

# Results of 2016–17 Audits: Local Government

Tabled 29 November 2017

VAGO

This presentation provides an overview of the Victorian Auditor-General's report *Results of 2016–17 Audits: Local Government*.

## Overview



Results of our financial and performance audit statements:

- 79 councils
- 10 regional library corporations
- 16 associated entities



Analyses financial results, outcomes and sustainability risks

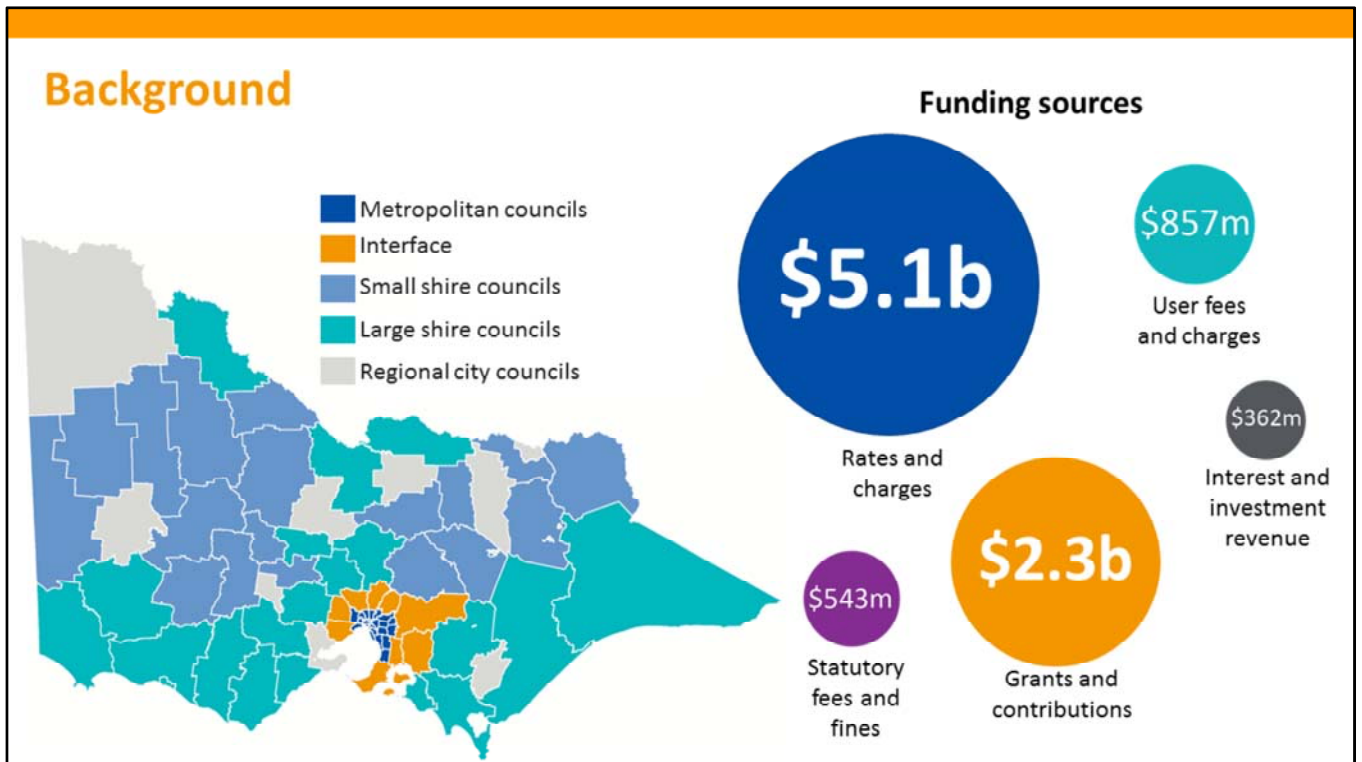


Reviews the internal control frameworks

This report outlines the results of our 2016–17 financial and performance statement audits of Victoria’s 79 councils and the financial results of their 10 regional library corporations and 16 associated entities.

We discuss the financial sustainability of the sector based on our analysis of council’s unaudited budgets and their 30 June 2017 audited financial reports.

We also assessed councils’ internal financial and reporting controls.



There are 22 metropolitan councils, 9 interface councils that form a ring around metropolitan Melbourne and 48 regional, large shire and small shire councils.

The local government sector is primarily funded through rates and charges, raising \$5.1 billion, and government grants, providing \$2.3 billion, to provide services to the local community.

## Results of our 2016–17 audits – financial reports

104

Clear audit opinions issued on the financial reports



Median time to certify financial reports improved

This year we issued 104 clear financial report audit opinions.

Councils made a small improvement in the time taken to certify their financial reports, but this could be significantly improved by bringing forward key elements of the financial reporting work.

## Results of our 2016–17 audits – performance statements

78

Clear audit opinions issued on the 2016–17 council performance statements

1

Towong Shire Council's performance statement received a qualified audit opinion

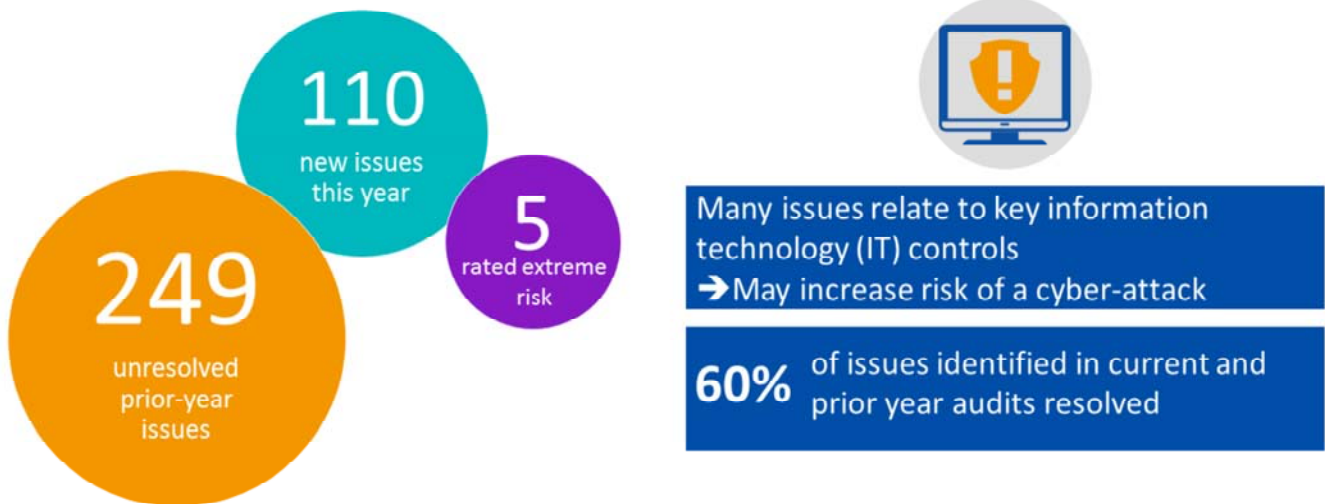


Setting targets would help determine efficiency and effectiveness

We issued 78 clear audit opinions on councils' performance statements for 2016–17. We qualified our opinion for Towong Shire Council, as they could not report on two indicators.

Currently councils explain significant variations in performance compared to prior years. While this information is useful, setting a target would help readers determine whether a council is operating efficiently and effectively.

## Internal control weaknesses



6

Councils' internal financial and reporting controls are generally well designed and operating as intended. However, there were 110 newly identified issues that we rated extreme, high or medium risk, and 249 issues identified in previous years that were unresolved.

Three extreme risks were raised in the 2016–17 year at Bayside and West Wimmera councils and two extreme risks from 2015–16 were carried forward from Cardinia and Casey councils. The risk at West Wimmera remains open, the other extreme risk issues have all been closed.

Many of these issues relate to key information technology (IT) internal controls, and this is an increasing trend across the sector. These weaknesses increase the risk of a successful cyber-attack, and could result in the destruction of data or recording of non-existent transactions.

Overall, councils have resolved over 60 per cent of the internal control issues identified in our current and prior year audits.

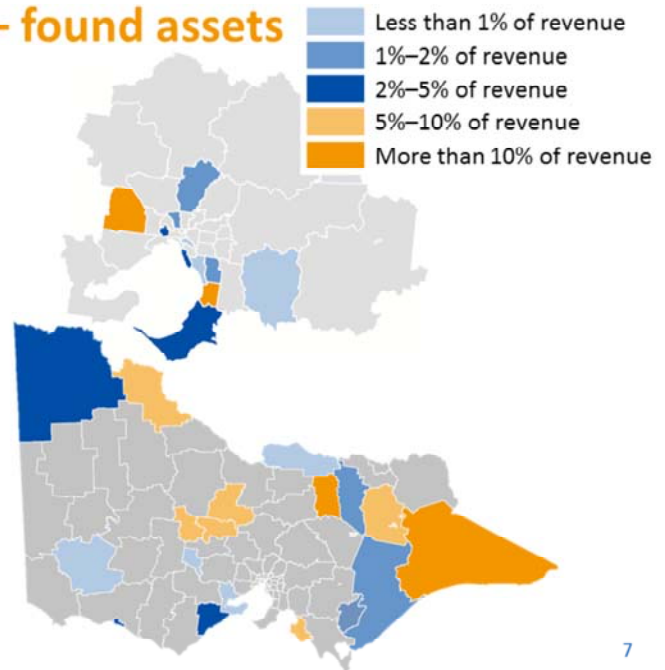
## Internal control weaknesses – found assets



Councils need complete and accurate data about their assets

**\$175m**  
of assets

identified by **29** councils  
in 2016–17



In our 2015–16 local government audit report, we highlighted the recurring issue of councils not having complete and accurate data about their assets. Councils need this information to plan and monitor their maintenance and capital works.

In 2016–17, 29 councils identified \$175.3 million worth of assets that they had not known about or recorded. In 2015–16 it was \$149.3 million worth, across 31 councils.

## Financial sustainability risks – looking forward



**Sector has relatively low financial sustainability risk in the short term.**

**Over the next three years**

**Increase in average forecasted expenses**

**1%**

**2%**

**Decrease in average forecasted revenue**



**Councils need to better understand the potential impact and how to respond to viability risks**

We have assessed the sector to have a relatively low financial sustainability risk in the short term.

On average councils' total revenue is forecast to decrease by one per cent over the next three financial years, while total expenditure is set to increase by two per cent.

Councils need to better understand the impact this disparity may have on the services they provide.

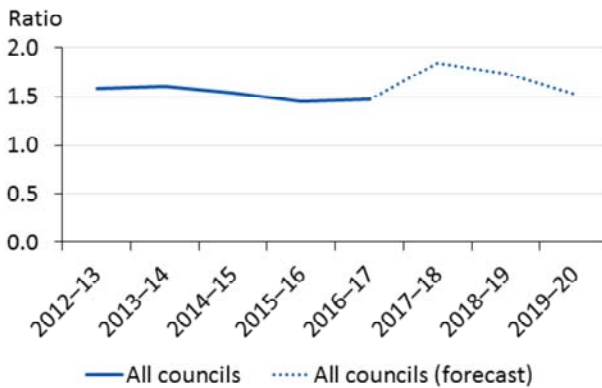
Most councils know that they may face longer-term viability risks as a result of rate capping, but many don't yet understand how to respond to this risk. The first step councils must take is to understand the nature and cost of all the services they provide.



## Financial sustainability risks – replacing assets

Sector is forecasting to spend less on asset renewal and maintenance

Councils are using their own cash instead of borrowings to replace and renew assets



■ Metro & Interface ■ Large, Regional & Small

Overall, the sector is forecasting to spend less on asset renewal and maintenance, continuing the trend of the past few years. This is displayed in the graph on the left.

We found that most councils are accumulating cash—in preference to acquiring debt—to replace or expand their assets.

Rural and regional councils have a higher financial sustainability risk than metropolitan councils. This is because they are less able to generate their own revenue, but they have steady increases in expenditure.

## Recommendation

### 1 recommendation for Local Government Victoria

- We recommend that Local Government Victoria introduce targets for each of the performance indicators included in each councils' performance statements

The report made one recommendation to Local Government Victoria, that it introduce targets for each of the performance indicators included in councils' performance statements.

## Overall message

The councils' audited financial reports and performance statements for the year ended 30 June 2017 are reliable.

In the short-term, the sector has a relatively low risk of being financially unsustainable. The longer-term impact of rate capping is yet to be fully determined, but it has created the impetus for councils to review their cost structures.

Overall this audit concluded that councils' audited financial reports and performance statements for this year are reliable.

The sector has a relatively low short-term risk of being financially unsustainable. The longer-term impact of rate capping is yet to be fully determined, but it has created the impetus for councils to review their cost structures.

For further information, please view the full report on our website:  
[www.audit.vic.gov.au](http://www.audit.vic.gov.au)

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