FINANCIAL AUDIT REPORT 29 January 2024

Local government 2023

Report 8: 2023–24

Queensland Audit Office
Better public services

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

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

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

- Financial audit reports summarise the results of our audits of over 400 state and local government entities.
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The Honourable C Pitt MP
Speaker of the Legislative Assembly
Parliament House
BRISBANE QLD 4000

29 January 2024

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

Brendan Worrall
Auditor-General

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Contents

Acknowledgement

The Queensland Audit Office acknowledges the Traditional and Cultural Custodians of the lands, waters, and seas across Queensland. We pay our respects to Elders past, present, and emerging.

Report on a page

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

Financial statements are reliable, but less timely

Communities need timely financial information to evaluate their council's performance – especially when local government elections occur. The next election is on 16 March 2024. Despite this, 14 councils did not complete their 2023 financial statements by their 31 October statutory reporting deadline, and 7 of these councils have still not completed them as at the date of this report.

Of the 14 councils that did not complete their financial statements by 31 October 2023, 10 of these have also missed the deadline in at least 2 of the last 3 years.

Poor accounting practices are the primary driver for councils not being able to complete their financial statements in a timely manner. Being able to attract and retain skilled staff also contributes. Having the right skills and capability in key positions and a strong framework for financial controls would help councils mitigate financial and operational risks.

More action is needed on outstanding high-risk issues

There are still 121 unresolved significant (high-risk) issues (2022: 114) at councils. This will increase as we finalise the audits of the 14 councils who failed to meet the statutory deadline. We continue to see a greater proportion of long-outstanding issues in councils that do not have an audit committee or internal audit function.

Councils face many external threats in their day-to-day operations, including cyber security. Yet two-thirds of the sector still has weaknesses in the security of its information systems, and 24 per cent of councils have not provided cyber security training to their staff.

Having good policies and procedures would help councils mitigate some of these external threats. However, 34 councils (2022: 25 councils) either do not have some of their policies and procedures in place, or they are outdated and not relevant to their operations anymore. As a result, some councils may have difficulties transitioning any newly elected members or staff into their organisation.

Having extra advance funding continues to affect results

For the second year, councils have received more of their (federal) financial assistance grants for the next year in advance, and reported this as revenue (as required under accounting principles). Despite this, 24 per cent of the 63 councils that had completed their financial statements by 31 October generated operating losses, and over half would have made losses without the extra funding they received.

Councils need good budget and cash management processes to handle their increasing costs and cope with changes to the timing of grant funding, which is outside of their control.

New sustainability measures are in effect, but the risk framework needs improvement

At 30 June 2023, 48 councils (2021–22: 46 councils) are still at either a moderate or a high risk of not being financially sustainable. The department's new financial sustainability framework is in place for the 2024 financial year. However, the associated risk framework can be refined to more clearly define how it will help the department, communities, and councils, evaluate a council's overall financial sustainability risk.

1. Recommendations

Recommendations for councils

This year, we make the following 3 recommendations for councils.

Implement processes to ensure policies and procedures are regularly reviewed and kept up to date
1. Councils should regularly review and update their policies and procedures to ensure they are up to date and meet the needs of their operations. Each council should develop a work plan to ensure all policies are reviewed at least every 3 years or when there are significant changes to the council's structure (Chapter 4).
Provide an onboarding program for all elected councillors and mayors following the March 2024 elections
2. Councils should educate all elected councillors and mayors on matters that are specific to their council, including unique challenges of their council and its strategic objectives and operations. This will ensure there is a smooth transition to the new council. It should also reinforce their understanding of their responsibilities and encourage mayors and councillors to work effectively together and with council staff (Chapter 4).
Annually review the registration status of employees undertaking engineering services
3. Review the registration status of employees undertaking engineering services to make sure they are complying with the *Professional Engineers Act 2002*. Councils should do this on an annual basis (Chapter 4).

Councils need to take further action on prior year recommendations

Recommendations that were outstanding in *Local government 2022* (Report 15: 2022–23) are summarised in the following tables.

Our recommendation for councils to improve their month-end and year-end financial reporting processes is no longer applicable. This is because it is superseded by our recommendation for councils to reassess the maturity of their financial statement processes and implement improvements.

Further action needs to be taken	Appropriate action has been taken	No longer applicable
15	-	1

Theme	Summary of recommendation	Local government report
Governance and internal control	Assess their audit committees against the actions in our 2020–21 audit committee report (Chapter 4)	Report 15: 2021–22
	Use our annual internal control assessment tool to help improve their overall control environment (Chapter 4)	Report 15: 2021–22
	Improve risk management processes (Chapter 4)	Report 17: 2020–21
	Have an audit committee with an independent chair. Audit committee members should understand their roles and responsibilities and the risks the committee needs to monitor (Chapter 4)	Report 13: 2019–20
	Establish and maintain an effective and efficient internal audit function (Chapter 4)	Report 13: 2019–20
Asset management and valuations	Include councils' planned spending on capital projects in asset management plans (Chapter 5)	Report 15: 2021–22
	Review the asset consumption ratio[1] in preparation for the new sustainability framework. Assess whether the actual usage of assets is in line with asset management plans (Chapter 5)	Report 15: 2021–22
	Improve valuation and asset management practices (Chapter 3)	Report 17: 2020–21
Financial reporting	Reassess the maturity levels of financial statement preparation processes in line with recent experience to identify improvement opportunities that will help facilitate early certification of financial statements (Chapter 3)	Report 15: 2021–22
	Enhance liquidity management by reporting unrestricted cash expense ratio[2] and unrestricted cash balance[3] in monthly financial reports (Chapter 5)	Report 15: 2021–22
Information systems	Strengthen the security of information systems (Chapter 4)	Report 17: 2020–21
	Conduct mandatory cyber security-awareness training (Chapter 4)	Report 13: 2019–20
Procurement and contract management	Assess the maturity of their procurement and contract management processes using our procure-to-pay maturity model, and implement identified opportunities to strengthen their practices (Chapter 4)	Report 15: 2022–23
	Enhance procurement and contract management practices (Chapter 4)	Report 17: 2020–21
	Secure employee and supplier information (Chapter 4)	Report 13: 2019–20

[1] Asset consumption ratio measures how much of council's infrastructure assets have been used compared to what it would cost to build new assets with the same benefit to the community.

[2] Unrestricted cash expense ratio measures how much money council has available for its regular expenses and unexpected financial needs.

[3] Unrestricted cash balance is the cash reported by a council that is not set aside for specific uses or obligations.

Implementing our recommendations will help councils strengthen their internal controls for financial reporting and improve their financial sustainability. We have included a full list of prior year recommendations and their status in Appendix E.

Recommendations for the department

This year, we make the following 4 recommendations to the Department of Housing, Local Government, Planning and Public Works (the department).

Introduce an internal controls assurance framework for councils
4. Amend the Local Government Regulation 2012 to require the head of finance to confirm whether the financial controls used to prepare the annual financial statements are effective each year. The confirmation should be provided to the mayor and chief executive officer each year before they sign the financial statements and should include: • a summary of the council's internal control framework – the people, systems, and processes that council uses to prepare reliable financial reports – and whether these controls were effective for the period the financial statements relate to • any significant areas of concern and their potential impact, and what action council has taken to address them • the status of issues reported in previous years • changes and improvements to internal controls during the year. 5. Develop a template that councils can use to annually validate the effectiveness of their internal controls. This will help councils and heads of finance identify their key financial internal controls and determine whether these controls have operated effectively throughout the year. The department may benefit from Queensland Treasury's help, and using practices that are already in place in the state sector (Chapter 3).
Determine the minimum expected requirements for all qualitative measures of council sustainability and include this in the sustainability framework
6. Amend the sustainability framework for Queensland councils to: • include the qualitative (non-financial) indicators the department will use to measure councils • define and publish the minimum expected requirements for these qualitative indicators. This will give councils a clear understanding of the qualitative elements they are being assessed against, and will help councils prioritise actions to improve them (Chapter 5).
Develop a way to measure the overall sustainability risk of individual councils
7. Develop a methodology to determine the overall sustainability risk of councils. The methodology should assess the ratios in the department's sustainability framework in combination so an overall financial sustainability risk profile can be determined for each council. The methodology should also consider the impact on the overall financial sustainability if any of the benchmarks (identified for each ratio in the sustainability framework) are not met. This will help the department prioritise its resources for councils or groups of councils that need attention more urgently than others. It will also help councils understand what good looks like and how the department intends to use the ratios in total to assess the financial sustainability of councils (Chapter 5).

The department needs to take further action on prior year recommendations

The department has made some progress in addressing the recommendations we made in our prior reports.

Fully implemented	Partially implemented	Not implemented	No longer applicable
1	4	5	-

It has published a framework to assess the sustainability risk of councils. However, further action is still required for 9 recommendations, as summarised below.

Theme	Summary of recommendation	Local government report
Governance and internal control	Require all councils to establish audit committees (Chapter 4)	Report 17: 2020–21
	Make sure all councils have an effective internal audit function (Chapter 4)	Report 15: 2022–23
Financial reporting and capability within the sector	Provide training to councillors and senior leadership teams around financial governance (Chapter 3)	Report 17: 2020–21
	Measure the effectiveness of training programs provided to councils	Report 15: 2022–23
	Provide training on financial reporting processes and support councils in meeting their reporting deadlines in times of need (Chapter 3)	Report 15: 2022–23
	Provide necessary guidance and tools to councils to help improve their month-end financial reports (Chapter 3)	Report 15: 2022–23
	Provide a clear definition of 'extraordinary circumstances' for councils seeking ministerial extensions to their legislative time frame for financial reporting (Chapter 3)	Report 15: 2022–23
Financial sustainability	Provide greater certainty over long-term funding (Chapter 5)	Report 17: 2020–21
Information systems	Develop a strategy to uplift capability of the sector on cyber-related matters (Chapter 4)	Report 15: 2022–23

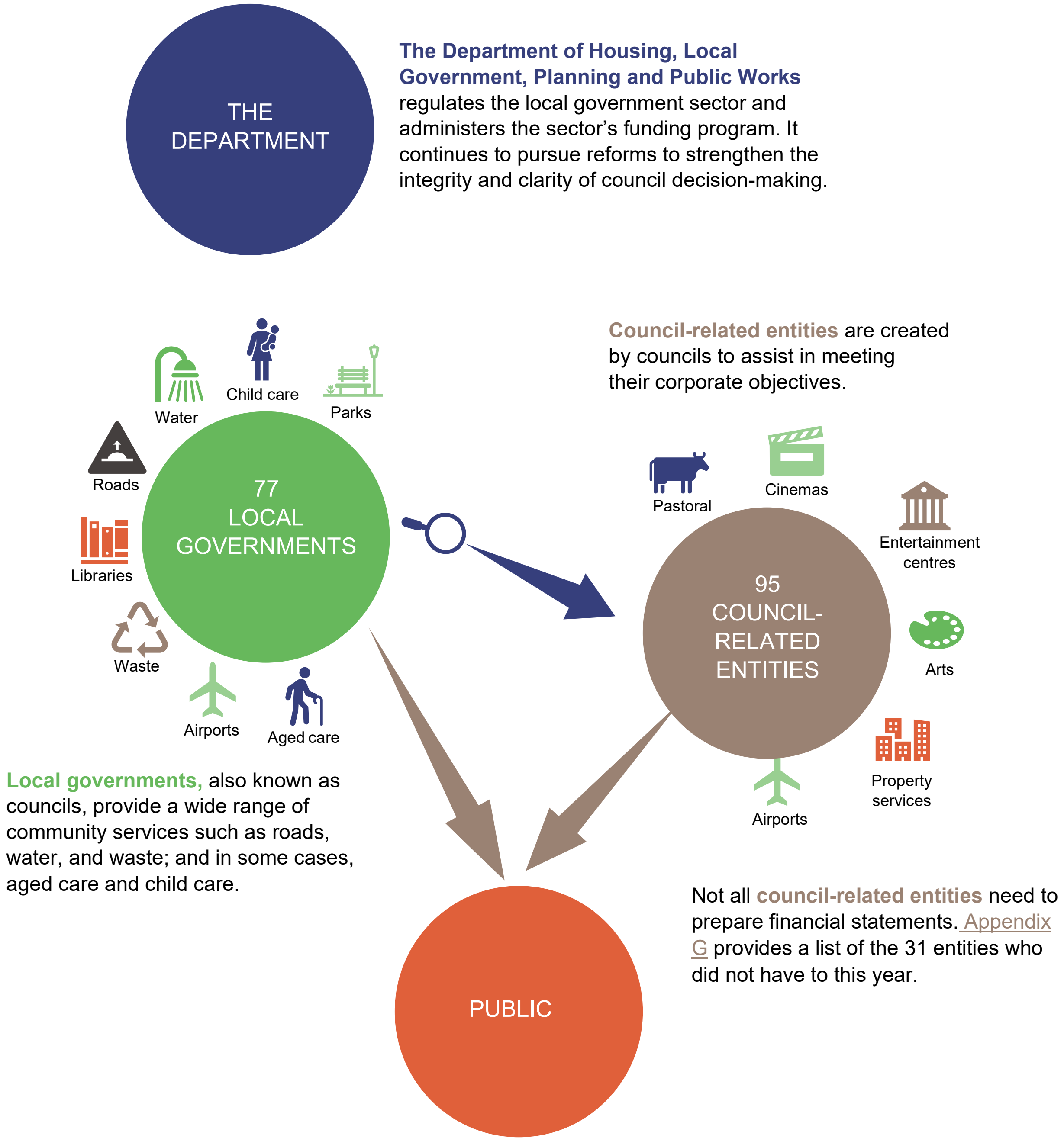
We have included a full list of prior year recommendations and their status in Appendix E.

Reference to comments

In accordance with s.64 of the *Auditor-General Act 2009*, we provided a copy of this report to all councils and the department. In reaching our conclusions, we considered their views and represented them to the extent we deemed relevant and warranted. Any formal responses from the entities are at Appendix A.

2. Overview of entities in this sector

Figure 2A
Entities in the local government sector



Source: Queensland Audit Office.

3. Results of our audits

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

Chapter snapshot

In this chapter, we only discuss the deficiencies we reported to councils by the 31 October financial deadline. Refer to Appendix C for more information.

Sector's timeliness in financial reporting continues to deteriorate.

63 of 77 council statements were signed by their legislative deadline
▼ 2 from 2021–22

70 of 77 council audit opinions issued by the date of this report
▼ 3 from 2021–22

49 audit opinions were issued for 64 council-related entities
2022–23: 63 audit opinions for 70 council-related entities.

2 prior year recommendations for councils that need further action

2 new recommendations to the department

- Amend the Local Government Regulation 2012 to require the head of finance to confirm whether the financial controls used to prepare the annual financial statements are effective each year.
- Develop a template that councils can use to annually validate the effectiveness of their internal controls.

5 prior year recommendations to the department need further action
Appendix E provides the full detail of all prior year recommendations.

DEFINITION

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

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

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

Audit opinion results

Audits of financial statements of councils

As of the date of this report, we have issued audit opinions for 70 councils (2021–22: 73 councils). Of these:

- 63 councils (2022–23: 65 councils) met their legislative deadline
- 4 councils (2022–23: 2 councils) met the extended time frame granted by the Minister for Local Government (who may grant an extension to the legislative time frame where extraordinary circumstances exist)
- 3 councils (2021–22: 2 councils) that had their financial statements certified past their legislative deadline did not receive an extension from the minister.

At the date of this report, we are waiting confirmation from the minister's office of the status of extensions of 3 councils. In 2021–22, 4 councils that received ministerial extensions did not meet their extended time frame.

Figure 3A shows the councils that did not have their financial statements certified by their 31 October legislative deadline.

Most of these councils are based in rural and remote areas where the challenge of attracting and retaining appropriately qualified and experienced finance staff is exacerbated. This when coupled with high turnover in finance staff and lower financial statement maturity levels (refer to Appendix J) has made it difficult for these councils to produce quality financial statements to have their audit completed in a timely manner.

Timely completion of the audit of the financial statements relies on both the auditors and council meeting the time frames that are mutually agreed at the start of the audit process. These agreed timelines are placed at risk when there is a delay in the provision of key deliverables to the auditors and/or when auditors are not able to process the key deliverables in a timely manner stemming from the delay in receiving key deliverables. When these agreed time frames are not met, the financial statements certification is delayed, and in some instances the legislative time frames are not met.

Figure 3A
Councils that did not meet their 31 October legislative deadline

Councils that did not meet their 31 October legislative deadline	
• Barcaldine Regional Council[1]	• Blackall-Tambo Regional Council[2]
• Burke Shire Council[2]	• Cook Shire Council[1,2]
• Cloncurry Shire Council[1]	• Diamantina Shire Council
• Etheridge Shire Council[1,2]	• Gympie Regional Council[1,2]
• Lockhart River Aboriginal Shire Council[2]	• Wujal Wujal Aboriginal Shire Council[1,2]
2022–23 financial statements not yet complete because 2021–22 financial statements not yet certified	
• Mornington Shire Council[1]	• Northern Peninsula Area Regional Council[1]
• Palm Island Aboriginal Shire Council[1]	• Woorabinda Aboriginal Shire Council[1]

[1] These 10 councils have not completed their financial statements within their statutory deadline in at least 2 of the last 3 financial years.

[2] Although these councils did not meet the 31 October deadline this year, they had their financial statements certified by the date of our report.

Source: Queensland Audit Office.

Seven councils have not provided their communities with current, reliable financial information

When we published this report, 7 councils had not finalised their 2022–23 financial statements – including 4 councils that had not finalised their 2021–22 financial statements. Heading into the March 2024 local government elections, these 7 councils have not provided current and reliable financial information to their communities.

This means their communities cannot evaluate the financial health of their councils and see where public money has been spent.

If these financial statements are not finalised by the election, the 2022–23 financial statements will become the responsibility of the newly elected council.

Financial statements are reliable

The financial statements of the councils and council-related entities for which we issued opinions were reliable and complied with relevant laws and standards.

We issued a qualified opinion for 2 council-related entities – Local Buy Trading Trust (controlled by the Local Government Association of Queensland Ltd) and the Wide Bay Burnett Regional Organisation of Councils Inc. This was because these entities were unable to provide the auditors with enough evidence that the revenue they recorded was complete. We issued a qualified opinion for Local Buy Trading Trust last financial year for the same reason.

We included an emphasis of matter in the audit opinions for 5 council-related entities because:

- 3 were reliant on financial support from their parent entities
- 2 had decided to wind up their operations.

Not all council-related entities need to have their audits performed by the Auditor-General. Appendix G provides a full list of these entities.

Status of unfinished audits from previous years

When we tabled *Local government 2022* (Report 15: 2022–23) in June 2023, some councils and council-related entities had not finalised their financial statements for previous years.

At the date of this year's report:

- Palm Island Aboriginal Shire Council had completed its 2020–21 financial statements and received a qualified opinion. This was because it was unable to provide enough information about its lease and motel revenue for us to confirm its revenue was correctly reported.
- Central Highlands (QLD) Housing Company Limited's 2021–22 financial statements were certified and received an unqualified opinion with an emphasis of matter because the directors decided to cease trading and enter voluntary liquidation.
- Mackay Region Enterprises Pty Ltd and Whitsunday ROC Limited both had their 2021–22 financial statements certified and received unmodified opinions.

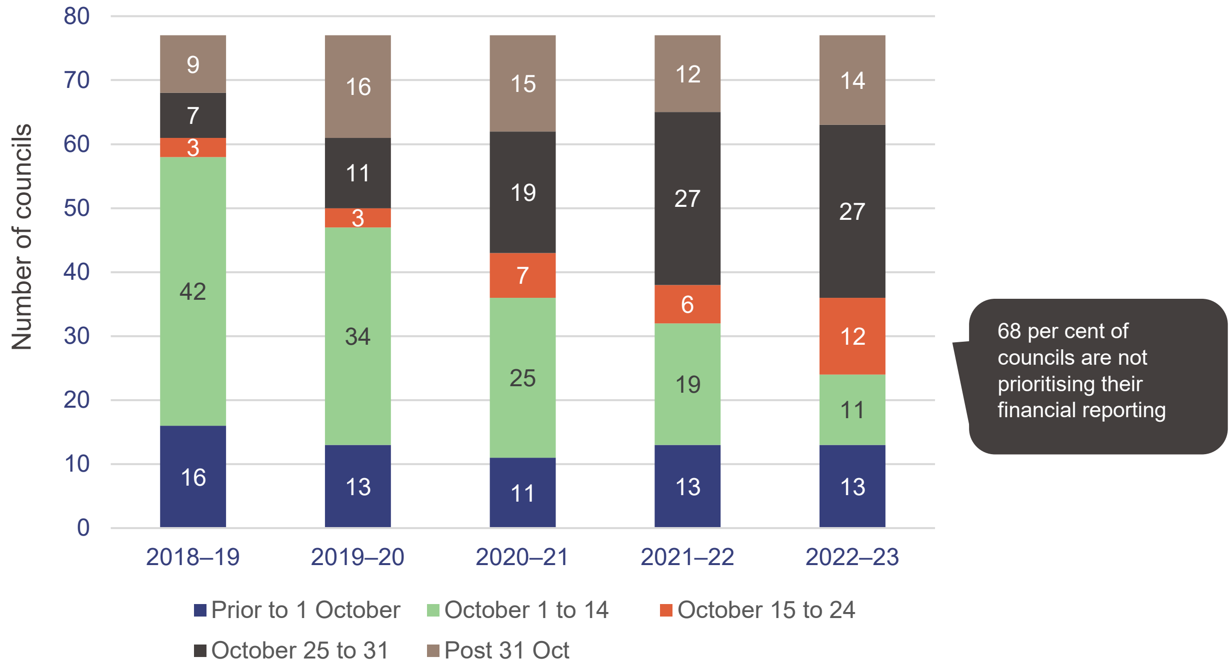
In Appendix I, we have included a list of other councils and council-related entities that have still not completed their financial statements from previous years.

More councils are not prioritising financial reporting

In recent years, we have reported that councils are becoming less timely in completing their financial statements, meaning the information they provide to the public is not current or relevant.

For the last 2 years, roughly half the sector only completed its financial statements in the last 2 weeks before the deadline or missed the 31 October statutory reporting deadline altogether, as shown in Figure 3B. This is a significant decrease from 2018–19 when fewer than 25 per cent of councils were this late completing their financial statements.

Figure 3B
Certification of council financial statements – 2018–19 to 2022–23



Source: Compiled by the Queensland Audit Office.

The 31 October deadline for statutory reporting should be considered as a minimum standard rather than the target date to have financial statements completed. Councils should be aiming to bring forward their financial reporting, so their financial statements are completed by early October at the latest. This allows some contingency time should unexpected delays be encountered.

When councils finalise their financial statements very close to the legislative deadline, it puts significant pressure on their finance teams, auditors, and audit committees. This often compromises the quality of the financial information, and increases the risk of errors.

It reduces the time available for councils and audit committees to review financial information and also requires us to complete our audits in very short time frames. In combination, this significantly reduces the time for vital quality control activities and impacts the ability for councils to appropriately consult on key issues.

Timely financial reporting is not just important for financial statements. Without it, management and councillors do not have reliable financial information to help prepare the next year's budget, and may be making financial decisions based on inaccurate or out-of-date information.

The delayed financial reporting timelines also extend to when councils seek ministerial extensions. As stated earlier, the Minister for Local Government (the minister) may grant an extension to the legislative time frame for certification of a council's financial statements, where extraordinary circumstances exist.

Of the 14 councils that applied for an extension to have their 2022–23 financial statements certified:

- 2 applied after the 31 October statutory deadline
- 10 councils applied for extension in October, of which 7 did not apply until the last week of October
- 5 applied for more than one extension this year
- 6 of the 14 councils also applied for an extension last year.

Nine councils have applied for an extension in 2 of the last 3 years. Four of these 9 councils have applied for an extension in each of the last 3 years:

- Etheridge Shire Council
- Gympie Regional Council
- Mornington Shire Council
- Palm Island Aboriginal Shire Council.

In *Local government 2022* (Report 15: 2022–23), we recommended the department provide a clear definition of 'extraordinary circumstances'. Our view remains that when councils – and many times the same councils – seek extensions from the minister year after year, it cannot be deemed 'extraordinary circumstances'.

Factors such as natural disasters and the lack of a skilled workforce contribute to untimely completion of financial statements across the sector each year.

However, the main reason councils do not complete their financial statements in a timely manner is that they have poor processes for financial reporting.

The sector has not improved its processes for financial reporting

In 2020–21, councils self-assessed their financial statement preparation processes using our financial statement maturity model – available on our website at www.qao.qld.gov.au/reports-resources/better-practice.

When we compared these self-assessments to each council's ability to achieve early financial reporting (by 15 October), we concluded that 22 councils had overstated their maturity levels.

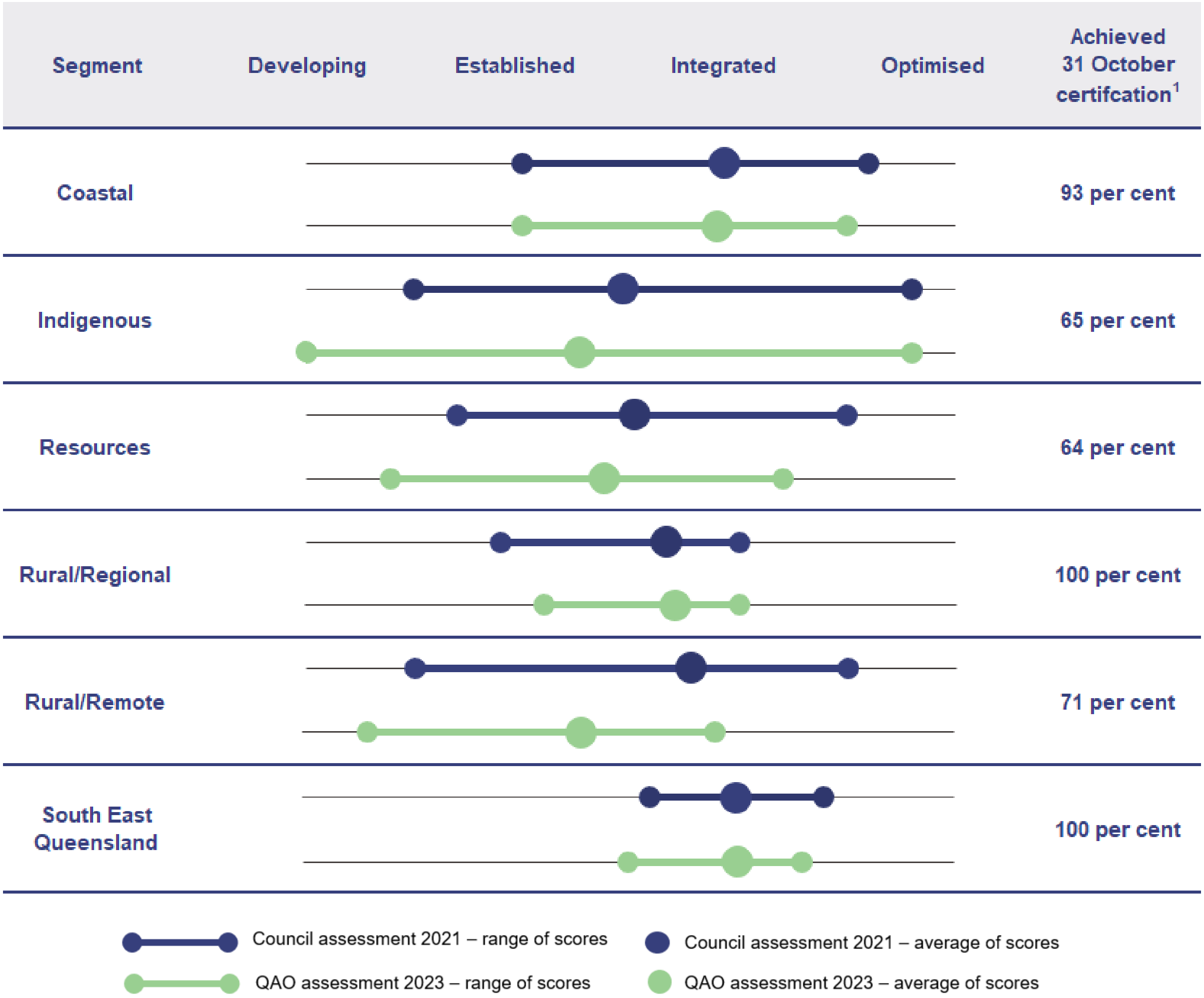
Because of this, in *Local government 2021* (Report 15: 2021–22), we recommended all councils reassess their maturity levels in line with their recent financial reporting experience. Only 63 per cent of the sector implemented our recommendation.

This year, we assessed the financial statement maturity levels of each council ourselves (see Appendix J for details).

Each council's desired level of maturity will differ – recognising what might be required for a council in a large city may not necessarily work for a smaller council in a regional town. However, because councils have had stable business models without restructures for more than 10 years, they should be able to at least reach an 'established' maturity level.

In Figure 3C, we show the maturity levels for the sector at a segment level (as defined by the Local Government Association of Queensland – refer to Appendix B). It shows the results of councils' self-assessments from 2021 compared to the audit assessments we performed this year.

Figure 3C
Comparison in financial reporting maturity at councils by council segment – self assessment versus QAO's assessment



Note: This graph shows the minimum and maximum score for each component of the model, and the average of all scores. Individual scores for each council vary.

[1] Percentage of councils within each segment that had their 2022–23 financial statements certified by 31 October 2023.

Source: *Compiled by the Queensland Audit Office, based on information collected from council self-assessments (2020–21) and QAO assessments (2022–23), using our financial statement preparation maturity model self-assessment tool.*

DEFINITION

We use 4 levels of maturity, which we define as:

1. developing – an entity does not have key components for effective financial reporting, or they are limited
2. established – an entity shows basic competency for financial reporting
3. integrated – an entity's financial reporting practices are fundamentally sound, however some elements could be improved
4. optimised – an entity is a leader of best practice for financial reporting.

Overall, we found no significant change in the maturity of financial reporting practices at 45 councils (60 per cent) compared to their 2020–21 self-assessment.

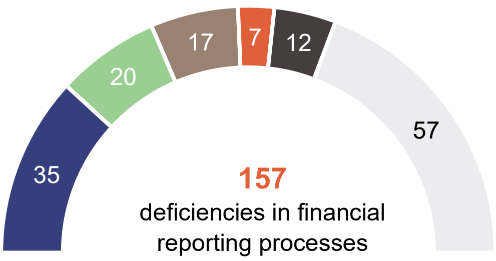
However, we noted that our assessment of the maturity of many Indigenous, Resources, and Rural/Remote councils is lower than the self-assessments these councils undertook in 2020–21. This confirms our view that some councils had overstated the maturity of their financial reporting. Councils in these segments also generally have a higher number of deficiencies in their internal controls, and are not timely in their financial reporting.

Both the department and the councils need to take further action to address our recommendations from prior years. These would help councils improve their financial reporting processes. While individual councils should consider their own desired maturity levels, there is room for improvement across the sector as well.

In this next section of this chapter, we discuss the areas in which councils can improve their financial reporting processes.

Improving monthly financial reporting processes will streamline year-end financial statement preparation

Section snapshot 3.1



We found the following deficiencies at councils:

- Not properly checking the accuracy of financial information.
- Not having strong controls for changes to sensitive data (such as supplier and employee information).
- Manual adjustments to financial information are not independently reviewed or monitored.
- Month-end processes are not effectively reviewed for quality.
- Not recognising revenue and expenses as they are earned or incurred.
- There are issues with other financial reporting processes, such as not having enough division of tasks, or having poor controls for inventory.

By the 31 October statutory reporting deadline (refer to Appendix C), we had reported 70 new deficiencies to councils, in addition to the 87 deficiencies that were unresolved from previous years.

49 councils have at least one **deficiency** in their month-end processes (2021–22: 55 councils).

23 councils have one or more **significant deficiencies** in their month-end processes.

Roughly **a third** of councils do not account for **key accruals on a monthly basis**.

Councils complete processes at the end of each month, and year, to make sure financial amounts are correct for their financial reporting. Examples of strong month-end and year-end processes include:

- checking key financial amounts against supporting documents in a timely manner
- keeping general ledgers up to date
- having staff (independent of those who prepared the month-end financial reports) implementing quality reviews over the reports
- making sure the financial information provided to councillors is complete, by using accrual accounting processes (recognising revenue and expenses as they are earned or incurred, regardless of when cash has been received or paid).

When councils self-assessed the maturity of their financial reporting in 2020–21, they identified that their month-end processes had significant room for improvement. This included 46 councils that did not adopt accrual accounting in their month-end reports. Last year, we gave councils guidance about accrual accounting and how this should be reported in monthly financial reports.

Despite this, we have found roughly a third of councils are still not adopting accrual accounting for their month-end reporting. This means that the monthly financial reports they provide to their elected members and executive staff are not complete and accurate, which could cause councils to make incorrect financial decisions.

Councils whose monthly financial reporting processes are strong, and align with their year-end financial statement processes, find it easier and quicker to complete their year-end reporting processes because:

- errors and issues are generally identified and addressed before the end of the year
- staff are experienced in the tasks required, as these have become part of their routine work each month
- other business areas that the financial reporting teams need information from are familiar with the financial reporting process and time frames.

It is important for councils to regularly evaluate the effectiveness of their internal controls

As well as having strong monthly reporting processes, councils need good internal controls to make sure information used in the financial statements is reliable. It is important they validate that these internal controls have been effective throughout the year.

In the state sector, each financial year – and before management certify the financial statements – chief financial officers (CFOs) at departments need to certify that the department's financial internal controls are operating effectively. Currently, there is no requirement for heads of finance at councils to provide any assurance to their chief executive officer (CEO) or mayor before they certify their council's annual financial statements.

Implementing a similar process at councils would improve their financial governance and strengthen their understanding of how effective their internal controls are. This would also provide confidence to the CEO and mayor that the amounts reported in the financial statements are complete and accurate.

Recommendations for the department

Introduce an internal controls assurance framework for councils

4. Amend the Local Government Regulation 2012 to require the head of finance to confirm whether the financial controls used to prepare the annual financial statements are effective each year.

   The confirmation should be provided to the mayor and chief executive officer each year before they sign the financial statements and should include:

   - a summary of the council's internal control framework – the people, systems, and processes that council uses to prepare reliable financial reports – and whether these controls were effective for the period the financial statements relate to
   - any significant areas of concern and their potential impact, and what action council has taken to address them
   - the status of issues reported in previous years
   - changes and improvements to internal controls during the year.

5. Develop a template that councils can use to annually validate the effectiveness of their internal controls.

   This will help councils and heads of finance identify their key financial internal controls and determine whether these controls have operated effectively throughout the year. The department may benefit from Queensland Treasury's help, and using practices that are already in place in the state sector.

Preparing financial reports requires a wide range of skills

Councils are complex businesses. Preparing their financial statements requires qualified staff with skills that extend beyond knowledge of accounting – including project management, financial management, corporate governance, internal controls, and technology. These skills are obtained through practical experience and through professional qualifications.

As at 30 June 2023, we found more than a third of councils did not have a professionally qualified head of finance. This means they were not accredited by a professional accounting body such as Certified Practicing Accountants or Chartered Accountants Australia and New Zealand.

These councils combined account for 42 per cent of the sector's unresolved significant deficiencies. This suggests that these councils have weaker internal controls and governance. These councils are also slower to prepare their financial statements – they made up only 25 per cent of the councils who were able to complete their financial statements early (by 14 October) this year.

Some councils spend significant amounts each year on consultants and contractors to fill this skills gap. Although this helps complete their financial reporting each year, it generally does not build capability within their finance teams and does not improve their control environment.

In 2009, the Queensland Government recognised the importance that professional qualifications had on good governance, maintaining effective internal controls, and dealing with complex financial reporting. Because of this, it introduced a requirement that all CFOs of government departments be a member of a professional accounting body.

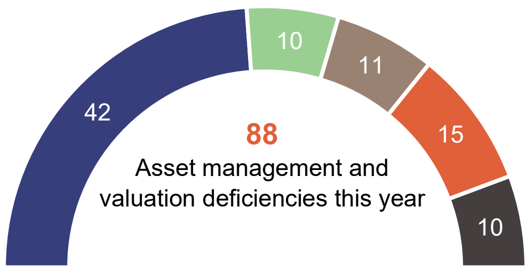
Where the incumbent CFO did not hold the requisite qualifications, the legislation allowed a transitional period of 10 years for them to undertake the study necessary to meet the minimum requirements.

Implementing a similar requirement in the local government sector would not be simple as councils – especially those outside South East Queensland – find it challenging to attract and retain qualified staff as it is.

But improving financial capability within the sector continues to be critically important for better financial management, enhancing controls to reduce the risk of fraud or error, and more timely financial reporting. Over the years, we have made several recommendations to the department to help lift the financial capability within councils and the need for this uplift continues. A full list of these recommendations and their status is included in Appendix E.

Better asset management and valuation practices will improve asset accounting

Section snapshot 3.2



We found the following deficiencies at councils:

- Incorrect accounting for fixed assets (such as roads), including additions, disposals, and project costs.
- Not maintaining accurate asset registers.
- Deficiencies in councils' revaluation processes (such as lack of quality review).
- Having deficiencies in their asset management plans (such as being outdated).
- Having other deficiencies in asset management practices.

By the 31 October statutory reporting deadline (refer to Appendix C), we had found 26 new deficiencies, in addition to the 61 deficiencies that remain unresolved from previous years.

50 councils have at least one deficiency in their **asset management and valuation practices** (2021–22: 54 councils).

13 councils reported a prior period error for fixed assets in their financial statements (2021–22: 17 councils).

19 councils have one or more **significant deficiencies** in their asset management and valuation practices. **15 councils** have one or more deficiencies that have not been resolved for over a year.

9 councils have either out-of-date or incomplete asset management plans (2021–22: 8 councils).

In this section, we have identified concerns about the sector's asset management, asset accounting, and asset valuation processes. These have continued to contribute to untimely financial reporting.

Councils managing their assets better will reduce the number of prior period errors

By the time we compiled this report, 13 councils (2021–22: 17 councils) had recorded prior period errors in their financial statements relating to fixed assets. The number of these prior period errors will increase further as the 14 councils who missed the statutory deadline finalise their financial statements. These errors often contribute to untimely financial reporting.

A prior period error refers to when an entity identifies that there was a significant error in its certified financial statements for the previous year.

Most of the prior period errors we identified related to 'found' assets, where councils identified assets they owned that had not previously been reported in their financial statements. The primary reason this happens year after year is because some councils do not reconcile the asset data in their asset system to their finance system – meaning they do not have good asset accounting processes.

Councils should regularly inspect their assets and make sure the information in their financial systems and geographical information systems (which are used to capture, store, and manage detailed components of assets, including their geographical location) agree with each other.

In *Asset management in local government* (Report 2: 2023–24), we highlighted that:

- only 10 per cent of councils met the minimum requirements of the internationally recognised standard for asset management
- councils have gaps in the way they govern and report on asset management and in how they make sure their asset information is up to date.

That report included 5 recommendations for all councils to help them improve their asset management processes. Councils that have not yet considered our recommendations and developed strategies to address them, should do so.

The sector needs to improve its valuation practices and how it accounts for assets

We have also identified issues in how councils report on assets, including:

- managing valuation processes – when determining fair values (the amounts for which the assets could be sold in a market-based transaction). This includes councils not engaging valuers early enough, providing poor instructions to the valuer, and not adequately reviewing the valuers' work
- the integrity of fixed assets records – such as maintaining accurate details about assets in their asset register, and physically checking the register is correct and complete.

These issues reduce the quality and timeliness of the financial statements councils produce – often leading to councils not meeting their statutory reporting deadline.

Queensland Treasury's website (www.treasury.qld.gov.au) contains 'Non-Current Asset Policies Tools', which include a comprehensive checklist for revaluations. While these policies do not apply to councils, we encourage council management to consider completing this checklist to strengthen their revaluation processes and make sure they properly evaluate their revaluation process and disclosures.

Councils still need to take further action on 3 of our outstanding prior year recommendations relating to asset management and valuation practices. Appendix E provides a full list of prior year recommendations and their status as at 30 June 2023.

4. Internal controls at councils

We assess whether the systems and processes (internal controls) used by entities to prepare financial statements are reliable. In this chapter, we report on the effectiveness of councils' internal controls and provide areas of focus for them to improve.

We report any deficiencies in the design or operation of those internal controls to management for their action. The deficiencies are rated as either significant deficiencies (those of higher risk that require immediate action by management) or deficiencies (those of lower risk that can be corrected over time).

Chapter snapshot

In this chapter, we only discuss the deficiencies we reported to councils by the 31 October financial deadline. Refer to Appendix C for more information.

Councils have not addressed their older issues

34 **new significant deficiencies** raised (so far) with councils during the year (42 in 2021–22)

121 **unresolved significant deficiencies at the end of the year** councils should prioritise addressing these vulnerabilities (114 in 2021–22)

27 **significant deficiencies resolved by councils** (55 in 2021–22)

751 **deficiencies** where councils need to improve their internal controls (662 in 2021–22) and 505 of these were unresolved as at 30 June 2023

44 councils have at least one **unresolved significant deficiency** (42 councils in 2021–22)

33 councils have at least one **significant deficiency** that has been unresolved for **more than one year** (35 councils in 2021–22)

3 **new recommendation to councils**

- Implement processes to ensure policies and procedures are regularly reviewed and kept up to date.
- Provide an onboarding program for all elected councillors and mayors following the March 2024 elections.
- Annually review the registration status of employees undertaking engineering services.

10 **prior year recommendations to councils that need further action**

3 **prior year recommendations to the department that need further action**

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

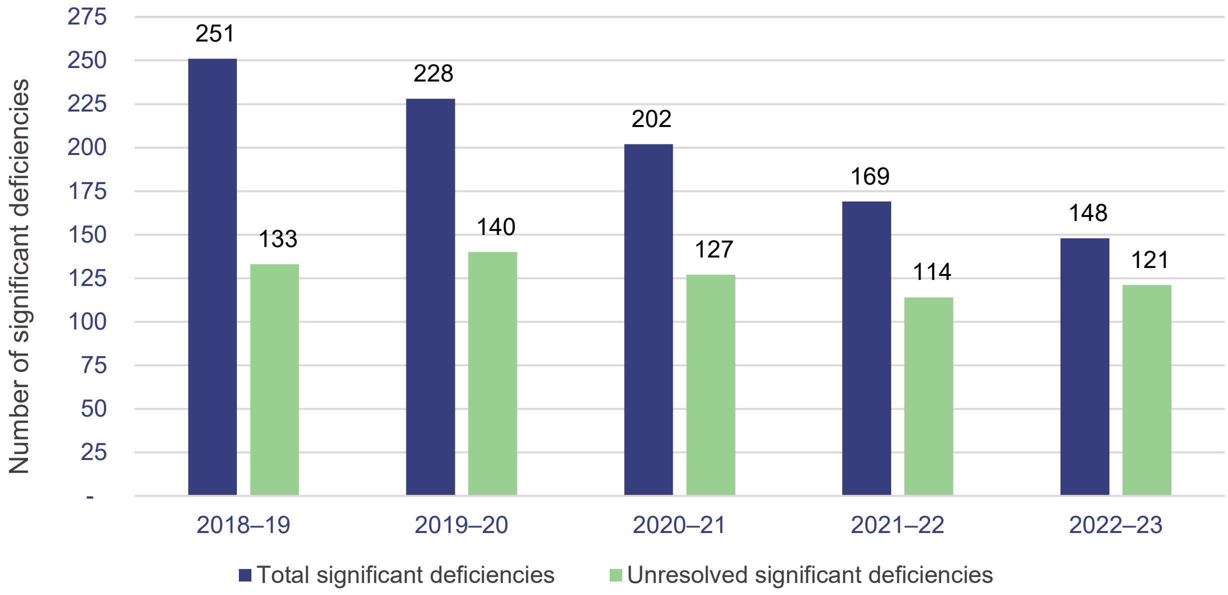
Councils are not addressing older issues

So far this year, we have identified 34 new significant deficiencies across 24 councils (2022: 42 new significant deficiencies). However, we found that the number of unresolved significant deficiencies as at 30 June 2023 had increased to 121 (2022: 114), as shown in Figure 4A.

Although we found fewer new significant deficiencies than last year, this is because we have only included deficiencies reported to councils by the 31 October 2023 statutory deadline. This is so communities can receive our report before the local government elections in March 2024.

The 14 councils that did not complete their financial statements by the statutory deadline have 55 significant deficiencies at this stage. As we finalise the audits of their financial statements, we are likely to raise more significant deficiencies. These will be included in our report next year: Local government 2024.

Figure 4A
Total significant deficiencies and unresolved significant deficiencies as at 30 June



Source: Queensland Audit Office.

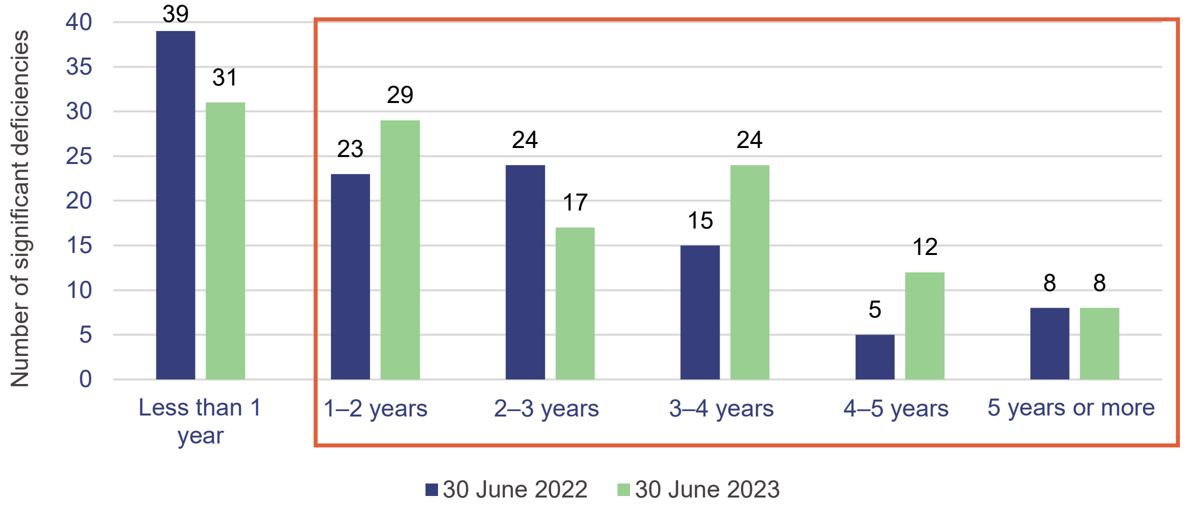
When significant deficiencies remain unresolved for a long time, they may result in one or more of the following risks:

- potential financial loss, including fraud
- increased exposure to cyber-related risks, including loss of personal information or disruptions to services
- reputational damage to council
- significant non-compliance with laws and regulations, and internal policies
- material errors in the financial statements.

Because of this, significant deficiencies should be resolved immediately.

However, the number of significant deficiencies that remain unresolved for over 12 months at 30 June 2023 has increased, as shown in Figure 4B.

Figure 4B
Ageing of unresolved significant deficiencies



Source: Queensland Audit Office.

As at 30 June 2023, 33 councils (2022: 35 councils) had one or more significant deficiencies that remained unresolved more than 12 months after we identified it. In Appendix J, for each council, we list the total number of significant deficiencies we found this year, and those that have remained unresolved for more than 12 months.

We continue to find the majority of the unresolved significant deficiencies that have been outstanding for a long time are in councils that do not have strong governance structures, such as internal audit and an audit committee.

The sector's governance is improving, but further action is required

Section snapshot 4.1

Audit committees

At 30 June 2023, 16 councils (2022: 16 councils) did not have an audit committee function.

- **13 councils** did not have an audit committee function at all.
- **3 councils** had an audit committee that **did not meet** in 2022–23.
- **13 per cent** of council audit committees **did not have** an **independent chair**.

These councils combined had **46** unresolved significant deficiencies (**38 per cent** of all unresolved significant deficiencies).

Internal audit

At 30 June 2023, 9 councils (2022: 14 councils) did not have an effective internal audit function.

- **5 councils** did not have an internal audit function.
- **4 councils** did not undertake any internal audit activity.

These councils combined had **37** unresolved significant deficiencies (**31 per cent** of all unresolved significant deficiencies).

7 councils do not have both an **audit committee** and an **internal audit function**. These councils have **36 unresolved significant deficiencies** as at 30 June 2023.

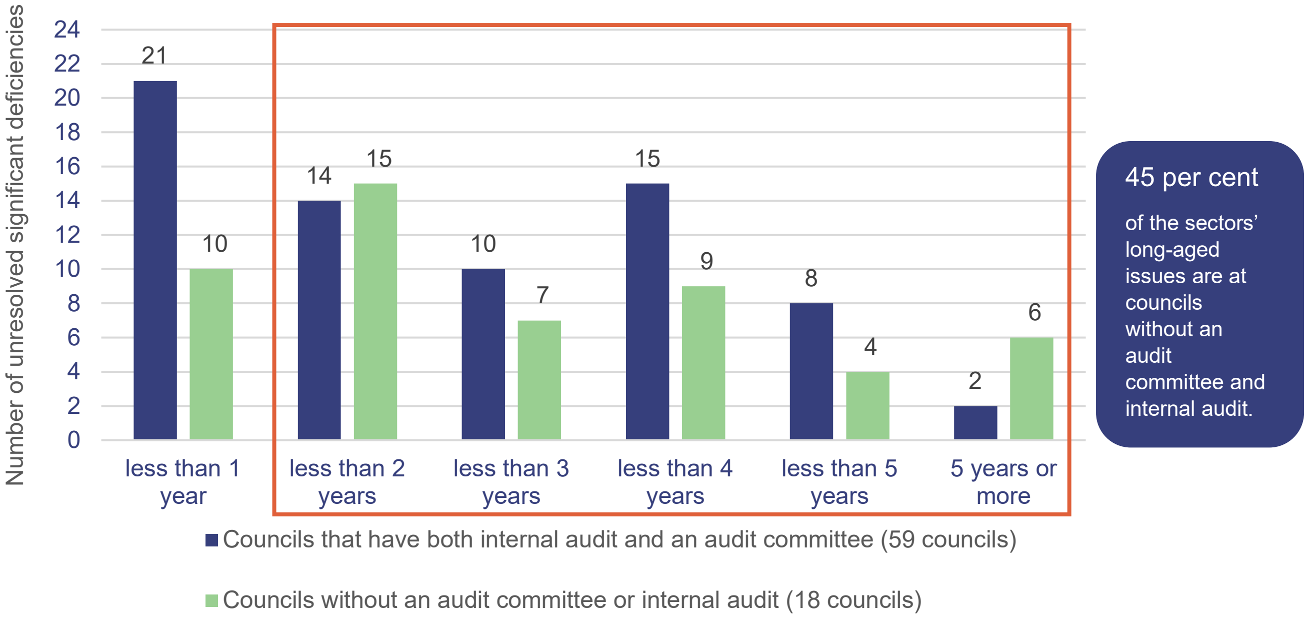
Audit committees and internal audit are crucial components of effective governance within an organisation. These functions work together to make sure internal control deficiencies are resolved in a timely manner.

An audit committee provides council confidence in its financial reporting, internal controls, risk management, legislative compliance, and audit functions. An effective internal audit function provides an unbiased view of an organisation's operations and continuous review of the effectiveness of governance, risk management, and control processes.

To be effective, both functions need to be independent of management. Audit committees with an independent chair and members create a better foundation for robust and incisive discussions and questions.

Figure 4C shows the ageing of issues for councils, grouped by whether the councils have both an audit committee and internal audit function.

Figure 4C
Ageing of unresolved significant deficiencies of councils – grouped by whether councils have both an audit committee and internal audit



Source: Queensland Audit Office.

Having both an audit committee and an internal audit function significantly helps a council reduce the number of long-outstanding significant deficiencies. They oversee proactive and timely resolution of outstanding issues.

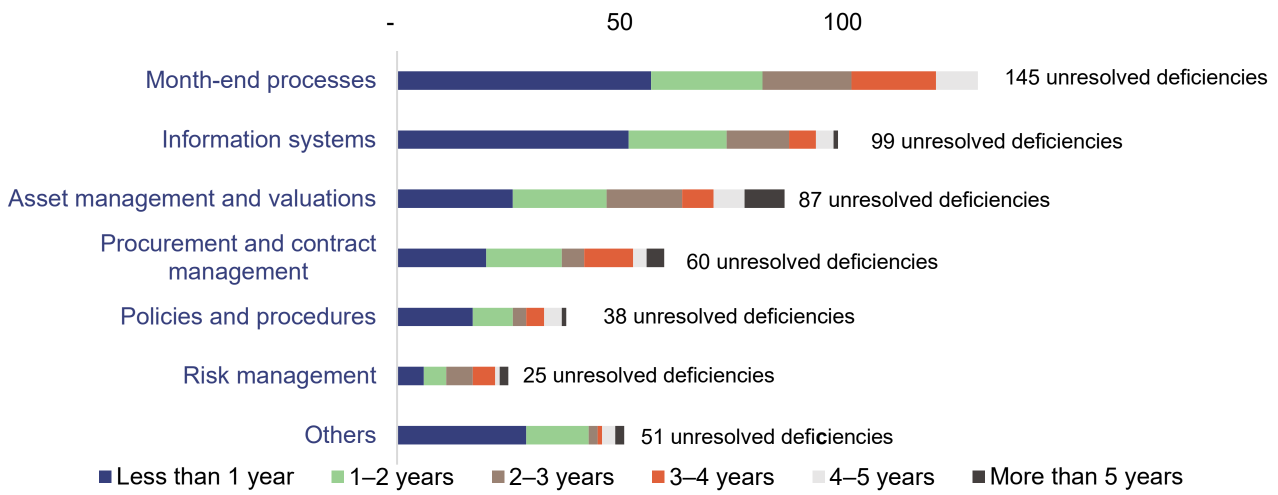
The department and the councils have not taken enough action to address our 5 outstanding prior year recommendations regarding council audit committees and internal audit. Appendix E provides a full list of these prior year recommendations and their status as at 30 June 2023.

As identified in our *Forward work plan 2023–26,* we have commenced an audit to provide insights into the effectiveness of local government audit committees.

Common internal control weaknesses

Each year, we find common issues at councils. Figure 4D summarises these weaknesses by the number of years they remain unresolved as at 30 June 2023.

Figure 4D
Common internal control weaknesses unresolved as at 30 June 2023

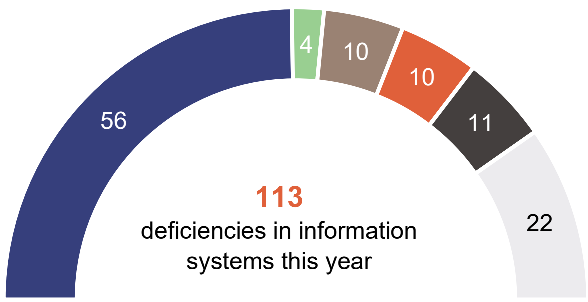


Source: Queensland Audit Office.

We discussed month-end processes and asset management in Chapter 3. In this chapter, we cover the other common internal control weaknesses at councils.

Information systems in the sector are more vulnerable than before

Section snapshot 4.2



We found the following deficiencies at councils:

- Systems users having more access than they need.
- Not having strong controls for passwords to access systems.
- Not having good processes to manage changes to systems.
- Not having complete, up-to-date policies and procedures.
- Having gaps in their cyber and system security controls.
- Having other deficiencies in information systems.

By the 31 October statutory reporting deadline (refer to Appendix C), we had reported 66 new deficiencies, in addition to the 47 deficiencies that remain unresolved from previous years.

45 councils have at least one deficiency in their **information technology systems** (2021–22: 48 councils).

14 councils have one or more **significant deficiencies** in their information systems. **14 councils** have one or more **significant deficiencies** that have not been resolved for over a year.

24 per cent of councils we surveyed have not provided **cyber security training** to their staff.

Councils rely heavily on their information systems for their day-to-day operations, yet we continue to identify widespread weaknesses in these systems. So far this year, we identified 66 new weaknesses in how councils secure their information systems.

As cyber security threats increase in number and sophistication, councils must promptly address any weaknesses in their information systems. Councils need to make sure their staff remain vigilant to detect and mitigate threats, prevent human errors, and adapt to evolving cyber risks.

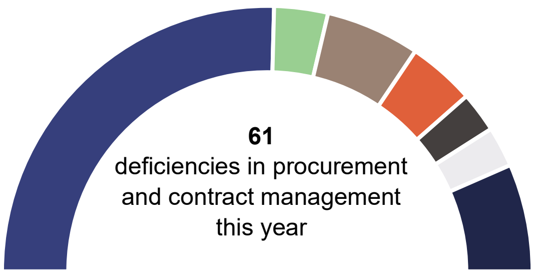
There are 17 councils that have still not developed and implemented mandatory cyber security training for their staff as we recommended 3 years ago. These councils, combined, have 30 deficiencies in their information systems. They may be at a higher risk of cyber attacks than their peers that have provided cyber security training to their staff.

Appendix E provides a full list of our prior year recommendations and their status as at 30 June 2023.

We are finalising a performance audit on insights and lessons learnt on entities' preparedness to respond to and recover from cyber attacks. We encourage councils and the department to review this report when it is tabled and implement any recommendations relevant to them.

Procurement and contract management processes have deteriorated

Section snapshot 4.3



We found the following deficiencies at councils:

- Approval of expenses was not always by someone with the right delegation.
- Not being able to demonstrate value for money.
- Having poor controls for managing contracts.
- Contract registers not being complete to help manage long-term procurement.
- Not having a transparent procurement process (such as untimely publishing of contracts on council's website).
- Having outdated or non-existence policies and procedures.
- Having other deficiencies in procurement practices.

By the 31 October statutory reporting deadline (refer to Appendix C), we found 21 new deficiencies, in addition to the 40 deficiencies that remain unresolved from previous years.

26 councils have at least one deficiency in their **procurement and contract management practices** (2021–22: 34 councils).

8 councils have one or more **significant deficiencies** in their procurement and contract management practices.

7 councils have one or more significant deficiencies that have not been resolved for over a year.

Councils spend a substantial amount each year procuring goods and services for their day-to-day operations as well as for maintaining/building community assets (such as roads and buildings). These goods and services are obtained using public money (rates and charges from the community, and grant funding from the state and federal governments).

It is important that councils have appropriate controls in place to ensure they achieve value for money. This includes:

- ensuring purchases are approved by people with the correct financial delegations
- keeping policies up to date and complying with legislation
- having procurement processes that are transparent and give their community confidence no bias exists in the process
- having contract registers that are complete and accurate, to help councils manage long-term procurement.

Our 3 outstanding previous year recommendations in Appendix E remain crucial to make sure councils achieve value for money in their procurement and contract management.

Councils have not prioritised maintaining good policies and procedures

Section snapshot 4.4

34 councils[1] have at least one deficiency in their **policies and procedures** (2021–22: 25 councils) including:

- not having key policies and processes in place and documented
- having outdated policies, policies that are not adopted, or having multiple versions of policies
- having inconsistencies between different policies and procedures.

[1] Deficiencies reported to councils up to 31 October (refer to Appendix C for more information).

Councils often need to prioritise urgent matters affecting their communities and the services they deliver. Because of this, maintaining their policies and procedures can sometimes become a lower priority.

In recent years, we have noticed an increase in the number of councils that either do not have good policies and procedures, or do not keep them up to date. These councils are exposed to a potential risk of inconsistent practices and poor decision-making, which may result in financial loss, non-compliance with legislation, and inequitable outcomes.

Policies and procedures provide guidance, ensure consistency, assign accountability, and provide clarity to council staff and elected members on how the council operates. Up-to-date policies and procedures help councils make sure they comply with relevant legislation, including the *Local Government Act 2009* and local government regulation.

The past 3 local government elections have seen an average turnover in elected members of roughly 52 per cent. There are also changes to executive council staff after these elections. Councils that do not have strong policies and procedures may experience issues as they transition newly elected members and staff into their organisation.

Councils should strengthen their policies and procedures by making sure they are:

- reflective of their values, processes, and day-to-day activities
- easy to follow, in plain language, and align with other policies and procedures, and legislation
- developed and regularly kept up-to-date through a simple and transparent process
- prepared, reviewed, and updated by the staff who are responsible for overseeing them.

Councils should also make sure they have a strong induction process to help any new mayors and councillors understand their responsibilities and the operations of the council and bring them together to work more effectively.

Recommendations for councils

Implement processes to ensure policies and procedures are regularly reviewed and kept up to date

1. Councils should regularly review and update their policies and procedures to ensure they are up to date and meet the needs of their operations.

   Each council should develop a work plan to ensure all policies are reviewed at least every 3 years or when there are significant changes to the council's structure.

Provide an onboarding program for all elected councillors and mayors following the March 2024 elections
2. Councils should educate all elected councillors and mayors on matters that are specific to their council, including unique challenges of their council and its strategic objectives and operations. This will ensure there is a smooth transition to the new council. It should also reinforce their understanding of their responsibilities and encourage mayors and councillors to work effectively together and with council staff.

Councils are not keeping on top of the risks they face

Section snapshot 4.5

We found the following deficiencies at councils:

- Not having tested plans in place for disaster recovery or business disruptions.
- Not maintaining a complete, up-to-date register of all of council's risks.
- Policies and procedures to manage risks are not up to date.
- Not assessing council's risk of fraud.
- Having other issues with the way council manages risk.

By the 31 October statutory reporting deadline (refer to Appendix C), we found 7 new deficiencies, in addition to the 19 deficiencies that remain unresolved from previous years.

16 councils have at least one deficiency in their **risk management practices** (2021–22: 25 councils).

3 councils have one or more **significant deficiencies** in their risk management – and they have been outstanding for more than 3 years.

27 councils have not reviewed the registration status of their **engineering staff** within the last 12 months.

Strong and robust risk management practices are more important than ever. Increasing global uncertainty, climate change, threats to supply chains, limited resources, cyber crime, the need for data protection, and privacy concerns are just some of the challenges facing entities. Councils must proactively manage their risks.

Sixteen councils have unresolved control deficiencies relating to risk management, and 8 of these have more than one deficiency in their risk management.

Councils can strengthen how they manage their risk by:

- identifying areas of greatest risk and potential harm
- developing a framework for managing risk and applying it consistently
- developing and implementing a methodology for identifying and assessing risk
- implementing a business continuity and disaster recovery plan and testing it periodically
- establishing an up-to-date risk register.

In *Education 2022* (Report 16: 2022–23), we made recommendations for how entities can improve their risk management processes. Councils may benefit from implementing the recommendations made in this report.

We also recently updated our model for assessing the maturity of risk management practices. The model is available on our website at www.qao.qld.gov.au/reports-resources/better-practice. It enables entities to identify the risk management maturity level they want to achieve, and to focus on key areas for development.

Checking that staff are qualified should be part of councils' risk management processes

In December 2022, the Crime and Corruption Commission (CCC) released a fact sheet about the requirements of the *Professional Engineers Act 2002,* stating that only a practising engineer can undertake professional engineering services without supervision.

The CCC has stated that council staff in breach of this part of the legislation may be committing corrupt conduct.

This year, we surveyed each council about the qualifications of its head of engineering (who is responsible for carrying out professional engineering services). Based on the responses from the councils, we found:

- 27 councils have not reviewed the registration status of their engineering staff within the last 12 months
- 14 councils have a head of engineering who does not hold a current registration with the Board of Professional Engineers. Of these, 4 councils have a population over 10,000 residents, meaning these councils have substantial community assets.

Verifying whether their staff who perform professional engineering services are practicing engineers is a sound risk management practice for councils.

Recommendation for councils Annually review the registration status of employees undertaking engineering services
3. Review the registration status of employees undertaking engineering services to make sure they are complying with the *Professional Engineers Act 2002*. Councils should do this on an annual basis.

5. Financial performance

In this chapter, we analyse the financial performance of councils, with emphasis on their financial sustainability. The latter is measured under the *Financial Management (Sustainability) Guideline 2012*, issued by the Department of Housing, Local Government, Planning and Public Works (the department).

Chapter snapshot

In this chapter, we only discuss results of councils available at the 31 October financial deadline. Refer to Appendix C for more information. In some cases, we have estimated numbers to provide a sector-side picture.

Untimely financial reporting by councils makes it difficult to accurately evaluate the sector's financial performance and position

$15 bil.
Revenue
▲ 9% from 2021–22

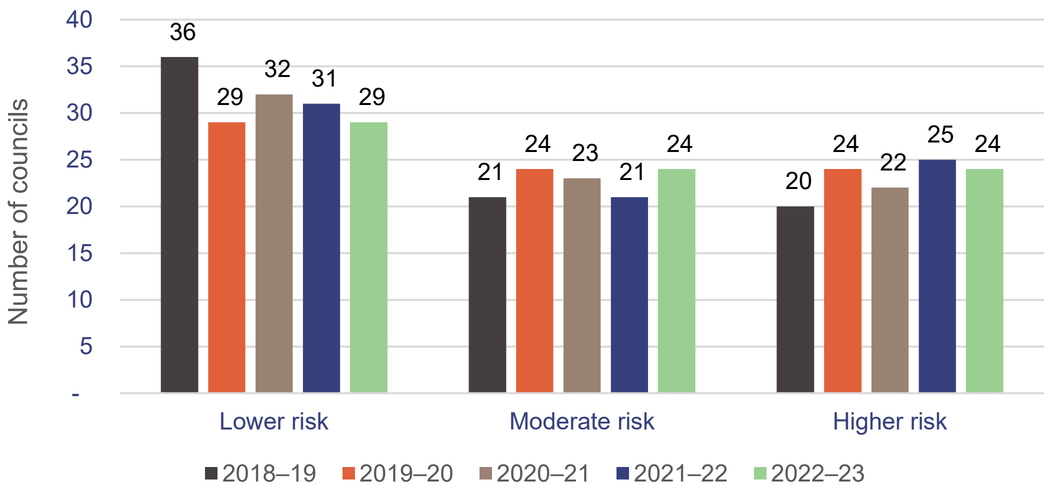
$13 bil.
Expenses
▲ 6% from 2021–22

$160 bil.
Assets
▲ 8% from 2021–22

$13 bil.
Liabilities
▲ 1% from 2021–22

Figure 5A shows the financial sustainability risk of the sector over the last 5 years. (Refer to Appendix K for definitions of lower, moderate, and higher financial sustainability risk).

Figure 5A
Change in financial sustainability risk – 2018–19 to 2022–23



Note: For 2022–23, we have assessed the sustainability risk of 14 councils using their last available certified financial statements, as they had not completed 2022–23 by the 31 October statutory deadline. Refer to Appendix C for more information. Of these 14 councils, 7 have been assessed as higher risk, and 7 assessed as moderate risk.

Source: Compiled by the Queensland Audit Office.

3 prior year recommendations to councils that need further action

2 new recommendations to the department

- Determine the minimum expected requirements for all qualitative measures of council sustainability and include this in the sustainability framework.
- Develop a way to measure the overall sustainability risk of individual councils.

1 prior year recommendation to the department needs further action

Appendix E provides the full detail of all prior year recommendations. The department has implemented one prior year recommendation.

New sustainability measures are being introduced

The department has introduced a new guideline – *Financial Management (Sustainability) Guideline (2023)* – that applies to the sector from the 2023–24 financial year.

The new guideline considers the challenges that councils face, especially in rural and remote areas, and introduces more measures for the financial sustainability of councils. The department has grouped councils into tiers based on their remoteness and population, and each of the 8 tiers has different benchmarks for each measure.

This segmentation by tiers is a significant improvement to the previous financial sustainability guideline (*Financial Management Sustainability Guideline (2013)*) that had all councils trying to achieve the same benchmarks.

In Appendix L, we have listed the councils in each tier, and each tier's benchmarks for the measures under the new framework. Figure 5B shows the 9 measures that councils will need to report on from 2023–24.

Figure 5B
New sustainability measures

Ratio	What it measures
Operating surplus ratio[1,2]	The extent to which a council's operating revenues (revenue earned from day-to-day business) cover its operational expenses (expenses incurred for day-to-day business).
Operating cash ratio[2]	A council's ability to cover its operational expenses and increase its cash from its core operations – excluding depreciation expense (cost of allocating the value of an asset over its life).
Unrestricted cash expense ratio[3]	How much money a council has available for its regular expenses and unexpected financial needs.
Asset sustainability ratio[2]	How timely a council is in replacing its old assets as they wear out.
Asset consumption ratio[2]	How much of a council's infrastructure assets have been used compared to what it would cost to build new assets with the same benefit to the community.
Leverage ratio[3]	How easily a council can repay its debts.
Council-controlled revenue[4]	How much of a council's revenue comes from sources it can influence – such as being able to increase rates – to make sure it can deal with unexpected financial requirements.

Ratio	What it measures
Population growth[4]	A key driver of a council's operating income, service needs, and infrastructure requirements in the future.
Asset renewal funding ratio[4]	The ability of a council to pay for its future asset renewal and replacement needs.

[1] Under the department's guidelines, for tiers 6 to 8, the operating surplus ratio is contextual only – meaning that although these councils need to report this ratio, they do not have a benchmark for this ratio to measure their performance against.

[2] Councils are required to report these ratios on a rolling 5-year average and for the relevant individual financial year.

[3] Councils are required to report these ratios only for the financial year they are preparing the financial statements for.

[4] The department has not assigned benchmarks for these measures, and they will not be audited.

Source: Compiled by the Queensland Audit Office, using the Department of Housing, Local Government, Planning and Public Works's Financial Management (Sustainability) Guideline (2023).

The department's framework for measuring financial sustainability risk can be improved

The department has also published a risk framework, which also applies from 1 July 2023.

The risk framework states that the department will gain insights into the financial sustainability of councils using the financial measures (in Figure 5B) and other, qualitative (non-financial) indicators (asset management, governance, compliance, and the broader operating environment).

However, the qualitative indicators are not prescribed in the risk framework or the sustainability guideline, nor are there clear benchmarks against which these qualitative indicators can be measured. The department has published these other qualitative indicators as a part of the 'Frequently Asked Questions' on its website.

If the expectations and criteria of these qualitative indicators are not clearly defined, councils will not understand what is required of them, and they will not be able to self-measure their performance and target areas for improvement.

Recommendation for the department

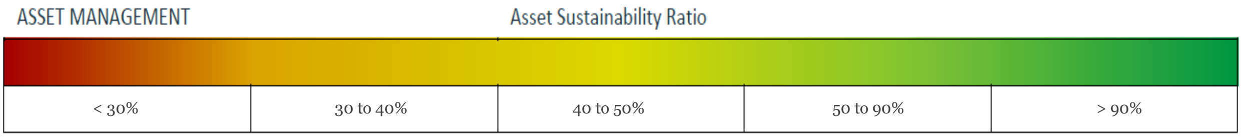
Determine the minimum expected requirements for all qualitative measures of council sustainability and include this in the sustainability framework

6. Amend the sustainability framework for Queensland councils to:
   - include the qualitative (non-financial) indicators the department will use to measure councils
   - define and publish the minimum expected requirements for these qualitative indicators.

   This will give councils a clear understanding of the qualitative elements they are being assessed against, and will help councils prioritise actions to improve them.

For each of the 6 audited ratios in the new framework, the department's risk framework includes a table for each tier and ratio. These are based on a colour range from red to green, as shown in Figure 5C.

Figure 5C
Example of the department's colour scales used to measure sustainability risk



Source: Department of Housing, Local Government, Planning and Public Works, Risk Framework – Financial Sustainability.

This presentation shows a council where it sits on the ‘colour scale’ for each ratio. It gives no insight into the council’s risk of being financially unsustainable. This is because ratios are not assessed in totality and no measure of risk is assigned.

Ratios are not assessed in totality

The department’s risk framework refers to interpreting ratios in totality and provides some examples. However, each of these examples only discusses how 2 ratios would interact – not how to measure all ratios in totality. One example provided is of a council with a negative operating surplus ratio (incurring operating deficits – when council’s expenses exceed its revenue) but a positive operating cash ratio, and this being less of a concern for smaller councils.

Although incurring operating deficits in the short term is acceptable, when a council consistently incurs operating deficits, it will experience financial stress.

In such instances, a council will have no other option than to use its cash reserves to support its operations or reduce the level of services it provides to the community. Alternatively, it will have to rely on more funding from the state government to support its operations.

If ratios are presented individually in a ‘colour scale’ graph with no ability to interpret the overall result, they may result in different assessments depending upon the financial aspect being considered. This could in turn mean the department and the council focus their efforts in areas of lesser importance.

No measure of risk is assigned

The risk framework states that it seeks to establish a sustainability reporting framework that encourages council leaders to understand the drivers of long-term sustainability. However, the framework does not assign a measure of risk to a council.

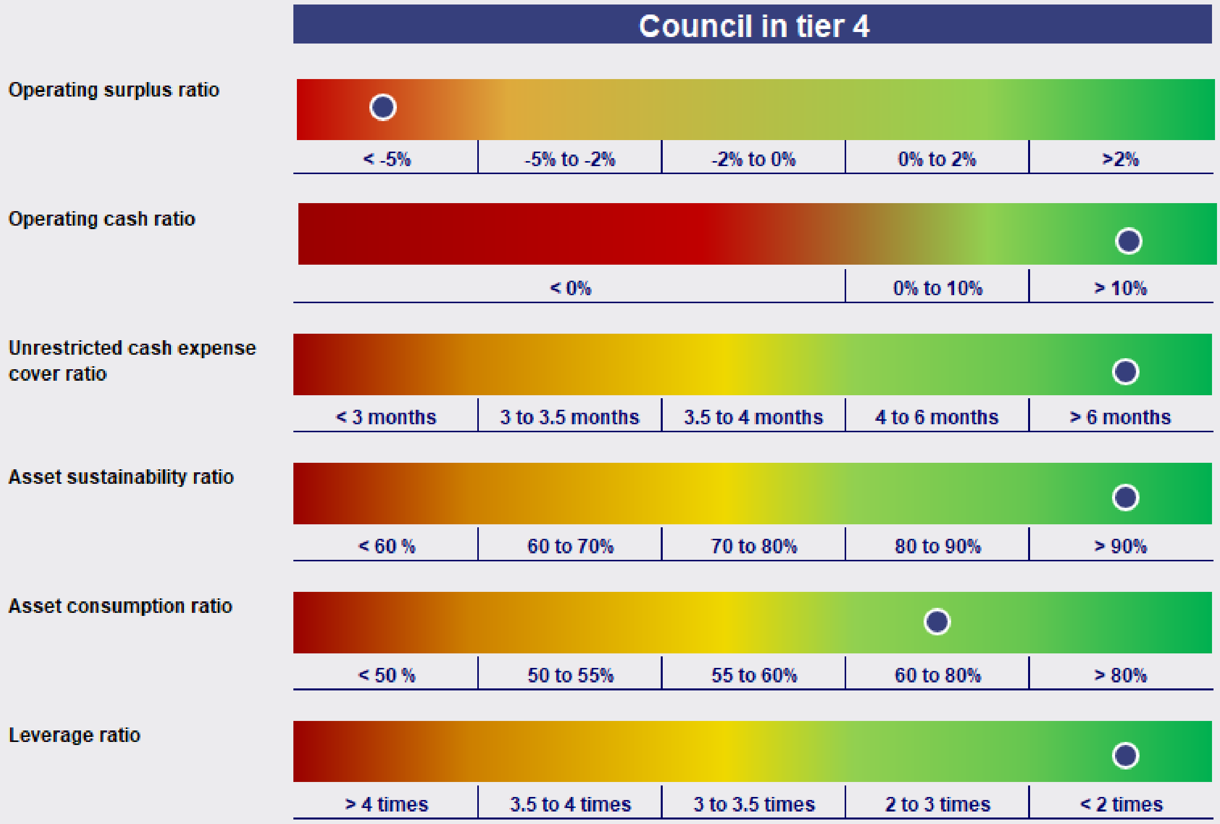
If a risk is not quantified, a council or the department will not be able to determine how critical the risk is and what action plans are required to mitigate this risk.

The case study in Figure 5D shows how difficult it is to interpret a council’s financial sustainability using the department’s risk framework. For this case study, we have used the 2022–23 results of a council in tier 4 to calculate the relevant ratios under the department’s risk framework.

Figure 5D
Case study 1 – Applying the department's risk framework

Measuring financial sustainability using the department's risk framework

This case study is based on a council in tier 4. These councils are considered large enough by the department to generate operating surpluses in the long term. In the graph below, we have presented the 6 audited ratios for this council at 30 June 2023 – as it would be presented in the department's 'colour scale' measurement model.



Note: For the purpose of the above presentation, we used the 5-year average for all ratios except the unrestricted cash expense cover ratio and the leverage ratio, which are as at 30 June 2023.

Based on the above, the council appears to be performing well across 5 of the 6 measures but has a poor operating surplus ratio. This means this council is not generating enough revenue to meet its day-to-day operations, and this has been the case over a long time.

However, the council has sufficient cash reserves (based on its unrestricted cash expense ratio) and seems to generate cash from its operations, excluding depreciation expense (based on its operating cash ratio).

If this council keeps incurring such large operating deficits – combined with lower government funding and potentially some bad financial decisions – it will quickly use its cash reserves and experience financial stress. At this time, council will not be able to support its operations and maintain its assets.

The framework does not clearly define how all ratios will be assessed in combination, to provide an overall view of the financial sustainability risk for a council. This makes it difficult to interpret the results based on the above graph.

It is not clear where this council's overall financial sustainability risk sits.

Source: Queensland Audit Office.

Because the department's risk framework does not provide an overall view of an individual council's sustainability, it can only evaluate individual measures for each council.

In Appendix L, we have:

- categorised councils by tier (as per the department's sustainability framework)
- shown for each tier, where councils would fall on the department's risk assessment table for each of the measures that will be audited.

This presentation in Appendix L replicates how these ratios will be disclosed on the department's risk framework. We have not derived our own risk assessment for these new ratios.

In Figure 5E, we summarise how many councils would have met the benchmark for each ratio, if the new ratios and risk framework were applied to councils' 2022–23 financial results. While the figure does provide an overview of the sector's performance, similar to the case study in Figure 5D, it is difficult to interpret how financially sustainable the sector is under the department's current framework.

This is because it provides a lot of separate measures but does not prioritise whether certain ratios are more important than others, nor does it combine the ratios into a single overall measure of sustainability for each council. It is hard to get a picture of whether, in each tier, the councils that did not meet each ratio are the same councils or different councils.

Figure 5E
Summary of number of councils that would meet their benchmarks for the new ratios[1]

Tier	Result	Operating surplus ratio	Operating cash ratio	Unrestricted cash expense ratio	Asset sustainability ratio	Asset consumption ratio	Leverage ratio[2]
Tier 1 (1 council)	**Met**	**1**	**1**	**1**	**1**	**1**	**1**
	Not met	**-**	**-**	**-**	**-**	**-**	**-**
Tier 2 (11 councils)	**Met**	**8**	**11**	**10**	**9**	**11**	**10**
	Not met	**3**	**-**	**1**	**2**	**-**	**1**
Tier 3 (7 councils)	**Met**	**5**	**7**	**7**	**5**	**7**	**6**
	Not met	**2**	**-**	**-**	**2**	**-**	**1**
Tier 4 (11 councils)	**Met**	**8**	**11**	**11**	**9**	**11**	**9**
	Not met	**3**	**-**	**-**	**2**	**-**	**-**
Tier 5 (9 councils)	**Met**	**5**	**9**	**9**	**7**	**8**	**5**
	Not met	**4**	**-**	**-**	**2**	**1**	**-**
Tier 6 (7 councils)	**Met**	**N/A[3]**	**7**	**5**	**4**	**7**	**7**
	Not met	**N/A[3]**	**-**	**2**	**3**	**-**	**-**
Tier 7 (15 councils)	**Met**	**N/A[3]**	**15**	**14**	**5**	**15**	**6**
	Not met	**N/A[3]**	**-**	**1**	**10**	**-**	**2**
Tier 8 (16 councils)	**Met**	**N/A[3]**	**13**	**8**	**4**	**10**	**2**
	Not met	**N/A[3]**	**3**	**8**	**12**	**6**	**1**
Total (77 councils)	**Met**	**27[4]**	**74**	**65**	**44**	**70**	**46**
	Not met	**12[4]**	**3**	**12**	**33**	**7**	**5**

Notes:
[1] Only includes the 6 ratios that have a measurable benchmark.
[2] Only applicable for councils that have borrowings.
[3] Councils in tiers 6 to 8 do not have a benchmark for measuring their operating surplus ratios.
[4] Total number of councils for operating surplus ratio is less than 77 as there is no benchmark for this ratio for tiers 6, 7, or 8.

In 2022–23, we have included the financial information of 14 councils using their last available certified financial statements as they had not completed 2022–23 by the 31 October statutory deadline.

Source: Compiled by the Queensland Audit Office, from councils' certified financial statements available 31 October 2023 – refer to Appendix C for further information.

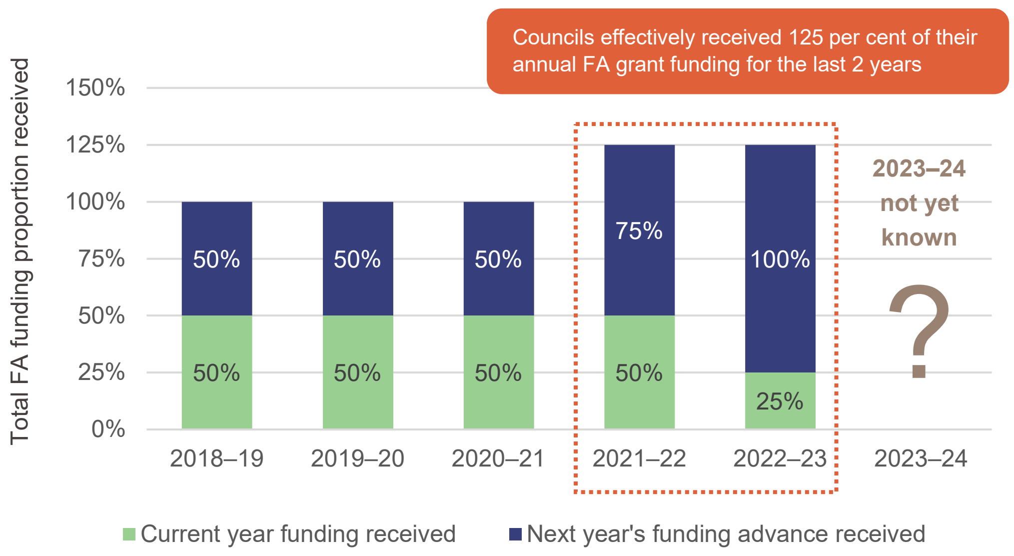
Recommendation for the department Develop a way to measure the overall sustainability risk of individual councils
7. Develop a methodology to determine the overall sustainability risk of councils. The methodology should assess the ratios in the department's sustainability framework in combination so an overall financial sustainability risk profile can be determined for each council. The methodology should also consider the impact on the overall financial sustainability if any of the benchmarks (identified for each ratio in the sustainability framework) are not met. This will help the department prioritise its resources for councils or groups of councils that need attention more urgently than others. It will also help councils understand what good looks like and how the department intends to use the ratios in total to assess the financial sustainability of councils.

Sector's operating results have improved, but only due to additional grant funding received in advance

In June each year, councils usually receive roughly half of the next year's federal government financial assistance grants (FA grants) in advance. These represent about 52 per cent of the total grants received by the sector. There is no certainty over how much advance funding will be made available each year, as it is entirely at the discretion of the Australian Government.

For the last 2 years, the Australian Government has increased the proportion of advance funding it has paid to councils in June, as shown in Figure 5F.

Figure 5F
Proportion of advance funding received by councils each year



Source: Compiled by the Queensland Audit Office.

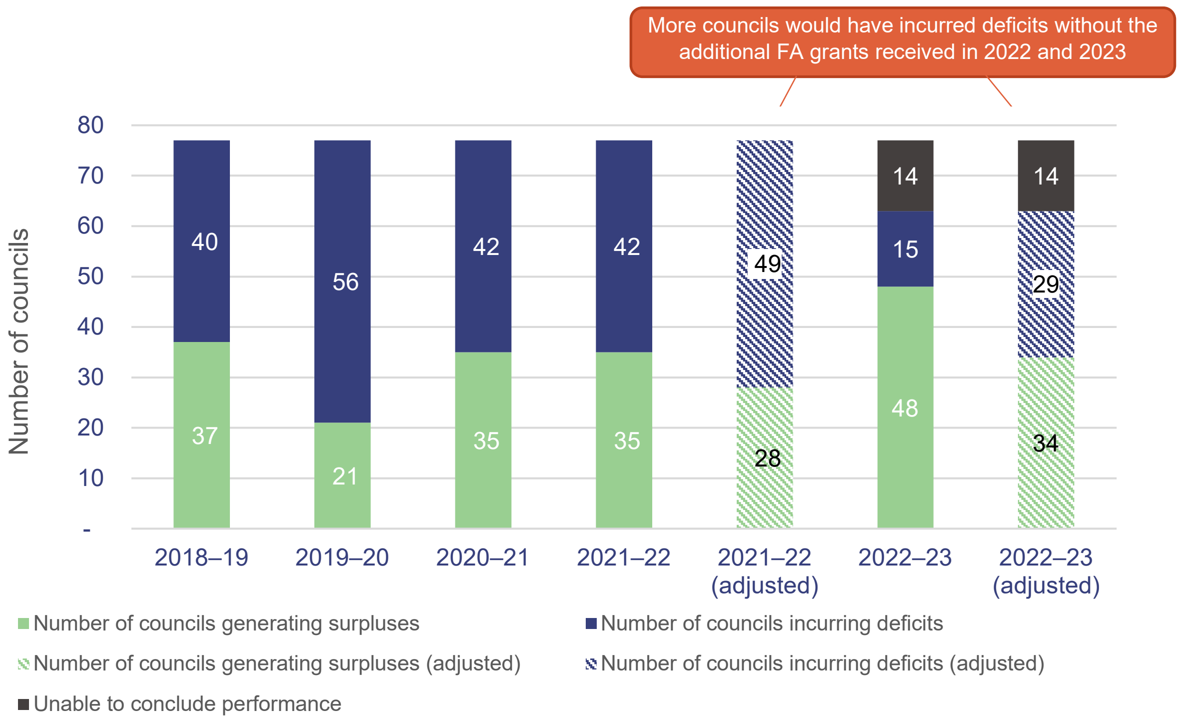
Due to the nature of these grants, they are reported as revenue when the cash is received by councils, meaning councils reported higher revenue in 2021–22 and 2022–23.

It is particularly concerning that, despite the sector receiving 100 per cent of its FA grants in advance, 20 per cent (15 councils) of the 63 councils that had completed their financial statements by 31 October 2023 incurred operating deficits.

While we are unable to conclude on the performance of the 14 councils that had not completed their financial statements as at 31 October 2023, all have incurred operating deficits in at least 3 of the last 5 financial years.

In Figure 5G, we show the sectors' operating performance for the last 5 years, including what the results would have been if councils had not received larger advance funding for FA grants in 2021–22 and 2022–23. It highlights that if the increased levels of advance funding not been provided in the last 2 years, 49 councils last year, and 29 based on completed audits this year, would have made operating losses.

Figure 5G
Number of councils generating operating surpluses and incurring deficits, and the effect of advance FA grants received each year – 2018–19 to 2022–23



Note: adjusted for 2021–22 and 2022–23 indicates operational results if councils received the same proportion of their FA grants as in 2020–21 and before.

Source: Compiled by the Queensland Audit Office from councils' certified financial statements available on 31 October 2023.

It is not uncommon for entities to incur operating deficits, especially in an environment when costs are rising significantly. This year, employee costs and materials and services costs increased by 6 per cent (2022: 5 per cent increase) and 9 per cent (2022: 10 per cent increase) respectively.

However, when entities incur operating deficits consistently, it may be due to poor budget monitoring or a combination of overspending and undercharging their community for services provided.

In *Managing local government rates and charges* (Report 17: 2017–18), we recommended councils implement an appropriate costing model to understand the full cost of delivering utilities, and that they use this information to annually review pricing for their rates. We also published our service prioritisation tool, which is available on our website at: www.qao.qld.gov.au/reports-resources/better-practice.

If councils do not set their rates and other charges at an appropriate level, they risk eroding their current cash reserves over time. If this occurs, they will find themselves under financial stress and may need to reduce the levels of service or completely stop providing some services to their communities.

The severity of the impact of such financial pressures will be felt more in the rural and remote areas, where councils provide ancillary services such as health care and child care, which are provided by private organisations in more populous areas.

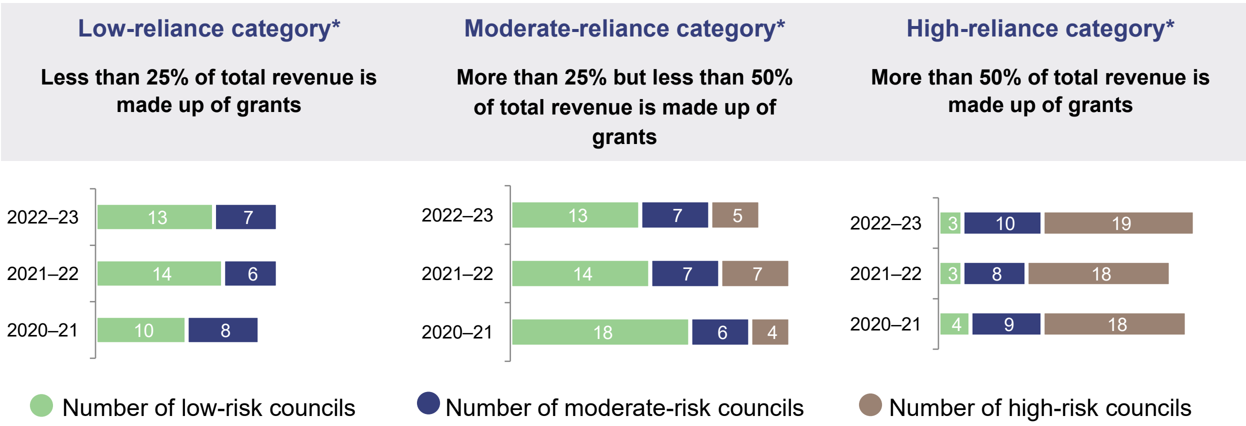
The Australian Government's decision to provide 100 per cent of the 2023–24 FA grant to councils in advance was not made until very late in June 2023. More councils may make losses in 2023–24 if the Australian Government advances less than 100 per cent of their 2024–25 FA grant funding in June 2024. Councils must get better at managing their budgets so they can deal with this uncertainty.

Reliance on grants affects the sector's financial sustainability

Councils receive grant funding for their operational needs (conducting day-to-day business) and capital purposes (building and maintaining community assets). Without these grants, most councils would not be able to provide basic services to their communities or maintain their assets.

When a council increases its reliance on grants, its ability to be financially sustainable decreases. In Figure 5H, we have shown the financial sustainability of councils based on their reliance on grants (including both operating and capital grants). Our assessment is based on the audited ratios that applied to councils for 2022–23 and our own relative risk assessment as described in Appendix K.

Figure 5H
Councils' financial sustainability risk categorised by reliance on grant revenue – 2020–21 to 2022–23



Note: For 2022–23, we have included the financial information of 14 councils using their last available certified financial statements, as they had not completed 2022–23 by the 31 October statutory deadline. * Grant reliance is calculated using a 5-year average of grant funding as a percentage of total revenue.

Source: Compiled by the Queensland Audit Office from councils' certified financial statements available 31 October 2023 (refer to Appendix C for more information).

Dependency on grants is unavoidable for the sector. This is because some councils, due to their remoteness and low population, cannot generate enough income to cover their costs. In *Local government 2020* (Report 17: 2020–21) we recommended the department provide greater certainty over long-term funding. Since then, the department has released more multi-year grant programs such as the Works for Queensland Program and the South East Queensland Community Stimulus Program. Both are 3-year programs.

However, it is also important that councils make sure they have good budgeting and monitoring processes in place to be as financially sustainable as possible.

Councils that are heavily reliant on grants and yet remain financially sustainable have:

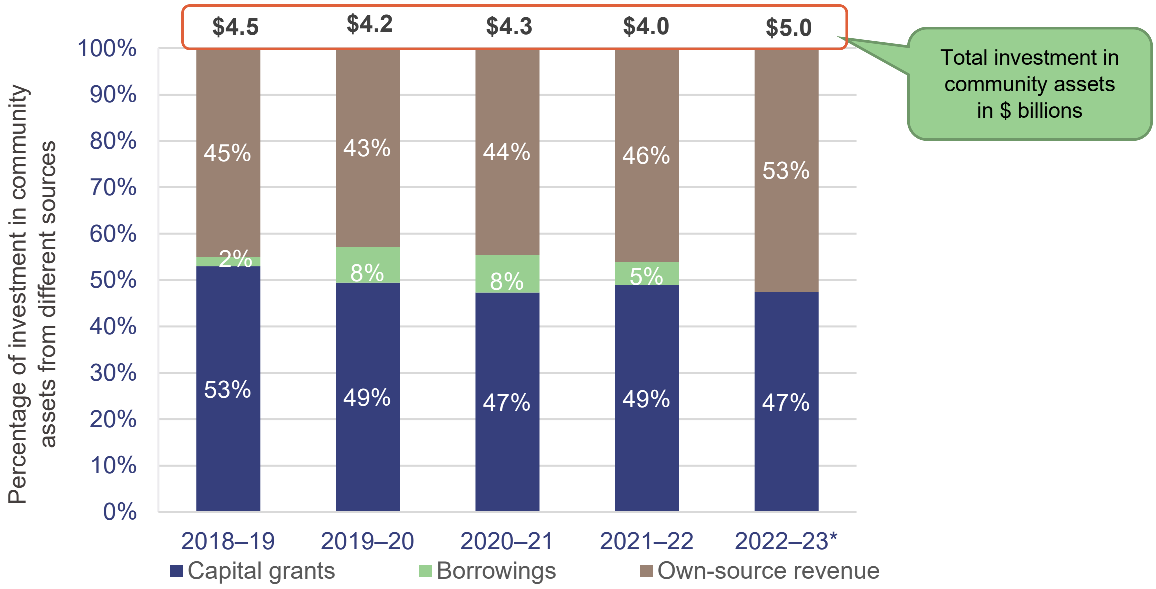
- prioritised financial governance by recruiting and retaining appropriately skilled staff
- established good financial and budgeting processes
- strong leadership and governance
- a strong internal control environment and oversight function, including effective audit committees and internal audit functions.

Investment in community assets is at its highest level in 5 years

Each year, councils invest significant amounts to maintain existing and build new assets for their community. This year, the sector invested $5 billion (2021–22: $4 billion). This is the highest expenditure the sector has seen in the last 5 financial years and has been funded from either grants or their operations, without the need to borrow.

Figure 5I shows the total investment in community assets together with how these were funded (capital grants, borrowings, and own-source revenue).

Figure 5I
Funding for investment in community assets



Note: In 2022–23, we have included the financial information of 14 councils using their last available certified financial statements, as they had not completed 2022–23 by the 31 October statutory deadline.

Source: Compiled by the Queensland Audit Office from councils' certified financial statements available 31 October 2023 (refer to Appendix C for more information).

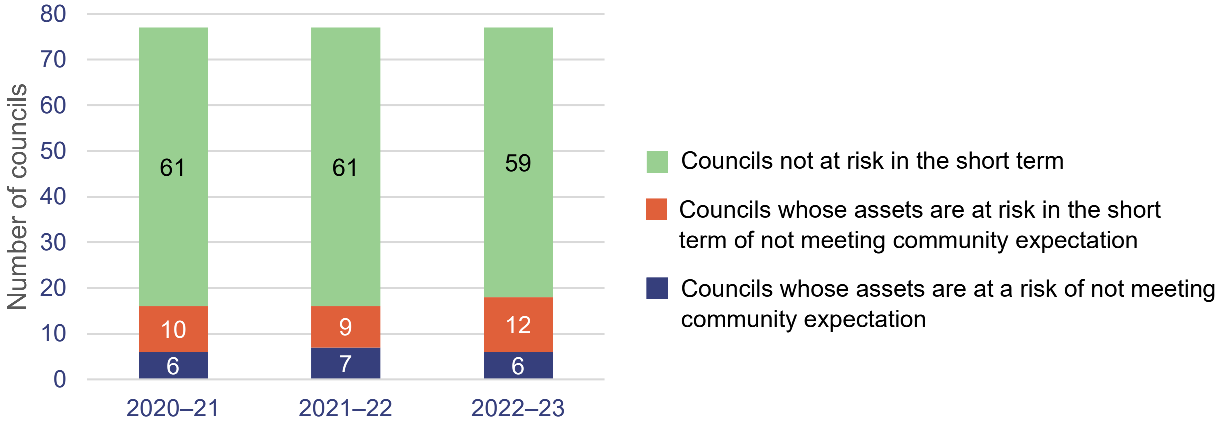
The larger spend this year is mostly due to the increased cost of procuring materials and labour. It is not because council assets are being maintained to the level that meets their communities' needs.

This is explained below through our analysis of the asset consumption ratio – which measures the current value of a council's assets relative to what it would cost to build new assets with the same benefit to the community.

The new sustainability framework recommends that for assets to meet community needs, the asset consumption ratio should be greater than 60 per cent. In Figure 5J, we show:

- councils whose assets are at a risk of not meeting community expectation – meaning those that do not currently meet the 60 per cent benchmark
- councils whose assets are at risk in the short term of not meeting community expectation – meaning those councils that have an asset consumption ratio of 61 per cent to 65 per cent
- councils whose assets are not at risk in the short term of not meeting community expectation – meaning those that have an asset consumption ratio greater than 65 per cent.

Figure 5J
Analysis of councils' asset consumption ratio, by levels of risk, at 30 June – 2021 to 2023



Note: In 2022–23, we have included the financial information of 14 councils using their last available certified financial statements as they had not completed 2022–23 by their 31 October statutory deadline.

Source: Compiled by the Queensland Audit Office.

In *Local government 2021* (Report 15: 2021–22), we recommended councils review their asset consumption ratio in preparation for the new sustainability framework. To date, 28 councils have either not yet done so, or where their asset consumption ratio is under 60 per cent, have not taken actions to improve it.

We continue to recommend that councils monitor their asset consumption ratio and ensure their assets are maintained at an appropriate level to meet the future needs of their communities.

Appendices

A. Full responses from entities

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

This appendix contains the detailed responses we received.

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

Comments received from Director-General, Department of Housing, Local Government, Planning and Public Works

Queensland Government

Minister for Housing, Local Government and Planning
Minister for Public Works

Our Ref: MC23/7675

1 William Street
Brisbane Queensland
GPO Box 806 Brisbane
Queensland 4001 Australia
T: +617 3719 7170
E: housing@ministerial.qld.gov.au

23 January 2024

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

Dear Mr Worrall

Thank you for your email on 13 December 2023 regarding the draft report to Parliament titled *Local Government 2023* (the draft report), and for providing the Department of Housing, Local Government, Planning and Public Works (the department) with an opportunity to review the report.

I was pleased to note your comments that the financial statement of councils and council-related entities for the 2022-23 financial year are reliable and complied with relevant laws and standards. It is, however, disappointing that the number of councils which had their financials signed by the legislative deadline has decreased from the previous financial year.

Many councils face challenging conditions with skilled staff recruitment and retention, as well as natural disasters, which contribute to the efficient running of council operations and the timeliness of producing financial statements remains a challenge for the sector. I note that there has also been an increase in the number of new audit deficiencies resulting from these audits which councils need to continue to work with the Queensland Audit Office (QAO) to resolve these issues.

I note that you made three recommendations for councils this year:

Recommendation 1: Implementing processes to ensure policies and procedures are regularly reviewed and kept up to date.

Recommendation 2: Providing an onboarding program for all elected councillors and mayors following the March 2024 elections.

Recommendation 3: Annually reviewing the registration status of employees undertaking engineering services.

The department supports all three recommendations for councils, and I intend to write to each council to emphasise the importance of implementing these recommendations. I will also remind councils of the importance of taking action to address outstanding deficiencies, as identified by the QAO.

Regarding the four recommendations for the department, I provide the following comments:

Recommendation 4: Amend the Local Government Regulation 2012 (the Regulation) to require confirmation of effective internal controls from councils' head of finance.

The department supports this recommendation and will commence work on the amendment to the Regulation, in consultation with local government sector stakeholders.

2

Recommendation 5: Develop a template that councils can use to annually to validate effectiveness of internal controls.

The department supports this recommendation and will proceed with developing a template for councils.

Recommendation 6: Determine the minimum expected requirements for all qualitative measures of council sustainability and include this in the sustainability framework.

The department supports this recommendation in principle and can further outline the qualitative elements the department will use to monitor and assess councils in the non-statutory Local Government Sustainability Framework document. This information has been provided to councils and is available on the department's website.

Recommendation 7: Develop a way to measure the overall sustainability risk of individual councils.

The department supports this recommendation in principle. The department, in collaboration with the QAO, councils and other stakeholders has developed a risk framework to assess the financial sustainability of councils as part of the Sustainability Framework.

The department supports making information about the financial sustainability risk framework assessable and meaningful for councils' having regard for the differing operational circumstances and the sustainability drivers that impact councils' financial performance.

The department will monitor, adjust, and enhance the financial sustainability risk framework over time, having regard to feedback from councils and other stakeholders, to ensure that it remains suitable for the local government sector. This will include opportunities to consider how the overall financial sustainability risk for councils is viewed and presented.

I also note the five department recommendations from previous reports identified as not implemented. The department is working towards progressing these outstanding actions and will continue to engage with the QAO through regular updates.

If you require any further information, please contact me or who will be pleased to assist.

Yours sincerely

Mark Cridland
Director-General

Comments received from Chief Executive Officer, Bundaberg Regional Council

BUNDABERG
REGIONAL COUNCIL

PO Box 3130
Bundaberg QLD 4670
E ceo@bundaberg.qld.gov.au
ABN 72 427 835 198

22 December 2023

[redacted]

Queensland Audit Office
53 Albert Street
BRISBANE QLD 4000

Email: qao@qao.qld.gov.au

[redacted]

Thank you for providing the draft report and the opportunity to respond to it.

I commend the QAO in providing stakeholders with additional information on Queensland Local Governments financial governance, including benchmarking, however I do have a concern with the proposed reporting of the number of significant deficiencies in figure J1.

In the case of Bundaberg Regional Council, the significant deficiency listed was raised in the Interim Management Letter in May 2023. This was classified as a deficiency, but later reclassified due to the perceived reputational risk as a significant deficiency in October 2023 by the QAO in the finalisation of the Final Management Letter. Council had already addressed the deficiency before the issuing of the Final Management Letter and subsequent reclassification, with Council's internal auditors determining that the risks were low, and those risks had subsequently been actioned by Management.

It's unclear whether in Bundaberg's case the deficiency identified has been resolved or not. It may be beneficial to add additional information to the report to record deficiencies that have been closed out in the Final Management Letter, as well as recording those outstanding from the prior year. Further it may be prudent to direct readers to the Council's meeting agendas where the Council will have tabled the Management Letters to provide context and understanding around these issues.

I also appreciate the timeliness of this year's report and look forward to future reports being presented in a similar expeditious timeframe.

Yours sincerely

Steve Johnston
Chief Executive Officer

1300 883 699 bundaberg.qld.gov.au

QAO response: The issue was resolved by council by the time the financial statements were finalised in October 2023. However, this issue was identified and reported in our interim letter issued on 10 May 2023 – meaning the issue had existed for almost 11 months of the financial year 2023. As such, we have reported this in our report to parliament.

Comments received from Chief Executive Officer, North Burnett Regional Council

NORTH BURNETT
REGIONAL COUNCIL

Mailing Address: PO Box 390, Gayndah Qld 4625
Street Address: 34-36 Capper Street, Gayndah Qld 4625
Telephone: 1300 696 272
Facsimile: (07) 4161 1425
Email: admin@northburnett.qld.gov.au
Web: northburnett.qld.gov.au
ABN: 23 439 388 197

17 January 2024

Our reference:

Mr Brendan Worrall
Auditor-General
Queensland Audit Office
53 Albert Street
BRISBANE QLD 4000

via email: qao@qao.qld.gov.au

Dear Brendan,

RE: DRAFT LOCAL GOVERNMENT REPORT 2023

North Burnett Regional Council (NBRC) would like to thank the Queensland Audit Office (QAO) for the draft Local Government 2023 report which was received on 21 December 2023.

Council has no comments, however, notes the matters raised for local governments and the support that will be provided by the Department Housing, Local Government, Planning and Public Works as a result of the recommendations identified by the QAO in the report.

If you have any further enquiries regarding this matter, please contact me directly on
or via email

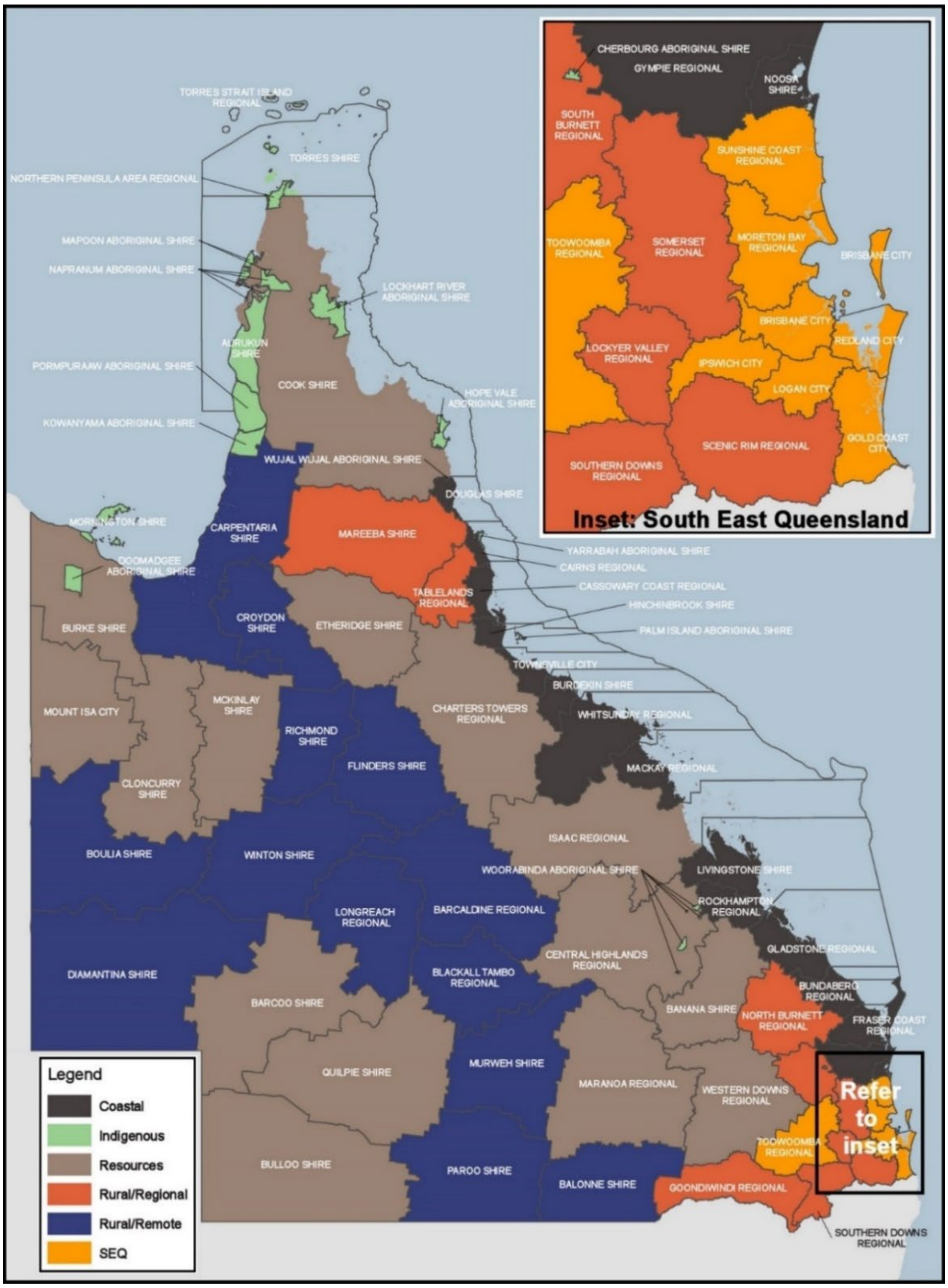
Yours faithfully

Margot Stork
Chief Executive Officer

Address all correspondence to the Chief Executive Officer

B. Local governments by segment

Figure B1
Geographical location – by local government segments



Note: SEQ – South East Queensland.

Source: Spatial Services, Department of Housing, Local Government, Planning and Public Works.

C. How we prepared this report

About this report

This report summarises the audit results of Queensland's local government entities, also known as councils. They are the first line of connection to our communities, providing Queenslanders with a wide range of services such as roads, water and waste, libraries, and parks. To help deliver their corporate objectives and services to the public, some create council-related entities, for example in the pastoral, property services, and arts sectors.

Through our financial audit program, we form opinions about the reliability of local government financial statements. These audits are conducted in accordance with the *Auditor-General Auditing Standards* and comply with the relevant standards issued by the Australian Auditing and Assurance Standards Board.

The information and insights highlighted in this report to parliament are the result of our annual financial audits of these entities.

Entities included in this report

- 77 local governments
- 95 council-related entities

Refer to Appendix F for the names of the above entities.

We used information available at the 31 October statutory reporting date to prepare our report

Timely financial reporting is always important, but leading into the next local government elections in March 2024 it is even more critical. Communities rely on publicly available information about their council to evaluate its performance. Acknowledging this, we have made sure our analysis of the sector is available earlier this year.

To do so, we compiled this report using information available at the 31 October 2023 statutory reporting date. In the following paragraphs, we summarise how we applied this cut-off date for available information.

Final information from councils' financial statements

We have collated the financial information throughout this report using either councils':

- 2022–23 certified financial reports where they were certified by 31 October 2023
- most recent certified financial reports where the 2022–23 reports were not certified by 31 October 2023.

Ratios measuring the financial sustainability of councils

We explain the ratios used to measure the financial sustainability of councils in Appendix K (current measures) and Appendix L (future measures).

We have used the same approach for financial sustainability ratios as financial information. If councils' 2022–23 certified financial reports were available at 31 October 2023, we have used this information.

Otherwise, we have used their most recent certified financial report available at that date.

Where ratios are calculated using a 5-year average, we have used the average of the most recent 5 years that are certified at 31 October 2023.

Internal controls deficiencies

This report and Appendix J only include internal control deficiencies reported to councils by 31 October 2023.

Often, councils that do not have their financial statements certified by 31 October 2023 have higher numbers of internal control deficiencies, so we expect the total number of deficiencies to increase when these councils have their financial statements certified.

We will report any further internal control deficiencies communicated to councils from 1 November 2023 that relate to our 2022–23 audits in next year's local government report.

Our approach

This report has been prepared in accordance with the *Auditor-General Auditing Standards.*

We present our graphs with comparative data going back to either 2019 or 2021 (2 to 4 comparative years) to show the relevant movements where appropriate.

D. Legislative context

Frameworks

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

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

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

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

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

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

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

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

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

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

Accountability requirements

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

Queensland local government financial statements

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

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

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

There are 3 types of modified opinions:

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

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

E. Status of recommendations from prior reports

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

Figure E1
Status of recommendations for councils from *Local government 2022* (Report 15: 2022–23)

Assess the maturity of their procurement and contract management processes using our procure-to-pay maturity model, and implement identified opportunities to strengthen their practices		**Further action needs to be taken***
REC 1	We recommend all councils assess the maturity of their procurement and contract management processes using our procure-to-pay maturity model. Councils should identify their desired level of maturity and compare this to the maturity level that best represents their current practices. This assessment will help them identify and implement practical improvement opportunities for their procurement and contract management processes.	This recommendation was made in June 2023, and councils have not yet had time to implement it. We will assess whether councils have actioned this recommendation as part of our 2023–24 audits and will report on the outcome in next year's local government report.

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

Source: Queensland Audit Office.

Figure E2
Status of recommendations for councils from *Local government 2021* (Report 15: 2021–22)

Reassess the maturity levels of their financial statement preparation processes in line with recent experience to identify improvement opportunities that will help facilitate early certification of financial statements		**Further action needs to be taken***
REC 1	All councils should reassess their initial self-assessment against the financial statement maturity model and compare this to their recent financial statement preparation experiences. Councils should also reflect on their processes from the 2018–19 financial year that enabled them to have their financial statements certified earlier. Together, these reflections will identify improvement opportunities to assist elected members and their executives to improve the timeliness of certification of financial statements.	Only 46 councils (63 per cent of those who responded to our survey) have reassessed the maturity level of their financial statement preparation processes since we made this recommendation. This year, we assessed councils' financial statement maturity based on our experience of their actual practices. We found some councils, and particularly those in the Indigenous, Resources and Rural/Remote segments, had overstated the level of their financial reporting maturity when they performed their own assessment in 2020–21. We encourage councils to revisit their assessments and consider the areas they should improve their practices.
Assess their audit committees against the actions in our 2020–21 audit committee report		**Further action needs to be taken***
REC 2	Those councils who have an audit committee function, and those that are looking to establish one, should consider implementing the actions we have identified in our report *Effectiveness of audit committees in state government entities* (Report 2: 2020–21). This would improve the effectiveness of their audit committees, with flow-on benefits to council governance and performance.	Of the 64 councils with an audit committee who responded to our survey, only 30 have fully implemented our recommendations, and 4 councils have not implemented our recommendations at all. Further action needs to be taken by councils to implement all our recommendations from this report to strengthen the effectiveness of local government audit committees. We have commenced a performance audit that will provide insights into how councils can improve the effectiveness of their audit committees.
Improve their overall control environment		**Further action needs to be taken***
REC 3	All councils should use the annual internal control assessment tool available on our website to perform an initial self-assessment of the strengths and improvement opportunities of their internal controls. Where their results do not meet their performance expectations, they should develop and implement a plan to strengthen their internal controls over a specific period.	Only 13 councils have assessed their control environment using our internal control assessment tool. Of these 13 councils, only 7 have developed and implemented plans to improve their internal controls. Those councils that have not had an opportunity to assess the maturity of their internal controls using our assessment tool should do so in the 2023–24 financial year.

Asset management plans to include councils' planned spending on capital projects		Further action needs to be taken*
REC 4	All councils should review their asset management plans to confirm that these plans include the proposed timing and cost of their capital projects, including the cost of maintaining these assets over their whole lives. This would help councils identify their future funding needs and provide better information to the department on the timing of capital funding sought by councils.	49 councils have incorporated their planned spending on capital projects into their asset management plans. We recommend that those councils who have not yet had an opportunity to review their asset management plan, do so in the 2023–24 financial year.
Review the asset consumption ratio in preparation for the new sustainability framework. Assess whether the actual usage of assets is in line with the asset management plan		**Further action needs to be taken***
REC 5	All councils should review their asset consumption ratio in preparation for the new sustainability framework, to assess whether they are in line with the proposed benchmark. This ratio would inform councils whether their assets have been used in line with their asset management plans. Any variance between the expected and actual usage may either result in additional maintenance to improve the service levels of their assets, or the need to reassess their expectation about asset usage.	29 councils have either not yet reviewed their asset consumption ratio, or where it is under 60 per cent, have not yet taken actions to improve it. Based on 30 June 2023 results, 6 would not meet the benchmark of 60 per cent for the future ratio that applies from 1 July 2023. A further 12 are close to not meeting the benchmark in the next few years if they do not maintain their assets appropriately. We continue to recommend that councils monitor their asset consumption ratio and take steps to improve it. This will assist councils in maintaining their assets at an appropriate level to meet the future needs of their communities. With the new sustainability framework coming into effect from 2023–24 financial year, this will be monitored by the department. As such, we will not be tracking the status of this recommendation from the 2023–24 financial year.
Enhance their liquidity management by reporting their unrestricted cash expense ratio and their unrestricted cash balance in monthly financial reports		**Further action needs to be taken***
REC 6	All councils should enhance their liquidity management by reporting their unrestricted cash expense ratio and their unrestricted cash balance in the monthly financial reports they table in council meetings.	Only 33 councils (less than half of the sector) are reporting their unrestricted cash expense ratio and their unrestricted cash balance in the monthly financial reports they table in council meetings. Those councils that do not report these metrics in their monthly financial reports tabled in council meetings should start to do so.

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

Source: Queensland Audit Office.

Figure E3
Status of recommendations for councils from *Local government 2020* (Report 17: 2020–21)

Improve financial reporting by strengthening month-end and year-end financial reporting processes		No longer applicable*
REC 1	Councils should strengthen their month-end and year-end processes to assist with timely and accurate monthly internal financial reporting and their annual financial statements. We recommend all councils use their recent financial statement preparation experiences to perform an initial self-assessment against the maturity model available on our website.	We continue to find that month-end processes at councils are ineffective. This year, we identified 70 new deficiencies where improvements were required to ensure timely and reliable month-end and year-end reporting. In addition, 49 councils had at least one deficiency in their month-end and year-end reporting processes. However, this recommendation has been replaced by REC 1 from *Local government 2021* (Report 15: 2021–22) which was made to better help councils identify and implement improvements to their financial reporting processes. This recommendation is no longer applicable.
Improve valuation and asset management practices		**Further action needs to be taken***
REC 2	• Councils need to engage with asset valuers early to complete the valuation of assets well before year end. • Councils need to use accurate information in their long-term asset management strategies and budget decisions. • Councils need to regularly match the asset data in their financial records to the asset data in their engineering/geographic information systems to ensure it is complete and reliable.	We continue to identify issues with the asset management policies and practices at two-thirds of councils. Councils also still need to improve their processes for asset valuations. We observed several councils that did not meet their legislative deadlines because of errors and delays in asset valuations. In line with these findings, we continue to recommend that councils strengthen their asset management policies and practices.

Strengthen security of information systems		**Further action needs to be taken***
REC 3	We recommend all councils strengthen the security of their information systems. Councils rely heavily on technology, and increasingly, they need to be prepared for cyber attacks. Any unauthorised access could result in fraud or error, and significant reputational damage. Councils' workplace culture, through their people and processes, must emphasise strong security practices to provide a foundation for the security of information systems. All entities across the local government sector should: • provide security training for employees so they understand the importance of maintaining strong information systems, and their roles in keeping them secure • assign employees only the minimum access required to perform their job, and ensure important stages of each process are not performed by the same person • regularly review user access to ensure it remains appropriate • monitor activities performed by employees with privileged access (allowing them to access sensitive data and create and configure within the system) to ensure they are appropriately approved • implement strong password practices and multifactor authentication (for example, a username and password, plus a code sent to a mobile), particularly for systems that record sensitive information • encrypt sensitive information to protect it • patch vulnerabilities in systems in a timely manner, as upgrades and solutions are made available by software providers to address known security weaknesses that could be exploited by external parties. Councils should also self-assess against all of the recommendations in our report – *Managing cyber security risks* (Report 3: 2019–20) – to ensure their systems are appropriately secured.	We continue to identify weaknesses in information systems controls, particularly regarding user access permissions. This year, we identified 66 new internal control issues in information systems. There are 45 councils who still have at least one unresolved deficiency in their information systems. The recommendation to strengthen the security of information systems needs further action by councils.

<table>
<tr><th colspan="2">Improve risk management processes</th><th>Further action needs to be taken*</th></tr>
<tr><td>REC 4</td><td>Councils should have a complete and up-to-date risk management framework including:
comprehensive risk registers that identify risks (including the risk of fraud) and appropriate risk mitigation strategies
current and relevant business continuity and disaster recovery plans. These plans should be tested periodically.</td><td>This year, 16 councils did not have adequate risk management processes in place. This is down from 25 councils in 2021–22 but is still roughly a quarter of the sector.
This recommendation continues to need further action by councils.</td></tr>
<tr><th colspan="2">Enhance procurement and contract management practices</th><th>Further action needs to be taken*</th></tr>
<tr><td>REC 5</td><td>Councils need to ensure they obtain value for money for the goods and services they procure, and that they have the appropriate approvals to procure the goods and services.
To effectively manage their contractual obligations, councils should ensure their contract registers are complete and contain up-to-date information.</td><td>We have identified issues relating to procurement and contract management practices at 26 councils this year (2021–22: 34 councils). Although this is an improvement on last year, councils still have not taken enough action for this recommendation.
To help councils improve their procurement and contract management practices, in our 2021–22 report, we made a further recommendation for councils to assess the maturity of their procurement and contract management processes using our procure-to-pay maturity model.
This will assist councils in identifying opportunities to strengthen their procurement and contract management practices.</td></tr>
</table>

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

Source: Queensland Audit Office.

Figure E4
Status of recommendations for councils from
***Local government entities: 2018–19 results of financial audits* (Report 13: 2019–20)**

Audit committees	Further action needs to be taken*
• All councils should have an audit committee with an independent chair. • All audit committee members must understand their roles and responsibilities and the risks the committee needs to monitor. • Audit committees must hold management accountable for ensuring timely remedial actions are taken on audit issues. All extensions of agreed time frames for remedial action require consideration by the audit committee, including management's risk mitigation strategies, until remedial action is completed.	As at 30 June 2023, there were still 13 councils (30 June 2022: 15 councils) that did not have an audit committee. A further 3 councils (30 June 2022: one council) had an audit committee that did not meet during the year. These councils combined had 46 unresolved significant deficiencies (38 per cent of all unresolved significant deficiencies). We continue to recommend these councils establish an independent audit committee with appropriately qualified committee members.
Internal audit	**Further action needs to be taken***
• All councils must establish and maintain an effective and efficient internal audit function, as required by the *Local Government Act 2009*.	As at 30 June 2023, 5 councils (30 June 2022: 7 councils) still did not have an internal audit function. In addition, 4 councils (30 June 2022: 7 councils) that had an internal audit function established at 30 June 2023 did not have any audit activity during the 2022–23 financial year. In *Local government 2022*, we also recommended the Department of Housing, Local Government, Planning and Public Works (the department), as regulator of the sector, make sure all councils establish an effective internal audit function, as required under the legislation.
Secure employee and supplier information	**Further action needs to be taken***
• Councils must verify changes to employee and supplier bank account details through sources independent of the change request. • Councils need to ensure information systems are secure to prevent unauthorised access that may result in fraud or error. Security measures could include encryption of information, restriction of user access, regular monitoring by management, and appropriate segregation of duties.	We continue to find deficiencies at councils – at roughly 20 per cent of the sector – with securing employee and supplier information. Similarly, we continue to find weaknesses with information systems security. In line with these findings, we continue to recommend councils secure their employee and supplier information.

Conduct mandatory cyber security awareness training	**Further action needs to be taken***
Councils need to develop and implement mandatory cyber security awareness training for all staff, to be completed during induction and at regular periods during employment. This should include: • delivering targeted training to higher-risk user groups, such as senior management, staff who have access to sensitive data, software developers, system administrators, and third-party providers • recording and monitoring whether all staff have completed their required cyber security awareness training • conducting campaigns to test the adequacy of staff vigilance to risks, such as phishing (fraudulent emails) and tailgating (following a person into an office), so entities can assess and improve their awareness programs.	As at 30 June 2023, 17 councils still had not provided cyber security awareness training to their employees. We continue to recommend that all councils provide cyber security awareness training to their new and current employees.

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

Source: Queensland Audit Office.

Figure E5
Status of recommendations for the Department of Housing, Local Government, Planning and Public Works from *Local government 2022* (Report 15: 2022–23)

Our recommendations from *Local government 2022* were made in June 2023, and although the department indicated it supports our recommendations, it has not yet had time to implement them.

Provide necessary guidance and tools to councils to help improve their month-end financial reports		**Not implemented – recommendation accepted***
REC 2	The department should provide guidance and tools such as monthly management reporting pack templates and checklists for the completion of month-end financial reports. These tools should set the minimum standard of information that councillors will need to be provided with to make informed financial decisions. This in turn would help councils improve the quality of their month-end financial reports and their month-end processes.	This recommendation was made in June 2023 and at the time of writing this report, the department has not yet had time to implement our recommendation.

Provide a clear definition of 'extraordinary circumstances' for councils seeking ministerial extensions to their legislative time frame for financial reporting		**Not implemented – recommendation accepted***
REC 3	The department should clearly define what 'extraordinary circumstances' are in the context of extensions to councils' legislated deadlines for certifying financial statements. This will provide consistent criteria for assessing council applications for extensions.	This recommendation was made in June 2023 and at the time of writing this report, the department has not yet had time to implement our recommendation.
Measure the effectiveness of training programs provided to councils		**Not implemented – recommendation accepted***
REC 4	The department should measure the effectiveness of the training programs it provides to councils. This would help the department identify remedial actions when desired outcomes are not achieved.	This recommendation was made in June 2023 and at the time of writing this report, the department has not yet had time to implement our recommendation.
Provide training on financial reporting processes and support councils to meet their reporting deadlines in times of need		**Not implemented – recommendation accepted***
REC 5	The department should, for councils that do not consistently achieve early financial reporting: • provide training to finance staff that covers matters such as – basic financial statement preparation – analysing and interpreting financial statements – preparing and delivering on a year-end timetable – accounting concepts and application of relevant accounting standards. This should be in addition to the Tropical financial reporting workshop provided by the department each year • make available a panel of financial reporting specialists that councils can call upon in times of need to help with their financial reporting processes. For this to work effectively, the department should establish ground rules that put the onus on councils to plan for their financial reporting early. This support should only be made available to councils on an exception basis.	This recommendation was made in June 2023 and at the time of writing this report, the department has not yet had time to implement our recommendation.

Make sure all councils have an effective internal audit function		Partially implemented*
REC 6	The department should monitor whether all councils have an internal audit function and whether appropriate internal audit activities are undertaken each year. To help councils meet their legislative requirements, the department should: • educate councillors and senior executives on the benefits of an internal audit function and how this adds value to council operations • make internal audit guidelines available on the department's website and provide example templates (such as a model internal audit charter) to help councils understand and meet their obligations.	This recommendation was made in June 2023 and at the time of writing this report, the department has not yet had time to fully implement our recommendation. However, in July 2023, the department wrote to councils without an effective internal audit function to remind them of their legislative requirements. It has published guidance about these legislative requirements on its online portal of council resources.
Develop a strategy to uplift capability of the sector on cyber-related matters		**Partially implemented***
REC 7	We recommend the department, in collaboration with the Queensland Government's Customer and Chief Digital Officer, develops a strategy to increase awareness and improve capability in the sector on cyber-related matters. This will help councils strengthen their information security controls.	This recommendation was made in June 2023 and at the time of writing this report, the department has not yet had time to fully implement our recommendation. However, since we made our recommendation, the department has worked with both the Queensland Government's Customer and Chief Digital Officer and the Australian Security Intelligence Organisation to provide greater awareness of cyber-related matters across the sector.
Publish a framework to assess the sustainability risk of councils by 1 July 2023		**Fully implemented***
REC 8	The department should publish a framework to assess the financial sustainability risk of councils. This framework should be made available to the sector from 1 July 2023 to align with the effective date of the department's new financial sustainability guideline.	The department published *Risk Framework – Financial Sustainability* on its website on 30 June 2023 as a framework to assess the financial sustainability of councils. This recommendation is now fully implemented. However, this year, we made a new recommendation to the department (refer recommendation 7) to refine the risk framework to measure the overall risk of a council not being financially sustainable.

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

Source: Queensland Audit Office.

Figure E6
Status of recommendations for the Department of Housing, Local Government, Planning and Public Works from *Local government 2020* (Report 17: 2020–21)

Require all councils to establish audit committees		**Not implemented – Recommendation accepted***
REC 6	We continue to recommend that the department requires all councils to establish an audit committee and ensures that each chairperson of the committee is independent of council and management. In light of the difficulties some councils have faced with internal control weaknesses, fraud, ransomware, and achieving financial sustainability, this is more important now than ever.	The proposal continues to be considered by the department but has not yet been progressed.
Provide greater certainty over long-term funding		**Partially implemented***
REC 8	We recommend the department reviews its current funding model to identify opportunities to provide funding certainty to councils beyond one financial year. A 3-year to 5-year funding model would assist councils, especially those heavily reliant on grants, to develop and implement more sustainable medium- to long-term plans.	The department has been providing multi-year grant programs since 2020–21. The $200 million Works for Queensland Program (2021–24) and the $100 million South East Queensland Community Stimulus Program (2024–27) are both 3-year rounds which will provide funding certainty for councils in the medium term.
Provide training to councillors and senior leadership teams around financial governance		**Partially implemented***
REC 9	We recommend the department provides periodic training to councillors and senior leadership teams for councils that are highly reliant on grants. The training should focus on helping these councils: • establish strong leadership and governance • enhance internal controls and oversight • improve financial sustainability in the long term.	The department – in partnership with Queensland Treasury Corporation and the University of Queensland – delivered workshops and training sessions to councillors and council staff in 2022–23 with a focus on financial management and service planning. The department has advised 388 councillors and council staff participated in these workshops and training sessions. The department also holds Finance Officers' Network sessions. The department plans to support the running of these workshops and training sessions over the 2024–2028 council term. Providing this training to new councillors will be critical following the March 2024 council elections.

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

Source: Queensland Audit Office.

Recommendation status definitions

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

<table>
<tr><th>Status</th><th colspan="2">Definition</th></tr>
<tr><td>Fully implemented</td><td colspan="2">Recommendation has been implemented, or alternative action has been taken that addresses the underlying issues and no further action is required. Any further actions are business as usual.</td></tr>
<tr><td>Partially implemented</td><td colspan="2">Significant progress has been made in implementing the recommendation or taking alternative action, but further work is required before it can be considered business as usual.
This also includes where the action taken was less extensive than recommended, as it only addressed some of the underlying issues that led to the recommendation.</td></tr>
<tr><td rowspan="2">Not implemented</td><td>Recommendation accepted</td><td>No or minimal actions have been taken to implement the recommendation, or the action taken does not address the underlying issues that led to the recommendation.</td></tr>
<tr><td>Recommendation not accepted</td><td>The entity did not accept the recommendation.</td></tr>
<tr><td>No longer applicable</td><td colspan="2">Circumstances have fundamentally changed, making the recommendation no longer applicable. For example, a change in government policy or program has meant the recommendation is no longer relevant.</td></tr>
</table>

If a general recommendation was made for all entities to consider, we have assessed action on issues reported to specific entities in the prior year, as well as any further issues identified in the current year. On this basis, we have determined whether *appropriate action has been taken* across the sector, if *further action needs to be taken* to address the risk identified, or if the recommendation is *no longer applicable*.

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

F. Audit opinions for entities preparing financial reports

The following figures detail the types of audit opinions we have issued, in accordance with Australian auditing standards for the 2022–23 financial year.

Figure F1
Our audit opinions for local government sector financial reports for 2022–23

Entity	Date opinion issued	Financial statement opinion	Current year sustainability statement opinion[1]	Ministerial extension issued to date[2]
Opinion key:				
U = unmodified; Q = qualified; E = emphasis of matter. Refer to Appendix D for definitions of these terms.				
Councils and their controlled entities				
Aurukun Shire Council	26.10.2023	U	E*	-
Balonne Shire Council	26.10.2023	U	E*	-
Banana Shire Council	27.10.2023	U	E*	-
Barcaldine Regional Council	Not complete	-	-	31.01.2024
Barcoo Shire Council	18.10.2023	U	E*	-
Blackall-Tambo Regional Council	12.12.2023	U	E*	-
Boulia Shire Council	31.10.2023	U	E*	-
Brisbane City Council	18.08.2023	U	E*	-
• Allara SPV Trust	27.07.2023	E*	-	-
• Brisbane City Council Appeal for the Lord Mayor's Charitable Trust	29.09.2023	E*	-	-
• Brisbane Economic Development Agency Pty Ltd	12.09.2023	U	-	-
• Brisbane Powerhouse Foundation	05.10.2023	U	-	-
• Brisbane Powerhouse Pty Ltd	05.10.2023	U	-	-
• Brisbane Sustainability Agency Pty Ltd	10.10.2023	U	-	-
• City of Brisbane Investment Corporation Pty Ltd	27.07.2023	U	-	-
• City Parklands Services Pty Ltd	29.09.2023	U	-	-
• Museum of Brisbane Pty Ltd	14.08.2023	U	-	-
• Museum of Brisbane Trust	14.08.2023	E*	-	-
• TradeCoast Land Pty Ltd	Not complete	-	-	-
Bulloo Shire Council	03.10.2023	U	E*	-
Bundaberg Regional Council	12.10.2023	U	E*	-
Burdekin Shire Council	08.09.2023	U	E*	-
Burke Shire Council	30.11.2023	U	E*	30.11.2023
Cairns Regional Council	15.09.2023	U	E*	-
• Cairns Art Gallery Limited	02.11.2023	U	-	-
Carpentaria Shire Council	30.10.2023	U	E*	-
Cassowary Coast Regional Council	13.10.2023	U	E*	-

Entity	Date opinion issued	Financial statement opinion	Current year sustainability statement opinion[1]	Ministerial extension issued to date[2]
Opinion key:				
U = unmodified; Q = qualified; E = emphasis of matter. Refer to Appendix D for definitions of these terms.				
Councils and their controlled entities				
Central Highlands Regional Council	25.10.2023	U	E*	-
• Central Highlands Development Corporation Ltd	27.10.2023	U	-	-
Charters Towers Regional Council	30.10.2023	U	E*	-
Cherbourg Aboriginal Shire Council	27.10.2023	U	E*	-
Cloncurry Shire Council	Not complete	-	-	31.01.2024
Cook Shire Council	15.12.2023	U	E*	-
Council of the City of Gold Coast	12.09.2023	U	E*	-
• Experience Gold Coast Pty Ltd[3]	08.09.2023	U	-	-
• HOTA Gold Coast Pty Ltd	01.09.2023	U	-	-
Croydon Shire Council	26.10.2023	U	E*	-
Diamantina Shire Council	Not complete	-	-	31.01.2024
Doomadgee Aboriginal Shire Council	31.10.2023	U	E*	-
Douglas Shire Council	12.10.2023	U	E*	-
Etheridge Shire Council	15.11.2023	U	E*	30.11.2023
Flinders Shire Council	31.10.2023	U	E*	-
Fraser Coast Regional Council	29.09.2023	U	E*	-
• Fraser Coast Tourism & Events Ltd	27.11.2023	E*	-	-
Gladstone Regional Council	30.10.2023	U	E*	-
• Gladstone Airport Corporation	19.10.2023	U	-	-
Goondiwindi Regional Council	30.08.2023	U	E*	-
Gympie Regional Council	30.11.2023	U	E*	30.11.2023
Hinchinbrook Shire Council	31.10.2023	U	E*	-
Hope Vale Aboriginal Shire Council	28.07.2023	U	E*	-
Ipswich City Council	16.10.2023	U	E*	-
• Ipswich Arts Foundation Trust	Not complete	-	-	-
Isaac Regional Council	31.10.2023	U	E*	-
• Isaac Affordable Housing Fund Pty Ltd	15.12.2023	E*	-	-
• Isaac Affordable Housing Trust	15.12.2023	E*	-	-
• Moranbah Early Learning Centre Pty Ltd	15.12.2023	E*	-	-
Kowanyama Aboriginal Shire Council	26.10.2023	U	E*	-
Livingstone Shire Council	30.10.2023	U	E*	-
Lockhart River Aboriginal Shire Council	14.11.2023	U	E*	30.11.2023
• Lockhart River Aerodrome Company Pty Ltd	14.11.2023	U	-	-
Lockyer Valley Regional Council	24.10.2023	U	E*	-
Logan City Council	25.09.2023	U	E*	-
• Invest Logan Pty Ltd	15.09.2023	E*, E[4]	-	-
Longreach Regional Council	24.10.2023	U	E*	-
Mackay Regional Council	18.10.2023	U	E*	-
• Mackay Region Enterprises Pty Ltd	09.11.2023	E[5]	-	-
Mapoon Aboriginal Shire Council	31.10.2023	U	E*	-

Entity	Date opinion issued	Financial statement opinion	Current year sustainability statement opinion[1]	Ministerial extension issued to date[2]
Opinion key:				
U = unmodified; Q = qualified; E = emphasis of matter. Refer to Appendix D for definitions of these terms.				
Councils and their controlled entities				
Maranoa Regional Council	04.10.2023	U	E*	-
Mareeba Shire Council	04.10.2023	U	E*	-
McKinlay Shire Council	26.10.2023	U	E*	-
Moreton Bay City Council[6]	09.10.2023	U	E*	-
• Millovate Pty Ltd	30.10.2023	U	-	-
Mornington Shire Council	Not complete	-	-	31.03.2024
Mount Isa City Council	31.10.2023	U	E*	-
• Mount Isa City Council Owned Enterprises Pty Ltd	Not complete	-	-	-
Murweh Shire Council	23.10.2023	U	E*	-
Napranum Aboriginal Shire Council	31.10.2023	U	E*	-
Noosa Shire Council	25.10.2023	U	E*	-
North Burnett Regional Council	26.10.2023	U	E*	-
Northern Peninsula Area Regional Council	Not complete	-	-	31.01.2024
Palm Island Aboriginal Shire Council	Not complete	-	-	-
Paroo Shire Council	13.10.2023	U	E*	-
Pormpuraaw Aboriginal Shire Council	08.09.2023	U	E*	-
Quilpie Shire Council	12.09.2023	U	E*	-
Redland City Council	12.09.2023	U	E*	-
• Redland Investment Corporation Pty Ltd	27.09.2023	U	-	-
Richmond Shire Council	26.10.2023	U	E*	-
• The Kronosaurus Korner Board Inc	23.11.2023	E*	-	-
Rockhampton Regional Council	26.10.2023	U	E*	-
Scenic Rim Regional Council	06.10.2023	U	E*	-
Somerset Regional Council	20.10.2023	U	E*	-
South Burnett Regional Council	17.10.2023	U	E*	-
• South Burnett Community Hospital Foundation Limited	27.11.2023	U	-	-
Southern Downs Regional Council	31.10.2023	U	E*	-
Sunshine Coast Regional Council	11.10.2023	U	E*	-
• SunCentral Maroochydore Pty Ltd	29.09.2023	U	-	-
• Sunshine Coast Arts Foundation Ltd	19.09.2023	U	-	-
• Sunshine Coast Events Centre Pty Ltd	11.09.2023	E*	-	-
Tablelands Regional Council	31.10.2023	U	E*	-
Toowoomba Regional Council	29.09.2023	U	E*	-
• Empire Theatres Foundation	Not complete	-	-	-
• Empire Theatres Pty Ltd	07.12.2023	U	-	-
• Toowoomba and Surat Basin Enterprise Pty Ltd	03.10.2023	U	-	-
Torres Shire Council	31.10.2023	U	E*	-
Torres Strait Island Regional Council	24.10.2023	U	E*	-
Townsville City Council	19.10.2023	U	E*	-
• NQ Spark Pty Ltd	Not complete	-	-	-

Entity	Date opinion issued	Financial statement opinion	Current year sustainability statement opinion[1]	Ministerial extension issued to date[2]
Opinion key:				
U = unmodified; Q = qualified; E = emphasis of matter. Refer to Appendix D for definitions of these terms.				
Councils and their controlled entities				
Western Downs Regional Council	18.10.2023	U	E*	-
Whitsunday Regional Council	15.08.2023	U	E*	-
Winton Shire Council	24.10.2023	U	E*	-
• Waltzing Matilda Centre Ltd	14.11.2023	U	-	-
Woorabinda Aboriginal Shire Council	Not complete	-	-	29.02.2024
• Woorabinda Pastoral Company Pty Ltd	Not complete	-	-	-
Wujal Wujal Aboriginal Shire Council	12.12.2023	U	E*	-
Yarrabah Aboriginal Shire Council	13.10.2023	U	E*	-
By-arrangements audits[7]				
City of Logan Charitable Trust[8]	29.09.2023	E*	-	-
The Josephine Ulrick and Win Schubert Foundation for the Arts	01.09.2023	E*	-	-

Notes:

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

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

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

3 The legal name of the controlled entity changed from 'Major Events Gold Coast Pty Ltd' to 'Experience Gold Coast Pty Ltd' on 5 July 2023.

4 We included an emphasis of matter in our audit reports for Invest Logan Pty Ltd to alert users that the financial statements were prepared on a basis other than a going concern. The company's sole shareholder, Logan City Council, approved on 22 March 2023, the orderly cessation of activities of its controlled entity with a view to carrying out a voluntary deregistration process and transferring its remaining net assets to the council.

5 We included an emphasis of matter in our audit reports for Mackay Region Enterprises Pty Ltd to alert users that the company has ceased trading, and that on 23 November 2022 it was resolved the company be wound up. The company is dependent upon the ongoing financial support of Mackay Regional Council for the period from the closure of its bank account on 11 April 2023 until its deregistration date.

6 The legal name of the council has changed from 'Moreton Bay Regional Council' to 'Moreton Bay City Council'. The Queensland Government affirmed this change, which was legislatively amended on 28 July 2023.

7 If asked by a minister or public sector entity, and if the Auditor-General considers there is public interest, a financial audit of non-public sector entities may be performed 'by arrangement'.

8 City of Logan Charitable Trust changed its name from City of Logan Mayor's Charity Trust during the year.

Source: Queensland Audit Office.

The following figure details the types of audit opinions we issued in accordance with Australian auditing standards for the 2022–23 financial year, for jointly controlled entities (entities controlled by multiple councils and other public sector entities).

Figure F2
Our audit opinions for jointly controlled entities' financial reports for 2022–23

Entity	Date audit opinion issued	Type of audit opinion issued
Opinion key: U = unmodified; Q = qualified; E = emphasis of matter. (Refer to Appendix D for definitions of these terms.)		
Central Western Queensland Remote Area Planning and Development Board (RAPAD)	27.11.2023	E*
Council of Mayors (SEQ) Pty Ltd	Not Complete	-
Local Government Association of Queensland Ltd	05.10.2023	U
• Local Buy Trading Trust	27.09.2023	Q[1]
• Peak Services Legal Pty Ltd	27.09.2023	E[2]
• Peak Services Holdings Pty Ltd	27.09.2023	E[2]
• Peak Services Pty Ltd	27.09.2023	E[2]
Major Brisbane Festivals Pty Ltd[3]	Not Complete	-
Queensland Local Government Mutual (LGM Queensland)	04.12.2023	U
Queensland Local Government Workers Compensation Self-Insurance Scheme (trading as Local Government Workcare)	04.12.2023	U
SEQ Regional Recreational Facilities Pty Ltd	Not Complete	-
Townsville Breakwater Entertainment Centre Joint Venture	Not Complete	-
Western Queensland Local Government Association	Not Complete	-

Notes:

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

[1] We qualified our audit opinion for Local Buy Trading Trust because it was unable to provide us with enough evidence to confirm its revenue was complete. We also qualified our 2021–22 audit opinion for the same reason.

[2] We included an emphasis of matter in our audit opinions for Peak Services Holdings Pty Ltd, Peak Services Legal Pty Ltd, and Peak Services Pty Ltd to alert users of the financial statements of the entities' financial dependence on the Local Government Association of Queensland Ltd.

[3] The financial year of Major Brisbane Festivals Pty Ltd was 1 January 2023 to 31 December 2023. The 2023 audit opinion has therefore not yet been issued.

Source: Queensland Audit Office.

G. Entities exempt from audit by the Auditor-General

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

Figure G1
Entities exempt from audit by the Auditor-General

Entity	Audit firm who performs the audit	Date opinion issued	Opinion
Opinion key: U = unmodified; Q = qualified; E = emphasis of matter. (Refer to Appendix D for definitions of these terms.)			
Exempt local government entities – small in size and of low risk (s.30A of the *Auditor-General Act 2009*)			
Central Queensland Regional Organisation of Councils Limited	Evans Edwards & Associates Pty Ltd	10.11.2023	E*
Drive Inland Promotions Association Inc	KBP Audit Services	03.11.2023	U
Far North Queensland Regional Organisation of Councils	Jessups	29.09.2023	E*
Gulf Savannah Development Inc	SBB Partners	Not complete	-
North West Queensland Regional Organisation of Councils	SBB Partners	07.11.2023	U
Regional Queensland Council of Mayors Inc[1]	SBB Partners	Not complete	-
South West Queensland Regional Organisation of Councils	UHY Haines Norton	Not complete	-
Torres Cape Indigenous Council Alliance (TCICA) Inc	Grant Thornton Audit Pty Ltd	14.12.2023	E*
Whitsunday ROC Limited[2]	SBB Partners	Not complete	-
Wide Bay Burnett Regional Organisation of Councils Inc	Advice Centre	21.12.2023	Q[3], E*
Exempt local government entities – foreign-based controlled entities (s.32 of the *Auditor-General Act 2009*)			
Gold Coast City Council Insurance Company Limited	PricewaterhouseCoopers CI LLP	17.08.2023	U

Notes:

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

[1] The financial statements of the Regional Queensland Council of Mayors Inc will be for the period 1 April 2022 to 31 March 2023.

[2] Whitsunday ROC Limited trades as Greater Whitsunday Council of Mayors.

[3] The audit opinion for Wide Bay Burnett Regional Organisation of Councils Inc was qualified because it was unable to provide the auditor enough evidence to confirm its revenue was complete.

Source: Queensland Audit Office.

H. 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 2022–23 financial year, because they have not produced a financial report.

Figure H1
Entities for which no opinions are issued

Entity	Parent entity	Reason
	Controlled entities	
Brisbane Tolling Pty Ltd	Brisbane City Council	Dormant
CBIC Allara Pty Ltd	Brisbane City Council	Dormant
OC Invest Pty Ltd	Brisbane City Council	Dormant
Oxley Creek Transformation Pty Ltd	Brisbane City Council	Wound up[1]
Riverfestival Brisbane Pty Ltd	Brisbane City Council	Dormant
CBIC Investment Pty Ltd	City of Brisbane Investment Corporation Pty Ltd	Dormant
CBIC Valley Heart Pty Ltd	City of Brisbane Investment Corporation Pty Ltd	Dormant
Central Highlands (Qld) Housing Company Limited	Central Highlands Regional Council	Non-reporting[2]
Rattler Railway Company Ltd	Gympie Regional Council (previously)	Non-reporting[3]
HOTA Services Gold Coast Pty Ltd	HOTA Gold Coast Pty Ltd	Non-reporting[4]
IA Foundation Ltd	Ipswich City Council	Dormant
Ipswich City Enterprises Investments Pty Ltd	Ipswich City Council	Wound up[5]
Ipswich City Enterprises Pty Ltd	Ipswich City Council	Wound up[5]
Outback @ Isa Pty Ltd	Mount Isa City Council	Dormant
Palm Island Economic Development Corporation Pty Ltd	Palm Island Aboriginal Shire Council	Dormant
Redheart Pty Ltd	Redland City Council	Dormant
Cleveland Plaza Pty Ltd	Redland Investment Corporation Pty Ltd	Non-reporting[6]
Redland Developments Pty Ltd	Redland Investment Corporation Pty Ltd	Non-reporting[6]
RIC Toondah Pty Ltd	Redland Investment Corporation Pty Ltd	Non-reporting[6]
Toowoomba and Surat Basin Enterprise Development Fund Limited	Toowoomba and Surat Basin Enterprise Pty Ltd	Dormant
Empire Theatre Projects Pty Ltd	Toowoomba Regional Council	Wound up[7]
Empire Theatres Foundation Ltd	Toowoomba Regional Council	Dormant
Jondaryan Woolshed Pty Ltd	Toowoomba Regional Council	Wound up[7]
Whitsunday Coast Airport and Infrastructure Pty Ltd	Whitsunday Regional Council	Dormant
Winton Community Association Inc	Winton Shire Council	Dormant

Entity	Parent entity	Reason
Jointly controlled entities		
Brisbane Festival Limited	Major Brisbane Festivals Pty Ltd	Dormant
QPG Shared Services Support Centres Joint Venture	Local Government Association of Queensland Ltd	Wound up[8]
Local Buy Pty Ltd	Local Government Association of Queensland Ltd	Dormant
Prevwood Pty Ltd	Local Government Association of Queensland Ltd	Wound up[8]
Queensland Partnerships Group (LG Shared Services) Pty Ltd	Local Government Association of Queensland Ltd	Wound up[8]
South West Queensland Local Government Association	Multiple entities	Wound up[9]
South West Regional Economic Development Association	Multiple entities	Wound up[9]

Notes:

[1] Oxley Creek Transformation Pty Ltd was de-registered on 3 March 2023.

[2] The directors of Central Highlands (Qld) Housing Company Limited agreed to enter into voluntary liquidation on 12 September 2023, meaning from this date the entity was no longer controlled by Central Highlands Regional Council. The company will be deregistered 12 December 2023.

[3] Rattler Railway Company Ltd ceased being a controlled entity of council at 30 June 2023 due to a constitutional change.

[4] The transactions of HOTA Services Gold Coast Pty Ltd have been consolidated in the financial statements of HOTA Gold Coast Pty Ltd.

[5] Ipswich City Enterprises Investments Pty Ltd and Ipswich City Enterprises Pty Ltd were de-registered on 2 July 2023.

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

[7] Empire Theatre Projects Pty Ltd and Jondaryan Woolshed Pty Ltd were de-registered on 23 November 2021 and 31 July 2022 respectively.

[8] QPG Shared Services Support Centres Joint Venture and Queensland Partnerships Group (LG Shared Services) Pty Ltd were deregistered on 23 February 2023. Following this, Prevwood Pty Ltd was de-registered on the 2 July 2023.

[9] South West Queensland Local Government Association and South West Regional Economic Development Association were wound up and replaced by the South West Queensland Regional Organisation of Councils Inc.

Source: Queensland Audit Office.

I. Audit opinions issued for prior financial years

The following table contains the audit opinions issued for prior financial years that were not finalised when we issued *Local government 2022* (Report 15: 2022–23).

Figure I1
Audit opinions issued for prior financial years

Entity	Date opinion issued	Opinion	Current year sustainability statement opinion[1]
Opinion key: **U = unmodified; Q = qualified; E = emphasis of matter. Refer to Appendix D for the definitions of these terms.**			
Financial statements from 2020–21 financial year – Councils			
Palm Island Aboriginal Shire Council	20.09.2023	Q[2]	Q[2], E*
Financial statements from 2021–22 financial year – Councils			
Mornington Shire Council	Not complete	-	-
Northern Peninsula Area Regional Council	Not complete	-	-
Palm Island Aboriginal Shire Council	Not complete	-	-
Woorabinda Aboriginal Shire Council	Not complete	-	-
Financial statements from 2021–22 financial year – Controlled entities			
Central Highlands (QLD) Housing Company Limited	12.07.2023	E*, E[3]	-
Cherish the Environment Foundation Ltd[4]	Not complete	-	-
Mackay Region Enterprises Pty Ltd	09.11.2023	E[5]	-
Western Queensland Local Government Association	Not complete	-	-
Woorabinda Pastoral Company Pty Ltd	Not complete	-	-
Financial statements from 2021–22 financial year – Entities exempt from audit by the Auditor-General			
Whitsunday ROC Limited	31.08.2023	U	-

Notes:

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

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

2 We issued a qualified opinion for Palm Island Aboriginal Shire Council's 2020–21 financial statements and its financial year sustainability statement. This was because council was unable to provide enough information about its lease and motel income for us to confirm revenue (and financial sustainability ratios based on this revenue) were correctly reported.

3 We included an emphasis of matter in our opinion for Central Highlands (QLD) Housing Company Limited to alert users that this was the final financial report of the company and directors had decided on 12 September 2022 to cease trading, transfer the company's assets and enter voluntary liquidation.

4 From 30 June 2022, Cherish the Environment Foundation Ltd is no longer considered a public sector entity.

5 We included an emphasis of matter in our audit report for Mackay Region Enterprises Pty Ltd to alert users that the company has ceased trading, and that on 23 November 2022 it was resolved the company be wound up. The company is dependent upon the ongoing financial support of Mackay Regional Council for the period from the closure of its bank account on 11 April 2023 until its deregistration date.

Source: Queensland Audit Office.

J. Our assessment of councils' financial governance

Auditing internal controls

Entities design, implement, and maintain internal controls (people, systems, and processes) to deliver reliable financial reporting, effective and efficient operations, and compliance with applicable laws and regulations.

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

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

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

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

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

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

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

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

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 2022–23.

Significant deficiencies are breakdowns in internal control that we identified with substantial financial or reputational risk for councils that need to be addressed immediately.

Because of this, any significant deficiencies taking longer than 12 months to resolve are concerning. In this appendix we report both the total the number of significant deficiencies of each council, and the number they have that have been unresolved for more than 12 months.

Financial statements preparation process

We assess the strength of councils' financial statement preparation processes using a maturity model (which is available on our website at www.qao.qld.gov.au/reports-resources/better-practice).

The model is entity-driven and is scalable to each entity's size and complexity. It aims to bring flexibility in responding to the qualitative factors that influence entities' practices.

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

The 4 components for effective financial statement preparation processes are:

<table>
<tr><th colspan="2">Quality month-end processes and reporting</th></tr>
<tr><td>• Reconciliation
• Reporting
• Internal quality controls</td><td>Month-end processes refer to the close-out of the current posting period and preparation of analysis reports. Quality month-end activities provide greater efficiencies in the preparation of year end reporting. Data quality, quality checking and internal reporting are the areas of focus.</td></tr>
<tr><th colspan="2">Early financial statement close processes</th></tr>
<tr><td>• Early close
• Audit and audit committee relationships
• Asset valuation
• Stocktakes
• Supporting policies and procedures</td><td>These are the accounting procedures undertaken to close-out future account balances in the current posting period. Early close processes are performed before the balance date and are not fully re-performed during the financial statement preparation process. They usually include fair value measurement for property, plant and equipment; major estimates and judgements; material note preparation; and stocktakes.</td></tr>
<tr><th colspan="2">Skilled financial statement preparation processes and use of appropriate technology</th></tr>
<tr><td>• System
• Staff skills
• Data quality
• Internal controls
• Tailored disclosure</td><td>High quality, timely financial statements are prepared using skilled staff, appropriate systems, and sufficient processes that rely on high-quality data sources and effective internal controls.</td></tr>
<tr><th colspan="2">Timely identification and resolution of financial reporting matters</th></tr>
<tr><td>• Matters are identified
• Analysis performed
• Consultation</td><td>The timely resolution of financial reporting matters relates to areas of accounting and presentation that require judgement and have a range of potential solutions. Financial reporting matters include the application of new accounting standards, and reporting of new and/or complex transactions in a timely manner.</td></tr>
</table>

Each of these 4 components has elements describing the level of maturity within the financial statement preparation maturity model.

The 4 levels of maturity per component are:

- developing – an entity does not have key components of effective financial reporting, or they are limited
- established – an entity shows basic competency for financial reporting
- integrated – an entity's financial reporting practices are fundamentally sound, however some elements could be improved
- optimised – an entity is a leader of best practice for financial reporting.

Where a council has different maturity levels for each of the 4 components, their overall maturity may sit between 2 levels and be reported as a range – such as established to integrated.

Each council's desired level of maturity will differ – recognising what works for a council in a large city may not necessarily work for a smaller council in a regional town.

However, because councils have had stable business models without restructures for more than 10 years, they should be able to at least reach an established maturity level.

In 2020–21, we asked councils to self-assess their financial statement preparation processes using this model.

This year, we assessed the maturity levels of councils' financial reporting ourselves to make sure they reflect the reality of the strengths and weaknesses of their processes.

In this appendix, we report our assessment of the overall maturity of each council's financial statement preparation processes.

Financial sustainability relative risk assessment

The detailed criteria for assessing a council's financial sustainability are explained in Appendix K – Figures K1 and K2. These are the current financial sustainability ratios that applied for the 2022–23 financial year. The overall assessment criteria are shown in Figure K3.

Colours used for the overall risk levels are lower risk (green), moderate risk (amber), and higher risk (red).

Results summary

The following tables summarise the results of our assessment of the 77 councils' internal controls and financial statement process maturity, by council segment.

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

Key:
Total SD = Total significant deficiencies
O/S SD = Number of significant deficiencies outstanding longer than 12 months at 30 June 2023
FS Maturity = Financial statement maturity levels
FSR = Financial sustainability risk
Days = Number of days to have audit opinon certified from 30 June 2023 (number of days between 30 June and 31 October is 123)

Coastal councils	Internal controls		FS Maturity	FSR	Days
	Total SD	O/S SD			
Coastal councils					
Bundaberg Regional Council	1	-	Integrated to optimised		104
Burdekin Shire Council	-	-	Integrated		70
Cairns Regional Council	-	-	Optimised		77
Cassowary Coast Regional Council	1	1	Established to integrated		105
Douglas Shire Council	-	-	Integrated		104
Fraser Coast Regional Council	-	-	Integrated		91
Gladstone Regional Council	-	-	Integrated		122
Gympie Regional Council*	5	4	Established to integrated		153
Hinchinbrook Shire Council	-	-	Established		123
Livingstone Shire Council	-	-	Established to integrated		122
Mackay Regional Council	-	-	Integrated		110
Noosa Shire Council	1	1	Established		117
Rockhampton Regional Council	1	1	Integrated		118
Townsville City Council	2	-	Established to integrated		111
Whitsunday Regional Council	-	-	Established to optimised		46

Notes:

* For councils who had not completed their financial statements by 31 October 2023:

- the total unresolved significant deficiencies include only those reported by 31 October. These numbers are expected to increase as these councils complete their financial statements. Details of weaknesses reported to each council and the updates on the status of these issues are generally available on individual council websites
- the overall financial sustainability is assessed using their results from their most recently available audited financial statements.

Refer also to Appendix L which explains the new financial sustainability measures and associated benchmarks that will apply to councils from 1 July 2023.

Source: Queensland Audit Office.

Key:
Total SD = Total significant deficiencies
O/S SD = Number of significant deficiencies outstanding longer than 12 months at 30 June 2023
FS Maturity = Financial statement maturity levels
FSR = Financial sustainability risk
Days = Number of days to have audit opinon certified from 30 June 2023 (number of days between 30 June and 31 October is 123)

Indigenous councils	Internal controls		FS Maturity	FSR	Days
	Total SD	O/S SD			
Indigenous councils					
Aurukun Shire Council	-	-	Established	●	118
Cherbourg Aboriginal Shire Council	1	-	Established	●	119
Doomadgee Aboriginal Shire Council	-	-	Established	●	123
Hope Vale Aboriginal Shire Council	-	-	Optimised	●	28
Kowanyama Aboriginal Shire Council	1	-	Established	●	118
Lockhart River Aboriginal Shire Council*	-	-	Established to integrated	●	137
Mapoon Aboriginal Shire Council	1	1	Established	●	123
Mornington Shire Council*	4	4	Established#	●	Not complete
Napranum Aboriginal Shire Council	5	3	Established	●	123
Northern Peninsula Area Regional Council*	8	8	Established#	●	Not complete
Palm Island Aboriginal Shire Council*	10	10	Developing#	●	Not complete
Pormpuraaw Aboriginal Shire Council	-	-	Integrated	●	70
Torres Shire Council	4	2	Developing to established	●	123
Torres Strait Island Regional Council	1	-	Established to integrated	●	116
Woorabinda Aboriginal Shire Council*	8	8	Developing#	●	Not complete
Wujal Wujal Aboriginal Shire Council*	2	-	Developing	●	165
Yarrabah Aboriginal Shire Council	2	2	Integrated	●	105

Notes:

* For councils who had not completed their financial statements by 31 October 2023:

- the total unresolved significant deficiencies include only those reported by 31 October. These numbers are expected to increase as these councils complete their financial statements. Details of weaknesses reported to each council and the updates on the status of these issues are generally available on individual council websites
- the overall financial sustainability is assessed using their results from their most recently available audited financial statements.

\# Because the 2022 audits of Mornington Shire Council, Palm Island Aboriginal Shire Council, Northern Peninsula Area Regional Council, and Woorabinda Aboriginal Shire Council are not complete, we were unable to assess the financial statement maturity of these councils. We have instead reported their self-assessed financial statement maturity from 2021.

Refer also to Appendix L which explains the new financial sustainability measures and associated benchmarks that will apply to councils from 1 July 2023.

Source: Queensland Audit Office.

Key:
Total SD = Total significant deficiencies
O/S SD = Number of significant deficiencies outstanding longer than 12 months at 30 June 2023
FS Maturity = Financial statement maturity levels
FSR = Financial sustainability risk
Days = Number of days to have audit opinon certified from 30 June 2023 (number of days between 30 June and 31 October is 123)

Resources councils	Internal controls		FS Maturity	FSR	Days
	Total SD	O/S SD			
Resources councils					
Banana Shire Council	1	-	Established		119
Bulloo Shire Council	3	3	Established		95
Burke Shire Council*	-	-	Established to integrated		153
Central Highlands Regional Council	3	3	Integrated		117
Charters Towers Regional Council	-	-	Established		122
Cloncurry Shire Council*	3	3	Developing to established		Not complete
Cook Shire Council*	2	2	Established		168
Etheridge Shire Council*	3	3	Developing		138
Isaac Regional Council	2	-	Established to integrated		123
Maranoa Regional Council	2	1	Established		96
McKinlay Shire Council	1	1	Integrated		118
Mount Isa City Council	4	3	Established to integrated		123
Quilpie Shire Council	-	-	Established		74
Western Downs Regional Council	-	-	Integrated		110

Notes:
* For councils who had not completed their financial statements by 31 October 2023:

- the total unresolved significant deficiencies include only those reported by 31 October. These numbers are expected to increase as these councils complete their financial statements. Details of weaknesses reported to each council and the updates on the status of these issues are generally available on individual council websites
- the overall financial sustainability is assessed using their results from their most recently available audited financial statements.

Refer also to Appendix L which explains the new financial sustainability measures and associated benchmarks that will apply to councils from 1 July 2023.

Source: Queensland Audit Office.

Key:
Total SD = Total significant deficiencies
O/S SD = Number of significant deficiencies outstanding longer than 12 months at 30 June 2023
FS Maturity = Financial statement maturity levels
FSR = Financial sustainability risk
Days = Number of days to have audit opinon certified from 30 June 2023 (number of days between 30 June and 31 October is 123)

Rural/Regional councils	Internal controls		FS Maturity	FSR	Days
	Total SD	O/S SD			
Rural/Regional councils					
Goondiwindi Regional Council	1	-	Integrated		61
Lockyer Valley Regional Council	-	-	Integrated		116
Mareeba Shire Council	-	-	Established		96
North Burnett Regional Council	6	5	Established		118
Scenic Rim Regional Council	2	1	Established to integrated		98
Somerset Regional Council	-	-	Established		112
South Burnett Regional Council	-	-	Established to integrated		109
Southern Downs Regional Council	1	-	Integrated		123
Tablelands Regional Council	-	-	Integrated		123

Notes:

* For councils who had not completed their financial statements by 31 October 2023:

- the total unresolved significant deficiencies include only those reported by 31 October. These numbers are expected to increase as these councils complete their financial statements. Details of weaknesses reported to each council and the updates on the status of these issues are generally available on individual council websites
- the overall financial sustainability is assessed using their results from their most recently available audited financial statements.

Refer also to Appendix L which explains the new financial sustainability measures and associated benchmarks that will apply to councils from 1 July 2023.

Source: Queensland Audit Office.

Key:
Total SD = Total significant deficiencies
O/S SD = Number of significant deficiencies outstanding longer than 12 months at 30 June 2023
FS Maturity = Financial statement maturity levels
FSR = Financial sustainability risk
Days = Number of days to have audit opinon certified from 30 June 2023 (number of days between 30 June and 31 October is 123)

Rural/Remote	Internal controls		FS Maturity	FSR	Days
	Total SD	O/S SD			
Rural/Remote					
Balonne Shire Council	-	-	Integrated to established		118
Barcaldine Regional Council*	2	1	Established		Not complete
Barcoo Shire Council	2	2	Established		110
Blackall-Tambo Regional Council*	-	-	Established		165
Boulia Shire Council	2	-	Integrated		123
Carpentaria Shire Council	6	6	Established		122
Croydon Shire Council	2	2	Developing		118
Diamantina Shire Council*	-	-	Established		Not complete
Flinders Shire Council	-	-	Established		123
Longreach Regional Council	-	-	Established		116
Murweh Shire Council	-	-	Established to integrated		115
Paroo Shire Council	3	1	Established to integrated		105
Richmond Shire Council	1	1	Developing to established		118
Winton Shire Council	-	-	Integrated		116

Notes:
* For councils who had not completed their financial statements by 31 October 2023:

- the total unresolved significant deficiencies include only those reported by 31 October. These numbers are expected to increase as these councils complete their financial statements. Details of weaknesses reported to each council and the updates on the status of these issues are generally available on individual council websites
- the overall financial sustainability is assessed using their results from their most recently available audited financial statements.

Refer also to Appendix L which explains the new financial sustainability measures and associated benchmarks that will apply to councils from 1 July 2023.

Source: Queensland Audit Office.

Key:
Total SD = Total significant deficiencies
O/S SD = Number of significant deficiencies outstanding longer than 12 months at 30 June 2023
FS Maturity = Financial statement maturity levels
FSR = Financial sustainability risk
Days = Number of days to have audit opinon certified from 30 June 2023 (number of days between 30 June and 31 October is 123)

South East Queensland councils	Internal controls		FS Maturity	FSR	Days
	Total SD	O/S SD			
South East Queensland councils					
Brisbane City Council	-	-	Integrated to optimised.		49
Council of the City of Gold Coast	1	1	Established to integrated		74
Ipswich City Council	-	-	Integrated		108
Logan City Council	3	1	Established to integrated		87
Moreton Bay City Council	1	1	Integrated		101
Redland City Council	-	-	Integrated		74
Sunshine Coast Regional Council	2	1	Established to integrated		103
Toowoomba Regional Council	3	2	Established to integrated		91

Notes:

Details of weaknesses reported to each council and the updates on the status of these issues are generally available on individual council websites.

Refer also to Appendix L which explains the new financial sustainability measures and associated benchmarks that will apply to councils from 1 July 2023.

Source: Queensland Audit Office.

K. Current financial sustainability measures

Figure K1 details the current ratios (measures) used in the local government sector to indicate short-term and long-term financial sustainability. The guidelines quoted in the target range were issued by the Department of Housing, Local Government, Planning and Public Works (the department).

Figure K1
Financial sustainability measures for councils

<table>
<tr><th>Measure</th><th>Formula</th><th>Description</th><th>Target range</th></tr>
<tr><td rowspan="2">Operating surplus ratio</td><td>Net operating result divided by total operating revenue (excludes capital items)
Expressed as a percentage</td><td>Indicates the extent to which operational revenues raised cover operational expenses</td><td>Between zero and 10 per cent – per department-issued guidelines</td></tr>
<tr><td colspan="3">A negative result indicates an operating deficit, and the larger the negative percentage, the worse the result. Operating deficits cannot be sustained in the long term. A positive percentage indicates that surplus revenue is available to support the funding of capital expenses, or to hold in reserve to offset past or future operating deficits.
We consider councils as financially sustainable when they consistently achieve an operating surplus and expect that they can do so in the future, having regard to asset management and community service level needs.</td></tr>
<tr><td rowspan="2">Net financial liabilities ratio</td><td>Total liabilities less current assets divided by total operating revenue
Expressed as a percentage</td><td>Indicates the extent to which a council's operating revenues (including grants and subsidies) can cover its net financial liabilities (usually loans and leases)</td><td>Not greater than 60 per cent – per department-issued guidelines</td></tr>
<tr><td colspan="3">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.</td></tr>
<tr><td rowspan="2">Asset sustainability ratio</td><td>Capital expenses on replacement of assets (renewals) divided by depreciation expenses
Expressed as a percentage</td><td>Indicates the extent to which assets are being replaced as they reach the end of their useful lives</td><td>Greater than 90 per cent – per department-issued guidelines</td></tr>
<tr><td colspan="3">If the asset sustainability ratio is greater than 90 per cent, the council is likely to be sufficiently maintaining, replacing, and/or renewing its assets as they reach the end of their useful lives.
While a low percentage may indicate that the asset base is relatively new (which may result from rectifying extensive natural disaster damage) and does not require replacement, the lower the percentage, the more likely it is that a council has inadequate asset management plans and practices.</td></tr>
</table>

Source: Queensland Audit Office.

Figure K2 details our risk assessment criteria for the financial sustainability measures.

Figure K2
Risk assessment criteria for financial sustainability measures

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

Source: Queensland Audit Office.

We calculate our overall risk assessment of financial sustainability using the ratings determined for each measure, as shown in Figure K1, and the assignment of the risk assessment criteria, as shown in Figure K2.

Figure K3
Explanations of our relative risk assessments

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

Source: Queensland Audit Office.

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

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

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

Figure K4
Financial sustainability risk assessment by council category: Results at the end of 2022–23

Coastal councils	Avg. grant funding percentage[1]	Current operating surplus ratio %	Avg. operating surplus ratio %	Avg operating surplus ratio trend[2]	Net financial liabilities ratio %	Net financial liabilities ratio trend	Current asset sustainability ratio %	Avg. asset sustainability ratio %	Avg. asset sustainability ratio trend[2]	Relative risk assessment
Coastal councils										
Bundaberg Regional Council	19%	0.40%	2.96%	↓	-15.30%	–	54.80%	45.96%	↓	Moderate
Burdekin Shire Council	25%	9.74%	5.05%	–	-82.04%	↑	77.13%	91.55%	↓	Lower
Cairns Regional Council	17%	0.00%	-0.23%	–	47.00%	↑	67.00%	88.40%	↓	Moderate
Cassowary Coast Regional Council	24%	2.00%	-1.49%	–	-38.00%	↑	73.00%	91.20%	–	Lower
Douglas Shire Council	26%	4.00%	-1.23%	↑	-36.00%	↑	94.00%	103.60%	↓	Lower
Fraser Coast Regional Council	23%	-1.44%	0.16%	↓	-20.78%	↓	44.49%	88.03%	↓	Lower
Gladstone Regional Council	14%	5.44%	-1.10%	↑	20.78%	↑	88.78%	69.09%	↑	Moderate
Gympie Regional Council*	27%	-0.68%	-4.43%	–	-13.55%	↓	33.28%	98.98%	–	Moderate
Hinchinbrook Shire Council	36%	1.40%	-10.28%	↑	-23.40%	↑	63.00%	77.32%	↑	Higher
Livingstone Shire Council	27%	1.16%	2.41%	–	-21.30%	↑	70.57%	55.18%	↑	Lower
Mackay Regional Council	19%	-1.50%	-0.04%	–	9.60%	↓	63.60%	66.68%	–	Moderate
Noosa Shire Council	16%	3.18%	6.62%	↓	-11.54%	↓	158.59%	123.43%	↑	Lower
Rockhampton Regional Council	25%	-0.10%	0.80%	↓	51.20%	↓	73.20%	87.90%	↓	Lower
Townsville City Council	27%	-3.00%	-0.40%	↓	84.00%	↓	116.00%	78.80%	↑	Moderate
Whitsunday Regional Council	36%	6.04%	3.96%	–	-13.24%	↑	79.97%	133.53%	↓	Lower
Coastal councils average	**24%**	**1.78%**	**0.18%**		**-4.17%**		**77.16%**	**86.64%**		
Coastal councils – combined risk assessment		**Lower**			**Lower**		**Moderate**			**Lower**

Notes:

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

[2] Average ratio trend compares the average ratio from 2022–23 with the average ratio from 2021–22. Trends should be considered in conjunction with the Department of Housing, Local Government, Planning and Public Works's set benchmarks, and the analysis performed and explained in Chapter 5.

* The 2022–23 audit for this council was unfinished at 31 October 2023. The sustainability measures reported were based on the most recent audited financial statements of this council.

Refer also to Figures K1, K2 and K3, which explain the financial sustainability measures and associated benchmarks.

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

Refer also to Appendix L which explains the new financial sustainability measures and associated benchmarks that will apply to councils from 1 July 2023.

Source: Queensland Audit Office.

Indigenous councils	Avg. grant funding percentage[1]	Current operating surplus ratio %	Avg. operating surplus ratio %	Avg operating surplus ratio trend[2]	Net financial liabilities ratio %	Net financial liabilities ratio trend	Current asset sustainability ratio %	Avg. asset sustainability ratio %	Avg. asset sustainability ratio trend[2]	Relative risk assessment
Indigenous councils										
Aurukun Shire Council	58%	-12.00%	-11.80%	↑	-83.00%	↑	13.00%	10.40%	↓	Higher
Cherbourg Aboriginal Shire Council	58%	-46.26%	-14.97%	↓	-22.89%	↑	13.94%	101.80%	↓	Higher
Doomadgee Aboriginal Shire Council	62%	12.00%	-12.40%	↑	-41.00%	↑	140.00%	75.00%	↑	Higher
Hope Vale Aboriginal Shire Council	51%	15.00%	9.31%	↑	-180.00%	↓	104.00%	89.40%	–	Lower
Kowanyama Aboriginal Shire Council	70%	-5.00%	-30.27%	↑	-45.00%	↑	117.00%	110.42%	↑	Higher
Lockhart River Aboriginal Shire Council*	74%	-8.00%	-3.36%	–	-54.00%	↓	136.00%	90.60%	–	Moderate
Mapoon Aboriginal Shire Council	72%	-3.00%	-24.14%	↑	-55.00%	–	0.00%	47.40%	↓	Higher
Mornington Shire Council*	43%	-10.70%	-26.59%	–	-16.00%	–	92.60%	194.54%	–	Higher
Napranum Aboriginal Shire Council	66%	-5.00%	-17.89%	–	-30.00%	↓	20.00%	17.20%	↓	Higher
Northern Peninsula Area Regional Council*	52%	-28.00%	-15.00%	–	-10.00%	–	57.00%	64.44%	–	Higher
Palm Island Aboriginal Shire Council*	63%	21.38%	-8.06%	–	-13.29%	–	118.55%	83.91%	–	Moderate
Pormpuraaw Aboriginal Shire Council	60%	9.00%	6.73%	↓	-245.00%	↓	55.00%	47.00%	↓	Moderate
Torres Shire Council	52%	-3.10%	-16.54%	↑	-66.84%	–	30.65%	82.97%	↓	Higher
Torres Strait Island Regional Council	64%	-84.00%	-83.19%	↓	-22.00%	↓	33.00%	27.40%	↓	Higher
Woorabinda Aboriginal Shire Council*	33%	-0.90%	-15.41%	–	-41.90%	–	104.40%	34.25%	–	Higher
Wujal Wujal Aboriginal Shire Council*	65%	-30.00%	-29.29%	–	54.00%	↑	41.00%	80.00%	–	Higher
Yarrabah Aboriginal Shire Council	51%	-23.00%	-32.80%	–	-30.00%	↑	32.00%	36.20%	↓	Higher
Indigenous councils average	**58%**	**-11.86%**	**-19.16%**		**-53.05%**		**65.18%**	**70.17%**		
Indigenous councils – combined risk assessment		**Higher**			**Lower**		**Moderate**			**Higher**

Notes:

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

2 Average ratio trend compares the average ratio from 2022–23 with the average ratio from 2021–22. Trends should be considered in conjunction with the Department of Housing, Local Government, Planning and Public Works's set benchmarks, and the analysis performed and explained in Chapter 5.

* The 2022–23 audit for this council was unfinished at 31 October 2023. The sustainability measures reported were based on the most recent audited financial statements of this council.

^ Palm Island Aboriginal Shire Council's ratios are based on the 2020–21 financial statements (more recently audited), for which the sustainability statement was qualified. The qualification impacts on the calculation of both the Operating Surplus Ratio and Net Financial Liabilities Ratio.

Refer also to Figures K1, K2 and K3, which explain the financial sustainability measures and associated benchmarks.

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

Refer also to Appendix L which explains the new financial sustainability measures and associated benchmarks that will apply to councils from 1 July 2023.

Source: Queensland Audit Office.

Resources councils	Avg. grant funding percentage[1]	Current operating surplus ratio %	Avg. operating surplus ratio %	Avg operating surplus ratio trend[2]	Net financial liabilities ratio %	Net financial liabilities ratio trend	Current asset sustainability ratio %	Avg. asset sustainability ratio %	Avg. asset sustainability ratio trend[2]	Relative risk assessment
Resources councils										
Banana Shire Council	32%	21.28%	1.11%	↑	-25.91%	↑	104.19%	85.19%	↓	Lower
Bulloo Shire Council	62%	8.50%	-2.40%	–	-87.70%	↑	17.10%	51.56%	↓	Moderate
Burke Shire Council*	76%	-21.20%	-40.23%	–	-38.60%	↓	82.30%	85.38%	–	Higher
Central Highlands Regional Council	19%	2.07%	-1.13%	–	-9.95%	↑	73.23%	101.94%	↓	Lower
Charters Towers Regional Council	51%	4.00%	2.48%	↑	-55.00%	↓	60.00%	117.00%	↓	Lower
Cloncurry Shire Council*	52%	-15.62%	-8.90%	–	-23.24%	↓	87.55%	172.71%	–	Moderate
Cook Shire Council	84%	2.00%	-22.58%	–	-7.00%	↓	8.00%	67.75%	–	Higher
Etheridge Shire Council*	54%	1.85%	-2.71%	–	-32.68%	↓	0.00%	8.97%	–	Moderate
Isaac Regional Council	22%	4.46%	3.07%	–	-18.20%	↓	70.47%	143.56%	↓	Lower
Maranoa Regional Council	42%	-0.26%	3.23%	↑	-54.35%	–	83.52%	146.51%	↑	Lower
McKinlay Shire Council	71%	11.62%	-2.16%	↑	-149.87%	↑	210.37%	316.15%	↓	Moderate
Mount Isa City Council	25%	5.30%	0.05%	–	-44.46%	–	51.00%	51.12%	↓	Lower
Quilpie Shire Council	66%	9.00%	-1.81%	↑	-94.00%	↓	6.00%	35.00%	↓	Moderate
Western Downs Regional Council	25%	11.74%	7.56%	–	-126.34%	↑	127.47%	88.47%	↑	Lower
Resources councils average	**49%**	**3.20%**	**-4.60%**		**-54.81%**		**70.09%**	**105.09%**		
Resources councils – combined risk assessment		**Moderate**			**Lower**		**Lower**			**Moderate**

Notes:

1. Average grant funding percentage shows the 5-year average level of grant funding as a percentage of total revenue per council. This does not form a part of the financial sustainability ratios but has been included for contextual purposes. Refer also to further commentary in Chapter 5, which analyses the financial sustainability by grant funding levels.
2. Average ratio trend compares the average ratio from 2022–23 with the average ratio from 2021–22. Trends should be considered in conjunction with the Department of Housing, Local Government, Planning and Public Works's set benchmarks, and the analysis performed and explained in Chapter 5.

* The 2022–23 audit for this council was unfinished at 31 October 2023. The sustainability measures reported were based on the most recent audited financial statements of this council.

Refer also to Figures K1, K2 and K3, which explain the financial sustainability measures and associated benchmarks.

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

Refer also to Appendix L which explains the new financial sustainability measures and associated benchmarks that will apply to councils from 1 July 2023.

Source: Queensland Audit Office.

Rural/Regional councils	Avg. grant funding percentage[1]	Current operating surplus ratio %	Avg. operating surplus ratio %	Avg operating surplus ratio trend[2]	Net financial liabilities ratio %	Net financial liabilities ratio trend	Current asset sustainability ratio %	Avg. asset sustainability ratio %	Avg. asset sustainability ratio trend[2]	Relative risk assessment
Rural/Regional councils										
Goondiwindi Regional Council	38%	6.71%	2.74%	↑	-78.54%	↑	218.07%	133.76%	↑	Lower
Lockyer Valley Regional Council	29%	17.35%	8.19%	↑	19.98%	↑	164.55%	104.83%	↑	Lower
Mareeba Shire Council	39%	18.20%	14.70%	↑	-107.43%	↑	114.19%	141.85%	↓	Lower
North Burnett Regional Council	48%	-12.60%	-18.45%	–	-30.93%	↑	93.04%	101.81%	↑	Higher
Scenic Rim Regional Council	32%	7.00%	0.49%	–	7.00%	↑	168.00%	158.00%	↓	Lower
Somerset Regional Council	27%	1.00%	-0.29%	–	-41.00%	↓	131.00%	107.80%	↑	Lower
South Burnett Regional Council	28%	-4.50%	-0.28%	–	-13.90%	↑	65.20%	86.14%	–	Moderate
Southern Downs Regional Council	31%	4.07%	1.28%	–	-27.32%	–	152.30%	132.19%	↑	Lower
Tablelands Regional Council	27%	1.12%	0.20%	–	-56.34%	↑	49.99%	87.05%	↓	Lower
Rural/Regional councils average	**33%**	**4.26%**	**0.95%**		**-36.50%**		**128.48%**	**117.05%**		
Rural/Regional councils – combined risk assessment			**Lower**		**Lower**			**Lower**		**Lower**

Notes:

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

2 Average ratio trend compares the average ratio from 2022–23 with the average ratio from 2021–22. Trends should be considered in conjunction with the Department of Housing, Local Government, Planning and Public Works's set benchmarks, and the analysis performed and explained in Chapter 5.

* The 2022–23 audit for this council was unfinished at 31 October 2023. The sustainability measures reported were based on the most recent audited financial statements of this council.

Refer also to Figures K1, K2 and K3, which explain the financial sustainability measures and associated benchmarks.

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

Refer also to Appendix L which explains the new financial sustainability measures and associated benchmarks that will apply to councils from 1 July 2023.

Source: Queensland Audit Office.

Rural/Remote councils	Avg. grant funding percentage[1]	Current operating surplus ratio %	Avg. operating surplus ratio %	Avg operating surplus ratio trend[2]	Net financial liabilities ratio %	Net financial liabilities ratio trend	Current asset sustainability ratio %	Avg. asset sustainability ratio %	Avg. asset sustainability ratio trend[2]	Relative risk assessment
Rural/Remote councils										
Balonne Shire Council	63%	7.10%	-4.39%	↑	-45.20%	↑	74.50%	59.04%	↑	Moderate
Barcaldine Regional Council*	48%	6.83%	-16.04%	–	-27.73%	↓	224.72%	144.05%	–	Higher
Barcoo Shire Council	46%	11.21%	-17.57%	↑	-49.76%	↑	62.16%	64.39%	↓	Higher
Blackall-Tambo Regional Council*	47%	11.00%	-7.98%	–	-53.00%	↓	68.00%	81.20%	–	Moderate
Boulia Shire Council	65%	7.00%	-21.97%	↑	-69.00%	↓	158.00%	89.46%	↑	Higher
Carpentaria Shire Council	68%	-4.71%	-13.13%	↑	-35.54%	↑	25.18%	30.29%	↓	Higher
Croydon Shire Council	80%	4.70%	4.69%	–	-102.60%	↑	78.50%	99.30%	↓	Lower
Diamantina Shire Council*	44%	-19.90%	-9.58%	–	-63.40%	↓	8.20%	45.98%	–	Moderate
Flinders Shire Council	42%	0.96%	9.36%	↓	-82.18%	↑	12.28%	58.75%	↓	Lower
Longreach Regional Council	56%	2.50%	-5.52%	↑	-30.20%	↑	94.10%	81.27%	↓	Moderate
Murweh Shire Council	60%	-5.30%	-10.80%	↑	-10.80%	↑	74.00%	87.86%	↓	Higher
Paroo Shire Council	74%	3.54%	-13.89%	↑	-60.76%	↑	42.21%	52.80%	↓	Higher
Richmond Shire Council	58%	-7.58%	-17.34%	↑	-47.06%	↑	111.66%	164.19%	↑	Higher
Winton Shire Council	62%	1.96%	-4.07%	↑	-98.07%	↓	202.99%	280.84%	↑	Moderate
Rural/Remote councils average	**58%**	**1.38%**	**-9.16%**		**-55.38%**		**88.32%**	**95.67%**		
Rural/Remote councils – combined risk assessment		**Moderate**			**Lower**		**Lower**			**Moderate**

Notes:

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

2 Average ratio trend compares the average ratio from 2022–23 with the average ratio from 2021–22. Trends should be considered in conjunction with the Department of Housing, Local Government, Planning and Public Works's set benchmarks, and the analysis performed and explained in Chapter 5.

* The 2022–23 audit for this council was unfinished at 31 October 2023. The sustainability measures reported were based on the most recent audited financial statements of this council.

Refer also to Figures K1, K2 and K3, which explain the financial sustainability measures and associated benchmarks.

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

Refer also to Appendix L which explains the new financial sustainability measures and associated benchmarks that will apply to councils from 1 July 2023.

Source: Queensland Audit Office.

South East Queensland councils	Avg. grant funding percentage[1]	Current operating surplus ratio %	Avg. operating surplus ratio %	Avg operating surplus ratio trend[2]	Net financial liabilities ratio %	Net financial liabilities ratio trend	Current asset sustainability ratio %	Avg. asset sustainability ratio %	Avg. asset sustainability ratio trend[2]	Relative risk assessment
South East Queensland councils										
Brisbane City Council	14%	0.00%	1.25%	↓	143.00%	↓	67.00%	65.80%	↓	Moderate
Council of the City of Gold Coast	16%	-2.60%	-1.12%	–	-10.20%	↓	64.00%	61.24%	↑	Moderate
Ipswich City Council	32%	1.52%	2.59%	↓	71.58%	↓	86.92%	69.26%	↑	Moderate
Logan City Council	21%	1.67%	1.70%	–	2.28%	↓	106.13%	77.55%	↑	Lower
Moreton Bay City Council	24%	6.90%	14.19%	↓	27.00%	↓	61.50%	62.78%	–	Lower
Redland City Council	10%	2.06%	-1.38%	↑	-48.80%	↑	53.72%	50.94%	–	Moderate
Sunshine Coast Regional Council	25%	3.70%	5.31%	↓	59.60%	–	70.40%	72.06%	–	Lower
Toowoomba Regional Council	22%	1.24%	0.88%	–	43.25%	↑	55.77%	69.54%	↑	Lower
SEQ councils average	**21%**	**1.81%**	**2.93%**		**35.96%**		**70.68%**	**66.15%**		
SEQ councils – combined risk assessment			**Lower**		**Lower**			**Moderate**		**Lower**

Notes:

1. Average grant funding percentage shows the 5-year average level of grant funding as a percentage of total revenue per council. This does not form a part of the financial sustainability ratios but has been included for contextual purposes. Refer also to further commentary in Chapter 5, which analyses the financial sustainability by grant funding levels.
2. Average ratio trend compares the average ratio from 2022–23 with the average ratio from 2021–22. Trends should be considered in conjunction with the Department of Housing, Local Government, Planning and Public Works's set benchmarks, and the analysis performed and explained in Chapter 5.

* The 2022–23 audit for this council was unfinished at 31 October 2023. The sustainability measures reported were based on the most recent audited financial statements of this council.

Refer also to Figures K1, K2 and K3, which explain the financial sustainability measures and associated benchmarks.

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

Refer also to Appendix L which explains the new financial sustainability measures and associated benchmarks that will apply to councils from 1 July 2023.

Source: Queensland Audit Office.

L. Future financial sustainability measures

The Department of Housing, Local Government, Planning and Public Works has introduced a new sustainability guideline – *Financial Management (Sustainability) Guideline (2023)* – that will apply from the 2023–24 financial year onwards.

The new guideline has considered the challenges that councils face, especially in rural and remote areas, and introduces additional ratios to measure financial sustainability. This guideline groups councils into tiers (based on their remoteness and their population) as shown in Figure L1.

Figure L1
Sustainability groupings of councils that apply from 1 July 2023

Tier 1 councils (1 council)					Population of 1,000,000 or more residents
Brisbane CC					
Tier 2 councils (11 councils)					Population between 100,000 and 999,999 residents
Cairns RC	Gold Coast CC	Fraser Coast RC	Ipswich CC	Logan CC	Mackay RC
Moreton Bay CC	Redland CC	Sunshine Coast RC	Toowoomba RC	Townsville CC	
Tier 3 councils (7 councils)					Population between 40,000 and 99,999 residents
Bundaberg RC	Gladstone RC	Gympie RC	Lockyer Valley RC	Noosa SC	Rockhampton RC
Scenic Rim RC					
Tier 4 councils (11 councils)					Population between 20,000 and 39,999 residents
Cassowary Coast RC	Central Highlands RC	Isaac RC	Livingstone SC	Mareeba SC	Somerset RC
South Burnett RC	Southern Downs RC	Tablelands RC	Western Downs RC	Whitsunday RC	
Tier 5 councils (9 councils)					Population between 10,000 and 19,999 residents
Banana SC	Burdekin SC	Charters Towers RC	Douglas SC	Goondiwindi RC	Hinchinbrook SC
Maranoa RC	Mount Isa CC	North Burnett RC			
Tier 6 councils (7 councils)					Population between 2,000 and 9,999 residents
Balonne SC	Barcaldine RC	Cloncurry SC	Cook SC	Longreach RC	Murweh SC
Torres SC					
Tier 7 councils (15 councils)					Population between 0 and 1,999 residents
Barcoo SC	Blackall-Tambo RC	Boulia SC	Bulloo SC	Burke SC	Carpentaria SC
Croydon SC	Diamantina SC	Etheridge SC	Flinders SC	McKinlay SC	Paroo SC
Quilpie SC	Richmond SC	Winton SC			
Tier 8 councils (16 councils)					Population less than 10,000 residents
Aurukun SC	Cherbourg ASC	Doomadgee ASC	Hope Vale ASC	Kowanyama ASC	Lockhart River ASC
Mapoon ASC	Mornington SC	Napranum ASC	Northern Peninsula Area RC	Palm Island ASC	Pormpuraaw ASC
Torres Strait Island RC	Woorabinda ASC	Wujal Wujal ASC	Yarrabah ASC		

Note: ASC = Aboriginal Shire Council; CC = City Council; RC = Regional Council, SC = Shire Council.

Source: Compiled by the Queensland Audit Office, using the Department of Housing, Local Government, Planning and Public Works's Financial Management (Sustainability) Guideline (2023).

Sustainability measures

The new guideline has 9 ratios on which councils are required to report in their financial sustainability statements, as a part of the financial statements. The council-controlled revenue, population growth, and asset renewal funding ratio measures are reported by councils for contextual purposes only and will not be audited by us.

We have summarised the 6 ratios that we will audit, including the target benchmarks in Figure L2.

Figure L2
The financial sustainability ratios we will audit and benchmarks per the new financial sustainability guidelines

Ratio (measure)	Description	Formula	Tier 1	Tier 2	Tier 3	Tier 4	Tier 5	Tier 6	Tier 7	Tier 8
Operating surplus ratio	An indicator of the extent to which operating revenues generated cover operational expenses.	*Operating results divided by Operating expenses* Expressed as percentage	> 0%	> 0%	> 0%	> 0%	> -2%	N/A *	N/A *	N/A *
Operating cash ratio	Measure of council's ability to cover its core operational expenses	*Operating results plus depreciation and amortisation divided by Operating revenue* Expressed as percentage	>0%	>0%	>0%	>0%	>0%	>0%	>0%	>0%
Unrestricted cash expense cover ratio	Indicator of the unconstrained liquidity available to council to meet ongoing and emergent financial demands	*[Total cash & cash equivalents plus current investments plus available QTC working capital facility less externally restricted cash] divided by [Total operating expenditure less depreciation and amortisation less finance costs]*	>2	>2	>3	>4	>4	>4	>4	>4
Asset sustainability ratio	Indicates the extent to which assets are being replaced as they reach the end of their useful lives	*Capital expenses on replacement of assets (renewals) divided by depreciation expenses* Expressed as a percentage	>50%	>60%	>80%	>80%	>90%	>90%	>90%	>90%
Asset consumption ratio	Measures the extent to which council's infrastructure assets have been consumed compared what it would cost to build a new asset with the same benefit to the community	*Written down replacement cost of depreciable infrastructure assets divided by gross replacement cost of depreciable infrastructure assets* Expressed as a percentage	>60%	>60%	>60%	>60%	>60%	>60%	>60%	>60%
Leverage ratio	Indicator of council's ability to repay its debts	*Book value of debt divided by Operating results plus depreciation and amortisation* Expressed in times	0–5	0–4	0–3	0–3	0–3	0–3	0–3	0–3

Note: * Under the department's guidelines, for tiers 6 to 8, the operating surplus ratio is contextual only – meaning that although these councils need to report this ratio, they do not have a benchmark for this ratio to measure their performance against.

Source: Department of Housing, Local Government, Planning and Public Works's Financial Management (Sustainability) Guideline (2023).

In the following tables, we have replicated how these ratios would be presented under the department's risk framework. We have not applied our own risk assessment over these ratios.

Figure L3
Operating surplus ratio

Councils in Tier 1 to Tier 4

Benchmark 0%

Tier 1 (1 council)					1 council
Tier 2 (11 councils)		1 council	2 councils	4 councils	4 councils
Tier 3 (7 councils)		2 councils		1 council	4 councils
Tier 4 (11 councils)		1 council	2 councils	2 councils	6 councils
Threshold	**< -5%**	**-5% to -2%**	**-2% to 0%**	**0% to 2%**	**>2%**

Councils in Tier 5

Benchmark negative 2%

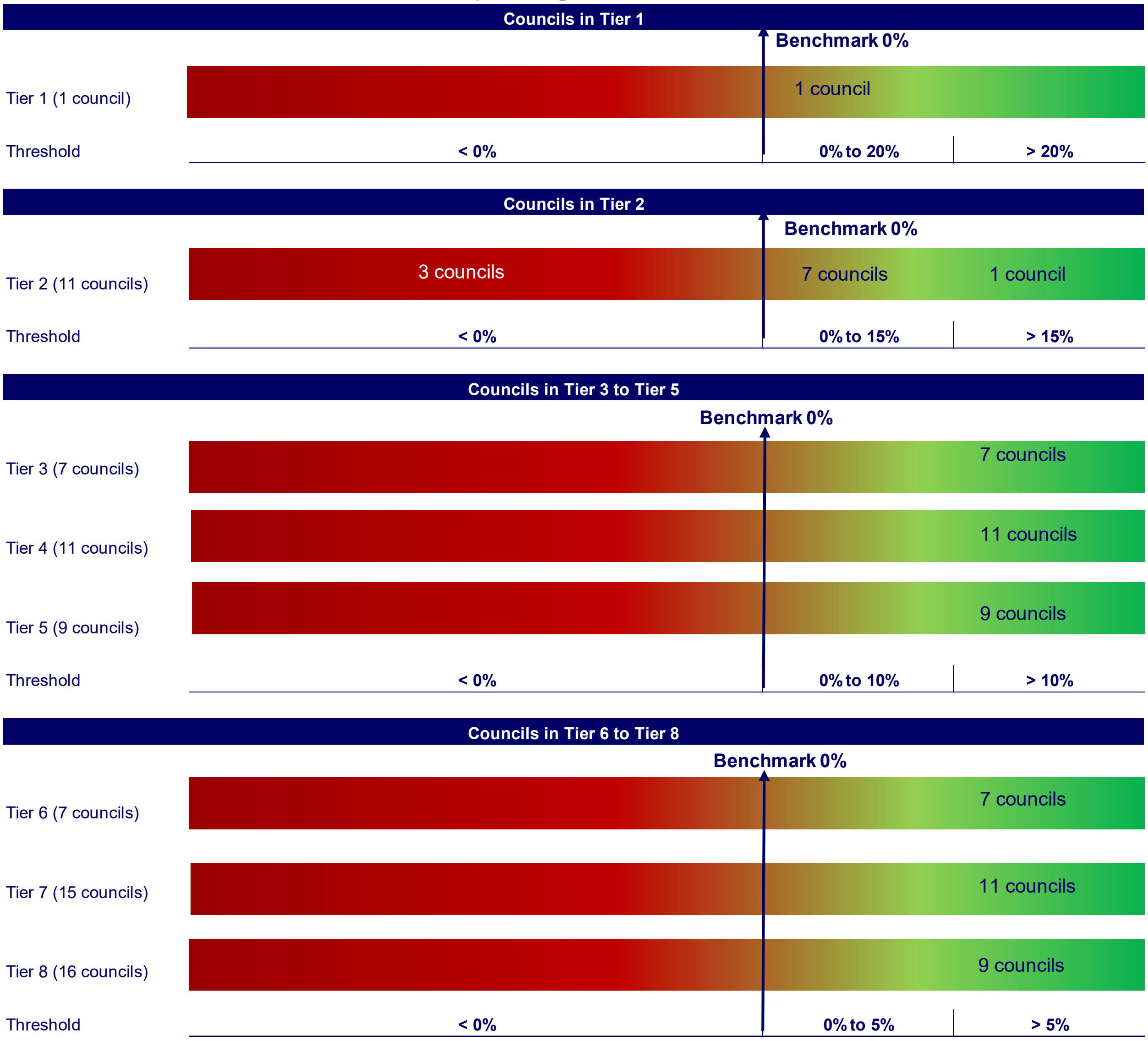
Tier 5 (9 councils)	2 councils		2 councils		5 councils
Threshold	**< -10%**	**-10% to -5%**	**-5% to -2%**	**-2% to 0%**	**>0%**

Council in Tier 6 to Tier 8 (38 councils)

Councils in these tiers do not have a benchmark against which they need to measure their operating surplus ratios.

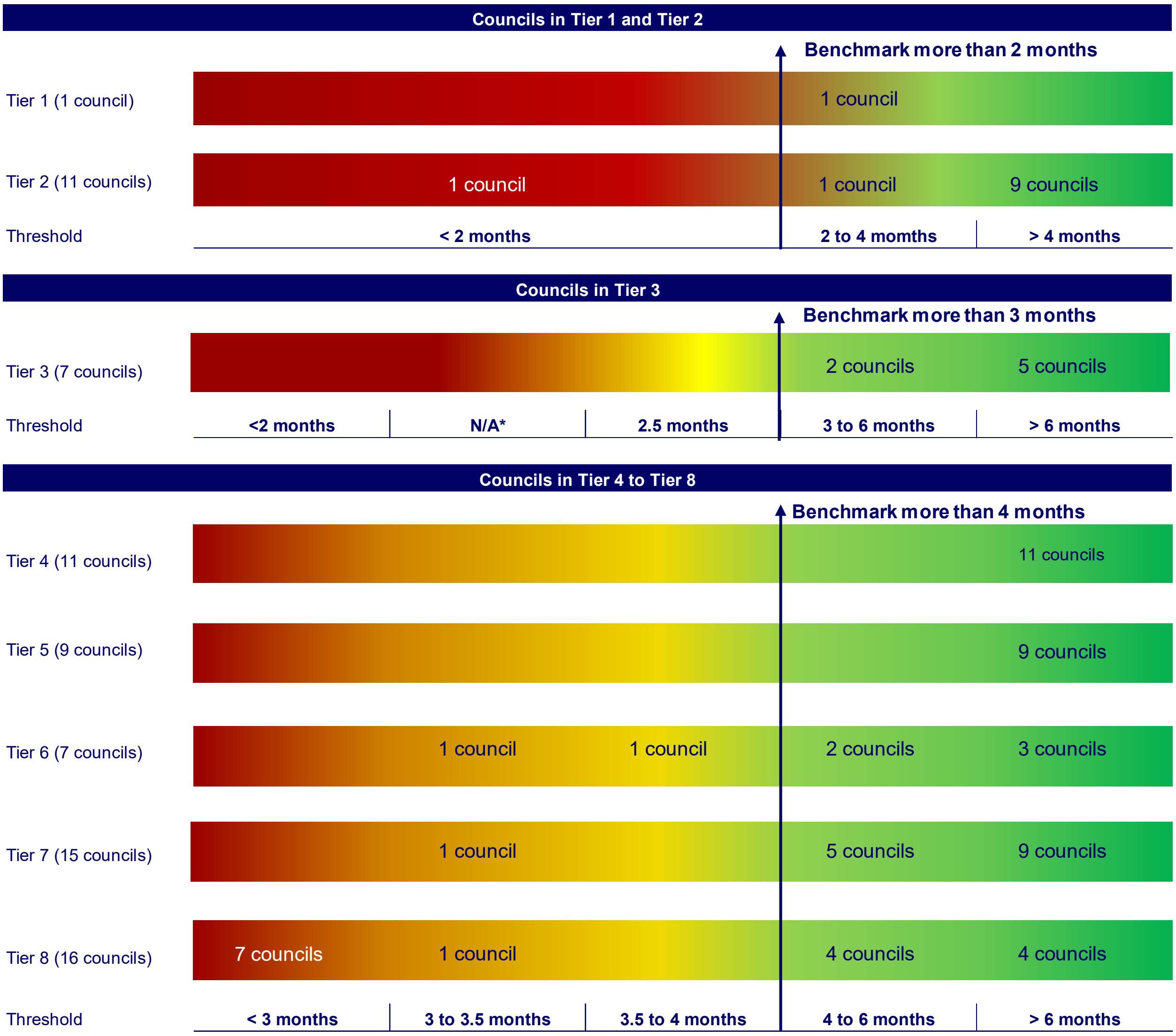
Source: Compiled by the Queensland Audit Office, from councils' certified financial statements available 31 October 2023 – refer to Appendix C for further information.

Figure L4
Operating cash ratio



Source: Compiled by the Queensland Audit Office, from councils' certified financial statements available 31 October 2023 – refer to Appendix C for further information.

Figure L5
Unrestricted cash expense cover ratio



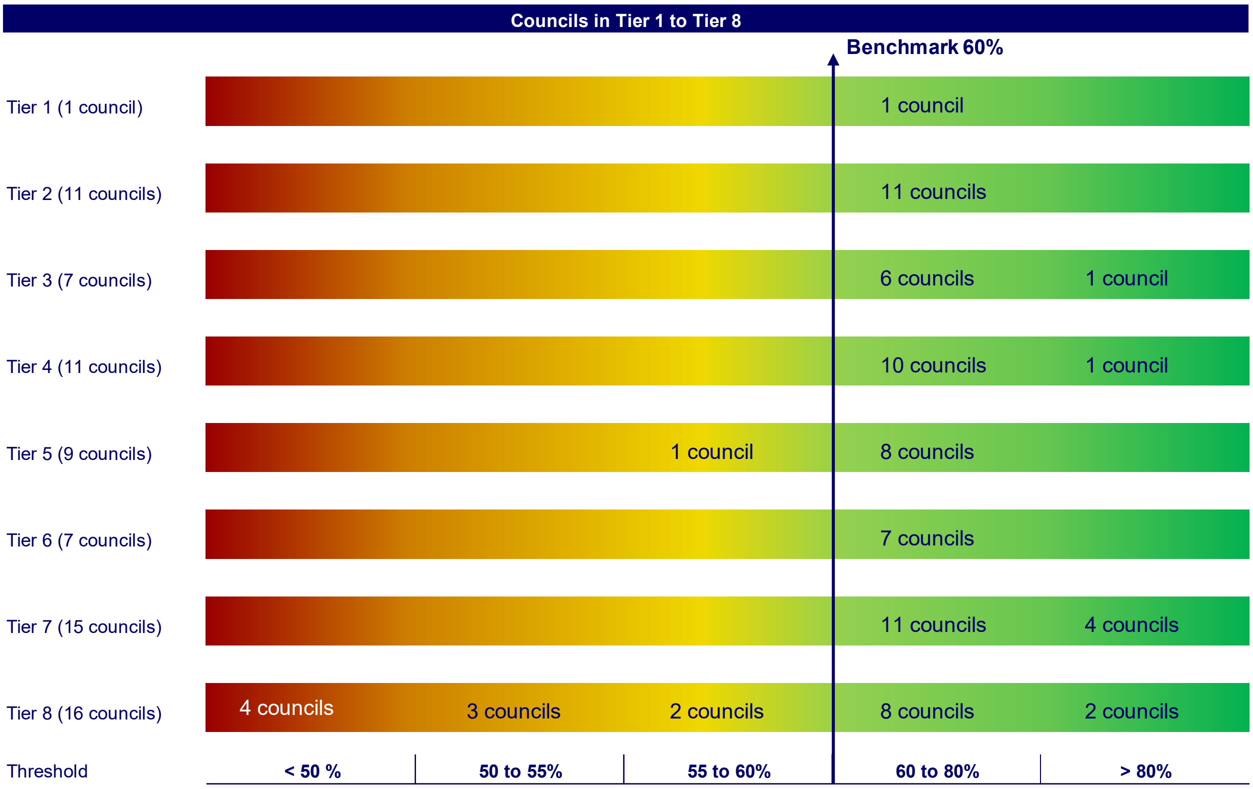
* The N/A range included in tier 3 is per the department's Risk Framework – Financial Sustainability.

Source: Compiled by the Queensland Audit Office, from councils' certified financial statements available 31 October 2023 – refer to Appendix C for further information.

Figure L6
Asset sustainability ratio

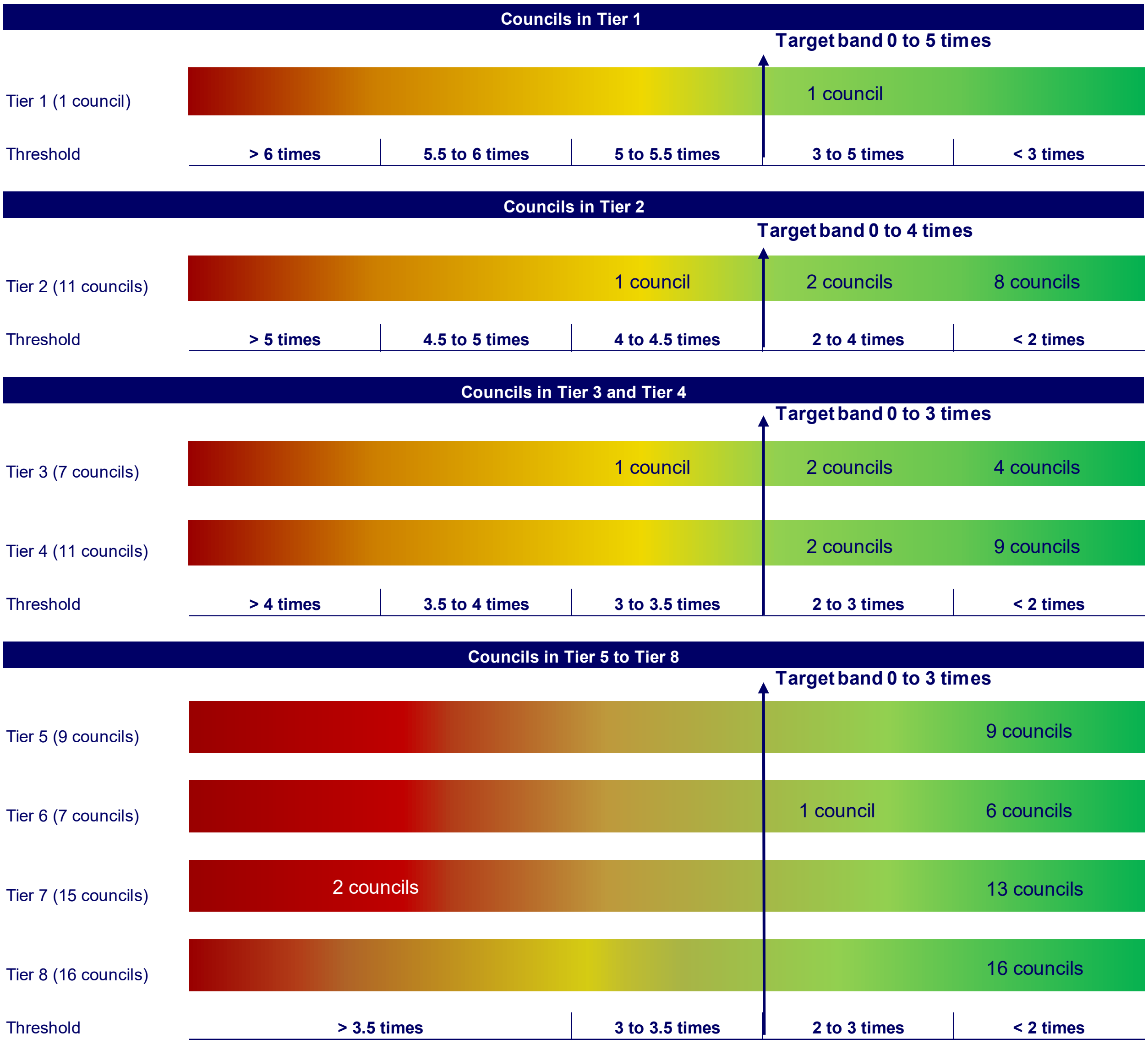
Source: Compiled by the Queensland Audit Office, from councils' certified financial statements available 31 October 2023 – refer to Appendix C for further information.

Figure L7
Asset consumption ratio



Source: Compiled by the Queensland Audit Office, from councils' certified financial statements available 31 October 2023 – refer to Appendix C for further information.

Figure L8
Leverage ratio



Source: Compiled by the Queensland Audit Office, from councils' certified financial statements available 31 October 2023 – refer to Appendix C for further information.

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