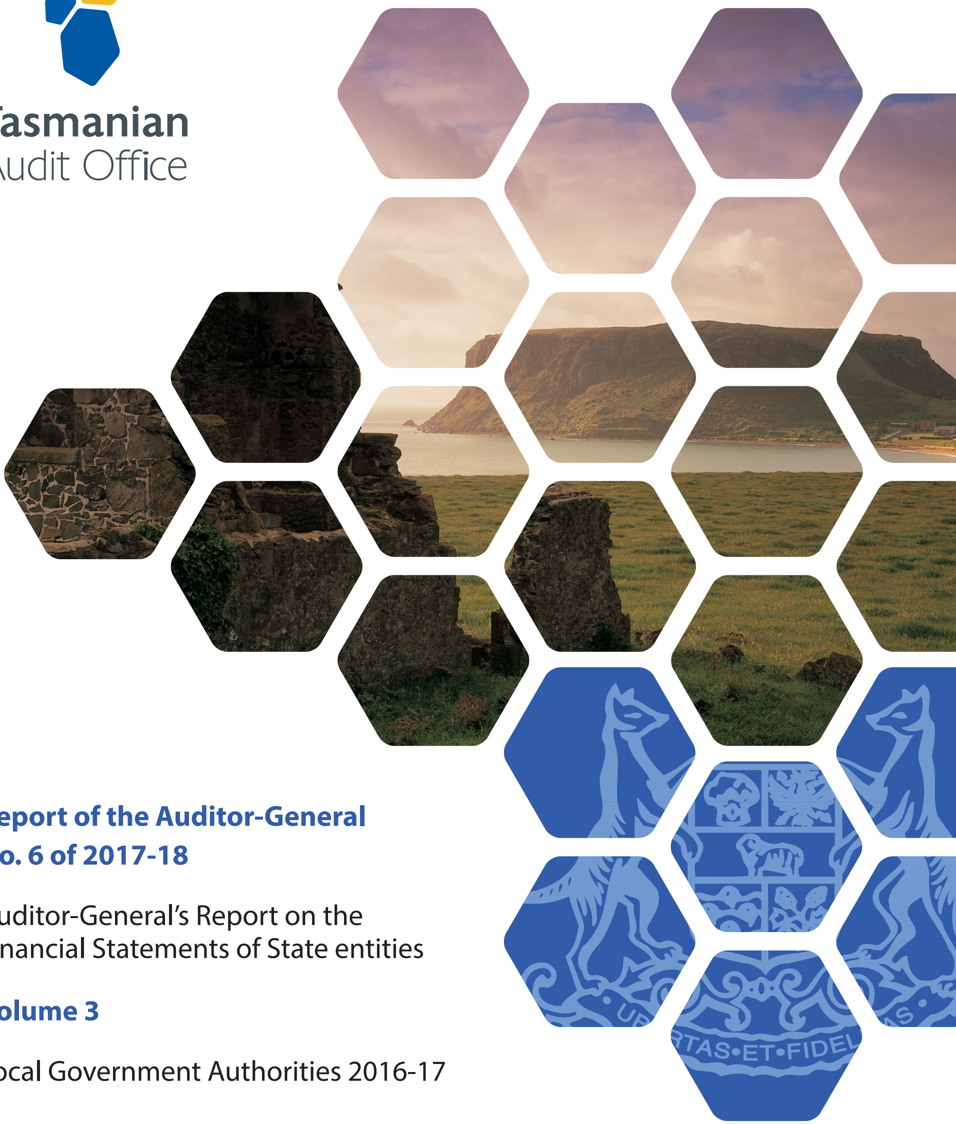
Tasmanian
Audit Office



Report of the Auditor-General
No. 6 of 2017-18

Auditor-General's Report on the Financial Statements of State entities

Volume 3

Local Government Authorities 2016-17

November 2017

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INTRODUCTION

The Report contains the results of our audits of financial reports of entities in the local government sector, comprising the 29 councils, five subsidiaries and seven other local government entities.

Councils were created under the *Local Government Act 1993* (LGA) and provided governance, planning, service delivery, community development, asset management and local regulation to their regional areas. In some cases, councils established subsidiary or other entities as required to assist them achieve their objectives. Five subsidiary entities were separately audited in 2016-17.

Other local government entities were single or joint authorities controlled by councils and established under the LGA, Local Government Association of Tasmania and Northern Tasmania Development Corporation Ltd.

All entities had a 30 June year end, except for Southern Waste Strategy Authority which was wound up on 31 May 2017.

The reporting framework for these entities was generally prescribed by enabling legislation or rules. For the Local Government Association of Tasmania, we accepted preparation of a special purpose financial report. All other entities prepared general purpose financial reports.

LOCAL GOVERNMENT ENTITIES COVERED IN THIS REPORT

Councils vary widely in size and location and in the broad range of community services provided. For the purposes of the Report, we grouped the 29 councils into two classifications, urban and rural as follows:

- urban, populations greater than 20 000
- rural, populations up to 20 000 at a density of <30 per square kilometre.

Separate Chapters are included for each of the ten urban councils. The remaining 19 rural councils have been included and analysed in a summary Chapter.

DEVELOPMENTS

Three of the original four feasibility studies into reform opportunities for Local Government have been released. The Cradle Coast study is yet to be released. West Tamar and George Town Councils approached the Tasmanian Government in April 2017 to help fund a pre-feasibility study exploring a possible merger between the two councils. The funding was approved and this study commenced in 2017.

From 2016-17, the exemption to AASB 124 *Related Party Disclosures* was removed for public sector not-for-profit entities. Consequently, councils and other local government entities were required to disclose related party transactions and outstanding balances, including commitments, for the first time in the 2016-17 financial statements.

At the date of writing the Report, councils were approved for a total of $65.02m in borrowings under the Tasmanian Government's Accelerated Local Government Capital Program (ALGCP)of which $28.03m was drawn down as at 30 June 2017.

FINDINGS FROM FINANCIAL AUDITS

Audits of local government entities were completed satisfactorily, except for two audits that were not finalised at the time of writing the Report. A a number of matters were identified during the course of the audits and depending on the significance of the matters, they were either discussed and cleared with management (generally low risk issues) or formally communicated to those charged with governance. Where required, responses to these matters were sought from management and these will be followed up during the course of the next audit.

93

Audit matters raised this year

56

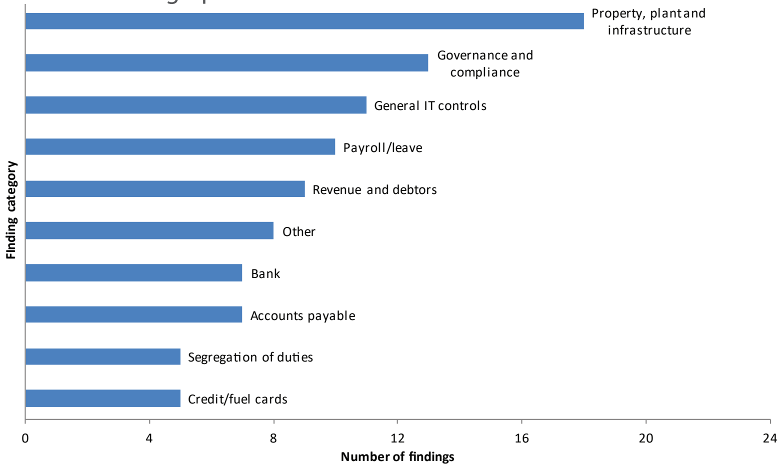
Audit matters raised in prior periods assessed as unresolved

13 High Risk Findings

42 Moderate Risk Findings

38 Low Risk Findings

The areas where findings were most commonly raised were property, plant and infrastructure, governance and compliance and information system controls, as illustrated in the graph below.



SUBMISSION OF FINANCIAL REPORTS AND TIMELINESS OF AUDIT OPINIONS

Local government entities were required to submit their financial statements to the Auditor-General within 45 days after the end of each financial year.

90%

Financial statements submitted on time and accepted

Section 19 of the *Audit Act 2008* (the Audit Act) required the Auditor-General to finalise audits within 45 days from the day financial reports were received and accepted.

81%

Audits completed on time

Central Highlands and West Coast Councils submitted one day late on 15 August 2017. Glenorchy City and Latrobe Councils submitted financial statements within the statutory deadline, but the statements were not accepted as materially complete under section 17 of the Audit Act.

Of the 39 audits completed, six were not finalised within the legislative deadline. Flinders Council, was not finalised by the legislative deadline due to late resolution of an adjustment for a prior period land recognition and Northern Midlands Council was finalised one day past the legislative deadline due to staffing availability at council. Clarence City, Kingborough, Sorell and Tasman Councils were not finalised by the legislative deadline due to the late identification of an accounting issue relating to Copping Refuse Disposal Joint Authority, trading as Southern Waste Solutions (SWS). SWS is owned by the four councils and its results were included in the financial statements of the councils using the equity method of accounting whereby the investment in SWS was recognised at cost and adjusted thereafter for the change in each respective council's share of SWS's net assets.

At the date of the Report, the audits of SWS and its subsidiary C Cell Pty Ltd as Trustee for C Cell Unit Trust were still in progress pending the finalisation of note disclosures in the financial statements relating to a government grant received.

Refer to Appendix A of the Report for a detailed list of each entities timeliness of reporting.

Certification of submitted financial reports

Section 17 of the Audit Act, required State entities to submit financial statements to the Auditor-General within 45 days after the end of the financial year. Previously, we required State entities to submit statements certified by the accountable authority. For councils, the responsible authority under the LGA is the General Manager.

From 2016-17, we changed the process for submission of financial statements whereby statements submitted within 45 days only needed to be certified by the Chief Financial Officer (or equivalent). This allowed audits to be completed and clearance provided to councils and audit panels, if relevant, prior to certification by the General Manager.

In 2016-17, 26 of the 41 local government entities chose to submit management certified financial statements.

AUDIT OPINIONS ON FINANCIAL STATEMENTS

39	1
Unmodified audit opinions issued on financial statements	Other matter paragraph

The audits of 29 councils, four subsidiaries and six other local government entities were completed satisfactorily and unmodified audit reports were issued in all cases. At the date of the Report, the audits of SWS and it's subsidiary C Cell Pty Ltd as Trustee for C Cell Unit Trust were still in progress.

Other matter paragraph

The audit opinion for West Coast Council was unmodified, but contained an 'other matter' paragraph. We included an 'other matter' paragraph to highlight the non-disclosure of a significant business activity undertaken for part of 2016-17, as we believed it was important to inform the users of the financial report. The disclosure was not made on the basis that West Coast Council disagreed with the findings of the Tasmanian Economic Regulator who determined in 2015-16 that a significant business activity existed. Including an 'other matter' paragraph did not modify our audit opinion. Based on the advice provided by West Coast Council that it has now ceased these activities, subject to audit examination, it is likely the 'other matter' paragraph will not be required in future years. Refer to the Audit Summary - Rural Councils Chapter in the Report for further details.

SECTOR ANALYSIS SUMMARY

Councils generated an overall Net surplus of $275.47m in 2016-17. This result was a significant decrease of $707.98m from the 2015-16 Net surplus of $983.45m mainly due to recognition of land under roads of $918.56m in 2015-16 compared with $153.31m in 2016-17. Two councils recognised land under roads acquired prior to 1 July 2008 during 2016-17, compared to 2015-16 when seven councils recognised land under roads acquired prior to 1 July 2008 and a further four recognised all land under roads, regardless of when acquired.

There has been continued improvement in Underlying results of the 29 councils over the last four years. The aggregated 2016-17 Underlying surplus was $16.42m, an improvement of $4.65m from 2015-16, with 23 councils returning break-even or better Underlying results compared to 17 last year. In 2016-17, six councils recorded Underlying deficits totalling $5.06m compared to 12 in 2015-16.

Net assets across the sector increased from $10.20bn to $10.63bn with urban councils holding 71.5%.

Councils recorded $763.57m Operating revenue in 2016-17 which was an increase of $18.61m from 2015-16. Councils' own source revenues represented operating revenue other than recurrent grants. In general terms, urban councils with larger populations had the ability to generate higher levels of own source revenue. Smaller rural councils, with lower population levels, relied more heavily on grant funding. Urban grant funding was 7.2% of total revenue compared with 21.3% for rural councils.

The most significant contributor to own source revenue was rates, which in 2016-17 made up 64.3% of urban council revenue and 57.2% of rural council revenue. Flinders and King Island Councils had significantly below average total rate revenue at 35.9% and 33.6% of total operating revenue, respectively. Urban councils generated a further 19.2% of revenue from fees and charges compared to the 9.5% generated by rural councils.

Capital investment totalled $941.53m over the last four years, 3.6% below original capital budgets with 82.0% of this spending self-funded. Urban councils spent 37.1% of total capital spending on renewal of existing assets in 2016-17, compared to 74.1% by rural councils. The remainder was spent on new or upgraded assets. Rural councils generally had longer road networks to maintain and renew than urban councils and therefore more of their annual capital spending was allocated to renewal of existing assets.

At 30 June 2017, councils held cash and financial assets of $423.75m and $102.45m in interest-bearing liabilities. Five councils had no debt at 30 June 2017. The low level of debt in comparison to cash held contributed to a strong working capital of $313.02m.

On average, Tasmanian councils were in a strong working capital position compared to Victorian councils. Tasmanian rural councils had a significantly higher working capital position than Tasmanian urban councils and both Victorian sectors over the last four years. The 10 urban councils held $246.15m, 58.1%, of cash and financial assets at 30 June 2017 and $62.92m, 61.4%, of total borrowings. The 19 rural councils held the remaining $177.60m, 41.9%, of cash and financial assets and total borrowings of $39.53m, 38.6%.

The number of councils that returned break-even or better results, steadily improved, from 11 in 2007-08 to 23 in 2016-17. The average urban Underlying surplus ratio reached its highest level over the last 10 years, this year at 2.3%.The average rural Underlying surplus ratio exceeded the benchmark this year, for the third time in the 10-year period. Fourteen councils recorded an average Underlying surplus ratio for the 10-year period less than break-even.

Eleven councils invested in existing assets on average over the 10-year period, in excess of their annual depreciation charge. A further four councils averaged above 90% and only four below 70%.

Since we commenced reporting the road asset renewal funding ratio, the number of councils without asset management plans decreased from 19 in 2011 to one in 2017. King Island Council remained the only council at 30 June 2017 without a long-term asset management plan for road infrastructure.

The road asset consumption ratio indicated, on an average basis, councils had sufficient service capacity remaining in road infrastructure assets, with rural councils in a stronger position than urban. On average over the 10-year period, based on our benchmark, 17 councils had low asset management risk with the remaining 12 at moderate risk.

The average Net financial liabilities ratio was positive each year. This was because, on an aggregated basis, total liquid assets exceeded total liabilities. Rural councils maintained a much stronger net cash position than urban councils over the last 10 years.

For the full report go to:
http://www.audit.tas.gov.au/publications/reports-to-parliament/

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