
Results of 2020–21 Audits: Local Government

Tabled 2 December 2021



Audit outcomes

Each year, we audit the local government sector's financial and performance reports. The sector is made up of 104 entities, including 79 councils, 10 regional library corporations and 15 associated organisations.

Financial and performance reports are reliable

Of the 104 entities we audited, we issued a clear audit opinion for 98. At the date of preparing this report, our audits of six entities are still in progress.

A clear audit opinion means Parliament and the community can use a report with confidence.

Interactive dashboard

In addition to our report, we publish an interactive dashboard where you can access individual councils' financial data.

Timeliness

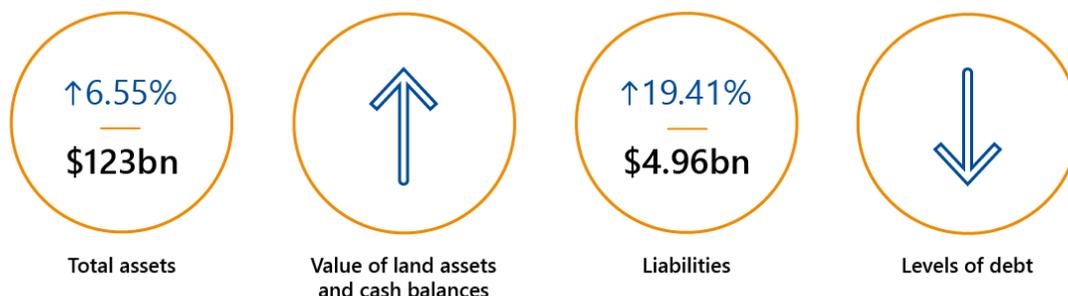
As at 26 November 2021, all councils met their prescribed external reporting timelines.

Quality of financial reporting

Last year, we recommended that councils' work through challenges with implementing the new accounting standards.

Positively, this year we saw a significant drop in the number of errors related to these standards. However, we continue to find errors in accounting for physical assets. Councils manage significant assets in order to deliver community services, so improving their asset accounting practices should be a key focus.

Financial position



Performance reporting

Each council prepares a performance report that demonstrates its results against performance indicators set by the Minister for Local Government.

Over the last three years, councils' performance reporting processes have matured, with the number of errors we find reducing.

Financial analysis

While COVID-19 continued to affect the sector's financial performance during 2020–21, it improved slightly from last year. Councils' balance sheets remained relatively strong.

Financial performance

In 2020–21, the sector generated \$11.93 billion in revenue and incurred \$9.80 billion of expenses, resulting in a net surplus of \$2.13 billion.

This result is up on last year, partly due to state and Australian Government support in response to the pandemic. This additional money offset the decline in councils' own-source revenue streams, which were impacted by lockdowns and travel restrictions.

Financial position

Councils' financial position as at 30 June 2021 remains relatively strong.

During the financial year, councils' total assets increased by 6.55 per cent to \$123 billion. This increase was driven by the value of land assets owned by councils and by their cash balances.

Liabilities increased by 19.41 per cent to \$4.96 billion.

Internal controls



Asset management and valuation processes continue to be an area in need of improvement



With staff working from home and accessing sensitive information remotely, robust IT controls are critical

The sector continues to have low levels of debt across all council cohorts.

Internal controls

All councils need effective internal control systems to maintain proper accounts and records. As part of our audits, we look at internal control weaknesses.

Overall, councils' internal controls remain adequate for reliable financial reporting.

However, we did find common weaknesses across the sector in two areas:

- Asset management and valuation processes continue to be an area in need of improvement. Robust asset management processes are essential for councils to meet community needs.
- IT controls are another key area for improvement across the sector. With staff working from home and accessing sensitive information remotely, robust IT controls are critical.

New and unresolved internal controls issues

Over the last five years, the number of new and unresolved issues we raise has remained constant.

Councils can strengthen the effectiveness of their internal controls by responding more promptly to the issues we raise. In particular, by resolving higher risk and older issues promptly.

Recommendations

This year we made two recommendations for all councils:

- that they prioritise and expedite resolving internal control issues and reporting deficiencies
- and that they prioritise resolving IT control deficiencies.

For more information, or to read our full report, go to audit.vic.gov.au