FINANCIAL AUDIT REPORT 11 May 2022

Local government 2021

Report 15: 2021–22

Queensland Audit Office
Better public services

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

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

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

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

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The Honourable C Pitt MP
Speaker of the Legislative Assembly
Parliament House
BRISBANE QLD 4000

11 May 2022

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

Brendan Worrall
Auditor-General

ISSN 1834-1128

Contents

Report on a page

Financial statements are reliable, but timeliness has deteriorated since 2018–19

As of the date of this report, we have certified the financial statements of 75 of 77 (2019–20: 75 of 77) local governments (councils). The financial statements of these councils, and the entities they control, are reliable and comply with relevant laws and standards.

For several years, we have stressed the importance of councils having us certify their financial statements within a reasonable time frame after 30 June. This ensures timely information is available to decision makers and their communities. Substantial improvement was seen in the 2018–19 financial year, when 58 councils had their statements certified at least 2 weeks prior to their legislative deadline of 31 October.

In 2019–20, this number had dropped to 47 councils, in the face of the COVID-19 pandemic, local government elections, and the need to implement new accounting standards. In 2020–21, despite not facing these sorts of challenges, only 36 councils had their financial statements certified 2 weeks prior to the statutory deadline.

Controls over financial systems and processes have improved, but most high-risk issues have not been resolved after more than a year

Councils have made efforts to reduce the number of significant deficiencies we have identified with their control environments in recent years (significant deficiencies are of high risk and need to be addressed immediately). As at 30 June 2021, the number of unresolved significant deficiencies was the lowest in 5 years. However, 86 significant deficiencies (68 per cent of all unresolved significant deficiencies) are still unresolved more than one year after being identified.

For the last few years, we have seen persistent problems with councils' information systems, risk management, and procurement and contract management practices.

For several years we have recommended councils strengthen their governance. Despite this:

- 15 councils (2019–20: 16 councils) do not have an audit committee. Of those who do, there are 3 councils whose committees did not meet in the 2020–21 financial year, and 2 councils whose committees met only once
- 12 councils were in breach of their legislation – 6 councils (30 June 2020: 7 councils) did not have an internal audit function and another 6 councils (7 in 2019–20) with an internal audit function did not have any audit activity during the 2020–21 financial year.

Financial sustainability has marginally improved

Councils are recovering from the financial impacts of the COVID-19 pandemic. For the 2020–21 financial year, 35 councils (2019–20: 21 councils) generated an operating surplus. As a result, fewer councils are at a moderate or high risk of not being financially sustainable (see Appendix I).

Although this is encouraging, 45 councils (approximately 60 per cent of the sector) are still at either a moderate or a high risk of not being financially sustainable.

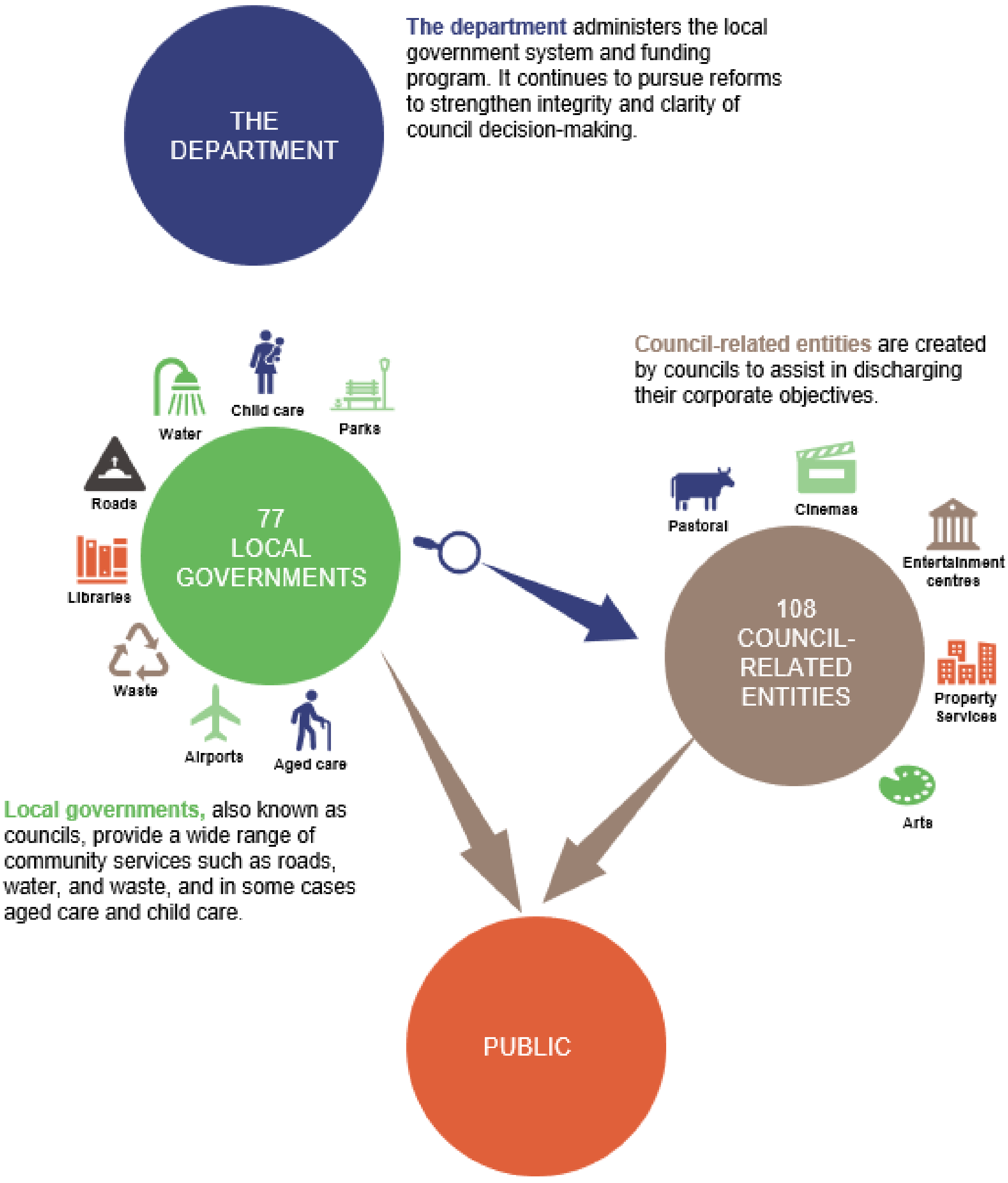
Recommendations for entities

This year, we are making the following recommendations to councils. These are in addition to the recommendations we have made in prior year reports that remain unresolved, which are included in Appendix D.

Reassess the maturity levels of their financial statement preparation processes in line with recent experience to identify improvement opportunities that will help facilitate early certification of financial statements	
REC 1	All councils should reassess their initial self-assessment against the financial statement maturity model and compare this to their recent financial statement preparation experiences. Councils should also reflect on their processes from the 2018–19 financial year that enabled them to have their financial statements certified earlier. Together, these reflections will identify improvement opportunities to assist elected members and their executives to improve the timeliness of certification of financial statements.
Assess their audit committees against the actions in our 2020–21 audit committee report	
REC 2	Those councils who have an audit committee function, and those that are looking to establish one, should consider implementing the actions we have identified in our report *Effectiveness of audit committees in state government entities* (Report 2: 2020–21). This would improve the effectiveness of their audit committees, with flow-on benefits to council governance and performance.
Improve their overall control environment	
REC 3	All councils should use the annual internal control assessment tool available on our website to perform an initial self-assessment of the strengths and improvement opportunities of their internal controls. Where their results do not meet their performance expectations, they should develop and implement a plan to strengthen their internal controls over a specific period.
Asset management plans to include councils' planned spending on capital projects	
REC 4	All councils should review their asset management plans to confirm that these plans include the proposed timing and cost of their capital projects, including the cost of maintaining these assets over their whole lives. This would help councils identify their future funding needs and provide better information to the department on the timing of capital funding sought by councils.
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	
REC 5	All councils should review their asset consumption ratio in preparation for the new sustainability framework to assess whether they are in line with the proposed benchmark. This ratio would inform councils whether their assets have been used in line with their asset management plans. Any variance between the expected and actual usage may either result in additional maintenance to improve the service levels of their assets or to reassess their expectation about asset usage.
Enhance their liquidity management by reporting their unrestricted cash expense ratio and their unrestricted cash balance in monthly financial reports	
REC 6	All councils should enhance their liquidity management by reporting their unrestricted cash expense ratio and their unrestricted cash balance in the monthly financial reports they table in council meetings.

1. Overview of entities in this sector

Figure 1A
Entities in the local government sector



Source: Queensland Audit Office.

2. Results of our audits

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

Chapter snapshot

This year, 38 councils had their financial statements certified later than they did in 2019–20.

75 **audit opinions were issued for 77 councils**
No change from 2019–20

62 **of 77 council statements signed by their legislative deadline**
▲ 1 from 2019–20

68 **audit opinions were issued for 74 council-related entities**
2019–20: 67 audit opinions for 74 council-related entities

1 **new recommendation**
for councils

- Reassess the maturity levels of their financial statement preparation processes in line with recent experience to identify improvement opportunities that will help facilitate early certification of financial statements

2 **prior year recommendations**
for councils that need further action

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

DEFINITION

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

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

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

Audit opinion results

Audits of financial statements

As of the date of this report, we had issued audit opinions for 75 councils (2019–20: 75 councils) and 68 of the entities they control (2019–20: 67 controlled entities). Of the 75 councils we issued audit opinions for:

- 62 (2019–20: 61 councils) met their legislative deadline
- 10 (2019–20: 10 councils) met the extended time frame granted by the minister (the minister for local government may grant an extension to the legislative time frame where extraordinary circumstances exist)
- 3 (2019–20: 4 councils) that received ministerial extensions did not meet their extended time frame.

Councils' financial statements are reliable

For those councils for which we issued audit opinions, we found the financial statements were reliable and complied with the relevant laws and standards. We included an emphasis of matter in our audit report for Wujal Wujal Aboriginal Shire Council to highlight uncertainty over its ability to repay its debts as and when they arise.

One controlled entity, Local Buy Trading Trust (controlled by the Local Government Association of Queensland Ltd) received a qualified opinion because it was unable to provide us with enough evidence to confirm the revenue it recorded was complete.

We also included emphases of matter in our audit reports for 13 entities controlled by local governments because:

- 9 had decided to wind up their operations
- 2 were reliant on financial support from their parent entities
- one had uncertainty over its ability to repay its debts as and when they arise
- one was not able to demonstrate an account balance was correct.

Not all local government entities are required to prepare financial statements or are required to be audited by the Auditor-General. Appendices F and G provide a full list of these entities.

Status of unfinished audits from previous year

At the time we tabled *Local government 2020* (Report 17: 2020–21) in April 2021, 2 councils and 7 council-related entities had not finalised their 2019–20 financial statements. Except for one council-related entity (Western Queensland Local Government Association), all of them subsequently did so.

Palm Island Aboriginal Shire Council received a qualified opinion regarding the completeness and accuracy of the revenue it reported in its financial statements.

We included an emphasis of matter in our audit opinion for TradeCoast Land Pty Ltd (controlled by Brisbane City Council) to draw attention to a litigation matter.

The other council and the remaining 5 council-related entities all received unmodified opinions.

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

Poor financial statement processes continue to impact on the timeliness of reporting

Queensland councils have until 31 October each year to have their financial statements certified. This is 2 months more than Queensland state entities are allowed.

For several years, we have emphasised to councils the importance of having us certify their financial statements ahead of the legislative deadline. By providing audited financial statements early to the community they ensure the information is more current and relevant.

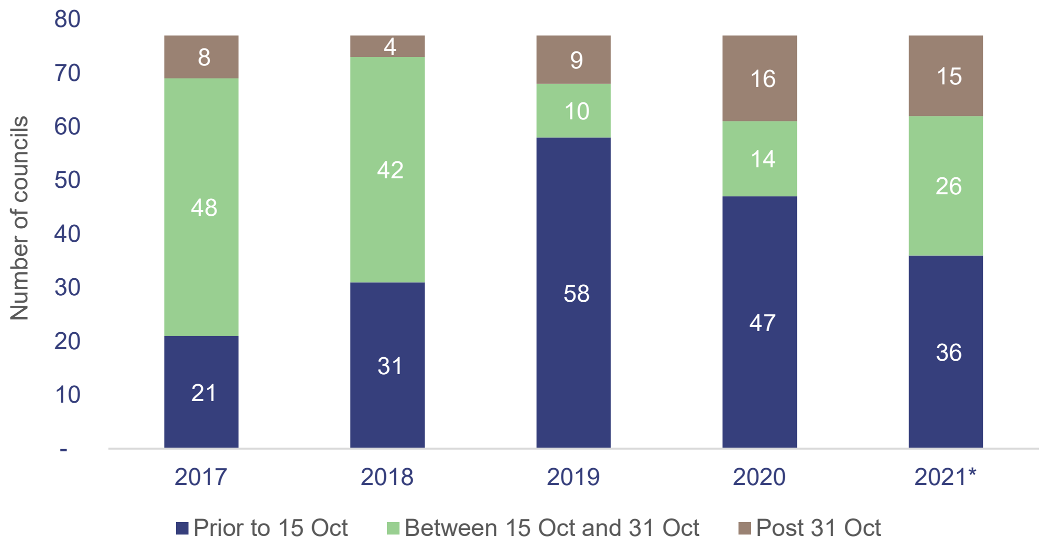
Between the 2016–17 and 2018–19 financial years, councils made significant efforts to reduce the time between the end of the financial year and the dates on which their financial statements were certified. For the year ended 30 June 2019, 58 councils had their financial statements certified 2 weeks before the legislative deadline.

This time frame deteriorated in the 2019–20 financial year when only 47 councils had their financial statements certified 2 weeks prior to the statutory deadline. This was impacted by the COVID-19 pandemic, local government elections, and the need to implement new accounting standards. However, despite councils not facing as many challenges in the 2020–21 financial year, only 36 councils had their financial statements certified 2 weeks prior to the statutory deadline. Overall, this year, 38 councils (49 per cent of councils) had their financial statements certified later than they did in 2019–20. This seems to be linked to the removal of our traffic light reporting mechanism (refer Appendix J).

Over the last 5 years, 5 councils have regularly failed to meet the legislative deadline for their financial statements. Of these, Palm Island Aboriginal Shire Council and Richmond Shire Council have not met the deadline for the last 3 consecutive years.

Figure 2A shows the time frames for certification of council financial statements over the last 5 years.

Figure 2A
Certification of council financial statements – 2017–2021



Note: * 2021 (post 31 October) includes 2 councils that are yet to complete their financial statements.

Source: Queensland Audit Office.

Over the years, we have observed councils' ability to meet their legislative reporting deadline has been impacted by ineffective month-end and year-end processes and poor asset management practices.

Ineffective month-end and year-end processes

Councils that have strong month-end processes are better able to produce good quality end of year financial statements and do so in less time. Year-end reporting becomes simpler when standardised monthly accrual accounting processes (recognising revenue and expenses as they are earned or incurred, regardless of when cash has been received or paid) are implemented.

Some examples of strong month-end processes include:

- checking key balances against supporting documents in a timely manner
- keeping general ledgers up to date, particularly with regard to assets
- implementing quality reviews over month-end financial reports by staff independent of those who prepared the reports
- providing complete information that assists councils in their decision-making process – this includes monthly financial reports that are prepared using accrual accounting processes.

This year, we identified 73 deficiencies (weaknesses in processes) in addition to 84 unresolved deficiencies from prior years, across 60 councils where improvement was required to ensure timely and reliable month-end and year-end reporting.

The most common issues were:

- At 31 councils, important balances in the financial statements were not being matched to supporting documents in a timely manner or were not being matched at all.
- At 10 councils, the quality review over month-end and year-end financial reports was either inadequate or non-existent.

This year we asked councils to perform a self-assessment of their financial statement preparation process (discussed further in this chapter). This self-assessment identified that 46 councils (almost two-thirds of the sector) have not adopted accrual accounting processes for key balances in their monthly financial reports. This means that management and councillors are not provided with complete information to make decisions.

We continue to recommend councils improve financial reporting by strengthening their month-end and year-end financial reporting processes. Appendix D provides the full prior year recommendation and status as at 30 June 2021.

Asset management, maintenance of asset data, and asset valuation continue to present challenges

This year, 5 councils did not meet their legislative time frames because they were unable to have their asset valuations completed in time. In addition, 9 councils (2019–20: 9 councils) have recognised assets of $108 million (2019–20: $230 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 in their systems.

Common issues we continue to see with asset management, asset valuation, and asset data maintenance processes are:

- delays in engaging with external valuers in determining fair values (the amounts for which the assets could be sold in a fair transaction), resulting in delays in preparing financial statements
- individual parts of assets not being recorded correctly, resulting in incorrect values being assigned to the assets
- inadequate review of information provided by external valuers, resulting in a number of errors (identified by the auditors) and increasing the amount of time needed to complete the audit of the financial statements.

Asset management is critical to the long-term sustainability of councils. If they do not budget appropriately for the significant cost of maintaining, replacing, or upgrading assets (such as roads), they risk being unable to provide safe and consistent services.

We continue to find councils with asset management plans that are not current or complete. This year, we identified 11 councils (2019–20: 11 councils) who either had out-of-date or incomplete asset management plans. This may negatively affect their ability to maintain their assets to meet the needs of their communities.

This is particularly important for large and growing councils, due to their larger asset base and the changing needs of their communities. However, all councils need a good asset management plan to ensure their assets are maintained at a level that services their communities and meets their expectations.

A good asset management plan is reliant on good asset data, which should be maintained in councils' financial systems as well as in their geographical information systems. (Councils use geographical information systems to capture, store, and manage detailed components of assets such as roads, bridges, and dams.) Data in these 2 systems should always match, and any differences should be resolved in a timely manner.

We continue to recommend councils improve their asset valuation and asset management practices. Appendix D provides our full recommendation from 2020–21, which still requires further action by councils.

We are currently undertaking a performance audit on improving asset management in local government. Our audit is examining whether councils are effectively managing their infrastructure assets to maximise services to the community, while minimising the total cost of owning these assets.

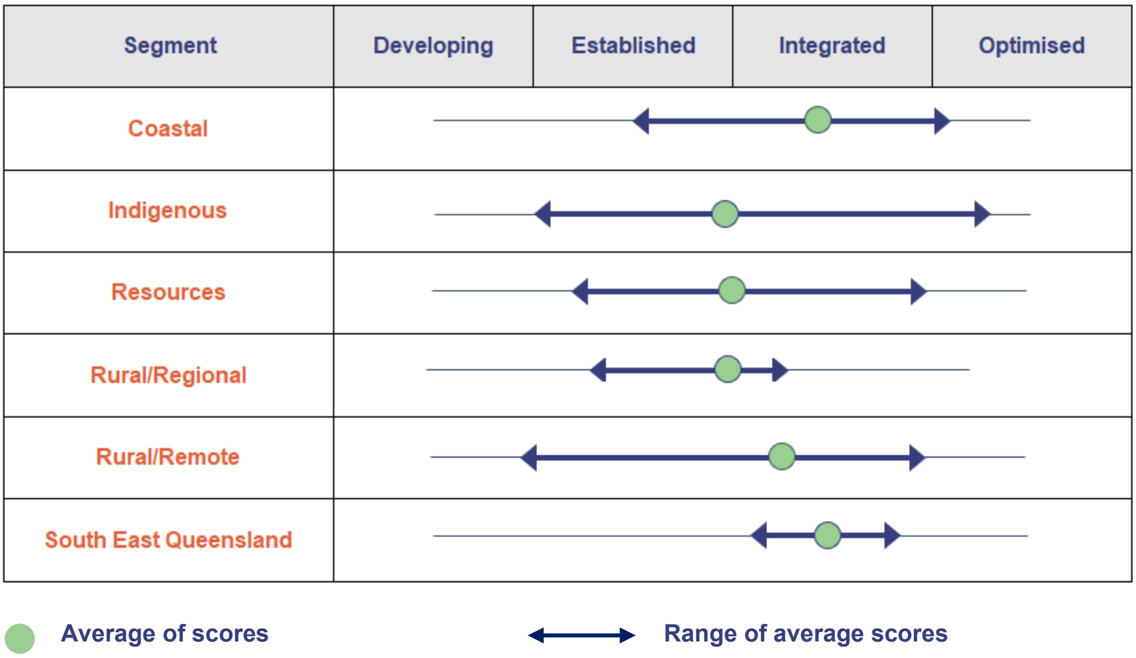
While councils have self-assessed their financial statement preparation processes as 'mature', many still need improvement

This year, we asked councils to undertake a self-assessment of their financial statement preparation processes using the maturity model on our website at www.qao.qld.gov.au/reports-resources/better-practice. The model considers the size, nature, and unique challenges of each council (including the geographical location) when assessing the maturity of financial statement preparation processes. This is in recognition of the fact that what works for a council in a large city may not necessarily work for a council in a regional town.

By self-assessing their current practices, councils can identify opportunities to strengthen their financial statement processes.

In Figure 2B, we have summarised the maturity levels for the sector at a segment level (as defined by the Local Government Association of Queensland – refer Appendix B) based on councils' self-assessed scores. This graph shows the minimum and maximum score for each component of the model, and the average of all scores. Individual scores for each council vary.

Figure 2B
Self-assessed maturity levels per council segment

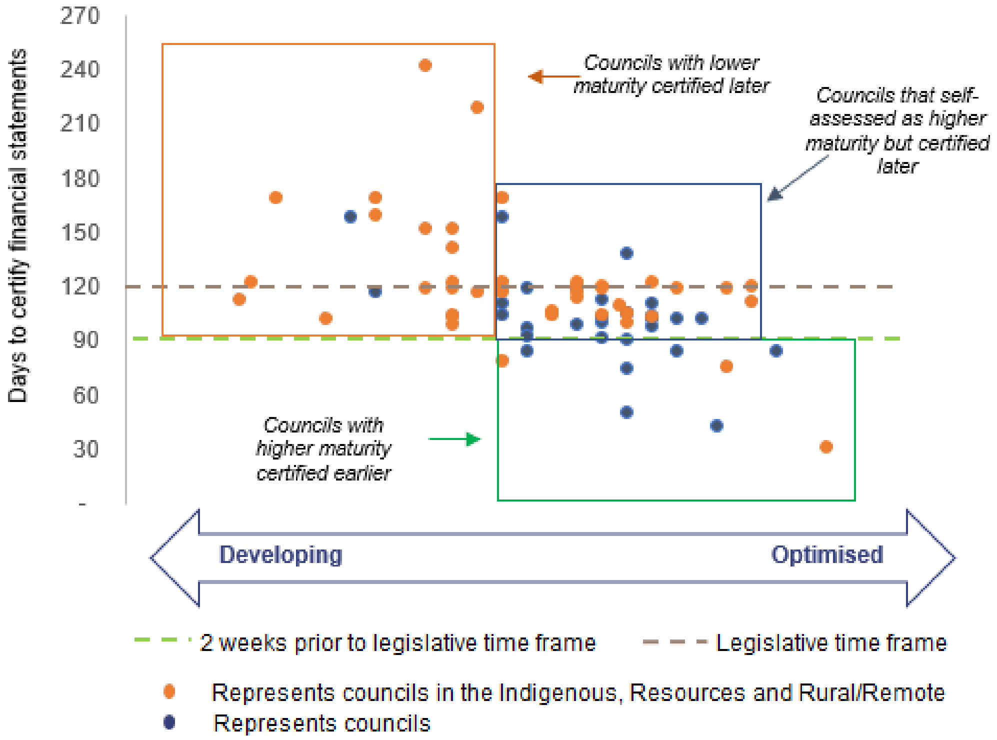


Source: Queensland Audit Office.

The time it takes to have the financial statements certified is directly related to how strong or weak a council's financial statement processes are. The stronger the processes, the better prepared councils are to have their financial statements certified within a reasonable time after 30 June.

In Figure 2C, we have compared the self-assessed maturity levels and the number of days it has taken councils to have their financial statements certified for the 2020–21 financial year.

Figure 2C
Maturity level and timeliness in having financial statements certified



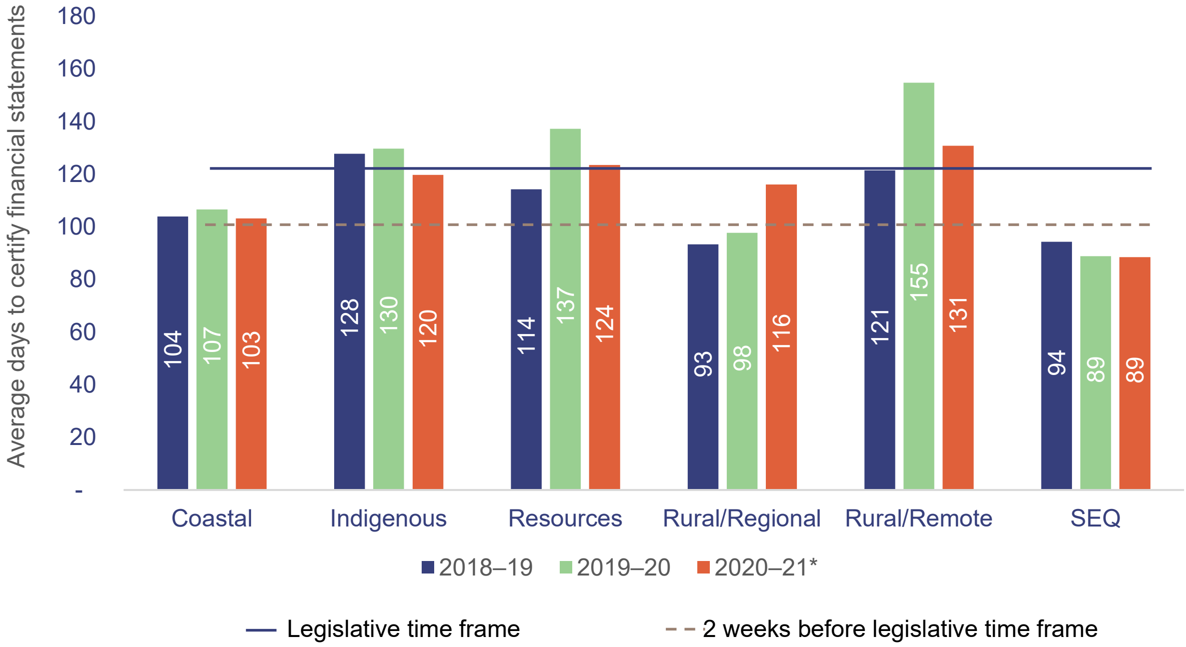
Source: Queensland Audit Office.

We would expect that those councils with higher maturity scores should be able to have their financial statements certified within a reasonable time after 30 June each year. Councils with lower maturity scores generally take longer.

While this holds true for the majority, as demonstrated in Figure 2C above, 22 councils have self-assessed their maturity to be relatively high but were unable to have their financial statements certified earlier. Of these, 14 councils are within the Indigenous, Resources and Rural/Remote segments.

In Figure 2D, we have shown the average number of days it has taken all segments to have their financial statements certified from 30 June for the 2018–19 to 2020–21 financial years.

Figure 2D
Days to certify financial statements for financial years 2018–19 to 2020–21



Note: * Richmond Shire Council in the Rural/Remote segment and Palm Island Aboriginal Shire Council in the Indigenous segment have not completed their financial statements for the 2020–21 financial year and have been excluded in the average days calculation for financial year 2020–21.

Source: Queensland Audit Office.

In most years, the average days taken by the Indigenous, Resources and Rural/Remote segments to have their financial statements certified has exceeded the legislative deadline – suggesting that this is a systemic issue for many councils in these segments. These 3 segments have generally found it difficult to attract and retain qualified staff – which has resulted in poor processes, which in turn has affected the timeliness and quality of the financial statements over the years.

Recommendation for all councils

Reassess the maturity levels of their financial statement preparation processes in line with recent experience to identify improvement opportunities that will help facilitate early certification of financial statements (REC 1)

All councils should reassess their initial self-assessment against the financial statement maturity model and compare this to their recent financial statement preparation experiences.

Councils should also reflect on their processes from the 2018–19 financial year that enabled them to have their financial statements certified earlier. Together, these reflections will identify improvement opportunities to assist elected members and their executives to improve the timeliness of certification of financial statements.

3. Internal controls

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

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

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

Chapter snapshot

Fewer significant issues were raised in 2020–21 than last year, but more than two-thirds of existing significant issues are taking more than a year to resolve

70 new recommendations to address significant deficiencies
raised with councils during the year (95 in 2019–20)

127 unresolved recommendations to address significant deficiencies at the end of the year
Councils should prioritise addressing these vulnerabilities (140 in 2019–20)

83 significant deficiencies resolved by councils
(88 in 2019–20)

817 recommendations to address deficiencies
made to councils to improve internal controls (790 in 2019–20)

2 new recommendations to councils

- Assess their audit committees against the actions in our 2020–21 audit committee report
- Improve their overall control environment

7 prior year recommendations to councils that need further action

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

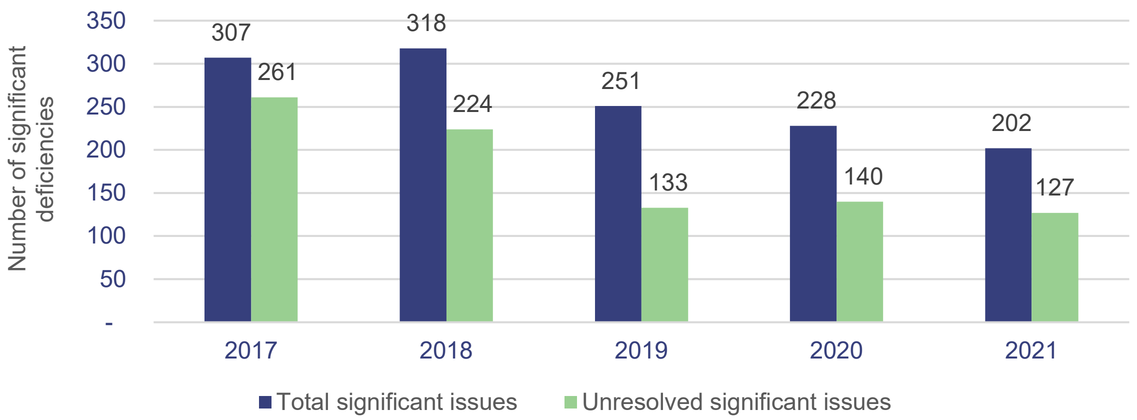
1 prior year recommendation to the department that needs further action

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

There are fewer unresolved significant deficiencies, but strong governance is still needed to improve the control environment

Over the last 5 years, councils have made significant progress in reducing the number of unresolved significant deficiencies relating to internal controls. Figure 3A shows the total significant deficiencies we have identified in the sector, along with the number that have remained unresolved over the last 5 years.

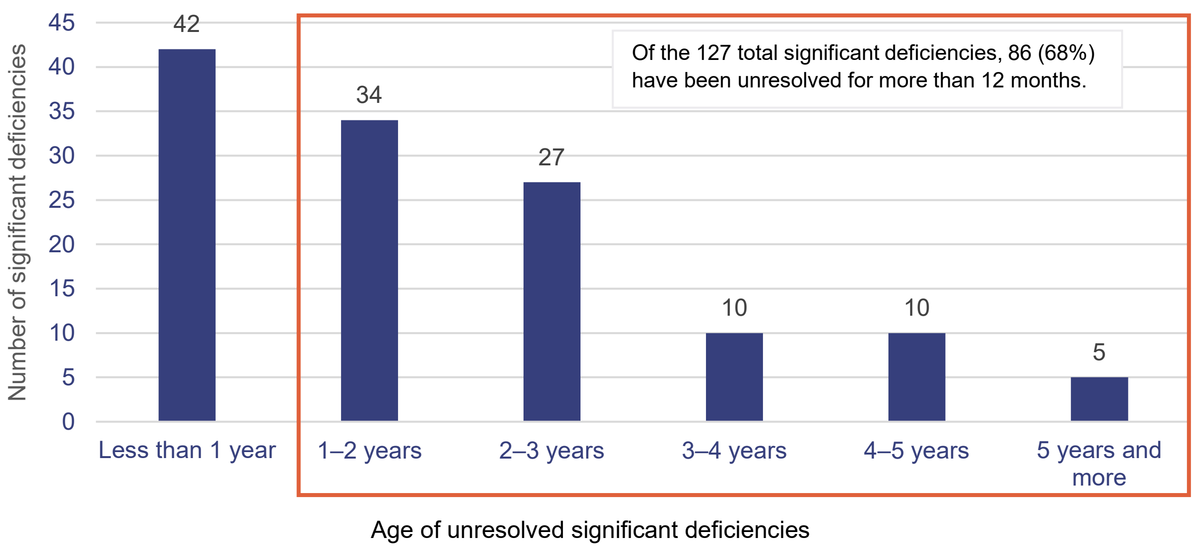
Figure 3A
Total significant deficiencies and unresolved significant deficiencies



Source: Queensland Audit Office.

Although the number of unresolved significant deficiencies has been reducing, 68 per cent of them have been unresolved for more than 12 months, as shown in Figure 3B.

Figure 3B
Ageing of unresolved significant deficiencies



Source: Queensland Audit Office.

A significant deficiency is a deficiency or a combination of deficiencies that requires immediate remedial action. 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 – which in turn may impact on their financial sustainability (see Appendix J for details of our assessments of councils' financial governance).

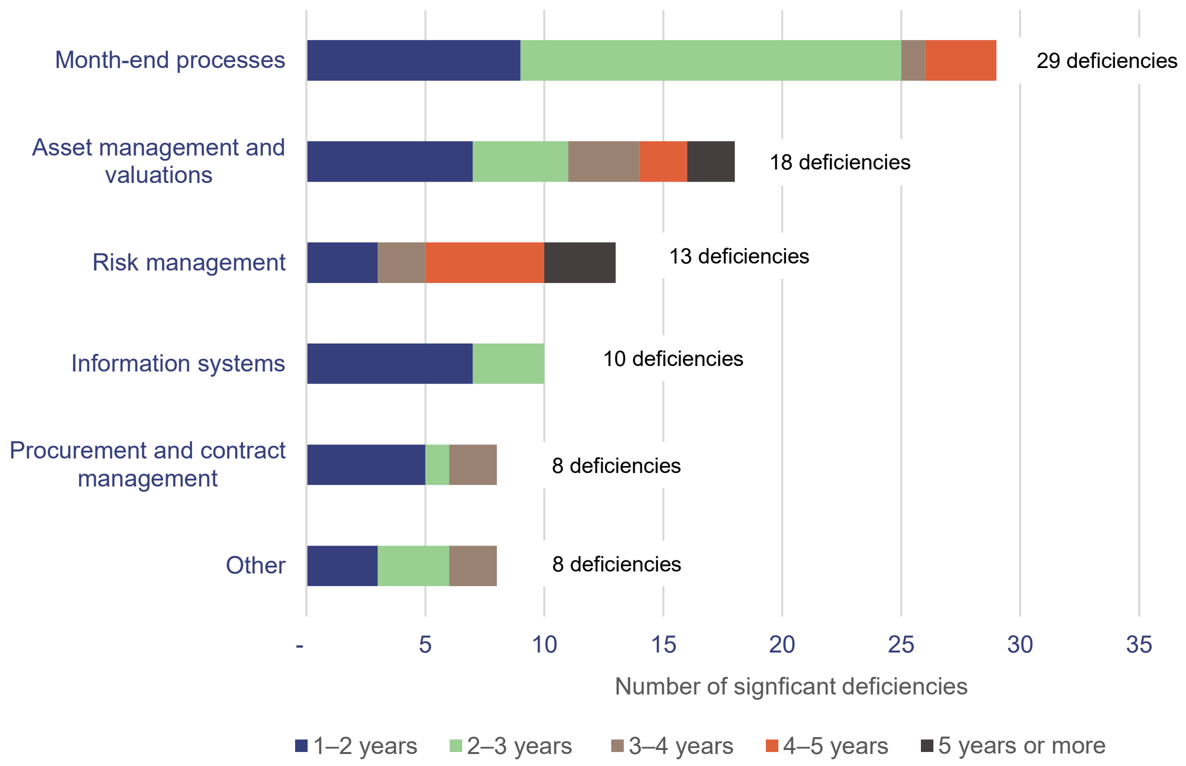
Councils that have strong leadership and governance – which includes having an effective audit committee and internal audit function – together with qualified staff, generally have resolved their significant deficiencies in a timely manner.

As at 30 June 2021, we note that:

- 57 per cent of the unresolved significant deficiencies were at councils that did not have an effective audit committee and an internal audit function (this is discussed later in this chapter)
- 52 per cent of the unresolved significant deficiencies were at councils that have a higher risk of being financially unsustainable.

Figure 3C shows the common significant deficiencies that have been unresolved for more than one year.

Figure 3C
Common significant deficiencies unresolved for more than one year



Source: Queensland Audit Office.

These unresolved significant deficiencies in Figure 3C have been identified for several years. This is discussed later in this chapter.

Audit committees and internal audit functions

Audit committees provide oversight of an entity's internal control environment, financial reporting processes, risk management, and internal and external audit functions. Audit committees also hold management to account in overseeing the timely resolution of audit issues and would help councils take appropriate action on the long outstanding issues across the sector.

For several years, we have stressed the importance of audit committees and internal audit functions in strengthening the control environments of councils.

Despite this, as at 30 June 2021, there are still 15 councils (30 June 2020: 16 councils) that did not have an audit committee. In addition, 2 councils had audit committees that did not meet during the year, and 3 councils had committees that met only once. Councils who met less than twice during the year did not meet their minimum requirements (2 meetings) under the legislation.

In all, this means 20 councils did not have an audit committee function established at 30 June 2021.

An internal audit function further strengthens a council's control environment by assisting councillors and management to improve internal controls, risk management and governance processes through independent reviews.

Every council in Queensland is required to have an effective internal audit function under the legislation. Yet, at 30 June 2021, 12 councils were in breach of the legislation – 6 councils (30 June 2020: 7 councils) did not have an internal audit function and another 6 councils with an internal audit function did not have any audit activity during the 2020–21 financial year (7 in 2019–20).

In our report *Effectiveness of audit committees in state government entities* (Report 2: 2020–21), we identified several actions for entities and audit committee chairs to improve the effectiveness of their audit committees. We plan to undertake a similar review of the effectiveness of audit committees in local government in coming years.

Recommendation for all councils

Assess their audit committees against the actions in our 2020–21 audit committee report (REC 2)

Those councils who have an audit committee function, and those that are looking to establish one, should consider implementing the actions we have identified in our report *Effectiveness of audit committees in state government entities* (Report 2: 2020–21). This would improve the effectiveness of their audit committees, with flow-on benefits to council governance and performance.

Common internal control deficiencies across the sector

In all, 47 councils have at least one significant deficiency that needs to be addressed. Many of these deficiencies are the same as those identified in our prior year recommendations that still required further action as at 30 June 2021. (Refer to Appendix D for full recommendations and status of implementation.)

We recommend councils address these internal control deficiencies to help strengthen their control environments.

Weaknesses in information system controls are prevalent across the sector

Local governments rely on information technology systems to operate their businesses and prepare their financial statements. They must have strong controls over who has access to the systems and over the information in them. Weaknesses in information technology controls increase the risk from cyber attacks, undetected errors and potential financial loss, including through fraud.

Last year, in *Local government 2020* (Report 17: 2020–21), we reported that the most common internal control deficiency across councils related to the security of information systems. In that report – and in all our public sector reports that year – we recommended that entities strengthen the security of their information systems.

This year, our audits identified 67 new internal control deficiencies with respect to councils' information systems. These are in addition to the 28 information systems internal control deficiencies that are unresolved from previous years. As at 30 June 2021, 45 councils (30 June 2020: 32 councils) did not have sufficient controls in place to protect their information systems.

The most common weaknesses in information systems controls were in relation to incorrect levels of system access assigned to staff, which can lead to the processing of transactions that have not been correctly authorised. Councils should ensure their staff have an appropriate level of access to information systems to perform their role within the organisation, but no more than that.

Since the start of the COVID-19 pandemic, cyber threats have intensified in frequency and sophistication. This makes it even more important that organisations promptly fix any weaknesses in their systems.

This year, there has also been a significant increase in malware (malicious software intended to create damage to a computer, network, or server) threats. This is consistent with the Australian Cyber Security Centre *ACSC Annual Cyber Threat Report 2020–21*, which noted a 15 per cent increase in ransomware cyber crime (malware that blocks access to a device and data until the owner pays a ransom fee) reported to its ReportCyber website since 2019–20.

Another critical element in managing the risk of a cyber incident is to provide adequate training to staff on cyber threats and educate them on the impact such incidents have on councils' operations.

In our report *Local government entities: 2018–19 results of financial audits* (Report 13: 2019–20), we recommended councils develop and implement mandatory cyber security awareness training for all staff. As of this year, 20 councils had not provided this training to their staff.

Councils are not adequately managing their risks

Councils operate in a complex environment and continue to face change and uncertainty. They must identify and manage risk effectively in order to have the ability to deliver the desired outcomes to their communities.

This year, we found that 22 councils (2019–20: 29 councils) still do not have enough processes in place to identify and manage risk. Commonly, they:

- either do not have a risk management framework, or have one that is outdated
- do not have a complete risk register that captures the risks they are exposed to
- either have no business continuity and disaster recovery plans, or have plans in draft forms that have neither been approved nor tested to confirm they would be effective in the event of a disaster
- have either not completed a fraud risk assessment or have not adequately assessed their risk of fraud.

Procurement and contract management practices are still weak

Each year, the local government sector spends approximately $8 billion in procuring goods and services from various suppliers and service providers.

To achieve value for money from their purchasing activities, councils need to ensure that they have strong procurement and contract management practices. As at 30 June 2021, 29 councils (2019–20: 31 councils) still had weak practices. Of these, 19 councils have not addressed these weaknesses for more than 12 months.

Common weaknesses we noted were that councils:

- were not obtaining sufficient tenders/quotes for the purchase of goods or services. This means that these councils were not ensuring if they were getting the best price for the goods and services they procured
- were procuring goods prior to entering into an agreement with the supplier. This could lead to disagreements over the terms of the purchase
- either did not have a contract register (which includes key information about all contracts, including dates and values) or had incomplete contract registers. In both cases, they were not able to effectively manage their contracts
- were not performing checks when changes were made to vendor information (which could mean payments could be misdirected).

Assessment tools for internal controls

We are developing new assessment tools for internal controls relevant to public sector entities. They will provide the entities with greater insight into the strength of their internal control processes.

These tools focus on asset management, change management, culture, governance, grants management, information systems, monitoring, procure-to-pay (the whole procurement process), record keeping, and risk management.

We are currently consulting with our clients on these tools and intend to begin using them in our audits from 2021–22. Our reporting on internal control deficiencies will not change.

Recommendation for all councils Improve their overall control environment (REC 3)
All councils should use the annual internal control assessment tool available on our website to perform an initial self-assessment of the strengths and improvement opportunities of their internal controls. Where their results do not meet their performance expectations, they should develop and implement a plan to strengthen their internal controls over a specific period.

4. Financial performance

This chapter analyses the financial performance of councils, with emphasis on their financial sustainability.

Chapter snapshot

The sector's revenue has increased at a higher rate than its expenses

$13.4 bil.
Revenue
▲ 4% from 2019–20

$11.4 bil.
Expenses
▲ 2% from 2019–20

$136.4 bil.
Assets
▲ 6% from 2019–20

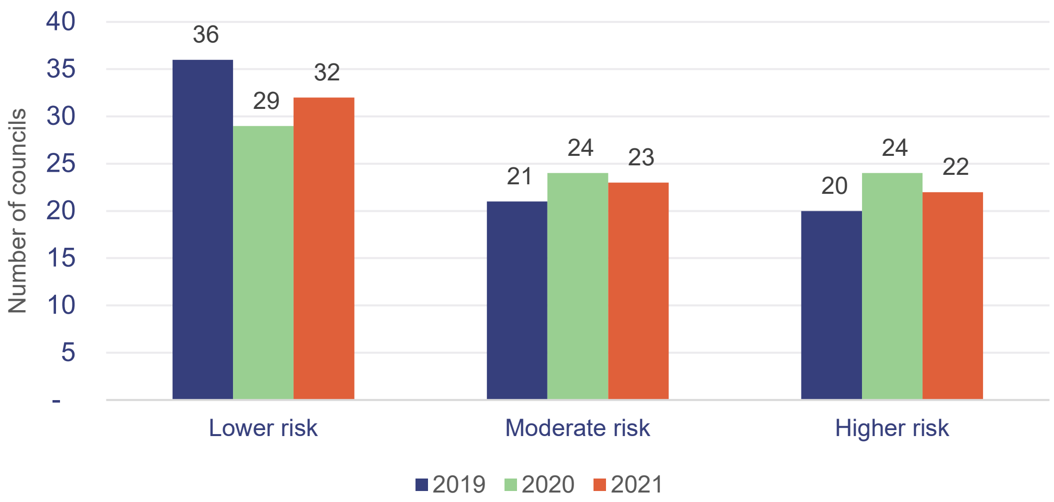
$12.2 bil.
Liabilities
▲ 22% from 2019–20

Note: The implementation of new accounting standards contributed to a 22 per cent increase in the sector's total liabilities. This increase largely related to one South East Queensland council.

The sector's financial sustainability has improved since 2019–20, but is still below pre-pandemic levels

Figure 4A shows the change in financial sustainability over the last 3 years. Refer to Appendix I for definitions of lower, moderate, and higher financial sustainability risk.

Figure 4A
Change in financial sustainability risk



Source: Queensland Audit Office.

Common challenges in achieving financial sustainability

Local governments were established to provide 4 essential services to their communities – roads, water, waste collection, and wastewater. However, local governments in regional Queensland (which represent 70 per cent of the sector in terms of the number of councils) provide various other services to their communities, such as airports, and child and aged care centres.

In more populous areas, these services are generally provided by private sector entities, but they are often not financially viable in regional parts of the state. As such, regional local governments take the responsibility of providing these services to meet the needs of their communities. In most cases, the cost of providing these services outweighs the revenue they generate.

Geographically, Queensland is a large state (almost twice the size of New South Wales and Victoria combined). Given the vast nature and diverse spread of the local government areas, each community is very reliant on its own local economy. The further these communities are away from larger cities, the lower their population density and the lower the number of businesses offering employment opportunities. As a result, local governments in regional Queensland become the primary employers in their regions.

In addition, Queensland has a smaller population (when compared to New South Wales and Victoria). This means it has less ability to generate revenue – particularly from general rates, the primary source of revenue for councils, which are used to maintain a significant amount of infrastructure to meet the needs of communities. Having a low revenue base and a large infrastructure asset base to maintain adds significant financial pressure to councils in Queensland.

These factors make it difficult for councils, especially in regional Queensland, to be financially sustainable.

In Figure 4B, we have compared some of the relevant statistics in Queensland, New South Wales, and Victoria.

Figure 4B
Comparison of land area, population, businesses and employment in Queensland, New South Wales, and Victoria

State	Land area km[1] in '000	Working population[1]	Number of businesses[1]	People employed per km[2]	Rates revenue per km[2]
Queensland	1,800	2,666,600	921,600	1.48	$3,921
New South Wales	809	4,160,000	1,635,213	5.14	$7,431
Victoria	227	3,471,300	1,310,965	15.29	$28,577

Note: [1] sourced from Australian Bureau of Statistics; [2] calculated by Queensland Audit Office.

Source: Queensland Audit Office.

As a result of these factors, many Queensland local governments have, over the years, relied on grants from the Queensland and Australian governments to sustain their operations and replace/construct community assets.

Financial sustainability measures – now and in future

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, have been expected to use these ratios and achieve the same target benchmarks (detailed in Appendix I) to measure their financial sustainability. The department has recognised that this one size fits all approach could be improved and is developing a new financial sustainability framework.

Consultation is taking place with councils and other stakeholders in the local government sector on the new framework, which is expected to be implemented in the 2023–24 financial year.

The new framework will introduce various ratios to measure councils' operational and asset sustainability. The benchmark for each ratio will vary depending on the category of a council. How councils will be categorised is yet to be determined in the new framework.

The overall financial sustainability of the sector has improved but is still below pre-pandemic levels

Councils have started to recover from the financial impacts of the COVID-19 pandemic. In the 2020–21 financial year:

- 6 councils shifted their financial sustainability risk from moderate to low and 2 councils shifted their financial sustainability risk from high to moderate. Of these 8 councils, 4 achieved this shift by generating operating surpluses.

  Of the remaining councils, 3 councils paid down their debts substantially to improve their net financial liability ratio and one council invested more in its assets to improve its asset sustainability ratio
- 3 councils' financial sustainability risk increased (from low to moderate). Of these councils, 2 experienced an operating deficit.

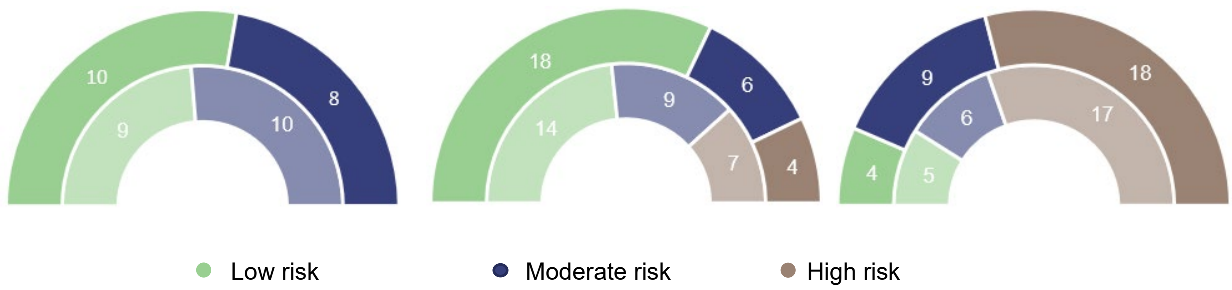
Reliance on grants

Given the significant role grants play in the operations of some local governments, this year we have continued to group councils and analyse their financial sustainability risk based on their dependency on grants.

Figure 4C shows the financial sustainability risk of councils, categorised by their reliance on grant revenue.

Figure 4C
Councils' risk of financial sustainability categorised by reliance on grant revenue – 2019–20 to 2020–21

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



Note: Light shaded (inner) colours represent financial year 2019–20 and the dark shaded (outer) colours represent financial year 2020–21.

Source: Queensland Audit Office.

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 additional grants were made available to councils to help them recover from the COVID-19 pandemic.

As at 30 June 2020, these councils were close to the thresholds (25 per cent and 50 per cent respectively) for being classified under the moderate and high reliance categories, but none of them experienced a change in financial sustainability risk as a result of their increased reliance on grants.

Grant funding to local governments is provided for operational (day-to-day business) and capital purposes (for building/maintaining community assets). In last year's report, we recommended the department provides greater certainty over long-term grant funding. Such certainty would allow councils to develop strategies to attract new industries and people to their areas and maximise any investment that is made in community assets (such as roads).

The department has partially implemented this recommendation, with 2 capital grants in the 2020–21 financial year being offered as a 3-year program. It is undertaking further reviews to offer long-term funding for future capital grants.

Councils are best placed to know what their long-term funding needs are – most of which are to acquire a new asset, replace an existing asset or renew a current asset (together known as capital projects). Spending for these capital projects is significant and is usually incurred over more than one financial year.

An effective asset management plan would inform councils on the timing and cost of their capital projects, including the cost of maintaining these assets – and allow them to have meaningful discussions with the department about their long-term funding needs. This will also provide better information to the department on the timing of capital funding required by councils.

Recommendation for all councils

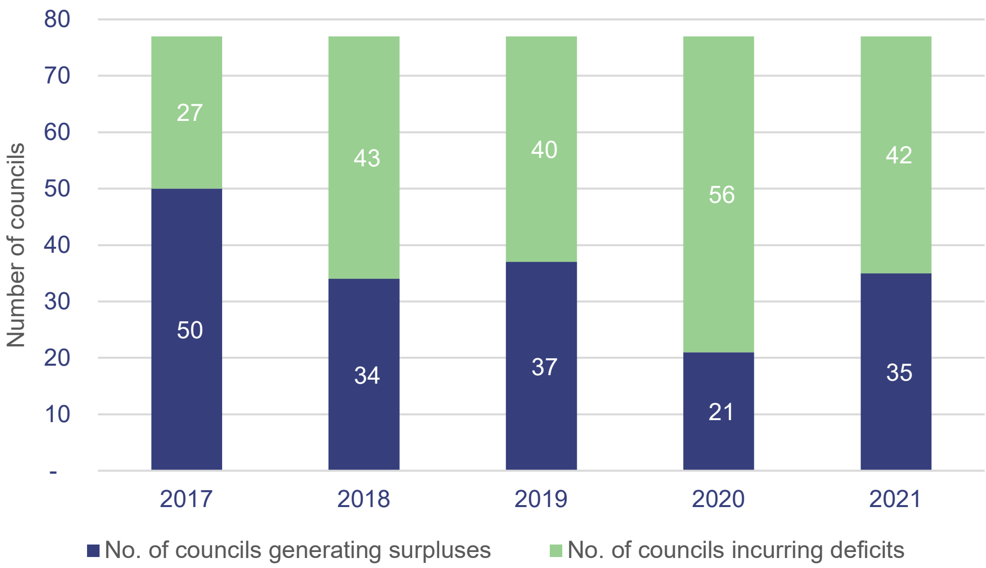
Asset management plans to include councils' planned spending on capital projects (REC 4)

All councils should review their asset management plans to confirm that these plans include proposed timing and cost of their capital projects, including the cost of maintaining these assets over their whole life. This would help council identify their future funding needs and provide better information to the department on the timing of capital funding sought by councils.

While councils are recovering from the financial impact of the COVID-19 pandemic, they are still finding it challenging to generate surpluses

For the 2020–21 financial year, 35 councils (2019–20: 21 councils) generated operating surpluses. This is an improvement on last year and is consistent with the results before the pandemic.

Figure 4D
Number of councils generating operating surpluses and incurring deficits – 2017–2021



Source: Queensland Audit Office.

As discussed earlier in this chapter, Queensland councils – particularly those in rural and remote regions – face a number of challenges. These can impede their ability to generate operating surpluses. For these councils, some alternate ratios to measure financial sustainability need to be considered.

One such ratio is the *unrestricted cash expense ratio*. It 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 our report, *Local government entities: 2017–18 results of financial audits* (Report 18: 2018–19) we highlighted the importance of this ratio to the sector. The department, in its proposed financial sustainability framework, is considering mandating this ratio for all councils. Under the draft framework, the benchmark for this ratio would depend on the categorisation of councils, which is yet to be determined.

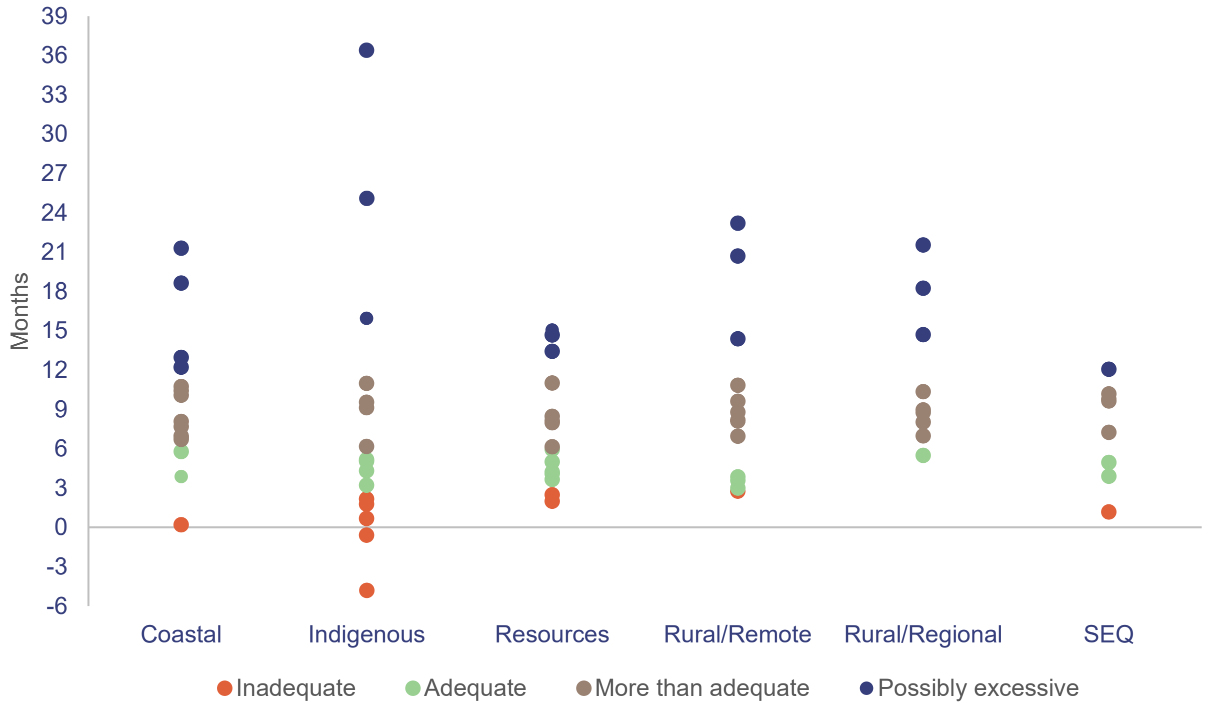
The unrestricted cash expense ratio provides information to councillors and executive management on how much cash is available for the council's operational and emergent spending. As such, this is a key liquidity ratio that should be reported in councils' monthly financial reports, regardless of whether the department mandates this ratio in the new sustainability framework.

We expect that councils would generally have between 3 and 6 months of unrestricted cash reserves at any point in time. This will, however, be impacted by their rating periods – generally being either quarterly or biannual. The following benchmarks, commonly reported in other Australian jurisdictions, assess the adequacy of cash balances held as:

- inadequate – less than 3 months
- adequate – 3 to 6 months
- more than adequate – 6 to 12 months
- possibly excessive – greater than 12 months.

Figure 4E shows each council's unrestricted cash expense ratio at 30 June 2021. Given the categorisation of councils is currently being determined under the proposed framework, for the purpose of our analysis we have categorised councils based on the segments as defined by the Local Government Association of Queensland.

Figure 4E
Unrestricted cash expense ratio at 30 June 2021 by segment



Source: Queensland Audit Office.

On 30 June 2021, 11 councils had inadequate cash reserves, which suggests that these councils may not have good cash management processes. Good cash management processes ensure that councils have maintained sufficient cash balances to meet their planned operational expenses, and any unforeseen expenditure that may arise. Some principles of good cash management are:

- preparing a thorough and realistic budget and cashflow forecast
- periodically measuring actual performance against budget, and resetting the budget where necessary
- collecting revenue from rate payers and granting bodies in a timely manner
- avoiding unplanned spending where possible.

Some councils manage their cash position by using overdraft facilities (loans) available through the Queensland Treasury Corporation. These loans are short term in nature and are available for councils to drawdown as and when needed with the expectation that the loan is repaid when a council's cash balance improves. To access these overdraft facilities, councils need to demonstrate their ability to generate sufficient revenue to repay the loan.

Councils with poor cash management processes combined with consistent operating deficits would not have the ability to pay down these loans and, consequently, would be unlikely to secure such an overdraft facility.

Of these 11 councils, 2 councils have a negative unrestricted cash balance, meaning they have likely used grant funding received for specific purposes (such as to construct a community asset) for their day-to-day operations. This would represent a breach of their grant agreements.

Large unrestricted cash expense ratios should be supported by robust long-term capital budgeting, risk management and investment strategies. Strategies for holding cash are appropriate where councils have specific projects planned and have made an informed decision to not use debt due to their inability to make repayments while maintaining council service levels.

On 30 June 2021, 17 councils have cash reserves that are 'possibly excessive'. Of these, 6 councils' unrestricted cash reserves are more than their borrowings with Queensland Treasury Corporation. If these councils have no specific planned projects that would require them to spend their cash reserves, they could consider paying down some of their borrowings. This will reduce the interest costs on their borrowings, and consequently improve their financial performance.

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 entire financial year. However, reporting this ratio on a regular basis, together with the balance of unrestricted cash, would assist elected members and executives in making appropriate financial decisions.

Recommendation for all councils

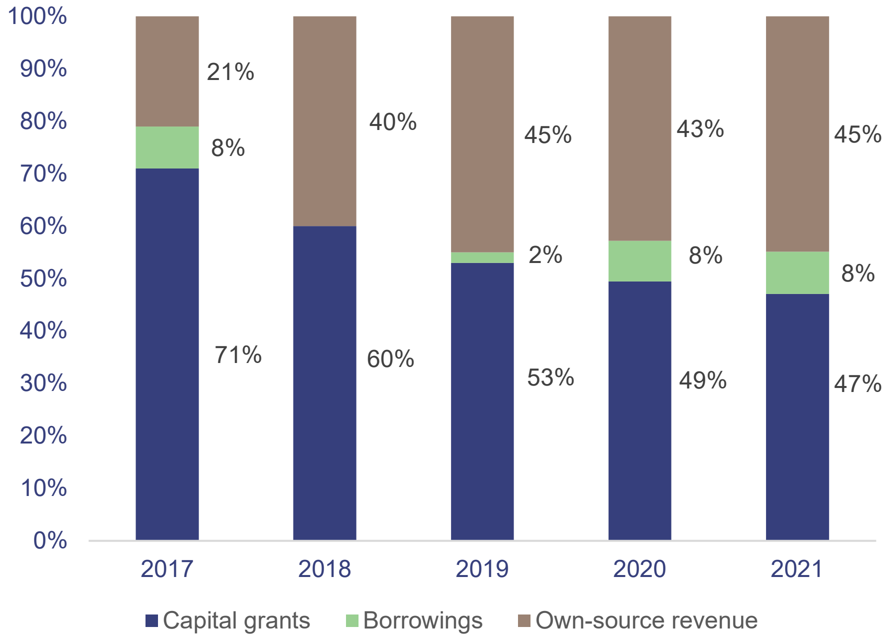
Enhance their liquidity management by reporting their unrestricted cash expense ratio and their unrestricted cash balance in monthly financial reports (REC 6)

All councils should enhance their liquidity management by reporting their unrestricted cash expense ratio and their unrestricted cash balance in the monthly financial reports they table in council meetings.

The sector continues to invest in community assets while keeping debt levels relatively low

Councils continue to invest in community assets. For the 2020–21 financial year, total investment in community assets was $4.2 billion (2019–20: $4.2 billion). Funding for this investment was through a combination of capital grants, borrowings, and own-source revenue (revenue earned by councils from their day-to-day business), as shown in Figure 4F.

Figure 4F
Funding for investment in community assets



Source: Queensland Audit Office.

As shown in Figure 4F, while the reliance on borrowings has increased, the borrowing levels have remained low across the sector. The total borrowings of the sector at 30 June 2021 were $6.2 billion (30 June 2020: $5.83 billion). This represents only 5 per cent of the value of community assets at 30 June 2021 (30 June 2020: 5 per cent).

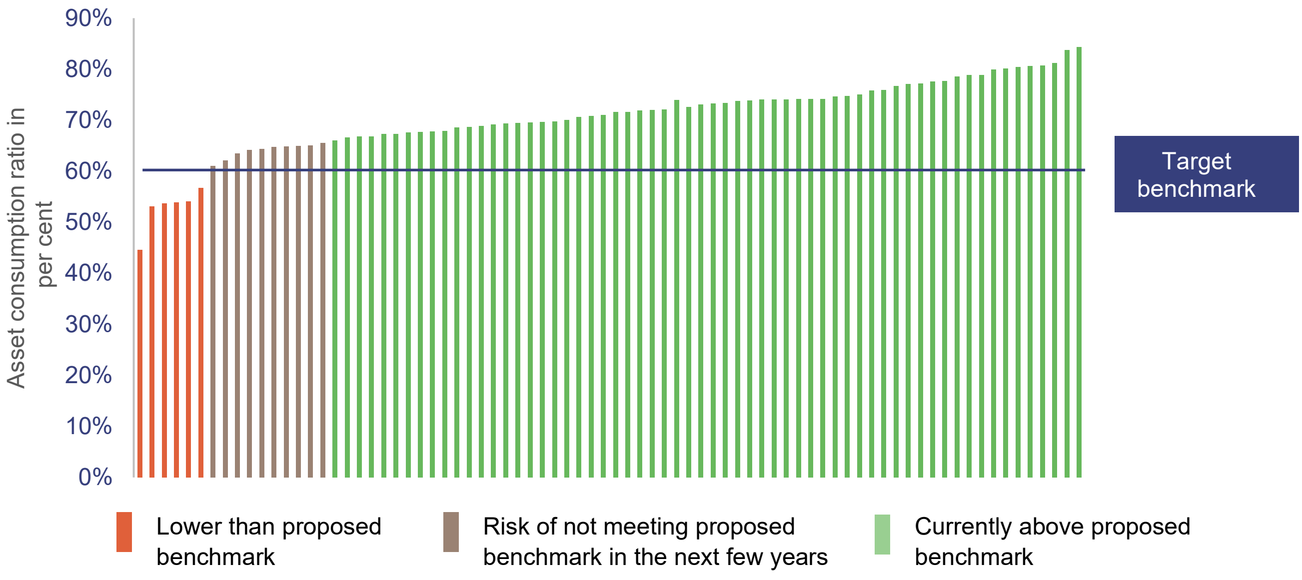
One of the key responsibilities of local governments is to ensure that their assets are sustainable – meaning their assets meet the needs and expectations of their communities. Under the department's guidelines, this is currently measured using the asset sustainability ratio, which approximates the extent to which councils replace their assets as they reach the end of their useful lives. In our previous reports, we have drawn attention to the fact that this ratio has its shortcomings and should be complemented with some additional ratios.

In the proposed framework, the department has considered some additional ratios for councils to supplement the current ratio to measure asset sustainability. 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.

Figure 4G shows the asset consumption ratio for all councils as at 30 June 2021. The proposed benchmark for this ratio is set at 60 per cent for all councils; as such, our analysis did not categorise councils by segment. We have grouped councils based on their asset consumption ratio, as follows:

- lower than proposed benchmark – where councils' asset consumption ratio is below 60 per cent
- risk of not meeting proposed benchmark in the next few years – where councils' asset consumption ratio is between 61 and 65 per cent
- currently above proposed benchmark – where councils' asset consumption ratio is greater than 65 per cent.

Figure 4G
Asset consumption ratio for all 77 councils as at 30 June 2021*



Note: Each line in the graph represents a council. Names of the councils have been withheld.

* The 2020–21 audits for Palm Island Aboriginal Shire Council and Richmond Shire Council are unfinished. The asset consumption ratios for these councils are based on the audited 2019–20 financial statements.

Source: Compiled by Queensland Audit Office.

As at 30 June 2021, 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 the possibility of their assets not meeting community expectations.

Another 10 councils have an asset consumption ratio of between 61 per cent and 65 per cent. While this is still within the proposed benchmark, if these councils do not take action to maintain their assets appropriately, they run the risk that they will not meet their communities' needs over the next few years.

Of these, 5 councils' asset management plans are outdated – meaning they do not have appropriate plans to maintain their assets at the level expected by their communities.

One of the shortcomings of the current measure – the asset sustainability ratio – is that it is positively skewed towards councils that are highly reliant on grants to replace their assets. As grant funding is used to replace assets, the expenditure on renewals is inflated in these councils, thus inflating the ratio.

This often occurs in councils in certain regions of Queensland that are impacted by natural disasters each year. These councils generally do not generate enough revenue to fund the replacement of their assets and are reliant on natural disaster funding for this purpose.

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.

The asset consumption ratio is an alternate measure that would help councils in determining whether the amount of assets being used is in line with their expected level (as per their asset management plan). While this is a good measure for all councils to adopt, this is more important for those councils that are highly reliant on grants for the reasons mentioned above.

Where assets are being used more than their expected levels, councils will need to invest more in those assets to ensure they are brought up to the standard that will meet the needs of their communities. On the other hand, where assets are not used as much as expected, councils will need to revisit their asset management plans to assess whether their estimates of the assets' useful lives are appropriate.

Recommendation for all councils

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 (REC 5)

All councils should review their asset consumption ratio in preparation for the new sustainability framework to assess whether they are in line with the proposed benchmark.

This ratio would inform councils whether their assets have been used in line with their asset management plans. Any variance between the expected and actual usage may either result in additional maintenance to improve the service levels of their assets or to reassess their expectation about asset usage.

Appendices

A. Full responses from entities

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

This appendix contains the detailed responses we received.

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

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

Queensland Government

Department of
State Development, Infrastructure, Local Government and Planning

Our ref: MC22/1394

4 MAY 2022

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

Dear ~~Mr Worrall~~ Brendan,

I am writing regarding your email of 4 April 2022 about the Draft Report to Parliament titled *Local Government 2021*. I note you also emailed the Honourable Steven Miles MP, Deputy Premier and Minister for State Development, Infrastructure, Local Government and Planning.

I was pleased to note your comments acknowledging the achievement of councils in reducing the number of significant deficiencies in their controlled environment, however the timeliness in producing financial statements to audits has deteriorated despite councils not facing challenges of prior years such as the COVID-19 pandemic, local government elections and implementing new accounting standards.

I note there were no recommendations for the Department of State Development, Infrastructure, Local Government and Planning, (the department) in this draft report.

Additionally, I support the six recommendations for the councils and intend to write to each council to emphasise the importance of implementing these recommendations.

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

Thank you for providing the department with an opportunity to review the Draft Report.

Yours sincerely

Mike Kaiser
Director-General

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

Comments received from Mayor, Central Highlands Regional Council

Central Highlands
Regional Council

FROM THE OFFICE OF THE MAYOR

Our ref: ECM #1696423
Your ref:
Contact name: Mayor Kerry Hayes
Direct telephone: 1300 242 686
Email:
Address: PO Box 21, Emerald QLD 4720

26 April 2022

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

Email: qao@qao.qld.gov.au

Dear Mr Worrall

Response to the draft Auditor-General's report to Parliament Local Government 2021

Thank you for your email of 4 April 2022 regarding the draft Auditor-General's report to Parliament Local Government 2021.

I would like to thank you for the opportunity to provide feedback on the report. I have read the report and Council has no further response.

We look forward to confirmation of the date this report will be tabled in parliament.

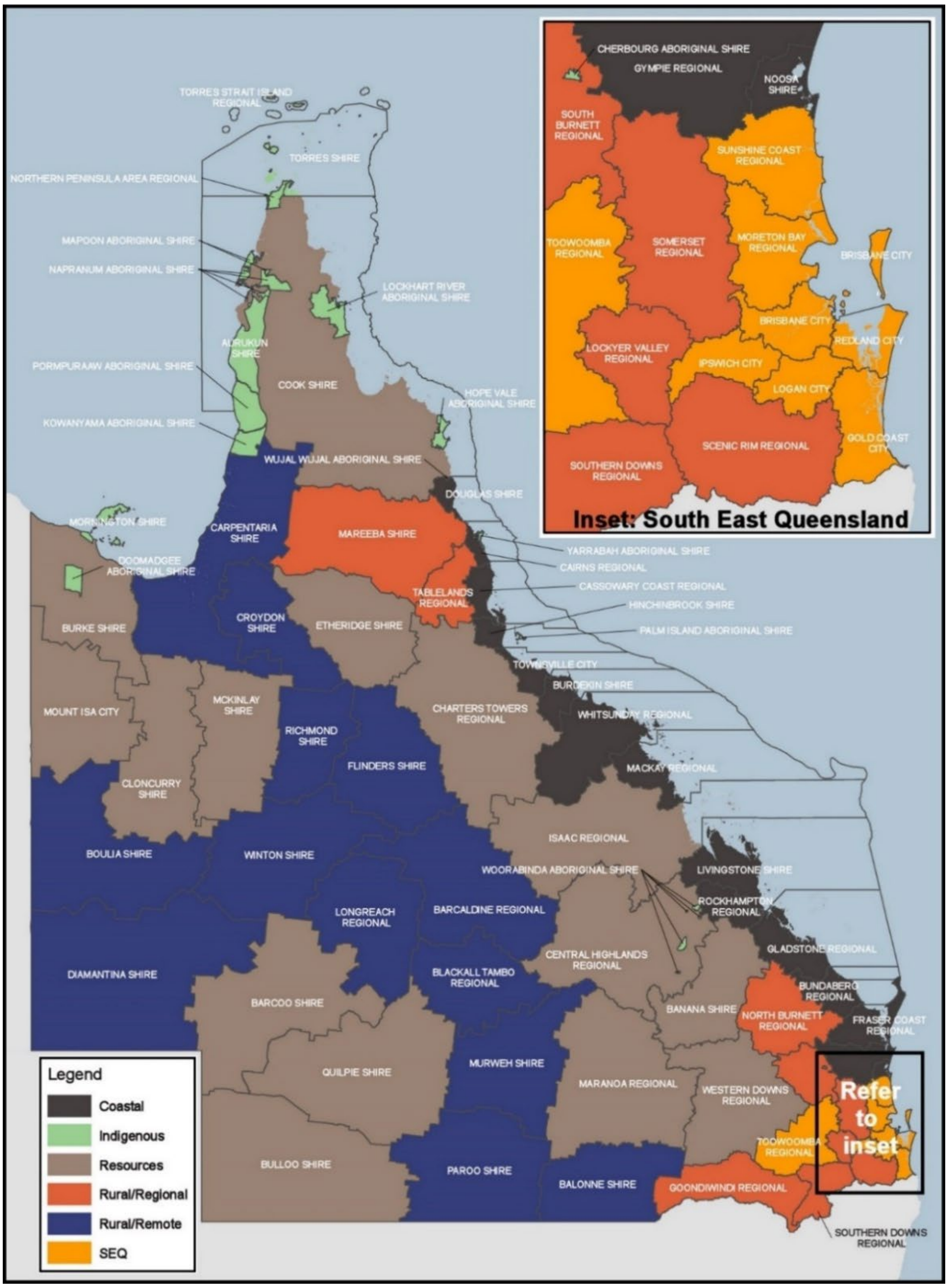
Yours faithfully

Cr Kerry Hayes
Mayor
Central Highlands Regional Council

65 Egerton Street, Emerald QLD 4720 **T.** 1300 242 686
centralhighlands.qld.gov.au

B. Local governments by segment

Figure B1
Geographical location – by local government segments



Note: SEQ – South East Queensland.

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

C. Legislative context

Frameworks

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

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

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

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

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

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

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

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

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

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

Accountability requirements

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

Queensland local government financial statements

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

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

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

There are 3 types of modified opinions:

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

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

D. Status of recommendations from prior reports

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

Figure D1
Status of recommendations for <u>councils</u> from our report *Local government 2020* (Report 17: 2020–21)

Improve financial reporting by strengthening month-end and year-end financial reporting processes		**Further action needs to be taken***
REC 1	Councils should strengthen their month-end and year-end processes to assist with timely and accurate monthly internal financial reporting and their annual financial statements. We recommend all councils use their recent financial statement preparation experiences to perform an initial self-assessment against the maturity model available on our website.	We continue to find that month-end processes in councils appear to be ineffective. This year, we identified 73 deficiencies across 60 councils where improvements were required to ensure timely and reliable month-end and year-end reporting. We continue to recommend that councils improve their month-end processes.
Improve valuation and asset management practices		**Further action needs to be taken**
REC 2	• Councils need to engage with asset valuers early to complete the valuation of assets well before year end. • Councils need to use accurate information in their long-term asset management strategies and budget decisions. • Councils need to regularly match the asset data in their financial records to the asset data in their engineering/geographic information systems to ensure it is complete and reliable.	We continue to identify issues with the asset management policies and practices of councils. Councils still need to improve processes for asset valuations. We observed several councils who did not meet their legislative deadline because of errors and delays in asset valuations. In line with these findings, we continue to recommend that councils strengthen their asset management policies and practices.

<table>
<tr><th colspan="2">Strengthen security of information systems</th><th>Further action needs to be taken</th></tr>
<tr><td>REC 3</td><td>We recommend all councils strengthen the security of their information systems. Councils rely heavily on technology, and increasingly, they need to be prepared for cyber attacks. Any unauthorised access could result in fraud or error, and significant reputational damage.
Councils' workplace culture, through their people and processes, must emphasise strong security practices to provide a foundation for the security of information systems.
All entities across the local government sector should:
• provide security training for employees so they understand the importance of maintaining strong information systems, and their roles in keeping them secure
• assign employees only the minimum access required to perform their job, and ensure important stages of each process are not performed by the same person
• regularly review user access to ensure it remains appropriate
• monitor activities performed by employees with privileged access (allowing them to access sensitive data and create and configure within the system) to ensure they are appropriately approved
• implement strong password practices and multifactor authentication (for example, a username and password, plus a code sent to a mobile), particularly for systems that record sensitive information
• encrypt sensitive information to protect it
• patch vulnerabilities in systems in a timely manner, as upgrades and solutions are made available by software providers to address known security weaknesses that could be exploited by external parties.
Councils should also self-assess against all of the recommendations in our report—Managing cyber security risks (Report 3: 2019–20)—to ensure their systems are appropriately secured.</td><td>We continue to find deficiencies in information systems, particularly regarding user access permissions.
This year, we identified 67 new internal control issues in information systems across 31 councils and observed that 28 internal control issues were unresolved from prior years.
We also identified that 20 councils have not provided cyber security training to their staff, which is an important tool in managing cyber security risks.
The recommendation to strengthen the security of information systems remains.</td></tr>
</table>

Improve risk management processes		Further action needs to be taken
REC 4	Councils should have a complete and up-to-date risk management framework including: • comprehensive risk registers that identify risks (including the risk of fraud) and appropriate risk mitigation strategies • current and relevant business continuity and disaster recovery plans. These plans are tested periodically.	We have observed an improvement in the number of councils having adequate risk management processes. This year, 22 councils did not have adequate risk management processes in place – this is down from 29 councils in 2019–20. Although this is an improvement, it still represents over a quarter of the sector. This recommendation will remain.
Enhance procurement and contract management practices		**Further action needs to be taken**
REC 5	• Councils need to ensure they obtain value for money for the goods and services they procure and that they have the appropriate approvals to procure the goods and services. • To effectively manage their contractual obligations, councils should ensure their contract registers are complete and contain up-to-date information.	We have identified issues relating to procurement and contract management practices at 29 councils this year. This is only a small improvement when compared to the 31 councils in 2019–20 who had these issues. In line with these findings, we continue to recommend that councils strengthen their procurement and contract management practices.

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

Source: Queensland Audit Office.

Figure D2
Status of recommendations for councils from our report
***Local government entities: 2018–19 results of financial audits* (Report 13: 2019–20)**

Audit committees	Further action needs to be taken*
• All councils should have an audit committee with an independent chair. • All audit committee members must understand their roles and responsibilities and the risks the committee needs to monitor. • Audit committees must hold management accountable for ensuring timely remedial actions are taken on audit issues. All extensions of agreed time frames for remedial action requires consideration by the audit committee, including management's risk mitigation strategies, until remedial action is completed.	We continue to find councils that do not have audit committees. As at 30 June 2021, there were 15 councils (30 June 2020: 16 councils) that did not have an audit committee. We continue to recommend to all these councils that they establish an independent audit committee with appropriately qualified committee members. Councils without an effective audit committee have 47 significant deficiencies that have been unresolved for more than 12 months (55% of the sector).
Internal audit	**Further action needs to be taken**
• All councils must establish and maintain an effective and efficient internal audit function, as required by the *Local Government Act 2009*.	We continue to find councils that do not have an internal audit function. As at 30 June 2021, there were 6 councils (30 June 2020: 7 councils) that did not have an internal audit function. In addition to that, 6 councils that had an internal audit function established at 30 June 2021 did not have any audit activity during the 2020–21 financial year. We continue to recommend to all these councils that they establish an internal audit function as required by the *Local Government Act 2009*.
Secure employee and supplier information	**Further action needs to be taken**
• Councils must verify changes to employee and supplier bank account details through sources independent of the change request. • Councils need to ensure information systems are secure to prevent unauthorised access that may result in fraud or error. Security measures could include encryption of information, restriction of user access, regular monitoring by management, and appropriate segregation of duties.	We continue to find deficiencies at councils with regards to securing employee and supplier information. Similarly, we continue to find weaknesses with information systems security. We have expanded on this recommendation and have included this as a part of REC 3 in Figure D1 above.

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

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

Source: Queensland Audit Office.

Figure D3
Status of recommendations for the department from our report *Local government 2020* (Report 17: 2020–21)

Require all councils to establish audit committees		**Not implemented – Recommendation accepted***
REC 6	We continue to recommend the department requires all councils to establish an audit committee and ensure that each chairperson of the committee is independent of council and management. In light of the difficulties some councils have faced with internal control weaknesses, fraud, ransomware, and achieving financial sustainability, this is more important now than ever.	The proposal continues to be considered by the department but has not as yet been progressed.
Makes changes to sustainability ratios		**Partially implemented**
REC 7	We recommend the department develops new financial sustainability ratios for Queensland councils. In developing these ratios and associated targets, we recommend the department considers the different sizes, services, and circumstances of the various councils. We also recommend that new financial sustainability ratios be established in time for the year ending 30 June 2022.	The department has developed a new framework that is currently in the consultation phase. The new framework is expected to be implemented for the 2023–24 financial year.
Provide greater certainty over long-term funding		**Partially implemented**
REC 8	We recommend the department reviews its current funding model to identify opportunities to provide funding certainty to councils beyond one financial year. A 3- to 5-year funding model would assist councils, especially those heavily reliant on grants, to develop and implement more sustainable medium- to long-term plans.	The department has partially implemented this, and some grants in the 2020–21 year were multi-year grants. The department is undertaking a review of its grants program and will consider other grants in the 2022–23 financial year for future funding programs.
Provide training to councillors and senior leadership teams around financial governance		**Partially implemented**
REC 9	We recommend the department provides periodic training to councillors and senior leadership teams for councils that are highly reliant on grants. The training should focus on helping these councils: • establish strong leadership and governance • enhance internal controls and oversight • improve financial sustainability in the long term.	The department is in the process of developing training in financial governance and basic financial management for councillors. Some pilot sessions have already been delivered, and additional sessions are planned to be rolled out.

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

Source: Queensland Audit Office.

Recommendation status definitions

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

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

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

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

E. Audit opinions for entities preparing financial reports

The following figures detail the types of audit opinions issued in accordance with Australian auditing standards for the 2020–21 financial year.

Figure E1
Our audit opinions for local government sector financial reports for 2020–21

Entity	Date opinion issued	Financial statement opinion	Current year sustainability statement opinion[1]	Ministerial extension issued to date[2]
Opinion key: **U = unmodified; Q = qualified; E = emphasis of matter. (Refer to Appendix K for definitions of these terms.)**				
Councils and controlled entities				
Aurukun Shire Council	07.10.2021	U	E*	-
Balonne Shire Council	20.10.2021	U	E*	-
Banana Shire Council	28.10.2021	U	E*	-
Barcaldine Regional Council	30.11.2021	U	E*	30.11.2021
Barcoo Shire Council	21.10.2021	U	E*	-
Blackall-Tambo Regional Council	22.10.2021	U	E*	-
Boulia Shire Council	28.10.2021	U	E*	-
Brisbane City Council	12.08.2021	U	E*	-
• Brisbane Economic Development Agency Pty Ltd (previously known as Brisbane Marketing Pty Ltd)	30.09.2021	U	-	-
• Brisbane Powerhouse Foundation	01.10.2021	U	-	-
• Brisbane Powerhouse Pty Ltd	01.10.2021	U	-	-
• Brisbane Sustainability Agency Pty Ltd (previously known as Brisbane Green Heart CitySmart Pty Ltd)	30.07.2021	U	-	-
• BrisDev Trust	30.07.2021	E[3], E*	-	-
• City of Brisbane Investment Corporation Pty Ltd	30.07.2021	U	-	-
• City Parklands Services Pty Ltd	31.08.2021	U	-	-

Entity	Date opinion issued	Financial statement opinion	Current year sustainability statement opinion[1]	Ministerial extension issued to date[2]
Opinion key: **U = unmodified; Q = qualified; E = emphasis of matter. (Refer to Appendix K for definitions of these terms.)**				
• Museum of Brisbane Pty Ltd	24.08.2021	U	-	-
• Museum of Brisbane Trust	24.08.2021	E*	-	-
• Oxley Creek Transformation Pty Ltd	01.10.2021	E[3]	-	-
• TradeCoast Land Pty Ltd	02.11.2021	U	-	-
Bulloo Shire Council	11.10.2021	U	E*	-
Bundaberg Regional Council	08.10.2021	U	E*	-
Burdekin Shire Council	13.09.2021	U	E*	-
Burke Shire Council	26.10.2021	U	E*	-
Cairns Regional Council	22.09.2021	U	E*	-
• Cairns Art Gallery Limited	04.11.2021	U	-	-
• Cairns Regional Gallery Arts Trust	26.11.2021	E*	-	-
Carpentaria Shire Council	17.12.2021	U	E*	31.12.2021
Cassowary Coast Regional Council	19.10.2021	U	E*	-
• Central Highlands Regional Council	29.10.2021	U	E*	-
• Central Highlands (Qld) Housing Company Limited	30.11.2021	E*	-	-
• Central Highlands Development Corporation Ltd	12.11.2021	U	-	-
Charters Towers Regional Council	25.10.2021	U	E*	-
Cherbourg Aboriginal Shire Council	14.10.2021	U	E*	-
Cloncurry Shire Council	31.10.2021	U	E*	-
Cook Shire Council	07.12.2021	U	E*	31.12.2021
Council of the City of Gold Coast	29.09.2021	U	E*	-
• HOTA Gold Coast Pty Ltd	17.12.2021	U	-	-
• HOTA Services Gold Coast Pty Ltd	17.12.2021	U	-	-
• Major Events Gold Coast Pty Ltd	21.09.2021	U	-	-

Entity	Date opinion issued	Financial statement opinion	Current year sustainability statement opinion[1]	Ministerial extension issued to date[2]
Opinion key: **U = unmodified; Q = qualified; E = emphasis of matter. (Refer to Appendix K for definitions of these terms.)**				
Croydon Shire Council	31.10.2021	U	E*	-
Diamantina Shire Council	31.10.2021	U	E*	-
Doomadgee Aboriginal Shire Council	28.10.2021	U	E*	-
Douglas Shire Council	14.10.2021	U	E*	-
Etheridge Shire Council	30.11.2021	U	E*	30.11.2021
Flinders Shire Council	28.10.2021	U	E*	-
Fraser Coast Regional Council	11.10.2021	U	E*	-
• Fraser Coast Tourism & Events Ltd	23.11.2021	E*	-	-
Gladstone Regional Council	14.10.2021	U	E*	-
• Gladstone Airport Corporation	12.10.2021	U	-	-
Goondiwindi Regional Council	16.11.2021	U	E*	31.12.2021
Gympie Regional Council	06.12.2021	U	E*	24.12.2021
• Rattler Railway Company Ltd	10.12.2021	U	-	-
Hinchinbrook Shire Council	25.10.2021	U	E*	-
Hope Vale Aboriginal Shire Council	30.07.2021	U	E*	-
Ipswich City Council	12.10.2021	U	E*	-
• Cherish the Environment Foundation Ltd	Not complete	-	-	-
• Ipswich Arts Foundation Trust	10.02.2022	U	-	-
• Ipswich City Enterprises Investments Pty Ltd	08.12.2021	E[3]	-	-
• Ipswich City Enterprises Pty Ltd	08.12.2021	E[3]	-	-
Isaac Regional Council	28.10.2021	U	E*	-
• Isaac Affordable Housing Fund Pty Ltd	15.12.2021	E*	-	-
• Isaac Affordable Housing Trust	15.12.2021	E*	-	-
• Moranbah Early Learning Centre Pty Ltd	14.12.2021	E*	-	-

Entity	Date opinion issued	Financial statement opinion	Current year sustainability statement opinion[1]	Ministerial extension issued to date[2]
Opinion key: U = unmodified; Q = qualified; E = emphasis of matter. (Refer to Appendix K for definitions of these terms.)				
Kowanyama Aboriginal Shire Council	13.10.2021	U	E*	-
Livingstone Shire Council	19.10.2021	U	E*	-
Lockhart River Aboriginal Shire Council	13.10.2021	U	E*	-
• Lockhart River Aerodrome Company Pty Ltd	13.10.2021	U	-	-
Lockyer Valley Regional Council	21.10.2021	U	E*	-
Logan City Council	23.09.2021	U	E*	-
• Invest Logan Pty Ltd	25.08.2021	U	-	-
Longreach Regional Council	04.02.2022	U	E*	31.01.2022
Mackay Regional Council	12.10.2021	U	E*	-
• Artspace Mackay Foundation	30.04.2021	E[3], E*	-	
• Mackay Region Enterprises Pty Ltd	22.04.2022	U	-	-
Mapoon Aboriginal Shire Council	17.12.2021	U	E*	31.12.2021
Maranoa Regional Council	12.10.2021	U	E*	-
Mareeba Shire Council	05.10.2021	U	E*	-
McKinlay Shire Council	18.10.2021	U	E*	-
Moreton Bay Regional Council	14.10.2021	U	E*	-
• Millovate Pty Ltd	21.10.2021	U	-	-
Mornington Shire Council	17.12.2021	U	E*	15.12.2021
Mount Isa City Council	17.12.2021	U	E*	31.12.2021
• Mount Isa City Council Owned Enterprises Pty Ltd	03.03.2021	U	-	-
Murweh Shire Council	12.10.2021	U	E*	-
Napranum Aboriginal Shire Council	19.11.2021	U	E*	30.11.2021
Noosa Shire Council	28.10.2021	U	E*	-
North Burnett Regional Council	06.12.2021	U	E*	30.11.2021
Northern Peninsula Area Regional Council	31.10.2021	U	E*	-
Palm Island Aboriginal Shire Council	Not complete	-	-	30.06.2022

Entity	Date opinion issued	Financial statement opinion	Current year sustainability statement opinion[1]	Ministerial extension issued to date[2]
Opinion key: U = unmodified; Q = qualified; E = emphasis of matter. (Refer to Appendix K for definitions of these terms.)				
• Palm Island Community Company Limited	29.11.2021	U	-	-
Paroo Shire Council	15.10.2021	U	E*	-
Pormpuraaw Aboriginal Shire Council	14.09.2021	U	E*	-
Quilpie Shire Council	29.10.2021	U	E*	-
Redland City Council	23.09.2021	U	E*	-
• Redland Investment Corporation Pty Ltd	08.09.2021	U	-	-
Richmond Shire Council	Not complete	-	-	31.12.2021
• The Kronosaurus Korner Board Inc	Not complete	-	-	-
Rockhampton Regional Council	11.10.2021	U	E*	-
Scenic Rim Regional Council	30.09.2021	U	E*	-
Somerset Regional Council	13.10.2021	U	E*	-
South Burnett Regional Council	07.10.2021	U	E*	-
• South Burnett Community Hospital Foundation Limited	08.10.2021	U	-	-
Southern Downs Regional Council	28.10.2021	U	E*	-
Sunshine Coast Regional Council	08.10.2021	U	E*	-
• SunCentral Maroochydore Pty Ltd	14.09.2021	U	-	-
• Sunshine Coast Arts Foundation Ltd	24.09.2021	U	-	-
Tablelands Regional Council	29.10.2021	U	E*	-
Toowoomba Regional Council	01.10.2021	U	E*	-
• Empire Theatre Projects Pty Ltd	14.10.2021	E[3]	-	-
• Empire Theatres Foundation	14.10.2021	U	-	-
• Empire Theatres Pty Ltd	14.10.2021	U	-	-
• Jondaryan	30.09.2021	E[3]	-	-

Entity	Date opinion issued	Financial statement opinion	Current year sustainability statement opinion[1]	Ministerial extension issued to date[2]
Opinion key: **U = unmodified; Q = qualified; E = emphasis of matter. (Refer to Appendix K for definitions of these terms.)**				
Woolshed Pty Ltd				
• Toowoomba and Surat Basin Enterprise Pty Ltd	15.10.2021	U	-	-
Torres Shire Council	14.10.2021	U	E*	-
Torres Strait Island Regional Council	17.09.2021	U	E*	-
Townsville City Council	06.10.2021	U	E*	-
Western Downs Regional Council	08.10.2021	U	E*	-
Whitsunday Regional Council	20.08.2021	U	E*	-
Winton Shire Council	13.10.2021	U	E*	-
• Waltzing Matilda Centre Ltd	31.10.2021	U	-	-
Woorabinda Aboriginal Shire Council	31.10.2021	U	E*	-
• Woorabinda Pastoral Company Pty Ltd	09.11.2021	E*	-	-
Wujal Wujal Aboriginal Shire Council	28.02.2022	E[4]	E*	28.02.2022
Yarrabah Aboriginal Shire Council	26.10.2021	U	E*	-
By-arrangements audits[5]				
City of Logan Mayor's Charity Trust	31.01.2022	E*	-	

Notes:

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

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

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

3 An emphasis of matter was issued to alert users of the statements to the fact that the report had not been prepared on a going concern basis as the directors of the entity had resolved to wind up the operations.

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

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

Source: Queensland Audit Office.

The following figure details the types of audit opinions issued in accordance with Australian auditing standards for the 2020–21 financial year, for jointly controlled entities (entities controlled by multiple councils and other public sector entities).

Figure E2
Our audit opinions for jointly controlled entities' financial reports for 2020–21

Entity	Date audit opinion issued	Type of audit opinion issued
Opinion key: **U = unmodified; Q = qualified; E = emphasis of matter. (Refer to Appendix K for definitions of these terms.)**		
Central Western Queensland Remote Area Planning and Development Board (RAPAD)	Not complete	-
Council of Mayors (SEQ) Pty Ltd	28.10.2021	U
Local Government Association of Queensland Ltd	06.10.2021	U
• Local Buy Trading Trust	05.10.2021	Q[3]
• QPG Shared Services Support Centres Joint Venture	26.08.2021	E[2], E*
• Peak Services Legal Pty Ltd	05.10.2021	U
• Peak Services Holdings Pty Ltd	05.10.2021	E[4]
• Peak Services Pty Ltd	05.10.2021	E[4]
Major Brisbane Festivals Pty Ltd[1]	05.05.022	U
Queensland Local Government Mutual Liability Pool (LGM Queensland)	29.11.2021	U
Queensland Local Government Workers Compensation Self-Insurance Scheme (trading as Local Government Workcare)	29.11.2021	U
SEQ Regional Recreational Facilities Pty Ltd	28.10.2021	U
South West Queensland Local Government Association[5]	07.12.2021	E[2], E*
Torres Cape Indigenous Council Alliance	19.11.2021	E*
Townsville Breakwater Entertainment Centre Joint Venture	03.02.2022	E*, E[6]
Western Queensland Local Government Association	Not complete	-

Notes:

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

[1] The financial year of Major Brisbane Festivals Pty Ltd was 1 January 2021 to 31 December 2021. The 2021 audit opinion has therefore not yet been issued. Refer to Appendix H for details of the 2020 audit opinion.

[2] An emphasis of matter was issued to alert users of the statements to the fact that the financial statements have not been prepared on a going concern basis (for QPG Shared Services Support Centres Joint Venture due to the cessation of the joint venture 10 June 2021, and for South West Queensland Local Government Association due to the entity ceasing trading on 1 April 2021).

[3] We qualified our opinion for Local Buy Trading Trust as an effective system of internal control was not maintained over the trust's tender arrangements revenue.

[4] An emphasis of matter was issued to alert users of the financial statements of the entity's financial dependence on its ultimate parent, Local Government Association of Queensland Ltd.

[5] The financial year end for South West Queensland Local Government Association is 31 March 2021.

[6] An emphasis of matter was issued to alert users of the financial statements that the entity did not have the ability to repay its debts as and when they arise.

Source: Queensland Audit Office.

F. Entities exempt from audit by the Auditor-General

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

Figure F1
Entities exempt from audit by the Auditor-General

Entity	Audit firm who undertakes the audit	Date opinion issued	Opinion
Opinion key: **U = unmodified; Q = qualified; E = emphasis of matter. (Refer to Appendix K for definitions of these terms.)**			
Exempt local government entities – small in size and of low risk (s.30A of the *Auditor-General Act 2009)*			
Drive Inland Promotions Association Inc	Whitehouse Audit Pty Ltd	16.11.2021	E*
Far North Queensland Regional Organisation of Councils	Halpin Partners Pty Ltd	11.10.2021	E*
Gulf Savannah Development Inc	Rekenen Pty Ltd	23.11.2021	E[1], E*
Northern Alliance of Councils Inc[2]	Crowe Audit Australia	24.06.2021	E*
North West Queensland Regional Organisation of Councils	Rekenen Pty Ltd	10.09.2021	E*
South West Regional Economic Development Association	FTA Accountants	10.11.2021	E*
Whitsunday ROC Limited	SBB Partners	Not complete	-
Wide Bay Burnett Regional Organisation of Councils Inc	All Income Tax	Not complete	-
Exempt local government entities – foreign-based controlled entities (s.32 of the *Auditor-General Act 2009)*			
Gold Coast City Council Insurance Company Limited	Pricewaterhouse Coopers CI LLP	21.09.2021	U

Notes:

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

1 An emphasis of matter was issued as the auditors were unable to get comfort over an account balance.

2 The financial statements of the Northern Alliance of Councils Incorporated were for the period 1 April 2020 to 31 March 2021.

Source: Queensland Audit Office.

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

The Auditor-General will not issue audit opinions for the following public sector entities for the 2020–21 financial year, as they have not produced a financial report.

Figure G1
Entities for which no opinions are issued

Entity	Parent entity	Reason
	Controlled entities	
Brisbane Tolling Pty Ltd	Brisbane City Council	Dormant
City Super Pty Ltd	Brisbane City Council	Dormant
OC Invest Pty Ltd	Brisbane City Council	Dormant
Riverfestival Brisbane Pty Ltd	Brisbane City Council	Dormant
BrisDev Pty Ltd	City of Brisbane Investment Corporation Pty Ltd	Wound up
CBIC Investments Pty Ltd	City of Brisbane Investment Corporation Pty Ltd	Dormant
CBIC Valley Heart Pty Ltd	City of Brisbane Investment Corporation Pty Ltd	Dormant
Cairns Art Gallery Foundation Limited	Cairns Regional Council	Dormant
Broadbeach Alliance Limited	Council of the City of Gold Coast	Wound up
Connecting Southern Gold Coast Ltd	Council of the City of Gold Coast	Wound up
Surfers Paradise Alliance Ltd	Council of the City of Gold Coast	Wound up
IA Foundation Ltd	Ipswich City Council	Dormant
Ipswich City Properties Pty Ltd	Ipswich City Council	Wound up
YSB Pty Ltd	Invest Logan Pty Ltd	Dormant
Artspace Mackay Foundation Ltd	Mackay Regional Council	Dormant
Mundalbe Enterprises Ltd	Mornington Shire Council	Dormant
Outback @ Isa Pty Ltd	Mount Isa City Council	Dormant
Palm Island Economic Development Corporation Pty Ltd	Palm Island Aboriginal Council	Dormant
Redheart Pty Ltd	Redland City Council	Dormant
Cleveland Plaza Pty Ltd	Redland Investment Corporation Pty Ltd	Non-reporting[1]
Redland Developments Pty Ltd	Redland Investment Corporation Pty Ltd	Non-reporting[1]
RIC Toondah Pty Ltd	Redland Investment Corporation Pty Ltd	Non-reporting[1]
Sunshine Coast Events Centre Pty Ltd	Sunshine Coast Regional Council	Non-reporting[2]
Tablelands Regional Council Enterprises Pty Ltd	Tablelands Regional Council	Wound up
Toowoomba and Surat Basin Enterprise Development Fund Limited	Toowoomba and Surat Basin Enterprise Pty Ltd	Dormant

Entity	Parent entity	Reason
Whitsunday Coast Airport and Infrastructure Pty Ltd	Whitsunday Regional Council	Dormant
Winton Community Association Inc	Winton Shire Council	Dormant
	Jointly controlled entities	
Brisbane Festival Limited	Major Brisbane Festivals Pty Ltd	Dormant
LG Cloud Pty Ltd	Local Government Association of Queensland Ltd	Dormant
LG Disaster Recovery Services Pty Ltd	Local Government Association of Queensland Ltd	Dormant
Local Buy Pty Ltd	Local Government Association of Queensland Ltd	Dormant
Prevwood Pty Ltd	Local Government Association of Queensland Ltd	Non-reporting[3]
Queensland Partnerships Group (LG Shared Services) Pty Ltd	Local Government Association of Queensland Ltd	Dormant
Toondah Harbour	Multiple entities	Non-reporting

Notes:

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

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

3 The transactions of Prevwood Pty Ltd have been consolidated in the financial statements of the Local Government Association of Queensland Ltd. Prevwood Pty Ltd also ceased trading on 23 June 2021.

Source: Queensland Audit Office.

H. Audit opinions issued for prior financial years

The following table contains the audit opinions issued for prior financial years that were not finalised when our report *Local government 2020* (Report 17: 2020–21) was issued.

Figure H1
Audit opinions issued for prior financial years

Entity	Date opinion issued	Opinion
Opinion key: **U = unmodified; Q = qualified; E = emphasis of matter. (Refer to Appendix K for the definitions of these terms.)**		
Financial statements from 2019–20 financial year – Councils		
Palm Island Aboriginal Shire Council	23.06.2021	Q[1]
Richmond Shire Council	18.06.2021	U
Financial sustainability statements from 2019–20 financial year		
Palm Island Aboriginal Shire Council	23.06.2021	E*
Richmond Shire Council	18.06.2021	E*
Financial statements from 2019–20 financial year – Controlled entities		
TradeCoast Land Pty Ltd	02.06.2021	E[2], E*
Cherish the Environment Foundation Ltd	22.07.2021	U
Mount Isa City Council Owned Enterprises Pty Ltd	25.06.2021	U
The Kronosaurus Korner Board Inc	30.04.2021	E*
Financial statements from 2019–20 financial year – Jointly controlled entities		
Major Brisbane Festivals Pty Ltd[3]	17.05.2021	U
Western Queensland Local Government Association	Not complete	-
Financial statements from 2019–20 financial year – Entities exempt from audit by the Auditor-General		
Gulf Savannah Development Inc. (opinion issued by Rekenen Pty Ltd)	29.04.2021	E[4], E*
Wide Bay Burnett Regional Organisation of Councils Inc (opinion issued by Michael R Palmer)	23.03.2021	E*

Notes:

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

1 Palm Island Aboriginal Shire Council received a qualified opinion regarding the completeness and accuracy of the revenue it reported in its financial statements.

2 An emphasis of matter was included to draw attention to a Supreme Court action between TradeCoast Land Pty Ltd and TradeCoast Central Pty Ltd.

3 The financial year of Major Brisbane Festival Pty Ltd was 1 January 2020 to 31 December 2020.

4 An emphasis of matter was issued as the auditors were unable to get comfort over an account balance.

Source: Queensland Audit Office.

I. Financial sustainability measures

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

Figure I1
Financial sustainability measures for councils

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

Source: Queensland Audit Office.

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

Figure I2
Risk assessment criteria for financial sustainability measures

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

Source: Queensland Audit Office.

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

Figure I3
Explanations of our relative risk assessments

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

Source: Queensland Audit Office.

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

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

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

Figure I4
Financial sustainability risk assessment by council category: Results at the end of 2020–21

Coastal councils	Avg. grant funding percentage[1]	Current operating surplus ratio %	Avg. operating surplus ratio %	Avg operating surplus ratio trend[2]	Net financial liabilities ratio %	Net financial liabilities ratio trend	Current asset sustainability ratio %	Avg. asset sustainability ratio %	Avg. asset sustainability ratio trend[2]	Relative risk assessment
Coastal councils										
Bundaberg Regional Council	21%	5.00%	5.64%	–	-7.00%	–	45.00%	55.40%	↑	Lower
Burdekin Shire Council	21%	0.26%	6.24%	↓	-71.90%	↑	107.54%	91.56%	↑	Lower
Cairns Regional Council	18%	1.00%	-0.07%	↑	72.00%	↓	96.00%	101.20%	↓	Moderate
Cassowary Coast Regional Council	23%	-3.00%	-3.08%	↓	-31.60%	↑	100.00%	90.40%	–	Moderate
Douglas Shire Council	25%	-5.00%	-3.11%	–	-32.00%	↓	93.00%	102.80%	↓	Moderate
Fraser Coast Regional Council	22%	0.21%	3.86%	↓	-23.95%	↓	137.69%	92.13%	↑	Lower
Gladstone Regional Council	15%	-11.96%	-0.61%	↓	31.18%	↓	87.02%	52.40%	↑	Moderate
Gympie Regional Council	23%	0.61%	-4.22%	↑	0.94%	↑	95.44%	121.17%	↓	Moderate
Hinchinbrook Shire Council	30%	-17.40%	-9.74%	↓	-17.80%	↓	89.80%	68.56%	↑	Moderate
Livingstone Shire Council	31%	3.65%	3.24%	–	22.76%	↑	62.97%	52.55%	↑	Lower
Mackay Regional Council	18%	2.20%	0.18%	–	6.10%	↑	82.20%	62.52%	↑	Lower
Noosa Shire Council	14%	7.48%	9.66%	–	-19.89%	↑	83.42%	110.04%	–	Lower
Rockhampton Regional Council	26%	1.00%	2.95%	↓	55.50%	↓	98.90%	96.92%	↑	Lower
Townsville City Council	28%	1.00%	-0.28%	–	79.00%	↑	59.00%	73.80%	↓	Moderate
Whitsunday Regional Council	35%	4.86%	3.29%	–	11.10%	↑	97.78%	147.39%	↑	Lower
Coastal councils average	**23%**	**-0.67%**	**0.93%**		**4.96%**		**89.05%**	**87.92%**		
Coastal councils – combined risk assessment		**Lower**			**Lower**		**Moderate**			**Lower**

Indigenous councils	Avg. grant funding percentage[1]	Current operating surplus ratio %	Avg. operating surplus ratio %	Avg operating surplus ratio trend[2]	Net financial liabilities ratio %	Net financial liabilities ratio trend	Current asset sustainability ratio %	Avg. asset sustainability ratio %	Avg. asset sustainability ratio trend[2]	Relative risk assessment
Indigenous councils										
Aurukun Shire Council	65%	-23.00%	-17.31%	↓	-80.00%	↑	2.00%	18.20%	–	Higher
Cherbourg Aboriginal Shire Council	55%	-15.00%	5.42%	↓	19.00%	↓	141.00%	117.20%	↑	Lower
Doomadgee Aboriginal Shire Council	55%	6.00%	-27.56%	↑	7.00%	↑	30.00%	70.40%	↓	Higher
Hope Vale Aboriginal Shire Council	46%	5.00%	8.54%	↓	-179.00%	↑	104.00%	97.60%	↑	Lower
Kowanyama Aboriginal Shire Council	71%	-41.00%	-44.80%	↓	3.00%	↓	120.00%	77.62%	↓	Higher
Lockhart River Aboriginal Shire Council	74%	-14.00%	-5.96%	↓	-37.00%	↓	54.00%	134.40%	↓	Moderate
Mapoon Aboriginal Shire Council	65%	-28.00%	-21.02%	↓	-64.00%	↑	13.00%	54.62%	↑	Higher
Mornington Shire Council	52%	-10.70%	-26.59%	↑	-16.00%	↑	92.60%	194.54%	↑	Higher
Napranum Aboriginal Shire Council	65%	-39.00%	-16.09%	↓	-35.00%	↓	20.00%	46.20%	↑	Higher
Northern Peninsula Area Regional Council	54%	-28.00%	-15.00%	↓	-10.00%	↓	57.00%	64.44%	↓	Higher
Palm Island Aboriginal Shire Council*	54%	-23.80%	-17.09%	↓	-2.93%	–	0.00%	60.20%	↓	Higher
Pormpuraaw Aboriginal Shire Council	63%	10.00%	10.32%	↑	-213.00%	↑	64.00%	78.20%	↓	Lower
Torres Shire Council	47%	-16.50%	-15.51%	↑	-64.30%	↓	31.41%	66.27%	↑	Higher
Torres Strait Island Regional Council	57%	-112.00%	-66.33%	↓	-39.00%	↓	28.00%	30.34%	↑	Higher
Woorabinda Aboriginal Shire Council	29%	-0.90%	-15.41%	–	-41.90%	↑	104.40%	34.25%	↑	Higher
Wujal Wujal Aboriginal Shire Council	66%	-14.00%	-28.48%	–	14.00%	↑	141.00%	71.80%	↑	Higher
Yarrabah Aboriginal Shire Council	48%	-28.00%	-27.15%	↓	-32.00%	↑	29.00%	41.80%	–	Higher
Indigenous councils average	**57%**	**-21.94%**	**-18.83%**		**-45.36%**		**60.67%**	**74.00%**		
Indigenous councils – combined risk assessment		**Higher**			**Lower**		**Moderate**			**Higher**

Resources councils	Avg. grant funding percentage[1]	Current operating surplus ratio %	Avg. operating surplus ratio %	Avg operating surplus ratio trend[2]	Net financial liabilities ratio %	Net financial liabilities ratio trend	Current asset sustainability ratio %	Avg. asset sustainability ratio %	Avg. asset sustainability ratio trend[2]	Relative risk assessment
Resources councils										
Banana Shire Council	32%	-9.24%	-5.48%	↓	-16.22%	↑	90.24%	95.04%	↑	Moderate
Bulloo Shire Council	63%	-7.80%	1.54%	↓	-82.80%	↓	47.00%	114.29%	↓	Lower
Burke Shire Council	77%	-32.40%	-33.79%	↑	-46.10%	↑	146.40%	86.92%	↑	Higher
Central Highlands Regional Council	23%	-2.53%	-1.28%	↓	-9.22%	↑	87.60%	107.14%	↓	Lower
Charters Towers Regional Council	44%	-4.00%	-0.02%	–	-46.00%	–	80.00%	148.40%	↓	Lower
Cloncurry Shire Council	54%	-20.00%	-5.25%	↓	-10.00%	–	115.00%	211.80%	↓	Moderate
Cook Shire Council	81%	-18.04%	-28.51%	↑	4.10%	↑	43.20%	141.50%	↓	Higher
Etheridge Shire Council	55%	-1.62%	-7.31%	–	-62.07%	↑	0.00%	12.19%	↓	Moderate
Isaac Regional Council	26%	1.21%	2.40%	↓	-7.17%	↓	103.90%	193.23%	↓	Lower
Maranoa Regional Council	44%	6.13%	2.24%	↑	-43.58%	↑	134.35%	122.43%	↑	Lower
McKinlay Shire Council	72%	0.53%	-4.94%	↑	-100.40%	↑	484.27%	366.32%	↑	Moderate
Mount Isa City Council	26%	-3.92%	3.07%	↓	-49.50%	↓	42.00%	52.71%	↓	Lower
Quilpie Shire Council	63%	-6.00%	-3.89%	–	-67.00%	↓	83.00%	47.20%	↓	Moderate
Western Downs Regional Council	28%	8.10%	8.84%	↑	-117.50%	↑	88.70%	80.30%	–	Lower
Resources councils average	**49%**	**-6.40%**	**-5.17%**		**-46.68%**		**110.40%**	**127.11%**		
Resources councils – combined risk assessment		**Moderate**			**Lower**		**Lower**			**Moderate**

Rural/Regional councils	Avg. grant funding percentage[1]	Current operating surplus ratio %	Avg. operating surplus ratio %		Avg operating surplus ratio trend[2]	Net financial liabilities ratio %		Net financial liabilities ratio trend	Current asset sustainability ratio %	Avg. asset sustainability ratio %		Avg. asset sustainability ratio trend[2]	Relative risk assessment
Rural/Regional councils													
Goondiwindi Regional Council	33%	1.85%	3.89%		–	-73.77%		↓	98.17%	103.75%		↓	Lower
Lockyer Valley Regional Council	23%	12.30%	6.48%		↑	38.23%		↑	95.16%	94.48%		↑	Lower
Mareeba Shire Council	40%	14.00%	14.92%		–	-89.00%		↑	161.00%	190.40%		↑	Lower
North Burnett Regional Council	52%	-31.80%	-15.39%		↓	-26.17%		↑	97.34%	102.99%		↓	Higher
Scenic Rim Regional Council	32%	-3.00%	2.61%		↓	6.00%		↑	81.00%	174.00%		↓	Lower
Somerset Regional Council	26%	2.00%	2.63%		–	-83.00%		↓	78.00%	105.60%		↓	Lower
South Burnett Regional Council	25%	-1.60%	0.20%		↓	9.10%		↑	110.70%	88.34%		↓	Lower
Southern Downs Regional Council	28%	0.61%	6.26%		↓	-18.80%		↑	101.13%	120.96%		↑	Lower
Tablelands Regional Council	29%	1.55%	1.46%		–	-45.24%		↑	98.33%	101.55%		↑	Lower
Rural/Regional councils average	**32%**	**-0.45%**	**2.56%**			**-31.41%**			**102.31%**	**120.23%**			
Rural/Regional councils – combined risk assessment		**Lower**				**Lower**			**Lower**				**Lower**

Rural/Remote councils	Avg. grant funding percentage[1]	Current operating surplus ratio %	Avg. operating surplus ratio %	Avg operating surplus ratio trend[2]	Net financial liabilities ratio %	Net financial liabilities ratio trend	Current asset sustainability ratio %	Avg. asset sustainability ratio %	Avg. asset sustainability ratio trend[2]	Relative risk assessment
Rural/Remote councils										
Balonne Shire Council	51%	-8.10%	-7.85%	↑	-43.83%	↓	70.80%	45.38%	↑	Moderate
Barcaldine Regional Council	46%	-9.02%	-19.13%	–	-9.05%	↓	209.75%	127.70%	↑	Higher
Barcoo Shire Council	52%	-27.33%	-23.39%	↓	-22.88%	↓	26.08%	85.97%	↓	Higher
Blackall-Tambo Regional Council	43%	0.00%	-9.77%	↑	-45.00%	↓	93.00%	84.40%	–	Moderate
Boulia Shire Council	68%	-64.23%	-25.27%	↓	-135.46%	↑	56.61%	40.52%	↓	Higher
Carpentaria Shire Council	70%	-3.80%	-14.75%	↑	-22.19%	↑	10.53%	54.37%	↓	Higher
Croydon Shire Council	78%	4.20%	4.71%	↑	-147.20%	↑	72.30%	129.10%	↓	Lower
Diamantina Shire Council	43%	16.80%	-9.88%	↑	-49.50%	↓	5.30%	75.70%	↓	Moderate
Flinders Shire Council	45%	21.99%	12.85%	↑	-53.75%	↓	128.85%	87.91%	↓	Lower
Longreach Regional Council	53%	-3.40%	-6.15%	↑	-4.37%	↑	98.13%	122.76%	↓	Moderate
Murweh Shire Council	59%	-10.07%	-7.83%	–	-1.07%	↓	90.00%	105.64%	↑	Moderate
Paroo Shire Council	67%	-2.05%	-23.37%	↑	-14.98%	↓	45.93%	62.51%	–	Higher
Richmond Shire Council*	60%	-12.67%	-32.25%	↑	4.25%	↓	311.93%	154.33%	↑	Higher
Winton Shire Council	68%	-7.45%	-4.96%	↓	-98.51%	↓	329.36%	241.36%	↑	Moderate
Rural/Remote councils average	**57%**	**-7.51%**	**-11.93%**		**-45.97%**		**110.61%**	**101.26%**		
Rural/Remote councils – combined risk assessment		**Higher**			**Lower**		**Lower**			**Higher**

South East Queensland councils	Avg. grant funding percentage[1]	Current operating surplus ratio %	Avg. operating surplus ratio %	Avg operating surplus ratio trend[2]	Net financial liabilities ratio %	Net financial liabilities ratio trend	Current asset sustainability ratio %	Avg. asset sustainability ratio %	Avg. asset sustainability ratio trend[2]	Relative risk assessment
South East Queensland councils										
Brisbane City Council	12%	1.00%	5.71%	−	202%[3]	−	47.00%	80.70%	↓	Moderate
Council of the City of Gold Coast	22%	-2.10%	-0.80%	−	-14.50%	↓	65.80%	57.14%	↑	Moderate
Ipswich City Council	29%	1.28%	7.30%	−	73.43%	↓	57.67%	63.76%	−	Moderate
Logan City Council	28%	0.35%	2.85%	↓	-19.87%	↑	65.72%	79.46%	↓	Lower
Moreton Bay Regional Council	24%	15.10%	20.88%	↓	15.00%	↑	72.00%	60.94%	↓	Lower
Redland City Council	13%	-4.01%	-4.18%	−	-37.37%	↑	54.64%	48.35%	↑	Moderate
Sunshine Coast Regional Council	27%	2.20%	7.33%	↓	49.60%	↑	75.70%	74.40%	↓	Lower
Toowoomba Regional Council	21%	4.25%	2.10%	−	53.14%	↑	91.05%	60.25%	↑	Lower
SEQ councils average	**22%**	**2.26%**	**5.15%**		**17.06%**		**66.20%**	**65.63%**		
SEQ councils – combined risk assessment		**Lower**			**Lower**		**Moderate**			**Lower**

Notes:

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

2 Average ratio trend compares the average ratio from 2020–21 with the average ratio from 2019–20. Trends should be considered in conjunction with the Department of State Development, Infrastructure, Local Government and Planning's set benchmarks, and the analysis performed and explained in Chapter 4.

3 The net financial liabilities ratio was impacted for first-time in 2020–21 with the introduction of Australian Accounting Standards Board's AASB 1059 *Service Concession Arrangements: Grantors*. The Department of State Development, Infrastructure, Local Government and Planning did not adjust the target for this ratio in response to the introduction of the new standard. This new standard impacted Brisbane City Council more than other councils. Excluding the impact of the new standard, the ratio would be 127 per cent, with the risk rating remaining unchanged.

* The 2020–21 audit for this council is unfinished. The sustainability measures reported are based on the audited 2019–20 financial statements.

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

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

Source: Queensland Audit Office.

J. Our assessment of councils' financial governance

Auditing internal controls

Entities design, implement, and maintain internal controls (people, systems, and processes) to mitigate risks that may prevent them from achieving reliable financial reporting, effective and efficient operations, and compliance with applicable laws and regulations.

In undertaking our audit, we are required under the Australian auditing standards to obtain an understanding of an entity's internal controls relevant to the preparation of the financial report.

We assess internal controls to ensure they are suitably designed to:

- prevent, or detect and correct, material misstatements in the financial report (which could influence a user's decision-making)
- achieve compliance with legislative requirements and appropriate use of public resources.

Our assessment determines the nature, timing, and extent of the testing we perform to address the risk of significant mistakes in the financial statements.

If we believe the design and implementation of controls is effective, we select the controls we intend to test further by considering a balance of factors including:

- the significance of the related risks
- the characteristics of balances, transactions, or disclosures (volume, value, and complexity)
- the nature and complexity of the entity's information systems
- whether the design of the controls addresses the risk of material misstatement and facilitates an efficient audit.

If we identify deficiencies in internal controls, we determine the impact on our audit approach, considering whether additional audit procedures are necessary.

We design our audit procedures to address the risk of material misstatement so we can express an opinion on the financial report. We do not express an opinion on the effectiveness of internal controls.

Internal controls framework

We categorise internal controls using the Committee of Sponsoring Organizations of the Treadway Commission (COSO) internal controls framework, which is widely recognised as a benchmark for designing and evaluating internal controls.

The framework identifies 5 components for a successful internal control framework. These are explained in the following paragraphs.

Control environment

- Cultures and values
- Governance
- Organisational structure
- Policies
- Qualified and skilled people
- Management's integrity and operating style

The control environment is defined as the structures, policies, attitudes, and values that influence day-to-day operations. As the control environment is closely linked to an entity's overarching governance and culture, it is important that the control environment provides a strong foundation for the other components of internal control.

In assessing the design and implementation of the control environment, we consider whether:

- those charged with governance are independent, appropriately qualified, experienced, and active in challenging management
- policies and procedures are established and communicated so people with the right qualifications and experiences are recruited, they understand their role in the organisation, and they also understand management's expectations regarding internal controls, financial reporting, and misconduct, including fraud.

Risk assessment

- Strategic risk assessment
- Financial risk assessment
- Operational risk assessment

Risk assessment relates to management's processes for considering risks that may prevent an entity from achieving its objectives, and how management agrees risks should be identified, assessed, and managed.

To appropriately manage business risks, management can either accept the risk if it is minor or mitigate the risk to an acceptable level by implementing appropriately designed controls. Management can also eliminate risks entirely by choosing to exit from a risky business venture.

Control activities

- General information technology controls
- Automated controls
- Manual controls

Control activities are the actions taken to implement policies and procedures in accordance with management directives, and to ensure identified risks are addressed. These activities operate at all levels and in all functions. They can be designed to prevent or detect errors entering financial systems.

The mix of control activities can be categorised into general information technology controls, automated controls, and manual controls.

General information technology controls

General information technology controls form the basis of the automated systems control environment. They include controls over information systems security, user access, and system changes. These controls address the risk of unauthorised access and changes to systems and data.

Automated control activities

Automated controls are embedded within information technology systems. These controls can improve timeliness, availability, and accuracy of information by consistently applying predefined business rules. They enable entities to perform complex calculations when processing large volumes of transactions. They also improve the effectiveness of financial delegations and the segregation of duties.

Manual control activities

Manual controls contain a human element, which can provide the opportunity to assess the reasonableness and appropriateness of transactions. However, these controls may be less reliable than automated elements as they can be more easily bypassed or overridden. They include activities such as approvals, authorisations, verifications, reconciliations, reviews of operating performance, and segregation of incompatible duties. Manual controls may be performed with the assistance of information technology systems.

Information and communication

- Non-financial systems
- Financial systems
- Reporting systems

Information and communication controls are the systems used to provide information to employees, and the ways in which responsibilities are communicated.

This aspect of internal control also considers how management generates financial reports, and how these reports are communicated to internal and external parties to support the functioning of internal controls.

Monitoring activities

- Management supervision
- Self-assessment
- Internal audit

Monitoring activities are the methods management uses to oversee and assess whether internal controls are present and operating effectively. This may be achieved through ongoing supervision, periodic self-assessments, and separate evaluations. Monitoring activities also concern the evaluation and communication of control deficiencies in a timely manner to effect corrective action.

Typically, the internal audit function and an independent audit and risk committee are responsible for assessing and overseeing management's implementation of controls and their resolution of control deficiencies. These 2 functions work together to ensure that internal control deficiencies are identified and then resolved in a timely manner.

Assessment of internal controls

Our assessment of internal control effectiveness is based on the number of deficiencies and significant deficiencies we identified during our audit. We assess each of the 5 components of a successful internal control framework separately.

Assessment of internal controls

Rating scale	Assessment criteria
Effective	No significant (high-risk) deficiencies
Partially effective	One significant deficiency
Ineffective	More than one significant deficiency

The deficiencies detailed in this report were identified during our audit and may have been subsequently resolved by the entity. They are reported here because they impacted on the overall system of control during 2020–21.

Financial statements preparation process

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

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

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

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

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

For the 2020–21 financial year, we requested councils to undertake a self-assessment of their financial statement preparation processes using this model. In the 2021–22 financial year, we will work with councils to ensure that their self-assessed maturity levels reflect of the reality of their strengths and weaknesses of their processes.

Financial sustainability relative risk assessment

The detailed criteria for assessing a council's financial sustainability are explained in Appendix I – Figures I1 and I2. The overall assessment criteria are shown in Figure I3. Colours used for the overall risk levels are lower risk (green), moderate risk (amber), and higher risk (red).

Results summary

The following tables summarise the results of our assessment of the 77 councils' internal controls by council segment.

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

Key:
CE = Control environment; RA = Risk assessment; CA = Control activities; IC = Information and communication; MA = Monitoring activities.
OS = Number of significant deficiencies outstanding longer than 12 months
FS = Financial sustainability — relative risk assessment (refer Figure I4).
D = Number of days to have audit opinion certified from 30 June 2021 (number of days between 30 June and 31 October is 123)

Council	Internal controls						Financial sustainability	Days to complete from year end
Coastal councils	CE	RA	CA	IC	MA	OS	FS	D
Bundaberg Regional Council	🟢	🟢	🟢	🟢	🟢	-	🟢	100
Burdekin Shire Council	🟢	🟢	🟢	🟢	🟢	-	🟢	75
Cairns Regional Council	🟢	🟢	🟢	🟢	🟢	-	🟡	84
Cassowary Coast Regional Council	🟢	🟢	🟢	🟢	🟢	-	🟡	111
Douglas Shire Council	🟢	🟢	🟢	🟢	🟢	-	🟡	106
Fraser Coast Regional Council	🟢	🟢	🟡	🟢	🟢	-	🟢	103
Gladstone Regional Council	🟢	🟢	🟢	🟢	🟢	-	🟡	106
Gympie Regional Council	🟢	🟢	🔴	🟢	🟢	-	🟡	159
Hinchinbrook Shire Council	🟢	🟢	🟢	🟢	🟢	-	🟡	117
Livingstone Shire Council	🟢	🟢	🟡	🟢	🟢	1	🟢	111
Mackay Regional Council	🟢	🟢	🟢	🟢	🟢	-	🟢	104
Noosa Shire Council	🟢	🟢	🟡	🟢	🟢	-	🟢	120
Rockhampton Regional Council	🟢	🟢	🟢	🟢	🟢	-	🟢	103
Townsville City Council	🟢	🟢	🟡	🟢	🟢	-	🟡	98
Whitsunday Regional Council	🟡	🟢	🟢	🟢	🟢	1	🟢	51

Council	Internal controls						Financial sustainability	Days to complete from year end
Key: CE = Control environment; RA = Risk assessment; CA = Control activities; IC = Information and communication; MA = Monitoring activities. OS = Number of significant deficiencies outstanding longer than 12 months FS = Financial sustainability — relative risk assessment (refer Figure I4). D = Number of days to have audit opinion certified from 30 June 2021 (number of days between 30 June and 31 October is 123)								
Indigenous	CE	RA	CA	IC	MA	OS	FS	D
Aurukun Shire Council	🟢	🟢	🟢	🟢	🟢	-	🔴	99
Cherbourg Aboriginal Shire Council	🟢	🟡	🟢	🟢	🟡	2	🟢	106
Doomadgee Aboriginal Shire Council	🟢	🟢	🟢	🟢	🟢	-	🔴	120
Hope Vale Aboriginal Shire Council	🟢	🟢	🟢	🟢	🟢	-	🟢	30
Kowanyama Aboriginal Shire Council	🟢	🟢	🟡	🟢	🟢	-	🔴	105
Lockhart River Aboriginal Shire Council	🟡	🟢	🟢	🟢	🟢	1	🟡	105
Mapoon Aboriginal Shire Council	🟢	🟢	🟡	🟢	🟢	-	🔴	170
Mornington Shire Council	🟢	🟡	🔴	🟢	🟢	3	🔴	170
Napranum Aboriginal Shire Council	🟢	🟢	🔴	🟢	🟢	1	🔴	142
Northern Peninsula Area Regional Council	🟢	🟢	🔴	🟢	🟢	2	🔴	123
Palm Island Aboriginal Shire Council[1]	🔴	🟡	🔴	🟡	🟢	12	🔴	Not complete
Pormpuraaw Aboriginal Shire Council	🟢	🟢	🟢	🟢	🟢	-	🟢	76
Torres Shire Council	🟢	🟢	🟢	🟢	🟢	-	🔴	106
Torres Strait Island Regional Council	🟢	🟢	🟢	🟢	🟢	-	🔴	79
Woorabinda Aboriginal Shire Council	🔴	🟢	🔴	🟡	🟡	6	🔴	123
Wujal Wujal Aboriginal Shire Council	🟢	🟡	🔴	🟢	🟡	4	🔴	243
Yarrabah Aboriginal Shire Council	🟢	🟢	🟡	🟢	🟢	1	🔴	118

Notes:

[1] The internal controls assessments are based on the previous year's results because the 2020–21 has not yet been completed.

Council	Internal controls						Financial sustainability	Days to complete from year end
Key: CE = Control environment; RA = Risk assessment; CA = Control activities; IC = Information and communication; MA = Monitoring activities. OS = Number of significant deficiencies outstanding longer than 12 months FS = Financial sustainability — relative risk assessment (refer Figure I4). D = Number of days to have audit opinion certified from 30 June 2021 (number of days between 30 June and 31 October is 123)								
Resources councils	CE	RA	CA	IC	MA	OS	FS	D
Banana Shire Council	🟢	🟢	🟡	🟢	🟢	-	🟡	120
Bulloo Shire Council	🟡	🟢	🔴	🟡	🟢	4	🟢	103
Burke Shire Council	🟢	🟢	🟢	🟢	🟢	-	🔴	118
Central Highlands Regional Council	🟢	🟢	🟡	🔴	🟢	1	🟢	121
Charters Towers Regional Council	🟢	🟢	🔴	🟢	🟢	2	🟢	117
Cloncurry Shire Council	🟡	🟢	🟡	🟢	🟢	-	🟡	123
Cook Shire Council	🟢	🟢	🔴	🟢	🟢	3	🔴	160
Etheridge Shire Council	🟢	🟢	🔴	🟢	🟢	1	🟡	153
Isaac Regional Council	🟡	🟢	🟢	🟢	🟢	1	🟢	120
Maranoa Regional Council	🟢	🟢	🟢	🟢	🟢	-	🟢	104
McKinlay Shire Council	🟡	🟢	🟢	🟢	🟢	1	🟡	110
Mount Isa City Council	🔴	🟡	🔴	🟡	🟢	5	🟢	170
Quilpie Shire Council	🟢	🟢	🟢	🟢	🟢	-	🟡	121
Western Downs Regional Council	🟢	🟢	🟢	🟢	🟢	-	🟢	100

Council	Internal controls						Financial sustainability	Days to complete from year end
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Rural/Regional councils	CE	RA	CA	IC	MA	OS	FS	D
Goondiwindi Regional Council	🟢	🟢	🟢	🟢	🟢	-	🟢	139
Lockyer Valley Regional Council	🟢	🟢	🟡	🟢	🟢	-	🟢	113
Mareeba Shire Council	🟢	🟢	🟢	🟢	🟢	-	🟢	97
North Burnett Regional Council	🟢	🟢	🔴	🟢	🟢	1	🔴	159
Scenic Rim Regional Council	🟢	🟢	🟢	🟢	🟢	-	🟢	92
Somerset Regional Council	🟢	🟢	🟢	🟢	🟢	-	🟢	105
South Burnett Regional Council	🟢	🟢	🟡	🟢	🟢	-	🟢	99
Southern Downs Regional Council	🟢	🟢	🟢	🟢	🟢	-	🟢	120
Tablelands Regional Council	🟢	🟢	🟢	🟢	🟢	-	🟢	121

Council	Internal controls						Financial sustainability	Days to complete from year end
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Rural/Remote councils	CE	RA	CA	IC	MA	OS	FS	D
Balonne Shire Council	🟢	🟢	🟢	🟡	🟢	-	🟡	112
Barcaldine Regional Council	🟢	🟡	🟢	🟡	🟢	2	🔴	153
Barcoo Shire Council	🟢	🟡	🟡	🔴	🟢	5	🔴	113
Blackall-Tambo Regional Council	🟢	🟢	🟡	🟢	🟢	-	🟡	114
Boulia Shire Council	🟢	🟢	🟡	🟢	🟢	1	🔴	120
Carpentaria Shire Council	🟡	🟡	🔴	🔴	🟢	6	🔴	170
Croydon Shire Council	🟢	🟢	🔴	🟡	🟢	-	🟢	123
Diamantina Shire Council	🟢	🟢	🟢	🟢	🟢	-	🟡	123
Flinders Shire Council	🟢	🟢	🔴	🟢	🟡	2	🟢	120
Longreach Regional Council	🟢	🟢	🟡	🟢	🟢	-	🟡	219
Murweh Shire Council	🟢	🟢	🟡	🟢	🟢	1	🟡	104
Paroo Shire Council	🟢	🟢	🟢	🟡	🟢	1	🔴	107
Richmond Shire Council[1]	🟡	🟢	🔴	🟢	🟢	4	🔴	Not complete
Winton Shire Council	🟡	🟢	🟡	🟢	🟢	1	🟡	105

Notes:

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Council	Internal controls						Financial sustainability	Days to complete from year end
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South East Queensland councils	CE	RA	CA	IC	MA	OS	FS	D
Brisbane City Council	🟢	🟢	🟢	🟢	🟢	-	🟡	43
Council of the City of Gold Coast	🟢	🟢	🔴	🟡	🟢	4	🟡	91
Ipswich City Council	🟢	🟢	🔴	🟢	🟢	2	🟡	104
Logan City Council	🟢	🟢	🟡	🟢	🟢	1	🟢	85
Moreton Bay Regional Council	🟢	🟢	🟡	🟢	🟢	1	🟢	106
Redland City Council	🟢	🟢	🟢	🟢	🟢	-	🟡	85
Sunshine Coast Regional Council	🟢	🟢	🟡	🟢	🟢	-	🟢	100
Toowoomba Regional Council	🟢	🟢	🟡	🟢	🟢	1	🟢	93

Source: Queensland Audit Office.

K. Glossary

Term	Definition
Accountability	The responsibility of public sector entities to achieve their objectives of delivering reliable financial reporting, effective and efficient operations, compliance with applicable laws, and reports to interested parties.
Audit committee	A committee intended to provide assistance to the council in discharging its obligations. Duties and responsibilities can involve oversight of all or a combination of the following: • effectiveness and reliability of internal controls • quality and integrity of accounting and reporting practices • effectiveness of performance management • legal and regulatory compliance • auditors' qualifications and independence • performance of the internal audit function and of external auditors.
Auditor-General Act 2009	An Act of the State of Queensland that establishes the responsibilities of the Auditor-General, the operation of the Queensland Audit Office, the nature and scope of audits to be conducted, and the relationship of the Auditor-General with parliament.
Australian accounting standards	The rules by which financial statements are prepared in Australia. These standards ensure consistency in measuring and reporting on similar transactions.
Capital expenditure	Expenditure to acquire or maintain assets, such as land, buildings, infrastructure, and plant and equipment.
Controlled entity	An entity controlled by another entity. The controlling entity can dominate decision-making, directly or indirectly, in relation to financial and operating policies so as to enable that other entity to operate with it in achieving the objectives of the controlling entity.
Deficiency	A **deficiency** arises when internal controls are ineffective or missing, and are unable to prevent, or detect and correct, misstatements in the financial statements. A deficiency may also result in non-compliance with policies and applicable laws and regulations and/or inappropriate use of public resources. We increase the rating from a deficiency to a **significant deficiency** when: • we consider immediate remedial action is required • there is a risk to reputation • the non-compliance with policies and applicable laws and regulations is significant • there is potential to cause financial loss, including fraud • management has not taken appropriate, timely action to resolve the deficiency.
Depreciation	The systematic allocation of a fixed asset's value as an expense over its expected useful life, to take account of normal usage, obsolescence, or the passage of time.
Emphasis of matter	A paragraph included with an audit opinion to highlight an issue of which the auditor believes the users of the financial statements need to be aware. The inclusion of an emphasis of matter paragraph does not modify the audit opinion.
Fair value	The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties, in an arms-length transaction.

Term	Definition
Fraud	Any act or omission, including a misrepresentation, that knowingly or recklessly misleads, or attempts to mislead, a party to obtain a financial or other benefit or to avoid an obligation.
Going concern	An entity that is a going concern is expected to be able to pay its debts as and when they fall due, and to continue to operate without any intention or necessity to liquidate or wind up its operations.
Misstatement	The difference between the amount, classification, presentation, or disclosure of a reported financial report item and the amount, classification, presentation, or disclosure that is required for the item to be in accordance with the applicable financial reporting framework. Misstatements can arise from error or fraud.
Net assets	Total assets minus total liabilities.
Procurement	The acquisition of goods, services, or works from an external source.
Qualified audit opinion	An opinion issued when financial statements as a whole comply with relevant accounting standards and legislative requirements, with the exceptions noted in the opinion. These exceptions could be the effect of a disagreement with those charged with governance, a conflict between applicable financial reporting frameworks, or a limitation on scope that is considered material to an element of the financial report.
Risk management	The systematic identification, analysis, treatment, and allocation of risks. The extent of risk management required will vary depending on the potential effect of the risks.
Unmodified audit opinion	An audit opinion issued when financial statements are prepared in accordance with the relevant legislative requirements and Australian accounting standards.
Useful life	The number of years an entity expects to use an asset (not the maximum period possible for the asset to exist).

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