actions.

In December 2013, I released my report on an inquiry into the Mangawhai community wastewater scheme. This report detailed the woeful saga of the Kaipara District Council’s poor management and governance oversight of the scheme, with failings at almost every stage of the project, as well as highlighting shortcomings and inadequacies by other parties. I encourage all public entities to read the report and take heed of the lessons learned, and consider the messages about the importance of having robust accountability, governance, and management controls in place.

Local Government New Zealand’s partnership with the Institute of Directors and the development of training modules focusing on governance, leadership, and strategy skills for elected members are positive moves. And many local authorities are putting in place audit and risk committees as part of their framework for managing uncertainty and risk.

Excerpt 2 – page 6

Setting rates

During the year, it became apparent that there were several widespread problems with rating practices. Our audit work on rates revenue found that most local authorities had some level of compliance failure. Problems ranged from potentially serious legislative breaches, which created a significant financial risk to the local authority’s revenue, through to low-risk legal breaches.

The problems we saw were related to all aspects of the rating legislation. Many of the problems seem to have arisen because of insufficient attention to legal requirements. The power to rate comes with obligations that need to be given the appropriate level of attention. It is important that local authorities use their legal powers to impose rates on their communities properly.

Local authorities need to lift their game and improve their processes and practices for setting rates.

I am encouraged by the positive response to the issues we have raised. Most local authorities sought legal advice and either took corrective action to rectify the errors or drew the errors to the attention of their communities. Local Government New Zealand and the Society of Local Government Managers have undertaken to work with local authorities to provide training and support to ensure that rating practices improve.

Except 3 – page 10 What is the role of an elected member?

- 1.6 Generally, the roles are for:
- the governing body to set direction and policy, make important decisions, report to the public, and oversee the functioning and health of the organisation including its long-term capability and sustainability, and its compliance with the law; and
 - management to focus on putting policies and decisions into effect, carrying out the organisation's functions, and providing information and advice to the governing body.
- 1.7 Elected members ensure that management is performing satisfactorily. The elected members are responsible for acting if problems emerge. Being able to identify risks early and manage them well is a vital skill for effective governance, helping to avoid pitfalls and keep an organisation on track.
- 1.8 In the end, elected members are responsible for "getting it right". To meet that responsibility, they need to receive high-quality information and advice from local authority officers and external professional advisors. Elected members need to know when to ask questions of their advisors, what questions to ask, and when to insist on expert advice to ensure that their questions are answered satisfactorily.
- 1.9 We encourage elected members to use common sense in their work. Common sense is a legitimate governance tool and a good way of testing technical and complex advice.
- 1.10 In November 2013, we noted in our report, *Inquiry into the Mangawhai community wastewater scheme* (our Kaipara District Council report) that the governance role is about maintaining the broad view. It involves:
- setting direction and policy;
 - making significant decisions;
 - testing and challenging advice to ensure that it is sound;
 - monitoring the work of management to ensure that what is being done will achieve the local authority's objectives;
 - keeping an eye on risks; and
 - safeguarding the overall quality of the relationship between the local authority and its community.
- 1.11 When members of a governing body become too involved in operational matters, the risk is that nobody holds the broad view for the organisation and checks that the overall direction remains appropriate. Conversely, if elected members take too little interest in what the organisation is actually doing on the ground, they can become distant and disempowered. The art of effective governance is being able to find the right balance between these two extremes and understanding that the balance will change depending on the circumstances.