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Financial statements are reliable, but fewer councils prioritised and achieved timely financial reporting

Early financial reporting means current and relevant information is provided to decision-makers and members of the community. In 2021–22, only 32 councils (2020–21: 36 councils) *achieved* early financial reporting – meaning – having their financial statements certified at least 2 weeks before their 31 October legislative deadline.

In recent years, we have found fewer councils are planning for early completion of their financial statements. This year, only 48 councils *planned* to certify their financial statements early. In prior years, these numbers were substantially higher (62 councils in 2020–21 and 70 councils in 2019–20).

External factors such as staff shortages and natural disasters have negatively impacted on the sector's ability to achieve timely financial reporting. However, these issues would be better managed if councils improved the persistent issues we find in their month-end and year-end reporting processes, and their asset management practices.

In this report, we make several recommendations to the Department of State Development, Infrastructure, Local Government and Planning (the department) – as regulator of the sector – to help build capability in the local government sector that will improve timely financial reporting.

Councils are taking too long to resolve high-risk issues

Significant deficiencies are those that have substantial financial or reputational risk for councils and need to be addressed immediately. Continued efforts by councils have reduced the number of unresolved significant deficiencies to 114 as at 30 June 2022 (2021: 127). However, 65 per cent (2021: 67 per cent) of these significant deficiencies remain unresolved more than 12 months after we identified them.

Many councils with significant deficiencies do not have an audit committee (16 councils) or an internal audit function (14 councils – these councils are in breach of the legislation). We have recommended the department make sure all councils establish an effective internal audit function, as required under the legislation.

Almost two thirds of councils still have significant deficiencies in their information systems, at a time when cyber attacks across the public sector keep rising. The department could collaborate with other state government agencies and develop a framework to help councils better manage their information systems security.

Grant funding received in advance has masked the full extent of the sector's decline in financial sustainability

This year, 35 councils generated an operating surplus. Although this is consistent with last year, the sector's operating results were favourably impacted by receiving a large portion of one of its grants in advance. In the absence of this advance grant funding, only 28 councils would have generated an operating surplus in 2021–22. At 30 June 2022, 46 councils (2020–21: 45 councils) are still at either a moderate or a high risk of not being financially sustainable.

