

# VAGO

Victorian Auditor-General's Office

## Results of 2024–25 Audits: Local Government

March 2026

Independent assurance report to Parliament  
2025–26:15

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# Results of 2024–25 Audits: Local Government

Independent assurance report to Parliament

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

March 2026

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 2024–25 Audits: Local Government*.

Yours faithfully



Andrew Greaves  
Auditor-General  
30 March 2026

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.

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# Report snapshot

## About this report

This report sets out the results of our financial and related audits of Victoria's local councils and related entities. It also provides our independent view on sector-wide financial outcomes, emerging risks, and common internal control and reporting issues.

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## Audit outcomes

Report users can rely on councils' financial reports and performance statements. We provided clear audit opinions on 2024–25 reports. All council audits are complete, with audits for one council-controlled entity and 3 associated entities still in progress.

Councils can improve reporting timeliness, strengthen quality assurance processes, and better understand their legislative obligations.

More than half of councils did not provide draft financial reports for audit within required timeframes, and 14 councils did not meet their legislative annual report obligations. We also identified an increase in errors in draft financial reports and performance statements this year. While councils corrected these errors before finalising their reports, late submissions and errors delay providing reliable annual reports to users.

Positively, 39 councils have commenced streamlining their financial reports, up from 16 last year. Streamlining improves report readability and reduces the reporting burden for preparers. We encourage all councils to commence or continue streamlining their financial reports.

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## Financial outcomes

The timing of financial assistance grants continues to significantly affect councils reported financial results. In 2024–25, the Australian Government paid half a year's financial assistance grants in advance, leading 75 councils to report a surplus, compared to 50 last year. Excluding the advance payment, 14 councils would have reported a loss, instead of 4.

Revenue and income from rates, user fees and other sources grew by 4.4 per cent, while expenses also continued to grow, and at a rate higher than last year.

Councils increased their cash reserves and debt levels remain low. The value of property, infrastructure assets, plant and equipment increased by \$12.019 billion (from \$141.025 billion to \$153.044 billion), largely due to a \$9.392 billion asset revaluation adjustment.

Councils can improve their capital budgeting processes and how they manage and deliver capital projects. In 2024–25, the sector's actual capital expenditure totalled \$3.370 billion, an underspend of \$0.820 billion, or 19.6 per cent. Over the past 5 years, many councils have not generated operating surpluses to contribute to their capital programs, instead relying on capital grant funding and existing reserves.

Some small councils continue to face financial pressure, with deteriorating financial outcomes pointing to potential structural deficits. These pressures reflect a limited rate base and heavy reliance on government funding. Without ongoing support, small councils may struggle to deliver capital programs and face longer-term financial sustainability risks.

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## Internal controls and financial reporting issues

Councils can strengthen their internal controls to better support the preparation of reliable reporting. Each year, we continue to identify control weaknesses. A number of high and moderate-risk issues identified in past audits also remain unresolved.

Senior management and audit and risk committees need to strengthen their oversight, so councils implement agreed recommendations on time. Unresolved issues expose councils to ongoing financial and operational risks.

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# Our recommendations

We consulted with audited agencies and considered their views when reaching our conclusions.

We made 2 recommendations to address our findings, noting a number of recommendations from prior reports remain relevant and unresolved.

## This year's recommendations

Recommendation	Agency response	
Councils	1 That councils undertake a review of their capital expenditure budgeting process to understand why the underspend is occurring, whether key assumptions require enhancement and adjust future asset management plans accordingly (see Section 2).	
Local Government Victoria	2 That Local Government Victoria, in addition to reminding councils of their annual reporting obligations under the <i>Local Government Act 2020</i> : <ul style="list-style-type: none"><li>• provide targeted education sessions for council management, finance teams, audit and risk committees and councillors to strengthen their understanding of the reporting requirements</li><li>• actively monitor councils' compliance with annual reporting requirements</li><li>• work with councils where non-compliance occurs to identify the root cause and develop appropriate remediation plans (see Section 1).</li></ul>	Accepted

## Follow-up on prior-year recommendations

Status of recommendations from our *Results of 2023–24 Audits: Local Government* report

Recommendation	Status
<p>Councils</p> <p>1 For councils that did not prepare draft financial reports or performance statements by the timelines agreed with their auditor:</p> <ul style="list-style-type: none"> <li>• assess their resources and expertise to confirm they can meet reporting obligations. If additional resources or support are required, they should explore how to secure the necessary support to successfully fulfill the requirements of the <i>Local Government Act 2020</i></li> <li>• strengthen their annual report plan to better align with legislative obligations, focusing on:               <ul style="list-style-type: none"> <li>• clear task allocation and achievable timelines</li> <li>• enhanced coordination with other business units</li> <li>• engaging with subject matter experts</li> <li>• quality assurance processes.</li> </ul> </li> </ul>	<p>In progress</p> <p>See Appendix H for details</p>
<p>2 Councils take the lead in the formation of a 'developer non-cash contribution' working party to create guidance materials that will strengthen internal processes.</p> <p>Councils could also consider hosting workshops to support the sector in applying the guidance effectively.</p>	<p>In progress</p> <p>See Appendix H for details</p>
<p>3 Councils resolve the open recommendations from the <i>Results of 2022–23 Audits: Local Government</i> report.</p>	<p>In progress</p> <p>See Appendix H for details</p>
<p>4 Councils that have not yet done so:</p> <ul style="list-style-type: none"> <li>• ensure they have a thorough understanding of the AASB 13 amendments</li> <li>• update their valuation policy to reflect the impact of the AASB 13 amendments</li> <li>• consider the impact of the AASB 13 amendments on related entities (such as subsidiaries or joint ventures) where they adopt the same fair value policy</li> <li>• conduct valuations with careful attention to AASB 13 amendments:               <ul style="list-style-type: none"> <li>• ensure the valuation methodologies are aligned with the revised standard</li> <li>• engage assistance where required</li> <li>• for more contentious areas, engage with valuers or relevant industry subgroups to stay updated on new practices occurring as a result of the amendments, namely:                   <ul style="list-style-type: none"> <li>○ application of economic obsolescence</li> <li>○ how the new areas are being factored into the valuations (for example, disruption costs), problems arising and practical application challenges</li> </ul> </li> </ul> </li> <li>• update internal policies and procedures to reflect any changes in processes (for example, changes to using unobservable inputs, benchmarking with others)</li> <li>• develop a clear communications strategy to brief key stakeholders – including senior management, their audit and risk committee, councillors – on the material changes introduced by the AASB 13 amendments. This should cover the impact on valuation practices, financial reporting, and any new disclosure requirements. Also,</li> </ul>	<p>In progress</p> <p>See Appendix H for details</p>

Recommendation	Status
<p>where material, impacts to the asset management plan, long-term financial plan, operating and capital expenditure budgets</p> <ul style="list-style-type: none"> <li>engage with their auditors as soon as possible to discuss their impact assessment</li> <li>ensure financial report disclosures are aligned based on impact</li> <li>keep a record of key discussions and decisions made regarding valuation methodologies, disclosures and changes in accounting policies. This will help in future valuations.</li> </ul>	
Local Government Victoria	5 Formally advise and remind the councils of their annual reporting obligations. Completed
Municipal Association of Victoria	6 Develop and deliver the intended councillor development program with input from Local Government Victoria, as applicable. In progress See Appendix H for details

### Status of recommendations from our *Results of 2022–23 Audits: Local Government* report

Recommendation	Status
Councils	1 We recommend that all councils: In progress See Appendix H for details
	<ul style="list-style-type: none"> <li>arrange for training or briefing sessions to be held with key internal stakeholders before 30 June 2024 to enhance their understanding of the financial reporting process and their legislative obligations</li> <li>assess the adequacy of their financial reporting plan given their legislative obligations, namely: <ul style="list-style-type: none"> <li>task allocation and timelines</li> <li>the nature and timing of liaison with other business units</li> <li>quality assurance processes</li> </ul> </li> <li>critically assess whether they have the resources and expertise to fulfil their financial reporting obligations throughout the year and, if not, that they consider engaging an external party.</li> </ul>
	2 We recommend that finance teams: In progress See Appendix H for details
	<ul style="list-style-type: none"> <li>prepare and present a paper to their audit and risk committee prior to 30 June each year that outlines the: <ul style="list-style-type: none"> <li>council's accounting policy requirements with respect to property, infrastructure assets, plant and equipment</li> <li>approach to assessing each property class's fair value, infrastructure assets, plant and equipment, including engaging an expert valuer and key milestones</li> <li>likely outcomes for the respective reporting cycle (expected movements in fair value and impact on the financial report).</li> </ul> </li> </ul>
	3 We recommend that audit and risk committees: In progress See Appendix H for details
	<ul style="list-style-type: none"> <li>review the finance team's accounting paper prior to balance date</li> <li>after balance date, when reviewing the draft financial report: <ul style="list-style-type: none"> <li>determine whether there have been any changes to circumstances which would indicate that key assumptions behind the finance team's initial advice and key judgements are no longer true</li> <li>assess whether the valuation and fair value assessment outcomes are reasonable</li> </ul> </li> </ul>

Recommendation

Status

Recommendation	Status	
<ul style="list-style-type: none"> <li>• update their annual work plan to include the above tasks.</li> </ul>		
<p>4 We recommend that councils:</p> <ul style="list-style-type: none"> <li>• prioritise and promptly address the internal control and financial reporting issues we raise with them and that their audit and risk committee monitor this</li> <li>• review the actions and timelines established to resolve internal control weaknesses, with a focus on older and higher-risk findings</li> <li>• for longer-term action plans, ensure adequate compensating safeguards are in place.</li> </ul>	<p>In progress</p> <p>See Appendix H for details</p>	
<p>Local Government Victoria and the Municipal Association of Victoria</p>	<p>5 We recommend that Local Government Victoria or the Municipal Association of Victoria, or both in partnership, deliver a governance training program, which may include tailored resource material, to support councillors and their audit and risk committee members throughout their term of appointment.</p>	<p>In progress</p> <p>See Appendix H for details</p>

# 1.

## Audit outcomes

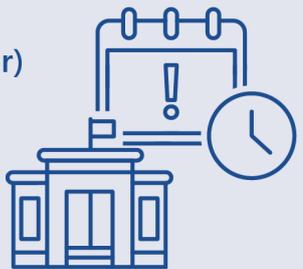
### Snapshot

**Councils' financial reports and performance statements are reliable**



The icon depicts a white line-art council building on the left. A dashed line connects it to a document on the right containing a pie chart and text. A checkmark is positioned to the right of the document, indicating reliability.

**45 councils (57% of the sector) did not provide draft financial reports to audit within agreed timeframes**



The icon shows a council building on the left. To its right is a calendar with a large exclamation mark on one of the dates, and a clock further to the right, symbolizing a missed deadline.

**14 of 79 councils (18% of the sector) did not comply with legislative annual report timelines**



The icon features an hourglass on the left, representing time. To its right is a document with a dollar sign on it, representing financial reporting.

**Councils can improve the quality of the financial reports and performance statements submitted for audit**



The icon contains several elements: a document with a pie chart on the left, a bar chart with an upward arrow in the middle, a magnifying glass over a dollar sign on the right, and a gear with a circular arrow below it, symbolizing improvement and quality assurance.

Report users can rely on councils' financial reports and performance statements. We provided clear audit opinions on 2024–25 reports. All council audits are complete, with audits for one council-controlled entity and 3 associated entities still in progress.

Councils can improve reporting timeliness, strengthen quality assurance processes, and better understand their legislative obligations. More than half of councils did not provide draft financial reports for audit within required timeframes, and 14 councils did not meet their legislative annual report obligations.

We also identified an increase in errors in draft financial reports and performance statements this year. While councils corrected these errors before finalising their reports, late submissions and errors increase the risk of delays in providing reliable annual reports to support informed decision-making.

Positively, 39 councils have commenced streamlining their financial reports, up from 16 last year. Streamlining improves report readability and reduces the reporting burden for preparers. We encourage all councils to commence or continue streamlining their financial reports.

## Financial reports and performance statements are reliable

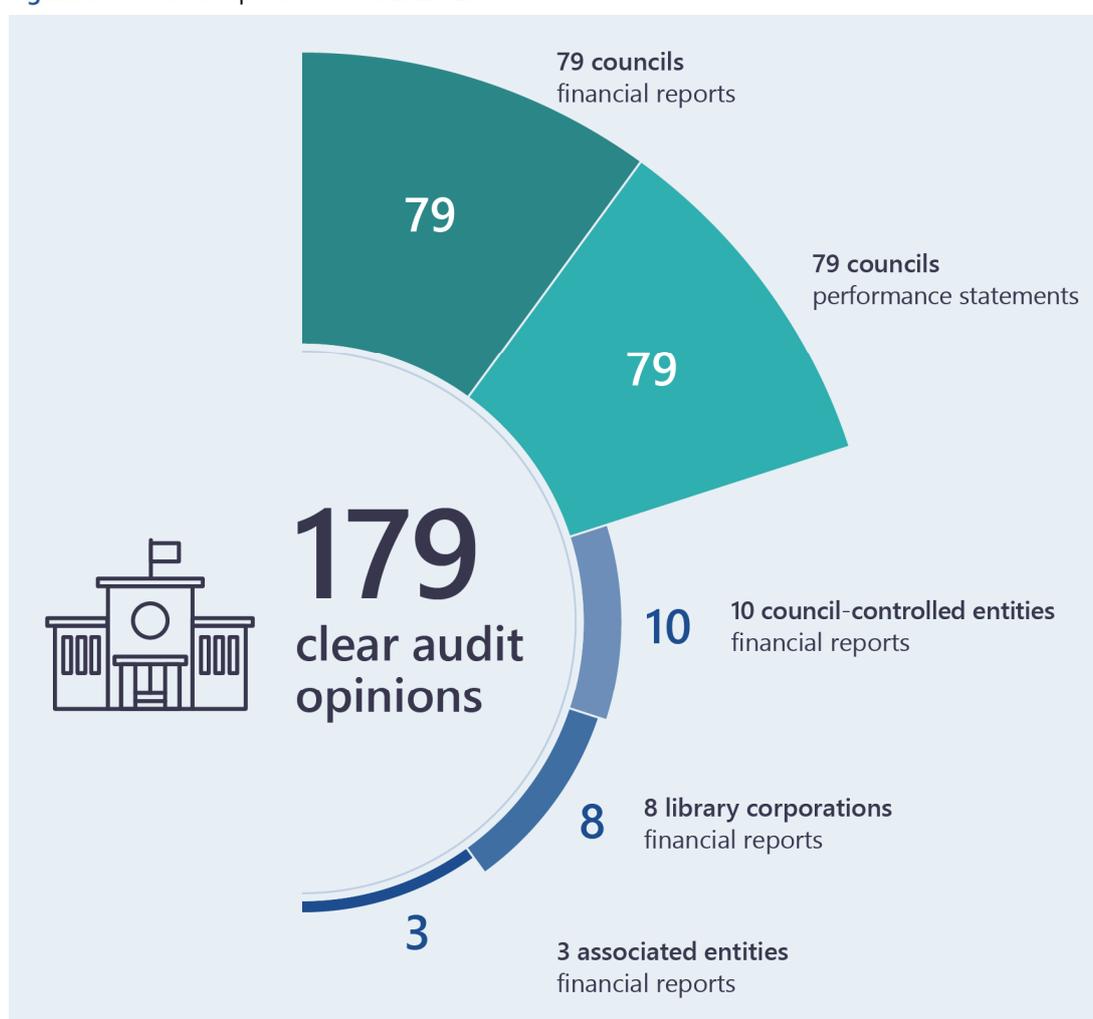
### Reporting requirements

The Victorian local government sector consists of 104 agencies, including 79 councils. Each council prepares a financial report and performance statement. We audit these financial reports and performance statements. See Appendix C for more information about the local government sector, including an overview of the annual reporting timelines and requirements.

### Clear audit opinions

We issued 179 clear audit opinions. This means Parliament and the community can confidently use these reports.

Figure 1: Clear audit opinions issued 2024–25



Source: VAGO.

### Audits in progress

On 27 February 2026, the following audits were still in progress:

- Mildura Tourism and Economic Development Limited
- MomentumOne Shared Services Pty Ltd
- Regent Management Company Pty Limited
- Wimmera Southern Mallee Development Limited

See Figure E2 in Appendix E for more information about these audits.

## Opportunities remain to strengthen reporting timeliness

### Why audit readiness matters

We agree key dates with each council, including the submission dates for their draft financial reports and performance statements, so we can schedule audit visits and allocate audit resources effectively. When councils submit required information – such as audit requests and draft financial reports and performance statements – by these agreed dates, audits progress smoothly as planned.

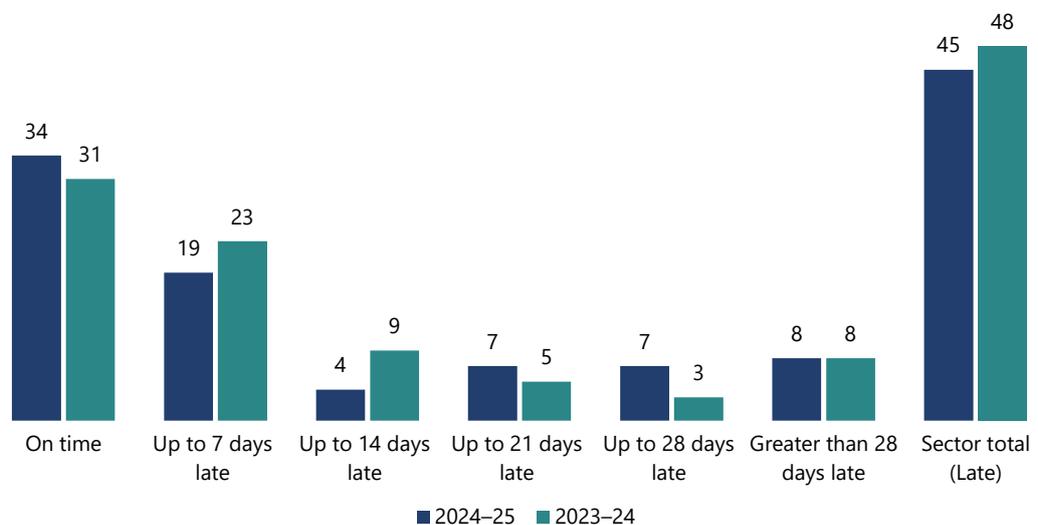
Delays can disrupt audit delivery and cause audits to become stop-start. Delays across multiple audits can also create sector-wide backlogs, increasing the risk that legislative timelines are not achieved for individual councils and across the sector. Submitting high-quality information on time supports a smoother and more efficient audit process.

Efficient audits, in turn, enable councils to release audited financial and performance information sooner. This gives councillors, ratepayers, government and other stakeholders access to current, reliable data to support sound decision-making and accountability for public funds. Audit delays postpone the release of audited information, reduce confidence in its reliability, and limit users' ability to assess, understand and benchmark councils' performance.

### Draft financial report and performance statement delays

In 2024–25, only 34 of the 79 councils (43 per cent) submitted their draft financial report and performance statement for audit within agreed timelines. A slight improvement from the previous year where 31 councils (39 per cent) did so.

**Figure 2:** Number of councils submitting their draft financial reports and performance statements on time or late, by days late compared to the prior year



Source: VAGO.

The delays indicate internal processes are not as mature as they need to be, or that resourcing capacity issues exist. Over the past 2 years, 32 councils have been late both years, represented by:

- 12 small councils
- 8 large councils
- 7 metropolitan councils
- 3 regional councils
- 2 interface councils.

In our *Results of 2023–24 Audits: Local Government* report we recommended councils prepare a financial reporting plan and assess their resources' adequacy to improve timeliness. The trends identified in 2024–25 show that this recommendation remains relevant for councils that did not meet their timelines.

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### Legislative deadline

Councils are required to present their annual report at a public council meeting within 4 months of the end of the financial year (by 31 October in a non-election year). The report must include:

- a report of operations
- an audited financial report
- an audited performance statement
- associated audit opinions.

Sixty-five councils met this timeframe in 2024–25, an improvement on 61 in 2023–24. All metropolitan councils met the requirement.

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### Councils' compliance

Fourteen councils did not present a compliant annual report at an open council meeting by 31 October 2025. We noted instances where:

- financial reports were finalised after 31 October 2025
- councils presented draft annual reports
- councils presented signed annual reports that:
  - included draft financial reports and performance statements instead of signed versions
  - contained blank pages where the audit opinions should have appeared
  - included the prior year's audit opinions
  - did not include the financial report, performance statements or audit opinions.

When councils omit audited statements and audit opinions from their annual reports, they do not meet their statutory obligation to provide transparent, audited information to the public. These omissions indicate gaps in understanding annual reporting requirements and weaken the effectiveness of the audit function in supporting public accountability.

Local Government Victoria (LGV) should review councils' annual report compliance, and work directly with councils that did not comply with the requirements in 2024–25 to support a return to full compliance.

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## Report quality has declined

### Errors in financial reports

We identified 259 financial report audit adjustments in 2024–25, up from 189 in 2023–24. This represents a 37 per cent increase.

**Dollar differences** were steady in number identified, but increased in size by 184 per cent, to \$531 million of adjustments being made. This was predominantly due to adjustments arising from updated accounting guidance on fair value measurement.

**Disclosure differences** increased by 56 per cent. Disclosure differences are corrections to the narrative and explanatory notes in financial reports that help users understand the financial information presented.

**Figure 3:** Number of adjusted errors we found in councils' financial reports

Year	Dollar differences adjusted		Disclosure differences adjusted
	Errors	Size (\$ million)	Errors
2024–25	59	531	200
2023–24	61	187	128
2022–23	58	843	122

Note: Size is an aggregation of net adjustments for revenue, expenses, assets, liability and equity.  
Source: VAGO.

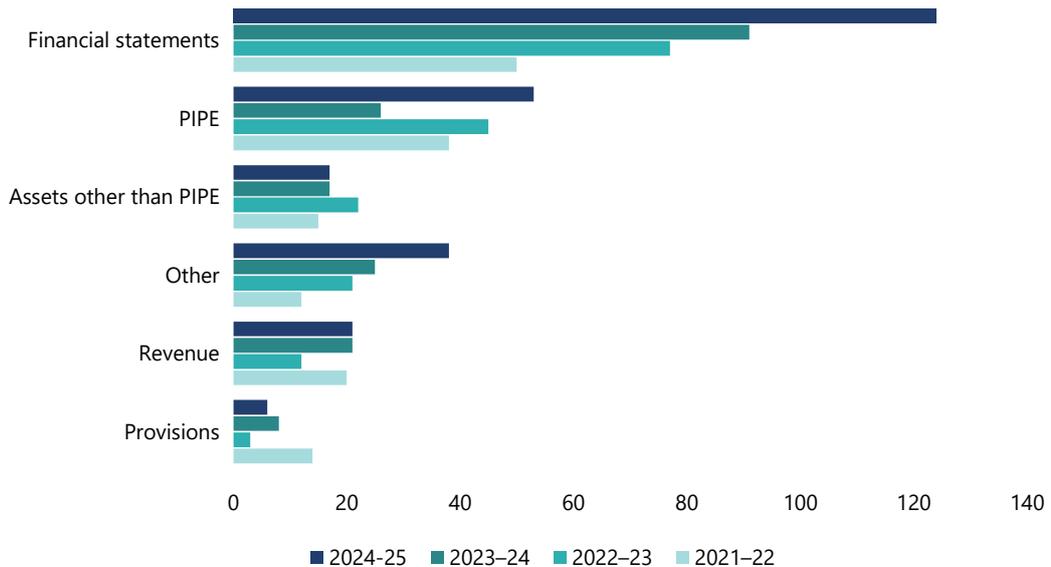
Increases in both the number and size of financial report adjustments indicate ongoing issues in the planning, preparation, supervision and review of councils' financial reporting processes, and point to weaknesses in internal quality assurance.

### Common areas where we identified adjustments

We continued to find the most issues with:

- the quality of disclosures, as we identified either inaccurate, incomplete or missing content
- errors in property, infrastructure assets, plant and equipment balances.

**Figure 4:** Adjusted errors by category from 2021–22 to 2024–25

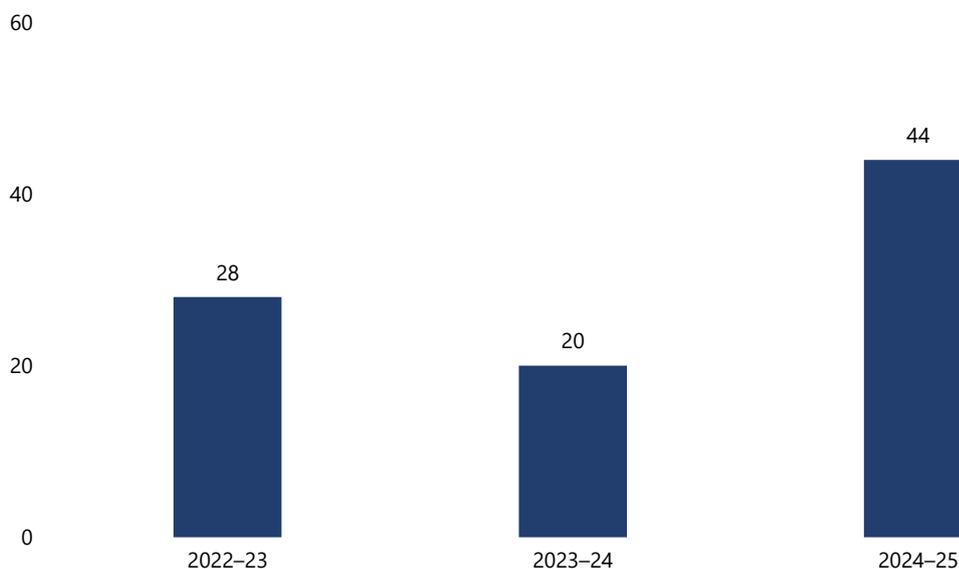


Note: PIPE refers property, infrastructure assets, plant and equipment.  
Source: VAGO.

## Errors in performance statements

We identified errors in the performance statement at 44 councils this year – more than double the previous year.

**Figure 5:** Number of councils with an adjusted performance statement error between 2022–23 and 2024–25



Source: VAGO.

**Calculation errors** increased by 47 per cent, with 25 errors adjusted in 2024–25. There were 17 calculation errors adjusted in 2023–24. The errors were mainly caused by weak internal quality assurance processes.

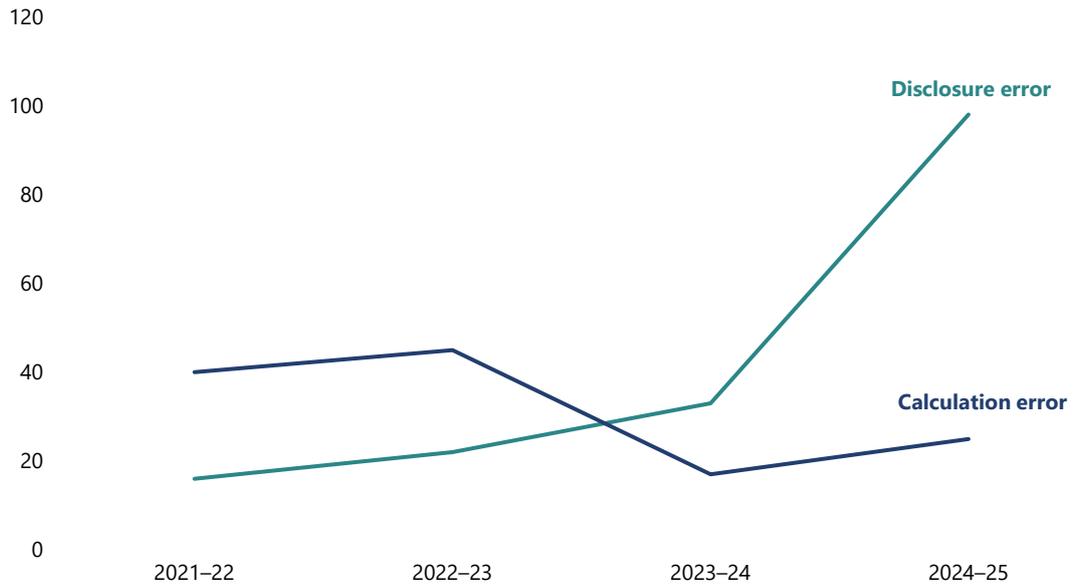
**Disclosure errors** increased significantly (by 197 per cent), with 98 adjusted in 2024–25 up from 33 in 2023–24. The errors were due to fairly consistent root causes:

- misalignment of forecasts with council's approved budget
- weak internal quality assurance processes
- inadequate or unclear variance analysis explanations.

### Calculation errors versus disclosure errors

We classify performance statement errors as either calculation or disclosure errors, depending on whether to correct them would adjust numbers in the performance statements themselves (or primary statements), numbers or words in the commentary and variance analysis.

**Figure 6:** Adjusted errors in performance statements from 2021–22 to 2024–25



Source: VAGO.

**Material prior-period errors**

Eleven councils had a financial report with prior-period errors in 2024–25. This is an improvement on the 17 in 2023–24.

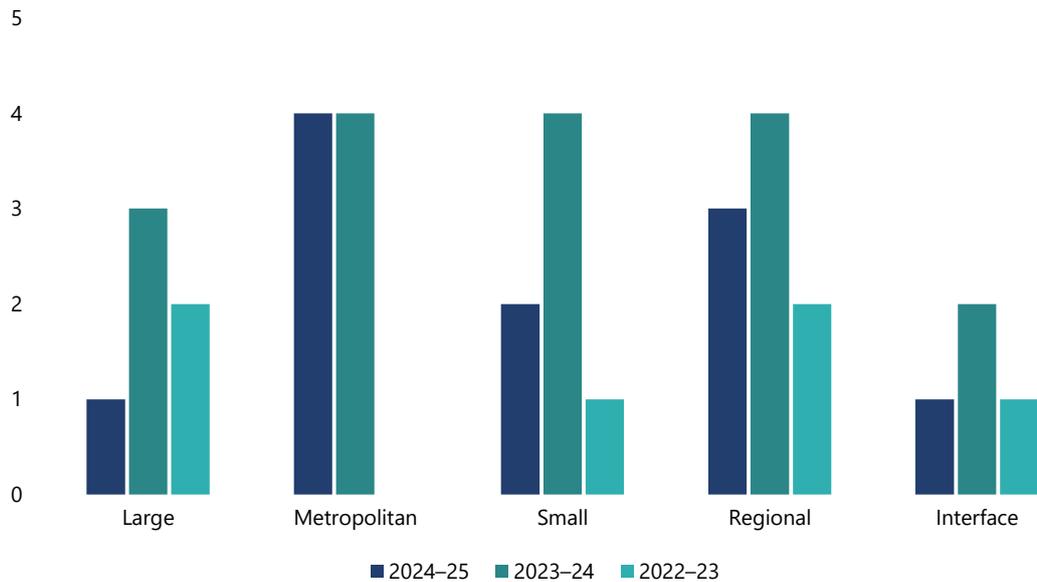
**Prior-period errors**

Prior-period errors are omissions from, and misstatements in, the entity’s financial report for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

- was available when financial reports for those periods were authorised for issue
- could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial reports.

Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts and fraud.

**Figure 7:** Number of councils by cohort that disclosed a prior-period error from 2022–23 to 2024–25



Source: VAGO.

Of the 11 financial reports with prior-period errors, we consider only 4 of the adjustments to be material. The other 7 were immaterial, but councils elected to make the changes. These errors predominantly relate to the recognition of property, infrastructure assets, plant and equipment. This remains an area of persistent weakness, with ongoing issues in asset record-keeping and asset valuation, as discussed in Section 3 of this report.

#### Material

We define materiality as the point at which omissions or misstatements in financial information could influence users' decisions. We establish both quantitative and qualitative criteria to determine whether a transaction, balance or event is material. When items exceed these thresholds, councils must make the necessary adjustments to ensure we can issue an unmodified audit opinion.

### Simplified financial reports

Each year, LGV releases a model financial report and performance statement to help councils meet their financial reporting requirements.

LGV, together with Local Government Finance Professionals (an incorporated association known as FinPro), consider feedback from various stakeholders to enhance the model financial report and performance statement.

Model accounts provide comprehensive guidance and are designed to cover all potential disclosures a council might need. Councils can tailor their financial report by not including disclosures that are not material to their specific circumstances. This approach helps create more concise and relevant reports that are easier to understand.

Over the years, councils' financial reports have grown longer and more complex. This can make it difficult for readers to find key information.

We have recommended that councils streamline their financial reports to better cater to stakeholders' needs and improve overall readability and transparency. In 2024–25, 39 of 79 councils have taken steps in streamlining their financial report up from 16 in the prior year.

Simplifying the content, focusing on material information and ensuring compliance with laws, regulations and accounting standards helps reduce the reporting burden and clarify key insights for decision-makers.

Councils should use each reporting season as an opportunity to simplify financial reports.

Materiality should be set from council's perspective, with the stakeholders and primary users in mind. This means councils should tailor the financial reports to reflect only the material balances and transactions.

The Australian Accounting Standards require only material disclosures to be included in financial reports, so annually reviewing materiality and ensuring the reports are suitably tailored is not just best practice but required. See our checklist on simplifying financial reporting in Appendix I.

## Recommendations

### Local Government Victoria

We recommend that Local Government Victoria, in addition to reminding councils of their annual reporting obligations under the *Local Government Act 2020*:

- provide targeted education sessions for council management, finance teams, audit and risk committees and councillors to strengthen their understanding of the reporting requirements
- actively monitor councils' compliance with annual reporting requirements
- work with councils where non-compliance occurs to identify the root cause and develop appropriate remediation plans.

# 2.

## Financial outcomes

### Snapshot

Timing of grant payments continues to affect councils' financial results



Small councils continue to face financial pressure pointing to potential structural deficits



Asset valuations driving growth in total assets



Cash reserves increased and debt levels remain low



Councils' underspend on capital expenditure continues



The timing of financial assistance grants continues to significantly affect councils' reported financial results. In 2024–25, the Australian Government paid half a year's financial assistance grants in advance, leading 75 councils to report a surplus, compared to 50 last year. Excluding the advance payment, 14 councils would have reported a loss instead of 4.

Revenue and income from rates, user fees and other sources grew at 4.4 per cent, while expenses also continued to grow, and at a rate higher than last year.

Councils increased their cash reserves and debt levels remain low. The value of property, infrastructure assets, plant and equipment increased by \$12.019 billion, largely due to a \$9.392 billion asset revaluation adjustment.

Councils can improve their capital budgeting processes and how they manage and deliver capital projects. In 2024–25, the sector’s actual capital expenditure totalled \$3.370 billion, an underspend of \$0.820 billion or 19.6 per cent. Over the past 5 years, many councils have not generated operating surpluses to contribute to their capital programs, instead relying on capital grant funding and existing reserves.

Some small councils continue to face financial pressure, with deteriorating financial outcomes pointing to potential structural deficits. These pressures reflect a limited rate base and heavy reliance on government funding. Without ongoing support, small councils may struggle to deliver capital programs and face longer-term financial sustainability risks.

## Timing of Australian Government funding continues to drive volatility in councils' reported net results, reducing comparability over time

### Financial performance snapshot

A council generates a surplus when total revenue and income exceed total expenses, or a loss when total revenue and income is lower than total expenses. The surplus or loss is referred to as the net result in a council’s financial report.

In 2024–25, Victorian councils reported a combined surplus of \$2.921 billion, an increase of 58.8 per cent compared to the previous year.

In 2024–25 the sector reported ...	which is a ...	from ...
\$15.286 billion in revenue and income	12.2 per cent increase	\$13.629 billion in 2023–24
\$12.365 billion in expenses	4.9 per cent increase	\$11.789 billion in 2023–24
\$2.921 billion surplus	58.8 per cent increase	\$1.840 billion in 2023–24.

### Financial assistance grants impacts

Each council receives financial assistance grants from the Australian Government, though the amount and timing vary annually. Under accounting standards councils record grant revenue in the year they receive it, instead of the year that it pertains to.

In 2024–25 councils received:

- 100 per cent of their 2024–25 financial assistance grants
- 50 per cent of their 2025–26 financial assistance grants in advance.

As a result, 75 councils recorded a surplus. The 4 councils that recorded a loss in 2024–25 are all small shire councils.

The 2024–25 financial outcome is similar to the 2021–22 and 2022–23 financial years when councils also received financial assistance grants equivalent to a period greater than 12 months.

In 2023–24 councils received no financial assistance grants, as the funding was paid in full in advance in 2022–23. This contributed to 29 councils reporting a loss.

Figure 8 shows how the variability in government financial assistance grants affects the financial results.

**Figure 8:** Number of councils to generate a surplus or loss from 2020–21 to 2024–25

	2024–25	2023–24	2022–23	2021–22	2020–21
Surplus	75	50	74	74	68
Loss	4	29	5	5	11
<b>Total number of councils</b>	<b>79</b>	<b>79</b>	<b>79</b>	<b>79</b>	<b>79</b>

Source: VAGO.

If we allocate financial assistance grants to the financial year to which they relate, rather than the year in which councils receive them, 14 councils would report a loss in 2024–25 instead of 4, and 8 councils would have reported a loss in 2023–24 instead of 29.

For 2024–25 the 14 would comprise:

- 9 small shire councils
- 4 large councils
- an interface council.

### Adjusted underlying result improves

To remain financially sustainable, councils must meet current and future expenditure requirements from revenue earned, absorb foreseeable changes and materialising risks and manage the impact from these factors to changing revenue and expenditure requirements. Councils must generate enough money to deliver community services and required infrastructure.

In 2024–25, the sector’s adjusted underlying result was 0.9 per cent, compared to negative 15.2 per cent in the prior year. Over the past 5 years, with the exception of 2023–24, the adjusted underlying result has fluctuated between negative 1.1 per cent to 1.4 per cent.

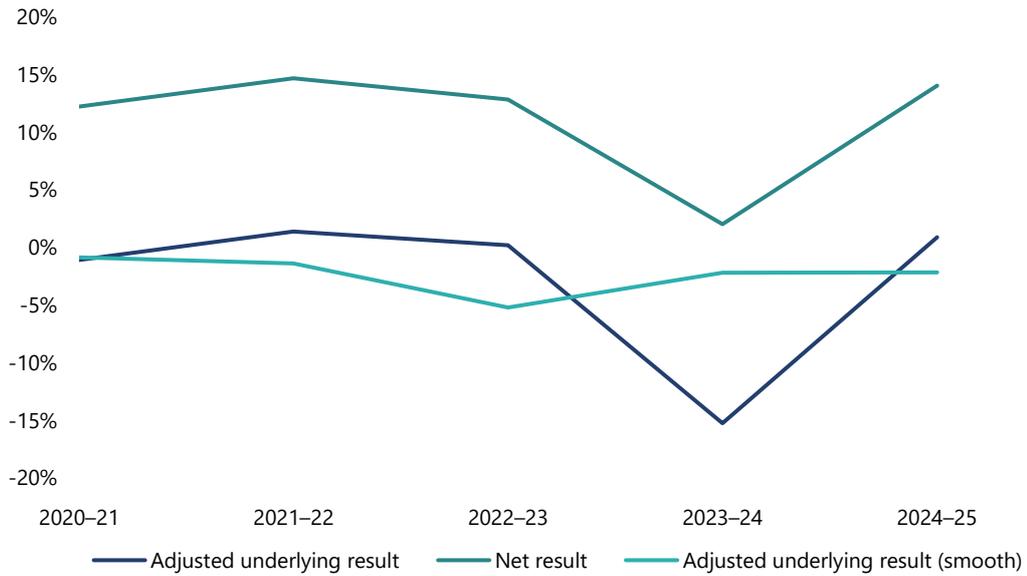
The timing of government financial assistance grants affects this trend, especially when the grants are received in advance. If we allocate the financial assistance grants to the financial year to which the funding was intended to support the councils, rather than record it as income in the financial year it was actually received, there is less variability in the adjusted underlying result, referred to as the adjusted underlying result (smooth) at Figure 9. However, the result is negative every year.

This indicator suggests that, over the past 5 years, councils have not generated sufficient operating surpluses to fund capital expenditure or service debt. As a result, many councils have had limited capacity to fund capital programs from surpluses, increasing longer-term risks to financial sustainability.

#### Adjusted underlying results

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.

**Figure 9:** Councils' adjusted underlying results, net results and smoothed adjusted underlying results from 2020–21 to 2024–25



Source: VAGO.

The number of councils with a positive or negative adjusted underlying result has remained relatively stable over the past 5 years, except for 2023–24.

**Figure 10:** Number of councils with a positive or negative adjusted underlying result from 2020–21 to 2024–25

Adjusted underlying result	2024–25	2023–24	2022–23	2021–22	2020–21
Positive	46	14	42	44	39
Negative	33	65	37	35	40
<b>Total number of councils</b>	<b>79</b>	<b>79</b>	<b>79</b>	<b>79</b>	<b>79</b>

Source: VAGO.

In 2024–25, 12 of 19 large councils and 12 of 19 small councils (representing 63 per cent of each cohort) had a negative adjusted underlying result (less than zero).

An analysis of the adjusted underlying result (smoothed) reveals a deteriorating position over time. For 2024–25, only 10 councils would report a positive result, comprising 9 metropolitan and one interface council.

**Figure 11:** Number of councils with a positive or negative adjusted underlying result (smoothed) from 2020–21 to 2024–25

Adjusted underlying result (smoothed)	2024–25	2023–24	2022–23	2021–22	2020–21
Positive	10	36	35	37	42
Negative	69	43	44	42	37
<b>Total number of councils</b>	<b>79</b>	<b>79</b>	<b>79</b>	<b>79</b>	<b>79</b>

Source: VAGO.

## Revenue and income from user fees, government grants and rates increased

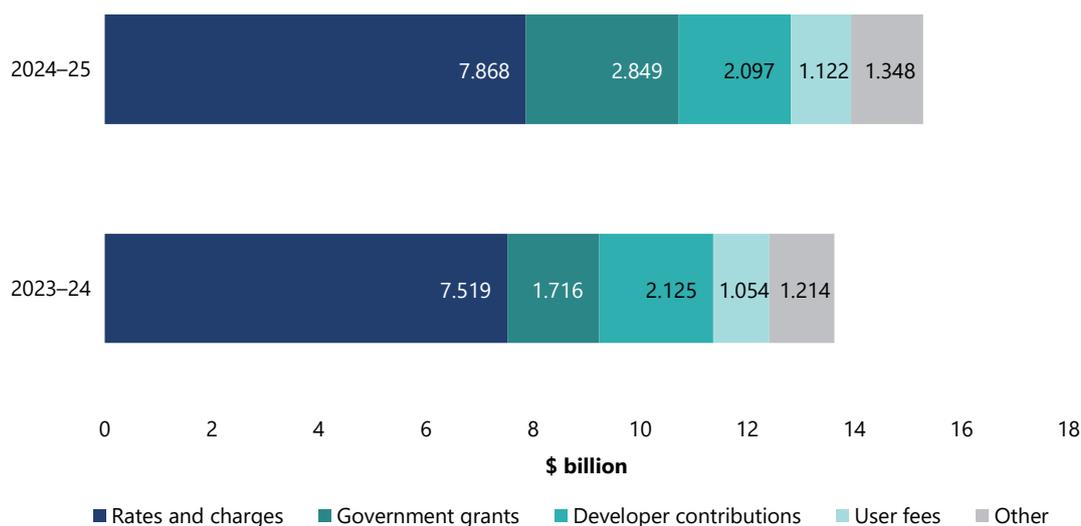
### Revenue and income snapshot

In 2024–25 all revenue and income categories, except for developer contributions, were higher than the prior year, growing by \$1.656 billion or 12.2 per cent.

Rates and charges revenue continue to account for at least 50 per cent of the sector’s total revenue and income each year.

Figure 12 provides a breakdown of revenue and income by category.

**Figure 12:** Breakdown of revenue and income by category for 2023–24 and 2024–25



Source: VAGO.

Analysis of rates and charges revenue over the past 5 years shows that it accounts for more than 60 per cent of total revenue and income for metropolitan councils, but generally less than 50 per cent for all other council cohorts each year.

The jump in government funding in 2024–25 is predominantly due to timing of financial assistance grants received from the Australian Government.

User fee revenue has increased steadily over the past 4 years, reaching \$1.122 billion in 2024–25, which is 56 per cent higher than 2020–21.

### Revenue and income

Total revenue and income increased by \$1.656 billion (12.2 per cent) in 2024–25, following a decrease of \$0.221 billion (1.6 per cent) in the prior year.

In 2024–25 ...	increased by ...	due to ...
Rates and charges	\$0.349 billion (4.6 per cent)	<ul style="list-style-type: none"> <li>property rates increasing by 2.75 per cent</li> <li>councils issuing supplementary rates</li> <li>councils separating the waste charge from the property rate levied, which are not subject to the rate indexation cap.</li> </ul>
Government grants	\$1.133 billion (66.0 per cent)	<ul style="list-style-type: none"> <li>councils receiving 100 per cent of their 2024–25 financial assistance grants and 50 per cent of their 2025–26 financial assistance grants in advance this year.</li> </ul>

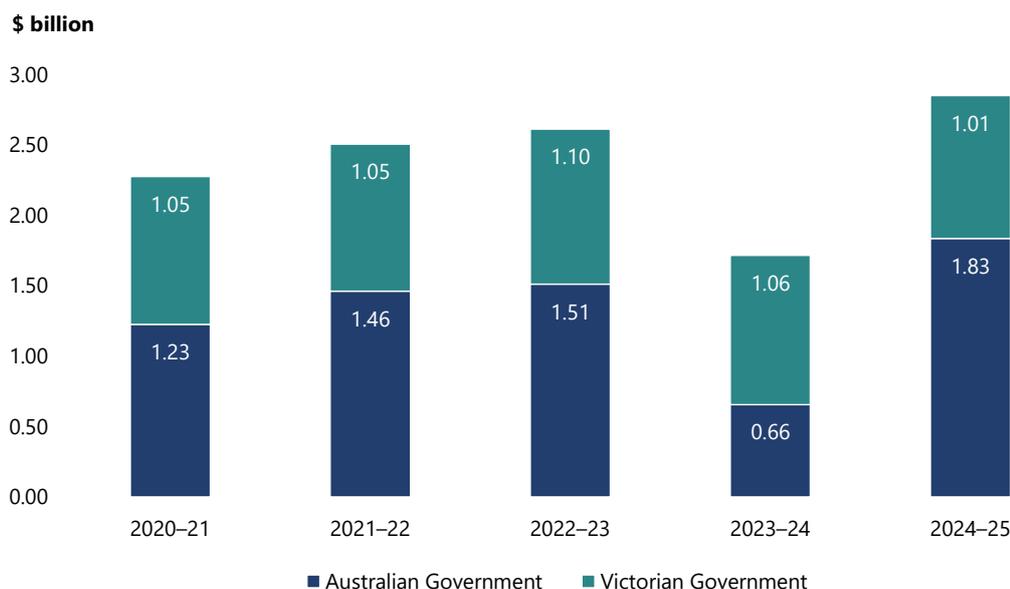
## Advance financial assistance funding significantly increased government grant income

### Government funding

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 they support. Figure 13 shows funding trends over the past 5 years from the:

- Victorian Government, which has remained relatively stable
- Australian Government, where funding levels fluctuate due to the timing of financial assistance grant payments received by councils, rather than underlying changes to funding levels.

**Figure 13:** Source of government funding from 2020–21 to 2024–25



Source: VAGO.

Under Australian Accounting Standards, Australian Government financial assistance grants are treated as income when received. Figure 14 shows the variability in funding, including the percentage paid in advance, over the past 5 years.

**Figure 14:** Percentage of financial assistance grants paid in the year to which the funding relates and paid in advance by year

	2024–25 (%)	2023–24 (%)	2022–23 (%)	2021–22 (%)	2020–21 (%)
Percentage of funding paid in the year to which the funding relates	100	0	25	50	50
Percentage of funding paid in advance of the financial year to which the funding relates	50	0	100	75	50
<b>Total</b>	<b>150</b>	<b>0</b>	<b>125</b>	<b>125</b>	<b>100</b>

Source: VAGO.

In June 2024, the Australian Government paid 85 per cent of the 2024–25 financial assistance grants to the Victorian Government for transfer to the 79 Victorian councils. However, the Victorian Government did not transfer the \$0.669 billion to councils until 5 July 2024. Councils also received

50 per cent of their 2025–26 funding of \$0.417 billion in June 2025, meaning half of the following year’s funding was also recognised in 2024–25.

**Small councils’ funding**

Smaller councils tend to rely more heavily on the financial assistance grants as they have a smaller ratepayer base to drive rate revenue compared to the metropolitan or interface councils. Changes to the timing and amount paid in advance requires these councils to have effective cash management processes in place throughout the reporting period.

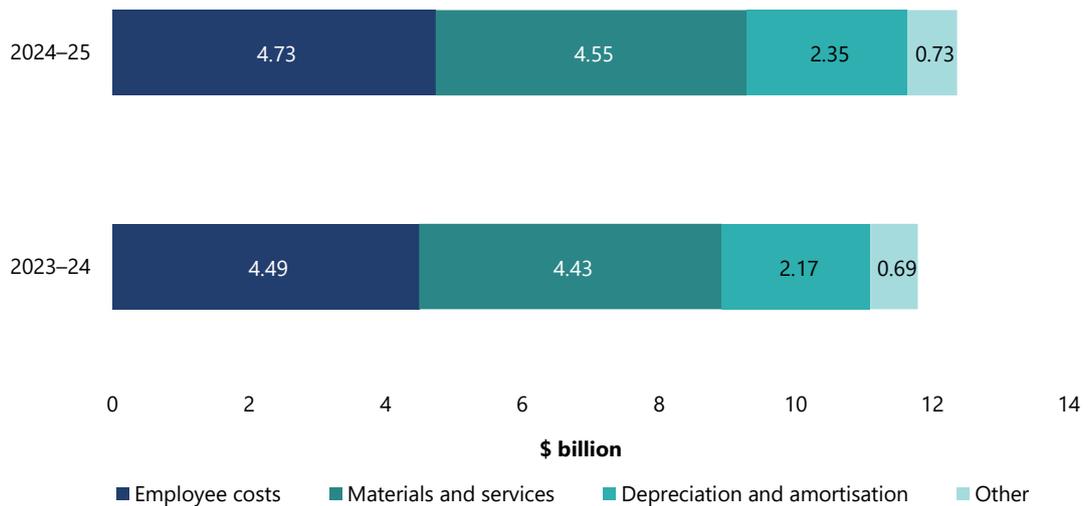
Government grants represented more than 50 per cent of total revenue and income at 6 (31.6 per cent) small councils in 2024–25.

**Expenses continue to grow, with the rate of increase higher than last year**

**Expense snapshot**

As Figure 15 shows, the 3 main council expenses are employee costs, materials and services, and depreciation and amortisation.

**Figure 15:** Breakdown of councils' expenses by category for 2023–24 and 2024–25

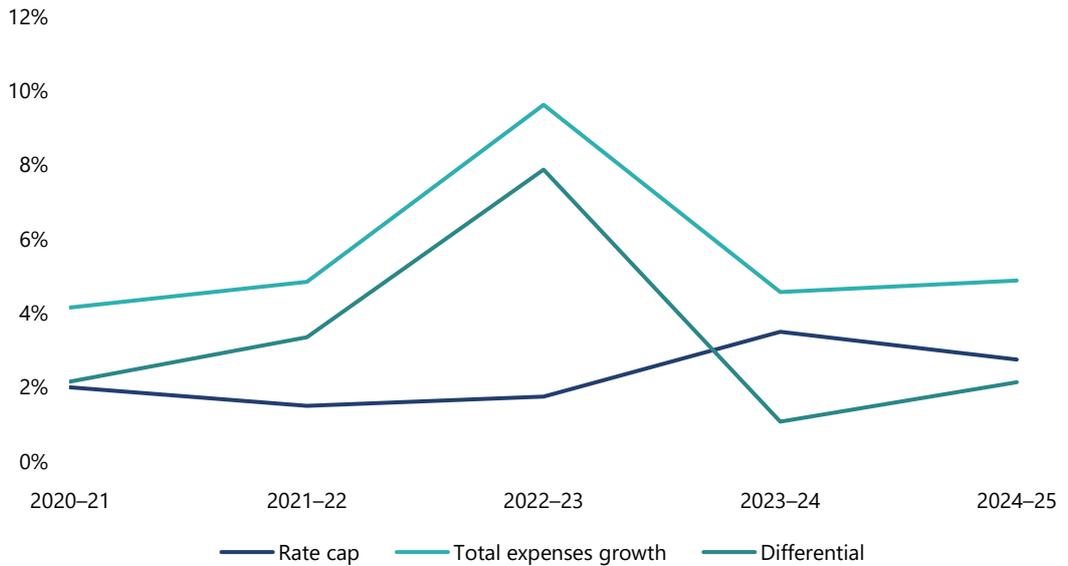


Source: VAGO.

Total expenses grew by 4.9 per cent in 2024–25, which was higher than the prior year, when expenses increased by 4.6 per cent.

Over the past 5 years total expenses have increased at a rate above the annual rate cap increase. In 2024–25 the difference was 2.1 per cent. In 2022–23 the difference was at 7.9 per cent as councils experienced a high inflationary period post the height of COVID-19 pandemic.

**Figure 16:** Growth in total expenses compared to approved rate cap increase from 2020–21 to 2024–25



Source: VAGO.

While expense growth has been greater than the annual rate cap, councils rely on a mix of revenue and income sources, including financial assistance grants that are intended to support the provision of services to the community.

As rates and charges revenue represent less than 50 per cent of total revenue and income for most councils, they need to actively manage both expenditure and broader revenue strategies. In particular, councils should:

- regularly review their service offerings and fees levied to ensure they remain affordable and aligned with community priorities
- review and strengthen plans for own-source revenue generation
- assess whether the planned use of financial assistance grants aligns with priorities and actively manage cashflows and reserves to manage volatility in government funding
- consider the impact of developer cash contributions and contributed assets on future capital and asset maintenance expenditure
- ensure financial planning considers and demonstrates how ongoing service levels and asset management planning will be funded
- consider whether a higher rate cap may be required.

No councils applied for a higher rate cap for the period 2020–21 to 2024–25.

Two councils had their application for a higher 2025–26 rate cap approved. While the rate cap was set at 3 per cent for 2025–26:

- Hepburn Shire Council rates and charges will increase by 10.0 per cent
- Indigo Shire Council rates and charges will increase by 7.54 per cent.

**Rate cap**

Rate capping has been in place since the 2016–17 financial year. Rate capping limits the maximum amount a council can increase its average rates in a year without seeking approval for a higher cap.

Each year the Minister for Local Government sets the average rate cap for the following rating year by general order.

A council may apply to the Essential Services Commission for a higher cap. Councils have until 31 March to apply for a higher cap with respect to the next rating and financial year.

The total amount shown on an individual rate notice includes general rates, municipal charges, and other charges and levies. The rate cap only applies to general rates and municipal charges.

A council is able to increase other charges and levies at a percentage higher or lower than the rate cap percentage.

## The sector increased its total assets while its liabilities remain steady

### Net assets

Net assets refer to the total value of a council's assets after subtracting all its liabilities.

At 30 June 2025 the 79 councils' net assets totalled \$157.989 billion, an increase of \$12.736 billion (8.8 per cent) from the prior year.

In 2024–25 the sector reported ...	which is a ...	from ...
\$163.546 billion in total assets	8.5 per cent increase	\$150.716 billion in 2023–24.
\$5.557 billion in total liabilities	1.7 per cent increase	\$5.463 billion in 2023–24.

The increase in net assets was largely driven by:

- higher cash reserves at 30 June 2025
- the acquisition and construction of property, infrastructure assets, plant and equipment during the year, as well as changes in the fair value of these assets.

## Cash reserves increased while debt levels remain low

### Cash assets and investments

At 30 June 2025 the 79 councils' cash assets and other investment balances (for example, term deposits) totalled \$7.483 billion, an increase of \$0.790 billion (11.8 per cent) from the prior year.

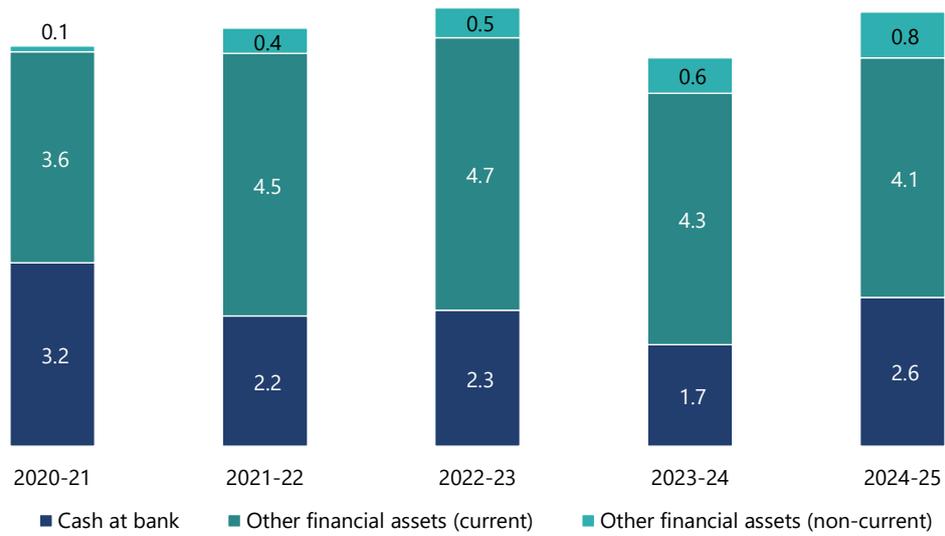
The increase is due to:

- the receipt of \$0.417 billion just prior to 30 June 2025, being 50 per cent of the 2025–26 financial assistance grants
- the generation of cash inflows from operations
- capital expenditure being less than what councils intended to spend.

Consistent with prior years the majority of the cash reserves are highly liquid, held in day-to-day operating bank accounts or invested for the short-term.

Figure 17 summarises councils' cash assets and other financial assets balances at 30 June 2021 to 30 June 2025.

**Figure 17:** Breakdown of cash balances from 2020–21 to 2024–25 (\$ billion)



Source: VAGO.

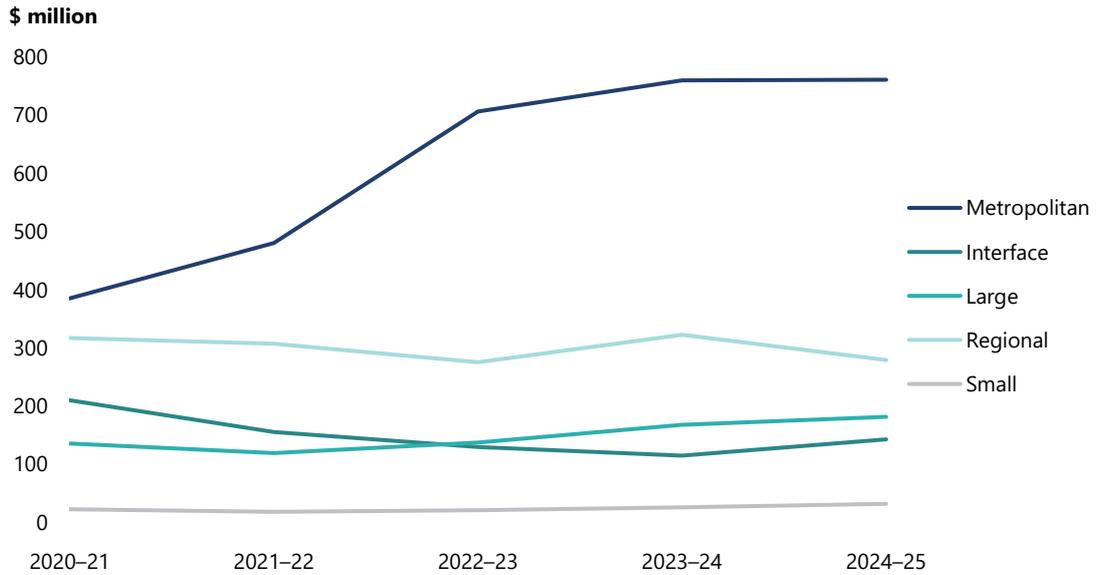
A large proportion of interface councils continue to receive developer-contributed cash, which they hold to fund future infrastructure development. This contributes to the high cash balances held by these councils.

**Borrowing levels** Total liabilities remain stable at \$5.557 billion at 30 June 2025, compared to \$5.463 billion at 30 June 2024.

The 79 councils had total combined borrowings of \$1.398 billion, an increase of \$0.006 billion (0.4 per cent) compared to the prior year. The sector’s total borrowings represented 0.9 per cent of its total assets, consistent with the prior year.

Over the past 4 years, the metropolitan councils have increased their total borrowings by \$0.376 billion (97.7 per cent) from \$0.385 billion at 30 June 2021 to \$0.761 billion at 30 June 2025. Melbourne City Council borrowed \$0.110 billion in 2022–23 and accounts for 29.3 per cent of the overall increase over the past 5 years.

**Figure 18:** Total borrowings by cohort from 2020–21 to 2024–25



Source: VAGO.

The sector continues to maintain low levels of debt. The debt ratio remains at 0.01, reflecting a stable financial position.

**Debt ratio**

This is a longer-term measure that compares all current and non-current interest-bearing liabilities to total assets. It complements the liquidity ratio, which is a short-term measure.

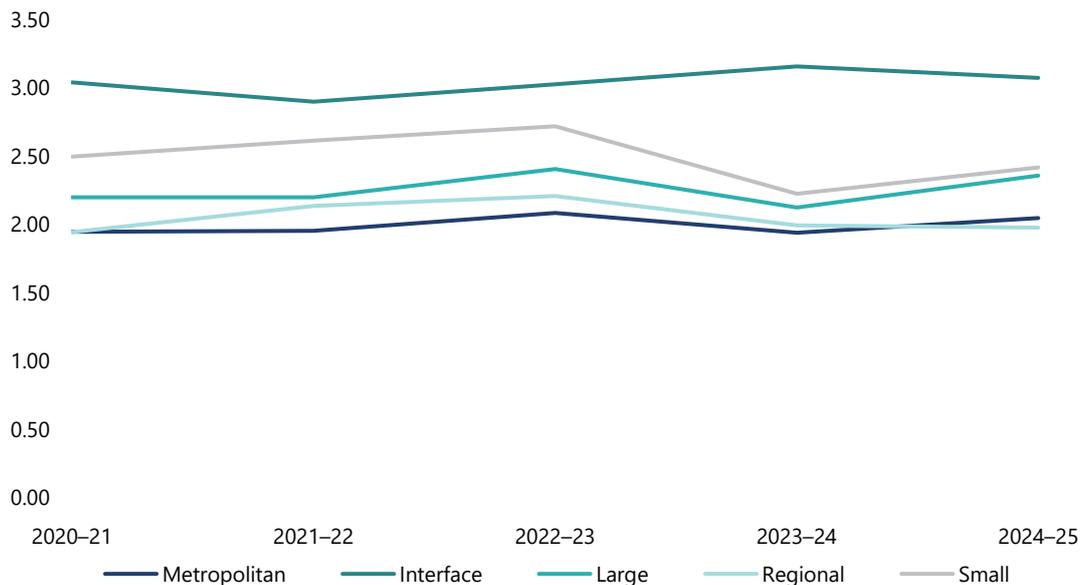
A low ratio indicates less reliance on debt to finance the assets of an organisation.

**Liquidity**

At 30 June 2025, the sector’s liquidity ratio remained positive at 2.36:1, slightly above 2.30:1 in the prior year. This means the sector’s cash and other liquid assets are more than double its short-term liabilities.

Figure 19 details the liquidity ratio by cohort from 2020–21 to 2024–25.

**Figure 19:** Liquidity ratio by cohort from 2020–21 to 2024–25



Source: VAGO.

An analysis of the liquidity ratio at a council level reveals 4 councils had a ratio less than 1:1 at 30 June 2025 compared to 6 councils in the prior year.

If the 2025-26 financial assistance grants were excluded the sector's liquidity would be 2.24:1 and 8 councils rather than 4 would have a ratio less than 1:1.

Given the variability in financial assistance grants year-on-year, councils, especially the small shire council cohort who are more dependent on government funding, need to actively manage their cash reserves.

#### **Liquidity ratio**

This measures an entity's ability to pay existing liabilities in the next 12 months.

A ratio of one or more means that an entity has more cash and liquid assets than short-term liabilities.

### **Cashflow analysis**

All councils generated positive net cash inflows from operations in 2024–25. This remained the case even when excluding the early receipt of 2025–26 financial assistance grants.

In the prior year, 6 small shire councils reported net cash outflows from operating activities, but these councils would have reported net cash inflows from operating activities had they received financial assistance grants in advance, as occurred in earlier years.

If we remove cashflow items related to capital income inflows, such as capital grants and developer contributed cash (as these will be spent on capital items in the future), all councils were cashflow positive in 2024–25. In contrast, 23 councils reported net cash outflows in the prior year due to the timing of financial assistance grants receipts.

### **Internal financing and indebtedness**

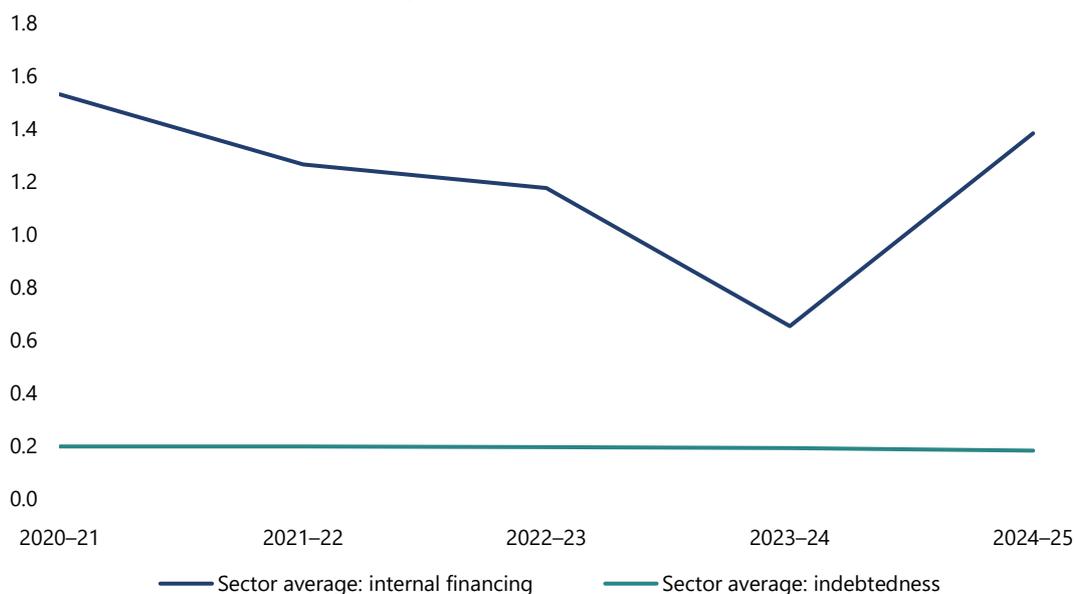
The internal financing indicator measures a council's ability to finance capital works from its operating cashflows. The higher the percentage, the greater the ability for the council to finance capital works from its own funds.

The indebtedness indicator assesses whether councils can service their debts and meet their repayment obligations using their own-source revenue. The lower the ratio, the less revenue the council is required to use to repay its total debt.

#### **Own-source revenue**

Own-source revenue takes total revenue and income and excludes income streams over which councils have limited control. These are government grants and developer contributions.

**Figure 20:** The sector's internal financing and indebtedness indicator results from 2020–21 to 2024–25



Source: VAGO.

Figure 20 indicates councils should be able to service and repay their debts from own source revenue and income. The improved internal financing ratio is due to the timing of the financial assistance grants, the increase does not necessarily mean councils have a greater ability to fund capital expenditure from operating cashflows.

## Asset valuations are driving an increase in the value of total assets

### Property and infrastructure assets fair value

Property, infrastructure assets, plant and equipment increased by \$12.019 billion (from \$141.025 billion to \$153.044 billion) or 8.5 per cent in 2024–25. This followed an increase of \$7.827 billion (or 5.9 per cent) in the prior year.

While there has been capital investment by the councils each year, asset valuations are resulting in significant fair value adjustments and driving significant growth in the sector's total assets.

**Figure 21:** Key factors impacting growth in property, infrastructure assets, plant and equipment in 2023–24 and 2024–25

Key factors	2024–25 \$ billion	2023–24 \$ billion
<b>PIPE increase mainly driven by ...</b>		
Capital expenditure	3.370	3.479
Fair value adjustments	9.392	4.939
Developer contributed assets	1.479	1.492
<b>And mainly offset by ...</b>		
Annual depreciation expense	2.250	2.058

Note: PIPE refers property, infrastructure assets, plant and equipment.  
Source: VAGO.

From the 2024–25 financial year, Australian Accounting Standards Board (AASB) 13 *Fair Value Measurement* introduced amendments that provide authoritative guidance for not-for-profit public sector entities. The amendments focus on the application of fair value using the current

replacement cost valuation technique, which councils use to value material asset classes such as infrastructure.

The updated guidance clarified how entities should apply the current replacement cost approach and permits additional costs to be incorporated into fair value estimates where those costs affect the amount required to replace an asset with a modern equivalent. This approach aligns with the objective of fair value measurement under AASB 13 for assets held for service delivery rather than for generating profit.

As a result, costs that may not have been considered in past valuations were now included, such as:

- disruption costs
- site preparation costs
- costs to restore other entities' assets that will be affected by replacing an existing asset.

The resulting fair value adjustment of \$9.392 billion for the sector reflects higher current replacement costs and market price adjustments driven by construction cost inflation.

The increase does not represent growth in the form of new assets. However, the higher values have implications for councils' budgeting and asset management decisions, particularly when determining the planned level of asset expansion, renewal, upgrade or replacement works.

## Councils continue to underspend their capital budgets

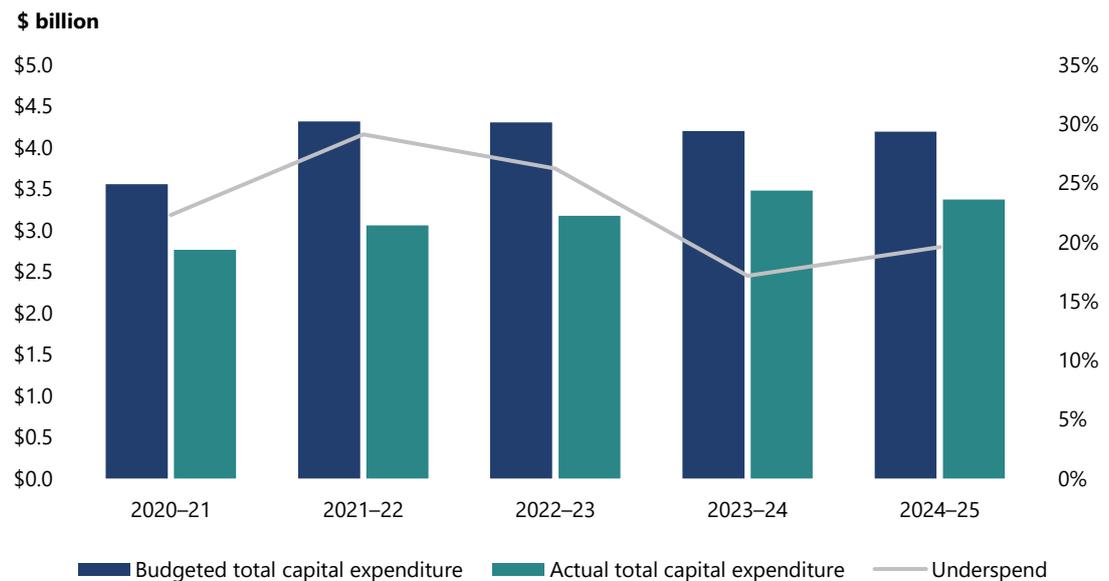
### Capital expenditure

Councils continue to set capital expenditure targets that are not being achieved year-on-year.

In 2024–25, the sector's capital expenditure totalled \$3.370 billion, which was 19.6 per cent (\$0.820 billion) below budgets set by councils. In the prior year the underspend was 17.1 per cent (\$0.720 billion).

Figure 22 reveals a trend of underspend over the last 5 years.

**Figure 22:** A comparison of councils' budgeted and actual capital expenditure and underspend percentage from 2020–21 to 2024–25



Source: VAGO.

As highlighted in our past reports, councils can improve their capital budgeting processes and how they manage and deliver projects.

Prior to finalising capital budgets each year, management and councillors should, where applicable, consider:

- why the underspending is occurring
- the council's past delivery performance when assessing whether it can deliver proposed capital projects within the indicated timeframes
- the nature and number of carry-forward projects and their impact on delivery of the capital works program
- current market conditions and their impact on estimated project costs, particularly the availability of contractors and supply chain developments
- project commencement and completion dates, taking into account required procurement activities including environmental conditions and planning approvals
- how the project is being funded (that is, rates and charges, government capital grant, new borrowings) and whether funding depends on a successful grants application
- whether the council should phase project funding across more than one financial year.

The bushfire events from December 2025 to February 2026 damaged a number of councils' property and infrastructure assets, particularly road networks. As a result, several councils are unlikely to deliver their approved 2025–26 capital works program, as affected councils focus on clean-up and recovery activities.

---

### Small councils' capital projects

Small shire councils rely on government funding for capital projects given their small ratepayer base.

In 2024–25, capital grants equated to over 50 per cent of capital expenditure at 11 small councils. Without ongoing capital grants from either the Australian or Victorian governments, small councils may be unable to construct new assets, upgrade, replace or renew their assets.

---

### Capital replacement and renewal gap ratios

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 one indicates that spending is faster than depreciation rates.

#### Capital renewal gap ratio

This ratio focuses on how well the council is renewing its assets to keep them in good condition. It compares how much the council actually spends on renewing or repairing assets versus how much it should be spending based on the condition of those assets.

If the ratio is high, it means the council is doing a good job of renewing assets. A lower ratio means the council is falling behind in keeping up with needed repairs and renewals, which can lead to increased maintenance costs and asset failures in the future.

#### Capital replacement ratio

This ratio indicates if a council is investing enough in asset replacement. A ratio above one means spending exceeds asset wear, a positive sign. Below one suggests insufficient investment, risking aging infrastructure.

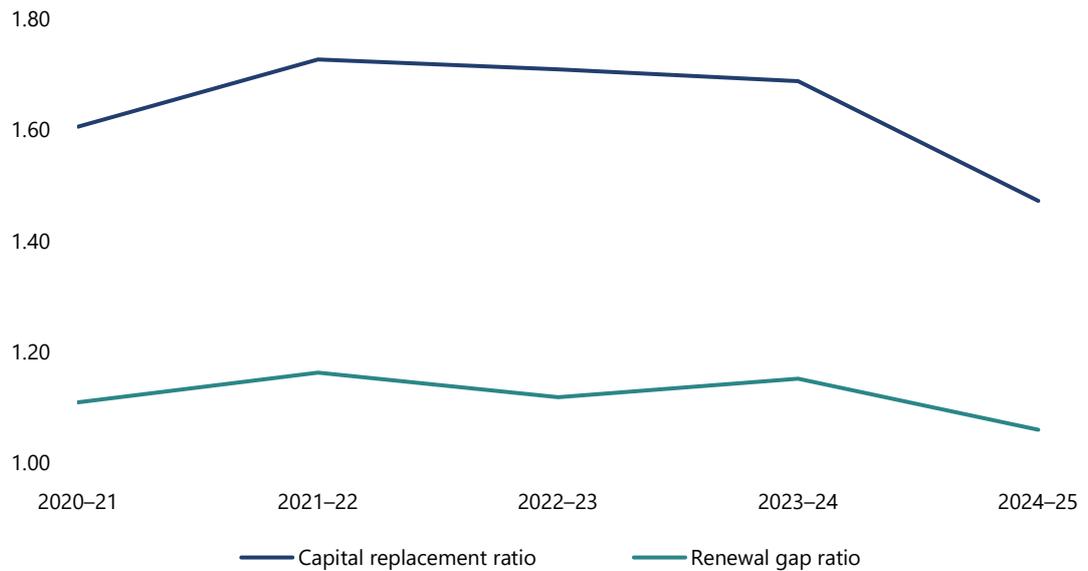
The sector's average capital replacement ratio and renewal gap ratio over the last 5 years remained above one (see Figure 23). But this indicator does not consider councils' planned capital expenditure.

The underspend indicates spending on asset expansion, renewal, upgrade or replacement may not be keeping pace with community needs.

At 30 June 2025 the sector's:

- average capital replacement ratio was 1.47 (2023–24: 1.69)
- average capital renewal gap ratio was 1.06 (2023–24: 1.15).

**Figure 23:** The sector's average capital replacement and renewal gap ratios from 2020–21 to 2024–25



Source: VAGO.

## Recommendations

### Councils

That councils undertake a review of their capital expenditure budgeting process to understand why the underspend is occurring, whether key assumptions require enhancement and adjust future asset management plans accordingly.

# 3.

## Internal control and financial reporting issues

### Snapshot



Councils can strengthen their internal controls to better support the preparation of reliable reporting. Each year, we continue to identify weaknesses in financial reporting controls, IT controls and asset management and valuation. A large number of high and moderate-risk issues identified in past audits also remain unresolved.

Senior management and audit and risk committees need to strengthen oversight so councils implement agreed recommendations on time. Unresolved issues expose councils to ongoing financial and operational risks.

Preparedness for the amendments to AASB 13 *Fair Value Measurement* was mixed across the sector, with 36 councils not fully implementing our prior-year recommendations.

## Councils can strengthen their internal controls to better support reliable reporting

**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. Overall, councils can strengthen their internal controls to better support the preparation of reliable reports. Persistent year-on-year issues in financial reporting, IT controls, asset management and the oversight of asset valuations highlight specific areas for improvement.

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**Communicating issues** Where we find internal control and financial reporting issues, we bring these to the attention of management and those charged with governance in line with the requirements of the Australian Auditing Standards. This includes:

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

We do this as part of our audit approach, but not to form an opinion on the operating effectiveness of the internal controls.

Councils can strengthen their internal controls and financial reporting processes by promptly addressing issues we raise, with a focus on prioritising higher-risk matters.

When we bring matters to the attention of management and those charged with governance we assign a risk rating to each issue and recommend a timeframe within which councils should address these weaknesses.

High and medium risk issues are required to be actioned and resolved in 1 and 3–6 months respectively (see Appendix F for more details).

---

**Fewer open new issues, with many prior-year issues unresolved** There has been an overall reduction in open issues, rated high or medium risk, with 164 in 2024–25 compared to 211 in the previous year. This is the second straight year where there has been a reduction in open issues.

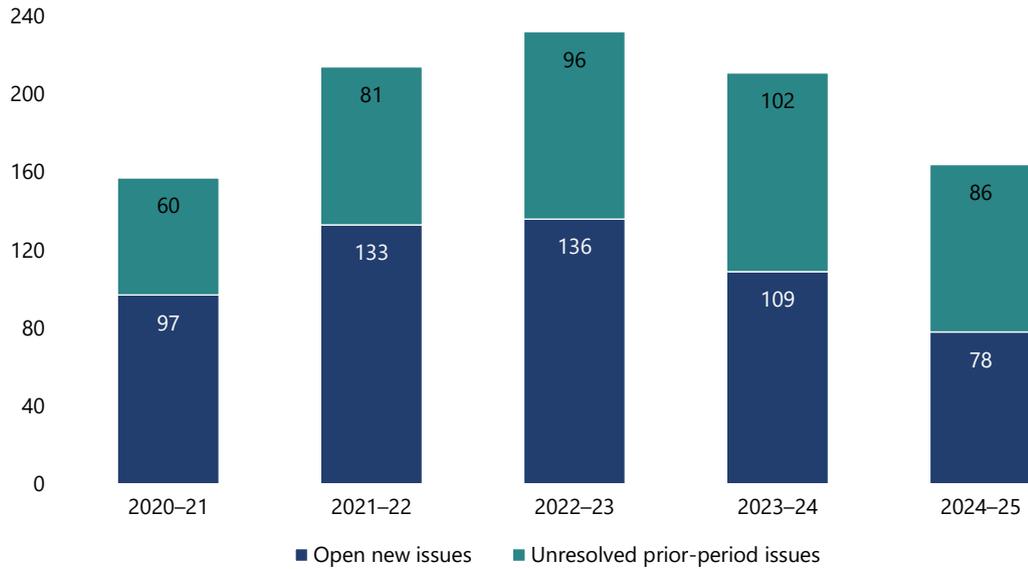
Figure 24 shows:

- 78 new internal control and financial reporting issues remain unresolved in 2024–25 down from 109 in the previous year
- 86 unresolved issues from prior year audits in 2024–25 down from 102 in the previous year.

While the reduction in open issues is positive, a large number of high and moderate-risk issues identified in past audits remain unresolved this year. Senior management and audit and risk committees need to provide stronger oversight to ensure timely implementation of accepted recommendations. Until councils address these issues, they remain exposed to financial and operational risks.

Where an issue is no longer relevant or cannot be implemented due to practical barriers, we encourage councils to identify alternative actions to manage the risk and engage with audit and risk committees and their audit teams accordingly.

**Figure 24:** Number of open new issues and unresolved prior period issues from 2020–21 to 2024–25

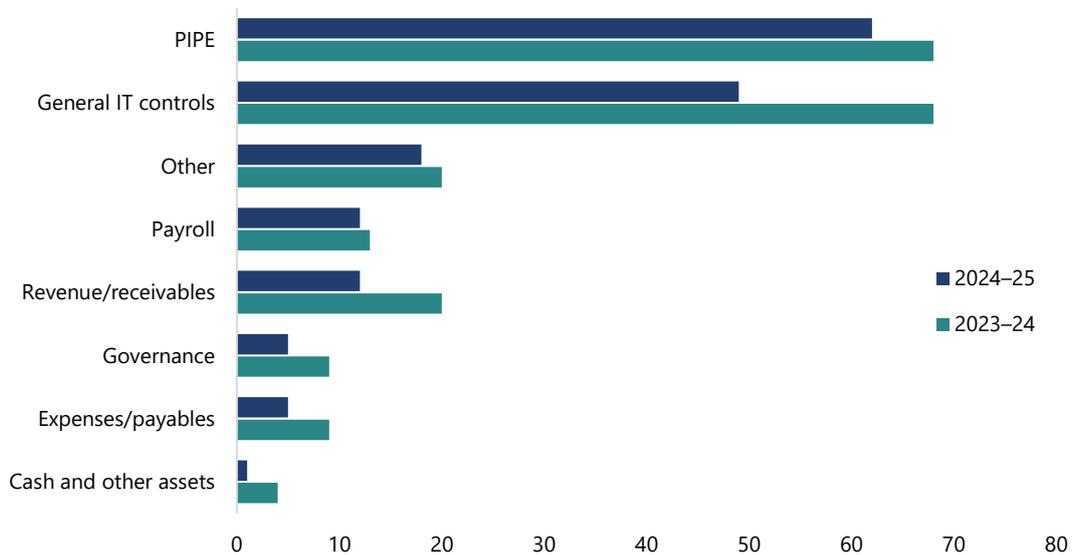


Note: High and moderate issues have been reported. We have excluded low-risk issues because we consider these minor issues.  
Source: VAGO.

**Common issues identified across reporting periods**

Each year, we continue to identify weaknesses in IT controls, as well as issues in the controls and processes that support the accounting for, and record-keeping of property, infrastructure assets, plant and equipment. Figure 25 provides a breakdown of open issues by category.

**Figure 25:** Number of open high and medium-risk issues by category for 2023–24 and 2024–25



Note: High and moderate-risk issues have been reported. We have excluded low-risk issues because we consider these minor issues. PIPE refers to property, infrastructure assets, plant and equipment.  
Source: VAGO.

These areas require a greater level of focus and oversight by councils in order to:

- reduce the number of open issues
- support timely and reliable financial reporting.

We discuss these areas in further detail below.

## Councils have made progress in resolving IT issues; however, recurring sector-wide weaknesses remain

### Importance of IT controls

IT systems support critical business processes and store sensitive data.

Effective IT controls reduce the risk of unauthorised access and changes to systems, fraud, error, data manipulation and information theft. They also help protect councils' data integrity and support reliable financial reports preparation.

### Fewer open IT issues

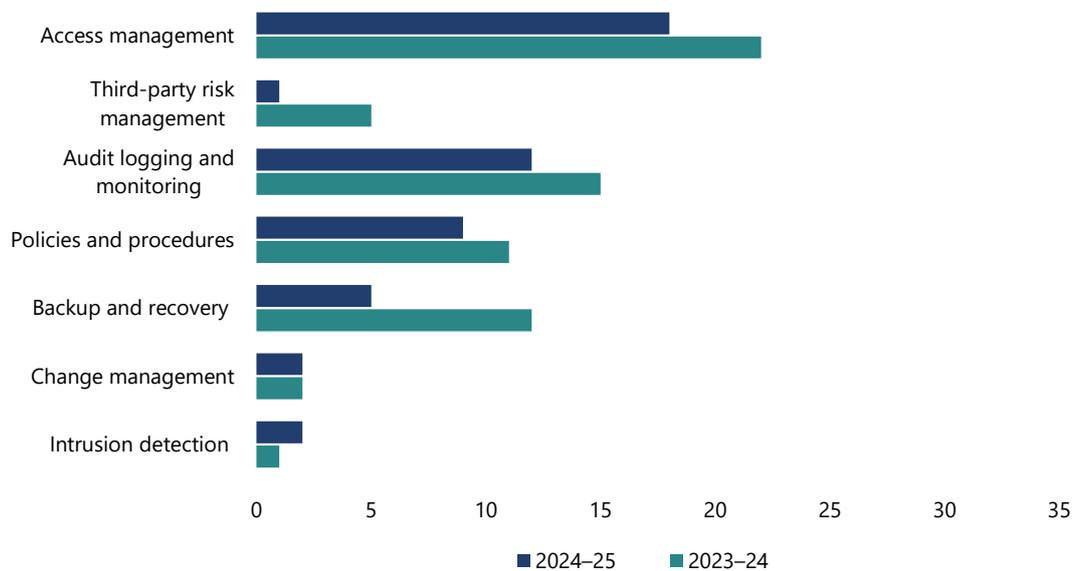
At the completion of the 2024–25 audits there were 49 open IT control issues compared to 68 in the prior year.

IT-related issues can take time to resolve, especially if a council needs to work with a system's supplier to address them. But it is important that they resolve these issues as soon as possible, to ensure the protection and reliability of the data in these systems.

### Common IT control issues

Figure 26 details common IT control issues identified at councils.

**Figure 26:** Number of open IT control issues by category for 2023–24 and 2024–25



Source: VAGO.

IT control deficiencies include ...	meaning ...	which may result in ...
access management	inadequate user access reviews, failure to implement role-based access control, inconsistent or delayed termination of system access and granting of access without proper request or approval were identified	poor management of user accounts, which can give individuals more access than needed, increasing the risk of accidental or intentional misuse of systems and data.
audit logging and monitoring	system-generated audit logs were not always enabled to track critical and sensitive activities, including but not limited to changes to system user access, configurations, reports and master data. Where audit logging is enabled, we observed instances where there is no active monitoring of these logs	unauthorised or suspicious activities going unnoticed or undetected that may impact the integrity of financial reports.
policies and procedures	there are weaknesses or gaps with policies and procedures put in place to effectively manage day-to-day operations	key internal controls not operating as intended or effectively in preventing or detecting errors or fraud in a timely manner, and policies and procedures being absent or not updated regularly for operational guidance.
backup and recovery	processes for backing up critical data and recovering it in the event of an incident, such as a system failure, data corruption, or a disaster (for example, fire, flood, cyberattack) are not documented, tested or the backup is irregular or incomplete	loss of critical data, prolonged system downtime, operational disruptions and reputational damage.

## Asset record keeping and valuation require stronger controls and oversight

### Asset record keeping

As property, infrastructure assets, plant, and equipment make up at least 85 per cent of total assets at every council, it is vital to maintain accurate records supported by a robust asset management system with strong oversight.

We continue to identify the following issues:

- failure to capitalise new assets in time, causing delays in applying depreciation and resulting in lower depreciation expense
- delays in recognising developer-contributed assets, leading to:
  - lower income
  - lower depreciation expenses
  - underreported assets.
- failure to identify assets the council controls but has not yet accounted for

- inconsistent application of internal controls and procedures, increasing the risk of errors in asset data
- irregular updating of the fixed-asset registers and delayed account reconciliations, causing inaccuracies in financial information.

These issues can also affect the asset valuation process. Inaccurate data may lead management to incorrectly include or exclude assets from valuations, affecting their financial report accuracy.

---

**Asset valuations** Councils may measure their property, infrastructure assets, plant, and equipment at cost or fair value in accordance with AASB 116 *Property, Plant and Equipment*. Councils have elected to record these assets at fair value, as defined by AASB 13 *Fair Value Measurement*, which outlines acceptable valuation techniques.

Determining fair value is complex and requires significant judgement by management. Councils must make a range of assumptions about their assets and often rely on valuation experts or industry indices to support their assessments. Strong governance, documentation and oversight are therefore critical to ensure valuations are accurate, consistent and compliant with accounting standards.

We continue to identify common asset valuation issues across the sector, including:

- inadequate documentation of key assumptions underpinning valuations and fair value assessments
- failure to conduct regular fair value assessments for all asset classes
- anomalies in valuation working papers and a lack of quality assurance reviews
- inappropriate inclusion or exclusion of assets from valuations
- a concentration of knowledge in a limited number of individuals
- failure to obtain or accurately apply condition information
- incorrect accounting for valuation movements, contrary to the requirements of AASB 116
- varied understanding and application of the AASB 13 amendments, contributing to valuation errors.

As reported in previous reports, councils need to improve their asset valuation practices.

---

**Follow-up on prior-year recommendations**

Amendments to AASB 13 became effective from 1 July 2024 and applied for the first time to the 2024–25 financial year.

The amendments primarily affect fair value measurements using the current replacement cost valuation technique. They allow councils to refine how they value property, infrastructure assets, plant, and equipment improving asset accounting, budgeting and asset management.

In our *Results of 2023–24 Audits: Local Government* report, we recommended that councils ensure they understand and appropriately implement the AASB 13 amendments by updating valuation policies, aligning valuation methodologies with the revised standard, engaging with valuers and auditors where needed, and strengthening governance, documentation and disclosures. Appendix H outlines the recommendation in more detail.

For 2024–25, 36 councils have not fully addressed our recommendation. We observed:

- asset policies were not updated to reflect AASB 13 amendments
- inadequate evidence to demonstrate how the amendments were adopted or to support change in assumptions

- accounting position papers were not developed or presented to audit and risk committees
- valuation assumptions were often not supported by appropriate data
- finance teams were not sufficiently familiar with the valuation methodologies and assumptions applied.

As reported in previous years, councils need to improve their asset valuation practices by strengthening governance, documentation and oversight to ensure compliance with accounting standards and the reliability of financial reporting.

This is important because reasonable asset valuations ensure council financial reports reflect the true economic cost of delivering public services. Accurate fair value information also strengthens accountability and supports more informed decision-making in asset management, budgeting, and long-term financial planning.

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# 4.

## Appendices

[Appendix A: Submissions and comments](#)

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

[Appendix C: Sector context](#)

[Appendix D: Audit context](#)

[Appendix E: Audit opinions](#)

[Appendix F: Internal control and financial reporting issue risk ratings](#)

[Appendix G: Financial sustainability indicators](#)

[Appendix H: Prior-year recommendations](#)

[Appendix I: Checklist for simplifying financial reports](#)

# 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 relevant 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

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

By email: [REDACTED]

Dear Auditor-General

### RESULTS OF 2024–25 AUDITS: LOCAL GOVERNMENT PROPOSED REPORT

Thank you for your letter of 6 March 2026 providing the department with a copy of the proposed report titled *Results of 2024–25 Audits: Local Government*.

It is reassuring to know that all council audits are complete and that users can rely on councils' financial reports and performance statements.

I note the 2 new recommendations in the report. The Department of Government Services accepts the recommendation addressed to Local Government Victoria (LGV).

My department will write to all councils to remind them of their annual reporting obligations under the *Local Government Act 2020*. LGV currently provides extensive sector guidance aimed at strengthening council understanding of legislative and reporting requirements and will consider how best to target awareness of this material to key stakeholders. LGV continues to monitor councils' compliance with annual reporting requirements, including referring matters to the Local Government Inspectorate when warranted. LGV will also continue to work with your office to understand the reasons for non-compliance with annual reporting deadlines and support councils to develop appropriate remediation plans.

I also note the recommendations from prior reports that remain relevant. I can confirm that LGV is working with the Municipal Association of Victoria to complete tailored resources to support councillors and audit and risk committee members throughout their term of appointment. This guidance is expected to be available in the second half of 2026.

If your office requires further information, please contact [REDACTED]

Yours sincerely

**Jo de Morton**  
Secretary

13/03/2026

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:

## Abbreviations, acronyms and glossary

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

Abbreviation	Full spelling
AASB 13	AASB 13 <i>Fair Value Measurement</i>
AASB 13 amendments	<i>Amendments to Australian Accounting Standard AASB 13 – Fair Value Measurement of Non-Financial Assets of Not-for-Profit Public Sector Entities</i>
AASB 107	AASB 107 <i>Statement of Cash Flows</i>
AASB 116	AASB 116 <i>Property, Plant and Equipment</i>
Victorian Constitution	<i>Constitution Act 1975</i>
FinPro	Local Government Finance Professionals
the Act	<i>Local Government Act 2020</i>
the Regulations	<i>Local Government (Planning and Reporting) Regulations 2020</i>

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

Acronym	Full spelling
AASB	Australian Accounting Standards Board
IT	Information technology
LGV	Local Government Victoria
MAV	Municipal Association of Victoria
PIPE	property, infrastructure assets, plant and equipment
VAGO	Victorian Auditor-General's Office

## Glossary

The following terms are included in or relevant to this report:

Term	Explanation
Level of assurance	<p>This is a measure of the confidence we have in our conclusions. The quality and quantity of evidence we obtain affects our level of assurance.</p> <p>We design our work programs with the information needs of our report users in mind. We consider if we need to provide them with reasonable assurance or if a lower level of assurance may be appropriate.</p>
Limited assurance	<p>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 <b>assurance reviews</b> and typically express our opinions in negative terms. For example, 'nothing has come to our attention to indicate there is a problem'.</p> <p>See our <a href="#">assurance services fact sheet</a> for more information.</p>
Reasonable assurance	<p>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 draw a conclusion against an objective with a high level of assurance. We call these <b>audit engagements</b>.</p> <p>See our <a href="#">assurance services fact sheet</a> for more information.</p>

# Appendix C:

## Sector context

### Sector at a glance

- Number of entities** The Victorian local government sector consists of 104 agencies, made up of:
- 79 local councils
  - 11 companies controlled by local councils
  - 8 library corporations
  - 6 associated entities.

**Council cohorts** Local Government Victoria (LGV) classifies councils into 5 local government groups. These groups are based on size, demographics and funding.

**Figure C1:** Council cohorts

Cohort	Definition	Number of councils
Metropolitan	A metropolitan council is 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	A regional 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 mainly rural in character.	19
Small shire	A small shire council is a municipality with fewer than 16,000 inhabitants that is mainly rural in character.	19
<b>Total</b>		<b>79</b>

Source: LGV.

**Councils' main purpose** Councils are area-based representative governments. They have a legislative and electoral mandate to manage local issues and plan for the community's needs.

Councils provide a range of services to their communities. This includes maintaining local roads, managing waste, delivering family services, and running 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 LGV's assistance.

Under the *Local Government Act 2020* (the Act) the Minister for Local Government may:

- appoint a municipal monitor to provide advice to councils and report back to the minister on a range of council structural, operational and governance issues

- appoint a Chief Municipal Inspector to investigate any breach of the Act, misconduct allegations by a councillor or public interest complaint that relates to a councillor's or member of council staff's conduct
  - appoint a person or persons to constitute a Commission of Inquiry to conduct an inquiry into council affairs and report back to the Minister
  - recommend the Governor in Council stand down a councillor
  - recommend the Governor in Council suspend all councillors and appoint an administrator who must perform all functions, powers and duties of the council.
- 

#### Local Government Victoria

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.

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#### Peak bodies

The Municipal Association of Victoria (MAV) is a membership association and the legislated peak body for Victoria's 79 councils. It is a body corporate, incorporated by a state Parliament act. The results of its annual financial audit are included in Appendix E.

Local Government Finance Professionals (FinPro), an incorporated association, is the peak body servicing finance professionals within the local government sector. It represents all Victorian councils, 4 regional library corporations and more than 30 other organisations.

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## Legislative framework

#### Governance

The *Constitution Act 1975* (Victorian 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.

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#### The Act

The Governor of Victoria approved the Act on 24 March 2020. It adopts a principle-based approach rather than a rule-based approach.

Part 4, Division 3 of the Act details a council's annual report obligations. It requires the financial report and performance statement to be prepared in line with the *Local Government (Planning and Reporting) Regulations 2020*.

---

#### Local Government (Governance and Integrity) Regulations 2020

The *Local Government (Governance and Integrity) Regulations 2020* sets out various governance and integrity matters.

These regulations were amended by the *Local Government (Governance and Integrity) Amendment Regulations 2024*. Effective from 26 October 2024, the amendments:

- are more prescriptive about mayoral training, councillor induction training, councillor professional development training and the internal arbitration process to be followed
  - require a council to adopt the *Model Councillor Code of Conduct* by 1 July 2025.
-

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

The *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 C2 outlines the legislation underpinning the financial reporting obligations of the local government sector.

**Figure C2:** Financial reporting legislative obligations

Entity	Legislation	Requirement
Councils	<i>Local Government Act 2020</i> <i>Local Government (Planning and Reporting) Regulations 2020</i>	<p>A council must prepare a financial report and performance statement as soon as practicable after the end of the financial year.</p> <p>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. In a general election year, it must be held before the day of election.</p> <p>The annual report must contain a report of operations, the audited financial report, performance statement and associated audit opinions.</p> <p>There is no requirement for councils to lodge their annual report with the Minister for Local Government.</p>
Council-controlled entities	<i>Corporations Act 2001 (Cth)</i>	Prepare a director’s report and financial report.
Library corporations	<i>Local Government Act 1989</i> or the <i>Australian Charities and Not-for-profits Commission Act 2012 (Cth)</i>	<p>The 8 library corporations comprise:</p> <ul style="list-style-type: none"> <li>6 regional library corporations, established under the <i>Local Government Act 1989</i></li> <li>2 library corporations established as an Australian company limited by guarantee under the <i>Corporations Act 2001</i> and registered as a charitable organisation under the <i>Australian Charities and Not-for-profits Commission Act 2012 (Cth)</i>.</li> </ul> <p>The 6 regional library corporations continue to prepare annual financial reports in accordance with the requirements of the <i>Local Government Act 1989</i>, given the transitional provisions of the <i>Local Government Act 2020</i>.</p> <p>The 2 companies, limited by guarantee, prepare a financial report in accordance with the requirements of the <i>Australian Charities and Not-for-profits Commission Act 2012 (Cth)</i> and is required to lodge its annual report with the Australian Charities and Not-for-profits Commission by 31 December each year.</p>
Associated entities	<i>Corporations Act 2001 (Cth)</i> or <i>agency-specific legislation</i>	Prepare a director’s report and financial report.

Source: VAGO.

## Financial context

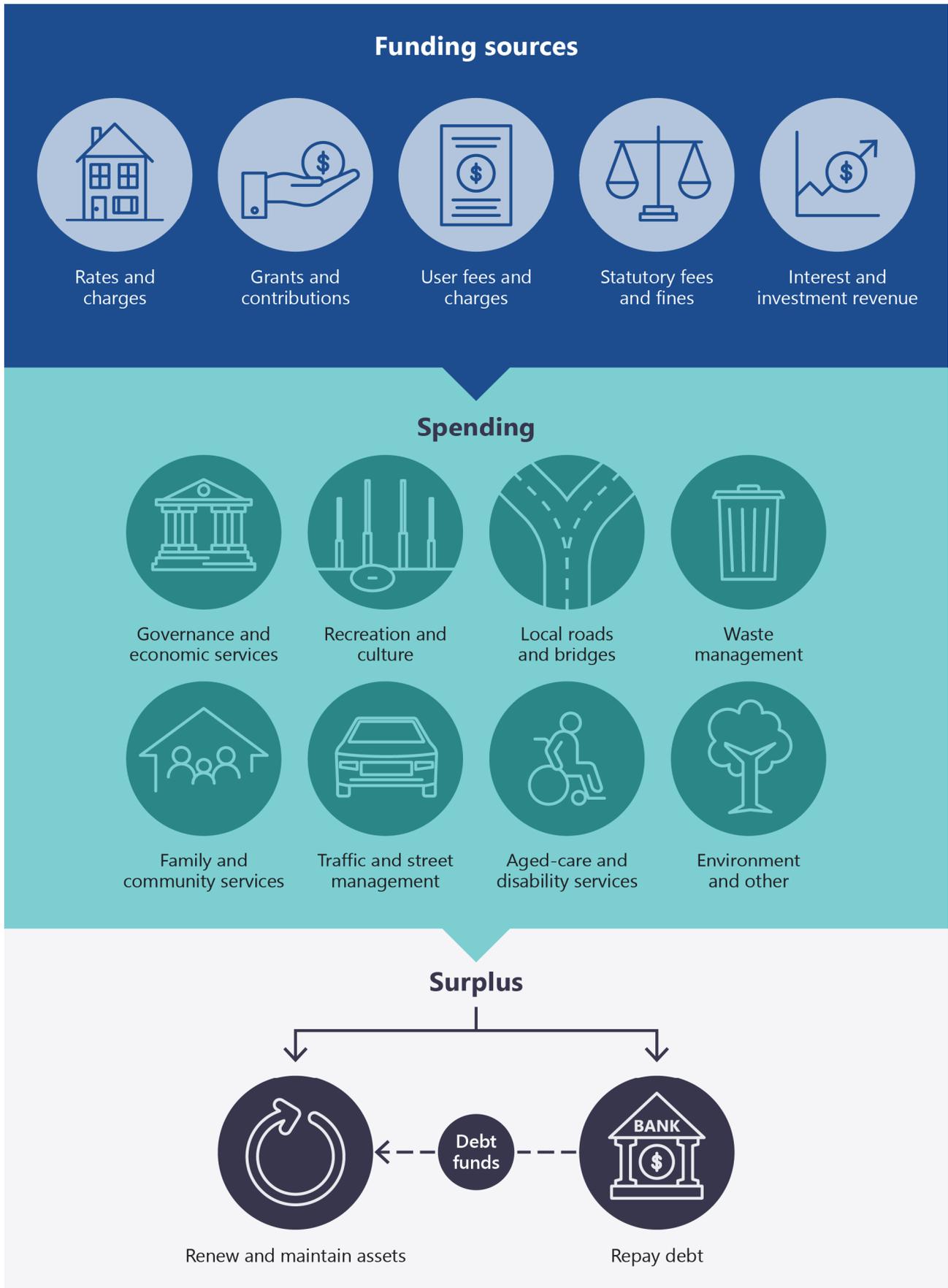
**Council funding and spending** Council operations are primarily funded through:

- rates and charges
- government grants
- developer contributions, and
- user fees and charges.

Most of the sector's assets are property (comprising land and buildings), infrastructure assets, and plant and equipment.

Figure C3 shows how councils are funded, what they spend it on, and how unspent money is used.

Figure C3: Overview of the local government sector funding and spending



Source: VAGO.

# Appendix D:

## 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 preparing this report and the supporting data dashboard was \$295,000, which is funded by parliamentary appropriation.

The cost of auditing each agency is recovered on a fee-for-service basis. The costs are charged directly to each agency and are included in their respective financial statements as part of their operating expenses.

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# Appendix E:

## Audit opinions

Figure E1 lists the 104 agencies included in this report and details the date of the audit opinion and type of audit opinion issued for each agency's 2024–25 financial report and performance statement, where applicable.

Figure E2 provides detail on the 4 audits relating to the 2024–25 financial year in progress as of 27 February 2026.

Figure E3 provides an update on audits relating to prior years that were listed as in progress in our *Results of 2023–24 Audits: Local Government* report.

**Figure E1:** Audit opinions issued for the local government sector for the 2024–25 financial year

Agency	Date of audit opinion(s)	Financial report	Performance statement
<b>Councils</b>			
<b>Metropolitan</b>			
Banyule City Council	1 October 2025	U	U
Bayside City Council	23 September 2025	U	U
Boroondara City Council	25 September 2025	U	U
Brimbank City Council	6 October 2025	U	U
Darebin City Council	3 October 2025	U	U
Frankston City Council	9 October 2025	U	U
<ul style="list-style-type: none"> <li>Peninsula Leisure Pty Ltd</li> </ul>	29 August 2025	U	N/A
Glen Eira City Council	16 September 2025	U	U
Greater Dandenong City Council	25 September 2025	U	U
<ul style="list-style-type: none"> <li>Dandenong Market Pty Ltd</li> </ul>	29 August 2025	U	N/A
<ul style="list-style-type: none"> <li>South East Leisure Pty Ltd</li> </ul>	27 August 2025	U	N/A
Hobsons Bay City Council	25 September 2025	U	U
Kingston City Council	8 October 2025	U	U
Knox City Council	12 September 2025	U	U
Manningham City Council	29 September 2025	U	U
Maribyrnong City Council	19 September 2025	U	U
Maroondah City Council	3 September 2025	U	U
Melbourne City Council	3 October 2025	U	U
<ul style="list-style-type: none"> <li>Citywide Service Solutions Pty Ltd</li> </ul>	5 September 2025	U	N/A

Agency	Date of audit opinion(s)	Financial report	Performance statement
• Queen Victoria Market Pty Ltd	29 August 2025	U	N/A
Merri-bek City Council	23 September 2025	U	U
Monash City Council	23 October 2025	U	U
Moonee Valley City Council	25 September 2025	U	U
Port Phillip City Council	1 October 2025	U	U
Stonnington City Council	21 October 2025	U	U
• Prahran Market Pty Ltd	9 December 2025	U	N/A
Whitehorse City Council	23 October 2025	U	U
Yarra City Council	19 September 2025	U	U
<b>Interface</b>			
Cardinia Shire Council	23 September 2025	U	U
Casey City Council	24 September 2025	U	U
Hume City Council	3 October 2025	U	U
Melton City Council	17 October 2025	U	U
Mornington Peninsula Shire Council	25 September 2025	U	U
Nillumbik Shire Council	6 October 2025	U	U
Whittlesea City Council	8 October 2025	U	U
Wyndham City Council	30 September 2025	U	U
• Western Leisure Services Pty Ltd	12 September 2025	U	N/A
Yarra Ranges Shire Council	20 October 2025	U	U
<b>Regional</b>			
Ballarat City Council	13 October 2025	U	U
Greater Bendigo City Council	3 October 2025	U	U
Greater Geelong City Council	17 October 2025	U	U
Greater Shepparton City Council	29 September 2025	U	U
Horsham Rural City Council	17 October 2025	U	U
Latrobe City Council	14 October 2025	U	U
Mildura Rural City Council	24 October 2025	U	U
• Mildura Airport Pty Ltd	15 September 2025	U	N/A
• Mildura Tourism and Economic Development Limited	Audit in progress	X	N/A
Wangaratta Rural City Council	10 October 2025	U	U
• Wangaratta Livestock Exchange Pty Ltd	27 October 2025	U	N/A
Warrnambool City Council	11 September 2025	U	U
Wodonga City Council	29 September 2025	U	U

Agency	Date of audit opinion(s)	Financial report	Performance statement
<b>Large Shire</b>			
Bass Coast Shire Council	13 October 2025	U	U
Baw Baw Shire Council	14 October 2025	U	U
Campaspe Shire Council	6 October 2025	U	U
<ul style="list-style-type: none"> <li>Campaspe Port Enterprise Pty Ltd</li> </ul>	3 December 2025	U	N/A
Colac Otway Shire Council	21 October 2025	U	U
Corangamite Shire Council	9 October 2025	U	U
East Gippsland Shire Council	9 October 2025	U	U
Glenelg Shire Council	22 January 2026	U	U
Golden Plains Shire Council	23 October 2025	U	U
Macedon Ranges Shire Council	16 October 2025	U	U
Mitchell Shire Council	15 October 2025	U	U
Moira Shire Council	7 October 2025	U	U
Moorabool Shire Council	13 October 2025	U	U
Mount Alexander Shire Council	22 September 2025	U	U
Moyne Shire Council	1 October 2025	U	U
South Gippsland Shire Council	24 September 2025	U	U
Southern Grampians Shire Council	13 October 2025	U	U
Surf Coast Shire Council	25 September 2025	U	U
Swan Hill Rural City Council	19 September 2025	U	U
Wellington Shire Council	13 October 2025	U	U
<b>Small shire</b>			
Alpine Shire Council	9 October 2025	U	U
Ararat Rural City Council	9 December 2025	U	U
Benalla Rural City Council	29 October 2025	U	U
Borough of Queenscliffe	3 October 2025	U	U
Buloke Shire Council	16 October 2025	U	U
Central Goldfields Shire Council	13 October 2025	U	U
Gannawarra Shire Council	13 October 2025	U	U
Hepburn Shire Council	29 September 2025	U	U
Hindmarsh Shire Council	22 January 2026	U	U
Indigo Shire Council	27 November 2025	U	U
Loddon Shire Council	20 October 2025	U	U
Mansfield Shire Council	15 October 2025	U	U
Murrindindi Shire Council	29 October 2025	U	U

Agency	Date of audit opinion(s)	Financial report	Performance statement
Northern Grampians Shire Council	2 October 2025	U	U
Pyrenees Shire Council	17 October 2025	U	U
Strathbogie Shire Council	29 September 2025	U	U
Towong Shire Council	15 October 2025	U	U
West Wimmera Shire Council	7 November 2025	U	U
Yarriambiack Shire Council	7 October 2025	U	U
<b>Library corporations</b>			
Casey-Cardinia Library Corporation	21 October 2025	U	N/A
Geelong Regional Library Corporation	23 September 2025	U	N/A
Goulburn Valley Regional Library Corporation	29 September 2025	U	N/A
Myli – My Community Library Ltd	22 October 2025	U	N/A
North Central Goldfields Regional Library Corporation	9 October 2025	U	N/A
Whitehorse Manningham Regional Library Corporation	21 August 2025	U	N/A
Yarra Plenty Regional Library Service	18 September 2025	U	N/A
Your Library Ltd	25 September 2025	U	N/A
<b>Associated entities</b>			
MomentumOne Shared Services Pty Ltd	Outstanding	Z	N/A
Municipal Association of Victoria	9 October 2025	U	N/A
Procurement Australasia Ltd	17 December 2025	U	N/A
Regent Management Company Pty Limited	Audit in progress	X	N/A
Regional Landfill Clayton South Joint Venture	23 September 2025	U	N/A
Wimmera Southern Mallee Development Limited	Audit in progress	X	N/A

Note: U = unmodified audit opinion. X = audit in progress. Z = audit subject to prior year financial reports' finalisation. N/A = not applicable.  
Source: VAGO.

**Figure E2:** Audits relating to the 2024–25 financial year in progress as of 27 February 2026

Type of agency	Entity name	Why in progress
Council controlled entity	Mildura Tourism and Economic Development Limited	The audit remains in progress while the entity resolves accounting issues arising from its decision to transfer functions to the parent entity, Mildura Rural City Council. Availability of external audit resources has also delayed the completion of the audit.
Associated entities	MomentumOne Shared Services Pty Ltd	The company has been dormant since November 2021. The audit is outstanding as the 2021–22 financial report is yet to be finalised.
Associated entities	Regent Management Company Pty Limited	Delays in resolving asset revaluation issues, together with limited availability of external audit resources, delayed the finalisation of the 2023–24 financial report. This, in turn, impacted the timing of the preparation and audit of the 2024–25 financial report.

Type of agency	Entity name	Why in progress
Associated entities	Wimmera Southern Mallee Development Limited	Availability of the draft financial report and resolution of accounting issues, together with limited availability of external audit resources, has delayed the completion of the audit.

Source: VAGO.

**Figure E3:** Status of audits relating to prior years previously reported as being in progress

Entity name	Financial year	Date of audit opinion(s)	Financial report	Performance statement
Yarriambiack Shire Council	2023–24	17 April 2025	U	U
MomentumOne Shared Services Pty Ltd	2023–24	Outstanding	Z	N/A
	2022–23	Outstanding	Z	N/A
	2021–22	Audit in progress	X	N/A
Regent Management Company Pty Limited	2023–24	9 December 2025	U	N/A

Note: U = unmodified audit opinion. X = audit in progress. Z = audit subject to prior year financial reports' finalisation. N/A = not applicable.  
Source: VAGO.

# Appendix F:

## Internal control and financial reporting issue risk ratings

Figure F1 defines the risk ratings that we apply to internal control and financial reporting 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
High	<p>The issue represents:</p> <ul style="list-style-type: none"> <li>a material misstatement 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</li> </ul> <p>or</p> <ul style="list-style-type: none"> <li>a control weakness that is or could majorly disrupt 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>within 1 month</p> <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>
Medium	<p>The issue represents:</p> <ul style="list-style-type: none"> <li>a misstatement in a financial report that has occurred, or may occur, and has the possibility to become material</li> </ul> <p>or</p> <ul style="list-style-type: none"> <li>a control weakness that could have or is having a moderate adverse effect on an entity's ability to achieve process objectives and comply with relevant legislation.</li> </ul>	<p>3–6 months</p> <p>Medium-risk issues require management to intervene with a detailed action plan and implement it within 3 to 6 months.</p>
Low	<p>The issue represents:</p> <ul style="list-style-type: none"> <li>a misstatement in a financial report that is likely to occur but is not expected to be material</li> </ul> <p>or</p> <ul style="list-style-type: none"> <li>a minor control weakness with minimal but reportable impact on an entity's ability to achieve process objectives and comply with relevant legislation</li> </ul> <p>or</p> <ul style="list-style-type: none"> <li>an opportunity to improve an existing process or internal control.</li> </ul>	<p>6–12 months</p> <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 for individual council financial sustainability data and analysis.

(<https://www.audit.vic.gov.au/report/results-2024-25-audits-local-government>)

**Figure G1:** Financial sustainability indicators

Indicator	Formula	Description
Net result margin (%)	Net result / total revenue and income	<p>A positive result indicates a surplus. 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 and income 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 one or more means that an entity has more cash and liquid assets than short-term liabilities.</p>
Internal financing (%)	Net operating cashflow / net capital expenditure	<p>This measures an entity's ability to finance capital works from generated cashflow.</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 cashflows and net capital expenditure are obtained from the statement of cashflows.</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,	This compares the rate of spending on new property infrastructure assets, plant and equipment with its

Indicator	Formula	Description
	infrastructure assets, plant and equipment / depreciation	depreciation. Ratios higher than one indicate that spending is faster than the depreciating rate. 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 assets, plant and equipment are taken from the statement of cashflows. Depreciation is taken from the comprehensive income statement.
Capital renewal gap (ratio)	Renewal and upgrade expenditure / depreciation	This compares the rate of spending on renewing, restoring and replacing existing assets with depreciation. Ratios higher than one indicate that spending on existing assets is faster than the depreciation rate.

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.

# Appendix H:

## Prior-year recommendations

Figure H1 provides an update on action taken in relation to recommendations from our *Results of 2023–24 Audits: Local Government* report.

Figure H2 provides an update on action taken in relation to recommendations from our *Results of 2022–23 Audits: Local Government* report.

**Figure H1:** Status of recommendations from our *Results of 2023–24 Audits: Local Government* report

Who	Recommendation	Recommendation addressed
Councils	<p>1 For councils that did not prepare draft financial reports or performance statements by the timelines agreed with their auditor:</p> <ul style="list-style-type: none"> <li>assess their resources and expertise to confirm they can meet reporting obligations. If additional resources or support are required, they should explore how to secure the necessary support to successfully fulfill the requirements of the <i>Local Government Act 2020</i></li> <li>strengthen their annual report plan to better align with legislative obligations, focusing on: <ul style="list-style-type: none"> <li>clear task allocation and achievable timelines</li> <li>enhanced coordination with other business units</li> <li>engaging with subject matter experts</li> <li>quality assurance processes.</li> </ul> </li> </ul>	<p>In progress:</p> <ul style="list-style-type: none"> <li>13 councils yet to fully address the recommendation</li> </ul> <p>See Section 1 for details about the 2024–25 financial reports' timeliness and quality.</p>
	<p>2 Councils take the lead in the formation of a 'developer non-cash contribution' working party to create guidance materials that will strengthen internal processes.</p> <p>Councils could also consider hosting workshops to support the sector in applying the guidance effectively.</p>	<p>In progress:</p> <ul style="list-style-type: none"> <li>28 councils yet to fully address the recommendation</li> </ul>
	<p>3 Councils resolve the open recommendations from the <i>Results of 2022–23 Audits: Local Government</i> report.</p>	<p>In progress:</p> <ul style="list-style-type: none"> <li>21 councils yet to resolve open findings from our earlier report</li> </ul>
	<p>4 Councils that have not yet done so:</p> <ul style="list-style-type: none"> <li>ensure they have a thorough understanding of the AASB 13 amendments</li> <li>update their valuation policy to reflect the impact of the AASB 13 amendments</li> <li>consider the impact of the AASB 13 amendments on related entities (such as subsidiaries or joint ventures) where they adopt the same fair value policy</li> <li>conduct valuations with careful attention to AASB 13 amendments: <ul style="list-style-type: none"> <li>ensure the valuation methodologies are aligned with the revised standard</li> <li>engage assistance where required</li> </ul> </li> </ul>	<p>In progress:</p> <ul style="list-style-type: none"> <li>36 councils yet to fully address the recommendation</li> </ul> <p>See Sections 1 and 3 for more details about asset valuations.</p>

Who	Recommendation	Recommendation addressed
	<ul style="list-style-type: none"> <li>for more contentious areas, engage with valuers or relevant industry sub groups to stay updated on new practices occurring as a result of the amendments, namely:               <ul style="list-style-type: none"> <li>application of economic obsolescence</li> <li>how the new areas are being factored into the valuations (for example, disruption costs), problems arising and practical application challenges</li> </ul> </li> <li>update internal policies and procedures to reflect any changes in processes (for example, changes to using unobservable inputs, benchmarking with others)</li> <li>develop a clear communications strategy to brief key stakeholders – including senior management, their audit and risk committee, councillors – on the material changes introduced by the AASB 13 amendments. This should cover the impact on valuation practices, financial reporting, and any new disclosure requirements. Also, where material, impacts to the asset management plan, long-term financial plan, operating and capital expenditure budgets</li> <li>engage with their auditors as soon as possible to discuss their impact assessment</li> <li>ensure financial report disclosures are aligned based on impact</li> <li>keep a record of key discussions and decisions made regarding valuation methodologies, disclosures and changes in accounting policies. This will help in future valuations.</li> </ul>	
Local Government Victoria	5 Formally advise and remind the councils of their annual reporting obligations.	Completed
Municipal Association of Victoria	6 Develop and deliver the intended councillor development program with input from Local Government Victoria, as applicable.	In progress

Note: Status based on actions completed at the time of finalising the individual audits.  
Source: VAGO.

Figure H2: Status of recommendations from our *Results of 2022–23 Audits: Local Government* report

Who	Recommendation	Recommendation addressed
Councils	<p>1 We recommend that all councils:</p> <ul style="list-style-type: none"> <li>arrange for training or briefing sessions to be held with key internal stakeholders before 30 June 2024 to enhance their understanding of the financial reporting process and their legislative obligations</li> <li>assess the adequacy of their financial reporting plan given their legislative obligations, namely:               <ul style="list-style-type: none"> <li>task allocation and timelines</li> <li>the nature and timing of liaison with other business units</li> <li>quality assurance processes</li> </ul> </li> <li>critically assess whether they have the resources and expertise to fulfil their financial reporting obligations throughout the year and, if not, that they consider engaging an external party.</li> </ul>	In progress: <ul style="list-style-type: none"> <li>11 councils yet to fully address the recommendation</li> </ul>
	<p>2 We recommend that finance teams prepare and present a paper to their audit and risk committee prior to 30 June each year that outlines the:</p> <ul style="list-style-type: none"> <li>council’s accounting policy requirements with respect to property, infrastructure assets, plant and equipment</li> </ul>	In progress: <ul style="list-style-type: none"> <li>9 councils yet to fully address the recommendation</li> </ul>

Who	Recommendation	Recommendation addressed
	<ul style="list-style-type: none"> <li>• approach to assessing each property class's fair value, infrastructure assets, plant and equipment, including engaging an expert valuer and key milestones</li> <li>• likely outcomes for the respective reporting cycle (expected movements in fair value and impact on the financial report).</li> </ul>	
	<p>3 We recommend that audit and risk committees:</p> <ul style="list-style-type: none"> <li>• review the finance team's accounting paper prior to balance date</li> <li>• after balance date, when reviewing the draft financial report: <ul style="list-style-type: none"> <li>• determine whether there have been any changes to circumstances which would indicate that key assumptions behind the finance team's initial advice and key judgements are no longer true</li> <li>• assess whether the valuation and fair value assessment outcomes are reasonable</li> </ul> </li> <li>• update their annual work plan to include the above tasks.</li> </ul>	<p>In progress:</p> <ul style="list-style-type: none"> <li>• 13 councils yet to fully address the recommendation</li> </ul>
	<p>4 We recommend that councils:</p> <ul style="list-style-type: none"> <li>• prioritise and promptly address the internal control and financial reporting issues we raise with them and that their audit and risk committee monitor this</li> <li>• review the actions and timelines established to resolve internal control weaknesses, with a focus on older and higher-risk findings</li> <li>• for longer-term action plans, ensure adequate compensating safeguards are in place.</li> </ul>	<p>In progress:</p> <ul style="list-style-type: none"> <li>• 11 councils yet to fully address the recommendation</li> <li>• Senior management and their audit and risk committees need to provide stronger oversight to ensure timely implementation of accepted recommendations. Until councils address open issues, they remain exposed to financial and operational risks.</li> </ul>
<p>Local Government Victoria and/or the Municipal Association of Victoria</p>	<p>5 We recommend that Local Government Victoria or the Municipal Association of Victoria, or both in partnership, deliver a governance training program, which may include tailored resource material, to support councillors and their audit and risk committee members throughout their term of appointment.</p>	<p>In progress</p>

Note: Status based on actions completed at the time of finalising the individual audits.  
Source: VAGO.

# Appendix I:

## Checklist for simplifying financial reports

While model financial reports promote consistency, they are, by their nature, generic and cannot practically cater for every single transaction. The onus, then, is on agencies to tailor their financial report, focusing on material information and telling their unique story in an effective manner. Figure I1 details steps an agency may adopt to simplify (streamline) their financial report.

**Figure I1:** Checklist for simplifying financial reports

Steps	Description
1 Identify users of the financial report	<ul style="list-style-type: none"> <li>Identify primary users of the financial report (for example, ratepayers, service recipients, creditors, constituents, state and federal government)</li> </ul>
2 Set materiality	<ul style="list-style-type: none"> <li>Set a material threshold to assist with establishing what balances and disclosures are material</li> <li>Items can be material by:               <ul style="list-style-type: none"> <li>amount, based on a \$ threshold, or</li> <li>nature, based on qualitative factors.</li> </ul> </li> </ul>
3 Review the prior year's financial report	<ul style="list-style-type: none"> <li>Critically review the prior year's financial report with the abovementioned users and materiality threshold in mind               <ul style="list-style-type: none"> <li>Identify immaterial notes and disclosures, including detailed policy notes, that could be removed</li> <li>Assess whether disclosures in relation to material balances and disclosures, especially those that involve key management judgements and estimates, can be enhanced</li> </ul> </li> </ul>
4 Use the local government model financial report as a starting point	<ul style="list-style-type: none"> <li>Start with the latest model financial report as released by Local Government Victoria in preparing the current year's financial report               <ul style="list-style-type: none"> <li>Highlight the areas to be removed or deleted</li> <li>Focusing on your material balances, revise disclosures as required to enhance a user's understanding of your financial performance and position</li> </ul> </li> </ul>
5 Tailor accounting policy notes and disclosures	<ul style="list-style-type: none"> <li>Avoid repetition of disclosures throughout the financial report by consolidating information at one location or use note references to refer a user to another part of the financial report</li> <li>Use plain language for clarity</li> <li>Involve subject matter experts for technical areas (for example, asset valuations)</li> </ul>
6 Engage stakeholders early	<ul style="list-style-type: none"> <li>Prior to 30 June:               <ul style="list-style-type: none"> <li>Brief audit and risk committee on planned simplifications</li> <li>Prepare and present a proforma financial report with these simplifications reflected</li> <li>Seek feedback from audit and risk committee members, councillors and your external auditor</li> </ul> </li> </ul>
7 Continuous improvement	<ul style="list-style-type: none"> <li>Treat each reporting season as an opportunity to further simplify the financial report</li> <li>Seek feedback from users and stakeholders for future enhancements</li> <li>Monitor audit findings and recommendations for areas to streamline</li> </ul>

Note: Read our article [Improving Public Sector Financial Reporting: Power of streamlining](#) from April 2021 for further details.  
Source: VAGO.

# Auditor-General's reports tabled in 2025–26

Report title	Tabled
<i>Delivering Savings Under the COVID Debt Repayment Plan</i> (2025–26: 1)	July 2025
<i>Planned Surgery in Victoria</i> (2025–26: 2)	August 2025
<i>Financial Management of Local Councils</i> (2025–26: 3)	August 2025
<i>Responses to Performance Engagement Recommendations: Annual Status Update 2025</i> (2025–26: 4)	September 2025
<i>Relief and Recovery Funding for the 2022 Floods</i> (2025–26: 5)	October 2025
<i>Cybersecurity of IT Servers</i> (2025–26: 6)	October 2025
<i>Accessibility of Tram Services: Follow-up</i> (2025–26: 7)	November 2025
<i>Auditor-General's Report on the Annual Financial Report of the State of Victoria: 2024–25</i> (2025–26: 8)	November 2025
<i>Service Delivery Performance 2025</i> (2025–26: 9)	December 2025
<i>Managing the Transition to Renewable Energy</i> (2025–26: 10)	December 2025
<i>Ravenhall Correctional Centre: Rehabilitating and Reintegrating Prisoners – Part 2</i> (2025–26: 11)	February 2026
<i>Major Projects Performance Reporting 2025</i> (2025–26: 12)	March 2026
<i>Modernising myki</i> (2025–26: 13)	March 2026
<i>Timely Payments Performance</i> (2025–26: 14)	March 2026
<i>Results of 2024–25 Audits: Local Government</i> (2025–26: 15)	March 2026

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](#).

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## 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.

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## Contact details

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