



# Examination of Auditor-General Reports on the local government sector

Report No. 32, 57th Parliament

State Development and Regional Industries Committee

November 2022

## State Development and Regional Industries Committee

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### Acknowledgements:

The committee acknowledges the comprehensive work of the Auditor-General and Queensland Audit Office in preparing the following reports:

- **Local government 2021** (Report 15: 2021-22)
- **Local government 2020** (Report 17: 2020-21)
- **Managing the sustainability of local government services** (Report 2: 2019-20)
- **Local government entities: 2018-19 Results of financial audits** (Report 13: 2018-19)
- **Local government entities: 2017-18 Results of financial audits** (Report 18: 2017-18)

Extracts from the following reports have also been considered within the committee's report.

- **2022 status of Auditor-General's recommendations** (Report 4: 2022-23)
- **2021 status of Auditor-General's recommendations** (Report 4: 2021-22)

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## Chair's foreword

This report presents a summary of the committee's examination of several Auditor-General Reports relating to Queensland's local government sector.

The committee has maintained a watching brief on recommendations and recurring themes within these reports and it is these issues which this report primarily addresses.

We bring the following to the attention of the Legislative Assembly:

- 1) There is opportunity to strengthen governance in local governments through more effective and mandated independent audit and risk management committees.
- 2) Internal control deficiencies remain prevalent within the sector, including those over information systems.

On behalf of the committee, I thank the Auditor-General and officials of the Queensland Audit Office for their comprehensive and insightful work on the local government sector.

I also thank my fellow committee colleagues and the committee secretariat.

I commend this report to the House.



Chris Whiting MP

**Chair**

## Recommendations

### Recommendation 1

That all local governments be required to establish an independent audit and risk management committee.

## Executive summary

This report presents a summary of the committee's examination of one performance and 4 financial audits conducted by the Auditor-General relating to the local government sector. The report focusses on 3 themes: audit committees and internal audit in local government, the effectiveness of internal control environments and the sustainability of the local government sector. A more detailed overview of the findings of each report are contained in the Appendices.

### **Chapter 1 Strengthening governance through audit committees and internal audit**

All councils in Queensland are required by law to establish an effective internal audit function. Large councils must also establish an audit committee. For several years, the Auditor-General has recommended that legislative requirements on councils be strengthened to require that all councils establish an audit committee and that the chair of this committee be independent of management and council.

Despite this there are 15 councils in Queensland without an audit committee and 6 without an internal audit function. A further 5 councils with an audit committee did not meet or met only once and 6 internal audit functions did not conduct any audit activity.

The committee fully supports the Auditor-General's recommendation, and has recommended the same.

The committee understands the practical implications of this recommendation and therefore encourages the Department of State Development, Infrastructure, Local Government and Planning (the department) to continue its work in developing the governance and financial capacity of councils to ensure that they are equipped to meet their legislative responsibilities.

### **Chapter 2 Enhancing internal control environments**

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.

While councils have made considerable efforts in recent years to improve their control environments, more than two-thirds of significant deficiencies are taking more than one year to resolve. Significantly, almost 60 per cent of these deficiencies are within councils without an audit committee or internal audit function, adding further weight to the need for mandated audit committees across the entire local government sector.

### **Chapter 3 Supporting financial sustainability**

The financial sustainability of the local government sector has improved, however it is still below pre-pandemic levels.

The department has been working in consultation with local government on a new financial sustainability framework to better understand and support sustainability challenges facing the sector. A draft Financial Management (Sustainability) Guideline was recently published for engagement and awareness purposes and it is anticipated that the final guideline will be made prior to July 2023.

## 1 Strengthening governance through internal audit and audit committees

All councils in Queensland are required by law to establish an effective internal audit function. Large councils must also establish an audit committee. For several years the Queensland Audit Office (QAO) has recognised and stressed the importance of internal audit functions and audit committees in strengthening the governance and councils' control environments. Despite this, recent reports indicate that numerous councils do not have an audit committee or effective audit function in place.

### 1.1 What are the requirements and why are they in place?

Under the *Local Government Act 2009*, *Local Government Regulation 2012*, *City of Brisbane Act 2010* and the *City of Brisbane Regulation 2012* all councils in Queensland are required to establish an efficient and effective internal audit function. Each large council must also establish an audit committee.<sup>1</sup>

#### 1.1.1 Internal audit functions

An effective internal audit function can add significant value to a local government, providing objective assurance to its internal control, risk management, and financial processes. This should ultimately lead to improved council operations and management of risk.<sup>2</sup>

*All local governments must have an efficient and effective internal audit function.*

*All large local governments must also establish an audit committee.*

Minimum requirements for internal audit functions are also set out in law. Each year a council must prepare an internal audit plan, carry out an internal audit and report back to council on the progress of the audit plan. The plan must explain how operational risks have been identified and evaluated and what control measures are in place or are planned to manage those risks.<sup>3</sup>

The type of audit activity performed by each council will vary based on its individual circumstances. Audit activities, by way of example, could relate to the effectiveness of certain operations, compliance with statutory requirements, or service specific issues such as IT and information security.

#### 1.1.2 Audit committees

In addition, all *large* councils are required to have an audit committee. A *large* local government is defined as one which is classified as a council with a remuneration category of 3 or higher as set annually by the Local Government Remuneration Commission. By way of example, category 1 councils include Aurukun Shire Council and Longreach Regional Council, category 3 includes Lockyer Valley Regional Council and South Burnett Regional Council, and the Gold Coast is classified as category 8.<sup>4</sup>

Effective audit committees provide oversight of a council's internal control environment, financial reporting processes, risk management, and internal and external audit functions. They should also be instrumental in holding management to account in overseeing the timely resolution of issues.

Minimum requirements for audit committee are set out in regulation.<sup>5</sup> Each year, an audit committee should prepare and follow a work program to include a review of the audit plan and progress report,

<sup>1</sup> State Development, Infrastructure, Local Government and Planning, Internal Audit and Audit Committees, <https://www.statedevelopment.qld.gov.au/local-government/for-councils/finance/annual-financial-reporting/internal-audit-and-audit-committees>

<sup>2</sup> *Ibid.*

<sup>3</sup> Local Government Regulation 2012, s 207.

<sup>4</sup> Local Government Remuneration Commission, Annual Report 2020-21, p 14.

<sup>5</sup> Local Government Regulation 2012, ss 208 – 211.

draft financial statements and final Auditor-General's financial report on those statements. The committee should therefore meet at least twice a year.

The audit committee must consist of at least 3 and no more than 6 members, and include one, but no more than 2 councillors. At least one member must have significant experience and skills in financial matters. The local government must appoint one of the members as chairperson. The CEO cannot be a member of the audit committee but can attend meetings. The department recommends that at least one independent member with relevant financial skills be appointed to the audit committee.<sup>6</sup>

## 1.2 Auditor-General findings and recommendations

For several years, the Auditor-General has stressed the importance of audit committees and internal audit functions in strengthening the governance and control environments of local governments. Since 2018 the Auditor-General has recommended that the department strengthen the legislative requirements on councils relating to audit committees.

Recommendations have included that:

- all councils be required to establish an audit committee
- all audit committees be chaired by a member *independent* of council and management.<sup>7</sup>

More recently, the Auditor-General has also recommended that councils consider implementing the actions identified in its report examining the effectiveness of audit committees in state government entities. The Auditor-General intends to build on this work by assessing the effectiveness of local government audit committees in 2023-24.<sup>8</sup>

Despite recurring recommendations, the Auditor-General reported in 2021 that there were 15 councils (down from 16 councils in the previous year) that did not have an audit committee in place.<sup>9</sup>

Furthermore, 2 council audit committees did not meet during the year and 3 met only once, therefore not meeting their legislative responsibilities.<sup>10</sup>

The Auditor-General made clear that this weakens the council's governance, resulting in more internal control breakdowns, poor financial processes and a higher risk of being financially unsustainable.<sup>11</sup>

The Auditor-General also reported that 12 councils were in breach of legislative requirements to establish an effective audit function. Six councils did not have an internal audit function in place and a further 6 councils with an internal audit functions did not conduct any audit activity during the financial year.<sup>12</sup>

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*In 2021, out of 77 local governments:*

*15 did not have an audit committee. Of those which did have an audit committee, 2 did not meet during the year and 3 met only once.*

*6 councils did not have an internal audit function. A further 6 councils with an internal audit function did not conduct any activity during the year.*

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<sup>6</sup> State Development, Infrastructure, Local Government and Planning, Internal Audit and Audit Committees, <https://www.statedevelopment.qld.gov.au/local-government/for-councils/finance/annual-financial-reporting/internal-audit-and-audit-committees>

<sup>7</sup> See Auditor-General's: Report 15: 2021-22, Report 17: 2020-21, Report 13: 2019-20, Report 18: 2018-19.

<sup>8</sup> See: QAO, Report 2: 2020-21, Effectiveness of audit committees in state government entities.

<sup>9</sup> QAO, Local Government 2021 (Report 15: 2021-22), p 15.

<sup>10</sup> QAO, Local Government 2021 (Report 15: 2021-22), p 15.

<sup>11</sup> QAO, Local government 2020 (Report 17: 2020-21), p 16.

<sup>12</sup> QAO, Local Government 2021 (Report 15: 2021-22), pp 13-14.



In one report the Auditor-General acknowledged that most of the affected councils are already under financial pressure and the cost of establishing audit committees and internal audit functions can be seen as an additional financial burden. Furthermore, and of particular relevance to remote areas of Queensland, councils reported challenges with sourcing independent audit committee members with the right skills and experience and internal audit service providers at a reasonable cost.<sup>13</sup> The Auditor-General suggested that there may now be more opportunity to use readily accessible video conferencing technology (such as Teams or Zoom) to reduce such barriers.<sup>14</sup>

The committee sought information from the department on which councils did not have audit committees in place. It is worth noting that all councils without audit committees are classified as category 1 councils (the smallest of councils) many of which are remote, and were not required by law to establish one. Of the 12 councils not meeting internal audit function requirements, 2 were classified as a category 3 council and 10 were classified as category 1.<sup>15</sup>

### **1.3 The department supports the recommendation and is working to build capacity**

In August 2022, the department confirmed that it continues to support, in-principle, the recommendation made by the Auditor-General in relation to audit committees for councils. However, cautioned that the recommendation needed to be considered further from a policy perspective and if accepted, legislative amendments would be required to implement the recommendation.<sup>16</sup>

The department acknowledged the challenges facing some of the councils, and confirmed that it is working proactively to improve council governance and financial capability and identify capacity gaps. This is expected to continue into during 2022-23 and beyond.<sup>17</sup>

### **1.4 Committee comment**

Effective audit committees are an important component of good governance. The committee strongly supports the Auditor-General's recommendation for all councils, irrespective of size, to establish audit committees. We also support the recommendation that the chairs of these committee's be independent of council and council management.

We understand the practicalities around this recommendation, particularly for those councils in remote areas. It may be the case that audit committees for these councils need to be scaled appropriately and that certain exemptions to the full breadth of the legislative requirements need to be applied. A possible solution could be one independent audit and risk management committee servicing all councils within a particular Regional Organisation of Councils.

The committee is concerned by reports that some councils are not meeting their legislative responsibilities around audit committees and internal audit functions. We strongly encourage the department to continue to work with affected councils to develop the capacity of these councils in governance and financial matters to ensure they are equipped to meet their legislative responsibilities.

#### **Recommendation 1**

That all local governments be required to establish an independent audit and risk management committee.

<sup>13</sup> QAO, Local Government 2020 (Report 17: 2020-21), 16.

<sup>14</sup> Public briefing transcript, 20 June 2022, p 4.

<sup>15</sup> Department, correspondence, 4 August 2022, pp 1-2.

<sup>16</sup> *Ibid.*

<sup>17</sup> *Ibid.*

## 2 Enhancing internal control environments

Year on year, the Auditor-General has identified significant deficiencies in councils' internal control environments. These have consistently been reported in the areas of information systems, risk management, asset management and procurement and contract management practices. While councils have made considerable efforts in recent years to reduce the number of significant deficiencies, more than two-thirds of them have been unresolved for more than a year.

### 2.1 What are internal controls and why are they important

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.<sup>18</sup>

A significant deficiency in internal control is a deficiency or a combination of deficiencies that requires immediate remedial action. The Auditor-General states 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 taken in a timely manner, significant deficiencies may result in substantial financial or reputational loss to councils.<sup>19</sup>

### 2.2 Auditor-General findings and recommendations

In 2021, the Auditor-General reported that there are fewer unresolved significant deficiencies, but strong governance is still needed to improve the control environment. Seventy new significant deficiencies were identified in 2021, meaning that a total of 127 significant deficiencies existed within the sector.<sup>20</sup>

Significantly, 68 per cent of these deficiencies are still unresolved after more than 12 months.<sup>21</sup>

Unresolved significant deficiencies were more common in councils without an audit committee:

- 57 per cent of the unresolved significant deficiencies were at councils that did not have an effective audit committee and an internal audit function
- 52 per cent of the unresolved significant deficiencies were at councils that have a higher risk of being financially unsustainable.<sup>22</sup>

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*47 councils (out of 77) have at least one significant deficiency that needs to be addressed.*

*More than two-thirds of significant deficiencies have been unresolved for more than a year.*

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The Auditor-General is updating its assessment tools for public sector entities to provide entities with greater insight into the strength of their controls. Tools will focus on areas such as asset management, change management culture, governance and information systems.<sup>23</sup>

In recent reports, the Auditor-General has recommended that all councils use the assessment tool on the QAO website to self-assess the strengths and improvement opportunities of their internal controls.

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<sup>18</sup> QAO, Local Government 2021 (Report 15: 2021-22), p 11.

<sup>19</sup> QAO, Local Government 2021 (Report 15: 2021-22), p 12.

<sup>20</sup> QAO, Local Government 2021 (Report 15: 2021-22), p 11.

<sup>21</sup> QAO, Local Government 2021 (Report 15: 2021-22), p 12.

<sup>22</sup> QAO, Local Government 2021 (Report 15: 2021-22), p 12.

<sup>23</sup> QAO, Local Government 2021 (Report 15: 2021-22), p 16.

In cases where results do not meet performance expectations, a plan to strengthen internal controls over a specific period should be provided.<sup>24</sup>

### **2.2.1 Weaknesses in information system controls are prevalent**

For several years, the Auditor-General has reported issues with councils' information system controls. The Auditor-General makes clear that this increases the risk from cyber-attacks, undetected errors and potential financial loss, including through fraud.<sup>25</sup>

In 2020, this was the most common internal control deficiency across the sector. In light of this, the Auditor-General recommended that all councils strengthen the security of their information systems.<sup>26</sup>

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*At June 2021, 45 councils (up from 32 councils in the previous year) did not have sufficient controls in place to protect their information systems.*

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In 2020, 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.<sup>27</sup>

Another critical element in managing cyber risks is to provide staff with adequate training on cyber threats and educate them on the impact such incidents have on councils' operations. In 2020 the Auditor-General recommended councils develop and implement mandatory cyber security awareness training for all staff. One year later, 20 councils had not provided this training to their staff.<sup>28</sup>

The Auditor-General has reported that since the start of the COVID-19 pandemic, cyber threats have intensified in frequency and sophistication, making it even more important that councils promptly fix any weaknesses in their systems.<sup>29</sup>

### **2.2.2 Councils are not adequately managing their risks**

It is important that councils identify and manage risk effectively. In 2021, the Auditor-General reported that 22 councils (down from 29 councils) did not have sufficient processes in place to identify and manage risk.<sup>30</sup>

Common deficiencies included an absence of, or incomplete, risk management frameworks, registers, business continuity or disaster recovery plans and fraud risk assessments.<sup>31</sup>

### **2.2.3 Procurement and contract management practices are still weak**

Each year, the local government sector spends approximately \$8 billion procuring goods and services. To achieve value for money, councils need to ensure that they have strong procurement and contract management practices. In at least the last 2 financial audits, the Auditor-General has reported that procurement and contract management practices could be improved.<sup>32</sup>

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<sup>24</sup> QAO, Local Government 2021 (Report 15: 2021-22), p 16.

<sup>25</sup> QAO, Local Government 2021 (Report 15: 2021-22), p 14.

<sup>26</sup> QAO, Local Government 2021 (Report 15: 2021-22), p 35.

<sup>27</sup> QAO, Local Government 2021 (Report 15: 2021-22), p 38.

<sup>28</sup> QAO, Local Government 2021 (Report 15: 2021-22), p 38.

<sup>29</sup> QAO, Local Government 2021 (Report 15: 2021-22), p 15.

<sup>30</sup> QAO, Local Government 2021 (Report 15: 2021-22), p 15.

<sup>31</sup> QAO, Local Government 2021 (Report 15: 2021-22), p 15.

<sup>32</sup> QAO, Local Government 2021 (Report 15: 2021-22), p 15 and Local Government 2020 (Report 17: 2020-21), pp 4-5.

In 2021, the Auditor-General found that 29 councils (down from 31 in the previous year) still had weak practices. Of these, 19 councils had not addressed these weaknesses for more than 12 months.<sup>33</sup>

Common weaknesses included: inadequate tender/quote processes for the purchase of goods and services; procuring goods prior to entering into an agreement with the supplier; either not having a contract register or having an incomplete register in place; and not performing checks when changes were made to vendor information meaning payments can be misdirected.<sup>34</sup>

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*At June 2021, 29 councils (down from 31 in the previous year) still have weak procurement and contract management practices. Of these, 19 had not addressed these weaknesses for more than 12 months.*

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### **2.3 Committee comment**

The committee commends the local government sector for the positive action it has taken to reduce the number of significant deficiencies across the sector. However, reports that many significant deficiencies are taking more than a year to resolve are concerning.

The Auditor-General makes clear that these significant deficiencies are more commonly found in councils without effective audit committees or audit functions, adding further weight to the committee's recommendation for audit committees to be mandated across the entirety of the local government sector.

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<sup>33</sup> QAO, Local Government 2021 (Report 15: 2021-22), p 15.

<sup>34</sup> QAO, Local Government 2021 (Report 15: 2021-22), p 15.

### 3 Financial sustainability

Councils deliver essential services and they must continue to deliver services despite challenges such as population growth, budget constraints and skills shortages. The Auditor General, through various reports, has identified common challenges in achieving financial sustainability, and recommended changes to the way in which financial sustainability is measured by the State to ensure that councils can be supported appropriately. Recent reports indicate that the financial sustainability of the sector has improved but is still below pre-pandemic levels.

#### 3.1 What is financial sustainability and how is it measured

Currently, the financial sustainability of councils in Queensland is measured using the following legislated ratios which are explained in the Financial Management (Sustainability) Guideline 2013:

- Operating surplus ratio – the extent to which operating revenues (revenues generated by councils from their day to day business) cover operating expenses
- Net financial liabilities ratio – the extent to which the operating revenues can meet liabilities
- Asset sustainability ratio – the extent to which assets are replaced as they reach the end of their useful lives (number of years an entity expects to be able to use an asset).

All councils, regardless of their nature, size and unique challenges, are expected to use these ratios and achieve the same benchmarks.

Each year, the Auditor-General examines the sustainability of councils as part of its financial audits. Several performance audits have also been completed in this area.

#### 3.2 Financial performance

In 2021 the Auditor-General reported that the sector's financial sustainability has marginally improved since 2019-20, but is still below pre-pandemic levels.<sup>35</sup>

For the 2020-21 financial year, 35 councils (up from 21 councils in the previous year) generated an operating surplus. As a result, fewer councils are at a moderate or high risk of not being financially sustainable.<sup>36</sup>

Although encouraging, 45 councils (out of a total of 77) are still at either a moderate or high risk of not being financially sustainable.<sup>37</sup>

In 2021, 3 more councils have become highly reliant on grants and one less council has a low reliance on grants. This was expected, given additional grants were made available to councils to help them recover from the COVID-19 pandemic.<sup>38</sup>

The Auditor-General also reported that the department has partially implemented a recommendation to review its funding model to identify opportunities to provide funding certainty to councils beyond one financial year. Two capital grants in the 2020–21 financial year were offered as a 3-year program and further reviews to offer long-term funding for future capital grants are ongoing.<sup>39</sup>

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*Councils have started to recover from the financial impacts of the COVID-19 pandemic.*

*25 councils generated an operating surplus, up from 21 in the previous year.*

*45 councils (out of 77) are still at either a moderate or a high risk of not being financially sustainable.*

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<sup>35</sup> QAO, Local Government 2021 (Report 15: 2021-22), p 1.

<sup>36</sup> QAO, Local Government 2021 (Report 15: 2021-22), p 1.

<sup>37</sup> QAO, Local Government 2021 (Report 15: 2021-22), p 1.

<sup>38</sup> QAO, Local Government 2021 (Report 15: 2021-22), p 20.

<sup>39</sup> QAO, Local Government 2020 (Report 17: 2020-21), p 20.

While there are signs of recovery from the financial impact of the pandemic, councils are still finding it challenging to generate surpluses.<sup>40</sup> Councils in rural and remote regions face particular challenges and it was noted that alternative ratios to measure financial sustainability need to be considered.

One such ratio is the unrestricted cash expense ratio. This assesses the number of months a council could continue to operate, using only its unrestricted cash balance (unrestricted cash is money that is not required to be spent on specific things, for example, construction of an asset), based on its current monthly expenses.

In 2021, the Auditor-General reported that 11 councils had inadequate cash services (less than 3 months). Two of these councils recorded a negative unrestricted cash balance, meaning they have likely had to use grant funding for particular purposes for their day to day operations. This would represent a breach of their grant agreements.<sup>41</sup>

### **3.3 Broadening view of financial sustainability**

The Auditor General, in various reports, has raised concerns with the financial sustainability of local governments and recommended that the department consider broadening its view of sustainability to better reflect the diversity of the local government sector.

The department is currently working on a new Sustainability Framework. The new framework will enable the sustainability of councils to be monitored in a way that better reflects the diversity of Queensland's local government sector.

Following consultation with local governments and other stakeholders, the department released the Financial Management (Sustainability) Draft Guideline in November 2022. The draft guideline includes elements such as operating environment, finances, assets governance and compliance.<sup>42</sup>

The draft guideline was published for engagement and awareness purposes and it is anticipated that the final guideline will be released prior to July 2023. The final guideline will apply to all Queensland local government and local governments will be required to calculate and publish the relevant measures.<sup>43</sup> It will be supported by the department with a range of guidance material and implementation assistance for councils.

### **3.4 Committee comment**

The committee welcomes the recent publication of the Financial Management (Sustainability) Draft Guideline. The committee will maintain a watching brief on departmental progress including feedback from the sector, in implementing the final guideline over the coming year.

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<sup>40</sup> QAO, Local Government 2021 (Report 15: 2021-22), p 21.

<sup>41</sup> QAO, Local Government 2021 (Report 15: 2021-22), p 22-23.

<sup>42</sup> Department for State Development, Infrastructure, Local Government and Planning, Local government sustainability framework, <https://www.statedevelopment.qld.gov.au/local-government/for-councils/finance/sustainability-and-reporting/local-government-sustainability-framework>

<sup>43</sup> Department, Draft Financial Management (Sustainability) Guideline, 2022, p 4.

## Appendix A - Local government 2021 (Report 15: 2021-22) – Summary

About the report	
<p><b>Local government 2021</b> summarises the audit results of Queensland’s 77 local government entities and the entities they control. To read the report see: <a href="https://www.qao.qld.gov.au/reports-resources/reports-parliament/local-government-2021">https://www.qao.qld.gov.au/reports-resources/reports-parliament/local-government-2021</a>.</p>	
Headline results <sup>44</sup>	
<ul style="list-style-type: none"> <li>Financial statements of councils are reliable and comply with relevant laws and standards but timeliness has deteriorated since 2018-19.</li> <li>Controls over financial systems and processes have improved, but most high-risk issues have not been resolved after more than a year.</li> <li>For several years, problems with information systems, risk management, and procurement and contract management practices have been identified.</li> <li>For several years, the QAO has recommended strengthened governance in councils including audit committees and internal audit functions. 15 councils do not have an audit committee, and 12 councils breached legislative requirements for an effective audit function.</li> <li>Financial sustainability has marginally improved.</li> </ul>	
Recommendations to all Councils (in summary) <sup>45</sup>	
<b>Rec 1</b>	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.
<b>Rec 2</b>	Assess audit committees against the actions in the 2020-21 report examining the effectiveness of audit committees in state government entities.
<b>Rec 3</b>	Improve overall control environments.
<b>Rec 4</b>	Asset management plans to include councils’ planned spending on capital projects.
<b>Rec 5</b>	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.
<b>Rec 6</b>	Enhance liquidity management by reporting unrestricted cash expense ratio and unrestricted cash balance in monthly financial reports.
Audit opinion results <sup>46</sup>	
<ul style="list-style-type: none"> <li>75 audit opinions were issued for 77 councils. 62 statements signed by legislative deadline.</li> <li>68 audit opinions were issued for 74 council related entities.</li> <li>Councils’ financial statements are reliable.</li> </ul>	

<sup>44</sup> QAO, Local government 2021, p 1.

<sup>45</sup> QAO, Local government 2021, p 2.

<sup>46</sup> QAO, Local government 2021, p 4.

- An *emphasis of matter*<sup>47</sup> was issued for Wujal Wujal Aboriginal Shire Council to highlight uncertainty over its ability to repay its debts as and when they arise.
- One controlled entity, Local Buy Trading Trust, received a *qualified opinion*<sup>48</sup> because it was unable to provide enough evidence to confirm the revenue it recorded was complete.

#### Poor financial statement processes continue to impact on timeliness of reporting<sup>49</sup>

- For several years the QAO has emphasised the importance of certifying financial statements ahead of the legislative deadline. Despite this, only 36 councils had their financial statements certified 2 weeks prior to the statutory deadline.
- Over the last 5 years, 5 councils have regularly failed to meet the legislative deadline.
- Councils' ability to meet legislative reporting deadlines has been impacted by ineffective month-end and year-end processes and poor asset management practices.

#### Asset management, asset data, and asset valuation continues to present challenges<sup>50</sup>

- This year, 5 councils did not meet their legislative time frames because they were unable to have their asset valuations completed on time.
- 9 councils had assets of \$108 million in their financial statements for the first time even though these assets existed in prior years. This is due to not maintaining good asset data.
- Common issues included: delays in engaging with external valuers, individual parts of assets not being recorded correctly and inadequate review of information provided by external valuers.
- 11 councils had asset management plans that are not current or complete and recommended that councils improve their asset valuation and asset management practices.

#### Internal control weaknesses<sup>51</sup>

- Fewer significant issues were raised than in the previous year, but more than two-thirds of existing significant issues were taking more than a year to resolve.
- This year, there were 70 new recommendations to address significant deficiencies and a total of 127 unresolved recommendations to address significant deficiencies overall.
- 57 per cent of the unresolved significant deficiencies were at councils that did not have an effective audit committee and an internal audit function
- 52 per cent of the unresolved significant deficiencies were at councils that have a higher risk of being financially unsustainable.
- The most common significant deficiencies unresolved for more than one year were: month-end processes (29), asset management and valuations (18), risk management (13), information systems (10) and procurement and contract management (8).

<sup>47</sup> An emphasis of matter is used to highlight an issue the auditor believes users of the statements need to be aware of.

<sup>48</sup> A qualified opinion is made when financial statements as a whole comply with relevant accounting standards and legislative requirements, with the exceptions noted in the opinion.

<sup>49</sup> QAO, Local government 2021, pp 6-7.

<sup>50</sup> QAO, Local government 2021, pp 7-8.

<sup>51</sup> QAO, Local government 2021, p 11.



<p><b>Audit committees and internal audit functions<sup>52</sup></b></p>
<ul style="list-style-type: none"> <li>• For several years, the QAO has stressed the importance of audit committees and internal audit functions in strengthening the control environments of councils.</li> <li>• Every council in Queensland is required by law to have an effective internal audit function. This year, 12 councils were in breach of the legislation. 6 councils did not have an internal audit function and another 6 councils with a function did not conduct any audit activity.</li> <li>• Every large council in Queensland is required by law to have an audit committee. Despite this, 15 councils did not have an audit committee. In addition, 2 councils with a committee did not meet during the year, and 2 met less than twice during the year as required.</li> </ul>
<p><b>Weaknesses in information system controls are prevalent across the sector<sup>53</sup></b></p>
<ul style="list-style-type: none"> <li>• Last year, the QAO reported that the most common internal control deficiency related to the security of information systems and recommended that all councils strengthen their systems.</li> <li>• This year, audits identified 67 new significant deficiencies with respect to councils' information systems in addition to the 28 deficiencies that are unresolved from previous years.</li> <li>• 45 councils (up from 32 councils in the previous year) did not have sufficient controls in place to protect their information systems. The most common weaknesses include incorrect levels of system access being assigned to staff.</li> <li>• Since the start of the pandemic, cyber threats have intensified in frequency and sophistication, making it even more important that councils promptly fix any weaknesses in their systems.</li> <li>• Another critical element in managing the risk of a cyber-incident is to provide adequate training to staff. This year, 20 councils had not provided this training to their staff.</li> </ul>
<p><b>Councils are not adequately managing their risks<sup>54</sup></b></p>
<ul style="list-style-type: none"> <li>• 22 councils (down from 29) do not have enough processes in place to identify and manage risk.</li> <li>• Commonly, risk management frameworks and risk registers are not in place or are incomplete, business continuity and disaster recovery plans are not in place or are incomplete, or fraud risk assessments have not been completed.</li> </ul>
<p><b>Procurement and contract management practices are still weak<sup>55</sup></b></p>
<ul style="list-style-type: none"> <li>• This year, 29 councils (down from 31 councils) had weak practices. Of these, 19 councils have not addressed these weaknesses for more than 12 months.</li> <li>• Common weaknesses included: not obtaining sufficient tenders/quotes for the purchase of goods or services; procuring goods prior to entering into an agreement with a supplier; either not having a contract register in place or having an incomplete register in place.</li> </ul>
<p><b>Financial performance<sup>56</sup></b></p>

<sup>52</sup> QAO, Local government 2021, pp 13-14.

<sup>53</sup> QAO, Local government 2021, pp 14-15.

<sup>54</sup> QAO, Local government 2021, p 15.

<sup>55</sup> QAO, Local government 2021, pp 15-16.

<sup>56</sup> QAO, Local government 2021, p 17.

- This year the sector reported \$13.4 bn in revenue, \$136.4 bn in assets, \$11.4 bn in expenses and \$12.2 bn in liabilities.
- The sector's revenue has increased at a higher rate than its expenses.

**Financial sustainability has improved but is still below pre-pandemic levels<sup>57</sup>**

- Several factors make it difficult for councils, especially in regional Queensland to be financially sustainable. As a result, many councils rely on grants from governments to sustain their operations and community assets.
- The financial sustainability of councils is measured using certain legislated ratios. All councils are measured against these ratios. Consultation is underway on a new framework for measuring sustainability and is expected to be implemented in 2023-24.
- Councils have started to recover from the financial impacts of the pandemic: 6 councils improved their positions from moderate to low risk of being financially unsustainable while 2 councils improved their position from a high to moderate risk.
- 3 councils' financial sustainability risk increased from low to moderate.

**More councils have become highly reliant on grants<sup>58</sup>**

- This year, 3 more councils have become highly reliant on grants and one less council has a low reliance on grants. This was expected given the availability of pandemic recovery grants.
- Last year, the QAO recommended the department provide greater certainty over long-term grant funding. This recommendation has been partially implemented. The department is undertaking further reviews to offer long-term funding for future capital grants.
- Councils are best placed to identify their long-term funding needs, most of which are to acquire new or replace existing assets. An effective asset management plan is important in this regard.

**While councils are recovering, there are still challenges in generating surpluses<sup>59</sup>**

- This year, 35 councils generated operating surpluses. This is an improvement on last year and is consistent with the results before the pandemic.
- Some councils, particularly those in rural and remote regions, face challenges in generating operating surpluses. For these councils, alternative ratios to measure financial sustainability need to be considered. One such ratio is the unrestricted cash expense ratio which assesses the number of months a council can continue to operate using only its unrestricted cash balance.
- 3 to 6 months of unrestricted cash reserves at a point in time are generally considered adequate, while less than 3 months is considered inadequate, and 6 to 12 months is more than adequate.
- This year, 11 councils had inadequate cash reserves, which suggests that they may not have good cash management processes. Of these 11 councils, 2 councils had a negative unrestricted cash balance, meaning they likely used grant funding received for specific purposes for their day-to-day operations. This could represent a breach of grant agreement.
- This year, 17 councils have cash reserves that are 'possibly excessive'.

<sup>57</sup> QAO, Local government 2021, pp 17 – 26.

<sup>58</sup> QAO, Local government 2021, pp 19-20.

<sup>59</sup> QAO, Local government 2021, pp 21-23

- While the unrestricted cash expense ratio is a good ratio for assessing operational performance, it is a point-in-time measure meaning it does not measure councils' performance for the year.

**The sector continues to invest in community assets while keeping debt levels relatively low<sup>60</sup>**

- This year, total investment in community assets was \$4.2 billion. Funding was through a combination of capital grants, borrowings, and own-source revenue.
- While reliance on borrowings has increased, borrowing levels have remained low across the sector.
- Councils should ensure that their assets are sustainable. This is currently measured using the asset sustainability ratio which approximates the extent to which councils replace their assets as they reach the end of their useful lives. The QAO has reported shortcomings with this ratio.
- The department has considered some additional ratios to supplement the current ratio. One such ratio is the asset consumption ratio. This measures the current value of assets relative to what it would cost to build a new asset with the same benefit to the community. The proposed benchmark for this ratio is 60 per cent.
- This year, 6 councils have an asset consumption ratio of less than 60 per cent. This suggests they have used more than 40 per cent of their asset value and risk assets not meeting community expectations.
- Another 10 councils have an asset consumption ratio of between 61 per cent and 65 per cent. While within the benchmark, if these councils do not act to maintain their assets, they run the risk that communities' needs over the next few years will not be met.
- Of the 16 councils mentioned above, 9 have achieved the target ratio for asset sustainability. This is because, together, they have received \$276 million in natural disaster funding over the last 5 years to assist with replenishing their assets.
- All these councils have either a moderate or high reliance on grants and have a combined average operating surplus ratio of negative 11 per cent. This indicates that they would not have the ability to replace their assets if they were not provided with natural disaster funding.

<sup>60</sup> QAO, Local government 2021, pp 23-26.

## Appendix B – Local government 2020 (Report 17: 2020-21) - Summary

About the report	
<p><b>Local government 2020</b> summarises the audit results of Queensland’s 77 local government entities and the entities they control. To read the report see: <a href="https://www.qao.qld.gov.au/sites/default/files/2021-04/Local%20government%202020%20%28Report%2017%E2%80%942020%E2%80%9321%29.pdf">https://www.qao.qld.gov.au/sites/default/files/2021-04/Local%20government%202020%20%28Report%2017%E2%80%942020%E2%80%9321%29.pdf</a></p>	
Headline findings <sup>61</sup>	
<ul style="list-style-type: none"> <li>• Councils’ financial statements were reliable and complied with relevant laws and standards.</li> <li>• Financial sustainability continued to deteriorate. This was expected due to the pandemic.</li> <li>• Despite progress in resolving internal control weaknesses in recent years, changes to working environments on account of the pandemic contributed to an increase in the number of significant weaknesses identified.</li> <li>• More than a third of councils did not have appropriate processes in place to identify and manage their strategic and operational risks.</li> <li>• At June 2020, 10 councils did not have an audit committee or an active internal audit function. In addition, 6 councils did not have an audit committee and 2 councils did not have an active internal audit function.</li> <li>• Information systems are vulnerable. The QAO found inappropriate user access to systems, unauthorised installation of applications on council networks, inadequate segregation of duties and poor password practices.</li> <li>• One council was the victim of a successful ransomware attack, resulting in disruptions to its financial and operational activities.</li> <li>• Some councils are not following established procurement processes to demonstrate they have obtained value for money. In addition, some councils did not have a contract register containing the necessary information they need to manage their contracts effectively.</li> </ul>	
Recommendations to all Councils (in summary) <sup>62</sup>	
<b>Rec 1</b>	Improve financial reporting by strengthening month-end and year-end financial reporting processes.
<b>Rec 2</b>	Improve valuation and asset management practices.
<b>Rec 3</b>	Strengthen security of information systems.
<b>Rec 4</b>	Improve risk management processes.
<b>Rec 5</b>	Enhance procurement and contract management practices.

<sup>61</sup> QAO, *Auditor-General Report 17: 2020-21—Local government 2020—Financial audit report* (Report 17: 2020-21), pp 2-3.

<sup>62</sup> QAO, *Local government 2020*, pp 4-5.

<b>Recommendations to Department<sup>63</sup></b>	
<b>Rec 6</b>	<p>QAO continue to recommend that the department requires all councils to establish audit committees and that the chairperson of this committee is independent of council and management.</p> <p>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.</p>
<b>Rec 7</b>	<p>QAO recommend that the department develops new financial sustainability ratios for councils. In developing ratios and associated targets, we recommend that the department consider the different sizes, services and circumstances of the various councils.</p> <p>We also recommend that the new financial sustainability ratios be established in time for the year ending 30 June 2022.</p>
<b>Rec 8</b>	<p>QAO recommend that the department reviews its current funding model to identify opportunities to provide funding certainty to councils beyond one financial year. A three- to five-year funding model would assist councils, especially those heavily reliant on grants, to develop and implement more sustainable medium- to long-term plans.</p>
<b>Rec 9</b>	<p>QAO recommend that the department provides periodic training to councillors and the senior leadership team 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 and improve financial sustainability in the long term.</p>
<b>Audit results summary<sup>64</sup></b>	
<ul style="list-style-type: none"> <li>• 75 audit opinions were issued for 77 councils. 61 councils met their legislative deadline, 10 met an extended deadline and 4 councils did not meet their legislative deadline.</li> <li>• 67 audit opinions were issued for 112 council-related entities.</li> <li>• The QAO found that councils' financial statements were reliable.</li> <li>• Emphases of matter were included in the reports of 2 councils to highlight: uncertainty over Wujal Wujal Aboriginal Shire Council's ability to repay its debts as and when they arise; and that Mount Isa City Council did not recognise an obligation to remediate its landfills.</li> <li>• Two controlled entities (Artspace Mackay Foundation and Local Buy Trading Trust) received qualified opinions because they were unable to provide enough evidence to demonstrate the completeness of the revenue they recorded. The QAO also included emphases of matter in its audit reports for 11 controlled entities.</li> </ul>	
<b>Common issues with financial statement preparation<sup>65</sup></b>	
<ul style="list-style-type: none"> <li>• Councils adopted 3 new accounting standards, which became mandatory in 2019–20 and were generally under-prepared for the changes arising from the standards. This contributed to the decline in the quality and timeliness in finalising financial statements.</li> </ul>	

<sup>63</sup> QAO, *Local government 2020*, p 6.

<sup>64</sup> QAO, *Local government 2020*, pp 8-10.

<sup>65</sup> QAO, *Local government 2020*, p 11.

- Ineffective month-end and year-end processes evident in the sector. There were 65 deficiencies in the internal controls across 29 councils where those councils did not follow good accounting practices in preparing their month-end and year-end financial reports.
- Valuation processes, asset management plans, and asset data maintenance was a challenge. Asset valuation continued to be one of the most common year-end processes not completed in a timely manner, made harder by COVID-19 travel restrictions.
- At 30 June 2020, 11 councils had outdated or incomplete asset management plans.
- Councils again identified ‘found assets’, mainly due to asset data between financial systems and other information systems not being reconciled. Nine councils (down from 10) that found assets made changes to their financial statements totalling \$230 million (down from \$497 million).

#### **Internal controls require improvement<sup>66</sup>**

- The number of unresolved significant issues increased.
- Between 2017 and 2019, councils made significant progress in addressing the weaknesses in their internal controls. However, in 2019–2020 the QAO identified 228 significant issues.

#### **Audit committees and internal audit functions<sup>67</sup>**

- At 30 June 2020, 10 councils (down from 12 councils) did not have either an audit committee or an active internal audit function. In addition, a further 6 councils (2019: 6 councils) still did not have an audit committee and 2 councils (2019: one council) did not have an internal audit function or had no internal audit activity during the year.
- Together, these councils accounted for more than 50 per cent of the unresolved significant deficiencies in the sector.
- Most of these councils were highly reliant on grants and were deemed to be at a higher risk of being financially unsustainable. They saw the cost of establishing audit committees and internal audit functions as additional financial burdens.

#### **Information systems have seen more attacks<sup>68</sup>**

- External attacks increased significantly. Weaknesses in one council’s internal controls contributed to a successful cyber-attack with significant impacts on its operations.
- Thirty-two councils did not have sufficient controls in place to protect their information systems. Common weaknesses included access to systems not being to current employees, and employees being assigned incorrect delegations in finance systems.

#### **Risk management processes require improvement<sup>69</sup>**

- Twenty-nine councils did not have sufficient risk management processes in place to identify and manage their risks. As a result, they faced a greater likelihood of loss, or failure of objectives.

<sup>66</sup> QAO, *Local government 2020*, pp 15-19.

<sup>67</sup> QAO, *Local government 2020*, p 16.

<sup>68</sup> QAO, *Local government 2020*, pp 16-17.

<sup>69</sup> QAO, *Local government 2020*, p 18.

<ul style="list-style-type: none"> <li>Common issues included that councils either did not have risk management frameworks, or had very outdated frameworks, and that councils did not have complete risk registers.<sup>70</sup></li> </ul>
<p><b>Procurement and contract management practices can be improved<sup>71</sup></b></p>
<ul style="list-style-type: none"> <li>The QAO identified deficiencies in procurement and contract management controls in 32 councils. A common issue was that councils did not have a contract register, or did not have a complete contract register that would enable them to effectively manage their contracts.</li> </ul>
<p><b>Financial sustainability deteriorated<sup>72</sup></b></p>
<ul style="list-style-type: none"> <li>The QAO analysed councils' financial sustainability risk by their reliance on grants. Generally, as a council's reliance on grants increased, so too did its financial sustainability risk.</li> <li>Twenty-eight councils had a high reliance on grants (comprising 50 per cent or more of their total revenue). Of these 28 councils, 17 were at high risk of not being financially sustainable.</li> <li>The financial sustainability of most councils deteriorated, with the sector's expenses and liabilities increasing faster than its revenues and assets.</li> <li>The financial sustainability risk rating for 12 councils increased to either moderate or high. The sustainability ratios for another 64 councils also deteriorated but this did not result in a change to their financial sustainability risk rating.</li> </ul>
<p><b>Expenses and liabilities rose at a higher rate than revenue and assets<sup>73</sup></b></p>
<ul style="list-style-type: none"> <li>The sector's expenses had steadily increased over the last 5 years, while revenue did not increase at the same rate. For the first time in 5 years, the sector's total expenses exceeded total revenue.</li> <li>Seventy per cent of councils spent more than they earned – a 25 per cent increase on last year.</li> <li>Council operating revenues increased by one per cent. Several council revenue streams decreased, with significantly fewer visitors due to travel restrictions and community lockdowns.</li> <li>Councils with low or moderate reliance on grants saw operating losses for the first time in 5 years, due to a substantial increase in their operating costs, largely due to impacts of COVID-19.</li> </ul>
<p><b>Debt increased in line with asset growth<sup>74</sup></b></p>
<ul style="list-style-type: none"> <li>The sector's debt levels increased by 5 per cent, in line with the increase in the value of community assets. Over the last 5 years, the sector's debt has remained steady.</li> <li>Sixty-eight per cent of debt was held by councils with a low reliance on grant revenue, and 31 per cent was held by councils with a moderate reliance on grants. The councils with the remaining one per cent were highly reliant on grants.</li> </ul>
<p><b>Councils continued to invest in community assets; additional ratios needed<sup>75</sup></b></p>

<sup>70</sup> QAO, *Local government 2020*, p 18.

<sup>71</sup> QAO, *Local government 2020*, p 19.

<sup>72</sup> QAO, *Local government 2020*, pp 21-22.

<sup>73</sup> QAO, *Local government 2020*, p 22.

<sup>74</sup> QAO, *Local government 2020*, p 24.

<sup>75</sup> QAO, *Local government 2020*, p 25.

- Councils spent \$4.3 billion (the same as the previous year) on replenishing and/or constructing new assets.<sup>76</sup>
- The QAO highlighted some limitations of the asset sustainability ratio, such as that as it does not factor in the age profile of a council's assets, it does not inform councils of the assets that need to be maintained or renewed.
- The QAO noted the department was working to identify alternative ratios to enhance asset sustainability reporting.

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<sup>76</sup> QAO, *Local government 2020*, p 25.



## Appendix C – Managing the sustainability of local government services (Report 2: 2019-20) - Summary

<b>About the report</b>	
<p><b>Managing the sustainability of local government services</b> assessed whether councils plan and deliver their services to support long-term financial sustainability. To read the report see: <a href="https://www.qao.qld.gov.au/reports-resources/reports-parliament/managing-sustainability-local-government-services">https://www.qao.qld.gov.au/reports-resources/reports-parliament/managing-sustainability-local-government-services</a></p>	
<b>Headline findings<sup>77</sup></b>	
<ul style="list-style-type: none"> <li>• The QAO audited 5 councils<sup>78</sup> to assess whether they delivered services in a financially sustainable way. It found each council had some elements necessary to effectively plan and deliver their collective services to support long-term sustainability, but none had all the components working together.</li> <li>• The QAO highlighted that:             <ul style="list-style-type: none"> <li>- understanding the value the community places on council-provided services can help councils decide which services to provide, and the standard of service to provide them at.</li> <li>- councils should make service-delivery decisions based on an understanding of the full cost of each service</li> <li>- monitoring the financial and operational performance of services will identify ways to improve the efficiency and effectiveness of services.</li> </ul> </li> </ul>	
<b>Recommendations for all councils<sup>79</sup></b>	
<b>Rec 1</b>	<p>All councils, especially those with a focus on improving sustainability consider whether they include sufficient details about their services within their existing planning documents or consider developing individual service plans.</p> <p>Details about services should be scaled to the size and complexity of council and include:</p> <ul style="list-style-type: none"> <li>• how the service aligns to council’s strategy</li> <li>• the service level (for example, operating hours)</li> <li>• the assets used to deliver the service</li> <li>• operational risks for the service</li> <li>• operating costs and overhead costs.</li> </ul>
<b>Rec 2</b>	<p>All councils, especially those with a focus on improving sustainability consider whether all existing services meet their community's current and future service needs and they deliver them at affordable levels by developing and undertaking regular reviews of existing services.</p>

<sup>77</sup> QAO, *Auditor-General Report 2: 2019-20—Managing the sustainability of local government services* (Report 2: 2019-20), p 1.

<sup>78</sup> Bundaberg Regional Council, Longreach Regional Council, Noosa Shire Council, Western Downs Regional Council, and Whitsunday Regional Council.

<sup>79</sup> QAO, *Managing the sustainability of local government services*, p 8.

<b>Rec 3</b>	All councils, especially those with a focus on improving sustainability consider whether budget owners develop consistent individual business unit and service budgets by providing documented budget guidelines, templates, and training.
<b>Rec 4</b>	All councils, especially those with a focus on improving sustainability consider whether they benchmark their corporate overheads and allocate a reasonable proportion to services by developing and approving a corporate overhead methodology appropriate to the size and complexity of council.
<b>Rec 5</b>	All councils, especially those with a focus on improving sustainability consider whether they make decisions to deliver new services or amend existing services (associated with new major capital projects) with an understanding of the whole-of-life costs and any impact on corporate overheads.  Councils could develop their own or adopt an existing project decision framework that includes community engagement on the need for and level of new services.
<b>Rec 6</b>	All councils, especially those with a focus on improving sustainability consider whether they collect reliable and accurate information on the effectiveness and efficiency of their services.  Councils could develop a performance monitoring and reporting framework to support both internal management reporting to council and external reports to their communities.
<b>QAO recommendations for the Department<sup>80</sup></b>	
<b>Rec 7</b>	We recommend that the department supports councils to develop models, benchmarks, and tools that are scalable for differently sized councils to allocate their corporate overheads to their services.  The department could, where appropriate, provide examples (templates), access to technical expertise and facilitate the development of tools for groups of councils.
<b>Rec 8</b>	We recommend that the department supports councils to develop a set of measures of effectiveness and efficiency to help councils monitor the performance of their services.  The department could develop a set of standard measures of councils' common services for reference. It could also facilitate groups of similar councils to share existing resources or coordinate the development of new resources in partnership with existing council networks.
<b>Audit Results</b>	
<i>Planning and managing the costs of services<sup>81</sup></i>	
<ul style="list-style-type: none"> <li>• Bundaberg Regional Council, Whitsunday Regional Council, and Noosa Shire Council had effective approaches in place to plan for their services for long-term sustainability.</li> <li>• All 5 councils had some level of service planning either in their annual operational plans, business unit plans, service plans, or asset plans.</li> </ul>	

<sup>80</sup> QAO, *Managing the sustainability of local government services* (Report 2: 2019-20), p 9.

<sup>81</sup> QAO, *Managing the sustainability of local government services* (Report 2: 2019-20), p 7.

- While Whitsunday Regional Council and Noosa Shire Council allocated a reasonable proportion of their corporate overheads to services, this was not the case for Bundaberg Regional Council, Longreach Regional Council and Western Downs Regional Council.
- one of the councils had effective approaches in place to regularly review their services. They did not know whether their services met the current or future needs of their communities.

Monitoring and reporting the costs and effectiveness of services.<sup>82</sup>

- Longreach Regional Council effectively monitored operating costs at the service level. The other 4 councils monitored the budgets of business units, which represent multiple services. This could have led to missed opportunities to analyse financial performance and make necessary changes.
- All 5 councils effectively monitored and reported on aspects of the effectiveness of some of their services, but none did this for all of their services.

**Inconsistency in service planning and consultation**

Service planning<sup>83</sup>

- The QAO found that 3 of the 5 councils had effectively developed detailed plans for how they intended to use their resources to deliver services. However, the links were not always clear between their corporate and operational plans and the services the councils delivered.
- The other 2 councils had some high-level information about their services in their asset management plans, but they did not have enough detail about the costs of delivering their services at the expected service levels.
- Only one council had clearly aligned all its services with its operational plan. This allowed management to focus on managing its services and the assets needed to deliver them.

Consultation<sup>84</sup>

- The QAO found none of the councils regularly reviewed their existing services, leading to the risk that existing services may not be meeting community needs.
- The QAO found examples of all 5 councils consulting with their communities about decisions to invest in new or amended assets and services.

**Direct operating costs effectively identified but allocation of corporate overheads an issue**

Direct operating costs effectively identified<sup>85</sup>

- The QAO found all 5 councils effectively identified the direct costs of operating their services, ensuring that budgets included employee costs, operating expenses, and depreciation.
- Noosa Shire Council expected staff to create new budgets each year and support budget lines with evidence of the anticipated expenses and revenue. While highlighting the potential for this approach to identify waste, the QAO noted it was time-intensive.

<sup>82</sup> QAO, *Managing the sustainability of local government services* (Report 2: 2019-20), p 7.

<sup>83</sup> QAO, *Managing the sustainability of local government services* (Report 2: 2019-20), pp 10-11.

<sup>84</sup> QAO, *Managing the sustainability of local government services* (Report 2: 2019-20), p 11.

<sup>85</sup> QAO, *Managing the sustainability of local government services* (Report 2: 2019-20), p 13.

- The QAO found that at the other councils, staff compiled budgets by reviewing revenue and expenses from past years and adjusting the figures using a percentage increase or decrease based on a council-wide analysis.

*Allocation of corporate overheads an issue for 3 councils*<sup>86</sup>

- Two councils allocated 80 per cent or more of their corporate overhead costs to their services, which the QAO considered provided a reasonable allocation of corporate overheads and effective costing information. The other 3 councils allocated substantially less than 80 per cent.
- Not allocating a reasonable proportion of corporate overheads reduces councils' understanding of the full cost of their services. This reduces their capacity to meaningfully compare the costs of their services with other service providers. It also affects the accuracy of information when councils make decisions such as whether to expand or reduce existing services.

**Fees are not always cost-reflective and more community consultation is needed**<sup>87</sup>

- The QAO highlighted that when setting the price for a service, councils needed to understand the importance of the cost of providing the service.
- The QAO found that 3 of the 5 councils did not effectively consider the full cost of their services before setting their fees and charges, because they had not allocated a reasonable proportion of corporate overheads for all services.
- All 5 councils had approaches in place to consider the whole-of-life costs of new assets to deliver new or amended services. Three of the 5 had formal, documented project decision frameworks to ensure consistency of information on the benefits, risks, and costs of proposed new assets.
- Councils with formal project decision frameworks consistently assessed proposals for new or renewed assets. Considering the whole-of-life cost of owning the asset and operating the service gives council a full understanding of what it will cost before they decide to build or remodel.
- The frameworks did not align with the councils' community consultation frameworks and policies. Councils should engage with their communities in the early design stage of projects, to ensure services and service levels are based on community needs.

**Services need to be monitored and measured in more detail and more consistently**<sup>88</sup>

- Four of the 5 councils monitored and reported on their budgets at the business unit level. The QAO considered that monitoring of individual services would reveal greater detail and provide better information for decision-making.
- The 5 councils did not have effective processes and systems in place to monitor and report on the effectiveness and efficiency of business units and services. While they reported on some, for many services they did not report on both of these measures.
- Each council had its own approach to measuring performance. None had policies to guide staff on how to develop measures of effectiveness or efficiency. Taking different approaches to measuring effectiveness and efficiency reduces councils' ability to compare their services. The QAO considered councils could work together to develop and test such measures.

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<sup>86</sup> QAO, *Managing the sustainability of local government services* (Report 2: 2019-20), pp 13-14.

<sup>87</sup> QAO, *Managing the sustainability of local government services* (Report 2: 2019-20), pp 15-16.

<sup>88</sup> QAO, *Managing the sustainability of local government services* (Report 2: 2019-20), p 18 and p 21.

## Appendix D – Local government entities: 2018-19 Results of financial audits (Report 13: 2019-20) – Summary

About the report	
<p><b>Local government entities: 2018-19 Results of financial audits</b> summarises the audit results of Queensland's 77 local government entities (councils) and the entities they control. To read the report see: <a href="https://www.qao.qld.gov.au/reports-resources/reports-parliament/local-government-entities-2018-19-results-financial-audits">https://www.qao.qld.gov.au/reports-resources/reports-parliament/local-government-entities-2018-19-results-financial-audits</a></p>	
Headline findings <sup>89</sup>	
<ul style="list-style-type: none"> <li>• Councils' financial statements were reliable and complied with relevant laws and standards.</li> <li>• Financial sustainability continued to be a challenge, with more than half of councils continuing to spend more than they receive.</li> <li>• The cost of maintaining and replacing assets was increasing.</li> <li>• While there had been some improvements in recent years, the number of significant control issues indicated there were still systemic problems with councils' internal control frameworks.</li> <li>• There was an increase in fraudulent attempts at councils, with some successful attempts.</li> <li>• Some councils did not always follow established purchasing processes.</li> <li>• The QAO continued to identify issues with information systems controls, including with user access to systems, security of electronic transfer files, and system implementations.</li> </ul>	
Recommendations for all councils (in summary) <sup>90</sup>	
<b>Rec</b>	Strengthen governance framework
<b>Rec</b>	Strengthen controls and processes
<b>Rec</b>	Secure employee and supplier information
<b>Rec</b>	Conduct mandatory cyber security awareness training
<b>Rec</b>	Strengthen asset management
<b>Rec</b>	Improve financial management
<b>Rec</b>	Improve timeliness for reporting to communities
<b>Rec</b>	Improve monitoring of controlled entities
<b>Rec</b>	Monitor long-term obligations for landfill rehabilitation
<b>Rec</b>	Improve new system implementations

<sup>89</sup> QAO, *Auditor-General Report 13: 2019-20—Local government entities: 2018-19 results of financial audit* (Report 13: 2019-20), p 1.

<sup>90</sup> QAO, *Local government entities: 2018–19 results of financial audits* (Report 13: 2019-20), pp 3-5.

Recommendations to the Department <sup>91</sup>	
<b>Rec 1</b>	That the department amends the <i>Local Government Act 2009</i> to require all councils to have audit committees and all audit committee chairs to be independent.
<b>Rec 2</b>	That the department reviews the current sustainability ratios to determine if they are the most relevant and effective ratios for measuring the financial sustainability of councils and if supplementing them with additional ratios would provide a more comprehensive assessment.
<b>Rec 3</b>	That the department continues to progress our previous recommendation to have entities controlled by councils make their financial statements publicly available.
Audit results summary <sup>92</sup>	
<ul style="list-style-type: none"> <li>• 73 audit opinions were issued for 77 councils, down from 76 in 2018.</li> <li>• 68 of 77 councils' statements were signed by the legislated deadline.</li> <li>• 72 unmodified opinions were issued for 78 council-related entities.</li> <li>• Councils' and council-related entities' statements were reliable.</li> <li>• <i>Emphases of matters</i> were issued for 33 council-related entities.</li> <li>• <i>Qualified opinions</i> were issued for council-related entities Artspace Mackay Foundation and Local Buy Trading Trust. This was because the QAO could not obtain enough appropriate audit evidence about the completeness of their revenue.<sup>93</sup></li> </ul>	
Asset valuation, cost of landfill site restoration and recognising infrastructure charges revenue	
<ul style="list-style-type: none"> <li>• The QAO reviewed 3 areas it considered had a high risk of fraud or error.</li> </ul> <p><u>Asset valuation</u><sup>94</sup></p> <ul style="list-style-type: none"> <li>• The value of councils' assets increased by \$3.2 billion. Sixty-four councils had up to date or draft asset management plans. The number of councils with outdated, incomplete, or no plans fell to 13.</li> <li>• Councils continued to identify 'found' assets they had not previously recorded in their asset registers. Ten of the 18 councils that reported found assets made material changes to the amounts previously reported in their 2017–18 financial statements.</li> </ul> <p><u>Assessing the cost of landfill site restoration</u><sup>95</sup></p> <ul style="list-style-type: none"> <li>• Councils have a legal obligation to environmentally restore their landfill sites (including 30 years of monitoring after closure). In recent years, councils had improved how they recognised the future costs of landfill rehabilitation.</li> <li>• Sixty-one councils reported a provision for their landfill restoration costs in their financial statements. Councils reported restoration obligations totalling \$801.5 million in 2018–19, an increase of \$323.2 million from 2016–17. An increase in the number of councils accounting for</li> </ul>	

<sup>91</sup> QAO, *Local government entities: 2018-19 results of financial audit* (Report 13: 2019-20), p 6.

<sup>92</sup> QAO, *Local government entities: 2018-19 results of financial audit* (Report 13: 2019-20), pp 9-11.

<sup>93</sup> QAO, *Local government entities: 2018-19 results of financial audit* (Report 13: 2019-20), p 10.

<sup>94</sup> QAO, *Local government entities: 2018-19 results of financial audit* (Report 13: 2019-20), pp 14-16.

<sup>95</sup> QAO, *Local government entities: 2018-19 results of financial audit* (Report 13: 2019-20), p 16.

future landfill costs, and a reduction in the rate used to convert the estimated future cash flows into today's dollars, were the main drivers for this increase.

Recognising infrastructure charges revenue<sup>96</sup>

- Infrastructure charges are fees councils collect to recoup the cost of the infrastructure provided to/required to support new developments.
- Determining when councils are entitled to this revenue is subjective and dependant on the type of development application. This process is labour intensive and requires periodic monitoring of the status of the development applications. The QAO identified 14 issues across 10 councils relating to the management and collection of infrastructure charges.

**Most councils' costs exceeded income, debt is stable and asset management is stable**

Financial sustainability<sup>97</sup>

- The Indigenous segment was the only segment considered to be at 'high' risk of being financially unsustainable. However, Hope Vale Aboriginal Shire Council, Lockhart River Aboriginal Shire Council and Pormpuraaw Aboriginal Shire Council have consistently been considered low risk.

More than half of councils spent more than they earned

- The operating surplus ratio provides an understanding of a council's financial capacity to fund ongoing operations over the long term. The department's target range for councils is between 0 and 10 per cent.
- Thirty-five councils (up from 31 councils) achieved a positive 5-year average operating surplus. This indicates that these councils are managing their costs within the limits of their revenue. The remaining 42 councils (down from 46 councils) had a negative 5-year operating surplus, with 11 of these councils falling below negative 20 per cent.
- The 11 councils with the lowest 5-year operating surplus ratio were in the Indigenous, Resources, and Rural/Remote segments. These councils' populations were under 5,000, and their ability to generate their own revenue was a challenge.

Debt remained relatively stable<sup>98</sup>

- The department's target for the net financial liabilities ratio is below 60 per cent. In the case of councils with a low operating surplus ratio, a net financial liabilities ratio in excess of 60 per cent may cause stress in servicing their debts.
- Fifty-three councils had a total debt of \$5.5 billion which represented 4 per cent of the sector's total assets. SEQ and Coastal councils held 94 per cent of the sector's debt.

Councils' infrastructure asset management is stable

- The department's target for councils is an asset sustainability ratio greater than 90 per cent. A value under 90 per cent may suggest councils are not replacing their assets as they near the end of their lives, which could result in a reduction in service levels to communities.
- 40 of the 77 councils had not met the target of 90 per cent based on a 5-year average to 30 June 2019. This included 17 councils in the Coastal and SEQ segments that had growing populations.
- Historically, the average asset sustainability ratio was one of the few ways to measure councils' ability to fund their assets. However, many councils now have more complete asset data and

<sup>96</sup> QAO, *Local government entities: 2018-19 results of financial audit* (Report 13: 2019-20), p 17.

<sup>97</sup> QAO, *Local government entities: 2018-19 results of financial audit* (Report 13: 2019-20), p 33.

<sup>98</sup> QAO, *Local government entities: 2018-19 results of financial audit* (Report 13: 2019-20), p 37.

improved asset management plans than they used to, which would allow the use of more ratios to provide better indicators of financial sustainability.

**Significant internal control deficiencies fell, more audit committees needed, and some council-related entities require increased monitoring**

*Significant internal control deficiencies fell; fraud attempts continued*<sup>99</sup>

- The QAO identified 834 internal control deficiencies across the sector, of which 251 were significant. Councils showed progress in addressing the vulnerabilities in their control environment. However, 66 per cent of issues raised in prior years remained unresolved.
- More than half of councils had significant deficiencies across multiple elements of their internal control framework, with most in the Indigenous, Resources, and Rural/Remote segments. A key reason for this is their lack of ability to recruit and retain appropriately skilled staff.
- Councils continued to be targeted with fraud attempts. Vulnerabilities in councils' control environments increased the risk of fraud. Since July 2018, 7 councils had been defrauded.

*Audit committee and internal audit functions still lacking*<sup>100</sup>

- Eighteen councils (23 per cent) did not have an audit committee, which is the same as the prior year. Those 18 councils had a disproportionate number of internal control weaknesses.
- 72 councils (94 per cent) had an internal audit function, while 5 councils did not. Nine councils had no internal audit activity during the year. Collectively, these 14 councils had 20 new significant deficiencies reported and 33 unresolved significant deficiencies from prior years.

*Inconsistent monitoring of council-related entities*<sup>101</sup>

- The level of oversight councils exercised over their controlled entities varied significantly. Some had limited oversight, while others have detailed policies that establish governance, accountability, and monitoring frameworks.

**Procurement processes require improvement, access to information systems needs to be secure**<sup>102</sup>

- The QAO reported 19 significant deficiencies to 16 councils that had not followed appropriate procurement processes.
- There were 3 significant deficiencies where the financial system delegations did not reflect the delegations approved by council. Four councils did not maintain a current delegation register, or employees had approved expenditure that exceeded their delegation.
- Payroll fraud occurred at 4 councils resulting from a phishing (fraudulent) email scheme. 3 councils were defrauded in a supplier bank account change fraud. The QAO identified 16 significant deficiencies in controls over employee and supplier information at 15 councils.
- The QAO identified 20 significant deficiencies at 18 councils where systems and information had not been appropriately secured.
- The QAO highlighted the need to monitor activities performed by employees with access that allows staff to access sensitive data.

<sup>99</sup> QAO, *Local government entities: 2018-19 results of financial audit* (Report 13: 2019-20), pp 19-23.

<sup>100</sup> QAO, *Local government entities: 2018-19 results of financial audit* (Report 13: 2019-20), pp 23-24.

<sup>101</sup> QAO, *Local government entities: 2018-19 results of financial audit* (Report 13: 2019-20), p 24.

<sup>102</sup> QAO, *Local government entities: 2018-19 results of financial audit* (Report 13: 2019-20), pp 28-30.



- The QAO stressed the need for the implementation of a new financial system to be done after detailed planning. It highlighted that such projects require a resource commitment over a long period, which can divert resources from core financial reporting functions, which in turn can often leave councils with weakened internal control frameworks.

## Appendix E – Local government entities: 2017-2018 (Report 18:2018-19) - Summary

About the report	
<p>Local government entities: 2017-18 Results of financial audits - this report summarises the audit results of Queensland's 77 local government entities (councils) and the entities they control.</p> <p>To read the report in full see: <a href="https://www.qao.qld.gov.au/reports-resources/local-government-entities-2017-18-results-financial-audits">https://www.qao.qld.gov.au/reports-resources/local-government-entities-2017-18-results-financial-audits</a></p>	
OVERVIEW <sup>103</sup>	
<ul style="list-style-type: none"> <li>• Councils' financial statements were reliable and complied with relevant laws and standards. The average time taken to finalise financial statements continued to fall.</li> <li>• There were 273 significant control weaknesses. The issues identified were systemic across the sector, with 62 per cent of issues raised in prior years remaining unresolved. Eighty-eight per cent of significant deficiencies occurred in councils in the Indigenous, Resources and Rural/Remote segments.</li> <li>• The QAO stressed the need for councils to establish audit committees, with 18 councils – 6 more than in the previous year – without an audit committee. These 18 councils had a disproportionate number of internal control weaknesses.<sup>104</sup></li> <li>• Long-term financial sustainability remained a risk for many councils, with 22 of the 77 councils at risk of becoming financially unsustainable.<sup>105</sup></li> <li>• Some councils did not have accurate records of the assets they controlled. These assets, valued at \$378.2 million, had not been included in councils' asset registers.<sup>106</sup></li> </ul>	
QAO RECOMMENDATIONS (IN ADDITION TO THOSE UNRESOLVED IN PREVIOUS YEARS) <sup>107</sup>	
<b>Rec 1</b>	The department mandates that the chair of a council audit committee is an independent member.
<b>Rec 2</b>	The department reviews the appropriateness of the net financial liabilities ratio, as most councils favour cash over debt.
<b>Rec 3</b>	As in prior year reports, that the department mandates audit committees for all councils.
<b>Rec 4</b>	As in prior year reports, the QAO recommended that Department of Local Government, Racing and Multicultural Affairs mandates that financial statements of controlled entities be made publicly available, preferably in a consistent location.
<b>Rec 5</b>	As in prior year reports, the QAO recommended that councils continue to assess their processes for ensuring that asset registers are complete and remain current over time.

<sup>103</sup> Queensland Audit Office (QAO), *Auditor-General Report 18: 2018-19—Local government entities: 2017-18 results of financial audits* (Report 18: 2018-19), p 2.

<sup>104</sup> QAO, *Local government entities: 2017-18 results of financial audits* (Report 18: 2018-19), p 8.

<sup>105</sup> QAO, *Local government entities: 2017-18 results of financial audits* (Report 18: 2018-19), p 5.

<sup>106</sup> QAO, *Local government entities: 2017-18 results of financial audits* (Report 18: 2018-19), p 2.

<sup>107</sup> QAO, *Local government entities: 2017-18 results of financial audits* (Report 18: 2018-19), p 10.

<b>Rec 6</b>	<p>As in prior year reports, the QAO recommended that councils review and update their month end close processes to include:</p> <ul style="list-style-type: none"> <li>• monthly accrual statements of financial performance and position, and cash flow information</li> <li>• variance analysis, key ratios, trends, and other non-financial information that will enable councillors and council executives to better understand their council's financial performance and outlook.</li> </ul>
<b>Rec 7</b>	<p>As in prior year reports, the QAO recommended that councils review their accounting for rehabilitation of landfills. This should include:</p> <ul style="list-style-type: none"> <li>• assessing open and closed landfill sites and whether a liability has been recognised</li> <li>• ensuring all future costs associated with their obligations under their environmental authority (licence) are included in the provision.</li> </ul>
<b>Rec 8</b>	<p>As in prior year reports, the QAO recommended that councils review their monitoring controls and memberships of their controlled entities' boards, and: appoint independent directors to provide specialist skills, experience, and diversity</p> <ul style="list-style-type: none"> <li>• establish appropriate mechanisms for oversight and to manage conflicts of interest.</li> </ul>

#### AUDIT RESULT SUMMARY <sup>108</sup>

- 76 audit opinions were issued for 77 councils.
- 74 of 77 councils met their statutory deadline or their ministerially approved extended deadline.
- 73 audit opinions were issued for 83 council-related entities.
- Councils' statements were reliable.

Two controlled entities – Artspace Mackay Foundation and Local Buy Trading Trust received a qualified opinion.<sup>109</sup>

Artspace Mackay Foundation did not maintain an effective system of internal control over cash receipts until their initial entry in the accounting records. The QAO noted that such a qualification was common among entities where revenue from fundraising comprises a significant source of revenue.<sup>110</sup>

Local Buy Trading Trust could not demonstrate it had identified and recorded all revenue owing from tender arrangements. There were inherent limitations in its internal control system, which relied on the completeness and accuracy of statistical returns provided by suppliers.<sup>111</sup>

Emphases of matter were issued for 33 council-related entities. Seven of Ipswich City Council's related entities each received 2 emphases of matter. The QAO used the emphases of matter to highlight disclosures made by the respective boards in the entities' financial statements about:

- the directors' intention to transfer operation to council and deregister the entity

<sup>108</sup> QAO, *Local government entities: 2017-18 results of financial audits* (Report 18: 2018-19), p 1.

<sup>109</sup> QAO, *Local government entities: 2017-18 results of financial audits* (Report 18: 2018-19), p 13.

<sup>110</sup> QAO, *Local government entities: 2017-18 results of financial audits* (Report 18: 2018-19), p 14.

<sup>111</sup> QAO, *Local government entities: 2017-18 results of financial audits* (Report 18: 2018-19), p 13.

- charges laid by the Crime and Corruption Commission against former directors.<sup>112</sup>

**TIMELINESS IS IMPROVING; QUALITY CAN BE IMPROVED; ONE COUNCIL HAS NOT SUBMITTED 2 YEARS' WORTH OF FINANCIAL STATEMENTS**

Timeliness is improving<sup>113</sup>

Of the 77 councils, 74 met their statutory deadline or an approved extended deadline (2016–17: 73 councils). Councils continued to reduce the average time taken to finalise their financial statements. Over the last 4 years, councils reduced this time by 5.8 weeks.

Quality of statements could be improved<sup>114</sup>

Twenty-one councils made significant adjustments to their balances or disclosures between the draft financial statements and the audit-certified statements. These changes influenced the QAO's audit opinions.

Incomplete assets were again an issue. Twenty-five councils reported 'found' assets in 2017–18 – physical assets the council was unaware of, but which they controlled. These assets, worth \$378.2 million, were not included in asset registers when they should have been. Over the past 3 years, 40 councils reported 'found' assets totalling \$793.3 million.

Statements not submitted

Doomadgee Aboriginal Shire Council had not finalised its 2016-17 or 2017–18 financial statements.<sup>115</sup>

**THE SECTOR EARNED MORE THAN IT SPENT, BUT 43 COUNCILS' COSTS EXCEEDED REVENUE; LONG-TERM FINANCIAL SUSTAINABILITY IS A MAJOR RISK FOR MANY COUNCILS**

Sector had a positive operating result, but most councils reported operating losses<sup>116</sup>

- While the sector reported a positive operating result for 2017–18, 43 councils reported operating losses totalling \$252.5 million.
- Forty-four councils had a negative 5-year average operating result, with 16 of these incurring operating losses in each of the last 5 years.

Financial sustainability an issue<sup>117</sup>

- Financial sustainability remained a major risk for many councils, with the 5-year average operating surplus ratio continuing to deteriorate and the sector spending more than it earned.
- Twenty-two of the 77 councils were at higher risk of becoming financially unsustainable, including 12 of the 15 Indigenous councils and 5 of the 13 Rural/Remote councils. These councils had limited scope to raise revenue other than grants. In addition, the cost of living in these council areas is often higher, due to their remoteness.
- Fifty-four councils had cash balances greater than their total liabilities.<sup>118</sup>

<sup>112</sup> QAO, *Local government entities: 2017-18 results of financial audits* (Report 18: 2018-19), p 14.

<sup>113</sup> QAO, *Local government entities: 2017-18 results of financial audits* (Report 18: 2018-19), p 2.

<sup>114</sup> QAO, *Local government entities: 2017-18 results of financial audits* (Report 18: 2018-19), p 2.

<sup>115</sup> QAO, *Local government entities: 2017-18 results of financial audits* (Report 18: 2018-19), p 2.

<sup>116</sup> QAO, *Local government entities: 2017-18 results of financial audits* (Report 18: 2018-19), p 3.

<sup>117</sup> QAO, *Local government entities: 2017-18 results of financial audits* (Report 18: 2018-19), p 5.

<sup>118</sup> QAO, *Local government entities: 2017-18 results of financial audits* (Report 18: 2018-19), p 6.

**Internal controls require improvement and more audit committees are needed<sup>119</sup>**

- The QAO identified 273 significant control weaknesses, and that 62 per cent of issues raised in prior years were unresolved in 2017–18.
- Of the 273 significant deficiencies, 11 were outstanding for more than 5 years.
- Not maintaining effective contract registers was another common control weakness. Eighteen councils lacked a contract register and a further 35 councils did not record all of the basic elements of a good contract register.<sup>120</sup>

*Audit committees were lacking*

- At the time of preparing its report, the QAO found 18 councils did not have an operating audit committee – 6 more than in 2016-17. Those 18 councils had a disproportionate number of internal control weaknesses: 39 new significant deficiencies reported in 2017–18 and 71 unresolved from prior years.
- Thirty-three councils (43 per cent) had an independent audit committee chair and these councils contributed only 24 per cent of the significant deficiencies.

**CONTROLLED ENTITIES REQUIRE CLOSER MONITORING<sup>121</sup>**

- For the past 4 years, the QAO reported that councils did not adequately monitor their controlled entities. These entities are most often established for development and investment, community events, arts, and environmental activities.
- The level of oversight that councils exercised varied significantly.
- For the last 2 years, the QAO recommended that the financial statements of controlled entities be made publicly available, as this had not always been done. Audited financial statements were not publicly available for 34 of the 80 controlled and jointly controlled entities.

<sup>119</sup> QAO, *Local government entities: 2017-18 results of financial audits* (Report 18: 2018-19), pp 7-8.

<sup>120</sup> QAO, *Local government entities: 2017-18 results of financial audits* (Report 18: 2018-19), p 8.

<sup>121</sup> QAO, *Local government entities: 2017-18 results of financial audits* (Report 18: 2018-19), p 9.

## Appendix F – Inquiry conduct

### Role of committee

The State Development and Regional Industries Committee (committee) is a portfolio committee of the Legislative Assembly which commenced on 26 November 2020 under the *Parliament of Queensland Act 2001* and the Standing Rules and Orders of the Legislative Assembly.<sup>122</sup>

The committee's primary areas of responsibility include:

- State Development, Infrastructure, Local Government and Planning

The committee has responsibility within its portfolio areas for the assessment of the integrity, economy, efficiency and effectiveness of government financial management. This includes by considering reports of the Auditor-General.<sup>123</sup>

### Role of Queensland Audit Office

The role of the Auditor-General is to provide Parliament with independent assurance of public sector accountability and performance. This is achieved through reporting to Parliament on the results of its financial and performance audits.

Each year the Auditor-General conducts financial audits on Queensland's 77 local governments. These audits include risk assessment, testing of the control environment and forming a resulting audit opinion. The QAO also conducts performance audits which examine a particular area of service delivery. These audits form an important component of the local government sector's accountability framework and in all cases, are completed with the aim of improving financial reporting, maintaining accountability and transparency, and ultimately improving service delivery for the people of Queensland.

### This report

The committee has considered the examined the following Auditor-General reports:

- **Local government 2021** (Report 15: 2021-22)
- **Local government 2020** (Report 17: 2020-21)
- **Managing the sustainability of local government services** (Report 2: 2019-20)
- **Local government entities: 2018-19 Results of financial audits** (Report 13: 2018-19)
- **Local government entities: 2017-18 Results of financial audits** (Report 18: 2017-18)

In examining the reports, the committee received public briefings from the Auditor-General and officials from the Queensland Audit Office on 20 June 2022.

The committee also reviewed written responses from the Department of State Development, Infrastructure, Local Government and Planning on the Auditor-General's recommendations.



All inquiry documents including transcripts and departmental correspondence are available on the committee's webpage:

<https://www.parliament.qld.gov.au/Work-of-Committees/Committees/Committee-Details?cid=172&inquiryListingType=Past>

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<sup>122</sup> *Parliament of Queensland Act 2001*, s 88 and Standing Order 194.

<sup>123</sup> *Parliament of Queensland Act 2001*, s 94(1)(a).

## **Appendix G – Officials at public briefings**

**20 June 2022**

### **Queensland Audit Office**

- Mr Brendan Worrall, Auditor-General
- Mr P Brahman, Assistant Auditor-General – Client Services
- Darren Brown, Senior Director
- Sri Narasimhan, Senior Director