

J. Our assessment of councils' financial governance

Auditing internal controls

Entities design, implement, and maintain internal controls (people, systems, and processes) to mitigate risks that may prevent them from achieving reliable financial reporting, effective and efficient operations, and compliance with applicable laws and regulations.

In undertaking our audit, we are required under the Australian auditing standards to obtain an understanding of an entity's internal controls relevant to the preparation of the financial report.

We assess internal controls to ensure they are suitably designed to:

- prevent, or detect and correct, material misstatements in the financial report (which could influence a user's decision-making)
- achieve compliance with legislative requirements and appropriate use of public resources.

Our assessment determines the nature, timing, and extent of the testing we perform to address the risk of significant mistakes in the financial statements.

If we believe the design and implementation of controls is effective, we select the controls we intend to test further by considering a balance of factors including:

- the significance of the related risks
- the characteristics of balances, transactions, or disclosures (volume, value, and complexity)
- the nature and complexity of the entity's information systems
- whether the design of the controls addresses the risk of material misstatement and facilitates an efficient audit.

If we identify deficiencies in internal controls, we determine the impact on our audit approach, considering whether additional audit procedures are necessary.

We design our audit procedures to address the risk of material misstatement so we can express an opinion on the financial report. We do not express an opinion on the effectiveness of internal controls.

Internal controls framework

We categorise internal controls using the Committee of Sponsoring Organizations of the Treadway Commission (COSO) internal controls framework, which is widely recognised as a benchmark for designing and evaluating internal controls.

The framework identifies five components for a successful internal control framework. These are explained in the following paragraphs.



Control environment



- Cultures and values
- Governance
- Organisational structure
- Policies
- Qualified and skilled people
- Management's integrity and operating style

The control environment is defined as the structures, policies, attitudes, and values that influence day-to-day operations. As the control environment is closely linked to an entity's overarching governance and culture, it is important that the control environment provides a strong foundation for the other components of internal control.

In assessing the design and implementation of the control environment, we consider whether:

- those charged with governance are independent, appropriately qualified, experienced, and active in challenging management
- policies and procedures are established and communicated so people with the right qualifications and experiences are recruited, they understand their role in the organisation, and they also understand management's expectations regarding internal controls, financial reporting, and misconduct, including fraud.

Risk assessment



- Strategic risk assessment
- Financial risk assessment
- Operational risk assessment

Risk assessment relates to management's processes for considering risks that may prevent an entity from achieving its objectives, and how management agrees risks should be identified, assessed, and managed.

To appropriately manage business risks, management can either accept the risk if it is minor or mitigate the risk to an acceptable level by implementing appropriately designed controls. Management can also eliminate risks entirely by choosing to exit from a risky business venture.

Control activities



- General information technology controls
- Automated controls
- Manual controls

Control activities are the actions taken to implement policies and procedures in accordance with management directives, and to ensure identified risks are addressed. These activities operate at all levels and in all functions. They can be designed to prevent or detect errors entering financial systems.

The mix of control activities can be categorised into general information technology controls, automated controls, and manual controls.

General information technology controls

General information technology controls form the basis of the automated systems control environment. They include controls over information systems security, user access, and system changes. These controls address the risk of unauthorised access and changes to systems and data.

Automated control activities

Automated controls are embedded within information technology systems. These controls can improve timeliness, availability, and accuracy of information by consistently applying predefined business rules. They enable entities to perform complex calculations when processing large volumes of transactions. They also improve the effectiveness of financial delegations and the segregation of duties.

Manual control activities

Manual controls contain a human element, which can provide the opportunity to assess the reasonableness and appropriateness of transactions. However, these controls may be less reliable than automated elements as they can be more easily bypassed or overridden. They include activities such as approvals, authorisations, verifications, reconciliations, reviews of operating performance, and segregation of incompatible duties. Manual controls may be performed with the assistance of information technology systems.

Information and communication



- Non-financial systems
- Financial systems
- Reporting systems

Information and communication controls are the systems used to provide information to employees, and the ways in which responsibilities are communicated.

This aspect of internal control also considers how management generates financial reports, and how these reports are communicated to internal and external parties to support the functioning of internal controls.

Monitoring activities



- Management supervision
- Self-assessment
- Internal audit

Monitoring activities are the methods management uses to oversee and assess whether internal controls are present and operating effectively. This may be achieved through ongoing supervision, periodic self-assessments, and separate evaluations. Monitoring activities also concern the evaluation and communication of control deficiencies in a timely manner to effect corrective action.

Typically, the internal audit function and an independent audit and risk committee are responsible for assessing and overseeing management's implementation of controls and their resolution of control deficiencies. These two functions work together to ensure that internal control deficiencies are identified and then resolved in a timely manner.



Assessment of internal controls

Our assessment of internal control effectiveness is based on the number of deficiencies and significant deficiencies we identified during our audit. We assess each of the five components of a successful internal control framework separately.

Assessment of internal controls	
Rating scale	Assessment criteria
● Effective	No significant (high-risk) deficiencies
● Partially effective	One significant deficiency
● Ineffective	More than one significant deficiency

The deficiencies detailed in this report were identified during our audit and may have been subsequently resolved by the entity. They are reported here because they impacted on the overall system of control during 2019–20.

Financial statement preparation

In assessing the effectiveness of financial statement preparation processes, we considered three components—the year-end close process, the timeliness of financial statements, and the quality of financial statements.

We assess financial statement preparation processes under the following criteria.

Year-end close process

Local government entities should have a robust year-end close process to enhance the quality and timeliness of financial reporting processes.

We identified five outcomes for entities to achieve. Early completion of these items means an entity has less risk that a financial report is not cleared in time for council signature, and it means certification by audit is more likely to be achieved within statutory or agreed milestones.

In the 2019–20 financial year, we assessed the following processes for year-end financial statement preparation against agreed dates:

- preparation of proforma financial statements (partially completed financial statements put together before year end)
- resolution of known accounting issues
- completion of non-current asset valuations (Non-current assets are those that are expected to be held by an entity for a period greater than 12 months.)
- final draft financial statements completed and reviewed
- final financial statement workpapers completed and reviewed.

Year-end process	
Rating scale	Assessment criteria
● Effective	All key processes completed by the agreed dates
● Partially effective	Three to four key processes completed by the agreed date
● Ineffective	Less than three key processes completed by the agreed date

Timeliness of financial statements

We assessed the timeliness of financial statements by comparing the date the independent auditor’s report was issued against the legislative deadline of 31 October.

Timeliness	
Rating scale	Assessment criteria
● Timely	On or before 13 October
● Legally compliant*	Between 14 and 31 October
● Not timely	After 31 October

* Note: If the Minister for State Development, Infrastructure, Local Government and Planning granted an extension of time to complete the financial statements and the council met this revised date, we assessed this as legally compliant. If a council was unable to meet the extended date, we assessed this as not timely.

Quality of draft financial statements

We assess the quality of financial statements in terms of adjustments made between the first draft of the financial statements submitted to audit and the final audited financial statements. This includes adjustments to current year and prior year figures and other disclosures. This is an indicator of how effective each council’s review of its financial statements is at identifying and correcting errors.

Quality of draft financial statements	
Rating scale	Assessment criteria
● Good	No adjustments were required
● Average	Immaterial adjustments were made to financial statements
● Below average	Material adjustments were made to financial statement components

Financial sustainability relative risk assessment

The detailed criteria for assessing a council’s financial sustainability are explained in Appendix I—Figures I1 and I2. The overall assessment criteria are shown in Figure I3. Colours used for the overall risk levels are lower risk (green), moderate risk (amber), and higher risk (red).



Results summary

The following tables summarise the results of our assessment of the 77 councils' overall financial governance by council segment.

Figure J1
Our assessment of the financial governance of councils by segment

Council	Internal controls ¹					Financial statement preparation ²			Financial sustainability ³
	CE	MA	RA	CA	IC	EOFY	T	Q	FS
Coastal councils									
Bundaberg Regional Council	●	●	●	●	●	●	●	●	●
Burdekin Shire Council	●	●	●	●	●	●	●	●	●
Cairns Regional Council	●	●	●	●	●	●	●	●	●
Cassowary Coast Regional Council	●	●	●	●	●	●	●	●	●
Douglas Shire Council	●	●	●	●	●	●	●	●	●
Fraser Coast Regional Council	●	●	●	●	●	●	●	●	●
Gladstone Regional Council	●	●	●	●	●	●	●	●	●
Gympie Regional Council	●	●	●	●	●	●	●	●	●
Hinchinbrook Shire Council	●	●	●	●	●	●	●	●	●
Livingstone Shire Council	●	●	●	●	●	●	●	●	●
Mackay Regional Council	●	●	●	●	●	●	●	●	●
Noosa Shire Council	●	●	●	●	●	●	●	●	●
Rockhampton Regional Council	●	●	●	●	●	●	●	●	●
Townsville City Council	●	●	●	●	●	●	●	●	●
Whitsunday Regional Council	●	●	●	●	●	●	●	●	●

Notes:

¹ CE—Control environment; MA—Monitoring activities; RA—Risk assessment; CA—Control activities; IC—Information and communication.

² EOFY—End of financial year processes; T—Timeliness; Q—Quality.

³ FS—Financial sustainability—relative risk assessment (refer Figure I4).

Council	Internal controls ¹					Financial statement preparation ²			Financial sustainability ³
	CE	MA	RA	CA	IC	EOFY	T	Q	FS
Indigenous councils									
Aurukun Shire Council	●	●	●	●	●	●	●	●	●
Cherbourg Aboriginal Shire Council	●	●	●	●	●	●	●	●	●
Doomadgee Aboriginal Shire Council	●	●	●	●	●	●	●	●	●
Hope Vale Aboriginal Shire Council	●	●	●	●	●	●	●	●	●
Kowanyama Aboriginal Shire Council	●	●	●	●	●	●	●	●	●
Lockhart River Aboriginal Shire Council	●	●	●	●	●	●	●	●	●
Mapoon Aboriginal Shire Council	●	●	●	●	●	●	●	●	●
Mornington Shire Council	●	●	●	●	●	●	●	●	●
Napranum Aboriginal Shire Council	●	●	●	●	●	●	●	●	●
Northern Peninsula Area Regional Council	●	●	●	●	●	●	●	●	●
Palm Island Aboriginal Shire Council ^{4,5}	●	●	●	●	●	●	●	●	●
Pormpuraaw Aboriginal Shire Council	●	●	●	●	●	●	●	●	●
Torres Shire Council	●	●	●	●	●	●	●	●	●
Torres Strait Island Regional Council	●	●	●	●	●	●	●	●	●
Woorabinda Aboriginal Shire Council	●	●	●	●	●	●	●	●	●
Wujal Wujal Aboriginal Shire Council	●	●	●	●	●	●	●	●	●
Yarrabah Aboriginal Shire Council	●	●	●	●	●	●	●	●	●

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² EOFY—End of financial year processes; T—Timeliness; Q—Quality.

³ FS—Financial sustainability—relative risk assessment (refer Figure I4).

⁴ For the period 17 July 2019 to 11 October 2019, the department appointed a financial controller and an advisor to review the council's organisational and financial structure.

⁵ Financial statement preparation indicators for this council have been set at red as they have not been completed. The internal controls and financial sustainability assessments are based on the prior year's results.



Council	Internal controls ¹					Financial statement preparation ²			Financial sustainability ³
	CE	MA	RA	CA	IC	EOFY	T	Q	FS
Banana Shire Council	●	●	●	●	●	●	●	●	●
Bulloo Shire Council	●	●	●	●	●	●	●	●	●
Burke Shire Council	●	●	●	●	●	●	●	●	●
Central Highlands Regional Council	●	●	●	●	●	●	●	●	●
Charters Towers Regional Council	●	●	●	●	●	●	●	●	●
Cloncurry Shire Council	●	●	●	●	●	●	●	●	●
Cook Shire Council	●	●	●	●	●	●	●	●	●
Etheridge Shire Council	●	●	●	●	●	●	●	●	●
Isaac Regional Council	●	●	●	●	●	●	●	●	●
Maranoa Regional Council	●	●	●	●	●	●	●	●	●
McKinlay Shire Council	●	●	●	●	●	●	●	●	●
Mount Isa City Council	●	●	●	●	●	●	●	●	●
Quilpie Shire Council	●	●	●	●	●	●	●	●	●
Western Downs Regional Council	●	●	●	●	●	●	●	●	●

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Council	Internal controls ¹					Financial statement preparation ²			Financial sustainability ³
	CE	MA	RA	CA	IC	EOFY	T	Q	FS
Rural/Regional councils	CE	MA	RA	CA	IC	EOFY	T	Q	FS
Goondiwindi Regional Council	●	●	●	●	●	●	●	●	●
Lockyer Valley Regional Council	●	●	●	●	●	●	●	●	●
Mareeba Shire Council	●	●	●	●	●	●	●	●	●
North Burnett Regional Council	●	●	●	●	●	●	●	●	●
Scenic Rim Regional Council	●	●	●	●	●	●	●	●	●
Somerset Regional Council	●	●	●	●	●	●	●	●	●
South Burnett Regional Council	●	●	●	●	●	●	●	●	●
Southern Downs Regional Council	●	●	●	●	●	●	●	●	●
Tablelands Regional Council	●	●	●	●	●	●	●	●	●

Notes:

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² EOFY—End of financial year processes; T—Timeliness; Q—Quality.

³ FS—Financial sustainability—relative risk assessment (refer Figure I4).



Council	Internal controls ¹					Financial statement preparation ²			Financial sustainability ³
	CE	MA	RA	CA	IC	EOFY	T	Q	FS
Rural/Remote councils									
Balonne Shire Council	●	●	●	●	●	●	●	●	●
Barcaldine Regional Council	●	●	●	●	●	●	●	●	●
Barcoo Shire Council	●	●	●	●	●	●	●	●	●
Blackall-Tambo Regional Council	●	●	●	●	●	●	●	●	●
Boulia Shire Council	●	●	●	●	●	●	●	●	●
Carpentaria Shire Council	●	●	●	●	●	●	●	●	●
Croydon Shire Council	●	●	●	●	●	●	●	●	●
Diamantina Shire Council	●	●	●	●	●	●	●	●	●
Flinders Shire Council	●	●	●	●	●	●	●	●	●
Longreach Regional Council	●	●	●	●	●	●	●	●	●
Murweh Shire Council	●	●	●	●	●	●	●	●	●
Paroo Shire Council	●	●	●	●	●	●	●	●	●
Richmond Shire Council ⁴	●	●	●	●	●	●	●	●	●
Winton Shire Council	●	●	●	●	●	●	●	●	●

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Council	Internal controls ¹					Financial statement preparation ²			Financial sustainability ³
	CE	MA	RA	CA	IC	EOFY	T	Q	FS
South East Queensland (SEQ) councils									
Brisbane City Council	●	●	●	●	●	●	●	●	●
Council of the City of Gold Coast	●	●	●	●	●	●	●	●	●
Ipswich City Council ⁴	●	●	●	●	●	●	●	●	●
Logan City Council ⁵	●	●	●	●	●	●	●	●	●
Moreton Bay Regional Council	●	●	●	●	●	●	●	●	●
Redland City Council	●	●	●	●	●	●	●	●	●
Sunshine Coast Regional Council	●	●	●	●	●	●	●	●	●
Toowoomba Regional Council	●	●	●	●	●	●	●	●	●

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² EOFY—End of financial year processes; T—Timeliness; Q—Quality.

³ FS—Financial sustainability—relative risk assessment (refer Figure I4).

⁴ In response to charges made by the Crime and Corruption Commission, the Minister for Local Government appointed an interim administrator on 23 August 2018. These interim arrangements were in place until the local government elections held in March 2020.

⁵ In response to charges made by the Crime and Corruption Commission, the Minister for Local Government appointed an interim administrator on 2 May 2019. These interim arrangements were in place until the local government elections held in March 2020.

Source: Queensland Audit Office.