

Local Government: Results of the 2012–13 Audits

Victorian Auditor-General's Report
Tabled 11 December 2013



Results of the 2012–13 Audits

This report addresses:

- financial reporting
- performance reporting
- financial results
- financial sustainability
- internal controls (including focus areas):
 - general
 - audit committees
 - rate revenue.

Results of the 2012–13 Audits

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Type of entity	2013
Councils	79
Companies, trusts and joint ventures	12
Regional library corporations	11
Total	102

Overall conclusion

- Parliament can have confidence in the financial reports that received clear audit opinions.
- Internal controls are adequate for producing reliable and accurate financial reports.

Local Government – financial and performance reporting

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Audit opinions

By statutory date of 30 September 2013

- 99 clear audit opinions were issued on general purpose financial statements.
- 87 clear audit opinions were issued on standard financial statements.
- 75 clear audit opinions were issued on performance statements
- One emphasis of matter audit opinion was issued and one qualified audit opinion was issued for the performance statement for Wangaratta Rural City Council.
- Three audit opinions were outstanding.

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Local Government – financial and performance reporting – *continued*

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After 30 September 2013

- Clear audit opinions were issued on Frankston City Council's, West Wimmera Shire Council's and Moira Shire Council's Financial and Performance reports.

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Local Government – performance reporting

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Findings

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- Department of Transport, Planning and Local Infrastructure through Local Government Victoria, in conjunction with local councils, is making good progress in developing a performance reporting framework for the sector.

Local Government – financial and performance reporting

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Councils

- Operating surplus of \$1.23 billion (2011–12: \$1.03 billion)
- Eight councils reported an operating deficit.

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Regional library corporations

- Operating surplus of \$3.11 million (2011–12: \$3.06 million deficit)
- 77 per cent of revenue is from councils.

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Local Government – financial sustainability

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Councils

- Two rated as high risk—one in 2011–12
- 11 rated as medium—five in 2011–12
- 66 rated as low—73 in 2011–12.

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Reason

- Deteriorating indebtedness or self-financing ratios.
- Repayment of the defined benefit superannuation funding.

Local Government – focus areas

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Audit committees

- 78 of 79 councils had an audit committee in place during 2012–13.
- 22 of the 78 audit committees did not have sufficient independent members on their audit committees.
- one has not had a functioning audit committee since August 2011 but was re-formed in August 2013.

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Rate revenue

- All councils had a rating strategy.
- The completeness, content and quality of the strategies varied.
- Absence of better practice elements affects the ability to readily demonstrate the soundness and reasonableness of their rating decisions.

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Recommendations

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Accept

That councils, regional library corporations and associated entities should:

- | | | |
|----|--|---|
| 1. | refine their financial reporting processes by strengthening the review and assurance procedures over the accuracy of data needed for financial statement preparation | ✓ |
| 2. | adjust all errors identified during audits to ensure their financial statements are of the highest possible quality. | ✓ |

That councils should:

- | | | |
|----|--|---|
| 3. | continue to engage with Local Government Victoria at all stages in the development of the local government performance reporting framework | ✓ |
| 4. | require audit committees to periodically self-assess their performance against their charters. | ✓ |

Recommendations

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Accept

That councils should:

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|----|---|---|
| 5. | appoint an independent member as chair and require membership of the audit committee to include a majority of independent members | ✓ |
| 6. | maintain a conflict of interests register for audit committee members | ✓ |
| 7. | improve their rating strategies by incorporating elements of better practice identified in this report—including links to council plans, the rationale for rate changes, rating options adopted, and the assumptions and factors considered in rate setting | ✓ |
| 8. | use internal audit to assess the robustness of their rating systems and compliance with legislative requirements. | ✓ |



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