Speech By

Jim Madden

MEMBER FOR IPSWICH WEST

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STATE DEVELOPMENT AND REGIONAL INDUSTRIES COMMITTEE

Report, Motion to Take Note

Mr MADDEN (Ipswich West—ALP) (3.55 pm): I rise to speak in support of the State Development and Regional Industries Committee report titled *Examination of Auditor-General reports on the local government sector,* being report No. 32 of the 57th Queensland parliament, tabled in November 2022. With this report, the committee considered five Auditor-General and Queensland Audit Office reports dating from 2017 to 2021. The committee not only considered these reports; it has also maintained a watching brief on recommendations and recurring themes within these reports and it is these issues which this report primarily addresses. The committee found that there is an opportunity to strengthen governance in local governments through more effective and mandated independent audit and risk management committees. As well, the committee found internal control deficiencies remain prevalent within the sector, including information systems.

All councils in Queensland are required by law to establish an effective internal audit function. Large councils must also establish an external audit committee. For several years the Auditor-General has recommended that legislative requirements on councils be strengthened to require that all councils establish an external audit committee and that the chair of this committee be independent of management and the council. Despite this, there are 15 councils in Queensland without an external audit committee and six without an internal audit function. A further five councils with an audit committee did not meet or met only once, and six internal audit functions did not conduct any audit activity.

For several years the Auditor-General has identified significant deficiencies in councils' internal control environments. Commonly, these have been in the areas of information systems, risk management and procurement practices. The financial sustainability of the local government sector in Queensland has improved. However, it is still below pre-pandemic levels. Effective audit committees are an important component of good governance. The committee strongly supports the Auditor-General's recommendations that all councils, irrespective of their size, establish external audit committees.

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 a strong control environment include a strong governance framework, secure information systems, robust policies and procedures, and regular management monitoring and internal audit reviews. A significant deficiency in internal control is a deficiency or a combination of deficiencies that require immediate remedial action. The Auditor-General advised that, when a significant deficiency is identified, councils should allocate enough resources to resolve it as a matter of priority. If remedial action is not undertaken in a timely manner, significant deficiencies may result in substantial financial or reputational loss to councils.

One example of these deficiencies is councils' information systems. For several years the Auditor-General has reported issues with councils' information systems. The Auditor-General makes clear that this increases the risk of cyber attacks, undetected errors and potential financial loss, including through fraud. In 2020, this was the most common internal control deficiency across the sector. In light of this, the Attorney-General recommended that all councils strengthen the security of their information systems. The Auditor-General identified a further 67 internal control deficiencies in addition to the 28 that remained unresolved from the previous year. The most common deficiencies related to incorrect system access levels for staff.

In closing, I note that the report from the committee made only one recommendation and that was that all 72 councils in Queensland are required to establish an independent audit and risk management committee.