FINANCIAL AUDIT REPORT 22 June 2023

Local government 2022

Report 15: 2022–23

Queensland Audit Office

Better public services

As the independent auditor of the Queensland public sector, including local governments, the Queensland Audit Office:

- provides professional audit services, which include our audit opinions on the accuracy and reliability of the financial statements of public sector entities
- provides entities with insights on their financial performance, risk, and internal controls; and on the efficiency, effectiveness, and economy of public service delivery
- produces reports to parliament on the results of our audit work, our insights and advice, and recommendations for improvement
- supports our reports with graphics, tables, and other visualisations, which connect our insights to regions and communities
- conducts investigations into claims of financial waste and mismanagement raised by elected members, state and local government employees, and the public
- shares wider learnings and best practice from our work with state and local government entities, our professional networks, industry, and peers.

We conduct all our audits and reports to parliament under the *Auditor-General Act 2009* (the Act). Our work complies with the *Auditor-General Auditing Standards* and the Australian standards relevant to assurance engagements.

- Financial audit reports summarise the results of our audits of over 400 state and local government entities.
- Performance audit reports cover our evaluation of some, or all, of the entities' efficiency, effectiveness, and economy in providing public services.

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22 June 2023

This report is prepared under Part 3 Division 3 of the *Auditor-General Act 2009*.

Brendan Worrall
Auditor-General

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Contents

Acknowledgement

The Queensland Audit Office acknowledges the Traditional and Cultural Custodians of the lands, waters, and seas across Queensland. We pay our respects to Elders past, present, and emerging.

Report on a page

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.

Recommendations for councils and the department

Recommendations for councils

This year, we make the following recommendation to councils.

Assess the maturity of their procurement and contract management processes using our procure-to-pay maturity model, and implement identified opportunities to strengthen their practices	
REC 1	We recommend all councils assess the maturity of their procurement and contract management processes using our procure-to-pay maturity model. Councils should identify their desired level of maturity and compare this to the maturity level that best represents their current practices. This assessment will help them identify and implement practical improvement opportunities for their procurement and contract management processes.

Prior year recommendations need further action by councils

Councils have made some progress to address the recommendations we made in our prior reports. However, further action is still required for 15 recommendations as summarised below.

Theme	Summary of recommendation	Local government report
Governance and internal control	All councils to have an audit committee with an independent chair. Audit committee members should understand their roles and responsibilities, and the risks the committee needs to monitor	Report 13: 2019–20
	Assess their audit committees against the actions in our 2020–21 audit committee report	Report 15: 2021–22
	Improve their overall control environment	Report 15: 2021–22
	Improve risk management processes	Report 17: 2020–21
	All councils must establish and maintain an effective and efficient internal audit function	Report 13: 2019–20
Asset management and valuations	Asset management plans to include councils' planned spending on capital projects	Report 15: 2021–22
	Review the asset consumption ratio in preparation for the new sustainability framework. Assess whether the actual usage of assets is in line with asset management plans	Report 15: 2021–22
	Improve valuation and asset management practices	Report 17: 2020–21
Financial reporting	Reassess the maturity levels of financial statement preparation processes in line with recent experience to identify improvement opportunities that will help facilitate early certification of financial statements	Report 15: 2021–22
	Enhance liquidity management by reporting unrestricted cash expense ratio and unrestricted cash balance in monthly financial reports	Report 15: 2021–22
	Improve financial reporting by strengthening month-end and year-end financial reporting processes	Report 17: 2020–21

Theme	Summary of recommendation	Local government report
Information systems	Conduct mandatory cyber security awareness training	Report 13: 2019–20
	Strengthen security of information systems	Report 17: 2020–21
Procurement and contract management	Secure employee and supplier information	Report 13: 2019–20
	Enhance procurement and contract management practices	Report 17: 2020–21

Implementing our recommendations will help councils strengthen their internal controls for financial reporting and improve their financial sustainability.

We have included a full list of prior year recommendations and their status in Appendix D.

Recommendations for the department

This year, we make the following 7 recommendations to the Department of State Development, Infrastructure, Local Government and Planning (the department).

<table>
<tr><th colspan="2">Provide necessary guidance and tools to councils to help improve their month-end financial reports</th></tr>
<tr><td>REC 2</td><td>The department should provide guidance and tools such as monthly management reporting pack templates and checklists for the completion of month-end financial reports.
These tools should set the minimum standard of information that councillors will need to be provided with to make informed financial decisions. This in turn would help them improve the quality of their month-end financial reports and their month-end processes.</td></tr>
<tr><th colspan="2">Provide a clear definition of ‘extraordinary circumstances’ for councils seeking ministerial extensions to their legislative time frame for financial reporting</th></tr>
<tr><td>REC 3</td><td>The department should clearly define what 'extraordinary circumstances' are in the context of extensions to councils' legislated deadlines for certifying financial statements.
This will provide consistent criteria for assessing council applications for extensions.</td></tr>
<tr><th colspan="2">Measure the effectiveness of training programs provided to councils</th></tr>
<tr><td>REC 4</td><td>The department should measure the effectiveness of the training programs it provides to councils.
This would help the department identify remedial actions when desired outcomes are not achieved.</td></tr>
<tr><th colspan="2">Provide training on financial reporting processes and support councils to meet their reporting deadlines in times of need</th></tr>
<tr><td>REC 5</td><td>The department should, for councils that do not consistently achieve early financial reporting:
• provide training to finance staff that covers matters such as
– basic financial statement preparation
– analysing and interpreting financial statements
– preparing and delivering on a year-end time table
– accounting concepts and application of relevant accounting standards.
This should be in addition to the tropical financial reporting workshop provided by the department each year
• make available a panel of financial reporting specialists that councils can call upon in times of need to help with their financial reporting processes. For this to work effectively, the department should establish ground rules that put the onus on councils to plan for their financial reporting early. This support should only be made available to councils on an exception basis.</td></tr>
<tr><th colspan="2">Make sure all councils have an effective internal audit function</th></tr>
<tr><td>REC 6</td><td>The department should monitor whether all councils have an internal audit function and that appropriate internal audit activities are undertaken each year.
To help councils meet their legislative requirements the department should:
• educate councillors and senior executives on the benefits of an internal audit function and how this adds value to council operations
• make internal audit guidelines available on the department’s website and provide example templates (such as a model internal audit charter) to help councils understand and meet their obligations.</td></tr>
<tr><th colspan="2">Develop a strategy to uplift capability of the sector on cyber-related matters</th></tr>
<tr><td>REC 7</td><td>We recommend the department, in collaboration with the Queensland Government’s Customer and Chief Digital Officer, develops a strategy to increase awareness and improve capability in the sector on cyber-related matters.
This will help councils strengthen their information security controls.</td></tr>
<tr><th colspan="2">Publish a framework to assess the sustainability risk of councils by 1 July 2023</th></tr>
<tr><td>REC 8</td><td>The department should publish a framework to assess the financial sustainability risk of councils. This framework should be made available to the sector from 1 July 2023 to align with the effective date of the department’s new financial sustainability guideline.</td></tr>
</table>

Prior year recommendations need further action by the department

The department has taken some corrective action to address the 4 recommendations from *Local government 2020* (Report 17: 2020–21).

- The department has published its new framework for financial sustainability.
- It continues to work on providing greater certainty for long-term funding to councils and providing more training for financial governance to councillors and senior leadership teams within councils.
- The proposal for the department to require all councils to establish an audit committee has not yet progressed. Parliament's State Development and Regional Industries Committee, in its report – *Report 32: Examination of Auditor-General Reports on the local government sector* – confirmed the importance of an audit committee to the sector and recommended to parliament that all local governments should establish an audit committee.

We have included a full list of prior year recommendations and their status in Appendix D.

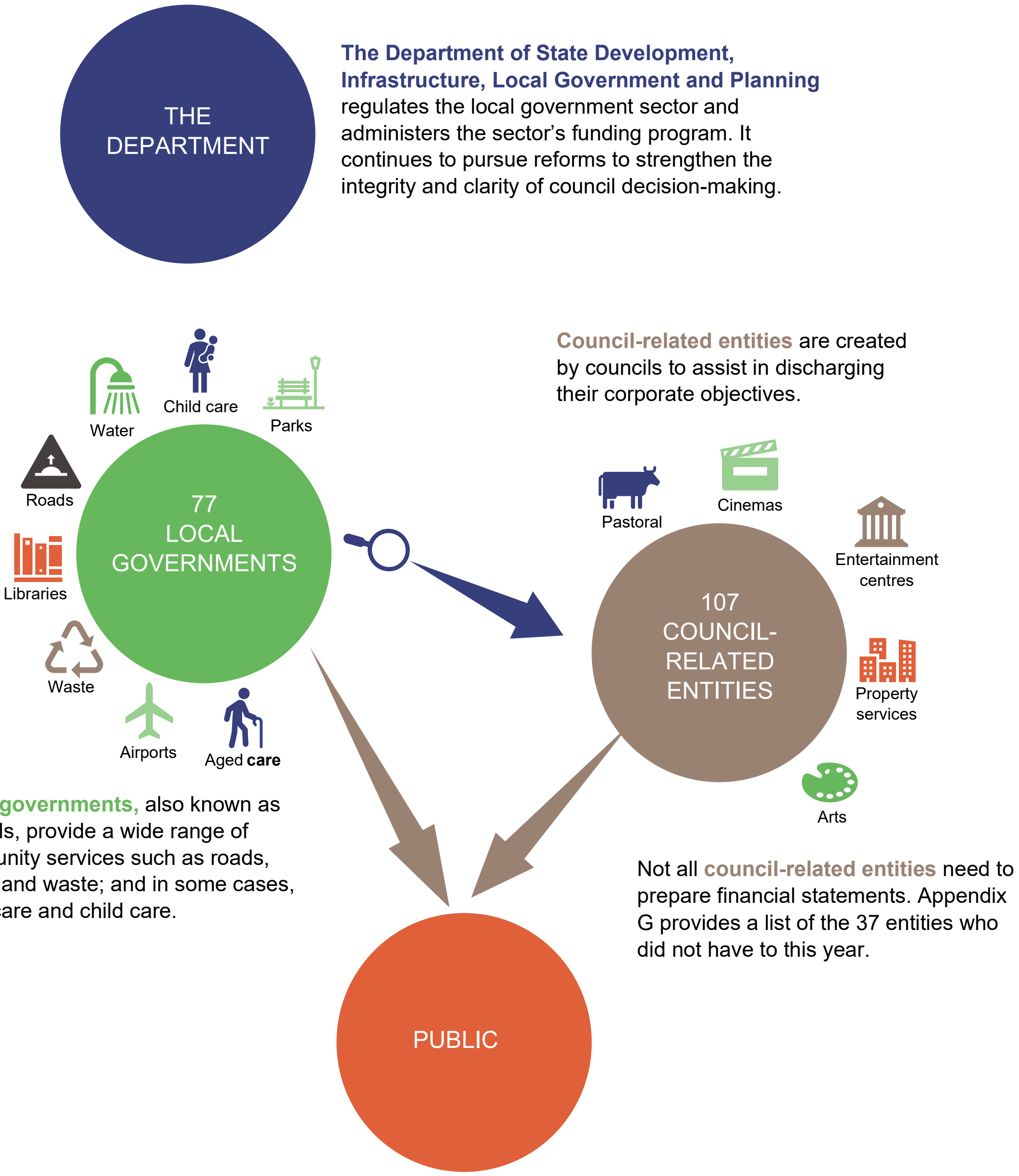
Reference to comments

In accordance with s.64 of the *Auditor-General Act 2009*, we provided a copy of this report to all councils and the department. In reaching our conclusions, we considered their views and represented them to the extent we deemed relevant and warranted.

Any formal responses from councils and the department are included at Appendix A.

1. Overview of entities in this sector

Figure 1A
Entities in the local government sector



Source: Queensland Audit Office.

2. Results of our audits

This chapter provides an overview of our audit opinions for the local government sector.

Chapter snapshot

Only 48 councils prioritised timely financial reporting by planning to have their financial statements certified 2 weeks before the legislative deadline

73 **audit opinions were issued for 77 councils**
▼2 from 2020–21.

65 **of 77 council statements were signed by their legislative deadline**
▲ 3 from 2020–21.

63 **audit opinions were issued for 70 council-related entities**
2020–21: 68 audit opinions for 74 council-related entities.

3 **prior year recommendations for councils**
that need further action.

Appendix D provides the full detail of all prior year recommendations.

4 **new recommendations to the department**

- Provide necessary guidance and tools to councils to help improve their month-end financial reports.
- Provide a clear definition of 'extraordinary circumstances' for councils seeking ministerial extensions to their legislative time frame for financial reporting.
- Measure the effectiveness of training programs provided to councils.
- Provide training on financial reporting processes and support councils to meet their reporting deadlines in times of need.

DEFINITION

We express an **unmodified opinion** when financial statements are prepared in accordance with the relevant legislative requirements and Australian accounting standards.

We issue a **qualified opinion** when financial statements as a whole comply with relevant accounting standards and legislative requirements, with the exceptions noted in the opinion.

We include an **emphasis of matter** to highlight an issue of which the auditor believes the users of the financial statements need to be aware. The inclusion of an emphasis of matter paragraph does not change the audit opinion.

Audit opinion results

Audits of financial statements of councils

As at the date of this report, we have issued audit opinions for 73 councils (2020–21: 75 councils). Of these:

- 65 councils (2020–21: 62 councils) met their legislative deadline
- 2 councils (2020–21: 10 councils) met the extended time frame granted by the minister (the minister for local government may grant an extension to the legislative time frame where extraordinary circumstances exist)
- 4 councils (2020–21: 3 councils) that received ministerial extensions did not meet their extended time frame
- 2 councils (2020–21: nil) that had their financial statements certified past their legislative deadline did not seek an extension from the minister.

Over the years, some councils have not prioritised financial reporting and their financial statements have not been certified within their legislative deadline. Figure 2A shows councils that have not met their legislative deadline for at least 3 of the last 5 years.

Figure 2A
Councils who have not met their legislative time frame for at least 3 of the last 5 years

Council	Number of years legislative time frame not met
Palm Island Aboriginal Shire Council	4 years
Richmond Shire Council	4 years
Etheridge Shire Council	3 years
North Burnett Regional Council	3 years

Source: Queensland Audit Office.

Financial statements of councils and council-related entities are reliable

The financial statements of councils and council-related entities that we issued opinions for were reliable and complied with relevant laws and standards.

We included an emphasis of matter in our audit report for Richmond Shire Council to highlight that a material change was required to the previous financial statements certified 6 March 2023, and they were replaced by the version we certified 24 April 2023.

Consistent with the last 2 years, we included an emphasis of matter in our audit report for Wujal Wujal Aboriginal Shire Council. This was to highlight uncertainty about its ability to repay its debts as and when they arise.

One controlled entity, Local Buy Trading Trust (controlled by the Local Government Association of Queensland Ltd), received a qualified opinion. This was because it was unable to provide us with enough evidence that the revenue it recorded was complete. This entity received a qualified opinion for the previous financial year for the same reason.

An emphasis of matter was also included in the audit opinion for 11 controlled entities because:

- 6 had decided to wind up their operations
- 2 were reliant on financial support from their parent entities
- 2 had uncertainty about their ability to repay their debts as and when they arise
- one was not able to support a key account balance recorded in its financial statements.

Not all council-related entities need to have their audit performed by the Auditor-General. Appendix F provides a full list of these entities.

Status of unfinished audits from previous years

When we tabled *Local government 2021* (Report 15: 2021–22) in May 2022, 2 councils (Richmond Shire Council and Palm Island Aboriginal Shire Council) and 6 council-related entities had not finalised their 2020–21 financial statements. In addition, one controlled entity had not finalised its financial statements for the 2019–20 financial year.

As at the date of this report:

- Richmond Shire Council and 5 council-related entities had their 2020–21 financial statements certified and all received unmodified opinions.
- The Western Queensland Local Government Association had its 2019–20 and 2020–21 financial statements certified. We included an emphasis of matter in our audit opinions for both financial years to highlight that the entity was winding up its operations.

Palm Island Aboriginal Shire Council is yet to have its financial statements certified for the 2020–21 financial year.

Appendix H provides a full list of these entities and the results of their audits.

Fewer councils are achieving early certification of their financial statements

Community and other stakeholders rely on financial statements to understand the financial health of their council. Additionally, financial statements hold elected members accountable for how councils' money is spent each year.

Queensland councils have 4 months (to 31 October) after their financial year end to have their financial statements certified. Yet, each year, several councils do not meet this time frame, and many more have their financial statements certified close to their legislative deadline – meaning the information is not current and relevant when it is released to the public.

Common issues contributing to councils not achieving timely certification of their financial statements are explained further in this chapter.

For many years, we encouraged councils to have their financial statements certified soon after 30 June – and measured and reported their timeliness using a traffic light model. Under that model, councils that had their financial statements certified at least 2 weeks before their legislative deadline were considered to be timely.

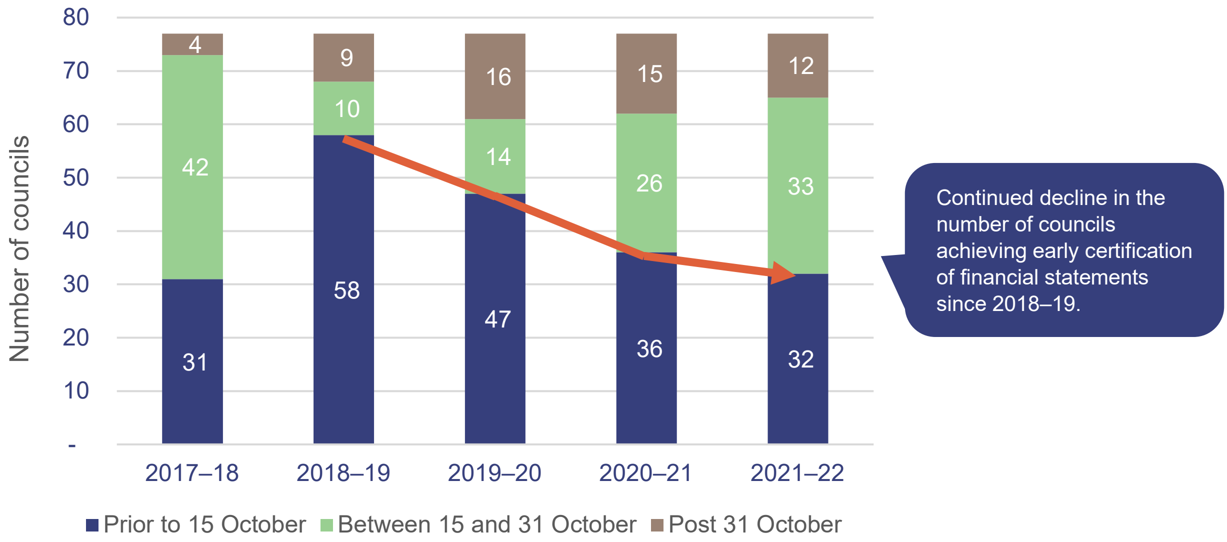
Between the 2017–18 and 2018–19 financial years, councils improved the timeliness of their financial reporting. Although fewer councils achieved early certification in 2019–20, we saw this as a one-off decline in timeliness due to the COVID-19 pandemic.

In recognition of the sector's progress to improve the timeliness of financial reporting, we stopped measuring timeliness using the traffic light model in 2020–21. We moved to a financial statement maturity model where we asked councils to self-asses their financial reporting maturity levels. It is available on our website at: www.qao.qld.gov.au/reports-resources/better-practice.

However, the change from the traffic light basis of measurement, together with other challenges that councils have faced in recent years, has resulted in a substantial decline in the timeliness of financial statement certification.

This year, only 32 councils (2020–21: 36 councils), which is 40 per cent of the sector (2020–21: 47 per cent), had their financial statements certified 2 weeks before the legislative deadline. Figure 2B shows the time frames for certification of council financial statements over the last 5 years.

Figure 2B
Certification of council financial statements – 2017–18 to 2021–22



Note: 2021–22 (Post 31 October) includes 4 councils that are yet to have their financial statements certified. 2020–21 (Post 31 October) includes one council yet to have its financial statements certified.

Source: Queensland Audit Office.

Early certification of financial statements is always important, but leading into the next local government elections in March 2024 it is even more critical. Elected members will have one last opportunity to demonstrate their council's financial health to their community when the certified financial statements for the 2022–23 financial year are made publicly available. Acknowledging the importance of this information, going forward, we will compile our local government report as at the statutory reporting date. This will ensure our analysis of the sector's performance is available to the community early in the subsequent calendar year.

Common issues preventing timely certification of financial statements continue to exist year after year

Ineffective month-end and year-end processes (financial reporting processes)

Section snapshot

55 councils have at least one **deficiency** in their month-end processes (2020–21: 60 councils).

84 new deficiencies arose for month-end processes this year.

73 deficiencies for **month-end** processes from **prior years** were still unresolved as at 30 June 2022.

Ineffective financial reporting processes significantly contribute to councils not having their financial statements certified in a timely manner.

Financial reporting begins with month-end processes that provide elected members and council executives with regular information about the financial performance of council. It finishes with year-end processes that produce the annual financial statements, which are certified and provided to the community and other stakeholders. These processes complement each other.

Councils with good month-end processes generally produce higher quality annual financial statements in less time. This is because they resolve any discrepancies and errors each month.

In the 2020–21 financial year, we asked councils to assess their financial statement preparation processes using our financial statement maturity model, which is available on our website at: www.qao.qld.gov.au/reports-resources/better-practice. As a part of this process, 46 councils self-assessed that their *monthly* financial reports were not prepared using accrual accounting processes – recognising revenue and expenses as they are earned or incurred, regardless of when cash has been received or paid.

To understand if these self-assessments were accurate, we reviewed the 30 June 2022 monthly reporting for roughly a third of the sector. Specifically, we compared the operating results (difference between revenue generated and expenditure incurred in the day-to-day operations) reported by these councils in their internal management reports to the results that were reported in their certified year-end financial statements.

If councils adopt an accrual basis of accounting, they would report minimal differences between the annual operating results in their monthly reports and the result in their financial statements. Instead, we found:

- 14 councils (61 per cent of those we reviewed) reported an operating result in their year-end financial statements that was significantly lower than the operating result reported in their monthly financial reports
- for 6 of these 14 councils, they reported an operating surplus (operating revenue higher than operating expenses) in their monthly financial reports at 30 June 2022. But they reported an operating deficit (operating expenses higher than operating revenue) in their certified year-end financial statements.

This means financial reporting processes at these councils are ineffective. Management and councillors at these councils were not provided complete information each month to make informed decisions. They also did not have reliable financial information to help prepare the next year's budget.

This year, we provided councils with guidance about accrual accounting and how this should be reported in monthly financial reports. This included items reported in the financial reports such as depreciation (allocating the value of an asset over its life) and grant revenue (timing of recognition).

As part of our 2022–23 financial year audits, we are reviewing whether councils implemented our guidance for accrual accounting. We will report on these outcomes in our *Local government 2023* report.

In addition to adopting accrual accounting for monthly reporting, we continue to recommend councils improve their month-end and year-end processes as detailed in Appendix D.

The department can play a key role in helping councils improve their month-end processes, and in turn, their year-end processes, to achieve early financial reporting. This can come in the form of guidance and templates such as monthly financial reports and checklists for completing month-end processes.

Recommendation for the department

Provide necessary guidance and tools to councils to help improve their month-end financial reports (REC 2)

The department should provide guidance and tools such as monthly management reporting pack templates and checklists for the completion of month-end financial reports.

These tools should set the minimum standard of information that councillors will need to be provided with to make informed financial decisions. This in turn would help them improve the quality of their month-end financial reports and their month-end processes.

Asset management (including maintenance of asset data) and asset valuations continue to challenge the sector

Section snapshot

54 councils have at least one deficiency in their asset management practices (2020–21: 60 councils).

17 councils reported a prior period error for fixed assets in this year's financial statements (2020–21: 9 councils**).** The **total value of these errors** resulted in movements totalling **$241 mil.** (2020–21: 11 councils, $410 mil.)

8 councils have either out-of-date or incomplete **asset management plans** (2020–21: 11 councils).

12 councils identified **'found' assets** that they had not previously recorded in their financial statements. The **total value** of these assets was $180 mil. (2020–21: $108 mil.)

Queensland councils combined manage approximately $114 billion of infrastructure assets. The large and diverse asset base means that maintaining good asset data, accounting for assets, and determining asset values often presents challenges. We discuss below the common issues we find at councils.

Asset management and asset data – Some councils do not have up-to-date asset management plans or good asset data to help them maintain and optimise the performance of their assets. This is because they have poor systems for managing assets, lack of resources or expertise, or have outdated/incorrect information.

When councils have accurate asset data, it is a good starting point to build a good asset management plan. For this, councils should regularly inspect their assets and make sure information in their financial systems and geographical information systems – which are used to capture, store, and manage detailed components of assets, including their geographical location – agree to each other.

When councils do not have good asset data, the information presented in their financial statements may be incorrect. This year, 12 councils reported values for assets for the first time in their financial statements, although these councils always owned these assets. This is known as 'prior period errors'. This is not the first time councils have reported prior period errors in their financial statements. These errors arise because some councils do not have good processes to account for assets as and when they acquire them.

Asset valuations processes – Determining the fair value of council assets is complex and highly subjective. Councils often rely on the expertise of external valuers to help value their assets. The common issues we find with councils' valuation processes are:

- councils not engaging early enough with external valuers, causing valuations to not be undertaken in a timely manner
- lack of or inadequate review of the valuer's work that results in errors being identified during our audits – councils are the owners of these assets and know their assets well. They need to make sure the assumptions and judgements the valuer uses are reasonable and appropriate to their circumstances.

Councils should also consider the timing of their programs to value assets. Some councils complete comprehensive valuations (which need condition assessments, physical inspections, and a review of unit costs) on all types of assets in the same financial year. This is an extensive amount of work. These councils may benefit from a rolling program where a single type of asset is valued each year (for example roads, buildings, and water and sewerage assets could be comprehensively revalued in separate years). This helps spread the work required across multiple years and makes engaging an external valuer easier in times when limited valuers are available.

These issues also impact the completion and certification of financial statements, and often these delays result in councils not meeting their legislative deadline. Councils still need to take further action to address our prior year recommendation to improve their asset management and valuation practices as detailed in Appendix D.

Asset management is also critical to the long-term sustainability of councils, as discussed in Chapter 4.

We are finalising our performance audit on improving asset management in local government. This report will include recommendations for how councils can effectively manage their assets while minimising the total cost of owning them. We encourage councils and the department to review this report when it is tabled (expected in mid-2023) and implement any recommendations relevant to them.

Other factors that have impacted timely reporting

Ineffective month-end and year-end processes and asset management issues have long been the reasons councils do not achieve timely certification of their financial statements. If councils had these practices imbedded and operating effectively, they would be better equipped to manage external disruptions. However, because they do not, external factors (as summarised in Figure 2C) have also contributed to untimely financial reporting in recent years.

Figure 2C
Factors impacting timely reporting

2019–20	2020–21	2021–22
COVID-19 pandemic	COVID-19 pandemic	Staff turnover and vacancies
Local government elections	Staff turnover and vacancies	Significant natural disasters
New accounting standards	Significant natural disasters	

Source: Compiled by Queensland Audit Office.

In *Local government 2020* we explained the challenges councils faced being impacted by and responding to COVID–19, local government elections, and new accounting standards, and how these delayed the certification of their financial statements. In this section, we explore the other factors that contributed to a decline in the timeliness of financial reporting by councils in subsequent financial years.

Staff turnover and vacancies

Since 2021, Australia (and the rest of the world) has been impacted by what has been called the 'great resignation', where workers left organisations at scale and pace. The local government sector was not immune to this phenomenon.

For councils outside of South East Queensland, attracting and retaining experienced staff has historically been a challenge, and this has become even harder in the last 2 years. Many councils face the choice between filling vacant roles with less experienced and qualified staff or engaging external consultants at a significantly higher cost.

The loss of knowledge when staff leave an organisation, and the disruption from frequent turnover of staff, prevents councils from maturing their financial and business systems, processes, and strategy.

Individual councils are unlikely to overcome these challenges alone. Some councils come together as a group through platforms such as 'alliances' or 'regional organisations of councils' – groups of councils from similar geographic locations form an association to achieve common goals. These councils can benefit from sharing resources and expertise, as well as through combined purchasing power.

We have seen councils successfully work together during the COVID-19 pandemic to implement directives from government, such as border closures and cleaning public amenities. Councils need to leverage such collaboration and work together to create more depth and resilience in back-office functions such as financial management, human resource management, and information management and security. Their ability to do this is aided by the fact that currently 90 per cent of councils use one of 4 accounting systems.

Natural disasters

Natural disasters cause significant disruption to councils – diverting attention from their usual operations to focus on disaster response. Accounting for natural disasters (for example the change in the value of a council's assets because of damage caused by a flood) is also complex and time-consuming. This adds further pressure to councils' finance teams – especially in small and regional councils that are already experiencing staff shortages.

When a natural disaster strikes, it generally impacts more than one council in a region. We have seen disaster management groups at impacted councils come together and serve their communities in such difficult times to help with recovery processes.

Councils could again use this experience of working together to develop comprehensive documentation of the assumptions and judgements they use to determine the fair value of their assets (which is the amount for which the assets could be sold in a fair transaction).

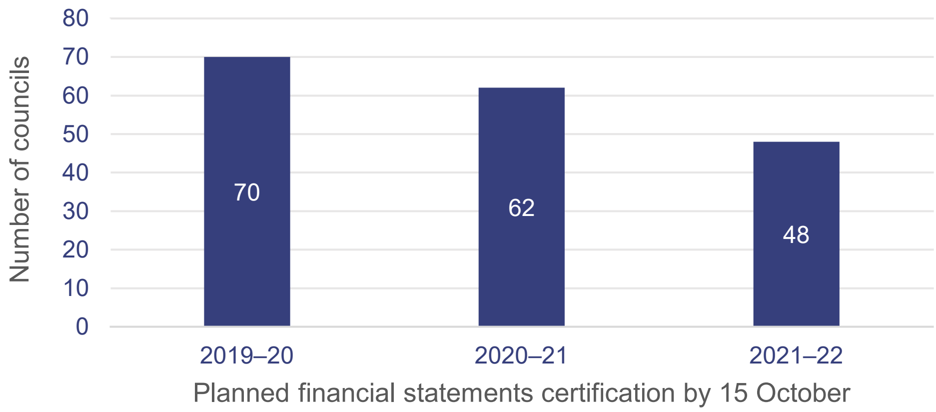
Planning for the financial reporting process is weak

Councils are not aiming for early certification of their financial statements

At the start of each years' audit process, councils provide us dates they plan to have their financial statements certified. Since we moved away from measuring their timeliness using a traffic light system (explained earlier in this chapter), fewer councils are striving for early certification.

Figure 2D shows, for the last 3 years, how many councils planned to have their financial statements certified early – that is, 2 weeks before their legislative deadline of 31 October.

Figure 2D
Planned certification of council financial statements by 2 weeks before the legislative time frame (2019–20 to 2021–22)



Source: Queensland Audit Office.

In the 2019–20 financial year, 91 per cent of the sector planned to have their financial statements certified 2 weeks before the legislative time frame. This declined to 80 per cent in 2020–21 and declined even more in 2021–22 to only 62 per cent of the sector.

If councils do not *plan* to have their financial statements certified early, they are unlikely to improve the timeliness of their financial reporting.

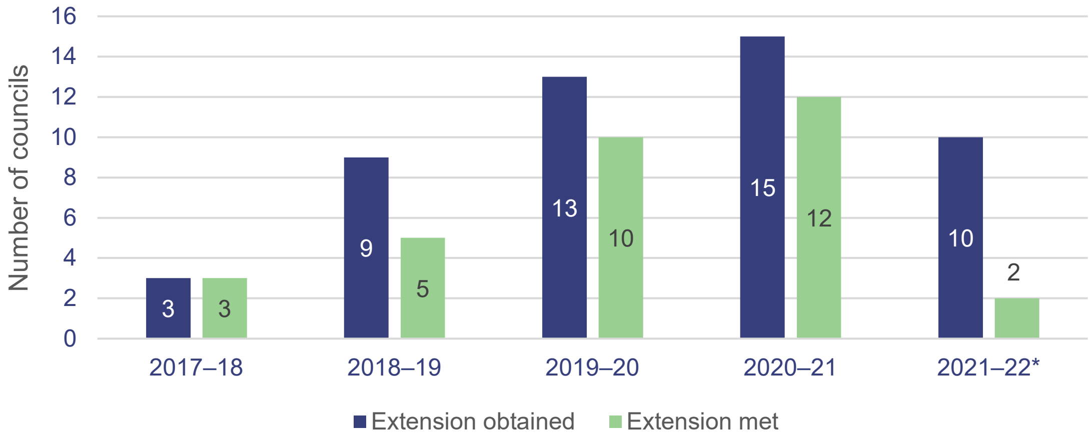
Ministerial extensions are sought very late

When a council does not expect to have its financial statements certified within the legislated deadline, it can seek an extension of time from the minister for local government.

Under the legislation, the minister may grant an extension when 'extraordinary circumstances' prevent the council from having its financial statements certified within the legislative deadline.

However, when councils, and many times the same councils, keep seeking an extension from the minister year after year, it cannot be deemed 'extraordinary circumstances'. In Figure 2E, we show the number of councils that applied for an extension and the number of councils that met their extended time frames over the last 5 years.

Figure 2E
Ministerial extensions granted and met – 2017–18 to 2021–22



Note: * For 2021–22, 4 councils that applied for extension are yet to finalise their statements.

Source: Queensland Audit Office.

Of the 10 councils that received an extension of time to have their financial statements certified for the 2021–22 financial year:

- 7 did not apply for an extension until late in October 2022
- 6 applied for more than one extension this year
- 6 also applied for an extension last year.

This confirms that some councils do not have good processes to have their financial statements certified in a timely manner.

In *Results of audits: Local government entities 2011–12* (Report 10: 2012–13), we recommended the department determine and publish criteria for granting ministerial extensions to reporting deadlines in 'extraordinary circumstances'. At the time, the department acknowledged the merit of our recommendation; but it has not yet taken any action to provide clarity on what extraordinary circumstances are.

Recommendation for the department Provide a clear definition of 'extraordinary circumstances' for councils seeking ministerial extensions to their legislative time frame for financial reporting (REC 3)
The department should clearly define what 'extraordinary circumstances' are in the context of extensions to councils' legislated deadlines for certifying financial statements. This will provide consistent criteria for assessing council applications for extensions.

Department's role to address skills shortages and improve timely financial reporting

Although staff shortages have contributed to untimely financial reporting, this issue has existed in the sector for several years, especially in regional and remote councils. The fundamental reason councils in regional and remote areas struggle to achieve timely financial reporting is the lack of appropriately qualified and skilled staff.

In 2020 we collected information from more than half the sector to understand the extent of qualified and skilled staff in their engineering and finance teams. At the time we gathered this information, we noted that:

- 16 per cent of these councils did not have appropriately qualified engineers that were responsible for managing their infrastructure assets
- 27 per cent of these councils did not have an accountant with a post-tertiary qualification that was responsible for managing their finances.

We plan to survey the sector for our next local government report to understand if this situation has worsened, given the recent impact of the great resignation explained earlier in this chapter.

Councils who regularly fail to meet the legislative deadline for financial reporting generally do not have the necessary skills to improve their financial reporting. These councils would benefit from greater support by the department to help develop strategies to improve their financial reporting processes.

In *Local government 2020,* we recommended the department provide training to councillors and senior leadership teams for councils that have limitations raising revenue due to remoteness and small populations (that is, councils that are highly reliant on grant funding). Our recommendation aimed to improve councillors' and senior leaders' understanding of governance and accountability to allow them to drive change within their councils.

Some of these councils were already prioritising financial reporting and had established good governance processes, such as an effective audit committee and internal audit function. However, most were not.

This year, 25 per cent of the councils (7 councils) we recommended receive additional training did not meet their legislative deadline. At 30 June 2022, these councils also had 31 unresolved significant deficiencies (breakdowns in internal control that we identified with substantial financial or reputational risk for councils that need to be addressed immediately). This is 27 per cent of the unresolved significant deficiencies for the sector. In addition, 5 of these councils do not have an audit committee or an internal audit function.

This indicates that the training provided by the department may not be achieving the desired outcomes.

Recommendation for the department

Measure the effectiveness of training programs provided to councils (REC 4)

The department should measure the effectiveness of the training programs it provides to councils.

This would help the department identify remedial actions when desired outcomes are not achieved.

The department, as the regulator of the local government sector, also has a responsibility to make sure councils comply with the financial reporting obligations required under the *Local Government Act 2009* and the Local Government Regulation 2012.

In addition to continuing to deliver and improve the training for councillors and senior executives, the department should develop targeted training for finance staff. This should be aimed at councils that consistently fail to have their financial statements signed in a timely manner and do not have adequate skills around financial accounting and reporting processes. The department currently provides example financial statements and conducts certain workshops for councils. However, the untimely financial reporting by councils confirms these are not addressing the skills shortage for financial reporting in the sector.

One option would be for the department to establish a group of qualified, experienced professionals who could help councils in need from time to time. This approach would be similar to that now used by the Public Sector Commission to help state government departments dealing with significant government restructures. Should the department adopt such a model, it would need to be clear about when councils could use this service.

Recommendation for the department

Provide training on financial reporting processes and support councils to meet their reporting deadlines in times of need (REC 5)

The department should, for councils that do not consistently achieve early financial reporting:

- provide training to finance staff that covers matters such as
  - basic financial statement preparation
  - analysing and interpreting financial statements
  - preparing and delivering on a year-end time table
  - accounting concepts and application of relevant accounting standards.

  This should be in addition to the tropical financial reporting workshop provided by the department each year
- make available a panel of financial reporting specialists that councils can call upon in times of need to help with their financial reporting processes. For this to work effectively, the department should establish ground rules that put the onus on councils to plan for their financial reporting early. This support should only be made available to councils on an exception basis.

3. Internal controls

Internal controls are the people, systems, and processes that ensure an entity can achieve its objectives, prepare reliable financial reports, and comply with applicable laws. Features of an effective internal control framework include:

- strong governance that promotes accountability and supports strategic and operational objectives
- secure information systems that maintain data integrity
- robust policies and procedures, including appropriate financial delegations
- regular monitoring and internal audit reviews.

This chapter reports on the effectiveness of councils' internal controls and provides areas of focus for them to improve. When we identify weaknesses in the controls, we categorise them as either 'deficiencies', which need to be addressed over time, or 'significant deficiencies', which are high risk and need to be addressed immediately.

Chapter snapshot

There are fewer significant issues, but it is taking too long resolve

42 **new recommendations to address significant deficiencies** raised with councils during the year (70 in 2020–21).

55 **significant deficiencies resolved by councils** (83 in 2020–21).

114 **unresolved recommendations to address significant deficiencies at the end of the year** Councils should prioritise addressing these vulnerabilities (127 in 2020–21).

662 **recommendations to address deficiencies** made to councils to improve internal controls (817 in 2020–21).

1 **new recommendation to councils**

- Assess the maturity of their procurement and contract management processes using our procure-to-pay maturity model, and implement identified opportunities to strengthen their practices.

9 **prior year recommendations to councils that need further action**

Appendix D provides the full detail of all prior year recommendations.

2 **New recommendations to the department**

- Make sure all councils have an effective internal audit function.
- Develop a framework for managing security risks.

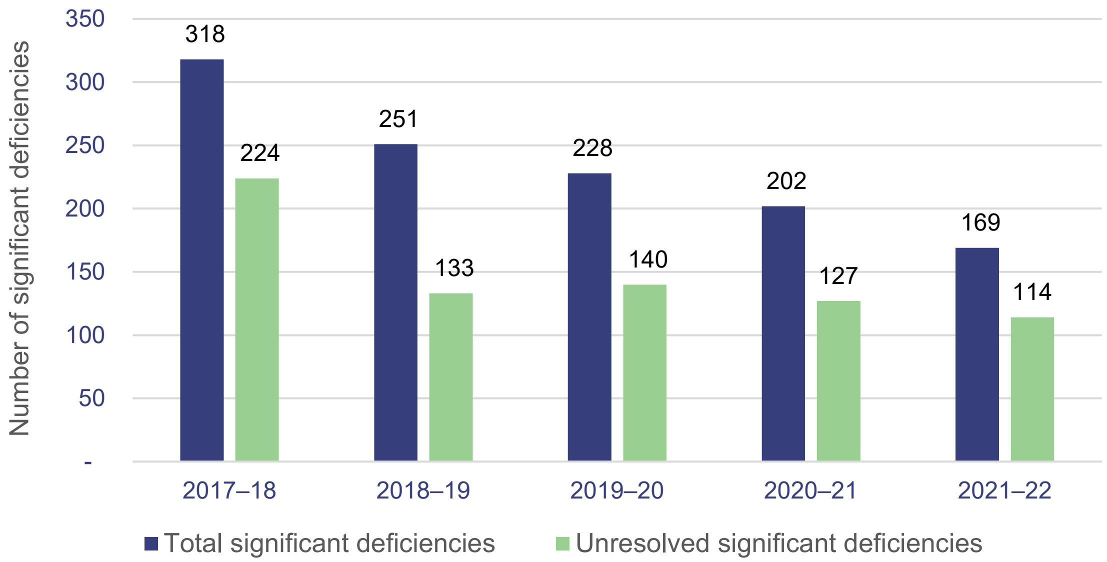
1 **prior year recommendation to the department that needs further action**

Appendix D provides the full detail of all prior year recommendations.

Internal controls are improving, but more than half the sector still has unresolved significant deficiencies

Councils have continued to reduce the number of unresolved significant deficiencies in their internal controls. But, as at 30 June 2022, 42 councils (2021: 47 councils) have at least one significant deficiency they need to address. Figure 3A shows the total number of significant deficiencies we have identified in the sector over the last 5 years, along with those that remained unresolved at 30 June each year.

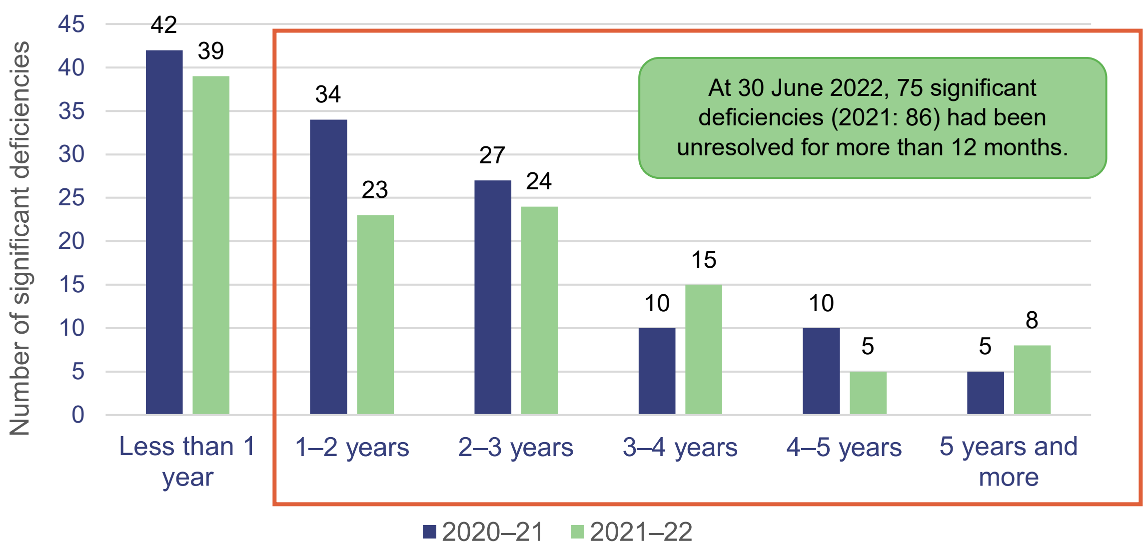
Figure 3A
Total significant deficiencies and unresolved significant deficiencies



Source: Queensland Audit Office.

Although councils have reduced the number of significant deficiencies, many are still unresolved for more than 12 months as shown in Figure 3B.

Figure 3B
Ageing of unresolved significant deficiencies



Source: Queensland Audit Office.

Significant deficiencies are those that may result in substantial financial or reputational loss to councils – which in turn may impact their financial sustainability. When these significant deficiencies are unresolved for a long time, the risk of financial and reputational loss to councils increases.

In Appendix J, for each council, we list the number of significant deficiencies that remain unresolved for more than 12 months. As at 30 June 2022, 35 councils (2021: 35 councils) had one or more significant deficiencies that remained unresolved more than 12 months after we identified them.

Entities that do not resolve significant deficiencies in a timely manner generally do not have good governance and monitoring processes in place. When an entity strengthens its internal controls and implements good governance structures – such as by establishing an effective audit committee and internal audit function – it can also improve its financial performance.

Audit committees and internal audit functions

Section snapshot

As at 30 June 2022, 16 councils (2021: 20 councils) did not have an audit committee function.

- **15 councils did not** have an audit committee at all.
- **One council** had an audit committee that did not meet in the 2021–22 year.

As at 30 June 2022, 14 councils (2021: 14 councils) did not have an internal audit function.

- **7 councils** did not have an internal audit function.
- **7 councils** did not undertake any internal audit activity.

These councils combined had **55** unresolved significant deficiencies (**68 per cent** of all significant deficiencies) and **12** of these councils are at high risk of not being financially sustainable.

These councils combined had **61** unresolved significant deficiencies (**75 per cent** of all significant deficiencies) and **9** of these councils are at high risk of not being financially sustainable.

11 councils do not have either an **audit committee** or an **internal audit function**. These councils combined have **50 unresolved significant deficiencies** at 30 June 2022.

Audit committees

Audit committees play a key role in providing management with an independent and objective source of advice on various matters. This includes financial reporting, internal controls, risk management, and internal and external audit functions.

While management retains ultimate accountability for councils' internal controls, audit committees help improve councils' internal controls by overseeing proactive and timely resolution of outstanding issues.

After several years of recommending to councils that they should establish an audit committee function, in *Local government 2020* we recommended the department should mandate all councils to establish an audit committee. The State Development and Regional Industries Committee (a committee of parliament) in its report – *Report 32: Examination of Auditor-General Reports on the local government sector* – recommended to the parliament that all councils should establish an audit and risk committee.

In the 2023–24 financial year, we plan to undertake an audit on the effectiveness of local government audit committees. This report will follow on from *Effectiveness of audit committees in state government entities* (Report 2: 2020–21) and provide insights into the effectiveness of audit committees at councils.

Internal audit

An internal audit function is a key building block for good financial reporting and governance practices. It provides an independent view on whether a council's internal control framework is effective and helps promote a strong risk management and compliance culture.

Every council in Queensland is required under the *Local Government Act 2009* to establish an effective internal audit function. An effective internal audit function is one where a council must, in each year, have an internal audit plan (a list of audits that it plans to undertake) and deliver on that plan.

Figure 3C shows councils that did not have an internal audit function established as at 30 June 2022 and those that had established a function but did not undertake any internal audit activity.

Figure 3C
Councils that did not have an effective internal audit function at 30 June 2022

Councils with no internal audit function	Councils that had no internal audit activity
Cherbourg Aboriginal Shire Council*	Bulloo Shire Council
North Burnett Regional Council	Carpentaria Shire Council
Palm Island Aboriginal Shire Council	Croydon Shire Council
Paroo Shire Council	Etheridge Shire Council
Richmond Shire Council*	McKinlay Shire Council
Woorabinda Aboriginal Shire Council*	Mornington Shire Council
Wujal Wujal Aboriginal Shire Council*	Northern Peninsula Area Regional Council

Note: * These councils have not had an internal audit function for 3 or more years as at 30 June 2022.

Source: Queensland Audit Office.

Nearly 60 per cent of the councils in Figure 3C failed to meet the legislative deadline in 2021–22:

- Four of these councils are yet to have their financial statements certified.
- Four of these councils missed the deadline but subsequently had their audit opinions issued. Of these, 2 councils have not met their legislative deadline for 3 or more years in a row.

The department, as the regulator for the local government sector, needs to make sure that councils comply with their legislative requirements to establish an effective internal audit function. The department also has a role to educate councils on the benefits of an internal audit function and make sure appropriate resources – such as guidelines and templates – are available to councils.

Recommendation for the department

Make sure all councils have an effective internal audit function (REC 6)

The department should monitor whether all councils have an internal audit function and that appropriate internal audit activities are undertaken each year.

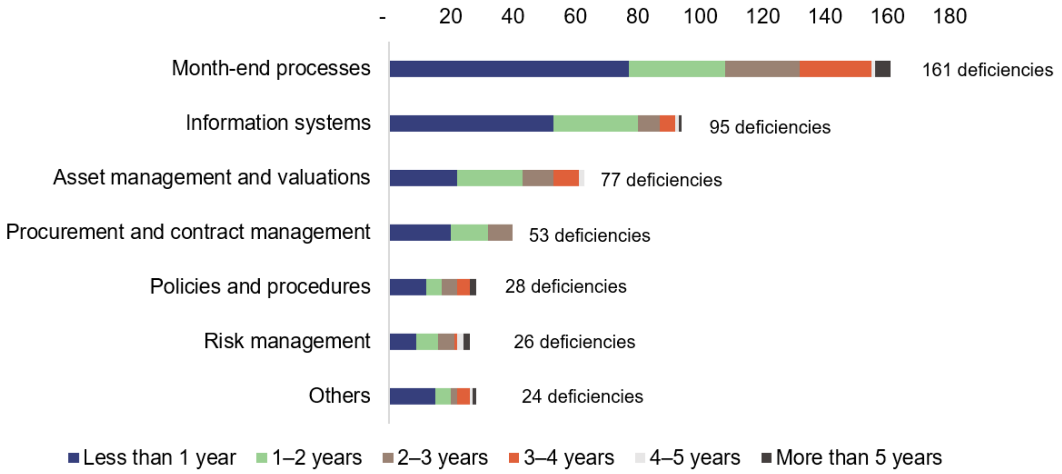
To help councils meet their legislative requirements the department should:

- educate councillors and senior executives on the benefits of an internal audit function and how this adds value to council operations
- make internal audit guidelines available on the department's website and provide example templates (such as a model internal audit charter) to help councils understand and meet their obligations.

Common internal control weaknesses in the sector

The common internal control weaknesses we discuss in this chapter are those that have persisted for several years. Figure 3D summarises these weaknesses by the number of years they have been unresolved, as at 30 June 2022.

Figure 3D
Common internal control weaknesses unresolved as at 30 June 2022



Source: Queensland Audit Office.

The number of weaknesses in information system controls continues to rise in the sector

Section snapshot

48 councils have at least one deficiency in their **information technology systems** (2020–21: 45 councils).

63 new deficiencies have been identified in 2021–22 in addition to **37 deficiencies** unresolved from previous years.

9 councils have one or more **significant deficiencies** in their information systems that have not been resolved for over a year.

Councils hold large volumes of financial, operational, and personal data about their suppliers, customers, and employees in their information technology systems.

Recent cyber attacks on the information systems of Australian and international entities, including some high-profile Queensland public sector entities, have disrupted their operations and caused loss of sensitive data.

As recently as April 2023, one regional council in central Queensland became a victim of a cyber attack. The council is assessing the impact of this attack and has involved cyber security experts to help it manage the recovery process. This is on the back of other councils in Victoria and New South Wales that were also impacted by cyber attacks within the last 18 months.

The frequency and number of attacks in the last 2 years highlights that it is no longer if, but when a successful attack will occur.

It is critical that councils implement strong security controls to protect their data from cyber attacks, undetected errors, and potential financial loss, including through fraud. Our *Forward work plan 2023–26* includes an audit topic on *Responding to and recovering from cyber attacks* that will provide insights and lessons learned on entities' preparedness.

This year, because of changes to the Australian auditing standards, we undertook in-depth reviews of information system controls across all public sector entities in Queensland. From these, we identified additional deficiencies in councils' information systems.

The changes to Australian auditing standards require auditors to assess the effectiveness of information systems controls that are critical to generate financial information. It is important to note that these changes do not focus on controls that protect systems against cyber attacks and do not provide assurance that council's cyber security measures are strong enough. However, the findings from our audits inform councils of the vulnerabilities in their systems and provide them opportunities to strengthen their internal controls.

The most common internal control deficiencies identified include:

- inappropriate access levels being assigned to council staff. This means staff can process transactions when they are not authorised to do so. This may expose councils to financial loss, unauthorised access to their data, and the risk of loss of data
- lack of good controls to implement and monitor strong passwords. Weak passwords are easier to guess, and they expose information technology systems to potential cyber attacks
- lack of good policies to govern the security of information systems. These policies should define obligations that staff need to comply with when using councils' information technology systems.

Implementing effective controls to mitigate the risk of cyber attacks should be performed on a cost–benefit basis. Accordingly, in *Managing cyber security risks* (Report 3: 2019–20) we recommended all entities in the Queensland public sector firstly assess whether they:

- have a framework for managing cyber security risks
- know what information assets they have
- know to what extent those information assets are exposed to cyber security risks.

Based on the results of these activities, entities should implement cyber security risk mitigation strategies.

Since October 2018, the Queensland Government's Customer and Chief Digital Officer (QGCCDO) has required state departments to implement an information security management system (ISMS) – a systematic approach to identify and manage information security risks – in accordance with the ISO 27001 *Information Security Standard*. Currently, no such standards are mandated for the local government sector.

There is an opportunity for the department to collaborate with the QGCCDO to improve the information technology security practices of the sector, using the principles of an ISMS. This would provide the department information about councils that have weaker information security controls.

Recommendation to the department

Develop a strategy to uplift capability of the sector on cyber-related matters (REC 7)

We recommend the department, in collaboration with the Queensland Government's Customer and Chief Digital Officer, develops a strategy to increase awareness and improve capability in the sector on cyber-related matters.

This will help councils strengthen their information security controls.

Appendix D provides our full recommendation from previous years, which still requires further action by councils.

Procurement and contract management practices are not fit-for-purpose

Section snapshot

34 councils have at least one deficiency in their procurement and contract management practices (2020–21: 29 councils).

23 new deficiencies have been identified this year in addition to 24 deficiencies unresolved from previous years.

8 councils have one or more **significant deficiencies** in their procurement and contract management processes that have not been resolved for over a year.

Councils collectively spend approximately $8 billion each year to obtain goods and services from varied suppliers. When such large amounts of monies are spent – which are funded by tax payers in the form of grants or other sources such as rates and fees – there is a need for strong controls and processes. This is important so councils can uphold their communities' confidence that their monies are spent wisely.

Despite this, we identify more weaknesses each year in councils' procurement and contract management processes and practices.

To gain a comprehensive understanding of the extent of the efficiency and effectiveness of councils' procurement and contract management processes, we implemented our procure-to-pay maturity model at 5 councils this year.

We selected a range of councils from large councils in South East Queensland to a small remote Indigenous council to assess the maturity of their procurement and contract management processes.

Figure 3E summarises the scope of the maturity model, together with the strengths and improvement opportunities we identified.

Figure 3E
Scope of the maturity model and our observations

What did we assess?	Do councils have the appropriate **framework and policies**? How effective are councils' **procurement and contract management processes**?  How effective are councils' **information systems**? What sort of **reporting** is provided to management and councillors?
Overall maturity	• The maturity of the sector varied – larger councils demonstrated a higher maturity compared to the smaller councils, which have limited resources.
Strengths	• Most councils had a documented process, including adequate policies and procedures for their procurement and contract management, that comply with the legislation. • Larger councils had good information technology systems in place to manage the procurement process and had set financial delegations within their systems to authorise invoices. • Probity factors were considered by most councils in their procurement process.
Improvement opportunities	• Councils did not have any reporting mechanisms to their elected members for what they procured, what contracts had been entered, and whether their vendors delivered on their contractual obligations.

Source: compiled by Queensland Audit Office.

Recommendation for all councils

Assess the maturity of their procurement and contract management processes using our procure-to-pay maturity model, and implement identified opportunities to strengthen their practices (REC 1)

We recommend all councils assess the maturity of their procurement and contract management processes using our procure-to-pay maturity model.

Councils should identify their desired level of maturity and compare this to the maturity level that best represents their current practices. This assessment will help them identify and implement practical improvement opportunities for their procurement and contract management processes.

We also identified as a part of our audits common internal control weaknesses in councils' procurement and contract management processes and practices – that we have reported for several years. These are:

- **value for money** – Councils have not maintained good documentation on the appropriate number of tenders/quotes obtained for the purchase of goods and services. This means they were not able to demonstrate they were getting the best price for the goods and services they procured
- **risk of procuring incorrect goods or goods at incorrect prices** – Councils have procured goods and services before entering an agreement with suppliers. This means they exposed themselves to risks of disagreement with suppliers over the terms of purchases (such as quantity and price of goods procured)
- **poor contract management practices** – We find councils either do not maintain contract registers or their registers lack key information such as start and end dates and values of contracts. When contract registers are well maintained, they help councils better plan their financial commitments, track their obligations, and reduce the risk of paying more than they agreed with suppliers.

In *Contract management for new infrastructure* (Report 16: 2021–22), we made recommendations for how entities can improve their frameworks for managing contracts. Councils may benefit from implementing the recommendations made in this report to improve their contract management processes.

Appendix D provides our full recommendations from previous years, which still require further action by councils.

Stronger risk management is needed in uncertain times

Section snapshot

25 councils have at least one deficiency in their risk management practices (2020–21: 22 councils).

10 councils have one or more **significant deficiencies** in their risk management practices that have not been resolved for over a year.

10 new deficiencies have been identified this year in addition to 27 deficiencies unresolved from previous years.

14 councils that were impacted by 2021–22 natural disasters did not have well-documented or up-to-date business continuity and disaster recovery plans.

Queensland councils faced considerable risks in recent years, including the challenges of the COVID-19 pandemic, natural disasters, rising cyber crime and fraud, and an uncertain economic outlook.

These risks have reinforced the need for good risk management practices to make sure councils deliver desired outcomes to their communities.

Common areas councils can improve their risk management practices include having:

- a well-documented and up-to-date business continuity and disaster recovery plan that is tested periodically. This will help councils continue to deliver services and infrastructure to the community and minimise the impacts of any disruptions in the event of a disaster
- an up-to-date and complete risk management framework and risk register. This will help councils identify and address the risks facing their business, and in doing so, increase the likelihood of successfully achieving their objectives.

Appendix D provides our full recommendations from previous years, which still require further action by councils.

Councils need to establish good policies and procedures

Over the last few years, we have noticed an increase in the number of councils that do not have good policies and procedures. Policies and procedures provide guidance, ensure consistency, assign accountability, and establish clarity to council staff and elected members on how the council operates.

At 30 June 2022, 13 councils either did not have policies and procedures in place for some of their day-to-day operations, or these policies and procedures were outdated. These councils may have increased financial and reputational risks, because council staff and elected members may not manage the operations in line with the council's expectations.

Good policies and procedures are critical for those that are new to the organisation – whether it be council staff or an elected member.

Over the years, councils in Queensland have experienced significant change in their elected members as a part of local government elections (which occur every 4 years). Following these elections, we also see changes in the staff who hold key positions across councils.

With the next local government elections being held in March 2024, councils should make sure they establish good policies and procedures to help smoothly transition any newly elected members and new executive staff.

4. Financial performance

In this chapter, we analyse the financial performance of councils, with emphasis on their financial sustainability that is measured under the Financial Management (Sustainability) Guideline 2013, issued by the department.

Chapter snapshot

The sector's expenses have increased at twice the rate of its revenue

$14 bil.
Revenue
▲ 5% from 2020–21

$13 bil.
Expenses
▲ 10% from 2020–21

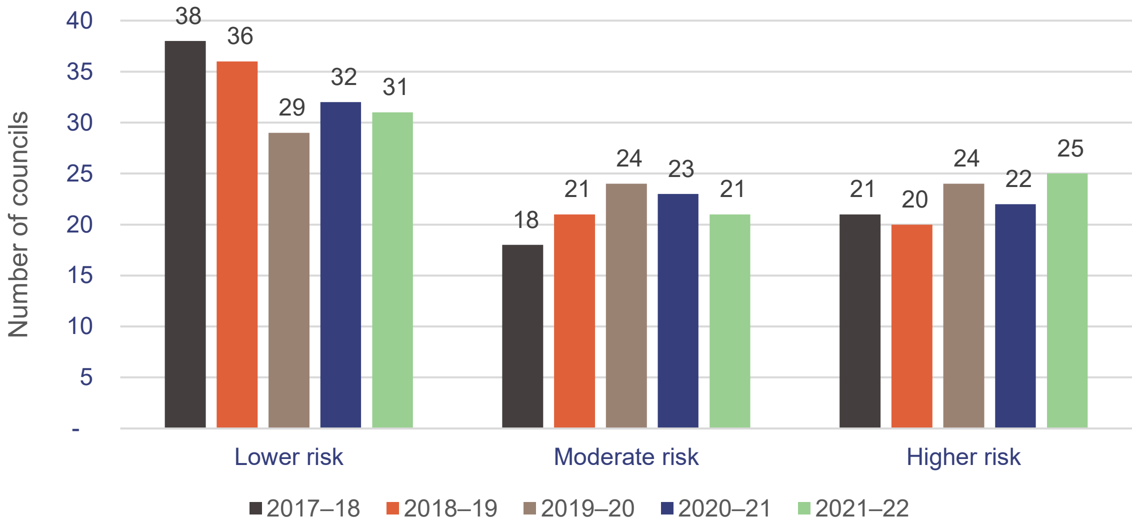
$148 bil.
Assets
▲ 9% from 2020–21

$13 bil.
Liabilities
▲ 10% from 2020–21

Increased cost of labour, materials, and services contributed to a decline in the sector's overall financial sustainability.

Figure 4A shows the financial sustainability risk of the sector over the last 5 years. (Refer to Appendix I for definitions of lower, moderate, and higher financial sustainability risk.)

Figure 4A
Change in financial sustainability risk – 2017–18 to 2021–22



Source: Compiled by the Queensland Audit Office, from councils' financial statements.

3 prior year recommendations to councils that need further action

Appendix D provides the full detail of all prior year recommendations.

1 new recommendation to the department

Publish a framework to assess the sustainability risk of councils by 1 July 2023.

2 prior year recommendations to the department need further action

The department has implemented one prior year recommendation. Appendix D provides the full detail of all prior year recommendations.

Financial sustainability measures are changing for the sector, but a framework to measure the associated risk is needed

In *Local government 2020* and *Local government 2021*, we explained the challenges councils face to demonstrate their ability to achieve financial sustainability, particularly those in remote areas. These include:

- lower population and fewer employment opportunities, resulting in lower revenue-generating ability
- higher costs of maintaining a large asset base spread over a large geographic area
- the current financial sustainability guideline, which expects all councils to achieve the same financial benchmarks (refer to Appendix I for details of the financial measures and benchmarks).

The department recognised these challenges and has developed a new financial sustainability guideline. Under this new guideline, councils are grouped into similar categories (known as tiers) to better reflect the varied drivers and challenges across the sector.

The new guideline introduces additional ratios and benchmarks (that vary across the tiers) that councils will report against in their financial statements from 2023–24 onwards.

The department is currently developing a framework (risk framework) to measure sustainability risk under the new guideline. Given the new guideline will be implemented from 1 July 2023 (for the 2023–24 financial year), it is important that the risk framework is also made available to the sector from this date.

Recommendation for the department

Publish a framework to assess the sustainability risk of councils by 1 July 2023 (REC 8)

The department should publish a framework to assess the financial sustainability risk of councils. This framework should be made available to the sector from 1 July 2023 to align with the effective date of the department's new financial sustainability guideline.

Role of grant funding in local government

Snapshot of grants received by councils (based on a 5-year average)

Operating grants

Financial assistance grants
(represented 51% of total operating grants received by councils)

Other operational grants
(represented 49% of total operating grants received by councils)

Capital grants

Disaster recovery grants
(represented 25% of total capital grants received by councils)

Other capital grants
(represented 75% of total capital grants received by councils)

Queensland councils receive grants from the Australian and Queensland governments for their day-to-day operations (operating grants) and to construct and maintain their assets (capital grants). Without these grants, some councils in Queensland would not be able to provide services to their communities and maintain their assets.

Financial assistance grants

One operating grant received by every council in Australia is the ‘Financial Assistance Grant’ (FA grant) from the Australian Government. The FA grants play an important role in supplementing the operating revenues of councils – so much so that they represent approximately 51 per cent of operating grants for the sector in Queensland.

The FA grants are made up of 2 components – a general purpose grant and an identified road grant. Both components are untied, meaning they can be used for any purpose. These grants are provided by the Australian Government and are distributed through the department with the assistance of the Queensland Local Government Grants Commission (the Commission) – an independent body appointed by the governor in council (which is the Governor acting on advice of the Executive Council to approve the decisions of Cabinet. All Cabinet ministers are members of the Executive Council, with at least 2 ministers and the Governor needed for a meeting).

The Commission allocates these grants based on the requirements of a Commonwealth Act (the *Local Government (Financial Assistance) Act 1995*) and the national principles established by the Australian Government. The FA grants are distributed using the following principles:

- The identified road grant is allocated based on the expected cost for councils to maintain roads in their local government area.
- The general purpose grant is allocated
  - 30 per cent based on the population of the council. This component is entirely at the discretion of the Australian Government and all councils in Australia receive this component of the general purpose grant
  - 70 per cent based on the council’s relative need (amount of grants required by a council to provide effective and efficient services to its community). This portion also considers a council’s ability to generate revenue and the expenditure it incurs on services. This component is determined by the Commission and is not distributed to councils that have a population of 80,000 or more.

In 2020–21, the Commission changed its grant allocation methodology, recognising that remote councils with small populations have limited means to raise sufficient revenue to meet the cost of providing services to their community.

As a part of this change in methodology, the Commission also decreased the threshold for the relative need grant from 80,000 to 50,000 residents, to align with other jurisdictions in Australia. This means that 5 fewer Queensland councils will receive the 70 per cent component of the FA grant in 2022–23.

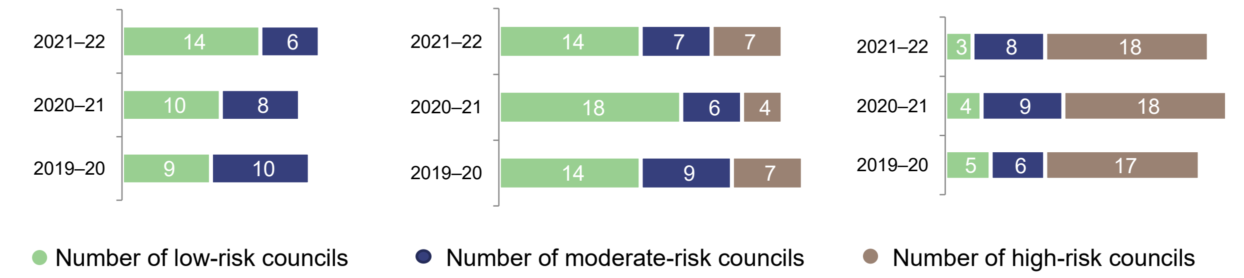
These changes will result in 54 councils receiving more funding in 2022–23 than in previous years.

Impact of grants on the sustainability of councils

Given the importance grant funding plays in the sector, we analysed the financial sustainability of councils based on their reliance on grants (including both operating and capital grants), as shown in Figure 4B.

Figure 4B
Councils' financial sustainability risk categorised by reliance on grant revenue – 2019–20 to 2021–22

Low-reliance category*	Moderate-reliance category*	High-reliance category*
Less than 25% of total revenue is made up of grants	**More than 25% but less than 50% of total revenue is made up of grants**	**More than 50% of total revenue is made up of grants**



Note: * Grant reliance is calculated using 5-year average of grant funding as a percentage of total revenue.

Source: Compiled by the Queensland Audit Office, from councils' financial statements.

In the 2019–20 and 2020–21 financial years, the local government sector received higher than usual grant funding to help it recover from the financial impacts experienced during the COVID–19 pandemic response.

In 2021–22, grant funding to councils declined, as economies started to recover from the financial impacts of the pandemic response. With the decline in grant funding, the reliance on grants has also reduced. Accordingly, more councils this year (14 councils) have a lower financial sustainability risk in the low reliance category than last year (10 councils).

Generally, as a council's reliance on grants increases, its risk of not being financially sustainable also increases. However, at 30 June 2022, 3 councils that had a high reliance on grants had a low risk of being financially unsustainable.

These 3 councils are in one of the most remote locations in Queensland and have significant limitations on generating their own revenue. Yet, with strong governance structures and internal controls, and sound budget monitoring processes, they have managed their spending and consistently generated operating surpluses.

Early receipt of grant funding has masked the operating deficits some councils would have otherwise incurred

This year, 35 councils generated operating surpluses. This is consistent with last year (2020–21: 35 councils) and the results before the pandemic. However, this year, the sector as a whole received a large portion of its FA grants in advance.

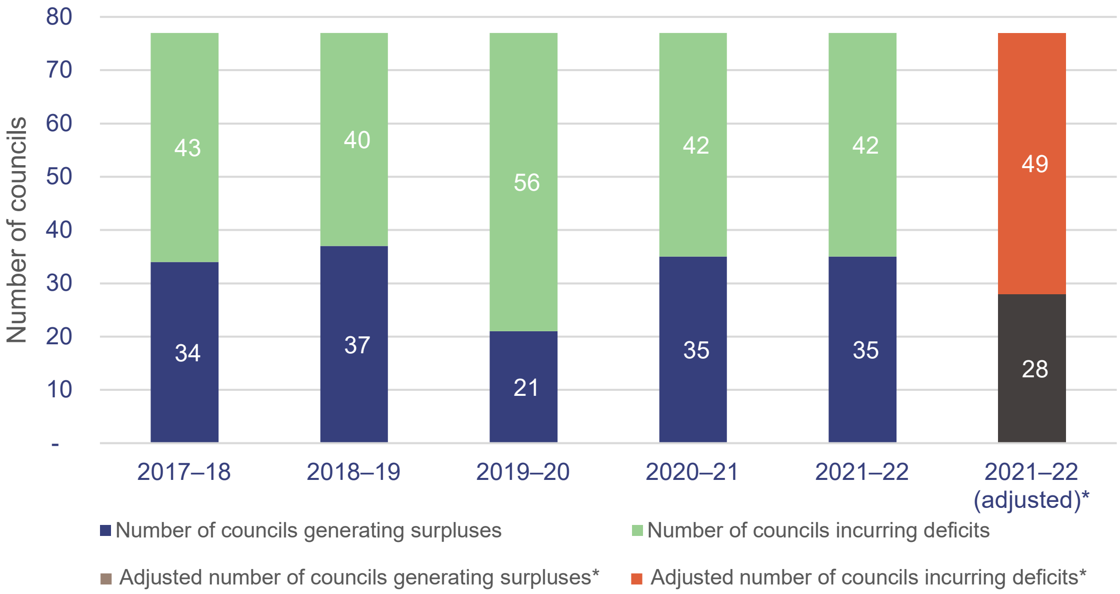
Usually, in June each year, councils receive approximately half of the next year's FA grant in advance. This year, the Australian Government decided to pay approximately 75 per cent of the 2022–23 financial year FA grant in advance. This advance payment was based on the new 'relative need' funding model discussed earlier in the report.

Because these grants are untied and councils do not have any specific obligations to meet, under accounting principles, councils reported these amounts as revenue in 2021–22. This meant that some councils that would have reported an operating deficit this year, instead reported an operating surplus.

Receiving a large portion of the FA grant in advance may seem advantageous for some councils. However, these funds need to be set aside to fund operations throughout 2022–23.

In Figure 4C, we show the number of councils that generated operating surpluses for 2017–18 to 2021–22. We also show what the sector's operating performance would have been for 2021–22 if councils had not received this advance funding.

Figure 4C
Number of councils generating operating surpluses and incurring deficits – 2017–18 to 2021–22



Note: * '2021–22 (adjusted)' indicates operational results if councils received the same proportion of FA grants as in the previous year.

Where councils have not certified their financial statements, the results used are those from the last certified financial statements.

Source: Compiled by the Queensland Audit Office, from councils' financial statements.

Any entity may occasionally incur an operating deficit. But when operating deficits are a regular occurrence, it is a sign the entity has weak budgeting and monitoring processes, and in some instances a habit of overspending or undercharging their community for services provided. This year, 42 councils incurred operating deficits. Of these, 27 have incurred operating deficits each year for the last 5 years.

Australia (as with the rest of the world) is facing significant increases in costs to employ staff and procure goods and services. In 2021–22, councils in Queensland experienced an increase in employee costs and material and services costs of 5 per cent and 10 per cent respectively.

Increased costs and rising interest rates can significantly impact fiscal policy (government's use of taxation and spending to influence the economy). This may mean tighter budgets and possible reductions to funding for councils in future years. But councils still need to provide essential services (roads, water, waste, and sewerage) to their communities, regardless of the level of grant funding they receive.

This is an ideal time for councils to revisit their costs and assess whether, at a minimum, the costs of providing these services are recovered through the fees they charge to their community. This includes reconsidering the need for some non-essential services they provide. Some of these non-essential services cost councils more than the fees they can charge, and in some instances, they do not generate any revenue from these non-essential services.

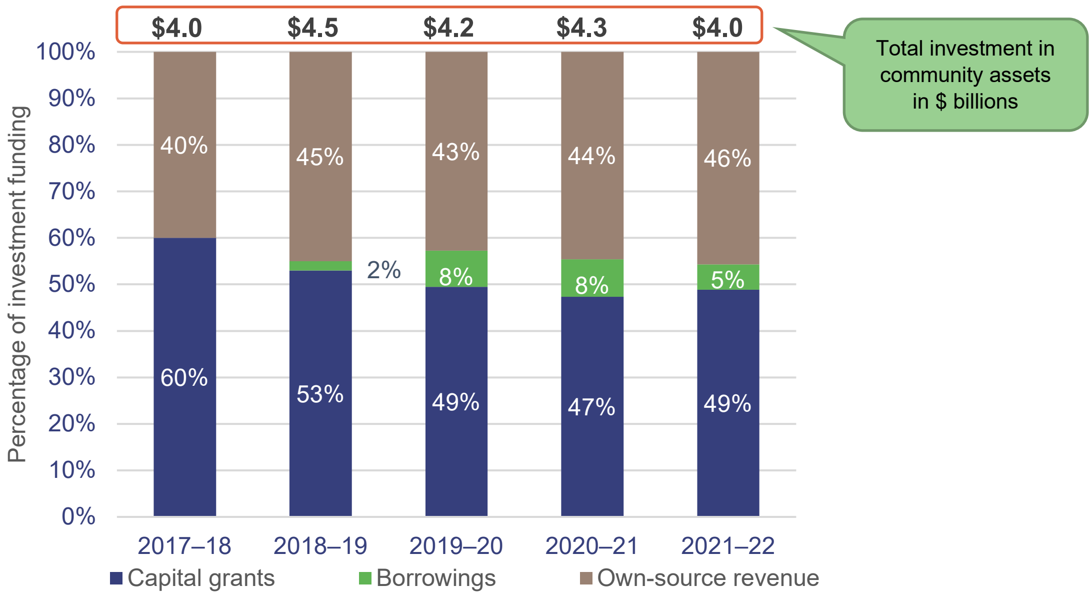
In *Managing the sustainability of local government services* (Report 2: 2019–20), we undertook an in-depth review of processes at 5 councils for planning and delivery of services to support long-term sustainability. As a part of this report, we also published a service prioritisation tool to help councils prioritise how money is distributed for spending on their non-essential services. The tool is available on our website at: www.qao.qld.gov.au/reports-resources/better-practice.

Based on the findings at the 5 councils, we made recommendations to all councils. We strongly encourage all councils to review the progress they have made implementing these recommendations.

Investment in assets is not enough to meet community needs

The total investment in community assets in 2021–22 was $4.0 billion (2020–21: $4.3 billion). As in prior years, funding for this investment came from capital grants, borrowings, and own-source revenue (revenue earned by councils from their day-to-day business), as shown in Figure 4D.

Figure 4D
Funding for investment in community assets



Source: Compiled by the Queensland Audit Office, from councils' financial statements.

Councils' reliance on borrowings to build and maintain community assets has remained low. The total debt of the sector at 30 June 2022 was $6.4 billion (2021: $6.2 billion). This is only 4.3 per cent of the value of community assets (2021: 5 per cent).

While it is encouraging to see councils continuing to invest in their assets, this level of investment is not enough to meet the needs of their communities. This is because it is not keeping up with what it would cost to replace the assets.

In *Local government 2021*, we highlighted the importance of the asset consumption ratio. This ratio measures the current value of a council's assets relative to what it would cost to build new assets with the same benefit to the community. In our 2021 report, we recommended councils review their asset consumption ratio and act to make sure their assets continue to meet the needs of their community.

The department has introduced this ratio in its new sustainability guideline (effective from 1 July 2023) and set a benchmark of greater than 60 per cent for all councils.

We calculated the asset consumption ratio for all councils as at 30 June 2022 and identified that:

- 7 councils (2021: 6 councils) risk the possibility of their assets not being maintained to a standard to meet community expectations (these councils do not meet the benchmark for the ratio of 60 per cent)
- 9 councils (2021: 10 councils) risk their assets not being maintained to a standard that meets community expectations in the next few years (these councils have an asset consumption ratio that is between 61 per cent and 65 per cent).

When compared to the prior year, we found that only 7 councils improved their asset consumption ratio this year, while 44 councils show a declining ratio.

We continue to recommend councils review their asset consumption ratio and take the necessary steps to improve it. This is so their assets are maintained at a level that meets the future needs of their community.

Appendix D provides our full prior year recommendation, which still requires further action by councils to address these issues.

Appendices

A. Full responses from entities

As mandated in s.64 of the *Auditor-General Act 2009*, the Queensland Audit Office gave a copy of this report with a request for comments to the Director-General, Department of State Development, Infrastructure, Local Government and Planning. We also provided a copy to all 77 councils and gave them the option of providing a response.

This appendix contains the detailed responses we received.

The heads of these entities are responsible for the accuracy, fairness, and balance of their comments.

Comments received from Director-General, Department of State Development, Infrastructure, Local Government and Planning

Our ref: MC23/2807

16 JUN 2023

Queensland Government

Department of
State Development, Infrastructure, Local Government and Planning

Mr Brendan Worrall
Auditor-General
Queensland Audit Office
QAO.Mail@qao.qld.gov.au

Dear Mr Worrall

Thank you for your email of 24 May 2023 regarding the Draft Report to Parliament titled *Local Government 2022* (the draft report). I note you also emailed the Honourable Steven Miles MP, Deputy Premier and Minister for State Development, Infrastructure, Local Government and Planning and Minister Assisting the Premier on Olympic and Paralympic Games Infrastructure. Thank you for providing the Department of State Development, Infrastructure, Local Government and Planning (the department) with an opportunity to review the draft report.

I was pleased to note your comments that the financial statement of councils and council related entities for the 2021-22 financial year are reliable and complied with relevant laws and standards. It is also encouraging that 84 per cent of councils had their financials signed by their legislative deadline which was an increase from the previous year.

Councils' improvement in the reduction of new significant deficiencies in their financial statements is also reassuring despite the conditions councils face with staff turnover and natural disasters. Despite this, I note that the timeliness of producing financial statements remains a challenge for the sector and that some councils continue to need to resolve their outstanding audit deficiencies from prior years with the Queensland Audit Office (QAO).

I note that you made one recommendation to councils this year:

Recommendation 1: *Assess the maturity of their procurement and contract management processes using the QAO's 'Procure-to-pay' maturity model and implement identified opportunities to strengthen their practices.*

The department supports this recommendation and I intend to write to each council to emphasise the importance of implementing this recommendation. In addition, I will also remind councils of the importance of taking action to address outstanding deficiencies, as identified by the QAO.

With regards to your seven recommendations for the department, I provide the following comments:

Recommendation 2: *Provide necessary guidance and tools to councils to help improve their month-end financial reports.*

The department supports this recommendation. However, I note that there are other stakeholders such as the Local Government Finance Professionals (LGFP) that may be better placed, or already provide, guidance to the sector on these issues. The department will engage with the LGFP and other stakeholders to investigate opportunities to further support this recommendation.

1 William Street
Brisbane Queensland 4000
PO Box 15009
City East Queensland 4002
Telephone 13 QGOV (13 74 68)
Website www.statedevelopment.qld.gov.au
ABN 29 230 178 530

Recommendation 3: *Provide a clear definition of 'extraordinary circumstances' for councils seeking ministerial extensions to their legislative time frame for financial reporting.*

The department supports this recommendation and will investigate criteria that relates to what 'extraordinary circumstances' are in the context of extensions to councils' legislated deadlines for certifying financial statements, however the Minister will always retain discretion to ascertain what 'extraordinary circumstances' are and approve these requests.

Additionally, the department will write to the two councils that did not request an extension of time and remind them of this requirement under the *Local Government Act 2009*.

Recommendation 4: *Measure the effectiveness of training programs provided to councils.*

The department supports this recommendation in principle, noting that it is difficult to assess the effectiveness of individual training programs. As the local government sustainability framework is implemented, the effectiveness of the department's responses (including training) will be monitored and adjusted whilst continuing to evaluate individual training programs.

Recommendation 5: *Provide training on financial reporting processes and support councils to meet their reporting deadlines in times of need.*

The department supports this recommendation in principle noting that the LGFP provide regular webinars, with this included as a sector specific topic. This training, as well as assistance to engage financial reporting specialists, will be considered as part of a targeted responses implemented under the sustainability framework.

Recommendation 6: *Make sure all councils have an effective internal audit function.*

The department supports this recommendation and will write to each of the 14 councils identified in the report as not having an internal audit function to remind them of the requirements under the *Local Government Act 2009*.

Recommendation 7: *Develop a strategy to uplift capability of the sector on cyber-related.*

The department supports this recommendation and will work closely with the Queensland Government's Customer and Chief Digital Officer as the subject matter expert to deliver greater council awareness.

Recommendation 8: *Publish a framework to assess the sustainability risk of councils by 1 July 2023.*

The department supports this recommendation and is finalising the development of a proposed risk framework, which is proposed to be published in July 2023.

If you require any further information, please contact me or [redacted] who will be pleased to assist.

Yours sincerely

Mike Kaiser
Director-General

Page **2** of **2**

Comments received from Mayor, Moreton Bay Regional Council

Office of the Mayor
Cr Peter Flannery

T (07) 3480 6250
E mayor@moretonbay.qld.gov.au

13 June 2023

Mr Brendan Worrall
Auditor-General
Queensland Audit Office
PO Box 15396
CITY EAST QLD 4002

Via e-mail: qao@qao.qld.gov.au

Dear Auditor-General

DRAFT REPORT TO QUEENSLAND PARLIAMENT - LOCAL GOVERNMENT 2022

Thank you for providing your draft report and for the opportunity to respond.

A major driver for the Queensland Government to establish regional councils through amalgamation was in response to a growing concern about the financial sustainability of local government.

Over a decade after amalgamation the financial sustainability of the local government sector is still a concern.

While I am pleased that Moreton Bay Regional Council (Council) continues to be in a sound financial position, it is becoming increasingly difficult to respond to the needs of our communities and keep rates affordable. As noted in the draft report, increases in the cost of labour, materials and services have challenged all councils, including Moreton Bay.

To help address some of the challenges, I would like to see consideration be given to the following:

- Increasing grant funding opportunities which take into account:
    - The need to recognise the impacts of high growth in the Moreton Bay region and the infrastructure needs that this generates;
    - A recent report commissioned by Council which found that on a per capita basis Moreton Bay is consistently amongst the lowest funded LGAs compared to similar regions within SEQ;
    - The need to provide cashflow certainty for grants as opposed to a year-on-year process, specifically through allocative programs like Works for Queensland (State) or the Local Roads and Community Infrastructure (Federal) Programs;

Customer Service Contacts
PO Box 159 Caboolture QLD 4510 | **T** (07) 3205 0555
E mbrc@moretonbay.qld.gov.au | **W** www.moretonbay.qld.gov.au

Moreton Bay Regional Council

- 2 -

    - The decrease in its allocation of Financial Assistance Grants which Council had at a crucial time during the COVID response (one of 20 councils that received a reduced allocation as a result of the 2021 methodology review);
    - Three decades of decline in the value of Financial Assistance Grants as a proportion of total Commonwealth taxation revenue (from 1% to 0.5%); and
    - The delivery times for infrastructure grants which are becoming increasingly difficult to meet in the current market – often have cost increases that must be met by Council.
- The impact of the decreasing waste levy – was supposed to be cost neutral to residents but with rising construction, contract and labour costs, this is highly unlikely.

While I acknowledge the work being done to amend the financial sustainability framework, changing the approach to measuring financial sustainability does not effectively address the root cause of the risks around financial sustainability. Until councils are provided with a sustainable funding stream that keeps pace with total taxation revenue (80% collected by the Federal Government and 17% collected by the State Government), there will continue to be issues with the financial sustainability of the sector.

Yours sincerely

PETER FLANNERY
Mayor

Our ref: 67158243

cc: Scott Waters, Chief Executive Officer

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Moreton Bay Regional Council

Comments received from Acting Chief Executive Officer, Balonne Shire Council

For the People
Balonne Shire Council

When contacting Council please ask for:
Our Ref: MC:TL 627103

13 June 2023

Queensland Audit Office
53 Albert St
Brisbane QLD 4000

Dear

Re: Correspondence from the Auditor General

I refer to your email dated 24 May 2023 – Ref: PRJ03243 enclosing the draft report for Local Government and advise that Council has no comments or submission to add.

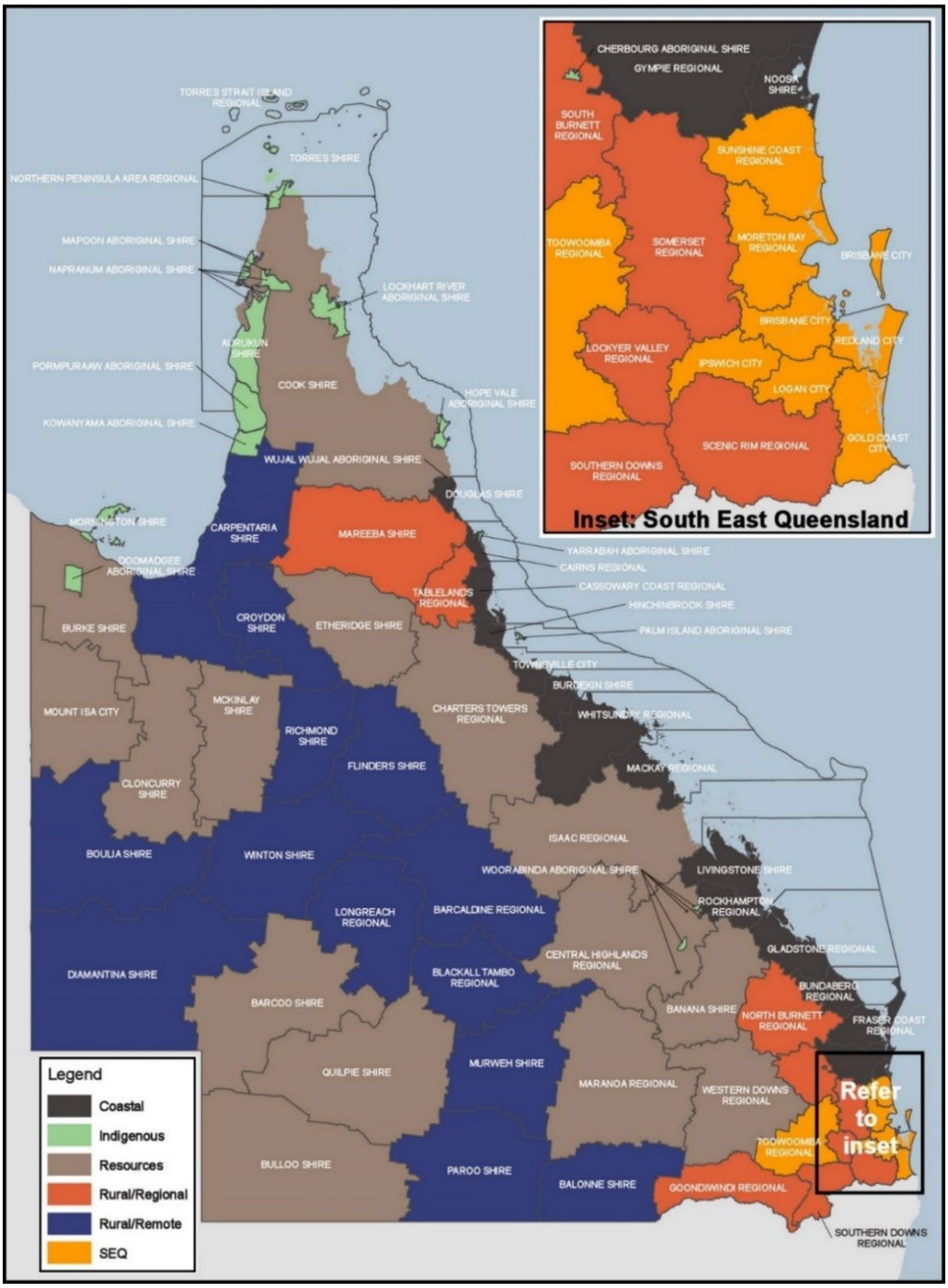
Yours faithfully,

Michelle Clarke
ACTING CHIEF EXECUTIVE OFFICER

BALONNE SHIRE COUNCIL A: 118 Victoria Street, St George, QLD 4487 (POSTAL) PO Box 201 St George, QLD 4487
P: 07 4620 8888 | F 07 4620 8889 | E council@balonne.qld.gov.au | W: www.balonne.qld.gov.au | ABN : 49 655 876 831

B. Local governments by segment

Figure B1
Geographical location – by local government segments



Note: SEQ – South East Queensland.

Source: Spatial Services, Department of State Development, Infrastructure, Local Government and Planning.

C. Legislative context

Frameworks

Under the *Constitution of Queensland 2001*, there must be a system of local government in Queensland that is made up of councils. Local governments (councils) are elected bodies that have the power to make local laws suitable to the needs and resources of the area they represent.

The councils' legislative framework is the *Local Government Act 2009* (the Act) and the Local Government Regulation 2012 (the regulation).

The purpose of the Act is to specify the nature and extent of local governments' responsibilities and powers. It requires the system of local government to be accountable, effective, efficient, and sustainable.

The regulation requires each council to prepare, by 31 October:

- general purpose financial statements
- a current year financial sustainability statement
- a long-term financial sustainability statement.

Only the general purpose financial statements and the current year financial sustainability statement are subject to audit.

Brisbane City Council has the *City of Brisbane Act 2010* and City of Brisbane Regulation 2012. This regulation imposes the same financial reporting time frames and financial reporting requirements on Brisbane City Council as other councils have.

Each council must release its annual report within one month of the audit opinion date. The minister for local government may grant an extension to the deadline where extraordinary circumstances exist.

The current year financial sustainability statement includes the following 3 measures of financial sustainability:

- the *operating surplus ratio*, which indicates the extent to which operating revenues cover operating expenses
- the *net financial liabilities ratio*, which indicates the extent to which a council's operating revenues can service its net liabilities while maintaining its assets and service levels
- the *asset sustainability ratio*, which approximates the extent to which a council is replacing its assets as they reach the end of their useful lives.

Accountability requirements

The Act requires councils to establish financial management systems to identify and manage financial risks, including risks to reliable and timely reporting. The performance of financial management systems requires regular review.

Queensland local government financial statements

These financial statements are used by a broad range of parties including parliamentarians, taxpayers, employees, and users of government services. For the statements to be useful, the information reported must be relevant and accurate.

The Auditor-General's audit opinion on these financial statements assures users they are accurate and in accordance with relevant legislative requirements.

We express an *unmodified opinion* when the financial statements are prepared in accordance with the relevant legislative requirements and Australian accounting standards. We *modify* our audit opinion when financial statements do not comply with the relevant legislative requirements and Australian accounting standards and are not accurate and reliable.

There are 3 types of modified opinions:

- qualified opinion – the financial statements as a whole comply with relevant accounting standards and legislative requirements, with the exceptions noted in the opinion
- adverse opinion – the financial statements as a whole do not comply with relevant accounting standards and legislative requirements
- disclaimer of opinion – the auditor is unable to express an opinion as to whether the financial statements comply with relevant accounting standards and legislative requirements.

Sometimes we include an *emphasis of matter* in our audit reports to highlight an issue that will help users better understand the financial statements. It does not change the audit opinion.

D. Status of recommendations from prior reports

The following tables provide the current status of the recommendations raised in our prior reports.

Figure D1
Status of recommendations for councils from *Local government 2021* (Report 15: 2021–22)

Reassess the maturity levels of their financial statement preparation processes in line with recent experience to identify improvement opportunities that will help facilitate early certification of financial statements		Further action needs to be taken*
REC 1	All councils should reassess their initial self-assessment against the financial statement maturity model and compare this to their recent financial statement preparation experiences. Councils should also reflect on their processes from the 2018–19 financial year that enabled them to have their financial statements certified earlier. Together, these reflections will identify improvement opportunities to assist elected members and their executives to improve the timeliness of certification of financial statements.	Most councils self-assessed their financial statement maturity level in the 2020–21 financial year, and this was reflective of their ability to generate timely financial statements. However, we found 22 councils self-assessed their maturity as high, but had their financial statements certified later. This suggested their self-assessment did not reflect actual practices. In the 2021–22 financial year, we focused on these 22 councils and found: • 11 did not complete the recommended reassessment of their maturity • 7 revised their maturity downwards after reassessing their maturity • 4 reassessed no change to their maturity level. We continue to encourage all councils to reassess the maturity of their financial statement processes. We are reviewing the maturity of councils' financial statement processes as part of our 2022–23 financial year audits to make sure they reflect their actual practices. We will report on the outcome in our *Local government 2023* report.
Assess their audit committees against the actions in our 2020–21 audit committee report		**Further action needs to be taken***
REC 2	Those councils who have an audit committee function, and those that are looking to establish one, should consider implementing the actions we have identified in our report *Effectiveness of audit committees in state government entities* (Report 2: 2020–21). This would improve the effectiveness of their audit committees, with flow-on benefits to council governance and performance.	We are aware of some councils that have assessed their audit committee against the actions we identified. Those councils that have not had an opportunity to do so should complete their assessment in the 2023–24 financial year.

Improve their overall control environment		Further action needs to be taken*
REC 3	All councils should use the annual internal control assessment tool available on our website to perform an initial self-assessment of the strengths and improvement opportunities of their internal controls. Where their results do not meet their performance expectations, they should develop and implement a plan to strengthen their internal controls over a specific period.	We are aware of some councils that have assessed their control environment against the internal control assessment tool. Those councils that have not had an opportunity to do so should complete their assessment in the 2023–24 financial year.
Asset management plans to include councils' planned spending on capital projects		**Further action needs to be taken***
REC 4	All councils should review their asset management plans to confirm that these plans include the proposed timing and cost of their capital projects, including the cost of maintaining these assets over their whole lives. This would help councils identify their future funding needs and provide better information to the department on the timing of capital funding sought by councils.	Some councils who have good asset data have incorporated their planned spending on capital projects into their asset management plans. We recommend councils who have not yet had an opportunity to review their asset management plan, do so in the 2023–24 financial year.
Review the asset consumption ratio in preparation for the new sustainability framework. Assess whether the actual usage of assets is in line with the asset management plan		**Further action needs to be taken***
REC 5	All councils should review their asset consumption ratio in preparation for the new sustainability framework to assess whether they are in line with the proposed benchmark. This ratio would inform councils whether their assets have been used in line with their asset management plans. Any variance between the expected and actual usage may either result in additional maintenance to improve the service levels of their assets or to reassess their expectation about asset usage.	Seven councils have improved their asset consumption ratio. However, there are 44 councils that have experienced a decline in this ratio. Of these 44 councils, 9 either do not meet the proposed benchmark (60 per cent) or are very close to not meeting the proposed benchmark in the next few years if they do not maintain their assets appropriately. We continue to recommend that councils monitor their asset consumption ratio and take steps to improve it. This will make sure their assets are maintained at an appropriate level to meet the future needs of their communities.

Enhance their liquidity management by reporting their unrestricted cash expense ratio and their unrestricted cash balance in monthly financial reports		Further action needs to be taken*
REC 6	All councils should enhance their liquidity management by reporting their unrestricted cash expense ratio and their unrestricted cash balance in the monthly financial reports they table in council meetings.	We are aware of some of councils that are reporting their unrestricted cash expense ratio and their unrestricted cash balance in the monthly financial reports they table in council meetings. Those councils that do not report their unrestricted cash expense ratio and their unrestricted cash balance in their monthly financial reports tabled in council meetings should start to do so.

Note: *Refer to recommendation status definitions later in this appendix.

Source: Queensland Audit Office.

Figure D2
Status of recommendations for councils from *Local government 2020* (Report 17: 2020–21)

Improve financial reporting by strengthening month-end and year-end financial reporting processes		Further action needs to be taken*
REC 1	Councils should strengthen their month-end and year-end processes to assist with timely and accurate monthly internal financial reporting and their annual financial statements. We recommend all councils use their recent financial statement preparation experiences to perform an initial self-assessment against the maturity model available on our website.	We continue to find that month-end processes at councils are ineffective. This year, we identified 84 new deficiencies where improvements were required to ensure timely and reliable month-end and year-end reporting. In addition, 54 councils had at least one deficiency in their month-end and year-end reporting processes. We continue to recommend that councils improve their month-end processes.
Improve valuation and asset management practices		**Further action needs to be taken***
REC 2	• Councils need to engage with asset valuers early to complete the valuation of assets well before year end. • Councils need to use accurate information in their long-term asset management strategies and budget decisions. • Councils need to regularly match the asset data in their financial records to the asset data in their engineering/geographic information systems to ensure it is complete and reliable.	We continue to identify issues with the asset management policies and practices of councils. Councils also still need to improve processes for asset valuations. We observed several councils that did not meet their legislative deadlines because of errors and delays in asset valuations. In line with these findings, we continue to recommend that councils strengthen their asset management policies and practices.

Strengthen security of information systems		**Further action needs to be taken***
REC 3	We recommend all councils strengthen the security of their information systems. Councils rely heavily on technology, and increasingly, they need to be prepared for cyber attacks. Any unauthorised access could result in fraud or error, and significant reputational damage. Councils' workplace culture, through their people and processes, must emphasise strong security practices to provide a foundation for the security of information systems. All entities across the local government sector should: • provide security training for employees so they understand the importance of maintaining strong information systems, and their roles in keeping them secure • assign employees only the minimum access required to perform their job, and ensure important stages of each process are not performed by the same person • regularly review user access to ensure it remains appropriate • monitor activities performed by employees with privileged access (allowing them to access sensitive data and create and configure within the system) to ensure they are appropriately approved • implement strong password practices and multifactor authentication (for example, a username and password, plus a code sent to a mobile), particularly for systems that record sensitive information • encrypt sensitive information to protect it • patch vulnerabilities in systems in a timely manner, as upgrades and solutions are made available by software providers to address known security weaknesses that could be exploited by external parties. Councils should also self-assess against all of the recommendations in our report – *Managing cyber security risks* (Report 3: 2019–20) – to ensure their systems are appropriately secured.	We continue to identify weaknesses in information systems controls, particularly regarding user access permissions. This year, we identified 63 new internal control issues in information systems. There are 48 councils who still have at least one unresolved deficiency in their information systems. The recommendation to strengthen the security of information systems remains.

Improve risk management processes		Further action needs to be taken*
REC 4	Councils should have a complete and up to date risk management framework including: • comprehensive risk registers that identify risks (including the risk of fraud) and appropriate risk mitigation strategies • current and relevant business continuity and disaster recovery plans. These plans should be tested periodically.	This year, 25 councils did not have adequate risk management processes in place. This is up from 22 councils in 2020–21 and is almost a third of the sector. This recommendation remains.
Enhance procurement and contract management practices		**Further action needs to be taken***
REC 5	• Councils need to ensure they obtain value for money for the goods and services they procure and that they have the appropriate approvals to procure the goods and services. • To effectively manage their contractual obligations, councils should ensure their contract registers are complete and contain up to date information.	We have identified issues relating to procurement and contract management practices at 34 councils this year. This is more than the 29 councils with these issues in 2020–21. Councils have not actioned this recommendation and still need to do so. To help councils improve their procurement and contract management practices, in this report we have made a further recommendation. This is for councils to assess the maturity of their procurement and contract management processes using our procure-to-pay maturity model. This will assist councils in identifying opportunities to strengthen their procurement and contract management practices.

Note: *Refer to recommendation status definitions later in this appendix.

Source: Queensland Audit Office.

Figure D3
Status of recommendations for councils from
***Local government entities: 2018–19 results of financial audits* (Report 13: 2019–20)**

Audit committees	**Further action needs to be taken***
• All councils should have an audit committee with an independent chair. • All audit committee members must understand their roles and responsibilities and the risks the committee needs to monitor. • Audit committees must hold management accountable for ensuring timely remedial actions are taken on audit issues. All extensions of agreed time frames for remedial action require consideration by the audit committee, including management's risk mitigation strategies, until remedial action is completed.	As at 30 June 2022, there were still 15 councils (30 June 2021: 15 councils) that did not have an audit committee. Councils without an effective audit committee have 55 significant deficiencies that have been unresolved for more than 12 months (68 per cent of the sector). We continue to recommend these councils establish an independent audit committee with appropriately qualified committee members.
Internal audit	**Further action needs to be taken***
• All councils must establish and maintain an effective and efficient internal audit function, as required by the *Local Government Act 2009*.	As at 30 June 2022, there were 7 councils (30 June 2021: 6 councils) that still did not have an internal audit function. In addition, 7 councils (30 June 2021: 6 councils) that had an internal audit function established at 30 June 2022 did not have any audit activity during the 2021–22 financial year. We continue to recommend these councils establish an effective internal audit function as required by the *Local Government Act 2009*. This year we have also recommended the department educate councils about the legislated requirement and the benefit of an effective internal audit function, and regularly monitor their compliance.
Secure employee and supplier information	**Further action needs to be taken***
• Councils must verify changes to employee and supplier bank account details through sources independent of the change request. • Councils need to ensure information systems are secure to prevent unauthorised access that may result in fraud or error. Security measures could include encryption of information, restriction of user access, regular monitoring by management, and appropriate segregation of duties.	We continue to find deficiencies at councils with regards to securing employee and supplier information. Similarly, we continue to find weaknesses with information systems security. In line with these findings, we continue to recommend councils secure their employee and supplier information.

<table>
<tr><th>Conduct mandatory cyber security awareness training</th><th>Further action needs to be taken*</th></tr>
<tr><td>Councils need to develop and implement mandatory cyber security awareness training for all staff, to be completed during induction and at regular periods during employment. This should include:
• delivering targeted training to higher-risk user groups, such as senior management, staff who have access to sensitive data, software developers, system administrators, and third-party providers
• recording and monitoring whether all staff have completed their required cyber security awareness training
• conducting campaigns to test the adequacy of staff vigilance to risks, such as phishing (fraudulent emails) and tailgating (following a person into an office), so entities can assess and improve their awareness programs.</td><td>As at 30 June 2021, 20 councils had not provided cyber security awareness training to their employees.
We understand there has been minimal progress by councils in 2022 to upskill their staff and equip them with the necessary training and continuous education about cyber security.
We continue to recommend that all councils provide cyber security awareness training to their new and current employees.</td></tr>
</table>

Note: *Refer to recommendation status definitions later in this appendix.

Source: Queensland Audit Office.

Figure D4
Status of recommendations for the department from *Local government 2020* (Report 17: 2020–21)

Require all councils to establish audit committees		Not implemented – Recommendation accepted*
REC 6	We continue to recommend that the department requires all councils to establish an audit committee and ensures that each chairperson of the committee is independent of council and management. In light of the difficulties some councils have faced with internal control weaknesses, fraud, ransomware, and achieving financial sustainability, this is more important now than ever.	The proposal continues to be considered by the department but has not yet been progressed.
Make changes to sustainability ratios		**Implemented***
REC 7	We recommend the department develops new financial sustainability ratios for Queensland councils. In developing these ratios and associated targets, we recommend the department considers the different sizes, services, and circumstances of the various councils. We also recommend that new financial sustainability ratios be established in time for the year ending 30 June 2022.	The department has developed a new framework that is expected to be implemented for the 2023–24 financial year.
Provide greater certainty over long-term funding		**Partially implemented***
REC 8	We recommend the department reviews its current funding model to identify opportunities to provide funding certainty to councils beyond one financial year. A 3-year to 5-year funding model would assist councils, especially those heavily reliant on grants, to develop and implement more sustainable medium- to long-term plans.	The department has partially implemented this, and some grants in the 2020–21 year were multi-year grants. The department is looking at extending long-term funding options for other grant programs in the coming years.
Provide training to councillors and senior leadership teams around financial governance		**Partially implemented***
REC 9	We recommend the department provides periodic training to councillors and senior leadership teams for councils that are highly reliant on grants. The training should focus on helping these councils: • establish strong leadership and governance • enhance internal controls and oversight • improve financial sustainability in the long term.	The department has made online training available to councillors and council employees. This training includes modules about accountability, decision-making, and other responsibilities. The department also delivered a series of financial management workshops for elected local government members covering financial governance and management concepts.

Note: *Refer to recommendation status definitions later in this appendix.

Source: Queensland Audit Office.

Recommendation status definitions

If a recommendation is specific to an entity, we have reported on the action that entity has taken and whether the issue is *fully implemented*, *partially implemented, not implemented*, or *no longer applicable*.

Status		Definition
Fully implemented	Recommendation has been implemented, or alternative action has been taken that addresses the underlying issues and no further action is required. Any further actions are business as usual.	
Partially implemented	Significant progress has been made in implementing the recommendation or taking alternative action, but further work is required before it can be considered business as usual. This also includes where the action taken was less extensive than recommended, as it only addressed some of the underlying issues that led to the recommendation.	
Not implemented	**Recommendation accepted**	No or minimal actions have been taken to implement the recommendation, or the action taken does not address the underlying issues that led to the recommendation.
	Recommendation not accepted	The entity did not accept the recommendation.
No longer applicable	Circumstances have fundamentally changed, making the recommendation no longer applicable. For example, a change in government policy or program has meant the recommendation is no longer relevant.	

If a general recommendation was made for all entities to consider, we have assessed action on issues reported to specific entities in the prior year, as well as any further issues identified in the current year. On this basis, we have determined whether *appropriate action has been taken* across the sector, or if *further action needs to be taken* to address the risk identified.

Status	Definition
Appropriate action has been taken	Recommendations made to individual entities have been implemented, or alternative action has been taken that addresses the underlying issues, and no further action is required. No new issues have been identified across the sector that indicate an ongoing underlying risk to the sector that requires reporting to parliament.
Further action needs to be taken	Recommendations made to individual entities have not been fully implemented, and/or new recommendations have been made to individual entities, indicating further action is required by entities in the sector to address the underlying risk.

E. Audit opinions for entities preparing financial reports

The following figures detail the types of audit opinions we issued, in accordance with Australian auditing standards, for the 2021–22 financial year.

Figure E1
Our audit opinions for local government sector financial reports for 2021–22

Entity	Date opinion issued	Financial statement opinion	Current year sustainability statement opinion[1]	Ministerial extension issued to date[2]
Opinion key: U = unmodified; Q = qualified; E = emphasis of matter. (Refer to Appendix C for definitions of these terms.)				
Councils and their controlled entities				
Aurukun Shire Council	12.10.2022	U	E*	-
Balonne Shire Council	28.10.2022	U	E*	-
Banana Shire Council	31.10.2022	U	E*	-
Barcaldine Regional Council	31.10.2022	U	E*	-
Barcoo Shire Council	19.10.2022	U	E*	-
Blackall-Tambo Regional Council	31.10.2022	U	E*	-
Boulia Shire Council	12.12.2022	U	E*	31.12.2022
Brisbane City Council	15.08.2022	U	E*	-
• Allara SPV Trust	29.07.2022	E*	-	-
• Brisbane City Council Appeal for the Lord Mayor's Charitable Trust	20.09.2022	E*	-	-
• Brisbane Economic Development Agency Pty Ltd	27.09.2022	U	-	-
• Brisbane Powerhouse Foundation	05.10.2022	U	-	-
• Brisbane Powerhouse Pty Ltd	05.10.2022	U	-	-
• Brisbane Sustainability Agency Pty Ltd	28.10.2022	U	-	-
• City of Brisbane Investment Corporation Pty Ltd	01.08.2022	U	-	-
• City Parklands Services Pty Ltd	27.09.2022	U	-	-
• Museum of Brisbane Pty Ltd	25.10.2022	U	-	-
• Museum of Brisbane Trust	25.10.2022	E*	-	-
• Oxley Creek Transformation Pty Ltd	28.10.2022	E[3]	-	-
• TradeCoast Land Pty Ltd	17.11.2022	E[3]	-	-
Bulloo Shire Council	31.10.2022	U	E*	-
Bundaberg Regional Council	07.10.2022	U	E*	-
Burdekin Shire Council	08.09.2022	U	E*	-
Burke Shire Council	31.10.2022	U	E*	-

Entity	Date opinion issued	Financial statement opinion	Current year sustainability statement opinion[1]	Ministerial extension issued to date[2]
Opinion key:				
U = unmodified; Q = qualified; E = emphasis of matter. (Refer to Appendix C for definitions of these terms.)				
Councils and their controlled entities				
Cairns Regional Council	16.09.2022	U	E*	-
• Cairns Art Gallery Limited	14.11.2022	U	-	-
Carpentaria Shire Council	31.10.2022	U	E*	-
Cassowary Coast Regional Council	14.10.2022	U	E*	-
Central Highlands Regional Council	31.10.2022	U	E*	-
• Central Highlands (Qld) Housing Company Limited	Not Complete	-	-	-
• Central Highlands Development Corporation Ltd	31.10.2022	U	-	-
Charters Towers Regional Council	31.10.2022	U	E*	-
Cherbourg Aboriginal Shire Council	21.10.2022	U	E*	-
Cloncurry Shire Council	25.01.2023	U	E*	-
Cook Shire Council	13.10.2022	U	E*	-
Council of the City of Gold Coast	29.09.2022	U	E*	-
• HOTA Gold Coast Pty Ltd	06.10.2022	U	-	-
• Major Events Gold Coast Pty Ltd	20.09.2022	U	-	-
Croydon Shire Council	17.11.2022	U	E*	-
Diamantina Shire Council	31.10.2022	U	E*	-
Doomadgee Aboriginal Shire Council	31.10.2022	U	E*	-
Douglas Shire Council	12.10.2022	U	E*	-
Etheridge Shire Council	14.12.2022	U	E*	30.11.2022
Flinders Shire Council	27.10.2022	U	E*	-
Fraser Coast Regional Council	29.09.2022	U	E*	-
• Fraser Coast Tourism & Events Ltd	15.12.2022	E*	-	-
Gladstone Regional Council	28.10.2022	U	E*	-
• Gladstone Airport Corporation	11.10.2022	U	-	-
Goondiwindi Regional Council	21.09.2022	U	E*	-
Gympie Regional Council	06.03.2023	U	E*	28.02.2023
• Rattler Railway Company Ltd	16.12.2022	E[4]	-	-
Hinchinbrook Shire Council	31.10.2022	U	E*	-
Hope Vale Aboriginal Shire Council	29.07.2022	U	E*	-
Ipswich City Council	28.10.2022	U	E*	-
• Cherish the Environment Foundation Ltd	Not Complete	-	-	-
• Ipswich Arts Foundation Trust	28.11.2022	U	-	-
• Ipswich City Enterprises Investments Pty Ltd	08.11.2022	E[5]	-	-
• Ipswich City Enterprises Pty Ltd	08.11.2022	E[5]	-	-
Isaac Regional Council	28.10.2022	U	E*	-
• Isaac Affordable Housing Fund Pty Ltd	15.12.2022	E*	-	-

Entity	Date opinion issued	Financial statement opinion	Current year sustainability statement opinion[1]	Ministerial extension issued to date[2]
Opinion key:				
U = unmodified; Q = qualified; E = emphasis of matter. (Refer to Appendix C for definitions of these terms.)				
Councils and their controlled entities				
• Isaac Affordable Housing Trust	15.12.2022	E*	-	-
• Moranbah Early Learning Centre Pty Ltd	14.12.2022	E*	-	-
Kowanyama Aboriginal Shire Council	11.10.2022	U	E*	-
Livingstone Shire Council	31.10.2022	U	E*	-
Lockhart River Aboriginal Shire Council	31.10.2022	U	E*	-
• Lockhart River Aerodrome Company Pty Ltd	31.10.2022	U	-	-
Lockyer Valley Regional Council	16.12.2022	U	E*	31.12.2022
Logan City Council	14.09.2022	U	E*	-
• Invest Logan Pty Ltd	30.08.2022	U	-	-
Longreach Regional Council	27.10.2022	U	E*	-
Mackay Regional Council	10.10.2022	U	E*	-
• Mackay Region Enterprises Pty Ltd	Not Complete	-	-	-
Mapoon Aboriginal Shire Council	31.10.2022	U	E*	-
Maranoa Regional Council	18.10.2022	U	E*	-
Mareeba Shire Council	05.10.2022	U	E*	-
McKinlay Shire Council	13.10.2022	U	E*	-
Moreton Bay Regional Council	12.10.2022	U	E*	-
• Millovate Pty Ltd	28.10.2022	U	-	-
Mornington Shire Council	Not Complete	-	-	30.06.2023
Mount Isa City Council	24.10.2022	U	E*	-
• Mount Isa City Council Owned Enterprises Pty Ltd	19.10.2022	U	-	-
Murweh Shire Council	24.10.2022	U	E*	-
Napranum Aboriginal Shire Council	25.10.2022	U	E*	-
Noosa Shire Council	26.10.2022	U	E*	-
North Burnett Regional Council	16.03.2023	U	E*	30.11.2022
Northern Peninsula Area Regional Council	Not Complete	-	-	28.02.2023
Palm Island Aboriginal Shire Council	Not Complete	-	-	30.05.2023
Paroo Shire Council	28.10.2022	U	E*	-
Pormpuraaw Aboriginal Shire Council	08.09.2022	U	E*	-
Quilpie Shire Council	31.10.2022	U	E*	-
Redland City Council	19.09.2022	U	E*	-
• Redland Investment Corporation Pty Ltd	27.09.2022	U	-	-
Richmond Shire Council	24.04.2023	E[6]	E*	16.12.2022
• The Kronosaurus Korner Board Inc	27.09.2022	E*	-	-
Rockhampton Regional Council	13.10.2022	U	E*	-
Scenic Rim Regional Council	07.10.2022	U	E*	-

Entity	Date opinion issued	Financial statement opinion	Current year sustainability statement opinion[1]	Ministerial extension issued to date[2]
Opinion key: U = unmodified; Q = qualified; E = emphasis of matter. (Refer to Appendix C for definitions of these terms.)				
Councils and their controlled entities				
Somerset Regional Council	11.10.2022	U	E*	-
South Burnett Regional Council	13.10.2022	U	E*	-
• South Burnett Community Hospital Foundation Limited	21.04.2023	U	-	-
Southern Downs Regional Council	18.10.2022	U	E*	-
Sunshine Coast Regional Council	10.10.2022	U	E*	-
• SunCentral Maroochydore Pty Ltd	21.09.2022	U	-	-
• Sunshine Coast Arts Foundation Ltd	20.09.2022	U	-	-
Tablelands Regional Council	31.10.2022	U	E*	-
Toowoomba Regional Council	30.09.2022	U	E*	-
• Empire Theatre Projects Pty Ltd	29.09.2022	E[7]	-	-
• Empire Theatres Foundation	29.09.2022	U	-	-
• Empire Theatres Pty Ltd	29.09.2022	U	-	-
• Jondaryan Woolshed Pty Ltd	29.09.2022	E[7]	-	-
• Toowoomba and Surat Basin Enterprise Pty Ltd	19.09.2022	U	-	-
Torres Shire Council	31.10.2022	U	E*	-
Torres Strait Island Regional Council	19.09.2022	U	E*	-
Townsville City Council	05.10.2022	U	E*	-
Western Downs Regional Council	14.10.2022	U	E*	-
Whitsunday Regional Council	17.08.2022	U	E*	-
Winton Shire Council	14.10.2022	U	E*	-
• Waltzing Matilda Centre Ltd	18.10.2022	U	-	-
Woorabinda Aboriginal Shire Council	Not Complete	-	-	31.03.2023
• Woorabinda Pastoral Company Pty Ltd	Not Complete	-	-	-
Wujal Wujal Aboriginal Shire Council	26.10.2022	E[8]	E*	-
Yarrabah Aboriginal Shire Council	13.10.2022	U	E*	-

Entity	Date opinion issued	Financial statement opinion	Current year sustainability statement opinion[1]	Ministerial extension issued to date[2]
Opinion key:				
U = unmodified; Q = qualified; E = emphasis of matter. (Refer to Appendix C for definitions of these terms.)				
Councils and their controlled entities				
By-arrangements audits[9]				
City of Logan Mayor's Charity Trust	16.06.2023	E*	-	-
The Josephine Ulrick and Win Schubert Foundation for the Arts	21.10.2022	E*	-	-

Notes:

* An emphasis of matter was issued to alert users of the statements to the fact that special purpose financial statements had been prepared.

1 Only councils prepare sustainability statements (not local government-related entities).

2 Ministerial extensions may only be obtained for councils (not local government-related entities).

3 We included an emphasis of matter in our audit reports for Oxley Creek Transformation Pty Ltd and TradeCoast Land Pty Ltd to alert users of the statements that these entities had ceased trading and would be wound up in future.

4 We included an emphasis of matter in our audit report for Rattler Railway Company Ltd to alert users of the statements that the company's liabilities are higher than its assets. The company also plans to stop being a controlled entity of Gympie Regional Council.

5 We included an emphasis of matter in our audit reports for Ipswich City Enterprises Investments Pty Ltd and Ipswich City Enterprises Pty Ltd to alert users that the director for each entity intends to deregister the companies and transfer operations to their parent entity, Ipswich City Council.

6 We included an emphasis of matter in our audit report for Richmond Shire Council to highlight that a material change was required to the previous financial statements certified 6 March 2023, and they have been replaced by the version certified 24 April 2023.

7 We included an emphasis of matter in our audit reports for Empire Theatres Projects Pty Ltd and Jondaryan Woolshed Pty Ltd because the operations of these entities have been transferred to their parent entities (Empire Theatres Pty Ltd and Toowoomba Regional Council) and they will be wound up.

8 We included an emphasis of matter in our audit report for Wujal Wujal Aboriginal Shire Council to highlight uncertainty over its ability to repay its debts as and when they arise.

9 Where asked by a minister or public sector entity, and where the Auditor-General considers there is public interest, a financial audit of non-public sector entities may be performed 'by arrangement'.

Source: Queensland Audit Office.

The following figure details the types of audit opinions issued in accordance with Australian auditing standards for the 2021–22 financial year, for jointly controlled entities (entities controlled by multiple councils and other public sector entities).

Figure E2
Our audit opinions for jointly controlled entities' financial reports for 2021–22

Entity	Date audit opinion issued	Type of audit opinion issued
Opinion key: **U = unmodified; Q = qualified; E = emphasis of matter. (Refer to Appendix C for definitions of these terms.)**		
Central Western Queensland Remote Area Planning and Development Board (RAPAD)	12.12.2022	E*
Council of Mayors (SEQ) Pty Ltd	16.12.2022	U
Local Government Association of Queensland Ltd	04.10.2022	U
• Local Buy Trading Trust	04.10.2022	Q[1]
• Peak Services Legal Pty Ltd	04.10.2022	U
• Peak Services Holdings Pty Ltd	04.10.2022	E[2]
• Peak Services Pty Ltd	04.10.2022	E[2]
Major Brisbane Festivals Pty Ltd[3]	28.04.2023	E*
Queensland Local Government Mutual Liability Pool (LGM Queensland)	29.11.2022	U
Queensland Local Government Workers Compensation Self-Insurance Scheme (trading as Local Government Workcare)	30.11.2022	U
SEQ Regional Recreational Facilities Pty Ltd	16.12.2022	U
South West Queensland Regional Organisation of Councils Inc	15.12.2022	E*
Townsville Breakwater Entertainment Centre Joint Venture	02.05.2023	E[4]
Western Queensland Local Government Association	Not Complete	-

Notes:

* An emphasis of matter was issued to alert users of the statements to the fact that special purpose financial statements had been prepared.

1 We qualified our audit opinion for Local Buy Trading Trust because it was unable to provide us with enough evidence to confirm its revenue was complete. We also qualified our 2020–21 audit opinion for the same reason.

2 We included an emphasis of matter in our audit opinions for Peak Services Holdings Pty Ltd and Peak Services Pty Ltd to alert users of the financial statements of the entities' financial dependence on their ultimate parent, the Local Government Association of Queensland Ltd.

3 The financial year of Major Brisbane Festivals Pty Ltd was 1 January 2022 to 31 December 2022. The 2022 audit opinion has therefore not yet been issued.

4 We included an emphasis of matter in our audit report for Townsville Breakwater Entertainment Centre Joint Venture to highlight the net loss made by the entity.

Source: Queensland Audit Office.

F. Entities exempt from audit by the Auditor-General

We will not issue opinions on several entities because they are exempt from audit by the Auditor-General. The following table lists the entities, grouped by the reasons for the exemptions.

Figure F1
Entities exempt from audit by the Auditor-General

Entity	Audit firm who performs the audit	Date opinion issued	Opinion
Opinion key: **U = unmodified; Q = qualified; E = emphasis of matter. (Refer to Appendix C for definitions of these terms.)**			
Exempt local government entities – small in size and of low risk (s.30A of the *Auditor-General Act 2009*)			
Drive Inland Promotions Association Inc	Whitehouse Audit	14.10.2022	E*
Far North Queensland Regional Organisation of Councils	Halpin Partners Accountants	18.10.2022	E*
Gulf Savannah Development Inc	Rekenen Pty Ltd	04.11.2022	E*, E[1]
North West Queensland Regional Organisation of Councils	Rekenen Pty Ltd	30.09.2022	E*
Regional Queensland Council of Mayors Inc[2]	SBB Partners	17.10.2022	E*
South West Regional Economic Development Association	FTA Accountants	Not complete	-
Torres Cape Indigenous Council Alliance (TCICA) Inc	Grant Thornton Audit Pty Ltd	15.11.2022	E*
Whitsunday ROC Limited	SBB Partners	Not complete	-
Wide Bay Burnett Regional Organisation of Councils Inc	All Income Tax	14.03.2023	E*
Exempt local government entities – foreign-based controlled entities (s.32 of the *Auditor-General Act 2009*)			
Gold Coast City Council Insurance Company Limited	PricewaterhouseCoopers CI LLP	25.08.2022	U

Notes:

* An emphasis of matter was issued to alert users of the financial statements to the fact that special purpose financial statements had been prepared.

1 The auditor included an emphasis of matter in their audit report because Gulf Savannah Development Inc was not able to support a key account balance recorded in its financial statements.

2 Northern Alliance of Councils Inc changed its name to Regional Queensland Council of Mayors Inc. The financial statements of the Regional Queensland Council of Mayors Inc were for the period 1 April 2021 to 31 March 2022.

Source: Queensland Audit Office.

G. Local government entities for which we will not issue opinions

The Auditor-General will not issue audit opinions for the following public sector entities for the 2021–22 financial year, because they have not produced a financial report.

Figure G1
Entities for which no opinions are issued

Entity	Parent entity	Reason
	Controlled entities	
Brisbane Tolling Pty Ltd	Brisbane City Council	Dormant
BrisDev Trust	Brisbane City Council	Wound up
CBIC Allara Pty Ltd	Brisbane City Council	Dormant
City Super Pty Ltd	Brisbane City Council	Wound up
OC Invest Pty Ltd	Brisbane City Council	Dormant
Riverfestival Brisbane Pty Ltd	Brisbane City Council	Dormant
CBIC Investment Pty Ltd	City of Brisbane Investment Corporation Pty Ltd	Dormant
CBIC Valley Heart Pty Ltd	City of Brisbane Investment Corporation Pty Ltd	Dormant
Cairns Art Gallery Foundation Limited	Cairns Regional Council	No longer a public sector entity[1]
Cairns Regional Art Gallery Trust	Cairns Regional Council	No longer a public sector entity[1]
HOTA Services Gold Coast Pty Ltd	HOTA Gold Coast Pty Ltd	Non-reporting[2]
IA Foundation Ltd	Ipswich City Council	Dormant
YSB Pty Ltd	Invest Logan Pty Ltd	Wound up
Artspace Mackay Foundation	Mackay Regional Council	Wound up
Artspace Mackay Foundation Ltd	Mackay Regional Council	Wound up
Mundalbe Enterprises Ltd	Mornington Shire Council	Wound up
Outback @ Isa Pty Ltd	Mount Isa City Council	Dormant
Palm Island Community Company Limited	Palm Island Aboriginal Shire Council	No longer a public sector entity[3]
Palm Island Economic Development Corporation Pty Ltd	Palm Island Aboriginal Shire Council	Dormant
Redheart Pty Ltd	Redland City Council	Dormant
Cleveland Plaza Pty Ltd	Redland Investment Corporation Pty Ltd	Non-reporting[4]
Redland Developments Pty Ltd	Redland Investment Corporation Pty Ltd	Non-reporting[4]
RIC Toondah Pty Ltd	Redland Investment Corporation Pty Ltd	Non-reporting[4]
Sunshine Coast Events Centre Pty Ltd	Sunshine Coast Regional Council	Non-reporting[5]
Toowoomba and Surat Basin Enterprise Development Fund Limited	Toowoomba and Surat Basin Enterprise Pty Ltd	Dormant
Empire Theatres Foundation Ltd	Toowoomba Regional Council	Dormant
NQ Spark Pty Ltd	Townsville City Council	Non-reporting[6]

Entity	Parent entity	Reason
Whitsunday Coast Airport and Infrastructure Pty Ltd	Whitsunday Regional Council	Dormant
Winton Community Association Inc	Winton Shire Council	Dormant
	Jointly controlled entities	
Brisbane Festival Limited	Major Brisbane Festivals Pty Ltd	Dormant
QPG Shared Services Support Centres Joint Venture	Local Government Association of Queensland Ltd	Dormant[7]
LG Cloud Pty Ltd	Local Government Association of Queensland Ltd	Wound up
LG Disaster Recovery Services Pty Ltd	Local Government Association of Queensland Ltd	Wound up
Local Buy Pty Ltd	Local Government Association of Queensland Ltd	Dormant
Prevwood Pty Ltd	Local Government Association of Queensland Ltd	Dormant[7]
Queensland Partnerships Group (LG Shared Services) Pty Ltd	Local Government Association of Queensland Ltd	Dormant[7]
South West Queensland Local Government Association	Multiple entities	Dormant[8]

Notes:

1 Cairns Art Gallery Foundation Limited and Cairns Regional Art Gallery Trust ceased being controlled entities of Cairns Regional Council.

2 The transactions of HOTA Services Gold Coast Pty Ltd have been consolidated in the financial statements of HOTA Gold Coast Pty Ltd.

3 Palm Island Community Company Limited ceased being a controlled entity of Palm Island Aboriginal Council.

4 The transactions of Cleveland Plaza Pty Ltd, Redland Developments Pty Ltd, and RIC Toondah Pty Ltd have been consolidated in the financial statements of Redland Investment Corporation Pty Ltd.

5 The transactions of Sunshine Coast Events Centre Pty Ltd have been consolidated into the financial statements of Sunshine Coast Regional Council.

6 NQ Spark Pty Ltd was established in May 2022. The company will prepare its financial statements for the period 1 May 2022 to 30 June 2023. Its transactions for the 2021–22 financial year were consolidated into Townsville City Council.

7 QPG Shared Services Support Centres Joint Venture has been deregistered on 23 February 2023. Prevwood Pty Ltd and Queensland Partnerships Group (LG Shared Services) Pty Ltd are in the process of being deregistered.

8 Following the creation of South West Queensland Regional Organisation of Councils, South West Queensland Local Government Association is no longer operating and is in the process of being wound up.

Source: Queensland Audit Office.

H. Audit opinions issued for prior financial years

The following table contains the audit opinions issued for prior financial years that were not finalised when we issued *Local government 2021* (Report 15: 2021–22).

Figure H1
Audit opinions issued for prior financial years

Entity	Date opinion issued	Opinion
Opinion key: **U = unmodified; Q = qualified; E = emphasis of matter. (Refer to Appendix C for the definitions of these terms.)**		
Financial statements from 2020–21 financial year – Councils		
Palm Island Aboriginal Shire Council	Not complete	-
Richmond Shire Council	5.09.2022	U
Financial sustainability statements from 2020–21 financial year – Councils		
Palm Island Aboriginal Shire Council	Not complete	-
Richmond Shire Council	5.09.2022	U
Financial statements from 2020–21 financial year – Controlled entities		
Cherish the Environment Foundation Ltd (controlled entity of Ipswich City Council)	18.10.2022	U
The Kronosaurus Korner Board Inc	5.09.2022	E*
Financial statements from 2020–21 financial year – Jointly controlled entities		
Central Western Queensland Remote Area Planning and Development Board (RAPAD)	9.08.2022	E*
Western Queensland Local Government Association	26.08.2022	E*, E[1]
Financial statements from 2019–20 financial year – Jointly controlled entities		
Western Queensland Local Government Association	26.08.2022	E*, E[1]
Financial statements from 2020–21 financial year – Entities exempt from audit by the Auditor-General		
Whitsunday ROC Limited (opinion issued by SBB Partners)	26.05.2022	E*
Wide Bay Burnett Regional Organisation of Councils Inc (opinion issued by All Income Tax)	21.04.2022	E*

Notes:

* An emphasis of matter was issued to alert users of these statements that they have been prepared using a special purpose basis.

1 We included an emphasis of matter in our audit opinions for Western Queensland Local Government Association for the 2019–20 and 2020–21 financial years to alert users of the statements that the entity will be wound up in the 2022–23 financial year.

Source: Queensland Audit Office.

I. Financial sustainability measures

Figure I1 details the ratios (measures) indicating short-term and long-term financial sustainability. The guidelines quoted in the target range were issued by the Department of State Development, Infrastructure, Local Government and Planning (the department).

Figure I1
Financial sustainability measures for councils

<table>
<tr><th>Measure</th><th>Formula</th><th>Description</th><th>Target range</th></tr>
<tr><td rowspan="2">Operating surplus ratio</td><td>Net operating result divided by total operating revenue (excludes capital items)
Expressed as a percentage</td><td>Indicates the extent to which operational revenues raised cover operational expenses</td><td>Between zero and 10 per cent – per department-issued guidelines</td></tr>
<tr><td colspan="3">A negative result indicates an operating deficit, and the larger the negative percentage, the worse the result. Operating deficits cannot be sustained in the long term. A positive percentage indicates that surplus revenue is available to support the funding of capital expenses, or to hold in reserve to offset past or future operating deficits.
We consider councils as financially sustainable when they consistently achieve an operating surplus and expect that they can do so in the future, having regard to asset management and community service level needs.</td></tr>
<tr><td rowspan="2">Net financial liabilities ratio</td><td>Total liabilities less current assets divided by total operating revenue
Expressed as a percentage</td><td>Indicates the extent to which a council's operating revenues (including grants and subsidies) can cover its net financial liabilities (usually loans and leases)</td><td>Not greater than 60 per cent – per department-issued guidelines</td></tr>
<tr><td colspan="3">If net financial liabilities are greater than 60 per cent of operating revenue, the council has limited capacity to increase loan borrowings and may experience stress in servicing current debt.</td></tr>
<tr><td rowspan="2">Asset sustainability ratio</td><td>Capital expenses on replacement of assets (renewals) divided by depreciation expenses
Expressed as a percentage</td><td>Indicates the extent to which assets are being replaced as they reach the end of their useful lives</td><td>Greater than 90 per cent – per department-issued guidelines</td></tr>
<tr><td colspan="3">If the asset sustainability ratio is greater than 90 per cent, the council is likely to be sufficiently maintaining, replacing, and/or renewing its assets as they reach the end of their useful lives.
While a low percentage may indicate that the asset base is relatively new (which may result from rectifying extensive natural disaster damage) and does not require replacement, the lower the percentage, the more likely it is that a council has inadequate asset management plans and practices.</td></tr>
</table>

Source: Queensland Audit Office.

Figure I2 details our risk assessment criteria for financial sustainability measures.

Figure I2
Risk assessment criteria for financial sustainability measures

Relative risk rating measure	Operating surplus ratio	Net financial liabilities ratio	Asset sustainability ratio
Higher	Less than negative 10% (i.e. losses) ●	More than 80% ●	Less than 50% ●
	Insufficient revenue being generated to fund operations and asset renewal	Potential long-term concern over ability to repay debt levels from operating revenue	Insufficient spending on asset replacement or renewal, resulting in reduced service levels and increased burden on future ratepayers
Moderate	Negative 10% to zero (i.e. losses) ●	60% to 80% ●	50% to 90% ●
	A risk of long-term reduction in cash reserves, and inability to fund asset renewals	Some concern over the ability to repay debt from operating revenue	Irregular spending, or insufficient asset management practices, creating a backlog of maintenance/renewal work
Lower	More than zero (i.e. surpluses) ●	Less than 60% ●	More than 90% ●
	Generating surpluses consistently	No concern over the ability to repay debt from operating revenue	Likely to be sufficiently replacing or renewing assets as they reach the end of their useful lives

Source: Queensland Audit Office.

We calculate our overall risk assessment of financial sustainability using the ratings determined for each measure, as shown in Figure I1, and the assignment of the risk assessment criteria, as shown in Figure I2.

Figure I3
Explanations of our relative risk assessments

Risk level	Risk criteria
Higher risk ●	There is a higher risk of sustainability issues arising in the short to medium term if current operating income and expenses policies continue, as indicated by average operating deficits (losses) of more than 10 per cent of operating revenue.
Moderate risk ●	There is a moderate risk of sustainability issues over the longer term if current debt financing and capital investment policies continue, as indicated by: • a current net financial liabilities ratio of more than 80 per cent of operating revenue, or • an average asset sustainability ratio of less than 50 per cent, or • average operating deficits (losses) of between 2 per cent and 10 per cent of operating revenue, or • having 2 or more of the ratios assessed as moderate risk (see Figure I2).
Lower risk ●	There is a lower risk of concerns about financial sustainability based on current income, expenses, asset investment, and debt financing policies.

Source: Queensland Audit Office.

We use a 5-year average when assessing the operating surplus and asset sustainability ratios. This is because these are long-term indicators. Viewing the annual ratios in isolation does not provide insights into councils' long-term financial sustainability.

The net financial liabilities ratio, however, is more effective as a point-in-time ratio. The more recent the point in time, the more useful this ratio is in assessing councils' flexibility to increase debt.

Our assessment of financial sustainability risk factors does not consider councils' long-term forecasts or credit assessments undertaken by the Queensland Treasury Corporation.

Figure I4
Financial sustainability risk assessment by council category: Results at the end of 2021–22

Coastal councils	Avg. grant funding percentage[1]	Current operating surplus ratio %	Avg. operating surplus ratio %		Avg operating surplus ratio trend[2]	Net financial liabilities ratio %		Net financial liabilities ratio trend	Current asset sustainability ratio %	Avg. asset sustainability ratio %		Avg. asset sustainability ratio trend[2]	Relative risk assessment
Coastal councils													
Bundaberg Regional Council	20%	6.00%	4.83%		–	-16.00%		↑	47.00%	48.40%		↓	Moderate
Burdekin Shire Council	22%	5.17%	4.52%		↓	-77.40%		↑	88.56%	95.49%		↑	Lower
Cairns Regional Council	18%	2.00%	-0.11%		–	57.00%		↑	71.00%	95.20%		↓	Lower
Cassowary Coast Regional Council	25%	0.00%	-2.33%		–	-34.00%		↑	68.00%	91.80%		↑	Moderate
Douglas Shire Council	26%	-1.00%	-2.39%		–	-28.00%		↓	74.00%	105.80%		↑	Moderate
Fraser Coast Regional Council	22%	-0.09%	1.30%		↓	-27.05%		↑	80.58%	93.51%		↑	Lower
Gladstone Regional Council	14%	-2.66%	-2.24%		↓	33.74%		↓	88.66%	61.34%		↑	Moderate
Gympie Regional Council	26%	-0.68%	-4.43%		–	-13.55%		↑	33.28%	98.98%		↓	Moderate
Hinchinbrook Shire Council	34%	-10.00%	-12.09%		↓	-18.70%		–	90.80%	74.52%		↑	Higher
Livingstone Shire Council	28%	1.91%	3.12%		–	-3.01%		↑	45.04%	51.96%		–	Lower
Mackay Regional Council	19%	0.20%	0.37%		–	4.30%		↑	65.50%	65.76%		↑	Lower
Noosa Shire Council	15%	4.29%	8.69%		–	-15.93%		↓	121.13%	117.88%		↑	Lower
Rockhampton Regional Council	26%	-0.10%	2.06%		–	40.80%		↑	63.20%	92.26%		↓	Lower
Townsville City Council	26%	1.00%	0.81%		↑	72.00%		↑	91.00%	73.60%		–	Moderate
Whitsunday Regional Council	37%	5.18%	4.14%		–	9.83%		↑	97.98%	151.23%		↑	Lower
Coastal councils average	**24%**	**0.75%**	**0.42%**			**-1.06%**			**75.05%**	**87.85%**			
Coastal councils – combined risk assessment		**Lower**				**Lower**			**Moderate**				**Lower**

Indigenous councils	Avg. grant funding percentage[1]	Current operating surplus ratio %	Avg. operating surplus ratio %	Avg operating surplus ratio trend[2]	Net financial liabilities ratio %	Net financial liabilities ratio trend	Current asset sustainability ratio %	Avg. asset sustainability ratio %	Avg. asset sustainability ratio trend[2]	Relative risk assessment
Indigenous councils										
Aurukun Shire Council	62%	-7.00%	-14.83%	↑	-76.00%	↓	4.00%	19.00%	–	Higher
Cherbourg Aboriginal Shire Council	58%	-18.33%	-1.75%	↓	23.69%	↓	37.05%	114.01%	↓	Lower
Doomadgee Aboriginal Shire Council	55%	-31.00%	-23.80%	↑	4.00%	↑	40.00%	57.20%	↓	Higher
Hope Vale Aboriginal Shire Council	49%	1.00%	7.21%	↓	-193.00%	↑	91.00%	90.00%	↓	Lower
Kowanyama Aboriginal Shire Council	70%	0.00%	-37.46%	↑	-19.00%	↑	142.00%	103.42%	↑	Higher
Lockhart River Aboriginal Shire Council	73%	-8.00%	-3.36%	↑	-54.00%	↑	136.00%	90.60%	↓	Moderate
Mapoon Aboriginal Shire Council	69%	-41.00%	-27.76%	↓	-55.00%	↓	67.00%	62.80%	↑	Higher
Mornington Shire Council*	47%	-10.70%	-26.59%	↑	-16.00%	↑	92.60%	194.54%	↑	Higher
Napranum Aboriginal Shire Council	66%	-24.00%	-18.80%	↓	-41.00%	↑	0.00%	25.60%	↓	Higher
Northern Peninsula Area Regional Council*	53%	-28.00%	-15.00%	↓	-10.00%	↓	57.00%	64.44%	↓	Higher
Palm Island Aboriginal Shire Council**	60%	-23.80%	-17.09%	↓	-2.93%	–	0.00%	129.60%	↓	Higher
Pormpuraaw Aboriginal Shire Council	62%	0.00%	8.19%	↓	-257.00%	↑	13.00%	60.80%	↓	Lower
Torres Shire Council	50%	-19.07%	-18.80%	↓	-66.27%	↑	113.79%	85.44%	↑	Higher
Torres Strait Island Regional Council	60%	-79.00%	-74.40%	↓	-29.00%	↓	19.00%	28.60%	↓	Higher
Woorabinda Aboriginal Shire Council*	31%	-0.90%	-15.41%	–	-41.90%	↑	104.40%	34.25%	↑	Higher
Wujal Wujal Aboriginal Shire Council	67%	-30.00%	-29.29%	–	54.00%	↓	41.00%	80.00%	↑	Higher
Yarrabah Aboriginal Shire Council	51%	-51.00%	-33.42%	↓	-27.00%	↓	25.00%	39.60%	↓	Higher
Indigenous councils average	**58%**	**-21.81%**	**-20.14%**		**-47.44%**		**57.81%**	**75.29%**		
Indigenous councils – combined risk assessment		**Higher**			**Lower**		**Moderate**			**Higher**

Resources councils	Avg. grant funding percentage[1]	Current operating surplus ratio %	Avg. operating surplus ratio %		Avg operating surplus ratio trend[2]	Net financial liabilities ratio %		Net financial liabilities ratio trend	Current asset sustainability ratio %	Avg. asset sustainability ratio %		Avg. asset sustainability ratio trend[2]	Relative risk assessment
Resources councils													
Banana Shire Council	31%	6.08%	-4.92%		–	-22.39%		↑	80.43%	94.27%		–	Moderate
Bulloo Shire Council	62%	-5.30%	-3.09%		↓	-69.20%		↓	42.60%	104.01%		↓	Moderate
Burke Shire Council	76%	-21.20%	-40.23%		↓	-38.60%		↓	82.30%	85.38%		↓	Higher
Central Highlands Regional Council	22%	1.71%	-1.85%		–	-7.71%		↓	76.87%	104.00%		↓	Lower
Charters Towers Regional Council	46%	5.00%	0.61%		–	-71.00%		↑	68.00%	139.60%		↓	Lower
Cloncurry Shire Council	55%	-15.62%	-8.90%		↓	-23.24%		↑	87.55%	172.71%		↓	Moderate
Cook Shire Council	82%	2.00%	-22.58%		↑	-7.00%		↑	8.00%	67.75%		↓	Higher
Etheridge Shire Council	54%	1.85%	-2.71%		↑	-32.68%		↓	0.00%	8.97%		↓	Moderate
Isaac Regional Council	25%	3.75%	2.30%		–	-19.55%		↑	62.90%	175.46%		↓	Lower
Maranoa Regional Council	43%	2.84%	2.04%		–	-55.10%		↑	120.74%	138.72%		↑	Lower
McKinlay Shire Council	72%	5.20%	-7.51%		↓	-130.20%		↑	137.10%	328.78%		↓	Moderate
Mount Isa City Council	24%	-1.80%	0.16%		↓	-45.00%		↓	55.70%	56.99%		↑	Lower
Quilpie Shire Council	64%	6.00%	-5.37%		↓	-99.00%		↑	40.00%	41.00%		↓	Moderate
Western Downs Regional Council	25%	2.57%	7.16%		↓	-122.12%		↑	82.11%	77.08%		↓	Lower
Resources councils average	**49%**	**-0.49%**	**-6.06%**			**-53.06%**			**67.45%**	**113.91%**			
Resources councils – combined risk assessment		**Moderate**				**Lower**			**Lower**				**Moderate**

Rural/Regional councils	Avg. grant funding percentage[1]	Current operating surplus ratio %	Avg. operating surplus ratio %		Avg operating surplus ratio trend[2]	Net financial liabilities ratio %		Net financial liabilities ratio trend	Current asset sustainability ratio %	Avg. asset sustainability ratio %		Avg. asset sustainability ratio trend[2]	Relative risk assessment
Rural/Regional councils													
Goondiwindi Regional Council	33%	-1.71%	1.60%		↓	-74.50%		–	148.47%	115.29%		↑	Lower
Lockyer Valley Regional Council	24%	5.22%	5.76%		–	41.12%		↓	74.26%	91.43%		↓	Lower
Mareeba Shire Council	39%	14.63%	13.65%		↓	-101.77%		↑	176.04%	167.41%		↓	Lower
North Burnett Regional Council	49%	-11.83%	-19.19%		↓	-29.45%		↑	102.65%	98.16%		↓	Higher
Scenic Rim Regional Council	31%	0.00%	0.31%		↓	15.00%		↓	98.00%	161.80%		↓	Lower
Somerset Regional Council	26%	-9.00%	-0.25%		↓	-74.00%		↓	87.00%	97.00%		↓	Lower
South Burnett Regional Council	25%	6.00%	0.48%		–	-10.80%		↑	78.70%	86.34%		↓	Lower
Southern Downs Regional Council	29%	-4.55%	2.01%		↓	-26.89%		↑	119.00%	123.68%		↑	Lower
Tablelands Regional Council	29%	5.24%	0.32%		↓	-52.98%		↑	77.44%	94.16%		↓	Lower
Rural/Regional councils average	**32%**	**0.44%**	**0.52%**			**-34.92%**			**106.84%**	**115.03%**			
Rural/Regional councils – combined risk assessment		**Lower**				**Lower**			**Lower**				**Lower**

Rural/Remote councils	Avg. grant funding percentage[1]	Current operating surplus ratio %	Avg. operating surplus ratio %	Avg operating surplus ratio trend[2]	Net financial liabilities ratio %	Net financial liabilities ratio trend	Current asset sustainability ratio %	Avg. asset sustainability ratio %	Avg. asset sustainability ratio trend[2]	Relative risk assessment
Rural/Remote councils										
Balonne Shire Council	62%	-5.30%	-8.69%	–	-32.30%	↓	53.80%	49.81%	↑	Moderate
Barcaldine Regional Council	48%	6.83%	-16.04%	↑	-27.73%	↑	224.72%	144.05%	↑	Higher
Barcoo Shire Council	46%	-3.63%	-21.93%	↑	-30.13%	↑	83.91%	77.90%	↓	Higher
Blackall-Tambo Regional Council	45%	11.00%	-7.98%	↑	-53.00%	↑	68.00%	81.20%	↓	Moderate
Boulia Shire Council	65%	-20.75%	-29.99%	↓	-85.60%	↓	120.70%	62.50%	↑	Higher
Carpentaria Shire Council	69%	-13.36%	-17.81%	↓	-26.27%	↑	61.23%	48.98%	↓	Higher
Croydon Shire Council	76%	9.30%	4.74%	–	-85.30%	↓	63.50%	124.00%	↓	Lower
Diamantina Shire Council	43%	-19.90%	-9.58%	–	-63.40%	↑	8.20%	45.98%	↓	Moderate
Flinders Shire Council	41%	14.00%	11.00%	↓	-63.00%	↑	25.20%	64.16%	↓	Lower
Longreach Regional Council	53%	-2.30%	-10.41%	↓	-17.10%	↑	51.40%	100.86%	↓	Higher
Murweh Shire Council	58%	-14.00%	-12.18%	↓	-4.00%	↑	85.00%	92.44%	↓	Higher
Paroo Shire Council	72%	4.00%	-20.83%	↑	-24.00%	↑	46.00%	60.68%	↓	Higher
Richmond Shire Council	57%	-9.68%	-30.14%	–	-30.64%	↑	56.76%	156.18%	↓	Higher
Winton Shire Council	66%	-3.80%	-7.78%	↓	-104.37%	↑	246.79%	265.48%	↑	Moderate
Rural/Remote councils average	**57%**	**-3.40%**	**-12.69%**		**-46.20%**		**85.37%**	**98.16%**		
Rural/Remote councils – combined risk assessment		**Higher**			**Lower**		**Lower**			**Higher**

South East Queensland councils	Avg. grant funding percentage[1]	Current operating surplus ratio %	Avg. operating surplus ratio %		Avg operating surplus ratio trend[2]	Net financial liabilities ratio %		Net financial liabilities ratio trend	Current asset sustainability ratio %	Avg. asset sustainability ratio %		Avg. asset sustainability ratio trend[2]	Relative risk assessment
South East Queensland councils													
Brisbane City Council	13%	-3.00%	3.09%		↓	125.00%		↑	55.00%	75.20%		↓	Moderate
Council of the City of Gold Coast	19%	-1.10%	-1.33%		–	-16.10%		↑	63.00%	59.82%		↑	Moderate
Ipswich City Council	30%	2.74%	4.21%		↓	67.13%		↑	70.69%	64.35%		–	Moderate
Logan City Council	27%	5.28%	2.61%		–	-9.76%		↓	63.12%	74.81%		↓	Lower
Moreton Bay Regional Council	25%	10.70%	17.83%		↓	19.50%		↓	70.10%	62.98%		↑	Lower
Redland City Council	11%	1.63%	-3.01%		↑	-45.94%		↑	66.31%	50.97%		↑	Moderate
Sunshine Coast Regional Council	25%	9.30%	6.68%		–	58.80%		↓	71.20%	72.04%		↓	Lower
Toowoomba Regional Council	21%	-1.10%	1.41%		–	49.76%		↑	73.84%	66.16%		↑	Lower
SEQ councils average	**21%**	**3.06%**	**3.94%**			**31.05%**			**66.66%**	**65.79%**			
SEQ councils – combined risk assessment		**Lower**				**Lower**			**Moderate**				**Lower**

Notes:

1 Average grant funding percentage shows the 5-year average level of grant funding as a percentage of total revenue per council. This does not form a part of the financial sustainability ratios but has been included for contextual purposes. Refer also to further commentary in Chapter 4, which analyses the financial sustainability by grant funding levels.

2 Average ratio trend compares the average ratio from 2021–22 with the average ratio from 2020–21. Trends should be considered in conjunction with the Department of State Development, Infrastructure, Local Government and Planning's set benchmarks, and the analysis performed and explained in Chapter 4.

* The 2021–22 audit for this council is unfinished. The sustainability measures reported are based on the audited 2020–21 financial statements.

** The 2020–21 and 2021–22 audits for this council are unfinished. The sustainability measures reported are based on the audited 2019–20 financial statements.

Refer also to Figures I1, I2 and I3, which explain the financial sustainability measures and associated benchmarks.

Legend: ↑ An improving trend; – No substantial change; ↓ A deteriorating trend.

Source: Queensland Audit Office.

J. Our assessment of councils' financial governance

Auditing internal controls

Entities design, implement, and maintain internal controls (people, systems, and processes) to deliver 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 make 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. We do this 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 5 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 of 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 2 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 5 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 2021–22.

Financial statements preparation process

Until the 2019–20 financial year, we assessed the effectiveness of the financial statement preparation processes across 3 components:

- Year-end close processes – was based on early completion of 5 key elements of financial statements
- Timeliness of financial statements – compared the date the financial statements were certified against the legislative deadline of 31 October
- Quality of financial statements – was assessed based on the number of changes that are made between the draft of the financial statements submitted to audit and the final audited financial statements.

Each component was assigned a traffic light (red/amber/green), and this was reported to each council and in our annual reports to parliament.

In the 2020–21 financial year, we changed the way we assessed the financial statement preparation process to a maturity model (which is available on our website at www.qao.qld.gov.au/reports-resources/better-practice). The model is entity-driven and is scalable to each entity's size and complexity. It aims to bring flexibility in responding to the qualitative factors that influence entities' practices, which the previous assessment criteria did not take into account.

The model facilitates sharing of better practices across the public sector. It also brings focus to entities' areas of development to allow them to reach their targeted positioning.

For the 2020–21 financial year, we asked councils to self-assess their financial statement preparation processes using this model. In the 2022–23 financial year, we will work with councils to ensure that their self-assessed maturity levels reflect the reality of their strengths and weaknesses of their processes. We will report on the outcome of this assessment in our *Local government 2023* report.

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' internal controls, by council segment.

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

Key:
CE = Control environment; RA = Risk assessment; CA = Control activities; IC = Information and communication;
MA = Monitoring activities.
OS = Number of significant deficiencies outstanding longer than 12 months at 30 June 2022
FS = Financial sustainability — relative risk assessment (refer Figure I4).
D = Number of days to have audit opinion certified from 30 June 2022 (number of days between 30 June and 31 October is 123)

Council	Internal controls						Financial sustainability	Days to complete from year end
Coastal councils	CE	RA	CA	IC	MA	OS	FS	D
Bundaberg Regional Council	🟢	🟢	🟢	🟢	🟢	-	🟡	99
Burdekin Shire Council	🟢	🟢	🟢	🟢	🟢	-	🟢	70
Cairns Regional Council	🟢	🟢	🟢	🟢	🟢	-	🟢	78
Cassowary Coast Regional Council	🟡	🟢	🟢	🟢	🟢	-	🟡	106
Douglas Shire Council	🟢	🟢	🟢	🟢	🟢	-	🟡	104
Fraser Coast Regional Council	🟢	🟢	🟡	🟢	🟢	1	🟢	91
Gladstone Regional Council	🟢	🟢	🟢	🟢	🟢	-	🟡	120
Gympie Regional Council	🟢	🟢	🔴	🟢	🟢	2	🟡	249
Hinchinbrook Shire Council	🟢	🟢	🟢	🟢	🟢	-	🔴	123
Livingstone Shire Council	🟢	🟢	🟡	🟢	🟢	1	🟢	123
Mackay Regional Council	🟢	🟢	🟢	🟢	🟢	-	🟢	102
Noosa Shire Council	🟢	🟢	🟡	🟢	🟢	1	🟢	118
Rockhampton Regional Council	🟢	🟢	🟢	🟢	🟢	-	🟢	105
Townsville City Council	🟢	🟢	🔴	🟢	🟢	1	🟡	97
Whitsunday Regional Council	🟢	🟢	🟢	🟢	🟢	-	🟢	48

Key:
CE = Control environment; RA = Risk assessment; CA = Control activities; IC = Information and communication;
MA = Monitoring activities.
OS = Number of significant deficiencies outstanding longer than 12 months at 30 June 2022
FS = Financial sustainability — relative risk assessment (refer Figure I4).
D = Number of days to have audit opinion certified from 30 June 2022 (number of days between 30 June and 31 October is 123)

Council	Internal controls						Financial sustainability	Days to complete from year end
Indigenous	CE	RA	CA	IC	MA	OS	FS	D
Aurukun Shire Council	🟢	🟢	🟢	🟢	🟢	-	🔴	104
Cherbourg Aboriginal Shire Council	🟢	🟢	🟢	🟢	🟡	1	🟢	113
Doomadgee Aboriginal Shire Council	🟢	🟢	🟢	🟢	🟢	-	🔴	123
Hope Vale Aboriginal Shire Council	🟢	🟢	🟢	🟢	🟢	-	🟢	29
Kowanyama Aboriginal Shire Council	🟢	🟢	🔴	🟢	🟢	-	🔴	103
Lockhart River Aboriginal Shire Council	🟢	🟢	🟢	🟢	🟢	-	🟡	123
Mapoon Aboriginal Shire Council	🟢	🟢	🟡	🟢	🟢	1	🔴	123
Mornington Shire Council*	🟢	🟡	🔴	🟢	🟢	4	🔴	Not Complete
Napranum Aboriginal Shire Council	🟢	🟢	🔴	🟡	🟢	2	🔴	117
Northern Peninsula Area Regional Council*	🔴	🟢	🔴	🔴	🟡	1	🔴	Not Complete
Palm Island Aboriginal Shire Council*	🟡	🟢	🔴	🟡	🟢	11	🔴	Not Complete
Pormpuraaw Aboriginal Shire Council	🟢	🟢	🟢	🟢	🟢	-	🟢	70
Torres Shire Council	🟢	🟢	🟢	🔴	🟢	-	🔴	123
Torres Strait Island Regional Council	🟢	🟢	🟢	🟢	🟢	-	🔴	81
Woorabinda Aboriginal Shire Council*	🔴	🟢	🔴	🟡	🟡	8	🔴	Not Complete
Wujal Wujal Aboriginal Shire Council	🟡	🟡	🟡	🟢	🟢	3	🔴	118
Yarrabah Aboriginal Shire Council	🟢	🟢	🟡	🟢	🟢	1	🔴	105

Council	Internal controls						Financial sustainability	Days to complete from year end

Key:
CE = Control environment; RA = Risk assessment; CA = Control activities; IC = Information and communication;
MA = Monitoring activities.
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Resources councils	CE	RA	CA	IC	MA	OS	FS	D
Banana Shire Council	🟢	🟢	🟢	🟢	🟢	-	🟡	123
Bulloo Shire Council	🔴	🟢	🔴	🟢	🟢	1	🟡	123
Burke Shire Council	🟢	🟢	🟢	🟢	🟢	-	🔴	123
Central Highlands Regional Council	🟢	🟢	🔴	🟡	🟢	3	🟢	123
Charters Towers Regional Council	🟢	🟢	🟡	🟢	🟢	1	🟢	123
Cloncurry Shire Council	🟢	🟢	🔴	🟡	🟢	1	🟡	209
Cook Shire Council	🟢	🟢	🔴	🟢	🟢	2	🔴	105
Etheridge Shire Council	🟢	🟢	🔴	🟡	🟢	2	🟡	167
Isaac Regional Council	🟢	🟢	🟢	🟢	🟢	-	🟢	120
Maranoa Regional Council	🟢	🟢	🟢	🟢	🟢	-	🟢	110
McKinlay Shire Council	🟢	🟢	🟡	🟢	🟢	1	🟡	105
Mount Isa City Council	🔴	🟢	🔴	🟡	🟢	3	🟢	116
Quilpie Shire Council	🟢	🟢	🟡	🟢	🟢	-	🟡	123
Western Downs Regional Council	🟢	🟢	🟢	🟢	🟢	-	🟢	106

Council	Internal controls						Financial sustainability	Days to complete from year end
Rural/Regional councils	CE	RA	CA	IC	MA	OS	FS	D
Goondiwindi Regional Council	🟢	🟢	🟢	🟢	🟢	-	🟢	83
Lockyer Valley Regional Council	🟢	🟢	🟢	🟢	🟢	-	🟢	169
Mareeba Shire Council	🟢	🟢	🟢	🟢	🟢	-	🟢	97
North Burnett Regional Council	🟢	🟢	🔴	🟢	🟢	1	🔴	259
Scenic Rim Regional Council	🟢	🟢	🟢	🟢	🟡	-	🟢	99
Somerset Regional Council	🟢	🟢	🟢	🟢	🟢	-	🟢	103
South Burnett Regional Council	🟢	🟢	🟢	🟢	🟢	-	🟢	105
Southern Downs Regional Council	🟢	🟢	🟢	🟢	🟢	-	🟢	110
Tablelands Regional Council	🟢	🟢	🟡	🟢	🟢	1	🟢	123

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Council	Internal controls						Financial sustainability	Days to complete from year end
Rural/Remote councils	CE	RA	CA	IC	MA	OS	FS	D
Balonne Shire Council	🟢	🟢	🟢	🟢	🟢	-	🟡	120
Barcaldine Regional Council	🟢	🟢	🟢	🟡	🟢	1	🔴	123
Barcoo Shire Council	🟢	🟢	🟢	🔴	🟢	2	🔴	111
Blackall-Tambo Regional Council	🟢	🟢	🟢	🟢	🟢	-	🟡	123
Boulia Shire Council	🟢	🟢	🟡	🟢	🟢	1	🔴	165
Carpentaria Shire Council	🟡	🟢	🔴	🟡	🟢	6	🔴	123
Croydon Shire Council	🟢	🟢	🔴	🟢	🟢	2	🟢	140
Diamantina Shire Council	🟢	🟢	🟢	🟢	🟢	-	🟡	123
Flinders Shire Council	🟢	🟢	🟢	🟢	🟢	-	🟢	119
Longreach Regional Council	🟢	🟢	🟢	🟢	🟢	-	🔴	119
Murweh Shire Council	🟢	🟢	🟡	🟢	🟢	-	🔴	116
Paroo Shire Council	🟡	🟢	🟢	🟡	🟢	1	🔴	120
Richmond Shire Council	🟢	🟢	🔴	🟢	🟢	2	🔴	249
Winton Shire Council	🟢	🟢	🟢	🟢	🟢	-	🟡	106

Council	Internal controls						Financial sustainability	Days to complete from year end

Key:
CE = Control environment; RA = Risk assessment; CA = Control activities; IC = Information and communication;
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South East Queensland councils	CE	RA	CA	IC	MA	OS	FS	D
Brisbane City Council	🟢	🟢	🟢	🟢	🟢	-	🟡	46
Council of the City of Gold Coast	🟢	🟢	🔴	🟡	🟢	3	🟡	91
Ipswich City Council	🟢	🟢	🟢	🟢	🟢	-	🟡	120
Logan City Council	🟢	🟢	🟡	🟢	🟢	1	🟢	76
Moreton Bay Regional Council	🟢	🟢	🟡	🟢	🟢	1	🟢	104
Redland City Council	🟢	🟢	🟢	🟢	🟢	-	🟡	81
Sunshine Coast Regional Council	🟢	🟢	🔴	🟢	🟢	-	🟢	102
Toowoomba Regional Council	🟢	🟢	🟡	🟢	🟡	1	🟢	92

Notes:

* The internal controls assessments are based on the previous year's results because the 2021–22 financial year audit has not yet been completed.

Source: Queensland Audit Office.

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