

Local government entities: 2018–19 results of financial audits

(Report 13: 2019–20).
Tabled 20 February 2020.

Welcome

Welcome to our presentation on the results of our 2018–19 financial audits of the entities in the local government sector.

Audit results

We found the 73 council financial statements completed to date are reliable and comply with relevant laws and standards. We also issued 72 audit opinions on entities controlled by councils.

Councils have been generally more timely in finalising their financial statements. Over the past five years, councils have reduced the average time required to finalise their financial statements by nearly six weeks.

Four councils, however, were unable to complete their financial statements by the date of this report.

Internal controls

This year we identified 834 internal control deficiencies across the sector, of which 251 were significant. Councils have shown progress in addressing these vulnerabilities. However, the volume of significant control issues indicates there are still systemic problems,

Councils need to place greater emphasis on internal controls and prioritise action to resolve control weaknesses.

An active audit committee and internal audit function can support a council in ensuring internal controls are effective and in monitoring the timely resolution of audit recommendations. We found that 18 councils still did not have an audit committee during 2018–19, and 14 councils did not have an active internal audit function.

Fraudulent attempts at councils have increased. There have been seven successful attempts since July 2018, where bank account details were changed as a result of a fraudulent email. Vigilance over payments, strong internal controls, and cybercrime awareness training are crucial for councils, regardless of their size.

Financial performance

Financial sustainability continues to be a challenge. More than half of the councils spend more delivering services to their community than they receive in revenue from rates, fees and charges, and grants.

Councils in remote areas often have significant infrastructure, despite low and sometimes declining populations. These communities also regularly struggle to attract and retain specialist skills. Despite these challenges, the councils still need to provide essential community services—water, sewerage, roads, and waste collection.

Councils need to know which services their communities value to make informed decisions when managing costs.

Councils maintain and renew a large asset portfolio worth \$107 billion. Asset management is critical to the long-term financial sustainability of the local government sector.

Future challenges and emerging risks

For grant-dependent councils, there is lack of certainty about the amounts that will be available in the future. This uncertainty makes it difficult to make some medium-term decisions and to plan for financial sustainability in the long term.

The Department of Local Government, Racing and Multicultural Affairs sets the ratios that councils use to measure sustainability. The department needs to consider if these ratios are still relevant or if they should be more fluid, to address the changing needs of councils.

The council elections in March 2020 may result in significant changes in some councils' governance structures. During this time, councils will need to maintain effective internal control environments to protect their assets, deliver quality community services, and prevent fraud and error. Not appropriately addressing significant control deficiencies in a timely way may indicate weaknesses in a council's broader internal control framework and unnecessarily expose the council to the risk of error or fraud.

For more information

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

Thank you.