

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.

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 2022–23.

Significant deficiencies are breakdowns in internal control that we identified with substantial financial or reputational risk for councils that need to be addressed immediately.

Because of this, any significant deficiencies taking longer than 12 months to resolve are concerning. In this appendix we report both the total the number of significant deficiencies of each council, and the number they have that have been unresolved for more than 12 months.



Financial statements preparation process

We assess the strength of councils' financial statement preparation processes using 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.

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.

The 4 components for effective financial statement preparation processes are:

Quality month-end processes and reporting	
<ul style="list-style-type: none"> • Reconciliation • Reporting • Internal quality controls 	<p>Month-end processes refer to the close-out of the current posting period and preparation of analysis reports. Quality month-end activities provide greater efficiencies in the preparation of year end reporting. Data quality, quality checking and internal reporting are the areas of focus.</p>
Early financial statement close processes	
<ul style="list-style-type: none"> • Early close • Audit and audit committee relationships • Asset valuation • Stocktakes • Supporting policies and procedures 	<p>These are the accounting procedures undertaken to close-out future account balances in the current posting period. Early close processes are performed before the balance date and are not fully re-performed during the financial statement preparation process. They usually include fair value measurement for property, plant and equipment; major estimates and judgements; material note preparation; and stocktakes.</p>
Skilled financial statement preparation processes and use of appropriate technology	
<ul style="list-style-type: none"> • System • Staff skills • Data quality • Internal controls • Tailored disclosure 	<p>High quality, timely financial statements are prepared using skilled staff, appropriate systems, and sufficient processes that rely on high-quality data sources and effective internal controls.</p>
Timely identification and resolution of financial reporting matters	
<ul style="list-style-type: none"> • Matters are identified • Analysis performed • Consultation 	<p>The timely resolution of financial reporting matters relates to areas of accounting and presentation that require judgement and have a range of potential solutions. Financial reporting matters include the application of new accounting standards, and reporting of new and/or complex transactions in a timely manner.</p>

Each of these 4 components has elements describing the level of maturity within the financial statement preparation maturity model.

The 4 levels of maturity per component are:

- developing – an entity does not have key components of effective financial reporting, or they are limited
- established – an entity shows basic competency for financial reporting
- integrated – an entity's financial reporting practices are fundamentally sound, however some elements could be improved
- optimised – an entity is a leader of best practice for financial reporting.

Where a council has different maturity levels for each of the 4 components, their overall maturity may sit between 2 levels and be reported as a range – such as established to integrated.

Each council's desired level of maturity will differ – recognising what works for a council in a large city may not necessarily work for a smaller council in a regional town.

However, because councils have had stable business models without restructures for more than 10 years, they should be able to at least reach an established maturity level.

In 2020–21, we asked councils to self-assess their financial statement preparation processes using this model.

This year, we assessed the maturity levels of councils' financial reporting ourselves to make sure they reflect the reality of the strengths and weaknesses of their processes.

In this appendix, we report our assessment of the overall maturity of each council's financial statement preparation processes.

Financial sustainability relative risk assessment

The detailed criteria for assessing a council's financial sustainability are explained in [Appendix K – Figures K1 and K2](#). These are the current financial sustainability ratios that applied for the 2022–23 financial year. The overall assessment criteria are shown in Figure K3.

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 and financial statement process maturity, by council segment.

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

Key:
















Total SD = Total significant deficiencies

O/S SD = Number of significant deficiencies outstanding longer than 12 months at 30 June 2023

FS Maturity = Financial statement maturity levels

FSR = Financial sustainability risk

Days = Number of days to have audit opinion certified from 30 June 2023 (number of days between 30 June and 31 October is 123)

Coastal councils	Internal controls		FS Maturity	FSR	Days
	Total SD	O/S SD			
Coastal councils					
Bundaberg Regional Council	1	-	Integrated to optimised		104
Burdekin Shire Council	-	-	Integrated		70
Cairns Regional Council	-	-	Optimised		77
Cassowary Coast Regional Council	1	1	Established to integrated		105
Douglas Shire Council	-	-	Integrated		104
Fraser Coast Regional Council	-	-	Integrated		91
Gladstone Regional Council	-	-	Integrated		122
Gympie Regional Council*	5	4	Established to integrated		153
Hinchinbrook Shire Council	-	-	Established		123
Livingstone Shire Council	-	-	Established to integrated		122
Mackay Regional Council	-	-	Integrated		110
Noosa Shire Council	1	1	Established		117
Rockhampton Regional Council	1	1	Integrated		118
Townsville City Council	2	-	Established to integrated		111
Whitsunday Regional Council	-	-	Established to optimised		46

Notes:

* For councils who had not completed their financial statements by 31 October 2023:

- the total unresolved significant deficiencies include only those reported by 31 October. These numbers are expected to increase as these councils complete their financial statements. Details of weaknesses reported to each council and the updates on the status of these issues are generally available on individual council websites
- the overall financial sustainability is assessed using their results from their most recently available audited financial statements.

Refer also to [Appendix L](#) which explains the new financial sustainability measures and associated benchmarks that will apply to councils from 1 July 2023.

Source: Queensland Audit Office.

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Indigenous councils	Internal controls		FS Maturity	FSR	Days
	Total SD	O/S SD			
Indigenous councils					
Aurukun Shire Council	-	-	Established	●	118
Cherbourg Aboriginal Shire Council	1	-	Established	●	119
Doomadgee Aboriginal Shire Council	-	-	Established	●	123
Hope Vale Aboriginal Shire Council	-	-	Optimised	●	28
Kowanyama Aboriginal Shire Council	1	-	Established	●	118
Lockhart River Aboriginal Shire Council*	-	-	Established to integrated	●	137
Mapoon Aboriginal Shire Council	1	1	Established	●	123
Mornington Shire Council*	4	4	Established [#]	●	Not complete
Napranum Aboriginal Shire Council	5	3	Established	●	123
Northern Peninsula Area Regional Council*	8	8	Established [#]	●	Not complete
Palm Island Aboriginal Shire Council*	10	10	Developing [#]	●	Not complete
Pormpuraaw Aboriginal Shire Council	-	-	Integrated	●	70
Torres Shire Council	4	2	Developing to established	●	123
Torres Strait Island Regional Council	1	-	Established to integrated	●	116
Woorabinda Aboriginal Shire Council*	8	8	Developing [#]	●	Not complete
Wujal Wujal Aboriginal Shire Council*	2	-	Developing	●	165
Yarrabah Aboriginal Shire Council	2	2	Integrated	●	105

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Because the 2022 audits of Mornington Shire Council, Palm Island Aboriginal Shire Council, Northern Peninsula Area Regional Council, and Woorabinda Aboriginal Shire Council are not complete, we were unable to assess the financial statement maturity of these councils. We have instead reported their self-assessed financial statement maturity from 2021.

Refer also to [Appendix L](#) which explains the new financial sustainability measures and associated benchmarks that will apply to councils from 1 July 2023.

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Resources councils	Internal controls		FS Maturity	FSR	Days
	Total SD	O/S SD			
Resources councils					
Banana Shire Council	1	-	Established		119
Bulloo Shire Council	3	3	Established		95
Burke Shire Council*	-	-	Established to integrated		153
Central Highlands Regional Council	3	3	Integrated		117
Charters Towers Regional Council	-	-	Established		122
Cloncurry Shire Council*	3	3	Developing to established		Not complete
Cook Shire Council*	2	2	Established		168
Etheridge Shire Council*	3	3	Developing		138
Isaac Regional Council	2	-	Established to integrated		123
Maranoa Regional Council	2	1	Established		96
McKinlay Shire Council	1	1	Integrated		118
Mount Isa City Council	4	3	Established to integrated		123
Quilpie Shire Council	-	-	Established		74
Western Downs Regional Council	-	-	Integrated		110

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Rural/Regional councils	Internal controls		FS Maturity	FSR	Days
	Total SD	O/S SD			
Rural/Regional councils					
Goondiwindi Regional Council	1	-	Integrated		61
Lockyer Valley Regional Council	-	-	Integrated		116
Mareeba Shire Council	-	-	Established		96
North Burnett Regional Council	6	5	Established		118
Scenic Rim Regional Council	2	1	Established to integrated		98
Somerset Regional Council	-	-	Established		112
South Burnett Regional Council	-	-	Established to integrated		109
Southern Downs Regional Council	1	-	Integrated		123
Tablelands Regional Council	-	-	Integrated		123

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Rural/Remote	Internal controls		FS Maturity	FSR	Days
	Total SD	O/S SD			
Rural/Remote					
Balonne Shire Council	-	-	Integrated to established		118
Barcaldine Regional Council*	2	1	Established		Not complete
Barcoo Shire Council	2	2	Established		110
Blackall-Tambo Regional Council*	-	-	Established		165
Boulia Shire Council	2	-	Integrated		123
Carpentaria Shire Council	6	6	Established		122
Croydon Shire Council	2	2	Developing		118
Diamantina Shire Council*	-	-	Established		Not complete
Flinders Shire Council	-	-	Established		123
Longreach Regional Council	-	-	Established		116
Murweh Shire Council	-	-	Established to integrated		115
Paroo Shire Council	3	1	Established to integrated		105
Richmond Shire Council	1	1	Developing to established		118
Winton Shire Council	-	-	Integrated		116

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South East Queensland councils	Internal controls		FS Maturity	FSR	Days
	Total SD	O/S SD			
South East Queensland councils					
Brisbane City Council	-	-	Integrated to optimised.		49
Council of the City of Gold Coast	1	1	Established to integrated		74
Ipswich City Council	-	-	Integrated		108
Logan City Council	3	1	Established to integrated		87
Moreton Bay City Council	1	1	Integrated		101
Redland City Council	-	-	Integrated		74
Sunshine Coast Regional Council	2	1	Established to integrated		103
Toowoomba Regional Council	3	2	Established to integrated		91

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