# Local Government: 2016–17 results of financial audits (Report 13: 2017–18). Tabled 22 March 2018.

**Slide 1: Welcome**

This presentation summarises the results of our 2016–17 financial audits of local government entities.

Please note this is a summary and the full report can be read on our website.

**Slide 2: Audit results**

We provided unmodified audit opinions on 98 per cent of audited financial statements.

This means local government entities prepared their financial statements in accordance with legislative requirements and relevant accounting standards, and that the financial statements can be relied upon.

Only one council and two related entities received a qualified opinion. While this is an improvement from the prior year, there are still three councils and four council-related entity audits in progress at the time of this report.

**Slide 3: Timeliness of reporting**

The timeliness of councils continues to improve with 73 out of the 77 councils meeting their statutory or ministerially approved extended deadlines. 74 council audits have been completed to date.

This year, councils decreased the average time taken to finalise their financial statements by 1.78 weeks from the prior year, which indicates a substantial improvement in financial statement preparation processes.

**Slide 4: Quality of reporting**

We found that the quality of financial reporting requires improvement. 29 councils made material adjustments to key balances in their draft financial statements. Seven councils also corrected prior period errors that were material.

Incomplete asset registers remain an issue, with 17 councils making adjustments for assets in each of the last two years. Without complete and accurate asset information, councils cannot adequately plan and manage their activities.

Councils can reduce the likelihood of errors or adjustments in their financial statements by ensuring they have robust consistent month and year end processes and review.

**Slide 5: Financial performance**

At face value, the performance of the local government sector has improved over the last year. However, this has largely been driven by advance payments of the 2017–18 Financial Assistance Grants to Local Government from the Australian Government. Future advance payments are not guaranteed.

While the sector operating result is positive, 26 councils had operating losses, and if the 2017–18 Financial Assistance Grants advance were excluded, 54 per cent of councils would have had operating losses.

**Slide 6: Financial sustainability**

Long-term financial sustainability remains a major risk for many councils. While our ratio analysis shows the five-year average operating surplus is consistent with the prior year, the sector is still spending more than it earns. This concerns us, because breaking even or making a small surplus over the long term is an important part of being financially sustainable.

Indigenous councils have a higher risk of becoming unsustainable compared to the other council segments due to their inability to raise their own revenue, and because of their reliance on grant funding. Costs of living in these council areas are also higher due to the remoteness of their locations.

**Slide 7: Internal controls**

Councils’ internal control effectiveness varies across the sector. We reported 307 significant internal control deficiencies in 2016-17. A high proportion of audit issues continue to be re‑raised from prior years, indicating councils are not taking an active role in resolving them.

By not addressing internal control deficiencies, councils are unnecessarily exposing themselves to a higher risk of fraud and errors going undetected. They will continue to be vulnerable if they do not mitigate their risks, take action to secure their systems, and put plans in place to restore their operations in the event of a business disruption, natural disaster, or cyber attack.

 **Slide 8: Audit committees**

Audit committees have a key role in ensuring management takes timely and effective action to address control deficiencies. However, audit committees are no longer mandated for all councils.

At the time of preparing this report, 12 councils had disbanded their audit committee, or their audit committee had not met during 2016–17. These 12 councils have over a third of all significant deficiencies raised this year.

To provide effective independent oversight, these councils need to reinstate their audit committees.

**Slide 9: Future challenges and emerging risks**

During the year, we looked at councils’ processes for monitoring controlled entities. We identified that only 51 per cent of controlled entity financial statements are made publicly available.

In addition, as councils often appoint councillors or senior executives to their companies’ boards they need to have appropriate mechanisms for effective oversight and to manage the inherent conflicts of interest between the council’s own activities and those of its controlled entities.

**Slide 10: Future challenges and emerging risks**

Accounting for landfills is complex, and the valuation involves significant judgments and estimates.

Councils need to have a good understanding of the full life cycle costs for rehabilitation, closure, and monitoring of landfills. Where these are not well understood, councils will not be able to provide accurate information to decision-makers.

**Slide 11: Recommendations**

Overall, we made six recommendations in this report. Two for the Department of Local Government, Racing and Multicultural Affairs and four for councils.

We recommend that the department and councils take action to address individual recommendations to help mitigate the risk of fraud or error.

**Slide 11: For more information**

For more information on the results, financial performance, and future challenges or emerging risks highlighted in this summary presentation, please see the full report on our website.

Thank you.