



LOCAL GOVERNMENT, SMALL BUSINESS AND CUSTOMER SERVICE COMMITTEE

Members present:

Mr SM Dillon MP—Acting Chair
Mr AJ Baillie MP
Mr MA Boothman MP
Mr MPT Healy MP
Mrs ME Nightingale MP
Ms JE Pease MP

Staff present:

Ms M Westcott—Committee Secretary
Mr Z Dadic—Assistant Committee Secretary

PUBLIC BRIEFING—CONSIDERATION OF THE AUDITOR-GENERAL’S REPORT 10: 2024-25— INSIGHTS ON AUDIT COMMITTEES IN LOCAL GOVERNMENT

TRANSCRIPT OF PROCEEDINGS

Wednesday, 11 June 2025

Brisbane

WEDNESDAY, 11 JUNE 2025

The committee met at 11.30 am.

ACTING CHAIR: I declare open this public briefing with the Queensland Audit Office on its *Report 10: 2024-25—Insights on audit committees in local government*. My name is Sean Dillon. I am the chair of the committee today as the substitute for the member for Southern Downs. I would like to respectfully acknowledge the traditional owners of the land on which we meet and pay respects to our elders past and present. Joining me here on the committee today are: the deputy chair and member for Inala, Margie Nightingale; the member for Townsville, Adam Baillie; the member for Theodore, Mark Boothman; the member for Lytton, Joan Pease; and the member for Cairns, Michael Healy.

This briefing is a proceeding of the Queensland parliament and is subject to the parliament's standing rules and orders. Only the committee and invited witnesses may participate in the proceedings. Witnesses are not required to give evidence under oath or affirmation, but I remind witness that intentionally misleading the committee is a serious offence. I also remind members of the public that they may be excluded from the briefing at the discretion of the committee. I remind committee members that officers are here to provide factual or technical information. Any questions seeking an opinion about policy should be directed to the minister or left to debate on the floor of the House.

These proceedings are being recorded and broadcast live on the parliament's website. Media may be present and are subject to the committee's media rules and my direction at all times. You may be filmed or photographed during the proceedings, and images may also appear on the parliament's website or social media pages. Please turn your mobile phones off or switch them to silent mode.

ADAMS, Mr David, Senior Director, Queensland Audit Office

OLIVE, Mr Damon, Assistant Auditor-General, Queensland Audit Office

VAGG, Ms Rachel, Auditor-General, Queensland Audit Office

ACTING CHAIR: I now welcome representatives from the Queensland Audit Office.

Ms Vagg: I, too, would like to acknowledge the traditional custodians of the lands throughout Queensland and the Turrbal and Yagara people, who are the custodians of the land on which we meet today. Thank you for the opportunity to brief the committee on my report *Insights on audit committees in local government*, which was tabled in March of this year.

Queensland local governments manage their financial resources to support the delivery of essential community services including water, waste and roads. Good governance supports the sustainable management of resources and the delivery of those services. In this report we identified actions that councils should consider to support good governance and areas for improvement in how their audit committees function.

An audit committee is a mix of councillors and independent members who meet at least twice a year to monitor and review the integrity of financial documents, including financial statements, and the performance of internal audits. They also review reports issued by my office. From their review, these committees make recommendations to the local government on any matters they consider need action or improvement. It is an opportunity for additional advice and independent assessment in complex areas of finance, reporting, internal controls—including IT and cyber—and risk management. It can be a good way for local governments to access experts who otherwise may not have been available.

The committees are established with a charter and do not have any decision-making ability. They are an advisory body for the chief executive and council. We believe that audit committees help councils build and maintain community trust through accessing cost-effective expertise, helping council and the CEO identify areas of risk when making decisions, improving accountability and

transparency, acting as a support tool to develop councillor financial management and sustainability expertise, and supporting a strong internal control environment which can help protect against fraud and inefficiencies.

In 2023-24, 12 councils in regional and remote Queensland—out of 77 councils overall—did not have audit committees. In my report *Local government 2023*, tabled in January 2024, we reported that councils without active audit committees or internal audit functions were more often late signing their financial statements and took longer to resolve significant deficiencies in their systems of internal control. While there are many contributing factors relating to the financial sustainability of councils, nine of the 12 councils without audit committees were rated at a high risk of not being financially sustainable.

I recognise the difficulties that remote councils have in accessing skilled staff who would support the operations of an audit committee, and I have recommended that the Department of Local Government, Water and Volunteers assist in facilitating these services. The stakeholders we engaged with told us that establishing and maintaining an audit committee is too costly for smaller councils. These costs include councillor resources to prepare information and paying for independent members and their travel. On balance, QAO thinks there is benefit from an audit committee.

Queensland is the only state that does not require all councils to have audit committees. It also does not require committees to have a majority of independent members. Other states have delivery models that could assist which allow small neighbouring communities to use joint audit committees that share members and resources. We continue to recommend that all councils should have an audit committee. We made two recommendations to councils based on our audit insights. I also made three recommendations to the department to improve its role in promoting and facilitating good governance for Queensland local governments. This report also contains a checklist for councils to assess their own audit committee performance.

The committee may benefit in hearing directly from the department and councils, including about progress in implementing the recommendations in this report. I am happy to take any questions you may have on the report.

ACTING CHAIR: My background prior to coming here was in local government and I chaired an audit committee for four years. As much as it may surprise the member for Cairns, there was some fire and brimstone in those meetings. They are not always dry and dull. I would like to turn to one of your recommendations, which is the consolidation of audit committees to support a number of local councils, especially those that may lack the necessary locally available skill set. Have you had any feedback from audited councils around their willingness to accept that? Obviously councils guard their autonomy very strongly, but there are some very obvious benefits to your recommendation. Has there been any positive or negative feedback as a result of that recommendation or discussions you may have undertaken whilst you were doing this audit?

Ms Vagg: The discussion in the report and our discussions at a council and department level are actually about facilitating a model for the delivery of an audit committee which could be a shared model, or it could actually just be access to specific resources in a community such as a panel of service providers or independent audit committee members who could be accessed by certain regional locations. It is all about the outcome, making sure there are appropriate members who are affordable in a regional location. The shared model is interesting. It would be shared members as opposed to shared committees overall. That is because many councils have councillors on their audit committee, so there may be some localised activity needed at that low level. It is actually all about the department working with councils to facilitate access to the right members for audit committees.

Mrs NIGHTINGALE: It seems that the impediment of cost prevents the enactment of these committees locally. What is the cost risk if they do not have these audit committees enacted?

Ms Vagg: In the report we have documented the balance of the benefits that come from an audit committee versus the cost. It is the ability to access technical expertise in a finance, risk management, IT and project management space. That is what independent members may bring. It also brings rigour to financial decision-making for the CEO and councillors—an additional layer of skilled review of financial material. It might be financial reports; it might be financial decisions that are made; it might be capital investment decisions that are made and brought to that particular committee. That access to resources and rigour of application will help with the decision-making of council. At a larger level, through accountability mechanisms of the local community it also helps build trust in the activities of council when you have some independent oversight included.

ACTING CHAIR: That is a very good point and one that we can extrapolate further. Member for Theodore, do you have a question?

Mr BOOTHMAN: Acting Chair, I will defer back to you because I have a hunch about what you are going to ask in your follow-up question and I am very curious to hear the answer.

ACTING CHAIR: I am going to tease the two of those issues together because I think they are very pertinent parts. This is the deputy chair's question as well as mine. You did identify in your opening statement that there are some real benefits to a proactive audit committee in terms of challenging depreciation schedules. There are real financial outcomes—not cash based but certainly accounting standard based—especially for councils that have large road or water assets, where challenging the depreciation model has delivered some real benefits in terms of assessment from a financial sustainability point of view. Is there a body of work that the QAO does through other functions? I am not suggesting that you focus on the negatives, but obviously in this report we are identifying councils that have underperformed in this space. Is there a contra body of work that really sells the productiveness of a good audit function? Maybe I have misquoted the deputy chair, but that is where I thought we were potentially heading with our questions.

Ms Vagg: We do it in many ways such as in reports like this which highlight the benefits of audit committees. We also report it in our annual report on local government, and through our one-on-one discussions with all councils we talk about the benefits of good governance practices, including audit committees. We often publish on QAO's website blog articles and other better practice guides which refer to this type of recommended activity. One of the recommendations made in this report was actually to the department: for the department to articulate the benefit of audit committees and work with local governments on those particular benefits. I also think there is a role for the department to support these particular outcomes.

Ms PEASE: My question is around audit committees and the responsibility of the membership. It obviously can be a councillor; it could be a staff member; it could be the CEO. The current government's charter is around reducing red tape. This audit process would, for all intents and purposes, appear to be quite a burdensome process for councils in terms of compliance and all of the red tape around making sure they are doing all of the things they are meant to be doing. Is there a requirement that red tape be reduced for councils?

Ms Vagg: I have the view that good governance is not red tape. It is not a burdensome process; it actually supports better outcomes and supports the financial sustainability of councils. That would be our view. We are very careful to not make recommendations that increase or add additional processes to a council that are not necessary. We think the recommendations in here, in the main and on balance, bring benefit to a council for better outcomes. There are legislative requirements for larger councils to have audit committees. That legislative responsibility is there. This is really taking the next step to say that it will also bring benefit to other councils.

Ms PEASE: You would argue it is a benefit to councils to maintain an audit committee and not for it to be considered a burdensome red-tape process.

Ms Vagg: There are costs associated with establishing an audit committee. There is the time that is spent at a council level in preparing material for a committee as well as the governing of a committee in itself. There are costs associated with it, but there are benefits to be drawn from the process and, on the balance, we say the benefits are greater than that cost. As to what the legislation says in terms of the framing as well as guidance, there is only requirement in legislation to have two meetings per year, so it does not have to be an extensive process either. We see that generally costs can be, say, \$15,000-ish minimum per year to greater costs if you have many meetings and you have many independent members that you are paying for. Typically, it does not have to be a very costly exercise for a small regional council to have an audit committee in place.

Mr BAILLIE: I do not have any local government experience as such. In the report you identify the 12 councils that do not have audit committees and perhaps some barriers to councils having audit committees. I am coming from another angle. Are there any common attributes shared by councils that do not have audit committees? Are there any particular attributes that those councils would share with others so, even before you find out, you look at the geographic location or whatever it is so you can say, 'This council is unlikely to have an audit committee'?

Ms Vagg: Location is one of them, definitely. A remote council and having a higher risk of not being financially sustainable—both of those attributes sit in the 12. David might have something to add there.

Mr Adams: I would also comment on the lack of apparent local expertise in those areas and not having access to the network of potential candidates as you would want an experienced expert to sit as an independent member on an audit committee. We are really encouraging the department to facilitate a process by which they might be able to help those councils access those types of

experts. There are many audit committee members across many councils in Queensland who undertake those activities across a number of councils. My experience is that they love doing that work and they love being able to contribute, no matter where it is in Queensland. There is a network out there; it is how we connect all those people.

Mr BAILLIE: Geographically, do the councils without audit committees share a border or a boundary with other councils that do not have them, or are they surrounded by committees that do have them? Are they grouped together?

Ms Vagg: Queensland is very geographically dispersed. Some of them do share borders and some of do not. Typically, in the remote locations and bands we would see them without audit committees.

Mr Adams: With access to technology as well, a lot of audit committees are held online. It is great to have an expert in the room with the council discussing matters of importance, but it is definitely not uncommon for audit committees to be held via the internet.

Mr Olive: The departmental guidelines released during the course of us conducting this audit for the establishment of audit committees for local government actually cater for that specifically in terms of the virtual meeting aspect, encouraging that if it is going to be a barrier for councils. It is enabling that in its guidance to the sector.

Mr HEALY: It is quite a conundrum when you look at some of those regional councils and the challenges they face. I have two points on that. Firstly, for those councils that do not have audit committees, what are some of the inherent risks from your analysis? What are some of the things that are of greatest concern from your perspective?

Ms Vagg: While we did not highlight it in this report, we do talk about the risks associated with remote councils in our annual local government report. It is access to capability, so expertise in the area where they are making critical decisions related to financial decisions, potentially related to engineering decisions, potentially related to project management with assets and then IT. It is about access to suitable expertise to make the right decisions—and that is the CEO and council making the decisions; it is not an audit committee. This gives the council and the CEO the ability to access expertise to assess material before they make their decision. Access to expertise and capability is one of those things for those particular councils that we have seen across that band.

Mr HEALY: I have no doubt that the Local Government Association would have attempted to address this conundrum. I am not familiar with the details of that, but is that acceptable? You were saying earlier that you have some measures in place to assist but you are not providing that expertise. How would you get around this? I am assuming, as I said, the Local Government Association would be saying, 'Here is a potential solution.' As you are working your way through an audit, do you see a way things could be improved?

Ms Vagg: I will speak to just this particular issue in terms of access to expertise. It is why I have made a recommendation to the department to work out other mechanisms for accessing expertise to sit on local government audit committees in particular. Definitely an issue that is often raised at the individual audit level is about access to suitable expertise and other forms and mechanisms for accessing it if you cannot have someone on the ground. It was a recommendation to the department, when it comes to local government audit committees, about how they can facilitate access to expertise. I think it does sit in their space and it is something that you could ask of them.

In terms of the LGAQ and the work that they do, I could not speak to what they do in the audit committee space. They do a lot of work in terms of support for uplifting councillor financial expertise and they support education programs in that space.

Mr HEALY: So that is the elected members.

Ms Vagg: That is right.

ACTING CHAIR: On the composition of audit functions, could you elaborate on the QAO's position regarding the independence of chairs?

Ms Vagg: We do think and we do express in all of our commentary around audit committees that independent members bring a greater challenge and transparency to an audit committee process, so we support majority independent members sitting on audit committees. The Local Government Act allows up to two councillors to be included in the audit committee. The councils have the option to have councillors on the committee. On balance, the recommendation is that, in the main,

majority independent members and an independent chair are important in terms of good governance practices in that particular committee meeting. Those committee meetings should not exclude any council members that should be there, so chief executives should have a recurring invitation and other employees of council who need to be in the committee meeting should also be there.

Mrs NIGHTINGALE: I am digesting all of this. I am interested and excited by the prospect that the department may be able to help facilitate the expertise that could be then shared across the multiple council areas that do not have an audit committee. In terms of the audit committee practices where you drew on the 10 councils, how did you choose those 10 councils? What informed you in terms of your choice around those?

Ms Vagg: The way we select samples is that we often look at risk characteristics. We like to see geographic spread of different types of councils as well to give us some representation across the state. In terms of our overall insights in this particular report, I do audit all 77 councils. We do engage with all 77 audit committees across our financial audit program so brought insights from all committees and our engagement with the department and then selected through breadth of risk and location for the 10 in this particular report.

Mrs NIGHTINGALE: Essentially, they are representative? You feel it is a good cross-representation of the councils?

Ms Vagg: Do you have anything to add to that, David?

Mr Adams: No, not particularly. Representative is the approach to cover off on it. There are a range of audit committee chairs of councils that sit in that role across multiple councils. They were great low-hanging fruit, so to speak, because they could comment on a range of councils with authority. We deliberately picked some of those councils on the basis that we could get a wider coverage because of the membership of and the engagement we had with that particular chair.

Ms Vagg: I went back to our sample selection notes. It was location with and without independent chairs, so we could look at both of those; different styles of chairs; and then some of the councils with long-outstanding audit issues—and those are issues raised by my office as well as internal audit issues. That is adding to a good control environment. That is where we were looking for the representation.

Mr BOOTHMAN: I go back to the question from the member for Townsville about the 12 councils that do not have audit committees. You stated that nine did not have the financial capability of doing this. Are they in a certain region? They are more remote areas, I gather. There are three other councils that were excluded from that. Is that purely due to the lack of available individuals to do these audit committees or are there any other underlying issues?

Ms Vagg: We will tell you what those three councils are.

Mr Adams: Those three councils that are not rated at the higher risk of not being financially sustainable at that point in time were Diamantina, which was a moderate risk; Goondiwindi, which was low risk; and McKinlay, which was moderate risk. I do not have any specific information on the specific circumstances of those three.

Mr Olive: If I could add a comment, it was around those that were considered to be of high risk of financial sustainability. So it was not necessarily that they did not have the financial capability to fund or finance the operation of an audit committee; it was that the nine that we identified were at higher risk of financial sustainability in the longer term.

Mr HEALY: That was a high risk of long-term sustainability?

Ms Vagg: Yes, in nine of the 12.

ACTING CHAIR: For clarity, those three were not so the other nine were?

Mr Olive: Yes, the three named were not; that is correct.

ACTING CHAIR: There are two very small councils and a different, bit bigger regional council.

Ms Vagg: Yes.

Ms PEASE: With the councils that do have an audit committee, it is not a legislative requirement for the smaller ones to have it but for the larger ones it is. I assume that that information is public and is published on websites et cetera. For the smaller ones that are not required, is that published or is it just an internal document that is kept? Do the public know that there is not an audit committee?

Ms Vagg: Council meetings are public, as is the material in there, so if something is referred from an audit committee then it might be discussed in that council meeting. Otherwise, no, I cannot think of a need to be transparent about whether or not an audit committee exists. I can take that on notice if you would like me to check on those transparency requirements.

ACTING CHAIR: I can add a supplementary question to that, if you want to take it on notice. I would have thought the creation of that committee would have been a decision of council and, therefore, attributable through the minutes. If that is not the case, can you clarify that position for us?

Ms Vagg: I can. There might be access through various means to determine it. I guess it is the clarity, in a public sense, about the committee and how it operates and then the publishing of membership and things like that. Damon, did you have something to add?

Mr Olive: I was going to add that it would probably be by exception in terms of the way each of the councils would prepare and table their annual report each year. As part of their governance and oversight structures, those with audit committees would typically be acknowledging that in their annual report, so it would be more by exception perhaps.

Ms PEASE: If they undertake their audits and make some recommendations, who has the oversight of ensuring those recommendations are followed through? Is it the mayor, the CEO, local government, the independent auditor? Who has oversight of them fulfilling those recommendations?

Ms Vagg: There are some sources for recommendations. In terms of recommendations, say, from my office or an internal audit, they are directed at the CEO and mayor to act on. The audit committee facilitates the appropriateness of the response of council. In terms of actions recommended by an audit committee, it would be to a CEO and mayor, and that would be defined in the charter of the audit committee—who they are making recommendations to. Ultimately, it is the CEO, the mayor and the councillors who are responsible for the operations of the council, and it is up to them if they choose to act on the recommendations of their audit committee or not. It is ultimately sitting with those charged with governance in the organisation.

Ms PEASE: If those recommendations have risk associated with them and they are not followed through, does the audit committee have any processes to ensure those recommendations are actually followed through?

Ms Vagg: They are an advisory body to the CEO and the mayor, so they provide advice. It does not always have to be followed. It is up to the CEO and mayor as to the actions they take on. There are no other means for them to be reporting whether their recommendations or recommended actions are actually implemented. What QAO does as part of each of our annual audits, though, is look at the effectiveness of the operation of governance of an organisation. If we were to see that most recommendations from an audit committee to a CEO are not acted on, it increases our risk associated with our audit and it means we may undertake additional work from that perspective.

Ms PEASE: That is the point I am trying to get to.

ACTING CHAIR: When we come to those recommendations, do you find as a part of your audit process, when you look at the product of where there are audit committees, that the recommendations vary substantially from really operational types of things that might have appeared from within an internal audit, around things like appropriate record keeping, right through to very strategic levels such as the treatment of assets from a depreciative point of view? Therefore, to pick up on the question from the member for Lytton, there are varying degrees of accountability in terms of following up on the actions, whether it be internal through the CEO or something that requires the decision of councils. Do you find that active committees have a variety of recommendations or scope to their recommendations?

Ms Vagg: It depends on the complexity of the council and what they are dealing with at a particular point in time, the expertise that sits on the audit committee and also the mandate that is actually provided to the audit committee via the CEO. That charter that would sit with each audit committee defines what the CEO and mayor are asking of the audit committee to do. There are a few things under legislation that are directed at the larger councils that we would therefore think would be directed at all councils, and that is to look at key financial documents like the financial statements, understand the internal audit plan and assess that, as well as internal audit recommendations and the actions of council to respond to those recommendations as well as reports from QAO. There would be the core mandate. There might be extra things that are asked of that particular audit committee by the CEO or mayor. In terms of responsibility to respond to all of those things, that actually does sit with the accountable officer, being the chief executive, and council to respond to those things. This is an advisory body in terms of initial assessments and recommended actions of the CEO in terms of that mandate.

Mr Olive: I will add one comment. In an operational sense in the way that audit committees work, they typically maintain a register of all of the issues that are reported, whether they be from QAO or the internal audit function. They typically have action dates for those things to be closed out, and an audit committee would monitor those to ensure they are acted upon. In terms of their normal course of operation, they tend to actively monitor the resolution of issues that come to the council.

ACTING CHAIR: I might ask a question as a direct follow-up with respect to internal audit functions, because there is a bit of confusion around the role of an audit committee versus an internal audit function. Could you explain the role and the connection between the two, as well as things like the control of the setting of an internal audit plan and monitoring versus direction in that respect? Could you explain that for the benefit of the committee?

Ms Vagg: I sure can. I will start with what we do, which is external auditing. That is auditing the financial statements—that end product, from a public sense. We audit the completeness of that information, the accuracy of that information. The chief executive also either will have an employee or will engage external support to do a function called an internal audit. That is looking at internal processes and internal controls of the local government and how effectively those things are undertaken. The chief executive, combined with the head of internal audit, assesses places of risk within council, and they work out how an internal audit can focus on those particular risk aspects of council, perform an assessment and make recommendations for improvement of council processes. They are often operationally focused, whereas an external audit—the things that we do—is financially focused so it helps with the operations.

An audit committee is a governance committee that looks at the outcomes of internal audit work. They look at the plan and then, as an internal audit delivers reports on all of those aspects, they assess those reports and actions to be undertaken, as well as assess any other financial matters of council and the work that we do from a financial sense. It challenges management as management respond with their proposed actions from those audits; it challenges management that they are actually responding appropriately. It also holds management to account over time about whether they are actually acting on their agreed recommendations in that process. They take all of those activities and they report it to the CEO about things that have been happening, areas of risk, things the CEO should be concerned about and then how well management is responding to those recommendations made by audit.

ACTING CHAIR: I would like two hours more to go into this but we have five minutes. Does the deputy chair have a question?

Mrs NIGHTINGALE: I think that has helped to make it a bit clearer because I did want that difference explained a bit better. Ultimately, all of the decision-making lies within the CEO and mayor at the top as to whether or not they take on board the recommendations and then how they take the analysis of the audit committee and what they do with that. Then from your perspective you look at the financial implications of that. Is there any suggestion that there should be any powers to help guide the CEO with that decision-making where you can see that a failure to act appropriately on recommendations is having an impact, thereby leading to risk?

Ms Vagg: I assess that overall in each audit. As our auditors assess the overall control environment, we look to see whether the CEO is responding appropriately to those issues that have been raised through the audit committee. I also look at the performance and behaviour of the audit committee—are they challenging in the right way, are they following up in the right way, are they focusing on the risks of the council? We look at both CEO response and behaviour as well as audit committee activity and how effective we think they are. There are many factors that impact on that. It might be membership of the committee in itself. It could be the charter that is agreed between the chief executive and the audit committee. It can also be the complexity and financial sustainability of the council in itself and the challenges that they have.

ACTING CHAIR: Does this audit or any element of it or any other related audit to the local government function detect or uncover any community understanding of or degree of community involvement with the audit function, in terms of addressing community concerns around the financial or otherwise operational activities of local government?

Ms Vagg: An audit committee typically is a management tool to assist management and the chief executive to have oversight of all of these particular functions, so it is very much council related or driven. In terms of community engagement, that would happen at the council level and seeking feedback and response at the council level. In terms of our reports each year, the significant matters that are identified in each audit, my conclusions over the financial reports and any other aspects that I see, I write to the mayor with all of those matters at least annually and the mayor would table that information in council. That is another transparency element that is added in for the community.

ACTING CHAIR: There is also obviously a report to the minister which is ultimately tabled in parliament.

Ms Vagg: Yes, that is right.

ACTING CHAIR: As there are no further questions, that concludes this public briefing. Thank you to all who participated today. Thank you especially to our Hansard reporters. A transcript of these proceedings will be available on the committee's webpage in due course. I do not think there were any questions taken on notice—

Ms Vagg: I did take one about the legislative structure, which I will write back to you on.

ACTING CHAIR: Could that please be responded to by Wednesday, 25 June. I declare this public briefing closed.

The committee adjourned at 12.12 pm.