



# Local government entities: 2018–19 results of financial audits

Report 13: 2019–20

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Your ref:  
Our ref: PRJ01509

20 February 2020

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

Dear Speaker

**Report to parliament**

This report is prepared under Part 3 Division 3 of the *Auditor-General Act 2009*, and is titled Local government entities: 2018–19 results of financial audits (Report 13: 2019–20).

In accordance with s.67 of the Act, would you please arrange for the report to be tabled in the Legislative Assembly.

Yours sincerely

A handwritten signature in blue ink, appearing to read "B. Worrall", followed by a period.

Brendan Worrall  
Auditor-General

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# Report on a page—results of our audits

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This report summarises the audit results of Queensland's 77 local government entities (councils) and the entities they control.

## Financial statements are reliable

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We found that all council financial statements completed to date are reliable and comply with relevant laws and standards. We found that councils have been generally more timely in finalising their financial statements. Four councils—Doomadgee Aboriginal Shire Council, Palm Island Aboriginal Shire Council, Richmond Shire Council and Woorabinda Aboriginal Shire Council—are yet to finalise their 2018–19 financial statements.

The councils have continued to improve their year end processes and the quality of their draft financial statements, which has helped them to reduce the average time required to finalise their financial statements (to 15.99 weeks from 21.87 weeks in the last five years). Five councils did not meet their statutory reporting deadline because they had problems completing their asset valuation process.

## Financial sustainability continues to be a challenge

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More than half of the councils continue to spend more delivering services to their community than they receive in revenue from rates, fees and charges, and grants. This is particularly the case in rural, remote and Indigenous areas.

Councils need to know which services their communities value. This enables them to make informed decisions when deciding which services to provide and when managing costs.

Being financially sustainable is a challenge for grant-dependent councils, as grant funding fluctuates, and there is lack of certainty about the amounts that will be available in the future. This uncertainty makes it difficult to make some medium-term decisions and to plan for financial sustainability in the long term. The Department of Local Government, Racing and Multicultural Affairs (the department) recently developed a grants model to streamline the framework for state government grant programs. Whilst this will assist councils in identifying and applying for grants in the short term, it may not help councils plan for long-term sustainability.

The department sets the ratios that councils use to measure sustainability. These ratios have been in place since 2013. The department needs to consider if these ratios are still relevant or if they should be more fluid, to address the changing needs of councils.

## The cost of maintaining and replacing assets is increasing

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Councils are responsible for maintaining and renewing a large asset portfolio of \$106.8 billion, which they use to deliver community services. Asset management is critical to the long-term financial sustainability of the local government sector.

Without effective asset management plans in place, councils risk undertaking asset renewals in an unstructured and reactive manner. These plans assist councils to plan for future costs and budget accordingly.

When councils understand the performance, cost, and age of their assets, they can make informed decisions about their renewal, maintenance, and replacement.



# Report on a page—internal controls

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## Councils need stronger governance

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Councils with strong governance promote a risk-aware and ethical culture, appoint appropriately qualified people to oversight roles, and emphasise the importance of effective internal controls. They also have a clear understanding of, and respect the distinction between, roles and responsibilities of the councillors and the executive management.

While we have noted some improvements in recent years, the number of significant control issues, including those outstanding from prior years, indicates there are still systemic problems with councils' internal control frameworks. By not addressing these vulnerabilities in internal controls, councils are exposed to risk of fraud or errors.

The council elections in March 2020 may result in significant changes in the governance structures in some councils. If this is the case, then during the transition period, councils will need to maintain effective internal control environments to protect council assets, deliver quality services to their communities, and prevent fraud and error in their finances.

An active audit committee and internal audit function can support a council in ensuring internal controls are effective, particularly during times of change, and in monitoring the timely resolution of audit recommendations.

## Fraud continues to occur at councils

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There has been an increase in fraudulent attempts at councils. During the financial year, attempts were successful at four councils, where employee bank account details were changed as a result of a fraudulent email. A further three councils have been defrauded by processing unauthorised changes to their vendor bank account details since July 2019. We identified weak controls over employee and supplier bank account changes at 15 councils this year. Fraudsters continue to target councils; therefore, vigilance over payments, strong internal controls and cybercrime awareness training are crucial for councils, regardless of their size.

## Approved purchasing processes must be followed

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Councils purchase over \$8.5 billion in goods and services, often from suppliers in their local community. We noted issues with councils not following established purchasing processes, including identifying and managing conflicts of interest, obtaining quotes, maintaining documentation, and approving purchases. These processes ensure decisions are ethical and transparent, achieve value for money, and are adequately approved—so council money is spent appropriately.

## Secure information systems are essential

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We continue to identify issues with information systems controls, including with user access to systems, security of electronic transfer files, and system implementations.

Councils need to secure access to their financial systems appropriately. These systems underpin the integrity of financial reporting, and unauthorised access may result in fraud or error.

# Recommendations for councils

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From our analysis of the sector, we identified the following actions for all councils to consider.

## Strengthen governance framework

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- Councils need to provide all councillors with detailed induction training and continuing professional development on their responsibilities.
- 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.
- All councils must establish and maintain an effective and efficient internal audit function, as required by the *Local Government Act 2009*.
- 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.

## Strengthen controls and processes

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- Councils need to strengthen their controls and processes by acting on outstanding audit recommendations. We recommend they take prompt action to address individual recommendations and resolve internal control deficiencies, with a focus on the highest risk vulnerabilities and those outstanding from prior years.
- Councils need to establish clear policies and procedures to manage and collect charges for the infrastructure required to support new developments.

## Secure employee and supplier information

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- 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.



## Conduct mandatory cyber security awareness training

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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 and tailgating (following a person into an office), so entities can assess and improve their awareness programs.

## Strengthen asset management

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- Councils need to use accurate information about their assets, including asset performance (for example, current performance compared to the future performance required by the community) and cost, to inform their long-term asset management strategies and budget decisions.
- Councils need to strengthen how they control the recording of data on assets. They should regularly match the data in the financial records with the data in their geographic information systems to ensure they are both complete and reliable.
- Councils need to allocate enough time and resources early in the financial year to complete the asset valuation and asset accounting processes well before year end.

## Improve financial management

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- Councils are encouraged to use the Queensland Audit Office's financial statement preparation maturity model to assess their financial reporting processes and identify areas for improving the timeliness and quality of their financial reports.
- All councils should complete a self-assessment of their management reporting maturity. Councils need to determine what the appropriate level of maturity is for their circumstances and user needs. This will help them identify the elements in which they need to mature.

While desired and appropriate levels of maturity will vary across councils, all councils should ensure they:

- formally establish management accountabilities for reporting
- tailor reporting to user needs
- consult with users on a regular basis to ensure the reports meet their needs
- provide training and ongoing guidance to report users to ensure they understand the reports
- establish quality control and reporting processes that ensure accurate and reliable data is provided in the reports.

## Improve timeliness for reporting to communities

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Councils need to continue to work towards more timely financial reporting to their communities.

## Improve monitoring of controlled entities

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Councils with existing controlled entities, or plans to create them, should have policies in place to ensure that:

- council develops a business case establishing the need for and objectives of the entity prior to creating it
- each controlled entity's board has the right skill sets to deliver the objectives of the entity
- where councillors or council management are appointed to the board of the controlled entity, potential conflicts of interest are appropriately managed
- council implements monitoring controls over the entity's key policies and procedures
- the entity regularly reports to council governance committees.

## Monitor long-term obligations for landfill rehabilitation

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Councils with licences for landfill sites should review the way they account for their long-term liabilities for landfill rehabilitation and ensure they account for future financial obligations.

## Improve new system implementations

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When implementing a new system, councils must:

- define up front what is required for the project and what needs to be delivered by the contract
- determine the need for specialist resources and determine the impact on staffing, both for the project team and for the backfill of positions for staff involved in the system implementation
- clarify roles and establish responsibilities of service providers during and after implementation, and establish reporting milestones and time frames
- establish reporting requirements over the life of the project, including reporting on project status against milestones, budget versus actual expenditure, and the review and resolution of errors
- identify and consider any early warning signs that would indicate a project is at risk of not meeting its objectives or not reaching the next milestone within time and budget
- critically assess projects against changing business needs
- for larger projects, consider implementing the changes in segments, as this provides more opportunity to review, to learn, and to assess risk
- define system security settings and determine how to segregate duties before implementing the new system
- identify what reports users will need once the system is implemented
- establish a strategy to test that the new system processes transactions effectively and efficiently
- train staff to effectively use the system
- establish regular reporting on the implementation by the project team to both council and the audit committee.



# Recommendations for the department

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From our analysis of the sector, we identified the following actions for the Department of Local Government, Racing and Multicultural Affairs.

## Make changes to legislation

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We propose that the Department of Local Government, Racing and Multicultural Affairs amends the *Local Government Act 2009* to require all councils to have audit committees and all audit committee chairs to be independent.

## Make changes to sustainability ratios

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We recommend the Department of Local Government, Racing and Multicultural Affairs reviews the current sustainability ratios to determine if they are the most relevant and effective ratios for measuring the financial sustainability of councils and if supplementing them with additional ratios would provide a more comprehensive assessment.

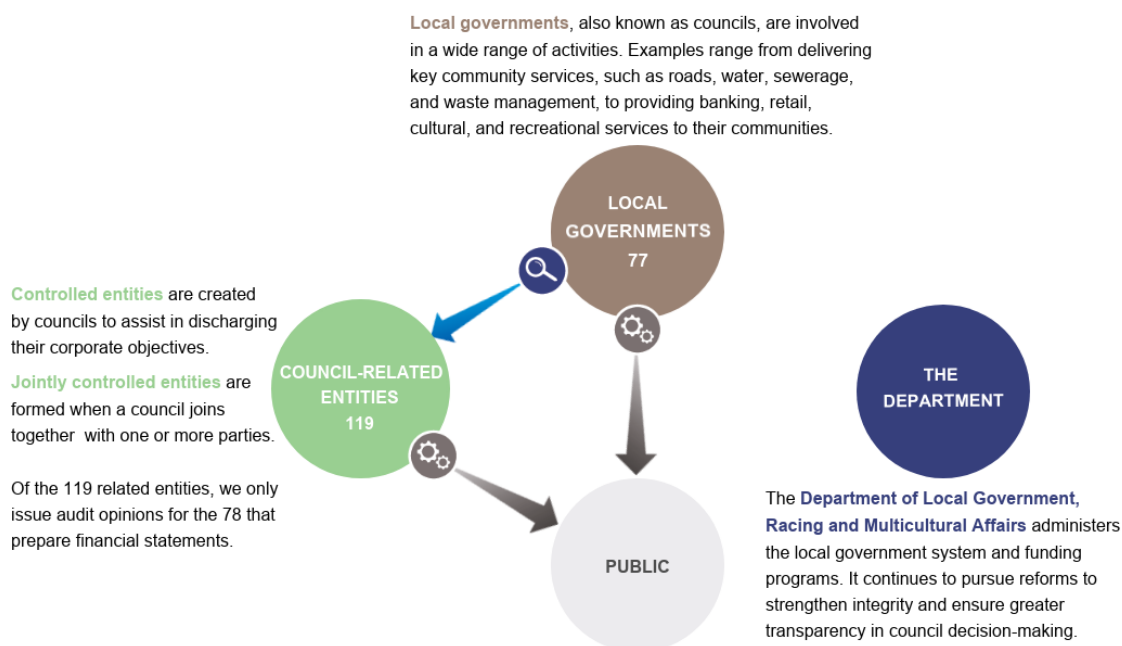
## Require published financial statements for entities controlled by councils

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We recommend that the Department of Local Government, Racing and Multicultural Affairs continues to progress our previous recommendation to have entities controlled by councils make their financial statements publicly available.

# 1. Overview of entities in this sector

**Figure 1A**  
**Entities in the local government sector**

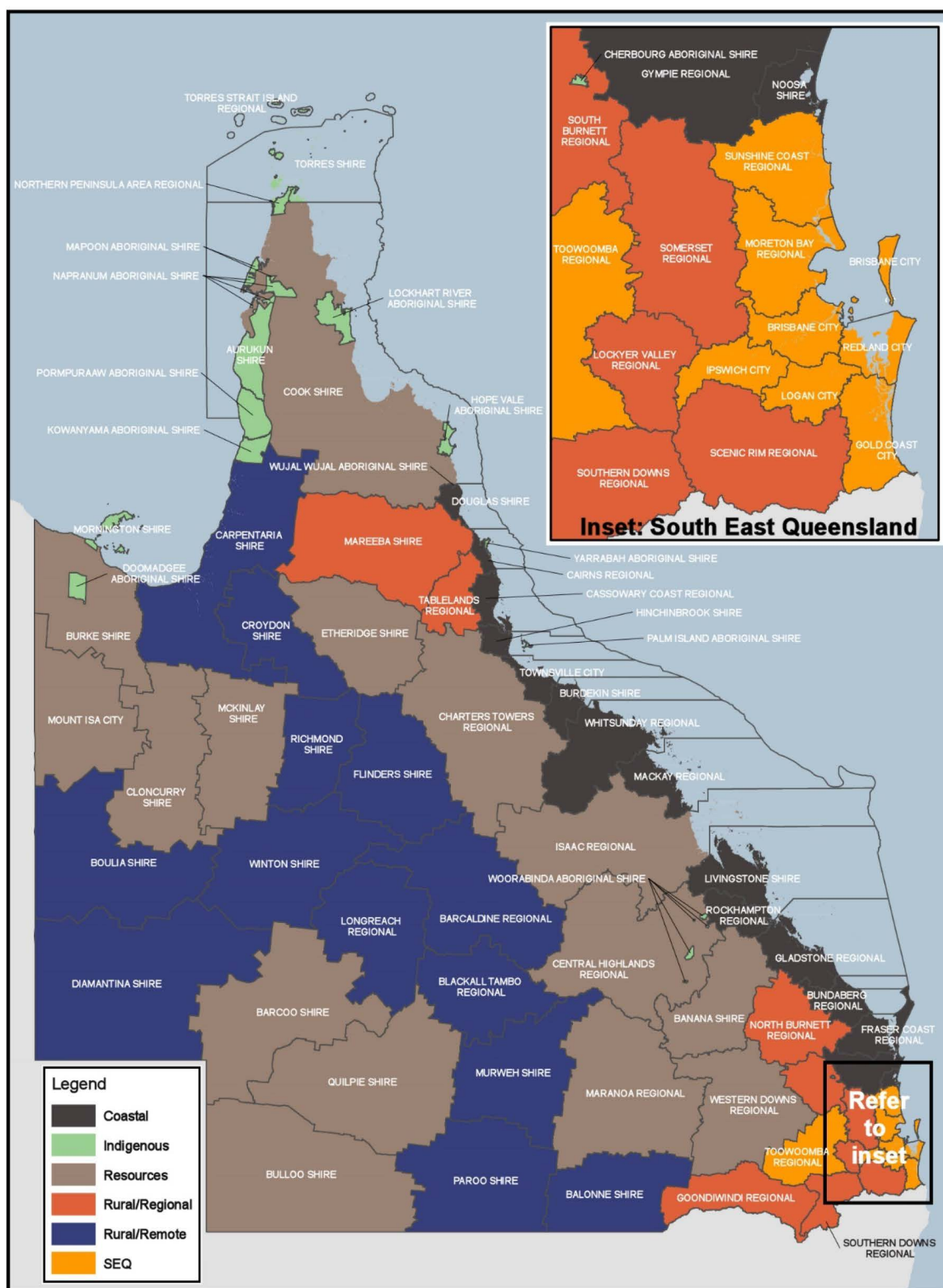


Source: Queensland Audit Office.

Councils vary widely in their size and location and in the range of community services they provide. To enable comparison, we group them into the six segments that the Local Government Association of Queensland used in its 2013 report *Factors Impacting Local Government Financial Sustainability: A Council Segment Approach*: Coastal, Indigenous, Resources, Rural/Regional, Rural/Remote, and South East Queensland (SEQ).

Figure 1B shows the geographical location of the councils and which segment each council fits into.

**Figure 1B**  
**Geographical location—local government segments**



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

## 2. Results of our audits

This chapter delivers an overview of our audit opinions for each entity in the local government sector and evaluates the timeliness and quality of their financial reporting. It also provides conclusions on our areas of audit focus.

### Chapter snapshot



## Chapter summary

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For this financial year, we provided unmodified opinions for 73 councils and 72 council-related entities, meaning their financial statements are reliable. As at the date of this report, the financial statements of four councils remain unfinalised. These four councils were not finalised by the extended financial reporting dates approved by the minister.

Overall, councils have improved their year end processes compared to last year, decreasing by 1.1 days the average time they took to complete financial statements after 30 June, and reducing the adjustments they made to draft financial statements.

Across the sector, however, there are significant fluctuations in the robustness of monthly reporting. Councils need strong, consistent month end and year end processes and effective internal quality assurance practices to continue to improve the timeliness of their draft financial statements and reduce the likelihood of errors and adjustments.

Councils make a lot of decisions (some subjective) when determining the value of their assets and also when estimating their environmental obligations to restore their landfill sites. We focused on these areas in conducting our audit.

Ten councils reported prior period errors relating to found assets, which had not been previously included in their financial statements. This recurring issue needs to be resolved across the sector. Councils need to understand their asset data and improve the processes they use to conduct asset stocktakes and collect and record assets donated to them.

## Audit opinion results

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### Councils and council-related entities

We issued unmodified audit opinions on the financial statements of 73 councils and 72 council-related entities. These results are consistent with prior years and mean the financial statements can be relied upon.

Audit opinions have yet to be issued for four councils. The minister approved an extension for these councils as follows:

- Doomadgee Aboriginal Shire Council—31 January 2020
- Palm Island Aboriginal Shire Council—14 February 2020
- Richmond Shire Council—31 January 2020
- Woorabinda Aboriginal Shire Council—14 February 2020.

There are also six council-related entities for which audit opinions are yet to be issued.

We qualified our audit opinions for two council-related entities—Artspace Mackay Foundation and Local Buy Trading Trust—on the basis that we were not able to obtain enough appropriate audit evidence about the completeness of their revenue. We are working with these entities to improve their control environments.

#### DEFINITION

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

This year we issued 33 unmodified audit opinions with an emphasis of matter for council-related entities. The most common emphases of matter highlighted:

- the special-purpose nature of financial statements that were prepared using a framework that did not require full compliance with all elements of the Australian accounting standards
- disclosures in the financial statements identifying that entities had ceased/may soon cease to exist or had issues relating to their ability to pay their debts as and when they fall due.

#### DEFINITION

An **emphasis of matter** is 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.

Appendices E and F detail the audit opinions issued for councils and their related entities. Audit opinions not issued by the date of this report are marked as 'not complete'.

Not all local government entities are required to prepare financial statements. This year, 41 entities were not required (either by legislation or by the accounting standards) to prepare financial statements. Appendix G includes a full list of entities not preparing financial statements and the reasons.

## Status of unfinished audits from prior years

We tabled our last report about the local government sector—*Local government entities: 2017–18 results of financial audits* (Report 18: 2018–19)—in May 2019. At that time, one council and eight council-related entities had not finalised their financial statements. We subsequently issued qualified opinions for the 2016–17 and 2017–18 financial statements of Doomadgee Aboriginal Shire Council.

The financial statements for the council were qualified for the 2016–17 financial year. There was insufficient information to form an opinion on unexpended grants, balances owing to the Australian Taxation Office, and the property, plant and equipment balance at 30 June 2017. Balances and disclosures for 2016–17 as they appeared in the 2017–18 financial statements remained qualified, as the council was unable to provide audit evidence to substantiate these items.

Six of the eight council-related entities have now received audit opinions, one of which was qualified.

We qualified our opinion on the 2017–18 financial statements of Isaac Affordable Housing Fund Pty Ltd. This was a result of the company identifying prior period errors in the reported depreciation expense for 2016–17, which were unable to be corrected.

Appendix H includes a full list of these previously unfinished 2017–18 audits and the opinions we issued.

## Financial sustainability statements

Under local government legislation, each council is required to prepare a current-year financial sustainability statement, which we audit.

#### DEFINITION

**Financial sustainability** is the ability to meet current and future expenses as they arise and the capacity to respond to foreseeable changes and emerging risks.

We have issued unmodified audit opinions on the sustainability statements of all 73 councils audited to date. In each case, our opinion is based on whether the statement has been calculated accurately. We do not form an opinion on the appropriateness or relevance of the reported ratios or on the councils' future sustainability.

The reported sustainability measures for each council are detailed in Appendix I.

## Entities exempt from audit

Public sector entities may be exempt from audit by the Auditor-General in certain circumstances. Exemptions will be granted only where, in the Auditor-General's opinion, there are no public interest reasons to undertake the audit. The Auditor-General has the discretion to grant an exemption for public sector entities that are small and low risk.

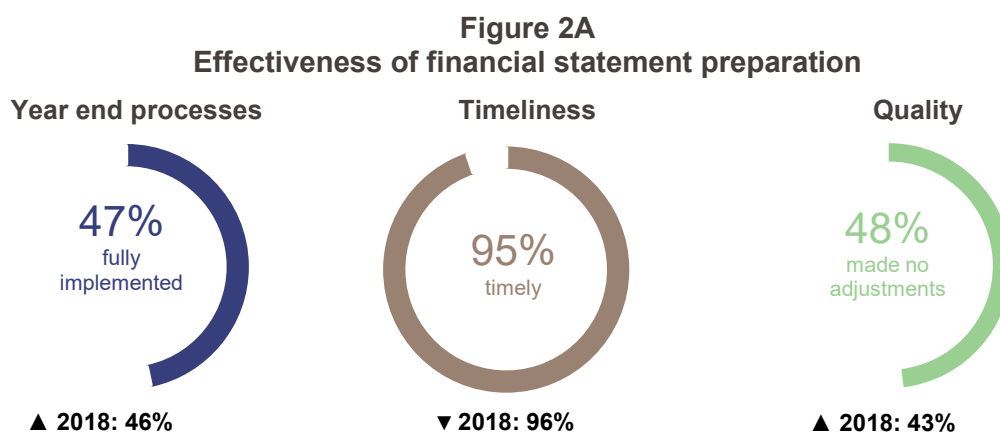
Exempt entities are still required to engage an appropriately qualified person to audit their financial statements.

Eleven council-related entities were exempted from audit by the Auditor-General in 2018–19 due to their small size and low risk. One foreign-based controlled entity was also exempted. Appendix F provides a full list of these entities and the results of their audits.

## Effective financial statement preparation

This year, more councils met the agreed milestones for year end processes, and the quality of the draft financial statements improved.

The results of our assessment of each council, and our assessment criteria, are outlined in Appendix J.



Source: Queensland Audit Office.

## Plan for early asset valuations to reduce financial statement adjustments

The valuation of assets was the most common year end process not completed by the agreed milestone. Five councils did not meet their statutory reporting deadline, because they had problems completing their asset valuation process. Those councils who engaged with their valuers early in the financial year generally met their agreed milestones and were able to identify adjustments before producing their financial statements.

**Recommendation for councils**

**Strengthen asset management**

Councils need to allocate enough time and resources early in the financial year to complete the asset valuation and asset accounting processes well before year end.

Other significant adjustments related to recording and misclassifying of expenses, incomplete or missing information in the notes to the financial statements provided to audit, and prior period errors.

## Improved timeliness

We actively promote early financial reporting by councils to improve the timing of the information provided to their communities. This year, 58 councils (2018: 57), met our early reporting target date of 14 October 2019. Over the past five years, councils have reduced the average time required to finalise financial statements to 15.99 weeks, from 21.87 weeks in 2013–14.

Councils have achieved this by improving their reporting frameworks and their governance processes for financial reporting, including audit committee oversight.

**Recommendation for councils**

**Improve timeliness for reporting to communities**

Councils need to continue to work towards more timely financial reporting to their communities.

## Financial statement preparation maturity model

A council's effectiveness in preparing financial statements is influenced by the maturity of its financial reporting framework. Councils with mature reporting frameworks have more robust month end and year end processes, enabling them to achieve more timely and higher quality financial statements. This is because year end processes are an extension of the month end processes.

We have developed a new reporting tool for assessing financial statement preparation—the financial statement preparation maturity model. This model allows for an assessment of public sector entities' processes for preparing financial reports and can be adapted for entities of different sizes and circumstances. We have provided a self-assessment tool to help entities evaluate themselves against their expected maturity level and highlight areas for improvement.

**Recommendation for councils**

**Improve financial management**

Councils are encouraged to use the Queensland Audit Office's financial statement preparation maturity model to assess their financial reporting processes and identify areas for improving the timeliness and quality of their financial reports.



## Areas of audit focus

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We focus on areas with a higher risk of fraud or error in the financial statements. Risk increases when there is a higher degree of complexity or subjectivity (in terms of judgements, assumptions, and estimates), or when there are significant changes or developments. This year, in the local government sector, we focused on the following higher-risk areas:

- assessing the value of assets—because there is not an active market to buy or sell them, which makes it difficult to place a value on them
- assessing the cost of landfill site restoration—as councils have a legal obligation to environmentally restore their landfill sites (including 30 years of monitoring after closure)
- recognising infrastructure charges revenue—as determining when councils are entitled to this revenue is subjective and dependant on the type of development.

### Assessing the value of property, plant and equipment assets

This year the value of councils' assets increased by \$3.2 billion

Councils must ensure that the asset values reported in their financial statements are reflective of their fair value. Councils reported total property, plant and equipment assets of \$106.8 billion.

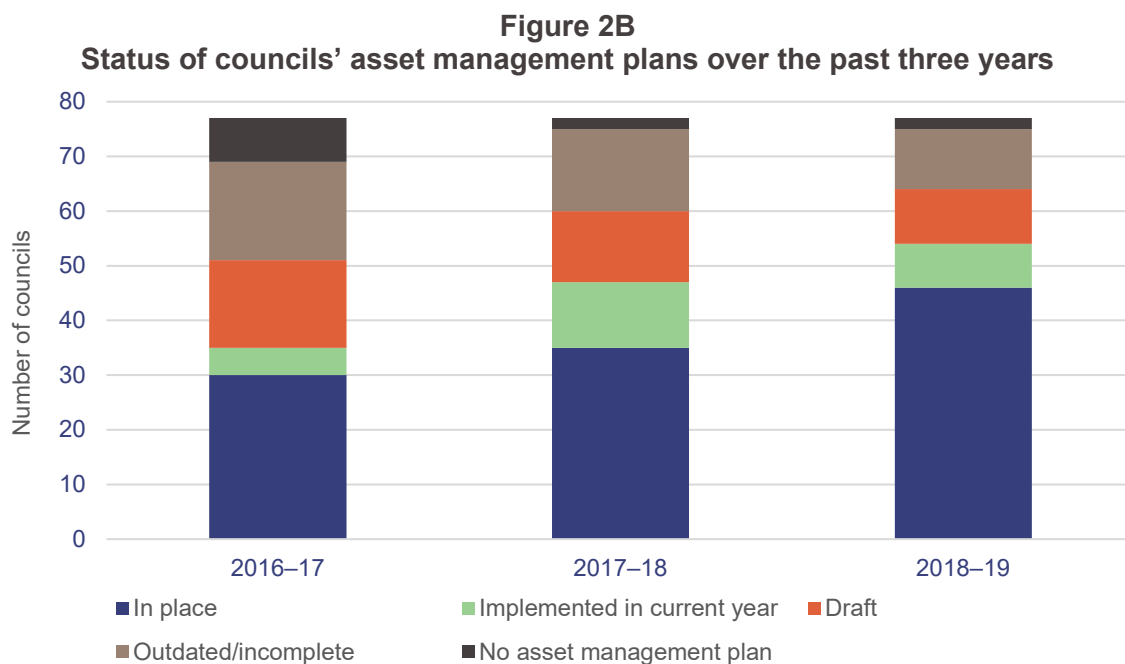
Applying fair value to the assets provides councils with the approximate cost to replace their assets in today's dollars. This, combined with asset management plans, assists councils in their decisions on asset renewal and replacement programs and in calculating the approximate cost to maintain a certain level of service for their communities.

Councils use valuation experts to estimate the value of the assets and provide professional judgement about certain subjective assumptions.

The \$3.2 billion increase reflects an increase in the fair values of the councils' assets, purchases during the year, and assets found in the valuation process that had not previously been recorded in the councils' asset registers.

Maintaining assets and planning for their long-term maintenance and replacement is a major task for councils.

In 2018–19, 64 councils had up to date or draft asset management plans. The number of councils with outdated, incomplete, or no plans dropped to 13 (2017–18: 17 councils). Figure 2B shows the significant improvements made across the sector over the last three years.



Source: Queensland Audit Office.

Seven councils that have not reviewed or updated their asset management plans in the last five years have populations of less than 4,000 people. These councils have minimal population fluctuations and development. This reduces the likelihood of significant changes in the service requirements of their assets and also reduces the need to review their asset management plans as regularly.

Four councils with outdated asset management plans have larger and growing populations, which means they need to regularly review and reassess their asset management plans to appropriately address the infrastructure needs of their communities. If they do not review their asset management plans, these councils risk having the standard of service delivery provided by their assets fall below the needs of their communities.

Asset management is critical to the long-term financial sustainability of the local government sector. When councils understand the performance, cost, and age of their assets, they can make informed decisions about their renewal, maintenance, and replacement. If councils do not budget appropriately for these significant costs, they risk being unable to fund replacements or upgrades, with future ratepayers having to bear the cost.

When developing asset management plans, councils need to consider the nature, volume, and types of assets held and determine the required complexity of the plan.

In 2020–21, we plan to conduct a performance audit on strategic asset management in local government to assess whether councils are effectively managing their infrastructure assets to maximise their service potential, while minimising the total cost of ownership.

#### Ten councils reported prior period errors due to found assets

Councils continue to identify 'found' assets they have not previously recorded in their asset registers. Ten of the 18 councils (2017–18: five of the 25 councils) that reported found assets made material changes to the amounts previously reported in their 2017–18 financial statements. These were reported as prior period errors in those councils' financial statements. The errors primarily occurred in the years of comprehensive valuations for councils' roads and stormwater infrastructure.

The errors resulted from a mismatch of the information in the financial system and the geographic information systems (GIS) used to capture, store, and manage the detailed components of the councils' assets. To ensure effective decision-making and efficient use of public money, the engineers (who build and maintain assets) and accountants (who manage the finances) must work with the same core asset information. When this is not aligned, neither are councils' decisions, and councils are at risk of wasting public money.

#### Recommendation for councils

##### Strengthen asset management

Councils need to strengthen how they control the recording of data on assets. They should regularly match the data in the financial records with the data in their geographic information systems to ensure they are both complete and reliable.

Councils need to use accurate information about their assets, including asset performance (for example, current performance compared to the future performance required by the community) and cost, to inform their long-term asset management strategies and budget decisions.

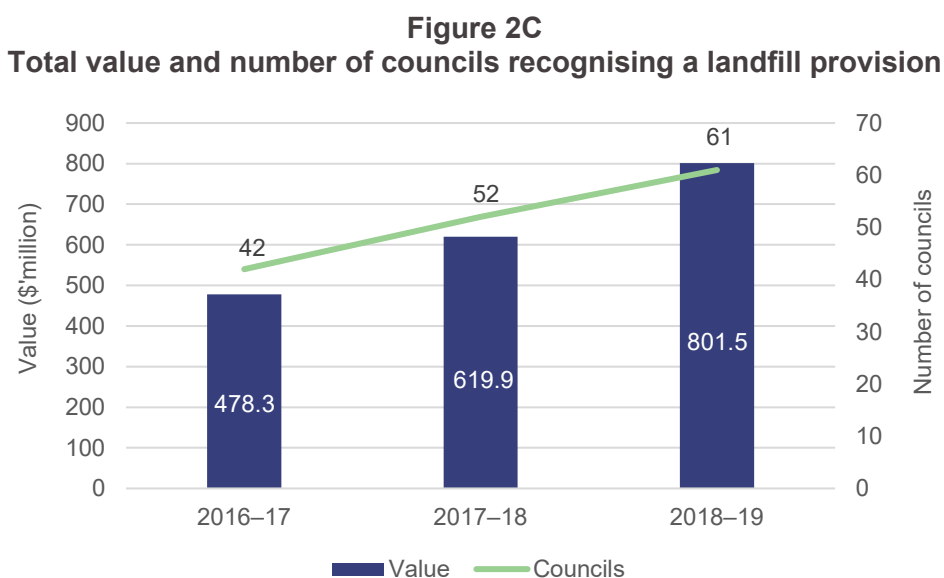
## Assessing the cost of landfill site restoration

Councils have a legal obligation to environmentally restore their landfill sites under the licences (environmental authorities) issued by the Department of Environment and Science.

In recent years, councils have improved the way they recognise the future costs of landfill rehabilitation. This year, 61 councils—an increase of 19 councils from 2016–17—have reported a provision for their landfill restoration costs in their financial statements. Councils have reported restoration obligations totalling \$801.5 million in 2018–19, an increase of \$323.2 million from 2016–17.

An increase in the number of councils accounting for future landfill costs, and a reduction in the rate used to convert the estimated future cashflows into today's dollars, were the primary drivers for this increase.

Figure 2C summarises the progress made by councils in recognising restoration provisions over the past three financial years.



Source: Compiled by Queensland Audit Office from councils' financial statements.

Not all councils are required to recognise a restoration provision. This is because they either outsource this function and do not operate a landfill site within their council region or their applicable environmental authorities do not require restoration.

Regardless, landfill services are provided by all Queensland councils to their communities, so councils must understand the costs of providing this service in order to make informed decisions about the charges they levy for using landfills. The importance of knowing the total future costs associated with delivering a service to the community is highlighted in *Managing the sustainability of local government services* (Report 2: 2019–20).

We will continue to work with the local government sector in 2019–20 to improve reporting on the councils' financial obligations for landfill, focusing on the:

- consistency of key inputs and assumptions used to estimate future costs across councils
- competence, capability, and objectivity of internal or external management experts.

#### **Recommendation for councils**

##### **Monitor long-term obligations for landfill rehabilitation**

Councils with licences for landfill sites should review the way they account for their long-term liabilities for landfill rehabilitation and ensure they account for their future financial obligations.

## Recognising infrastructure charges

Infrastructure charges are fees councils collect to recoup the cost of the infrastructure provided to/required to support new developments. Usually infrastructure charges apply to:

- subdivisions (reconfiguring a lot of land)
- material change of use (altering a property's usage)
- carrying out building work that generates extra demand on infrastructure (for example, water, sewerage, stormwater, roads, and pathways).

Determining when councils are entitled to this revenue is subjective and dependant on the type of development application. This process is labour intensive and requires periodic monitoring of the status of the development applications.

Our audits identified 14 issues across 10 councils relating to the management and collection of infrastructure charges. Common issues we identified included:

- poor monitoring of development applications due to a lack of, or poorly maintained, infrastructure charges registers
- no policy on levying and collecting infrastructure charges.

If a council does not have appropriately designed systems in place to record and monitor when infrastructure charges are collectable, it could miss out on the revenue its community is entitled to.

#### **Recommendation for councils**

##### **Strengthen controls and processes**

Councils need to establish clear policies and procedures to manage and collect charges for the infrastructure required to support new developments.



### 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:

- secure information systems that maintain data integrity
- a strong governance framework that promotes accountability and supports strategic and operational objectives
- 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 highlights important issues facing the local government sector. It summarises our detailed assessment, which is included in Appendix J.

#### Chapter snapshot



## Chapter summary

This year we identified 834 internal control deficiencies across the sector, of which 251 were significant (2017–18: 273 of 834). Councils have shown progress in addressing the vulnerabilities in their control environment, with the number of unresolved significant deficiencies at the end of the year reducing to 133. This is the second year the number of significant deficiencies has decreased across the sector, with councils taking action to improve their internal control frameworks.

However, the volume of significant control issues indicates there are still systemic problems with councils' internal control frameworks, with 66 per cent of issues raised in prior years remaining unresolved in 2018–19. Every unresolved issue unnecessarily exposes councils to risk.

Councils continue to be targeted with fraud attempts. Vulnerabilities in the councils' control environments increase the risk of successful frauds. Since July 2018, seven councils have been defrauded.

Councils need to place greater emphasis on internal controls and prioritise action to resolve control weaknesses.

An active audit committee and internal audit function can support a council in ensuring internal controls are effective and in monitoring the timely resolution of audit recommendations. Eighteen councils still did not have an audit committee during 2018–19, and 14 councils did not have an active internal audit function. These councils have a higher proportion of the significant deficiencies across the sector.

Areas councils should continue to focus on include:

- ensuring purchasing decisions are transparent, achieve value for money, and are appropriately approved
- independently checking changes to supplier and employee details
- securing their information systems
- managing risk effectively, including the risk of fraud
- improving management reporting.

## Our reporting on internal controls

We rate internal control deficiencies to allow management to gauge their relative importance and prioritise remedial actions.

### DEFINITION

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.

We categorise deficiencies using the Committee of the Sponsoring Organizations of the Treadway Commission (COSO) internal controls framework. The framework identifies five elements that need to be present and operating together for a successful internal control framework. More detail about this framework, and assessments of individual councils against it, is included in Appendix J.

## Councils must provide strong oversight

A successful internal control framework requires strong governance, that seeks assurance on the effectiveness of the entity's people, systems, and processes. If councils have a culture that values internal controls, all control elements are effective and operate together.

Recently there have been multiple governance failures at some of Australia's largest companies. These have been highlighted in the *Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry* and the Australian Prudential Regulation Authority (APRA) *Report of the Prudential Inquiry into the Commonwealth Bank of Australia*.

Within the Queensland local government sector, the Crime and Corruption Commission's report *Culture and corruption risks in local government: Lessons from an investigation into Ipswich City Council (Operation Windage)* identified that the councillors were not financially literate and did not understand their rights and responsibilities in areas such as governance. Nor were they sufficiently informed of their council's policies and procedures.

In addition to culture, the various reports identified poor oversight and skills gaps at the board or council level as common barriers to effective governance across all these organisations. While collective skills gaps at a board level can be overcome by professional development or recruitment of new board members, these gaps are not as easily overcome within councils, where councillors are democratically elected for a four-year term.

Candidates in council elections typically have a diverse range of skills and experience. Recent local government reforms require all candidates for the 2020 local government elections (including existing councillors and mayors) to complete mandatory training. This training is designed to increase the candidates' awareness of their obligations as a councillor (if elected). Once elected, detailed induction training and continuing professional development is needed to educate all councillors on their responsibilities.

An audit committee is often the only committee of a council that has external experts as members. Appointing the right independent, external members to this advisory committee can overcome any collective skills gaps at the council level and allow for informed, effective oversight.

### Recommendations for councils

#### Strengthen governance framework

Councils need to provide all councillors with detailed induction training and continuing professional development on their responsibilities.

### The importance of internal controls and oversight

When a council's culture does not emphasise the importance of effective internal controls, it is easier for frauds or errors to occur and be concealed.

Figure 3A shows the key elements of oversight functions.

**Figure 3A**  
**Key elements of oversight functions**



Source: Queensland Audit Office.

We found that more than half of all councils have significant deficiencies across multiple elements of their internal control framework, with most in the Indigenous, Resources, and Rural/Remote segments.

One of the main reasons the internal control framework is weak in these segments is their lack of ability to recruit and retain appropriately skilled staff due to the remoteness of their locations. As such, these councils find it hard to place appropriate emphasis on the effective operation of internal controls.

Councils, in collaboration with the Queensland Government, should look for ways to attract the right skills to these regions and make use of technological solutions.

Areas in which they can improve to adequately safeguard against fraud and error include:

- resolving outstanding audit recommendations
- establishing or maintaining effective audit committees and internal audit functions
- monitoring entities they control
- improving management reporting
- effectively managing risks.

## Of significant issues raised in prior years, 66 per cent remain unresolved

Each year we report to councils any internal control deficiencies we identify through our audits and provide recommendations for remedial action. Councils are responsible for ensuring they monitor and resolve internal control deficiencies.

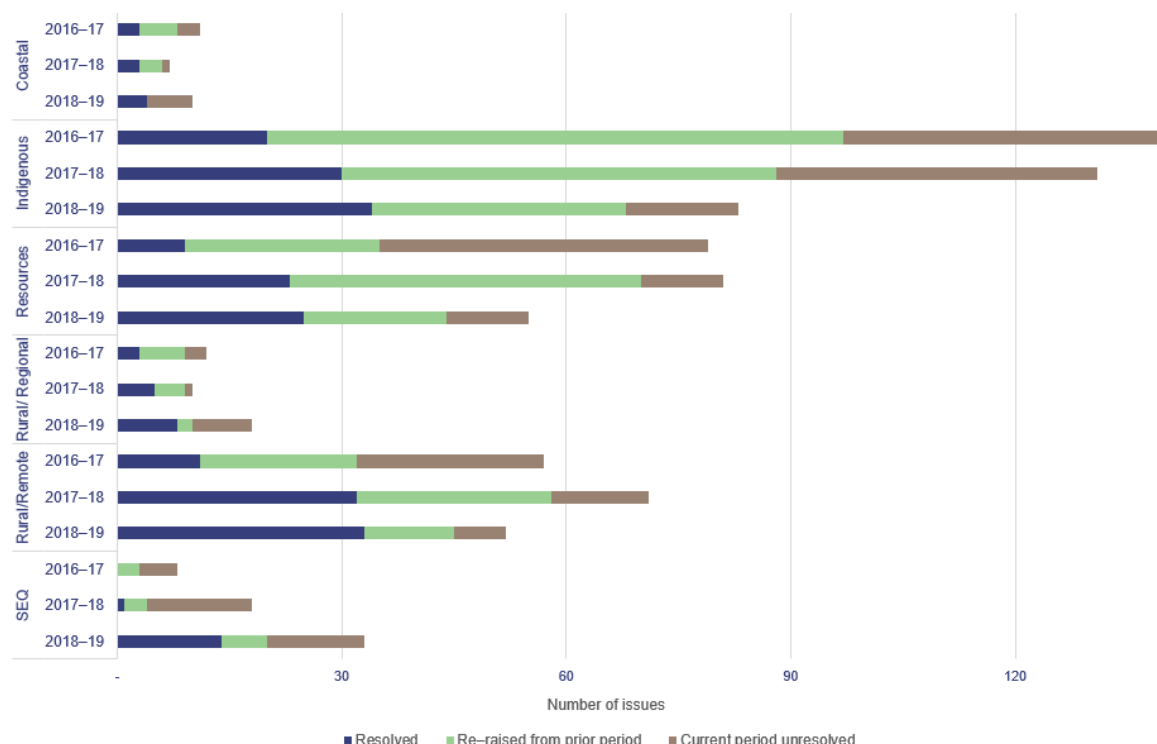
Not appropriately addressing internal control deficiencies in a timely way may indicate weaknesses in a council's broader internal control framework and expose the council to the risk of error or fraud.

This year we analysed the appropriateness and timeliness of the remedial action councils have taken to resolve significant audit issues we identified in prior years. Many of these issues remain outstanding:

- Of the 834 deficiencies we reported to councils this year, 224 remained unresolved from our 2017–18 audit.
- Of the 251 significant deficiencies we reported to councils this year, 73 remained unresolved from the prior year.

Figure 3B outlines the status of significant internal control deficiencies reported to management over the past three financial years, clustered by council segment.

**Figure 3B**  
**Status of significant control deficiencies reported to management for 2016–17 to 2018–19 by council segment**



Source: Queensland Audit Office.

### Recommendations for councils

#### Strengthen controls and processes

Councils need to strengthen their controls and processes by acting on outstanding audit recommendations. We recommend they take prompt action to address individual recommendations and resolve internal control deficiencies, with a focus on the highest risk vulnerabilities and those outstanding from prior years.

#### Strengthen governance framework

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.

## Audit committees strengthen assurance processes

Having an audit committee is recognised internationally as an important element of good governance. An effective audit committee plays a pivotal role in ensuring management fulfils its responsibilities relating to financial reporting, internal control systems, risk management systems, and internal audit.

Within the Queensland local government sector, there is a strong correlation between the lack of an effective audit committee and the prevalence of significant unresolved audit issues.

At the time of preparing this report, 18 councils (23 per cent) did not have an audit committee, which is the same as the prior year. These 18 councils had a disproportionate number of internal control weaknesses, with 25 new significant deficiencies reported and 39 unresolved significant deficiencies from prior years (29 per cent of total prior year significant deficiencies for the sector).

### Audit committees need the right mix of skills, experience, and independence

The chair of a council audit committee should be independent of management and the council, and have the expertise to:

- provide advice and assurance to the council from an objective and independent perspective
- address issues without preconceived ideas or bias and assist in encouraging objective debate on issues
- provide an insight into best practice procedures adopted in other entities.

Currently, 41 councils have an independent chair, with eight appointed since last year. The objectivity of the chair of the audit committee is pivotal to the effectiveness of the committee.

In effective audit committees, the members have the right mix of skills and experience and understand the risks they need to monitor. Collectively, a local government audit committee should possess broad accounting, business, financial management, local government sector, and relevant industry knowledge.

Having the right independent committee members allows for more robust discussion between the committee, management, and its auditors. It also means the people responsible for monitoring the implementation of audit recommendations are not the people responsible for implementing them.

Councillors are local knowledge experts, and this knowledge is important to audit committees. However, the committees also need independent members who can bring a wide variety of experience and business acumen from different entities and industries. In small communities, it is more likely that the best independent members will be from outside the region.

Many councils are due to appoint new audit committee members following the March 2020 elections. In doing this, councils should ask themselves:

- What is the balance of skills required for the audit committee for the term of its appointment? The skill sets of the committee members should meet the needs of the council and its future plans. For example, if a council is planning to undertake a significant system upgrade, the council should consider appointing an audit committee member with relevant information technology knowledge.
- Are the right skills available in the community? With technology advancements, audit committee members do not have to be physically present at the meetings. They can attend through an electronic medium. This widens the pool of potential audit committee members with diverse skills and knowledge who could be valuable to the future of the community.
- What training will be provided to members (councillors and independent members) on their responsibilities as audit committee members? New members need to understand the committee's charter including its role, objectives, and responsibilities, as well as how it interacts with council's management and auditors. They also need to know about the council's code of conduct, its operations, and the environment in which it functions.
- How will conflicts of interest be managed? This is particularly relevant where local independent members are appointed, as their membership may provide them with a competitive advantage over other businesses in the community.

#### **Recommendation for councils**

##### **Strengthen governance framework**

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.

#### **Recommendation for the department**

##### **Make changes to legislation**

We propose that the Department of Local Government, Racing and Multicultural Affairs amends the *Local Government Act 2009* to require all councils to have audit committees and all audit committee chairs to be independent.

## Active internal audit function

Effective internal audit functions provide unbiased assessments of an organisation's operations and continuous review of the effectiveness of governance, risk management, and control processes. Internal auditors evaluate risks and can assist in establishing effective fraud prevention measures by assessing the strengths and weaknesses of controls.

Currently 72 councils (94 per cent) have an internal audit function, while five councils do not. A further 9 councils have had no internal audit activity during the year. Collectively, these 14 councils had 20 new significant deficiencies reported and 33 unresolved significant deficiencies from prior years. They would benefit from an active internal audit function that could proactively identify opportunities to strengthen internal controls.

#### **Recommendations for councils**

##### **Strengthen governance framework**

All councils must establish and maintain an effective and efficient internal audit function, as required by the *Local Government Act 2009*.

## Councils should have appropriate oversight of entities they control

Councils sometimes choose to provide community services through separate entities they control rather than providing the service through the internal council business units. These controlled entities have more operational freedom than councils, as they do not have to comply with Queensland local government legislation.

There are 119 controlled entities within the sector, of which 78 produce financial statements. Many of these entities receive most of their revenue from their council. Council-controlled entities are listed in Appendices E (reporting), F (exempt), and G (dormant or non-reporting).

We have found the level of oversight councils exercise over their controlled entities varies significantly. Some have limited oversight, while others have detailed policies that establish governance, accountability, and monitoring frameworks—including for assessing each controlled entity's performance against the objectives set out in its business case.

If they do not exercise proper oversight, councils risk:

- their related entities failing to achieve their objectives
- transactions or other business decisions made by the related entities not aligning with the councils' accountability requirements.

In determining the composition of a controlled entities' board, councils need to consider the skill sets required to deliver the objectives of the entities.

The Queensland Government's *Guidelines for the Formation, Acquisition and Post Approval Monitoring of Companies* issued in August 2015 discuss the need for the collective background of directors to include both public and private sector experience. The guidelines also provide examples of actions directors must take if conflicts of interest are identified. While these guidelines are not mandatory for local government, they do discuss better practice principles that are relevant to all controlled entity boards.

Councils often appoint councillors or senior executives to their controlled entities' boards. Councils need to have appropriate mechanisms to manage the inherent conflicts of interest between the council's own activities and those of its controlled entities.

#### **Recommendation for councils**

##### **Improve monitoring of controlled entities**

Councils with existing controlled entities, or plans to create them, should have policies in place to ensure that:

- council develops a business case establishing the need for and objectives of the entity prior to creating it
- each controlled entity's board has the right skill sets to deliver the objectives of the entity
- where councillors or council management are appointed to the board of the controlled entity, potential conflicts of interest are appropriately managed
- council implements monitoring controls over the entities' key policies and procedures
- the entity regularly reports to council governance committees.

#### **Recommendation for the department**

##### **Require published financial statements for entities controlled by councils**

We recommend that the Department of Local Government, Racing and Multicultural Affairs continues to progress our previous recommendation to have entities controlled by councils make their financial statements publicly available.

## **Managing risk effectively**

Risk management includes three risk assessments—strategic, operational, and financial. We reported significant deficiencies to 16 councils that did not have appropriate risk management processes in place (2017–18: 16 councils).

Councils with significant deficiencies in risk assessment controls are less aware of their risks and face a greater likelihood of loss, or of failure to achieve their objectives. Five of the 16 councils had still not completed fraud risk assessments (2017–18: 15 councils), indicating they may not understand the risks they face and how to safeguard the public monies entrusted to them. Seven of the councils with significant weaknesses in risk management were in the Indigenous segment.

Managing risk is fundamental to councils meeting their key business objectives. Fraud and corruption prevention, detection, and control are integral to good governance and risk management. Effective management of risk has an important role in shaping successful service delivery.

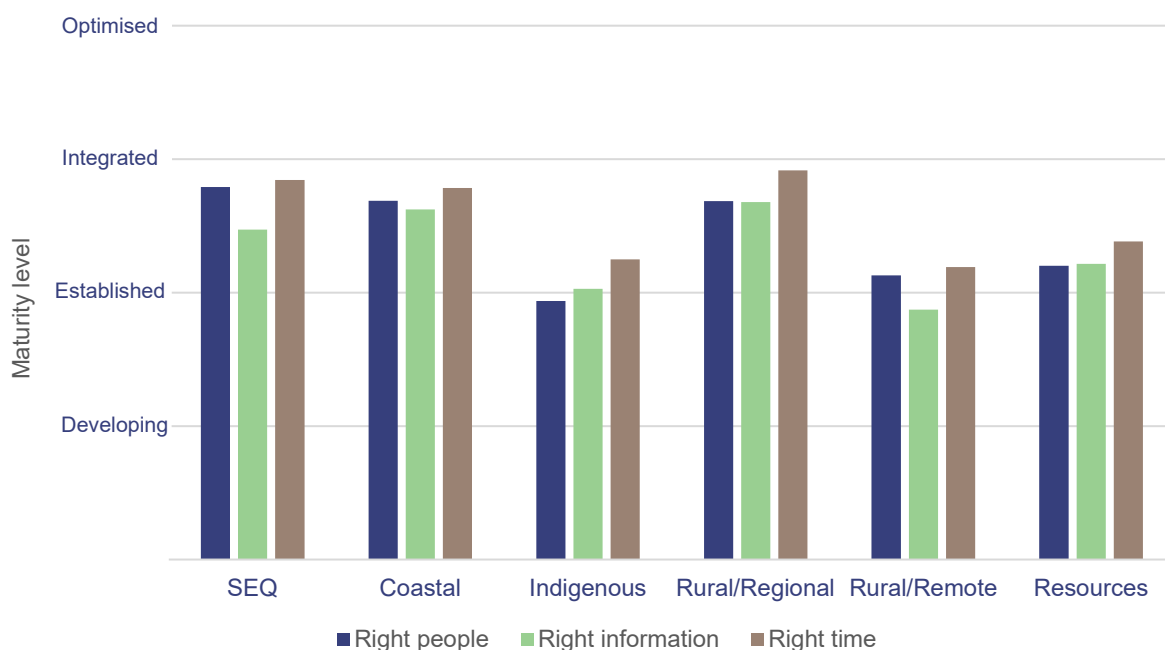
## **Improving management reporting**

Access to quality internal financial reporting enables management to meet its financial responsibilities and make effective decisions to achieve organisational goals.

This year we reviewed the management reporting practices of councils. We measured the overall maturity of their frameworks and their processes for providing the right people with the right information at the right time. This assessment was based on a four-point maturity scale, ranging from developing to optimised.

We do not expect all councils to sit in the integrated and optimised categories or always aim to be in those categories. Councils should set a level of maturity that reflects their size, complexity, age, and structure. The cost of moving categories should always be considered in the context of the benefits provided.

**Figure 3C**  
**Average maturity score for each council segment across the three components of right people, right information, and right time**



Source: Queensland Audit Office.

### Right people

Councils with mature internal financial reporting clearly establish management accountability. Financial responsibility is defined and communicated, with management positively acknowledging its responsibilities. Reports are tailored to the differing user needs across levels of management and concisely present information that allows management to understand the financial operations of the council.

There is little need for tailored or ad hoc reports, as information is readily available and convertible to different formats. Stakeholders are consulted annually to ensure reports continue to meet their needs.

The lower performing council segments did not have a financial reporting framework outlining management responsibilities for the preparation and review of monthly financial reports. They provided little tailoring of reports across the levels of management, and they relied on ad hoc feedback to ensure reports met users' needs. Management feedback during executive meetings was commonly relied on as the primary source for ensuring management reports met users' needs on an ongoing basis.

## Right information

Good management reports contain relevant and reliable information that is comparable and understandable. They provide insight into the operations of the council, with measures and benchmarks aligned to the council's strategic objectives. Reports are concise, easily understood, and provide complete and forward-looking information. Training and online assistance is also provided to help users understand and use reports.

The lowest results in this component of management reporting maturity related to training and support. Most training provided across councils was high-level induction training to councillors or senior executives. Regular ongoing training and guidance materials were not widely provided to report users.

Report content was often measured only against internal results. The use of measures to report performance against operational and strategic objectives and external benchmarking would increase the effectiveness of reporting, which would help when making important council decisions.

Having the right information in monthly reporting should allow for an easy transition to annual financial reporting.

## Right time

Mature internal financial reporting is timely. It gets information to decision-makers as quickly and efficiently as possible. Financial data is available as soon as it is collected (real-time information), and month end reports are produced within four to seven days after period end. Reports are produced with the same robust process and controls as end-of-year statutory reporting.

We found all councils that prepare internal management reports prepare them at least on a monthly basis, with some preparing them weekly. The differing levels of maturity were evident in the time taken to prepare these reports after month end, and in whether ongoing real-time information was available to users.

Councils with lower maturity provided users with hard-copy or emailed pdf versions of reports, limiting their ability to drill down and understand the results.

### Recommendation for councils

#### Improve financial management

All councils should complete a self-assessment of their management reporting maturity. Councils need to determine what the appropriate level of maturity is for their circumstances and user needs. This will help them identify the elements in which they need to mature.

While desired and appropriate levels of maturity will vary across councils, all councils should ensure they:

- formally establish management accountabilities for reporting
- tailor reporting to user needs
- consult with users on a regular basis to ensure the reports meet their needs
- provide training and ongoing guidance to report users to ensure they understand the reports
- establish quality control and reporting processes that ensure accurate and reliable data is provided in the reports.

## Councils need to strengthen their ‘everyday’ controls

### Appropriate purchasing control processes must be followed

When councils purchase goods and services, they are required to follow established purchasing and approval processes. This should ensure value for money is achieved, council money is spent appropriately, and all purchasing decisions are ethical and transparent.

Given councils’ close relationship with their local communities, there is an increased risk that conflicts of interest can arise and influence purchasing decisions. Councils need to make sure all procurement decisions are fully justified and appropriately documented, and that all conflicts of interest have been declared.

Councils should also ensure that financial delegations are set at appropriate levels, clearly documented, and used correctly. This is critical to ensuring that decisions and approvals are made by the right employees.

### Managing potential conflicts of interest

Councils should implement policies and procedures requiring councillors and employees to assess and report any conflicts of interest that might influence their decision-making. Procurement decisions should be fully defensible and appropriately documented, taking into account any identified conflicts.

We reported significant deficiencies at four councils in relation to conflicts of interest, including where councils had not maintained a register of interests, and where councillors/employees had not completed a declaration, or their declaration did not identify all close family members. This increases the risk of procurement decisions being inappropriately influenced by undisclosed relationships.

### Having purchasing policies that ensure expenditure is appropriate and achieves value for money

We reported 19 significant deficiencies to 16 councils that had not followed appropriate procurement processes. This included instances where:

- the correct number of quotes were not obtained, or a tendering process was not conducted
- there was limited documentation to support the selection of the successful quote
- no invoice or receipt was provided for credit card transactions
- purchase approval occurred after the invoice was received, instead of before the goods or services were ordered.

Some councils’ purchasing policies were inadequate, which contributed to the exceptions identified.

### Appropriately using delegations

The levels of financial delegation assigned to officers should be appropriate for their position and functional role. Delegations are critical for ensuring that only appropriately skilled officers are authorised to make decisions or approve transactions. Councils should have processes in place to monitor the use of financial delegations.

Some councils have automated the financial approval process, so the financial system automatically directs transactions to the employee with the correct delegation. However, this is dependent on the delegations within the financial system being maintained to reflect those currently approved by council. We reported three significant deficiencies where the financial system delegations did not reflect the delegations approved by council.

A further four councils did not maintain a current delegation register, or employees had approved expenditure that exceeded their delegation.

Where expenditure is not approved by an appropriate financial delegate, there is an increased risk of loss to council, either through fraud or waste.

## Fraud is increasing due to poor controls over employee and supplier information

Payroll fraud occurred at four councils resulting from a phishing (fraudulent) email scheme. The email requested an unauthorised change to bank account details, and it was subsequently processed. The councils were able to recover most of the funds from the banks or through insurance.

These councils have strengthened processes for monitoring payroll transactions and reporting, including approvals for employee information changes and, in some councils, flagging emails from external sources. They are providing enhanced cyber security and fraud awareness training to staff to address the increasing fraud risks.

Since July 2019, three councils have been defrauded in a supplier bank account change fraud. We reported a similar scam targeting vendor bank accounts three years ago in *Local government entities: 2015–16 results of financial audits* (Report 13: 2016–17).

We identified 16 significant deficiencies in controls over employee and supplier information at 15 councils including:

- 11 councils that did not review changes made to supplier information (For seven of these councils, this weakness has existed for more than 12 months.)
- five councils that did not review changes made to employee information.

When changes made to employee and supplier information are not independently reviewed in a timely manner, a council is at higher risk of losses due to fraud.

Our report *Managing cyber security risks* (Report 3: 2019–20) contains information on implementing better controls to reduce cyber security risks. Identifying cyber security risks is important in ensuring an entity is aware of its risk exposure and assessing whether it has the right controls in place to mitigate those risks.

### Recommendation for councils

#### Secure employee and supplier information

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.

#### Conduct mandatory cyber security awareness training

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 and tailgating (following a person into an office), so entities can assess and improve their awareness programs.

## Access to information systems needs to be secure

We identified 20 significant deficiencies at 18 councils where systems and information had not been appropriately secured:

- 12 significant deficiencies related to councils not reviewing user access or privileged user activities (2017–18: 10)
- eight significant deficiencies related to insufficient security for electronic funds transfer files and general security (2017–18: two).

Activities performed by employees with privileged access (which allows them to access sensitive data and create and configure within the system) must be monitored. User access security reports should be reviewed on a consistent and timely basis to ensure data has not been corrupted and unauthorised transactions have not been processed.

Having controls over system access is becoming increasingly important due to the evolving ways hackers are finding to access sensitive data or redirect payments to themselves. Our report on *Managing cyber security risks* (Report 3: 2019–20) provides insights into reducing the possibility of unauthorised access to councils' systems.

## System implementations have encountered delays and budget overruns

To successfully implement new financial systems, councils must have well-planned projects that account for the cost, time, and resources required.

Annually, around 12 councils implement or begin implementing new finance systems. While some councils' system implementations go well, others encounter issues. The problems encountered this year were:

- implementation dates were postponed due to the system not meeting council expectations
- implementation budgets were exceeded
- staff were diverted from regular duties to rectify system issues, resulting in backlogs in other areas of a council's business and breakdowns in previously effective internal controls
- delays occurred in the accurate and complete transfer of the financial records
- reporting from the new system did not meet the council's needs
- reconciliation problems existed between the new and old systems
- there were system security concerns.

New system implementation programs need business cases that document the reasons for introducing a program, based on the estimated costs and benefits. The business case should link to the council's overall information technology (IT) strategic plan and demonstrate how the proposed investment will contribute to the council's strategic objectives. The approved business case should be reviewed throughout the implementation process and updated if significant changes are required.

Governance processes for moving information to new systems must be strong to ensure data is accurate and complete and the resulting financial reporting is reliable. Detailed planning is required before councils embark on significant system implementations, as these projects require a large resource commitment (both dollars and people) over a long period of time.

This diverts resources from core financial reporting functions and often leaves councils with a weakened internal control framework. This can contribute to significant delays in financial reporting.

Our report *Effectiveness of the State Penalties Enforcement Registry ICT reform* (Report 10: 2019–20) includes recommendations for, and lessons learned from, information systems implementations.

### **Recommendations for councils**

#### **Improve new system implementations**

When implementing a new system, councils must:

- define up front what is required for the project and what needs to be delivered by the contract
- determine the need for specialist resources and determine the impact on staffing, both for the project team and for the backfill of positions for staff involved in the system implementation
- clarify roles and establish responsibilities of service providers during and after implementation, and establish reporting milestones and time frames
- establish reporting requirements over the life of the project, including reporting on project status against milestones, budget versus actual expenditure, and the review and resolution of errors
- identify and consider any early warning signs that would indicate a project is at risk of not meeting its objectives or not reaching the next milestone within time and budget
- critically assess projects against changing business needs
- for larger projects, consider implementing the changes in segments, as this provides more opportunity to review, to learn, and to assess risk
- define system security settings and determine how to segregate duties before implementing the new system
- identify what reports users will need once the system is implemented
- establish a strategy to test that the new system processes transactions effectively and efficiently
- train staff to effectively use the system
- establish regular reporting on the implementation by the project team to both council and the audit committee.



## 4. Councils' financial performance

This chapter analyses the financial performance of councils, with reference to the three key ratios stipulated in the *Financial Management (Sustainability) Guideline 2013* issued by the Department of Local Government, Racing and Multicultural Affairs (the department).

### Chapter snapshot

#### Financial snapshot

**\$12.8 billion**

Revenue

▲ 2.0% from 2018

**\$121.9 billion**

Assets

▲ 3.1% from 2018



**\$10.8 billion**

Expenses

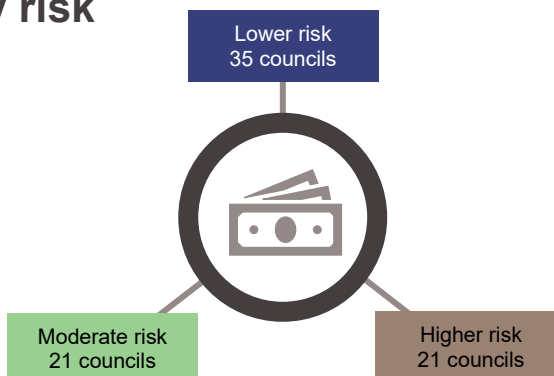
▲ 3.2% from 2018

**\$ 8.7 billion**

Liabilities

▲ 7.8% from 2018

#### Sustainability risk



#### Challenges facing councils

Some councils, especially in the Rural/Remote, Rural/Regional, and Indigenous segments, are restricted in terms of the revenue they can generate and are highly reliant on state and federal government grants. Income from grants fluctuates each year, and there is a lack of certainty about the amounts that will be available in the future.

Councils are responsible for delivering essential services to the community, often doing so at a price that does not cover the cost. This is mainly due to pressure from the community to keep the cost low and councils not costing their services properly.

This has a significant impact on some councils' sustainability.

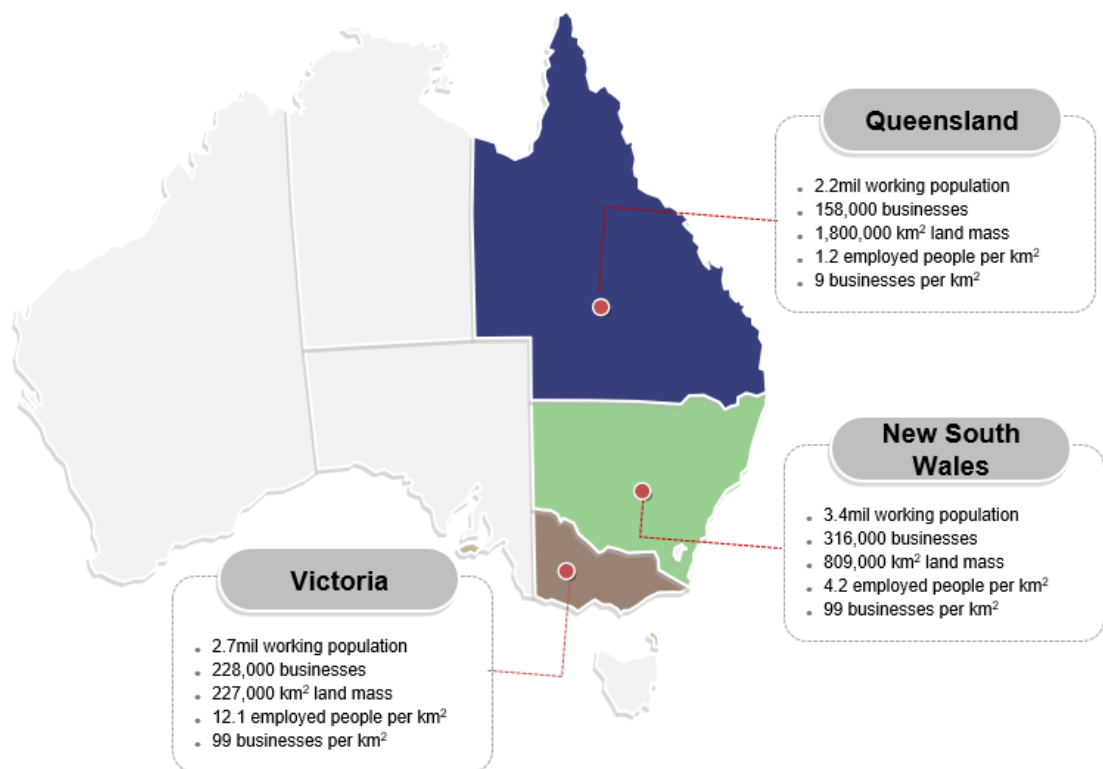
## Chapter summary

The sustainability of a council is more than just meeting the ratios determined by the department in the *Financial Management (Sustainability) Guideline 2013*. While these ratios are a good starting point, sustainability extends beyond them.

A sustainable community is one where local businesses are economically viable, environmentally sound and socially responsible, and people have access to basic services, such as education and health care. As much as growing and maintaining a sustainable community requires participation from all sectors of the community, it is also heavily reliant on population and employment opportunities.

Figure 4A provides an overview of relevant statistics for Queensland compared to those of its peers (New South Wales and Victoria).

**Figure 4A**  
**Snapshot of relevant statistics for**  
**Queensland, New South Wales, and Victoria**



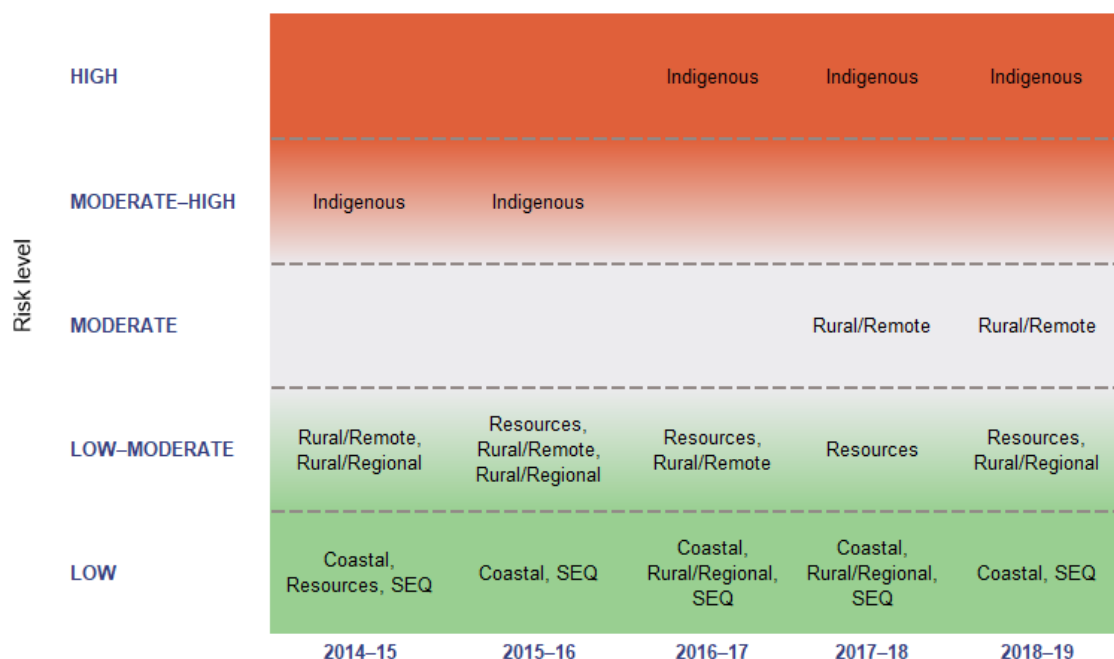
Source: Population data: Queensland Government Statistician's Office; Area, business and employment data: Australian Bureau of Statistics.

Financial sustainability is a challenge for councils in remote areas. These councils often have large land masses with significant infrastructure they need to maintain despite low and sometimes declining populations. These communities also often struggle to attract and retain specialist skills.

Despite these challenges, the councils still need to provide essential services to their communities—water, wastewater/sewerage, roads, and waste collection.

Figure 4B shows the overall financial sustainability risk for the six council segments over the last five years.

**Figure 4B**  
**Financial sustainability risk map by segment**



Source: Queensland Audit Office.

This year we assessed four of the six council segments as being either at a low or low to moderate risk of being financially unsustainable. The other two segments—Rural/Remote and Indigenous—consist of 30 of Queensland’s smallest councils by population, with each council having less than 5,000 people.

Queensland’s 17 Indigenous councils cover less than two per cent of the Queensland landmass and have one per cent of the Queensland population. Councils in these regions tend to be the largest employers in their area. Broadly, they need to find ways to improve their operating results.

The Indigenous segment is the only segment that is at high risk of being financially unsustainable. In addition to the low population levels and lack of employment opportunities already mentioned, this can be caused by the remoteness of the communities and by limitations on raising own-source revenue due to the demography of the population.

However, there are councils within this segment that have consistently performed better. Hope Vale Aboriginal Shire Council, Lockhart River Aboriginal Shire Council, and Pormpuraaw Aboriginal Shire Council are considered low risk and have been for a few years.

These three councils prioritise financial governance. They have been successful in recruiting and retaining appropriately skilled staff, have good budget preparation and monthly reporting processes, and an effective internal control environment and stronger oversight function.

## Case study 1

### Pormpuraaw Aboriginal Shire Council

Pormpuraaw Aboriginal Shire Council is located on western Cape York, with an area covering approximately 4,400 km<sup>2</sup> and a population of approximately 800. Over the last three years, the council has worked hard to improve its financial governance and sustainability.

Like many Indigenous councils, Pormpuraaw historically struggled with basic governance requirements and regularly spent significantly more than it earned. We assessed the council as being at higher risk of becoming financially unsustainable in 2011–12. It also had a history of poor controls over its revenue and asset valuation issues, resulting in qualified audit opinions until 2011–12, and it was not meeting its financial statement deadlines.

Since 2013, the council has focused on improving its budget management and building cash reserves.

Some of the actions the council put in place were:

- investing in improving the financial skills of its staff

Council moved its finance operations to Cairns with the aim of recruiting and retaining skilled staff. By doing so, it gave staff access to a wide network of finance professionals. This assisted in improving its reporting mechanisms, provided stability in its finance function, and helped strengthen the control environment.

- improving monthly reporting and monitoring

A stable and improved finance function helped the council improve its monthly reporting. This assisted the council in monitoring spending against budget and in having the right information at the right time to make informed decisions.

- having an active internal audit function

Council, with the help of its internal auditors, strengthened its control environment and proactively resolved outstanding audit issues. Council's internal audit team was also involved in implementing new and complex accounting standards.

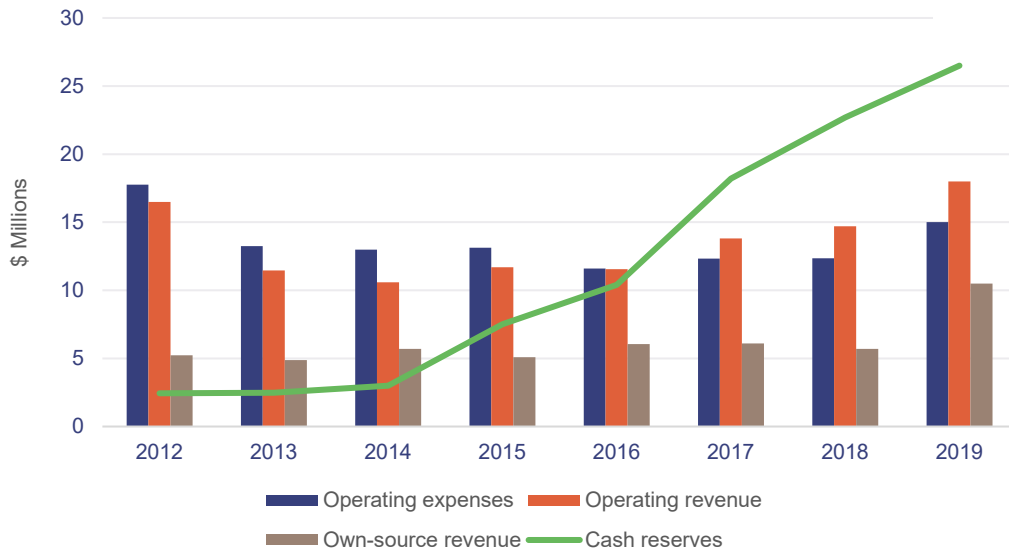
- increasing own-source revenue and strategic use of council resources.

Council took various measures to achieve this, including:

- raising invoices for services delivered in a timely manner to ensure there was no unnoticed or unintended loss of revenue
- providing services to the community at an affordable price and recovering the cost of these services
- revisiting its margins on its products and services.

Figure 4C provides a summary of the eight-year trend at the council.

**Figure 4C**  
**Eight-year trend for Pormpuraaw Aboriginal Shire Council**



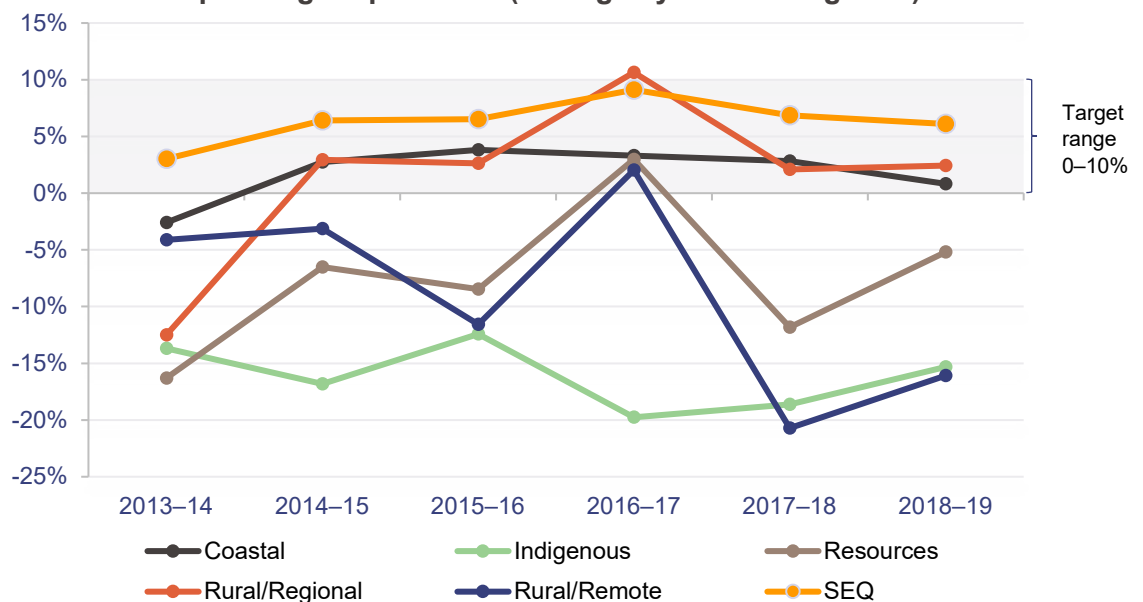
Source: Queensland Audit Office.

### More than half of councils are spending more than they earn

The operating surplus ratio, which measures the extent to which councils' operational revenues raised cover operational expenses, is a key sustainability ratio set by the department. This ratio provides an understanding of a council's financial capacity to fund ongoing operations over the long term. The department's target range for councils' operating surplus ratio is between zero and 10 per cent.

Figure 4D compares the average operating surplus ratio each year for the past five financial years, by council segment. The operating surplus ratio is a long-term indicator, so we use the average ratio over the last five years when considering a council's overall financial sustainability risk rather than using the 2018–19 actual results in isolation.

**Figure 4D**  
**Operating surplus ratio (average by council segment)**



Source: Compiled by Queensland Audit Office from councils' financial statements.

This year, 35 councils (2018: 31 councils) achieved a positive five-year average operating surplus. This indicates that these councils are managing the costs of delivering services to the community within the limits of their revenue.

The remaining 42 councils (2018: 46 councils) had a negative five-year operating surplus, with 11 councils (2018: 10 councils) falling below negative 20 per cent. These councils continue to spend more than they earn. Continually running operating deficits makes it difficult for them to generate sufficient funds to maintain service levels and renew essential community infrastructure.

The 11 councils with the lowest five-year operating surplus ratio were in the Indigenous, Resources, and Rural/Remote segments. These councils have populations of less than 5,000 people, and their ability to generate their own revenue remains a challenge. They have limited opportunity to generate revenue from alternative sources such as rates or fees and charges. They are also heavily reliant on grants and contributions.

Income from grants fluctuates year after year, and there is a lack of certainty about the amounts that will be available in the future. For councils that are dependent on grant income, the uncertainty makes it difficult to make some medium-term decisions and to plan for financial sustainability in the long term.

The department recently developed a grants model to streamline the framework for state government grant programs. Whilst this will assist councils in identifying and applying for grants for their communities in the short term, it may not help councils plan for long-term sustainability.

Without the ability to raise revenue from alternative sources, councils must consider the services and service levels they provide to their communities—specifically their importance to the community and the cost of delivery.

Our report on *Managing the sustainability of local government services* (Report 2: 2019–20) recommended that all councils consider whether the services they provide meet the current and future needs of their communities and whether these services are affordable.

## Sector's debt levels remained relatively stable

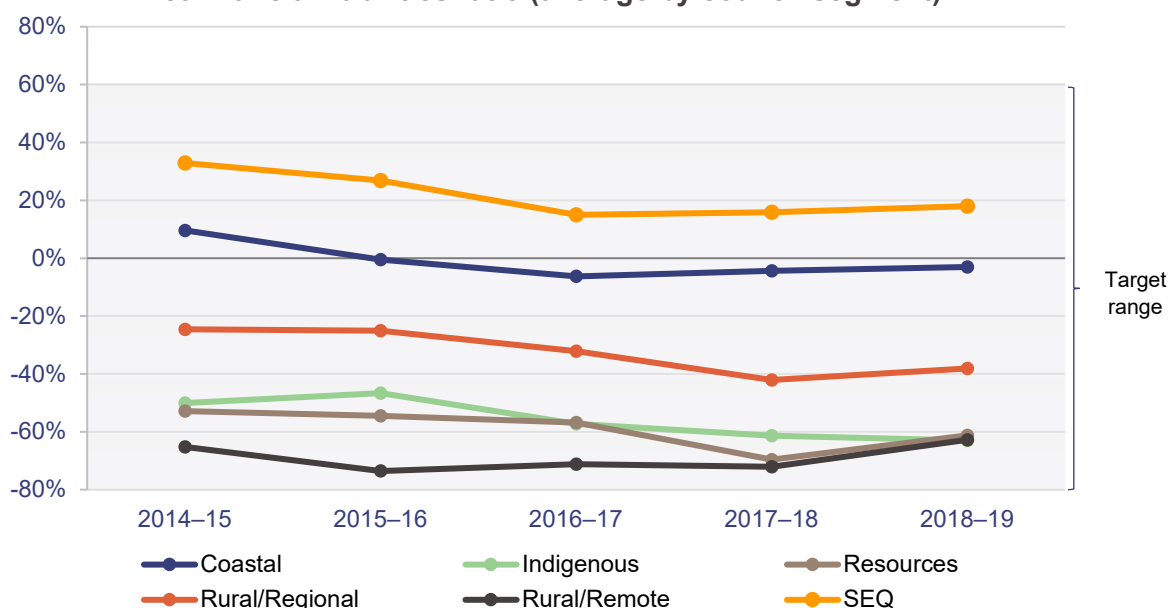
The net financial liabilities ratio measures a council's financial capacity and ability to fund ongoing capital projects.

The department's target for the net financial liabilities ratio is below 60 per cent. For this ratio to be meaningful, it must be read in line with council's operating surplus ratio. This is because a council with a healthy operating surplus ratio may still be able to borrow for its capital projects and service its debts even though its net financial liabilities ratio is over 60 per cent. In the case of councils with a low operating surplus ratio, a net financial liabilities ratio in excess of 60 per cent may cause stress in servicing their debts.

The net financial liabilities ratio is a helpful indicator of financial sustainability when a council holds high levels of debt, which is rare in Queensland.

Figure 4E compares the movement in the average net financial liabilities ratio over the past five years by council segment, based on the 77 councils.

**Figure 4E**  
**Net financial liabilities ratio (average by council segment)**



Source: Compiled by Queensland Audit Office from councils' financial statements.

Borrowings by local governments in Queensland are through the state's annual borrowing program. All business cases for borrowings are approved by the department's director-general and are funded by the Queensland Treasury Corporation (QTC).

QTC acts as a bank for the state and carries out periodic credit reviews to determine whether a council can service its debts. This ensures councils that do not have the capacity to repay are not provided with funding that would turn into an uncollectible debt in the future.

The Queensland local government sector continues to hold low levels of debt. Of the 77 councils, 53 have debt. The total debt for these councils is \$5.5 billion (2018: \$5.5 billion), which represents four per cent of the total assets of the sector.

SEQ and Coastal councils hold 94 per cent of the sector's debt, which is unsurprising given the infrastructure needed to support large, growing populations.

Councils with low debt should assess their cash expense cover ratio, which indicates the number of months a council can continue paying for its immediate expenses without additional cash inflow.

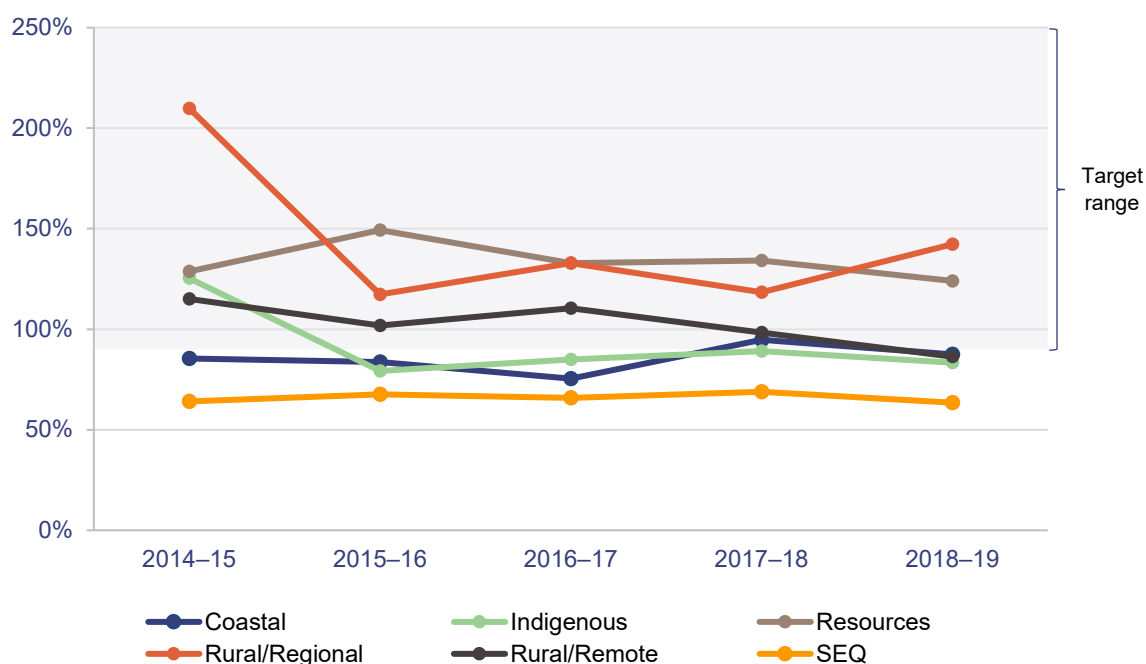
## Councils' infrastructure asset management is stable

Councils maintain a large network of infrastructure assets for the benefit of their communities. The asset sustainability ratio measures how efficiently and effectively councils are renewing these assets to maintain community services.

The department's target for councils is an asset sustainability ratio greater than 90 per cent. A value less than 90 per cent may suggest councils are not replacing their assets as they near the end of their lives, which could result in a reduction in service levels to communities.

Figure 4F shows the average annual asset sustainability ratio over the past five years, by council segment, based on the 77 councils.

**Figure 4F**  
**Asset sustainability ratio (average by year by council segment)**



Source: Compiled by Queensland Audit Office from councils' financial statements.

The asset sustainability ratios indicate that 40 of the 77 councils have not met the target of 90 per cent based on a five-year average to 30 June 2019. This includes 17 councils in the Coastal and SEQ segments that have growing communities with increasing populations. These councils combined manage 66 per cent of the infrastructure assets of the local government sector.

A low asset sustainability ratio can indicate that the asset base is relatively new and does not require renewal. The challenge for these councils is to balance renewals for infrastructure assets in older areas against new asset requirements in growth areas, to ensure assets are renewed at the right pace across the community. This highlights the need for these councils to have a robust asset management plan in place.

Resources, Rural/Remote, and Rural/Regional councils generally have better asset sustainability ratio results, as they have received significant grant funding over the last five years to replace assets damaged by natural disasters. These three segments combined received \$1.1 billion in disaster relief funding over the five-year period.

As assets are renewed by natural disaster funding, the expenditure on renewals is inflated in affected councils. These segments have a low operating surplus ratio (a combined five-year average operating surplus ratio of negative 4.92 per cent), which limits their capacity to borrow funds to renew their assets. The primary funding source available to councils in these segments to renew their assets is assistance from the state and federal governments.

In the past, the average asset sustainability ratio was one of the few ways to measure councils' ability to fund their assets. However, many councils now have more complete asset data and improved asset management plans than they used to. This opens up opportunities to use the following ratios in conjunction with the asset sustainability ratio, to provide better indicators of councils' financial sustainability:

- **Asset consumption ratio**—this ratio measures the current value of assets in use relative to what it would cost to build a new asset with the same benefits to the community.
- **Asset renewal funding ratio**—this ratio measures the ability of a council to fund its projected asset renewal/replacements in the future.
- **Asset maintenance ratio**—this ratio compares planned maintenance of assets with required maintenance (which is what should be spent to maintain assets to a satisfactory standard) to indicate the extent to which a council is investing to stop its infrastructure backlog growing.

#### **Recommendation for the department**

##### **Make changes to sustainability ratios**

We recommend the Department of Local Government, Racing and Multicultural Affairs reviews the current sustainability ratios to determine if they are the most relevant and effective ratios for measuring the financial sustainability of councils and if supplementing them with additional ratios would provide a more comprehensive assessment.

# Appendices

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# A. Full responses from entities

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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 all 77 councils and the Department of Local Government, Racing and Multicultural Affairs.

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

This appendix contains their detailed responses to our audit recommendations.

## Comments received from Director-General, Department of Local Government, Racing and Multicultural Affairs



Department of Local Government,  
Racing and Multicultural Affairs

Our ref: MC20/397, DGC20/75

12 February 2020

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

Dear Mr Worrall

I am writing regarding the email of 24 January 2020 from Ms Karen Johnson, Acting Auditor-General, about the Draft Report to Parliament titled *Local Government entities: 2018–19 results of financial audits*. I note that Ms Johnson also wrote to the Honourable Stirling Hinchliffe MP, Minister for Local Government, Minister for Racing and Minister for Multicultural Affairs about this matter.

I was once again particularly pleased about the continued improvement in the timeliness of Local Government financial statements. I was also pleased with the significant improvements in relation to Local Government asset management plans.

With regards to your recommendations for the Department of Local Government, Racing and Multicultural Affairs, I provide the following comments:

*Recommendation 1: amend the Local Government Act 2009 to require all Councils to have audit committees and all audit committee chairs to be independent.*

The Department supports both parts of this recommendation in principle, however each will require detailed consideration including consultation with stakeholders. If changes are endorsed, they will require regulatory amendments to be implemented.

*Recommendation 2: review the current sustainability ratios to determine if they are the most relevant and effective ratios for measuring the financial sustainability of Councils and if supplementing them with additional ratios would provide a more comprehensive assessment.*

The Department supports this recommendation. In this regard, the Department has proposed amendments to the Local Government regulations to prescribe that the required sustainability ratios are specified within the *Financial Management (Sustainability) Guideline 2013* (Sustainability Guideline), and that the Director-General of the Department may amend the Sustainability Guideline from time to time. This will allow greater flexibility for the Department to amend the required sustainability ratios to more accurately assess the financial sustainability of Councils.

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*Recommendation 3: the financial statements of entities controlled by Councils to be publicly available.*

The Department supports this recommendation and has proposed amendments to the Local Government regulations to mandate that the financial statements of controlled entities are published on their parent Councils' websites.

The legislative amendments noted under Recommendations 2 and 3 above, along with a number of other proposed amendments regarding financial management and reporting, have been included in a discussion paper for stakeholder consultation.

Additionally, I support the 10 recommendations for the Councils and intend to write to each Council to emphasise the importance of implementing these recommendations.

I will also write to the Councils you identified as not having an internal audit function to remind them of the requirements under the *Local Government Act 2009*.

If you require further information, I have asked for Mr Mark Askins, Director, Finance and Funding in the Department to assist you with any further queries. You may wish to contact Mr Askins on

Thank you for providing the Department with an opportunity to review the draft report.

Yours sincerely



Warwick Agnew  
Director-General

## B. Legislative context

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### Frameworks

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Under the *Constitution of Queensland 2001*, there must be a system of local government in Queensland that is made up of councils. A local government (council) is an elected body that has the power to make local laws suitable to the needs and resources of the area it represents.

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:

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

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.

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

The current year financial sustainability statement includes the following three 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

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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

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



The Auditor-General's audit opinion on these entities' financial statements assures users that the statements 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 three 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.

## C. Status of recommendations from prior reports

The following table provides the current status of the issues raised in *Local government entities: 2017–18 results of financial audits* (Report 18: 2018–19).

**Figure C1**  
**Status of recommendations from 2017–18**

Recommendation	Current status
<b>Strengthen controls and processes</b>	
All councils should take prompt action to address our recommendations to them about financial management and internal control, with a focus on addressing issues from prior years.	<p>Councils have shown progress in addressing these vulnerabilities in their control environment, with the number of unresolved issues at the end of the year reducing to 417 (including 133 significant deficiencies).</p> <p>Further progress is still required. Refer to Chapter 3: Internal controls for more details.</p>
<b>Strengthen governance framework</b>	
<p>The Department of Local Government, Racing and Multicultural Affairs should:</p> <ul style="list-style-type: none"> <li>mandate audit committees for all councils</li> <li>mandate that the audit committee chair must be an independent member.</li> </ul>	<p>Fifty-nine councils have audit committees in place this financial year, which is consistent with the prior year. Forty-one of these councils have an independent chair, with eight appointed since last year. Refer to Chapter 3: Internal controls for more details.</p> <p>The Department of Local Government, Racing and Multicultural Affairs is considering the implications of changing the legislation.</p>
<b>Improve monitoring of controlled entities</b>	
The Department of Local Government, Racing and Multicultural Affairs should require the financial statements of all council-controlled entities to be publicly available—preferably in a consistent location.	<p>Of the 72 audit opinions issued to date, 30 controlled entities have made their financial statements publicly available.</p> <p>The Department of Local Government, Racing and Multicultural Affairs is considering these recommendations and undertaking consultation with stakeholders. Refer to Chapter 3: Internal controls for more details.</p>
Each local council should review its monitoring and membership of the boards of its controlled entities to ensure it has independent directors with appropriate skills, experience, and diversity. Councils must ensure they have appropriate mechanisms for oversight and for managing conflicts of interest.	We have found the level of oversight councils exercise over their controlled entities varies significantly. Refer to Chapter 3: Internal controls for more details.

Recommendation	Current status
<b>Changes to sustainability ratios</b>	
The Department of Local Government, Racing and Multicultural Affairs should review the appropriateness of the net financial liabilities ratio, as most councils favour cash over debt.	The Department of Local Government, Racing and Multicultural Affairs is considering these recommendations and undertaking consultation with stakeholders. Refer to Chapter 4: Councils' financial performance for more details.
<b>Strengthen asset management</b>	
Each local council should continue to assess its processes for ensuring that asset registers are complete and remain current.	While the number of councils reporting found assets has reduced, there has been an increase in the number of prior period errors reported. Refer to Chapter 2: Results of our audits for more details.
<b>Improve financial management</b>	
Each local council should continue to review and update its month end close processes to enable councillors and council executives to better understand their council's financial performance. The processes should include monthly accrual statements, cash flow information, variance analysis, key ratios, trends, and other non-financial information.	The maturity of councils' management reporting varies across the sector and within the various council segments. Refer to Section 3: Internal controls for more details.
<b>Monitor long-term obligations for landfill rehabilitation</b>	
Each local council should review its accounting for the rehabilitation of landfills to assess whether a liability has been recognised and to ensure that all future costs associated with the environmental obligations have been taken into account.	There has been an increase in the number of councils assessing and reporting their future costs for landfill environmental obligations. Refer to Chapter 3: Internal controls for more details.

Source: Queensland Audit Office.

## D. Queensland local governments by category

Councils vary widely in their size and location and in the range of community services they provide. To enable better comparison, we group them into the six segments the Local Government Association of Queensland used in its 2013 report *Factors Impacting Local Government Financial Sustainability: A Council Segment Approach*: Coastal, Indigenous, Resources, Rural/Regional, Rural/Remote, and South East Queensland (SEQ) councils.

This table summarises the number and type of entities that produced financial statements for this year compared with last year, by segment. The 41 local government entities for which we will not issue an opinion (as listed in Appendix G) are not included in Figure D1.

**Figure D1**  
**Summary of types of entities per segment for the local government sector**

Segment	Types of entities	2019	2018
Coastal	Councils	15	15
	Entities they control	7	7
Indigenous	Councils	17	17
	Entities they control	4	3
Resources	Councils	15	15
	Entities they control	6	6
Rural/Regional	Councils	9	9
	Entities they control	1	1
Rural/Remote	Councils	13	13
	Entities they control	2	2
South East Queensland	Councils	8	8
	Entities they control	32	33
Other	Jointly controlled entities	26	28
	Audited by arrangement	0	3
Total	Councils	<b>77</b>	<b>77</b>
	Entities they control	<b>52</b>	<b>52</b>
	Jointly controlled entities	<b>26</b>	<b>28</b>
	Audited by arrangement	<b>0</b>	<b>3</b>
<b>Total</b>		<b>155</b>	<b>160</b>

Source: Queensland Audit Office.

## E. Entities preparing financial reports

The following table details the types of audit opinions issued in accordance with Australian auditing standards for the 2019 financial year.

**Figure D1**  
**Our opinions for local government sector financial reports for 2018–19**

Audit	Date financial statement opinion issued	Opinion	Ministerial extension issued to date <sup>⊖</sup>	Date current year sustainability statement opinion issued <sup>△</sup>	Opinion
Opinion key: U = unmodified; Q = qualified; E = emphasis of matter. (Refer to Appendix K for the definitions of these terms.)					
Councils and controlled entities					
Aurukun Shire Council	14.10.2019	U		14.10.2019	E*
Balonne Shire Council	11.10.2019	U		11.10.2019	E*
Banana Shire Council	25.10.2019	U		25.10.2019	E*
Barcaldine Regional Council	14.10.2019	U		14.10.2019	E*
Barcoo Shire Council	31.01.2020	U	31.01.2020	31.01.2020	E*
Blackall-Tambo Regional Council	14.10.2019	U		14.10.2019	E*
Boulia Shire Council	23.12.2019	U	31.12.2019	23.12.2019	E*
Brisbane City Council	16.08.2019	U		16.08.2019	E*
• Brisbane Green Heart CitySmart Pty Ltd	19.08.2019	U			
• Brisbane Marketing Pty Ltd	25.09.2019	U			
• Brisbane Powerhouse Foundation	30.09.2019	U			
• Brisbane Powerhouse Pty Ltd	30.09.2019	U			
• Brisdev Trust	02.08.2019	E*			

Audit	Date financial statement opinion issued	Opinion	Ministerial extension issued to date <sup>⓪</sup>	Date current year sustainability statement opinion issued <sup>△</sup>	Opinion
Opinion key: U = unmodified; Q = qualified; E = emphasis of matter. (Refer to Appendix K for the definitions of these terms.)					
• City of Brisbane Investment Corporation Pty Ltd	02.08.2019	U			
• CBIC Investment Pty Ltd	02.08.2019	E*			
• City Parklands Services Pty Ltd	26.08.2019	U			
• Museum of Brisbane Pty Ltd	23.09.2019	U			
• Museum of Brisbane Trust	23.09.2019	E*			
• Oxley Creek Transformation Pty Ltd	20.09.2019	U			
• TradeCoast Land Pty Ltd	Not complete				
Bulloo Shire Council	10.10.2019	U		10.10.2019	E*
Bundaberg Regional Council	04.10.2019	U		04.10.2019	E*
Burdekin Shire Council	26.09.2019	U		26.09.2019	E*
Burke Shire Council	14.10.2019	U		14.10.2019	E*
Cairns Regional Council	25.09.2019	U		25.09.2019	E*
• Cairns Regional Gallery Arts Trust	18.09.2019	E*			
• Cairns Art Gallery Limited	12.09.2019	U			
Carpentaria Shire Council	11.10.2019	U		11.10.2019	E*
Cassowary Coast Regional Council	29.10.2019	U		29.10.2019	E*
Central Highlands Regional Council	11.10.2019	U		11.10.2019	E*

Audit	Date financial statement opinion issued	Opinion	Ministerial extension issued to date <sup>①</sup>	Date current year sustainability statement opinion issued <sup>△</sup>	Opinion
Opinion key: U = unmodified; Q = qualified; E = emphasis of matter. (Refer to Appendix K for the definitions of these terms.)					
• Central Highlands (Qld) Housing Company Limited	30.10.2019	E*			
• Central Highlands Development Corporation Ltd	11.10.2019	E*			
Charters Towers Regional Council	29.11.2019	U	30.11.2019	29.11.2019	E*
Cherbourg Aboriginal Shire Council	23.10.2019	U		23.10.2019	E*
Cloncurry Shire Council	23.10.2019	U		23.10.2019	E*
Cook Shire Council	10.10.2019	U		10.10.2019	E*
Council of the City of Gold Coast	30.09.2019	U		30.09.2019	E*
• Broadbeach Alliance Limited	24.09.2019	E			
• Connecting Southern Gold Coast Limited	22.11.2019	E			
• HOTA Gold Coast Pty Ltd <sup>^</sup>	03.10.2019	U			
• Surfers Paradise Alliance Limited	20.09.2019	E			
Croydon Shire Council	29.10.2019	U		29.10.2019	E*
Diamantina Shire Council	25.09.2019	U		25.09.2019	E*
Doomadgee Aboriginal Shire Council	Not complete		31.01.2020	Not complete	
Douglas Shire Council	11.10.2019	U		11.10.2019	E*
Etheridge Shire Council	23.09.2019	U		23.09.2019	E*

Audit	Date financial statement opinion issued	Opinion	Ministerial extension issued to date <sup>⓪</sup>	Date current year sustainability statement opinion issued <sup>△</sup>	Opinion
Opinion key: U = unmodified; Q = qualified; E = emphasis of matter. (Refer to Appendix K for the definitions of these terms.)					
Flinders Shire Council	28.10.2019	U		28.10.2019	E*
Fraser Coast Regional Council	14.10.2019	U		14.10.2019	E*
• Fraser Coast Tourism & Events Ltd	20.11.2019	E*			
Gladstone Regional Council	14.10.2019	U		14.10.2019	E*
• Gladstone Airport Corporation	14.10.2019	U			
Goondiwindi Regional Council	30.08.2019	U		30.08.2019	E*
Gympie Regional Council	31.10.2019	U		31.10.2019	E*
• Rattler Railway Company Ltd	31.10.2019	U			
Hinchinbrook Shire Council	14.10.2019	U		14.10.2019	E*
Hope Vale Aboriginal Shire Council	31.07.2019	U		31.07.2019	E*
Ipswich City Council	14.10.2019	U		14.10.2019	E*
• Cherish the Environment Foundation Ltd	Not complete				
• Ipswich Arts Foundation	21.10.2019	E			
• Ipswich Arts Foundation Trust	21.10.2019	U			
• Ipswich City Enterprises Investments Pty Ltd	18.10.2019	E			
• Ipswich City Enterprises Pty Ltd	18.10.2019	E			



Audit	Date financial statement opinion issued	Opinion	Ministerial extension issued to date <sup>⓪</sup>	Date current year sustainability statement opinion issued <sup>△</sup>	Opinion
Opinion key: U = unmodified; Q = qualified; E = emphasis of matter. (Refer to Appendix K for the definitions of these terms.)					
• Ipswich City Properties Pty Ltd	18.10.2019	E			
Isaac Regional Council	09.10.2019	U		09.10.2019	E*
• Isaac Affordable Housing Fund Pty Ltd	19.12.2019	E*			
• Isaac Affordable Housing Trust	19.12.2019	E*			
• Moranbah Early Learning Centre Pty Ltd	20.12.2019	E*			
Kowanyama Aboriginal Shire Council	27.09.2019	U		27.09.2019	E*
Livingstone Shire Council	14.10.2019	U		14.10.2019	E*
Lockhart River Aboriginal Shire Council	30.10.2019	U		30.10.2019	E*
• Lockhart River Aerodrome Company Pty Ltd	30.10.2019	U			
Lockyer Valley Regional Council	16.09.2019	U		16.09.2019	E*
Logan City Council	14.10.2019	U		14.10.2019	E*
• Invest Logan Pty Ltd	23.10.2019	U			
Longreach Regional Council	14.10.2019	U		14.10.2019	E*
Mackay Regional Council	14.10.2019	U		14.10.2019	E*
• Mackay Region Enterprises Pty Ltd	22.10.2019	U			
Mapoon Aboriginal Shire Council	14.10.2019	U		14.10.2019	E*
Maranoa Regional Council	01.10.2019	U		01.10.2019	E*

Audit	Date financial statement opinion issued	Opinion	Ministerial extension issued to date <sup>⊖</sup>	Date current year sustainability statement opinion issued <sup>△</sup>	Opinion
Opinion key: U = unmodified; Q = qualified; E = emphasis of matter. (Refer to Appendix K for the definitions of these terms.)					
Mareeba Shire Council	08.10.2019	U		08.10.2019	E*
McKinlay Shire Council	14.10.2019	U		14.10.2019	E*
Moreton Bay Regional Council	14.10.2019	U		14.10.2019	E*
Mornington Shire Council	20.09.2019	U		20.09.2019	E*
Mount Isa City Council	14.10.2019	U		14.09.2019	E*
<ul style="list-style-type: none"> <li>Mount Isa City Council Owned Enterprises Pty Ltd</li> </ul>	22.10.2019	U			
Murweh Shire Council	03.10.2019	U		03.10.2019	E*
Napranum Aboriginal Shire Council	30.09.2019	U		30.09.2019	E*
Noosa Shire Council	28.10.2019	U		28.10.2019	E*
North Burnett Regional Council	09.10.2019	U		09.10.2019	E*
Northern Peninsula Area Regional Council	11.10.2019	U		11.10.2019	E*
Palm Island Aboriginal Shire Council	Not complete		14.02.2020	Not complete	
<ul style="list-style-type: none"> <li>Palm Island Community Company Limited</li> </ul>	21.11.2019	U			
Paroo Shire Council	14.10.2019	U		14.10.2019	E*
Pormpuraaw Aboriginal Shire Council	20.09.2019	U		20.09.2019	E*
Quilpie Shire Council	14.10.2019	U		14.10.2019	E*
Redland City Council	08.10.2019	U		08.10.2019	E*



Audit	Date financial statement opinion issued	Opinion	Ministerial extension issued to date <sup>Ⓞ</sup>	Date current year sustainability statement opinion issued <sup>△</sup>	Opinion
Opinion key: U = unmodified; Q = qualified; E = emphasis of matter. (Refer to Appendix K for the definitions of these terms.)					
• Redland Investment Corporation Pty Ltd	04.09.2019	U			
Richmond Shire Council	Not complete		31.01.2020	Not complete	
• The Kronosaurus Korner Board Inc.	24.10.2019	E*			
Rockhampton Regional Council	04.10.2019	U		04.10.2019	E*
Scenic Rim Regional Council	04.10.2019	U		04.10.2019	E*
Somerset Regional Council	11.10.2019	U		11.10.2019	E*
South Burnett Regional Council	10.10.2019	U		10.10.2019	E*
• South Burnett Community Hospital Foundation Limited	11.10.2019	U			
Southern Downs Regional Council	11.10.2019	U		11.10.2019	E*
Sunshine Coast Regional Council	14.10.2019	U		14.10.2019	E*
• SunCentral Maroochydore Pty Ltd	20.09.2019	U			
Tablelands Regional Council	04.10.2019	U		04.10.2019	E*
Toowoomba Regional Council	30.09.2019	U		30.09.2019	E*
• Empire Theatres Foundation	03.10.2019	U			
• Empire Theatre Projects Pty Ltd	03.10.2019	U			
• Empire Theatres Pty Ltd	03.10.2019	U			

Audit	Date financial statement opinion issued	Opinion	Ministerial extension issued to date <sup>Ⓞ</sup>	Date current year sustainability statement opinion issued <sup>△</sup>	Opinion
Opinion key: U = unmodified; Q = qualified; E = emphasis of matter. (Refer to Appendix K for the definitions of these terms.)					
• Jondaryan Woolshed Pty Ltd	03.10.2019	U			
• Toowoomba and Surat Basin Enterprise Pty Ltd	15.10.2019	U			
• TSBE Export and Investment Development Limited	15.10.2019	E*			
Torres Shire Council	22.10.2019	U		22.10.2019	E*
Torres Strait Island Regional Council	16.09.2019	U		16.09.2019	E*
Townsville City Council	26.11.2019	U	31.12.2019	26.11.2019	E*
Western Downs Regional Council	14.10.2019	U		14.10.2019	E*
Whitsunday Regional Council	15.08.2019	U		15.08.2019	E*
Winton Shire Council	14.10.2019	U		14.10.2019	E*
• Waltzing Matilda Centre Ltd	15.10.2019	U			
Woorabinda Aboriginal Shire Council	Not complete		14.02.2020	Not complete	
• Woorabinda Pastoral Company Pty Limited	Not complete				
Wujal Wujal Aboriginal Shire Council	31.01.2020	U	31.01.2020	31.01.2020	E*
Yarrabah Aboriginal Shire Council	14.10.2019	U		14.10.2019	E*
• Wugu Nyambil Limited	07.11.2019	U			

Audit	Date financial statement opinion issued	Opinion	Ministerial extension issued to date <sup>①</sup>	Date current year sustainability statement opinion issued <sup>△</sup>	Opinion
Opinion key: U = unmodified; Q = qualified; E = emphasis of matter. (Refer to Appendix K for the definitions of these terms.)					
Jointly controlled entities					
Council of Mayors (SEQ) Pty Ltd	14.10.2019	U			
Local Government Association of Queensland Ltd	01.10.2019	U			
• Local Buy Trading Trust	27.09.2019	Q			
• Prevwood Pty Ltd	27.09.2019	E*			
• QPG Shared Services Support Centres Joint Venture	27.09.2019	E*			
• Peak Services Pty Ltd	30.09.2019	E*			
• Peak Services Holding Pty Ltd	30.09.2019	U			
• Peak Services Legal Pty Ltd	27.09.2019	U			
Northern Australia Services Unit Trust	27.09.2019	E*			
Queensland Local Government Mutual	29.11.2019	U			
Queensland Local Government Workers Compensation Self-Insurance Scheme (trading as Local Government Workcare)	29.11.2019	U			
SEQ Regional Recreational Facilities Pty Ltd	11.10.2019	U			
South West Queensland Local Government Association	28.10.2019	E*			

Audit	Date financial statement opinion issued	Opinion	Ministerial extension issued to date <sup>⊖</sup>	Date current year sustainability statement opinion issued <sup>△</sup>	Opinion
Opinion key: U = unmodified; Q = qualified; E = emphasis of matter. (Refer to Appendix K for the definitions of these terms.)					
Townsville Breakwater Entertainment Centre Joint Venture	Not complete				
Western Queensland Local Government Association	07.02.2020	E*			
Whitsunday ROC Limited	22.10.2019	U			

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

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

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

^ During the year, the entity changed its name from Gold Coast Art Centre Pty Ltd to HOTA Gold Coast Pty Ltd.

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 and the reasons for the exemptions.

**Figure F1**  
**Entities exempt from audit by the Auditor-General**

Audit	Audit firm who undertakes the audit	Date opinion issued	Opinion
Exempt local government entities—small in size and of low risk (s.30A of the <i>Auditor-General Act 2009</i> )			
Artspace Mackay Foundation	Bennett Partners	26.09.2019	Q E*
Central Western Queensland Remote Area Planning and Development Board (RAPAD)	Walsh Accounting	08.11.2019	U
Far North Queensland Regional Organisation of Councils	Halpin Partners Pty Ltd	25.10.2019	E*
Gulf Savannah Development Inc.	Rekenen Accountants	09.12.2019	E*
Drive Inland Promotions Association Inc.	VIDEN Group	19.09.2019	E*
Major Brisbane Festivals Pty Ltd*	BDO Audit Pty Ltd	Not complete	
Brisbane Festival Limited*	BDO Audit Pty Ltd	Not complete	
North West Queensland Regional Organisation of Councils	Rekenen Accountants	09.12.2019	E*
Northern Alliance of Councils Incorporated <sup>#</sup>	Crowe Horwath	03.06.2019	E*
South West Regional Economic Development Association	FTA Accountants	28.08.2019	E*
Wide Bay Burnett Regional Organisation of Councils Inc	All Income Tax	20.12.2019	E*
Exempt local government entities—foreign-based controlled entity (s.32 of the <i>Auditor-General Act 2009</i> )			
Gold Coast City Council Insurance Company Limited	Ernst & Young LLP	29.08.2019	U

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

+ The financial year of Brisbane Festival Limited and the Major Brisbane Festival Pty Ltd was 1 January 2019 to 31 December 2019.

# The financial statements of the Northern Alliance of Councils Incorporated were for the period 1 April 2018 to 31 March 2019.

Opinion key: U = unmodified; Q = qualified; E = emphasis of matter. (Refer Appendix K for definitions of these terms.)

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 2018–19 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		
Aurukun Community Foundation Ltd	Aurukun Shire Council	Wound up
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	Dormant
CBIC Valley Heart Pty Ltd	City of Brisbane Investment Corporation Pty Ltd	Dormant
Cairns Art Gallery Foundation Limited	Cairns Regional Council	Dormant
Cook Shire Communities Renewables Ltd	Cook Shire Council	Dormant
Major Events Gold Coast Pty Ltd	Council of the City of Gold Coast	Dormant
Widelinx Pty Ltd	Fraser Coast Regional Council	Wound up
IA Foundation Ltd	Ipswich City Council	Dormant
Ipswich City Developments Pty Ltd	Ipswich City Council	Wound up
City of Logan Mayor's Charity Limited	Logan City Council	Non-reporting
YSB Pty Ltd	Invest Logan Pty Ltd	Dormant
Artspace Mackay Foundation Ltd	Mackay Regional Council	Dormant
Mundalbe Enterprises Ltd	Mornington Shire Council	Dormant

Entity	Parent entity	Reason
Outback @ Isa Pty Ltd	Mount Isa City Council	Dormant
Napranum Foundation Limited	Napranum Aboriginal Shire Council	Wound up
Palm Island Economic Development Corporation Pty Ltd	Palm Island Aboriginal Council	Dormant
Cleveland Plaza Pty Ltd	Redland City Council	Non-reporting
Redheart Pty Ltd	Redland City Council	Dormant
Redland Developments Pty Ltd <sup>a</sup>	Redland Investment Corporation Pty Ltd	Non-reporting
RIC Toondah Pty Ltd	Redland Investment Corporation Pty Ltd	Non-reporting
Sunshine Coast Events Centre Pty Ltd	Sunshine Coast Regional Council	Non-reporting
Sunshine Coast Arts Foundation Ltd	Sunshine Coast Regional Council	Non-reporting
Tablelands Regional Council Enterprises Pty Ltd	Tablelands Regional Council	Non-reporting
Townsville EA2 Pty Ltd	Townsville City Council	Wound up
Collinsville Independent Living Company Pty Ltd	Whitsunday Regional Council	Wound up
Whitsunday Coast Airport and Infrastructure Pty Ltd	Whitsunday Regional Council	Dormant
Winton Community Association Inc	Winton Shire Council	Dormant
Jointly controlled entities		
DDS Unit Trust	Local Government Association of Queensland Ltd	Non-reporting
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
Local Partnerships Services Pty Ltd	Local Government Association of Queensland Ltd	Non-reporting
Northern Australia Services Pty Ltd	Local Government Association of Queensland Ltd	Dormant
Queensland Partnerships Group (LG Shared Services) Pty Ltd	Local Government Association of Queensland Ltd	Dormant
Resolute Information Technology Pty Ltd	Local Government Association of Queensland Ltd	Dormant

Entity	Parent entity	Reason
Gladstone Economic Futures Group	Multiple public sector entities	Non-reporting
Torres Cape Indigenous Council Alliance	Multiple councils	Dormant

<sup>^</sup> During the year, the entity changed its name from Ava Terraces Pty Ltd to Redland Developments Pty Ltd.

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 entities: 2017–18 results of financial audits* (Report 18: 2018–19) was issued.

**Figure H1**  
**Audit opinions issued for prior financial years**

Entity	Date opinion issued	Opinion
<b>Financial statements from 2016–17 financial year—Councils</b>		
Doomadgee Aboriginal Shire Council	10.06.2019	Q
<b>Financial sustainability statements from 2016–17 financial year</b>		
Doomadgee Aboriginal Shire Council	10.06.2019	E*
<b>Financial statements from 2017–18 financial year—Councils</b>		
Doomadgee Aboriginal Shire Council	19.12.2019	Q
<b>Financial sustainability statements from 2017–18 financial year</b>		
Doomadgee Aboriginal Shire Council	19.12.2019	E*
<b>Financial statements from 2017–18 financial year—Controlled entities</b>		
Isaac Affordable Housing Fund Pty Ltd	29.07.2019	E*
Isaac Affordable Housing Trust	29.07.2019	Q E*
Moranbah Early Learning Centre Pty Ltd	24.05.2019	E*
Rattler Railway Company Ltd	25.06.2019	U
Major Brisbane Festivals Pty Ltd+	19.06.2019	U
Brisbane Festivals Ltd+	19.06.2019	U
<b>Financial statements from 2017–18 financial year—By arrangement</b>		
City of Ipswich Community Fund Trust	Not complete <sup>#</sup>	
Ipswich Community Charity Fund Inc	Not complete <sup>#</sup>	

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

+ The financial year of Brisbane Festival Limited and Major Brisbane Festival Pty Ltd was 1 January 2018 to 31 December 2018.

# The audits of the City of Ipswich Community Fund Trust and Ipswich Community Charity Fund Inc have been undertaken however the management of these organisations have not signed their financial statements.

Opinion key: U = unmodified; Q = qualified; E = emphasis of matter; (Refer to Appendix K for the definitions of these terms.)

Source: Queensland Audit Office.

# I. Financial sustainability measures

Figure I1 details the ratios (measures) reflecting short-term and long-term sustainability.

**Figure I1**  
**Financial sustainability measures for councils**

Measure	Formula	Description	Target range
<b>Operating surplus ratio</b>	<i>Net operating result divided by total operating revenue (excludes capital items)</i> Expressed as a percentage	Indicates the extent to which operational revenues raised cover operational expenses	Between <b>zero and 10 per cent</b> (per department-issued guidelines*)
<p>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 expected future operating deficits.</p> <p>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.</p>			
<b>Net financial liabilities ratio</b>	<i>Total liabilities less current assets divided by total operating revenue</i> 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)	<b>Not greater than 60 per cent</b> (per department-issued guidelines*)
<p>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.</p>			
<b>Asset sustainability ratio</b>	<i>Capital expenses on replacement of assets (renewals) divided by depreciation expenses</i> Expressed as a percentage	Indicates the extent to which assets are being replaced as they reach the end of their useful lives	<b>Greater than 90 per cent</b> (per department-issued guidelines*)
<p>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.</p> <p>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 the council has inadequate asset management plans and practices.</p>			

Note: \* Department of Local Government, Racing and Multicultural Affairs.

Source: Queensland Audit Office.

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

**Figure I2**  
**Our risk assessment criteria for financial sustainability measures**

Relative risk rating measure	Operating surplus ratio	Net financial liabilities ratio	Asset sustainability ratio
<b>Higher</b>	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
<b>Moderate</b>	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
<b>Lower</b>	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 I2, and the assignment of the risk criteria, as shown in Figure I3.

**Figure I3**  
**Our overall relative risk assessment of financial sustainability**

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: <ul style="list-style-type: none"> <li>• a current net financial liabilities ratio of more than 80 per cent of operating revenue, or</li> <li>• an average asset sustainability ratio of less than 50 per cent, or</li> <li>• average operating deficits (losses) of between two per cent and 10 per cent of operating revenue, or</li> <li>• having two or more of the ratios assessed as moderate risk (see Figure I2).</li> </ul>
Lower risk	There is a lower risk of financial sustainability concerns based on current income, expenses, asset investment, and debt financing policies.

Source: Queensland Audit Office.

We use a five-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 2018–19**

Coastal councils	Current operating surplus ratio %	Avg. operating surplus ratio %	Avg. operating surplus ratio trend <sup>^</sup>	Net financial liabilities ratio %	Net financial liabilities ratio trend	Current asset sustainability ratio %	Avg. asset sustainability ratio %	Avg. asset sustainability ratio trend <sup>^</sup>	Relative risk assessment
Coastal councils									
Bundaberg Regional Council	2.41%	5.94%	● ↑	-19.93%	● ↑	32.00%	63.00%	● ↓	Lower
Burdekin Shire Council	5.55%	9.19%	● -	-70.11%	● ↑	92.14%	79.59%	● ↓	Lower
Cairns Regional Council	-2.16%	-0.35%	● -	47.68%	● ↓	106.00%	100.05%	● -	Lower
Cassowary Coast Regional Council	-2.45%	-0.85%	● -	-49.52%	● ↑	84.00%	82.00%	● ↓	Moderate
Douglas Shire Council	-2.14%	-3.15%	● ↑	-47.36%	● ↑	84.00%	110.00%	● ↑	Moderate
Fraser Coast Regional Council	3.23%	7.23%	● -	-51.17%	● -	96.68%	77.62%	● ↑	Lower
Gladstone Regional Council	5.07%	2.80%	● -	1.17%	● ↑	40.00%	65.40%	● ↓	Lower
Gympie Regional Council	-13.78%	-3.50%	● ↓	1.28%	● ↓	52.70%	136.15%	● ↓	Moderate
Hinchinbrook Shire Council	-4.10%	1.00%	● -	-52.93%	● ↓	40.00%	66.00%	● ↓	Lower
Livingstone Shire Council	5.51%	1.55%	● ↑	51.97%	● ↑	45.40%	46.56%	● -	Moderate
Mackay Regional Council	-0.19%	0.00%	● -	15.84%	● ↓	63.90%	59.04%	● ↓	Moderate
Noosa Shire Council	11.62%	11.66%	● ↑	-13.82%	● ↑	132.31%	99.71%	● ↑	Lower
Rockhampton Regional Council	2.49%	3.66%	● ↓	49.31%	● ↓	126.70%	91.85%	● ↑	Lower
Townsville City Council	0.00%	0.52%	● -	64.00%	● ↑	64.00%	86.80%	● ↓	Moderate
Whitsunday Regional Council	1.48%	4.95%	● ↑	28.04%	● ↓	253.39%	116.62%	● ↑	Lower
<b>Coastal average</b>	<b>0.84%</b>	<b>2.71%</b>		<b>-3.04%</b>		<b>87.55%</b>	<b>85.36%</b>		
<b>Coastal—combined risk assessment</b>		<b>Lower</b>		<b>Lower</b>			<b>Moderate</b>		<b>Lower</b>

<sup>^</sup> Average ratio trend compares the average ratio from 2018–19 with the average ratio from 2017–18. Trends should be considered in conjunction with the Department of Local Government, Racing and Multicultural Affairs' set benchmarks, and the analysis performed and explained in Chapter 3.

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.

Indigenous councils	Current operating surplus ratio %	Avg. operating surplus ratio %	Avg. operating surplus ratio trend <sup>^</sup>	Net financial liabilities ratio %	Net financial liabilities ratio trend	Current asset sustainability ratio %	Avg. asset sustainability ratio %	Avg. asset sustainability ratio trend <sup>^</sup>	Relative risk assessment
Indigenous councils									
Aurukun Shire Council	-22.98%	-20.06%	● ↓	-73.96%	● ↑	4.00%	47.17%	● ↓	Higher
Cherbourg Aboriginal Shire Council	-26.98%	-21.12%	● -	-104.35%	● ↑	146.00%	90.00%	● ↑	Higher
Doomadgee Aboriginal Shire Council <sup>β</sup>	-24.00%	-29.27%	● ↓	-3.00%	● ↓	102.00%	75.02%	● ↑	Higher
Hope Vale Aboriginal Shire Council	19.56%	11.26%	● ↑	-114.78%	● ↑	79.00%	101.80%	● ↓	Lower
Kowanyama Aboriginal Shire Council*	-43.35%	-35.43%	● ↓	-32.80%	● ↓	65.10%	109.42%	● ↑	Higher
Lockhart River Aboriginal Shire Council	5.41%	5.02%	● ↑	-60.63%	● ↑	0.00%	212.40%	● ↓	Lower
Mapoon Aboriginal Shire Council	2.32%	-11.32%	● ↑	-109.70%	● ↑	31.00%	47.46%	● ↑	Higher
Mornington Shire Council	-46.18%	-37.17%	● ↑	-5.81%	● ↓	234.00%	217.40%	● ↑	Higher
Napranum Aboriginal Shire Council	5.57%	-16.40%	● ↑	-58.96%	● ↑	38.00%	85.60%	● ↑	Higher
Northern Peninsula Area Regional Council <sup>∞</sup>	-16.66%	-10.88%	● ↑	-32.07%	● ↓	100.00%	69.64%	● ↑	Higher
Palm Island Aboriginal Shire Council <sup>μ</sup>	4.88%	-5.97%	● ↑	-32.46%	● ↓	191.00%	222.90%	● ↓	Moderate
Pormpuraaw Aboriginal Shire Council	16.63%	6.57%	● ↑	-147.99%	● ↓	62.00%	114.80%	● ↓	Lower
Torres Shire Council	-12.02%	-15.94%	● -	-107.95%	● ↑	116.00%	58.64%	● ↑	Higher
Torres Strait Island Regional Council	-54.97%	-49.15%	● ↓	-69.01%	● ↑	30.00%	28.54%	● ↓	Higher
Woorabinda Aboriginal Shire Council <sup>μ</sup>	-6.88%	-3.47%	● -	-26.52%	● ↓	0.00%	14.22%	● ↓	Moderate
Wujal Wujal Aboriginal Shire Council	-37.75%	-27.49%	● ↓	-54.98%	● ↑	153.00%	49.80%	● ↑	Higher
Yarrabah Aboriginal Shire Council	-23.00%	-18.81%	● -	-35.85%	● ↓	65.00%	70.00%	● ↑	Higher
<b>Indigenous average</b>	<b>-15.32%</b>	<b>-16.59%</b>		<b>-66.99%</b>		<b>83.30%</b>	<b>92.40%</b>		
<b>Indigenous—combined risk assessment</b>		<b>Higher</b>		<b>Lower</b>			<b>Lower</b>		<b>Higher</b>

\* This council's sustainability statement was qualified from 2014–15 to 2015–16. The qualification impacts on the average operating surplus ratio.

∞ This council's sustainability statement was qualified from 2014–15 to 2016–17. The qualification impacts on all three ratios, both current and average.

β 2018–19 audits for this council are unfinished. The sustainability measures reported are based on the unaudited 2018–19 financial statements.

μ 2018–19 audits for this council are unfinished. The sustainability measures reported are based on the 2017–18 financial statements.

<sup>^</sup> Average ratio trend compares the average ratio from 2018–19 with the average ratio from 2017–18. Trends should be considered in conjunction with the Department of Local Government, Racing and Multicultural Affairs' set benchmarks, and the analysis performed and explained in Chapter 3.

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.

Local government entities: 2018–19 results of financial audits (Report 13: 2019–20)

Resources councils	Current operating surplus ratio %	Avg. operating surplus ratio %	Avg. operating surplus ratio trend^	Net financial liabilities ratio %	Net financial liabilities ratio trend	Current asset sustainability ratio %	Avg. asset sustainability ratio %	Avg. asset sustainability ratio trend^	Relative risk assessment
Resources councils									
Banana Shire Council	-5.38%	-3.70%	● -	13.34%	● ↓	67.22%	109.00%	● ↓	Moderate
Barcoo Shire Council	-25.30%	-13.85%	● ↓	-63.48%	● ↓	118.06%	129.74%	● ↑	Higher
Bulloo Shire Council	3.64%	0.72%	● ↑	-105.56%	● ↑	83.32%	162.15%	● ↓	Lower
Burke Shire Council	-31.47%	-31.94%	● ↑	-57.26%	● ↓	60.00%	56.20%	● ↓	Higher
Central Highlands Regional Council	-0.24%	5.03%	● -	-34.56%	● ↓	150.00%	110.63%	● ↑	Lower
Charters Towers Regional Council	8.42%	-3.19%	● ↑	-65.94%	● ↓	229.00%	142.60%	● ↑	Moderate
Cloncurry Shire Council	-0.89%	-1.93%	● ↓	-79.71%	● ↑	153.00%	151.60%	● ↓	Lower
Cook Shire Council	-50.44%	-41.24%	● ↑	8.49%	● ↓	38.74%	288.62%	● ↓	Higher
Etheridge Shire Council	6.92%	-7.42%	● ↑	-60.67%	● ↓	28.50%	70.98%	● ↓	Moderate
Isaac Regional Council	5.77%	0.83%	● ↑	-29.78%	● ↓	358.00%	216.09%	● ↑	Lower
Maranoa Regional Council	4.95%	-4.18%	● ↑	-42.68%	● ↓	205.94%	66.40%	● ↑	Moderate
McKinlay Shire Council	-11.97%	-5.57%	● -	-111.15%	● ↓	192.43%	234.97%	● ↑	Moderate
Mount Isa City Council	2.40%	5.03%	● ↑	-54.40%	● ↑	77.00%	87.73%	● ↓	Lower
Quilpie Shire Council	4.93%	6.85%	● ↑	-150.37%	● ↑	20.00%	91.80%	● ↓	Lower
Western Downs Regional Council	10.70%	7.48%	● -	-84.46%	● ↑	79.05%	88.51%	● ↓	Lower
<b>Resources average</b>	<b>-5.20%</b>	<b>-5.81%</b>		<b>-61.21%</b>		<b>124.02%</b>	<b>133.80%</b>		
<b>Resources—combined risk assessment</b>		<b>Moderate</b>		<b>Lower</b>			<b>Lower</b>		<b>Moderate</b>

^ Average ratio trend compares the average ratio from 2018–19 with the average ratio from 2017–18. Trends should be considered in conjunction with the Department of Local Government, Racing and Multicultural Affairs' set benchmarks, and the analysis performed and explained in Chapter 3.

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.

Rural/Regional councils	Current operating surplus ratio %	Avg. operating surplus ratio %	Avg. operating surplus ratio trend^	Net financial liabilities ratio %	Net financial liabilities ratio trend	Current asset sustainability ratio %	Avg. asset sustainability ratio %	Avg. asset sustainability ratio trend^	Relative risk assessment
Rural/Regional councils									
Goondiwindi Regional Council	4.81%	3.05%	● ↑	-78.12%	● ↓	103.08%	111.20%	● ↑	Lower
Lockyer Valley Regional Council	4.74%	-0.24%	● ↑	58.95%	● ↓	113.67%	121.30%	● ↑	Lower
Mareeba Shire Council	15.05%	13.89%	● ↑	-72.44%	● -	129.10%	175.82%	● ↑	Lower
North Burnett Regional Council	-20.77%	-8.57%	● ↑	-39.35%	● ↓	143.58%	155.37%	● ↓	Moderate
Scenic Rim Regional Council	2.47%	8.12%	● ↑	3.63%	● ↓	301.00%	228.60%	● ↓	Lower
Somerset Regional Council	7.56%	5.10%	● ↓	-163.24%	● ↓	115.00%	182.59%	● ↓	Lower
South Burnett Regional Council	2.38%	5.03%	● -	12.75%	● ↑	55.90%	109.12%	● ↓	Lower
Southern Downs Regional Council	6.07%	7.04%	● ↑	-19.57%	● ↓	179.22%	113.70%	● ↑	Lower
Tablelands Regional Council	-0.50%	3.92%	● ↑	-45.54%	● ↓	140.07%	99.55%	● ↓	Lower
<b>Rural/Regional average</b>	<b>2.42%</b>	<b>4.15%</b>		<b>-38.10%</b>		<b>142.29%</b>	<b>144.14%</b>		
<b>Rural/Regional—combined risk assessment</b>		<b>Lower</b>		<b>Lower</b>			<b>Lower</b>		<b>Lower</b>

^ Average ratio trend compares the average ratio from 2018–19 with the average ratio from 2017–18. Trends should be considered in conjunction with the Department of Local Government, Racing and Multicultural Affairs' set benchmarks, and the analysis performed and explained in Chapter 3.

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.

Local government entities: 2018–19 results of financial audits (Report 13: 2019–20)

Rural/Remote councils	Current operating surplus ratio %	Avg. operating surplus ratio %	Avg. operating surplus ratio trend <sup>^</sup>	Net financial liabilities ratio %	Net financial liabilities ratio trend	Current asset sustainability ratio %	Avg. asset sustainability ratio %	Avg. asset sustainability ratio trend <sup>^</sup>	Relative risk assessment
Rural/Remote councils									
Balonne Shire Council	-6.36%	-7.51%	● ↓	-117.59%	● ↑	31.89%	48.43%	● ↓	Moderate
Barcaldine Regional Council	-30.00%	-15.40%	● ↓	-38.77%	● ↓	92.40%	114.43%	● ↓	Higher
Blackall-Tambo Regional Council	-10.44%	-3.77%	● ↓	-54.42%	● ↓	85.00%	90.80%	● ↓	Moderate
Boulia Shire Council	-11.97%	-11.72%	● ↑	-127.20%	● ↑	57.50%	79.10%	● ↑	Higher
Carpentaria Shire Council	-28.79%	-11.98%	● ↓	-6.50%	● -	2.70%	77.60%	● ↓	Higher
Croydon Shire Council	3.57%	4.75%	● -	-124.67%	● ↓	111.00%	130.80%	● ↓	Lower
Diamantina Shire Council	-14.63%	-18.62%	● ↓	-106.85%	● ↑	90.90%	86.90%	● ↓	Higher
Flinders Shire Council	8.73%	10.41%	● ↑	-69.08%	● ↓	11.42%	86.52%	● ↓	Lower
Longreach Regional Council	-18.19%	-4.74%	● ↓	3.40%*	● ↑	130.71%	148.16%	● ↓	Moderate
Murweh Shire Council	-13.65%	-9.89%	● -	-11.10%	● ↓	74.32%	81.55%	● ↓	Moderate
Paroo Shire Council***	-34.93%	-23.83%	● ↓	-60.90%	● ↑	70.86%	64.96%	● ↓	Higher
Richmond Shire Council <sup>β</sup>	-53.34%	-39.99%	● ↓	1.46%	● ↓	39.50%	113.81%	● ↓	Higher
Winton Shire Council	1.08%	3.76%	● -	-103.84%	● ↓	324.33%	208.43%	● ↑	Lower
<b>Rural/Remote average</b>	<b>-16.07%</b>	<b>-9.89%</b>		<b>-62.77%</b>		<b>86.35%</b>	<b>102.42%</b>		
<b>Rural/Remote—combined risk assessment</b>		<b>Moderate</b>		<b>Lower</b>			<b>Lower</b>		<b>Moderate</b>

\*\*\* This council's sustainability statements were qualified in 2014–15. The qualification impacts on the calculation of the average operating surplus ratio and the average asset sustainability ratio.

<sup>β</sup> 2018–19 audits for this council are unfinished. The sustainability measures reported are based on the unaudited 2018–19 financial statements.

\* This council's net financial liabilities ratio was incorrectly reported in the audited sustainability statement. Our audit opinion was not reissued as the council remained well within the department's target range.

<sup>^</sup> Average ratio trend compares the average ratio from 2018–19 with the average ratio from 2017–18. Trends should be considered in conjunction with the Department of Local Government, Racing and Multicultural Affairs' set benchmarks, and the analysis performed and explained in Chapter 3.

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.

South East Queensland councils	Current operating surplus ratio %	Avg. operating surplus ratio %	Avg. operating surplus ratio trend^	Net financial liabilities ratio %	Net financial liabilities ratio trend	Current asset sustainability ratio %	Avg. asset sustainability ratio %	Avg. asset sustainability ratio trend^	Relative risk assessment
South East Queensland councils									
Brisbane City Council	5.24%	6.76%	● ↑	88.70%	● ↓	87.00%	85.51%	● ↑	Moderate
Council of the City of Gold Coast	1.52%	-0.21%	● ↑	-31.36%	● ↑	50.70%	47.60%	● -	Moderate
Ipswich City Council	7.34%	8.63%	● -	34.43%	● ↑	62.95%	55.97%	● ↓	Lower
Logan City Council	1.61%	5.57%	● -	-31.95%	● ↑	74.60%	81.84%	● ↓	Lower
Moreton Bay Regional Council	24.16%	23.13%	● ↓	20.58%	● ↑	54.80%	64.02%	● ↓	Lower
Redland City Council	-3.68%	-2.28%	● ↓	39.83%	● ↑	42.35%	44.34%	● -	Moderate
Sunshine Coast Regional Council	11.65%	12.74%	● -	55.57%	● ↓	72.50%	76.84%	● -	Lower
Toowoomba Regional Council	0.94%	1.67%	● -	47.93%	● ↓	62.83%	71.76%	● ↓	Lower
<b>SEQ average</b>	<b>6.10%</b>	<b>7.00%</b>		<b>18.01%</b>		<b>63.47%</b>	<b>65.99%</b>		
<b>SEQ—combined risk assessment</b>		<b>Lower</b>		<b>Lower</b>			<b>Moderate</b>		<b>Lower</b>

^ Average ratio trend compares the average ratio from 2018–19 with the average ratio from 2017–18. Trends should be considered in conjunction with the Department of Local Government, Racing and Multicultural Affairs' set benchmarks, and the analysis performed and explained in Chapter 3.

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

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### Auditing internal controls

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Entities design, implement, and maintain internal controls 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, and 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 material misstatement in the financial statements. These are misstatements that if omitted could influence a user's decision-making.

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 to address the risk of material misstatement in the financial statements.

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

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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 five 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 two 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 five 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 2018–19.

## Financial statement preparation

In assessing the effectiveness of financial statement preparation processes, we considered three components—the year end close process, the timeliness of financial statements, and the quality of financial statements.

We assess financial statement preparation processes under the following criteria.

### Year end close process

Local government entities should have a robust year end close process to enhance the quality and timeliness of financial reporting processes. We identified five outcomes for entities to achieve. Early completion of these items means an entity has less risk that a financial report is not cleared in time for council signature, and it means certification by audit is more likely to be achieved within statutory or agreed milestones.

In the 2018–19 financial year we assessed the following processes for year end financial statement preparation against agreed dates:

- preparation of pro-forma financial statements
- resolution of known accounting issues
- completion of non-current asset valuations
- final draft financial statements completed and reviewed
- final financial statement workpapers completed and reviewed.

Year end process	
Rating scale	Assessment criteria
● Effective	All key processes completed by the agreed dates
● Partially effective	Three to four key processes completed by the agreed date
● Ineffective	Less than three key processes completed by the agreed date

## Timeliness of financial statements

We assessed the timeliness of financial statements by comparing the date the independent auditor's report was issued against the legislative deadline of 31 October.

Timeliness	
Rating scale	Assessment criteria
● Timely	On or before 14 October
● Legally compliant*	Between 15 and 31 October
● Not timely	After 31 October

\* Note: If the Minister for Local Government granted an extension of time to complete the financial statements and the council met this revised date, we assessed this as legally compliant, as the council was unable to meet the original statutory deadline. If a council was unable to meet the extended date, we assessed this as not timely.

## Quality of draft financial statements

We assess the quality of financial statements in terms of adjustments made between the first draft of the financial statements submitted to audit and the final audited financial statements. This includes adjustments to current year and prior year figures and other disclosures. This is an indicator of how effective each council's review of its financial statements is at identifying and correcting errors.

Quality of draft financial statements	
Rating scale	Assessment criteria
● Good	No adjustments were required
● Average	Immaterial adjustments were made to financial statements
● Below average	Material adjustments were made to financial statement components

## 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' overall financial governance by council segment.

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

Council	Internal controls <sup>1</sup>					Financial statement preparation <sup>2</sup>			Financial sustainability <sup>3</sup>
Coastal councils	CE	MA	RA	CA	IC	EOFY	T	Q	FS
Bundaberg Regional Council	●	●	●	●	●	●	●	●	●
Burdekin Shire Council	●	●	●	●	●	●	●	●	●
Cairns Regional Council	●	●	●	●	●	●	●	●	●
Cassowary Coast Regional Council	●	●	●	●	●	●	●	●	●
Douglas Shire Council	●	●	●	●	●	●	●	●	●
Fraser Coast Regional Council	●	●	●	●	●	●	●	●	●
Gladstone Regional Council	●	●	●	●	●	●	●	●	●
Gympie Regional Council	●	●	●	●	●	●	●	●	●
Hinchinbrook Shire Council	●	●	●	●	●	●	●	●	●
Livingstone Shire Council	●	●	●	●	●	●	●	●	●
Mackay Regional Council	●	●	●	●	●	●	●	●	●
Noosa Shire Council	●	●	●	●	●	●	●	●	●
Rockhampton Regional Council	●	●	●	●	●	●	●	●	●
Townsville City Council	●	●	●	●	●	●	●	●	●
Whitsunday Regional Council	●	●	●	●	●	●	●	●	●

<sup>1</sup> CE—Control environment; MA—Monitoring activities; RA—Risk assessment; CA—Control activities; IC—Information and communication.

<sup>2</sup> EOFY—End of financial year processes; T—Timeliness; Q—Quality.

<sup>3</sup> FS—Financial sustainability—relative risk assessment (refer Figure I4).

Council	Internal controls <sup>1</sup>					Financial statement preparation <sup>2</sup>			Financial sustainability <sup>3</sup>
Indigenous councils	CE	MA	RA	CA	IC	EOFY	T	Q	FS
Aurukun Shire Council	●	●	●	●	●	●	●	●	●
Cherbourg Aboriginal Shire Council	●	●	●	●	●	●	●	●	●
Doomadgee Aboriginal Shire Council <sup>5</sup>	●	●	●	●	●	●	●	●	●
Hope Vale Aboriginal Shire Council	●	●	●	●	●	●	●	●	●
Kowanyama Aboriginal Shire Council	●	●	●	●	●	●	●	●	●
Lockhart River Aboriginal Shire Council	●	●	●	●	●	●	●	●	●
Mapoon Aboriginal Shire Council	●	●	●	●	●	●	●	●	●
Mornington Shire Council	●	●	●	●	●	●	●	●	●
Napranum Aboriginal Shire Council	●	●	●	●	●	●	●	●	●
Northern Peninsula Area Regional Council	●	●	●	●	●	●	●	●	●
Palm Island Aboriginal Shire Council <sup>4,6</sup>	●	●	●	●	●	●	●	●	●
Pormpuraaw Aboriginal Shire Council	●	●	●	●	●	●	●	●	●
Torres Shire Council	●	●	●	●	●	●	●	●	●
Torres Strait Island Regional Council	●	●	●	●	●	●	●	●	●
Woorabinda Aboriginal Shire Council <sup>6</sup>	●	●	●	●	●	●	●	●	●
Wujal Wujal Aboriginal Shire Council	●	●	●	●	●	●	●	●	●
Yarrabah Aboriginal Shire Council	●	●	●	●	●	●	●	●	●

<sup>1</sup> CE—Control environment; MA—Monitoring activities; RA—Risk assessment; CA—Control activities; IC—Information and communication.

<sup>2</sup> EOFY—End of financial year processes; T—Timeliness; Q—Quality.

<sup>3</sup> FS—Financial sustainability—relative risk assessment (refer Figure I4).

<sup>4</sup> For the period 17 July to 11 October 2019, the department appointed a financial controller and an advisor to review the council's organisational and financial structure.

<sup>5</sup> Financial statement preparation indicators for this council have been set at red as the financial statements were not finalised by the ministerial extension date. The internal controls assessment is based on the prior year's results. The financial sustainability assessment is based on the unaudited 2018–19 financial statements.

<sup>6</sup> Financial statement preparation indicators for this council have been set at red as the financial statements were not finalised by the ministerial extension date. The internal controls and financial sustainability assessments are based on prior year's results.

Council	Internal controls <sup>1</sup>					Financial statement preparation <sup>2</sup>			Financial sustainability <sup>3</sup>
Resources councils	CE	MA	RA	CA	IC	EOFY	T	Q	FS
Banana Shire Council	●	●	●	●	●	●	●	●	●
Barcoo Shire Council	●	●	●	●	●	●	●	●	●
Bulloo Shire Council	●	●	●	●	●	●	●	●	●
Burke Shire Council	●	●	●	●	●	●	●	●	●
Central Highlands Regional Council	●	●	●	●	●	●	●	●	●
Charters Towers Regional Council	●	●	●	●	●	●	●	●	●
Cloncurry Shire Council	●	●	●	●	●	●	●	●	●
Cook Shire Council	●	●	●	●	●	●	●	●	●
Etheridge Shire Council	●	●	●	●	●	●	●	●	●
Isaac Regional Council	●	●	●	●	●	●	●	●	●
Maranoa Regional Council	●	●	●	●	●	●	●	●	●
McKinlay Shire Council	●	●	●	●	●	●	●	●	●
Mount Isa City Council	●	●	●	●	●	●	●	●	●
Quilpie Shire Council	●	●	●	●	●	●	●	●	●
Western Downs Regional Council	●	●	●	●	●	●	●	●	●

<sup>1</sup> CE—Control environment; MA—Monitoring activities; RA—Risk assessment; CA—Control activities; IC—Information and communication.

<sup>2</sup> EOFY—End of financial year processes; T—Timeliness; Q—Quality.

<sup>3</sup> FS—Financial sustainability—relative risk assessment (refer Figure I4).

Council	Internal controls <sup>1</sup>					Financial statement preparation <sup>2</sup>			Financial sustainability <sup>3</sup>
Rural/Regional councils	CE	MA	RA	CA	IC	EOFY	T	Q	FS
Goondiwindi Regional Council	●	●	●	●	●	●	●	●	●
Lockyer Valley Regional Council	●	●	●	●	●	●	●	●	●
Mareeba Shire Council	●	●	●	●	●	●	●	●	●
North Burnett Regional Council	●	●	●	●	●	●	●	●	●
Scenic Rim Regional Council	●	●	●	●	●	●	●	●	●
Somerset Regional Council	●	●	●	●	●	●	●	●	●
South Burnett Regional Council	●	●	●	●	●	●	●	●	●
Southern Downs Regional Council	●	●	●	●	●	●	●	●	●
Tablelands Regional Council	●	●	●	●	●	●	●	●	●

<sup>1</sup> CE—Control environment; MA—Monitoring activities; RA—Risk assessment; CA—Control activities; IC—Information and communication.

<sup>2</sup> EOFY—End of financial year processes; T—Timeliness; Q—Quality.

<sup>3</sup> FS—Financial sustainability—relative risk assessment (refer Figure I4).

Council	Internal controls <sup>1</sup>					Financial statement preparation <sup>2</sup>			Financial sustainability <sup>3</sup>
	CE	MA	RA	CA	IC	EOFY	T	Q	FS
Rural/Remote councils									
Balonne Shire Council	●	●	●	●	●	●	●	●	●
Barcaldine Regional Council	●	●	●	●	●	●	●	●	●
Blackall-Tambo Regional Council	●	●	●	●	●	●	●	●	●
Boulia Shire Council	●	●	●	●	●	●	●	●	●
Carpentaria Shire Council	●	●	●	●	●	●	●	●	●
Croydon Shire Council	●	●	●	●	●	●	●	●	●
Diamantina Shire Council	●	●	●	●	●	●	●	●	●
Flinders Shire Council	●	●	●	●	●	●	●	●	●
Longreach Regional Council	●	●	●	●	●	●	●	●	●
Murweh Shire Council	●	●	●	●	●	●	●	●	●
Paroo Shire Council	●	●	●	●	●	●	●	●	●
Richmond Shire Council <sup>4</sup>	●	●	●	●	●	●	●	●	●
Winton Shire Council	●	●	●	●	●	●	●	●	●

<sup>1</sup> CE—Control environment; MA—Monitoring activities; RA—Risk assessment; CA—Control activities; IC—Information and communication.

<sup>2</sup> EOFY—End of financial year processes; T—Timeliness; Q—Quality.

<sup>3</sup> FS—Financial sustainability—relative risk assessment (refer Figure I4).

<sup>4</sup> Financial statement preparation indicators for this council have been set at red as the financial statements were not finalised by the ministerial extension date. The internal controls assessment is based on the prior year's results. The financial sustainability assessment is based on the unaudited 2018-19 financial statements.

Council	Internal controls <sup>1</sup>					Financial statement preparation <sup>2</sup>			Financial sustainability <sup>3</sup>
	CE	MA	RA	CA	IC	EOFY	T	Q	FS
South East Queensland (SEQ) councils									
Brisbane City Council	●	●	●	●	●	●	●	●	●
Council of the City of Gold Coast	●	●	●	●	●	●	●	●	●
Ipswich City Council <sup>4</sup>	●	●	●	●	●	●	●	●	●
Logan City Council <sup>5</sup>	●	●	●	●	●	●	●	●	●
Moreton Bay Regional Council	●	●	●	●	●	●	●	●	●
Redland City Council	●	●	●	●	●	●	●	●	●
Sunshine Coast Regional Council	●	●	●	●	●	●	●	●	●
Toowoomba Regional Council	●	●	●	●	●	●	●	●	●

<sup>1</sup> CE—Control environment; MA—Monitoring activities; RA—Risk assessment; CA—Control activities; IC—Information and communication.

<sup>2</sup> EOFY—End of financial year processes; T—Timeliness; Q—Quality.

<sup>3</sup> FS—Financial sustainability—relative risk assessment (refer Figure I4).

<sup>4</sup> In response to charges made by the Crime and Corruption Commission, the Minister for Local Government appointed an interim administrator on 23 August 2018.

<sup>5</sup> In response to charges made by the Crime and Corruption Commission, the Minister for Local Government appointed an interim administrator on 2 May 2019.

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.
Asset valuation	The process of determining the fair value of an asset.
Acquisition	Establishing control of an asset, undertaking the risks, and receiving the rights to future benefits as would be conferred with ownership, in exchange for the cost of acquisition.
Audit committee	<p>A committee intended to provide assistance to the accountable officer or statutory body in discharging their obligations. Duties and responsibilities can involve oversight of all or a combination of the following:</p> <ul style="list-style-type: none"> <li>• effectiveness and reliability of internal controls</li> <li>• quality and integrity of accounting and reporting practices</li> <li>• effectiveness of performance management</li> <li>• legal and regulatory compliance</li> <li>• auditors' qualifications and independence</li> <li>• performance of the internal audit function and external auditors.</li> </ul>
Audit by arrangement	An audit by the Auditor-General of an entity that is not a public sector entity, conducted at the request of a minister or a public sector entity and with the consent of the entity.
<i>Auditor-General Act 2009</i>	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.
Australian Accounting Standards Board (AASB)	An Australian Government agency that develops and maintains accounting standards applicable to entities in the private and public sectors of the Australian economy.
Capital expenditure	Expenditure to acquire assets or improve the service potential of existing assets that are capitalised to the balance sheet (which means that the cost of the assets is allocated over the years for which the asset will be in use).
Control (of an entity)	The capacity of an entity to dominate decision-making, directly or indirectly, in relation to the financial and operating policies of another entity to enable that other entity to operate with it in achieving the objectives of the controlling entity.

Term	Definition
Controlled entity	An entity owned by one or more public sector entities.
Deficiency	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.
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.
Environmental authorities	Licences (environmental authorities) issued for resource activities (mining and petroleum and gas) and prescribed activities issued under the <i>Environmental Protection Act 1994</i> . The environmental authorities include conditions requiring the developers to conduct these activities in an environmentally responsible manner.
Fair value	The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties, in an arm's length transaction.
Financial sustainability	The ability to meet current and future expenses as they arise and capacity to absorb foreseeable changes and emerging risks.
Found assets	Physical assets that an entity was unaware of and has not included in its asset register in the past, but over which it has control.
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.
Governance	The arrangements in place at an entity to plan, direct, and control its activities to achieve its strategic and operational goals.
Internal audit	An appraisal activity established or provided as a service to an entity. Its functions include examining, evaluating, and monitoring the adequacy and effectiveness of internal controls, and reporting deficiencies to management.
Legislative time frame	The date that is prescribed by legislation or date granted by the Minister for Local Government for a council to finalise its financial statements or annual report.
Management	Those with the executive responsibility for conducting an entity's operations.
Misstatement	A 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.

Term	Definition
Modified audit opinion	A modified opinion is expressed when financial statements do not comply with the relevant legislative requirements and Australian accounting standards, and as a result are not accurate and reliable.
Net assets	Total assets less total liabilities.
Net result	Calculated by subtracting an entity's total expenses from its total revenue. The net result is designed to show what the entity has earned or lost in a given period of time.
Non-current asset	Non-current assets are an entity's long-term investments, where the full value will not be realised within the year. These assets are capitalised rather than expensed, meaning that the cost of the asset can be allocated over the number of years for which the asset will be in use, instead of allocating the entire cost to the year in which the asset was purchased.
Operating result	Calculated by subtracting continuing operations expenses from continuing operations revenue to show what the entity has earned or lost in a given period of time.
Own-source revenue	These are revenue sources that local governments have the power to collect on their own account. They can include revenue from property rates, sales of goods and services (such as user fees), interest income, and other income (such as developer contributions and fines). They exclude grants.
Phishing	A fraudulent scamming attempt to obtain sensitive information from an end user (for example, username, passwords, and credit card information), for example, asking a user to click on a link that results in malicious software being installed.
Prior period error	Omissions from, and misstatements in, an entity's financial statements caused by not using or misusing information that was available or could have been obtained and taken into account in preparing the financial statements.
Procurement	The acquisition of goods, services, or works from an external source.
Public sector entity	A department, statutory body, government owned corporation, local government, or a controlled entity.
Qualified audit opinion	<p>An opinion issued when financial statements as a whole comply with relevant accounting standards and legislative requirements, with the exceptions noted in the opinion.</p> <p>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.</p>
Related entity	An entity that is controlled or jointly controlled by one or more councils. Also referred to as a local government-related entity.
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.



Term	Definition
Significant deficiency	A deficiency, or combination of deficiencies, in an internal control that requires immediate remedial action.
Special purpose financial statements	Financial statements that are designed to meet the financial information needs of a specific group of users.
Unmodified audit opinion	An unmodified opinion is expressed 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).

## Report cost

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