

# Results of 2021–22 Audits: Local Government

February 2023

Independent assurance report to Parliament  
2022–23:13



This report is printed on Monza Recycled paper. Monza Recycled is certified Carbon Neutral by The Carbon Reduction Institute (CRI) in accordance with the global Greenhouse Gas Protocol and ISO 14040 framework. The Lifecycle Analysis for Monza Recycled is cradle to grave including Scopes 1, 2 and 3. It has FSC Mix Certification combined with 99% recycled content.

ISBN 978-1-921060-50-2

# Results of 2021–22 Audits: Local Government

**Independent assurance report to Parliament**

Published by order, or under the authority,  
of the Parliament of Victoria  
February 2023



The Hon Shaun Leane MLC  
President  
Legislative Council  
Parliament House  
Melbourne

The Hon Maree Edwards MP  
Speaker  
Legislative Assembly  
Parliament House  
Melbourne

Dear Presiding Officers

Under the provisions of the *Audit Act 1994*, I transmit my report *Results of 2021–22 Audits: Local Government*.

Yours faithfully

Andrew Greaves  
Auditor-General  
23 February 2023

The Victorian Auditor-General's Office (VAGO) acknowledges the Traditional Custodians of the lands and waters throughout Victoria. We pay our respects to Aboriginal and Torres Strait Islander communities, their continuing culture, and to Elders past and present.



# Contents

<b>1. Audit outcomes.....</b>	<b>1</b>
Financial reports and performance statements are reliable.....	1
Some councils and agencies did not meet reporting timelines .....	2
We found more errors in council financial reports.....	3
There were less errors in council performance statements.....	6
Recommendations.....	7
<b>2. Financial analysis.....</b>	<b>8</b>
Results improved because government funding increased.....	8
The sector's financial position remains sound with low debt levels .....	12
Actual capital expenditure continues to be below budget.....	14
Recommendation .....	17
<b>3. Internal controls and financial reporting issues.....</b>	<b>18</b>
Increase in new and unresolved internal control and financial reporting issues.....	18
IT control weaknesses.....	19
Asset management and valuation processes.....	21
Recommendations.....	22
<b>Appendices.....</b>	<b>23</b>

# 1.

## Audit outcomes

We gave clear audit opinions for financial reports and performance statements across the local government sector. Parliament and the community can confidently use these reports.

### Financial reports and performance statements are reliable

#### The local government sector

The Victorian local government sector consists of 105 agencies, including 79 councils.

Each council and agency prepares a financial report. Each council also prepares a performance statement.

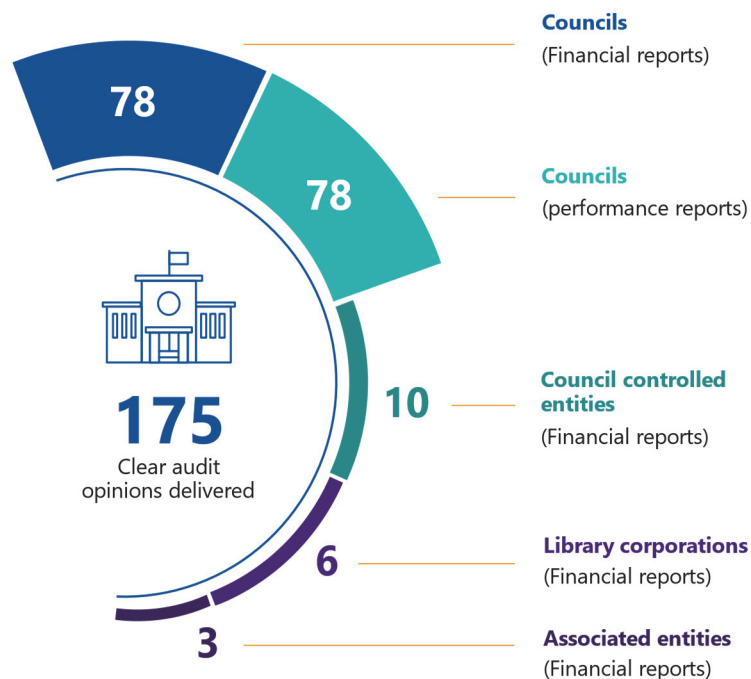
We audit all of these reports and statements.

See Appendix B for more information about the local government sector, including annual reporting timelines and requirements.

#### Number of clear audit opinions

To date, we have given 175 clear audit opinions across the sector for 2021–22 (see Figure 1).

Figure 1: Clear audit opinions for 2021–22



Source: VAGO.

This means Parliament and the community can confidently use these reports.

#### Clear audit opinion

A 'clear' or 'unmodified' audit opinion means we have reviewed an agency's financial report and performance statement (where applicable) and believe they are reliable and comply with relevant reporting requirements.



---

## Audits in progress

As at 31 January 2023, the following audits for 2021–22 are still in progress:

- one council's financial report and performance statement
- 7 agencies' financial reports.

See Appendix E for more information about these audits.

In this report we have not included these entities in our analysis for 2021–22.

---

## Some councils and agencies did not meet reporting timelines

### Councils reporting timelines

Ten of the 79 councils did not finalise their financial report and performance statement by 31 October 2022.

This meant they could not present their annual report at a council meeting open to the public by the legislative date.

A further 9 councils could not present a finalised annual report at a council meeting open to the public during October 2022. This is because their audit opinions were finalised after these meetings.

---

### Regional library corporations reporting timelines

Four of the 10 regional library corporations did not finalise their financial report by 31 October 2022.

This meant they could not give their annual report to the Minister for Local Government by the due date.

---

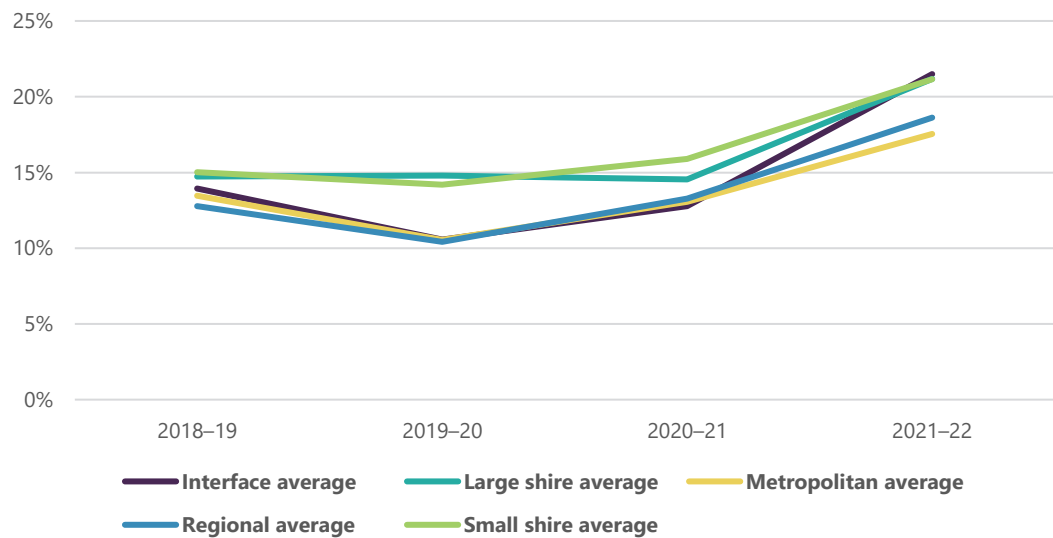
### Reasons for delays

Annual reporting timelines are challenging to meet in a normal year.

The 2021–22 reporting cycle was more challenging due to the flow-on effects of the COVID-19 pandemic, including:

- |   |   |
|---|---|
| 1 | <p><b>Scarce resources</b></p> <p>There was a shortage of finance and accounting professionals across Australia, impacting councils' ability to prepare financial reports and performance statements on time.</p> <p>A shortage of auditors affected the timing and execution of our audits across the sector.</p>  |
| 2 | <p><b>Higher staff turnover</b></p> <p>To prepare a financial report or performance statement, finance teams need supporting information and advice from other business units.</p> <p>In 2021–22 all council cohorts experienced higher staff turnover due to greater labour market opportunities. The sector's average staff turnover was 20 per cent in 2021–22. This was up from 14 per cent in 2020–21.</p> <p>The turnover rate in interface, large and small shire councils was slightly higher than the sector average (see Figure 2).</p> <p>Staff turnover affects an entity's ability to prepare financial reports and performance statements because:</p> <ul style="list-style-type: none"><li>• the entity loses corporate knowledge</li><li>• it takes time to replace and train staff.</li></ul> |

Figure 2: Average staff turnover by council cohort for 2018–19 to 2021–22



Source: VAGO.

## We found more errors in council financial reports

### What affects the quality of a financial report

Many factors can affect the quality of a financial report.

To make sure a financial report is high quality, an entity should have an annual reporting plan that outlines:

- its legislative reporting requirements
- a detailed reporting process
- the resources, milestones, key stakeholders, information systems, materiality threshold, oversight and quality assurance practices it needs to help the staff who prepare it.

In 2021–22 a number of factors led to an increase in errors found in financial reports submitted to us for auditing. Of most significance was:

- a disconnect between councils' finance teams and other teams across the business
- staff changes
- the quality of the local government model report.

### Disconnect between finance teams and other internal teams

The finance team should make sure other internal teams and key stakeholders clearly understand their information needs and timelines in the production process of a financial report or performance statement.

At some councils, we saw a disconnect between the finance team and other internal teams. This led to teams not understanding:

- the interdependencies that exist across teams in relation to their respective outputs
- how the finance team uses their information and advice to prepare the council's financial report and performance statement.

As a result, some teams did not always give the finance team timely, complete and accurate information that was based on sound records.



Councils could improve the quality of their financial reports and performance statements by:

- strengthening their internal teams' relationships
  - making sure other internal teams understand the finance team's information needs, timelines and outputs.
- 

#### Staff change

As previously explained, the sector experienced significantly more staff turnover in 2021–22.

This led to:

- finance teams processing more audit adjustments before councils finalised their financial reports
- us reporting more internal control and financial reporting issues to councils' management and audit committee, which we discuss in Section 3.

Staff turnover can affect the quality of a council's financial report because:

- it increases the risk that the council's internal controls may not operate as intended
- new staff may be unfamiliar with the council's legislative reporting obligations, policies and procedures.

A council can reduce these risks by making sure its induction program, mandatory training and refresher training build staff's awareness of its governance arrangements, operations, legislative obligations, policies and procedures.

A council can also use internal audits to make sure its controls are operating as intended.

---

#### Quality of the local government model report

Each year Local Government Victoria (LGV) releases a model financial report and performance statement to help councils meet their reporting requirements.

The *Local Government (Planning and Reporting) Regulations 2020* requires councils to comply with these models.

Over the years, financial reports have become longer and more complex. They also do not always cater to users' needs. As a result, readers often struggle to find the information they are looking for.

Financial report preparers also find it difficult to decide what information:

- is material, which they must disclose in their financial report
- is not material, which they should not include.

##### **Material**

Information is material if misstating or not including it could influence a user's decision or understanding.

Preparers need to use professional judgement and qualitative and quantitative data to decide if information is material or not.

We continue to find disclosures in financial reports and performance statements that councils' need to amend prior to their finalisation, or that is not material.

We also found LGV could omit several disclosures in its model financial report because, based on our analysis over the last 5 years, we do not consider the information to be material to the needs of users.

While preparers are responsible for their financial reports and deciding what information is material, LGV could help them by making its model financial report more user-friendly through:

- streamlining its content
- improving the structure and layout of its model performance statement.

See our article on the power of streamlining: [Streamlining public-sector-financial-statements-tips-and-tricks](#)

#### Errors we found in 2021–22

Councils must fix material errors before we can issue a clear audit opinion.

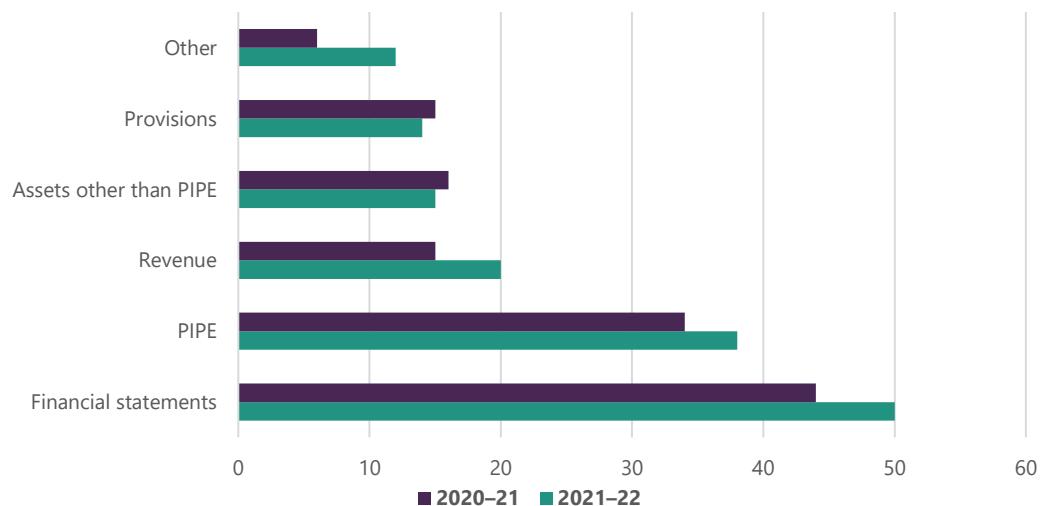
In 2021–22 we found 149 errors that councils needed to fix. This compares to 130 errors in 2020–21.

In financial reports we continued to find:

- issues with the quality of disclosures that councils needed to amend
- errors with councils' property, infrastructure, plant and equipment (PIPE) balances.

Figure 3 shows the number of errors we found in the last 2 years by category.

Figure 3: Adjusted errors by category for 2020–21 and 2021–22



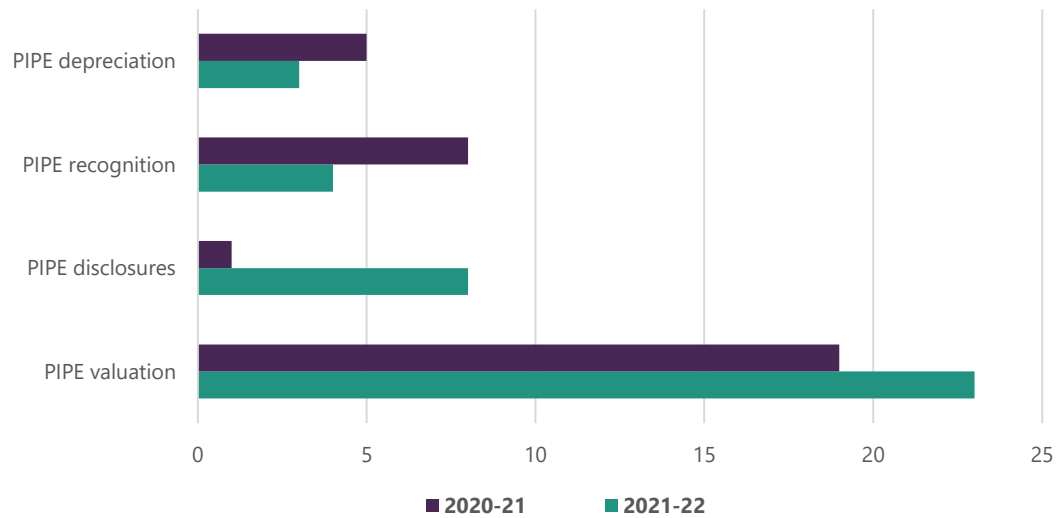
Source: VAGO.



## PIPE errors

Figure 4 breaks down PIPE errors by category for the last 2 years. Section 3 has more information about asset valuation errors.

Figure 4: PIPE errors by type for 2020–21 and 2021–22



Source: VAGO.

## There were less errors in council performance statements

**Overall finding** A council's performance statement has measures to assess:

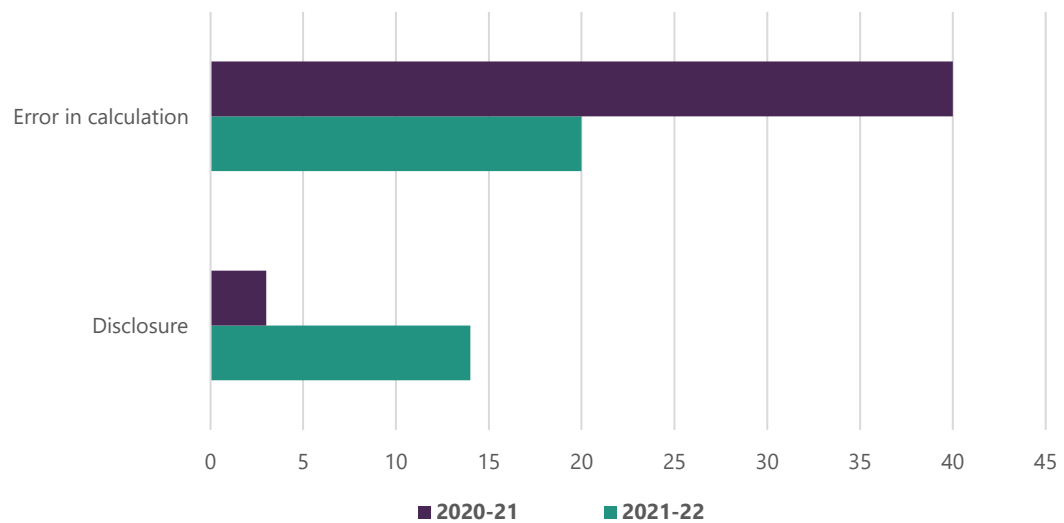
- how its services are performing
- its sustainability capacity performance
- its financial performance.

In 2021–22 councils made 34 adjustments to council performance statements. This is an improvement compared to 2020–21 when 43 errors were adjusted.

## Types of adjustments

It was pleasing to see less calculation errors in 2021–22. But as Figure 5 shows, councils still need to focus on the quality of their disclosures.

Figure 5: Performance statement adjustments for 2020–21 and 2021–22



Source: VAGO.

A ...	Happens when ...
calculation error	there is an error in: <ul style="list-style-type: none"> <li>the data the council uses to calculate an indicator</li> <li>how the council calculated an indicator.</li> </ul>
disclosure adjustment	A council's performance statement: <ul style="list-style-type: none"> <li>does not comply with LGV's model performance statement</li> <li>is missing a disclosure.</li> </ul>

## Recommendations

### All councils

1. We recommend that all councils revisit their annual reporting plan and quality assurance processes for preparing financial reports and performance statements.
2. We recommend that all councils analyse staff departure data to assess if:
  - there is an increased risk their internal controls may not be operating as intended across the council as a whole or within a particular business area
  - their induction program, mandatory training and refresher sessions are sufficient within the workforce's current environment
  - they need to use their internal audit function in a particular area to make sure key controls are operating as intended.

### Local Government Victoria

3. We recommend that Local Government Victoria works with the sector to:
  - streamline its local government model financial report
  - enhance the structure and layout of its local government model performance statement.

# 2.

## Financial analysis

The COVID-19 pandemic continued to affect the sector in 2021–22.

The sector's financial performance only improved because government funding increased. It would have declined without this financial assistance. The growth in council expenses outpaced the increase in their own source revenue.

Councils' balance sheets remain relatively strong.

Councils face challenges ahead due to the:

- council rate cap, which constrains their ability to increase rate revenue
- variability in government funding
- rising cost of materials and services, which they need to actively manage.

The sector's actual capital expenditure for 2021–22 was \$3.049 billion. This was 28.9 per cent (or \$1.240 billion) less than its budgeted spending. This underspending is consistent with previous years.

### Results improved because government funding increased

#### Net result

Net surplus is councils' revenue and income from transactions minus their expenses from transactions.

In 2021–22, Victorian councils generated a combined net surplus of \$2.243 billion.

This was \$0.121 billion, or 5.7 per cent, more than 2020–21. However, the sector's financial performance would have declined had the Australian Government not advanced 75 per cent of the 2022–23 financial assistance grant in 2021–22, up from 50 per cent in 2020–21.

Total revenue increased by 3.4 per cent when you exclude the additional 25 per cent funding received in advance for next financial year.

Total expenses grew by 4.6 per cent, outpacing the increase in own source revenue.

#### Financial performance snapshot

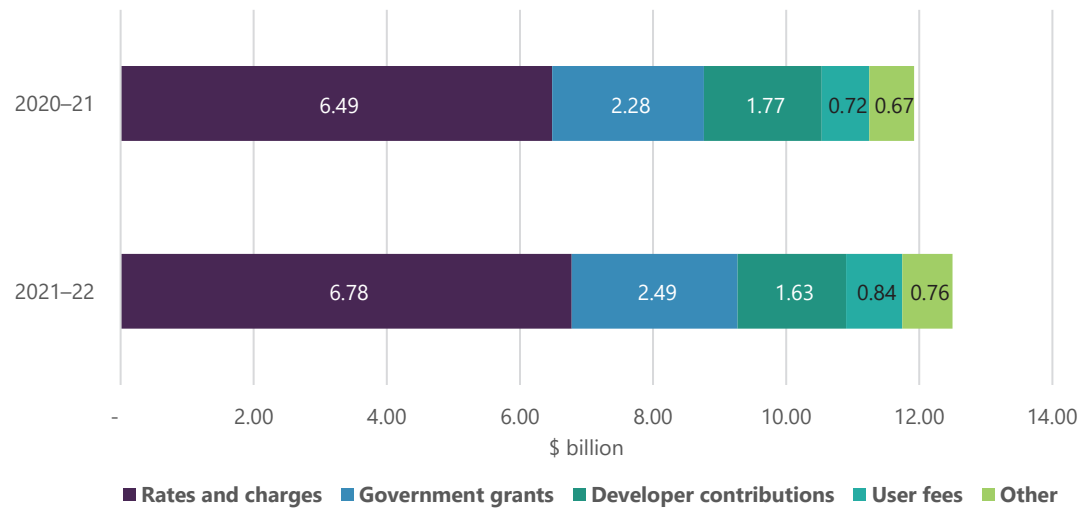
The sector reported ...	Which is a ...	From ...
\$12.501 billion in revenue and income (including the financial assistance grant)	4.8% increase	\$11.926 billion in 2020–21.
\$10.258 billion in expenses	4.6% increase	\$9.803 billion in 2020–21.



## Revenue and income by category

Figure 6 breaks down councils' revenue and income by category for 2021–22 and 2020–21. Rates and government grants are still councils' biggest revenue and income sources.

Figure 6: Breakdown of councils revenue and income by category for 2020–21 and 2021–22



Source: VAGO.

## Why total revenue and income increased

In particular councils':

Revenue or income from ...	In 2021–22 ...	Because ...
rates and charges	increased by \$0.291 billion, or 4%, to \$6.779 billion	<ul style="list-style-type: none"> <li>property rates increased by 1.50%</li> <li>councils issued more supplementary rates.</li> </ul>
government grants	increased by \$0.214 billion, or 9%, to \$2.491 billion	the Australian Government advanced 75% of its 2022–23 financial assistance grants to councils during 2021–22, compared to 50% in the 2020–21.
developer contributions (monetary and non-monetary)	decreased by \$0.136 billion, or 8%, to \$1.631 billion	the fair value of infrastructure assets constructed by developers and transferred to councils free of charge was \$0.153 billion lower due to delays in developers completing new developments.
user fees	increased by \$0.123 billion, or 17%, to \$0.842 billion	council-run facilities were open after the Victorian Government eased COVID-19 restrictions.

## Government grants

Councils get annual funding from the Australian and Victorian governments.

How much they receive and when varies each year depending on the governments' program initiatives or capital projects.

The Australian Government financial assistance grants are recognised as income when received. Typically, councils get:

- 50 per cent of their current-year grants in the current financial year
- 50 per cent of next year's grants in the current financial year.

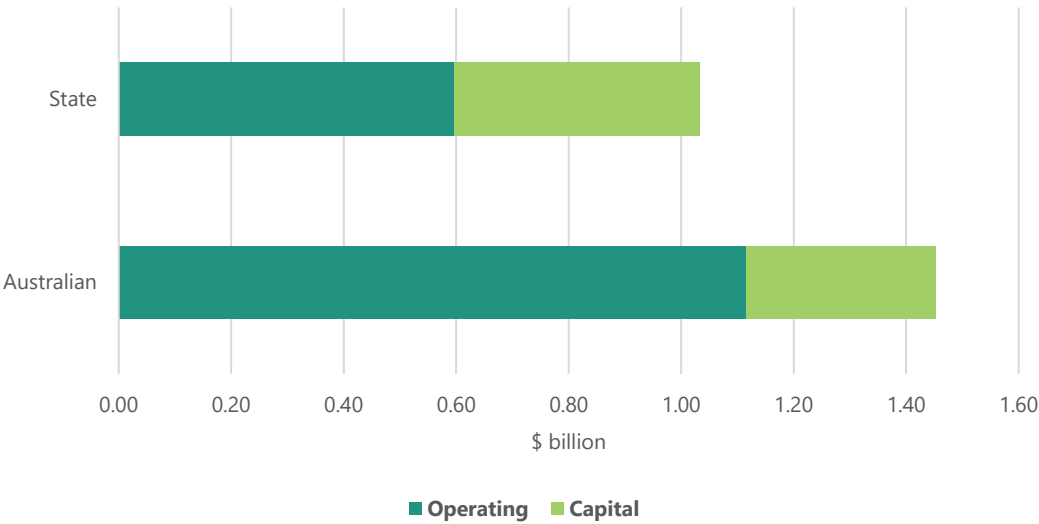
The Australian Government advanced 75 per cent of its 2022–23 financial assistance grants to councils in 2021–22.

Unless the Australian Government advances 75 per cent of its 2023–24 grants in 2022–23, councils will get 25 per cent less funding in the coming financial year, which may:

- impact the financial performance and net result of the sector
- cause cash flow challenges for some councils.

Figure 7 shows the operating and capital grants councils got in 2021–22 from the Australian and Victorian governments.

Figure 7: Government grants by source and type for 2021–22



Source: VAGO.

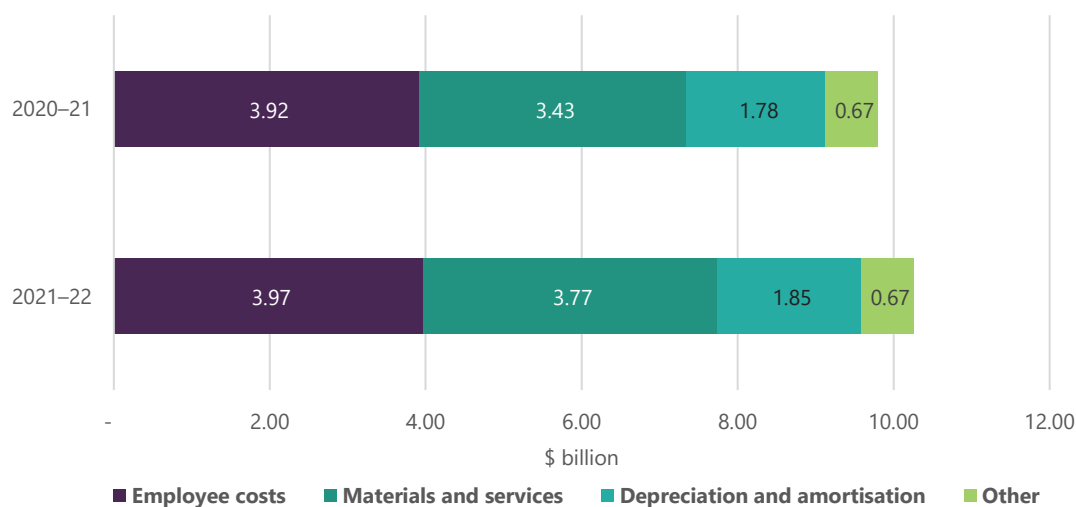
Governments give councils ...	To help them fund ...
operating grants	their running costs
capital grants	the cost of constructing longlasting assets, such as roads.

Councils’ expenses by category

As Figure 8 shows, councils continue to spend the most on:

- employee costs
- materials and services.

Figure 8: Breakdown of councils' expenses by category for 2020–21 and 2021–22



Source: VAGO.

### Changes in expenses

In 2021–22 councils' total expenses grew by 4.6 per cent to \$10.258 billion.

This was mainly because the cost of councils' materials and services increased by 9.8 per cent from 2020–21 due to:

- an increase in contractor costs to fill vacant staff roles
- councils providing more community services after COVID-19 restrictions eased
- inflation pressures.

Councils need to actively manage these costs, especially with rate caps limiting their ability to raise more revenue.

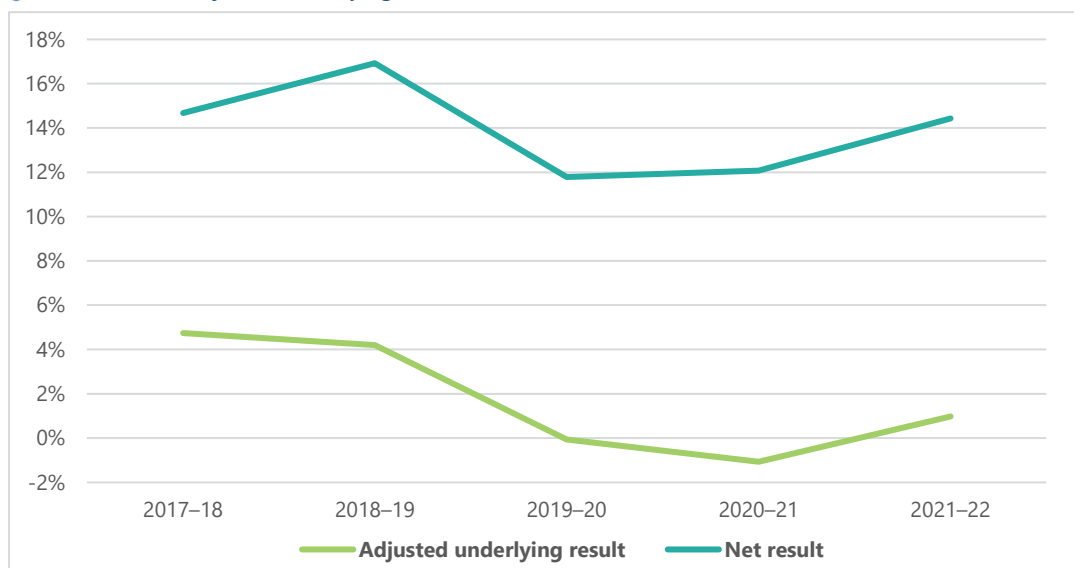
### Adjusted underlying result indicator

The adjusted underlying result indicator measures a council's ability to generate a surplus from its ordinary course of business (excluding capital receipts) to fund its capital spending.

It is important that councils generate enough money to deliver community services. A longer-term negative trend in this indicator could force councils to reduce the services they offer their communities.

In 2021–22 the sector's adjusted underlying result improved to 0.97 per cent compared to negative 1.07 per cent to in 2020–21. However, it is not back to pre-pandemic levels when the adjusted underlying result was greater than 4 per cent (see Figure 9).

Figure 9: Councils' adjusted underlying results and net results from 2017–18 to 2021–22



Source: VAGO.

Councils' adjusted underlying result would have been lower in 2021–22 if they did not get 75 per cent of their Australian Government grant funding in advance.

Fluctuations in this funding:

- impact the sector's underlying net result
- make it difficult for councils to plan ahead and make sure they can continue to deliver community services.

## The sector's financial position remains sound with low debt levels

### Financial position snapshot

At 30 June 2022 councils' net assets totalled \$130.085 billion. This is an increase of \$11.945 billion, or 10.1 per cent, from 2020–21.

In particular:

The sector reported ...	Which is an increase of ....	From ...
\$135.239 billion in total assets	\$12.134 billion, or 9.9%	\$123.105 billion at 30 June 2021.
\$5.154 billion in total liabilities	\$0.189 billion, or 3.8%	\$4.965 billion at 30 June 2021.

### Increase in net assets

The main reason councils' net assets increased by \$11.945 billion was because the value of their PIPE assets grew by \$11.670 billion in 2021–22.

All council cohorts recorded an increase in PIPE value.

PIPE value increases were mainly driven by ...	And were offset by ...
<ul style="list-style-type: none"> <li>• \$9.937 billion of revaluations on councils' land, buildings and infrastructure assets</li> <li>• councils spending \$3.049 billion on new PIPE</li> </ul>	<ul style="list-style-type: none"> <li>• \$1.763 billion of depreciation expenses.</li> </ul>



**Market conditions impacted the value of PIPE assets**

At 30 June 2022 the sector's PIPE were worth \$125.725 billion. These assets account for 93 per cent of the sector's total assets.

Councils measure PIPE assets at fair value. This is the amount a council would need to spend to replace an asset with one in a similar condition, in the current market.

Changes in market conditions mean the value of some PIPE assets significantly change. When this happens, councils need to get them revalued.

Councils get land and buildings revalued every one to 3 years. They usually get infrastructure assets revalued every 3 to 5 years.

The rising cost of materials and services over the last 12 to 18 months has increased the cost to replace assets.

As a result, several councils revalued and recorded an increase in the fair value of their infrastructure assets. Councils generally used published industry construction rates to assist in these revaluations.

**Cash assets and other financial assets**

The sector remained financially liquid in 2021–22.

Councils' cash and financial assets increased at 30 June 2022 compared to 30 June 2021. This growth is due to:

- councils getting additional government funding, as previously explained
- some councils intentionally delaying or experiencing delays with their capital works programs, leaving surplus funds to be invested.

Figure 10 summarises councils' cash assets and other financial assets at 30 June 2022 and 30 June 2021.

Figure 10: Summary of councils' cash assets and other financial assets by year

Asset category	30 June 2022 (\$ billion)	30 June 2021 (\$ billion)
Cash assets	2.236	3.160
Other financial assets	4.922	3.735
<b>Total</b>	<b>7.158</b>	<b>6.895</b>

**Borrowing levels remained stable**

In 2021–22 councils could access low-interest-rate loans through the Treasury Corporation of Victoria for:

- key infrastructure projects
- other projects
- general working capital requirements.

The sector estimated \$0.768 billion of new borrowings in councils' budgets for 2021–22.

However, as some councils delayed their capital works programs, new borrowings were lower than expected.

The sector's borrowing level was \$1.08 billion at 30 June 2022, only increasing 1 per cent from \$1.07 billion at 30 June 2021.

At 30 June 2022 the sector's total borrowings represented 0.8 per cent of its total assets, which is down from 0.9 per cent at 30 June 2021.

**Liquidity ratio remains positive**

The liquidity ratio measures a council's ability to pay its existing short-term liabilities in the next 12 months.

At 30 June 2022 the sector's average liquidity ratio remained positive at 2.30, which is consistent with the prior year.

This means the sector's cash and other liquid assets are more than double its short-term liabilities.

**Financing ratios** The internal financing indicator measures a council's ability to finance capital works from its operating cash flow. The higher the percentage, the greater a council's ability is to finance capital works from its own funds.

At 30 June 2022 the sector's internal financing indicator was 126 per cent. This is down from 153 per cent at 30 June 2021. The decline would have been greater had the Australian Government not advanced 75 per cent of the 2022–23 financial assistance grants to councils in 2021–22 compared to 50 per cent in 2020–21.

As Figure 11 shows, this indicator has fluctuated over the last 5 years. It has been as low as 123 per cent to as high as 153 per cent.

The indebtedness indicator assesses if councils can service their debts and meet their repayment obligations using their own-sourced revenue. The lower the percentage, the greater a council's ability is to repay debt from its own-source revenue.

As Figure 11 shows, the sector's indebtedness has remained constant at 19 per cent over the last 3 years.

**Figure 11: The sector's internal financing indicator and indebtedness indicator results from 2017–18 to 2021–22**



Source: VAGO.

## Actual capital expenditure continues to be below budget

### Capital expenditure

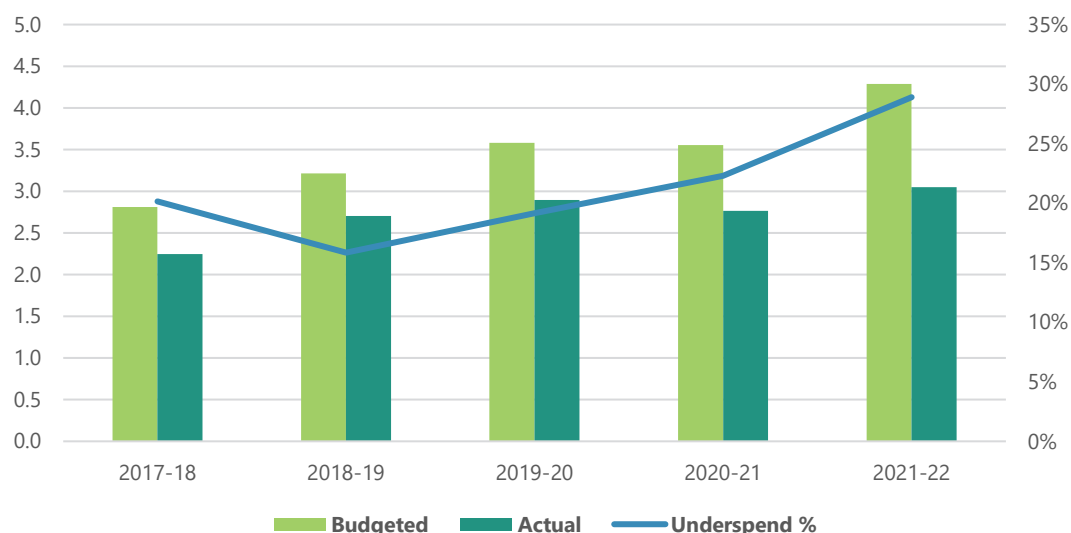
Each council's financial report includes a capital works statement. The statement:

- compares the council's budgeted capital expenditure with its actual capital expenditure
- explains any material variations between its budgeted and actual capital expenditure.

In 2021–22 the sector's actual capital expenditure was \$3.049 billion. This was 28.9 per cent (or \$1.240 billion) less than it budgeted partly because of COVID-19 impacts (i.e. government imposed restrictions, supply chain issues, rising costs of materials and a labour shortage) affecting delivery of capital works programs.

Figure 12 compares the sector's budgeted capital expenditure to its actual capital expenditure for 2017–18 to 2021–22 and reveals a trend of underspend. As shown, this underspend trend existed pre-pandemic and may indicate challenges with effective capital budgeting and ongoing management by the sector. We intend to explore this area further in the future.

Figure 12: Budgeted versus actual capital expenditure (\$ billion) and percentage underspend from 2017–18 to 2021–22

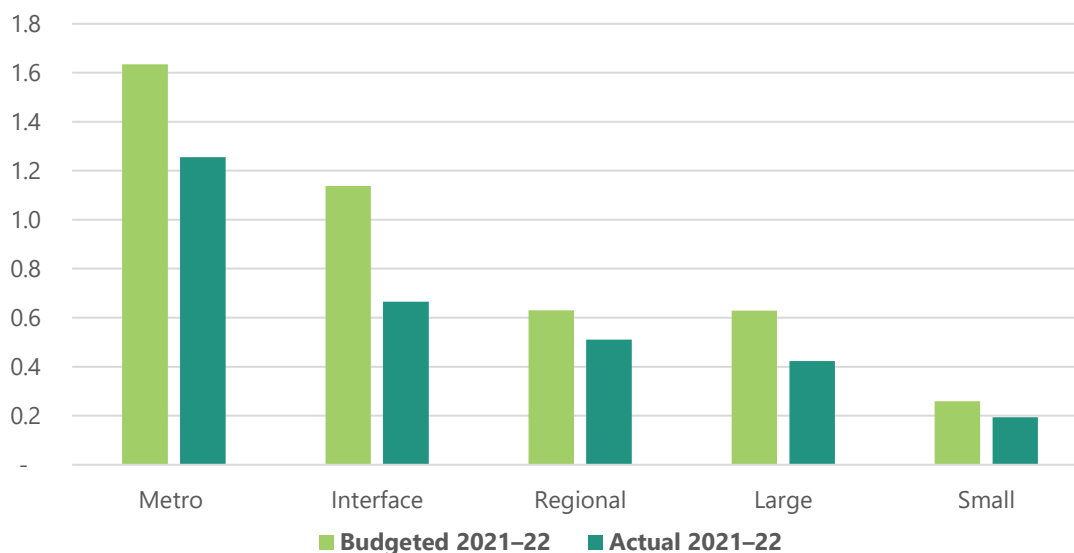


Source: VAGO.

While all cohorts underspent, interface councils, which are in metropolitan growth corridors, had more variation between their actual and planned capital expenditure. Figure 13 shows this.

The interface councils underspend accounted for \$0.473 billion, or 38 per cent, of the sector's total underspend for 2021–22. Seven of the 9 interface councils drove the underspend.

Figure 13: Budgeted versus actual capital expenditure by council cohort for 2021–22 (\$ billion)



Source: VAGO.

### Councils did not deliver some planned projects

The sector increased its capital spend year-on-year from 2017–18 to 2021–22, except in 2020–21 (see Figure 12). However, the sector spent \$3.793 billion less than it budgeted for capital projects over the 5-year period.

The financial data indicates councils:

- failed to deliver all of their planned capital works programs each year
- can improve their budgeting processes for capital projects and how they manage and deliver projects.

We note councils usually:

- approve a capital expenditure budget that is more than the prior year even though there is a trend of underspend and under delivery
- carry undelivered projects forward to the next financial year, which impacts their ability to deliver projects they have planned for that year.

The October 2022 flooding damaged councils' property and infrastructure assets (particularly road networks). Councils did not know they would need to repair and replace damaged assets. As a result, several councils are unlikely to deliver their approved 2022–23 capital works program.

The volume of work from the flooding may also impact market participants' capacity to tender for other capital projects councils have planned.

#### Capital replacement and renewal gap indicators

Capital replacement and renewal gap ratios are longer-term measures that assess the sector's spending on infrastructure assets compared to depreciation. A result higher than 1 indicates that spending is faster than depreciation rates.

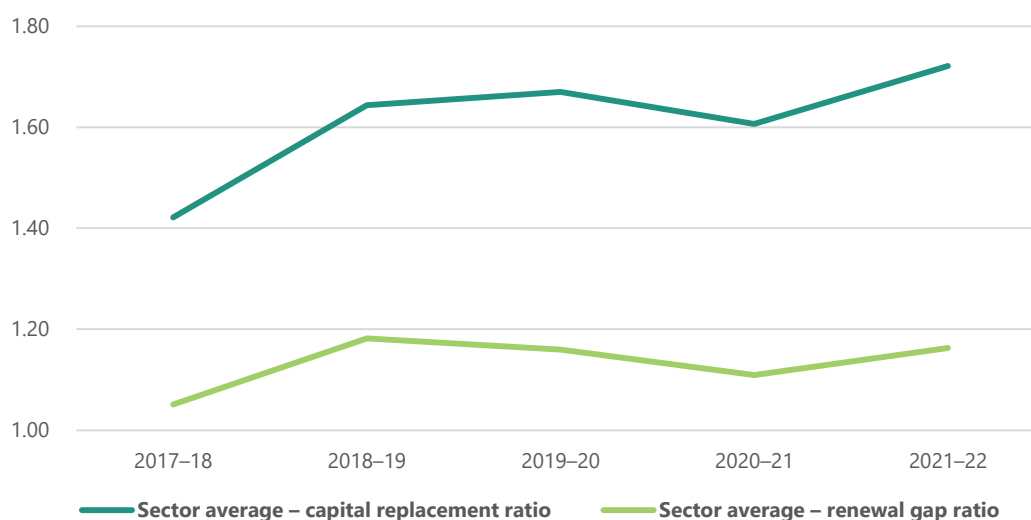
The sector's average capital replacement ratio and renewal gap ratio over the last 5 years remained above 1.

However, this indicator does not consider councils' planned capital expenditure. The underspend that is occurring indicates spending on asset expansion, renewal, upgrade or replacement may not be keeping pace with the needs of the community.

At 30 June 2022 the sector's:

- average capital replacement ratio was 1.72
- average renewal gap ratio was 1.16.

Figure 14: The sector's capital replacement and renewal gap ratios from 2017–18 to 2021–22



Source: VAGO.



## Recommendation

### All councils

4. We recommend that all councils:

- undertake a review of their capital expenditure budgeting process in light of past and current underspend to understand why the underspend is occurring
  - prior to approving the planned capital spend for the next financial year, consider the impact of:
    - carry-forward projects on the proposed capital works program
    - current market conditions on project costs and project commencement and completion dates
  - understand factors impacting delivery of planned projects and develop strategies to resolve or re-sequence delivery.
-

# 3.

## Internal controls and financial reporting issues

Councils have adequate internal controls for preparing reliable financial reports and performance statements, but there is room for improvement.

Information technology (IT) controls and asset management weaknesses continue to be key areas for improvement across the sector.

### Internal control snapshot

Councils must have an effective internal control system to keep proper accounts and records.

We assessed if councils' internal controls, which include people, systems and processes, allow them to prepare reliable financial reports and performance statements.

We report significant internal control and financial reporting issues to the council's management and its audit committee, which the Australian Auditing Standards requires.

Overall, councils' internal controls remain adequate for reliable reporting, but there are areas for improvement.

---

### Communicating internal control and financial reporting issues

We alert a council's management and audit committee to any internal control and financial reporting issues we find during an audit. This includes:

- raising new issues
- giving updates on unresolved issues we raised in a prior period.

Councils can strengthen their internal controls and financial reporting processes by promptly responding to the issues we raise.

While councils need to address all weaknesses, they should prioritise higher-risk and unresolved issues.

---

## Increase in new and unresolved internal control and financial reporting issues

### New and unresolved issues

As Figure 15 shows:

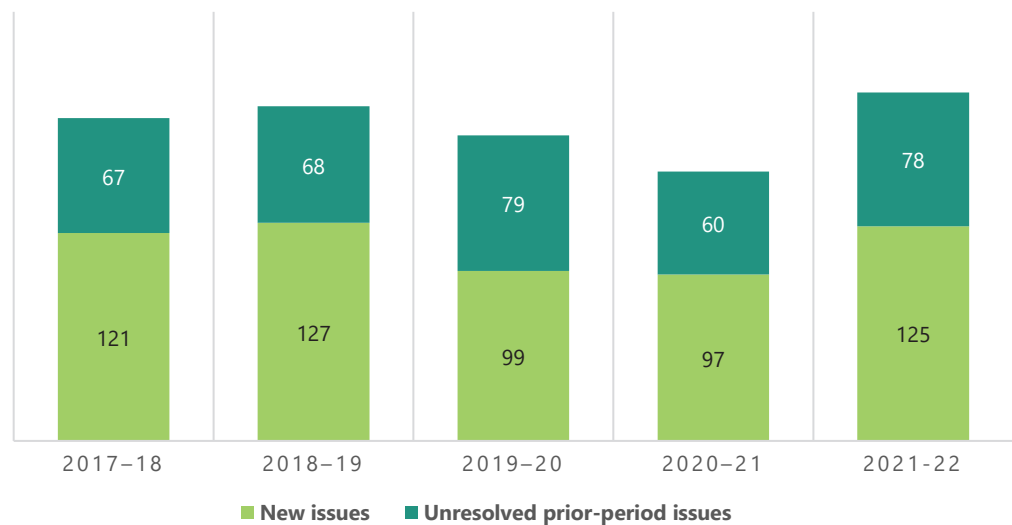
- new internal control and financial reporting issues increased from 97 in 2020–21 to 125 in 2021–22
- councils' unresolved issues from previous years increased from 60 in 2020–21 to 78 in 2021–22.

These increases are due to councils having more general IT control weaknesses (see Figure 16).

Of the new and unresolved issues in 2021–22, we rated:

- 5 unresolved and 6 new issues as high risk
- all remaining issues as medium risk.

Figure 15: New and unresolved issues from 2017–18 to 2021–22

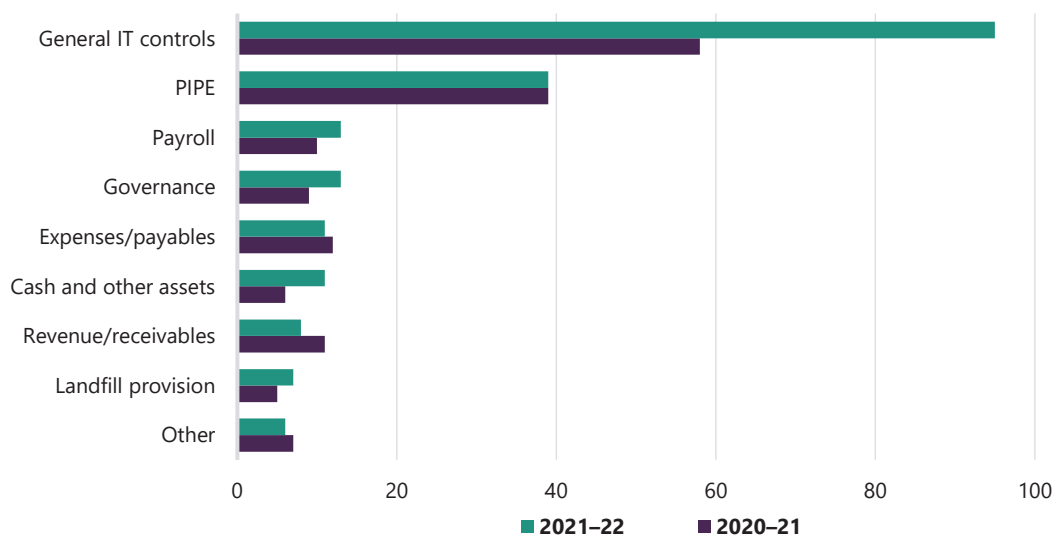


Note: We excluded low-risk issues because we consider these as minor issues or opportunities to improve.  
Source: VAGO.

### Medium and high-risk findings by category

Figure 16 shows the number of open medium and high-risk issues by category for the last 2 years.

Figure 16: Medium and high-risk issues by category for 2020–21 and 2021–22



Source: VAGO.

The most significant internal control areas that we continue to see issues in are:

- general IT controls
- asset management, particularly asset valuation.

## IT control weaknesses

**Importance of IT controls** Effective IT controls reduce the risk of unauthorised people accessing and changing councils' systems. They also help protect the integrity of councils' data and support the preparation of reliable financial reports.

Adopting remote and flexible work arrangements has increased the importance of effective IT controls.

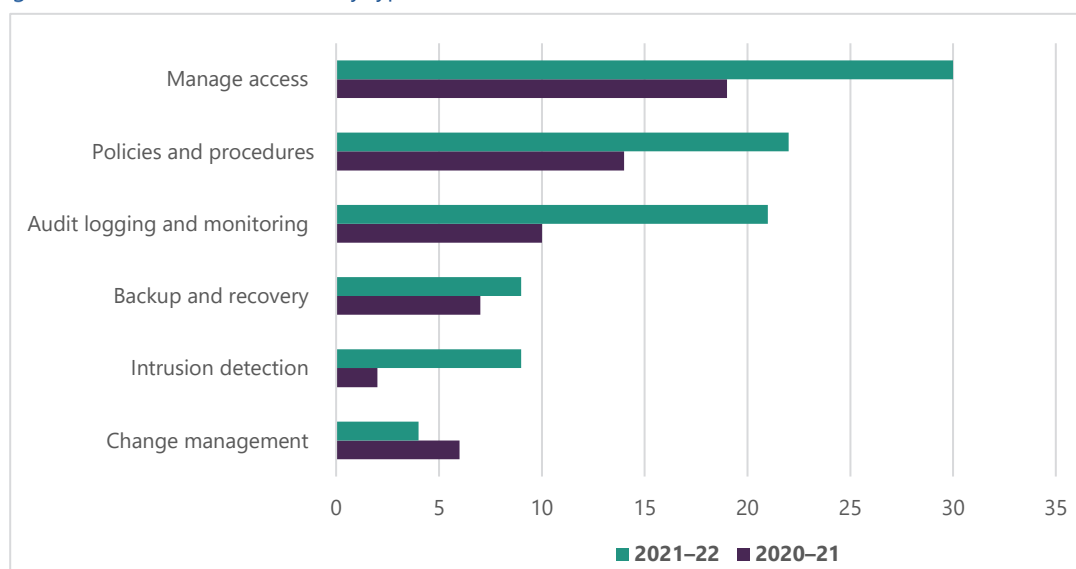
### Significant rise in IT control weaknesses

Poor IT controls increase the risk of unauthorised access, cyber-attacks, fraud, error, data manipulation and information theft. It is important that management resolve them promptly to ensure systems are secure and financial information is reliable.

We tailor our audits to match the risks that councils face. In 2021–22, we increased our use of system assurance auditors. As a result of this shift in audit approach, we found more IT control weaknesses.

Figure 17 shows, weaknesses in access management, policies and procedures, audit logging and monitoring, and intrusion detection significantly increased in 2021–22.

Figure 17: IT control weaknesses by type for 2020–21 and 2021–22



Source: VAGO.

We rated all of these issues as medium risk.

A council's risk of experiencing a major disruption, such as a cyber-attack, increases if it does not fix IT control issues in a timely way.

User-access management and authentication controls reduce the likelihood of unauthorised access to an entity's systems and underlying data.

Audit logging and monitoring controls detect unauthorised access and changes after they occur. Audit logs also ensure that all important changes are captured as part of an entity's change-management controls.

Intrusion detection is an application that monitors network traffic and searches for known threats and suspicious or malicious activity.

### Essential Eight security framework

No IT security strategies are guaranteed to protect against all cyber threats. But the Australian Cyber Security Centre recommends organisations implement 8 essential mitigation strategies as a baseline.

This baseline, which is known as the Essential Eight, makes it much harder for people to compromise systems.

Complying with the Essential Eight security framework would help councils protect customer and sensitive data better.



The mitigation strategies that make up the Essential Eight are:

- application control
  - patch applications
  - configure Microsoft Office macro settings
  - user application hardening
  - restrict administrative privileges
  - patch operating systems
  - multi-factor authentication
  - regular backups.
- 

## Asset management and valuation processes

**Asset valuation** Councils must have robust asset management and valuation processes to meet their communities' needs. But these processes continue to be an area that councils need to improve.

Councils construct, maintain and renew significant physical infrastructure for their municipalities.

Councils record their PIPE assets at fair value.

Determining an asset's fair value can be complex and is subject to judgement. Numerous assumptions about the assets are made, valuation experts can be engaged and/or industry indices drawn upon.

Asset valuation issues we commonly find include councils:

- not conducting regular fair value assessments for all of their asset classes and documenting their assessments
- not accurately applying condition information to assets
- incorrectly calculating the revaluation increment or decrement stemming from the revaluation
- incorrectly accounting for the movement in value in line with Australian Accounting Standards.

A council's finance team and asset management and/or engineering team must work together to consider fair value issues early in a reporting cycle.

---

### Asset recognition and record keeping

We also commonly see councils:

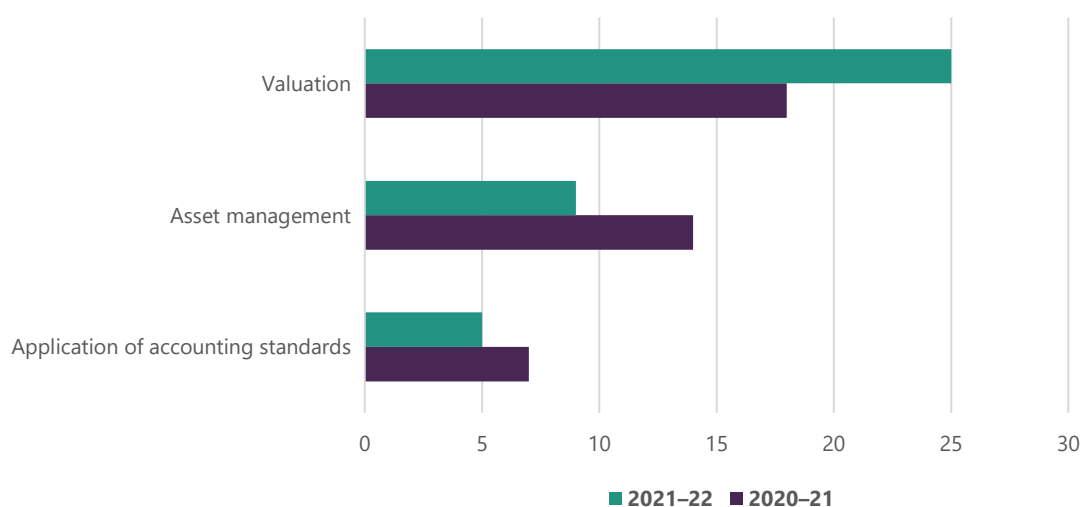
- not capitalising new assets in a timely way, understating depreciation expenses
  - not recognising developer-contributed assets in a timely way, understating income and assets
  - not updating their fixed asset registers regularly, leading to inaccurate and/or invalid financial asset information.
- 

### PIPE issues by type

Figure 18 shows the number of medium and high-risk PIPE findings by category that we reported to councils in 2021–22 and 2020–21.

We reported a further 49 low-risk issues to councils in 2021–22 about asset management and valuation.

Figure 18: PIPE internal control and financial reporting on medium and high-risk issues by category for 2020–21 and 2021–22



Source: VAGO.

Focusing on asset valuations and strengthening their asset management processes will help councils have more robust and accurate data on their infrastructure network for financial and performance reporting.

Councils can also use this data to develop mature asset management plans and improve their capital expenditure budget estimates.

## Recommendations

### All councils

5. We recommend that all councils:

- prioritise and resolve prior-period issues
- understand the risk that information technology control weaknesses pose and implement agreed management actions.

6. We recommend that finance teams:

- focus on strengthening their relationship with asset management and/or engineering teams to reduce the likelihood of asset recognition and valuation issues arising
- prepare and present a paper to their audit committee prior to 30 June that outlines the:
  - requirements of the council's accounting policy with respect to property, infrastructure assets, plant and equipment
  - approach to assessing the fair value of property, infrastructure, plant and equipment, engagement of an expert valuer where applicable, and key milestones
  - likely outcomes for respective reporting cycle (i.e. expected movements in fair value and resultant impact to the financial report).

# Appendices

[Appendix A: Submissions and comments](#)

---

[Appendix B: Sector context](#)

---

[Appendix C: Audit context](#)

---

[Appendix D: Abbreviations, acronyms and glossary](#)

---

[Appendix E: Audit opinions](#)

---

[Appendix F: Control issues risk ratings](#)

---

[Appendix G: Financial sustainability indicators](#)

# Appendix A:

## Submissions and comments

We have consulted with the Department of Government Services and the agencies named in this report. We considered their views when finalising our analysis in this report. As required by the *Audit Act 1994*, we gave a draft copy of this report, or relevant extracts, to those agencies and asked for their submissions and comments.

Responsibility for the accuracy, fairness and balance of those comments rests solely with the agency head.

We also provided a copy of the report to the Department of Treasury and Finance and the Department of Premier and Cabinet for their information.

### Responses received

Agency	Page
Department of Government Services	A-2



## Department of Government Services

Level 5  
1 Macarthur Street  
East Melbourne Victoria 3002  
Telephone: (03) 9651 5111  
dgs.vic.gov.au

Our ref: CSEC-2-23-18543

Mr Andrew Greaves  
Auditor-General  
Victorian Auditor-General's Office  
Level 31  
35 Collins Street  
MELBOURNE VIC 3000

By email: [REDACTED]

Dear Mr Greaves

### RESULTS OF 2021-22 AUDITS: LOCAL GOVERNMENT PROPOSED REPORT

Thank you for your letter of 10 February 2023 providing me with a copy of the proposed report titled *Results of 2021-22 Audits: Local Government* (the report) along with an invitation to provide comments for inclusion in the final report.

I note that to date 175 clear audit opinions have been issued for 2021-22 across the sector, including 97 clear opinions on financial reports and 78 clear opinions on performance statements. It is pleasing that this means Parliament and the community can confidently use these reports.

I welcome the finding that councils' balance sheets remain relatively strong, and that the sector's financial position remains sound with low debt levels. Nevertheless, the report also highlights the future financial challenges facing Victorian councils. The department, through Local Government Victoria, will continue to work with the sector to strengthen their financial sustainability. This will emphasise sound management and informed decision making on priorities and planning by councils.

I also note the six recommendations in the report. The department accepts the recommendation directed to Local Government Victoria, who will work with your office during 2023 to streamline the 2023-24 Local Government Model Financial Report and to enhance the structure and layout of the 2023-24 Local Government Model Performance Statement.

*Your details will be dealt with in accordance with the Public Records Act 1973 and the Privacy and Data Protection Act 2014. Should you have any queries or wish to gain access to your personal information held by this department please contact our Privacy Officer at the above address.*



The department will write to all Victorian council Chief Executive Officers following the tabling of the report in Parliament to reinforce the importance of all councils addressing the remaining five recommendations. The critical importance of meeting legislated reporting timeframes will be emphasised.

If you require further information, please contact Mike Gooley, Executive Director Local Government Victoria on [REDACTED].

Yours sincerely

[REDACTED]

Jo de Morton  
Secretary

20 / 2 / 2023

Cc:

[REDACTED]  
[REDACTED]

*Your details will be dealt with in accordance with the Public Records Act 1973 and the Privacy and Data Protection Act 2014. Should you have any queries or wish to gain access to your personal information held by this department please contact our Privacy Officer at the above address.*

# Appendix B:

## Sector context

### Sector at a glance

- Number of entities** The Victorian local government sector consists of 105 agencies, comprising:
- 79 local councils
  - 10 companies controlled by local councils
  - 10 regional library corporations
  - 6 associated entities.

**Council cohorts** LGV classifies councils into 5 local government comparator groups. These cohorts, which Figure B1 summarises, are determined based on size, demographics and funding.

Figure B1: Council cohorts

Cohort	Definition	Number of councils
Metropolitan	A metropolitan council is predominately urban in character and located within Melbourne's densely populated urban core.	22
Interface	An interface council is one of the 9 municipalities that form a ring around metropolitan Melbourne.	9
Regional city	A regional city council is urban and partly rural in character.	10
Large shire	A large shire is a municipality with more than 16,000 inhabitants that is predominantly rural in character.	19
Small shire	A small shire council is a municipality with less than 16,000 inhabitants that is predominantly rural in character.	19
<b>Total</b>		<b>79</b>

Source: VAGO.

**Councils' main purpose** A council's primary purpose is to maintain the peace, order and good government of its municipal district.

Councils also provide a range of services to their communities, including maintaining local roads, managing waste, delivering family services, and operating aquatic and library facilities.

**Responsible Minister** The Minister for Local Government is the minister responsible for overseeing the system of local government in Victoria. The Minister acts as an advocate for local government issues within state government and supports and monitors the system of local government with the assistance of LGV.

The Minister for Local Government may appoint independent bodies under the *Local Government Act 2020* to provide advice to councils and report back to the Minister on a range of council structural, operational and governance issues.

---

**Local  
Government  
Victoria (LGV)**

LGV provides policy advice, oversees legislation and works with Victoria's 79 councils to support responsive and accountable local government services.

LGV provides advice and support to councils, the Department of Government Services and the Minister for Local Government.

---

**Peak bodies**

The Municipal Association of Victoria is a membership association and the legislated peak body for Victoria's 79 councils.

Local Government Finance Professionals, an incorporated association, is the peak body servicing finance professionals representing all Victorian councils, regional library corporations and more than 20 other organisations.

---

## Legislative framework

**Governance**

Victoria's Constitution recognises local government as a tier of government. Democratically elected councillors govern each council, and a council-appointed chief executive officer manages each council's operations.

---

**Local  
Government Act  
2020**

The *Local Government Act 2020* (new Act) was approved by the Governor of Victoria on 24 March 2020. The new Act adopts a principle-based approach rather than a rule-based approach, which is a fundamental change from the *Local Government Act 1989*.

Division 3 of the new Act details a council's annual report obligations with the financial report and performance statement to be prepared in accordance with the *Local Government (Planning and Reporting) Regulations 2020* (the Regulations).

The *Local Government Act 1989* allowed councils to form regional library corporations. The new Act revokes this arrangement, and councils have until 30 June 2031 to create a new entity or bring library services under their administration. This change in the legal structure is not anticipated to affect library services offered by councils to the community.

---

**Local  
Government  
(Planning and  
Reporting)  
Regulations  
2020**

The Regulations prescribe the content of a council's financial report and performance statement.

The Regulations require the financial report to be prepared in accordance with the Local Government Model Financial Report, as issued by LGV.

---

## Annual reporting obligations

### Legislative obligation

Figure B2 outlines the legislation underpinning the financial reporting obligations of the local government sector.

Figure B2: Financial reporting legislative obligations

Entity	Legislation	Requirement
Councils	<i>Local Government Act 2020</i>	A council must prepare a financial report and performance statement as soon as practicable after the end of the financial year.
	<i>Local Government (Planning and Reporting) Regulations 2020</i>	A council must hold a meeting, open to the public, to consider the annual report within 4 months of the end of the financial year.  The annual report must contain a report of operations, the audited financial report, performance statement and associated audit opinions.  There is no requirement for councils to lodge their annual report with the Minister for Local Government.
Council controlled entities	<i>Corporations Act 2001</i>	Prepare a director's report and financial report as directed by parent entity.
Regional library corporations	<i>Local Government Act 1989</i>	The <i>Local Government Act 1989</i> continues to apply given the transitional provisions of the <i>Local Government Act 2020</i> .  Minister for Local Government extended the timeframe for submission of 2021–22 annual reports by one month to 31 October 2022.
Associated entities	<i>Corporations Act 2001</i> or agency specific legislative	Prepare a director's report and financial report.

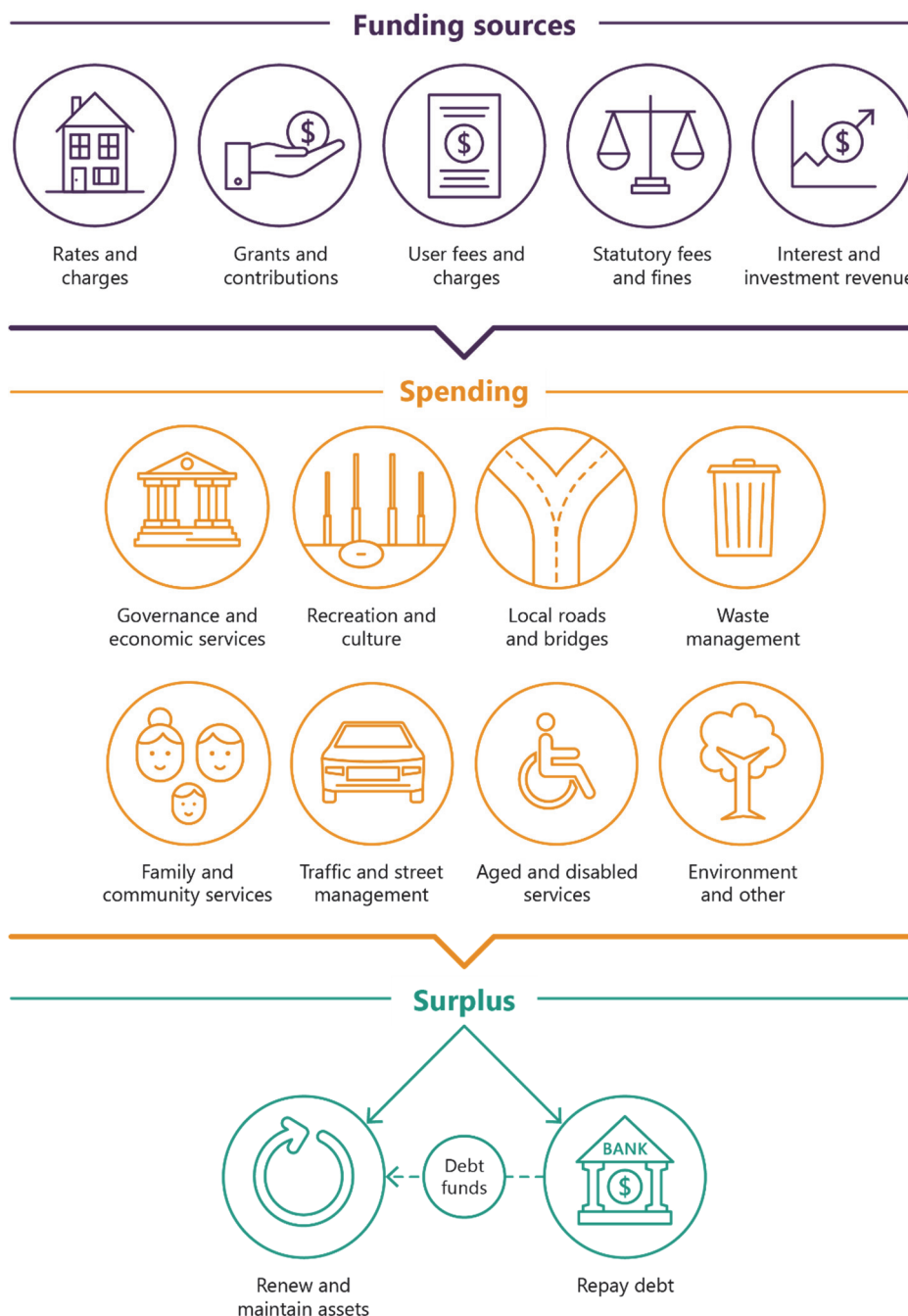
Source: VAGO.

## Financial context

**Council funding and spending** Council operations are primarily funded through rates and charges, government grants, developer contributions and user fees and charges. Most of the sector's assets are property, infrastructure, plant and equipment that councils need to deliver community services.

Figure B3 shows the services that councils spend most of their funding on and what they apply their operating surpluses to.

Figure B3: Overview of the local government sector funding and spending



Source: VAGO.

# Appendix C:

## Audit context

### Our methods

We conduct our financial audits of the local government sector in accordance with the *Audit Act 1994* and the Australian Auditing Standards. As part of an audit, we:

- identify and assess the risks of material misstatement of a financial report (whether due to fraud or error), design and perform audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for an opinion
  - obtain an understanding of internal controls relevant to the audit to design audit procedures that are appropriate in the circumstances
  - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures
  - conclude on the appropriateness of using the going-concern basis of accounting
  - evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- 

### Our independence

The Auditor-General is:

- an independent officer of the Parliament of Victoria
- appointed under legislation to examine, on behalf of Parliament and taxpayers, the management of resources within the public sector
- not subject to the control or direction of either Parliament or the government.

The Auditor-General and VAGO staff are required to meet the ethical requirements of the:

- Australian Auditing Standards
  - Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants*
  - *Code of Conduct for Victorian Public Sector Employees of Special Bodies*
  - *Public Administration Act 2004*.
- 

### Our costs

The cost of this report and the supporting data dashboard was \$216 000, which is funded by parliamentary appropriation.

---

# Appendix D:

## Abbreviations, acronyms and glossary

**Abbreviations** We use the following abbreviations in this report:

Abbreviation	Full spelling
new Act	<i>Local Government Act 2020</i>
Regulations	<i>Local Government (Planning and Reporting) Regulations 2020</i>

**Acronyms** We use the following acronyms in this report:

Acronym	Full spelling
IT	information technology
LGV	Local Government Victoria
PIPE	property, infrastructure, plant and equipment
VAGO	Victorian Auditor-General's Office

**Glossary** This glossary includes an explanation of the technical terms used within the report:

Term	Explanation
Staff turnover rate	This is a measure of how many people have left employment. The formula is the number of resignations divided by the average number of permanent staff.
Reasonable assurance	We achieve reasonable assurance by obtaining and verifying direct evidence from a variety of internal and external sources about an agency's performance. This enables us to express an opinion or draw a conclusion against an audit objective with a high level of assurance. We call these audit engagements.
Limited assurance	We obtain less assurance when we rely primarily on an agency's representations and other evidence generated by that agency. However, we aim to have enough confidence in our conclusion for it to be meaningful. We call these types of engagements assurance reviews and typically express our opinions in negative terms. For example, that nothing has come to our attention to indicate there is a problem. See our <a href="#">assurance services fact sheet</a> for more information.



# Appendix E:

## Audit opinions

Figure E1 lists the 105 agencies included in this report and details the type of audit opinion for each agency's 2021–22 financial report and performance statement, where applicable. It also states the dates we issued each audit opinion.

Figure E2 provides detail on the 8 audits in progress as at 31 January 2023.

Figure E3 provides an update on 6 audits relating to the 2020–21 financial year that were listed as in progress in our *Results of 2020–21 Audits: Local Government* report.

Figure E1: Audit opinions issued for the local government sector relating to 2021–22

	Financial report		Performance statement	
Metropolitan				
Banyule City Council	✓	05 Oct 2022	✓	05 Oct 2022
Bayside City Council	✓	28 Sep 2022	✓	28 Sep 2022
Boroondara City Council	✓	07 Oct 2022	✓	07 Oct 2022
Brimbank City Council	✓	06 Oct 2022	✓	06 Oct 2022
Darebin City Council	✓	26 Oct 2022	✓	26 Oct 2022
Frankston City Council	✓	21 Oct 2022	✓	21 Oct 2022
Peninsula Leisure Pty Ltd	✓	30 Nov 2022	N/A	N/A
Glen Eira City Council	✓	16 Sep 2022	✓	16 Sep 2022
Greater Dandenong City Council	✓	16 Sep 2022	✓	16 Sep 2022
Dandenong Market Pty Ltd	✓	21 Sep 2022	N/A	N/A
South East Leisure Pty Ltd	✓	03 Oct 2022	N/A	N/A
Hobsons Bay City Council	✓	18 Oct 2022	✓	18 Oct 2022
Kingston City Council	✓	04 Nov 2022	✓	04 Nov 2022
Knox City Council	✓	20 Oct 2022	✓	20 Oct 2022
Manningham City Council	✓	26 Sep 2022	✓	26 Sep 2022
Maribyrnong City Council	✓	28 Sep 2022	✓	28 Sep 2022
Maroondah City Council	✓	09 Sep 2022	✓	09 Sep 2022
Melbourne City Council	✓	18 Oct 2022	✓	18 Oct 2022
Citywide Service Solutions Pty Ltd	✓	09 Sep 2022	N/A	N/A
Queen Victoria Market Pty Ltd	✓	24 Oct 2022	N/A	N/A
Merri-bek City Council (formerly Moreland City Council)	✓	28 Sep 2022	✓	28 Sep 2022
Monash City Council	✓	20 Oct 2022	✓	20 Oct 2022

	Financial report		Performance statement	
Moonee Valley City Council	✓	06 Oct 2022	✓	06 Oct 2022
Port Phillip City Council	✓	14 Oct 2022	✓	14 Oct 2022
Stonnington City Council	✓	31 Oct 2022	✓	31 Oct 2022
Prahran Market Pty Ltd	✓	29 Aug 2022	N/A	N/A
Whitehorse City Council	✓	18 Oct 2022	✓	18 Oct 2022
Yarra City Council	✓	20 Sep 2022	✓	20 Sep 2022
<b>Interface</b>				
Cardinia Shire Council	✓	30 Sep 2022	✓	30 Sep 2022
Casey City Council	✓	28 Sep 2022	✓	28 Sep 2022
Hume City Council	✓	17 Oct 2022	✓	17 Oct 2022
Melton City Council	✓	07 Oct 2022	✓	07 Oct 2022
Mornington Peninsula Shire Council	✓	21 Oct 2022	✓	21 Oct 2022
Nillumbik Shire Council	✓	26 Oct 2022	✓	26 Oct 2022
Whittlesea City Council	✓	30 Sep 2022	✓	30 Sep 2022
Wyndham City Council	✓	12 Oct 2022	✓	12 Oct 2022
Western Leisure Services Pty Ltd	✓	12 Sep 2022	N/A	N/A
Yarra Ranges Shire Council	✓	31 Oct 2022	✓	31 Oct 2022
<b>Regional</b>				
Ballarat City Council	✓	26 Oct 2022	✓	26 Oct 2022
Greater Bendigo City Council	✓	10 Oct 2022	✓	10 Oct 2022
Greater Geelong City Council	✓	20 Oct 2022	✓	20 Oct 2022
Greater Shepparton City Council	✓	04 Oct 2022	✓	04 Oct 2022
Horsham Rural City Council	✓	20 Oct 2022	✓	20 Oct 2022
Latrobe City Council	✓	17 Oct 2022	✓	17 Oct 2022
Mildura Rural City Council	✓	31 Oct 2022	✓	31 Oct 2022
Mildura Tourism and Economic Development Limited	✓	13 Oct 2022	N/A	N/A
Mildura Airport Pty Ltd	✓	11 Oct 2022	N/A	N/A
Wangaratta Rural City Council	✓	9 Dec 2022	✓	9 Dec 2022
Wangaratta Livestock Exchange Pty Ltd	✓	31 Jan 2023	N/A	N/A
Warrnambool City Council	✓	16 Sep 2022	✓	16 Sep 2022
Wodonga City Council	✓	03 Oct 2022	✓	03 Oct 2022
<b>Large shire</b>				
Bass Coast Shire Council	✓	21 Oct 2022	✓	21 Oct 2022
Baw Baw Shire Council	✓	04 Nov 2022	✓	04 Nov 2022
Campaspe Shire Council	✓	28 Sep 2022	✓	28 Sep 2022

	Financial report		Performance statement	
Colac Otway Shire Council	✓	18 Oct 2022	✓	18 Oct 2022
Corangamite Shire Council	✓	05 Oct 2022	✓	05 Oct 2022
East Gippsland Shire Council	✓	28 Sep 2022	✓	28 Sep 2022
Glenelg Shire Council	✓	12 Oct 2022	✓	12 Oct 2022
Golden Plains Shire Council	✓	27 Oct 2022	✓	27 Oct 2022
Macedon Ranges Shire Council	✓	28 Oct 2022	✓	28 Oct 2022
Mitchell Shire Council	✓	24 Nov 2022	✓	24 Nov 2022
Moira Shire Council	✓	28 Oct 2022	✓	28 Oct 2022
Moorabool Shire Council	✓	28 Sep 2022	✓	03 Nov 2022
Mount Alexander Shire Council	✓	07 Oct 2022	✓	07 Oct 2022
Moyne Shire Council	✓	28 Sep 2022	✓	28 Sep 2022
South Gippsland Shire Council	✓	27 Oct 2022	✓	27 Oct 2022
Southern Grampians Shire Council	✓	11 Oct 2022	✓	11 Oct 2022
Surf Coast Shire Council	✓	04 Oct 2022	✓	04 Oct 2022
Swan Hill Rural City Council	✓	13 Oct 2022	✓	13 Oct 2022
Wellington Shire Council	✓	24 Nov 2022	✓	24 Nov 2022
<b>Small shire</b>				
Alpine Shire Council	✓	07 Oct 2022	✓	07 Oct 2022
Ararat Rural City Council	✓	03 Oct 2022	✓	03 Oct 2022
Benalla Rural City Council	✓	04 Nov 2022	✓	04 Nov 2022
Borough of Queenscliffe	✓	06 Oct 2022	✓	06 Oct 2022
Buloke Shire Council	✓	17 Nov 2022	✓	17 Nov 2022
Central Goldfields Shire Council	✓	06 Oct 2022	✓	06 Oct 2022
Gannawarra Shire Council	✓	28 Sep 2022	✓	28 Sep 2022
Hepburn Shire Council	✓	04 Oct 2022	✓	04 Oct 2022
Hindmarsh Shire Council	✓	10 Oct 2022	✓	10 Oct 2022
Indigo Shire Council	✓	04 Oct 2022	✓	04 Oct 2022
Loddon Shire Council	✓	19 Sep 2022	✓	19 Sep 2022
Mansfield Shire Council	✓	11 Oct 2022	✓	11 Oct 2022
Murrindindi Shire Council	✓	12 Oct 2022	✓	12 Oct 2022
Northern Grampians Shire Council	✓	24 Oct 2022	✓	24 Oct 2022
Pyrenees Shire Council	✓	05 Oct 2022	✓	05 Oct 2022
Strathbogie Shire Council	✓	10 Oct 2022	✓	10 Oct 2022
Towong Shire Council	N/A	Outstanding	N/A	Outstanding
West Wimmera Shire Council	✓	17 Nov 2022	✓	17 Nov 2022

	Financial report		Performance statement	
Yarriambiack Shire Council	✓	14 Oct 2022	✓	14 Oct 2022
<b>Regional library corporations</b>				
Casey-Cardinia Library Corporation	✓	31 Oct 2022	N/A	N/A
Corangamite Regional Library Corporation	N/A	Outstanding	N/A	N/A
Eastern Regional Libraries Corporation	N/A	Outstanding	N/A	N/A
Geelong Regional Library Corporation	✓	24 Oct 2022	N/A	N/A
Goulburn Valley Regional Library Corporation	✓	12 Oct 2022	N/A	N/A
North Central Goldfields Regional Library Corporation	✓	06 Oct 2022	N/A	N/A
West Gippsland Regional Library Corporation	N/A	Outstanding	N/A	N/A
Whitehorse-Manningham Regional Library Corporation	✓	08 Sep 2022	N/A	N/A
Wimmera Regional Library Corporation	N/A	Outstanding	N/A	N/A
Yarra Plenty Regional Library Corporation	✓	13 Oct 2022	N/A	N/A
<b>Associated entities</b>				
MomentumOne Shared Services Pty Ltd	N/A	Outstanding	N/A	N/A
Municipal Association of Victoria	✓	19 Oct 2022	N/A	N/A
Procurement Australasia Ltd <sup>(a)</sup>	✓	20 Dec 2022	N/A	N/A
Regent Management Company Pty Limited	N/A	Outstanding	N/A	N/A
Regional Landfill Clayton Sotuh Joint Venture	N/A	Outstanding	N/A	N/A
Wimmera Development Association Limited <sup>(b)</sup>	✓	24 Nov 2022	N/A	N/A

Notes:

N/A = not applicable.

✓ Unmodified audit opinion.

<sup>(a)</sup>Procurement Australasia Ltd has a 30 September balance date.

<sup>(b)</sup> Wimmera Development Association Incorporated became Wimmera Development Association Limited on 12 April 2022.

Source: VAGO.

Figure E2: Audits in progress as at 31 January 2023

Type of agency	Agency name	Why in progress
Council	Towong Shire Council	Council has experienced staff turnover.
Library	Corangamite Regional Library Corporation Eastern Regional Libraries Corporation West Gippsland Regional Library Corporation Wimmera Regional Library Corporation	Agencies impacted by resolution of accounting issues associated with the transition to a new operating structure as required by the <i>Local Government Act 2020</i> . Availability of audit resources.
Associated entity	MomentumOne Shared Services Pty Ltd	Towong Shire Council is responsible for the preparation of the company's financial report and the council has experienced staff turnover. Company dormant, effective November 2021.
	Regent Management Company Pty Limited	Delays in finalising the 2020–21 audit has impacted timing of the 2021–22 audit.
	Regional Landfill Clayton South Joint Venture	Delays in finalising the 2020–21 audit has impacted timing of the 2021–22 audit.

Source: VAGO.

Figure E3: Audit opinions issued for the local government sector relating to the 2020–21 financial year that were previously reported as being in progress

	Financial report		Performance statement	
Corangamite Regional Library Corporation	✓	11 Feb 2022	N/A	N/A
Mildura Airport Pty Ltd	✓	07 Jul 2022	N/A	N/A
MomentumOne Shared Services Pty Ltd	✓	24 Dec 2021	N/A	N/A
Procurement Australasia Ltd <sup>(a)</sup>	✓	24 Dec 2021	N/A	N/A
Regent Management Company Pty Limited	✓	18 Nov 2022	N/A	N/A
Regional Landfill Clayton South Joint Venture	✓	23 Jan 2023	N/A	N/A

N/A = not applicable.

✓ Unmodified audit opinion.

<sup>(a)</sup> Procurement Australasia Ltd has a 30 September balance date.

Source: VAGO.

# Appendix F:

## Control issues risk ratings

Figure F1 defines the risk ratings that we apply to internal control issues. It also details what the ratings represent and the expected timeline for the issue to be resolved.

Figure F1: Risk rating definitions

Rating	Definition	Management action required
<b>High</b>	<p>The issue represents:</p> <ul style="list-style-type: none"> <li>a <b>material misstatement</b> in the financial report that has occurred, or an issue that could potentially result in a modified audit opinion if not addressed as a matter of urgency by the entity, or</li> <li>a control weakness that is or could <b>majorly disrupt</b> a process or an entity's ability to achieve a process's objectives in relation to financial reporting and comply with relevant legislation.</li> </ul>	<p>High-risk issues require an entity's executive management to correct the misstatement in its financial report or address the issue as a matter of urgency to avoid a modified audit opinion.</p> <p>High-risk issues require management to immediately intervene with a detailed action plan and implement it within one month.</p>
<b>Medium</b>	<p>The issue represents:</p> <ul style="list-style-type: none"> <li>a <b>misstatement</b> in a financial report that has occurred, or may occur, and has the possibility to become material, or</li> <li>a control weakness that could have or is having a <b>moderate adverse effect</b> on an entity's ability to achieve process objectives and comply with relevant legislation.</li> </ul>	<p>Medium-risk issues require management to intervene with a detailed action plan and implement it within 3 to 6 months.</p>
<b>Low</b>	<p>The issue represents:</p> <ul style="list-style-type: none"> <li>a <b>misstatement</b> in a financial report that is likely to occur but is not expected to be material, or</li> <li>a <b>minor control weakness</b> with minimal but reportable impact on an entity's ability to achieve process objectives and comply with relevant legislation, or</li> <li>an opportunity to improve an existing process or internal control.</li> </ul>	<p>Low-risk issues require management to intervene with a detailed action plan and implement it within 6 to 12 months.</p>

Source: VAGO.

# Appendix G:

## Financial sustainability indicators

Figure G1 lists and describes the financial indicators that we use to assess councils' financial sustainability risks. These indicators should be considered collectively and are more useful when assessed over time as part of a trend analysis.

Refer to the data dashboard on our website ([www.audit.vic.gov.au/report/results-2021-22-audits-local-government](http://www.audit.vic.gov.au/report/results-2021-22-audits-local-government)) for individual council financial sustainability data and analysis.

Figure G1: Financial sustainability indicators, formulas and descriptions

Indicator	Formula	Description
Net result margin (%)	Net result/total revenue	<p>A positive result indicates a surplus, and the larger the percentage, the stronger the result.</p> <p>A negative result indicates a deficit. Operating deficits cannot be sustained in the long term.</p> <p>The net result and total revenue are obtained from the comprehensive income statement.</p>
Adjusted underlying result (%)	Adjusted underlying surplus (or deficit)/adjusted underlying revenue	<p>This measures an entity's ability to generate surplus in the ordinary course of business, excluding non-recurrent capital grants, non-monetary asset contributions and other contributions, to fund capital expenditure from its net result.</p> <p>A surplus or increasing surplus suggests an improvement in the operating position.</p>
Liquidity (ratio)	Current assets/current liabilities	<p>This measures an entity's ability to pay existing liabilities in the next 12 months.</p> <p>A ratio of 1 or more means that an entity has more cash and liquid assets than short-term liabilities.</p>
Internal financing (%)	Net operating cash flow/net capital expenditure	<p>This measures an entity's ability to finance capital works from generated cash flow.</p> <p>The higher the percentage, the greater the ability for the entity to finance capital works from its own funds.</p> <p>Net operating cash flows and net capital expenditure are obtained from the statement of cash flows.</p>
Indebtedness (%)	Non-current liabilities/own-sourced revenue	<p>This assesses an entity's ability to pay the principal and interest on its borrowings when they are due from the funds it generates.</p> <p>The lower the ratio, the less revenue the entity is required to use to repay its total debt.</p> <p>Own-sourced revenue is used, rather than total revenue, because it does not include grants or contributions.</p>
Capital replacement (ratio)	Cash outflows for the addition of new property, infrastructure, plant and equipment/depreciation	<p>This compares the rate of spending on new infrastructure, property, plant and equipment with its depreciation. Ratios higher than 1 indicate that spending is faster than the depreciating rate.</p> <p>This is a long-term indicator because capital expenditure can be deferred in the short term if there are insufficient funds available from operations and borrowing is not an option. Cash outflows for property, infrastructure, plant and equipment is taken from the statement of cash</p>



Indicator	Formula	Description
		flows. Depreciation is taken from the comprehensive income statement.
Renewal gap (ratio)	Renewal and upgrade expenditure/depreciation	<p>This compares the rate of spending on renewing, restoring and replacing existing assets with depreciation.</p> <p>Ratios higher than 1 indicate that spending on existing assets is faster than the depreciation rate.</p>

Note: The internal financing ratio cannot be less than zero. Where a calculation has produced a negative result, this has been rounded up to 0 per cent.  
Source: VAGO.

# Auditor-General's reports tabled during 2022–23

Report title	Tabled
<i>Results of 2021 Audits: Technical and Further Education Institutes</i> (2022–23: 1)	July 2022
<i>Results of 2021 Audits: Universities</i> (2022–23: 2)	July 2022
<i>Follow-up of Protecting Victoria's Coastal Assets</i> (2022–23: 3)	August 2022
<i>The Effectiveness of Victoria Police's Staff Allocation</i> (2022–23: 4)	September 2022
<i>Quality of Major Transport Infrastructure Projects Business Cases</i> (2022–23: 5)	September 2022
<i>Major Projects Performance Reporting 2022</i> (2022–23: 6)	September 2022
<i>Quality of Child Protection Data</i> (2022–23: 7)	September 2022
<i>Follow-up of Maintaining the Mental Health of Child Protection Practitioners</i> (2022–23: 8)	September 2022
<i>Regulating Victoria's Native Forests</i> (2022–23: 9)	October 2022
<i>Victoria's Alcohol and Other Drug Treatment Data</i> (2022–23: 10)	October 2022
<i>Auditor-General's Report on the Annual Financial Report of the State of Victoria: 2021–22</i> (2022–23: 11)	October 2022
<i>Regulating private pool and spa safety</i> (2022–23: 12)	February 2023
<i>Results of 2021–22 Audits: Local Government</i> (2022–23: 13)	February 2023

All reports are available for download in PDF and HTML format on our website at <https://www.audit.vic.gov.au>

# Our role and contact details

## The Auditor-General's role

For information about the Auditor-General's role and VAGO's work, please see our online fact sheet [About VAGO](#).

---

## Our assurance services

Our online fact sheet [Our assurance services](#) details the nature and levels of assurance that we provide to Parliament and public sector agencies through our work program.

---

## Contact details

Victorian Auditor-General's Office  
Level 31, 35 Collins Street  
Melbourne Vic 3000  
AUSTRALIA  
Phone +61 3 8601 7000  
Email [enquiries@audit.vic.gov.au](mailto:enquiries@audit.vic.gov.au)

---