

Agenda – Late Items

Ordinary Meeting

Tuesday, 8 June 2021

Time: 9.15am
Location: Former Boonah Council Chambers
70 High Street
BOONAH QLD 4310

Please note: In accordance with Section 277E of the *Local Government Regulation 2012*, this meeting will be closed to the public due to health and safety reasons associated with the public health emergency involving COVID-19.

An audio recording will be broadcast on Council's website.

**Scenic Rim Regional Council
Ordinary Meeting
Tuesday, 8 June 2021
Agenda – Late Items**

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10 Consideration of Business of Meeting


Additional Items

10.4 2021 Interim Report to the Mayor - Scenic Rim Regional Council

Executive Officer: General Manager Council Sustainability

Item Author: Coordinator Financial Management

Attachments:

1. Scenic Rim Regional Council - 2021 Interim Report to the Mayor [↓](#) 

Executive Summary

The purpose of this report is to present the Auditor-General's interim observation report relating to the audit of Council's Financial Statements for 2020-2021.

Recommendation

That Council receive the Auditor-General's interim observation report relating to the audit of Council's 2020-2021 Financial Statements.

Previous Council Considerations / Resolutions

Nil.

Report / Background

The Auditor-General must prepare an observation report about the audit of a local government's financial statements in accordance with section 54 of the *Auditor-General Act 2009*.

In accordance with the *Local Government Regulation 2012*, the Mayor must present the Auditor-General's observation report about the audit of the Council.

The report provides an analysis of the work undertaken (to date) by external auditors as part of their audit of Council's Financial Statements for 2020-2021. The purpose of the interim phase is to assess the design and implementation of Council's internal controls, and whether they are operating effectively.

As contained in the report - there are no significant deficiencies in Council's internal controls that have been identified.

The external auditors will commence their year-end visit on 16 August 2021 with an expectation on having the Financial Statements for 2020-2021 being signed-off by the Auditor-General on 30 September 2021.

The Final Management Report is also due to be provided back to Council on 30 September 2021.

Budget / Financial Implications

The External Audit Fee was estimated to be in the amount of \$138,000 (exclusive of GST) at the time the External Audit Plan was agreed to with Council in January 2021.

Strategic Implications

Operational Plan

Theme: 3. Open and Responsive Government

Key Area of Focus: 3.1.2 Provide streamlined and practical regulatory services that deliver improved access for the community

Legal / Statutory Implications

Under section 213 of the *Local Government Regulation 2012*, Council must present a copy of this report at its next Ordinary Meeting.

Risks

Strategic Risks

The following Level 1 and Level 2 (strategic) risks are relevant to the matters considered in this report:

SR47 Inadequate or lack of an appropriate Financial Management Framework (including systems, policies, procedures and controls) in place to adequately minimise risk of fraudulent action and to maximise financial sustainability.

Risk Assessment

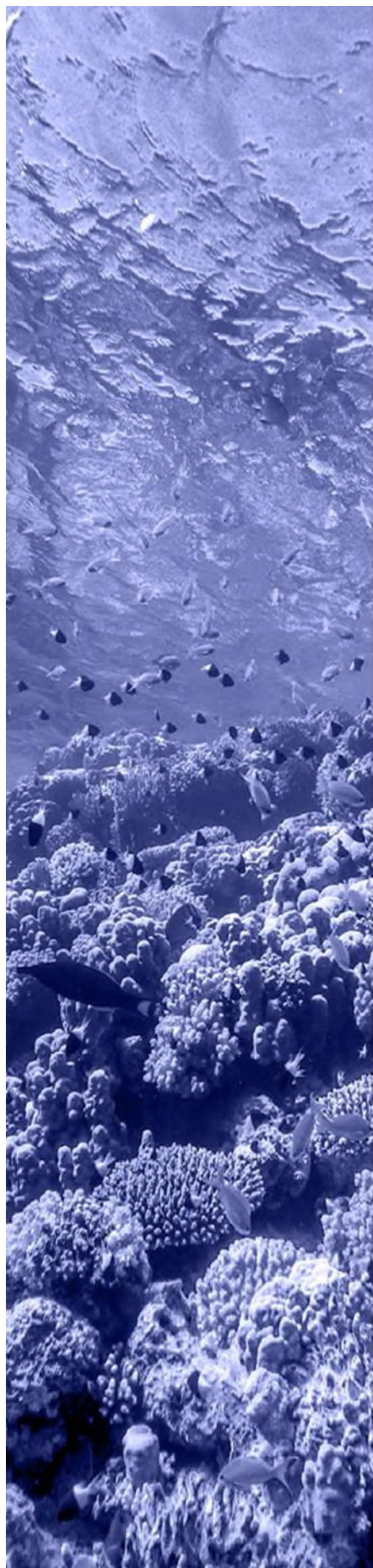
Category	Consequence	Likelihood	Inherent Risk Rating	Treatment of risks	Residual Risk Rating
Governance, Risk & Compliance Elected members unaware of recommendations of Auditor-General in relation to Local Government	2 Minor	Possible	Medium	Providing regular updates to elected members.	Low

Consultation

Nil

Conclusion

In accordance with section 213(3) of the *Local Government Regulation 2012*, the Mayor must present the Auditor-General's observation report at the next ordinary meeting of the local government.



Scenic Rim Regional Council

2021 Interim report to the Mayor

30 April 2021

Our ref: 5-200
Ashley Carle - 3222 9787

30 April 2021

Cr Greg Christensen
Mayor
Scenic Rim Regional Council
82 Brisbane Street
Beaudesert QLD 4285

Dear Mayor Christensen

2021 Interim report

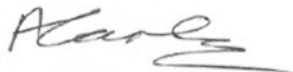
We present to you our interim report for Scenic Rim Regional Council for the financial year ending 30 June 2021. This report details the results of our interim work performed to 31 January 2021. In this phase we assess the design and implementation of your internal controls, and whether they are operating effectively. To date our work has not identified any significant deficiencies in your internal controls.

Please note that under section 213 of the *Local Government Regulation 2012*, you must present a copy of this report at your council's next ordinary meeting.

The *Auditor-General Act 2009* requires the Auditor-General to report to parliament on an issue raised during an audit if he considers it to be significant.

If you have any questions or would like to discuss the audit report, please contact me on 3222 9787 or Ben Pepperell on 3222 9687.

Yours sincerely



Ashley Carle
as delegate of the Auditor-General of Queensland

Enc.

cc. Jon Gibbons, Chief Executive Officer

cc. Stephen Coates, Chair, Audit & Risk Committee



1. Summary



We have completed our audit planning phase and an external audit plan was issued on 1 March 2021.

This report details our audit findings from the work performed on the key controls over revenue, expenditure, and payroll that were identified during the audit planning phase.

Summary of findings – Action required



Audit work completed to date has found no new reportable deficiencies. Council continues to progress through addressing previously raised deficiencies from prior year. Refer to section on *Internal control* and *Financial reporting issues and other matters*

Based on the results of our testing completed to date and the resolution of prior year issues, we have determined your internal control environment does support an audit strategy that can rely upon these controls.

Areas of audit focus - On track

In addition to the above, we have also performed work over the areas of audit focus that were identified in the external audit plan.

Our progress against the areas of audit focus is on track.

Milestones - On track

To date, all agreed financial reporting and audit deliverable milestones have been met.

Refer to section of this report for details.











Audit fees - On track



2. Internal control deficiencies



The following table summarises our reporting on deficiencies in internal controls. Refer to [Section 4](#) for the status of prior year deficiencies.

Internal control issues by COSO element	Number of significant deficiencies		Number of deficiencies		Rating
	Current year issues	Prior year unresolved issues	Current year issues	Prior year unresolved issues	
 Control environment Structures, policies, attitudes and values that influence daily operations	-	-	-	1	
 Risk assessment Processes for identifying, assessing and managing risk	-	-	-	-	
 Control activities Implementation of policies and procedures to prevent or detect errors and safeguard assets	-	-	-	6	
 Information and communication Systems to capture and communicate information to achieve reliable financial reporting	-	-	-	-	
 Monitoring activities Oversight of internal controls for existence and effectiveness	-	-	-	-	

Our ratings



Effective

No significant deficiencies identified



Partially effective

One significant deficiency identified



Ineffective

More than one significant deficiency identified



3. Financial reporting issues and other matters

This table summarises our financial reporting and business improvement opportunities (other matters) identified in the current year. Refer to [Section 4](#) for the status of prior year financial reporting and other matters.

Our risk ratings are as follows—refer to [Our rating definitions](#) for more detail.

 **High**
 **Medium**
 **Low**

	Financial reporting issues—risk ratings			Other matters*
	High	Moderate	Low	
Current year				
Unresolved	-	-	-	-
Resolved	-	-	-	-
Prior year				
Unresolved	-	-	-	-
Resolved	-	-	-	1

*Queensland Audit Office only tracks resolution of other matters where management has committed to implementing action.



4. Prior year issues



The following table summarises the status of deficiencies and other matters reported in prior years.

Reference	Issue	Status
Internal control deficiencies		
Deficiencies		
18IR-1	Employees with excessive long service leave	Work in progress Appropriate initiatives and process are in place to monitor and improve this going forward.
19CR-3	Council policies overdue for review	Work in progress Council continues to make progress on the backlog of outdated policies.
19CR-6	Terminated staff not removed from authorised signatory list with NAB bank account	Resolved pending audit confirmation We will confirm this when we obtain the 30 June 2021 bank confirmation.
19CR-7	Password aging	Resolved Multifactor authentication is now in place for all accounts.
19CR-10	Automated network alerts	Not yet started – to be considered in future years This has not been budgeted for to address in 2020/21.
20IR-1	Purchase requisitions approved post invoice date	Work in progress Management is in the process of designing a control to address this risk.
20IR-2	Circumvention of financial delegation through multiple POs	Work in progress We noted during our 2021 interim procedures that this issue continues to occur.
20IR-5	Review of asset management plan	Work in progress Expected to be adopted by Council prior to 30 June 2021.
20CR-1	Inadequate policy & procedural documentation & supporting documentation for ICT changes	Work in progress There has been a change in key management personnel for ICT. Council is in the process of on-boarding the individual who will be responsible for this.
Other matters		
20CR-2	Completeness and comprehensiveness of data presented in the Infrastructure Charges Register	Resolved Date paid is now presented in the infrastructure charges register as required by legislation.



5. Areas of audit focus



In our external audit plan, we identified those classes of transactions, accounts and balances that we considered to be significant or a risk of material misstatement to the financial statements. In the following tables we have set out the identified areas of audit focus and any new areas, and progress on the audit procedures undertaken to date to address the risk.

#	Area of audit focus	Status
1	Valuation/depreciation of infrastructure assets	<p>There are no comprehensive revaluations in the current period which reduces the overall risk of this area in the current period. Indexations are being assessed on asset categories since their last revaluation.</p> <p>At the time of the interim audit, a draft assessment had been prepared using 31 December 2020 index figures and the preliminary finding by management was that the movement may be immaterial. Management will review this again at year end.</p> <p>We will review this as part of the final audit.</p> <p>We have not identified any significant issues to date requiring reporting.</p>
2	Revenue recognition of infrastructure charges and development application fees	<p>Based on discussions with management and inspection of the infrastructure charges register made publicly available on the Council website (as required by legislation) the "other matter" raised in the prior year has been resolved.</p> <p>Our testing of infrastructure charges at the interim visit did not identify any issues surrounding accuracy.</p> <p>We will address cut-off risk as part of the year end visit.</p>
3	Appropriateness of procurement and practices	<p>Controls testing has been completed at the interim audit to give comfort that procurement policies are being adhered to and operating as intended.</p> <p>During the interim audit, testing has been completed on the controls identified through general purchasing processes, as well as for credit card and councillor purchases.</p> <p>No new significant issues surrounding the testing have been identified that would require reporting. However, we note a number of matters raised in 2020 remain outstanding at the time of the visit.</p>
4	Estimation of refuse and quarry provisions	<p>Management advised the existing contract for the monitoring of refuse sites is due to expire and a new contract is expected to be awarded by 30 June 2021. Management will consider the impacts of the new contract as part of its provisions review at year end.</p> <p>In addition, Management will undertake an internal revaluation of the quarry provision at year end.</p> <p>This will be reviewed as part of our year end visit.</p>



Appendix A—Our rating definitions



Our rating definitions

	Definition	Prioritisation of remedial action
Significant deficiency 	<p>A significant deficiency is a deficiency, or combination of deficiencies, in internal control that requires immediate remedial action.</p> <p>Also, we increase the rating from a deficiency to a significant deficiency based on:</p> <ul style="list-style-type: none"> the risk of material misstatement in the financial statements the risk to reputation the significance of non-compliance with policies and applicable laws and regulations the potential to cause financial loss including fraud, or where management has not taken appropriate timely action to resolve the deficiency. 	This requires immediate management action to resolve.
Deficiency 	A deficiency arises when internal controls are ineffective or missing, and are unable to prevent, or detect and correct, misstatements in the financial statements. A deficiency may also result in non-compliance with policies and applicable laws and regulations and/or inappropriate use of public resources.	We expect management action will be taken in a timely manner to resolve deficiencies.
Other matter 	An other matter is expected to improve the efficiency and/or effectiveness of internal controls, but does not constitute a deficiency in internal controls. If an other matter is not resolved, we do not consider that it will result in a misstatement in the financial statements or non-compliance with legislative requirements.	Our recommendation may be implemented at management's discretion.

Financial reporting issues

	Potential effect on the financial statements	Prioritisation of remedial action
High 	We assess that there is a high likelihood of this causing a material misstatement in one or more components (transactions, balances and disclosures) of the financial statements, or there is the potential for financial loss including fraud.	This requires immediate management action to resolve.
Medium 	We assess that there is a medium likelihood of this causing a material misstatement in one or more components of the financial statements.	We expect management action will be taken in a timely manner.
Low 	We assess that there is a low likelihood of this causing a material misstatement in one or more components of the financial statements.	We recommend management action to resolve; however, a decision on whether any action is taken is at management's discretion.



Appendix B—Information on internal controls



What is internal control?

'Internal control' is the processes, systems, records and activities that your entity designs, implements and maintains to provide you with reasonable assurance about the achievement of organisational objectives regarding:

- reliability of financial reporting
- effectiveness and efficiency of operations
- compliance with applicable laws and regulations.

Your governing body and executive management collectively are responsible for preparing reliable financial statements in accordance with generally accepted accounting principles. They are similarly responsible for maintaining effective internal control over financial reporting.

Our assessments of your internal control framework

The auditing standards that we must comply with require us to understand and assess those aspects of your internal control that relate to our financial statement audit objectives. In the planning phase of our audit, we sought to understand and evaluate how controls are designed and implemented. We communicated to you the results of our analysis in our external audit plan.

If we decide that we can rely on your controls, we must then test them to confirm they operated effectively. The results of our testing may highlight deficiencies in your internal controls. We assess whether any identified deficiencies in internal control constitute, individually or in combination, a significant deficiency in internal control.

Limitations of our reporting on internal control deficiencies

No system of internal control can provide absolute assurance about the absence of error or compliance. Even in the absence of identified control weaknesses, inherent limitations in your internal controls over financial reporting may not prevent or detect material misstatements.



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[Suggest a performance audit topic](#)

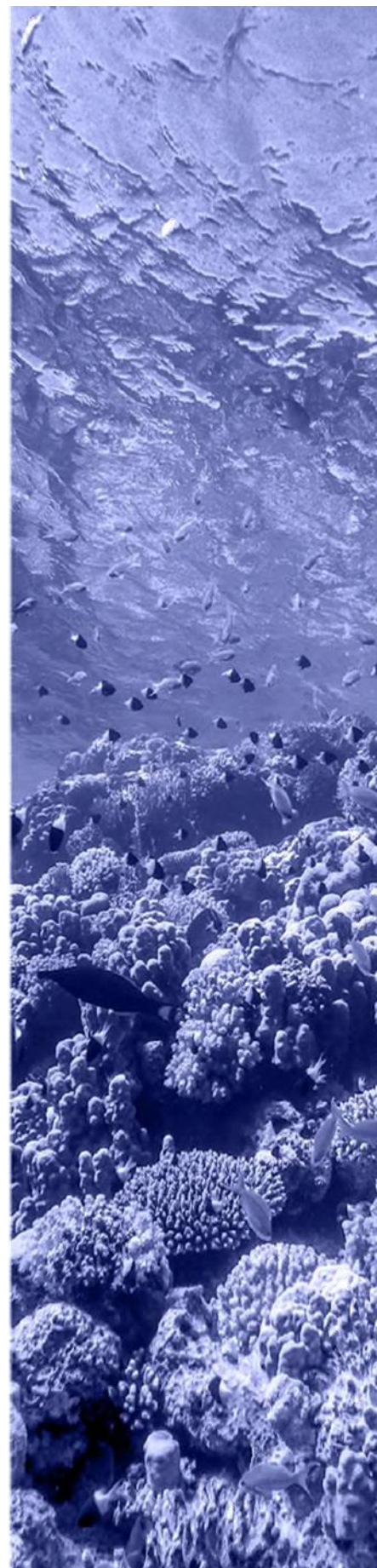
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10.5 2020-2021 March Budget Review

Executive Officer: General Manager Council Sustainability

Item Author: Coordinator Financial Management

Attachments:

1. 2020-2021 March Budget Review and Amended Budget [↓](#) 

Executive Summary

This report presents, for consideration, an amended Council Budget for 2020-2021.

With the third quarter of 2020-2021 now concluded a budget review has been undertaken to identify any potential amendments required to Council's budget due to changes in revenue and expense projections over the remainder of the financial year.

The March Budget Review has highlighted that Council's budget for 2020-2021 will require formal amendment as a result of changes identified.

Recommendation

That, pursuant to sections 169 and 170 of the *Local Government Regulation 2012*, Council adopt the amended budget for the 2020-2021 financial year, as tabled, incorporating:

- a) Statement of Comprehensive Income;
- b) Statement of Financial Position;
- c) Statement of Cash Flows;
- d) Statement of Changes in Equity; and
- e) Measures of Financial Sustainability.

Previous Council Considerations / Resolutions

The 2020-2021 Budget was tabled and adopted by Council at the Special Meeting held on 6 July 2020. Subsequent amendments have followed, including:

- Adoption of the 2020-2021 Carry Forward Budget Review at the Ordinary Meeting held on 21 September 2020;
- Adoption of the 2020-2021 September Budget Review at the Ordinary Meeting held on 23 November 2020; and
- Adoption of the 2020-2021 December Budget Review at the Ordinary Meeting held on 9 March 2021.

Report / Background

Quarterly budget reviews are undertaken to ascertain if Council's budget requires formal amendment as a result of changes identified to forecasted revenues and expenses.

Council adopted its 2020-2021 Budget on 6 July 2020 and proceeded to amend the budget in September 2020 to ensure that funding was available for projects and initiatives that were continuing from 2019-2020 financial year. The budget was again amended in November 2020 and March 2021 following the Quarter 1 and Quarter 2 Budget Reviews to reflect the changes identified.

Council's budget is built around many varying assumptions and anticipated levels of revenue and expenditure at the start of the financial year. As the financial year progresses various factors can influence Council's forecast revenue and expenditure necessitating Council to amend its budget to account for the changing circumstances.

Accordingly, when the change to forecast revenue and expenditure is considered significant, Council should formally amend its budget in accordance with sections 169 and 170 of the *Local Government Regulation 2012*. The following contributing factors require the budget to be amended:

Operating Revenue (increased by \$1.119 million)

Primary drivers for the increase are:

\$226 thousand - increase in plumbing certification revenue associated with increased activity due to uptake of Queensland Government subsidies.

Increase in revenue with waste landfill as a result of increased tonnage from waste contract.

Additional operating grant of \$809 thousand through the Queensland Bushfires Local Economic Recovery Grants (Community Facilities Upgrade)

Operating Expenditure (increased by \$4.152 million)

Primary drivers for the increase are:

Expenditure associated with the operating grant of \$809 thousand

\$3.946 million associated with the refinancing of existing loans and recognition of change between the book value and market value of the existing loans.

Capital Revenue (increased by \$1.372 million)

Primary drivers for the increase are:

Additional capital grant of \$600 thousand through the Queensland Bushfires Local Economic Recovery Grants (Vonda Youngman Community Centre Upgrade)

Additional levels in contributions from developers as result of increase in activity and recoveries.

Capital Expenditure (increased by \$14.739 million)

Primary drivers for the increase are:

Reduction in existing 2020-2021 capital works schedule of \$261 thousand.

Recognition of the addition \$15 million in (approved) funding towards eligible capital projects.

Borrowings

With the Queensland Government making particular focus on the *Local Government Debt Refinancing Program* which aims to allow councils the opportunity to refinance and extend the loan term on some or all of their existing fixed debt with Queensland Treasury Corporation (QTC) to take advantage of historically low interest rates - Council submitted an application to avail of this initiative. Advice received from the Department of State Development, Infrastructure, Local Government and Planning (attached) indicates that following review of Council's application - approval has been provided for:

- Refinancing of (relevant) existing Queensland Treasury Corporation loans;
- New borrowings of \$1.5 million for land acquisition (as part of the 2020-2021 budget; and
- Additional borrowings of \$15 million.

The ability to refinance was highlighted by the Queensland Government as one of the initiatives that was part of a raft of measures that were put in place to stimulate the economy during the challenging economic circumstances as a result of the COVID-19 pandemic.

The refinancing allowed Council an opportunity to consider seeking further borrowings to fund (eligible) major capital projects, with the additional borrowings serviced by the surplus cash as a result of reduced loan repayments.

Council begins each financial year with a budget with timing of projects built in. In balancing the need of Council delivery and grant-funded delivery, attention to the program both capital and operational may vary. For instance each successful grant-funded project may alter the delivery of capital works and there is a need to be flexible in this respect.

Accordingly, the Council's Amended Budget for 2020-2021 is presented for adoption incorporating all the relevant documents as required under the legislation.

Budget / Financial Implications

Implications on the budget are outlined in the revised budget statements provided for in this report.

Strategic Implications

Operational Plan

Theme: 3. Open and Responsive Government

Key Area of Focus: 3.1.2 Provide streamlined and practical regulatory services that deliver improved access for the community

Legal / Statutory Implications

Section 169 and 170 of the *Local Government Regulation 2012* states that a local government may, by resolution, amend the budget for a financial year at any time before the end of the financial year.

Risks

Strategic Risks

The following Level 1 and Level 2 (strategic) risks are relevant to the matters considered in this report:

SR47 Inadequate or lack of an appropriate Financial Management Framework (including systems, policies, procedures and controls) in place to adequately minimise risk of fraudulent action and to maximise financial sustainability.

Risk Assessment

Category	Consequence	Likelihood	Inherent Risk Rating	Treatment of risks	Residual Risk Rating
Legal Compliance and Liability Failure to ensure systems are in place to identify and report on material budget variations	Major	Rare	Medium	Budget packs are produced monthly with Managers required to explain individual budget variances greater than \$50k and 10% - Budget packs are required to be approved by General Managers - Quarterly budget reviews undertaken - Budget Review Policy sets guidelines for amendments to the original budget	Low
Financial and Economic Not responding to changes in circumstances and addressing financial risk.	Moderate	Possible	Medium	Maintaining accurate monthly financial reporting and undertaking monthly reviews of budget.	Low

Consultation

Budget review undertaken by relevant portfolio teams and submitted for approval through to the Executive. Review includes comparing actual year to date budget progress as at 31 March 2021 and identifying necessary budget amendment considerations for inclusion in the March Budget Review.

Conclusion

Council's budget is built around many varying assumptions and anticipated levels of revenue and expenditure at the start of the financial year. As the financial year progresses various factors can influence Council's forecast revenue and expenditure necessitating Council to amend its budget to account for the changing circumstances. Following the undertaking of the March Budget Review amendments have been identified that require the amended 2020-2021 Budget to be considered for adoption.

Financial Performance and Position

Budget Review

MARCH 2021



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Executive Summary

This budget review includes a few significant transactions worth highlighting up front:

- Refinancing of Councils existing loans for an upfront refinancing cost of \$3.946 million
- \$15 million new borrowing conditional on the refinancing of existing loans above
- \$15 million new capital expenditure conditional on the new borrowings above
- New Qld Bushfires Local Economic Recovery (QBLER) grants of:
 - Operating revenue \$809 thousand
 - Operating expenditure \$867 thousand (Binna Bunna Lodge and Community Facility Upgrades)
 - Capital revenue \$600 thousand
 - Capital expenditure \$616 thousand (Vonda Youngman Community Centre Upgrade)

Councils budgeted **operating deficit** has increased by \$3.032 million (3.6%) as a result of the proposed amendments contained within the 2020-2021 March Budget Review. However, this has been largely impacted by the refinancing costs of Council existing loans, \$3.946 million, included in the Budget amendments. If not for this adjustment, the impact would be a \$0.913 million (1.1%) improvement to the operating margin. (Important to note that Council would still be in a deficit position of -\$2.306 million and -2.8%. This deficit is part of a planned strategy of to stimulate the economy of the region through a number of economic initiatives.)

Materials and Services have increased by \$0.507 million due to QBLER grant operating expenditure \$867 thousand and transfers from employee expenses \$261 thousand offset by net savings of \$621 thousand.

Capital expenditure has increased by \$14.739 million largely due to:

1. \$15 million new capital expenditure conditional on the new borrowings
2. \$0.616 million QBLER grant
3. \$0.877 million net reduction in Councils capital program identified to assist with 2022 Budget Long Term Financial Forecast cash position.

Proceeds from asset sales has decreased by \$1.368 million as the anticipated asset sales planned for this financial year have not occurred. These asset sales are intended to take place in the new financial year and shall be added to the budget year of the 2022 Budget.

The **Cash Position** in this review has declined by -\$2.768 million. Again this is been largely impacted by the refinancing costs of Council existing loans. Without this transaction the impact of the rest of the amendments would be to increase cash by \$1.178 million. This has resulted from:

- Improvement in operating margin of \$0.913 million
- Increased capital expenditure (\$14.739) million
- Reduced land sales (\$1.368) million
- New borrowings \$15 million
- Increased Capital Grants \$1.372 million

The process for the drawing down the Borrowings this financial year is:

- Queensland Treasury Corporation (QTC) Credit Review to be completed
- QTC / Department of Local Government, Racing and Multicultural Affairs to approve Councils Borrowings
- Council to reconsider revised refinancing offer from QTC
- Council to request drawdown of approved borrowings from QTC

Contained in the report are the statutory financial statements and sustainability indicators that are required to be adopted as part of the budget along with additional commentary as to the March Budget amendments for purposes of clarity and transparency.

FINANCIAL STATEMENTS

**Scenic Rim Regional Council
Budgeted Financial Statements**

STATEMENT OF COMPREHENSIVE INCOME	Original Budget 2020/21 \$'000	Orig Budget + CF 2020/21 \$'000	Budget Review 1 2020/21 \$'000	Budget Review 2 2020/21 \$'000	Budget Review 3 2020/21 \$'000	Forecast 2021/22 \$'000	Forecast 2022/23 \$'000	Movement BR2→BR3 \$'000	Note
Income									
Revenue									
Recurrent Revenue									
Gross Rates and Utility Charges	57,436	57,436	57,166	57,166	57,066	60,046	62,776	-100	1
Discounts and Pensioner Remissions	-1,763	-1,763	-1,803	-1,803	-1,803	-1,843	-1,927	0	
Fees & Charges	4,818	4,818	5,033	5,033	5,286	5,037	5,266	253	2
Interest Received	1,593	1,593	1,190	1,190	1,190	1,621	1,670	0	
Sales of Contract and Recoverable Works	4,614	4,704	4,704	5,004	5,304	4,765	4,921	300	3
Share of Profit from Associate	1,889	1,889	1,889	1,889	1,889	2,388	2,553	0	
Other Revenue	4,943	4,943	5,035	4,687	4,787	5,286	5,498	100	4
Operating Grants, Subsidies, Contributions and Donat	6,899	7,433	8,638	9,039	9,605	4,606	4,689	566	5
Total Recurrent Revenue	80,429	81,053	81,853	82,205	83,325	81,907	85,445	1,119	
Capital Revenue									
Capital Grants, Subsidies, Contributions and Donation	10,756	16,346	24,351	24,419	25,051	7,545	6,812	632	6
Contributions from Developers	2,260	2,260	2,260	2,260	3,000	2,305	2,351	740	7
Total Capital Revenue	13,016	18,606	26,611	26,679	28,051	9,850	9,163	1,372	
Total Revenue	93,445	99,660	108,464	108,884	111,376	91,757	94,608	2,491	
Total Income	93,445	99,660	108,464	108,884	111,376	91,757	94,608	2,491	
Expenses									
Recurrent Expenses									
Employee Expenses	32,186	32,186	32,331	32,104	31,803	33,066	34,233	-301	8
Materials & Services	31,399	32,590	34,498	35,049	35,556	30,521	31,533	507	9
Finance Costs	1,278	1,278	1,278	1,278	5,223	1,122	1,105	3,946	10
Depreciation & Amortisation	16,993	16,993	16,993	16,993	16,993	17,673	18,380	0	
Total Recurrent Expenses	81,856	83,047	85,099	85,424	89,576	82,382	85,251	4,152	
Total Expenses	81,856	83,047	85,099	85,424	89,576	82,382	85,251	4,152	
Net Result	11,588	16,613	23,364	23,461	21,800	9,375	9,358	-1,661	
Operating Revenue (Recurrent Revenue)	80,429	81,053	81,853	82,205	83,325	81,907	85,445	1,120	
Operating Expenses (Recurrent Expenses)	81,856	83,047	85,099	85,424	89,576	82,382	85,251	4,152	
Operating Result (Recurrent Result)	-1,428	-1,993	-3,247	-3,218	-6,251	-475	195	-3,032	

Scenic Rim Regional Council
Budgeted Financial Statements

STATEMENT OF FINANCIAL POSITION

	Original Budget 2020/21 \$'000	Orig Budget + CF 2020/21 \$'000	Budget Review 1 2020/21 \$'000	Budget Review 2 2020/21 \$'000	Budget Review 3 2020/21 \$'000	Forecast 2021/22 \$'000	Forecast 2022/23 \$'000	Movement BR2→BR3 \$'000	Note
ASSETS									
Current Assets									
Cash & Cash Equivalents	26,098	25,381	24,044	23,996	21,228	20,162	20,880	-2,768	11
Trade & Other Receivables	5,600	5,600	5,600	5,600	5,600	5,600	5,600	0	
Inventories	900	900	900	900	900	900	900	0	
Other Assets	690	690	690	690	690	690	690	0	
Total Current Assets	33,288	32,571	31,234	31,186	28,418	27,352	28,070	-2,768	
Non-Current Assets									
Trade & Other Receivables	14,676	14,676	14,676	14,676	14,676	14,676	14,676	0	
Property, Plant & Equipment	948,098	933,056	938,426	938,570	954,677	982,877	1,011,417	16,107	12
Investment in Associate	36,887	36,993	36,892	36,892	36,892	38,248	39,144	0	
Total Non-Current Assets	999,661	984,725	989,994	990,138	1,006,245	1,035,801	1,065,237	16,107	
TOTAL ASSETS	1,032,949	1,017,296	1,021,228	1,021,324	1,034,663	1,063,153	1,093,307	13,339	
LIABILITIES									
Current Liabilities									
Trade & Other Payables	4,500	4,500	4,500	4,500	4,500	4,500	4,500	0	
Borrowings	2,270	2,270	2,270	2,270	2,270	2,799	3,015	0	
Provisions	10,400	10,400	10,400	10,400	10,400	10,400	10,400	0	
Total Current Liabilities	17,170	17,170	17,170	17,170	17,170	17,699	17,915	0	
Non-Current Liabilities									
Borrowings	28,692	28,667	28,667	28,667	43,666	43,290	44,339	14,999	13
Provisions	1,841	4,206	4,219	4,219	4,219	4,219	4,219	0	
Total Non-Current Liabilities	30,533	32,873	32,886	32,886	47,885	47,509	48,558	14,999	
TOTAL LIABILITIES	47,703	50,043	50,056	50,056	65,055	65,208	66,473	14,999	
Net Assets	985,246	967,253	971,172	971,268	969,608	997,945	1,026,834	-1,660	
EQUITY									
Asset Revaluation Surplus	312,215	297,328	297,002	297,002	297,002	315,964	335,495	0	
Accumulated Surplus	673,031	669,925	674,170	674,266	672,606	681,981	691,339	-1,660	
Total Equity	985,246	967,253	971,172	971,268	969,608	997,945	1,026,834	-1,660	

Scenic Rim Regional Council
Budgeted Financial Statements

STATEMENT OF CASH FLOWS

	Original Budget 2020/21 \$'000	Orig Budget + CF 2020/21 \$'000	Budget Review 1 2020/21 \$'000	Budget Review 2 2020/21 \$'000	Budget Review 3 2020/21 \$'000	Forecast 2021/22 \$'000	Forecast 2022/23 \$'000	Movement BR2→BR3 \$'000	Note
Cash Flows from Operating Activities									
Receipts from Customers	70,048	71,824	73,266	73,218	73,772	73,291	76,533	554	1,2,3,4
Payments to Suppliers and Employees	-63,763	-70,969	-75,306	-75,630	-75,837	-63,768	-65,951	-207	8,9
	6,285	855	-2,040	-2,412	-2,065	9,523	10,582	347	
Receipts:									
Interest Received	1,593	1,593	1,190	1,190	1,190	1,621	1,670	0	
Operating Grants, Subsidies, Contributions and Donations	6,899	7,434	8,639	9,040	9,606	4,606	4,689	566	5
Payments:									
Interest Expense	-1,100	-1,100	-1,100	-1,100	-5,046	-941	-920	-3,946	10
Net Cash Inflow / (Outflow) from Operating Activities	13,677	8,782	6,689	6,718	3,685	14,810	16,021	-3,033	
Cash Flows from Investing Activities									
Receipts:									
Proceeds from Sale of Property, Plant & Equipment	2,010	2,621	2,621	2,621	1,253	1,930	3,030	-1,368	12
Dividend Received from Associate	1,657	1,657	1,657	1,657	1,657	1,032	1,657	0	
Capital Grants, Subsidies, Contributions and Donations	13,016	18,606	26,611	26,679	28,051	9,850	9,163	1,372	6,7
Payments:									
Payments for Property, Plant & Equipment	-22,434	-46,111	-53,360	-53,505	-68,244	-28,841	-30,419	-14,739	12
Net Cash Inflow / (Outflow) from Investing Activities	-5,751	-23,227	-22,471	-22,548	-37,283	-16,029	-16,569	-14,735	
Cash Flows from Financing Activities									
Receipts:									
Proceeds from Borrowings	1,500	1,500	1,500	1,500	16,500	2,500	4,064	15,000	13
Payments:									
Repayment of Borrowings	-2,131	-2,131	-2,131	-2,131	-2,131	-2,347	-2,799	0	
Net Cash Flow inflow / (Outflow) from Financing Activities	-631	-631	-631	-631	14,369	153	1,265	15,000	
Net Increase/(Decrease) in Cash	7,295	-15,076	-16,413	-16,461	-19,229	-1,066	717	-2,768	
plus: Cash & Cash Equivalents - beginning of year	18,803	40,457	40,457	40,457	40,457	21,228	20,162	0	
Cash & Cash Equivalents - end of the year	26,098	25,381	24,044	23,996	21,228	20,162	20,880	-2,768	

**Scenic Rim Regional Council
Budgeted Financial Statements**

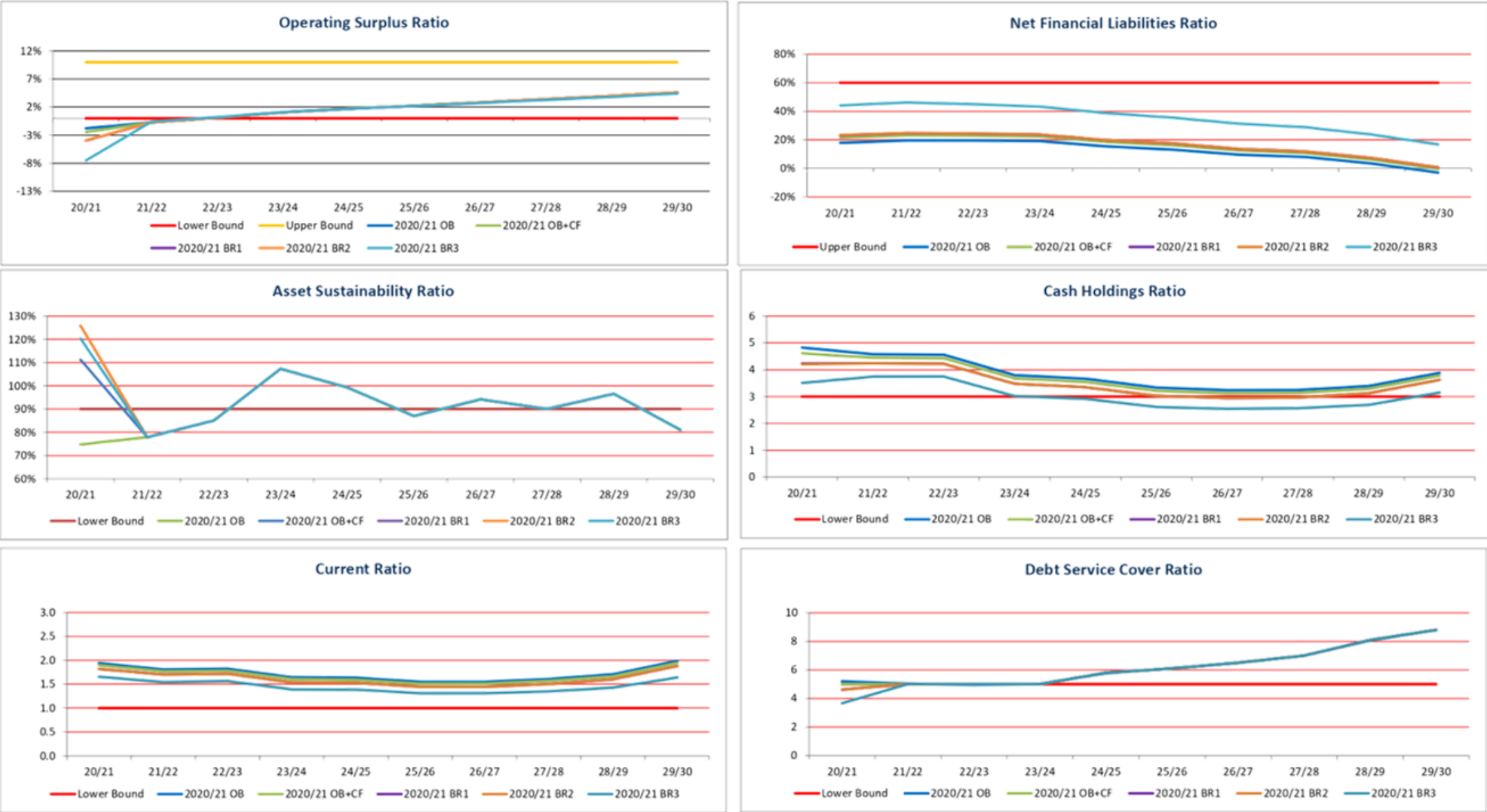
STATEMENT OF CHANGES IN EQUITY	Original Budget 2020/21 \$'000	Orig Budget + CF 2020/21 \$'000	Budget Review 1 2020/21 \$'000	Budget Review 2 2020/21 \$'000	Budget Review 3 2020/21 \$'000	Forecast 2021/22 \$'000	Forecast 2022/23 \$'000	Movement BR2→BR3 \$'000
Accumulated Surplus								
Opening Balance	661,442	653,311	650,805	650,805	650,805	672,606	681,981	0
Net Operating Result for the Year	11,589	16,613	23,364	23,461	21,800	9,375	9,358	-1,661
Closing Balance	673,031	669,924	674,170	674,266	672,606	681,981	691,339	-1,661
Asset Revaluation Surplus								
Opening Balance	293,692	278,805	278,805	278,805	278,805	297,002	315,964	0
Asset Revaluation Adjustments	18,523	18,523	18,197	18,197	18,197	18,962	19,531	0
Closing Balance	312,215	297,328	297,002	297,002	297,002	315,964	335,495	0
Total Equity								
Opening Balance	955,134	932,116	929,610	929,610	929,610	969,608	997,945	0
Net Operating Result for the Year	11,589	16,613	23,364	23,461	21,800	9,375	9,358	-1,661
Asset Revaluation Adjustments	18,523	18,523	18,197	18,197	18,197	18,962	19,531	0
Closing Balance	985,246	967,252	971,172	971,268	969,608	997,945	1,026,834	-1,661

INDICATORS

Scenic Rim Regional Council
Long Term Financial Forecast

RELEVANT MEASURES OF FINANCIAL SUSTAINABILITY

	Original Budget 2020/21	Orig Budget + CF 2020/21	Budget Review 1 2020/21	Budget Review 2 2020/21	Budget Review 3 2020/21	2021/22	2022/23	2023/24	Projected Years					
						2024/25	2025/26	2026/27	2027/28	2028/29	2029/30			
Measures per S169(5) of the Local Government Regulation 2012														
Operating Surplus Ratio (Target 0 - 10%) <i>(Net result (excluding capital item) / recurrent revenue)</i>	-1.8%	-2.5%	-4.0%	-3.9%	-7.5%	-0.6%	0.2%	1.1%	1.7%	2.2%	2.7%	3.3%	3.8%	4.4%
Net Financial Liabilities Ratio (Target <= 60%) <i>((Total liabilities less current assets) / recurrent revenue)</i>	17.9%	21.6%	23.2%	23.3%	44.0%	46.2%	44.9%	43.4%	38.7%	35.6%	31.2%	28.9%	23.7%	16.8%
Asset Sustainability Ratio (Target > 90%) <i>(Capital renewals on infrastructure assets / infrastructure depreciation)</i>	74.8%	111.2%	125.9%	125.9%	120.3%	77.8%	85.0%	107.4%	99.3%	87.0%	94.1%	90.0%	96.5%	81.0%
Additional measures per SRRC Financial Sustainability Strategy 2016-2025														
Cash Holdings Ratio (Target > 3) <i>(Cash / ((Operating Expenditure less Depreciation Expense)/12 months))</i>	4.8	4.6	4.2	4.2	3.5	3.7	3.7	3.0	2.9	2.6	2.5	2.6	2.7	3.1
Current Ratio (Target > 1.1) <i>(Current Assets / Current Liabilities)</i>	1.9	1.9	1.8	1.8	1.7	1.5	1.6	1.4	1.4	1.3	1.3	1.4	1.4	1.6
Debt Service Cover Ratio (Target > 5) <i>((Operating Result + Interest Expense + Depreciation - Profit from Associate + Dividend from Associate) / (Interest Expense + Previous Year Current Loans Outstanding))</i>	5.2	5.0	4.6	4.6	3.7	5.0	5.0	5.0	5.8	6.1	6.5	7.0	8.1	8.8



OTHER INFORMATION

Scenic Rim Regional Council
Budgeted Financial Statements

ESTIMATED ACTIVITY STATEMENT

	Original Budget 2020/21 \$'000	Orig Budget + CF 2020/21 \$'000	Budget Review 1 2020/21 \$'000	Budget Review 2 2020/21 \$'000	Budget Review 3 2020/21 \$'000	Forecast 2021/22 \$'000	Forecast 2022/23 \$'000
ROADS ACTIVITY							
Revenue payable to:							
Scenic Rim Regional Council	4,494	4,584	4,584	4,584	4,884	4,606	4,722
Other Parties	0	0	0	0	0	0	0
Expenditure							
Direct	3,771	3,771	3,771	3,771	3,946	3,847	3,924
Overhead Allocation	431	431	431	431	431	439	448
Net Result	292	382	382	382	507	320	350
Community Service Obligations	0	0	0	0	0	0	0
BUILDING CERTIFYING ACTIVITY							
Revenue payable to:							
Scenic Rim Regional Council	452	452	452	452	452	463	475
Other Parties	0	0	0	0	0	0	0
Expenditure							
Direct	340	340	340	340	340	347	354
Overhead Allocation	216	216	216	216	216	220	225
Net Result	-105	-105	-105	-105	-105	-105	-104
Community Service Obligations	0	0	0	0	0	0	0
WASTE COLLECTION ACTIVITY							
Revenue payable to:							
Scenic Rim Regional Council	5,694	5,694	5,724	5,724	5,724	5,837	5,983
Other Parties	0	0	0	0	0	0	0
Expenditure							
Direct	4,096	4,096	4,158	4,158	4,207	4,177	4,261
Overhead Allocation	531	531	531	531	531	542	553
Net Result	1,067	1,067	1,035	1,035	986	1,117	1,169
Community Service Obligations	0	0	0	0	0	0	0

Reference Notes 1 - Budgeted Financial Statements

Note 1 - Gross Rates and Utility Charges - Adjusted due to lower growth than anticipated

Note 2 - Fee and Charges - Plumbing Certification - Increased activity due to uptake of Government subsidies \$226k

Note 3 - Sales of Contract Works and Recoverable Works - TMR have indicated additional work likely.

Note 4 - Other Revenue - Waste Landfill - Increase in waste tonnage received from Logan City Council

Note 5 - Operating Grants and Subsidies

Community Development - New Qld Bushfires Local Economic Recovery Grants (Community Facility Upgrades) \$809k

Road Maintenance - Reduction in anticipated Disaster Damage Subsidies (\$295k)

Note 6 - Capital Grants and Subsidies

Community Development - New Qld Bushfires Local Economic Recovery Grants (Vonda Youngman Community Centre Upgrade) \$600k

Parks and Landscape Maintenance - Donation from Tamborine Botanic Gardens for irrigation works \$32k

Note 7 - Contributions from Developers - Development Assessment - Increase to anticipated Infrastructure Charges

Note 8 - Employee Expenses

Transfer of budgets between employee expenses and materials and services - (\$261k)

Parks and Landscape Maintenance - To fund use of contractors to perform operational works (\$56k)

Governance - To fund Temporary Governance Officer (\$22k)

Asset Management - To fund specialist input (\$36k)

Financial Management - To fund Management Accountant support (\$38k)

Accounts Payable - To fund Procurement Review (\$37k)

Road Corridor Management - To fund use of contractors to perform works (\$72k)

Adjustments to operating recoveries (\$14k)

Road Corridor Management - Reduced budget (\$113k)

Road Maintenance - Emergency works due to rain event in March \$99k

Note 9 - Materials and Services

Amendments associated with grant/revenue funded projects - \$866k

Community Development - New Qld Bushfires Local Economic Recovery Grants (Community Facility Upgrades) \$866k

Transfer of budgets between employee expenses and materials and services - \$261k

As per above - \$261k

Other materials and services amendments - (\$479k)

Fleet - Increase to IPH Recoveries (\$755k)

VATV - Increase in Public engagement sessions/ grant applications / approved grant requirements and delivery \$56k

Road Maintenance - Emergency works due to rain event in March \$170k

Governance - Legal expenses \$50k

Note 10 - Finance Costs

Cost of refinancing existing loans with QTC

Note 11 - Cash & Cash Equivalents - Reduced operating deficit (\$1.7M), Increased capital expenditure (\$14.7M), Reduced land sales (\$1.4M), New borrowings (\$15M)

Note 12 - Property, Plant and Equipment - Increased capital expenditure \$14.7M and reduced land sales \$1.4M

Note 13 - Borrowings - New borrowings conditional on refinancing of existing loans

Reference Notes 2 - Detailed Capital Budget Review Amendments

Section	2020-2021 Budget Review 2	2020-2021 Budget Review 3	Movement	Comment
201 - Council Wide Transactions				
NEW - Additional Capital Projects (\$15m loan funded)	\$0	\$15,000,000	\$15,000,000	Additional Capital Projects (\$15m loan funded)
	\$0	\$15,000,000	\$15,000,000	
210 - Libraries				
9001288 - Purchase of Demountable Building to extend Beaudesert Library	\$52,740	\$52,740	\$0	
9006810 - Books and Related Materials - Grant Expenditure	\$264,132	\$264,132	\$0	
	\$316,872	\$316,872	\$0	
211 - Cultural Services				
9000976 - Scenic Rim Story Maker Project	\$153,560	\$153,560	\$0	
9001396 - Stage coms systems Beaudesert	\$8,000	\$8,000	\$0	
9001397 - Replace Boonah Lighting console	\$14,000	\$14,000	\$0	
9001398 - Projection System Upgrade - Beaudesert Auditorium	\$27,000	\$27,000	\$0	
9001399 - Projection System Upgrade - Boonah Auditorium	\$32,000	\$32,000	\$0	
9001441 - Replace audio console Beaudesert	\$7,000	\$7,000	\$0	
	\$241,560	\$241,560	\$0	
223 - Facilities Maintenance				
9000755 - Region Wide Picnic Shelter Replacement Program	\$65,375	\$65,375	\$0	
9001041 - Canungra Depot Relocation	\$57,993	\$57,993	\$0	
9001145 - Boonah Cultural Centre - Install Double Roller Doors	\$53	\$53	\$0	
9001215 - Beaudesert Admin-Lighting Upgrade - Building complex	\$5,361	\$5,361	\$0	
9001236 - Public Lighting-Install Safety Switch's	\$1,950	\$1,950	\$0	
9001241 - Touch Tag Upgrade-Geissmann Oval and Moriarty Park	\$16,869	\$16,869	\$0	
9001319 - Beaudesert Admin Building and the Centre - Combined	\$1,753	\$1,753	\$0	
9001323 - Beaudesert Admin Building - Level 4 Fire Services Control	\$1,944	\$1,944	\$0	
9001324 - Tamborine Mt Library - Service desk and office modification	\$22,568	\$22,568	\$0	
9001332 - Beaudesert Pool - Replace shade structures (western end)	\$33,981	\$33,981	\$0	
9001336 - Vonda Youngman Community Centre - Upgrade rigging	\$48,344	\$48,344	\$0	
9001339 - Beaudesert Admin Building Layout - Refresh and Reconfigure	\$20,786	\$20,786	\$0	
9001340 - Kalbar Civic Centre -Playground upgrade	\$6,896	\$6,896	\$0	
9001341 - Memorial park -Playground upgrade	\$782	\$782	\$0	
9001365 - Renewal of Existing Two Way System	\$40,000	\$0	(\$40,000)	Transfer to lake Moogerah
9001380 - New Canungra Depot Ice Machine	\$6,697	\$6,697	\$0	
9001400 - Tamborine Memorial Old School - Renew painting (external)	\$16,000	\$16,000	\$0	
9001401 - Tamborine Memorial Old School - Renew roofing (internal)	\$15,625	\$15,625	\$0	
9001402 - Beaudesert Pool - Upgrade lighting	\$29,064	\$29,064	\$0	
9001403 - Boonah Cultural Centre - Renew carpet (Teviot Room)	\$20,000	\$20,000	\$0	
9001404 - Kooralbyn Community Centre - Interior and Exterior	\$20,000	\$20,000	\$0	
9001405 - Kooralbyn Community Centre - Upgrade lighting	\$20,000	\$20,000	\$0	
9001406 - Coronation Park - Paint Pedestrian Bridge and replace	\$20,000	\$20,000	\$0	
9001407 - Beaudesert Depot -Workshop Office Refurbishment	\$25,000	\$25,000	\$0	
9001408 - Boonah Cultural Centre - Key system and Swipe Card	\$25,000	\$25,000	\$0	
9001409 - Boonah Cultural Centre - Renew carpet (auditorium)	\$30,000	\$30,000	\$0	
9001410 - Selwyn Park - Upgrade Shower Rooms	\$35,000	\$35,000	\$0	
9001411 - Property & light pole replacement program	\$40,000	\$0	(\$40,000)	Assigned to Lake Moogerah for Property and Light Pole replacement
9001412 - Jim Newton Building - Replace roof sheeting	\$50,000	\$50,000	\$0	
9001413 - Tamborine Mt Pool - New salt chlorine generator	\$41,141	\$41,141	\$0	
9001414 - Regional libraries - Replace book shelving	\$56,131	\$56,131	\$0	
9001415 - Moriarty Park Community Centre - Replace roof sheeting	\$77,566	\$77,566	\$0	
9001416 - Lake Moogerah Electrical Safety Upgrade	\$200,000	\$280,000	\$80,000	Funded through transfers from 9001365 and 9001411
9001458 - Sharp Park, Witheren Public Amenities Block	\$220,000	\$220,000	\$0	
9001459 - Selwyn Park, Beaudesert Public Amenities Block	\$195,000	\$195,000	\$0	
9001460 - Coronation Park, Boonah Public Amenities Block	\$230,000	\$230,000	\$0	
9001461 - Geissmann Oval, Tamborine Mountain Public Amenities	\$250,000	\$250,000	\$0	
9001462 - EM Tilley Park, Rathdowney Public Amenities Block	\$150,000	\$150,000	\$0	
9001463 - Staffsmitth Park, Tamborine Mountain Public Amenities	\$150,000	\$150,000	\$0	
9001464 - Lake Moogerah Camp Site Amenities Upgrades	\$2,148,000	\$2,148,000	\$0	
	\$4,394,879	\$4,394,879	\$0	
225 - Parks and Landscape Maintenance				
9000433 - Botanic Gardens Capital Support	\$30,000	\$30,000	\$0	
9001342 - Jubilee Park - Renew front gardens	\$9,600	\$9,600	\$0	
9001343 - Collins Park - Garden Landscape (Stage 1)	\$12,200	\$12,200	\$0	
9001345 - Corner of Railway Street and Yeates Avenue - Garden	\$24,900	\$24,900	\$0	
9001346 - DJ Smith Park - Relocate wagon & install new cover	\$1,425	\$1,425	\$0	
9001347 - Beaudesert Township - Northern entry (Stage 4)	\$32,200	\$32,200	\$0	
9001349 - Canungra Cemetery - Replace existing shelter shed	\$68,375	\$68,375	\$0	
9001378 - Install Bore D J Smith Park	\$30,000	\$30,000	\$0	
9001420 - D.J. Smith Park - Rectification underground services	\$20,000	\$20,000	\$0	
9001421 - Various Park and Roadsides - Planting of steep areas	\$20,000	\$20,000	\$0	
9001422 - Peak Mountain View Park - Gardens to compliment	\$25,000	\$25,000	\$0	
9001423 - Annabelle Park and Scenic Rise Roundabouts	\$27,000	\$17,000	(\$10,000)	Anticipated cost less than estimated additional funding to 9001427 Jubilee Park

Reference Notes 2 - Detailed Capital Budget Review Amendments

Section	2020-2021 Budget Review 2	2020-2021 Budget Review 3	Movement	Comment
9001424 - TM Botanical Gardens - Irrigation Replacements	\$30,000	\$62,393	\$32,393	Additional funding of \$35,632 (incl GST) provided by Tamborine Botanic Gardens Inc. in operating revenue
9001425 - Fassifern Reserve - Fencing	\$60,000	\$60,000	\$0	
9001427 - Jubilee Park - Renew front gardens	\$133,000	\$143,000	\$10,000	Additional funding required for this project based on estimates, funded by reduction in 9001423 Annabelle Park.
9001447 - Fassifern Reserve Pioneer Gravesite Preservation	\$39,000	\$39,000	\$0	
230 - Waste Landfill - Central	\$562,700	\$595,093	\$32,393	
9001083 - Plant Storage Bays and Bunded Wash/Maintenance	\$97,000	\$97,000	\$0	
9001156 - New Landfill Cell - Central	\$80,000	\$80,000	\$0	
9001254 - Closed landfill additional monitoring bores	\$33,000	\$33,000	\$0	
9001310 - Evaporative Technology (leachate management)	\$200,000	\$200,000	\$0	
9001311 - Central - Concrete Stockpile processing	\$144,000	\$144,000	\$0	
9001434 - Central - entry system upgrade	\$20,000	\$20,000	\$0	
9001435 - Central - new Landfill cell (design)	\$51,000	\$51,000	\$0	
9001436 - Central - Litter Controls	\$60,000	\$60,000	\$0	
265 - Property Management	\$685,000	\$685,000	\$0	
9001165 - Sport & Recreation Capital Works Funding Pool	\$100,000	\$100,000	\$0	
9001264 - Sport & Recreation Specific Project Funding	\$400,000	\$400,000	\$0	
9001442 - Lupton Road, Beaudesert Land Acquisition	\$1,500,000	\$1,500,000	\$0	
279 - Waste Transfer Stations	\$2,000,000	\$2,000,000	\$0	
9001313 - Peak Crossing - Upgrade amenities	\$6,200	\$6,200	\$0	
9001377 - Canungra Transfer Station New Automatic Entrance	\$127,000	\$127,000	\$0	
9001437 - Waste Collection Access (turning) areas	\$15,000	\$15,000	\$0	
9001438 - Tamborine retaining wall	\$30,000	\$30,000	\$0	
9001439 - Canungra Bay Structure Repair	\$30,000	\$30,000	\$0	
9001440 - CCTV and Lighting installs	\$50,000	\$50,000	\$0	
280 - Vibrant and Active Towns and Villages	\$258,200	\$258,200	\$0	
9001056 - Boonah Town Centre Precinct Development	\$526,270	\$676,270	\$150,000	Due to street trees and a number of major design changes at a late stage in the project delivery.
9001187 - Footpath Upgrade 41-57 High St - Western Verge	\$30,000	\$30,000	\$0	
9001266 - Beaudesert Library Business Case and Design	\$255,318	\$255,318	\$0	
9001314 - Beaudesert Business Park Development	\$8,952,575	\$8,952,575	\$0	
9001315 - Beaudesert Town Centre Drainage Improvements	\$532,619	\$532,619	\$0	
9001316 - Beaudesert Town Centre Transport Improvements (\$913,701	\$913,701	\$0	
9001317 - Tamborine Mountain Infrastructure	\$542,456	\$542,456	\$0	
9001389 - Boonah Town Centre - CCTV (CDG1539)	\$33,333	\$33,333	\$0	
9001432 - Beaudesert Community Hub & Regional Library Edu	\$74,000	\$74,000	\$0	
9001433 - Beaudesert Town Centre Transport Improvements (\$1,459,000	\$1,459,000	\$0	
9001445 - SCENIC RIM Public Art - Entrance to Beaudesert	\$40,000	\$40,000	\$0	
9001448 - Tiny Tots Playground, Boonah - Church Street, Boon	\$95,000	\$95,000	\$0	
9001449 - Tamborine Memorial Park - Waterford Tamborine R	\$95,000	\$95,000	\$0	
289 - Road Maintenance	\$13,549,272	\$13,699,272	\$150,000	
9000611 - Minor Works less than \$100,000	\$125,000	\$103,000	(\$22,000)	Adjustment for Grace St Minor Works
9001373 - Brisbane Street South - Pedestrian Refuge	\$30,000	\$30,000	\$0	
9001375 - Grace Street, Boonah Minor Works	\$55,000	\$77,000	\$22,000	Transfer from Minor Works
9001472 - Beechmont Road Pavement Repairs Ch:7215-7460	\$0	\$210,000	\$210,000	Transfer from reseals
RES - Reseals	\$3,129,000	\$2,700,000	(\$429,000)	Transfer to Beechmont Rd Project and small savings
292 - Capital Works	\$3,339,000	\$3,120,000	-\$219,000	
3002102 - Edward Street Footpath	\$1,404	\$1,404	\$0	
3002103 - Cunningham Hwy, Aratula Footpath	\$4,519	\$4,519	\$0	
3002108 - Kooralbyn Rd Rehab	\$7,462	\$7,462	\$0	
3002112 - Beechmont Road	\$121	\$121	\$0	
3002116 - Teviotville Road	\$631	\$631	\$0	
3002126 - Beaudesert Nerang Road Footpath	\$597	\$597	\$0	
3002154 - Christmas Creek Road -CH8374 - 9535	\$17,553	\$17,553	\$0	
3002155 - Kooralbyn Road -CH6151 - 6977	\$2,646	\$2,646	\$0	
3002157 - Meier Street -CH0 - 298	\$387	\$387	\$0	
3002158 - Footpath-Long Rd extensions-Hartley Rd to TMSA &	\$2,086	\$2,086	\$0	
3002160 - Drainage-Kerry Hills Estate	\$7,263	\$7,263	\$0	
3002162 - Drainage-Paradise Dr - Elbert St	\$5,521	\$5,521	\$0	
3002168 - Road-Kerry Road Upgrade 1	\$85,564	\$85,564	\$0	

Reference Notes 2 - Detailed Capital Budget Review Amendments

Section	2020-2021 Budget Review 2	2020-2021 Budget Review 3	Movement	Comment
3002169 - Road-Kerry Road Upgrade 2	\$85,564	\$85,564	\$0	
3002170 - Footpath-Beaudesert-Nerang Road (Kingsley to Bro	\$2,655	\$2,655	\$0	
3002172 - Footpath-Holt Rd (Hartley Rd to Tamborine Mt State	\$463	\$463	\$0	
3002173 - Drainage-9 Wongawallen Rd (Tamborine Mountain)	\$455	\$455	\$0	
3002182 - Drainage-Moffat Street/Wiss St, Kalbar	\$1,034	\$1,034	\$0	
3002185 - Road-Kerry Road Upgrade 3	\$7,491	\$7,491	\$0	
3002186 - Corner of Railway Street and Yeates Avenue - Gard	\$2,283	\$2,283	\$0	
3002187 - Oakdale Court Drainage	\$1,173	\$1,173	\$0	
3002189 - Head Road Culvert Design	\$25,156	\$25,156	\$0	
9000420 - Design	\$386,972	\$386,972	\$0	
9000987 - Minor Footpath Repairs	\$9,000	\$9,000	\$0	
9001196 - Beechmont Road (Upper Coomera Road to Coomer	\$50,000	\$50,000	\$0	
9001198 - Kooralbyn Road (Seal Change to Kooralbyn Drive)	\$410,000	\$410,000	\$0	
9001207 - Cunningham Highway, Aratula	\$20,000	\$20,000	\$0	
9001208 - School Road, Tamborine Mountain	\$120,000	\$120,000	\$0	
9001286 - Footpaths-Connection, Boundary and Eaglesfield St	\$40,000	\$40,000	\$0	
9001298 - Long Rd extensions (Hartley Rd to TMSA and Curtis	\$715,000	\$715,000	\$0	
9001299 - Highbury Street (School entrance to Leonard St)	\$160,000	\$160,000	\$0	
9001300 - Beechmont Road (Coomera River to Seal Change)	\$20,000	\$20,000	\$0	
9001301 - Beechmont Road (Seal Change to Tucker Lane)	\$1,000	\$1,000	\$0	
9001302 - Kooralbyn Road (Ch6,151 to Ch6,977)	\$1,020,000	\$1,020,000	\$0	
9001303 - Christmas Creek Road (Ch8,374 to Ch9,535)	\$1,458,000	\$1,258,000	(\$200,000)	Project Scope completed under budget
9001305 - Meier Street (Ch0 to Ch298)	\$370,000	\$370,000	\$0	
9001306 - Brookland Road (Ferguson Reserve Bridge Approac	\$1,000	\$1,000	\$0	
9001361 - Munbila Road Black Spot Funded	\$260,000	\$260,000	\$0	
9001376 - Head Road, Carneys Creek (DRFA Funded)	\$857,000	\$857,000	\$0	
9001384 - Footpath-Walter Street, Boonah	\$158	\$158	\$0	
9001391 - Albert Street / William Street Beaudesert Footpath C	\$12,000	\$12,000	\$0	
9001393 - Beechmont Road - Blackspot Funded	\$982,000	\$982,000	\$0	
9001394 - Beaudesert-Nerang Road	\$996,000	\$996,000	\$0	
9001395 - Beechmont Rd (Tucker Lane to Botan Ck Bridge)	\$1,000,000	\$1,000,000	\$0	
9001450 - Cossart St, Boonah	\$85,000	\$85,000	\$0	
9001451 - Cunningham Hwy, Aratula	\$185,000	\$185,000	\$0	
9001452 - Holt Road, Tamborine	\$600,000	\$600,000	\$0	
9001453 - Mclauchlan St, Boonah	\$90,000	\$90,000	\$0	
9001454 - Melbourne St, Boonah	\$129,000	\$129,000	\$0	
9001455 - Edward Street, Kalbar - Showgrounds to existing foot	\$150,000	\$150,000	\$0	
9001456 - Enterprise Drive, Beaudesert, 1.1 km	\$475,000	\$475,000	\$0	
9001457 - Tina, Albert, William Sts Intersection, Beaudesert Fc	\$200,000	\$200,000	\$0	
DE2020A - DRFA Wet Weather Event February 2020	\$2,185,292	\$2,185,292	\$0	
293 - Structures and Drainage	\$13,249,450	\$13,049,450	-\$200,000	
9000408 - Kooralbyn Bridge	\$15,000	\$15,000	\$0	
9000492 - Minor Bridge Rehabilitation	\$546,000	\$344,000	(\$202,000)	Budget adjusted to fund Ferguson Reserve Bridge, and to fund other minor bridge rehabilitation works as intended (\$132,000). For 10 year capital budget adjustment \$70,000 reduced.
9000495 - Drainage Projects	\$115,000	\$85,000	(\$30,000)	Budget reduced to fund minor works drainage projects.
9001095 - Drainage-27 James St	\$20,000	\$20,000	\$0	
9001104 - Bridge-Replacement-Ferguson Reserve	\$0	\$12,000	\$12,000	Late invoices received on completed project.
9001177 - Bridge-Replacement-S Todd Bridge	\$60,012	\$60,012	\$0	
9001179 - Bridge-Replacement-Cavell Bridge	\$780,000	\$780,000	\$0	
9001190 - Hinchcliffe Bridge - Minor Bridge Rehabilitation	\$90,000	\$90,000	\$0	
9001201 - Freemont Drive (81 - 87), Tamborine Mountain	\$150,000	\$0	(\$150,000)	Adjustment of \$150,000 for 10 year Capital ovrk Program (FY21/22)
9001210 - Bridge Rehabilitation-Major Culverts & Floodways	\$461,988	\$351,988	(\$110,000)	Budget reduced to fund Major Culvert works and additional \$70,000 reduced for 10 year capital budget adjustment (FY 21/22)
9001211 - Bridge Rehabilitation-Round Mountain Bridge, Roun	\$55,000	\$55,000	\$0	
9001213 - Bridge Rehabilitation-Shay Place (culvert)	\$180,000	\$180,000	\$0	
9001290 - Benstead Bridge	\$200,000	\$200,000	\$0	
9001292 - Tarome Road - Culvert Upgrade	\$102,000	\$102,000	\$0	
9001295 - Kerry Hills Estate, Beaudesert	\$220,000	\$220,000	\$0	
9001296 - Paradise Dr - Elbert St	\$150,000	\$150,000	\$0	
9001374 - Markwell Drive, Kooralbyn	\$5,000	\$5,000	\$0	
9001430 - Spring Creek Bridge, Kerry Road	\$2,000,000	\$2,000,000	\$0	
9001431 - Keaveny Bridge, Kerry Road	\$2,000,000	\$2,000,000	\$0	
9001443 - Sharp Bridge Pedestrian Fence	\$25,000	\$25,000	\$0	
9001446 - Prouts Bridge Minor Bridge Rehab	\$71,000	\$71,000	\$0	
9001466 - Dennis Bridge - Minor Bridge Rehab	\$60,000	\$60,000	\$0	
9001467 - Taylor Bridge - Minor Bridge Rehab	\$60,000	\$60,000	\$0	
9001468 - The Stan Martin Bridge, Oakey Creek	\$350,000	\$0	(\$350,000)	Adjustment of \$350,000 for 10 year Capital Work Program (FY21/22)
9001469 - Waters Bridge, Tabooba - Minor Bridge Rehab	\$50,000	\$50,000	\$0	
9001470 - Mahoney Road Floodway Upgrade	\$525,000	\$525,000	\$0	

Reference Notes 2 - Detailed Capital Budget Review Amendments



Section	2020-2021 Budget Review 2	2020-2021 Budget Review 3	Movement	Comment
9001471 - 3130 Beechmont Road, Beechmont-Minor Works D	\$7,000	\$7,000	\$0	
9001476 - The Hollow Bridge - Minor Bridge Rehab	\$53,000	\$53,000	\$0	
9001483 - Panitz Bridge - Minor Bridge Rehab	\$0	\$50,000	\$50,000	Funds allocated from 9000492
9001484 - Tierneys Bridge, Rosevale - Minor Bridge Rehabilita	\$0	\$70,000	\$70,000	Funds allocated from 9000492
9001486 - Oakdale Court, Gleneagle Minor Drainage Works	\$0	\$30,000	\$30,000	Funds allocated from 9000495
9001487 - Dwyer Ridges Road, Mt Alford CH320 Major Culvert	\$0	\$21,000	\$21,000	Funds allocated from 9001210
9001488 - Old Mt Lindesay Road CH2175	\$0	\$19,000	\$19,000	Funds allocated from 9001210
	\$8,351,000	\$7,711,000	-\$640,000	
294 - Fleet Management				
9900005 - Fleet Capital Budget	\$5,422,000	\$5,422,000	\$0	
	\$5,422,000	\$5,422,000	\$0	
901 - Grant-Bushfire Recovery Exceptional Assistance Package				
9001417 - Moriarty Park Car Park	\$17,000	\$17,000	\$0	
9001418 - Local Hall Upgrades	\$244,000	\$244,000	\$0	
9001419 - Water Access - Bore and Tanks	\$415,000	\$415,000	\$0	
	\$676,000	\$676,000	\$0	
905 - Grant-Building Drought Resilience in the Scenic Rim				
9001474 - Upgrade Mt Alford Playground, Bowman Park	\$135,000	\$135,000	\$0	
9001475 - Install/Upgrade Water Tanks at Rural Community H	\$250,000	\$250,000	\$0	
	\$385,000	\$385,000	\$0	
906 - Grant-Qld Bushfires Local Economic Recovery (LER)				
9001473 - Boonah Cinema Upgrade (Grant Funded LER)	\$75,000	\$75,000	\$0	
9001485 - Vonda Youngman Coumminty Centre Upgrads	\$0	\$616,009	\$616,009	New Qld Bushfires LER Grant
	\$75,000	\$691,009	\$616,009	
Total Capital Expenditure	\$53,505,933	\$68,245,335	\$14,739,402	
Disposals - Fleet and Property				
9900006 - Fleet Trade-Ins	(\$1,213,000)	(\$1,213,000)	\$0	
9900007 - Property Disposals	(\$565,000)	(\$40,000)	\$525,000	No property sales anticipated this financial year
9900008 - Property Disposals-Beaudesert Business Park Deve	(\$843,000)	\$0	\$843,000	No property sales anticipated this financial year
Total Receipts from Asset Sales	-\$2,621,000	-\$1,253,000	\$1,368,000	
Net	\$50,884,933	\$66,992,335	\$16,107,402	

10.6 Auditor-General Report To Parliament Local Government 2020

Executive Officer: General Manager Council Sustainability

Item Author: Coordinator Financial Management

Attachments:

1. Auditor-General Report to Parliament 'Local Government 2020 Report 17: 2020-21' [↓](#)
2.  Queensland Audit Office's 'Scenic Rim Regional Council 2020 Closing Report' [↓](#) 

Executive Summary

The Queensland Auditor-General's Report to Parliament 'Local Government 2020 (Report 17: 2020-21)' was tabled in Parliament on 22 April 2021 (refer Attachment 1).

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

Recommendation

That Council receive the Auditor-General's Local Government 2020 Report.

Previous Council Considerations / Resolutions

Nil.

Report / Background

The final report titled 'Local Government 2020 (Report 17: 2020-21)' was tabled in Parliament on 22 April 2021 (refer Attachment 1).

Contained in the report are the summaries and findings associated with the audit of the 2019-2020 financial year. The Auditor-General highlights some key aspects including:

- Financial statements are reliable and comply with relevant and standards
- Financial sustainability continues to deteriorate, indicating that 70 per cent of Councils spent more than they earned whilst not unexpected in light of the pandemic and efforts by Councils in supporting their communities - this is up by 25 per cent the previous year. Also indicated that as at 30 June 2020, 25 Councils are rated at high risk of not being financially sustainable.
- Council need to strengthen their governance indicating that more than one-third of Councils do not have appropriate processes in place to identify and manage their strategic and operational risks.
- Information systems are vulnerable - Councils are susceptible to cyber-attacks and need to ensure that appropriate measures in place to keep systems secure.
- Procurement and contract management processes need to be improved indicating that some Councils are not following established procurement processes to demonstrate that purchasing is obtaining value for money or prove that appropriate approvals to obtain goods and services are in place.

Following the introduction, the Auditor-General has identified and made a number of recommendations to both Councils and the Queensland Government (Department of State Development, Infrastructure, Local Government and Planning).

Councils:

1. Improve financial reporting by strengthening month-end and year-end financial reporting processes;
2. Improve valuation and asset management practices;
3. Strengthen security of information systems;
4. Improve risk management processes; and
5. Enhance procurement and contract management practices.

Department of State Development, Infrastructure, Local Government and Planning:

1. Require all councils to establish audit committees;
2. Makes changes to sustainability ratios;
3. Provide greater certainty over long term funding; and
4. Provide training to councillors and senior leadership team around financial governance.

In respect to how Scenic Rim Regional Council fared as part of the Queensland Audit Office's report to Parliament:

1. Appendix E (on page 50 of 80) provides for the audit opinion on the 2019-2020 financial statements. Scenic Rim Regional Council were assessed to be accurate and complying with relevant standards obtaining an unmodified financial statement opinion on 30 September 2020.
2. Appendix I (on page 63 of 80) provides for assessment of Council based on financial sustainability measures. Scenic Rim Regional Council (as part of the Rural/Regional Councils) were rated:
 - Average Operating Surplus Ratio - "Lower" [More than zero] - generating surpluses consistently
 - Net Financial Liabilities Ratio - "Lower" [Less than 60%] - No concern over the ability to repay debt from operating revenue
 - Asset Sustainability Ratio - "Lower" [More than 90%] - Like to be sufficiently replacing or renewing assets as they reach the end of their useful lives
 - Relative Risk Assessment - "Lower" - There is a lower risk of concerns about financial sustainability based on current income, expenses, asset investment, and debt financing policies.
3. Appendix J (on page 74 of 80) provides for the assessment of Council based on Councils' financial governance. Scenic Rim Regional Council (as part of the Rural/Regional Councils) were rated on their internal controls:
 - Control Environment - "Effective" - No significant (high-risk) deficiencies.
 - Monitoring Activities - "Effective" - No significant (high-risk) deficiencies.
 - Risk Assessment - "Effective" - No significant (high-risk) deficiencies.
 - Control Activities - "Effective" - No significant (high-risk) deficiencies.
 - Information and Communication - "Effective" - No significant (high-risk) deficiencies.
4. Also as part of Appendix J (on page 74 of 80), Council received the following ratings as part of its financial statement preparations:
 - End of Financial Year Processes - "Partially Effective" - Three to four key processes completed by the agreed date.
 - Timeliness - "Effective" - On or before 13 October (against legislative deadline of 31 October)
 - Quality - "Below Average" - Material adjustments were made to financial statement components.
5. Finally, also as part of Appendix J (on page 74 of 80), Council received a Financial Sustainability Relative Risk Assessment of "Green" indicating that Scenic Rim Regional Council has a lower overall risk.

With respect to items contained in 4 (above), Council achieved four of the five milestones, with the delay in preparing relevant position papers as a result of changes to the new Australian Accounting Standards Board (AASB) standards - AASB1058 and AASB15 and improved methods and structure in accounting for refuse site restoration provisions being the missed milestone.

In regard to the new standards, 2019-2020 was unique with the high volume of grants and funding (initiatives associated with the COVID pandemic) Council were recipient of causing issues around recognition of when funding was received. Ascertaining necessary information to allow appropriate changes to the way Council accounted for the restoration provision also attributed to the final rating.

Following on from incorporating the relevant (above) position papers, the changes necessary resulted in making amendments to the final version of the financial statements. The adjustments to the original statements were deemed material enough, by the external auditors to warrant the quality of the statements being rated below average. The material changes were attributed to:

- Recognition of monitoring costs on Council's landfill site (impacting refuse site restoration provisions)
- Incorporation of AASB1058 (Income of Not-For-Profit Entities) and AASB15 (Revenue From Contracts with Customers), the introduction of these standards impacted the treatment of income associated with grants and funding that were received by Council.

A copy of Council's 2020 Closing Report has been included for reference (refer Attachment 2).

Budget / Financial Implications

Nil.

Strategic Implications

Operational Plan

Theme: 3. Open and Responsive Government

Key Area of Focus: 3.1.2 Provide streamlined and practical regulatory services that deliver improved access for the community

Legal / Statutory Implications

Not applicable.

Risks

Strategic Risks

The following Level 1 and Level 2 (strategic) risks are relevant to the matters considered in this report:

SR47 Inadequate or lack of an appropriate Financial Management Framework (including systems, policies, procedures and controls) in place to adequately minimise risk of fraudulent action and to maximise financial sustainability.

Risk Assessment

Category	Consequence	Likelihood	Inherent Risk Rating	Treatment of risks	Residual Risk Rating
Governance, Risk & Compliance Elected members unaware of recommendations of Auditor-General in relation to Local Government	2 Minor	Possible	Medium	Providing regular updates to elected members.	Low

Consultation

Nil.

Conclusion

The Auditor-General's tabled report to Parliament (Local Government 2020) is provided for Councillors' information and the report provides for how Scenic Rim Regional Council fared in the assessment of Local Governments for the 2019-2020 audit process.



Local government 2020

Report 17: 2020–21

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, and on our insights, advice, and recommendations for improvement
- 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.

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- Financial audit reports summarise the results of our audits of over 400 state and local government entities.
- Performance audit reports cover our evaluation of some, or all, of the entities' efficiency, effectiveness, and economy in providing public services. Depending on the level of assurance we can provide, these reports may also take the form of:
 - Audit insights, which provide some evaluation and share our insights or learnings from our audit work across government
 - Audit briefs, which set out key facts, involve some evaluation, and may include findings and recommendations
 - Audit overviews, which help clients and stakeholders understand complex issues and subjects.

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

22 April 2021

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



Brendan Worrall
Auditor-General



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Local government 2020 (Report 17: 2020–21)

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Local government 2020 (Report 17: 2020–21)

Auditor-General's foreword

This year, the emergence of COVID-19 presented challenges for local governments on a never before seen scale. Local councils are the first line of connection to communities; providing Queenslanders with essential services, which involves a high level of interaction. The resources councils needed to deliver these services were put under immense pressure.

The task councils also faced in delivering on their financial reporting accountabilities should not be underestimated. I wish to recognise and thank them for their efforts. Most councils ensured they could provide us with their data and information when faced with the need to work more remotely. This meant we could deliver our audit and assurance services and prepare our reports to parliament in line with our planned time frames.

I also wish to thank my workforce—Queensland Audit Office staff and our audit service providers—for their dedication during this busy and unique period. I recognise how committed they were to our ethos of service delivery and in supporting our clients.

Our new ways of engaging from afar during the pandemic meant we could continue to share our insights and advice with our clients on an ongoing basis and maintain our working relationships. When restrictions began to lift, we appreciated more than ever the value of in-person engagement. My team and I visited some councils in western Queensland to hear about their experiences during the pandemic and to receive feedback on our services. We have more visits across Queensland planned for the coming year.

We do not know what 2021 will bring, but we know the impacts of the pandemic will be enduring for years to come. The state and federal governments have heavily relied on borrowings, to stimulate the Queensland and Australian economies. Councils will need to consider the impact of the pandemic to their overall sustainability and how they continue to provide the essential services to their communities in a cost affordable manner.

We will all apply our learnings from 2020 to manage change, and emerging and new risks, and to further refine and improve our processes. I believe councils and QAO will continue to successfully work together as part of a shared commitment to the Queensland community.



Brendan Worrall
Auditor-General



Report on a page—results of our audits

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

Financial statements are reliable

As at the date of this report, 75 of 77 councils (2019: 73 of 77) had completed their financial statements. This was a significant achievement given the challenges presented by COVID-19 and the substantial turnover in elected representatives following the March 2020 local government elections.

The financial statements of councils, and the entities they control, are reliable and comply with relevant laws and standards.

COVID-19 travel restrictions and responding to community needs on short notice meant some councils were unable to value their assets in a timely manner and most councils had not fully assessed the impact of three new accounting standards on their financial statements. Together, these factors led to a decline in the timeliness and quality of the financial statements.

Financial sustainability continues to deteriorate

Councils' financial performance continued to deteriorate in 2020. This was not unexpected. Travel restrictions, community lockdowns and initiatives to support their communities through the pandemic, meant councils earned lower revenue (waiving or discounting revenue from car parking, dining, and reduced patronage at public facilities and airports). And they incurred more expenditure (higher employee costs by bringing forward capital projects, maintaining quarantine facilities and border controls, and increased cost of cleaning of council and public facilities). This resulted in 70 per cent of Queensland councils spending more than they earned in 2020, which is 25 per cent worse than last year.

Most councils with a high reliance on grants from state and federal governments have consistently incurred operating losses each year for the last five years. We have found that these councils that regularly incur operating losses often have weak strategic planning, asset management, and financial management practices. That said, planning for financial sustainability is a challenge for these councils because the current funding model provides grants to councils largely on a year-by-year basis, making medium- to long-term planning difficult.

The Department of State Development, Infrastructure, Local Government and Planning (the department) could assist councils by providing greater baseline funding certainty with multi-year grant programs. The department could also work with councils to improve financial and asset management capability.

As of 30 June 2020, 25 councils are at a high risk of not being financially sustainable. This is four more councils than last year and represents approximately one-third of the sector.

Since 2013, the department has used three financial ratios to measure the sustainability of councils. These ratios set specific benchmarks that are applied to all the councils, regardless of their size and circumstances. The department recognises the need to update its sustainability measures and is developing options for new measures.



Local government 2020 (Report 17: 2020–21)

Report on a page—internal controls

Councils need to strengthen their governance

Each year, we assess councils' internal controls—the people, systems, and processes they use to achieve their objectives, prepare reliable financial reports, and comply with applicable laws. All weaknesses need to be addressed, but some of them are significant and should be prioritised.

Between 2017 and 2019, councils made progress in resolving the weaknesses in their internal controls. Despite this recent progress, the change to the working environment this year has contributed to an increase in the number of significant weaknesses in internal controls.

More than one-third of councils do not have appropriate processes in place to identify and manage their strategic and operational risks. This exposes them to a higher risk of not being able to meet their objectives, or operational failures, fraud or error.

Also of concern is that, as at 30 June 2020, 10 councils (2019: 12 councils) still did not have an audit committee nor an active internal audit function. In addition to that, six councils (2019: six councils) did not have an audit committee and two councils (2019: one council) did not have an active internal audit function. An effective audit committee and internal audit function help councils ensure their internal controls are effective, risk management and financial reporting processes are strong, and audit recommendations are resolved in a timely manner. This enhances governance and increases councils' ability to run their businesses effectively and efficiently.

Information systems are vulnerable

We continue to identify weaknesses in the controls councils use to secure their information systems. We found inappropriate user access to systems, unauthorised installation of applications on council networks, inadequate segregation of duties (to make sure there are checks in place), and poor password practices.

Information systems are open to cyber attacks, and this year one council was the victim of a successful ransomware attack, resulting in disruptions to its financial and operational activities.

Councils need to appropriately secure access to their financial systems, as they underpin the integrity of their financial reporting and operations.

Procurement and contract management processes need to be improved

Some councils are not following established procurement processes to demonstrate they have obtained value for money or prove they had the appropriate approvals to obtain goods and services.

In addition, some councils do not have a contract register containing all the necessary information (for example, start and end dates of the contract) they need to manage their contracts effectively. This exposes them to various financial and reputational risks, including the risk of their suppliers not delivering on agreed terms.

Recommendations for councils

We make the following recommendations to the councils:

Improve financial reporting by strengthening month-end and year-end financial reporting processes	
REC 1	<p>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.</p> <p>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.</p>
Improve valuation and asset management practices	
REC 2	<ul style="list-style-type: none"> • 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.
Strengthen security of information systems	
REC 3	<p>We recommend all councils strengthen the security of their information systems. Councils rely heavily on technology, and increasingly, they have 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.</p> <p>All entities across the local government sector should:</p> <ul style="list-style-type: none"> • 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. <p>Councils should also self-assess against all of the recommendations in <i>Managing cyber security risks</i> (Report 3: 2019–20) to ensure their systems are appropriately secured.</p>



Local government 2020 (Report 17: 2020–21)

Improve risk management processes	
<u>REC 4</u>	<p>Councils should have a complete and up-to-date risk management framework including:</p> <ul style="list-style-type: none"> 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 and that these plans are tested periodically.
Enhance procurement and contract management practices	
<u>REC 5</u>	<ul style="list-style-type: none"> 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.



Recommendations for the department

We make the following recommendations to the Department of State Development, Infrastructure, Local Government and Planning (the department).

Require all councils to establish audit committees	
REC 6	<p>We continue to recommend that the department requires all councils to establish audit committees and that the chairperson of this committee is independent of council and management.</p> <p>In light of the difficulties some councils have faced with internal control weaknesses, fraud, ransomware, and achieving financial sustainability, this is more important now than ever.</p>
Makes changes to sustainability ratios	
REC 7	<p>We recommend that the department develops new financial sustainability ratios for Queensland councils. In developing these ratios and associated targets, we recommend that the department considers the different sizes, services, and circumstances of the various councils.</p> <p>We also recommend that the new financial sustainability ratios be established in time for the year ending 30 June 2022.</p>
Provide greater certainty over long-term funding	
REC 8	<p>We recommend that the department reviews its current funding model to identify opportunities to provide funding certainty to councils beyond one financial year. A three- to five-year funding model would assist councils, especially those heavily reliant on grants, to develop and implement more sustainable medium- to long-term plans.</p>
Provide training to councillors and senior leadership teams around financial governance	
REC 9	<p>We recommend that the department provides periodic training to councillors and the senior leadership team for councils that are highly reliant on grants. The training should focus on helping these councils:</p> <ul style="list-style-type: none"> • establish strong leadership and governance • enhance internal controls and oversight • improve financial sustainability in the long term.

Reference to comments

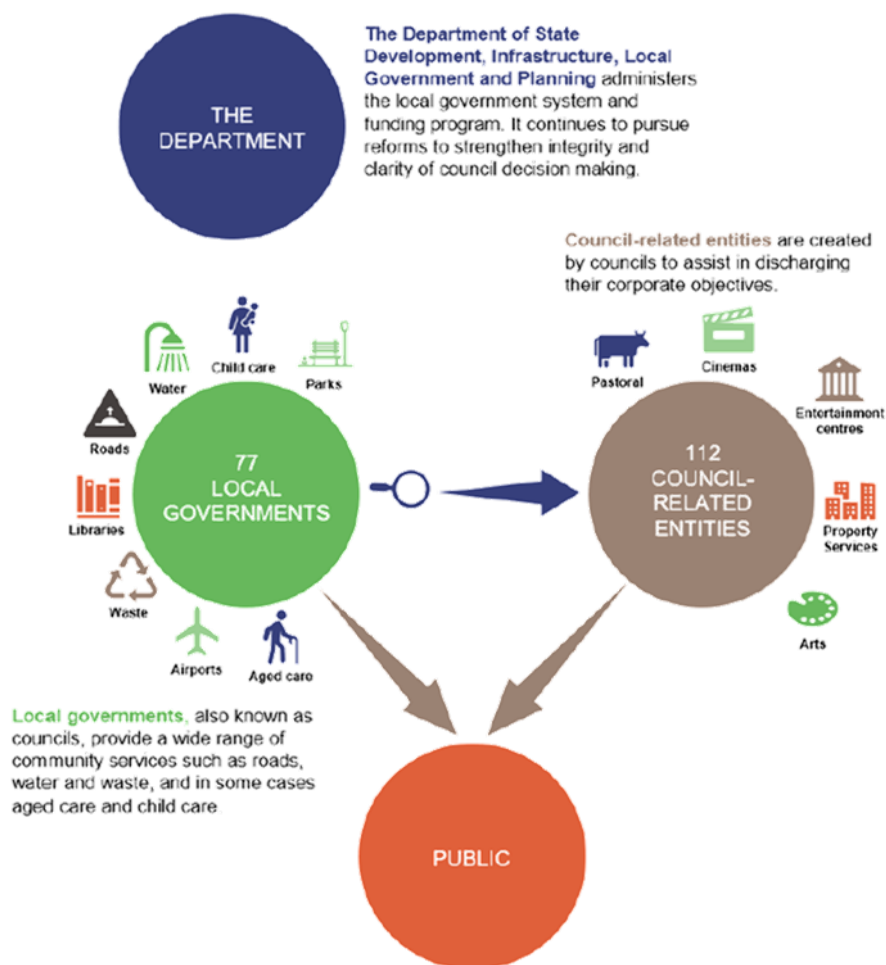
In accordance with s. 64 of the *Auditor-General Act 2009*, we provided a copy of this report to relevant entities. In reaching our conclusions, we considered their views and represented them to the extent we deemed relevant and warranted. Any formal responses from the entities are at [Appendix A](#).



Local government 2020 (Report 17: 2020–21)

1. Overview of entities in this sector

Figure 1A
Entities in the local government sector



Source: Queensland Audit Office.

2. Results of our audits

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

Chapter snapshot



DEFINITION

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

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

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.

Challenges faced by local government in 2020

Unpredictable change and new challenges impacted councils' financial performance and reporting processes this year, which in turn affected their ability to finalise their financial statements in a timely manner.

Against the COVID-19 backdrop of physical distancing, lockdowns and border closures, councils needed to support their communities with various relief measures while continuing to deliver essential services. Council staff also had to quickly enhance their information technology systems to support a more mobile workforce.



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Councils contended with the introduction of three new accounting standards, which were complex. But earlier and more timely planning by councils over the past three years may have alleviated some of the pressures these presented.

Local government elections in March 2020 created further change, with 272 new elected members (making up approximately half of all councillors). This required a period of induction for new members and meant councils revisited their priorities and strategic direction in some areas.

Audit opinion results

Status of audit of financial statements

At the date of this report, we had issued audit opinions for 75 councils (2019: 73 councils) and 67 of the entities they control (2019: 72 controlled entities). Of the 75 councils we issued audit opinions for:

- 61 councils (2019: 68 councils) met their legislative deadline
- 10 councils (2019: four councils) met the extended time frame granted by the minister
- four councils (2019: nil) did not meet their legislative deadline.

The council financial statements we signed are reliable

We found that the 75 councils' financial statements were reliable and comply with relevant laws and standards. Of these, we included an emphasis of matter in our audit reports of two councils to highlight:

- uncertainty over Wujal Wujal Aboriginal Shire Council's ability to repay its debts as and when they arise
- that Mount Isa City Council did not recognise an obligation to remediate its landfills.

For the first time in three years, Doomadgee Aboriginal Shire Council met its statutory deadline and received an unmodified opinion. This is a good result.

Two controlled entities—Artspace Mackay Foundation and Local Buy Trading Trust—received qualified opinions because they were unable to provide us with enough evidence to demonstrate the completeness of the revenue they recorded.

We also included emphases of matter in our audit reports for 11 controlled entities for the following reasons:

- nine controlled entities decided to wind up their operations
- one controlled entity was reliant on financial support from its parent entity
- one controlled entity was unable to pay its debts as and when they fall due.

Appendix E provides the results of the financial audits.

Entities exempt from audit and those we do not issue an audit opinion for

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

Status of unfinished audits from previous years

At the time we tabled *Local government entities: 2018–19 results of financial audits* (Report 13: 2019–20) in February 2020, four councils and six council-related entities had not finalised their financial statements. All of them subsequently finalised their financial statements (including financial sustainability reports for the councils).

Palm Island Aboriginal Shire Council received a qualified opinion regarding completeness and accuracy of the revenue it reported. We also included an emphasis of matter in our audit opinion drawing attention to an ongoing investigation by the Crime and Corruption Commission.

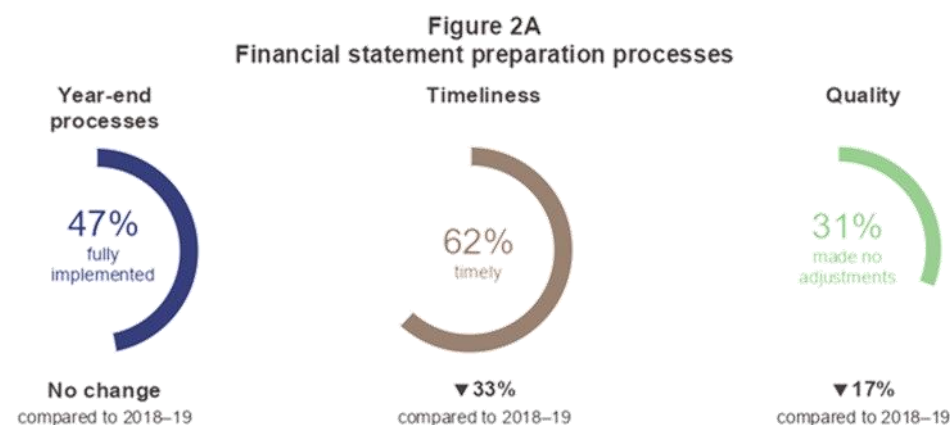
Doomadgee Aboriginal Shire Council received a qualified opinion, as the depreciation expense (which measures wearing out of assets) it recognised in its financial statements for the previous year was incorrect.

For two council-related entities—Major Brisbane Festivals Pty Ltd and Townsville Breakwater Entertainment Centre Joint Venture—we included an emphasis of matter in our audit opinion about their ability to pay debts as and when they fall due.

The other two councils and the remaining four council-related entities all received unmodified opinions.

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

Financial statement preparation processes



Source: Queensland Audit Office.

This year, we noted a decline in the timeliness and quality of local government financial statements. Travel restrictions and community lockdowns impacted councils' ability to complete independent valuations of their assets in a timely manner. Audit teams also needed to shift when they visited councils and how to complete their work.

Our assessment of the effectiveness of each council's financial statement preparation processes is included in Appendix J.

Local government 2020 (Report 17: 2020–21)

Common issues with financial statement preparation processes

Councils were generally under-prepared for the changes arising from the new accounting standards

This year, councils adopted three new Australian accounting standards, which became mandatory for the first time. Two related to how revenue is recognised in financial statements, and one was about the leasing of assets.

Implementation of the new accounting standards resulted in an increase to the sector's total liabilities of \$983 million (or 11 per cent). This is offset by a \$528 million increase in assets.

These accounting standards had been in place for at least three years before they became mandatory in 2019–20. However, most councils did not use this time to determine the impact these accounting standards would have on their financial statements until late in the 2019–20 financial year. This contributed to the decline in the quality and timeliness in finalising financial statements compared to the previous years.

Most councils also recorded the impact of the new accounting standards only as a part of their year-end financial statement process, meaning that the balances they reported in their monthly financial reports were incorrect. This may have affected decisions made by elected members—who rely on the monthly financial reports when considering where to spend money.

Ineffective month-end and year-end processes

Councils perform processes at the end of each month and year that assist in the preparation of their financial statements. In conducting the audit, we consider the systems and processes (internal controls) councils use to prepare financial reports and comply with applicable laws.

We identified 65 deficiencies in the internal controls across 29 councils, where those councils did not follow good accounting practices in preparing their month-end and year-end financial reports. This year, these processes were impacted not only by the introduction of the three new accounting standards, but also by changes in working arrangements due to COVID-19.

The most common deficiencies identified included:

- reconciliation (matching) of important balances in the financial statements with supporting documents not being performed in a timely manner or not performed at all
- quality review by council management over month-end and year-end financial reports was either inadequate or did not occur.

Financial statement preparation maturity model

A council's effectiveness in preparing financial statements is influenced by the strengths and weaknesses of its financial reporting processes. Councils with good, established processes produce good quality month-end and year-end financial reports. This enables them to achieve more timely and higher-quality financial statements, because the year-end processes are an extension of the month-end processes.

We have developed a reporting tool for assessing financial statement preparation—the financial statement preparation maturity model. This model will assist councils in identifying improvement opportunities in their financial reporting processes and can be adapted for entities of different sizes and circumstances. This model is available on our [website](#).



Recommendation for all councils

Improve financial reporting by strengthening month-end and year-end financial reporting processes (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.

Councils continue to find valuation processes, asset management plans, and asset data maintenance a challenge

As of 30 June 2020, councils reported total property, plant and equipment assets of \$112 billion (2019: \$107 billion). The valuation activities undertaken by councils in relation to these assets are complex, with most councils relying on the expertise of external valuers to assist in determining fair values (the amounts for which the assets could be exchanged in a fair transaction).

Asset valuation continues to be one of the year-end processes most often not completed in a timely manner. COVID-19 travel restrictions made it even more complex this year, with valuers unable to visit some communities to assess the value of the assets.

Councils that engaged with their valuers early in the financial year were able to complete their asset valuations in a timely manner and were able to reflect the changes in the asset values before producing their financial statements.

Assessing the fair value of assets provides councils with the approximate cost of replacing an asset in the future—in today's dollars. This, combined with asset management plans, helps councils with their decisions on when to maintain, renew or replace assets.

As at 30 June 2020, 11 councils (2019: 13 councils) have outdated or incomplete asset management plans. Of these, four have populations more than 20,000 and three of them are experiencing population growth. This is relevant because planning is particularly important for large and growing councils.

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

An effective asset management plan is reliant on good data about assets. Asset data is maintained on councils' financial systems and on the geographic information systems they use to capture, store, and manage the detailed components of their assets (such as roads, bridges, and dams). The data in these two systems should be reconciled (matched) periodically and any differences should be resolved in a timely manner.

We continue to see councils identifying 'found assets' that they have not previously recorded in their financial systems. This primarily arises from not reconciling the asset data between the financial systems and geographic information systems. This year, nine councils (2019: 10 councils) that reported found assets made changes to their financial statements for a total amount of \$230 million (2019: \$497 million).

To ensure effective decision-making and efficient use of public money, the engineers (who build and maintain assets) and accountants (who manage the finances) must work with the same asset data. When this is not the case, a council's decisions may be compromised, and it is at risk of wasting public money.



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Recommendation for all councils

Improve valuation and asset management practices (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.



3. Internal controls in local governments

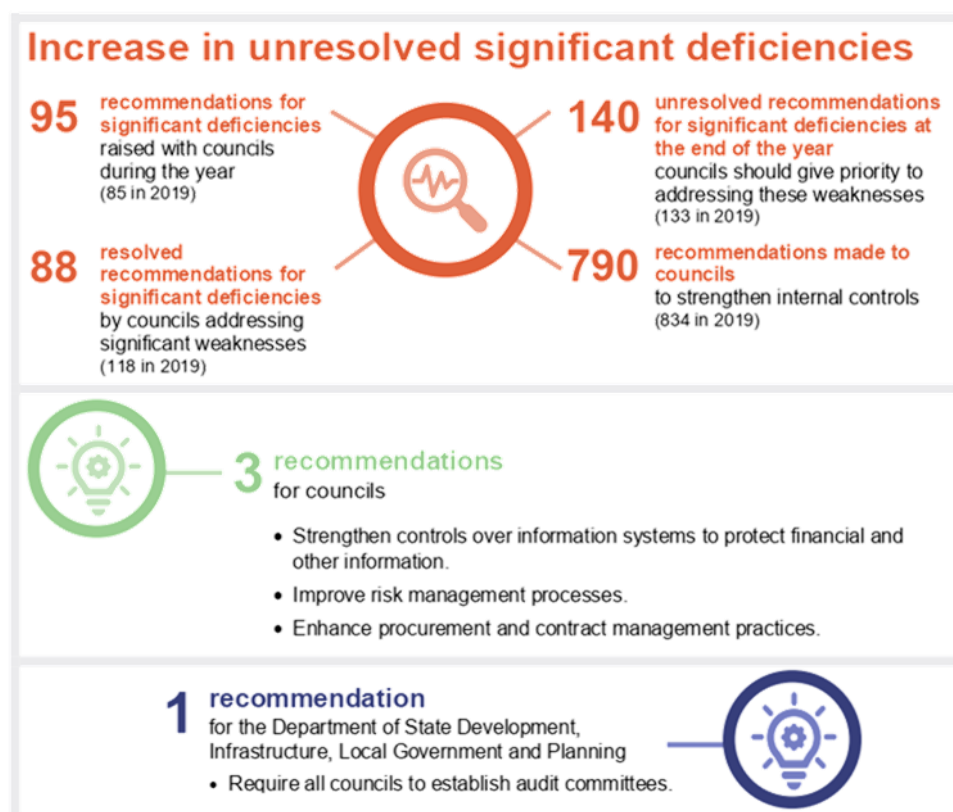
Internal controls are the people, systems, and processes that ensure an entity can achieve its objectives, prepare reliable financial reports, and comply with applicable laws. Features of an effective internal control environment include:

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

This chapter reports on the effectiveness of councils' internal controls and highlights important challenges for the local government sector. Appendix J provides a more detailed assessment.

Where we identify weaknesses in the controls, we categorise them as either 'deficiencies', which need to be addressed over time, or 'significant deficiencies', which are high risk and need to be addressed immediately.

Chapter snapshot



Local government 2020 (Report 17: 2020–21)

Strong governance is needed to resolve weaknesses in internal controls

Between 2017 and 2019, councils made significant progress in addressing the weaknesses in their internal controls by reducing the number of unresolved significant issues.

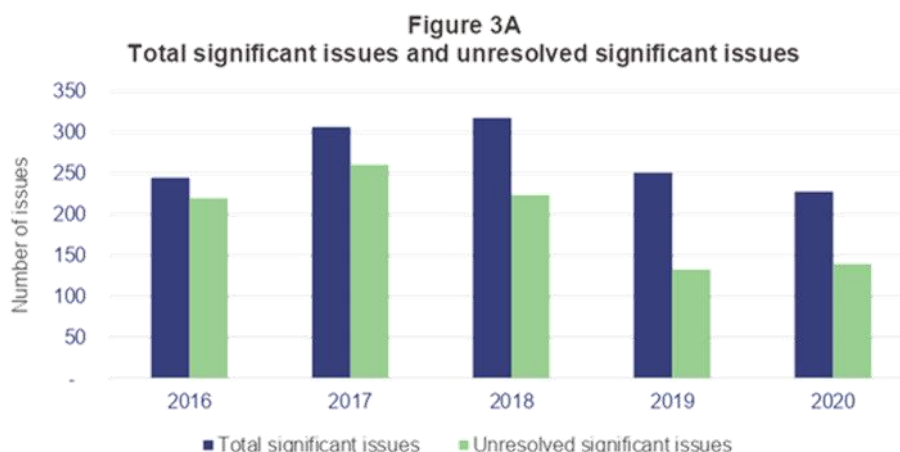
However, in 2020, we identified 228 significant issues, with 140 (2019: 133) of these issues yet to be resolved at 30 June 2020.

We understand that the challenges imposed by COVID-19 may have made it more difficult to resolve these deficiencies. But the working from home arrangements required by COVID-19 make it more crucial that councils strengthen their oversight of internal controls and address the identified weaknesses.

The local government elections in March 2020 resulted in turnover of approximately 50 per cent of the elected officials. Following the elections, there were also changes in chief executive officers (CEOs) at a number of councils. Elected officials and CEOs dictate the tone at the top and shape the culture of the organisation, which in turn drives the overall control environment.

Having an effective audit committee and an active internal audit function can assist in providing the right advice to these elected officials and CEOs and help them resolve these significant issues in a timely manner.

Figure 3A shows the total significant deficiencies we have identified in the sector and the number that have remained unresolved over the last five years.



Source: Queensland Audit Office.

Audit committees and internal audit

In our previous reports, we have stressed the importance of audit committees and internal audit functions to the overall control environment of councils.

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

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

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As at 30 June 2020, 10 councils (2019: 12 councils) do not have either an audit committee nor an active internal audit function. In addition, a further:

- six councils (2019: six councils) still do not have an audit committee
- two councils (2019: one council) do not have an internal audit function or have had no internal audit activity during the year.

In each case, this weakens the council's governance, resulting in more internal control breakdowns, poor financial processes, and a higher risk of being financially unsustainable.

Together, these councils accounted for more than 50 per cent of the unresolved significant deficiencies in the sector. Three of these councils have not met their statutory deadline for financial reporting for the last two years.

Most of these councils are highly reliant on grants and are deemed to be at a higher risk of being financially sustainable. These councils are already under financial pressure and see the cost of establishing an audit committee and an internal audit function as additional burden on their already deteriorating financial results. Often located in remote areas of Queensland, these councils are challenged with sourcing:

- independent audit committee members with the right skills and experience
- internal audit service providers at a reasonable cost.

Advancements in technologies such as videoconferencing and remote working capabilities now provide opportunities for these councils to engage the right candidates to establish an effective audit committee and internal audit function, at a lower cost.

Recommendation for the Department of State Development, Infrastructure, Local Government and Planning

Require all councils to establish audit committees (REC 6)

We continue to recommend that the department requires all councils to establish audit committees and that the chairperson of this committee is independent of council and management.

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.

Common internal control deficiencies

In this section of the report, we describe the common issues we have identified with internal controls at councils.

Security of information systems

Each entity uses its information systems extensively to process the information for its financial statements. Weaknesses in controls over information systems increase the risk of undetected errors or financial loss, including from fraud.

This year, there has been a significant increase in external attacks, as cyber criminals attempt to take advantage of changes in working arrangements necessitated by the COVID-19 pandemic.

This year, weaknesses in one Queensland council's internal controls meant its systems were not adequately protected, and a successful cyber attack had a significant impact on its operations. This is described in Case study 1 (Figure 3B).



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Figure 3B
Case study 1

Impact of cyber attack on a council
<p>This year, one regional council was subject to a ransomware attack. A ransomware attack is a form of a cyber attack where the attacker gains access to information systems and demands a ransom to return the information.</p> <p>The cyber attacker gained access to all council systems, including the backup data that was stored on the council's network.</p> <p>The impacts of this attack were:</p> <ul style="list-style-type: none"> the council was unable to access systems and information, with full restoration taking an extended period (for example, payroll and creditors had to be paid manually for five weeks) normal activities could not be performed or were delayed (for example, the council was unable to prepare monthly financial management reports) key staff, including information technology staff and contractors, needed to work extended hours to resolve the situation significant time was spent by council staff in dealing with various parties and investigating the source of the data breach. <p>The council has now taken action to strengthen its controls, including:</p> <ul style="list-style-type: none"> understanding the ways that external parties (such as suppliers, banks, and the public) access the council's network, and what opportunities this could provide to external attackers strengthening its password controls increasing staff training on the risks associated with emails, and opening attachments and clicking links engaging independent professional experts to periodically test the security controls on its information systems and provide recommendations for improvements. <p>This matter was reported to the Queensland Government Cyber Security Unit of the Queensland Government Customer and Digital Group (formerly the Queensland Government Chief Information Office).</p> <p>This incident highlights the importance of cyber security for all councils, not just large or higher-profile councils.</p>

Source: Queensland Audit Office.

Cyber threats will continue and are likely to increase. Councils need to remain vigilant in managing their cyber security risks, which means promptly addressing internal control weaknesses.

As of 30 June 2020, 32 councils did not have sufficient controls in place to protect their information systems. Common weaknesses we identified in the security of information systems this year include the following:

- Access to systems was not restricted to current employees.
- Employees were given access to perform multiple activities in a process (meaning there was not enough segregation of responsibilities at different stages of the process), or activities beyond what they needed to perform their job.
- The activities of employees with privileged access (allowing them to access sensitive data and create and configure within the system with no restrictions) were not monitored to ensure they were appropriately approved.
- Employees were assigned incorrect delegations in the finance system, increasing the risk of unauthorised transactions.
- Security settings allowed unapproved applications to be installed on council networks, increasing the risk of malware and cyber attacks.
- Passwords were not sufficiently complex (so could be easily guessed) or were not required to be changed regularly.



Recommendation for all councils**Strengthen security of information systems (REC 3)**

We recommend all councils strengthen the security of their information systems. Councils rely heavily on technology, and increasingly, they have 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 *Managing cyber security risks* (Report 3: 2019–20) to ensure their systems are appropriately secured.

Risk management

Councils operate in a complex environment and are subject to risks from internal and external forces. We found that 29 councils do not have sufficient risk management processes in place to identify and manage these risks. As a result, they face a greater likelihood of loss, or of failing to achieve their objectives.

Common issues relating to risk management include the following:

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

Recommendation for all councils**Improve risk management processes (REC 4)**

Councils should have a complete and up-to-date risk management framework including:

- comprehensive risk registers that identify risks (including the risk of fraud) and appropriate risk mitigation strategies
- current and relevant business continuity and disaster recovery plans and that these plans are tested periodically.



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Procurement and contract management

Over the last five years, on average, councils spent approximately \$7.7 billion on goods and services each year. This year, we identified deficiencies in procurement and contract management controls in 32 councils. We recommend that these councils strengthen their internal controls to ensure they achieve value for money for their communities in their purchasing activities. The common deficiencies we identified this year include the following:

- Councils were unable to demonstrate they obtained value for money from their procurement process. This was generally due to
 - not obtaining sufficient tenders/quotes for the purchase of goods or services
 - insufficient documentation resulting in perceived transparency issues for supplier tendering and selection processes.
- Councils approved the purchase of goods and invoices after they were received, instead of before they were ordered.
- Councils either did not have a contract register or did not have a complete contract register that would enable them to effectively manage their contracts.

A contract register is a list of all contracts that a council has entered into with its vendors and contains important information such as:

- start and end date of the contract
- total contracted amount and annual amounts
- contract manager assigned to the contract
- link to or reference to a copy of the contract
- trigger date for renewal of the contract.

Recommendation for all councils

Enhance procurement and contract management practices (REC 5)

- Councils need to ensure they obtain value for money for the goods and services they procure and that they have the appropriate approvals to procure the goods and services.
- To effectively manage their contractual obligations, councils should ensure their contract registers are complete and contain up-to-date information.



4. Councils' financial performance

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

Chapter snapshot

Expenses and liabilities have increased at a higher rate than revenue and assets

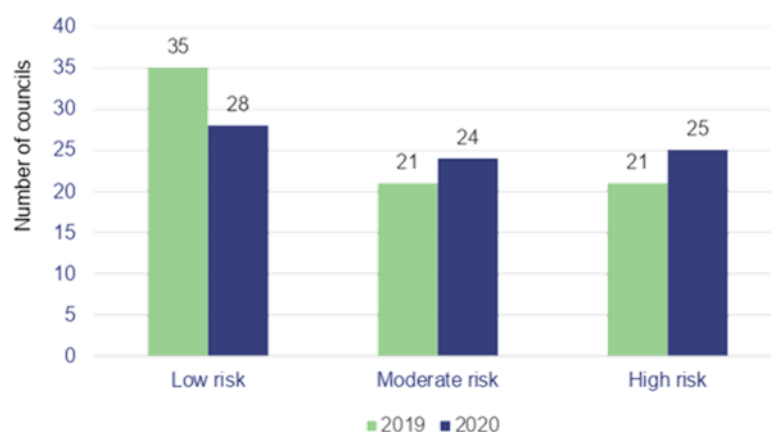


Note: The implementation of new accounting standards contributed to an 11 per cent increase in the sector's total liabilities.

The risk to financial sustainability is greater

Figure 4A shows the change in financial sustainability since last year.

Figure 4A
Change in financial sustainability



Source: Queensland Audit Office.



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How is financial sustainability assessed?

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

Councils in areas with a strong economy (which usually means a larger population and good job opportunities) are more likely to be able to generate their own revenue and attract and retain qualified staff. This in turn leads to them establishing good processes and managing their finances well.

Since 2013, the Department of State Development, Infrastructure, Local Government and Planning (the department) has required councils to measure their financial sustainability using three audited ratios:

- operating surplus ratio—the extent to which operating revenues cover operating expenses
- net financial liabilities ratio—the extent to which the operating revenues can meet the liabilities
- asset sustainability ratio—the extent to which assets are replaced as they reach the end of their useful lives.

Councils are expected to meet certain benchmarks against these ratios, which are detailed in Appendix I.

While all councils are required to use the same ratios to measure their financial sustainability, the challenges faced by each council vary significantly, and are strongly influenced by each local economy.

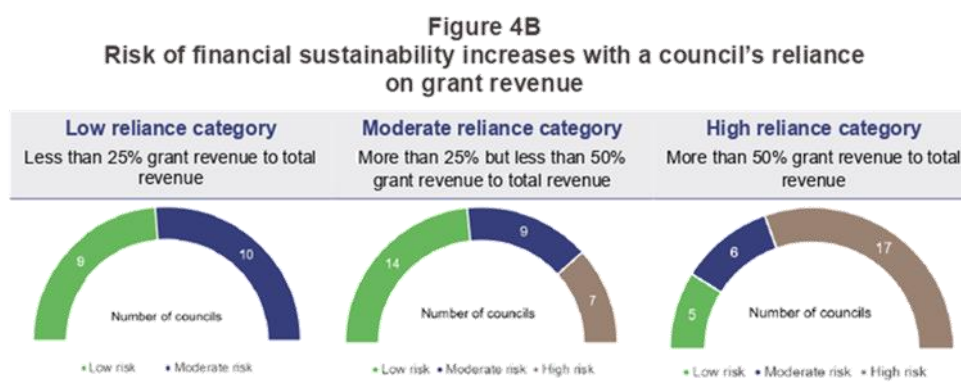
Councils with smaller populations and smaller local economies are more dependent on government grants to provide basic services, and build and maintain essential community assets (such as roads). These councils receive grants from both the state and federal governments for supplementing their day-to-day operations (for example, through financial assistance grants) and for building and maintaining community assets (also known as capital grants). However, these grants typically provide funding for a single year with little certainty whether the funding will continue in subsequent years.

Such uncertainty makes it difficult for councils that are highly reliant on grants to make longer-term plans to create jobs in the community and attract residents.

To highlight the different challenges these grant-dependent councils face, this year we have analysed councils' financial sustainability risk by their reliance on grants instead of grouping them into segments as defined by the Local Government Association of Queensland, as we have in previous years. Appendix I shows the results by those individual council segments.



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



Source: Queensland Audit Office.

Generally, as a council's reliance on grants increases, so too does its financial sustainability risk. There are, however, exceptions to this. We note that five councils with a high reliance on grant revenue have a low risk of being financially unsustainable. These councils have prioritised financial governance by recruiting and retaining appropriately skilled staff, who have established good financial and budgeting processes. These councils also have strong leadership and governance, and a strong internal control environment and oversight function, including effective audit committees and internal audit functions.

How have councils fared this year?

The financial sustainability of most councils deteriorated this year, with the sector's expenses and liabilities increasing faster than its revenues and assets. The financial sustainability risk rating for 12 councils has increased to either moderate or high. The sustainability ratios for another 64 councils also deteriorated but did not result in a change in their financial sustainability risk rating. One council, Charters Towers Regional Council, improved its sustainability risk rating from moderate to low.

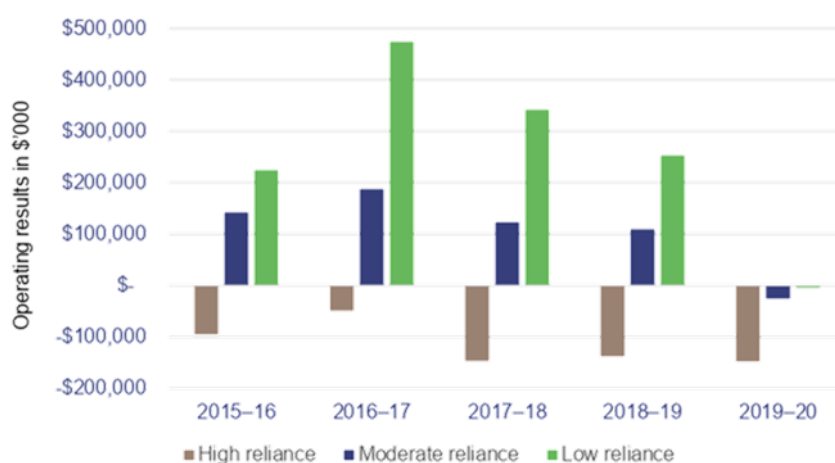
Generating operating surpluses has been a challenge for the sector

This year, 70 per cent of Queensland councils spent more than they earned, which is a 25 per cent increase compared with last year.

Figure 4C aggregates the operating results for councils, grouped by their reliance on grants over the last five years. The operating result for a council is the difference between the revenue generated from its activities and the cost of running the business.

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Figure 4C
Aggregate operating results of councils grouped by their reliance on grants



Source: Queensland Audit Office.

As a group, the councils highly reliant on grants have collectively made losses each year for the last five years. Individually however, there are five councils in this group that have consistently generated operating profits.

Uncertainty over future funding and their limited ability to generate their own revenue in the short term makes it difficult for most of these councils to have good strategic planning, asset management, and financial management practices. Having some certainty over long-term funding would enable them to develop strategies to attract new industries and people to their areas, maximise any investment that is made in community assets, and minimise operating losses.

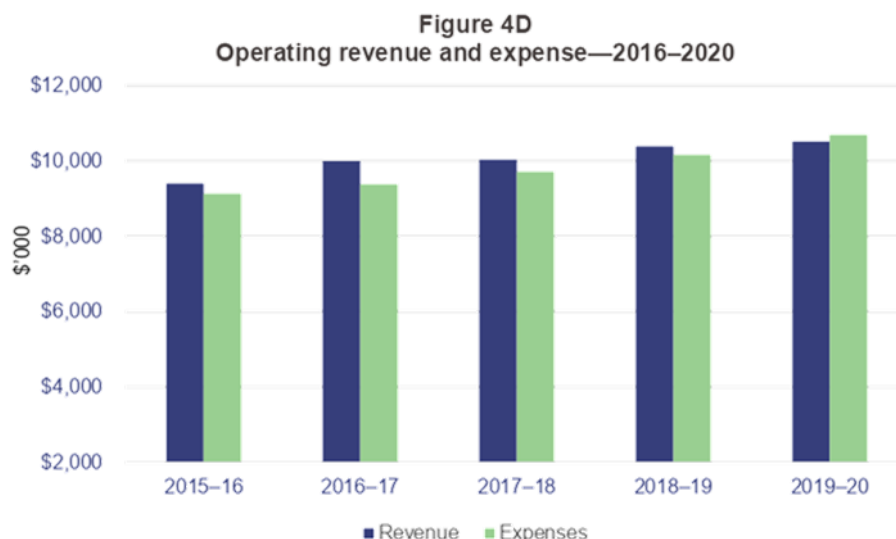
We consistently find councils that regularly incur operating losses have deficiencies in these areas, preventing them from improving their long-term financial sustainability. While it is each council's responsibility to find ways to improve its financial sustainability, we encourage the department to continue providing guidance to build capability in these areas.

This year, councils with low or moderate reliance on grants have generated operating losses for the first time in five years. These council categories have experienced a substantial increase in their operating expenses. Several councils brought forward their capital projects at the peak of the COVID-19 pandemic with the aim of retaining their workforce, resulting in higher employee costs. In addition, councils also incurred new costs to maintain quarantine facilities, enforce border restrictions, and sanitise council buildings and public areas.

At the same time, council operating revenues have only increased by one per cent. Several council revenue streams have decreased, particularly from March to June 2020, with significantly less visitors to council areas due to travel restrictions and community lockdown. This resulted in lower revenue from public services such as car parks, airports, and council-owned accommodation. Councils also provided support to communities in the form of discounts and waivers of fees such as food licenses, and rental concessions for tenants of council-owned buildings.

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Figure 4D shows the sector's expenses have steadily increased over the last five years, while revenue has not increased at the same rate. This year, for the first time in five years, total expenses of the sector exceeded total revenue.



Source: Queensland Audit Office.

While some councils made operating profits in 2020, the majority of councils face the dual challenges of not being able to contain the cost of services provided to the community, and of generating sufficient revenue to fund these services.

Councils in general, and especially those that are unable to increase revenue, must consider the services and service levels they provide to their communities—specifically in terms of their importance to the community and the cost of delivery.

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

To assist with this, we have also published several fact sheets and a cost allocation tool that councils can use to inform their decision making. These fact sheets and tool are available on our [website](#).

The sector's debt levels have increased in line with assets

The debt levels of the sector have increased by five per cent this year. This increase is in line with the increase in the value of community assets. Over the last five years, the sector's debt remained steady at five per cent of assets.

Of the total sector debt, 68 per cent is held by councils that have a low reliance on grant revenue, and 31 per cent held by councils with a moderate reliance on grants. These councils typically have larger populations, larger asset bases and a history of modest operating surpluses, giving them the ability to repay their debts. The councils holding the remaining one per cent are highly reliant on grants. These councils are currently managing their obligations and paying down their debt.



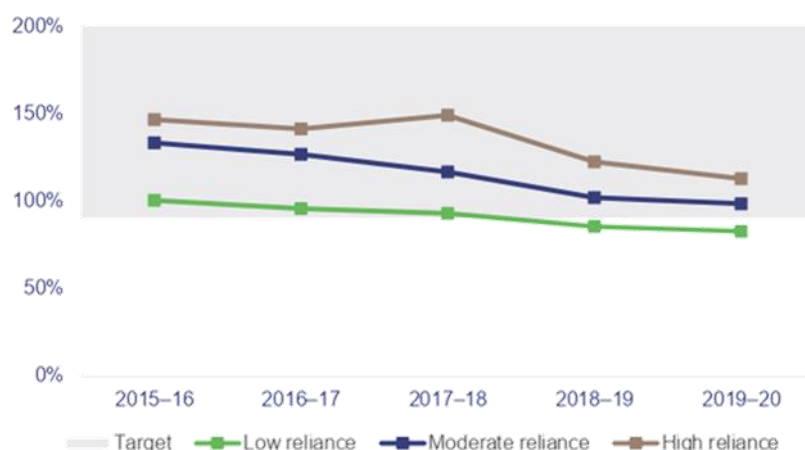
Local government 2020 (Report 17: 2020–21)

Councils continue to invest in community assets

This year, the sector has spent \$4.3 billion (2019: \$4.3 billion) on replenishing and/or constructing new assets (capital projects) to meet community needs.

Currently, councils measure their asset sustainability as a ratio that approximates the extent to which they are replenishing assets as they reach the end of their useful lives. Figure 4E shows this asset sustainability ratio for councils categorised by their reliance on grant funding.

Figure 4E
Asset sustainability ratio by council category



Source: Queensland Audit Office.

Councils with a high reliance on grant revenue typically have what looks like a good asset sustainability ratio, as they have received significant grant funding over the last five years to replace assets.

These 28 high-reliance councils combined received \$720 million in disaster relief funding over the last five years (2016–20). The 49 councils in the other two categories combined received \$814 million over the same period.

The current asset sustainability ratio does not take into account the age of the assets and whether the councils are maintaining them at an optimum level.

The asset sustainability ratio is calculated by dividing the amount of money spent on replacing assets each year by the annual estimated value of depreciation (or gradual 'wearing out') of the assets. This is expressed as a percentage, and the department's guidelines require this to be 90 per cent or more.

While this is intended to indicate whether a council is renewing its assets at a sufficient rate, it can be misleading. For example, councils with growing populations build new assets to keep up with the demand of their communities. These new assets do not require much maintenance or any replacement early in their life cycle. However, these councils also have older assets in established areas that need regular maintenance and replacement.

The existing ratio, which is calculated for the council as a whole, does not distinguish between the age of these assets (that is, new assets versus old assets). Consequently, councils cannot rely on this ratio to assess whether they are managing their portfolio of assets appropriately. They need robust asset management plans in place to ensure they are renewing their assets at the right times and to the right standard (or service level) across their communities.

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With most councils now having an asset management plan and better asset data than they had when the asset sustainability ratio was introduced in 2013, it is time for the department to consider if one or more of the following ratios would enhance asset sustainability reporting:

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

In our report *Forecasting long-term sustainability of local government* (Report 2: 2016–17), we recommended the department review the sustainability ratios and make these more fluid to address the changing needs of councils. The department is currently in the process of establishing new financial sustainability ratios.

Recommendation for the Department of State Development, Infrastructure, Local Government and Planning

Make changes to sustainability ratios (REC 7)

We recommend that the department develops new financial sustainability ratios for Queensland councils. In developing these ratios and associated targets, we recommend that the department considers the different sizes, services, and circumstances of the various councils.

We also recommend that the new financial sustainability ratios be established in time for the year ending 30 June 2022.

Recommendation for the Department of State Development, Infrastructure, Local Government and Planning

Provide greater certainty over long-term funding (REC 8)

We recommend that the department reviews its current funding model to identify opportunities to provide funding certainty to councils beyond one financial year. A three- to five-year funding model would assist councils, especially those heavily reliant on grants, to develop and implement more sustainable medium- to long-term plans.

Recommendation for the Department of State Development, Infrastructure, Local Government and Planning

Provide training to councillors and senior leadership teams around financial governance (REC 9)

We recommend that the department provides periodic training to councillors and the senior leadership team for councils that are highly reliant on grants. The training should focus on helping these councils:

- establish strong leadership and governance
- enhance internal controls and oversight
- improve financial sustainability in the long term.



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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 the request for comment to the Director-General, Department of State Development, Infrastructure, Local Government and Planning. We also provided a copy to all 77 councils with an option of providing a response.

This appendix contains the formal responses we received.

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



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



Local government 2020 (Report 17: 2020–21)

This recommendation will be considered as part of the review and as part of the establishment of future funding programs.

Recommendation 4: provide periodic training to councillors and the senior leadership team for councils that are highly reliant on grants.

The department supports this recommendation and is currently working to develop training in financial governance and basic financial management for councillors. Two pilot sessions have already been delivered and additional sessions will be rolled out this calendar year.

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

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

If you require any further information, please contact

who will be pleased to assist.

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

Yours sincerely


Damien Walker
Director-General

Local government 2020 (Report 17: 2020–21)

Comments received from Chief Executive Officer, Brisbane City Council



Dedicated to a better Brisbane

Brisbane City Council ABN 72 002 765 795

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12 April 2021

Mr Brendan Worrall
Auditor-General
PO Box 15396
CTY EAST QLD 4002

Dear Mr Worrall

Thank you for your email of 19 March 2021 about the Queensland Audit Office (QAO) proposed report to parliament – Local Government 2020.

I thank you for the opportunity to comment on the report.

Council is supportive of the recommendations made in the report.

Council is very interested in recommendation REC7 and note that it is now several years that QAO have made a recommendation for the Department of State Development, Infrastructure, Local Government and Planning (the department) to review the Financial Sustainability Ratios contained in the Financial Management (sustainability) Guideline 2013.

I also note that the timing recommended for this review has been pushed out to the year ending 30 June 2022. Council requests that the review of these ratios is expedited given the different sizes, services, and circumstances of the various councils and with the implementation of new accounting standards one of which is only currently applicable to Brisbane City Council. This makes comparability between councils even more problematic.

I also note your comments on page 11 regarding consistency between monthly reporting and their Annual Financial Statements in relation to new accounting standards. Council would like to confirm that it takes a proactive approach to new accounting standards and have reflected recent changes in its quarterly reporting since implementation. These new standards have also been reflected in Council's budget for a number of years.

Corrections to two items in the draft report have also been forwarded to QAO staff in relation to the ratios on page 57.

.../2

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If you have any further enquiries regarding this matter, please contact [REDACTED],

Thank you for contacting me.

Yours sincerely



Colin Jensen
CHIEF EXECUTIVE OFFICER



Local government 2020 (Report 17: 2020–21)

Comments received from Mayor, Ipswich City Council

**Mayor Teresa Harding**City of Ipswich
Queensland, Australia

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

Email: gao@qao.qld.gov.au

13 April 2021

Dear Mr Worrall *Brendan*

I write regarding the email of 19 March 2021 from your office providing a copy of the draft report to the Queensland Parliament titled *Local Government 2020 Financial Audit Report 2019-20* as required by Section 64 of the *Auditor-General Act 2009*.

I understand that a response from Ipswich City Council is welcome although not required, and that responses to your audit recommendations will be published in an appendix to the tabled report.

I take this opportunity, on behalf of the Ipswich City Council, to affirm our absolute commitment to good corporate governance, transparency and integrity.

At the first meeting of this Council my motion to establish a Transparency and Integrity Hub was resolved and the new Hub went live on 1 July 2020. The publication of financial transactions was a first in the nation. While much has been published on the Hub, this Council's ambition is to significantly increase the range and volume of information shared with the community to hold true to our commitment to transparency and integrity.

This Council supports the five (5) recommendations for Councils set out in the draft report and is working to address specific areas for improvement.

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Local government 2020 (Report 17: 2020–21)

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On behalf of this Council I was pleased to note the improvements in the financial governance assessment for this Council for 2019-2020 when compared to the prior year. However, I offer assurance that this Council will continue its strong focus on good corporate governance, transparency and integrity and ongoing improvement of our policy, culture, systems and practice.

Thank you again for providing the opportunity to review the draft report.

Yours sincerely,



Mayor Teresa Harding

Local government 2020 (Report 17: 2020–21)

Comments received from Chief Executive Officer, South Burnett Regional Council



[illegible]

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

Local government 2020 (Report 17: 2020–21)

C. Legislative context

Frameworks

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

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.

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 State Development, Infrastructure, Local Government and Planning may grant an extension to the deadline where extraordinary circumstances exist.

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

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

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

Accountability requirements

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 these statements to be useful, the information reported must be relevant and accurate.

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

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

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

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



Local government 2020 (Report 17: 2020–21)

D. Status of recommendations from prior reports

The following tables provide the current status of the issues raised in *Local government entities: 2018–19 results of financial audits* (Report 13: 2019–20).

Figure D1
Status of recommendations for councils

Recommendation	Current status
Strengthen governance framework	
Councillor induction and continued professional development Councils need to provide all councillors with detailed induction training and continuing professional development on their responsibilities.	Since the local government elections in March 2020, the department has provided councillors with induction training. There has been approximately a 50 per cent turnover in the elected members in the recent local government election. Continuing professional development is something councils will need to provide on an on-going basis to ensure that the councillors are well informed of their obligations.
Audit committees <ul style="list-style-type: none"> All councils should have an audit committee with an independent chair. All audit committee members must understand their roles and responsibilities and the risks the committee needs to monitor. Audit committees must hold management accountable for ensuring timely remedial actions are taken on audit issues. All extensions of agreed time frames for remedial action requires consideration by the audit committee, including management's risk mitigation strategies, until remedial action is completed. 	We continue to find councils that do not have audit committees. We continue to recommend to all of these councils that they establish an independent audit committee with appropriately qualified committee members.
Internal audit All councils must establish and maintain an effective and efficient internal audit function, as required by the <i>Local Government Act 2009</i> .	We continue to find councils with no or an inactive internal audit function. We continue to recommend to all of these councils that they establish an internal audit function, as required by the <i>Local Government Act 2009</i> .
Strengthen controls and processes	
Resolve internal control deficiencies Councils need to strengthen their controls and processes by acting on outstanding audit recommendations. We recommend they take prompt action to address individual recommendations and resolve internal control deficiencies, with a focus on the highest risk vulnerabilities and those outstanding from previous years.	Although we have noted improvements in recent years, in 2020 we identified an increase in the number of outstanding control deficiencies. While changes to working environments arising from the COVID-19 pandemic may have contributed to this, we continue to recommend that councils undertake an active program to fix outstanding control deficiencies.



Local government 2020 (Report 17: 2020–21)

Recommendation	Current status
Infrastructure charges Councils need to establish clear policies and procedures to manage and collect charges for the infrastructure required to support new developments.	The work undertaken by councils in preparing their 2019–20 financial statements included consideration of the establishment of policies and procedures relating to infrastructure charges.
Secure employee and supplier information	
<ul style="list-style-type: none"> 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. 	<p>In the current year, we identified 26 deficiencies across 21 councils (2019: 16 deficiencies across 15 councils) relating to the security of employee and supplier information.</p> <p>Given the ongoing deficiencies we identified, we continue to recommend that councils review their policies and practices with regards to updating and approving changes to employee and supplier information. This is particularly relevant for changes to bank account details, which we continue to see as an area subject to fraudulent activities.</p>
Conduct mandatory cyber security awareness training	
<p>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:</p> <ul style="list-style-type: none"> 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. 	<p>We continue to identify several control deficiencies related to information systems. Cyber attacks have increased in 2020 and are expected to increase further with changes in working environments due to COVID-19. We recommend councils continue to provide cyber security awareness training to their new and current employees on a regular basis.</p>
Strengthen asset management	
<ul style="list-style-type: none"> Councils need to use accurate information about their assets, including asset performance (for example, current performance compared to the future performance required by the community) and cost, to use in their long-term asset management strategies and budget decisions. Councils need to strengthen how they control the recording of data on assets. They should regularly match the data in their financial records to the data in their geographic information systems, to ensure they are both complete and reliable. Councils need to allocate enough time and resources early in the financial year to complete the asset valuation and asset accounting processes well before year end. 	<p>We continue to identify a number of issues with regards to the asset management policies and practices of councils.</p> <p>In line with these findings, we continue to recommend that councils strengthen their asset management policies and practices.</p>



Local government 2020 (Report 17: 2020–21)

Recommendation	Current status
Improve financial management	
<ul style="list-style-type: none"> Councils are encouraged to use the Queensland Audit Office's financial statement preparation maturity model to assess their financial reporting processes and identify areas for improving the timeliness and quality of their financial reports. All councils should complete a self-assessment of their management reporting maturity. Councils need to determine what the appropriate level of maturity is for their circumstances and user needs. This will help them identify the elements in which they need to mature. While desired and appropriate levels of maturity will vary across councils, all councils should ensure they: <ul style="list-style-type: none"> formally establish management accountabilities for reporting tailor reporting to user needs consult with users on a regular basis to ensure the reports meet their needs provide training and ongoing guidance to report users to ensure they understand the reports establish quality control and reporting processes that ensure accurate and reliable data is provided in the reports. 	<p>In 2020, we noted only a limited number of councils had assessed their processes using the financial statement preparation maturity model, given the use of this model was not recommended for all councils to complete in 2020.</p> <p>In 2021, we recommend all councils complete this model, which has been raised as a recommendation in this report.</p>
Improve timeliness of reporting to communities	
<p>Councils need to continue to work towards more timely financial reporting to their communities.</p>	<p>For the 2019–20 reporting period, we noted a decrease in the timeliness of financial reporting by councils to their communities. We continue to recommend that councils focus on the timeliness of the delivery of their financial reporting.</p>
Improve monitoring of entities controlled by councils	
<p>Councils with existing controlled entities, or plans to create them, should have policies in place to ensure that:</p> <ul style="list-style-type: none"> council develops a business case establishing the need for and objectives of the entity prior to creating it each controlled entity's board has the right skill sets to deliver the objectives of the entity where councillors or council management are appointed to the board of the controlled entity, potential conflicts of interest are appropriately managed council implements monitoring controls over the entity's key policies and procedures the entity regularly reports to council governance committees. 	<p>During 2019–20, we have only identified a limited level of progress made by councils in addressing this recommendation. Across the sector, a number of controlled entities exist that are not effectively captured in the policies and financial reporting procedures of the parent council entities. We continue to recommend that councils review and update their financial reporting policies for the entities they control.</p>



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Recommendation	Current status
Monitor long-term obligations for landfill rehabilitation	
Councils with licences for landfill sites should review the way they account for their long-term liabilities for landfill rehabilitation.	<p>The majority of the councils have now accounted for the landfill obligations or have determined that their obligations are not material to the financial statements.</p> <p>There are still nine councils that have not accounted for their landfill obligations. We recommend these councils review their license conditions and account for an obligation where required.</p>
Improve new system implementations	
<p>When implementing a new system, councils must:</p> <ul style="list-style-type: none"> • define up front what is required for the project and what needs to be delivered by the contract • determine the need for specialist resources and determine the impact on staffing, both for the project team and for the backfill of positions for staff involved in the system implementation • clarify roles and establish the responsibilities of service providers during and after implementation, and establish reporting milestones and time frames • establish reporting requirements over the life of the project, including reporting on project status against milestones, budget versus actual expenditure, and the review and resolution of errors • identify and consider any early warning signs that would indicate a project is at risk of not meeting its objectives or not reaching the next milestone within time and budget • critically assess projects against changing business needs • for larger projects, consider implementing the changes in segments, as this provides more opportunity to review, to learn, and to assess risk • define system security settings and determine how to segregate duties before implementing the new system • identify what reports users will need once the system is implemented • establish a strategy to test that the new system processes transactions effectively and efficiently • train staff to effectively use the system • establish regular reporting on the implementation by the project team to both council and the audit committee. 	<p>During 2020, we only identified limited system implementation activity that had been undertaken during the year. However, for councils that had implemented new systems or improved their existing systems, we did not identify any significant deficiencies.</p> <p>Given the impact that the implementation of new systems can have on the operational and financial reporting functions of a council, we will continue to monitor the processes and controls undertaken by councils with respect to these activities.</p>

Source: Queensland Audit Office.



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Figure D2
Status of recommendations for the Department of State Development, Infrastructure, Local Government and Planning

Recommendation	Current status
Make changes to legislation	
We propose that the department amends the <i>Local Government Act 2009</i> to require all councils to have audit committees and all audit committee chairs to be independent.	The proposal continues to be considered by the department but has not as yet been progressed.
Make changes to sustainability ratios	
We recommend the department reviews the current sustainability ratios to determine if they are the most relevant and effective ways of measuring the financial sustainability of councils and if supplementing them with additional ratios would provide a more comprehensive assessment.	The department is currently in the process of establishing new financial sustainability ratios. We have requested in this report that these ratios are in place for 30 June 2022.
Require published financial statements for entities controlled by councils	
We recommend that the department continues to progress our previous recommendation to have entities controlled by councils make their financial statements publicly available.	<p>Recommendation addressed.</p> <p>On 1 October 2020, the department amended the Local Government Regulation 2012 and the City of Brisbane Regulation 2012 to prescribe that the audited financial statements of a controlled entity of a council must be published on the council's website within 14 days of tabling at a council meeting.</p>

Source: Queensland Audit Office.



E. Audit opinions for entities preparing financial reports

The following table details the types of audit opinions we issued in accordance with Australian auditing standards for the 2019–20 financial year.

Figure E1
Our audit opinions for local government sector financial reports for 2019–20

Audit	Date opinions issued	Financial statement opinion	Current year sustainability statement opinion ¹	Ministerial extension issued to date ²
Opinion key: U = unmodified; Q = qualified; E = emphasis of matter. (Refer to Appendix K for definitions of these terms.)				
Councils and controlled entities				
Aurukun Shire Council	13.10.2020	U	E*	-
Balonne Shire Council	13.10.2020	U	E*	-
Banana Shire Council	22.10.2020	U	E*	-
Barcaldine Regional Council	30.10.2020	U	E*	-
Barcoo Shire Council	29.01.2021	U	E*	31.01.2021
Blackall-Tambo Regional Council	13.10.2020	U	E*	-
Boulia Shire Council	16.12.2020	U	E*	31.12.2020
Brisbane City Council	13.08.2020	U	E*	-
• Brisbane Green Heart CitySmart Pty Ltd	12.08.2020	U	-	-
• Brisbane Marketing Pty Ltd	30.09.2020	U	-	-
• Brisbane Powerhouse Foundation	08.10.2020	U	-	-
• Brisbane Powerhouse Pty Ltd	08.10.2020	U	-	-
• Brisdev Trust	30.07.2020	E*	-	-
• CBIC Investment Pty Ltd	30.07.2020	E*	-	-
• City of Brisbane Investment Corporation Pty Ltd	30.07.2020	U	-	-
• City Parklands Services Pty Ltd	04.08.2020	U	-	-
• Museum of Brisbane Pty Ltd	24.08.2020	U	-	-
• Museum of Brisbane Trust	24.08.2020	E*	-	-
• Oxley Creek Transformation Pty Ltd	08.10.2020	U	-	-
• TradeCoast Land Pty Ltd	Not complete	-	-	-
Bulloo Shire Council	12.10.2020	U	E*	-

Local government 2020 (Report 17: 2020–21)

Audit	Date opinions issued	Financial statement opinion	Current year sustainability statement opinion ¹	Ministerial extension issued to date ²
Opinion key: U = unmodified; Q = qualified; E = emphasis of matter. (Refer to Appendix K for definitions of these terms.)				
Bundaberg Regional Council	09.10.2020	U	E*	-
Burdekin Shire Council	21.09.2020	U	E*	-
Burke Shire Council	13.10.2020	U	E*	-
Cairns Regional Council	24.09.2020	U	E*	-
• Cairns Regional Gallery Arts Trust	17.09.2020	E*	-	-
• Cairns Art Gallery Limited	17.09.2020	E*	-	-
Carpentaria Shire Council	30.10.2020	U	E*	-
Cassowary Coast Regional Council	21.10.2020	U	E*	-
Central Highlands Regional Council	10.12.2020	U	E*	31.12.2020
• Central Highlands (Qld) Housing Company Limited	10.12.2020	E*	-	-
• Central Highlands Development Corporation Ltd	12.10.2020	U	-	-
Charters Towers Regional Council	30.10.2020	U	E*	-
Cherbourg Aboriginal Shire Council	13.10.2020	U	E*	-
Cloncurry Shire Council	16.04.2021	U	E*	-
Cook Shire Council	26.11.2020	U	E*	31.12.2020
Council of the City of Gold Coast	12.10.2020	U	E*	-
• Broadbeach Alliance Limited	30.09.2020	E	-	-
• Connecting Southern Gold Coast Limited	01.10.2020	E	-	-
• HOTA Gold Coast Pty Ltd	15.10.2020	U	-	-
• Surfers Paradise Alliance Limited	09.10.2020	E	-	-
• Major Events Gold Coast Pty Ltd	28.09.2020	U	-	-
Croydon Shire Council	13.10.2020	U	E*	-
Diamantina Shire Council	11.11.2020	U	E*	-
Doomadgee Aboriginal Shire Council	30.10.2020	U	E*	-
Douglas Shire Council	12.10.2020	U	E*	-
Etheridge Shire Council	11.12.2020	U	E*	-
Flinders Shire Council	21.10.2020	U	E*	-
Fraser Coast Regional Council	08.10.2020	U	E*	-
• Fraser Coast Tourism & Events Ltd	02.12.2020	E*	-	-
Gladstone Regional Council	16.11.2020	U	E*	04.01.2021



Local government 2020 (Report 17: 2020–21)

Audit	Date opinions issued	Financial statement opinion	Current year sustainability statement opinion ¹	Ministerial extension issued to date ²
Opinion key: U = unmodified; Q = qualified; E = emphasis of matter. (Refer to Appendix K for definitions of these terms.)				
• Gladstone Airport Corporation	10.12.2020	U	-	-
Goondiwindi Regional Council	31.08.2020	U	E*	-
Gympie Regional Council	30.10.2020	U	E*	-
• Rattler Railway Company Ltd	05.11.2020	U	-	-
Hinchinbrook Shire Council	13.10.2020	U	E*	-
Hope Vale Aboriginal Shire Council	31.07.2020	U	E*	-
Ipswich City Council	13.10.2020	U	E*	-
• Cherish the Environment Foundation Ltd	Not complete	-	-	-
• Ipswich Arts Foundation Trust	01.04.2021	U	-	-
• Ipswich City Enterprises Investments Pty Ltd	06.11.2020	E	-	-
• Ipswich City Enterprises Pty Ltd	06.11.2020	E	-	-
• Ipswich City Properties Pty Ltd	06.11.2020	E	-	-
Isaac Regional Council	08.10.2020	U	E*	-
• Isaac Affordable Housing Fund Pty Ltd	02.03.2021	E*	-	-
• Isaac Affordable Housing Trust	02.03.2021	E*	-	-
• Moranbah Early Learning Centre Pty Ltd	02.03.2021	E*	-	-
Kowanyama Aboriginal Shire Council	03.12.2020	U	E*	31.12.2020
Livingstone Shire Council	28.10.2020	U	E*	-
Lockhart River Aboriginal Shire Council	30.10.2020	U	E*	-
• Lockhart River Aerodrome Company Pty Ltd	31.10.2020	U	-	-
Lockyer Valley Regional Council	22.09.2020	U	E*	-
Logan City Council	04.09.2020	U	E*	-
• Invest Logan Pty Ltd	29.09.2020	U	-	-
Longreach Regional Council	19.02.2021	U	E*	22.02.2021
Mackay Regional Council	25.11.2020	U	E*	30.11.2020
• Artspace Mackay Foundation	28.08.2020	Q E* E	-	-
• Mackay Region Enterprises Pty Ltd	04.03.2021	U	-	-
Mapoon Aboriginal Shire Council	30.10.2020	U	E*	-



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Audit	Date opinions issued	Financial statement opinion	Current year sustainability statement opinion ¹	Ministerial extension issued to date ²
Opinion key: U = unmodified; Q = qualified; E = emphasis of matter. (Refer to Appendix K for definitions of these terms.)				
Maranoa Regional Council	09.10.2020	U	E*	-
Mareeba Shire Council	25.09.2020	U	E*	-
McKinlay Shire Council	13.10.2020	U	E*	-
Moreton Bay Regional Council	13.10.2020	U	E*	-
Mornington Shire Council	13.10.2020	U	E*	-
Mount Isa City Council	30.10.2020	E	E*	-
• Mount Isa City Council Owned Enterprises Pty Ltd	Not complete	-	-	-
Murweh Shire Council	13.10.2020	U	E*	-
Napranum Aboriginal Shire Council	12.10.2020	U	E*	-
Noosa Shire Council	26.10.2020	U	E*	-
North Burnett Regional Council	24.11.2020	U	E*	31.12.2020
Northern Peninsula Area Regional Council	13.10.2020	U	E*	-
Palm Island Aboriginal Shire Council	Not complete	-	-	28.02.2021
• Palm Island Community Company Limited	29.10.2020	U	-	-
Paroo Shire Council	26.02.2021	U	E*	28.04.2021
Porpuraaw Aboriginal Shire Council	10.09.2020	U	E*	-
Quilpie Shire Council	13.10.2020	U	E*	-
Redland City Council	30.09.2020	U	E*	-
• Redland Investment Corporation Pty Ltd	04.09.2020	U	-	-
Richmond Shire Council	Not complete	-	-	31.12.2020
• The Kronosaurus Korner Board Inc.	Not complete	-	-	-
Rockhampton Regional Council	06.10.2020	U	E*	-
Scenic Rim Regional Council	30.09.2020	U	E*	-
Somerset Regional Council	13.10.2020	U	E*	-
South Burnett Regional Council	02.10.2020	U	E*	-
• South Burnett Community Hospital Foundation Limited	15.10.2020	U	-	-
Southern Downs Regional Council	13.10.2020	U	E*	-
Sunshine Coast Regional Council	13.10.2020	U	E*	-



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Audit	Date opinions issued	Financial statement opinion	Current year sustainability statement opinion ¹	Ministerial extension issued to date ²
Opinion key: U = unmodified; Q = qualified; E = emphasis of matter. (Refer to Appendix K for definitions of these terms.)				
• SunCentral Maroochydore Pty Ltd	18.09.2020	U	-	-
• Sunshine Coast Arts Foundation Pty Ltd	13.11.2020	E*	-	-
Tablelands Regional Council	12.10.2020	U	E*	-
Toowoomba Regional Council	28.09.2020	U	E*	-
• Empire Theatres Foundation	02.10.2020	U	-	-
• Empire Theatres Projects Pty Ltd	02.10.2020	U	-	-
• Empire Theatres Pty Ltd	02.10.2020	U	-	-
• Jondaryan Woolshed Pty Ltd	24.09.2020	U	-	-
• Toowoomba and Surat Basin Enterprise Pty Ltd	14.10.2020	U	-	-
• TSBE Export and Investment Development Limited	17.08.2020	E E*	-	-
Torres Shire Council	13.10.2020	U	E*	-
Torres Strait Island Regional Council	13.10.2020	U	E*	-
Townsville City Council	12.10.2020	U	E*	-
Western Downs Regional Council	08.10.2020	U	E*	-
Whitsunday Regional Council	28.08.2020	U	E*	-
Winton Shire Council	12.10.2020	U	E*	-
• Waltzing Matilda Centre Ltd	29.10.2020	U	-	-
Woorabinda Aboriginal Shire Council	19.03.2021	U	E*	31.01.2021
• Woorabinda Pastoral Company Pty Limited	29.03.2021	E*	-	-
Wujal Wujal Aboriginal Shire Council	29.10.2020	E	E*	-
Yarrabah Aboriginal Shire Council	13.10.2020	U	E*	-
Jointly controlled entities				
Central Western Queensland Remote Area Planning and Development Board (RAPAD) ³	24.02.2021	E*	-	-
Council of Mayors (SEQ) Pty Ltd	03.11.2020	U	-	-
Local Government Association of Queensland Ltd	30.09.2020	U	-	-
• Local Buy Trading Trust	29.09.2020	Q	-	-
• QPG Shared Services Support Centres Joint Venture	19.20.2020	E E*	-	-
• Peak Services Pty Ltd	29.09.2020	E	-	-



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Audit	Date opinions issued	Financial statement opinion	Current year sustainability statement opinion ¹	Ministerial extension issued to date ²
Opinion key: U = unmodified; Q = qualified; E = emphasis of matter. (Refer to Appendix K for definitions of these terms.)				
• Peak Services Holding Pty Ltd	29.09.2020	U	-	-
• Peak Services Legal Pty Ltd	29.09.2020	U	-	-
Major Brisbane Festivals Pty Ltd ³	Not complete ⁴	-	-	-
• Brisbane Festival Limited ³	Not complete ⁴	-	-	-
Queensland Local Government Mutual	30.11.2020	U	-	-
Queensland Local Government Workers Compensation Self-Insurance Scheme (trading as Local Government Workcare)	30.11.2020	U	-	-
SEQ Regional Recreational Facilities Pty Ltd	20.10.2020	U	-	-
South West Queensland Local Government Association ⁵	30.09.2020	E*	-	-
Torres Cape Indigenous Council Alliance ⁶	31.07.2020	U	-	-
Townsville Breakwater Entertainment Centre Joint Venture	10.02.2021	E E*	-	-
Western Queensland Local Government Association	Not complete	-	-	-
Whitsunday ROC Limited	04.03.2021	U	-	-
By arrangement audits				
City of Logan Mayor's Charity Trust	29.01.2021	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 In 2018–19, Brisbane Festival Limited, Major Brisbane Festival Pty Ltd and Central Western Queensland Remote Area Planning and Development Board (RAPAD) were exempt from audit by the Auditor-General. From 2019–20, the Auditor-General resumed responsibility for conducting these audits.
- 4 The financial year of Brisbane Festival Limited and the Major Brisbane Festival Pty Ltd was 1 January 2020 to 31 December 2020. The 2019–20 audit opinion has therefore not yet been issued. Refer to Appendix H for details of the 2018–19 audit opinion.
- 5 The financial year end for South West Queensland Local Government Association is 31 March 2020.
- 6 Torres Cape Indigenous Council Alliance is jointly-controlled by several councils. We did not audit the entity in 2019–20 because we were only informed that the entity was not dormant after year end. The 2019–20 audit was performed by MGI Business Solutions.

Source: Queensland Audit Office.



F. Entities exempt from audit by the Auditor-General

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

Figure F1
Entities exempt from audit by the Auditor-General

Audit	Audit firm who undertakes the audit	Date opinion issued	Opinion
Exempt local government entities—small in size and of low risk (s.30A of the Auditor-General Act 2009)			
Far North Queensland Regional Organisation of Councils	Halpin Partners Pty Ltd	12.10.2020	E*
Gulf Savannah Development Inc.	Rekenen Accountants	Not complete	-
Drive Inland Promotions Association Inc.	VIDEN Group	26.08.2020	E*
North West Queensland Regional Organisation of Councils	Rekenen Accountants	09.10.2020	E*
Northern Alliance of Councils Inc**	Crowe Horwath	03.06.2020	E*
South West Regional Economic Development Association	FTA Accountants	01.11.2020	E*
Wide Bay Burnett Regional Organisation of Councils Inc	All Income Tax	Not complete	-
Exempt local government entities—foreign-based controlled entity (s.32 of the Auditor-General Act 2009)			
Gold Coast City Council Insurance Company Limited	Pricewaterhouse Coopers CI LLP	27.08.2020	U

Notes:

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

** The financial statements of the Northern Alliance of Councils Incorporated were for the period 1 April 2019 to 31 March 2020.

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

Source: Queensland Audit Office.



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

The Auditor-General will not issue audit opinions for the following public sector entities for the 2019–20 financial year, as they have not produced a financial report.

Figure G1
Entities for which no opinions are issued

Entity	Parent entity	Reason
Controlled entities		
Brisbane Tolling Pty Ltd	Brisbane City Council	Dormant
City Super Pty Ltd	Brisbane City Council	Dormant
OC Invest Pty Ltd	Brisbane City Council	Dormant
Riverfestival Brisbane Pty Ltd	Brisbane City Council	Dormant
BrisDev Pty Ltd	City of Brisbane Investment Corporation Pty Ltd	Dormant
CBIC Valley Heart Pty Ltd	City of Brisbane Investment Corporation Pty Ltd	Dormant
Cairns Art Gallery Foundation Limited	Cairns Regional Council	Dormant
IA Foundation Ltd	Ipswich City Council	Dormant
Ipswich Arts Foundation	Ipswich City Council	Wound up
YSB Pty Ltd	Invest Logan Pty Ltd	Dormant
Artspace Mackay Foundation Ltd	Mackay Regional Council	Dormant
Mundalbe Enterprises Ltd	Mornington Shire Council	Dormant
Outback @ Isa Pty Ltd	Mount Isa City Council	Dormant
Palm Island Economic Development Corporation Pty Ltd	Palm Island Aboriginal Council	Dormant
Cleveland Plaza Pty Ltd	Redland City Council	Non-reporting
Redheart Pty Ltd	Redland City Council	Dormant
Redland Developments Pty Ltd	Redland Investment Corporation Pty Ltd	Non-reporting
RIC Toondah Pty Ltd	Redland Investment Corporation Pty Ltd	Non-reporting



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Entity	Parent entity	Reason
Sunshine Coast Events Centre Pty Ltd	Sunshine Coast Regional Council	Non-reporting
Tablelands Regional Council Enterprises Pty Ltd	Tablelands Regional Council	Non-reporting
Whitsunday Coast Airport and Infrastructure Pty Ltd	Whitsunday Regional Council	Dormant
Winton Community Association Inc	Winton Shire Council	Dormant
Wugu Nyambil Limited ¹	Yarrabah Aboriginal Shire Council	No longer a public sector entity
Jointly controlled entities		
DDS Unit Trust	Local Government Association of Queensland Ltd	Wound up
LG Cloud Pty Ltd	Local Government Association of Queensland Ltd	Dormant
LG Disaster Recovery Services Pty Ltd	Local Government Association of Queensland Ltd	Dormant
Local Buy Pty Ltd	Local Government Association of Queensland Ltd	Dormant
Local Partnerships Services Pty Ltd	Local Government Association of Queensland Ltd	Wound up
Northern Australia Services Pty Ltd	Local Government Association of Queensland Ltd	Wound up
Northern Australia Services Unit Trust	Local Government Association of Queensland Ltd	Wound up
Prevwood Pty Ltd	Local Government Association of Queensland Ltd	Non-reporting
Queensland Partnerships Group (LG Shared Services) Pty Ltd	Local Government Association of Queensland Ltd	Dormant
Resolute Information Technology Pty Ltd	Local Government Association of Queensland Ltd	Wound up
Toondah Harbour	Multiple entities	Non-reporting

Note: ¹ This entity ceased to be a public sector entity during the 2019–20 financial year.

Source: Queensland Audit Office.



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H. Audit opinions issued for prior financial years

The following table contains the audit opinions issued for prior financial years that were not finalised when our report *Local government entities: 2018–19 results of financial audits* (Report 13: 2019–20) was issued.

Figure H1
Audit opinions issued for prior financial years

Entity	Date opinion issued	Opinion
Financial statements from 2018–19 financial year—Councils		
Doomadgee Aboriginal Shire Council	27.02.2020	Q
Palm Island Aboriginal Shire Council	27.03.2020	Q E
Richmond Shire Council	16.04.2020	U
Woorabinda Aboriginal Shire Council	24.09.2020	U
Financial sustainability statements from 2018–19 financial year		
Doomadgee Aboriginal Shire Council	27.02.2020	E*
Palm Island Aboriginal Shire Council	27.03.2020	E*
Richmond Shire Council	16.04.2020	E*
Woorabinda Aboriginal Shire Council	24.09.2020	E*
Financial statements from 2018–19 financial year—Controlled entities		
Cherish the Environment Foundation Ltd	30.03.2020	E*
Townsville Breakwater Entertainment Centre	13.03.2020	E E*
Woorabinda Pastoral Company Pty Ltd	07.09.2020	E*
TradeCoast Land Pty Ltd	13.05.2020	U
Major Brisbane Festivals Pty Ltd**	29.04.2020	E
Brisbane Festivals Ltd**	17.11.2020	U

Notes:

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

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

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

Source: Queensland Audit Office.



I. Financial sustainability measures

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

Figure I1
Financial sustainability measures for councils

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

Note: * Department of State Development, Infrastructure, Local Government and Planning.

Source: Queensland Audit Office.



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

Figure I2
Our risk assessment criteria for financial sustainability measures

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

Source: Queensland Audit Office.

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

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Figure I3
Our overall relative risk assessment of financial sustainability

Risk level	Risk criteria
Higher risk	There is a higher risk of sustainability issues arising in the short to medium term if current operating income and expenses policies continue, as indicated by average operating deficits (losses) of more than 10 per cent of operating revenue.
Moderate risk	There is a moderate risk of sustainability issues over the longer term if current debt financing and capital investment policies continue, as indicated by: <ul style="list-style-type: none"> • 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 two per cent and 10 per cent of operating revenue, or • having two 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 five-year average when assessing the operating surplus and asset sustainability ratios. This is because these are long-term indicators. Viewing the annual ratios in isolation does not provide insights into councils' long-term financial sustainability.

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

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



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Figure 14
Financial sustainability risk assessment by council category: Results at the end of 2019–20

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	22%	1.00%	5.54%	● ↓	-6.00%	● ↓	51.00%	53.80%	● ↓	Lower
Burdekin Shire Council	19%	4.52%	8.20%	● ↓	-61.00%	● ↓	92.36%	83.55%	● ↑	Lower
Cairns Regional Council	18%	-2.00%	-1.36%	● ↓	68.00%	● ↓	102.00%	102.60%	● ↑	Moderate
Cassowary Coast Regional Council	21%	-4.00%	-2.05%	● ↓	-26.00%	● ↓	131.00%	90.00%	● ↑	Moderate
Douglas Shire Council	27%	-2.00%	-2.95%	● ↑	-39.00%	● ↓	173.00%	131.20%	● ↑	Moderate
Fraser Coast Regional Council	21%	-1.12%	5.53%	● ↓	-35.22%	● ↓	80.73%	79.26%	● ↑	Lower
Gladstone Regional Council	15%	-1.37%	2.10%	● ↓	5.00%	● ↓	41.00%	48.40%	● ↓	Moderate
Gympie Regional Council	23%	-6.05%	-5.64%	● ↓	8.36%	● ↓	107.00%	123.52%	● ↓	Moderate
Hinchinbrook Shire Council	29%	-21.30%	-3.78%	● ↓	-30.00%	● ↓	103.00%	62.40%	● ↓	Moderate
Livingstone Shire Council	34%	-0.20%	4.00%	● ↑	42.70%	● ↑	51.90%	47.32%	● -	Moderate
Mackay Regional Council	18%	-9.00%	-2.06%	● ↓	17.7%	● ↓	58.20%	56.88%	● ↓	Moderate
Noosa Shire Council	14%	6.52%	10.34%	● ↓	-11.62%	● ↓	121.68%	111.03%	● ↑	Lower
Rockhampton Regional Council	25%	0.70%	4.91%	● ↑	52.60%	● ↓	77.50%	92.07%	● -	Lower
Townsville City Council	28%	-1.00%	-0.08%	● ↓	99.00%	● ↓	64.00%	82.00%	● ↓	Moderate
Whitsunday Regional Council	30%	2.25%	3.11%	● ↓	28.11%	● ↓	138.53%	138.75%	● ↑	Lower
Coastal average	23%	-2.20%	1.72%		7.51%		92.86%	86.85%		
Coastal—combined risk assessment			Lower		Lower		Moderate			Moderate



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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	62%	6.00%	-14.23%	● ↑	-50.00%	● ↓	29.00%	17.80%	● ↓	Higher
Cherbourg Aboriginal Shire Council	51%	-43.00%	-30.88%	● ↓	-34.00%	● ↓	171.00%	89.00%	● ↓	Higher
Doomadgee Aboriginal Shire Council	51%	-25.00%	-31.49%	● ↓	11.00%	● ↓	63.00%	79.69%	● ↑	Higher
Hope Vale Aboriginal Shire Council	41%	6.00%	11.34%	● -	-155.00%	● ↑	69.00%	96.20%	● ↓	Lower
Kowanyama Aboriginal Shire Council ³	69%	-62.00%	-42.12%	● ↓	9.00%	● ↓	108.00%	102.02%	● ↓	Higher
Lockhart River Aboriginal Shire Council	69%	-6.00%	-0.35%	● ↓	-43.00%	● ↓	60.00%	155.20%	● ↓	Lower
Mapoon Aboriginal Shire Council	58%	-51.00%	-17.66%	● ↓	-61.00%	● ↓	126.00%	52.64%	● ↑	Higher
Momington Shire Council	54%	-18.10%	-30.84%	● ↑	-3.20%	● ↓	79.10%	178.62%	● ↓	Higher
Napranum Aboriginal Shire Council	57%	-27.00%	-11.56%	● ↑	-56.00%	● ↓	8.00%	44.20%	● ↓	Higher
Northern Peninsula Area Regional Council	54%	-23.00%	-10.40%	● -	-18.00%	● ↓	41.00%	77.04%	● ↑	Higher
Palm Island Aboriginal Shire Council ⁴	61%	1.5%	-5.15%	● ↑	-32.62%	● ↓	0%	129.60%	● ↓	Moderate
Pormpuraaw Aboriginal Shire Council	64%	-2.00%	8.26%	● ↑	-185.00%	● ↑	41.00%	98.80%	● ↓	Lower
Torres Shire Council	46%	-32.00%	-17.71%	● ↓	-74.00%	● ↓	123.00%	61.39%	● ↑	Higher
Torres Strait Island Regional Council	54%	-86.00%	-57.21%	● ↓	-50.00%	● ↓	27.00%	28.34%	● -	Higher
Woorabinda Aboriginal Shire Council	27%	-14.7%	-14.8%	● ↓	-21.70%	● ↓	33.00%	16.74%	● -	Higher
Wujal Wujal Aboriginal Shire Council	61%	-35.00%	-28.68%	● ↓	30.00%	● ↓	40.00%	52.00%	● ↑	Higher
Yarrabah Aboriginal Shire Council	43%	-39.00%	-23.77%	● ↓	-30.00%	● ↓	30.00%	42.00%	● ↓	Higher
Indigenous average	54%	-25.83%	-18.04%		-45.19%		70.95%	83.06%		
Indigenous—combined risk assessment			Higher			Lower		Moderate		Higher



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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%	-7.18%	-4.40%	● ↓	-8.41%	● ↑	83.89%	92.40%	● ↓	Moderate
Bulloo Shire Council	61%	-11.03%	3.70%	● ↑	-101.58%	● ↓	67.76%	154.91%	● ↓	Lower
Burke Shire Council	75%	-31.60%	-35.81%	● ↓	-41.70%	● ↓	47.20%	60.04%	● ↑	Higher
Central Highlands Regional Council	22%	-6.64%	1.34%	● ↓	17.88%	● ↓	122.02%	116.34%	● ↑	Lower
Charters Towers Regional Council	37%	-1.00%	0.38%	● ↑	-46.00%	● ↓	148.00%	160.80%	● ↑	Lower
Cloncurry Shire Council	55%	-1.00%	-2.24%	● ↓	-19.00%	● ↑	371.00%	213.20%	● ↑	Moderate
Cook Shire Council	82%	-12.87%	-35.04%	● ↑	6.92%	● ↑	24.26%	207.71%	● ↓	Higher
Etheridge Shire Council	59%	-3.84%	-6.80%	● ↑	43.91%	● ↓	7.56%	47.79%	● ↓	Moderate
Isaac Regional Council	26%	0.16%	3.60%	● ↑	-15.69%	● ↓	122.52%	213.37%	● ↓	Lower
Maranoa Regional Council	47%	2.49%	-2.65%	● ↑	-28.94%	● ↓	188.01%	100.18%	● ↑	Moderate
McKinlay Shire Council	71%	-16.16%	-7.58%	● ↓	-96.33%	● ↓	556.59% ⁴	322.19%	● ↑	Moderate
Mount Isa City Council	26%	-1.70%	4.51%	● -	-51.29%	● ↓	29.92%	62.43%	● ↓	Lower
Quilpie Shire Council	60%	-23.00%	-2.92%	● ↓	-118.00%	● ↓	26.00%	66.80%	● ↓	Moderate
Western Downs Regional Council	30%	4.70%	7.23%	● -	-106.00%	● ↑	65.00%	79.35%	● ↓	Lower
Resources average	49%	-8.92%	-6.01%		-45.89%		117.32%	117.39%		
Resources—combined risk assessment			Moderate			Lower		Lower		Moderate



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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	32%	2.04%	3.96%	● -	-77.18%	● ↓	103.08%	108.14%	● ↓	Lower
Lockyer Valley Regional Council	22%	1.35%	3.02%	● ↑	61.78%	● ↓	113.67%	85.56%	● ↓	Moderate
Mareeba Shire Council	40%	11.60%	14.00%	● -	-79.00%	● ↑	129.10%	183.00%	● ↑	Lower
North Burnett Regional Council	55%	-15.23%	-11.34%	● ↓	-32.10%	● ↓	72.43%	117.75%	● ↓	Higher
Scenic Rim Regional Council	31%	-4.00%	5.27%	● ↑	11.00%	● ↓	301.00%	183.60%	● ↓	Lower
Somerset Regional Council	27%	-3.00%	2.55%	● ↑	-162.00%	● ↓	115.00%	117.19%	● ↓	Lower
South Burnett Regional Council	25%	-3.70%	1.26%	● ↓	13.70%	● -	55.90%	98.46%	● ↓	Lower
Southern Downs Regional Council	25%	0.22%	7.83%	● -	-17.33%	● ↓	179.22%	118.37%	● ↑	Lower
Tablelands Regional Council	31%	-6.40%	2.07%	● ↓	-41.82%	● ↓	140.07%	97.21%	● ↓	Lower
Rural/Regional average	32%	-1.90%	3.18%		-48.09%		134.39%	123.25%		
Rural/Regional—combined risk assessment			Lower		Lower		Lower			Lower



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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	44%	-9.30%	-8.92%	● ↓	-103.55%	● ↓	64.22%	41.74%	● ↓	Moderate
Barcaldine Regional Council	48%	-25.46%	-19.22%	● ↓	-16.71%	● ↓	79.43%	106.61%	● ↓	Higher
Barcoo Shire Council	49%	-42.79%	-21.13 %	● ↓	-41.01%	● ↓	31.75%	101.51%	● ↑	Higher
Blackall-Tambo Regional Council	41%	-25.00%	-11.22%	● ↓	-52.00%	● ↓	54.00%	84.80%	● ↓	Higher
Boulia Shire Council	66%	-19.91%	-14.99%	● ↓	-113.24%	● ↓	54.51%	46.40%	● ↓	Higher
Carpentaria Shire Council	75%	-15.00%	-16.62%	● ↓	-17.70%	● ↑	39.10%	73.92%	● ↓	Higher
Croydon Shire Council	75%	1.70%	2.57%	● ↓	-136.40%	● ↑	171.20%	143.24%	● ↑	Lower
Diamantina Shire Council	39%	-14.00%	-15.53%	● ↑	-67.70%	● ↓	46.4%	82.96%	● ↓	Higher
Flinders Shire Council	45%	1.10%	9.53%	● -	-56.77%	● ↓	116.02%	93.21%	● ↑	Lower
Longreach Regional Council	50%	-6.20%	-8.31%	● ↑	1.70%	● ↑	32.00%	131.85%	● ↑	Moderate
Murweh Shire Council	57%	-11.00%	-8.65%	● ↑	-11.00%	● -	116.00%	96.44%	● ↑	Moderate
Paroo Shire Council	61%	-40.00%	-28.61%	● ↓	-44.00%	● ↑	59.00%	62.17%	● ↓	Higher
Richmond Shire Council ⁴	61%	-54.20%	-44.58%	● ↓	-14.70%	● ↓	96.60%	112.52%	● ↓	Higher
Winton Shire Council	69%	-12.13%	-1.90%	● ↓	-101.41%	● ↓	300.73%	214.09%	● ↑	Lower
Rural/Remote average	56%	-18.11%	-11.81%		-56.35%		98.67%	100.80%		
Rural/Remote—combined risk assessment			Higher		Lower			Lower		Higher



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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 (SEQ) councils										
Brisbane City Council ⁵	12%	3.00%	5.51%	● -	126.00% ⁵	● ↓	73.00%	84.64%	● -	Moderate
Council of the City of Gold Coast	24%	-1.30%	-0.15%	● -	-24.70%	● ↓	62.70%	53.18%	● ↑	Moderate
Ipswich City Council	29%	0.06%	7.70%	● -	59.51%	● ↓	68.08%	64.12%	● ↑	Lower
Logan City Council	27%	-0.40%	4.11%	● ↓	18.70%	● ↓	78.20%	83.60%	● ↑	Lower
Moreton Bay Regional Council	25%	14.10%	22.19%	● -	21.80%	● ↓	55.50%	62.08%	● ↓	Lower
Redland City Council	16%	-2.92%	-3.38%	● ↓	-32.84%	● ↓	37.69%	44.59%	● -	Moderate
Sunshine Coast Regional Council ⁶	26%	-0.30%	9.71%	● ↓	105.10% ⁶	● ↓	70.50%	76.86%	● ↑	Moderate
Toowoomba Regional Council	23%	-0.92%	1.27%	● -	65.85%	● ↓	64.22%	58.10%	● ↓	Moderate
SEQ average	23%	1.42%	6.00%		33.47%		63.74%	65.90%		
SEQ—combined risk assessment			Lower		Lower			Moderate		Moderate

Notes:

- 1 Average grant funding percentage shows the five-year average level of grant funding as a percentage of total revenue per council. These ratios do not form a part of the financial sustainability ratios but have been included for contextual purposes. Refer also to further commentary in Chapter 4, which analyses the financial sustainability by grant funding levels.
- 2 Average ratio trend compares the average ratio from 2019–20 with the average ratio from 2018–19. Trends should be considered in conjunction with the Department of State Development, Infrastructure, Local Government and Planning's set benchmarks, and the analysis performed and explained in Chapter 4.
- 3 This council's sustainability statement was qualified for 2015–16. The qualification impacts on the average operating surplus ratio and the average asset sustainability ratio.
- 4 The 2019–20 audit for this council is unfinished. The sustainability measures reported are based on the audited 2018–19 financial statements.
- 5 The net financial liabilities ratio was impacted for first-time in 2019–20 with the introduction of Australian Accounting Standards Board's AASB 16 Leases. The Department of State Development, Infrastructure, Local Government and Planning did not adjust the target for this ratio in response to the introduction of the new standard. This new standard impacted Brisbane City Council more than other councils. Excluding the impact of the new standard, the ratio would be 98 per cent, with the risk rating remaining unchanged.
- 6 In the 2019–20 financial year, the council drew down debt of \$212 million to extend the airport. Under an agreement with the airport owner, the council will receive \$290 million by 30 June 2022 for the airport extension. At 30 June 2020, the amount owed to the council is reported by the council as a non-current receivable and, therefore, excluded from the calculation of the financial liabilities ratio.

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

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

Source: Queensland Audit Office.



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J. Our assessment of councils' financial governance

Auditing internal controls

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

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

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

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

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

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

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

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

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

Internal controls framework

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

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



Control environment



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

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

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

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

Risk assessment



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

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

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

Control activities



- General information technology controls
- Automated controls
- Manual controls

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

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

General information technology controls

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



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Automated control activities

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

Manual control activities

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

Information and communication



- Non-financial systems
- Financial systems
- Reporting systems

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

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

Monitoring activities



- Management supervision
- Self-assessment
- Internal audit

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

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

Assessment of internal controls

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

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

The deficiencies detailed in this report were identified during our audit and may have been subsequently resolved by the entity. They are reported here because they impacted on the overall system of control during 2019–20.

Financial statement preparation

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

We assess financial statement preparation processes under the following criteria.

Year-end close process

Local government entities should have a robust year-end close process to enhance the quality and timeliness of financial reporting processes.

We identified five outcomes for entities to achieve. Early completion of these items means an entity has less risk that a financial report is not cleared in time for council signature, and it means certification by audit is more likely to be achieved within statutory or agreed milestones.

In the 2019–20 financial year, we assessed the following processes for year-end financial statement preparation against agreed dates:

- preparation of proforma financial statements (partially completed financial statements put together before year end)
- resolution of known accounting issues
- completion of non-current asset valuations (Non-current assets are those that are expected to be held by an entity for a period greater than 12 months.)
- final draft financial statements completed and reviewed
- final financial statement workpapers completed and reviewed.

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



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Timeliness of financial statements

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

Timeliness	
Rating scale	Assessment criteria
● Timely	On or before 13 October
● Legally compliant*	Between 14 and 31 October
● Not timely	After 31 October

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

Quality of draft financial statements

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

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

Financial sustainability relative risk assessment

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

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Results summary

The following tables summarise the results of our assessment of the 77 councils' overall financial governance by council segment.

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

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

Notes:

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

² EOFY—End of financial year processes; T—Timeliness; Q—Quality.

³ FS—Financial sustainability—relative risk assessment (refer Figure I4).

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

Notes:

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

² EOFY—End of financial year processes; T—Timeliness; Q—Quality.

³ FS—Financial sustainability—relative risk assessment (refer Figure I4).

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

⁵ Financial statement preparation indicators for this council have been set at red as they have not been completed. The internal controls and financial sustainability assessments are based on the prior year's results.



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

Notes:

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

² EOFY—End of financial year processes; T—Timeliness; Q—Quality.

³ FS—Financial sustainability—relative risk assessment (refer Figure 14).

⁴ Financial statement preparation indicators for this council have been set at red as they have not been completed. The internal controls and financial sustainability assessments are based on the prior year's results.



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

Notes:

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

² EOFY—End of financial year processes; T—Timeliness; Q—Quality.

³ FS—Financial sustainability—relative risk assessment (refer Figure 14).

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

Notes:

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

² EOFY—End of financial year processes; T—Timeliness; Q—Quality.

³ FS—Financial sustainability—relative risk assessment (refer Figure 14).

⁴ Financial statement preparation indicators for this council have been set at red as they have not been completed. The internal controls and financial sustainability assessments are based on prior year's results.



Local government 2020 (Report 17: 2020–21)

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

Notes:

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

² EOFY—End of financial year processes; T—Timeliness; Q—Quality.

³ FS—Financial sustainability—relative risk assessment (refer Figure 14).

⁴ In response to charges made by the Crime and Corruption Commission, the Minister for Local Government appointed an interim administrator on 23 August 2018. These interim arrangements were in place until the local government elections held in March 2020.

⁵ In response to charges made by the Crime and Corruption Commission, the Minister for Local Government appointed an interim administrator on 2 May 2019. These interim arrangements were in place until the local government elections held in March 2020.

Source: Queensland Audit Office.

K. Glossary

Term	Definition
Accountability	The responsibility of public sector entities to achieve their objectives of delivering reliable financial reporting, effective and efficient operations, compliance with applicable laws, and reports to interested parties.
Audit committee	<p>A committee intended to provide assistance to the accountable officer or statutory body in discharging their obligations. Duties and responsibilities can involve oversight of all or a combination of the following:</p> <ul style="list-style-type: none"> effectiveness and reliability of internal controls quality and integrity of accounting and reporting practices effectiveness of performance management legal and regulatory compliance auditors' qualifications and independence performance of the internal audit function and of external auditors.
<i>Auditor-General Act 2009</i>	An Act of the State of Queensland that establishes the responsibilities of the Auditor-General, the operation of the Queensland Audit Office, the nature and scope of audits to be conducted, and the relationship of the Auditor-General with parliament.
Australian accounting standards	The rules by which financial statements are prepared in Australia. These standards ensure consistency in measuring and reporting on similar transactions.
Capital expenditure	Expenditure to acquire assets or improve the service potential of existing assets.
Controlled entity	An entity controlled by another entity. The controlling entity can dominate decision-making, directly or indirectly, in relation to financial and operating policies so as to enable that other entity to operate with it in achieving the objectives of the controlling entity.
Deficiency	<p>A deficiency arises when internal controls are ineffective or missing, and are unable to prevent, or detect and correct, misstatements in the financial statements. A deficiency may also result in non-compliance with policies and applicable laws and regulations and/or inappropriate use of public resources.</p> <p>We increase the rating from a deficiency to a significant deficiency when:</p> <ul style="list-style-type: none"> we consider immediate remedial action is required there is a risk to reputation the non-compliance with policies and applicable laws and regulations is significant there is potential to cause financial loss, including fraud management has not taken appropriate, timely action to resolve the deficiency.
Depreciation	The systematic allocation of a fixed asset's value as an expense over its expected useful life, to take account of normal usage, obsolescence, or the passage of time.



Local government 2020 (Report 17: 2020–21)

Term	Definition
Emphasis of matter	A paragraph included with an audit opinion to highlight an issue of which the auditor believes the users of the financial statements need to be aware. The inclusion of an emphasis of matter paragraph does not modify the audit opinion.
Fair value	The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties, in an arm's length transaction.
Fraud	Any act or omission, including a misrepresentation, that knowingly or recklessly misleads, or attempts to mislead, a party to obtain a financial or other benefit or to avoid an obligation.
Going concern	An entity that is a going concern is expected to be able to pay its debts as and when they fall due, and to continue to operate without any intention or necessity to liquidate or wind up its operations.
Misstatement	The difference between the amount, classification, presentation, or disclosure of a reported financial report item and the amount, classification, presentation, or disclosure that is required for the item to be in accordance with the applicable financial reporting framework. Misstatements can arise from error or fraud.
Net assets	Total assets less total liabilities.
Non-current asset	Non-current assets are assets that are expected to be held by an entity for a period greater than 12 months.
Procurement	The acquisition of goods, services, or works from an external source.
Qualified audit opinion	An opinion issued when the financial statements as a whole comply with relevant accounting standards and legislative requirements, with the exceptions noted in the opinion. These exceptions could be the effect of a disagreement with those charged with governance, a conflict between applicable financial reporting frameworks, or a limitation on scope that is considered material to an element of the financial report.
Risk management	The systematic identification, analysis, treatment, and allocation of risks. The extent of risk management required will vary depending on the potential effect of the risks.
Unmodified audit opinion	An audit opinion issued when financial statements are prepared in accordance with the relevant legislative requirements and Australian accounting standards.
Useful life	The number of years an entity expects to use an asset (not the maximum period possible for the asset to exist).



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Suggest a performance audit topic

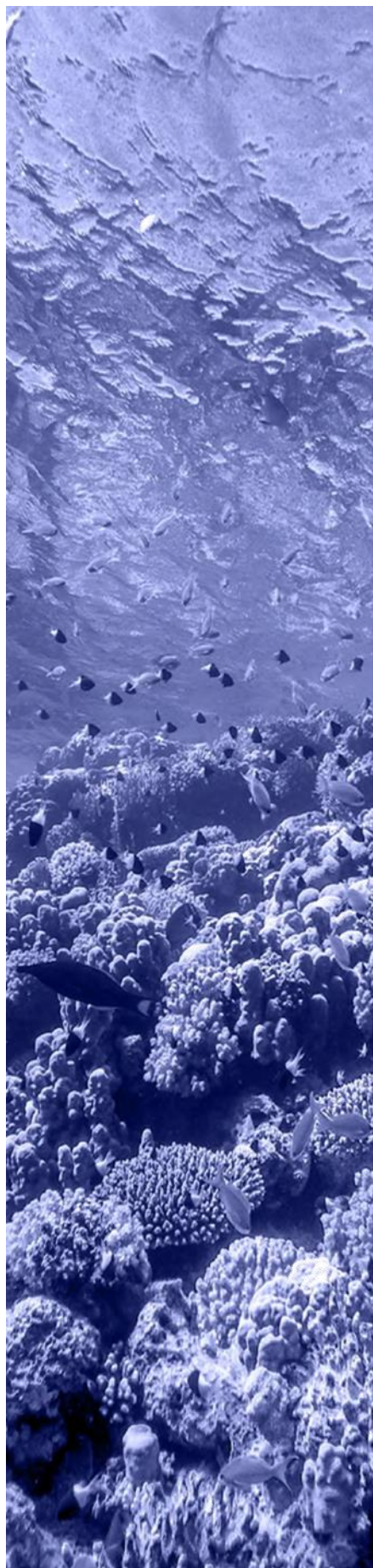
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PO Box 15396, City East Qld 4002

 **Queensland
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Scenic Rim Regional Council 2020 Closing report

18 September 2020

Our ref: 5-200

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18 September 2020

Mr S Coates
Chair of the Audit & Risk Committee
Scenic Rim Regional Council
82 Brisbane Street
Beaudesert QLD 4285

Dear Mr Coates

2020 Closing report

We present to you our closing report for Scenic Rim Regional Council for the financial year ended 30 June 2020. It includes the results of our audit, identified audit misstatements, and other matters.

Our audit was conducted in accordance with our external audit plan issued 29 January 2020. We confirm that up to the date of this report we have maintained our independence obligations in relation to our conduct of this audit.

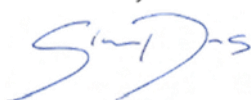
Based on the information that has been assessed as part of our audit, we expect to issue an unmodified audit opinion.

We will be issuing a report to parliament incorporating your Council. In this report, we will comment on the results of our audit of your financial report, performance and sustainability matters, any significant internal control issues we identified, and the overall results of the Local Government sector, including, major transactions and events. This report is prepared in accordance with the *Auditor-General Act 2009*.

We are keen to hear your views about the audit services we provide and will seek your feedback via an online survey. This survey will help us understand what is working well and where there are opportunities for us to improve our engagement with you.

If you have any questions or would like to discuss the audit report, please contact me on 07 3222 9640 or Ben Pepperell on 07 3222 9687.

Yours sincerely



Stewart Douglas
As engagement leader of the Auditor-General of Queensland

Enc.

cc. Cr G Christensen, Mayor

Mr J Gibbons, CEO

Queensland Audit Office
Level 13, 53 Albert Street, Brisbane Qld 4000
PO Box 15396, City East Qld 4002


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Web www.qao.qld.gov.au
 Queensland Audit Office (QAO)


1. Summary


This closing report documents our audit of Scenic Rim Regional Council's financial statements for the year ended 30 June 2020, including how we have responded to significant financial reporting risks.


The final audit opinion is subject to the completion of the financial statement audit process. Key aspects still to be finalised are included in highlights below.


Highlights



Expected audit opinion
 We expect to issue an unmodified opinion on the financial statements.



Financial statement preparation process


Year-end close process
 Partially implemented


Timeliness
 Timely


Quality
 Significant adjustments



Internal control environment

Control environment
 Effective

Risk assessment
 Effective

Control activities
 Effective


Information and communication
 Effective


Monitoring controls
 Effective

Refer to [Section 5](#) At the date of this report, we have identified misstatements in disclosures that required correction to the financial statements.

Details of these corrected disclosure misstatements are included in Appendix B to this closing report.

Audit issues for further details


Materiality \$800,000
 No change to planning materiality


Estimated final fees
 \$138,000

Outstanding audit matters

Item	Responsibility
Financial statements review—quality check over final version	Audit
Annual Report – review to ensure no inconsistency with audited financial statements	Management and Audit
Subsequent events update—review of transactions to date of signing	Management and Audit
Management representation letter—to be signed with the financial statements	Management
Financial report certification—signing of the financial statements by management following adoption by the council	Management and Audit

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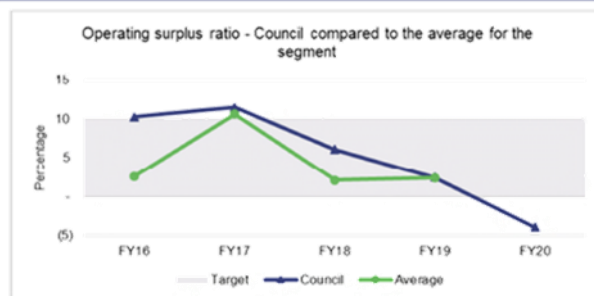
2. Financial sustainability assessment

The table below details our assessment of your financial sustainability and is based on the results of your asset sustainability, operating surplus and net financial liabilities ratios. Our likely 2020 assessment of Council's overall financial sustainability risk is **Low risk** ●

Refer to Appendix D for guidance on how these ratios are calculated and our financial sustainability risk rating definitions.

Operating surplus ratio

Commentary



Council's five-year **average** operating ratio is 5.29%. This is within the target range.

The average operating surplus ratio indicates that Council has a healthy operating surplus ratio and can generate reasonable levels of funding from its own source revenue that it can fund ongoing operations as well as capital projects with some level of debt funding.

Net financial liabilities ratio

Commentary



Council's net financial liabilities ratio as at 30 June 2020 is 10.58%. This is within the target range.

The net financial liabilities ratio indicates that Council's capital structure is very strong. This, combined with a strong average operating surplus ratio of 5.29%, allows council to service any borrowings that it may need for any future capital projects.

Asset sustainability ratio

Commentary



Council's average asset sustainability ratio is 183.58%. This is within the target range.

The average asset sustainability ratio indicates that Council has monitored its assets in line with its asset management plan and have adequately replaced its assets as they near the end of their useful life. This suggests that council has managed its asset replacement in line with its service potential.



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3. Update on emerging risks

In our interim letter dated 11 May 2020, we had identified the potential areas of concerns and associated risks that arose from COVID-19. The table below provides our understanding of the areas of concern and associated risks, the impact they had on Scenic Rim Regional Council and our conclusion:

Area of concerns and associated risk	Audit conclusion
<p>'Everyday' internal controls</p> <p>Most entities have expanded to working from home to support social distancing. With any change in working arrangements comes an increased risk of controls failing, particularly manual controls and where controls previously operated with a high level of management oversight within an office environment.</p>	<p>Testing of the control environment over the intervening period between our interim and final audit visits did not identify any control failures due to changes to workplace arrangements.</p>
<p>Information technology and cyber security</p> <p>Entities' exposure to cyber security risks increases in vulnerable and uncertain times as their resources are focused on being re-deployed to address critical matters. There is also a risk that identifying cyberattacks may be potentially delayed causing financial and/or reputational risks.</p> <p>Cyberattacks are continuing to occur across the public sector. We have not been advised of any cyber security breaches during the year. Management should remain vigilant to this risk given the current environment.</p>	<p>The IT function was still fully operational throughout the restrictions.</p> <p>There was additional work involved for the IT Department when staff were working remotely, however, security remained a priority for the department.</p>
<p>Valuation of property, plant and equipment</p> <p>Economic uncertainty [and imposed community restrictions] may impact the ability of valuers to accurately perform comprehensive and/or desktop valuations and meet the fair value measurement requirements of AASB 13.</p>	<p>Audit has assessed the valuation performed as at 29 February 2020, as well as the indexation and impairment analysis conducted by Council, and was able to conclude with reasonable assurance that assets held at fair value were materially correct as at 30 June 2020.</p>
<p>Impairment of receivables</p> <p>There is an increased likelihood that debtors may take longer to pay and, in some instances, not be able to pay their obligations at all.</p>	<p>Due to the nature of the receivables held by Council as at 30 June 2020, we consider the risk of impairment to be low.</p>
<p>Financial statement disclosure</p> <p>Several disclosures in the financial statements will be impacted.</p>	<p>Council has included additional disclosures which detail the effect that COVID-19 has had on income and expenditure. There is also disclosure on the extensions provided to rate payers for their fourth quarter rates.</p> <p>There are no issues with the going concern of Council as a result of COVID-19, consequently there have been no additional disclosures.</p> <p>We considered the disclosures reasonable.</p>

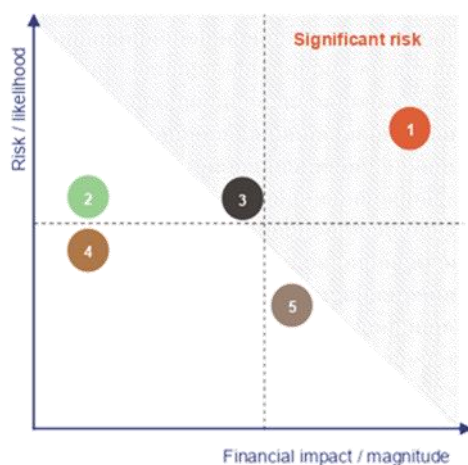
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4. Audit conclusions

Areas of audit significance

We identified the areas of your financial report that we considered to be at significant risk of material error. The risk map below sets out the identified areas of audit significance.



- 1 Risk 1 – Valuation and/or depreciation of infrastructure assets is materially misstated.
- 2 Risk 2 – Revenue recognition of infrastructure charges/development application fees.
- 3 Risk 3 – Appropriateness of procurement policies and practices
- 4 Risk 4 – Refuse and quarry provisions
- 5 Risk 5 – Application of new accounting standards

Our overall conclusions on these key risk areas are outlined in the table below.

Risk	Description	Audit conclusion
1	Valuation and/or depreciation of infrastructure assets is materially misstated.	We are satisfied that the valuation of infrastructure assets undertaken during the year was appropriate, and depreciation is materially correct.
2	Revenue recognition of infrastructure charges/development application fees.	We are satisfied that infrastructure charges / development application fees revenue has been recognised correctly.
3	Appropriateness of procurement policies and practices	We noted no significant issues surrounding Council's procurement policies and practices.
4	Refuse and quarry provisions	Following the project completed by Council, we are satisfied that the assumptions used by management to calculate the provisions are reasonable and based on the most recent reliable data available to Council.
5	Application of new accounting standards	Three new accounting standards – AASB 15 <i>Revenue from Contracts with Customers</i> , AASB 16 <i>Leases</i> , AASB 1058 <i>Income for Not-for-Profit Entities</i> , was adopted during the year and audit is satisfied that the recognition, measurement and disclosure has been appropriately followed.



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4. Audit conclusions cont'd

Other audit opinions

In conjunction with our 2019-20 audit of the Council, we will issue audit opinions on special purpose financial reports prepared for the Roads to Recovery grant acquittal. This special purpose financial report is yet to be issued at the date of this report but is due by 31 October.

Audit materiality

Our audit materiality thresholds have been reassessed based on your year-end financial statement balances and have not changed since we communicated those in the external audit plan. However, specific materiality for property, plant and equipment has gone up from 43 million to 44 million

We used these thresholds in assessing misstatements.

Overall	Performance	Reported misstatements	Specific—property, plant & equipment
\$800,000	\$600,000	\$40,000	\$44m

Evaluation of misstatements

At the date of this report, we have identified corrected misstatements that resulted in a decrease in net assets and a decrease in operating results amounting to \$2,583,000.

At the date of this report, we have identified uncorrected misstatements that resulted in a decrease in total assets and a decrease in the asset revaluation reserve amounting to \$2,900,000.

Details of these corrected and uncorrected misstatements are included in Appendix B to this closing report.

Evaluation of disclosure misstatements

At the date of this report, we have identified misstatements in disclosures that required correction to the financial statements.











Details of these corrected disclosure misstatements are included in Appendix B to this closing report.






5. Audit issues

Internal controls

This table summarises our reporting on significant deficiencies/deficiencies in internal controls. See Appendix A for details.

	Number of significant deficiencies		Number of deficiencies		Rating
	Current year	Prior year unresolved	Current year	Prior year unresolved	
 Control environment <i>Structures, policies, attitudes and values that influence daily operations</i>	-	-	-	2	
 Risk assessment <i>Processes for identifying, assessing and managing risk</i>	-	-	-	-	
 Control activities <i>Implementation of policies and procedures to prevent or detect errors and safeguard assets</i>	-	-	3	4	
 Information and communication <i>Systems to capture and communicate information to achieve reliable financial reporting</i>	-	-	-	-	
 Monitoring activities <i>Oversight of internal controls for existence and effectiveness</i>	-	-	-	-	

 **Effective**
No significant deficiencies identified
  **Partially effective**
One significant deficiency
  **Ineffective**
More than one significant deficiency

Financial reporting issues and other matters

This table summarises our financial reporting and other issues raised in the current year and those carried forward from prior years. See Appendix A for details.

	Financial reporting issues—risk ratings			Other matters*
	High	Moderate	Low	
Current year				
Unresolved	-	-	-	1
Resolved	-	-	-	-
Prior year				
Unresolved	-	-	-	-
Resolved	1	-	2	-

* We only track resolution of other matters where management has committed to address the item raised.



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6. Audit assessments

Effectiveness of financial statements preparation process

Our assessment of the effectiveness of your financial statement preparation process involved considering three components: your year-end close process, the timeliness of your financial statements, and the overall quality of your financial statements. We assessed these based on the criteria disclosed in the external audit plan. These are further explained below.

We assessed the outcomes of your year-end close processes, based on the dates outlined below, unless we agreed an earlier date in your financial reporting timetable.

Year-end close processes	Timeliness of certification of financial statements	Quality of draft financial statements
 <p>Your rating: ● Partially implemented</p>	 <p>Your rating: ● Timely</p>	 <p>Your rating: ● Significant adjustments</p>
<p>We assessed the outcomes of your year-end close processes, based on the agreed dates in the external audit plan. The following four key processes were completed on time:</p> <ul style="list-style-type: none"> • finalising non-current asset valuations (16/03) • preparing complete pro forma financial statements (30/04) • workpapers reviewed and available for audit (17/08) • Final draft financial statements completed (17/08). <p>4 out of 5 milestones were met.</p> <p>The delay in the position papers in relation AASB 15, AASB 1058 and accounting for refuse site restoration provisions resulted in the Accounting Papers on Known Accounting Issues milestone to be missed.</p>	<p>We assessed the timeliness of financial statements by comparing the date the independent auditor's report was issued against the legislative deadline of 31 October.</p>	<p>We assessed the quality of your financial statements in terms of adjustments you make between the first draft of the financial statements and the final version we receive. This includes adjustments to current year, prior year and other disclosures. This is an indicator of how effective your review of the financial statements is at identifying and correcting errors.</p>

Our ratings criteria

<p>● Fully implemented All key processes completed by planned date</p>	<p>● Timely Acceptable draft financial statements were received on or prior to the planned date</p>	<p>● No adjustments No adjustments were required</p>
<p>● Partially implemented Three key processes completed within two weeks of planned date</p>	<p>● Generally timely Acceptable draft financial statements were received within two days after the planned date</p>	<p>● No significant adjustments Immaterial adjustments to financial statements</p>
<p>● Not implemented Less than three key processes completed within two weeks of the planned date</p>	<p>● Untimely Acceptable draft financial statements received greater than two days after the planned date</p>	<p>● Significant adjustments Material adjustments to financial statement components</p>

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7. Other required information

We are required to report certain matters to those charged with governance. The table below provides a summary of the matters usually communicated at the end of our audit.

Matters for QAO to consider	How these were addressed
Disagreements with management	During our audit, we received full co-operation from management and had no unresolved disagreements over the application of accounting principles and the scope of our audit. At the date of this report management are finalising the disclosures to include in the final financial statements.
Significant difficulties	We did not encounter any significant difficulties during the audit.
Compliance with laws and regulations	We did not identify any instances of non-compliance with laws and regulations that may have a material effect on the financial report.
Matters significant to related parties	We did not note any significant matters in relation to related parties during the audit.
Changes to accounting policies	We confirm there were no significant changes to accounting policies during the period, except for those changes arising from the adoption of the new accounting standards.
Other matters significant to the oversight of the financial reporting process	We did not note any significant matters in relation to the financial reporting process during the audit.
Fraud and illegal acts	<p>We have made enquiries of management regarding:</p> <ul style="list-style-type: none"> • knowledge of any fraud or suspected or alleged fraud affecting the entity involving management, employees who have significant roles in internal control, or others where fraud could have a material effect on the financial report • knowledge of any allegations of fraud, or suspected fraud, affecting the financial information. <p>We did not become aware of any fraud or illegal acts during our audit.</p>
Other information in the entity's annual report	We will undertake audit procedures to verify other information in the entity's annual report as required by Australian Auditing Standard ASA 720 <i>The Auditor's Responsibilities Relating to Other Information</i> . Our review will examine whether annual report financial information and non-financial information is not inconsistent with the financial report.



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Appendix A1—Internal control deficiencies

The following table details control deficiencies and other matters identified since our last interim report dated 11 May 2020. It includes a response from management.

Our risk ratings are as follows—refer to [Internal controls rating definitions](#) for more detail.

 **Significant deficiency**  **Deficiency**  **Other matters**

Deficiencies

[20CR-1] Inadequate policy & procedural documentation & supporting documentation for ICT changes

Control activity

It was noted that Council has a change control process in place with change requests being logged and approved.

However, it was found that:

- An approved and documented ICT change management policy is not in place;
- Existing change management procedural documentation and the change request log contain insufficient detail; and
- The change request process has not been approved by management.

A documented and approved policy would provide:

- Personnel with details about management expectations regarding ICT change management;
- The mandate for enforcing the application of approved procedures and managing change management risks;
- Direction for decision-making in routine situations; and
- A consistent and clear response across the Council in dealing with ICT change management situations.

Approved and detailed procedures facilitate a controlled process where identified risks to the Council are adequately addressed. Additionally, adequate detail in the change request register facilitates the independent peer review of changes to ensure the approved process was followed and the desired outcome was achieved.

Implication

The lack of documented and approved ICT change management policy and procedures increases the risk that adequate procedures and controls are not implemented or followed. This can result in loss or corruption of data or loss of productivity due to unplanned outages.

QAO recommendation

It is recommended that:

- 1.1 An ICT change management policy be developed and approved by the Council
- 1.2 Procedural documentation be enhanced by including details regarding:
 - Definition of a change that requires approval and categories of changes (e.g. major or minor changes and levels of management that can approve);
 - Management of emergency changes;
 - Required supporting documentation (e.g. test plan and results, specifications); and
 - Independent peer review.
- 1.3 The change request log includes details of:
 - System/Application/Data owner approval;
 - Who implemented the change;
 - Who performed an independent peer review of the change;
 - Where to find supporting documentation for the change.

Management response

Management notes details outlined on the matter and puts forward the following commentary in respect to addressing the minor deficiencies.

Council's Information Services and Technology (IST) business unit are currently undertaking the review and update of all associated policies, procedures and processes. This includes a review of the way IST currently administers requests to ensure they are reflective of the organisational changes that have been delivered and/or are currently being delivered as part of Council's Refresh and Refocus Project. Governance, along with Internal Audit, are assisting in maintaining compliance with relevant legislation and appropriate Information Technology Standards. It is envisioned that in the course of the review and work being undertaken that all the matters outlined in this matter will be addressed accordingly.

Responsible officer:	Oliver Pring
Status:	Work in progress
Action date:	31 December 2020

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Appendix A1—Internal control deficiencies cont'd



Other Matters

[20CR-2] Completeness and comprehensiveness of data presented in the Infrastructure Charges Register

From our review of the infrastructure charges register there are a number of fields that have been left blank. It is important that Council ensure that information not completed has been correctly omitted, or whether additional work needs to be done to locate and update.

Council needs to include a column to enable date paid information to disclosed.

It should be noted that over the last 2 years there have been significant works undertaken within the Planning and Development Team to improve existing processes and to ensure the accuracy of the information available.

QAO recommendation

Council should consider the needs of the users of the infrastructure charges register and ensure that information is being presented in a comprehensive and transparent way that is in line with the *Planning Regulation 2017*.

Management response

Council acknowledges the matter as prescribed and is in agreement with the suggested inclusion of additional columns to capture relevant data required. Council is also continuing to explore alternative solutions that may provide improved tracking and management of infrastructure charges.

Council is committed to reconciling and rectifying historical legacy matters associated with infrastructure charges program.

Responsible officer:	Debra Howe
Status:	Not started
Action date:	31 December 2020



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Appendix A2—Matters previously reported




The following table summarises all control deficiencies, financial reporting issues and other matters that we have raised this year and those issues raised in prior years but are not yet resolved.

Reference	Rating	Issue	Status/Comment action date
Internal control issues			
18IR-1		Employees with excessive long service leave balance	<p>Considered unresolved since the Council employees still have significant balances to their accrual. Council is aware of the impacts of this risk. Workshops have been provided for staff with (superannuation and salary sacrificing) specialists on hand to provide tailored advice to staff.</p> <p>Management have approved ethical "cashing-out" of excess leave as well as placing onus on supervisors/managers in scheduling appropriate leave for staff in their control.</p> <p>Work in progress.</p>
19CR-2		Review of Asset Management plan	This matter has been re-raised – refer 20IR-5.
19CR-3		Council policies overdue for review	<p>Audit acknowledges considerable progress has been made towards ensuring all Council policies are up to date and reviewed in a timely manner. This process is still ongoing however, with many policies remaining overdue (due to the size of the backlog).</p> <p>Work in progress.</p>
19CR-6		Terminated staff not removed from authorised signatory list with NAB bank account	<p>Terminated staff continue to appear as signatories on the NAB bank confirmation as at 30 June 2020.</p> <p>Work in progress.</p>
19CR-7		Password Aging	<p>Information received from by the Manager - Information Services and Technology that 362 out of the 400 user accounts have MFA enabled. The objective is to have MFA enabled for all user accounts by 30 September 2020.</p> <p>Work in progress.</p>
19CR-10		Automated Network Alerts	<p>The Auditor was advised by the Manager - Information Services and Technology that SRRC has investigated and installed a trial of an automated tool for high risk actions at the Operating System level (Rapid 7 InsightIDR). This is not in the FY20/21 budget and may be considered in future years.</p> <p>Work in progress.</p>

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Appendix A2—Matters previously reported cont'd

Reference	Rating	Issue	Status/Comment action date
Internal control issues			
20IR-1		Purchase Requisitions Approved Post Invoice Date	Council is aware of this matter and is currently reviewing its internal processes to look at ways to minimise the number of instances, acknowledging that there are certain types of expenditure where this is unavoidable. Work in progress.
20IR-2		Circumvention of Financial Delegation Through Multiple POs	This matter was initially stated as resolved in the Interim management report; however, we note from our control testing of the intervening period that this continued to take place in the final quarter. Work in progress.
20IR-5		Review of Asset Management Plan (Re-raised matter 19CR-2)	External consultants are due to complete work on the plans by 31 December 2020. Work in progress.



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Appendix A3—Our rating definitions



Internal controls rating definitions

	Definition	Prioritisation of remedial action
Significant deficiency 	<p>A significant deficiency is a deficiency, or combination of deficiencies, in internal control that requires immediate remedial action.</p> <p>Also, we increase the rating from a deficiency to a significant deficiency based on:</p> <ul style="list-style-type: none"> the risk of material misstatement in the financial statements the risk to reputation the significance of non-compliance with policies and applicable laws and regulations the potential to cause financial loss including fraud, or where management has not taken appropriate timely action to resolve the deficiency. 	<p>This requires immediate management action to resolve.</p>
Deficiency 	<p>A deficiency arises when internal controls are ineffective or missing, and are unable to prevent, or detect and correct, misstatements in the financial statements. A deficiency may also result in non-compliance with policies and applicable laws and regulations and/or inappropriate use of public resources.</p>	<p>We expect management action will be taken in a timely manner to resolve deficiencies.</p>
Other matter 	<p>An other matter is expected to improve the efficiency and/or effectiveness of internal controls, but does not constitute a deficiency in internal controls. If an other matter is not resolved, we do not consider that it will result in a misstatement in the financial statements or non-compliance with legislative requirements.</p>	<p>Our recommendation may be implemented at management's discretion.</p>

Financial reporting issues rating definitions

	Potential effect on the financial statements	Prioritisation of remedial action
High 	<p>We assess that there is a high likelihood of this causing a material misstatement in one or more components (transactions, balances and disclosures) of the financial statements, or there is the potential for financial loss including fraud.</p>	<p>This requires immediate management action to resolve.</p>
Medium 	<p>We assess that there is a medium likelihood of this causing a material misstatement in one or more components of the financial statements.</p>	<p>We expect management action will be taken in a timely manner.</p>
Low 	<p>We assess that there is a low likelihood of this causing a material misstatement in one or more components of the financial statements.</p>	<p>We recommend management action to resolve; however, a decision on whether any action is taken is at management's discretion.</p>

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Appendix A4—Information on internal controls

What is internal control?

'Internal control' is the processes, systems, records and activities that your entity designs, implements and maintains to provide you with reasonable assurance about the achievement of organisational objectives regarding:

- reliability of financial reporting
- effectiveness and efficiency of operations
- compliance with applicable laws and regulations.

Your governing body and executive management collectively are responsible for preparing reliable financial statements in accordance with generally accepted accounting principles. They are similarly responsible for maintaining effective internal control over financial reporting.

Our assessments of your internal control framework

The auditing standards that we must comply with require us to understand and assess those aspects of your internal control that relate to our financial statement audit objectives. In the planning phase of our audit, we sought to understand and evaluate how controls are designed and implemented. We communicated to you the results of our analysis in our external audit plan.

If we decide that we can rely on your controls, we must then test them to confirm they operated effectively. The results of our testing may highlight deficiencies in your internal controls. We assess whether any identified deficiencies in internal control constitute, individually or in combination, a significant deficiency in internal control.

Limitations of our reporting on internal control deficiencies

No system of internal control can provide absolute assurance about the absence of error or compliance. Even in the absence of identified control weaknesses, inherent limitations in your internal controls over financial reporting may not prevent or detect material misstatements.



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Appendix B—Misstatements



In total, the effect of the corrected misstatements on the financial statements has resulted in a decrease in comprehensive income of \$2.583 million and a decrease in net assets of \$2.583 million.

Summary of corrected misstatements

The following misstatements were identified during the audit and have subsequently been corrected by management in the financial statements.

#	Details	Profit or loss	Balance sheet
		Increase/(decrease) \$000	Increase/(decrease) \$000
1	Investment in QUU	-	(101)
	Share of profits of QUU	(101)	-
	Adjustment to QUU profit share following issue of the Audited results.	(101)	(101)
2	Other Debtors	-	266
	Infrastructure Charges	266	-
	Adjustment to sundry debtors relating to Infrastructure Charges receivable omitted.	266	266
3	Other Infrastructure	-	(1,386)
	Other Infrastructure Acc Deprn	-	(415)
	Landfill Monitoring Costs Provision	-	(12)
	Asset Revaluation Reserve	(415)	-
	Central Landfill Operations	(1,398)	-
	Adjustment to the monitoring cost portion of the rehabilitation provision.	(1,813)	(1,813)
4	Other Infrastructure	-	(507)
	Other Infrastructure Acc Deprn	-	429
	Asset Revaluation Reserve	89	-
	Depreciation Expense	24	-
	Central Landfill Operations	(191)	-
	Adjustment to the capping cost portion of the rehabilitation provision.	(78)	(78)

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Appendix B—Misstatements cont'd



5	Grant Funds Receivable	-	(156)
	Retained Surplus – OB Adjustments	-	249
	Building Better Regions Grant Funding	93	-
	Adjustment to sundry debtors relating to Infrastructure Charges receivable omitted.	93	93
6	Grant Funds Received in Advance	-	(950)
	Building Better Regions Grant Funding	(349)	-
	Building Our Regions Grant Funding	(601)	-
	Adjustment to sundry debtors relating to Infrastructure Charges receivable omitted.	(950)	(950)
Total		(2,583)	(2,583)

Summary of uncorrected misstatements

During the course of our audit, we identified the following adjustment. As it was above our reported misstatement threshold we requested it be corrected. Management has concluded that these matters are not material and do not propose adjustment. Should the Audit & Risk Committee concur with management and elect not to adjust, we would also conclude the misstatements are not material either to the financial statements as a whole or to individual line item presentations.

#	Details	Profit or loss	Balance sheet
		Increase/(decrease) \$000	Increase/(decrease) \$000
1	Asset Revaluation Reserve	(2,900)	-
	Property, plant and equipment	-	(2,900)
	Recognise impairment of assets attributable to natural disasters that occurred during the year.	(2,900)	(2,900)
Total		(2,900)	(2,900)

Summary of corrected disclosure misstatements

- Inclusion of an accounting policy and impacts upon initial application of AASB 16 Leases; and
- Correction to an appropriate index used for intervening period since valuation of Land was undertaken.



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Appendix C—Next year planning considerations

We identified the following financial reporting matters during the current year audit for consideration in planning next year's audit.

Next year audit planning considerations	Potential effect on financial statements	Potential effect on audit
Continuing impacts of COVID-19	Changes to the nature, timing and amount of revenue and expenses.	Verify recognition, measurement and disclosure of revenue and expenses impacted by COVID-19. Potential need to continue conducting audit work remotely.
Second year of implementation of new accounting standards for revenue and leases	Additional disclosures compared to the current year. Revised calculation of lease liabilities and right-of-use assets when change in lease payments occur (e.g. rent reviews from changes in the CPI).	Verify disclosure of revenue recognised through satisfaction of performance obligations. Verify revised calculation of lease liabilities and right-of-use assets.



Appendix D—Assessment of Financial Sustainability



Assessment of financial sustainability

Section 169(5) of the *Local Government Regulation 2012* outlines the following relevant measures of financial sustainability for all Queensland local governments must report on:

Sustainability measure	Purpose	How is it measured?	Target
Operating surplus ratio	The Operating Surplus Ratio indicates the extent to which operating revenues raised cover operating expenses.	<i>Net operating result/Total operating revenue (excluding capital items)</i>	Between 0% and 10% per annum
Net financial liabilities ratio	The Net Financial Liabilities Ratio indicates the extent to which operating revenues (including grants and subsidies) can cover net financial liabilities (usually loans and leases).	<i>(Total Liabilities – current assets)/Total operating revenue</i>	< 60% per annum
Asset sustainability ratio	The Asset Sustainability Ratio indicates the extent to which assets are being replaced as they reach the end of their useful lives.	<i>Capital Expenditure on replacement of assets (renewals)/Depreciation</i>	> 90% per annum

We assigned a risk rating to each measure using the below criteria.

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



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Appendix D—Assessment of Financial Sustainability cont'd



Our assessment of financial sustainability risk factors does not take into account Council's long-term forecasts or credit assessments undertaken by Queensland Treasury Corporation. We calculate the overall financial sustainability risk assessment using the ratings determined for each measure using the criteria in the table below.

Risk level	Detail of risk
Higher risk 	Higher risk of sustainability issues arising in the short to medium term if current operating income and expenditure policies continue, as indicated by average operating deficits (losses) of more than 10 per cent of operating revenue.
Moderate risk 	Moderate risk of sustainability issues over the longer term if current debt financing and capital investment policies continue, as indicated by: <ul style="list-style-type: none"> • current net financial liabilities more than 80 per cent of operating revenue or • average asset sustainability ratio over the last 5 years is less than 50 per cent or • average operating deficits (losses) over the last five years of between two and 10 per cent of operating revenue or • realising two or more of the individual ratios for moderate risk assessments (per the table opposite).
Lower risk 	Lower risk of financial sustainability concerns based on current income, expenditure, asset investment and debt financing policies.

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