

Results of 2017–18 Audits: Local Government

Tabled 19 December 2018

VAGO

This presentation provides an overview of the Victorian Auditor-General's report, *Results of 2017–18 Audits: Local Government*.

Overview



Results of our 2017–18 audits of the financial reports and performance statements of 79 councils, and financial reports of the 10 regional library corporations and 16 associated entities



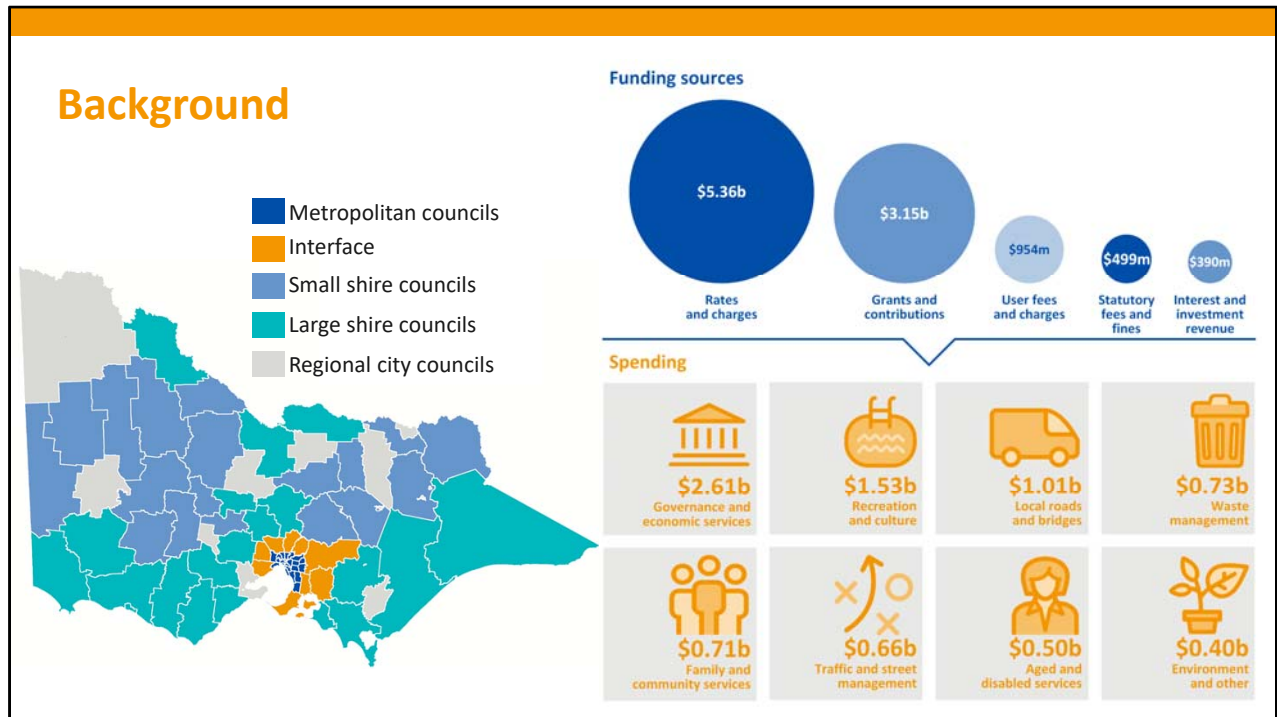
Financial sustainability based on our analysis of councils' unaudited budgets



Internal financial and reporting controls

The Victorian local government sector consists of 79 councils, 10 regional library corporations, and 16 associated entities.

Our report provides Parliament with our assessment of the local government sector's financial sustainability based on our analysis of councils' unaudited budgets, their 30 June 2018 audited financial reports, and councils' internal financial and reporting controls.



We grouped councils into two categories: metropolitan councils, and rural and regional councils.

The categories are consistent with Local Government Victoria's (LGV) classification of council types and made up of five cohorts based on size, demographics and funding.

The sector delivers services including recreational facilities, maintaining roads, waste management, and family services. The services are funded mainly through rates and charges, and government grants and contributions.

Results of our 2017–18 audits



Clear financial and performance audit opinions issued for:

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



- All councils met the statutory deadline in 2018
- Small decline in the median time taken to certify the reports compared to last year



We recommend Local Government Victoria (LGV) requires councils to set and report against targets in their performance statements

We issued 104 clear audit opinions for all councils, regional library corporations, and associated entities with a 30 June 2018 financial year end.

All councils met the statutory deadline in 2018, consistent with 2017. There was a small decline in the median time taken to certify the reports compared to last year.

While councils can explain significant variations in performance indicators, we recommend that LGV introduces a requirement that councils set and report against targets for the performance indicators presented in their performance statements.

Sector developments



Budgeted increase in annual waste charge levied on ratepayers—increase in recycling costs



Streamlined Local Government Model Financial Report (LGMFR) improved financial report readability



Sector self-assessed as intermediate in data and technology, and internal controls over financial reporting

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Based on 2018–19 council budgets, there is an expected average increase of approximately 14 per cent in the annual waste charge levied to residents compared to 2017–18 as a result of the additional costs for councils to manage kerbside collection of household recyclable waste.

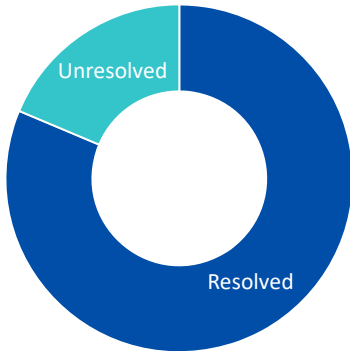
Consistent with the structure of financial reports in Victoria, LGV streamlined the Local Government Model Financial Report (LGMFR), and as a result, financial report readability improved in 2017–18. We encourage the sector to continue to streamline and enhance their financial reports.


We asked councils to complete a self-assessment questionnaire about their processes and systems.

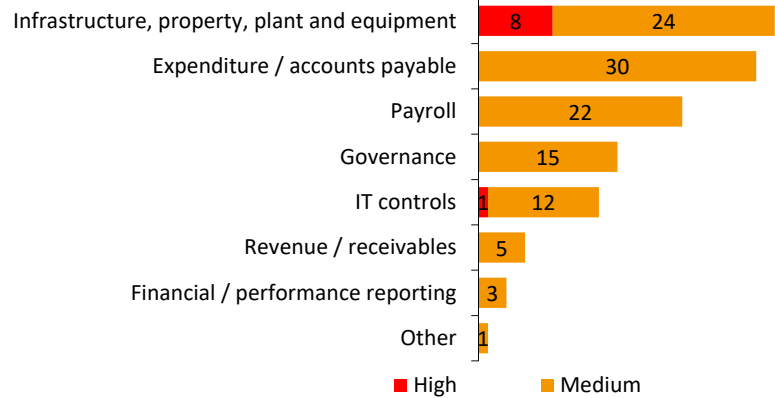
The sector assessed itself as intermediate in the areas of data and technology and internal controls over financial reporting. The sector would like to move to a more mature rating, through implementing new technologies and upgrading existing systems.

Internal controls

 **292** prior year medium-, high- and extreme-risk rated issues resolved



 **112** new medium and high-risk rated current year issues raised



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Overall, we found that internal control was adequate to ensure reliable financial reporting.

During our 2017–18 audits, we identified 112 new medium- and high-risk internal control weaknesses and financial reporting issues, mostly relating to infrastructure, property, plant and equipment; and expenditure and accounts payable.

During the year, councils resolved 81 per cent of the 359 extreme-, high-, and medium-risk issues that we raised with them in previous years, compared to 61 per cent in 2016–17.

Sustainability—current position and forward outlook



Most councils demonstrated strong financial performance and a sustainable financial position

\$10.66b
Revenue

\$8.49b
Operating
expenditure

7

Most councils demonstrated strong financial performance and a sustainable financial position.

In 2017–18, councils collectively recorded revenue totalling \$10.66 billion:

- \$5.7 billion consisted of rates and charges, and
- \$1.7 billion was from government operating and capital grants.

Council operating expenditure totalled \$8.49 billion, which mostly consisted of:

- employee expenses which cost \$3.4 billion dollars
- materials and services which cost \$3.0 billion, and
- depreciation and amortisation which totalled \$1.5 billion dollars.

Sustainability—current position and forward outlook



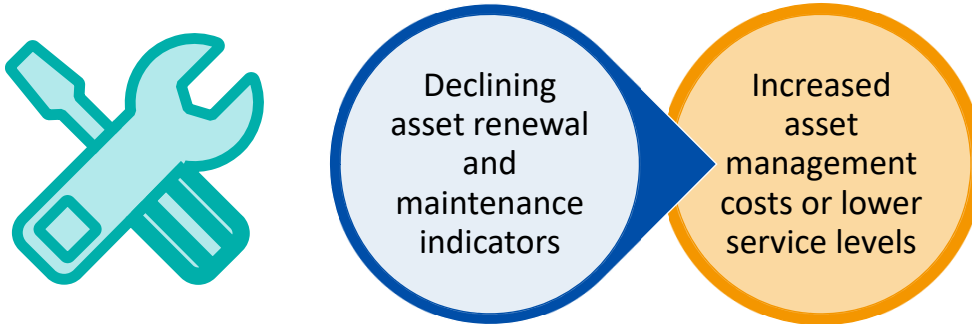
Overall risk to sector's financial sustainability is low



Rural and regional councils more susceptible to risk

As a sector, the overall risk to its financial sustainability is low—particularly in the short to medium term. We note though that rural and regional councils continue to be relatively more susceptible to risk, in part because of their scope to generate sufficient revenue to offset their increasing operating costs.

Sustainability—asset replacement



The sector continues to show declining asset renewal and maintenance indicators, which can lead to increased asset management costs, disproportionately borne by future ratepayers, or lower service levels.

Financial information dashboard



Local Government Dashboard



We have created an interactive data dashboard summarizing the financial statement data for Victoria's 79 councils.

You can find the dashboard on our website.

Recommendations

1 recommendation for LGV

- Introduce the requirement for councils to set and report achievement against targets for each of the performance indicators presented in councils' performance statements.

5 recommendations for councils

- Explore longer-term solutions to continue recycling services without significantly affecting the cost of living for the community
- Continue to streamline their financial reports and make them more relevant, to help users understand the councils' financial position and performance
- Improve financial reporting process efficiencies by reducing the reliance on manual controls, introducing risk assessments, and actively monitoring and reviewing data quality
- Resolve prior year internal control issues and financial reporting deficiencies within the recommended time frames
- Develop asset management strategies through consultation with the community and prioritise asset maintenance and renewal while making sure they are financially sustainable in the long term.

We made one recommendation for LGV and five recommendations for councils.

For further information, please view the full report on our website:
www.audit.vic.gov.au

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