

Local Government: 2014–15 Audit Snapshot

Tim Loughnan
Sector Director, Financial Audit

Overview

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Report presents outcomes and observations from the 2014–15 financial report and performance statement audits of 79 Victorian local councils.

Key messages:

- Net surplus of more than \$900 million annually in the past five years.
- Local councils generally received a low financial sustainability risk assessment.
- Impact of the re-phasing of Commonwealth financial assistance grants.
- Local councils continue to face the challenge in spending sufficient levels on capital works and asset maintenance.

Background

Key balances at 30 June 2015

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Cohort	Revenue \$ million	Expenditure \$ million	Net result \$ million	Net assets \$ million
Metro	3 856.3	3 377.8	478.5	40 251.9
Interface	2 148.5	1 593.5	555.0	16 011.0
Regional city	1 415.5	1 188.7	226.8	9 651.5
Large shire	1 237.5	1 074.4	163.1	9 438.7
Small shire	522.2	455.0	67.2	4 030.4
Total	9 180.0	7 689.4	1 490.6	79 383.5

- Sector had a net surplus of \$1.5 billion (\$923.6 million in 2013–14)

Financial sustainability risk indicators

Indicator	Industry average		Metro average 2014–15	Interface average 2014–15	Regional average 2014–15	Large shire average 2014–15	Small shire average 2014–15
	2010–11 to 2014–15	2014–15					
Net result ratio	12.68%	15.42%	12.14%	24.33%	15.44%	12.59%	12.62%
Liquidity ratio	2.17	2.29	1.99	2.49	1.87	2.36	2.76
Internal financing ratio	117.98%	148.75%	169.46%	155.14%	122.45%	155.14%	150.00%
Indebtedness ratio	25.23	26.70	16.34	32.86	32.45	32.74	19.12
Capital replacement ratio	1.61	1.54	1.50	1.86	1.69	1.26	1.38
Renewal gap ratio	1.10	1.05	1.14	1.06	0.98	1.01	1.04

General internal controls

- Internal controls at local councils were adequate for maintaining the reliability of financial reporting.
- However, 51 per cent of our previous year's audit findings relating to high and medium risk internal control deficiencies are yet to be rectified.
- Key areas that need improvement:
 - Supplier payments and payroll
 - IT controls
- We will follow up the status of these deficiencies.

Performance reporting

- New performance reporting regime (Local Government Reporting Framework) from 1 July 2014.
- Unqualified audit opinions issued in 2014–15.
- No established performance targets.
- Further refinement required on local councils performance reporting processes.

Development contributions

- Controls over development contributions by local councils are generally sound.
- However, improvements can be made which include:
 - acquitting each development contribution plan by reporting publicly.
 - actively assessing and managing risks in the risk register.
 - preparing cash flow forecasts to better manage financial impacts.
 - conducting an internal audit review on a periodic basis.

Key recommendations

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		Accepted
That local councils		
2.	implement appropriate governance and monitoring mechanisms to ensure audit findings are addressed by management on a timely basis.	
3.	actively manage and monitor their rate of capital and renewal spending to at least meet the consumption of their assets.	
5.	enhance their performance reporting processes by developing performance statement preparation plans and setting performance indicator targets.	
8.	include risks associated with development contributions and infrastructure asset delivery in councils' risk register—these risks need to be actively assessed and managed.	
9.	prepare a cash flow forecast of at least five years to better manage financial impacts of development contributions.	

2016 Considerations

- Council financial sustainability indicators to be included in 2016 Parliamentary Report.
- Focus area topic asset valuations
- Useful lives of assets, why do they vary so much?
- Provision for landfill
- Release of 2016 model accounts
- Council elections – need to meet timeframes
- Bank conformations going electronic - partially

Conduct details

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For further information please contact:

Tim Loughnan

Sector Director, Financial Audit

[p] 8601 7086

[e] tim.loughnan@audit.vic.gov.au