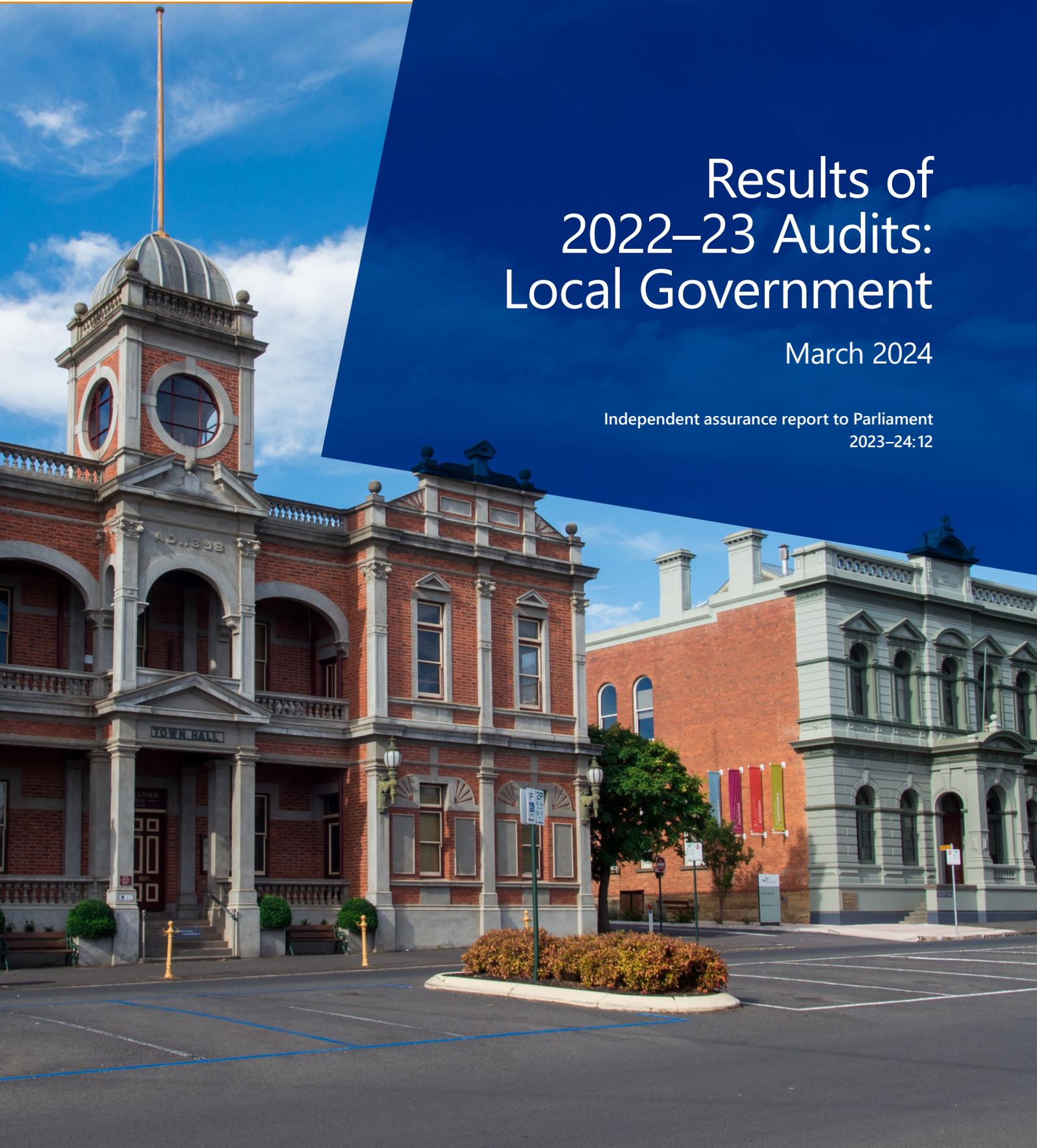


Results of 2022–23 Audits: Local Government

March 2024

Independent assurance report to Parliament
2023–24: 12



Results of 2022–23 Audits: Local Government

Independent assurance report to Parliament

Published by order, or under the authority,
of the Parliament of Victoria
March 2024

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 2022–23 Audits: Local Government*.

Yours faithfully



Andrew Greaves
Auditor-General
7 March 2024

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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1. Audit outcomes

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

Financial reports and performance statements are reliable

The local government sector

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

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

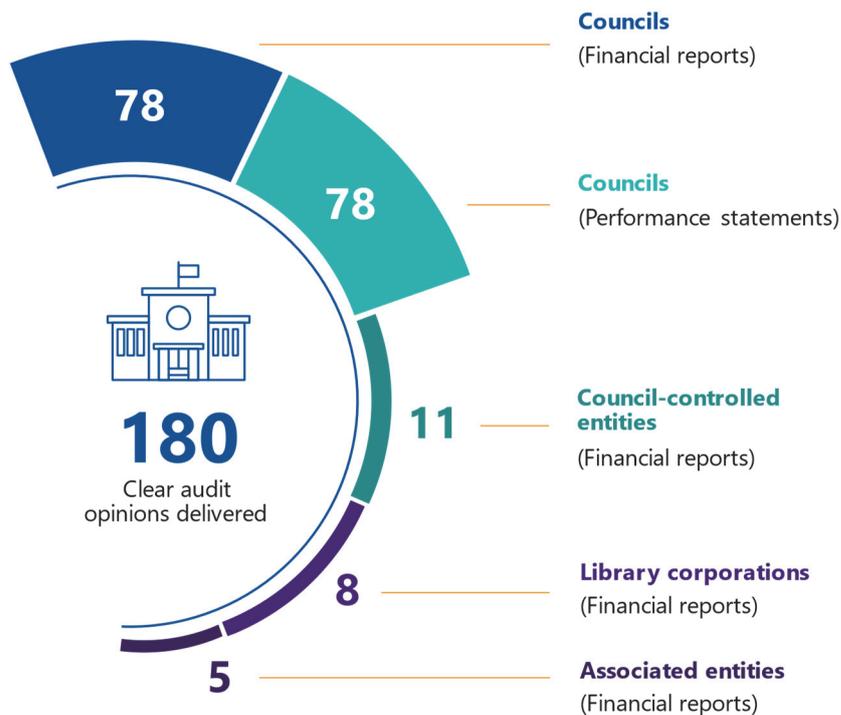
We audit all of these reports and statements.

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

Number of clear audit opinions

To date, we have given 180 clear audit opinions across the sector for 2022–23 (see Figure 1). This means Parliament and the community can confidently use these reports.

Figure 1: Clear audit opinions for 2022–23



Source: VAGO.

Clear audit opinion

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

Audits in progress

At 29 February 2024, the following financial audits for 2022–23 were still in progress:

- West Wimmera Shire Council
- Wimmera Regional Library Corporation
- MomentumOne Shared Services Pty Ltd

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

Councils can improve their reporting processes

Role of internal processes

To prepare a financial report or performance statement within agreed timelines, internal processes should be:

- documented and sufficiently detailed to enable staff to perform the assigned task
- communicated to key stakeholders
- understood by members of the finance team and other business units involved with the:
 - preparation of the financial report or performance statement
 - provision of supporting information and advice.

It is critical that these processes include quality assurance procedures.

The maturity and effectiveness of a council's internal processes affect its ability to finalise a financial report and performance statement in good time.

In 2022–23 financial report and performance statement timeliness were affected by:

- staff turnover
- varied maturity in planning and preparing for year-end
- disconnect between finance teams and other internal teams
- staff understanding of the financial reporting process.

These factors, individually and collectively, show councils can improve their internal processes to drive better outcomes.

Staff turnover

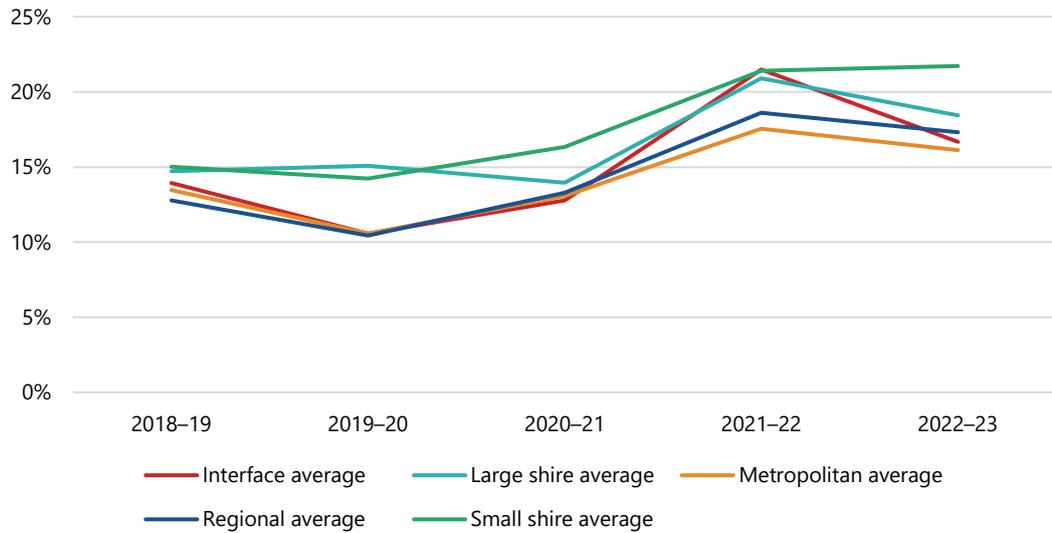
In 2022–23 the sector continued to experience staff turnover at a rate higher than pre-pandemic levels due to a competitive labour market.

The sector's average staff turnover was 18 per cent in 2022–23. This was down from 20 per cent in 2021–22, but it is still higher than the 14 per cent that occurred in 2018–19.

All council cohorts, except for small shire councils, experienced a slight decline in staff turnover, as Figure 2 shows.

Small shire councils had a turnover rate of 22 per cent, which is higher than the sector average. For the past 5 years, small councils have experienced staff turnover at a rate above the sector average.

Figure 2: Average staff turnover by council cohort for 2018–19 to 2022–23



Source: VAGO.

Staff turnover affects an entity’s ability to prepare financial reports and performance statements, because:

- the entity loses corporate knowledge
- it takes time to replace and train staff
- new staff may be unfamiliar with the council’s legislative reporting obligations, policies and procedures.

A council can reduce these risks by making sure its:

- induction program, mandatory training and refresher training build staff’s awareness of its:
 - governance arrangements
 - operations
 - legislative obligations
 - policies and procedures
- internal processes are documented well enough to enable a new starter (whether a permanent employee or a contractor) to understand what must be done, how to do it and by when.

Recruiting and retaining appropriately skilled staff is a risk that requires active management to ensure the council meets its obligations.

Planning and preparing for year-end

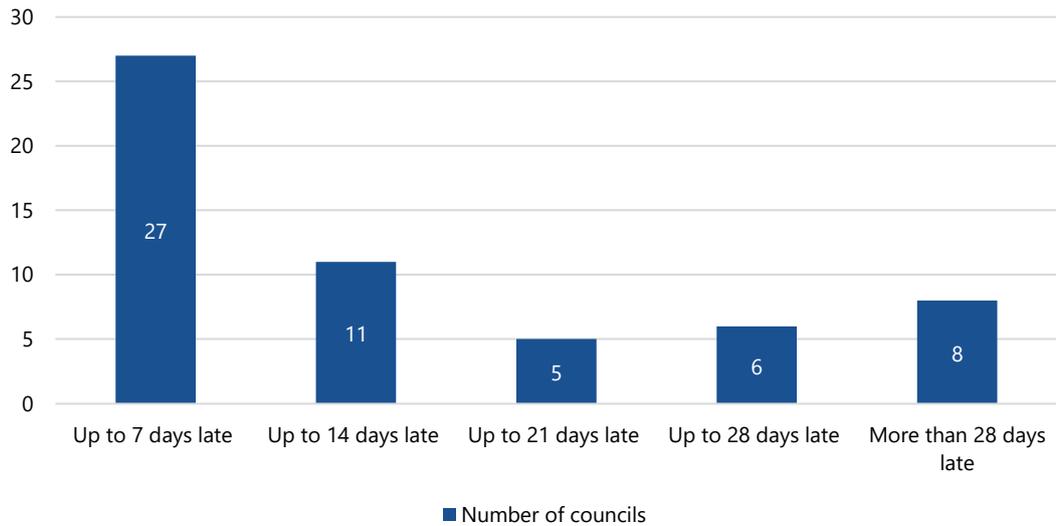
To meet annual financial reporting timelines, an entity should have a plan that:

- outlines its legislative reporting requirements
- details tasks to be performed, by whom and when
- specifies the resources, milestones, key stakeholders, information systems, materiality threshold, oversight and quality assurance practices it needs to help the staff who prepare it.

In 2022–23 some councils did not provide their draft financial reports, performance statements and supporting schedules for audit within agreed timelines.

Only 22 of the 79 councils (28 per cent) submitted their draft financial report and performance statement to their auditors within agreed timelines. Figure 3 shows, for the 57 councils that were late, delays ranged from up to 7 days to in excess of 28 days (over 4 weeks).

Figure 3: Number of councils that submitted their draft financial report late, by days late



Source: VAGO.

These delays indicate challenges with the maturity and effectiveness of reporting plans and resource availability.

The delays had a snowball effect on the finalisation of audits across the sector. VAGO assigns audit teams to council audits for specific timeframes. If the information they need is delayed, the audit becomes stop–start in nature. Delays on more than one audit, leading to an ever-increasing backlog across multiple audits, increase the risk of timelines not being achieved across the sector.

We acknowledge that VAGO’s audit teams had challenges. Delays in finalising 2021–22 financial reports and performance statements after the COVID-19 pandemic meant some councils’ 2022–23 audit started later than they would have liked.

Nevertheless, councils need a detailed financial reporting plan and the resources to produce the required documents in required timeframes.

This is even more critical for the 2023–24 financial year, given there will be council general elections in October 2024. The *Local Government Act 2020* (the Act) requires council annual reports – including audited financial reports and performance statements, and the associated audit reports – to be finalised no later than one day prior to the election.

Disconnect between finance teams and other internal teams

At some councils, we again saw a disconnect between the finance team and other internal teams.

This led to teams not understanding:

- the interdependencies between teams’ outputs
- how the finance team uses other teams’ information and advice to prepare the council’s financial report and performance statement.

As a result, some teams did not always give the finance team timely, complete and accurate information based on sound records. This resulted in VAGO’s audit teams finding errors and the finance team needing to make adjustments.

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

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

Staff understanding of the financial reporting process

From our work, we see opportunities for councils to enhance their staff's understanding of the financial reporting process. We observed:

- a number of councils were not sure what documents they needed to provide VAGO to enable the release of the audit reports
 - at times, the signed financial report or performance statement submitted to VAGO were missing pages, such as the certification page
 - management representation letters, which should accompany the signed financial report and performance statement, were not signed or lodged with them (or both)
 - there were delays in receiving the signed financial report and performance statement after their adoption and sign-off
 - there were instances of poor governance around finalisation, signing and releasing reports to the public.
-

Councils have yet to streamline their financial reports

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

Financial report preparers find it difficult to decide what information:

- is material, so must be disclosed in their financial report
- is not material, so should not be included.

Material

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

Last year we recommended that councils streamline their financial reports. Streamlining financial reports helps entities tell their story in a simple and easy-to-understand way. It focuses on understanding users' needs and providing material information while also ensuring compliance with applicable laws, regulations and accounting standards.

Streamlining is particularly important in the local government sector, due to the broad range of primary users of the financial reports. These include ratepayers, recipients of goods and services, and creditors. Some of these users will not have financial accounting knowledge, so it is essential that financial reports are presented in a simple and comprehensible format, with a specific focus on material information.

Each year Local Government Victoria (LGV) releases a model financial report and performance statement to help councils meet their reporting requirements. The Local Government (Planning and Reporting) Regulations 2020 (the Regulations) require councils to comply with these models.

LGV, in conjunction with a Local Government Finance Professionals working group, considered feedback from various stakeholders to enhance the model financial report.

In 2022–23 the vast majority of councils did not streamline their financial reports, even though the model financial report released by LGV allowed them to remove disclosures relating to immaterial balances. The sector missed an opportunity to streamline their financial report and save time and costs.

We found more errors in council financial reports and performance statements

Summary of financial reports errors

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

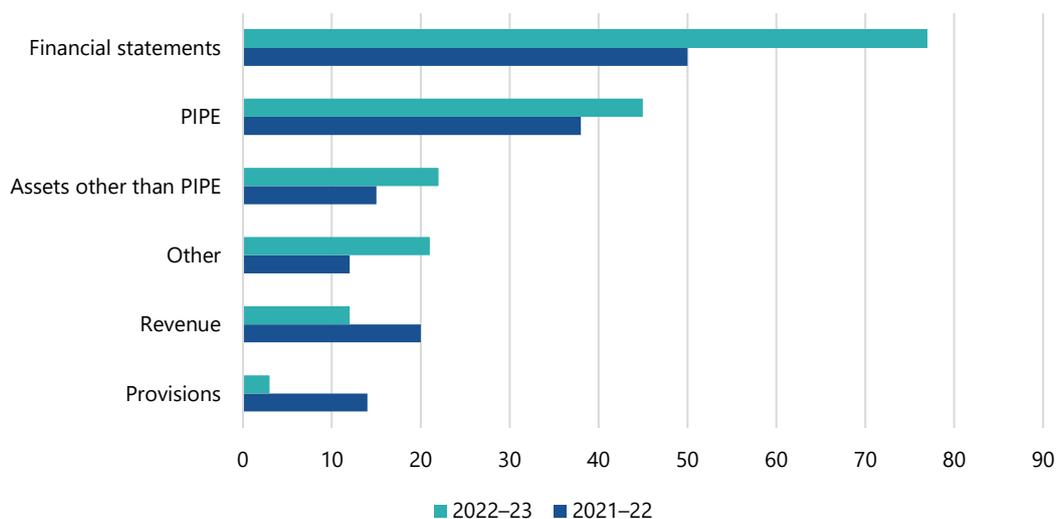
In 2022–23 we found 180 errors that councils adjusted in their financial reports. This compares to 149 errors in 2021–22. This indicates councils can improve their quality assurance processes when preparing financial reports.

We continued to find:

- issues with the quality of disclosures – either incomplete or missing content
- errors with councils' property, infrastructure assets, plant and equipment (PIPE) balances. Section 3 has further commentary on asset management and valuation issues.

Figure 4 shows the number of errors we found in the last 2 years by category.

Figure 4: Adjusted errors by category for 2021–22 and 2022–23



Source: VAGO.

It was pleasing to see a reduction in errors relating to provisions and revenue.

Summary of performance statement errors

A council's performance statement has measures to assess:

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

In 2022–23, councils made 67 adjustments to their performance statements, compared to the 56 adjustments made in 2021–22.

Types of adjustments to performance statements

As Figure 5 shows, councils still need to focus on the calculation of performance measures and the quality of their disclosures.

Calculation errors were largely driven by:

- not using the latest data for non-financial indicators in the calculation
- misunderstanding the variables to include or exclude in calculating a performance measure
- finance teams not updating their calculations in the performance statement after correcting an error in the financial report.

The disclosure errors were driven by:

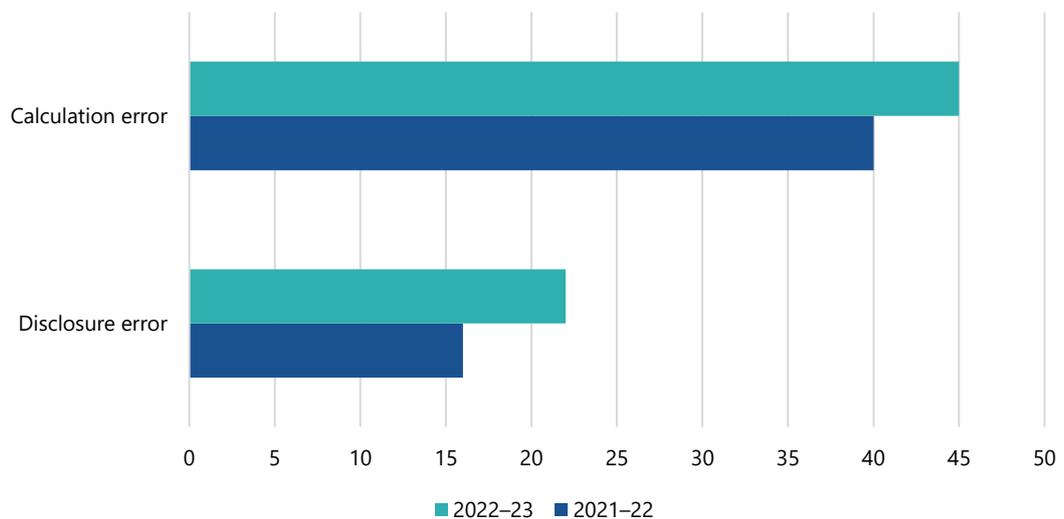
- finance teams not ensuring compliance with mandatory sections of the model performance statement before submitting the document for audit (noting that staff from other business units at times have responsibility for preparing the performance statement)
- finance teams' internal quality assurance processes not being robust enough to identify anomalies
- the current structure of the model performance statement.

While preparers are responsible for their performance statement, LGV could help them by improving the structure and layout of its model performance statement. Improvements could include:

- presenting the required information in a logical sequence
- including a contents page
- assigning a note reference to key disclosures, as in the approach adopted with the financial report
- using more meaningful headings and subheadings.

LGV did release a publication, *Local Government Better Practice Guide Performance Reporting for Council's Annual Report 2022–23 Edition*, to help preparers meet their reporting obligations. It contained checklists and an example workplan detailing tasks that can be tackled before and after 30 June. Using the checklists would help councils avoid some of the disclosure adjustments.

Figure 5: Performance statement adjustments for 2021–22 and 2022–23



Source: VAGO.

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

Some councils did not meet annual report timelines

Councils' reporting timelines

An annual report shows the operational and financial performance of an agency for the preceding financial year.

We audit the financial report, which represents the agency's financial performance. We also audit the performance statement, which contains financial and non-financial performance measures. It provides further insights into the operational performance of the agency.

A council must hold a public meeting to consider its annual report within 4 months of the end of each financial year. In the year of a general election the meeting must be held not later than the day before the election.

The Act states the annual report must contain the following items:

- a report of operations
- an audited financial report
- an audited performance statement
- the associated audit opinions with respect to the financial report and performance statement.

Twenty of the 79 councils did not present their finalised 2022–23 annual report at a council meeting open to the public by 31 October 2023, the legislated date. Of these:

There were ...	That ...
6 councils	had not finalised their financial report and performance statement by 31 October 2023. This meant they could not finalise their annual report and present it at a council meeting by the legislated date.
10 councils	resolved to adopt their financial report and performance statement at a council meeting in October 2023, with their annual report to be presented at the next scheduled council meeting in November 2023.
4 councils	presented an annual report at a council meeting in October 2023, but did not include the signed audit opinions as required by the Act.

Governance arrangements across the sector can be improved

Corporate governance

Corporate governance refers to the framework for directing and controlling an agency and holding it accountable for achieving its strategic objectives.

It is important that councillors and their audit and risk committee, which consists of councillors and a majority of independent members:

- have a clear understanding of their role and responsibilities
- are familiar with the requirements of the Act and the associated regulations
- continue to enhance their knowledge and skills.

Need for continuous training and support

A learning and development program can help staff understand the requirements of their role. It should include an array of activities delivered over time and target specific areas or topics.

Councillors must complete induction training within 6 months of the day they take the oath or affirmation of office. The council's chief executive officer is responsible for ensuring induction training is available and conducted as prescribed.

The Act does not say what ongoing training or learning and development program should be provided to councillors or audit and risk committee members.

Our audits indicate there is an opportunity for the sector to enhance the effectiveness of the governance arrangements in place with respect to financial reporting.

LGV or the Municipal Association of Victoria, as key stakeholders in the sector, may be best positioned to develop and deliver a structured training program for councillors and their audit and risk committee members. This may include appropriate resource material.

Developing a structured training program within the next 12 months could deliver real benefits straight away, given council general elections will be held in October 2024.

Recommendations

All councils

1. We recommend that all councils:

- 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
 - assess the adequacy of their financial reporting plan given their legislative obligations, namely:
 - task allocation and timelines
 - the nature and timing of liaison with other business units
 - quality assurance processes
 - 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.
-

Local Government Victoria

2. We recommend that Local Government Victoria enhance the structure and layout of its local government model performance statement for the 2023–24 financial year.

Local Government Victoria and the Municipal Association of Victoria

3. 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.

2.

Financial analysis

Councils started to see a return to pre-COVID-19 pandemic activities in 2022–23.

The sector's financial performance improved slightly. A number of revenue and income streams increased, but growth in councils' expenses outpaced this for another year. Financial performance would have declined had the Australian Government not advanced 100 per cent of the 2023–24 financial assistance grants in 2022–23.

Councils' balance sheets remain strong and over the short term their financial health is fine. They face longer-term challenges that require sound financial planning and management to maintain this financial health. These challenges include:

- continued variability in government funding
- constraints on their ability to grow own-source revenue
- persistent inflation, increasing costs of materials and services
- population growth, which increases demand for services
- delivery of large capital works programs to maintain, renew and develop intergenerational assets
- lack of maturity of internal processes and the level of integration between council budgets, asset management plans and the 10-year financial plans.

The sector's actual capital expenditure for 2022–23 was \$3.163 billion. This was 26 per cent (or \$1.128 billion) less than its budgeted spending. This underspending is consistent with previous years.

Results improved because of government funding and increases in other revenue and income streams

Net result

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

In 2022–23, Victorian councils generated a combined net surplus of \$2.394 billion.

This was \$0.070 billion, or 3.0 per cent, more than in 2021–22. However, the sector's financial performance would have declined had the Australian Government not advanced 100 per cent of the 2023–24 financial assistance grant in 2022–23.

Total expenses grew by 9.3 per cent, outpacing the increase in revenue and income.

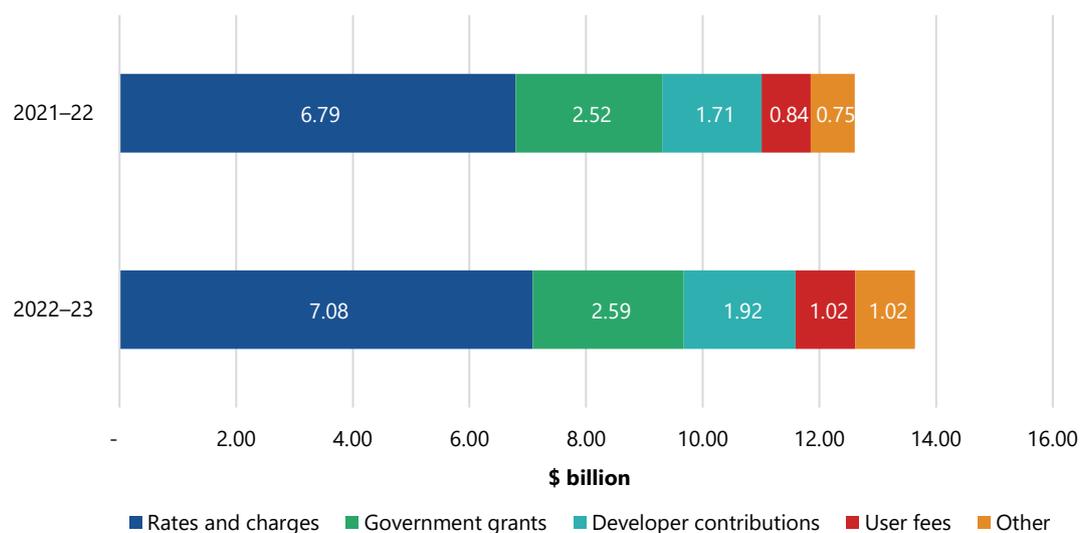
Financial performance snapshot

The sector reported ...	Which is a ...	From ...
\$13.635 billion in revenue and income (including the financial assistance grant)	8.2 per cent increase	\$12.605 billion in 2021–22.
\$11.241 billion in expenses	9.3 per cent increase	\$10.281 billion in 2021–22.

Revenue and income by category

Rates and charges, and government grants are still councils' biggest revenue and income sources, as Figure 6 shows.

Figure 6: Breakdown of councils' revenue and income by category for 2021–22 and 2022–23



Source: VAGO.

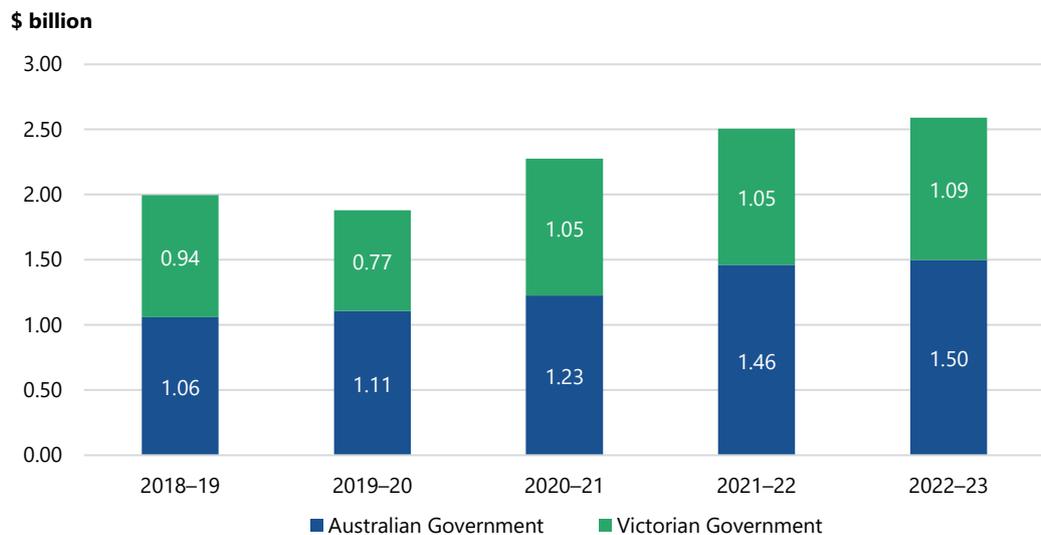
Why total revenue and income increased

In 2022–23, councils' revenue or income from ...	Increased by ...	Because ...
rates and charges	\$0.295 billion or 4.3 per cent to \$7.083 billion	<ul style="list-style-type: none"> property rates increased by 1.75 per cent councils issued more supplementary rates.
developer contributions (monetary and non-monetary)	\$0.214 billion or 12.6 per cent to \$1.919 billion	<ul style="list-style-type: none"> there was more development activity infrastructure assets constructed by developers and transferred to councils at fair value, free of charge was \$0.169 billion higher than in the prior year.
user fees	\$0.180 billion or 21.4 per cent to \$1.023 billion	<ul style="list-style-type: none"> councils experienced higher usage of their facilities, especially leisure and aquatic centres, as no COVID-19 restrictions were in place.
interest revenue	\$0.185 billion or 485.4 per cent to \$0.224 billion	<ul style="list-style-type: none"> councils held higher cash balances there was a higher cash rate, with 10 increases across the financial year.

Government funding continued to increase

Government grants are the second highest source of revenue for councils after rates and charges. Figure 7 shows that government grants have been increasing year on year since 2019–20.

Figure 7: Source of grant revenue 2018–19 to 2022–23



Source: VAGO.

The increase has been driven by:

- Australian Government capital grant programs such as the Local Roads and Community Infrastructure Program, which was introduced in 2020–21. From 2020–21 to 2022–23 the program allocated \$0.546 billion to the sector.
- the Australian Government increasing the percentage of financial assistance grants it advanced ahead of the financial year to which the funding relates, as discussed above.

Government grants received in advance

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.

Australian Government financial assistance grants are treated as income when received. Before 2021–22, councils typically received 50 per cent of the following year's funding in advance. In the past 2 financial years, the proportion of advance payments has been increasing (see Figure 8).

Figure 8: Percentage of financial assistance grant paid in advance by year

Financial assistance grants	2022–23 (%)	2021–22 (%)	2020–21 (%)
Percentage of funding paid in the year to which the funding relates	25	50	50
Percentage of funding paid in advance of the financial year to which the funding relates	100	75	50
Total	125	125	100

Source: VAGO.

In June 2023, the Australian Government paid 100 per cent of the 2023–24 financial assistance grants to councils in advance. The payments totalled \$0.746 billion.

The sector received and recognised as income a total of \$0.929 billion in financial assistance grants in the 2022–23 financial year. This includes the 25 per cent of financial assistance grants relating to the 2022–23 financial year that were paid in 2022–23.

Even if the Australian Government advances 100 per cent of the 2024–25 financial assistance grants in 2023–24, councils will record a 25 per cent decrease in grant income in 2023–24, if all other funding arrangements remain consistent with 2022–23. If the amount advanced is less than 100 per cent, the decrease in grant income will be even greater.

The small and large shire council cohorts are more reliant on government funding than the other cohorts, so their net surplus or deficit may experience greater fluctuation in 2023–24.

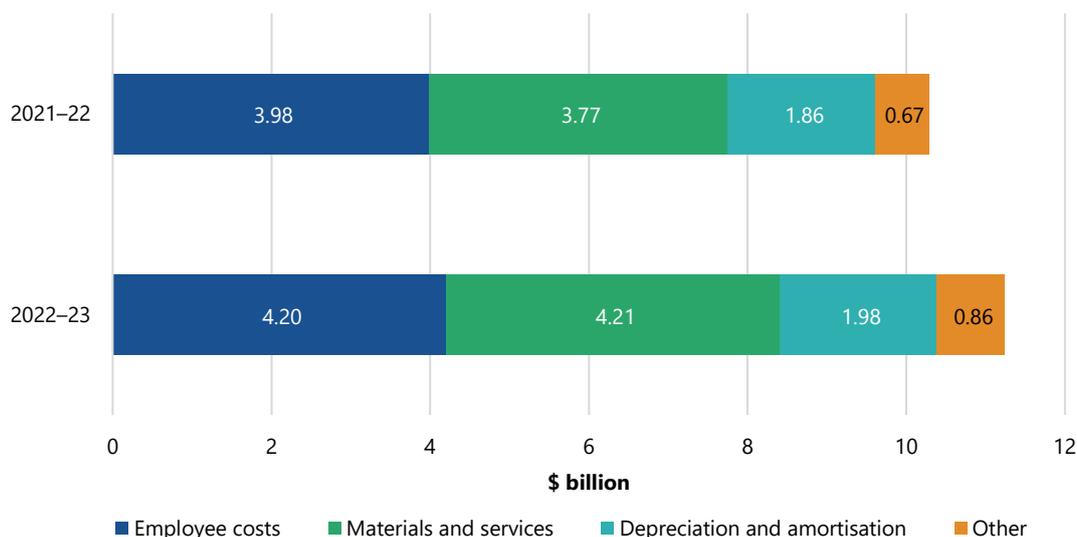
Given the variability of government funding, it is critical that councils effectively manage their cash reserves within the context of council budgets, asset management plans and their 10-year financial plans.

Councils' expenses by category

As Figure 9 shows, councils continue to spend the most on:

- employee costs
- materials and services.

Figure 9: Breakdown of councils' expenses by category for 2021–22 and 2022–23



Source: VAGO.

Change in expenses

In 2022–23 councils' total expenses grew by 9.3 per cent to \$11.241 billion.

This was mainly because the cost of councils' materials and services increased by 11.6 per cent from 2021–22, due to:

- persistent inflation
- increased council activities
- reliance on contractors to fill vacant staff roles
- costs incurred with flood recovery.

The actual material and services costs were also 9.7 per cent greater than approved 2022–23 council budgets.

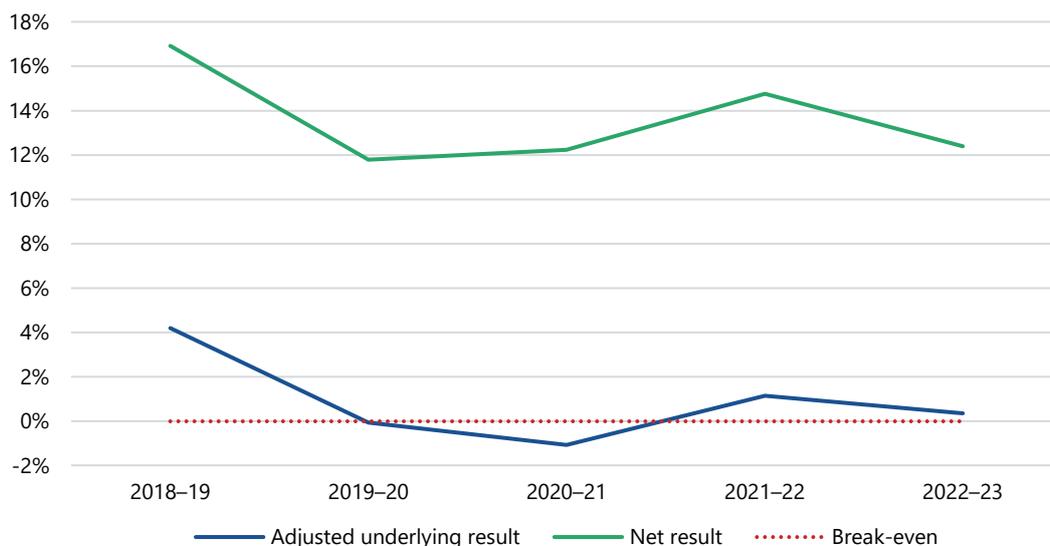
Adjusted underlying result indicator

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

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

In 2022–23 the sector's adjusted underlying result deteriorated to 0.15 per cent, compared to 1.41 per cent in 2021–22. The adjusted underlying result before the pandemic was greater than 4 per cent (see Figure 10).

Figure 10: Councils' adjusted underlying results and net results from 2018–19 to 2022–23



Source: VAGO.

Figure 11 provides a breakdown of the number of councils with an adjusted underlying result in surplus or deficit in 2022–23 compared to 2018–19 (pre-COVID).

Figure 11: Councils' adjusted underlying result

Adjusted underlying result	2022–23 number of councils	2018–19 number of councils
Surplus	41	56
Deficit	37	23

Note: 78 councils for 2022–23, as one council yet to finalise their financial report.

Source: VAGO.

The adjusted underlying surplus includes the advance financial assistance grant payments from the Australian government. Had the total financial assistance grants not remained at the same percentage as the previous year, more councils would be reporting an adjusted underlying deficit.

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

Financial position snapshot

At 30 June 2023, councils' net assets totalled \$137.398 billion. This is an increase of \$7.010 billion, or 5.4 per cent, from 2021–22.

In particular:

The sector reported ...	Which is an increase of	From ...
\$142.811 billion in total assets	\$7.254 billion, or 5.4 per cent	\$135.557 billion at 30 June 2022.
\$5.413 billion in total liabilities	\$0.244 billion, or 4.7 per cent	\$5.170 billion at 30 June 2022.

Increase in assets

The main reason councils' assets increased by \$7.254 billion was because the value of their PIPE assets grew by \$6.637 billion in 2022–23.

All council cohorts recorded an increase in PIPE value.

PIPE value increases were mainly driven by ...	And were mainly offset by ...
\$4.862 billion of revaluations on councils' land, buildings and infrastructure assets	\$1.977 billion of annual depreciation expenses.
councils spending \$3.163 billion on new PIPE assets	
Depreciation expenses	
Depreciation expenses are an estimate of how much of an asset's service potential was used during the year.	

The sector's cash and other financial asset balances have been increasing

At 30 June 2023, the sector's average liquidity ratio remained positive at 2.43, which is consistent with the prior year. This means the sector's cash and other liquid assets are more than double its short-term liabilities.

Councils' cash and financial assets had increased by \$0.335 billion (or 4.7 per cent) at 30 June 2023. The main drivers for this increase were:

- a slight increase in the value of financial assistance grants received compared to the prior year
- councils deferring or experiencing delays with the completion of planned capital work programs, allowing surplus funds to be invested.

Figure 12 summarises councils' cash assets and other financial assets at 30 June 2023 and 30 June 2022.

Figure 12: Summary of councils' cash assets and other financial assets by year

Asset category	30 June 2023 (\$ billion)	30 June 2022 (\$ billion)
Cash assets	2.323	2.242
Other financial assets	5.212	4.958
Total	7.535	7.200

Source: VAGO.

Other financial assets
Other financial assets include term-deposits. Those term deposits with terms greater than 90 days but less than a year are classified as 'Other financial assets (current)'. If the terms are greater than 12 months, they are classified as 'Other financial assets (non-current)'.

Borrowing levels increased

At 30 June 2023 the sector had total borrowings of \$1.271 billion, an increase of \$0.189 billion (or 17 per cent) compared to the prior year.

The increase was driven by some councils borrowing money to fund their capital works programs.

The sector's total borrowings represented 0.9 per cent of its total assets, up from 0.8 per cent in the prior year.

Financing ratios show an opportunity for councils to invest their cash more effectively

The internal financing indicator measures a council's ability to finance capital works from its operating cash flow. When it is greater than one, it means that after paying for all its day-to-day expenses and capital works, there is still cash left over at the end of the year.

Figure 13 shows that for the past 5 years, this indicator has been greater than one, which contributed to growing cash and other financial assets.

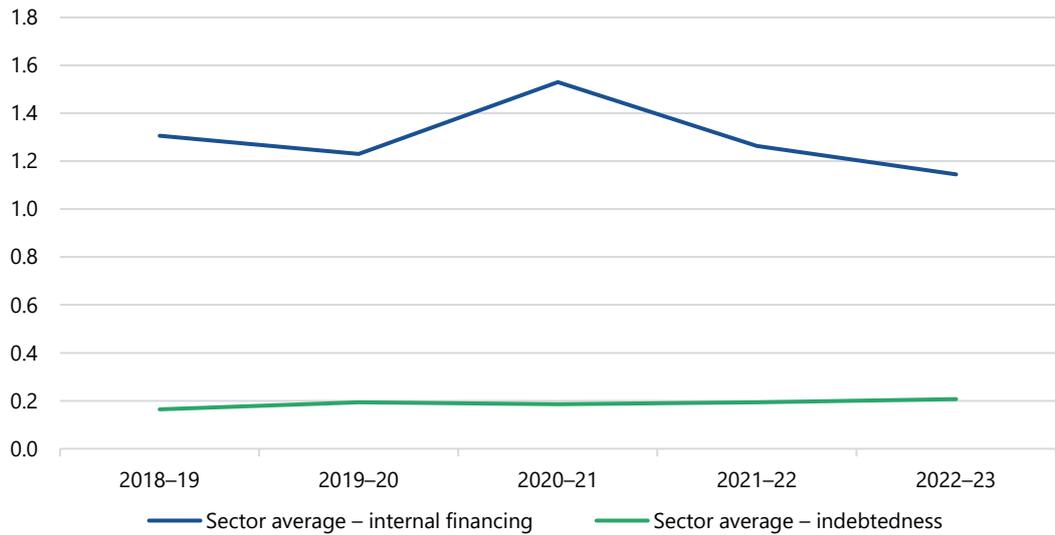
The indebtedness indicator assesses whether councils can service their debts and meet their repayment obligations using their own-source revenue.

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 13 also shows that for the last 5 years, councils’ total long-term debt has been equal to just 0.2 (or 20 per cent) of their own-source revenue in any given year.

Figure 13: The sector’s internal financing indicator and indebtedness indicator results from 2018–19 to 2022–23



Source: VAGO.

The 2 indicators show that every year the sector:

- generates more cash than it spends
- generates enough in one year to cover its long-term liabilities.

Therefore, there is little need to keep a high level of current cash and investments.

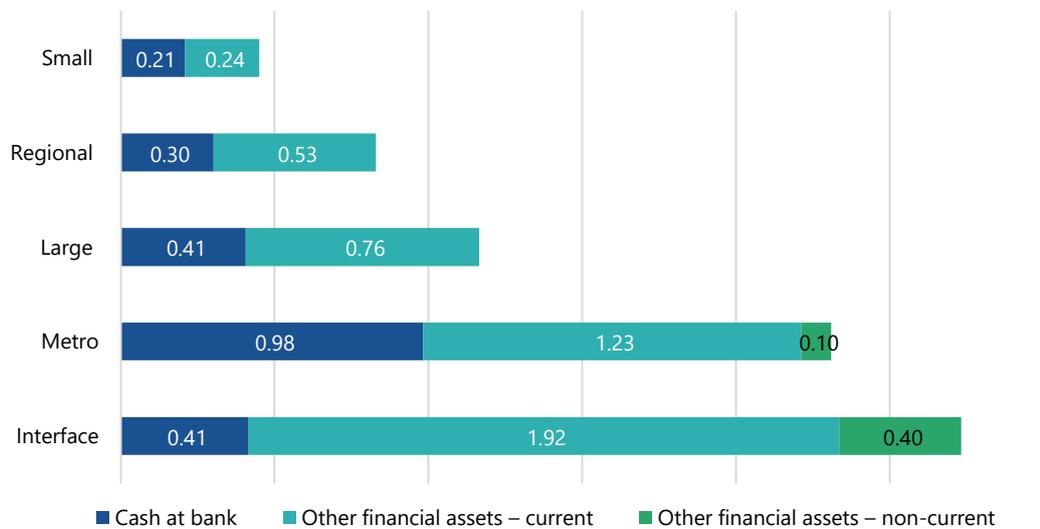
Councils should review whether their treasury function is sufficient

Given their growing cash balances, councils should ensure their long-term financial plans are sufficiently detailed and accurate to obtain the best return.

Under the Act, councils can only hold fixed-income investments unless approved by the Minister for Local Government. Their financial assets are therefore mostly cash and other financial assets.

Figure 14 shows the investment profile of council cash and investments.

Figure 14: Cash and investment by maturity and cohort in \$ billions for 2022–23



Source: VAGO.

This graph shows that councils prefer term deposits that mature in less than 12 months. Given the balance of cash held, historical rates of spending and low levels of debt, there is an opportunity for councils to take advantage of longer-term deposits and benefit from a higher rate of return.

To allow this, councils must be able to forecast accurately to ensure the timing of their cash needs is matched with the maturity of the term deposits.

Currently, we see a high level of underspend on councils' capital works programs, which indicates their long-term financial planning needs more development.

The metro and interface councils are the 2 cohorts with the largest cash and other financial assets. They are also the 2 cohorts with the biggest capital budget underspend year on year.

Actual capital expenditure continues to be below budget

Capital expenditure

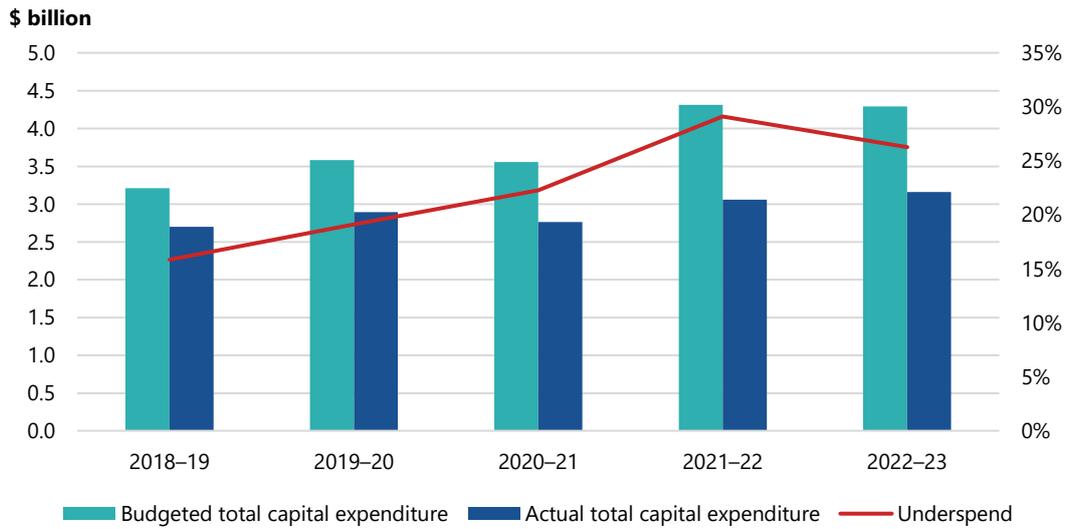
Each council's financial report includes a capital works statement. The statement:

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

In 2022–23 the sector's actual capital expenditure was \$3.163 billion. This was 26.2 per cent (or \$1.128 billion) less than it budgeted.

Figure 15 compares the sector's budgeted capital expenditure to its actual capital expenditure for 2018–19 to 2022–23 and reveals a trend of underspend. This trend existed pre-pandemic and may indicate challenges with effective capital budgeting and ongoing management by the sector.

Figure 15: Budgeted versus actual capital expenditure and percentage underspend from 2018–19 to 2022–23



Source: VAGO.

Councils can improve their financial planning for capital works

In our 2021–22 report we made recommendations that all councils assess their capital works budgeting processes and investigate root causes of under-delivery. The recommendations remain relevant for the sector.

There has been an improvement in the number of councils that met or exceeded budget, coming in at 16 councils (2021–22: 11). However, the sector has room to improve, given more than half had underspend between 15 and 40 per cent of their budget:

Councils that underspent their budgeted capital spend by ...	Numbered ...	And made up ...
0 per cent	16	20.8 per cent of all councils.
0–15 per cent	6	7.8 per cent of all councils.
15–40 per cent	39	50.6 per cent of all councils.
more than 40 per cent	16	20.8 per cent of all councils.

Of the 16 councils that met or exceeded their budget, we note that 12 are from either the small or large shire cohorts, both of which have smaller capital work programs.

It appears that, as capital work programs get larger, more councils underspend, as Figure 16 shows.

Figure 16: Total and average capital budgeted expenditure and percentage of councils that underspent within the cohort for 2022–23

Cohort	Total capital budgeted expenditure (\$ million)	Average capital budgeted expenditure (\$ million)	Percentage of councils that underspent
Interface	957	106.34	89%
Metro	1 716	77.99	91%
Regional	679	67.92	90%
Large shire	670	35.29	74%
Small shire	269	14.95	59%

Source: VAGO.

Indicator of growing dissatisfaction of council asset condition

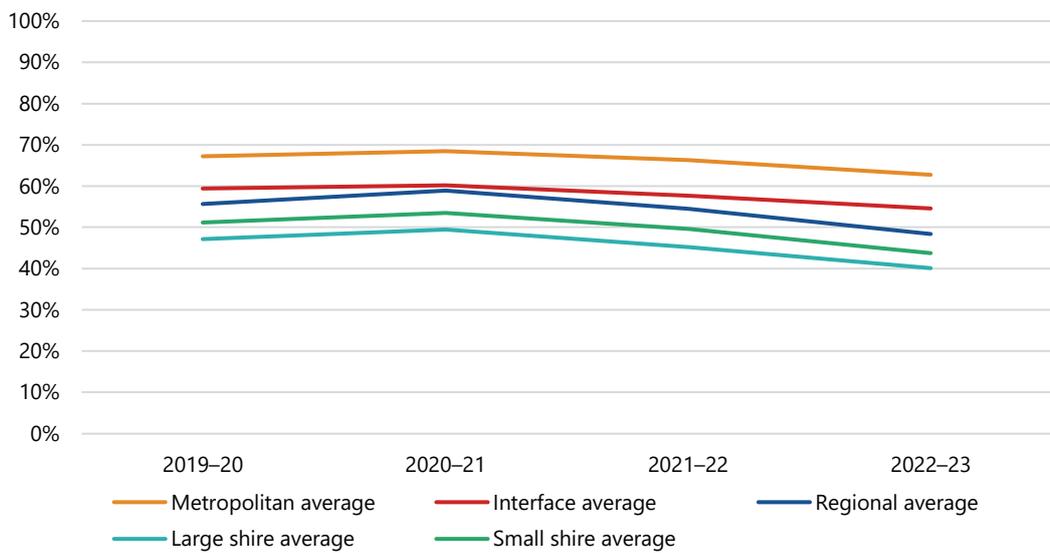
Included in the performance statement is a measure of satisfaction with council roads.

Over the past 2 years we have seen a downward trend for all cohorts, as shown in Figure 17. Three cohorts reported a significant decline in satisfaction of council roads. The regional, large and small council cohorts reported a decline in road satisfaction of at least 9 per cent in that time.

The downward trend is probably caused by various factors, such as:

- weather conditions that contribute to a deterioration of the road network or delay planned capital works
- capacity of suppliers to do planned work
- supply chain issues
- confusion over whether the federal, state or local government is responsible for maintaining a road.

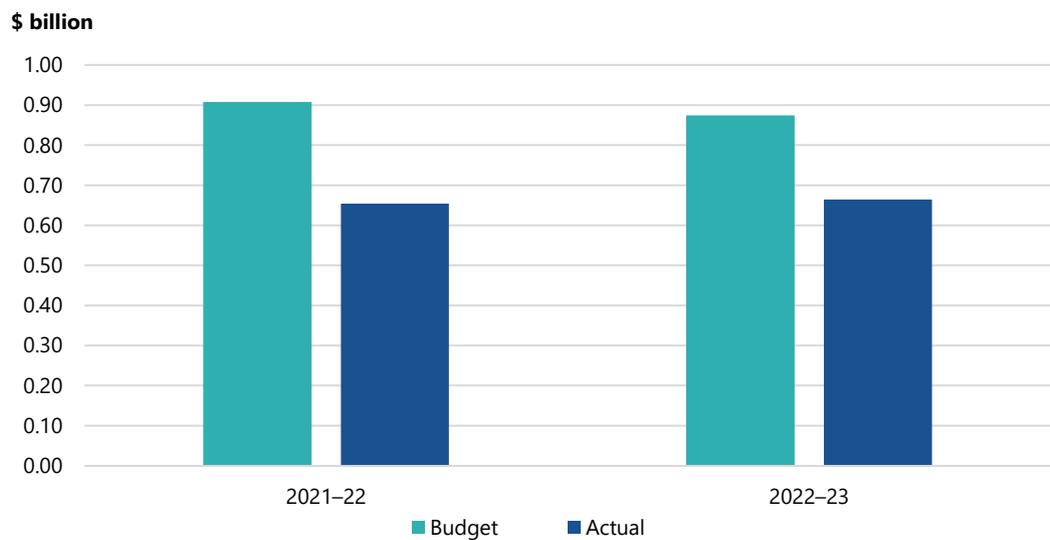
Figure 17: Average road satisfaction of council roads by cohort from 2019–20 to 2022–23



Source: VAGO.

Figure 18 indicates the actual expenditure on roads has been less than budgeted the past 2 years.

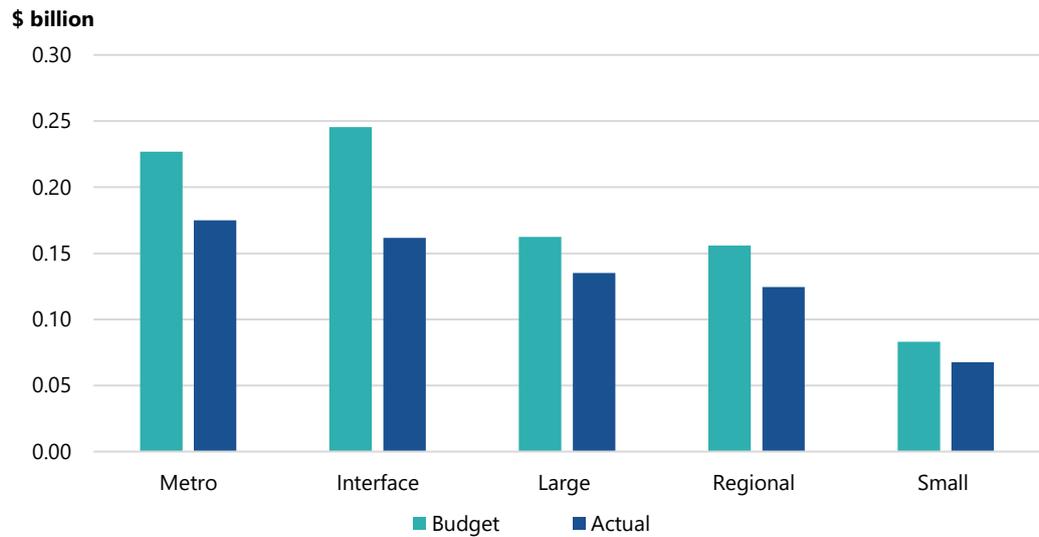
Figure 18: Roads expenditure budgeted versus actual expenditure from 2021–22 to 2022–23



Source: VAGO.

The metro and interface councils had the largest level of underspend in 2022–23 (see Figure 19).

Figure 19: Roads expenditure budgeted versus actual expenditure by cohort for 2022–23



Source: VAGO.

Consistent underspending of councils' capital works program increases the risk of ratepayers being dissatisfied with the condition of council assets.

On 19 November 2023 the Australian Government announced a doubling of the Road to Recovery funding program to fix condition of roads around Australia.

Councils, in preparing their capital expenditure budget for 2024–25, should consider this development when estimating their level of planned roads expenditure over the forward period. Councils will also need to consider supplier and materials availability when estimating costs and likely timing of the capital works.

Capital replacement and renewal gap indicators

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

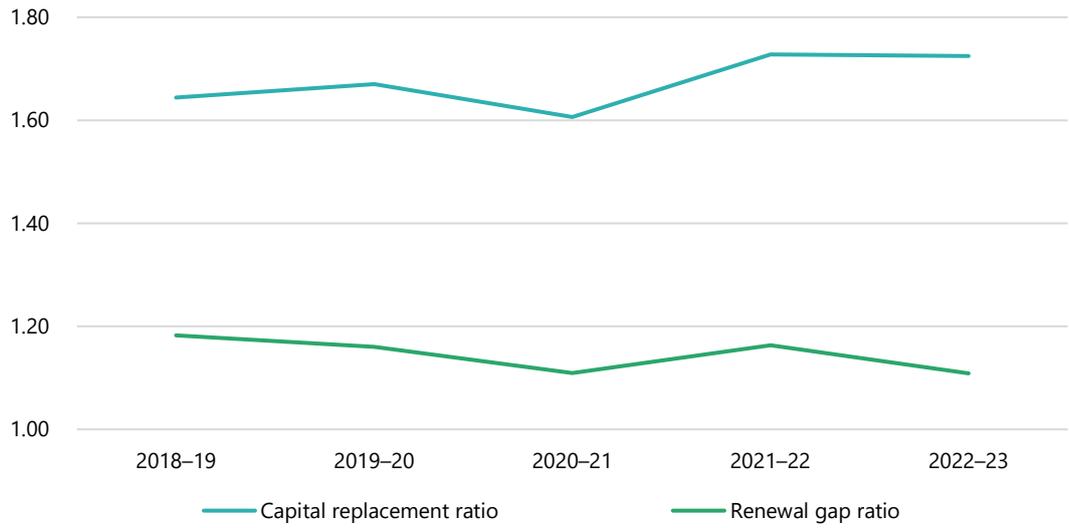
The sector's average capital replacement ratio and renewal gap ratio over the last 5 years remained above one (see Figure 20).

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

At 30 June 2023 the sector's:

- average capital replacement ratio was 1.72
- average renewal gap ratio was 1.12.

Figure 20: The sector's average capital replacement and renewal gap ratios from 2018–19 to 2022–23



Source: VAGO.

3.

Internal controls and financial reporting issues

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

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

It can also improve its oversight of balances that are subject to management judgement.

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

Communicating internal control and financial reporting issues

We alert a council's management and audit and risk committee to any internal control and financial reporting issues we find during an audit, as required by the Australian Auditing Standards. This includes:

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

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

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

There was an increase in unresolved issues from the previous year

New and unresolved issues

As Figure 21 shows:

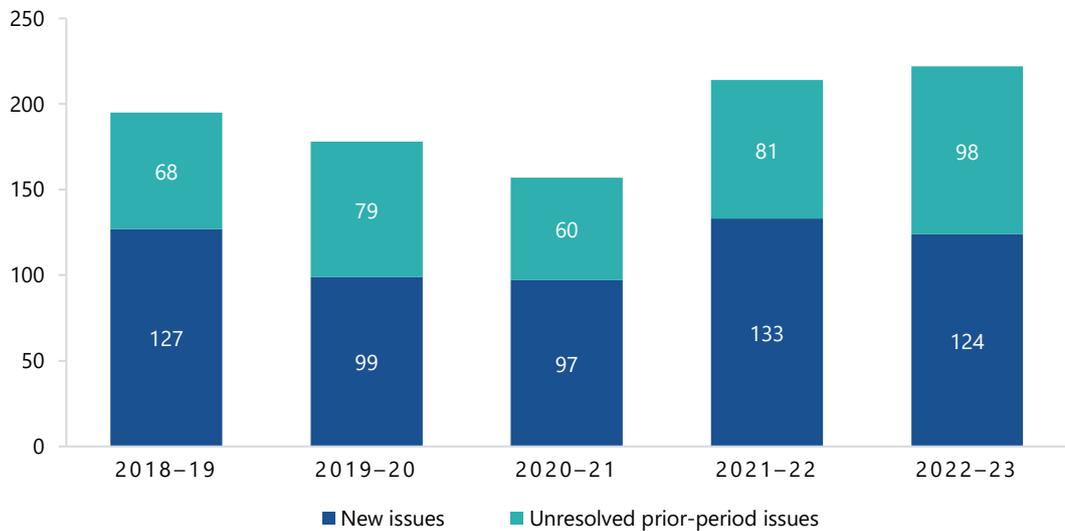
- new internal control and financial reporting issues decreased slightly from 133 in 2021–22 to 124 in 2022–23
- councils' unresolved issues from previous years increased from 81 in 2021–22 to 98 in 2022–23.

The increase is due to councils not resolving prior-year general IT control and asset management weaknesses (see Figure 22).

Of the new and unresolved issues in 2022–23, we rated:

- 5 unresolved and 3 new issues as high risk
- all remaining issues as medium risk.

Figure 21: New issues and unresolved prior-period issues from 2018–19 to 2022–23

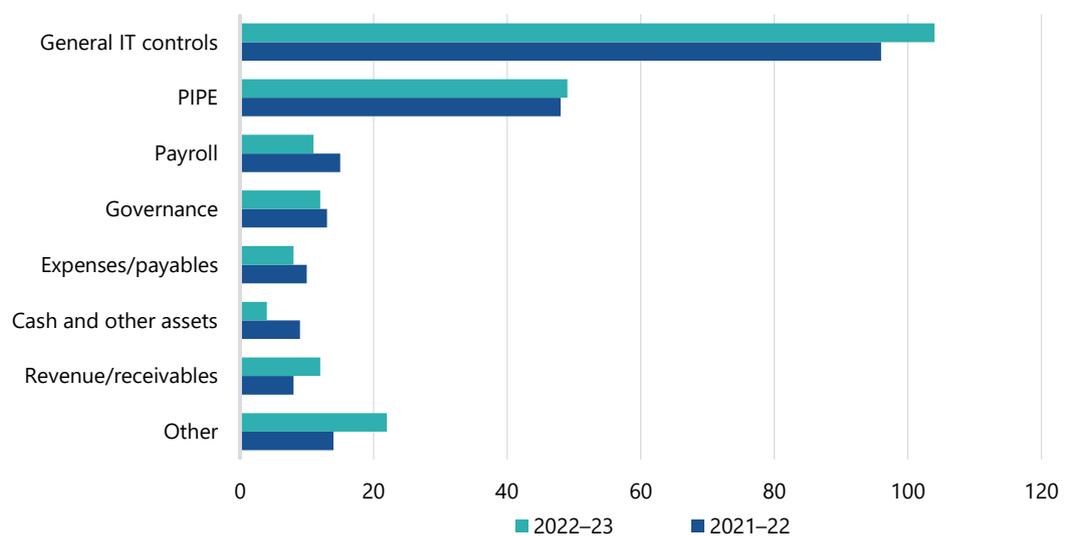


Note: We excluded low-risk issues because we consider these as minor issues or opportunities to improve.
Source: VAGO.

Medium and high-risk findings by category

Figure 22 shows the number of open medium and high-risk issues by category for the last 2 years.

Figure 22: Medium and high-risk issues by category for 2021–22 and 2022–23



Source: VAGO.

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

- general IT controls
- accounting for PIPE, in particular their fair values.

IT control weaknesses

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

As the use of IT systems to manage operational and financial data increases, it is increasingly important that councils have effective IT controls.

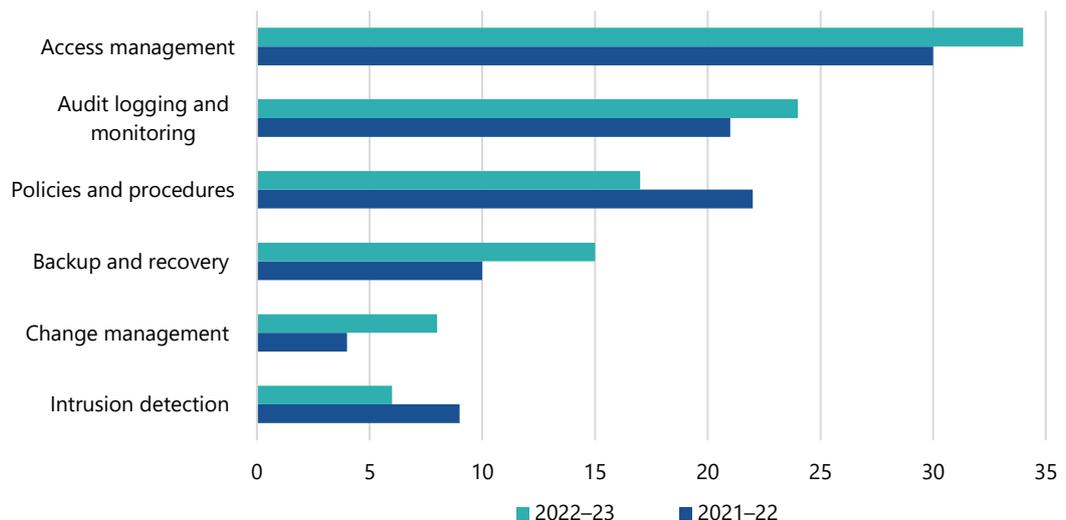
We continue to find many IT weaknesses Poor IT controls increase the risk of unauthorised access, cyber attacks, fraud, error, data manipulation and information theft. Management should resolve them promptly, to ensure systems are secure and financial information is reliable.

We tailor our audits to match the risks councils face and continue to place increased focus on IT controls.

There was an increased focus on IT controls in 2022–23 following amendments to Australian auditing standard ASA 315 *Identifying and Assessing the Risks of Material Misstatement*.

As figure 23 shows, though weaknesses in 'policies and procedures' and 'intrusion detection' fell, there was an increase across all other categories in the number of unresolved IT weaknesses we identified.

Figure 23: Unresolved IT control weaknesses by type for 2021–22 and 2022–23



Source: VAGO.

We rated all these issues as medium risk.

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

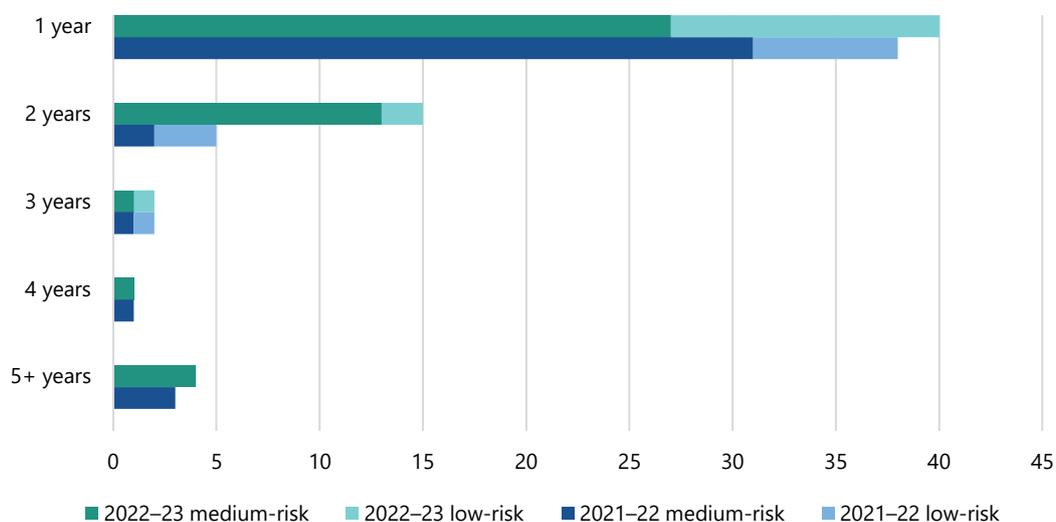
Audit logging and monitoring controls detect unauthorised access and changes after they occur. Audit logs also ensure that an entity captures all critical changes as part of its change management controls.

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

Many IT issues are still unresolved A council's risk of experiencing a major disruption, such as a cyber attack, increases if it does not fix IT control issues promptly.

Of the 104 medium unresolved IT control weaknesses, we found 46 in a prior year. Including low-risk IT weaknesses, there are a total of 62 weaknesses that have not been addressed by councils within one year. As figure 24 shows, this is an increase from 49 identified weaknesses in 2021–22.

Figure 24: Aging of unresolved medium and low-risk IT issues for 2021–22 and 2022–23



Source: VAGO.

When we alert a council’s management and audit and risk committee to any internal control issues, we recommend a time within which councils should address these weaknesses (see Appendix F). We recommend that weaknesses are resolved within 12 months at the longest, so these 62 weaknesses have not been addressed within our recommended timeframe.

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.

Asset management and valuation processes

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

Councils construct, maintain and renew significant physical infrastructure for their municipalities. They record their PIPE assets at fair value.

Arriving at an asset’s fair value can be complex and is subject to judgement. Councils need to use many assumptions about the assets. Sometimes they engage valuation experts and they may draw upon industry indices.

Asset valuation issues we commonly find include councils:

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

A council’s finance, asset management and, sometimes, engineering teams must work together to consider fair value issues early in a reporting cycle.

Asset recognition and record-keeping

We also commonly see councils:

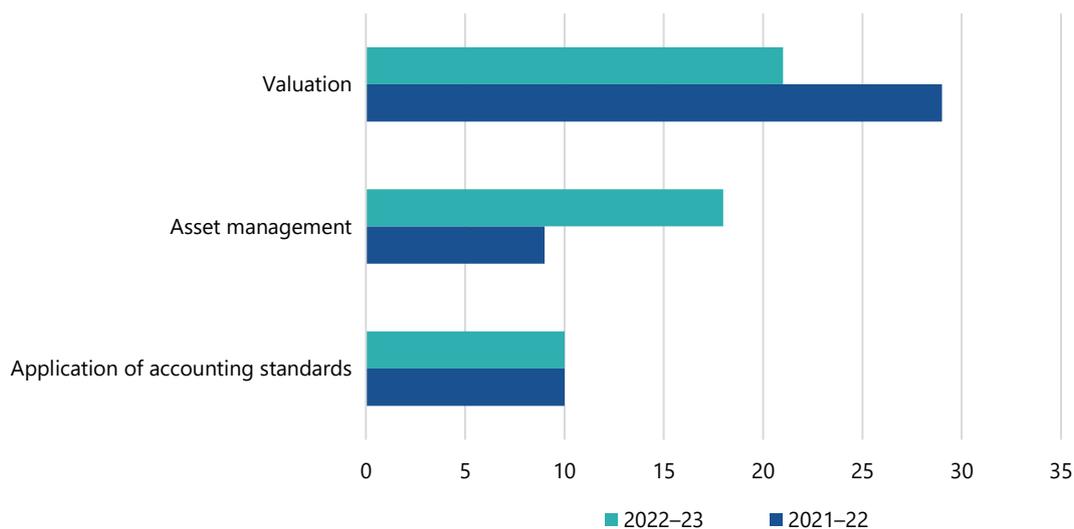
- not capitalising new assets in a timely way, understating depreciation expenses
- not recognising developer-contributed assets in a timely way, which leads to understating:
 - income
 - depreciation expense
 - assets
- not ensuring controls and procedures are consistently being applied to prevent or detect errors in asset data
- not updating and reconciling their fixed-asset registers regularly, leading to inaccurate and perhaps invalid financial asset information.

Inaccurate or incomplete asset records can also affect the asset valuation process. Management may incorrectly include or exclude assets from the valuation process based on this inaccurate data.

PIPE issues by type

Figure 25 shows the number of unresolved medium and high-risk PIPE findings by category that we reported to councils in 2021–22 and 2022–23.

Figure 25: PIPE internal control and financial reporting on medium and high-risk issues by category for 2021–22 and 2022–23



Source: VAGO.

We first reported 21 of the medium and high findings in 2022–23. The number of unresolved prior-period findings increased from 19 in 2021–22 to 28 in 2022–23, which includes 5 findings we rated as high risk.

We reported a further 53 unresolved low-risk issues to councils in 2022–23 about asset management and valuation.

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

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

Councils can improve their oversight of balances subject to management judgement

Effectiveness of oversight of fair value assessments and asset valuations

PIPE represents approximately 90 per cent of total assets for every council. The valuation of such assets and the annual fair value assessment involves significant management judgement.

VAGO's *Results of 2021–22 Audits: Local Government* report contained a recommendation that finance teams prepare and present a paper to their audit and risk committee prior to 30 June. It should outline the:

- requirements of the council's accounting policy with respect to PIPE
- approach to assessing the fair value PIPE, including the engagement of an expert valuer and key milestones
- likely outcomes for that reporting cycle (in other words, expected movements in fair value and the resultant impact on the financial report).

Only 17 of the 79 councils prepared and presented a paper at an audit and risk committee meeting prior to 30 June 2023. A further 7 councils presented a paper detailing valuation outcomes at their audit and risk committee meeting after the balance date.

Without a paper being prepared and considered at a council's audit and risk committee meeting prior to 30 June, the committee's ability to effectively oversight key accounting issues is reduced.

Issues can be resolved quickly through early dialogue with key stakeholders. This should cover the council's planned approach to assessing fair value, the key assumptions underpinning the valuation methodology and the engagement of a valuation expert.

Queries raised at an audit and risk committee meeting in August or September can delay the clearance and signing of the financial report. This increases the risk that a council will be unable to meet its annual reporting obligations within the timeframe set by the Act.

The fair value assessments and valuation outcomes are also important for long-term financial management, as they provide insight into the current replacement cost of assets.

Councils are responsible for the management and ongoing maintenance of a significant number of assets. This makes it critical that decisions on asset acquisitions, upgrades, renewal, replacement, decommissioning and maintenance are based on the latest available information. It should also take into account the council's corporate plan, asset management plan and 10-year financial plan.

Accordingly, it is critical that a council's audit and risk committee scrutinises the fair value assessments and valuation outcomes to support executive decision-making.

Recommendations

All councils

4. 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:
 - requirements of the council's accounting policy with respect to property, infrastructure assets, plant and equipment
 - approach to assessing the fair value of each class of property, infrastructure assets, plant and equipment, including the engagement of an expert valuer and key milestones
 - likely outcomes for the respective reporting cycle (expected movements in fair value and resultant impact on the financial report).

5. We recommend that audit and risk committees:

- prior to balance date, review the finance team's accounting paper
- after balance date and at the time of reviewing the draft financial report:
 - determine whether there have been any changes to circumstances that would indicate that key assumptions behind the finance team's initial advice and key judgements no longer hold true
 - assess the reasonableness of the valuation and fair value assessment outcomes.
- update their annual work plan to include the above tasks.

6. We recommend that councils:

- prioritise and promptly address the internal control and financial reporting issues we raise with them and that their audit and risk committee monitor this
 - review the actions and timelines established to resolve internal control weaknesses, with a focus on older and higher-risk findings
 - for longer-term action plans, ensure adequate compensating safeguards are in place.
-

Appendices

[Appendix A: Submissions and comments](#)

[Appendix B: Sector context](#)

[Appendix C: Audit context](#)

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

[Appendix E: Audit opinions](#)

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

[Appendix G: Financial sustainability indicators](#)

Appendix A: Submissions and comments

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

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

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

Responses received

Agency	Page
Department of Government Services	A-2
Municipal Association of Victoria	A-3

OFFICIAL: Sensitive



Department of Government Services

1 Spring Street
Melbourne Victoria 3000
dgs.vic.gov.au

Our ref: CSEC-2-24-23113

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 2022-23 AUDITS: LOCAL GOVERNMENT PROPOSED REPORT

Thank you for your letter of 30 January 2024 providing the department with a copy of the proposed report titled *Results of 2022-23 Audits: Local Government*.

I note the six recommendations in the report. The Department of Government Services accepts the two recommendations directed toward it and, through Local Government Victoria, will work with your office and other stakeholders, including the Municipal Association of Victoria during 2024 to enhance the structure and layout of the 2023-24 Local Government Model Performance Statement and develop a governance training program to support councillors and audit and risk committees.

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

If your office requires further information, they may please contact Mike Gooley, Executive Director Local Government Victoria on [REDACTED].

Yours sincerely

[REDACTED]
Jo de Morton
Secretary
06/02/2024

Cc: [REDACTED]



OFFICIAL: Sensitive

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MUNICIPAL ASSOCIATION OF VICTORIA

6 February 2024

Mr Andrew Greaves
Auditor General
VAGO
Level 31 / 35 Collins Street
MELBOURNE VIC 3000

Delivered via email care of [REDACTED]

Dear Mr Greaves

Proposed Report on the Results of 2022-23 Audits: Local Government

Thank you for your correspondence dated 30 January 2024 which enclosed an extract of the proposed report on *Results of 2022-23 Audits: Local Government*.

I have noted the conclusions in the proposed Report about the factors which show how councils can improve their internal processes to drive better outcomes and enhance their staff's understanding of the financial reporting process. These conclusions will be valuable for the sector as it looks to continually improve its practices.

I have also noted and support the proposed recommendation that Local Government Victoria or the Municipal Association of Victoria (MAV) or both work in partnership to 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.

This recommendation is timely as we have also identified the opportunity to expand the current MAV councillor professional development program to include specific training and support for those who are audit and risk committee members. We are aiming to develop such training so it can be delivered as part of the induction program for the councillors who are elected for the 2024-2028 council term. VAGO's input into the training materials would be most welcomed and in due course we will contact your office to discuss if this would be possible.

If there are any queries about these comments please contact Anne-Maree Neal, Governance Advisor on [REDACTED] or by email [REDACTED].

Yours sincerely

[REDACTED]

KELLY GRIGSBY
Chief Executive Officer



Appendix B:

Sector context

Sector at a glance

Number of entities The Victorian local government sector consists of 105 agencies, comprising:

- 79 local councils
- 11 companies controlled by local councils
- 9 library corporations
- 6 associated entities.

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

Figure B1: Council cohorts

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

Source: VAGO.

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

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

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

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

Local Government Victoria (LGV)

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

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

Peak bodies

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

Local Government Finance Professionals, an incorporated association, is the peak body servicing finance professionals representing all Victorian councils, 5 regional library corporations and more than 20 other organisations.

Legislative framework

Governance

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

Local Government Act 2020

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

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

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

Local Government (Planning and Reporting) Regulations 2020

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

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

Annual reporting obligations

Legislative obligation

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

Figure B2: Financial reporting legislative obligations

Entity	Legislation	Requirement
Councils	<i>Local Government Act 2020</i>	A council must prepare a financial report and performance statement as soon as practicable after the end of the financial year.
	Local Government (Planning and Reporting) Regulations 2020	<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 as directed by parent entity.
Library corporations	<i>Local Government Act 1989</i> or the <i>Australian Charities and Not-for-profits Commission Act 2012 (Cth)</i>	<p>The 9 library corporations comprise:</p> <ul style="list-style-type: none"> 8 regional library corporations, established under the Local Government Act 1989 one library corporation established as an Australian company limited by guarantee under the Corporations Act 2001 and registered as a charitable organisation under the Australian Charities and Not-for-profits Commission Act 2012 (Cth). <p>The 8 regional library corporations continue to prepare annual financial reports in accordance with the requirements of the Local Government Act 1989, given the transitional provisions of the Local Government Act 2020. The Minister for Local Government extended the timeframe for submission of 2022–23 annual reports by one month to 31 October 2023.</p> <p>The company limited by guarantee prepares a financial report in accordance with the requirements of the Australian Charities and Not-for-profits Commission Act 2012 (Cth) 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 agency-specific legislation	Prepare a director's report and financial report.

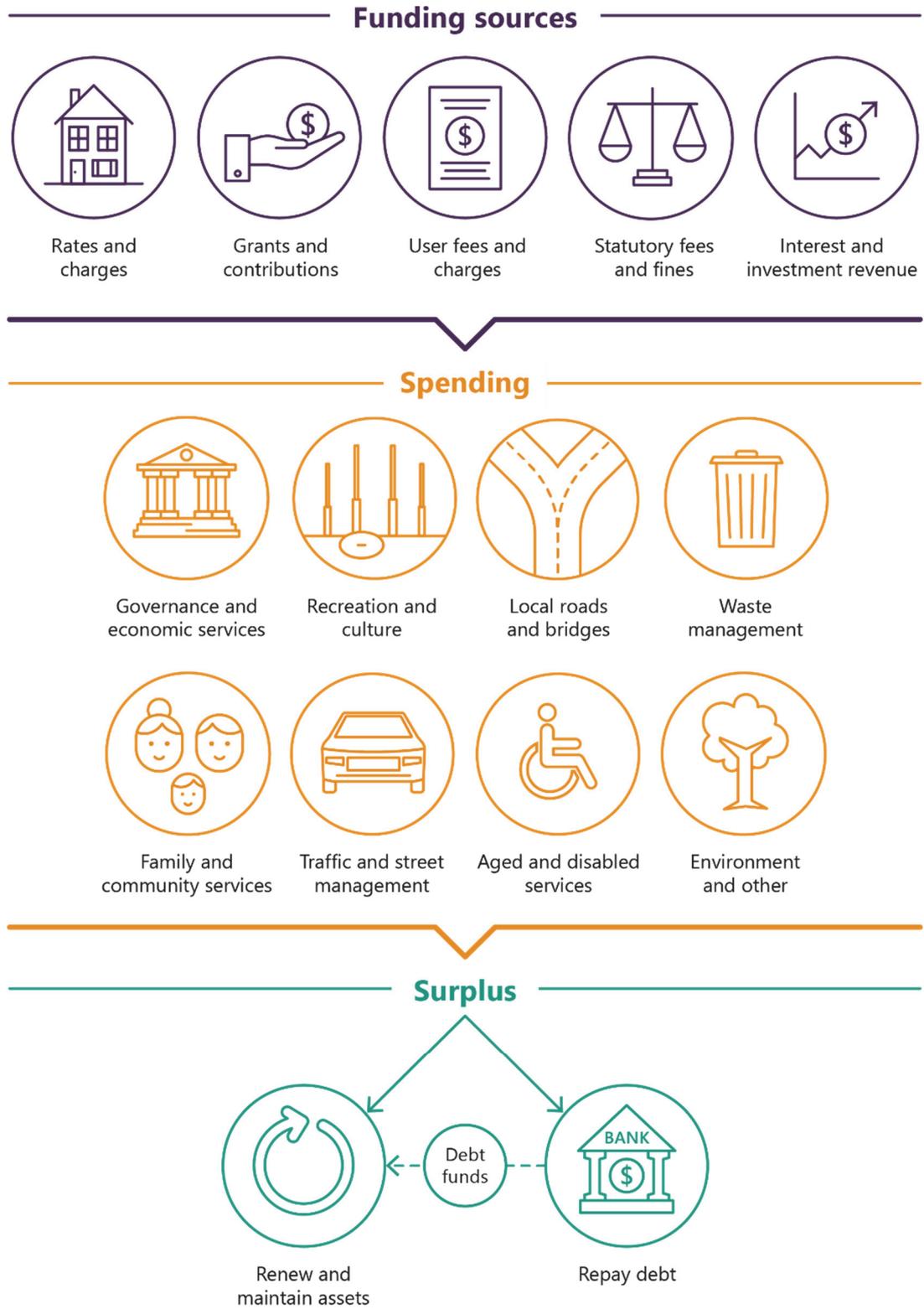
Source: VAGO.

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, plant and equipment that councils need to deliver community services.

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

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



Source: VAGO.

Appendix C:

Audit context

Our methods

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

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

Our independence

The Auditor-General is:

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

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

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

Our costs

The cost of this report and the supporting data dashboard was \$236 000, which is funded by parliamentary appropriation.

Appendix D: Abbreviations, acronyms and glossary

Abbreviations We use the following abbreviations in this report:

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

Acronyms We use the following acronyms in this report:

Acronym	Full spelling
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IT	information technology
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LGV	Local Government Victoria
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PIPE	property, infrastructure assets, plant and equipment
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VAGO	Victorian Auditor-General's Office
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Glossary This glossary includes an explanation of the technical terms used in this report:

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

Audit opinions

Figure E1 lists the 105 agencies included in this report and details the type of audit opinion for each agency's 2022–23 financial report and performance statement, where applicable. It also states the dates we issued each audit opinion.

Figure E2 provides detail on the 3 audits in progress as at 29 February 2024.

Figure E3 provides an update on 8 audits relating to the 2021–22 financial year that were listed as in progress in our *Results of 2021–22 Audits: Local Government* report.

Figure E1: Audit opinions issued for the local government sector for 2022–23

	Financial report		Performance statement	
Metropolitan				
Banyule City Council	✓	6 Oct 2023	✓	6 Oct 2023
Bayside City Council	✓	25 Sep 2023	✓	25 Sep 2023
Boroondara City Council	✓	16 Oct 2023	✓	16 Oct 2023
Brimbank City Council	✓	9 Oct 2023	✓	9 Oct 2023
Darebin City Council	✓	2 Oct 2023	✓	2 Oct 2023
Frankston City Council	✓	9 Oct 2023	✓	9 Oct 2023
Peninsula Leisure Pty Ltd	✓	20 Sep 2023	N/A	N/A
Glen Eira City Council	✓	13 Sep 2023	✓	13 Sep 2023
Greater Dandenong City Council	✓	3 Oct 2023	✓	3 Oct 2023
Dandenong Market Pty Ltd	✓	29 Aug 2023	N/A	N/A
South East Leisure Pty Ltd	✓	11 Oct 2023	N/A	N/A
Hobsons Bay City Council	✓	20 Sep 2023	✓	20 Sep 2023
Kingston City Council	✓	16 Oct 2023	✓	16 Oct 2023
Knox City Council	✓	19 Oct 2023	✓	19 Oct 2023
Manningham City Council	✓	18 Sep 2023	✓	18 Sep 2023
Maribyrnong City Council	✓	22 Sep 2023	✓	22 Sep 2023
Maroondah City Council	✓	12 Sep 2023	✓	12 Sep 2023
Melbourne City Council	✓	6 Oct 2023	✓	6 Oct 2023
Citywide Service Solutions Pty Ltd	✓	7 Sep 2023	N/A	N/A
Queen Victoria Market Pty Ltd	✓	24 Aug 2023	N/A	N/A
Merri-bek City Council	✓	26 Sep 2023	✓	26 Sep 2023

	Financial report		Performance statement	
Monash City Council	✓	18 Oct 2023	✓	18 Oct 2023
Moonee Valley City Council	✓	3 Oct 2023	✓	3 Oct 2023
Port Phillip City Council	✓	5 Oct 2023	✓	5 Oct 2023
Stonnington City Council	✓	9 Nov 2023	✓	9 Nov 2023
Prahran Market Pty Ltd	✓	10 Oct 2023	N/A	N/A
Whitehorse City Council	✓	13 Oct 2023	✓	13 Oct 2023
Yarra City Council	✓	18 Sep 2023	✓	18 Sep 2023
Interface				
Cardinia Shire Council	✓	22 Sep 2023	✓	22 Sep 2023
Casey City Council	✓	28 Sep 2023	✓	28 Sep 2023
Hume City Council	✓	16 Oct 2023	✓	16 Oct 2023
Melton City Council	✓	10 Oct 2023	✓	10 Oct 2023
Mornington Peninsula Shire Council	✓	10 Oct 2023	✓	10 Oct 2023
Nillumbik Shire Council	✓	27 Oct 2023	✓	27 Oct 2023
Whittlesea City Council	✓	22 Sep 2023	✓	22 Sep 2023
Wyndham City Council	✓	4 Oct 2023	✓	4 Oct 2023
Western Leisure Services Pty Ltd	✓	13 Sep 2023	N/A	N/A
Yarra Ranges Shire Council	✓	3 Nov 2023	✓	3 Nov 2023
Regional				
Ballarat City Council	✓	11 Dec 2023	✓	11 Dec 2023
Greater Bendigo City Council	✓	3 Oct 2023	✓	3 Oct 2023
Greater Geelong City Council	✓	27 Sep 2023	✓	27 Sep 2023
Greater Shepparton City Council	✓	6 Oct 2023	✓	6 Oct 2023
Horsham Rural City Council	✓	18 Oct 2023	✓	18 Oct 2023
Latrobe City Council	✓	18 Oct 2023	✓	18 Oct 2023
Mildura Rural City Council	✓	24 Oct 2023	✓	24 Oct 2023
Mildura Airport Pty Ltd	✓	24 Oct 2023	N/A	N/A
Mildura Tourism and Economic Development Limited	✓	24 Oct 2023	N/A	N/A
Wangaratta Rural City Council	✓	20 Oct 2023	✓	20 Oct 2023
Wangaratta Livestock Exchange Pty Ltd	✓	4 Oct 2023	N/A	N/A
Warrnambool City Council	✓	3 Oct 2023	✓	3 Oct 2023
Wodonga City Council	✓	12 Oct 2023	✓	12 Oct 2023
Large shires				
Bass Coast Shire Council	✓	26 Oct 2023	✓	26 Oct 2023
Baw Baw Shire Council	✓	16 Oct 2023	✓	16 Oct 2023
Campaspe Shire Council	✓	4 Oct 2023	✓	4 Oct 2023

	Financial report		Performance statement	
Campaspe Port Enterprise Pty Ltd ^(a)	✓	28 Nov 2023	N/A	N/A
Colac Otway Shire Council	✓	18 Oct 2023	✓	18 Oct 2023
Corangamite Shire Council	✓	5 Oct 2023	✓	5 Oct 2023
East Gippsland Shire Council	✓	13 Oct 2023	✓	13 Oct 2023
Glenelg Shire Council	✓	26 Oct 2023	✓	26 Oct 2023
Golden Plains Shire Council	✓	25 Oct 2023	✓	25 Oct 2023
Macedon Ranges Shire Council	✓	6 Oct 2023	✓	6 Oct 2023
Mitchell Shire Council	✓	30 Oct 2023	✓	30 Oct 2023
Moira Shire Council	✓	24 Oct 2023	✓	24 Oct 2023
Moorabool Shire Council	✓	18 Oct 2023	✓	18 Oct 2023
Mount Alexander Shire Council	✓	26 Sep 2023	✓	26 Sep 2023
Moyne Shire Council	✓	16 Oct 2023	✓	16 Oct 2023
South Gippsland Shire Council	✓	27 Oct 2023	✓	27 Oct 2023
Southern Grampians Shire Council	✓	6 Dec 2023	✓	6 Dec 2023
Surf Coast Shire Council	✓	3 Oct 2023	✓	3 Oct 2023
Swan Hill Rural City Council	✓	6 Oct 2023	✓	6 Oct 2023
Wellington Shire Council	✓	5 Oct 2023	✓	5 Oct 2023
Small shires				
Alpine Shire Council	✓	3 Nov 2023	✓	3 Nov 2023
Ararat Rural City Council	✓	6 Oct 2023	✓	6 Oct 2023
Benalla Rural City Council	✓	21 Dec 2023	✓	21 Dec 2023
Borough of Queenscliffe	✓	6 Oct 2023	✓	6 Oct 2023
Buloke Shire Council	✓	16 Oct 2023	✓	16 Oct 2023
Central Goldfields Shire Council	✓	31 Oct 2023	✓	31 Oct 2023
Gannawarra Shire Council	✓	3 Oct 2023	✓	3 Oct 2023
Hepburn Shire Council	✓	5 Oct 2023	✓	5 Oct 2023
Hindmarsh Shire Council	✓	11 Oct 2023	✓	11 Oct 2023
Indigo Shire Council	✓	3 Nov 2023	✓	3 Nov 2023
Loddon Shire Council	✓	13 Sep 2023	✓	13 Sep 2023
Mansfield Shire Council	✓	6 Dec 2023	✓	6 Dec 2023
Murrindindi Shire Council	✓	6 Oct 2023	✓	6 Oct 2023
Northern Grampians Shire Council	✓	27 Oct 2023	✓	27 Oct 2023
Pyrenees Shire Council	✓	10 Oct 2023	✓	10 Oct 2023
Strathbogie Shire Council	✓	11 Oct 2023	✓	11 Oct 2023
Towong Shire Council	✓	20 Nov 2023	✓	20 Nov 2023
West Wimmera Shire Council	N/A	Outstanding	N/A	Outstanding
Yarriambiack Shire Council	✓	11 Oct 2023	✓	11 Oct 2023

	Financial report	Performance statement		
Library corporations				
Casey-Cardinia Library Corporation	✓	30 Oct 2023	N/A	N/A
Eastern Regional Libraries Corporation	✓	31 Oct 2023	N/A	N/A
Geelong Regional Library Corporation	✓	25 Aug 2023	N/A	N/A
Goulburn Valley Regional Library Corporation	✓	2 Oct 2023	N/A	N/A
Myli – My Community Library Ltd ^(b)	✓	26 Oct 2023	N/A	N/A
North Central Goldfields Regional Library Corporation	✓	21 Sep 2023	N/A	N/A
Whitehorse Manningham Regional Library Corporation	✓	18 Sep 2023	N/A	N/A
Wimmera Regional Library Corporation	N/A	Outstanding	N/A	N/A
Yarra Plenty Regional Library Service	✓	22 Sep 2023	N/A	N/A
Associated entities				
MomentumOne Shared Services Pty Ltd	N/A	Outstanding	N/A	N/A
Municipal Association of Victoria	✓	12 Oct 2023	N/A	N/A
Procurement Australasia Ltd ^(c)	✓	20 Dec 2023	N/A	N/A
Regent Management Company Pty Limited	✓	31 Jan 2023	N/A	N/A
Regional Landfill Clayton South Joint Venture	✓	18 Dec 2023	N/A	N/A
Wimmera Southern Mallee Development Limited ^(d)	✓	2 Nov 2023	N/A	N/A

Notes:

N/A = not applicable.

✓ Unmodified audit opinion.

^(a) Campaspe Port Enterprise Pty Ltd, established 1 October 2021, commenced operations during 2022–23.

^(b) Myli – My Community Library Ltd, established 25 August 2021, assumed responsibility for the provision of library services previously provided by West Gippsland Regional Library Corporation on 1 July 2022.

^(c) Procurement Australasia Ltd has a 30 September balance date.

^(d) Wimmera Development Association Limited became Wimmera Southern Mallee Development Limited during 2022–23.

Source: VAGO.

Figure E2: Audits in progress as at 29 February 2024

Type of agency	Agency name	Why in progress
Council	West Wimmera Shire Council	Council has experienced staff turnover. Delays with the provision of draft accounts and supporting schedules. Resolution of accounting issues following transition to new accounting software on 1 July 2022.
Library	Wimmera Regional Library Corporation	Library corporation impacted by resolution of accounting issues associated with the transition to a new operating structure effective 1 July 2023. The library corporation will be wound up during 2024.
Associated entity	MomentumOne Shared Services Pty Ltd	Towong Shire Council is responsible for the preparation of the company's financial report and the council has experienced staff turnover during 2022. Company dormant, effective November 2021.

Source: VAGO.

Figure E3: Audit opinions issued for the local government sector for the 2021–22 financial year that were previously reported as being in progress

	Financial report		Performance statement	
Corangamite Regional Library Corporation ^(a)	N/A	Liquidated	N/A	N/A
Eastern Regional Libraries Corporation	✓	26 May 2023	N/A	N/A
MomentumOne Shared Services Pty Ltd	N/A	Outstanding	N/A	N/A
Regent Management Company Pty Limited	✓	06 Jun 2023	N/A	N/A
Regional Landfill Clayton South Joint Venture	✓	19 Jul 2023	N/A	N/A
Towong Shire Council	✓	28 Apr 2023	✓	28 Apr 2023
West Gippsland Regional Library Corporation ^(b)	✓	19 Jun 2023	N/A	N/A
Wimmera Regional Library Corporation	✓	26 May 2023	N/A	N/A

N/A = not applicable.

✓ Unmodified audit opinion.

^(a) Corangamite Regional Library Corporation appointed a liquidator to wind up the corporation. The member councils, Corangamite Shire Council and Moyne Shire Council, assumed responsibility for the direct provision of library services within their respective municipalities effective 1 July 2022. The net assets of the library corporation was distributed to the member councils.

^(b) West Gippsland Regional Library Corporation ceased trading on 30 June 2022. Effective 1 July 2022, Myli – My Community Library Ltd assumed responsibility for the provision of library services.

Source: VAGO.

Appendix F:

Control issues risk ratings

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

Figure F1: Risk rating definitions

Rating	Definition	Management action required
High	<p>The issue represents:</p> <ul style="list-style-type: none"> 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 <p>or</p> <ul style="list-style-type: none"> 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. 	<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"> a misstatement in a financial report that has occurred, or may occur, and has the possibility to become material <p>or</p> <ul style="list-style-type: none"> 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. 	<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"> a misstatement in a financial report that is likely to occur but is not expected to be material <p>or</p> <ul style="list-style-type: none"> a minor control weakness with minimal but reportable impact on an entity's ability to achieve process objectives and comply with relevant legislation <p>or</p> <ul style="list-style-type: none"> an opportunity to improve an existing process or internal control. 	<p>Low-risk issues require management to intervene with a detailed action plan and implement it within 6 to 12 months.</p>

Source: VAGO.

Appendix G: Financial sustainability indicators

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

Refer to the data dashboard on our website (www.audit.vic.gov.au/report/results-2022-23-audits-local-government) for individual council financial sustainability data and analysis.

Figure G1: Financial sustainability indicators, formulas and descriptions

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

Indicator	Formula	Description
Capital replacement (ratio)	Cash outflows for the addition of new property, infrastructure, plant and equipment/depreciation	<p>This compares the rate of spending on new infrastructure, property, plant and equipment with its depreciation. Ratios higher than 1 indicate that spending is faster than the depreciating rate.</p> <p>This is a long-term indicator, because capital expenditure can be deferred in the short term if there are insufficient funds available from operations and borrowing is not an option. Cash outflows for property, infrastructure, plant and equipment are taken from the statement of cash flows. Depreciation is taken from the comprehensive income statement.</p>
Renewal gap (ratio)	Renewal and upgrade expenditure/depreciation	<p>This compares the rate of spending on renewing, restoring and replacing existing assets with depreciation.</p> <p>Ratios higher than 1 indicate that spending on existing assets is faster than the depreciation rate.</p>

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

Auditor-General's reports tabled during 2023–24

Report title	Tabled
<i>Cybersecurity: Cloud Computing Products (2023–24: 1)</i>	August 2023
<i>Responses to Performance Engagement Recommendations: Annual Status Update 2023 (2023–24: 2)</i>	August 2023
<i>Eloque: the Joint Venture Between DoT and Xerox (2023–24: 3)</i>	October 2023
<i>Domestic Building Oversight Part 1: Regulation (2023–24: 4)</i>	November 2023
<i>Employee Health and Wellbeing in Victorian Public Hospitals (2023–24: 5)</i>	November 2023
<i>Reducing the Illegal Disposal of Asbestos (2023–24: 6)</i>	November 2023
<i>Auditor-General's Report on the Annual Financial Report of the State of Victoria: 2022–23 (2023–24: 7)</i>	November 2023
<i>Contractors and Consultants in the Victorian Public Service: Spending (2023–24: 8)</i>	November 2023
<i>Major Projects Performance Reporting 2023 (2023–24: 9)</i>	November 2023
<i>Fair Presentation of Service Delivery Performance 2023 (2023–24: 10)</i>	November 2023
<i>Reducing the Harm Caused by Drugs on Victorian Roads (2023–24: 11)</i>	December 2023
<i>Results of 2022–23 Audits: Local Government (2023–24: 12)</i>	March 2024

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

Our role and contact details

The Auditor-General's role

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

Our assurance services

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

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