

Report on a page—results of our audits

This report summarises the audit results of Queensland's 77 local government entities (councils) and the entities they control.

Financial statements are reliable

As at the date of this report, 75 of 77 councils (2019: 73 of 77) had completed their financial statements. This was a significant achievement given the challenges presented by COVID-19 and the substantial turnover in elected representatives following the March 2020 local government elections.

The financial statements of councils, and the entities they control, are reliable and comply with relevant laws and standards.

COVID-19 travel restrictions and responding to community needs on short notice meant some councils were unable to value their assets in a timely manner and most councils had not fully assessed the impact of three new accounting standards on their financial statements. Together, these factors led to a decline in the timeliness and quality of the financial statements.

Financial sustainability continues to deteriorate

Councils' financial performance continued to deteriorate in 2020. This was not unexpected. Travel restrictions, community lockdowns and initiatives to support their communities through the pandemic, meant councils earned lower revenue (waiving or discounting revenue from car parking, dining, and reduced patronage at public facilities and airports). And they incurred more expenditure (higher employee costs by bringing forward capital projects, maintaining quarantine facilities and border controls, and increased cost of cleaning of council and public facilities). This resulted in 70 per cent of Queensland councils spending more than they earned in 2020, which is 25 per cent worse than last year.

Most councils with a high reliance on grants from state and federal governments have consistently incurred operating losses each year for the last five years. We have found that these councils that regularly incur operating losses often have weak strategic planning, asset management, and financial management practices. That said, planning for financial sustainability is a challenge for these councils because the current funding model provides grants to councils largely on a year-by-year basis, making medium- to long-term planning difficult.

The Department of State Development, Infrastructure, Local Government and Planning (the department) could assist councils by providing greater baseline funding certainty with multi-year grant programs. The department could also work with councils to improve financial and asset management capability.

As of 30 June 2020, 25 councils are at a high risk of not being financially sustainable. This is four more councils than last year and represents approximately one-third of the sector.

Since 2013, the department has used three financial ratios to measure the sustainability of councils. These ratios set specific benchmarks that are applied to all the councils, regardless of their size and circumstances. The department recognises the need to update its sustainability measures and is developing options for new measures.



Report on a page—internal controls

Councils need to strengthen their governance

Each year, we assess councils' internal controls—the people, systems, and processes they use to achieve their objectives, prepare reliable financial reports, and comply with applicable laws. All weaknesses need to be addressed, but some of them are significant and should be prioritised.

Between 2017 and 2019, councils made progress in resolving the weaknesses in their internal controls. Despite this recent progress, the change to the working environment this year has contributed to an increase in the number of significant weaknesses in internal controls.

More than one-third of councils do not have appropriate processes in place to identify and manage their strategic and operational risks. This exposes them to a higher risk of not being able to meet their objectives, or operational failures, fraud or error.

Also of concern is that, as at 30 June 2020, 10 councils (2019: 12 councils) still did not have an audit committee nor an active internal audit function. In addition to that, six councils (2019: six councils) did not have an audit committee and two councils (2019: one council) did not have an active internal audit function. An effective audit committee and internal audit function help councils ensure their internal controls are effective, risk management and financial reporting processes are strong, and audit recommendations are resolved in a timely manner. This enhances governance and increases councils' ability to run their businesses effectively and efficiently.

Information systems are vulnerable

We continue to identify weaknesses in the controls councils use to secure their information systems. We found inappropriate user access to systems, unauthorised installation of applications on council networks, inadequate segregation of duties (to make sure there are checks in place), and poor password practices.

Information systems are open to cyber attacks, and this year one council was the victim of a successful ransomware attack, resulting in disruptions to its financial and operational activities.

Councils need to appropriately secure access to their financial systems, as they underpin the integrity of their financial reporting and operations.

Procurement and contract management processes need to be improved

Some councils are not following established procurement processes to demonstrate they have obtained value for money or prove they had the appropriate approvals to obtain goods and services.

In addition, some councils do not have a contract register containing all the necessary information (for example, start and end dates of the contract) they need to manage their contracts effectively. This exposes them to various financial and reputational risks, including the risk of their suppliers not delivering on agreed terms.

