



Local Government: Results of the 2012–13 Audits



VICTORIA

Victorian
Auditor-General

Local Government: Results of the 2012–13 Audits

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The Hon. Bruce Atkinson MLC
President
Legislative Council
Parliament House
Melbourne

The Hon. Ken Smith MP
Speaker
Legislative Assembly
Parliament House
Melbourne

Dear Presiding Officers

Under the provisions of section 16AB of the *Audit Act 1994*, I transmit my report on *Local Government: Results of the 2012–13 Audits*.

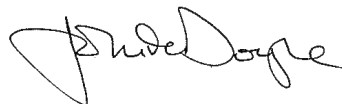
The report summarises the results of the financial audits of 79 local councils, 11 regional library corporations and 12 associated entities at 30 June 2013.

It informs Parliament about significant issues identified during our audits and complements the assurance provided through individual audit opinions included in the entities' annual reports.

The report addresses financial reporting and sustainability, and controls associated with the preparation of financial and performance statements, audit committees and rate revenue.

It also provides an update of progress made by Local Government Victoria in conjunction with local councils in developing a performance reporting framework for the sector. The progress to date is on track to enable us to commence forming audit opinions on the relevance and appropriateness of performance statements in 2014–15.

Yours faithfully



John Doyle
Auditor-General

11 December 2013

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Audit summary

The Victorian local government sector comprises 79 councils, 11 regional library corporations (RLCs) and 12 associated entities. Local government is recognised in Victoria's constitution as the third tier of government. Local councils are governed by democratically elected councillors and their operations are administered by the council-appointed chief executive officer. While administered under the *Local Government Act 1989*, each council operates autonomously and is directly accountable to its constituents.

This report provides a detailed analysis of councils':

- financial reporting
- performance reporting
- financial results
- financial sustainability
- internal controls over the preparation of financial and performance statements
- audit committee arrangements
- rate revenue.

It informs Parliament about significant issues during our audits and complements the assurance provided through individual audit opinions included in the entities' annual reports.

Conclusion

Parliament can have confidence in the 2012–13 financial and standard statements of local councils, RLCs and associated entities. Clear audit opinions on the financial and standard statements were issued for each of the 102 audits completed, meaning that the 2012–13 financial reports of the audited entities were reliable, and fairly presented the results of the entities' operations for the year and their assets and liabilities as at 30 June 2013.

Clear audit opinions were also issued on 78 of the 79, 2012–13 performance statements, meaning that the 78 were fairly presented. A qualified audit opinion was issued on the performance statement of Wangaratta Rural City Council as some key performance indicators and targets were not included in its 2012–13 budget as required for reporting.

Financial reporting quality

Material errors identified during the financial report preparation and audit need to be corrected before a clear audit opinion can be issued. Other errors should also be corrected. While some errors may appear immaterial in isolation, in aggregate a series of small errors may have a significant impact on the statements or an entity's operating result.

Our expectation is that all entities will adjust errors identified during an audit, other than those errors that are clearly trivial as defined under the auditing guidelines. This expectation is consistent with our principle that the public is entitled to expect financial statements that bear the Auditor-General's opinion to be accurate and of the highest quality possible.

Financial reporting quality improved in 2012–13 with a decrease in the number of material adjustments and adjustments to disclosures required by audit from the levels seen in 2011–12.

Performance reporting by councils

The *Audit Act 1994* empowers the Auditor-General to audit any performance indicators in the report of operations of an audited entity to determine whether they:

- are relevant to any stated objectives of the entity
- are appropriate for the assessment of the entity's actual performance
- fairly represent the entity's actual performance.

We have limited our opinions on performance statements of local councils to date, to addressing fair presentation and compliance with local government requirements. However, in response to our 2011 performance audit report *Performance Reporting by Local Government* (2011–12:27), Local Government Victoria commenced a two-year project in 2011–12 to develop and implement a performance reporting regime for the sector which included a focus on relevant and appropriate performance indicators. Local Government Victoria and local councils are making good progress in developing the performance reporting framework, which should enable us to commence forming audit opinions on the relevance and appropriateness of performance statements in 2014–15.

Financial sustainability of councils

The sector as a whole has maintained its financial sustainability year on year. Analysis of the six indicators shows that councils as a whole had a low financial sustainability risk assessment. The overall results for 2012–13 were affected by early repayment of defined benefit superannuation funding obligations and the timing of infrastructure works associated with natural disaster government funding. Councils continue to face the ongoing challenge of maintaining spending on capital works and existing assets at sufficient levels.

The number of councils with a financial sustainability risk assessment of high increased from one in 2011–12 to two in 2012–13. The number of councils assessed as having a medium sustainability risk increased from five in 2011–12 to 11 in 2012–13.

Recommendations

Number	Recommendation	Page
	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	10
2.	adjust all errors identified during audits to ensure their financial statements are of the highest possible quality.	10
	That councils should:	
3.	continue to engage with Local Government Victoria at all stages in the development of the Local Government Performance Reporting Framework	14
4.	require audit committees to periodically self-assess their performance against their charters	43
5.	appoint an independent member as chair and require membership of the audit committee to include a majority of independent members	43
6.	maintain a conflict of interests register for audit committee members	43
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	43
8.	use internal audit to assess the robustness of their rating systems and compliance with legislative requirements.	43

Submissions and comments received

In addition to progressive engagement during the course of the audit, in accordance with section 16(3) of the *Audit Act 1994* a copy of this report, or relevant extracts from the report were provided to all councils and the Department of Transport, Planning and Local Infrastructure with a request for submissions or comments.

Agency views have been considered in reaching our audit conclusions and are represented to the extent relevant and warranted in preparing this report. Their full section 16(3) submissions and comments however, are included in Appendix G.

1 Background

1.1 Introduction

Local government is recognised in Victoria's constitution as the third tier of government. Local councils are governed by democratically elected councillors and their operations are administered by the council-appointed chief executive officer. While administered under the *Local Government Act 1989*, each council operates autonomously and is directly accountable to its constituents.

This report is one of a suite of reports on the results of the 2012–13 financial audits conducted by VAGO. The full list of reports can be found in Appendix A.

The Victorian local government sector consists of 102 entities, comprising 79 local councils, 11 regional library corporations and 12 associated entities.

The number of local government entities subject to audit by VAGO in 2012–13 decreased by one. During 2012–13 Melbourne Wholesale Fish Market Pty Ltd ceased trading and changes to the ownership arrangements of Yarra Energy Foundation Limited meant that the entity is no longer subject to audit by VAGO. The Dandenong Market Pty Ltd—a subsidiary of Greater Dandenong City Council—was established during the year and is audited by VAGO.

The local government entities audited by VAGO are listed in Appendix B.

This report informs Parliament about significant issues arising from the financial audits and adds to the assurance provided through audit opinions on financial, standard and performance statements included in the respective entities' annual reports. It comments on the financial sustainability of the entities, their general internal controls, audit committee arrangements and controls over rate revenue.

1.2 Audit of financial and standard statements

An annual financial and standard statements audit has two aims:

- to give an opinion consistent with section 9 of the *Audit Act 1994*, on whether the financial statements and standard statements are fairly stated, prepared in accordance with Australian Accounting Standards and/or the *Local Government Act 1989*
- to consider whether there has been waste of public resources or a lack of probity or financial prudence in the management or application of public resources, consistent with section 3A(2) of the *Audit Act 1994*.

The financial audit framework used is set out in Appendix C.

1.2.1 Audit of internal controls relevant to the preparation of the financial and standard statements

An assessment of the adequacy of the internal control framework and the governance processes related to an entity's financial reporting is integral to the annual financial audit. In making this assessment, consideration is given to the internal controls relevant to the entity's preparation and fair presentation of the financial and standard statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

Internal controls are systems, policies and procedures that help an entity to reliably and cost-effectively meet its objectives. Sound internal controls enable the delivery of reliable, accurate and timely internal and external reporting.

An explanation of the internal control framework, and its main components, is set out in Appendix C. An entity's governing body is responsible for developing and maintaining its internal control framework. Internal control weaknesses we identify during an audit do not usually result in a 'qualified' audit opinion because often an entity will have compensating controls that mitigate the risk of a material error in the financial and standard statements. A qualification is warranted only if weaknesses cause significant uncertainty about the accuracy, completeness and reliability of the financial information being reported.

Weaknesses in internal control found during the audit of an entity are reported to its mayor or administrator, chief executive officer and audit committee in a management letter.

Our reports to Parliament raise systemic or common weaknesses identified during our assessments of internal controls over financial reporting, across a sector.

1.3 Audit of performance statements

Section 132 of the *Local Government Act 1989* requires councils to prepare performance statements annually, and section 133 requires the auditor to prepare a report to the Minister for Local Government.

1.4 Audit conduct

The audits of the 102 local government entities were undertaken in accordance with Australian Auditing Standards. Pursuant to section 20(3) of the *Audit Act 1994*, unless otherwise indicated, any persons named in this report are not the subject of adverse comment or opinion.

The cost of preparing and printing this report was \$205 000.

1.5 Structure of this report

The structure of this report is set out in Figure 1A.

Figure 1A
Report structure

Part	Description
Part 2: Financial reporting by entities	<p>This Part covers the results of the 2012–13 audits of the:</p> <ul style="list-style-type: none"> • general purpose financial statements of 79 councils, 11 regional library corporations and 12 controlled companies, trusts and joint ventures • standard statements of 79 councils and 11 regional library corporations. <p>It also comments on the quality of financial reporting and timeliness against legislated time lines.</p>
Part 3: Performance reporting by councils	<p>This Part covers the results of the audits of the performance statements of 79 councils for 2012–13.</p> <p>It also details the progress made by Local Government Victoria in developing the Local Government Performance Reporting Framework.</p>
Part 4: Financial results of councils and regional library corporations	<p>This Part summarises and analyses the financial results of the 79 councils and 11 regional library corporations for 2012–13.</p>
Part 5: Financial sustainability of councils	<p>This Part provides insight into the financial sustainability of the 79 councils based on the trends in six financial sustainability indicators over a five-year period.</p>
Part 6: Internal controls of councils	<p>This Part comments on the internal controls associated with the preparation of financial statements, audit committees and controls over rate revenue.</p>

Source: Victorian Auditor-General's Office.

2 Financial reporting by entities

At a glance

Background

Independent audit opinions add credibility to financial and standard statements by providing assurance that the information reported is reliable. This Part covers the results of the 2012–13 financial statement audits of the 79 councils, 11 regional library corporations and 12 associated entities.

Conclusion

Clear audit opinions were issued for each of the 102 audits completed, meaning that the 2012–13 financial reports of the audited entities were reliable, and fairly presented the results of the entities' operations and their assets and liabilities as at 30 June 2013.

Findings

- Three entities did not meet the legislated reporting time frame of 30 September 2013. Each was granted a reporting extension and audit opinions were issued as follows:
 - Frankston City Council on 11 October 2013
 - West Wimmera Shire Council on 22 October 2013
 - Moira Shire Council on 23 October 2013.
- The financial statement of Buloke Shire Council was prepared on a going concern basis, however, conditions existed at 30 June 2013 that cast significant doubt on its ability to continue as a going concern.
- Eighty-five clear acquittal opinions were issued providing assurance to funding bodies that councils had spent grant monies according to grant conditions, and that grant expenditure was incurred in accordance with grant agreements.

Recommendations

That councils, regional library corporations and associated entities should:

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

2.1 Introduction

This Part covers the results of the 2012–13 audits of 79 local councils, 11 regional library corporations (RLCs) and 12 associated entities, and our observations regarding the quality of agency financial reporting.

2.2 Conclusion

Financial and standard statements prepared by local councils, RLCs and associated entities for 2012–13 were of a good standard. To date, clear audit opinions have been issued for 102 financial statements and 90 standard statements. Three of the audit opinions were issued after the statutory reporting time frame of 30 September 2013.

2.3 Financial reporting framework

The principal legislation governing the financial reporting of councils, RLCs and their associated entities is the *Local Government Act 1989* (the Act). Under the Act, they must prepare annual general purpose and standard financial statements, as set out in Figure 2A.

Figure 2A
Local government sector financial reporting requirements

Statement	Details	Councils	RLCs	Other
General purpose	General purpose financial statements prepared in accordance with Australian Accounting Standards, and comprising: <ul style="list-style-type: none"> comprehensive income statement balance sheet cash flow statement statement of changes in equity. 	✓	✓	✓
Special purpose—also referred to as standard statements	Statements comprising: <ul style="list-style-type: none"> comprehensive income statement balance sheet cash flow statement original approved budget and the difference between actual and budget a statement of capital works setting out actual against planned capital expenditure. supporting narrative explaining any material variances between actual results and budget. 	✓	✓	n.a.

Note: n.a. = not applicable.

Source: Victorian Auditor-General's Office.

Councils are also required to prepare performance statements and have them audited. The results of our audits of performance statements are presented in Part 3 of this report.

Councils and RLCs must submit their annual reports to the Minister for Local Government by 30 September each year unless granted an extension.

2.4 Audit opinions issued

Independent audit opinions add credibility to financial reports by providing assurance that the information in the reports is reliable and presents the entity's results fairly.

A clear audit opinion on the financial statements confirms that the financial statements have been prepared according to applicable accounting standards and the financial reporting requirements of the Act.

A clear audit opinion on the standard statements confirms that the standard statements have been prepared in accordance with the requirements of the Act.

A qualified audit opinion means that the financial statement is materially different to the requirements of the relevant reporting framework or accounting standards, and is less reliable and useful as an accountability document.

In certain circumstances an audit opinion may draw attention to, or emphasise, a matter that is relevant to the users of an entity's financial statement but does not warrant a qualification. Unmodified opinions can include an 'emphasis of matter' (EoM) paragraph.

2.4.1 General purpose financial statements

For 2012–13, 102 clear audit opinions were issued on the general purpose statements of councils, RLCs and associated entities (103 clear in 2011–12).

An auditor can draw a reader's attention to a matter or disclosure in the financial report to provide important context. Financial reports that include an EoM paragraph still present the entity's financial information fairly and can be relied upon by users.

In 2012–13 one entity received an audit opinion containing an EoM. Figure 2B provides the details of the entity and the reason for adding an EoM in the audit opinion.

Figure 2B
Emphasis of matter audit opinions issued for 2012–13

Entity	Status	Reason
Buloke Shire Council	Ongoing	The financial statement was prepared on a going concern basis, however, conditions existed at 30 June 2013 that cast significant doubt on the council's ability to continue as a going concern.

Source: Victorian Auditor-General's Office.

2.4.2 Standard statements

Councils and RLCs are required to prepare standard statements under section 131 of the Act. These statements are 'special purpose financial reports', which report actual expenditure against budget for the financial year. Consistent with auditing standards, our audit opinions on special purpose financial reports include an EoM drawing the users' attention to the fact that they are prepared to meet the requirements of the Act and may not be suitable for another purpose.

For 2012–13, 90 clear audit opinions with an EoM were issued on all the standard financial statements of councils and RLCs (90 clear in 2011–12).

2.4.3 Grant acquittals

At times, councils are required to report on the use of specific grants provided to them. For example, conditions of grants provided by the Commonwealth Government may require the council to report back on, or acquit, the use of that funding. An acquittal report generally consists of an income and expenditure statement based on a prescribed template provided by the funding body.

Audits of grants are usually a funding condition and may be a prerequisite for continued funding. A grant acquittal audit provides assurance to the funding body that grant conditions have been met, and that grant expenditure was incurred in accordance with the grant agreement, including any special conditions and payment requirements. Grant acquittal audits are conducted in accordance with the Australian Auditing Standards and the requirements of the relevant grant agreement or grant conditions.

In 2012–13 we issued 85 acquittals (69 in 2011–12), most of which related to the Nation Building Program managed by the Commonwealth Government's Department of Infrastructure and Regional Development. The details of acquittals issued during the year are provided in Appendix D.

2.5 Quality of financial reporting

The quality of an entity's financial reporting can be measured by the accuracy and timeliness of the preparation and finalisation of its financial and standard statements.

2.5.1 Accuracy

The frequency and size of errors in financial statements are direct measures of the quality of the financial reports submitted to audit. Ideally, there should be no errors or adjustments required as a result of an audit. When we detect errors in the financial statements they are raised with management.

Material errors identified during the financial report preparation and audit need to be corrected before a clear audit opinion can be issued. Other errors should also be corrected. While some errors may appear immaterial in isolation, in aggregate, a series of small errors may have a significant impact on the statements or an entity's operating result.

Our expectation is that all entities will adjust errors identified during an audit, other than those errors that are clearly trivial as defined under the auditing guidelines. This expectation is consistent with our principle that the public is entitled to expect that financial statements that bear the Auditor-General's opinion are as accurate and of the highest quality possible.

Material adjustments

The number of material adjustments decreased from 61 in 2011–12 to 39 in 2012–13. Large and small shire councils accounted for 77 per cent of the material adjustments.

The number of adjustments to disclosures reduced from 22 last year to 13 in 2012–13. Regional and large shire councils accounted for 69 per cent of these adjustments (77 per cent in 2011–12).

Adjustments were required to correct errors due to:

- incorrect valuations of infrastructure assets based on poor quality data
- inadequate quality assurance over the reasonableness of asset revaluation data.

Adjustment of other misstatements

While some errors may appear immaterial in isolation, in aggregate, a series of small errors may have a significant impact on the statements or an entity's operating result. It is important therefore that these errors be corrected before the audit opinion is signed.

2.5.2 Timeliness

Timely financial reporting is key to accountability to stakeholders and enables them to make well-timed and informed decisions. The later a financial report is produced and published after year end, the less useful it is.

Councils, RLCs and related entities are required to finalise their audited financial statements and submit them to the Minister for Local Government by 30 September each year. In 2012–13, 76 councils (96 per cent) met the time frame compared with 98 per cent in 2011–12. Three councils were granted extensions by the minister, as shown in Figure 2C.

Figure 2C
Entities that missed the statutory reporting time line, 2012–13

Entity	Details
Frankston City Council	An extension to 30 November 2013 granted. The financial report signed 7 October 2013. Audit opinion issued 11 October 2013.
West Wimmera Shire Council	An extension until 30 November 2013 granted. The financial report signed 17 October 2013. Audit opinion issued 22 October 2013.
Moira Shire Council	An extension until 30 November 2013 granted. The financial report signed 21 October 2013. Audit opinion issued 23 October 2013.

Source: Victorian Auditor-General's Office.

All RLCs and associated entities met the reporting time frame in 2012–13 (100 per cent in 2011–12).

Recommendations

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.

3 Performance reporting by councils

At a glance

Background

All councils are required to report their actual performance against measures and targets associated with the key strategic activities set out in their four-year plans. This Part covers the results of the 2012–13 audits of council performance statements. It also details the progress made by Local Government Victoria and the sector in developing the Local Government Performance Reporting Framework.

Conclusion

Parliament can have confidence in the fair presentation of 78 performance statements that received clear audit opinions for 2012–13.

Wangaratta Rural City Council received a qualified audit opinion on its performance statement as some key performance indicators and targets were not included in its 2012–13 budget, as required for reporting.

Local Government Victoria, in conjunction with local councils, is making good progress in developing a performance reporting framework for the sector. The initiative, which includes developing a common suite of performance indicators, should enable us to commence forming audit opinions on the relevance and appropriateness of performance statements in 2014–15, consistent with our intent announced in *Local Government: Results of the 2010–11 Audits* (2011–12:14).

Recommendation

That councils should continue to engage with Local Government Victoria at all stages in the development of the Local Government Performance Reporting Framework.

3.1 Introduction

This Part covers the results of the audits of the 2012–13 performance statements of local councils and provides an update on Local Government Victoria (LGV) and local councils' progress in developing the Local Government Performance Reporting Framework (LGPRF).

3.2 Conclusion

Performance statements continue to be audited on a fair presentation basis, with 78 councils receiving a clear audit opinion and one qualified opinion for 2012–13.

LGV has continued to develop the LGPRF which will enable us to commence forming an audit opinion on the relevance and appropriateness of the performance statements from 2014–15.

3.3 Performance reporting framework

Section 132 of the *Local Government Act 1989* requires councils to prepare performance statements annually, and section 133 requires these statements to be audited. Councils are required to report their performance against the measures and targets related to the key strategic activities established in their four-year plans.

3.4 Audit opinions issued

By the statutory reporting date of 30 September 2013, 75 clear audit opinions and one qualified audit opinion were issued on council performance statements for 2012–13 (77 clear in 2011–12).

Figure 3A provides the detail of the qualified audit opinion issued.

Figure 3A
Qualified audit opinions issued for 2012–13

Entity	Status	Reason
Wangaratta Rural City Council	New	Some key performance indicators and targets were not included in the council's 2012–13 budget required for the performance statement for 30 June 2013, as required by the <i>Local Government Act 1989</i> .

Source: Victorian Auditor-General's Office.

Clear audit opinions were issued after the statutory deadline to Frankston City Council on 11 October 2013, West Wimmera Shire Council on 22 October 2013 and Moira Shire Council on 23 October 2013. The three councils were granted reporting extensions to 30 November 2013 by the Minister for Local Government.

3.5 Developing the sector's performance reporting framework

The *Audit Act 1994* empowers the Auditor-General to audit any performance indicators in the report of operations of an audited entity to determine whether they:

- are relevant to any stated objectives of the entity
- are appropriate for the assessment of the entity's actual performance
- fairly represent the entity's actual performance.

However, to date, in accordance with section 132 of the *Local Government Act 1989*, we have restricted our audit opinion to commenting on fair presentation. In response to our 2011 performance audit report *Performance Reporting by Local Government* (2011–12:27), in 2011–12 LGV commenced a two-year project to develop and implement a performance reporting regime for the sector. The LGPRF is expected to be in place by June 2015 to align with our expressed intention to issue opinions covering the Auditor-General's full mandate from—and including—2014–15.

3.5.1 Progress in 2012–13

The development and implementation of the LGPRF is being carried out in five stages:

- **Stage 1**—indicator development (October 2012 to June 2013)
- **Stage 2**—pilot program (July 2013 to June 2014)
- **Stage 3**—enabling legislation (July 2013 to June 2014)
- **Stage 4**—data collection (July 2014 to June 2015)
- **Stage 5**—reporting (July 2015 to September 2015).

The LGPRF under development comprises a range of output and outcome indicators to be reported within an LGV-collated report for the sector. This is consistent with the recommendation from our report, *Performance Reporting by Local Government* (2011–12:27). It is expected that a subset of the established indicators will be incorporated into the performance statements to be audited by VAGO.

The project is proceeding to the established time frame:

- Stage 1 delivered a Directions Paper in December 2012 providing an overview of the key features of the proposed framework, and outlined the process for its implementation
- Stage 2 which is aimed at refining and validating the proposed framework and indicators through piloting with 43 volunteer councils is currently underway. Community input will also be sought on the format of reporting as part of the pilot.

Progress is also underway on Stage 3 with work proceeding to draft the enabling legislation and regulatory impact statements for consideration in 2013–14.

3.5.2 Observations from 2012–13 audits of local councils

When we announced our intention to expand our audit opinions, we signalled to councils that we would report our opinion on relevance and appropriateness of performance indicators to councils via management letters, while continuing to express a public opinion on their fair presentation. Consequently in 2012–13, in addition to auditing and issuing our opinion on the fair presentation of performance statements, we provided feedback to 40 selected councils through our management letters on their readiness to report on relevant and appropriate indicators.

This feedback was also designed to enable councils to better engage with, and provide constructive feedback to, LGV on the framework and indicators being developed.

Relevance and appropriateness of performance indicators

While some councils presented performance indicators that were both output and outcome-based, the majority have some way to go to deliver performance statements that include relevant and appropriate indicators. For example, 90 per cent of selected councils did not clearly align the strategic indicators in their performance statements with the key strategic activities outlined in their council plans.

Without a clear nexus between the strategic indicators and key strategic activities, the effectiveness of a council's performance can only be inferred, not definitively determined.

Performance reporting policies

Consistent with our report *Performance Reporting in Local Government (2007–08:27)*, we found that 68 per cent of the selected councils did not have formalised and defined performance reporting policies.

Policies that articulate the context within which a council operates can assist the development of appropriate targets and priority setting. For example, councils that have a strong environmental sustainability aim may choose to set higher targets for recycling or maintaining green areas, or councils in growth areas may choose to set higher targets for establishing local infrastructure.

The absence of policies may impact a council's ability to fairly and accurately reflect its achievements against strategic objectives within their performance statements, and to set appropriate targets.

Recommendation

3. That councils should continue to engage with Local Government Victoria at all stages in the development of the Local Government Performance Reporting Framework.
-

4 Financial results of councils and regional library corporations

At a glance

Background

This Part covers the financial results of the 79 local councils and 11 regional library corporations for 2012–13.

Conclusion

The overall operating result for councils has improved in 2012–13. Sustained positive operating results indicate that councils are living within their means allowing them to build capacity, expand services, retire debt and/or facilitate capital works and renewal.

Regional library corporations remain heavily dependent on council support for their ongoing operations. Without continued support regional library corporations will struggle to provide their services.

4.1 Introduction

Accrual-based financial statements enable an assessment of whether entities generate sufficient surpluses from their operations to maintain services, fund asset maintenance and retire debt.

The financial objective for councils and regional library corporations (RLCs) should be to generate sufficient resources from operations to meet their financial obligations, fund asset replacement and acquisitions. The ability of councils and RLCs to do this depends largely on how they manage their expenditure and maximise revenue.

4.2 Financial result—councils

The overall operating result for councils improved 20 per cent from a surplus of \$1.03 billion in 2011–12 to a surplus of \$1.23 billion in 2012–13.

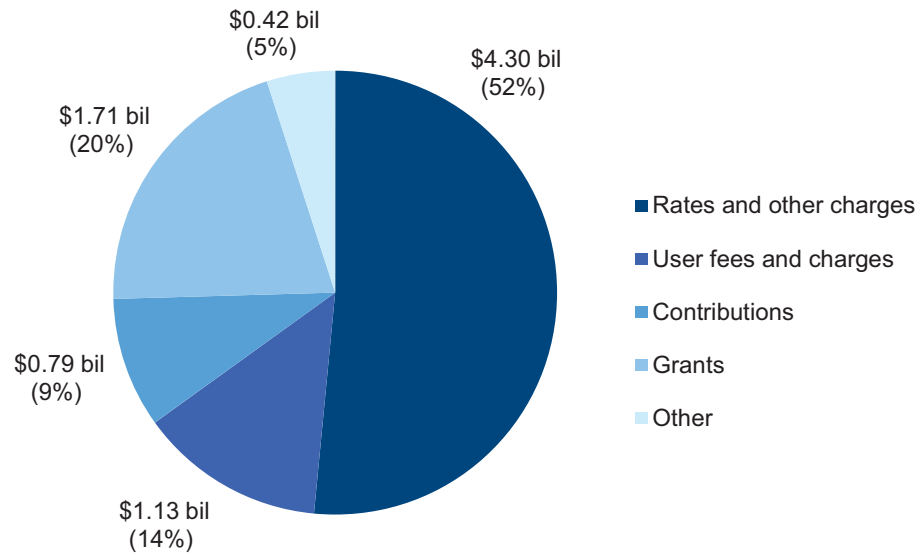
The ongoing positive result means that councils have greater capacity to expand services, reduce debt and/or facilitate capital works. In 2011–12, 22 councils reported underlying operating deficits because of a call from their defined benefit superannuation fund to address unfunded liabilities. The funding call was not repeated in 2012–13, and as a direct result only eight councils reported an underlying operating deficit for the year.

4.2.1 Operating revenue

Councils generated operating revenue of \$8.35 billion in 2012–13, an increase of 2 per cent on the \$8.18 billion collected in 2011–12. This included an increase in rates and user fees and charges of \$419 million, offset by a decrease in grants, developer contributions and interest yields of \$246 million.

Figure 4A shows the composition of council operating revenue for 2012–13.

Figure 4A
Council revenue composition, 2012–13



Source: Victorian Auditor-General's Office.

4.2.2 Operating expenditure

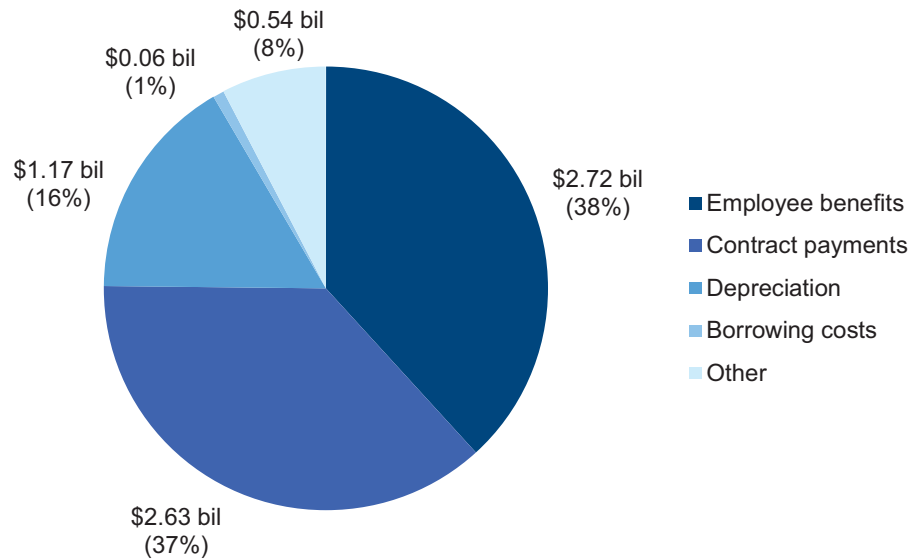
Total operating expenditure of councils was \$7.12 billion in 2012–13 (\$7.15 billion in 2011–12), a reduction of 0.4 per cent.

The largest expenditure for councils was employee benefits. This has decreased from \$3.01 billion in 2011–12 to \$2.72 billion in 2012–13—a 9.6 per cent decrease—due to the defined benefit superannuation funding call not being repeated in 2012–13.

All other expenditure components remained at similar values to 2011–12.

Figure 4B shows the composition of operating expenditure for 2012–13.

Figure 4B
Council expenditure composition, 2012–13



Source: Victorian Auditor-General's Office.

4.3 Financial result—regional library corporations

The overall operating result for RLCs improved from a deficit of \$3.06 million in 2011–12 to a surplus of \$3.11 million in 2012–13. This improvement in the overall operating result was due to an increase of \$3 million in grant funding and lower employee benefit expenses due to the defined benefit superannuation funding call not repeating in 2012–13. Council contributions had also decreased from \$63 million in 2011–12 to \$59 million in 2012–13.

Seventy-seven per cent of RLCs total revenue comes from councils, so they remain heavily dependent upon council support to fund their ongoing operations. Without this level of continuing support RLCs will struggle to provide the services that they were set up to deliver.

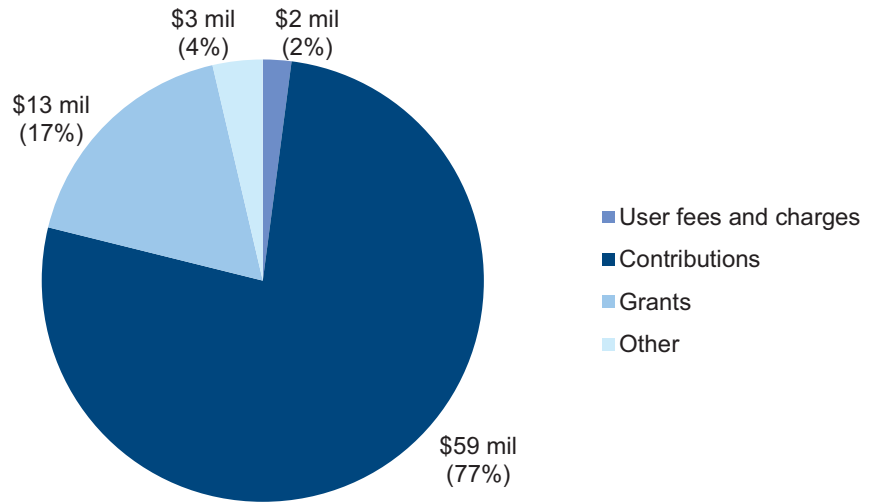
4.3.1 Operating revenue

In 2012–13, revenue for RLCs amounted to \$77 million (\$78 million in 2011–12). Government grants increased from \$10 million in 2011–12 to \$13 million in 2012–13. Council contributions reduced by \$7 million because the additional contributions provided by councils to cover the 2011–12 defined benefit superannuation funding call on RLCs was not needed in 2012–13. While not required in 2012–13, the reliance on local councils to absorb financial risks that materialise is indicative of the ongoing challenges to the sustainability of RLCs.

The reduction in council contributions during 2012–13 was partly offset by an increase of \$3 million in government grants.

Figure 4C shows the overall composition of operating revenue for RLCs in 2012–13.

Figure 4C
Regional library corporations revenue composition, 2012–13

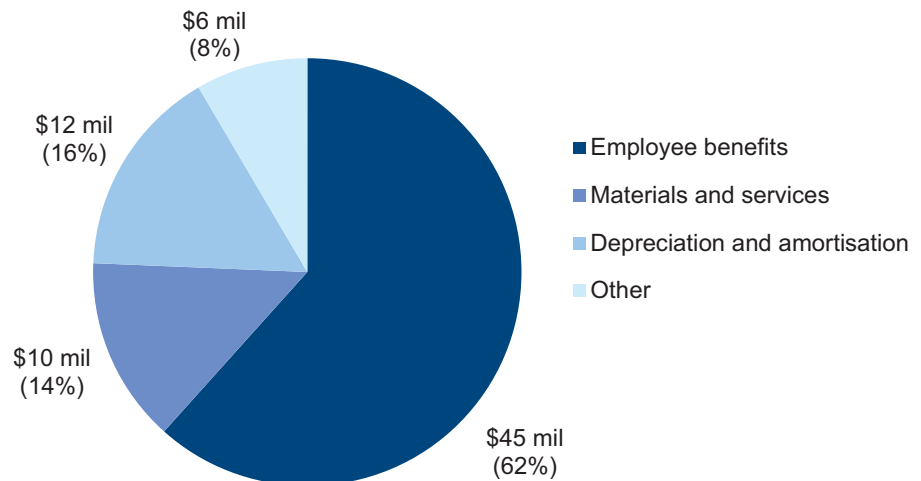


Source: Victorian Auditor-General's Office.

4.3.2 Operating expenditure

In 2012–13, RLCs had expenditure of \$73 million (\$81 million in 2011–12). Figure 4D shows the composition of expenditure for the year.

Figure 4D
Regional library corporations expenditure composition, 2012–13



Source: Victorian Auditor-General's Office.

The largest component of expenditure was employee benefits of \$45 million which had decreased from \$55 million in 2011–12. This reduction was due to the defined benefit superannuation funding call not being repeated in 2012–13. All other expenditure components had remained consistent with 2012–13.

5

Financial sustainability of councils

At a glance

Background

To be financially sustainable, entities need to be able to meet current and future expenditure as it falls due and to absorb foreseeable changes and risks without significantly changing their revenue and expenditure policies. This Part provides insight into the financial sustainability of the 79 local councils.

Conclusion

Two councils improved their financial sustainability risk assessments from medium to low risk, however, the assessments for nine other councils deteriorated—a net movement of seven. Of the nine, eight councils had deteriorating self-financing or indebtedness ratios with five affected by their choice to repay the defined benefit superannuation funding call liability early. One council's sustainability assessment changed from low to high as a result of a liquidity ratio of less than one.

Inner metropolitan councils and regional city councils with an established asset base face longer-term pressures in maintaining and renewing existing assets or paying down existing debt while outer metropolitan and large shire councils face an ongoing challenge of maintaining spending on capital works and future renewal works to maintain their assets at serviceable levels. Small shire councils continued reliance on government funding exposes them to higher financial risks in the future.

5.1 Introduction

To be financially sustainable, entities need to meet their current and future expenditure as it falls due. They also need to absorb foreseeable changes and financial risks that materialise, without significantly changing their revenue and expenditure policies.

Financial sustainability should be viewed from both a short-term and long-term perspective. Short-term indicators relate to the ability of an entity to maintain positive operating cash flows, or the ability to generate an operating surplus in the next financial year. Long-term indicators focus on strategic issues such as the ability to fund significant asset replacement or reduce long-term debt.

In this Part, insight is provided into the financial sustainability of councils as at 30 June 2013 using six key financial sustainability indicators, and trends in the indicators over the past five years. This analysis identifies trends that warrant attention or highlight positive results for individual councils and the five council categories—inner metropolitan, outer metropolitan, regional city, large shire and small shire. Appendix E describes the sustainability indicators, the risk assessment criteria used and their significance.

5.2 Financial sustainability risk assessment

5.2.1 Assessment by council category

Figure 5A shows that the number of councils with a high financial sustainability risk increased from one in 2011–12 to two in 2012–13. The number of councils with a medium sustainability risk increased from five in 2011–12 to 11 in 2012–13.

Figure 5A
Two-year financial sustainability risk assessment, by council category

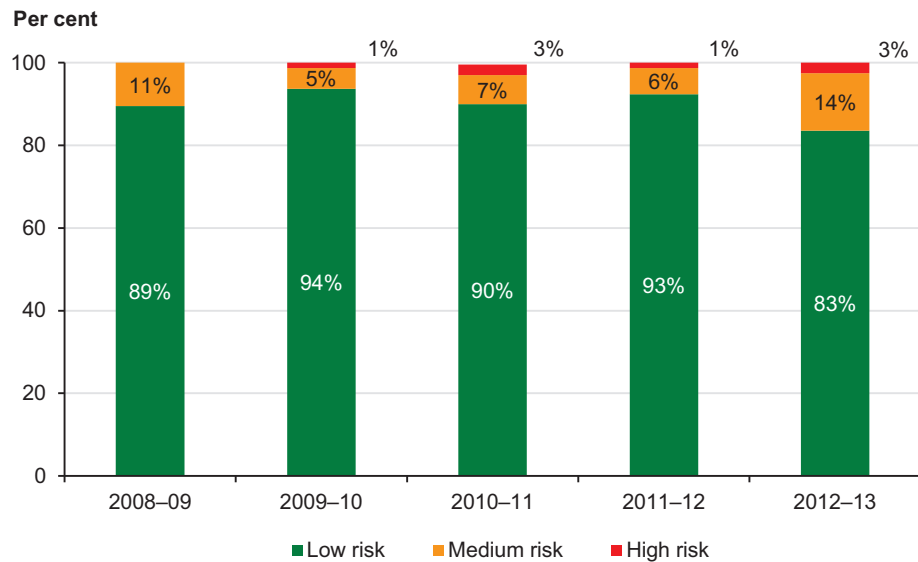
Council	2012–13			2011–12		
	High	Medium	Low	High	Medium	Low
Inner metropolitan	1	2	14	–	–	17
Outer metropolitan	–	4	10	–	2	12
Regional city	–	1	10	–	1	10
Large shire	–	3	13	–	1	15
Small shire	1	1	19	1	1	19
Total	2	11	66	1	5	73
Per cent	3	14	83	1	6	93

Source: Victorian Auditor-General's Office.

Overall, indebtedness of the sector improved in 2012–13 due to the early payment by 63 councils of the defined benefit superannuation liabilities, in order to capitalise on discounts offered by the superannuation provider. However, this affected the cash flows of the councils, increasing their self-financing risk.

Figure 5B shows that from 2008–09 to 2011–12, the overall financial sustainability risk assessment was relatively consistent. However, in 2012–13, 13 councils were rated as medium or high risk compared with six in 2011–12.

Figure 5B
Five-year financial sustainability risk assessment



Source: Victorian Auditor-General's Office.

Mansfield Shire Council and Surf Coast Shire Council had improved financial sustainability risk assessments from medium to low risk. However, the sustainability assessments for nine other councils deteriorated. Of the nine, eight councils had deteriorating self-financing or indebtedness ratios with five affected by their choice to repay the defined benefit superannuation funding call liability early. One council's sustainability assessment changed from low to high as a result of a liquidity ratio of less than one.

5.2.2 Assessment of financial sustainability risk by council category

The overall risk assessments for each of the five categories of councils are presented below. Detailed results of our sustainability risk assessments for each category and each council can be found in Appendix E.

Inner metropolitan councils

Financial sustainability risk for the 17 inner metropolitan councils was assessed as low. One council was assessed as high risk and two councils were assessed as medium risk in 2012–13 compared to none in this category in 2011–12.

Yarra City Council's liquidity ratio fell below 1.00 on 30 June 2013 following an increase in current trade creditors associated with the redevelopment of the Collingwood Town Hall compared to the previous year. The council's three-year forecast indicates a liquidity ratio above 1.00 from 2013–14 onwards.

The financial sustainability risk for Darebin City Council and Monash City Council was assessed as medium (low in 2011–12) due to higher self-financing ratios following repayment of their defined benefit superannuation funding call liability in 2012–13. The three-year forecasts for both indicate an improvement in the self-financing ratio.

Inner metropolitan councils have established assets with the challenge being to maintain them at serviceable levels. However, the weakest risk indicator for this cohort was self-financing, which suggests in the longer-term pressures may arise in maintaining and renewing existing assets or paying down existing debt.

Outer metropolitan councils

The financial sustainability risk for the 14 outer metropolitan councils was assessed as low for 2012–13. Four were assessed as medium risk compared with two in 2011–12.

Nillumbik Shire Council and Yarra Ranges Shire Council were assessed as medium risk (low in 2011–12) due to high self-financing ratio risk, again due to repaying their defined benefit superannuation funding call liability in 2012–13. The three-year forecasts for both indicate an improvement in the self-financing ratio.

Outer metropolitan councils service the growth corridors of Melbourne. While their primary focus is more on meeting new infrastructure rather than on maintaining assets at serviceable levels, the asset renewal gap is a challenge for them.

Regional city councils

The financial sustainability risk for the 11 regional city councils was assessed as low for 2012–13. However, as has been the case since 2007–08, Wodonga City Council was again assessed as medium risk. The council continues to pay off borrowings it incurred to fund its manufacturing, transport and logistics precinct known as LOGIC.

Similar to inner metropolitan councils, regional city councils have established assets. But uniquely; they serve as proxy centres to the large and small shire councils geographically located around them. The risk assessment suggests this cohort will need to continue to focus on spending on renewing and maintaining their existing assets while looking to stimulate economic growth in the area.

Large shire councils

Financial sustainability risk for the 16 large shire councils was assessed as low for 2012–13. Three councils in this cohort were assessed as medium risk (one council in 2011–12).

Moira Shire Council was medium risk (low in 2011–12) because of its self-financing ratio, driven by the timing of natural disaster funding and associated works.

South Gippsland Shire Council was also medium risk (low in 2011–12), following repayment of its portion of the defined benefit superannuation funding call liability in 2011–12, affecting its self-financing ratio.

Glenelg Shire Council was medium risk (low in 2011–12) because of its high indebtedness ratio after recognising additional landfill provisions associated with its Portland landfill site.

The capital replacement indicator for nine of the 16 councils was medium risk, highlighting the challenges large shire councils face in maintaining a level of capital spending to match the rate of depreciation on their existing assets.

Small shire councils

The financial sustainability risk for the 21 small shire councils was assessed as low for 2012–13. Buloke Shire Council was again assessed as high risk (high in 2011–12).

Buloke reported a positive underlying result for 2012–13. However, borrowing during 2012–13 to cover the defined benefit superannuation funding call liability further reduced its poor liquidity ratio from 2011–12. The audit opinion on the 2012–13 financial statements continued to emphasise this matter.

Pyrenees Shire Council's financial sustainability risk was assessed as medium (low in 2011–12) because of its self-financing ratio caused by a combination of the early payment of its defined benefit superannuation funding call liability and the timing of natural disaster funding and associated works.

This cohort of councils is the most vulnerable as their ratepayer bases are smaller, making them highly dependent on government funding to support their continued operations. Their reliance on government funding exposes them to the potential for higher financial risks in the future.

5.3 Five-year sustainability trend analysis

This section analyses and comments on the trends for six sustainability indicators over the past five years.

5.3.1 Underlying result

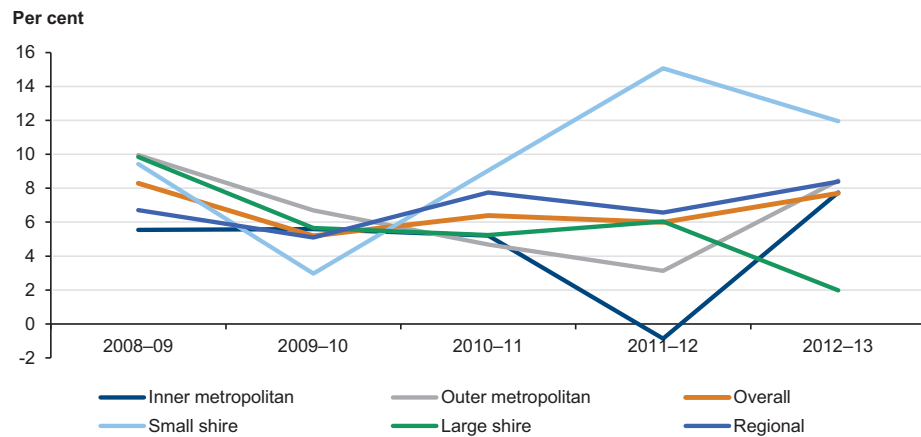
A continuous positive underlying operating result means that an entity has the capacity to expand services, reduce debt and/or facilitate capital works.

The underlying result for the sector across the five years has been positive, fluctuating between 5 per cent and 8 per cent indicating no immediate concerns at the sector level. However, in 2011–12, inner metropolitan, outer metropolitan and regional city council categories experienced declines in their average underlying results. They were impacted by a larger proportion of the call to address shortfalls in the defined benefit superannuation fund.

The impact of the defined benefit superannuation funding call was not as significant for the small shire and large shire cohorts in 2011–12 as it was offset by an increase in natural disaster funding for bushfires and floods.

Figure 5C shows the average underlying result for all councils since 2008–09.

Figure 5C
Average underlying result, by council category



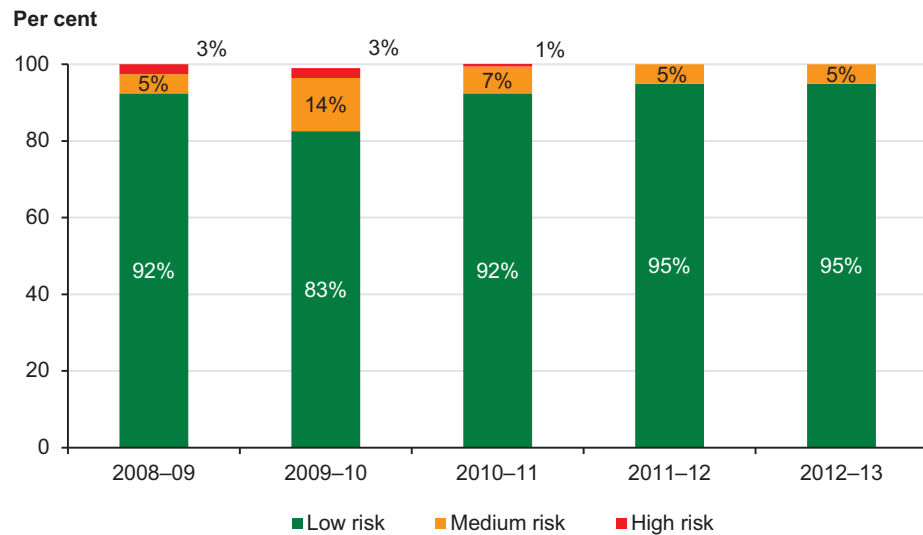
Source: Victorian Auditor-General's Office.

Subsequently, the average underlying results for inner metropolitan, outer metropolitan and regional city councils improved. Overall, in 2012–13 eight councils reported an underlying deficit for the year, compared with 22 in 2011–12.

The results for small shire and large shire councils reduced in 2012–13, affected by lower natural disaster funding for floods and bushfires because there were fewer eligible incidents in 2012–13.

Figure 5D shows that the underlying result of 5 per cent of councils was assessed as medium risk in 2012–13 (5 per cent in 2011–12).

Figure 5D
Underlying result risk assessment



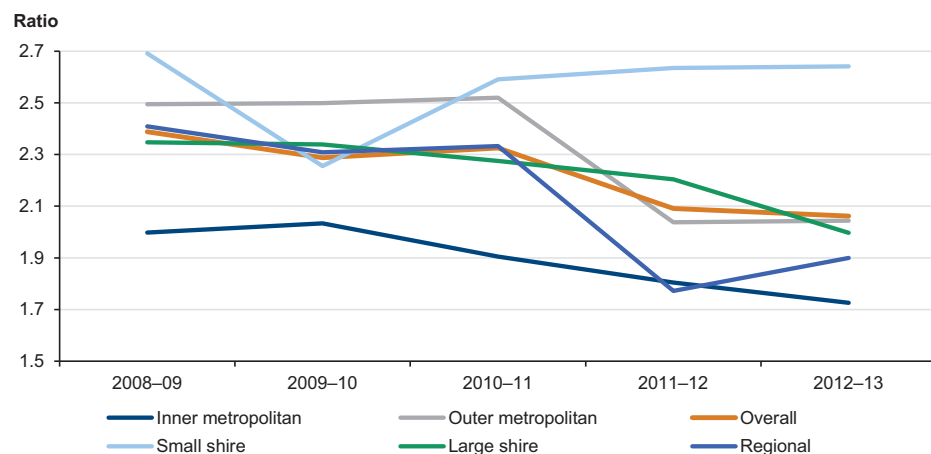
Source: Victorian Auditor-General's Office.

The proportion of councils assessed as medium risk or high has decreased from 17 per cent to 5 per cent since 2009-10. The 2009-10 assessment reflected only one quarter grant payments in advance compared to two quarterly instalments in advance received since 2010-11.

5.3.2 Liquidity

Figure 5E shows that the average liquidity ratio for the sector was above 1.50 for 2012-13, indicating no immediate concerns at the sector level. However, the ability of councils to repay their short-term financial obligations has declined in all but the small shire cohort.

Figure 5E
Average liquidity ratio, by council category

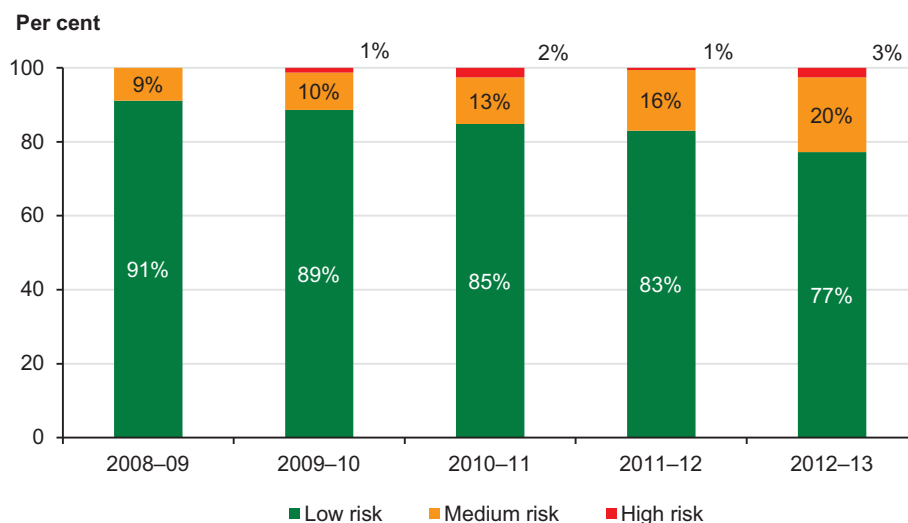


Source: Victorian Auditor-General's Office.

The average liquidity ratio decreased from 2.09 in 2011–12 to 2.06 in 2012–13. Large shire and inner metropolitan councils experienced declines in their average liquidity ratios due to the 2011–12 repayment of the defined benefit superannuation funding call.

The liquidity ratio for small shire councils has averaged over 2.50 since 2010–11. Councils in this cohort were subject to bushfires and flooding over recent years, resulting in them receiving large amounts of natural disaster funding. The high ratio provides cash flow for repaying short-term debt. However, it can also indicate that cash has not been used effectively.

Figure 5F
Liquidity risk assessment



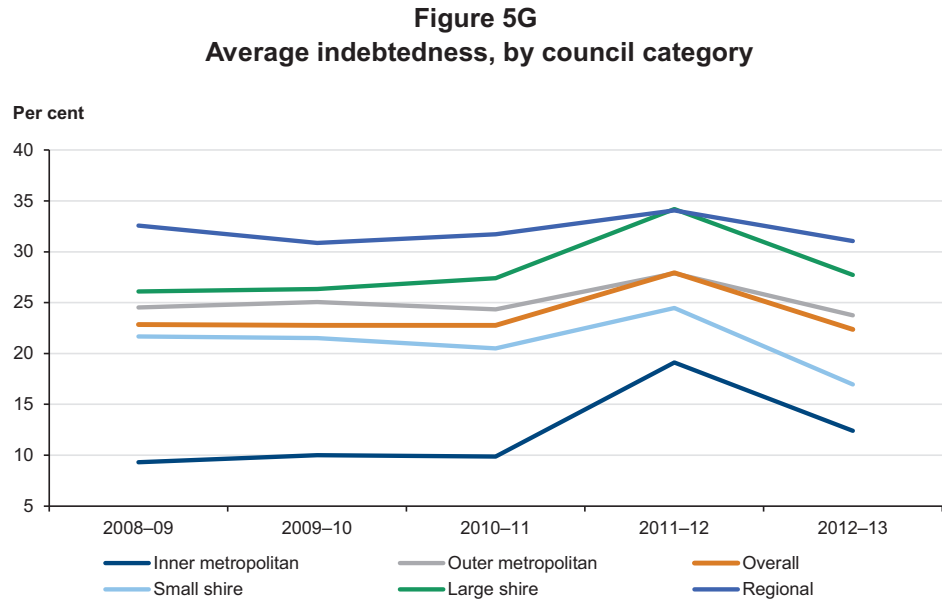
Source: Victorian Auditor-General's Office.

Figure 5F shows that the proportion of councils assessed as having high liquidity risk increased from 1 per cent in 2011–12 to 3 per cent in 2012–13. The proportion of councils with medium liquidity risk also increased, from 16 per cent in 2011–12 to 20 per cent in 2012–13.

The impact on councils choosing to pay their liabilities for the defined benefit superannuation funding call varied. Councils with a deteriorating liquidity risk would have elected to pay their liability in 2012–13 to take advantage of early payment discounts.

5.3.3 Indebtedness

Figure 5G shows the average indebtedness of councils over the five-year period.



Source: Victorian Auditor-General's Office.

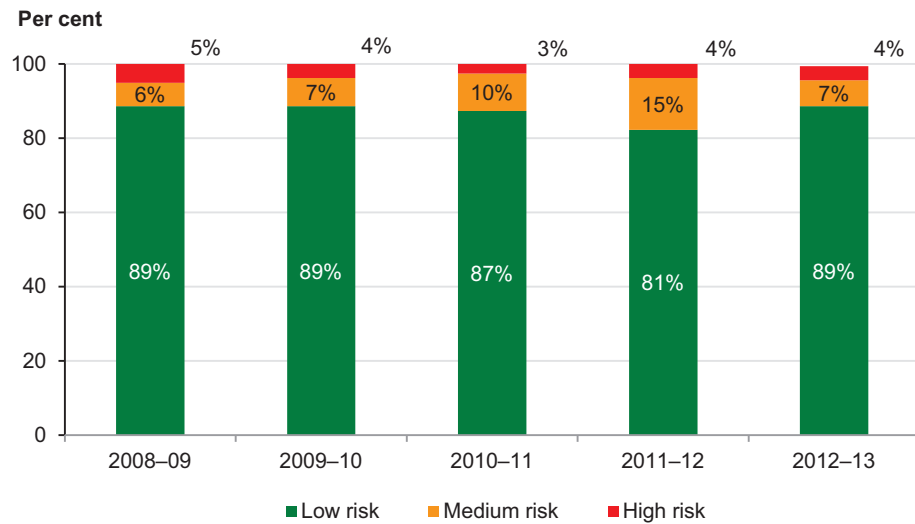
Average indebtedness for the sector, which peaked in 2011–12, was again affected by the payment option adopted. The improvement in 2012–13 was due to a reduction in obligations for those councils that chose to defer payment to 2012–13.

Inner metropolitan councils continued to have the lowest indebtedness of all categories and the greatest capacity to increase revenue through fees and charges. As a result, the risk that inner metropolitan councils will not service their debt is low.

Large shire and regional councils continue to have the highest indebtedness. These councils have limited discretionary revenue options and need to actively manage and monitor their debt.

Figure 5H shows that the proportion of councils in the medium- and high-risk categories is comparable to the proportions prior to 2011–12. Nevertheless councils need to remain focused on maintaining sustainable debt levels.

Figure 5H
Indebtedness risk assessment



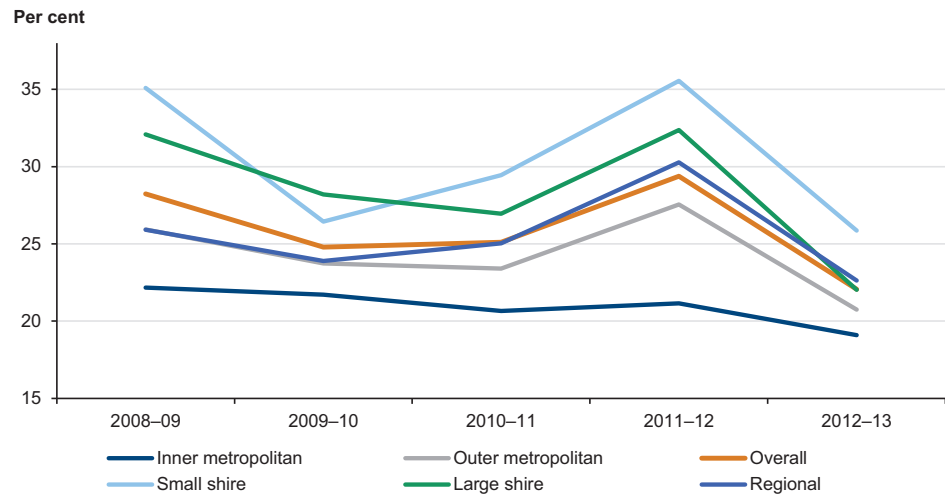
Source: Victorian Auditor-General's Office.

5.3.4 Self-financing

The self-financing ratio gives an indication on whether councils have generated sufficient operating cash flows to invest in asset renewal and repay any debt that may have incurred in the past. A self-financing risk assessment of greater than 20 per cent indicates that an entity has a lower risk of not being able to generate enough cash from operations to fund assets.

Figure 5I shows that the overall average self-financing risk assessment for councils remained above 20 per cent, but declined in 2012-13 as cash holdings decreased due to payments of the defined benefit superannuation funding call and lower natural disaster funding receipts in 2012-13.

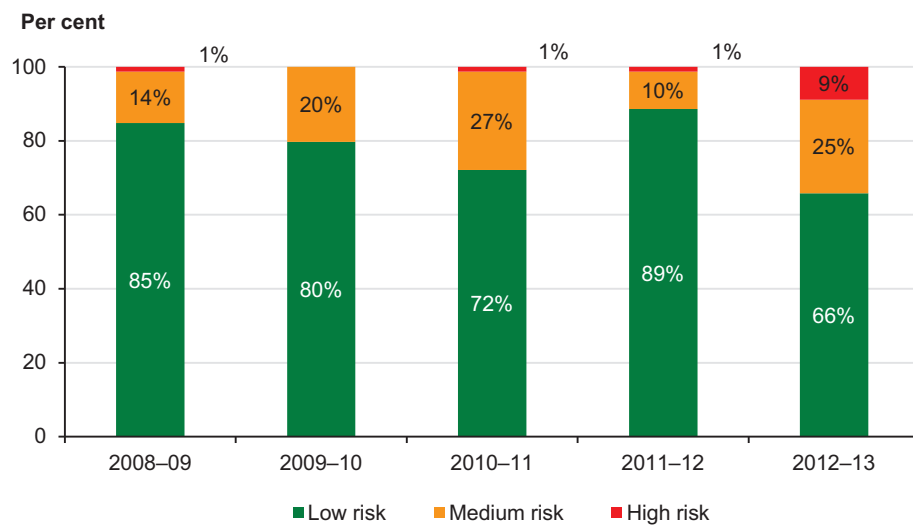
Figure 5I
Average self-financing, by council category



Source: Victorian Auditor-General's Office.

Figure 5J shows an increase in self-financing risk over the five-year period. Nine per cent of councils were rated as high risk in 2012–13 compared with 1 per cent in 2011–12 and the proportion of councils rated as medium risk increased from 10 per cent in 2011–12 to 25 per cent in 2012–13.

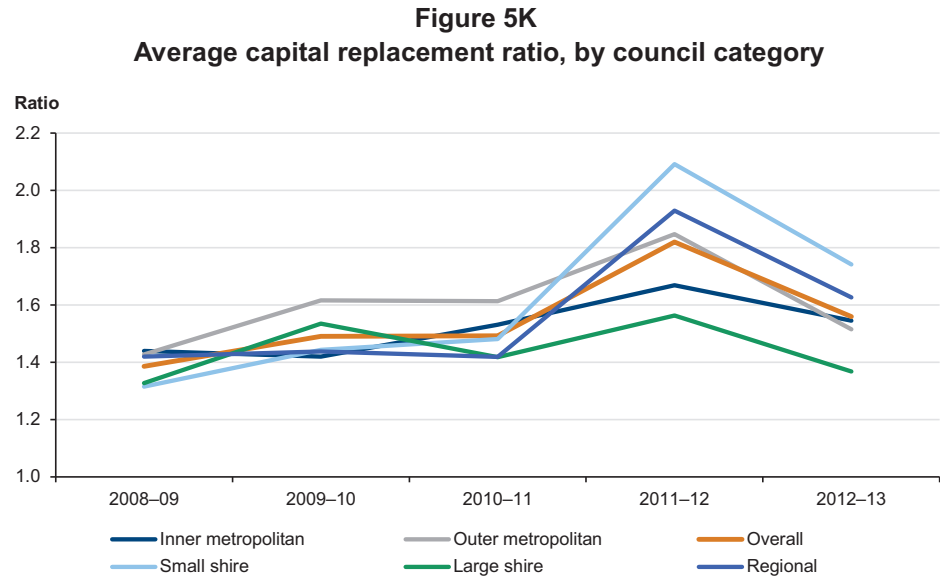
Figure 5J
Self-financing risk assessment



Source: Victorian Auditor-General's Office.

5.3.5 Capital replacement

Figure 5K shows the average capital replacement ratio across all council categories.



Source: Victorian Auditor-General's Office.

The overall trend for the sector shows that capital spending on infrastructure, property, plant and equipment has improved since 2008–09 and is now at one and a half times the rate of aggregate depreciation and amortisation. However, in 2012–13 all council categories experienced decreases in their average capital replacement ratio. Lower aggregate capital expenditure of \$1.8 billion in 2012–13 (2011–12: \$1.9 billion) as well as higher depreciation of \$1.2 billion (2011–12: \$1.1 billion) contributed to the decline.

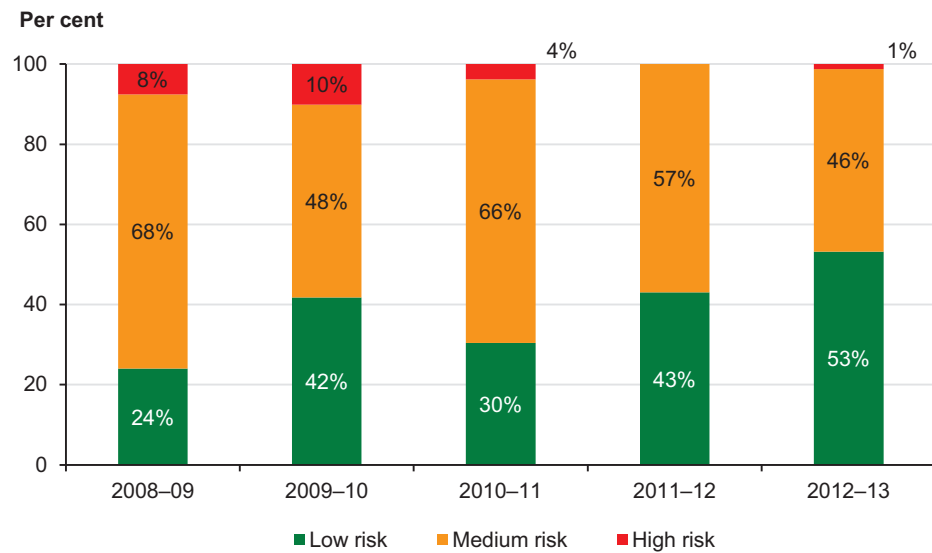
The capital replacement risk assessment for the large shire cohort changed from low in 2011–12 to medium in 2012–13 suggesting there is insufficient capital spending to match the consumption of assets.

Small shire councils and regional councils were the most challenged cohorts in 2008–09, however, due to increased capital spend associated with natural disasters their spending has grown to overtake all other council categories.

While outer metropolitan councils spend the most on assets, this needs to be assessed in conjunction with the renewal gap indicator. These councils service growth corridors, hence spending on new infrastructure is high, driving a higher capital replacement result.

Figure 5L shows that 46 per cent of councils were rated as having medium capital replacement risk in 2012–13 compared to 57 per cent in 2011–12. The proportion of councils assessed as low risk increased by 10 per cent in 2012–13 demonstrating that councils have made progress in replacing assets at a rate consistent with their consumption.

Figure 5L
Capital replacement risk assessment



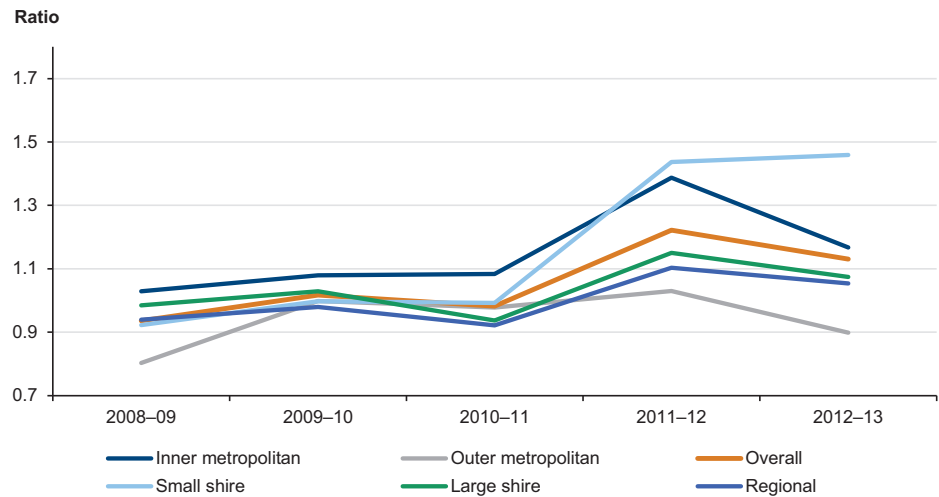
Source: Victorian Auditor-General's Office.

5.3.6 Renewal gap

The renewal gap compares the rate of spending through renewing, restoring and replacing existing assets. Spending more than the rate an asset is used indicates that an entity is sufficiently maintaining and renewing its assets.

Figure 5M shows that the average renewal gap across all council categories improved over the five-year period. Outer metropolitan councils have typically spent less on renewal than other council categories. As predominantly growth area councils they have higher new infrastructure needs compared with established councils that require greater focus on maintenance and renewal. However, the longer-term challenge of maintaining and renewing their infrastructure remains for outer metropolitan councils as their assets begin to age and deteriorate over time.

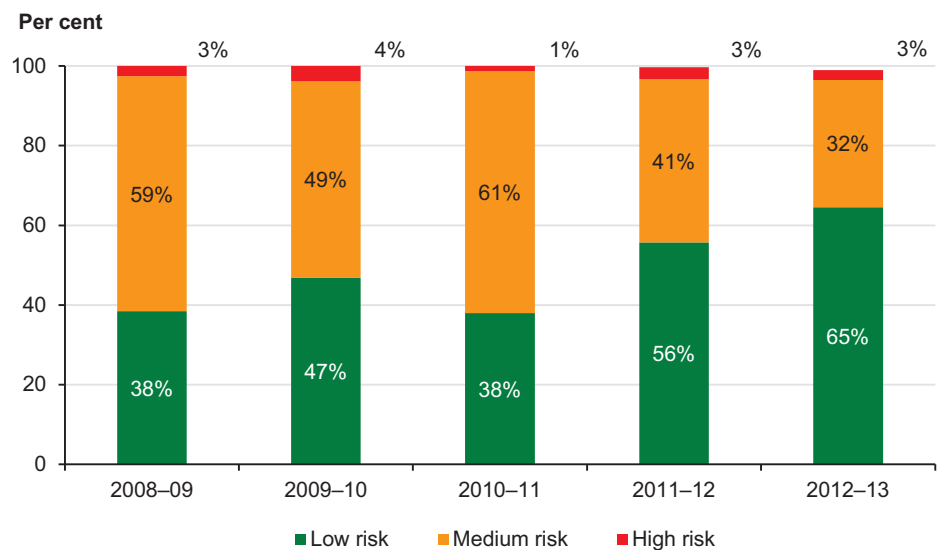
Figure 5M
Average renewal gap, by council category



Source: Victorian Auditor-General's Office.

Figure 5N shows that the proportion of councils with a low renewal gap risk increased from 56 per cent in 2011-12 to 65 per cent in 2012-13. The proportion of councils rated as high risk remained the same.

Figure 5N
Renewal gap risk assessment



Source: Victorian Auditor-General's Office.

The improvement has come from small and large shire councils, with three councils in each category previously rated as medium, now rated low risk. While overall the result has improved, councils need to remain focused on maintaining assets at serviceable levels.

6 Internal controls of councils

At a glance

Background

This Part presents the results of our assessment of the internal controls associated with the preparation of financial statements, the audit committee arrangements and controls over rate revenue.

Findings

Internal controls at councils were adequate for producing reliable financial statements.

During 2012–13, 78 of 79 councils had an audit committee in place. West Wimmera Shire Council has not had a functioning audit committee since August 2011. It was pleasing that the audit committee was re-formed in August 2013 and held its first meeting. Moira Shire Council determined to suspend its audit committee in September 2013 but the decision was rescinded in October 2013.

Twenty-two of the 78 audit committees in place during 2012–13 did not have sufficient independent members on their audit committees.

All councils had a rating strategy in place, however, the completeness, content and quality of the strategies varied. While the *Local Government Act 1989* does not require one, the absence of a strategy that addresses the better practice elements outlined in this report affects the ability of councils to readily demonstrate the soundness and reasonableness of their rating decisions.

Recommendations

That councils should:

- require audit committees to periodically self-assess their performance against their charters
- appoint an independent member as chair and require membership of the audit committee to include a majority of independent members
- maintain a conflict of interests register for audit committee members
- improve their rating strategies by incorporating elements of better practice identified in this report
- use internal audit to assess the robustness of their rating systems and compliance with legislative requirements.

6.1 Introduction

Poor internal controls diminish management's ability to achieve an entity's objectives, deliver upon agreed service levels and comply with relevant legislation. Poor internal controls also increase the risk of fraud, error, irregularities and misstatement. Reliable internal controls are a prerequisite for accurate and timely reporting. A representation of the internal control framework and its main components are set out in Appendix C.

The councillors and management of each local council are responsible for developing and maintaining adequate systems of internal control to enable:

- preparation of accurate financial records and other supporting information
- timely and reliable external and internal reporting
- safeguarding of public assets
- prevention or detection of fraud, errors and other irregularities.

Integral to the annual financial audit is an assessment of the adequacy of the internal control framework, and the governance processes, related to an entity's financial reporting.

Internal controls are systems, policies and procedures that help an entity to reliably and cost-effectively meet its objectives. Sound internal controls enable delivery of reliable, accurate and timely external and internal reports.

This Part comments on the general internal controls associated with the preparation of financial statements of the 79 councils, audit committee arrangements and rate revenue.

6.2 General internal controls

Internal controls at councils were assessed as adequate for producing reliable financial statements.

Weaknesses in controls found during the audits were reported to its mayor or chairperson, chief executive officer and audit committee in a management letter.

6.3 Audit committees

An independent and effective audit committee is critical to good governance. It assists council in discharging its responsibilities, and strengthens the financial accountability of the council and its senior management.

Key responsibilities of the audit committee include overseeing an entity's risk management framework, internal control environment and the accountability of senior management, engaging with internal and external audit and monitoring the status of actions to address audit recommendations.

Under the *Local Government Act 1989* (the Act), primary responsibility for establishing and appropriately using an audit committee rests with the appointed council.

6.3.1 Audit committee framework

In establishing controls, councils should maintain an audit committee that incorporates:

- a comprehensive audit committee charter
- sound governance and oversight
- engagement with internal and external audit.

Figure 6A outlines the key elements of an effective audit committee framework. It draws on the requirements of the Act, Local Government Victoria's *Audit Committees – A guide to good practice for local government*, January 2011 and the ANAO's *Public Sector Audit Committees – Independent Assurance and Advice for Chief Executives and Boards Better Practice Guide*, August 2011.

Figure 6A
Key elements of an effective audit committee framework

Component	Key elements
Audit committee charter	<p>Audit committee charter is in place and sets out:</p> <ul style="list-style-type: none"> • the committee's role • its responsibilities relating to: <ul style="list-style-type: none"> • oversight of the risk management framework • oversight of the internal control framework • internal and external audit including monitoring the status of issues raised by auditors, including financial and performance audit • monitoring compliance with laws and regulations • consideration of the entity's financial statements, report and sign-off • declarations of conflicts of interest and pecuniary interests • periodic self-assessment of its effectiveness • composition of the committee including the need for independent members and an independent chair • requirements for rotation of members • requirements relating to qualifications and experience of members • frequency of meetings/number of meetings per year • attendance at meetings and quorums • reporting lines to council and senior management • frequency of review of the charter. <p>Charter approved by council.</p>

Figure 6A
Key elements of an effective audit committee framework – *continued*

Component	Key elements
Governance and oversight	<p>Direct access and a clear reporting line to council.</p> <p>Oversight of entity's risk management framework and internal control framework.</p> <p>Advice provided to council and the chief executive on matters of concern and matters raised in audit reports.</p> <p>Advice provided to council and the chief executive on the preparation and review of the council's financial statements.</p> <p>Minutes of meetings prepared, approved and provided to council and the chief executive.</p> <p>Records of meetings held and attendances maintained.</p> <p>Self-assessment of performance annually.</p>
Involvement with internal and external audit	<p>Internal audit:</p> <ul style="list-style-type: none"> • input into, review and approval of, internal audit plan • annual assessment of the performance of internal audit • status of issues raised by internal audit monitored • involvement in selection of internal audit service provider, if outsourced • at least one private session with internal audit per year, without management present. <p>External audit:</p> <ul style="list-style-type: none"> • provide input and feedback on the attest and performance audit coverage • monitor management's implementation of audit recommendations • at least one private session with external audit per year, without management present.

Source: Victorian Auditor-General's Office.

Of 79 local councils 78 had an audit committee in place during 2012–13. West Wimmera Shire Council has not had a functioning audit committee since August 2011. It was pleasing that the audit committee was re-formed in August 2013 and held its first meeting.

Moira Shire Council determined to suspend its audit committee in September 2013 but the decision was rescinded in October 2013.

6.3.2 Audit committee charter

The 78 councils with audit committees each had an approved audit committee charter and many of the better practice elements were in place. The following matters were covered in the charters of most councils:

- **the role of the audit committee**—100 per cent
- **frequency of meetings**—99 per cent
- **attendance requirements for meetings and quorums**—99 per cent
- **reporting lines to council**—99 per cent.

Committee role and composition

The audit committee oversaw matters of accountability and internal control and had direct access to elected council members in each of the 78 councils. Most audit committees had at least three members.

Better practice is that an audit committee be chaired by an independent chair, and comprise a majority of independent members. Councillors are not regarded as independent as they are part of the policy and decision-making processes of councils.

Of the 78 audit committees, 22 did not have sufficient independent members on their audit committees. One had a chairperson who was not independent.

Independent committee members can enrich audit committees by providing a range of experience and capabilities over and above those of elected councillors or council staff. They can also provide unbiased advice to council and challenge established thinking and approaches.

Register of interests

All 78 councils required audit committee members to disclose conflicts of interest at the commencement of each audit committee meeting, as required under the Act. However, only 45 maintained a conflict of interests register.

Failure to maintain a register can affect the ability of council officers to avoid conflicts when such conflicts are not routinely disclosed at meetings.

Skills and experience

Independent members were suitably qualified with the majority of independent members experienced in:

- **risk identification, evaluation and management**—92 per cent
- **project and program management**—84 per cent
- **information technology and controls**—82 per cent
- **understanding the roles of internal and external audit**—93 per cent
- **application of accounting, auditing and assurance standards**—85 per cent.

6.3.3 Governance and oversight

Review of performance

In 29 of the 78 councils (37 per cent) the audit committee had not self-assessed its performance against its charter in the past 12 months.

Performance assessments provide information that the audit committee can use to improve processes. They are also used by audit when evaluating the control environment, including considering the effectiveness of the audit committee's oversight of financial reporting.

Review of financial statements

Of the 78 audit committees, 68 (87 per cent) reviewed and endorsed the entity's financial statements before presentation to council. These committees also provided advice and guidance to the chief executive officer about audit recommendations and requests for adjustments to financial statements.

Internal and external audit oversight

Seventy-four of the 78 councils with an audit committee engaged extensively with internal audit and were involved in reviewing internal audit's performance, coverage, annual work plans, and monitoring the implementation of recommendations made by internal audit. The remaining four councils do not have an internal audit function.

All 78 audit committees had appropriate communication protocols with external auditors, including for reviewing management letters and audit reports, and monitoring implementation of audit recommendations.

6.4 Rate revenue

Victoria's 79 councils rely heavily on revenue generated by property-based rates and charges to provide services to local communities. In 2012–13, councils generated operating revenue of \$8.35 billion, with rates and charges accounting for \$4.30 billion, or 52 per cent, of the total revenue.

Councils have statutory obligations and a responsibility to ratepayers to apply a robust and strategic approach to the collection and use of revenue through rates and charges. This is important given the rising financial pressures on councils.

Figure 6B outlines elements of an effective rating strategy. It draws from the Department of Victorian Communities' *Developing a Rating Strategy: A Guide for Councils* and *A Rating Strategy: An Example 2004*.

Figure 6B
Key elements of an effective rating strategy

Component	Key elements
Rating strategy, policy and procedures	<p>A rating strategy, policy and procedures are in place.</p> <p>The rating strategy, policy and procedures include:</p> <ul style="list-style-type: none"> • the legislative framework, objectives of the Act and rating structure options available to council • the rating structure—including valuation method, differentials and charges • the valuation method used, i.e. Capital Improvement Value or Site Value • the number of differential rates—should balance with Rate Revenue data • the link between rating strategy and other council plans and strategies • benchmarking with other councils • rating options available to council under the legislation and reasons for council's choices • definition of the principles of equity and efficiency • a summary of current year rate change, including the amount, driving factors and a comparison with historical rate changes • the percentage of rate revenue to be provided by the municipal charge • the administrative costs to be covered by the municipal charge • research identifying influences on rates, such as economic trends, demographic patterns and valuation shifts • outcomes against principles and objectives • the balance between rates and charges • acknowledgement of adverse effect that concessions to one group of ratepayers have on others • reason relating to differentials supported by research/evidence • description of impact of revaluation, including impact on the rate in the dollar, the impact on suburbs/localities and whether differentials should be adjusted in response • acknowledgement of impact on various categories of ratepayer and distribution of the rate burden.
Governance and oversight	<p>Rating decisions:</p> <ul style="list-style-type: none"> • take into account how rates contribute to resourcing council's medium-term plans • take into account expected impacts of economic and other changes on revenue requirements. <p>Adequacy of rating structures and decisions regularly reviewed.</p> <p>Rate structure proposals developed and impact on ratepayers and council objectives assessed.</p> <p>Compliance with approved policy and procedures and strategy monitored by councillors or audit committee.</p> <p>The nature of information provided to councillors about rates revenue and level of detail enables them to monitor performance effectively.</p> <p>Rating strategy, policy and procedures periodically reviewed and approved by council.</p>
Internal audit oversight	<p>Adequacy of, and compliance with, rating policy and procedures and strategy reviewed.</p> <p>Controls over the billing and property systems including data analysis reviewed.</p>

Source: Victorian Auditor-General's Office.

6.4.1 Rating policies and quality of strategies

Of the 79 councils, 14 had a policy specifically relating to rating revenue. Of the remaining 65, 39 had a revenue policy included as part of other policies, the Strategic Resource Plan, Rating Strategy or other procedure manual.

All councils had a rating strategy. However, the completeness, content and quality of the strategies varied.

Elements of better practice covered in the majority of rating strategies included:

- references to the legislative framework, including the objectives of the Act and the rating structure options available—58 councils (73 per cent)
- descriptions of the rating structure applied adequately described the rating structure, including the valuation method, differentials and charges—70 councils (89 per cent).

However, the following elements were not well incorporated in rating strategies across the sector:

- rate changes including the change amount, driving factors and a comparison to historical rate increases—33 per cent
- the rating options available to council and the reasons for council's choices—43 per cent
- a link between the rating strategy to other council plans and strategies and benchmarking against other similar councils—51 per cent
- acknowledgement of the adverse effect that concession to one group of ratepayers could have on others—68 per cent
- the consideration of outcomes against best value principles and council objectives—56 per cent
- research or evidence used to support the introduction and use of differential rates adequately set out—66 per cent
- research to identify influences on rates, such as economic trends, demographic patterns and valuation shifts cited—63 per cent.

These findings were consistent with VAGO's performance audit report *Rating Practices in Local Government* (2012–13:22) which highlighted inconsistencies in rating practices of councils and the quality and soundness of council rating decisions.

While the Act does not require a rating strategy to be developed, the absence of a strategy that addresses the better practice elements affects the ability of councils to readily demonstrate the soundness and reasonableness of their rating decisions.

6.4.2 Oversight and management practices

Seventy-six councils (96 per cent) reported to their councillors or executive management on actual rate revenue compared to budgeted amounts. The frequency of reporting varied across councils with reporting occurring monthly, quarterly or annually.

Forty-two councils (53 per cent) had key performance indicators (KPIs) set by management addressing rates revenue. The KPIs included percentage collection targets and percentage of rates arrears. Of the 42, 76 per cent reported to management on performance against the KPIs. Seventy-eight per cent of the 42 reported monthly or annually.

6.4.3 Internal audit oversight

In the past three years only 22 councils (28 per cent) used internal auditors to assess the robustness of their rating systems and compliance with legislative requirements.

Internal audit can provide comfort that internal controls are operating as intended, and identify control weaknesses and potential process improvements.

Recommendations

That councils should:

4. require audit committees to periodically self-assess their performance against their charters
 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.
-

Appendix A.

VAGO reports on the results of financial audits

This report is part of a suite of reports presented to Parliament covering the results of our audits of public sector financial reports. The reports are outlined in Figure A1.

Figure A1

VAGO reports on the results of the 2012–13 financial audits

Report	Description
<i>Auditor-General's Report on the Annual Financial Report of the State of Victoria, 2012–13</i>	The report provides the result of the audit of the state's annual financial report. The report addresses the quality and timing of financial reporting, explains significant financial results for the state and financial implications of significant projects and developments that occurred during 2012–13. <i>Tabled in Parliament in November 2013.</i>
<i>Portfolio Departments and Associated Entities: Results of the 2012–13 Audits</i>	The report provides the results of the audits of approximately 210 entities. The report addresses their financial reporting, financial sustainability and reporting development, the use of contractors and temporary staff, and management of business continuity and information technology disaster recovery planning. <i>Tabled in Parliament in November 2013.</i>
<i>Public Hospitals: Results of the 2012–13 Audits</i>	The report provides the results of the audits of approximately 110 entities in the public hospital sector. It addresses their financial performance, financial sustainability, and management of private patient fees and risk. <i>Tabled in Parliament in November 2013.</i>
<i>Local Government: Results of the 2012–13 Audits</i> This report	This report provides the results of the audits of approximately 100 entities in the local government sector. This report addresses their financial and performance reporting, financial sustainability, aspects of how they manage rate revenue, and the operation of audit committees. <i>Tabled in Parliament in December 2013.</i>
<i>Water Entities: Results of the 2012–13 Audits</i>	The report provides the results of the audits of 20 entities in the water sector. The report addresses their financial and performance reporting, financial sustainability, and comments on internal controls relating to information technology security and change management, procurement and treasury management. <i>Proposed to be tabled in Parliament in December 2013.</i>
<i>Tertiary Education and Other Entities: Results of the 2013 Audits</i>	The results of the annual financial audits of approximately 110 entities with a financial year end other than 30 June 2013. The report will address their financial and performance reporting, financial sustainability, performance reporting, their financial policies and delegations, and management of procurement. <i>Proposed to be tabled in Parliament in May 2014.</i>

Source: Victorian Auditor-General's Office.

Appendix B.

Complete audit listing

Inner metropolitan councils and associated entities

Entity	Audit types		Financial statements ^(a)		Timeliness of audited financial statement completion	
	LG Act	Non-LG	Clear opinion issued	Auditor-General's report signed	Before 30 Sep 2013	After 30 Sep 2013
COMPLETED AUDITS WITH 30 JUNE 2013 BALANCE DATES						
Banyule	●		✓	26 Sep 2013	●	
Bayside	●		✓	16 Sep 2013	●	
Boroondara	●		✓	6 Sep 2013	●	
Darebin	●		✓	12 Sep 2013	●	
Glen Eira	●		✓	12 Sep 2013	●	
Hobsons Bay	●		✓	13 Sep 2013	●	
Kingston	●		✓	13 Sep 2013	●	
Maribymong	●		✓	20 Sep 2013	●	
Maroondah	●		✓	30 Aug 2013	●	
Melbourne	●		✓	30 Aug 2013	●	
City Wide Service Solutions Pty Ltd		C	✓	22 Aug 2013	●	
Queen Victoria Market Pty Ltd		C	✓	22 Aug 2013	●	
Regent Management Company Pty Ltd		C	✓	23 Sep 2013	●	
Sustainable Melbourne Trust Fund		O	✓	30 Aug 2013	●	
Monash	●		✓	25 Sep 2013	●	
Moonee Valley	●		✓	12 Sep 2013	●	
Moreland	●		✓	16 Sep 2013	●	
Port Phillip	●		✓	11 Sep 2013	●	
Stonnington	●		✓	3 Sep 2013	●	
Prahran Market Pty Ltd		C	✓	2 Sep 2013	●	
Whitehorse	●		✓	30 Aug 2013	●	
Yarra	●		✓	23 Aug 2013	●	

Entity	Audit types		Financial statements ^(a)		Timeliness of audited financial statement completion	
	LG Act	Non-LG	Clear opinion issued	Auditor-General's report signed	Before 30 Sep 2013	After 30 Sep 2013
COMPLETED AUDITS WITH 30 JUNE 2013 BALANCE DATES – continued						
2012–13 Total number of entities = 22^(b)						
	17	5			22	0
			Per cent		100	0
2011–12 Total number of entities = 23						
	17	6			23	0
			Per cent		100	0

(a) Councils – includes financial, standard and performance statements.

(b) The Melbourne Wholesale Fish Market Pty Ltd is no longer a controlled entity of the Melbourne City Council.

Note: Non-LG audit types: C – Corporations Act 2001 and O – other reporting framework.

Source: Victorian Auditor-General's Office.

Outer metropolitan councils

Entity	Audit types		Financial statements ^(a)		Timeliness of audited financial statement completion	
	LG Act	Non-LG	Clear opinion issued	Auditor-General's report signed	Before 30 Sep 2013	After 30 Sep 2013
COMPLETED AUDITS WITH 30 JUNE 2013 BALANCE DATES						
Brimbank	●		✓	12 Sep 2013	●	
Cardinia	●		✓	20 Sep 2013	●	
Casey	●		✓	5 Sep 2013	●	
Frankston	●		✓	11 Oct 2013 ^(b)		●
Greater Dandenong	●		✓	11 Sep 2013	●	
Dandenong Market Pty Ltd		C	✓	30 Sep 2013	●	
Hume	●		✓	18 Sep 2013	●	
Knox	●		✓	5 Sep 2013	●	
Manningham	●		✓	22 Aug 2013	●	
Melton	●		✓	16 Sep 2013	●	
Mornington Peninsula	●		✓	13 Sep 2013	●	
Nillumbik	●		✓	30 Aug 2013	●	
Whittlesea	●		✓	20 Sep 2013	●	
Wyndham	●		✓	20 Sep 2013	●	
Yarra Ranges	●		✓	6 Sep 2013	●	
2012–13 Total number of entities = 15	14	1			14	1
2011–12 Total number of entities = 14	14	0		Per cent	93	7
				Per cent	14	0
					100	0

(a) Councils – includes financial, standard and performance statements.

(b) Reporting extension granted by the Minister for Local Government until 30 November 2013.

Note: Non-LG audit types: C – Corporations Act 2001 and O – other reporting framework.

Source: Victorian Auditor-General's Office.

Regional city councils and associated entities

Entity	Audit types		Financial statements ^(a)			Timeliness of audited financial statement completion	
	LG Act	Non-LG	Clear opinion issued	Auditor-General's report signed	Before 30 Sep 2013	After 30 Sep 2013	
COMPLETED AUDITS WITH 30 JUNE 2013 BALANCE DATES							
Ballarat	●		✓	17 Sep 2013 ^(b)	●		
Greater Bendigo	●		✓	12 Sep 2013	●		
Greater Geelong	●		✓	30 Aug 2013	●		
Greater Shepparton	●		✓	25 Sep 2013	●		
Horsham	●		✓	20 Sep 2013	●		
Latrobe	●		✓	19 Sep 2013	●		
Mildura	●		✓	27 Sep 2013	●		
Mildura Airport Pty Ltd		C	✓	27 Sep 2013	●		
Swan Hill	●		✓	26 Sep 2013	●		
Wangaratta	●		✗ ^(c)	25 Sep 2013	●		
Warrnambool	●		✓	24 Sep 2013	●		
Wodonga	●		✓	23 Sep 2013	●		
2012–13 Total number of entities = 12	11	1			12	0	
2011–12 Total number of entities = 12	11	1		Per cent	100	0	
				Per cent	100	0	

(a) Councils – includes financial, standard and performance statements.

(b) Auditor-General's report on performance statement signed 26 Sep 2013.

(c) Only performance statement received a qualification.

Note: Non-LG audit types: C – Corporations Act 2001.

Source: Victorian Auditor-General's Office.

Large shire councils

Entity	Audit types		Financial statements ^(a)			Timeliness of audited financial statement completion	
	LG Act	Non-LG	Clear opinion issued	Auditor-General's report signed	Before 30 Sep 2013	After 30 Sep 2013	
COMPLETED AUDITS WITH 30 JUNE 2013 BALANCE DATES							
Bass Coast	●		✓	23 Sep 2013	●		
Baw Baw	●		✓	13 Sep 2013	●		
Campaspe	●		✓	18 Sep 2013	●		
Colac-Otway	●		✓	27 Sep 2013	●		
Corangamite	●		✓	25 Sep 2013	●		
East Gippsland	●		✓	25 Sep 2013	●		
Glenelg	●		✓	13 Sep 2013	●		
Macedon Ranges	●		✓	16 Sep 2013	●		
Mitchell	●		✓	24 Sep 2013	●		
Moira	●		✓	23 Oct 2013 ^(b)		●	
Moorabool	●		✓	20 Sep 2013	●		
Moyne	●		✓	17 Sep 2013	●		
South Gippsland	●		✓	19 Sep 2013	●		
Southern Grampians	●		✓	17 Sep 2013	●		
Surf Coast	●		✓	30 Aug 2013	●		
Wellington	●		✓	17 Sep 2013	●		
2012–13 Total number of entities = 16	16	0			15	1	
2011–12 Total number of entities = 16	16	0		Per cent	94	6	
				Per cent	16	0	
				Per cent	100	0	

(a) Councils – includes financial, standard and performance statements.

(b) Reporting extension granted by the Minister for Local Government until 30 November 2013.

Source: Victorian Auditor-General's Office.

Small shire councils

Entity	Audit types		Financial statements ^(a)		Timeliness of audited financial statement completion	
	LG Act	Non-LG	Clear opinion issued	Auditor-General's report signed	Before 30 Sep 2013	After 30 Sep 2013
COMPLETED AUDITS WITH 30 JUNE 2013 BALANCE DATES						
Alpine	●		✓	20 Sep 2013	●	
Ararat	●		✓	20 Sep 2013	●	
Benalla	●		✓	20 Sep 2013	●	
Buloke	●		✓	27 Sep 2013	●	
Central Goldfields	●		✓	30 Sep 2013	●	
Gannawarra	●		✓	16 Sep 2013	●	
Golden Plains	●		✓	10 Sep 2013	●	
Hepburn	●		✓	20 Sep 2013	●	
Hindmarsh	●		✓	23 Sep 2013	●	
Indigo	●		✓	20 Sep 2013	●	
Loddon	●		✓	24 Sep 2013	●	
Mansfield	●		✓	12 Sep 2013	●	
Mount Alexander	●		✓	25 Sep 2013	●	
Murrindindi	●		✓	26 Sep 2013	●	
Northern Grampians	●		✓	6 Sep 2013	●	
Pyrenees	●		✓	11 Sep 2013	●	
Queenscliffe	●		✓	30 Sep 2013	●	
Strathbogie	●		✓	25 Sep 2013	●	
Towong	●		✓	20 Sep 2013	●	
West Wimmera	●		✓	22 Oct 2013*		●
Yarriambiack	●		✓	30 Sep 2013	●	

Entity	Audit types		Financial statements ^(a)		Timeliness of audited financial statement completion	
	LG Act	Non-LG	Clear opinion issued	Auditor-General's report signed	Before 30 Sep 2013	After 30 Sep 2013
COMPLETED AUDITS WITH 30 JUNE 2013 BALANCE DATES – continued						
2012–13 Total number of entities = 21		0			20	1
				Per cent	95	5
2011–12 Total number of entities = 21		0			19	2
				Per cent	90	10

(a) Councils – includes financial, standard and performance statements.

(b) Reporting extension granted by the Minister for Local Government until 30 November 2013.

Source: Victorian Auditor-General's Office.

Regional library corporations

Entity	Audit types		Financial statements		Timeliness of audited financial statement completion	
	LG Act	Non-LG	Clear opinion issued	Auditor-General's report signed	Before 30 Sep 2013	After 30 Sep 2013
COMPLETED AUDITS WITH 30 JUNE 2013 BALANCE DATES						
Casey-Cardinia	●		✓	5 Sep 2013	●	
Corangamite	●		✓	26 Sep 2013	●	
Eastern	●		✓	20 Sep 2013	●	
Geelong	●		✓	22 Aug 2013	●	
Goulburn Valley	●		✓	25 Sep 2013	●	
High Country	●		✓	12 Sep 2013	●	
North Central Goldfields	●		✓	6 Sep 2013	●	
West Gippsland	●		✓	13 Sep 2013	●	
Whitehorse-Manningham	●		✓	2 Sep 2013	●	
Wimmera	●		✓	24 Sep 2013	●	
Yarra Plenty	●		✓	30 Aug 2013	●	
2012-13 Total number of entities = 11	11	0			11	0
				Per cent	100	0
2011-12 Total number of entities = 11	11	0			11	0
				Per cent	100	0

Source: Victorian Auditor-General's Office.

Associated companies

Entity	Audit types		Financial statements		Timeliness of audited financial statement completion	
	LG Act	Non-LG	Clear opinion issued	Auditor-General's report signed	Before 30 Sep 2013	After 30 Sep 2013
COMPLETED AUDITS WITH 30 JUNE 2013 BALANCE DATES						
Clayton Landfill Joint Venture		O	✓	17 Sep 2013	●	
RFK Pty Ltd / Community Chef		C	✓	26 Sep 2013	●	
Regional Kitchen Pty Ltd		C	✓	26 Sep 2013	●	
Streetsahead Cleaning Services	●		✓	5 Sep 2013	●	
Wimmera Development Association		A	✓	25 Sep 2013	●	
2012–13 Total number of entities = 5^(e)	1	4			5	0
				Per cent	100	0
2011–12 Total number of entities = 6	1	5			6	0
				Per cent	100	0

(e) Yarra Energy Foundation no longer audited by the Victorian Auditor-General's Office.

Note: Non-LG audit types: A – Associations Incorporation Act 1981, C – Corporations Act 2001 and O – other reporting framework.

Source: Victorian Auditor-General's Office.

Overall totals

Category	Audit types		Timeliness of audited financial statement completion	
	LG Act	Non-LG	Before 30 Sep 2013	After 30 Sep 2013
Inner metropolitan councils and associated entities	17	5	22	0
Outer metropolitan councils	14	1	14	1
Regional city councils and associated entities	11	1	12	0
Large shire councils	16	0	15	1
Small shire councils	21	0	20	1
Regional library corporations	11	0	11	0
Associated companies	1	4	5	0
2012–13 Overall total number of entities = 102	91	11	99	3
			Per cent	3
2011–12 Overall total number of entities = 103	91	12	101	2
			Per cent	2

Source: Victorian Auditor-General's Office.

Appendix C.

Financial audit frameworks

Financial audit framework

The financial audit framework applied in the conduct of the 2012–13 audits of the local government sector is set out in Figure C1.

Figure C1
Financial audit framework

Planning

Planning is not a discrete phase of a financial audit, rather it continues throughout the engagement. However, initial audit planning is conducted at two levels:

- At a high or entity level, planning involves obtaining an understanding of the entity and its environment, including its internal controls. The auditor identifies and assesses: the key risks facing the entity; the entity's risk mitigation strategies; any significant recent developments; and the entity's governance and management control framework.
- At a low or financial report line item level, planning involves the identification, documentation and initial assessment of processes and controls over management, accounting and information technology systems.

The output from the initial audit planning process is a detailed audit plan and a client strategy document, which outlines the proposed approach to the audit. This strategy document is issued to the client after initial audit planning and includes an estimate of the audit fee.

Conduct

The conduct phase involves the performance of audit procedures aimed at testing whether or not financial statement balances and transactions are free of material error. There are two types of tests undertaken during this phase:

- Tests of controls, which determine whether controls identified during planning were effective throughout the period of the audit and can be relied upon to reduce the risk of material error.
- Substantive tests, which involve: detailed examination of balances and underlying transactions; assessment of the reasonableness of balances using analytical procedures; and a review of the presentation and disclosure in the financial report, for compliance with the applicable reporting framework.

The output from this phase is a final (and possibly an interim) management letter which details significant findings along with value-adding recommendations on improving controls and processes. These documents are issued to the client after any interim audit work and during the reporting phase.

Reporting

The reporting phase involves the formal presentation and discussion of audit findings with the client management, and/or the audit committee. The key outputs from this process are:

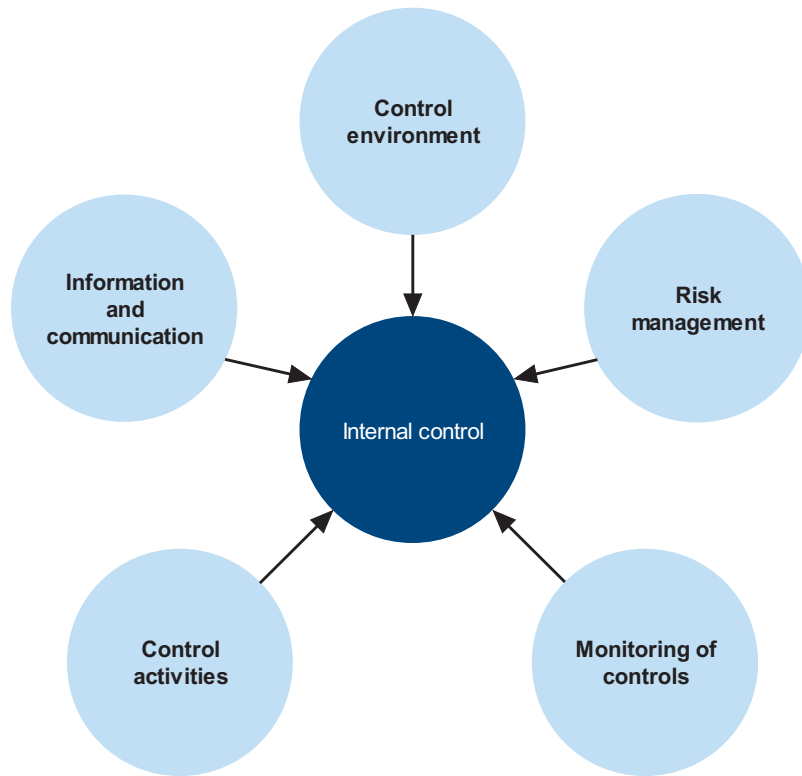
- A signed audit opinion, which is presented in the client's annual report alongside the certified financial report.
- A report to Parliament on significant issues arising from audits either for the individual entity or for the sector as a whole.

Source: Victorian Auditor-General's Office.

Internal control framework

Figure C2 identifies the main components of an effective internal control framework.

Figure C2
Internal control framework



Source: Victorian Auditor-General's Office.

Financial report preparation

Our assessment of council financial reporting performance against better practice was also based on criteria outlined in Figure C3.

Figure C3
Financial report preparation better practice

Key area	Better practice
Financial report preparation plan	Establish a plan that outlines the processes, resources, milestones, oversight, and quality assurance practices required in preparing the financial report.
Preparation of shell statements	Prepare a shell financial report and provide it to the auditors early to enable early identification of amendments, minimising the need for significant disclosure changes at year end.
Materiality assessment	Assess materiality, including quantitative and qualitative thresholds, at the planning phase in consultation with the audit committee. The assessment assists preparers to identify potential errors in the financial report.
Monthly financial reporting	Adopt full accrual monthly reporting to assist in preparing the annual financial report. This allows the year-end process to be an extension of the month-end process.
Quality control and assurance procedures	Require rigorous review of the supporting documentation, data and the financial report itself by an appropriately experienced and independent officer prior to providing it to the auditors.
Supporting documentation	Prepare high-standard documentation to support and validate the financial report and provide a management trail.
Analytical reviews	Undertake rigorous and objective analytical review during the financial report preparation process to help to improve the accuracy of the report.
Reviews of controls/self-assessment	Establish sufficiently robust quality control and assurance processes to provide assurance to the audit committee on the accuracy and completeness of the financial report.
Competency of staff	Preparers of the financial report have a good understanding of, and experience in, applying relevant accounting standards and legislation. They should also have project management and interpersonal skills.
Financial compliance reviews	Undertake periodic compliance reviews to identify areas of noncompliance or changes to legislation that impact the financial report.
Adequate security	Protect and safeguard sensitive information throughout the process to prevent inappropriate public disclosure.

Source: Victorian Auditor-General's Office, and Australian National Audit Office *Better Practice Guide Preparation of Financial Statements*, June 2009.

Performance indicators assessment

Figure C4 identifies the audit assessment of council performance indicators.

Figure C4
Audit assessment of performance indicators

Principles	Details
Appropriate	Performance indicators should be reported with appropriate context to allow community members to interpret results. Targets, trend data and an explanation of the result should be provided to allow members of the community without technical knowledge to draw meaningful conclusions about the performance of the council.
Relevant	To be comprehensive, indicators should be relevant with council objectives. Objectives should be clearly expressed, measurable, and there should be a clear nexus between objectives and performance indicators. Performance indicators should also cover all critical aspects of objectives and align with services.
Balanced	Performance indicators should cover the time, cost, quantity and quality of service provision, as well as the outcomes of council activity. A single indicator is typically not able to measure each of these aspects, therefore a suite of indicators is usually required to provide balanced performance information.
Fairly represents	To fairly represent performance, the information provided must be capable of measurement, represent what it purports to indicate, consistently and without bias, and be accurate and auditable.
Auditable	The data supporting the performance indicators should be quantifiable, consistent and verifiable. The information upon which the indicators are based is collected, recorded and analysed in such a way that the conclusions drawn from it can be verified.

Source: Victorian Auditor-General's Office.

Appendix D.

Acquittal audits

Figure D1
Acquittal opinions issued in 2012–13

Council	Acquittal opinion issued ^(a)
COMPLETED AQUITTALS	
Alpine Shire Council	1
Ararat Rural City Council	1
Ballarat City Council	1
Banyule City Council	1
Bass Coast Shire Council	1
Baw Baw Shire Council	1
Benalla Rural City Council	1
Boroondara City Council	4
Borough of Queenscliffe	3
Brimbank City Council	1
Campaspe Shire Council	1
Cardinia Shire Council	1
Central Goldfields Shire Council	1
Colac Otway Shire Council	1
Corangamite Shire Council	1
Darebin City Council	4
East Gippsland Shire Council	1
Frankston City Council	1
Gannawarra Shire Council	1
Glen Eira City Council	1
Glenelg Shire Council	1
Golden Plains Shire Council	1
Greater Bendigo Shire Council	1
Greater Dandenong City Council	1
Greater Geelong City Council	1
Hepburn Shire Council	1
Hindmarsh Shire Council	1
Hobsons Bay City Council	2

Figure D1
Acquittal opinions issued in 2012–13 – *continued*

Council	Acquittal opinion issued ^(a)
COMPLETED AQUITTALS – <i>continued</i>	
Horsham Rural City Council	1
Hume City Council	2
Indigo Shire Council	1
Kingston City Council	1
Knox City Council	1
Latrobe Shire Council	1
Loddon Shire Council	1
Macedon Ranges Shire Council	1
Manningham Shire Council	1
Mansfield Shire Council	1
Maribyrnong City Council	1
Maroondah City Council	1
Melbourne City Council	1
Melton City Council	1
Mildura Rural City Council	1
Mitchell Shire Council	1
Moira Shire Council	1
Monash City Council	1
Moonee Valley City Council	1
Moreland City Council	2
Moorabool Shire Council	1
Mornington Peninsula Shire Council	2
Mount Alexander Shire Council	1
Moyne Shire Council	1
Murrindindi Shire Council	2
Nillumbik Shire Council	1
Pyrenees Shire Council	1
South Gippsland Shire Council	1
Southern Grampians Shire Council	1
Stonnington City Council	1
Strathbogie Shire Council	1
Swan Hill Rural City Council	1
Towong Shire Council	1
Wangaratta Rural City Council	1
Warrnambool City Council	1
Wellington Shire Council	1
West Wimmera City Council	1

Figure D1
Acquittal opinions issued in 2012–13 – *continued*

Council	Acquittal opinion issued^(a)
COMPLETED AQUITTALS – <i>continued</i>	
Whitehorse City Council	1
Wodonga City Council	1
Wyndham City Council	2
Yarra City Council	1
Yarra Ranges Shire Council	1
Yarriambiack Shire Council	1
Total issued	85

(a) Includes all opinions issued since 1 November 2012.
 Source: Victorian Auditor-General's Office.

Appendix E.

Financial sustainability assessment, indicators and criteria

Indicators used reflect short- and long-term sustainability, and are measured by:

- **underlying result**—generate enough revenue to cover operating costs (including the cost of replacing assets reflected in depreciation expense)
- **liquidity**—have sufficient working capital to meet short-term commitments
- **indebtedness**—are not overly reliant on debt to fund capital programs
- **self-financing**—generate sufficient operating cash flows to invest in asset renewal and repay any debt it may have incurred in the past
- **capital replacement**—have been replacing assets at a rate consistent with their consumption
- **renewal gap**—have been maintaining existing assets at a consistent rate.

Figure E1
Financial sustainability indicators for councils

Indicator	Formula	Description
Underlying result (per cent)	Adjusted net surplus/ total underlying revenue	A positive result indicates a surplus. The larger the percentage, the stronger the result. A negative result indicates a deficit. Operating deficits cannot be sustained in the long term. Underlying revenue does not take into account non-cash developer contributions and other one-off (non-recurring) adjustments.
Liquidity (ratio)	Current assets/ current liabilities	Measures the ability to pay existing liabilities in the next 12 months. A ratio higher than 1:1 means there is more cash and liquid assets than short-term liabilities.
Indebtedness (per cent)	Non-current liabilities/ own-sourced revenue	Comparison of non-current liabilities (mainly comprised of borrowings) to own-sourced revenue. The higher the percentage, the less able to cover non-current liabilities from the revenues the entity generates itself. Own-sourced revenue is used (rather than total revenue) because it does not include capital grants, which are usually tied to specific projects.
Self-financing (per cent)	Net operating cash flows/ underlying revenue	Measures the ability to replace assets using cash generated by the entity's operations. The higher the percentage, the more effectively this can be done.
Capital replacement (ratio)	Capital expenditure/ depreciation	Comparison of the rate of spending on infrastructure with its depreciation. Ratios higher than 1:1 indicate that spending is faster than the depreciation rate. This is a long-term indicator, as capital expenditure can be deferred in the short term if there are insufficient funds available from operations, and borrowing is not an option.
Renewal gap (ratio)	Renewal and upgrade expenditure/ depreciation	Comparison of the rate of spending on existing assets through renewing, restoring, and replacing existing assets with depreciation. Ratios higher than 1:1 indicate that spending on existing assets is greater than the depreciation rate. Similar to the investment gap, this is a long-term indicator, as capital expenditure can be deferred in the short term if there are insufficient funds available from operations, and borrowing is not an option.

Source: Victorian Auditor-General's Office.

Figure E2
Risk assessment criteria for financial sustainability indicators

Risk	Underlying result	Liquidity	Indebtedness	Self-financing	Capital replacement	Renewal gap
High	Negative 10% or less Insufficient revenue is being generated to fund operations and asset renewal.	Equal to or less than 1.0 Insufficient current assets to cover liabilities.	More than 60% Potentially long-term concern over ability to repay debt levels from own-source revenue.	Less than 10% Insufficient cash from operations to fund new assets and asset renewal.	Equal to or less than 1.0 Spending on capital works has not kept pace with consumption of assets.	Equal to or less than 0.5 Spending on existing assets has not kept pace with consumption of these assets.
Medium	Negative 10% to zero A risk of long-term run down to cash reserves and inability to fund asset renewals.	1.0–1.5 Need for caution with cash flow, as issues could arise with meeting obligations as they fall due.	40–60% Some concern over the ability to repay debt from own-source revenue.	10–20% May not be generating sufficient cash from operations to fund new assets.	1.0–1.5 May indicate spending on asset renewal is insufficient.	0.5–1.0 May indicate insufficient spending on renewal of existing assets.
Low	More than zero Generating surpluses consistently.	More than 1.5 No immediate issues with repaying short-term liabilities as they fall due.	40% or less No concern over the ability to repay debt from own-source revenue.	20% or more Generating enough cash from operations to fund assets.	More than 1.5 Low risk of insufficient spending on asset renewal.	More than 1.0 Low risk of insufficient spending on asset base.

Source: Victorian Auditor-General's Office.

The overall financial sustainability risk assessment is calculated using the ratings determined for each indicator as shown in Figure E3.

Figure E3
Overall financial sustainability risk assessment

●	High risk of short-term and immediate sustainability concerns indicated by either: <ul style="list-style-type: none"> • red underlying result indicator or • red liquidity indicator.
●	Medium risk of longer-term sustainability concerns indicated by either: <ul style="list-style-type: none"> • red self-financing indicator or • red indebtedness indicator or • red capital replacement indicator or • red renewal gap indicator.
●	Low risk of financial sustainability concerns—there are no high-risk indicators.

Source: Victorian Auditor-General's Office.

A trend analysis uses actual figures for the previous five years and a trend analysis using forecast figures for the following three years. The sustainability indicators are colour coded in line with the risk assessment criteria. The legend in Figure E4 is used in presenting the results of our assessments.

Figure E4
Legend for financial sustainability tables

▲	An improving trend
–	No substantial trend
▼	A deteriorating trend

Source: Victorian Auditor-General's Office.

Inner metropolitan councils

Figure E5
Financial sustainability risk assessment results 2012–13

Inner metropolitan councils	Underlying result (%)	Liquidity (ratio)	Indebtedness (%)	Self-financing (%)	Capital replacement (ratio)	Renewal gap (ratio)	Sustainability assessment
Banyule City Council	5.32	2.80	32.82	10.63	1.90	1.55	●
Bayside City Council	8.26	1.86	15.47	23.74	1.51	0.86	●
Boroondara City Council	7.90	1.45	33.01	28.73	2.07	1.78	●
Darebin City Council	5.39	1.80	1.10	9.31	1.21	1.02	●
Glen Eira City Council	8.22	1.17	22.74	23.60	2.33	1.82	●
Hobsons Bay City Council	6.38	1.22	10.10	25.80	1.51	1.32	●
Kingston City Council	7.31	1.66	14.97	25.81	1.66	1.36	●
Maribyrnong City Council	2.01	2.90	6.35	13.11	1.19	1.19	●
Maroondah City Council	3.16	2.60	1.24	17.20	1.28	0.80	●
Melbourne City Council	2.37	1.63	0.76	20.02	1.71	0.88	●
Monash City Council	-3.31	1.05	10.72	7.13	1.18	0.81	●
Moonee Valley City Council	3.56	1.37	12.03	21.81	1.38	1.00	●
Moreland City Council	3.31	1.39	32.49	21.46	1.47	0.97	●
Port Phillip City Council	2.13	1.71	1.52	17.77	1.43	0.77	●
Stonnington City Council	9.92	2.09	2.95	21.36	1.63	1.40	●
Whitehorse City Council	3.76	1.68	1.71	16.70	1.60	1.15	●
Yarra City Council	3.27	0.96	10.98	20.21	1.22	1.14	●
Category average	4.65	1.73	12.41	19.08	1.55	1.17	●
Category risk assessment	Low	Low	Low	Medium	Low	Low	Low

Source: Victorian Auditor-General's Office.

Figure E6
Underlying result (per cent) 2009–2013

Inner metropolitan councils	2009	2010	2011	2012	2013	Mean	Actual trend	Forecast			Future trend
								2014	2015	2016	
Banyule City Council	10.23	8.83	6.13	-2.28	3.69	5.32	▼	0.44	2.30	4.19	▲
Bayside City Council	6.29	8.48	7.81	4.74	14.00	8.26	▲	11.33	11.92	12.10	▲
Boroondara City Council	7.36	10.39	8.76	0.62	12.37	7.90	—	10.94	11.50	11.48	▲
Darebin City Council	9.87	6.95	5.04	-1.51	6.61	5.39	▼	7.10	3.84	3.78	▼
Glen Eira City Council	8.71	16.85	7.77	-0.55	8.31	8.22	▼	4.95	7.41	7.95	▲
Hobsons Bay City Council	10.79	9.06	4.50	0.01	7.55	6.38	▼	3.72	5.12	5.81	▲
Kingston City Council	7.79	7.09	6.09	3.49	12.11	7.31	▲	7.72	6.34	6.35	▼
Maribyrnong City Council	-10.22	9.70	6.92	-3.32	6.98	2.01	▲	4.81	9.75	10.14	▲
Maroondah City Council	9.31	3.23	5.82	-3.56	1.01	3.16	▼	7.57	2.12	1.05	▼
Melbourne City Council	1.89	-12.80	9.59	5.33	7.86	2.37	▲	0.30	0.28	0.23	—
Monash City Council	-1.05	1.32	-9.31	-6.77	-0.72	-3.31	▼	0.29	3.17	3.87	▲
Moonee Valley City Council	7.46	9.38	2.72	-6.03	4.28	3.56	▼	3.23	4.61	4.27	▲
Moreland City Council	2.89	3.76	3.46	-3.31	9.74	3.31	▲	7.59	8.02	6.71	▼
Port Phillip City Council	6.64	-2.86	0.57	-0.28	6.59	2.13	—	6.61	7.23	7.68	▲
Stonnington City Council	11.59	7.17	9.60	4.59	16.65	9.92	▲	10.62	11.61	11.77	▲
Whitehorse City Council	4.24	3.48	4.57	-3.37	9.90	3.76	▲	6.51	7.99	8.61	▲
Yarra City Council	0.59	4.91	8.39	-2.50	4.98	3.27	▲	8.44	9.51	10.84	▲
Average underlying result	5.55	5.58	5.20	-0.87	7.76	4.65		6.01	6.63	6.87	

Source: Victorian Auditor-General's Office.

Figure E7
Liquidity (ratio) 2009–2013

Inner metropolitan councils	2009	2010	2011	2012	2013	Mean	Actual trend	Forecast			Future trend
								2014	2015	2016	
Banyule City Council	3.78	4.47	4.11	2.71	2.80	3.57	▼	1.42	1.42	1.03	—
Bayside City Council	1.45	1.31	1.68	2.07	1.86	1.68	—	1.77	1.70	1.64	—
Boroondara City Council	1.52	1.52	1.47	1.62	1.45	1.51	—	1.48	1.37	1.45	—
Darebin City Council	1.63	1.95	1.77	2.10	1.80	1.85	—	1.40	1.51	1.63	—
Glen Eira City Council	1.47	1.99	0.95	1.55	1.17	1.43	—	1.11	1.06	1.09	—
Hobsons Bay City Council	1.64	1.56	1.34	1.07	1.22	1.37	—	1.10	1.18	1.24	—
Kingston City Council	1.72	1.32	1.47	1.81	1.66	1.60	—	1.01	0.85	0.91	—
Maribyrnong City Council	1.86	2.01	1.95	1.87	2.90	2.12	—	1.48	1.42	1.52	—
Maroondah City Council	2.67	2.65	2.41	2.53	2.60	2.57	—	1.41	1.50	1.26	—
Melbourne City Council	2.31	2.94	2.52	1.72	1.63	2.22	▼	1.20	1.21	1.22	—
Monash City Council	1.63	1.10	1.04	1.46	1.05	1.26	—	0.73	0.86	1.02	—
Moonee Valley City Council	1.71	1.71	1.66	1.35	1.37	1.56	—	1.27	1.55	1.90	▲
Moreland City Council	1.41	1.25	1.26	1.71	1.39	1.40	—	1.43	1.37	1.35	—
Port Phillip City Council	2.23	2.24	2.55	2.86	1.71	2.32	—	1.30	1.36	1.45	—
Stonnington City Council	2.67	2.38	2.06	1.84	2.09	2.21	—	1.92	2.10	2.29	—
Whitehorse City Council	3.19	3.12	3.10	2.20	1.68	2.66	▼	2.17	2.18	2.36	—
Yarra City Council	1.07	1.06	1.04	1.02	0.96	1.03	—	1.23	1.29	1.45	—
Average liquidity	2.00	2.03	1.90	1.85	1.73	1.90	—	1.38	1.41	1.46	—

Source: Victorian Auditor-General's Office.

Figure E8
Indebtedness (per cent) 2009–2013

Inner metropolitan councils	2009	2010	2011	2012	2013	Mean	Actual trend	Forecast		Future trend	
								2014	2015		
Banyule City Council	3.88	41.81	35.12	45.30	32.82	31.78	▼	55.95	48.60	32.99	▲
Bayside City Council	23.43	22.03	20.03	24.39	15.47	21.07	▲	13.18	9.56	6.87	▲
Boroondara City Council	7.52	5.97	4.46	26.81	33.01	15.55	▼	37.35	33.96	29.68	▲
Darebin City Council	6.03	5.08	4.20	14.83	1.10	6.25	—	1.02	0.87	0.80	—
Glen Eira City Council	1.62	12.95	12.16	32.26	22.74	16.35	▼	20.91	16.89	15.16	▲
Hobsons Bay City Council	3.83	2.59	3.96	11.79	10.10	6.45	▼	9.04	7.85	6.79	▲
Kingston City Council	11.78	2.74	19.02	24.44	14.97	14.59	▼	15.17	14.68	13.35	▲
Maribyrnong City Council	19.76	13.33	7.50	7.62	6.35	10.91	▲	5.89	5.10	4.35	▲
Maroondah City Council	1.87	1.66	1.16	10.96	1.24	3.38	▼	2.39	27.27	24.18	▼
Melbourne City Council	3.50	3.28	2.02	0.75	0.76	2.06	▲	1.77	1.79	1.80	—
Monash City Council	28.74	8.93	8.14	21.83	10.72	15.67	▲	10.21	9.61	9.05	▲
Moonee Valley City Council	19.78	15.66	14.38	17.67	12.03	15.90	▲	10.23	7.20	4.82	▲
Moreland City Council	10.83	20.29	23.99	42.27	32.49	25.97	▼	49.10	46.78	42.73	▲
Port Phillip City Council	3.70	4.37	2.44	10.19	1.52	4.44	—	6.03	5.41	4.81	▲
Stonnington City Council	5.79	4.85	4.23	7.20	2.95	5.01	▲	13.33	11.58	9.99	▲
Whitehorse City Council	3.68	2.83	2.31	2.16	1.71	2.54	▲	9.62	9.26	7.90	▲
Yarra City Council	2.54	1.65	2.44	11.42	10.98	5.81	▼	8.96	7.66	6.44	▲
Average indebtedness	9.31	10.00	9.86	18.35	12.41	11.99		15.89	15.53	13.04	

Source: Victorian Auditor-General's Office.

Figure E9
Self-financing (per cent) 2009–2013

Inner metropolitan councils	2009	2010	2011	2012	2013	Mean	Actual trend	Forecast			Future trend
								2014	2015	2016	
Banyule City Council	15.39	21.35	14.50	20.23	10.63	16.42	▼	14.91	14.64	17.60	▲
Bayside City Council	23.15	21.57	20.88	24.47	23.74	22.76	▲	24.84	25.34	25.56	▲
Boroondara City Council	27.46	26.90	28.49	27.54	28.73	27.82	▲	21.12	28.86	27.98	▲
Darebin City Council	22.55	21.62	17.34	20.52	9.31	18.27	▼	20.39	17.52	17.27	▼
Glen Eira City Council	25.60	28.76	26.34	21.16	23.60	25.09	▼	19.30	21.19	22.85	▲
Hobsons Bay City Council	22.00	22.93	24.01	21.39	25.80	23.23	▲	13.37	21.20	21.25	▲
Kingston City Council	19.33	17.96	19.20	18.66	25.81	20.19	▲	19.90	19.25	19.42	—
Maribyrnong City Council	21.40	23.62	23.84	17.69	13.11	19.93	▼	19.84	21.55	20.92	▲
Maroondah City Council	26.58	17.92	19.54	20.61	17.20	20.37	▼	24.33	20.77	16.86	▼
Melbourne City Council	21.49	20.61	26.49	21.88	20.02	22.10	—	20.23	18.89	18.46	▼
Monash City Council	17.70	16.42	13.62	18.10	7.13	14.59	▼	17.78	19.96	20.00	▲
Moonee Valley City Council	24.30	22.76	19.48	23.50	21.81	22.37	▼	19.38	21.99	21.88	▲
Moreland City Council	20.85	23.17	19.53	17.17	21.46	20.43	▼	22.77	23.15	21.51	▼
Port Phillip City Council	22.37	15.38	12.07	19.30	17.77	17.38	▼	10.62	17.60	17.78	▲
Stonnington City Council	27.41	27.98	24.38	24.19	21.36	25.06	▼	24.95	26.96	26.95	▲
Whitehorse City Council	19.18	22.31	18.14	22.04	16.70	19.67	▼	20.97	22.07	21.68	▲
Yarra City Council	20.18	17.75	23.27	20.86	20.21	20.46	▲	22.97	23.50	24.46	▲
Average self-financing	22.17	21.71	20.65	21.14	19.08	20.95		19.86	21.44	21.32	

Source: Victorian Auditor-General's Office.

Figure E10
Capital replacement (ratio) 2009–2013

Inner metropolitan councils	2009	2010	2011	2012	2013	Mean	Actual trend	Forecast			Future trend
								2014	2015	2016	
Banyule City Council	1.34	1.24	1.96	3.39	1.56	1.90	▲	3.81	1.67	1.73	▼
Bayside City Council	1.45	1.77	1.18	1.45	1.70	1.51	—	1.79	1.71	1.81	—
Boroondara City Council	1.89	1.70	1.65	2.38	2.73	2.07	—	2.16	1.94	1.65	▼
Darebin City Council	1.30	1.03	1.29	1.42	1.01	1.21	—	1.67	1.15	1.13	▼
Glen Eira City Council	1.80	2.16	3.39	2.39	1.92	2.33	—	1.55	1.52	1.56	—
Hobsons Bay City Council	1.18	1.44	1.60	1.94	1.42	1.51	—	1.15	1.23	1.29	—
Kingston City Council	1.37	1.29	2.36	1.54	1.73	1.66	—	2.04	1.72	1.43	▼
Maribyrnong City Council	1.31	1.48	1.35	0.95	0.85	1.19	—	2.14	2.04	1.61	▼
Maroondah City Council	1.17	1.31	1.25	1.51	1.13	1.28	—	2.10	2.39	1.55	▼
Melbourne City Council	1.78	1.36	1.30	2.02	2.11	1.71	—	1.61	1.25	1.24	—
Monash City Council	1.11	1.26	1.05	1.35	1.13	1.18	—	1.08	1.08	1.10	—
Moonee Valley City Council	1.53	1.44	1.35	1.35	1.21	1.38	—	1.32	1.19	1.18	—
Moreland City Council	1.45	1.38	1.51	1.22	1.80	1.47	—	2.13	1.70	1.42	▼
Port Phillip City Council	1.67	0.75	0.91	1.43	2.37	1.43	—	2.16	1.61	1.62	▼
Stonnington City Council	1.23	2.02	1.54	1.65	1.71	1.63	—	2.59	1.60	1.55	▼
Whitehorse City Council	1.43	1.22	1.38	1.56	2.43	1.60	—	1.79	1.65	1.29	▼
Yarra City Council	1.49	1.27	0.98	0.81	1.54	1.22	—	1.66	1.82	1.80	—
Average capital replacement	1.44	1.42	1.53	1.67	1.67	1.55	—	1.93	1.60	1.47	—

Source: Victorian Auditor-General's Office.

Figure E11
Renewal gap (ratio) 2009–2013

Inner metropolitan councils	2009	2010	2011	2012	2013	Mean	Actual trend
Banyule City Council	1.01	0.65	1.71	3.65	0.75	1.55	—
Bayside City Council	0.54	0.96	0.87	0.89	1.04	0.86	—
Boroondara City Council	1.84	1.25	1.32	2.02	2.47	1.78	—
Darebin City Council	0.99	0.80	0.83	1.27	1.21	1.02	—
Glen Eira City Council	1.41	1.92	2.39	1.65	1.75	1.82	—
Hobsons Bay City Council	0.93	1.26	1.48	1.80	1.15	1.32	—
Kingston City Council	1.11	1.16	1.13	1.61	1.80	1.36	—
Maribyrnong City Council	0.93	1.68	0.96	1.30	1.11	1.19	—
Maroondah City Council	0.71	0.81	0.78	0.92	0.76	0.80	—
Melbourne City Council	0.70	0.76	0.73	1.17	1.06	0.88	—
Monash City Council	0.69	0.75	0.83	0.84	0.95	0.81	—
Mbonee Valley City Council	1.22	1.16	0.58	1.10	0.96	1.00	—
Mbreland City Council	1.06	0.81	0.68	0.97	1.34	0.97	—
Port Phillip City Council	1.26	0.61	0.54	0.79	0.65	0.77	—
Stonnington City Council	1.00	1.51	1.47	1.45	1.55	1.40	—
Whitehorse City Council	0.86	0.99	1.12	1.19	1.58	1.15	—
Yarra City Council	1.21	1.27	0.99	0.95	1.26	1.14	—
Average renewal gap	1.03	1.08	1.08	1.39	1.26	1.17	

Source: Victorian Auditor-General's Office.

Outer metropolitan councils

Figure E12
Financial sustainability risk assessment results 2012–13

Outer metropolitan councils	Underlying result (%)	Liquidity (ratio)	Indebtedness (%)	Self-financing (%)	Capital replacement (ratio)	Renewal gap (ratio)	Sustainability assessment
Brimbank City Council	4.49	1.18	21.09	11.24	1.55	0.94	●
Cardinia Shire Council	6.88	2.25	61.01	28.84	1.83	0.64	●
Casey City Council	9.27	3.14	29.38	30.07	1.84	0.80	●
Frankston City Council	6.53	1.63	1.37	24.05	1.40	0.92	●
Greater Dandenong City Council	9.05	2.10	51.86	24.50	1.56	0.87	●
Hume City Council	10.58	1.42	16.85	22.06	1.96	0.99	●
Knox City Council	3.49	1.43	14.19	19.85	1.70	1.35	●
Manningham City Council	8.86	1.83	9.23	28.03	1.86	1.11	●
Melton City Council	6.08	1.65	21.98	21.92	1.36	0.36	●
Mornington Peninsula Shire Council	2.88	1.14	19.43	20.20	1.20	1.04	●
Nillumbik Shire Council	3.29	2.23	34.25	6.96	1.67	1.32	●
Whittlesea City Council	3.90	3.69	26.05	12.43	1.20	0.74	●
Wyndham City Council	13.93	2.88	12.46	31.48	1.86	0.71	●
Yarra Ranges Shire Council	2.91	2.04	13.24	8.67	1.45	1.41	●
Category average	6.58	2.04	23.74	20.74	1.60	0.94	●
Category risk assessment	Low	Low	Low	Low	Low	Medium	Low

Source: Victorian Auditor-General's Office.

Figure E13
Underlying result (per cent) 2009–2013

	2009	2010	2011	2012	2013	Mean	Actual trend	Forecast			Future trend
								2014	2015	2016	
Outer metropolitan councils											
Brimbank City Council	13.94	6.74	2.05	-5.55	5.28	4.49	▼	-1.23	5.99	9.12	▲
Cardinia Shire Council	12.97	2.17	2.30	8.77	8.18	6.88	▼	9.46	5.55	6.67	▼
Casey City Council	2.01	2.55	9.00	12.94	19.85	9.27	▲	24.03	24.68	25.24	▲
Frankston City Council	16.51	0.61	3.21	1.24	11.10	6.53	▼	13.01	3.76	3.30	▼
Greater Dandenong City Council	8.73	12.87	9.64	5.71	8.30	9.05	▼	7.52	4.44	6.09	▼
Hume City Council	13.59	11.32	11.73	9.18	7.08	10.58	▼	9.11	10.23	8.24	▼
Knox City Council	5.55	7.20	0.64	-1.43	5.50	3.49	▼	1.99	3.17	4.57	▲
Manningham City Council	16.66	10.38	2.68	4.00	10.56	8.86	▼	8.63	9.21	11.55	▲
Melton City Council	2.45	0.61	7.25	3.66	16.42	6.08	▲	13.11	7.20	5.69	▼
Mornington Peninsula Shire Council	2.33	6.45	2.96	-0.46	3.12	2.88	▼	2.94	5.28	7.55	▲
Nillumbik Shire Council	1.89	7.43	9.52	-3.51	1.10	3.29	▼	7.04	11.49	11.15	▲
Whittlesea City Council	9.33	7.92	-5.71	3.43	4.55	3.90	▼	3.95	4.93	6.19	▲
Wyndham City Council	21.86	13.91	13.75	8.56	11.55	13.93	▼	10.21	15.17	13.81	▲
Yarra Ranges Shire Council	11.56	3.66	-3.42	-3.13	5.85	2.91	▼	1.73	4.16	5.66	▲
Average underlying result	9.96	6.70	4.69	3.10	8.46	6.58		7.96	8.23	8.92	

Source: Victorian Auditor-General's Office.

Figure E14
Liquidity (ratio) 2009–2013

Outer metropolitan councils	2009	2010	2011	2012	2013	Mean	Forecast			Future trend
							2014	2015	2016	
Brimbank City Council	2.65	2.50	1.99	1.67	1.18	2.00	1.12	1.06	1.06	—
Cardinia Shire Council	1.31	1.96	3.16	2.65	2.25	2.27	1.93	1.78	1.67	—
Casey City Council	1.58	1.84	2.59	3.22	3.14	2.47	4.57	3.76	5.30	▲
Frankston City Council	1.97	1.69	1.81	1.37	1.63	1.70	1.62	1.64	1.75	—
Greater Dandenong City Council	1.73	2.28	2.13	1.98	2.10	2.04	1.26	1.31	1.39	—
Hume City Council	2.03	2.07	1.87	1.49	1.42	1.77	1.07	1.06	1.07	—
Knox City Council	2.12	2.24	1.99	1.93	1.43	1.94	1.37	1.39	1.42	—
Manningham City Council	2.97	2.02	2.12	1.47	1.83	2.08	1.39	1.49	1.25	—
Melton City Council	1.81	2.16	2.45	1.57	1.65	1.93	2.28	1.59	1.56	▼
Mornington Peninsula Shire Council	1.34	1.48	1.63	1.69	1.14	1.46	1.17	1.24	1.26	—
Nilumbik Shire Council	2.41	2.44	2.94	1.58	2.23	2.32	1.59	2.26	2.11	▲
Whittlesea City Council	4.13	3.97	3.87	3.07	3.69	3.75	2.91	2.92	2.85	—
Wyndham City Council	5.20	5.23	4.45	2.61	2.88	4.07	2.15	2.09	2.15	—
Yarra Ranges Shire Council	3.68	3.12	2.29	2.23	2.04	2.67	1.42	1.35	1.24	—
Average liquidity	2.50	2.50	2.52	2.04	2.04	2.32	1.85	1.78	1.86	—

Source: Victorian Auditor-General's Office.

Figure E15
Indebtedness (per cent) 2009–2013

Outer metropolitan councils	2009	2010	2011	2012	2013	Mean	Actual trend	Forecast			Future trend
								2014	2015	2016	
Brimbank City Council	15.64	18.22	13.71	28.19	21.09	19.37	▼	35.41	33.08	33.80	▲
Cardinia Shire Council	74.03	84.91	74.39	72.12	61.01	73.29	▲	63.39	60.09	56.58	▲
Casey City Council	23.55	28.78	41.70	45.38	29.38	33.76	▼	38.39	29.08	27.18	▲
Frankston City Council	1.67	1.66	1.22	1.16	1.37	1.41	—	23.50	23.32	21.50	▲
Greater Dandenong City Council	16.15	22.79	19.58	38.36	51.86	29.75	▼	50.54	44.42	38.98	▲
Hume City Council	28.00	21.60	20.61	17.43	16.85	20.90	▲	22.78	20.74	19.79	▲
Knox City Council	8.80	8.91	13.98	26.46	14.19	14.47	▼	17.37	14.66	12.04	▲
Manningham City Council	13.03	2.11	1.79	9.99	9.23	7.23	—	7.57	6.52	5.48	▲
Melton City Council	41.01	43.00	37.35	32.92	21.98	35.25	▲	28.45	24.38	27.48	▲
Mornington Peninsula Shire Council	37.23	32.03	29.12	31.45	19.43	29.85	▲	22.01	18.13	18.00	▲
Nillumbik Shire Council	40.50	36.42	41.86	37.23	34.25	38.05	▲	34.90	31.29	35.80	▼
Whittlesea City Council	28.12	35.32	32.70	28.67	26.05	30.17	▲	25.56	23.59	21.73	▲
Wyndham City Council	7.03	8.30	6.52	5.55	12.46	7.97	▼	29.89	28.93	34.85	▼
Yarra Ranges Shire Council	8.64	6.75	6.23	15.50	13.24	10.07	▼	34.06	38.77	40.59	▼
Average indebtedness	24.53	25.06	24.34	27.89	23.74	25.11		30.99	28.36	28.13	

Source: Victorian Auditor-General's Office.

Figure E16
Self-financing (per cent) 2009–2013

	2009					Mean	Actual trend	Forecast			Future trend
	2009	2010	2011	2012	2013			2014	2015	2016	
Outer metropolitan councils											
Brimbank City Council	23.83	27.18	22.04	22.59	11.24	21.38	▼	18.73	24.69	26.70	▲
Cardinia Shire Council	29.46	23.22	23.52	37.68	28.84	28.55	▲	26.99	24.91	26.24	▼
Casey City Council	27.76	18.04	22.39	31.33	30.07	25.92	▲	21.75	22.93	24.29	▲
Frankston City Council	24.67	19.08	16.83	29.81	24.05	22.89	▲	32.55	25.57	24.88	▼
Greater Dandenong City Council	27.03	21.52	27.02	28.97	24.50	25.81	—	23.49	23.21	24.02	▲
Hume City Council	32.60	29.22	34.71	27.01	22.06	29.12	▼	24.90	26.93	23.47	▼
Knox City Council	19.04	17.80	21.31	17.67	19.85	19.14	—	6.81	16.54	17.23	▲
Manningham City Council	30.02	19.72	29.58	33.29	28.03	28.13	▲	26.89	26.20	28.85	▲
Melton City Council	20.85	17.60	19.57	26.09	21.92	21.21	▲	26.55	22.34	19.93	▼
Mornington Peninsula Shire Council	18.87	21.30	21.76	18.55	20.20	20.14	—	16.85	18.42	20.44	▲
Nilumbik Shire Council	17.81	20.68	20.46	21.74	6.96	17.53	▼	13.41	21.51	20.75	▲
Whittlesea City Council	25.60	29.54	7.49	28.66	12.43	20.75	▼	20.56	21.32	22.67	▲
Wyndham City Council	44.57	49.84	44.70	42.17	31.48	42.55	▼	36.01	38.26	38.89	▲
Yarra Ranges Shire Council	20.92	17.44	16.13	19.85	8.67	16.60	▼	19.01	21.08	22.87	▲
Average self-financing	25.93	23.73	23.39	27.53	20.74	24.26		22.46	23.85	24.37	

Source: Victorian Auditor-General's Office.

Figure E17
Capital replacement (ratio) 2009–2013

Outer metropolitan councils	2009	2010	2011	2012	2013	Mean	Actual trend	Forecast			Future trend
								2014	2015	2016	
Brimbank City Council	1.39	1.49	1.44	1.68	1.73	1.55	—	1.64	1.59	1.89	—
Cardinia Shire Council	1.38	2.09	1.85	1.68	2.16	1.83	—	1.59	1.59	1.62	—
Casey City Council	2.77	1.80	1.73	1.67	1.26	1.84	▼	1.47	1.74	1.40	—
Frankston City Council	1.32	1.47	1.24	1.47	1.51	1.40	—	2.38	1.33	1.15	▼
Greater Dandenong City Council	1.12	1.47	1.56	1.86	1.79	1.56	—	1.49	1.03	1.14	—
Hume City Council	1.86	2.27	1.81	2.23	1.64	1.96	—	2.22	1.75	1.87	—
Knox City Council	1.07	2.01	1.71	2.41	1.31	1.70	—	1.23	1.23	1.31	—
Manningham City Council	1.30	1.74	1.67	3.14	1.47	1.86	—	1.82	1.41	1.97	—
Melton City Council	1.31	0.85	1.03	1.77	1.81	1.36	—	1.75	1.71	1.53	—
Mornington Peninsula Shire Council	1.20	1.31	1.14	1.24	1.13	1.20	—	1.92	1.25	1.78	—
Nilumbik Shire Council	1.32	1.77	2.29	2.21	0.75	1.67	—	1.62	2.06	3.21	▲
Whittlesea City Council	1.69	1.66	1.09	0.60	0.95	1.20	▼	1.86	1.38	1.59	—
Wyndham City Council	1.15	1.59	2.21	2.14	2.23	1.86	▲	2.12	1.89	1.80	—
Yarra Ranges Shire Council	1.12	1.10	1.82	1.76	1.48	1.45	—	2.24	1.73	1.72	▼
Average capital replacement	1.43	1.62	1.61	1.85	1.52	1.60	—	1.81	1.55	1.71	—

Source: Victorian Auditor-General's Office.

Figure E18
Renewal gap (ratio) 2009–2013

Outer metropolitan councils	2009	2010	2011	2012	2013	Mean	Actual trend
Brimbank City Council	0.83	0.75	0.89	1.32	0.90	0.94	—
Cardinia Shire Council	0.53	0.71	0.60	0.61	0.76	0.64	—
Casey City Council	0.85	0.79	0.81	0.81	0.73	0.80	—
Frankston City Council	0.61	1.05	1.02	1.04	0.86	0.92	—
Greater Dandenong City Council	0.69	1.43	0.35	0.94	0.92	0.87	—
Hume City Council	0.85	1.04	1.16	0.69	1.19	0.99	—
Knox City Council	1.45	1.78	1.11	1.22	1.22	1.35	—
Manningham City Council	1.00	0.99	0.98	1.57	1.00	1.11	—
Melton City Council	0.45	0.01	0.41	0.58	0.34	0.36	—
Mornington Peninsula Shire Council	1.05	1.14	1.05	1.10	0.84	1.04	—
Nillumbik Shire Council	0.54	1.53	2.02	1.95	0.55	1.32	—
Whittlesea City Council	0.76	0.57	1.25	0.59	0.55	0.74	—
Wyndham City Council	0.63	0.38	0.75	0.69	1.08	0.71	—
Yarra Ranges Shire Council	0.99	1.82	1.29	1.30	1.64	1.41	—
Average renewal gap	0.80	1.00	0.98	1.03	0.90	0.94	—

Source: Victorian Auditor-General's Office.

Regional city councils

Figure E19
Financial sustainability risk assessment results 2012–13

Regional city councils	Underlying result (%)	Liquidity (ratio)	Indebtedness (%)	Self-financing (%)	Capital replacement (ratio)	Renewal gap (ratio)	Sustainability assessment
Ballarat City Council	10.15	1.90	8.46	24.04	1.61	1.13	●
Greater Bendigo City Council	5.54	1.92	27.29	23.19	1.64	0.94	●
Greater Geelong City Council	6.00	1.62	20.85	10.60	1.58	0.85	●
Greater Shepparton City Council	6.85	2.33	20.02	22.05	1.40	1.12	●
Horsham Rural City Council	14.65	2.74	24.11	40.85	1.78	1.12	●
Latrobe City Council	7.51	1.57	33.09	27.96	1.44	1.03	●
Mildura Rural City Council	9.08	1.73	41.97	21.74	1.67	1.19	●
Swan Hill Rural City Council	0.67	1.33	16.23	17.57	1.47	1.17	●
Wangaratta Rural City Council	5.96	1.49	49.56	23.80	1.31	0.82	●
Warrnambool City Council	6.29	1.61	19.27	15.57	1.74	1.26	●
Wodonga City Council	5.34	2.66	80.68	21.53	1.59	0.37	●
Category average	7.10	1.90	31.05	22.63	1.57	1.00	●
Category risk assessment	Low	Low	Low	Low	Low	Medium	Low

Source: Victorian Auditor-General's Office.

Figure E20
Underlying result (per cent) 2009–2013

Regional city councils	2009	2010	2011	2012	2013	Mean	Actual trend	Forecast			Future trend
								2014	2015	2016	
Ballarat City Council	16.28	10.01	6.70	4.82	12.94	10.15	▼	4.41	1.34	-0.33	▼
Greater Bendigo City Council	8.42	7.30	1.24	4.58	6.14	5.54	▼	-1.21	5.23	9.33	▲
Greater Geelong City Council	13.00	3.30	6.80	-0.94	7.86	6.00	▼	14.35	14.46	11.59	▼
Greater Shepparton City Council	5.10	5.25	6.64	7.44	9.81	6.85	▲	5.55	7.40	7.70	▲
Horsham Rural City Council	13.83	2.07	24.30	22.69	10.34	14.65	▲	9.85	7.32	0.28	▼
Latrobe City Council	4.96	10.26	12.07	3.81	6.48	7.51	▼	6.17	9.95	9.45	▲
Mildura Rural City Council	9.57	3.32	5.59	16.26	10.65	9.08	▲	10.93	3.58	3.01	▼
Swan Hill Rural City Council	2.12	-2.47	-1.38	0.92	4.17	0.67	▲	14.42	13.73	3.10	▼
Wangaratta Rural City Council	12.59	7.98	4.98	1.37	2.88	5.96	▼	3.37	5.39	10.60	▲
Warrnambool City Council	5.76	0.50	14.24	4.70	6.24	6.29	▲	20.45	5.87	3.75	▼
Wodonga City Council	-17.85	8.52	4.10	17.27	14.69	5.34	▲	6.43	3.05	2.72	▼
Average underlying result	6.71	5.10	7.75	7.54	8.38	7.10		8.61	7.03	5.56	

Source: Victorian Auditor-General's Office.

Figure E21
Liquidity (ratio) 2009–2013

Regional city councils	2009	2010	2011	2012	2013	Mean	Actual trend	Forecast			Future trend
								2014	2015	2016	
Ballarat City Council	2.54	2.49	2.36	1.54	1.90	2.17	—	1.27	1.35	1.33	—
Greater Bendigo City Council	1.89	1.86	1.78	1.44	1.92	1.78	—	1.19	1.41	1.26	—
Greater Geelong City Council	1.82	1.79	1.74	1.64	1.62	1.72	—	1.13	1.08	1.17	—
Greater Shepparton City Council	1.99	1.69	1.98	1.92	2.33	1.98	—	1.55	1.42	1.37	—
Horsham Rural City Council	3.07	2.87	3.32	2.92	2.74	2.98	—	2.04	1.80	2.13	—
Latrobe City Council	2.20	2.24	1.94	2.04	1.57	2.00	—	1.21	1.21	1.23	—
Mildura Rural City Council	2.53	1.64	1.76	1.38	1.73	1.81	—	1.07	1.08	1.08	—
Swan Hill Rural City Council	2.51	2.25	2.33	1.58	1.33	2.00	▲	1.38	1.50	1.56	—
Wangaratta Rural City Council	1.51	1.73	2.09	1.67	1.49	1.70	—	1.12	1.09	1.06	—
Warrnambool City Council	1.82	1.73	1.71	1.79	1.61	1.73	—	1.38	1.35	1.39	—
Wodonga City Council	4.63	5.11	4.67	1.55	2.66	3.72	▲	1.15	1.15	1.19	—
Average liquidity	2.41	2.31	2.33	1.77	1.90	2.14		1.32	1.31	1.34	

Source: Victorian Auditor-General's Office.

Figure E22
Indebtedness (per cent) 2009–2013

Regional city councils	2009	2010	2011	2012	2013	Mean	Actual trend	Forecast			Future trend
								2014	2015	2016	
Ballarat City Council	15.31	13.12	10.93	9.64	8.46	11.49	▲	28.94	26.37	24.00	▲
Greater Bendigo City Council	11.47	9.03	10.02	17.86	27.29	15.13	▼	29.26	30.88	30.13	▼
Greater Geelong City Council	19.18	25.84	21.24	27.89	20.85	23.00	▼	21.51	29.18	26.71	▼
Greater Shepparton City Council	1.98	7.91	20.24	22.06	20.02	14.44	▼	18.99	17.51	16.06	▲
Horsham Rural City Council	22.70	19.53	19.91	33.55	24.11	23.96	▼	15.94	25.73	26.50	▼
Latrobe City Council	44.62	50.55	43.32	47.90	33.09	43.90	▲	29.16	27.11	23.55	▲
Mildura Rural City Council	36.31	32.77	30.56	32.44	41.97	34.81	▼	40.58	38.90	38.44	▲
Swan Hill Rural City Council	27.65	24.73	26.35	26.77	16.23	24.35	▲	33.70	29.35	25.64	▲
Wangaratta Rural City Council	43.00	41.02	49.71	48.51	49.56	46.36	▼	56.53	52.61	52.41	▲
Warrnambool City Council	22.83	22.23	23.70	35.25	19.27	24.66	▼	23.14	24.39	21.44	▲
Wodonga City Council	113.26	92.95	93.07	72.72	80.68	90.54	▲	67.76	65.60	61.39	▲
Average indebtedness	32.57	30.88	31.73	34.05	31.05	32.06		33.23	33.42	31.48	

Source: Victorian Auditor-General's Office.

Figure E23
Self-financing (per cent) 2009–2013

Regional city councils	2009	2010	2011	2012	2013	Mean	Actual trend	Forecast			Future trend
								2014	2015	2016	
Ballarat City Council	34.40	29.15	29.40	33.15	24.04	30.03	▼	26.84	25.17	23.02	▼
Greater Bendigo City Council	32.19	29.59	24.66	31.62	23.19	28.25	▼	21.55	25.97	30.06	▲
Greater Geelong City Council	23.76	19.09	18.83	21.02	10.60	18.66	▼	15.63	15.63	16.56	▲
Greater Shepparton City Council	24.25	24.63	20.87	27.33	22.05	23.83	—	25.56	26.02	25.91	—
Horsham Rural City Council	39.32	28.62	37.08	43.79	40.85	37.93	▲	30.68	28.60	22.43	▼
Latrobe City Council	21.43	28.62	29.72	31.80	27.96	27.91	▲	25.79	29.41	28.78	▲
Mildura Rural City Council	26.54	24.47	25.76	31.84	21.74	26.07	—	28.06	21.86	20.97	▼
Swan Hill Rural City Council	16.33	16.25	17.95	29.68	17.57	19.56	▲	29.78	27.96	20.08	▼
Wangaratta Rural City Council	35.75	24.97	21.25	26.07	23.80	26.37	▼	16.87	26.20	29.00	▲
Warrnambool City Council	24.89	17.67	30.03	21.68	15.57	21.97	▼	31.11	20.94	19.85	▼
Wodonga City Council	6.20	19.79	19.79	35.02	21.53	20.47	▲	19.10	19.36	18.94	—
Average self-financing	25.91	23.90	25.03	30.27	22.63	25.55		24.63	24.28	23.23	

Source: Victorian Auditor-General's Office.

Figure E24
Capital replacement (ratio) 2009–2013

Regional city councils	Actual trend					Forecast			Future trend	
	2009	2010	2011	2012	2013	Mean	2014	2015		2016
Ballarat City Council	1.43	1.65	1.19	1.89	1.91	1.61	1.97	0.99	0.98	▼
Greater Bendigo City Council	1.87	1.51	1.21	1.97	1.64	1.64	1.59	1.34	1.78	—
Greater Geelong City Council	1.76	1.59	1.61	1.58	1.36	1.58	1.50	2.28	1.42	—
Greater Shepparton City Council	1.03	1.61	1.62	1.47	1.25	1.40	1.96	1.53	1.50	—
Horsham Rural City Council	1.29	1.13	1.52	3.16	1.79	1.78	1.65	1.79	0.94	▼
Latrobe City Council	1.33	1.61	1.80	1.24	1.21	1.44	1.31	1.53	1.43	—
Mildura Rural City Council	1.31	1.52	1.39	2.06	2.08	1.67	2.56	1.21	1.29	▼
Swan Hill Rural City Council	0.93	1.87	1.07	1.64	1.84	1.47	3.09	1.82	1.12	▼
Wangaratta Rural City Council	2.09	1.17	0.87	1.14	1.28	1.31	1.53	1.29	1.80	—
Warrnambool City Council	1.56	1.38	2.40	2.36	1.02	1.74	2.64	1.59	1.19	▼
Wodonga City Council	1.02	0.78	0.94	2.70	2.52	1.59	2.30	1.21	1.07	▼
Average capital replacement	1.42	1.44	1.42	1.93	1.63	1.57	2.01	1.51	1.32	

Source: Victorian Auditor-General's Office.

Figure E25
Renewal gap (ratio) 2009–2013

Regional city councils	2009	2010	2011	2012	2013	Mean	Actual trend
Ballarat City Council	1.08	1.50	1.19	0.96	0.91	1.13	—
Greater Bendigo City Council	1.30	0.60	0.69	0.82	1.28	0.94	—
Greater Geelong City Council	0.84	0.80	0.86	0.98	0.79	0.85	—
Greater Shepparton City Council	0.83	1.23	1.24	1.31	0.98	1.12	—
Horsham Rural City Council	0.96	0.79	0.83	1.46	1.54	1.12	—
Latrobe City Council	0.91	1.22	1.14	0.88	1.01	1.03	—
Midura Rural City Council	0.77	1.12	1.09	1.50	1.49	1.19	—
Swan Hill Rural City Council	0.82	1.42	0.82	1.43	1.37	1.17	—
Wangaratta Rural City Council	1.05	0.94	0.67	0.58	0.86	0.82	—
Warrnambool City Council	1.12	0.90	1.45	1.95	0.90	1.26	—
Wodonga City Council	0.67	0.27	0.15	0.27	0.46	0.37	—
Average renewal gap	0.94	0.98	0.92	1.10	1.05	1.00	—

Source: Victorian Auditor-General's Office.

Large shire councils

Figure E26
Financial sustainability risk assessment results 2012–13

Large shire councils	Underlying result (%)	Liquidity (ratio)	Indebtedness (%)	Self-financing (%)	Capital replacement (ratio)	Renewal gap (ratio)	Sustainability assessment
Bass Coast Shire Council	10.98	1.79	16.05	10.85	1.79	1.24	●
Baw Baw Shire Council	0.95	1.51	18.95	22.81	1.30	1.06	●
Campaspe Shire Council	5.00	2.46	17.74	28.52	1.31	0.95	●
Colac Otway Shire Council	3.73	2.67	30.32	21.17	1.38	1.06	●
Corangamite Shire Council	7.97	1.71	21.85	17.47	1.27	1.02	●
East Gippsland Shire Council	9.84	3.21	33.72	26.70	1.64	1.20	●
Glenelg Shire Council	-0.50	2.83	76.18	22.09	1.51	1.17	●
Macedon Ranges Shire Council	9.77	1.51	15.38	21.22	1.68	1.11	●
Mitchell Shire Council	1.27	1.42	29.25	15.73	1.38	0.87	●
Moira Shire Council	3.94	1.32	44.37	7.15	1.23	1.06	●
Moorabool Shire Council	1.56	1.36	33.97	23.97	1.56	1.23	●
Moyne Shire Council	8.34	1.47	5.08	36.24	1.41	1.06	●
South Gippsland Shire Council	7.19	1.70	2.60	8.57	1.38	1.06	●
Southern Grampians Shire Council	6.00	2.72	22.19	27.54	1.17	0.92	●
Surf Coast Shire Council	5.19	1.85	57.26	26.97	2.10	0.79	●
Wellington Shire Council	6.43	2.41	18.68	35.37	1.16	1.02	●
Category average	5.48	2.00	27.72	22.02	1.45	1.05	●
Category risk assessment	Low	Low	Low	Low	Medium	Low	Low

Source: Victorian Auditor-General's Office.

Figure E27
Underlying result (per cent) 2009–2013

Large shire councils	2009	2010	2011	2012	2013	Mean	Actual trend	Forecast			Future trend
								2014	2015	2016	
Bass Coast Shire Council	15.96	16.81	10.97	8.81	2.37	10.98	▼	0.90	9.11	0.17	▼
Baw Baw Shire Council	7.23	1.23	-7.75	2.67	1.35	0.95	▼	9.41	12.74	10.04	▲
Campaspe Shire Council	-4.32	-1.76	7.88	12.89	10.30	5.00	▲	7.37	5.83	5.69	▼
Colac Otway Shire Council	2.79	5.16	5.54	1.84	3.30	3.73	—	4.67	5.71	-3.24	▼
Corangamite Shire Council	11.76	6.72	1.44	16.78	3.14	7.97	▼	8.61	4.38	4.70	▼
East Gippsland Shire Council	18.63	21.05	5.12	-8.79	13.16	9.84	▼	22.58	7.44	6.52	▼
Gleneig Shire Council	11.76	5.89	8.81	9.36	-38.30	-0.50	▼	13.49	2.06	1.97	▼
Macedon Ranges Shire Council	17.51	14.02	7.81	1.36	8.18	9.77	▼	0.95	3.80	-1.24	▼
Mitchell Shire Council	10.81	9.89	-1.04	-6.09	-7.21	1.27	▼	2.13	4.85	6.95	▲
Moira Shire Council	9.91	0.76	5.50	12.51	-8.99	3.94	▼	1.47	4.31	0.15	▼
Moorabool Shire Council	5.59	-9.10	3.03	2.22	6.05	1.56	▲	-1.01	6.10	7.37	▲
Moyne Shire Council	8.58	4.32	10.00	8.46	10.36	8.34	▲	10.94	7.96	6.89	▼
South Gippsland Shire Council	13.36	12.23	7.78	0.59	1.99	7.19	▼	-0.17	12.33	8.23	▲
Southern Grampians Shire Council	12.76	1.78	-2.72	4.50	13.67	6.00	▲	4.17	3.82	2.71	▼
Surf Coast Shire Council	3.54	0.59	10.12	5.46	6.23	5.19	▲	1.78	16.48	5.55	▲
Wellington Shire Council	11.64	0.86	10.82	2.65	6.18	6.43	▼	-7.13	7.71	7.58	▲
Average underlying result	9.84	5.65	5.21	4.70	1.99	5.48		5.01	7.17	4.38	

Source: Victorian Auditor-General's Office.

Figure E28
Liquidity (ratio) 2009–2013

Large shire councils	2009	2010	2011	2012	2013	Mean	Actual trend	Forecast			Future trend
								2014	2015	2016	
Bass Coast Shire Council	1.93	2.11	2.44	1.98	1.79	2.05	—	0.89	1.23	1.07	—
Baw Baw Shire Council	1.73	1.77	1.24	1.46	1.51	1.54	—	1.09	1.13	1.20	—
Campaspe Shire Council	3.25	4.44	3.00	2.56	2.46	3.14	▼	2.30	1.89	1.59	▼
Colac Otway Shire Council	2.27	2.18	2.41	2.73	2.67	2.45	—	1.40	1.38	1.27	—
Corangamite Shire Council	1.91	2.27	1.77	1.37	1.71	1.81	—	1.62	1.67	1.93	—
East Gippsland Shire Council	2.74	3.64	3.56	2.76	3.21	3.18	—	2.02	1.91	1.54	—
Gleneig Shire Council	3.27	2.91	2.72	3.45	2.83	3.04	—	1.87	1.84	1.82	—
Macedon Ranges Shire Council	2.18	1.52	1.91	1.93	1.51	1.81	—	1.75	1.80	1.82	—
Mitchell Shire Council	1.82	2.12	1.67	2.00	1.42	1.81	—	1.45	1.55	1.65	—
Moira Shire Council	1.60	1.87	1.76	2.00	1.32	1.71	—	1.20	1.13	1.08	—
Moorabool Shire Council	1.63	1.17	1.88	1.97	1.36	1.60	—	1.03	1.17	1.34	—
Moyne Shire Council	2.58	1.60	1.80	1.82	1.47	1.85	—	1.04	1.07	1.09	—
South Gippsland Shire Council	2.30	2.79	2.21	2.07	1.70	2.21	—	1.45	1.34	1.41	—
Southern Grampians Shire Council	3.27	2.85	3.42	3.02	2.72	3.06	—	1.68	1.56	1.42	—
Surf Coast Shire Council	2.39	1.96	1.87	2.01	1.85	2.02	—	1.69	2.01	1.66	—
Wellington Shire Council	2.28	2.23	2.30	2.14	2.41	2.27	—	1.55	1.53	1.59	—
Average liquidity	2.32	2.34	2.25	2.20	2.00	2.22	—	1.50	1.51	1.47	—

Source: Victorian Auditor-General's Office.

Figure E29
Indebtedness (per cent) 2009–2013

Large shire councils	2009	2010	2011	2012	2013	Mean	Actual trend	Forecast			Future trend
								2014	2015	2016	
Bass Coast Shire Council	14.78	14.51	19.77	26.03	16.05	18.23	▼	22.61	27.16	25.19	▼
Baw Baw Shire Council	35.41	39.73	31.14	33.38	18.95	31.72	▲	12.63	9.18	13.46	▼
Campaspe Shire Council	23.17	22.34	16.33	24.72	17.74	20.86	▲	14.76	14.94	15.82	▼
Colac Otway Shire Council	20.03	27.07	33.81	39.50	30.32	30.15	▼	30.78	27.77	24.62	▲
Corangamite Shire Council	23.76	19.02	19.69	15.10	21.85	19.88	▲	21.27	20.27	20.47	▲
East Gippsland Shire Council	13.95	20.63	24.08	47.81	33.72	28.04	▼	35.42	34.88	33.66	▲
Gleneig Shire Council	29.77	22.03	18.08	30.23	76.18	35.26	▼	33.42	33.61	31.75	▲
Macedon Ranges Shire Council	26.14	20.99	14.65	28.78	15.38	21.19	▲	28.72	31.18	33.64	▼
Mitchell Shire Council	21.89	21.41	15.44	30.93	29.25	23.78	▼	46.52	52.39	53.09	▼
Moira Shire Council	64.74	72.76	56.64	55.44	44.37	58.79	▲	49.19	44.81	40.83	▲
Moorabool Shire Council	28.17	29.55	50.49	59.37	33.97	40.31	▼	37.64	31.18	24.72	▲
Moyne Shire Council	6.02	7.02	13.20	14.84	5.08	9.23	▼	12.90	11.13	8.86	▲
South Gippsland Shire Council	12.98	7.28	1.78	14.22	2.60	7.77	▲	8.35	6.64	5.18	▲
Southern Grampians Shire Council	34.94	32.83	33.02	40.10	22.19	32.62	▲	27.31	22.43	19.94	▲
Surf Coast Shire Council	17.81	30.84	42.35	63.50	57.26	42.35	▼	50.61	46.05	37.37	▲
Wellington Shire Council	32.79	33.24	28.37	23.14	18.68	27.24	▲	28.66	22.90	19.78	▲
Average indebtedness	25.40	26.33	26.18	34.19	27.72	27.96		28.80	27.28	25.52	

Source: Victorian Auditor-General's Office.

Figure E30
Self-financing (per cent) 2009–2013

Large shire councils	2009	2010	2011	2012	2013	Mean	Actual trend	Forecast			Future trend
								2014	2015	2016	
Bass Coast Shire Council	26.16	31.53	31.35	30.75	10.85	26.13	▼	18.21	20.71	17.91	▼
Baw Baw Shire Council	29.50	20.44	23.35	25.19	22.81	24.26	▼	30.08	35.55	34.54	▲
Campaspe Shire Council	29.86	24.01	26.86	36.89	28.52	29.23	▲	23.43	23.61	22.26	▼
Colac Otway Shire Council	29.99	31.53	30.27	33.15	21.17	29.22	▼	33.52	26.30	31.47	▼
Corangamite Shire Council	39.33	28.32	26.69	24.45	17.47	27.25	▼	31.28	28.44	28.03	▼
East Gippsland Shire Council	37.65	29.82	28.18	31.42	26.70	30.75	▼	36.03	28.91	29.28	▼
Gleneig Shire Council	29.86	26.78	26.04	35.95	22.09	28.14	▼	29.12	19.85	19.59	▼
Macedon Ranges Shire Council	32.72	28.55	19.09	32.11	21.22	26.74	▼	19.14	24.59	20.80	▲
Mitchell Shire Council	31.14	28.87	32.53	26.99	15.73	27.05	▼	29.34	27.77	29.77	—
Moira Shire Council	31.77	24.88	21.89	35.15	7.15	24.17	▼	19.15	22.78	16.53	▼
Moorabool Shire Council	26.61	29.29	27.08	33.37	23.97	28.06	—	17.96	28.30	28.28	▲
Moyne Shire Council	31.04	35.74	32.15	36.00	36.24	34.23	▲	28.55	33.18	32.13	▲
South Gippsland Shire Council	31.53	27.12	25.04	27.52	8.57	23.96	▼	16.99	29.49	26.94	▲
Southern Grampians Shire Council	34.37	26.28	25.39	39.33	27.54	30.58	—	29.59	26.65	25.43	▼
Surf Coast Shire Council	28.07	24.95	29.18	35.84	26.97	29.00	▲	23.79	30.32	25.04	▲
Wellington Shire Council	37.92	33.11	35.99	33.56	35.37	35.19	▼	16.51	33.49	32.90	▲
Average self-financing	31.72	28.20	27.57	32.35	22.02	28.37		25.17	27.50	26.31	

Source: Victorian Auditor-General's Office.

Figure E31
Capital replacement (ratio) 2009–2013

Large shire councils	Capital replacement (ratio) 2009–2013										Actual trend	Forecast			Future trend
	2009	2010	2011	2012	2013	Mean	2014	2015	2016						
Bass Coast Shire Council	2.31	1.88	1.56	1.91	1.27	1.79	1.41	1.19	1.35	—	—				
Baw Baw Shire Council	1.21	1.63	1.28	1.36	1.03	1.30	2.13	2.03	1.97	—	—				
Campaspe Shire Council	1.01	0.84	1.04	1.85	1.81	1.31	2.16	1.79	1.58	▲	▼				
Colac Otway Shire Council	0.90	1.70	1.58	1.42	1.32	1.38	1.34	1.28	1.30	—	—				
Corangamite Shire Council	1.49	1.28	1.33	1.19	1.08	1.27	1.15	1.17	1.15	—	—				
East Gippsland Shire Council	1.85	1.95	1.47	1.48	1.45	1.64	2.31	1.62	1.55	—	▼				
Gleneig Shire Council	1.41	1.64	1.49	1.38	1.59	1.51	2.66	1.28	1.19	—	▼				
Macedon Ranges Shire Council	1.34	2.50	1.24	1.75	1.58	1.68	1.38	1.28	1.07	—	—				
Mitchell Shire Council	1.43	1.34	1.20	1.22	1.72	1.38	2.18	1.87	1.81	—	—				
Moira Shire Council	1.40	1.18	1.18	1.50	0.90	1.23	1.30	1.35	1.06	—	—				
Moorabool Shire Council	1.47	1.18	1.40	2.05	1.68	1.56	0.84	1.14	1.14	—	—				
Moyne Shire Council	1.31	1.64	1.46	1.18	1.45	1.41	1.53	1.30	1.26	—	—				
South Gippsland Shire Council	1.25	1.17	1.53	1.68	1.29	1.38	1.64	1.83	1.42	—	—				
Southern Grampians Shire Council	1.22	1.14	0.93	1.23	1.34	1.17	1.53	1.23	1.16	—	—				
Surf Coast Shire Council	1.26	2.20	2.75	2.80	1.51	2.10	1.45	2.12	1.31	—	—				
Wellington Shire Council	1.37	1.30	1.19	1.05	0.87	1.16	1.79	1.20	1.25	—	▼				
Average capital replacement	1.39	1.54	1.41	1.57	1.37	1.45	1.67	1.48	1.35						

Source: Victorian Auditor-General's Office.

Figure E32
Renewal gap (ratio) 2009–2013

Large shire councils	2009	2010	2011	2012	2013	Mean	Actual trend
Bass Coast Shire Council	1.81	1.07	1.05	1.37	0.90	1.24	—
Baw Baw Shire Council	0.82	1.18	0.81	1.16	1.31	1.06	—
Campaspe Shire Council	0.73	0.52	0.76	1.33	1.42	0.95	—
Colac Otway Shire Council	0.84	1.17	1.19	1.12	0.97	1.06	—
Corangamite Shire Council	1.15	0.98	0.78	1.12	1.06	1.02	—
East Gippsland Shire Council	1.40	1.50	1.02	0.96	1.13	1.20	—
Glenelg Shire Council	1.19	1.24	1.22	1.11	1.06	1.17	—
Macedon Ranges Shire Council	0.82	1.20	0.87	1.36	1.29	1.11	—
Mitchell Shire Council	0.79	0.84	0.90	0.78	1.02	0.87	—
Moira Shire Council	1.09	1.13	1.02	1.26	0.80	1.06	—
Moorabool Shire Council	1.34	0.59	0.93	1.69	1.62	1.23	—
Moynes Shire Council	1.25	1.23	0.79	0.97	1.07	1.06	—
South Gippsland Shire Council	0.88	0.82	1.13	1.37	1.08	1.06	—
Southern Grampians Shire Council	-	0.77	0.91	1.07	0.92	0.92	—
Surf Coast Shire Council	0.79	1.05	0.74	0.64	0.72	0.79	—
Wellington Shire Council	1.20	1.19	0.95	0.92	0.84	1.02	—
Average renewal gap	1.07	1.03	0.94	1.14	1.07	1.05	

Source: Victorian Auditor-General's Office.

Small shire councils

Figure E33
Financial sustainability risk assessment results 2012–13

Small shire councils	Underlying result (%)	Liquidity (ratio)	Indebtedness (%)	Self-financing (%)	Capital replacement (ratio)	Renewal gap (ratio)	Sustainability assessment
Ararat Rural City Council	3.06	3.40	2.27	16.24	1.03	0.99	●
Alpine Shire Council	0.91	2.40	31.06	14.32	1.32	0.66	●
Benalla Rural City Council	7.66	1.65	50.00	12.03	1.65	1.16	●
Borough of Queenscliffe	12.89	2.03	0.49	19.48	2.27	1.71	●
Buloke Shire Council	-4.19	0.57	11.20	35.54	1.17	1.01	●
Central Goldfields Shire Council	7.78	1.52	31.38	26.50	1.82	1.21	●
Gannawarra Shire Council	17.25	2.63	16.57	26.86	2.41	1.24	●
Golden Plains Shire Council	15.15	3.16	25.80	25.08	2.49	1.26	●
Hepburn Shire Council	16.84	2.50	11.25	50.39	2.13	1.77	●
Hindmarsh Shire Council	21.90	3.30	1.39	53.53	2.05	1.47	●
Indigo Shire Council	14.99	2.31	20.86	26.05	1.74	1.29	●
Loddon Shire Council	14.63	4.54	16.37	22.38	1.44	1.06	●
Mansfield Shire Council	12.01	2.61	9.81	10.06	1.52	0.85	●
Mount Alexander Shire Council	5.58	2.80	31.24	24.38	1.71	1.14	●
Murrindindi Shire Council	12.15	3.29	25.04	33.52	1.99	1.06	●
Northern Grampians Shire Council	12.83	1.90	13.88	31.27	1.22	1.42	●
Pyrenees Shire Council	11.17	3.57	22.66	-3.06	1.47	1.02	●
Strathbogie Shire Council	5.67	2.12	16.02	22.85	1.39	0.92	●
Towong Shire Council	8.96	4.74	8.41	44.76	1.25	1.22	●
West Wimmera Shire Council	6.44	2.72	1.73	33.25	1.09	1.01	●
Yarriambiack Shire Council	-0.71	1.72	8.85	17.47	1.23	0.92	●
Category average	9.66	2.64	16.96	25.85	1.64	1.16	●
Category risk assessment	Low	Low	Low	Low	Low	Low	Low

Source: Victorian Auditor-General's Office.

Figure E34
Underlying result (per cent) 2009–2013

Small shire councils	Actual trend					Forecast			Future trend	
	2009	2010	2011	2012	2013	Mean	2014	2015		2016
Ararat Rural City Council	2.25	-1.71	6.59	1.18	6.99	3.06	11.83	7.41	6.40	▼
Alpine Shire Council	-0.60	4.21	-1.88	7.26	-4.44	0.91	11.42	11.59	8.41	▼
Benalla Rural City Council	3.17	4.20	9.56	14.54	6.79	7.66	10.45	1.66	2.38	▼
Borough of Queenscliffe	6.77	5.90	15.81	20.53	15.44	12.89	12.94	0.20	6.84	▼
Buloke Shire Council	-5.25	-22.66	-21.14	16.83	11.25	-4.19	47.83	-13.17	-24.95	▼
Central Goldfields Shire Council	0.92	-4.37	13.28	7.41	21.67	7.78	11.59	13.68	6.44	▼
Gannawarra Shire Council	7.07	3.28	3.83	50.40	21.69	17.25	13.46	11.48	9.87	▼
Golden Plains Shire Council	11.85	12.74	9.53	25.35	16.29	15.15	12.72	2.52	9.61	▼
Hepburn Shire Council	14.60	9.83	5.49	20.36	33.90	16.84	10.26	23.10	5.86	▼
Hindmarsh Shire Council	15.83	10.49	3.06	37.35	42.75	21.90	-1.14	5.92	5.91	▲
Indigo Shire Council	17.98	19.01	11.83	14.78	11.34	14.99	-2.49	5.79	2.36	▲
Loddon Shire Council	14.67	0.47	26.37	35.51	-3.87	14.63	-3.86	6.38	7.79	▲
Mansfield Shire Council	27.43	23.32	18.69	-14.90	5.52	12.01	-0.23	7.95	0.56	▲
Mount Alexander Shire Council	8.78	-5.57	1.91	5.35	17.43	5.58	10.10	12.96	13.01	▲
Murrindindi Shire Council	11.18	11.33	8.54	23.73	5.98	12.15	0.12	-5.30	-6.67	▼
Northern Grampians Shire Council	8.04	-3.19	19.69	15.81	23.81	12.83	3.86	-1.85	-3.17	▼
Pyrenees Shire Council	27.78	3.24	28.78	17.00	-20.93	11.17	-1.49	-2.67	-5.55	▼
Strathbogie Shire Council	4.67	-4.17	6.97	13.68	7.19	5.67	-3.66	5.43	6.08	▲
Towong Shire Council	9.39	2.30	8.77	-4.15	28.46	8.96	-1.71	10.94	6.78	▲
West Wimmera Shire Council	7.08	-2.22	7.02	11.18	9.11	6.44	3.59	4.86	-0.65	▼
Yarriambiack Shire Council	4.47	-4.26	5.37	-3.84	-5.29	-0.71	2.55	-3.46	-6.36	▼
Average underlying result	9.43	2.96	8.96	15.02	11.96	9.66	7.05	5.02	2.43	

Source: Victorian Auditor-General's Office.

Figure E35
Liquidity (ratio) 2009–2013

Small shire councils	2009	2010	2011	2012	2013	Mean	Forecast			Future trend
							2014	2015	2016	
Ararat Rural City Council	2.75	2.71	3.33	4.45	3.40	3.33	1.95	2.15	2.28	—
Alpine Shire Council	1.96	1.91	2.06	2.45	2.40	2.16	2.53	2.46	2.39	—
Benalla Rural City Council	1.52	1.64	1.42	1.75	1.65	1.60	1.01	1.06	1.18	—
Borough of Queenscliffe	1.69	1.61	2.51	1.80	2.03	1.93	1.70	1.17	1.03	▲
Buloke Shire Council	1.44	0.41	0.44	0.70	0.57	0.71	0.26	0.23	0.63	—
Central Goldfields Shire Council	3.01	1.64	1.13	1.42	1.52	1.74	1.31	1.45	1.32	—
Gannawarra Shire Council	2.89	2.61	1.97	3.46	2.63	2.71	3.33	2.81	3.04	—
Golden Plains Shire Council	2.82	1.71	1.74	2.33	3.16	2.35	1.78	1.62	1.89	—
Hepburn Shire Council	1.99	1.83	2.63	2.32	2.50	2.26	0.94	0.97	1.07	—
Hindmarsh Shire Council	2.55	2.54	2.60	3.38	3.30	2.88	1.25	2.01	2.68	—
Indigo Shire Council	2.43	1.57	1.92	1.81	2.31	2.01	1.17	1.26	1.31	—
Loddon Shire Council	4.35	3.59	7.43	3.40	4.54	4.66	2.71	2.66	2.50	—
Mansfield Shire Council	3.68	4.09	3.68	2.51	2.61	3.31	1.27	1.60	1.63	—
Mount Alexander Shire Council	3.56	2.34	2.54	1.92	2.80	2.63	1.87	1.80	2.00	—
Murrindindi Shire Council	2.31	2.59	2.28	2.34	3.29	2.56	2.01	2.29	2.37	—
Northern Grampians Shire Council	1.67	1.50	2.29	2.36	1.90	1.94	0.86	0.88	1.11	—
Pyrenees Shire Council	2.53	4.01	5.09	4.45	3.57	3.93	1.75	1.76	1.76	—
Strathbogie Shire Council	1.75	1.54	1.37	2.08	2.12	1.77	1.35	1.38	1.47	—
Towong Shire Council	2.33	2.28	3.16	4.80	4.74	3.46	3.69	2.87	3.78	—
West Wimmera Shire Council	2.31	1.68	2.06	2.94	2.72	2.34	1.77	2.11	2.65	▲
Yarriambiack Shire Council	2.88	3.55	2.93	2.69	1.72	2.76	1.82	1.84	1.65	—
Average liquidity	2.50	2.26	2.60	2.64	2.64	2.53	1.73	1.73	1.89	—

Source: Victorian Auditor-General's Office.

Figure E36
Indebtedness (per cent) 2009–2013

Small shire councils	2009	2010	2011	2012	2013	Mean	Actual trend	Forecast			Future trend
								2014	2015	2016	
Ararat Rural City Council	1.29	1.23	1.02	21.47	2.27	5.46	▼	14.25	14.23	11.88	▲
Alpine Shire Council	16.01	21.57	20.92	31.60	31.06	24.23	▼	24.01	20.61	20.14	▲
Benalla Rural City Council	44.34	47.27	38.56	45.59	50.00	45.15	▼	50.09	44.77	40.79	▲
Borough of Queenscliffe	26.13	21.20	15.72	3.48	0.49	13.40	▲	13.09	14.36	10.80	▲
Buloke Shire Council	7.93	13.64	17.99	13.90	11.20	12.93	▼	12.99	12.45	11.90	▲
Central Goldfields Shire Council	71.03	59.67	47.79	34.78	31.38	48.93	▲	30.93	28.37	17.36	▲
Gannawarra Shire Council	32.25	30.00	31.23	17.44	16.57	25.50	▲	24.00	21.29	19.83	▲
Golden Plains Shire Council	11.41	22.37	37.99	33.70	25.80	26.25	▼	31.94	32.87	45.26	▼
Hepburn Shire Council	28.60	25.72	14.89	22.84	11.25	20.66	▲	23.89	21.57	19.27	▲
Hindmarsh Shire Council	2.10	1.87	1.94	15.74	1.39	4.61	▼	1.37	1.38	1.37	—
Indigo Shire Council	14.32	10.06	14.89	24.79	20.86	16.98	▼	24.94	25.42	20.80	▲
Loddon Shire Council	31.41	31.18	28.42	22.01	16.37	25.88	▲	24.06	22.84	20.79	▲
Mansfield Shire Council	30.95	24.89	18.83	20.06	9.81	20.91	▲	30.65	30.79	26.55	▲
Mount Alexander Shire Council	20.49	18.19	24.86	26.17	31.24	24.19	▼	24.11	21.09	24.87	▼
Murrindindi Shire Council	25.32	29.03	27.50	27.25	25.04	26.83	—	24.20	21.16	19.35	▲
Northern Grampians Shire Council	19.84	15.80	20.95	32.83	13.88	20.66	▼	28.81	24.99	20.76	▲
Pyrenees Shire Council	17.06	30.87	33.50	28.10	22.66	26.44	▼	21.09	17.02	12.95	▲
Strathbogie Shire Council	31.01	28.59	19.85	29.16	16.02	24.92	▲	17.35	16.10	13.73	▲
Towong Shire Council	2.42	10.62	9.36	24.16	8.41	10.99	▼	3.28	3.12	2.95	—
West Wimmera Shire Council	2.22	2.66	2.35	14.56	1.73	4.70	▼	6.18	4.56	1.46	▲
Yarriambiack Shire Council	6.52	5.49	2.88	24.05	8.85	9.56	▼	7.28	5.68	4.45	▲
Average indebtedness	21.08	21.52	20.55	24.46	16.96	20.91		20.88	19.27	17.49	

Source: Victorian Auditor-General's Office.

Figure E37
Self-financing (per cent) 2009–2013

Small shire councils	Actual trend										Forecast			Future trend
	2009	2010	2011	2012	2013	Mean	2014	2015	2016					
Ararat Rural City Council	27.47	22.53	27.95	21.03	16.24	23.04	33.59	29.81	29.20	▼				
Alpine Shire Council	16.61	20.80	17.34	30.90	14.32	19.99	28.27	28.26	25.56	▲				
Benalla Rural City Council	21.87	21.06	17.01	37.86	12.03	21.97	24.12	17.02	18.15	▼				
Borough of Queenscliffe	16.18	20.38	25.42	33.43	19.48	22.98	25.08	1.08	11.40	▲				
Buloke Shire Council	24.76	15.29	12.54	46.43	35.54	26.91	68.19	14.81	12.55	▲				
Central Goldfields Shire Council	26.77	24.20	38.16	24.50	26.50	28.02	27.54	29.81	24.49	—				
Gannawarra Shire Council	30.06	26.67	31.50	55.61	26.86	34.14	33.73	31.14	29.73	▲				
Golden Plains Shire Council	31.80	25.92	26.70	25.33	25.08	26.96	30.86	33.85	24.09	▼				
Hepburn Shire Council	31.12	33.59	36.66	42.95	50.39	38.94	24.22	39.04	24.83	▲				
Hindmarsh Shire Council	38.67	32.65	27.09	59.29	53.53	42.24	28.07	34.74	37.58	▲				
Indigo Shire Council	40.40	35.37	16.06	31.19	26.05	29.81	19.22	25.64	22.76	▼				
Loddon Shire Council	39.73	30.71	45.20	47.60	22.38	37.12	32.14	41.50	41.97	▼				
Mansfield Shire Council	45.07	26.45	43.00	3.89	10.06	25.69	20.86	27.90	21.64	▼				
Mount Alexander Shire Council	31.74	28.40	18.66	27.69	24.38	26.18	24.05	28.47	29.76	▼				
Murrindindi Shire Council	18.74	22.71	21.59	29.20	33.52	25.15	25.19	12.20	17.99	▲				
Northern Grampians Shire Council	32.26	24.56	43.02	40.50	31.27	34.32	1.12	10.44	11.86	▲				
Pyrenees Shire Council	54.99	30.02	50.40	33.83	-3.06	33.24	28.93	34.15	31.43	▼				
Strathbogie Shire Council	30.86	25.11	23.78	35.14	22.85	27.55	19.14	21.38	24.69	▼				
Towong Shire Council	36.82	23.53	30.73	38.15	44.76	34.80	26.91	29.59	27.91	▲				
West Wimmera Shire Council	39.35	30.06	35.11	48.09	33.25	37.17	26.95	37.33	33.05	▲				
Yarriambiack Shire Council	33.19	35.26	28.75	33.66	17.47	29.67	32.14	35.03	30.37	▼				
Average self-financing	31.83	26.44	29.37	35.54	25.85	29.81	27.63	26.82	25.29					

Source: Victorian Auditor-General's Office.

Figure E38
Capital replacement (ratio) 2009–2013

Small shire councils	Actual trend					Forecast			Future trend	
	2009	2010	2011	2012	2013	Mean	2014	2015		2016
Ararat Rural City Council	1.04	1.13	0.87	0.98	1.10	1.03	1.51	1.25	1.19	—
Alpine Shire Council	1.25	1.58	0.93	1.70	1.13	1.32	1.72	1.69	1.59	—
Benalla Rural City Council	1.16	0.91	1.59	2.77	1.82	1.65	2.82	0.84	0.85	▶
Borough of Queenscliffe	3.59	1.61	1.16	2.77	2.19	2.27	5.06	3.51	2.28	▶
Buloke Shire Council	0.86	1.22	0.61	1.56	1.59	1.17	4.52	0.46	0.13	▶
Central Goldfields Shire Council	1.68	1.43	2.35	1.23	2.41	1.82	2.64	1.71	1.05	▶
Gannawarra Shire Council	0.92	1.34	1.86	5.62	2.33	2.41	1.90	1.88	1.42	—
Golden Plains Shire Council	2.29	2.92	3.03	2.45	1.76	2.49	2.02	1.70	2.21	—
Hepburn Shire Council	1.31	1.43	1.78	3.06	3.09	2.13	1.51	2.43	1.28	—
Hindmarsh Shire Council	1.73	1.64	1.13	1.70	4.06	2.05	2.21	1.01	1.00	▶
Indigo Shire Council	1.16	2.70	1.53	1.98	1.33	1.74	1.91	1.39	1.00	▶
Loddon Shire Council	1.14	0.98	0.76	3.38	0.97	1.44	1.04	1.40	1.50	—
Mansfield Shire Council	1.07	1.20	2.48	1.50	1.35	1.52	2.35	1.24	0.94	▶
Mount Alexander Shire Council	1.14	1.40	1.31	2.39	2.33	1.71	1.95	2.07	1.92	—
Murrindindi Shire Council	0.95	1.97	2.48	3.58	0.96	1.99	1.32	0.81	0.72	▶
Northern Grampians Shire Council	1.28	0.93	1.85	1.09	0.95	1.22	1.10	0.88	0.84	—
Pyrenees Shire Council	1.77	1.17	1.53	1.16	1.72	1.47	1.39	1.18	1.07	—
Strathbogie Shire Council	1.17	1.38	1.44	1.56	1.41	1.39	1.90	1.51	1.40	—
Towong Shire Council	1.28	1.22	1.04	1.17	1.56	1.25	2.47	2.13	0.92	▶
West Wimmera Shire Council	1.20	1.20	1.01	1.02	1.01	1.09	1.10	1.01	0.73	—
Yarriambiack Shire Council	0.95	0.97	0.93	1.77	1.51	1.23	1.25	1.13	1.09	—
Average capital replacement	1.38	1.44	1.51	2.12	1.74	1.64	2.08	1.49	1.20	—

Source: Victorian Auditor-General's Office.

Figure E39
Renewal gap (ratio) 2009–2013

Small shire councils	2009	2010	2011	2012	2013	Mean	Actual trend
Ararat Rural City Council	0.89	0.88	1.21	0.94	1.05	0.99	—
Alpine Shire Council	0.74	0.76	0.55	0.13	1.10	0.66	—
Benalla Rural City Council	0.94	1.01	1.61	1.04	1.21	1.16	—
Borough of Queenscliffe	2.45	0.95	0.88	2.31	1.96	1.71	—
Buloke Shire Council	0.87	0.93	0.50	1.40	1.31	1.01	—
Central Goldfields Shire Council	0.86	0.51	1.74	0.88	2.04	1.21	▲
Gannawarra Shire Council	0.59	0.97	1.39	1.40	1.87	1.24	▲
Golden Plains Shire Council	1.21	0.98	1.24	1.76	1.13	1.26	—
Hepburn Shire Council	0.68	1.06	1.43	2.95	2.74	1.77	▲
Hindmarsh Shire Council	1.27	1.15	0.91	1.40	2.64	1.47	▲
Indigo Shire Council	0.00	2.70	0.86	1.74	1.16	1.29	—
Loddon Shire Council	0.84	0.73	0.34	2.63	0.78	1.06	—
Mansfield Shire Council	0.76	0.91	0.82	0.70	1.05	0.85	—
Mount Alexander Shire Council	0.74	1.09	0.88	1.65	1.34	1.14	—
Murrindindi Shire Council	0.69	1.39	0.95	1.61	0.64	1.06	—
Northern Grampians Shire Council	0.70	0.61	1.52	2.29	1.96	1.42	▲
Pyrenees Shire Council	1.53	0.94	1.01	0.53	1.07	1.02	—
Strathbogie Shire Council	0.65	0.77	0.85	1.36	0.98	0.92	—
Towong Shire Council	1.23	0.79	0.55	1.07	2.46	1.22	▲
West Wimmera Shire Council	1.12	1.10	0.94	0.96	0.91	1.01	—
Yarriambiack Shire Council	0.62	0.72	0.61	1.42	1.23	0.92	—
Average renewal gap	0.92	1.00	0.99	1.44	1.46	1.16	

Source: Victorian Auditor-General's Office.

Appendix F.

Glossary

Glossary

Appropriate

Measures or indicators are appropriate if they provide users with sufficient information to assess the extent to which an entity has achieved a pre-determined target, goal or outcome.

Asset

A resource controlled by an entity as a result of past events, and from which future economic benefits are expected to flow to the entity.

Audit Act 1994

An Act of the State of Victoria that establishes the:

- operating powers and responsibilities of the Auditor-General
- the operation of his office - VAGO
- nature and scope of audits conducted by VAGO
- relationship of the Auditor-General with the Public Accounts and Estimates Committee as the representative body of Parliament
- Auditor-General's accountability to Parliament for discharge of the position's responsibilities.

Audit committee charter

The responsibilities and terms of reference of the audit committee should be clearly defined in its charter, formally approved by the council and communicated to stakeholders.

Auditor's opinion

Written expression within a specified framework indicating the auditor's overall conclusion on the financial (and performance) reports based on audit evidence obtained.

Clear audit opinion – financial statement

A positive written expression indicating that the financial statement has been prepared in accordance with the requirements of the relevant legislation and Australian accounting standards.

A clear or unqualified audit opinion is provided when the financial statement presents fairly the transactions and balances for the reporting period in accordance with the relevant legislative framework.

Clear audit opinion – financial report

A positive written expression provided when the financial report has been prepared and presents fairly the transactions and balances for the reporting period in accordance with the requirements of the relevant legislation and Australian accounting standards.

Also referred to as an **unqualified audit opinion**.

Clear audit opinion – performance report

A positive written expression provided when the performance report has been prepared and presents fairly the performance indicators and results of performance for the reporting period in accordance with the requirements of the relevant legislation.

Also referred to as an **unqualified audit opinion**.

Clear audit opinion – standard statements

A positive written expression provided when the standard statements have been prepared for the reporting period in accordance with the requirements of the relevant legislation.

Also referred to as an **unqualified audit opinion**.

Corporations Act 2001

An Act of the Commonwealth of Australia that sets out the laws dealing with business entities in Australia at federal and interstate levels. It focuses primarily on companies, although it also covers some laws relating to other entities such as partnerships and managed investment schemes.

Council

A group of councillors, who are the elected representatives of people who are residents in the council's district or ratepayers of the council.

Deficit

Total expenditure exceeds total revenue resulting in a loss.

Depreciation

The systematic allocation of a fixed asset's capital value as an expense over its expected useful life to take account of normal usage, obsolescence, or the passage of time.

Emphasis of matter

An auditor's report can include an emphasis of matter paragraph that draws attention to a disclosure or item in the financial report that is relevant to the users of the auditor's report but is not of such nature that it affects the auditor's opinion (i.e. the auditor's opinion remains unmodified).

Equity or net assets

Residual interest in the assets of an entity after deduction of its liabilities.

Expense

Outflows or other depletions of economic benefits in the form of incurrence of liabilities or depletion of assets of the entity, other than those relating to contributions by owners, that results in a decrease in equity during the reporting period.

Financial report

Structured representation of the financial information, which usually includes accompanying notes, derived from accounting records and intended to communicate an entity's economic resources or obligations at a point in time or the changes therein for a period in accordance with a financial reporting framework.

Financial sustainability

An entity's ability to manage financial resources so it can meet its spending commitments, both at present and into the future.

Financial year

The period of 12 months for which a financial report (and performance report) is prepared.

General purpose financial statements

Statements that provide information about the financial position, performance and changes in financial position of an entity that is useful to a wide range of users.

Going concern

An entity which is expected to be able to pay its debts as and when they fall due, and continue in operation without any intention or necessity to liquidate or otherwise wind up its operations.

Governance

The control arrangements in place at an entity that are used to govern and monitor its activities, in order to achieve its strategic and operational goals.

Internal control

Processes affected by an entity's structure, work and authority flows, people and management information systems, designed to assist the entity accomplish specific goals and objectives. Internal controls are a means by which an entity's resources are directed, monitored and measured. It plays an important role in preventing and detecting error and fraud and protecting the entity's resources.

Joint venture

A contractual agreement joining together two or more parties for the purpose of executing a particular business undertaking. All parties agree to share in the profits and losses of the enterprise.

Liability

A present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow of resources from the entity.

Local Government Act 1989

An Act of the State of Victoria that establishes the:

- purpose of councils
- powers that will enable councils to meet the needs of their communities
- accountable system of local government
- reform of law relating to local government in Victoria.

Performance report

A statement containing predetermined performance indicators and targets and actual results against these for that financial year, with an explanation for any significant variance between the results and the targets.

Qualified audit opinion – financial report

A qualification is issued when the auditor concludes that an unqualified opinion cannot be expressed due to one of the following reasons:

- disagreement with those charged with governance
- conflict between applicable financial reporting frameworks
- limitation of scope.

A qualified opinion shall be expressed as being except for the effects of the matter to which the qualification relates.

Qualified audit opinion – performance report

A qualification is issued when the auditor concludes that an unqualified opinion cannot be expressed due to the non-compliance with the *Local Government Act 1989*.

Rating strategy

A document that how and why and how rates are set and determined, as well as procedural and legislative requirements, assistance and payment options.

Relevant

Measures or indicators used by an entity are relevant if they have a logical and consistent relationship to an entity's objectives and are linked to the outcomes to be achieved.

Revaluation

Recognising a reassessment of values for non-current assets at a particular point in time.

Revenue

Inflows of funds or other enhancements or savings in outflows of service potential, or future economic benefits in the form of increases in assets or reductions in liabilities of the entity, other than those relating to contributions by owners which result in an increase in equity during the reporting period.

Risk

The chance of a negative impact on the objectives, outputs or outcomes of the entity.

Standard statements

Specific purpose financial statements that compare actual financial performance reported on in the principle financial statements with budget. Where there are significant variations between actual and budgeted performance the variance is explained.

Surplus

Total revenue exceeds total expenditure resulting in a profit.

Appendix G.

Audit Act 1994 section 16 — submissions and comments

Introduction

In accordance with section 16A and 16(3) of the *Audit Act 1994* a copy of this report, or relevant extracts from the report, was provided to all councils and the Department of Transport, Planning and Local Infrastructure with a request for submissions or comments.

The submissions and comments provided are not subject to audit nor the evidentiary standards required to reach an audit conclusion. Responsibility for the accuracy, fairness and balance of those comments rests solely with the agency head.

Responses were received as follows:

Department of Transport, Planning and Local Infrastructure	114
Rural City of Wangaratta	116
City of Wodonga.....	117
City of Yarra.....	119

RESPONSE provided by the Secretary, Department of Transport, Planning and Local Infrastructure



**Department of Transport,
Planning and Local Infrastructure**

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DX210292

Ref CSEC004171

Dr Peter Frost
Acting Auditor-General
Victorian Auditor-General's Office
Level 24, 35 Collins Street
MELBOURNE VIC 3000



Dear Dr Frost

**AUDIT ACT 1994, S16(3) - PROPOSED AUDIT REPORT
LOCAL GOVERNMENT: RESULTS OF THE 2012-13 AUDITS**

Thank you for your letter of 22 November 2013 and the opportunity to provide comment on the proposed *Local Government: Results of the 2012-13 Audits* report. I am pleased to read that clear audit opinions were issued on the financial and standard statements for each of the 102 audits completed.

I do note however that the challenge of financial sustainability remains and the extent to which sustainability indicators may have been influenced by the Defined Benefit Superannuation Scheme funding shortfall. While one off payments from the sector in 2011-12 to address this shortfall has seen a decline on some indicators, I also note that your three year forecast anticipates most councils returning to pre-shortfall levels over the next three years.

Your report has recognised my Department's work in the development of a Performance Reporting Framework.

Legislative provisions to facilitate this framework were the subject of a second reading in Parliament by the Minister for Local Government on 27 November 2013. Extensive consultation from both within and external to the sector has resulted in more than 1,000 professionals and interested parties participating in a range of forums to inform this work.

I acknowledge also your encouragement for the sector to continue to work with Local Government Victoria on the implementation of this framework.

Local Government Victoria has previously issued best practice guidance on the role and operations of an audit committee. I acknowledge your findings during this round of audit in respect of audit committee activities and I think it appropriate that Local Government Victoria again raise the profile of these guidelines with the sector.


I am pleased to confirm that my Department, together with the Municipal Association of Victoria, has commenced a comprehensive review of the guidance on preparation of rating strategies and your comments will be referred to this project team for consideration as part of this review.



RESPONSE provided by the Secretary, Department of Transport, Planning and Local Infrastructure – continued

The recommendations summarised on page ix of your report are supported and I am confident that current reform initiatives will continue to make a valuable contribution to future sector performance.

Yours sincerely



Dean Yates
SECRETARY

2/12/13.

RESPONSE provided by the Acting Chief Executive Officer, Rural City of Wangaratta

Rural City of Wangaratta

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In Replying Please Quote: Doc Id: 487194
If Calling Please Ask For: Ruth Kneebone

26 November 2013

Dr Peter Frost
Acting Auditor-General
Level 24, 35 Collins Street
Melbourne VIC 3000

Dear Dr Frost

Proposed Audit Report Local Government: Results of the 2012-13 Audits

In response to your request for comments on the extracts from the proposed *Local Government: Results of the 2012-13 Audits* report, I provide the following.

Council acknowledges the qualified audit opinion issued concerning its Performance Statement relating to the absence of some performance indicators and targets in its 2012-13 budget. This matter has been addressed in the preparation of Council's 2013-14 budget.

Thank you for the opportunity to comment on your proposed report.

Yours faithfully,


Kelvin Spiller
ACTING CHIEF EXECUTIVE OFFICER



RESPONSE provided by the Chief Executive Officer, City of Wodonga

City of Wodonga

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28 November 2013

Enquiries: Peter Morris
Reference: A10.0014 OUT13/17428A48

Dr Peter Frost
Acting Auditor-General
Level 24,
35 Collins Street
Melbourne VIC 3000



Dear Mr Frost

Re: 2012-2013 Financial Performance of Councils

Thank you for the opportunity to provide comment on your upcoming report on the financial performance of Councils for the 2012-2013 financial year.

You have provided us with extracts of data and commentary from your proposed report which we have reviewed and wish to comment on. We believe the following points will provide further guidance on council's approach to financial management and the subsequent financial indicator results ensuing from them as mentioned in your report.

- The liquidity ratio has improved from 1.55 in 2011-2012 to 2.66 in 2012-2013. Council believes that the liquidity ratio at 2.66 reflects a strong position and is an indication of the prudent approach council takes to its overall financial position and cash management.
- Although the indebtedness average has increased from 73 per cent in 2011-2012 to 80 per cent in 2012-2013, as a result of taking out new borrowings during the year, council has a commitment and intention to direct any additional surplus funds, either internally generated or externally sourced, to paying down debt as a priority.
- Council's investment at LOGIC (valued during the year at \$41.5 million); was always with a long term view of some 20-25 years. LOGIC has been a success story for Wodonga with regard to actual land sales themselves, but more importantly, the jobs and economic activity generated by the additional investment by the purchasers of land. Land sales to date have exceeded the "most likely case" envisaged in the original business plan. To date more than 500 direct jobs and many indirect jobs on an ongoing basis have been created, more than \$130 million worth of development has occurred, generating an annual rate receipt of \$602,000.
- Council has land holdings that council has identified as surplus to its needs. These assets are in the process of being divested, with land valued in the order of \$9 million being put to the market in the very near future.



**RESPONSE provided by the Chief Executive Officer, City of Wodonga –
continued**

- Wodonga Council's Strategic Resource Plan (SRP) does not rely upon the realisation of LOGIC or any other land sale proceeds which are currently in the process of eventuating. A copy of the SRP can be found under Documents and Publications at www.wodonga.vic.gov.au.
- The council believes consideration of the above points provides for council's outstanding debt to be extinguished in its entirety with a significantly amount remaining for cash reserves in the longer term.
- The council's Strategic Resource Plan provides for a long term prudent financial management platform to ensure Wodonga Council's key strategic activities are able to be achieved. Also, emphasis on the implementation of a strong asset management ethos will see the knowledge of the City's investment gap strengthened. By linking asset management to the City's strategic financial direction this will provide further information to assist in improving the long term sustainability of the City.
- Wodonga Council has communicated a clear and concise financial strategy to its community. It is our strong and clear view that the City's finances are sustainable and that the strategies that have already been put in place will ensure that rates growth will not be compromised, whilst delivering the services, assets, and events expected by the Wodonga community.

City of Wodonga trusts that the above explanation has provided further explanation and clarification of the council's overall approach to financial management and that this has been reflected in the financial sustainability indicators developed by your office.

Yours faithfully



**Patience Harrington
Chief Executive Officer**

RESPONSE provided by the Chief Executive Officer, City of Yarra

In reply please quote: D13/117006
Our ref: D13/116901
Contact: Jack Crawford ph.9205 5210



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29 November 2013

Dr Peter Frost
Acting Auditor-General
Victorian Auditor General's Office
Level 24, 35 Collins Street
Melbourne VIC 3000

Dear Dr Frost

Audit Act 1994, s16(3) - Proposed Audit Report- Local Government: Results of the 2012-13 Audits

Thank you for your letter dated 22 November 2013 in relation to results of the 2012-13 Audits for Local Government.

We note your comments in relation to Yarra City Council's liquidity ratio as at 30 June 2014 and accept these as fact.

Further to the acknowledgement that Council's liquidity ratio fell below 1.00 on 30 June 2013 due to an increase in current trade creditors associated with the redevelopment works at the Collingwood Town Hall, Council wishes to note that it made a conscious decision in 2012-13 to accelerate works on this project, ahead of budget; bringing forward \$1.4 million from the 2013-14 capital works program. We further note that Council's capital works program for 2012-13 achieved a 91% completion rate and was higher than the previous year's program by \$1.1 million.

Council's future financial sustainability forecasts, which include the liquidity measure, indicate favourable trends and a liquidity ratio above 1.00 for the foreseeable future. As a consequence, we envisage a return to an overall 'low risk' financial sustainability rating according to VAGO's assessment criteria for 2013-14 and subsequent years.

Should you require further information in relation to this matter, please feel free to contact Mr Jack Crawford, Director Corporate and Financial Services on 9205 5210 or via email jack.crawford@yarracity.vic.gov.au

Yours sincerely

Handwritten signature of Vijaya Vaidyanath in black ink.

Vijaya Vaidyanath
Chief Executive Officer

cc: Ron Mak - Sector Director, Local Government Financial Audit,
Victorian Auditor General's Office



Yarralink Interpreter Service 9280 1940 | Để được trợ giúp bằng Tiếng Việt, hãy gọi số 9280 1939 | Per assistenza in Italiano chiamare 9280 1931 | 用廣東話獲得協助 · 請電9280 1932 | Για βοήθεια στα Ελληνικά καλέστε 9280 1934 | Para ayuda en castellano llame al 9280 1935 | За помош на македонски јавете се на 9280 1936 | 用廣東話獲得協助, 請電9280 1937 | Türkiye yardım almak için 9280 1938 numaralı telefonu arayın | 9280 1930 الرقم على الاتصال يرجى المساعدة باللغة العربية يرجى الاتصال على الرقم 9280 1930

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