

Slide 1



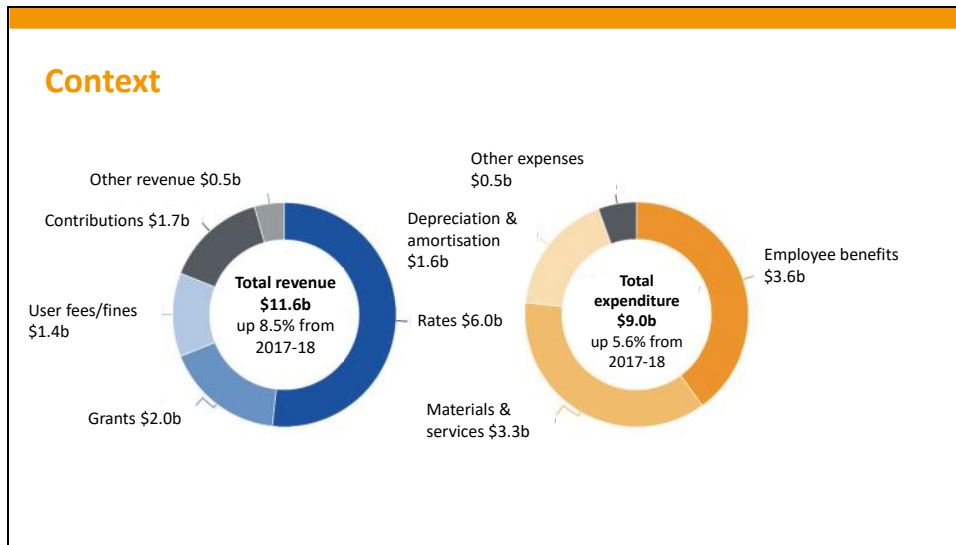
This presentation provides an overview of the Auditor-General's report on the Results of 2018-19 Audits for Local Government.



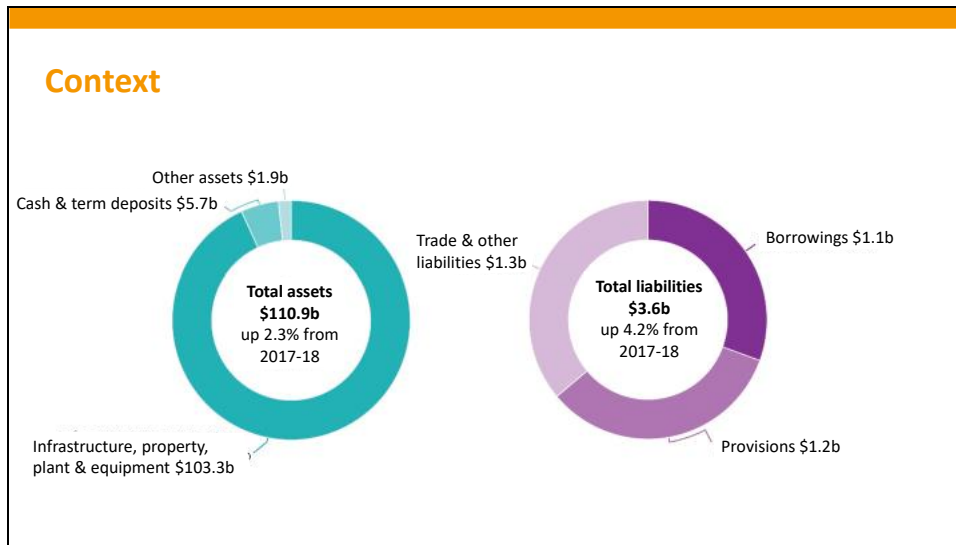
The report summarises the results of our audits of the financial reports and performance statements of the 79 councils, 10 regional library corporations and 17 associated entities that make up the ‘Local Government’ sector. It provides parliament with an assessment of the sector’s financial sustainability and summarises key issues identified during our audits.



Councils provide a range of services to the community. These services are funded through multiple revenue streams. The surplus generated by councils is typically used to maintain and renew assets or repay debt.



In 2019, councils generated \$11.6 billion in revenue, an increase of 8.5% from the previous year, and incurred approximately \$9 billion of expenses, an increase of 5.6% from the previous year.




The majority of the sector's assets consist of the infrastructure needed to deliver community services. Given their service nature, these assets do not generate income, nor are they easily sold to fund operations. These assets require significant upkeep and oversight to ensure they continue to meet community needs. During the year, the sector's assets grew to \$107 billion, largely due to capital spending on new assets.




During the year we issued 102 unmodified audit reports on the financial statements of entities within the sector. Of the opinions we issued, two councils missed their reporting deadlines. One was granted a time extension from the Minister for Local Government, and met this extension. The other applied for an extension—but made the application after the statutory deadline had passed—and therefore, the application was not considered.

Results of our 2018–19 audits



- Performance statement issues identified:
 - consistency
 - accuracy
 - completeness



- 187 financial statement errors, totaling \$240.4 million, mainly:
 - valuation of infrastructure assets
 - timing and recognition of developer contributions.
- 127 new medium and high-risk internal control issues.

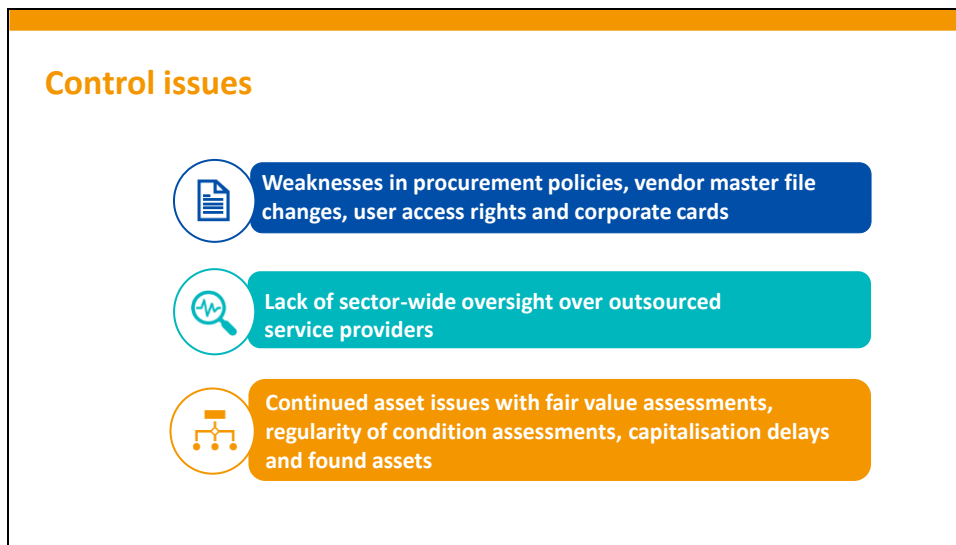
We also issued 78 unmodified performance statement audit opinions. The audit of one council's performance statement is still outstanding.

We identified thematic errors across the sector's performance statement reporting mainly around consistency and accuracy of reporting.

We also identified 187 financial statement errors—totalling \$240 million. Common errors included the incorrect valuation of infrastructure assets, and incorrect recognition of developer contributions.

Identified errors were corrected before the audit was completed

We identified 127 new medium and high-risk internal control issues and these were mostly across asset management and procurement.



While all councils stated that they had a procurement policy in place, 41 councils identified breaches of their policies. Breaches were typically in relation to: the self-approval of purchase orders; and tender processes not undertaken when supplier spends exceeded a council-determined threshold.

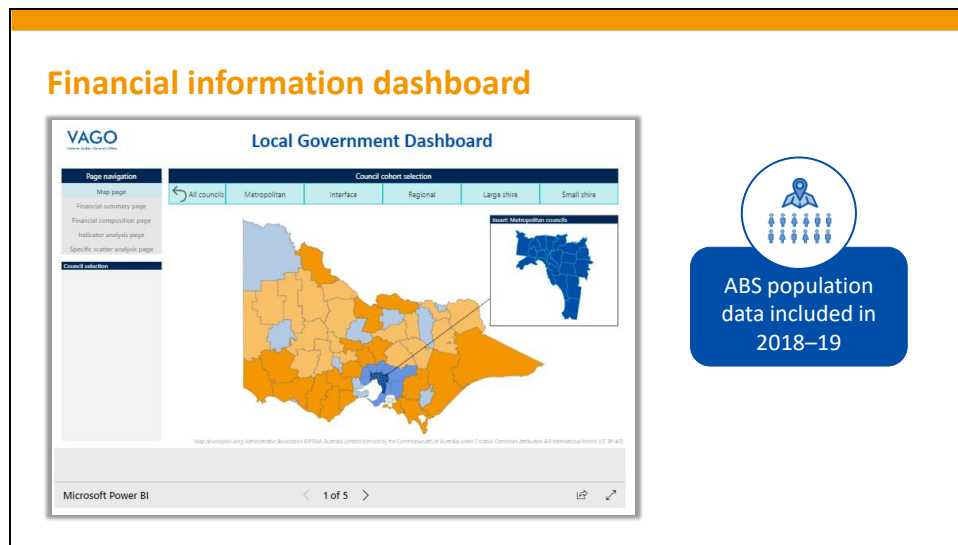
While nearly all councils confirmed they had monitoring controls in place to ensure compliance with their internal procurement card policies, 35 councils confirmed that there had been instances of non-compliance with these policies.

Many councils outsource elements of their operations. Forty-nine councils outsourced elements that had a direct impact on their financial reports. Only nine of these 49 councils had policies in place to govern these arrangements. Forty-three councils concluded they had adequate controls in place to monitor their service providers. No council obtained an assurance report from a provider that had a direct impact on financial results.



Our sustainability assessments broadly found no significant concerns with the sector's short-term indicators.

Some longer-term capital replacement indicators were a little weaker in the regional and rural councils, but were not considered a high risk.



Our data dashboard, which is available on our website, makes available all the data used to generate our analysis, benchmarking information and financial sustainability assessments.

Recommendations

4 recommendations for councils, including

- Monitor the ongoing cladding and recyclable waste issues
- Maintain oversight of activities outsourced to external audit providers

3 recommendations for Local Government Victoria, including

- Continuing to provide sector-wide guidance for changes in accounting standards and asset valuations

Our report identifies seven recommendations, including that: councils monitor the ongoing cladding and recyclable waste issues impacting the sector, and that they maintain oversight of activities outsourced to external service providers.

Our report also recommends that Local Government Victoria continues to provide sector-wide guidance for changes in accounting standards and asset valuations.

In summary, the sector continues to operate sustainably, but is showing some signs of weakness in the longer term.

While the sector does face some internal control issues, none are considered critical.

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

For further information, please see the full report of this audit on our website,
www.audit.vic.gov.au.