

# Local government entities: 2017–18 results of financial audits

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(Report 18: 2017–18).  
Tabled 15 May 2019.

## Slide 1: Welcome

Welcome to our presentation on the results of our 2017–18 financial audits of the entities in the local government sector.

## Slide 2: Audit results

This year, we provided unmodified audit opinions on nearly 99 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 they can be relied upon.

No councils, and only two related entities, received a qualified opinion this year. While this is an improvement from the prior year, there is still one council and eight 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 74 out of the 77 councils meeting their statutory or ministerially approved extended deadline.

Councils reduced the average time taken to finalise their financial statements by 1.6 weeks compared to last year. They have reduced the average time by nearly six weeks over the past four years, thanks to a concerted effort from most councils.

## Slide 4: Quality of reporting

The quality of financial reporting still requires improvement. Twenty-one councils made significant adjustments to their draft financial statements and 12 councils corrected material errors from last year.

Incomplete asset registers continue to be an issue. Twenty-five councils reported 'found' assets totalling \$378 million this year. These are assets that were not included in asset registers. Over the past three years, 40 councils have reported 'found' assets totalling \$793 million. Without complete and accurate asset information, councils cannot adequately plan and manage their activities.

## Slide 5: Financial sustainability

Long-term financial sustainability remains a major risk for many councils with the sector still spending more than it earns.

While the sector reported a positive operating surplus, 43 councils had operating losses—17 more than last year.

Sixteen councils have incurred operating losses in each of the last five years. Breaking even or making a small surplus over the long term is an important part of being financially sustainable.

Twenty-two of the 77 councils are at higher risk of becoming unsustainable, including 12 of the 15 Indigenous councils and five of the 13 Rural/Remote councils. These councils have limited opportunities to raise revenue other than grants, and the cost of living and operating in these areas is often higher, due to their remoteness.

## Slide 6: Internal controls

Good governance and financial stewardship are still not a priority for many councils.

We identified 273 significant control weaknesses in 57 councils. The issues were systemic across the sector, with 62 per cent of issues we raised in prior years still unresolved. Inaction in addressing significant, long-outstanding, internal control weaknesses indicates that internal controls are not valued across the sector.

Not addressing internal control deficiencies unnecessarily exposes councils to a higher risk of fraud, and errors going undetected.

## Slide 7: Audit committees

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

Eighteen councils did not have an operating audit committee—six more than last year. These councils account for 40 per cent of the sector's significant internal control weaknesses.

It is better practice if the audit committee chair is independent of council. Thirty-three councils have an independent audit committee chair and, proportionally, they have stronger internal controls.

To provide effective independent oversight, all councils should have an audit committee and appoint suitably qualified independent chairs.

## Slide 8: Controlled entities

Since 2013, councils have created 74 entities, and wound-up or disposed of 38. Councils' oversight varies significantly, and without appropriate monitoring, they risk their objectives not being met and of wasting public money.

Only 46 of the 80 council-controlled entities that prepare financial statements make them publicly available, and not in a consistent location.

## Slide 9: Recommendations

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

## Slide 10: For more information

For more information on the results, financial performance and recommendations highlighted in this summary presentation, please see the full report on our website.

Thank you.