
Results of 2019–20 Audits: Local Government

Tabled 17 March 2021



Objective/about this report

The Victorian local government sector consists of 79 councils, 10 regional library corporations and 17 associated entities. Each year, we audit the financial reports and performance statements of these entities. This report outlines the results of these audits for the 2019–20 financial year.

Conclusion

We issued clear audit opinions for financial reports of 102 entities in the sector and performance statements of all councils. At the date of this report, four audits of associated entities are still in progress.

Financial information

In 2019–20, the sector generated \$11.47 billion of revenue and incurred expenses of \$9.42 billion to produce a net result of \$2.05 billion. Total revenue and net result of the sector declined in 2019–20 financial year compared to the previous year, partly affected by the COVID-19 pandemic and new accounting standards.

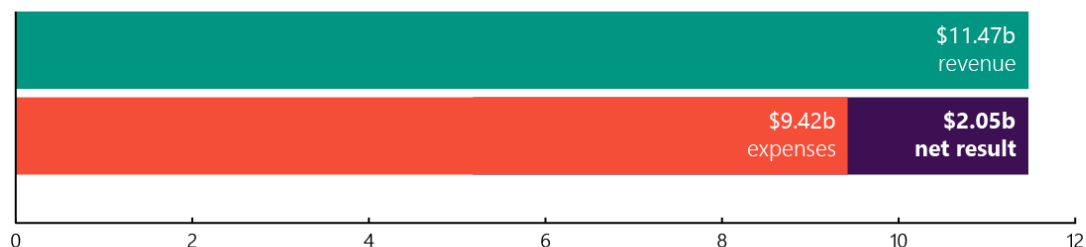
Despite the economic impact of COVID-19, councils' financial positions remained resilient in 2019–20.

Overall risk to the sector's financial sustainability is low, but the continuing impact of COVID-19 is seen as an emerging risk, as the pandemic only started to affect Victoria during the last quarter of the financial year. We expect it will have a greater financial impact in 2020–21.

New Australian Accounting Standards

The Australian Accounting Standards Board introduced three new accounting standards in 2019–20 that applied to the sector for the first time. These standards related to leases, income and revenue. They changed the requirements for how and when councils account for specific transactions and balances. As a result, councils had to change their accounting systems, processes, and business practices to comply.

Financial information



The financial impact of the new lease standard was not significant to the sector.

For the first time, the sector accounted for unspent government grants with specific performance obligations as unearned income liabilities on the balance sheet.

Timeliness and quality

In response to the pandemic, the Minister for Local Government extended the statutory deadline to certify financial reports and performance statements from 30 September 2020 to 30 November 2020. Seventy-eight out of 79 councils certified their reports within the extended deadline.

Common errors found from our audit process this year were due to incorrect application of new accounting standards, incorrect valuations of assets and inadequate disclosure of the impacts of the pandemic in council's financial reports.

An increase in IT system-related control weaknesses was also evident during the year.

Prior period internal control issues continue to not be resolved by the sector in a timely manner.

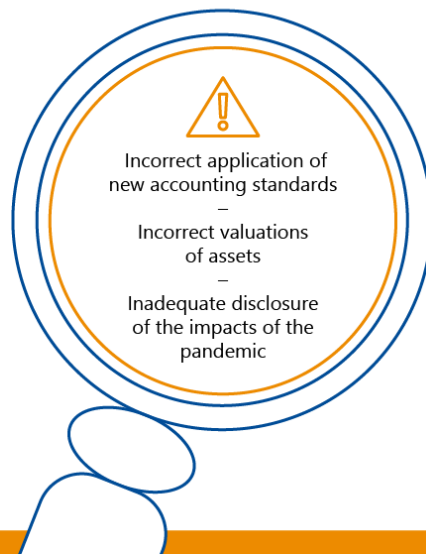
Recommendations

We made six recommendations.

Four for all councils to:

- review and update their systems and processes so they can apply the new accounting standards better
- separately disclose COVID-19-related transactions in their financial reports for more transparency
- review their IT systems and controls to ensure systems are secure, and
- resolve overdue internal control issues promptly.

Timeliness and quality



And two recommendations for Local Government Victoria to:

- assist the sector by providing guidance to correctly apply the new Australian Accounting Standards, and
- provide guidance to the sector to adequately disclose COVID-19-related transactions.

Data dashboard

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