

Results of 2016–17 Audits: Local Government 2017-18 matters to consider

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VAGO

Overview



Outlines the results of our financial audits of the 79 councils and our observations for the year ended 30 June 2017



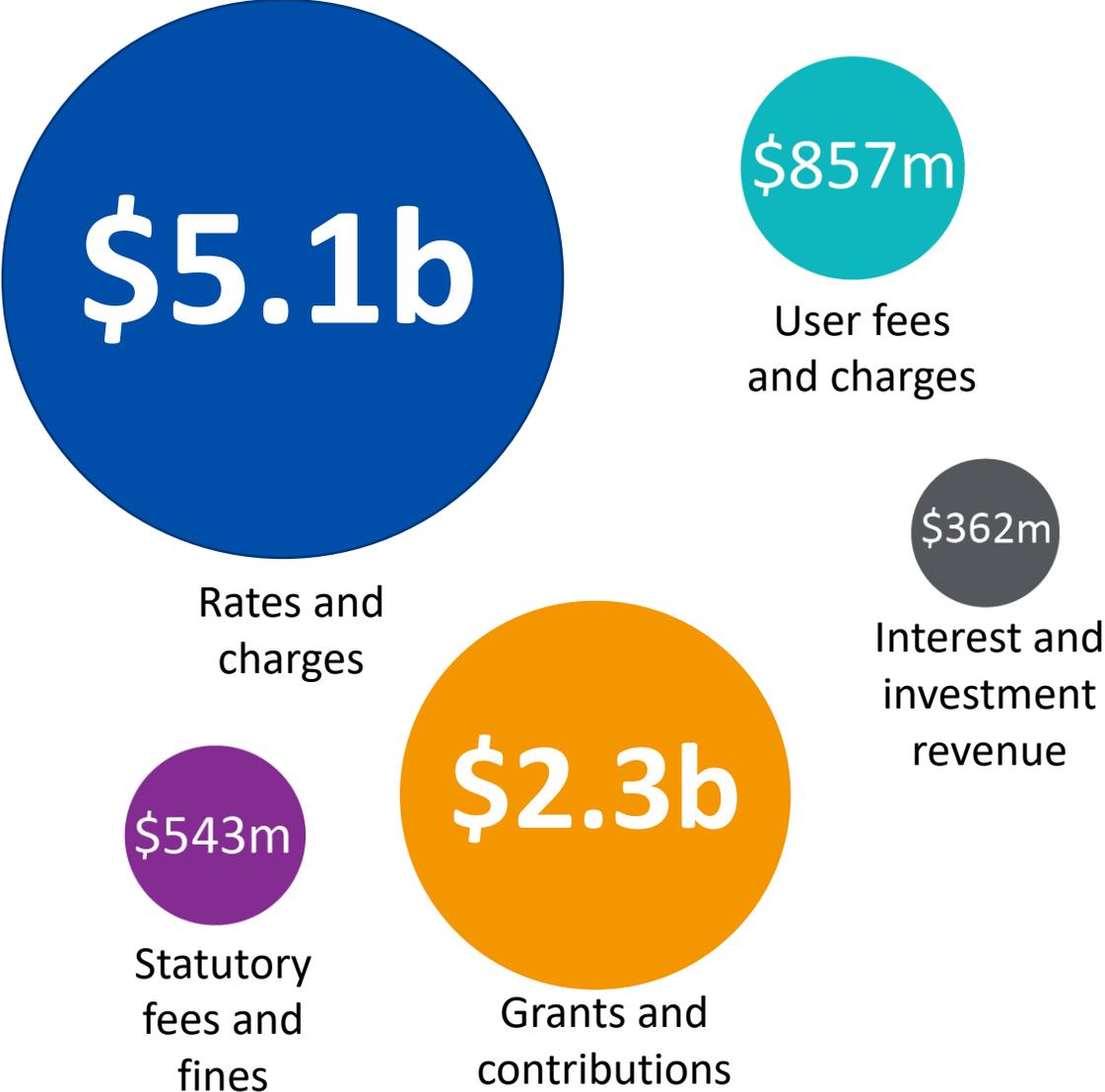
Analyses financial results, outcomes and sustainability risks



Reviews the internal control frameworks

Background

Funding sources



Spending

	\$2.46b	Governance and economic services
	\$1.47b	Recreation and culture
	\$0.93b	Local roads and bridges
	\$0.70b	Waste management
	\$0.70b	Family and community services
	\$0.65b	Traffic and street management
	\$0.52b	Aged and disabled services
	\$0.43b	Environment and other

Results of our 2016–17 audits

104

Clear audit opinions issued on the
2016–17 financial reports of the local government
sector



Median time to certify financial reports
improved

Results of our 2016–17 audits

78

Clear audit opinions issued on the
2016–17 council performance statements

1

Towong Shire Council's performance statement
received a qualified audit opinion

Internal control weaknesses

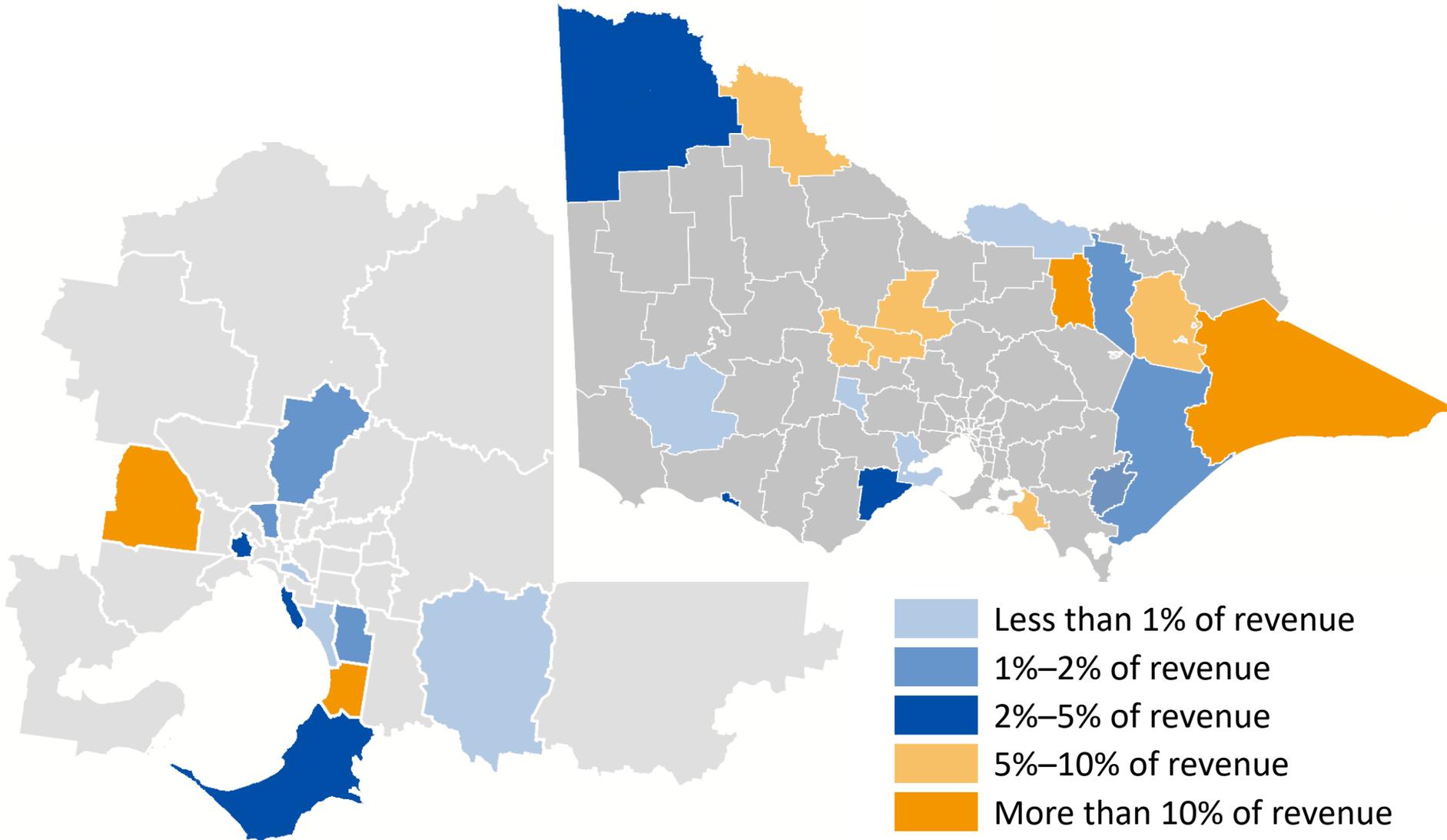


On-going issues relating to key information technology (IT) controls including:

- unsupported systems and software
- user access
- a lack of software patch management.

→ May increase risk of a cyber-attack

Internal control weaknesses – found assets



29
councils

\$175m
2016–17

Financial sustainability risks – looking forward

Over the next three years



Sector has relatively low financial sustainability risk in the short term.



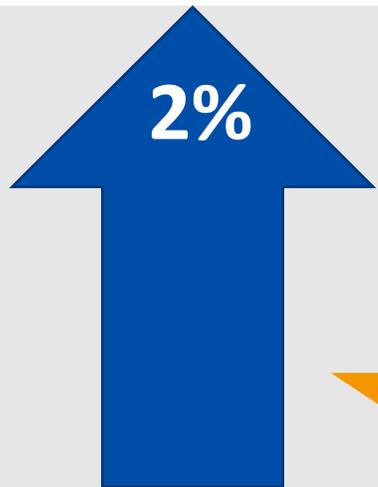
Rates revenue

Rates revenue is budgeted to increase by an average of 3% pa



Grants

Grants revenue is budgeted to decrease by an average of 10% pa



Increase in average forecasted expenses



Decrease in average forecasted revenue



Employee benefits

Average forecasted employee benefit expenses to increase by 4% pa

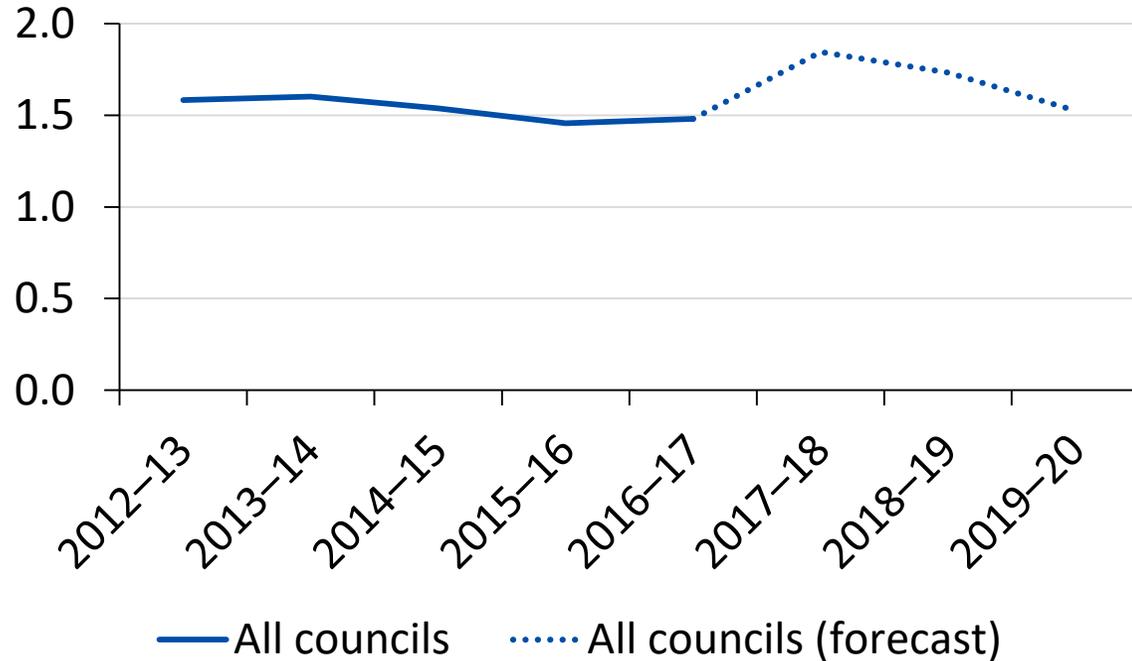


Materials and services

Average forecasted material and services expenses to increase by 0.8% pa

Financial sustainability risks – replacing assets

Capital replacement ratio



■ Metro & Interface ■ Large, Regional & Small

Capital replacement ratio, which excludes new assets, to decline from 1.84 to 1.52 over three-year budget period

Councils are using their own cash instead of borrowings to replace and renew assets

Recommendation

1 recommendation for Local Government Victoria

We recommend that Local Government Victoria introduces targets for each of the performance indicators included in each councils' performance statements

Overall message

The councils' audited financial reports and performance statements for the year ended 30 June 2017 are reliable.

In the short-term, the sector has a relatively low risk of being financially unsustainable. The longer-term impact of rate capping is yet to be fully determined, but it has created the impetus for councils to review their cost structures.

2017-18 Matters to consider

- Streamlined financial report
- Data analytics
- Parliamentary report
- Management letters
- Early completion of financial statements?

New performance audit

Delivering local government services

- **Objective:** To determine whether council services are financially sustainable and meet community needs
- Audit will work with Local Government Victoria, Essential Services Commission and Victorian Grants Council.
- Audited councils:
 - Bayside, Indigo, Moira, Wodonga, Wyndham
- Possible survey of all 79 councils
- ‘Deeper dive’ focused on one service

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