



ORDINARY MEETING OF COUNCIL

MINUTE ITEM ATTACHMENTS

Tuesday 21 April 2026

ORDINARY MEETING OF COUNCIL MINUTE ITEM ATTACHMENTS
21 APRIL 2026

TABLE OF CONTENTS

ITEM	SUBJECT	PAGE NO
8.1	Auditor General Local Government reports	
1	NSW Auditor General's report on local government for 2021.....	2
2	NSW Auditor General's report on local government for 2022.....	62
3	NSW Auditor General's report on local government for 2023.....	134
4	NSW Auditor General's report on local government for 2024.....	212
5	NSW Auditor General's report on local government for 2025.....	283
8.2	Audiyor General letter to OLG	
1	Letter from Auditor General NSW to The Hon Wendy Tuckerman MP dated 16 August 2022.....	362
8.3	PIO docs	
1	Letter from the Hon. Ron Hoenig MP to Kiama Council date stamped 23 May 2024.....	364
2	Letter from the Hon. Ron Hoenig MP to Kiama Council Notice of intention to vary PIO.....	366
3	Letter from the Hon. Wendy Tuckerman MP to Mayor and CEO Kiama Council.....	372
8.4	Letter from Jeff Heneicke	
1	Email from Geoff Heinecke dated 20 April 2026 redacted	375

Item 6.1

Enclosure 2

Item 8.1 - New Item (8) Auditor General Local Government
reports

01 - NSW Auditor General's report on
local government for 2021



Item 6.1

Enclosure 2

Local Government 2021

NEW SOUTH WALES AUDITOR-GENERAL'S REPORT



Item 8.1 - New Item (8) Auditor General Local Government
reports

01 - NSW Auditor General's report on
local government for 2021

THE ROLE OF THE AUDITOR-GENERAL

The roles and responsibilities of the Auditor-General, and hence the Audit Office, are set out in the *Government Sector Audit Act 1983* and the *Local Government Act 1993*.

We conduct financial or 'attest' audits of state public sector and local government entities' financial statements. We also audit the Consolidated State Financial Statements, a consolidation of all state public sector agencies' financial statements.

Financial audits are designed to add credibility to financial statements, enhancing their value to end-users. Also, the existence of such audits provides a constant stimulus to entities to ensure sound financial management.

Following a financial audit the Audit Office issues a variety of reports to entities and reports periodically to Parliament. In combination, these reports give opinions on the truth and fairness of financial statements, and comment on entity internal controls and governance, and compliance with certain laws, regulations and government directives. They may comment on financial prudence, probity and waste, and recommend operational improvements.

We also conduct performance audits. These examine whether an entity is carrying out its activities effectively and doing so economically and efficiently and in compliance with relevant laws. Audits may cover all or parts of an entity's operations, or consider particular issues across a number of entities.

As well as financial and performance audits, the Auditor-General carries out special reviews, compliance engagements and audits requested under section 27B(3) of the *Government Sector Audit Act 1983*, and section 421E of the *Local Government Act 1993*.

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The Legislative Assembly
Parliament House
Sydney NSW 2000

The Legislative Council
Parliament House
Sydney NSW 2000

In accordance with section 421D of the *Local Government Act 1993*, I present a report titled '**Local Government 2021**'.

A handwritten signature in blue ink, appearing to read 'Margaret Crawford'.

Margaret Crawford
Auditor-General for New South Wales
22 June 2022

**Item 8.1 - New Item (8) Auditor General Local Government
reports**

**01 - NSW Auditor General's report on
local government for 2021**



The Audit Office of New South Wales pay our respect and recognise
Aboriginal people as the traditional custodians of the land in NSW.

We recognise that Aboriginal people, as custodians, have a spiritual, social and
cultural connection with their lands and waters, and have made and continue
to make a rich, unique and lasting contribution to the State. We are committed
to continue learning about Aboriginal and Torres Strait Islander peoples' history
and culture.

We honour and thank the traditional owners of the land on which our office is
located, the Gadigal people of the Eora nation, and the traditional owners of
the lands on which our staff live and work. We pay our respects to their Elders
past and present, and to the next generation of leaders.

Item 8.1 - New Item (8) Auditor General Local Government
reports

0 1 - NSW Auditor General's report on
local government for 2021

Item 6.1

Enclosure 2

contents

Local Government 2021

Auditor-General's foreword	1
Section one – Local Government 2021	
Introduction	3
Audit results	6
Key audit findings	18
Looking forward	44
Section two – Appendices	
Appendix one – Response from the Office of Local Government within the Department of Planning and Environment	47
Appendix two – Status of previous recommendations	48
Appendix three – Status of audits	49

Auditor-General's foreword

Pursuant to the *Local Government Act 1993* I present my report Local Government 2021. My report provides the results of the 2020–21 financial audits of 127 councils, 13 joint organisations and nine county councils.

Unqualified audit opinions were issued for 126 councils, 13 joint organisation and nine county councils in 2020–21. My independent auditor's opinion was qualified for Central Coast Council who was unable to provide evidence to support the carrying value of \$5.5 billion of roads, bridges, footpaths, bulk earthworks, stormwater drainage, water supply and sewerage network assets.

The 2020–21 year was challenging from many perspectives, not least being the continuing impact of and response to the recent emergency events, including bushfires, floods and the COVID-19 pandemic. We appreciate the efforts of council staff and management right across local government and they must be congratulated for their responsiveness and resilience in meeting their financial reporting obligations in such challenging circumstances.

This report makes a number of recommendations to councils and to the regulator, the Office of Local Government within the Department of Planning and Environment. These are intended to support councils to further improve the timeliness, accuracy and strength of financial reporting and their governance arrangements. Arguably, when faced with challenges, it is even more important to prioritise and invest in systems and processes to protect the integrity of councils' operations and promote accurate and transparent reporting.

I look forward to continuing engagement and constructive dialogue with councils in 2022–23 and beyond.

Margaret Crawford
Auditor-General for New South Wales

**Item 8.1 - New Item (8) Auditor General Local Government
reports**

**01 - NSW Auditor General's report on
local government for 2021**

Item 6.1

Section one

Local Government 2021

This report analyses the results of our audits of local councils for the year ended 30 June 2021.

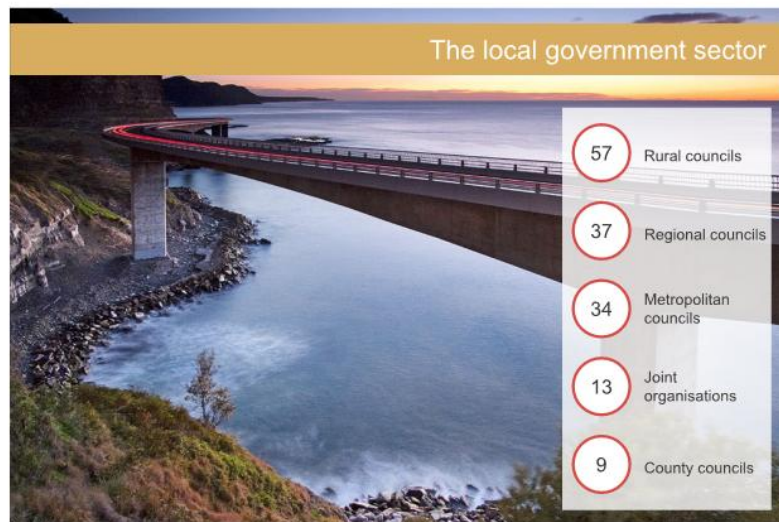
Enclosure 2

1. Introduction

1.1 The local government sector

Local government is the third tier of government. It is established under state legislation, which defines the powers and geographical areas each council is responsible for.

At 30 June 2021, there were 128 local councils, 13 joint organisations and nine county councils and in New South Wales.



Councils provide a range of services and infrastructure for a geographical area. Services include waste collection, planning, child and family day care, and recreational services. Councils also build and maintain infrastructure, including roads, footpaths and drains, and enforce various laws. While core functions such as waste collection are similar across councils, the range of services each council provides can vary depending on the needs of each community.

County councils are formed for specific purposes, such as to supply water, manage flood plains or eradicate noxious weeds.

Joint organisations (JOs) are formed by councils in regional New South Wales. Core activities of JOs include regional strategic planning and priority setting, engaging in shared services with member councils, and regional advocacy and collaboration with the state and federal governments.

This report provides the results of the 2020–21 financial audits of 127 councils, 13 joint organisations and nine county councils.

**Item 8.1 - New Item (8) Auditor General Local Government
reports**

**01 - NSW Auditor General's report on
local government for 2021**

Item 6.1

Enclosure 2

In preparing this report, our observations and analyses were drawn from:

- audited financial statements
- performance audit reports
- data collected from councils
- audit findings reported to councils in audit management letters.

Each local council has unique characteristics such as its size, location and services provided to their communities. To enable comparison, we divided councils into three categories – metropolitan, regional and rural. County councils and joint organisations are separately identified in the report. Details of councils grouped into categories are provided in Appendix three.

1.2 Performance audit

Our performance audits assess whether the activities of government entities are being carried out effectively, economically, efficiently and in compliance with relevant laws. Our mandate to conduct these audits is provided under the *Local Government Act 1993* (LG Act).

Performance audits relevant to the local government sector in 2021–22 included:

Integrity of grant program administration

The objective of [Integrity of grant program administration](#) was to assess the integrity of the assessment and approval processes for NSW Government grant programs. The audit focused on two grant programs:

- Stronger Communities Fund Round 2 (tied grants round), which was administered by the Office of Local Government (OLG) within the Department of Planning and Environment, and provided \$252 million to newly amalgamated councils and other councils that had been subject to a merger proposal during 2017–18 and 2018–19
- Regional Cultural Fund, which was administered by Create NSW (now within the Department of Premier and Cabinet) and awarded \$100 million for cultural projects in regional NSW.

We recommended the Department of Premier and Cabinet develop a model to use for all grant program administration in NSW. The Department of Planning and Environment should ensure that guidelines prepared are published and include a governance framework that includes accountabilities and key assessment steps.

Local government business and service continuity arrangements for natural disasters

[Local government business and service continuity arrangements for natural disasters](#) followed on from 'Report on Local Government 2020' with a detailed examination of the effectiveness of business and service continuity arrangements for natural disasters in two councils: Bega Valley Shire Council and Snowy Valleys Council.

In making this assessment, we considered whether the selected councils:

- had documented approaches for identifying, mitigating and responding to disaster-related risks to business and service continuity
- effectively implemented strategies to prepare for identified disaster-related impacts
- were effective in managing business and service continuity during their response to selected disasters.

Item 8.1 - New Item (8) Auditor General Local Government
reports

01 - NSW Auditor General's report on
local government for 2021

We recommended:

- Bega Valley Shire Council should update and regularly review its business continuity plans, provide business continuity training, and improve its monitoring of risk controls and actions, including for natural disaster impacts.
- Snowy Valleys Council should document and monitor all disruption-related risks and controls, regularly review and update its business continuity plans, and progress planned actions to increase staff awareness of business continuity plans.
- Across both councils, we recommended that record keeping relating to service delivery during natural disasters should be adequate to inform post incident reviews and future updates to business continuity.

Building regulation: combustible external cladding

[Building regulation: combustible external cladding](#) focused on how effectively the Department of Customer Service (DCS) and Department of Planning and Environment (DPE) led reforms addressing the unsafe use of combustible external cladding on existing residential and public buildings.

Nine local councils were included in the audit because they have responsibilities and powers needed to implement the NSW Government's reforms.

We recommended the DCS and DPE should:

- address the confusion surrounding the application of the Commissioner for Fair Trading's product use ban for aluminium composite panels with polyethylene content greater than 30%
- develop an action plan to address buildings assessed as low-risk
- improve information systems to track all buildings from identification through to remediation.

The following local government performance audit reports are either planned or in progress with an expectation to complete them in 2022:

- **Development applications: assessment and determination stages**
This audit aims to assess whether selected councils are effectively assessing and determining development applications and whether selected councils and the Department of Planning and Environment are effectively supporting independent planning panels to determine development applications in compliance with relevant legislation, regulations and government guidance.
- **Effectiveness of financial management and governance in selected council(s)**
Under the LG Act, councils must apply sound financial management principles that require responsible and sustainable spending and investment, and ensure that future decisions consider intergenerational effects and equity. This audit will examine how these principles are effectively applied in councils' financial and asset management, funding decisions and risk management practices, and may examine how councils' expenditure and investment decisions have complied with legislative requirements.
- **The effectiveness of local government regulation and support**
This audit aims to assess whether the Office of Local Government within the Department of Planning and Environment is effectively monitoring and regulating the local government sector in NSW.
- **Audit Office Insights 2018–2022**
This report will analyse the key findings and recommendations from performance and other audits tabled in the New South Wales Parliament between 2018 and 2022, spanning varied areas of government activity, including local government. The report will present common findings and lessons from the past three years of audits with particular focus on issues relating to the integrity and transparency of decision-making and processes, as well as the fundamentals of good governance such as probity controls and record keeping.

2. Audit results

Financial reporting is an important element of good governance. Confidence in and transparency of public sector decision-making are enhanced when financial reporting is accurate and timely.

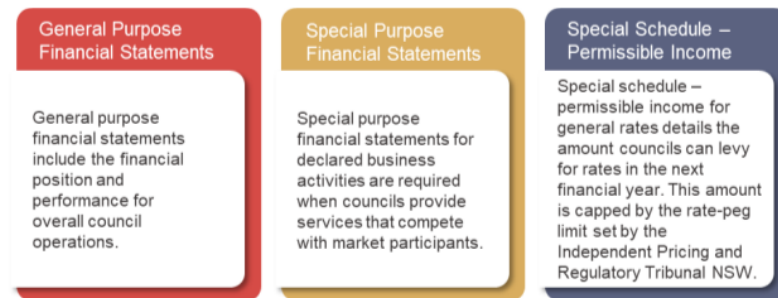
This chapter outlines audit observations related to the financial reporting of councils and joint organisations.

Highlights

- One hundred and nine councils and joint organisations (2020: 133) lodged audited financial statements with OLG by the statutory deadline of 31 October (2020: 30 November).
- Forty-one councils and joint organisations (2020: 16) received extensions to submit audited financial statements to OLG.
- Unqualified audit opinions were issued for 126 councils, 13 joint organisations and nine county councils in 2020–21. A qualified audit opinion was issued for Central Coast Council in both 2019–20 and 2020–21.
- The audit of Kiama Municipal Council is still in progress as at the date of this report due to significant accounting issues.
- Fifty-nine per cent of councils performed some early financial reporting procedures, less than the prior year. We recommended that OLG should require early close procedures across the local government sector by 30 April 2023.
- The total number and dollar value of corrected financial statement errors increased compared with the prior year, however uncorrected financial statement errors and prior period financial statement errors decreased compared to the prior year.
- Sixty-eight councils (2020: 68 councils) did not record rural firefighting equipment in their financial statements worth an estimated \$145 million (2020: \$119 million). The NSW Government has confirmed these assets are not controlled by the NSW Rural Fire Service and are not recognised in the financial records of the NSW Government. We recommended that consistent with the OLG's role to assess council's compliance with legislative responsibilities, standards or guidelines, OLG should intervene where councils do not recognise rural firefighting equipment. Councils should perform a full asset stocktake of rural firefighting equipment, including a condition assessment for 30 June 2022 financial reporting purposes.

2.1 Quality of financial reporting

The Auditor-General is required under the LG Act to issue an audit opinion on the following reports prepared by councils.



Indicators of quality financial reporting include:

- unqualified audit opinions
- the number of errors in financial statements
- timeliness in preparing financial statements.

Audit opinions

Unqualified audit opinions were issued for all but one council

Except for Central Coast Council, unqualified audit opinions were issued for all completed councils and joint organisations' 30 June 2021 financial statements audits. Sufficient audit evidence was obtained to conclude the financial statements were free of material misstatement and were prepared in accordance with Australian Accounting Standards and the LG Act.

Qualified audit opinion issued for Central Coast Council on carrying values of roads, bridges, footpaths, bulk earthworks, stormwater drainage, water supply network and sewerage network assets

A qualified audit opinion was issued for the 30 June 2021 financial statements of Central Coast Council. As disclosed in the financial statements of Central Coast Council, the council recognised \$5.5 billion of roads, bridges, footpaths, bulk earthworks, stormwater drainage, water supply network and sewerage network assets within 'Infrastructure, property, plant and equipment' in the Statement of Financial Position as at 30 June 2021.

In the 'Statement by the Administrator and Management', Central Coast Council certified that they were unable to provide sufficient evidence to support the carrying values of these assets in the Statement of Financial Position as at 30 June 2021. This is because the asset data used by council to value these assets could not be reconciled by council to its financial records prior to the valuation. The asset data was sourced from a non-financial system that did not include financial information or reference data that could be used to identify assets in council's fixed asset register.

Due to this limitation in scope of our audit, we were also unable to obtain sufficient appropriate audit evidence to support the carrying value of these assets and determine its impact on the Income Statement, Statement of Comprehensive Income and relevant notes to the financial statements for the year ended 30 June 2021.

Item 8.1 - New Item (8) Auditor General Local Government
reports

01 - NSW Auditor General's report on
local government for 2021

Emphasis of matter paragraphs were included in Tenterfield Shire Council and Central Coast Council audit opinions relating to non-compliance with the LG Act

An emphasis of matter paragraph was included in the Independent Auditor's Reports to draw attention to non-compliance with the LG Act which both councils self-disclosed in their financial statements.

Both councils breached sections 409 and 410 of the LG Act during the year ended 30 June 2021 by accessing restricted funds without the required approvals.

Council	Reason
Tenterfield Shire Council	- Council's negative unrestricted cash of \$1.2 million represents a breach of section 409(3) of the LG Act. - Council is unable to verify that funds raised by special rates or charges were not used to pay for general fund expenses during the year ended 30 June 2021. - Council acknowledges it may have used restricted special rates and charges funds for purposes other than their intended use, without ministerial approval. Such unapproved use would not comply with section 410(3) of the LG Act.
Central Coast Council	- Council is of the view that monies received by the Water Supply Authority under the <i>Water Management Act</i> is within the scope of S409(3) of the LG Act and are therefore externally restricted. - Council acknowledges it accessed restricted special rates and charges funds for purposes other than their intended use, without ministerial approval. Such unapproved use does not comply with section 409 and 410 of the LG Act.

Audit is still in progress for one council

The following audit remains outstanding and the outcome will be reported in next year's report to Parliament:

Council	Reason
Kiama Municipal Council	Resolving issues including: - weaknesses in supporting working papers and reconciliations of key accounts and sub-ledgers - presentation and disclosure deficiencies in the draft financial statements - four prior period accounting errors in council's draft financial statements, for which we are seeking supporting documentation from council - liquidity and governance matters being considered by council.

Errors identified through audits

Increase in the dollar value of errors identified

Our audits identified more errors and the total dollar value of these errors was higher compared to the prior year. It is important that councils perform robust reviews to minimise errors identified in financial statements. There were 18 councils (2019–20: 20 councils) where no errors were identified in their financial statements.

Corrected errors

A corrected error is an error identified by the auditor or council, which is subsequently corrected by council in the financial statements.

 Year ended 30 June	Corrected errors		By council type (2021 only)				
	2020	2021	Metro	Regional	Rural	County	JO
Less than \$250,000	60	66	5	9	41	5	6
\$250,000 to \$500,000	25	37	5	10	20	2	--
\$500,000 to \$1 million	41	38	10	18	10	--	--
\$1 million to \$5 million	69	69	18	32	19	--	--
\$5 million to \$15 million	27	19	9	9	1	--	--
\$15 million to \$30 million	8	4	2	1	1	--	--
\$30 million to \$50 million	5	6	3	3	--	--	--
\$50 million and greater	3	7	3	3	1	--	--
Total number of errors	238	246	55	85	93	7	6
Total value of errors (\$ million)	1,070	1,686	504	1,038	143	1	--

Source: Engagement Closing Reports issued by the Audit Office.

**Item 8.1 - New Item (8) Auditor General Local Government
reports**

**01 - NSW Auditor General's report on
local government for 2021**

Of the 246 corrected errors identified in the 30 June 2021 financial statements, 13 were greater than \$30 million:

Council	Description of corrected error
Albury City Council	Council's financial statements were corrected by management following the commencement of the audit to reflect asset indexation movements amounting to \$33.2 million.
Camden Council	Council's revaluation of other structures/open space assets was overstated by \$37.1 million because incorrect cost unit rates were used to value the assets. This error was identified and corrected by management.
Carrathool Shire Council	Council's revaluation of road assets was understated by \$58.9 million because accumulated depreciation was incorrectly counted twice in the supporting calculation.
Central Coast Council	Council's financial statements were corrected to reflect fair value of its operational land amounting to a \$85.8 million increase to its carrying value.
Coffs Harbour City Council	Council, as the lessor, had incorrectly assessed the long-term lease of its airport assets as an operating lease, instead of a finance lease. This resulted in the following amendments: - reversal of \$33.7 million in operating lease revenue and deferred lease premium - reclassification of \$100.2 million in airport assets from investment properties to finance lease receivables totalling \$85.7 million and capital works in progress totalling \$14.5 million.
Council of the City of Sydney	Review of council's revaluation of land assets identified an inaccurate land area for a parcel of Crown land, one that is only partially within council's care and control, resulting in an overstatement of land revaluation by \$73.2 million.
Cumberland City Council	Council's roads and stormwater drainage assets decreased in value by \$71.6 million. This fair value adjustment was incorrectly adjusted to asset revaluation reserves instead of expenses in the income statement (given the council did not have sufficient reserves to offset against the decrease in value).
Georges River Council	Council's revaluation of stormwater drainage, specialised and non-specialised buildings asset classes was incorrectly overstated by \$38.2 million in the financial statements.
MidCoast Council	Council's revaluation of community and Crown land was understated by \$31.7 million due to a lack of management oversight in recording revaluation adjustments in the trial balance and the financial statements.
Shoalhaven City Council	Council's financial statements submitted for audit were not updated for the revaluation adjustments for roads, bridges, bulk earthworks and stormwater drainage amounting to \$466 million.
The Hills Shire Council	Council incorrectly applied AASB 1058 'Income of Not-for-Profit Entities' to certain capital grants, which resulted in revenue being overstated by \$31.2 million.

Item 8.1 - New Item (8) Auditor General Local Government
reports

01 - NSW Auditor General's report on
local government for 2021

The common areas where corrected errors were identified are outlined below.

Common corrected errors	Number of errors
Poor record keeping of asset data, such as:	46
• unrecorded assets controlled by council (including found assets)	
• assets recorded that are no longer controlled by council	
• duplicate assets	
• assets incorrectly classified.	
Asset revaluation errors, such as:	45
• incorrect data provided to the valuer	
• valuation assumptions that were not appropriate (e.g. inappropriate unit rates applied, valuations did not reflect the physical and legislative restrictions on these assets, or impairment indicators not assessed)	
• inaccurate calculations derived from the revaluation work paper	
• incorrect recording of revaluation or impairment adjustments.	
Incorrectly accounting for liabilities and accruals	20

Uncorrected errors

An uncorrected error is an error identified by the auditor or council in the financial statements, which has not been corrected by council. There are various reasons why errors are not corrected, the most common being it is not material to the financial statements taken as a whole.

	Uncorrected errors		By council type (2021 only)				
Year ended 30 June	2020	2021	Metro	Regional	Rural	County	JO
Less than \$250,000	94	88	5	14	62	4	3
\$250,000 to \$500,000	43	44	8	9	26	1	--
\$500,000 to \$1 million	33	37	8	14	15	--	--
\$1 million to \$5 million	78	68	11	30	26	--	1
\$5 million to \$15 million	3	6	2	1	3	--	--
\$15 million to \$30 million	1	--	--	--	--	--	--
Total number of errors	252	243	34	68	132	5	4
Total value of errors (\$ million)	254	238	46	83	104	1	4

Source: Engagement Closing Reports issued by the Audit Office.

Sixty-one per cent of the total value of uncorrected errors was due to unrecorded rural firefighting equipment

In 2017, we recommended that OLG should address the different practices across the local government sector in accounting for rural firefighting equipment.

In 2020–21, 68 (2019–20: 68) councils did not record rural firefighting equipment in their financial statements estimated to be \$145 million (2019–20: \$119 million). Forty-one councils recognise this equipment in their financial statements with a total value of \$162.8 million, highlighting the inconsistent recognition practices across the local government sector.

Item 8.1 - New Item (8) Auditor General Local Government
reports

01 - NSW Auditor General's report on
local government for 2021

The financial statements of the NSW Total State Sector and the NSW Rural Fire Service do not include these assets, as the State is of the view that rural firefighting equipment that has been vested to councils under section 119(2) of the *Rural Fires Act 1997* is not controlled by the State. In reaching this conclusion, the State argued that on balance it would appear the councils control the rural firefighting equipment that has been vested to them. It is important to note that there are only two parties to the agreements that govern the use of vested rural firefighting equipment, leaving only two parties who would be considered to control this equipment - the NSW Rural Fire Service in the State sector, or councils in the local government sector.

The Department of Planning and Environment (inclusive of the Office of Local Government) (the Department) confirmed in the 'Report on Local Government 2020' (tabled in Parliament on 27 May 2021) their view that rural firefighting equipment is not controlled by the NSW Rural Fire Service.

The Local Government Code of Accounting Practice and Financial Reporting confirms the State's view that it does not control these assets but provides that 'Councils need to assess whether they control any rural firefighting equipment in accordance with Australian Accounting Standards'. It would seem however, given the State's view that it does not control these assets, that these assets can only be controlled and therefore recognised by councils in the local government sector.

Despite this, many councils do not report these critical assets in their financial statements.

The continued non-recording of rural firefighting equipment in financial management systems of some councils increases the risk that these assets are not properly maintained and managed. Councils who have rural firefighting equipment vested from the NSW Rural Fire Service should recognise these assets in their financial management systems and consider their condition and useful life.

Recommendation to councils

Councils should perform a full asset stocktake of rural firefighting equipment, including a condition assessment for 30 June 2022 financial reporting purposes.

Consistent with the requirements of the Australian Accounting Standards, councils should recognise this equipment as assets in their 30 June 2022 financial statements.

The Department should intervene where councils do not recognise rural firefighting equipment

The Department, through the Office of Local Government, requires each council to prepare financial statements in accordance with Australian Accounting Standards (accounting standards), as required by the LG Act. The State Government, through NSW Treasury (and in agreement with the Department), has concluded that under accounting standards rural firefighting equipment vested to councils is not controlled by the State, and further on balance that councils in the local government sector control this rural firefighting equipment.

The Department's role includes assessing whether intervention is appropriate with respect to council's compliance with and performance against legislative responsibilities, standards or guidelines. Given the State's clear position, it would appear that any council not recognising this equipment is non-compliant with the relevant accounting standards.

Having considered the accounting position papers prepared by the respective stakeholders, the Audit Office has advised councils and the Department that any council not recognising this equipment is not complying with the requirements of the Australian Accounting Standards.

The Department should now intervene to address this matter as a priority.

Recommendation to the Department

Consistent with the Department's role to assess council's compliance with legislative responsibilities, standards or guidelines, the Department should intervene where councils do not recognise rural firefighting equipment.

We acknowledge that the Department has committed to working closely with NSW Treasury to educate, guide and assist councils to understand the State's view regarding ownership and recognition of rural firefighting equipment in their financial statements.

Non-recognition of this equipment may impact the financial statements audit opinions of those councils

The NSW Rural Fire Service (NSW RFS), a state government entity, has spent in excess of \$1.1 billion over the past ten years on rural firefighting activities and equipment. While confirming the State Government's position that it does not control this equipment, the NSW RFS advised it has a complete listing of the rural firefighting equipment vested to councils under section 119(2) of the Rural Fires Act 1997, and has provided this to the Department. The NSW RFS also confirmed that as it does not control the equipment, it is unable to confirm its value or condition.

This raises two general questions: whether these assets are being properly managed as in some instances they are purportedly not controlled by any government sector and are not recorded in either the State or the local government sector financial records, and whether in these instances there is non-compliance with accounting standards if this equipment is not recorded in the financial statements of councils. This may impact audit opinions on the financial statements of councils.

The Audit Office is conducting performance audits of the NSW Rural Fire Service (Planning and managing bushfire equipment) and the Office of Local Government (The effectiveness of local government regulation and support).

Prior period errors

A prior period financial statement error is an error identified in the current year that relates to the previous year's audited financial statements.

	Prior period errors		By council type (2021 only)				
Year ended 30 June	2020	2021	Metro	Regional	Rural	County	JO
Less than \$250,000	2	4	1	--	3	--	--
\$250,000 to \$500,000	4	2	--	1	1	--	--
\$500,000 to \$1 million	1	4	2	--	2	--	--
\$1 million to \$5 million	18	11	5	1	4	1	--
\$5 million to \$15 million	21	19	9	8	2	--	--
\$15 million to \$30 million	9	6	6	--	--	--	--
\$30 million to \$50 million	1	4	3	1	--	--	--
\$50 million and greater	5	4	2	2	--	--	--
Total number of errors	61	54	28	13	12	1	--
Total value of errors (\$ million)	813	777	500	241	32	4	--

Source: Engagement Closing Reports issued by the Audit Office.

**Item 8.1 - New Item (8) Auditor General Local Government
reports**

**01 - NSW Auditor General's report on
local government for 2021**

Item 6.1

Enclosure 2

Of the 54 prior period errors, eight were greater than \$30 million. All these errors were asset related.

Council	Description of prior period error
Armidale Regional Council	Council's revaluation of roads, bridges, footpaths, stormwater drainage and transport ancillary assets identified errors relating to prior periods, such as: - assets controlled by council that had not been recognised amounting to \$74 million - assets that no longer exist or controlled by council, but were recorded in the asset registers, amounting to \$31.7 million.
Blacktown City Council	Council's revaluation of community land identified certain properties amounting to \$79.4 million that were no longer in council's ownership since previous years.
Blue Mountains City Council	Council identified duplicate road shoulder assets amounting to \$37.7 million in the asset records in previous years.
Georges River Council	Council's infrastructure, property, plant and equipment were overstated by \$32.1 million due to incorrect fair values used, found and duplicate assets recorded.
Ku-ring-gai Council	Council's community land was understated by \$49.7 million as newly discovered assets were identified but had not been recognised in previous years.
Penrith City Council	Council's revaluation of land under roads assets identified and corrected an overstatement of \$80.7 million due to duplication of certain sections of land and inclusion of assets not controlled by council at the time of the original recognition of the assets.
Tamworth Regional Council	Council's revaluation of roads identified infrastructure assets controlled by the council that had not been recognised in the financial statements amounting to \$53.9 million.

There were no prior period errors identified at joint organisations.

Of the 54 prior period errors, 45 were asset related that were identified in 28 councils. The common areas where prior period errors were identified are outlined below.

Eighty-three per centre of the total prior period errors were asset related

Common prior period errors	Number of errors
Poor record keeping of asset data, such as: - unrecorded assets controlled by council - assets recorded that are no longer controlled by council - duplicate assets - assets incorrectly classified.	27
Asset revaluation errors, such as: - incorrect data provided to the valuer - valuation assumptions that were not appropriate (e.g. inappropriate unit rates applied, valuations did not reflect the physical and legislative restrictions on these assets, or impairment indicators not assessed) - inaccurate calculations derived from the revaluation work paper - incorrect recording of revaluation or impairment adjustments.	18

2.2 Timeliness of financial reporting

The LG Act requires councils to submit their audited financial reports to OLG by the statutory deadline of 31 October or apply for an extension.

Seventy-three per cent of councils lodged their audited financial statements by the statutory deadline

Councils faced significant challenges responding to the impacts of the COVID-19 pandemic and natural disasters. In some cases, this impacted their ability to submit financial statements to OLG by the statutory deadline.

One hundred and nine councils and joint organisations lodged their audited financial statements by the statutory deadline.

Forty-one councils and joint organisations (2020: 16) applied for, and received, an extension to lodge their audited financial statements at a later date. Fifteen councils applied for more than one extension.

The common reasons why councils required extensions are summarised below.

Common reasons for seeking extension	Council or joint organisation
COVID-19 pandemic impacted council's ability to: • value its assets timely as valuers were unable to visit asset sites due to travel restrictions • recruit staff and contractors to fill vacant positions at short notice • work due to remote working challenges.	• Camden Council • Oberon Council • Gwydir Shire Council • Weddin Shire Council • Cootamundra-Gundagai Regional Council • Narrabri Shire Council • Strathfield Municipal Council • Murray River Council • Snowy Monaro Regional Council • Shellharbour City Council • Lithgow City Council • Georges River Council
Revaluation of infrastructure, property, plant and equipment required more time due to complexities involved.	• Lockhart Shire Council • Clarence Valley Council • Wollondilly Shire Council • Armidale Regional Council • Blue Mountains City Council • City of Canada Bay Council • Murray River Council • Queanbeyan-Palerang Regional Council • Shoalhaven City Council • Cumberland City Council
New IT system(s) implemented were not ready for financial reporting purposes.	• Albury City Council • Council of the Municipality of Kiama • MidCoast Council • City of Canada Bay Council

**Item 8.1 - New Item (8) Auditor General Local Government
reports**

**01 - NSW Auditor General's report on
local government for 2021**

Common reasons for seeking extension	Council or joint organisation
Resourcing issues impacting council and audit due to staff shortages affecting year-end financial reporting and audit timeframes.	• Uralla Shire Council • Oberon Council • Albury City Council • Weddin Shire Council • Griffith City Council • Upper Hunter Shire Council • Balranald Shire Council • Council of the Municipality of Kiama • Cootamundra-Gundagai Regional Council • Hunter Joint Organisation • Hilltops Council • Armidale Regional Council • Yass Valley Council • Murray River Council • Bega Valley Shire Council • Warrumbungle Shire Council • Wollondilly Shire Council • Snowy Monaro Regional Council • Liverpool City Council • Illawarra Shoalhaven Joint Organisation • Georges River Council • Upper Lachlan Shire Council • Kempsey Shire Council • Tenterfield Shire Council
Accounting matters that required more time to resolve.	• Central Coast Council • Upper Hunter Shire Council • Moree Plains Shire Council • Shellharbour City Council
Councils' meeting times did not align with signing of the statements.	• Northern Rivers Joint Organisation • Kempsey Shire Council

Source: Council extension letters submitted to OLG.

Less councils performed early financial reporting procedures

Early close procedures allow financial reporting issues and risks to be addressed by management and audit early in the financial statement close process. Such procedures help to confirm that key controls over councils' balances are carried out and that there is early dialogue with councils and the Audit Office on significant issues. These procedures form good practice that should in any case be carried out at appropriate points in the financial year. This helps to improve the quality and timeliness of financial reporting.

Councils can work with the Audit Office to agree on key early close procedures and an agreed timetable to complete the procedures that will be audited before 30 June. This process will allow for audit observations and feedback on the early close outcomes in time for them to be considered in the year-end financial reporting process.

The intention of these procedures is to facilitate the earlier preparation of councils' financial statements as well as improve quality and minimise the risk of audit qualifications or errors in financial statements submitted to the Audit Office.

Item 8.1 - New Item (8) Auditor General Local Government
reports

01 - NSW Auditor General's report on
local government for 2021

Item 6.1

Enclosure 2

Early close plans should allow sufficient time for management review and involvement of Audit Risk and Improvement Committees.

Some early close procedures that councils should consider include:

- completing proforma financial statements and ensuring management has endorsed the statements and reviewed the supporting working papers
- performing and documenting an annual assessment of the fair value of infrastructure, property, plant and equipment, their useful lives, and the reasons why the carrying value was not materially different to the fair value. This assessment is performed between comprehensive revaluations
- completing the comprehensive revaluation of infrastructure, property, plant and equipment by an agreed early close date
- explaining all unresolved prior year audit issues, with a proposed action plan to resolve them
- documenting all significant management judgements and assumptions made when estimating transactions and balances
- reconciling all key account balances (including annual leave provisions) and clearing reconciling items
- supporting work papers evidencing how management has considered the requirements of new and updated accounting standards.

Recommendation

OLG should require early close procedures across the local government sector by 30 April 2023. Policy requirements should be discussed with key stakeholders to ensure benefits of the procedures are realised.

It is generally accepted that timely year-end financial reporting is an indicator of sound financial management processes. Accordingly, measures aimed at the earlier finalisation of annual reports to both council and the regulator should be a priority.

This year, 59% (2019–20: 76%) of councils performed some early financial reporting procedures, including:

- completing infrastructure, property, plant and equipment valuations before 30 June (42 councils)
- performing fair value assessment of infrastructure, property, plant and equipment (24 councils)
- preparing proforma financial statements and associated disclosures (25 councils)
- assessing the impact of material, complex and one-off significant transactions (26 councils)
- explaining all unresolved prior year audit issues, with a proposed action plan to resolve them (39 councils)
- assessing the impact of new accounting standards (58 councils).

2.3 Implementation of new accounting standards

AASB 1059 became effective for all NSW councils and joint organisations for the 2020–21 financial year. It applies to arrangements which may involve a private sector operator designing, constructing or upgrading assets used to provide public services, and operating and maintaining those assets for a specified period of time. In return, the private sector operator is compensated by the public sector entity (the grantor).

AASB 1059 did not result in councils and joint organisations recognising service concession assets and liabilities in their financial statements.

3. Key audit findings

A strong system of internal controls enables councils to operate effectively and efficiently, produce reliable financial reports, comply with laws and regulations, and support ethical government.

This chapter outlines the overall trends in governance and internal control findings across councils, county councils and joint organisations in 2020–21.

Financial audits focus on key governance matters and internal controls supporting the preparation of councils' financial statements. Audit findings are reported to management and those charged with governance through audit management letters.

Highlights

- Total number of audit findings reported in audit management letters decreased from 1,435 in 2019–20 to 1,277 in 2020–21.
- No extreme risk audit findings were identified in 2020–21 (2019–20: 1).
- Total number of high-risk audit findings increased from 53 in 2019–20 to 92 in 2020–21. Sixty of the high-risk findings in 2020–21 related to the non-recording of rural firefighting equipment in councils' financial statements. Twenty-six per cent of the high-risk findings identified in 2019–20 were reported as high-risk findings in 2020–21.
- Fifty-three per cent of findings reported in audit management letters were repeat or partial repeat findings. We recommend councils and those charged with governance should track progress of implementing recommendation from our audits.
- Governance, asset management and information technology comprise over 62% of findings and continue to be key areas requiring improvement.
- A number of recommendations were made relating to asset valuations and integrity of asset data records, in response to the findings that:
 - 67 councils had weak processes over maintenance and security of fixed asset registers
 - 58 councils had deficiencies in their processes to revalue infrastructure assets.
- Sixty-five councils have yet to implement basic governance and internal controls to manage cybersecurity. We recommended that OLG needs to develop a cybersecurity policy to be applied by councils as a matter of high priority.

Total number of findings reported in audit management letters decreased

In 2020–21, 1,277 audit findings were reported in audit management letters (2019–20: 1,435 findings). No extreme audit risk findings were identified this year. The extreme risk relating to Central Coast Council's use of externally restricted funds in 2019–20 was partially addressed by management and has been rated as a high-risk for 2020–21. The total number of high-risk findings increased to 92 (2019–20: 53 high-risk findings).

Findings are classified as new, repeat or ongoing, based on:

- new findings were first reported in 2020–21 audits
- repeat findings were first reported in prior year audits, but remain unresolved in 2020–21
- ongoing findings were first reported in prior year audits, but the action due dates to address the findings are after 2020–21.

Item 8.1 - New Item (8) Auditor General Local Government
reports

01 - NSW Auditor General's report on
local government for 2021

Item 6.1

Enclosure 2

Findings are categorised as governance, financial reporting, financial accounting, asset management, purchases and payables, payroll, cash and banking, revenue and receivables, or information technology. The high-risk and common audit findings across these areas are explored further in this chapter.

3.1 Sector-wide common audit findings

Councils can complete their asset valuations earlier

Councils manage a significant range and value of infrastructure, property, plant and equipment. These assets are significant to the financial statements of councils and are subject to management judgements and estimates when determining their fair values. These judgements and estimates often require the assistance of a qualified expert valuer.

We identified a total of 288 findings that related to asset management. Further, we identified that 58 councils had deficiencies in their processes to revalue infrastructure assets.

Common issues identified include:

- inadequate documentation to support key assumptions and judgements applied including:
 - useful lives and condition assessments
 - unit rates used to value infrastructure assets
- incorrect classification of assets
- incorrect exclusion of some assets from valuations
- management not documenting their quality review over the asset valuation
- valuations commencing too late in the financial year and delaying the preparation of the financial statements.

Council's financial statements contained significant corrected errors relating to asset valuations:

- 35 councils corrected 45 errors relating to asset revaluations that amounted to \$1 billion
- 13 councils had 18 prior period errors relating to asset revaluations that amounted to \$253 million.

Performing asset valuations earlier gives time for management and auditors to complete all requirements before the financial statements are prepared and allows earlier sign offs to be achieved. The effective date of the valuation of any asset category can be at any point during the financial year subject to audit:

- 42 councils (28%) completed infrastructure, property, plant and equipment valuations before 30 June 2021
- 24 councils (16%) performed fair value assessments of infrastructure, property, plant and equipment.

Recommendation

Councils should have all asset revaluations completed by April of the financial year subject to audit.

Councils should:

- have a project plan in place to manage the asset valuation process
- include in the plan a timetable with deliverables and dates
- consider in the plan the scope of asset valuations, timing and engagement with internal and external stakeholders (e.g. using an expert) managing the timing of deliverables and quality review of the outputs.

Item 8.1 - New Item (8) Auditor General Local Government
reports

01 - NSW Auditor General's report on
local government for 2021

Item 6.1

Enclosure 2

Asset management and integrity/completeness of asset records

Asset management systems record key data on councils' infrastructure, property, plant and equipment. Maintaining accurate and up-to-date asset data helps council in making appropriate decisions around asset management.

Sixty-seven councils had weak processes over maintenance, completeness and security of fixed asset registers as reported in section 3.5 (refer to page 33). Common issues identified include:

- inaccurate and incomplete data in asset registers such as duplicate or missing assets
- fixed asset registers for additions and disposals were not regularly updated
- asset registers were not maintained in a secure format.

As reported in section 2.1 (refer to page 14), 19 councils had 27 prior period financial statement errors amounting to \$417.1 million. These were related to the quality of asset records, such as found and duplicate assets. In particular, growth councils have increased risk that developer contributed assets are not being recorded timely, resulting in incomplete asset records.

Forty-six corrected errors in the financial statements, amounting to \$102.1 million, relate to poor record keeping of asset data, such as:

- unrecorded assets controlled by council
- assets recorded that are no longer controlled by council
- duplicate assets
- assets incorrectly classified.

Recommendation

Councils need to improve controls and processes to ensure integrity and completeness of asset source records.

Councils should:

- perform timely and regular reconciliations of the fixed asset register to source data records to the general ledger
- perform regular review of capital works in progress to identify assets ready for use and capitalise these timely
- improve communication and processes between finance and asset/engineering units as this will improve the accuracy and completeness of asset data and the understanding of asset movements required to be updated to councils' source records
- implement processes to ensure developer contributed assets are recorded and valued in a timely manner once controlled by the council.

OLG should finalise a cybersecurity policy for the local government sector

Poor management of cybersecurity can expose councils to a broad range of risks, including financial loss, reputational damage and data breaches.

Our audits found that cybersecurity security frameworks and related controls were not in place at 65 councils. These councils have yet to implement basic governance and internal controls to manage cybersecurity such as having:

- a cybersecurity framework, policy and procedure
- register of cyber incidents
- system penetrations testing
- cybersecurity training and awareness program.

Item 8.1 - New Item (8) Auditor General Local Government
reports

01 - NSW Auditor General's report on
local government for 2021

Item 6.1

Refer to section 3.10 'Information technology (IT)' of this chapter for further details.

In 2019 we recommended that OLG should develop a cybersecurity policy by 30 June 2021 to ensure a consistent response to cybersecurity risks across councils. We understand a draft policy is in development.

Repeat recommendation

OLG needs to develop a cybersecurity policy to be applied by councils as a matter of high priority in order to ensure cyber security risks over key data and IT assets are appropriately managed across councils and key data is safeguarded.

Councils should monitor the implementation of recommendations

Fifty-three per cent of total findings reported in 2020–21 audit management letters were repeat or partial repeat findings from prior years.

Councils should establish policies on assigning, tracking and monitoring the progress of implementing recommendations from financial audits, as well as performance audits and public or parliamentary inquiries.

Councils should maintain a register of recommendations from financial audits, performance audits and public inquiries which include features such as:

- risk or priority rating to the issue or recommendation
- expected completion dates
- milestone due dates for larger implementation plans with multiple steps
- record of revisions to due dates
- comments to explain why due dates were changed
- assigned ownership with responsibilities.

Councils should consider performing acquittals and subsequent reviews to ensure the council's response to recommendations effectively address the issue and actions are still in place or operating as intended.

Councils should be reporting the status of recommendations on a regular basis to management and those charged with governance/audit, risk and improvement committee (ARIC).

Recommendation

Councils and those charged with governance should track the progress of implementing recommendations from financial audits, performance audits and public inquiries.

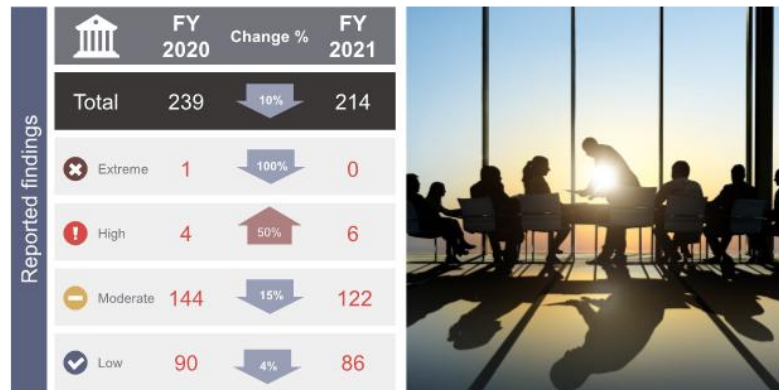
Enclosure 2

3.2 Governance

Governance is the framework of rules, processes and systems that enables organisations to achieve goals and comply with legal requirements. Good governance promotes public confidence and satisfaction in councils' operations. Key governance areas include appropriate accountability mechanisms, operational and financial risk management, and fraud prevention.

Governance findings decreased from 239 to 214

Audit management letters reported 214 findings relating to governance (2019–20: 239 findings). Sixty-five per cent were repeat or partial repeat findings.



Source: Audit management letters for 30 June 2020 and 30 June 2021 audits.

Extreme risk findings

No extreme risk findings were identified in 2020–21. Last year, one extreme risk finding was reported at Central Coast Council. The council spent restricted funds for unrestricted purposes during 2019–20, without the appropriate approvals under the LG Act. It was reclassified as a high-risk finding in 2020–21.

High-risk findings

Six high-risk findings were reported at the following councils, including three new findings, two repeat findings and one repeat finding reclassified from extreme risk in 2019–20. One of the 2019–20 high-risk findings was resolved and one finding was reclassified to moderate risk in 2020–21 as management has taken action to mitigate the risks.

Council	Description
2020–21 findings	
Hunter Joint Organisation (new finding)	Council has not complied with the requirements of section 55 of the Act which requires the council to invite tenders before entering into any contracts as prescribed in the LG Act.
Tenterfield Shire Council (new finding)	Council spent restricted funds for unrestricted purposes during 2020–21, without the appropriate approvals under the LG Act.
Central Coast Council (new finding)	A significant number of internal audit findings remained unresolved in 2020–21. Almost a quarter of these were related to calendar years 2018 and 2019.
Central Coast Council (repeat finding, reclassified from extreme risk in 2019–20 to high-risk in 2020–21)	Similar to last year, the council spent restricted funds for unrestricted purposes, without the appropriate approvals under the LG Act. As council pooled its restricted funds within a common bank account, it was not clear which category of restricted funds has been inappropriately spent. This indicates the council's oversight of the restricted funds was not always effective.
Central Coast Council (repeat finding)	Council did not have a policy document or framework setting out legislative and operational requirements for each category of externally restricted funds. Council was unable to provide the basis for some externally restricted funds.
Mid-Western Regional Council (repeat finding)	Council did not fully comply with its obligations under the <i>Unclaimed Money Act 1995</i> , as funds held by council for more than six years should be assessed for remittance to Revenue NSW.

Common findings

The common governance findings reported in audit management letters related to deficiencies in corporate governance policies, fraud controls and legislative compliance.

Key corporate governance policies were not in place or regularly updated at 70 councils

The common areas where councils were missing governance policies are summarised below.

Area of corporate governance with absent or outdated policies	Number of councils
Risk management	27
Contract management	19
Business continuity plan	21
Gifts and benefits	9
Public interest disclosures	4
Other policies not formally adopted or reviewed timely	29

Corporate governance policies are essential for ensuring councils operate in accordance with external and internal requirements. It is important that the rules, standards and expectations are clearly outlined, and staff are provided adequate guidance to inform their actions.

Further issues were identified in contract management for 30 councils. While contract management policies were in place for these councils, we identified deficiencies in their contract management practices or contract register management. There is an increased risk of non-compliance with the *Government Information (Public Access) Act* or contractual terms.

Deficiencies in fraud control processes at 34 councils

Thirty-four councils reported deficiencies in fraud control processes, reduced from 41 councils reported in 2019–20.

The following fraud control deficiencies were reported in audit management letters.

Fraud control deficiencies	Number of councils
Council did not provide fraud awareness training to staff	19
Council did not perform a fraud risk assessment	19
Council did not have a fraud and corruption prevention policy, or it was outdated	14
Council did not require staff to provide annual attestations to the Code of Conduct	12

Effective fraud controls and ethical frameworks help protect councils from events that risk serious reputational damage and financial loss.

Lack of legislative compliance policies or register at 25 councils

Twenty-five councils did not have a sufficient legislative compliance policy or register. This has improved from 38 councils reported in 2019–20.

Legislative compliance frameworks assist councils to monitor compliance with key laws and regulations. This is important as councils provide a broad range of services to the community and are subject to many legal requirements. A legislative breach can attract penalties, impact service delivery and cause significant reputational damage.

Twenty-seven councils do not have an internal audit function

Internal audit is an important element of an effective governance framework as it supports a risk and compliance culture. Internal audit provides assurance over council's governance practices and internal control environment, and identifies where performance can improve.

The LG Act also envisages the establishment of an internal audit function in each council to support the work of the audit, risk and improvement committee (ARIC). OLG released a discussion paper in September 2019 'A New Risk Management and Internal Audit Framework for Local Councils in NSW', detailing the proposed new framework.

In August 2021, OLG issued draft 'Guidelines for Risk Management and Internal Audit for Local Councils in NSW' to guide the operations of ARICs and to require councils to have a risk management framework and internal audit function to support and inform their operations. These guidelines are still in draft at the time of writing this report.

Under the proposed OLG guidelines, councils and joint organisations are not required to establish a risk management framework and internal audit function that complies with the guidelines until 30 June 2024.

In 2020–21, 101 councils have established an internal audit function, with majority of these functions outsourced from external providers. Twenty-seven councils do not have an internal audit function.

Item 8.1 - New Item (8) Auditor General Local Government
reports

01 - NSW Auditor General's report on
local government for 2021

One hundred and eleven councils have established an audit, risk and improvement
committee

The requirement for all councils and joint organisations to establish an audit, risk and improvement committee was further deferred to 4 June 2022 due to the COVID-19 pandemic. Councils and joint organisations are permitted under section 428B of the LG Act to enter into arrangements with other councils or joint organisations to share ARICs.

As at 30 June 2021, 111 councils have established an ARIC. Of the 111 councils, seven have a shared arrangement with other councils.

Councils and joint organisations that do not currently have an ARIC should take action to
ensure they comply with legislative requirements

Audit, risk and improvement committees are an important contributor to good governance. They help councils to understand strategic risks and how they can mitigate them. An effective committee helps councils to build community confidence, meet legislative and other requirements, and meet standards of probity, accountability and transparency.

Opportunities could also exist for councils to gain efficiencies by increasing the number of shared ARICs where practical by scale or geographical location to do so.

ARICs can play an important role in providing feedback on financial statements before they are submitted to audit as part of management's quality review process.

Forty-four councils' (40%) ARICs reviewed financial statements before submission to the Audit Office, while 67 councils' (60%) ARICs did not review financial statements before submission to the Audit Office.

Only 16 (14%) ARICs obtained certification of effectiveness of internal controls from management to support the financial statements and information.

There is an opportunity for OLG to issue guidance to councils to develop an internal control certification process as better practice. In the NSW state sector, Chief Financial Officers provide an annual certification as to the effectiveness of its systems, processes and internal controls for ensuring that financial information is relevant and reliable.

3.3 Financial reporting

Financial reporting is an important element of good governance. Confidence in and transparency of public sector decision-making is enhanced when financial reporting is accurate and timely.

Financial reporting findings decreased from 103 to 83

Audit management letters reported 83 findings relating to financial reporting (2019–20: 103 findings). Forty-five per cent were repeat or partial repeat findings.



Source: Audit management letters for 30 June 2020 and 30 June 2021 audits.

High-risk findings

High-risk findings, including three repeat findings, one new finding and two repeat findings elevated from moderate risk in 2019–20, were reported at the following councils. Three of the 2019–20 high-risk findings were resolved, and another three were reclassified to moderate risk in 2020–21 as management has taken action to mitigate the risks.

Council	Description
2020–21 findings	
Albury City Council (new finding)	The quality and timeliness of council's financial reporting process was significantly impacted by: - the recent organisational restructure resulting in a significant reduction of resources in the finance team - addressing a technical issue with the indexation of council's building assets - the implementation of a new general ledger structure where management faced challenges reconciling opening general ledger balances to the previous year's audited financial statements. The quality of work papers supporting the financial statements requires improvement, as there were numerous misstatements and disclosure changes made to the financial statements. Council made multiple requests for extensions to lodge the audited financial statements. These requests were made before the existing deadlines (being both legislative deadline and approved extensions). The approval of two extension requests was not provided by OLG prior to the existing deadlines. Consequently, on two occasions, council did not submit audited financial statements to OLG within agreed deadlines. This was assessed as non-compliance with the LG Act. The minister backdated her approval of the extension to the date that council submitted the request.

**Item 8.1 - New Item (8) Auditor General Local Government
reports**

**01 - NSW Auditor General's report on
local government for 2021**

Council	Description
Armidale Regional Council (repeat finding elevated from moderate to high-risk in 2020–21)	The financial statements and supporting work papers contained the following issues: • Key documents including accounting position papers were provided late. This included the treatment of a material prior period error relating to the revaluation of transport network infrastructure assets. • Some key work papers provided did not reconcile to the financial statements. • Financial statements contained numerous errors, omissions and disclosure deficiencies.
Central Coast Council (repeat finding)	The financial statements required significant amendments to correct material misstatements and disclosure deficiencies. The submitted financial statements did not: • include complete and accurate infrastructure, property, plant and equipment revaluation results • consider the IFRIC 'Software as a Service' (SaaS) agenda decision published in April 2021 • correctly account for the fair value of operational land • correctly account for newly found assets. There was no documented evidence of timely quality review of the financial statements and associated supporting work papers.
MidCoast Council (repeat finding)	The financial statements contained numerous misstatements and disclosure deficiencies. The financial statements' quality review processes and the quality of supporting work papers require significant improvements.
Shoalhaven City Council (repeat finding)	The financial statements presented for audit contained a significant number of misstatements and disclosure deficiencies. Multiple versions of the financial statements and trial balance were provided to the audit team and working papers did not satisfactorily reconcile to the financial statements.
Wollondilly Shire Council (repeat finding elevated from moderate to high-risk in 2020–21)	The quality and timeliness of council's financial reporting process was significantly impacted by the absence of several key staff due to the COVID-19 pandemic, flooding events and resignation of staff involved in the process. This also led to significant delays in the finalisation of infrastructure, property, plant and equipment comprehensive revaluation, resolving prior period errors relating to community land, work in progress and accounts payable, and the preparation of the financial statements. The financial statements contained numerous monetary misstatements and disclosure deficiencies. The council made multiple requests for extensions to lodge the audited financial statements within the extension deadlines. The council was last granted an extension to 27 April 2022. However, the council missed the revised extension deadline without an approved extension from OLG, which is a non-compliance with the LG Act.

Common findings

Common findings across councils include:

- Financial statements submitted for audit for 30 councils contained numerous errors and disclosure deficiencies.
- Sixteen councils continued to not appropriately apply or adequately assess the impact of the new accounting standards that were effective in 2019–20.
- Lack of preparation for the audit, such as having a financial reporting plan, impacted the timeliness of financial reporting at 21 councils.
- Eleven councils have deficiencies in related parties' policies and disclosure.

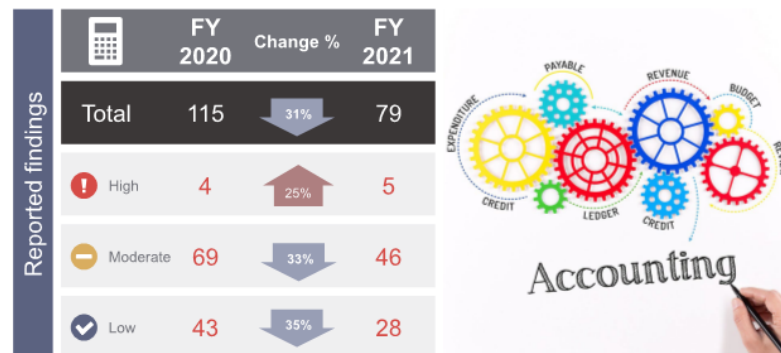
Further analysis and insights on financial reporting findings are detailed in Chapter 2 'Audit results'.

3.4 Financial accounting

Financial accounting refers to the processes adopted by management to record and review financial information across the business. Councils use a combination of manual and automated processes and digital information systems to process financial information. Effective processes support the accuracy and completeness of information presented in the financial statements.

Financial accounting findings decreased from 115 to 79

Audit management letters reported 79 findings relating to financial accounting (2019–20: 115 findings). Thirty-eight per cent were repeat or partial repeat findings.



Source: Audit management letters for 30 June 2020 and 30 June 2021 audits.

High-risk findings

Five high-risk findings, including one new finding, two repeat findings and two repeat findings elevated from moderate risk in 2019–20, were reported at the following councils. One of the 2019–20 high-risk findings was resolved, and another was reclassified to moderate risk in 2020–21 as management has taken action to mitigate the risks.

Council	Description
2020–21 findings	
Central Coast Council (repeat finding)	Some monthly account reconciliations were not prepared and reviewed on a timely basis. Council maintains several information systems for processing revenue transactions. Each day, the sub-ledger systems interface with the general ledger to transfer and update revenue data. Findings identified that: - reconciliations were not performed between the general ledger and sub-ledger systems to ensure all transactions were reflected correctly in the general ledger - the interface transfer often required manual intervention to ensure the transfer occurred. There is no audit trail or evidence of review of changes made to these transfers.
Dungog Shire Council (repeat finding)	Council lacks segregation of duties over the processing of manual journals. Manual journals can be prepared and posted to the system by the same employee without an independent review.
Hilltops Council (repeat finding elevated from moderate to high-risk in 2020–21)	Council was unable to identify the original source of unexplained bank reconciliation differences of \$0.2 million. In addition, the bank reconciliation contained cut-off errors which resulted in further audit adjustments to ensure cash and investments balance was not materially misstated at 30 June 2021.
MidCoast Council (repeat finding elevated from moderate to high-risk in 2020–21)	Since migrating to a single finance system in the second half of 2019, council had not formalised its month-end financial reporting procedures such as the reconciliations of key control accounts in 2020–21.
Snowy Monaro Regional Council (new finding)	Council continues to face financial pressures in 2020–21. Council reported nil unrestricted cash at 30 June 2021 and 30 June 2020. To meet the day-to-day operational requirements, council has been utilising internally restricted funds, which is decreasing. It was also recommended for management to improve the robustness of cashflows forecasting and to regularly monitor cash balances.

Common findings

The common financial accounting findings reported in audit management letters related to deficiencies in key account reconciliations and processing of manual journal adjustments.

Lack of segregation of duties with manual journal adjustments at 24 councils

There was a lack of segregation of duties over the posting of manual journal adjustments to financial information at 24 councils. An independent review of manual journal adjustments is important to reduce the risk of fraud or error in the financial statements.

Key account reconciliations were not prepared in a timely manner or independently reviewed at 23 councils

Regular reconciliation of financial information ensures timely identification of errors and facilitates a more efficient audit process. It was reported in audit management letters that:

- there was no evidence of independent review of key account reconciliations at 17 councils
- ten councils did not reconcile all key balances in the financial statements in a timely manner.

3.5 Asset management

Councils own and manage large infrastructure asset portfolios to support the delivery of community services. Asset management involves operational aspects such as maintenance and physical security, as well as accounting procedures such as valuing assets in accordance with accounting standards.

Asset management findings decreased from 304 to 288

Audit management letters reported 288 findings relating to asset management (2019–20: 304 findings). Thirty-nine per cent (112 findings) were repeat or partial repeat findings.



Source: Audit management letters for 30 June 2020 and 30 June 2021 audits.

High-risk findings

High-risk findings increased from 21 to 69 in 2020–21, including 61 new findings, six repeat findings and two repeat moderate findings elevated to high-risk. They were reported at the following councils. The increase was mainly due to the 60 new high-risk findings in relation to the unrecorded rural firefighting equipment.

Seven of the 2019–20 high-risk findings were resolved, and eight findings were reclassified to moderate risk in 2020–21 as management has taken action to mitigate the risks.

Item 8.1 - New Item (8) Auditor General Local Government
reports

01 - NSW Auditor General's report on
local government for 2021

Sixty councils had a high-risk finding reported in their audit management letter relating to
unrecorded rural firefighting equipment

Chapter 2 'Audit results' reported 68 councils did not record rural firefighting equipment in their financial statements. This was reported as a high-risk finding for 60 councils, a moderate risk finding for seven councils, and was not reported for one council where the assets were clearly trivial. A moderate risk was reported when council performed additional procedures to demonstrate that the unrecorded amount was not material to the financial statements.

2020–21 councils with high-risk findings on unrecorded rural firefighting equipment

Albury City Council	Coolamon Shire Council	Lachlan Shire Council	Snowy Valleys Council
Armidale Regional Council	Coonamble Shire Council	Leeton Shire Council	Sutherland Shire Council
Balranald Shire Council	Cootamundra-Gundagai Regional Council	Lismore City Council	Tamworth Regional Council
Bathurst Regional Council	Edward River Council	Lithgow City Council	Temora Shire Council
Bellingen Shire Council	Federation Council	Liverpool Plains Shire Council	Tenterfield Shire Council
Berrigan Shire Council	Forbes Shire Council	Lockhart Shire Council	The Hills Shire Council
Bland Shire Council	Glen Innes Severn Council	Mid-Western Regional Council	Tweed Shire Council
Bogan Shire Council	Greater Hume Shire Council	Moree Plains Shire Council	Upper Hunter Shire Council
Bourke Shire Council	Griffith City Council	Murray River Council	Upper Lachlan Shire Council
Brewarrina Shire Council	Gunnedah Shire Council	Murrumbidgee Council	Wagga Wagga City Council
Byron Shire Council	Gwydir Shire Council	Narrabri Shire Council	Walgett Shire Council
Campbelltown City Council	Hilltops Council	Narrandera Shire Council	Warren Shire Council
Carrathool Shire Council	Junee Shire Council	Orange City Council	Weddin Shire Council
Central Darling Shire Council	Kempsey Shire Council	Queanbeyan-Palerang Regional Council	Wollondilly Shire Council
Clarence Valley Council	Kyogle Council	Snowy Monaro Regional Council	Yass Valley Council

Chapter 2 'Audit results' includes more information on the recognition of rural firefighting equipment.

**Item 8.1 - New Item (8) Auditor General Local Government
reports**

**01 - NSW Auditor General's report on
local government for 2021**

Other high-risk findings

Nine other high-risk findings that related mainly to data integrity of asset registers, fair value assessments and the asset valuation process, were reported in the following councils.

Council	Description
2020–21 findings	
Bellingen Shire Council (repeat finding)	In 2019–20, council identified a prior period error due to road and bulk earthwork assets not previously recorded in the financial statements. Council's fixed assets register (FAR) is not sufficiently secured from unauthorised changes as it is maintained in an excel spreadsheet. The FAR did not include key information fields such as acquisition date. Errors occur for some asset classes when they are capitalised to the FAR in one year and then componentised in the following year. Various asset registers were not fully integrated and reconciled to the FAR.
Central Coast Council (two repeat findings)	Two repeat high-risk findings were reported: • Council certified that they were unable to provide sufficient evidence to support the carrying value of roads, bridges, footpath, bulk earthworks, stormwater drainage, water supply network and sewerage network assets as at 30 June 2021. This is because asset data used by council to value these assets could not be reconciled by council to its financial records prior to the valuation. The asset data was sourced from a non-financial system that did not include financial information or reference data that could be used to identify assets in council's fixed asset register. • Council's initial fair value assessment of operational land did not consider relevant market value movements in 2020–21. This led to an incorrect conclusion that the market value of operational land had not materially moved since the last valuation in 2018. Council reperformed its assessment and recognised a \$85.8 million increase in the fair value of operation land at 30 June 2021.
Kempsey Shire Council (new finding)	The 2020–21 audit process identified a number of community land, land improvement and recreational assets of \$7.6 million that were not previously recorded in the financial statements. Other revaluation errors were also detected and corrected as part of the audit process. Quality control and documentation of management's review on asset revaluation was not sufficient.
MidCoast Council (repeat finding)	Issues identified throughout the asset valuations process: • Lack of preparedness on accounting for the impact of natural disasters and consequential impacts on the carrying values reported in the financial statements. • Lack of documentary evidence to support assumptions and judgements used in the unit rates applied for assets revalued. • Lack of documentary evidence to support council's rationale, methodology and approach in conducting its valuation process. • Absence of a thorough and robust quality assurance review by management over the valuation. • The quantum of newly identified assets highlighting deficiencies in asset recording by council.

Item 8.1 - New Item (8) Auditor General Local Government
reports

01 - NSW Auditor General's report on
local government for 2021

Council	Description
Murray River Council (two repeat findings)	- Material errors in the valuation process resulted in corrected errors in the financial statements. - Omission and duplication of bridge assets identified during the valuation process. - Asset reconciliation was not completed appropriately or independently reviewed. - Capitalised work-in-progress ready for use assets were not depreciated. - Asset management policy was not regularly reviewed and updated.
Queanbeyan-Palerang Regional Council (new finding)	- Condition ratings for buildings and open space assets were incorrectly applied resulting in a \$20.6 million understatement. - Found assets from transport infrastructure and buildings were not included in the general ledger resulting in a \$6.1 million understatement. - Significant delays in providing valuation documents to the audit team.
Strathfield Municipal Council (repeat finding elevated from moderate to high-risk in 2020–21)	Council did not have formal processes to record direct and indirect costs to capital projects in a timely manner. There were no formal procedures governing the direct and indirect costs capitalisation review to ensure they remain appropriate. This issue was raised in the 2019 management letter but remained unresolved by management in 2020–21.

Common findings

The common asset management findings reported in audit management letters related to deficiencies in asset revaluation processes, maintenance of information in asset management systems and landfill rehabilitation accounting practices.

Weak processes over maintenance, completeness and security of fixed asset registers at 67 councils

Maintaining accurate and up-to-date asset data helps councils to make appropriate decisions around asset management. The common issues reported in audit management letters relating to fixed asset registers are summarised below.

Fixed asset register issues reported in audit management letters	Number of councils
Council did not maintain an accurate and complete fixed register. This included: - issues with duplicate or missing assets - incorrect categorisation of assets - incorrect componentisation of assets.	46
Council did not regularly update their fixed asset register for additions and disposals.	33
Asset registers were not maintained in a secure format (e.g. use of unlocked spreadsheets or multiple systems).	13

We continue to see weak processes over maintenance and security of fixed asset registers. There continues to be issues with accuracy and completeness of the asset register, duplication or missing assets, and asset registers not being reconciled with the asset management system.

Prior period errors continue to predominately relate to the quality of asset records and asset revaluation errors such as found and duplicate assets. In particular, completeness of developer contributions/gifted assets in growth councils needs improvement.

Item 8.1 - New Item (8) Auditor General Local Government
reports

01 - NSW Auditor General's report on
local government for 2021

Item 6.1

Enclosure 2

Deficiencies in infrastructure asset revaluation processes at 58 councils

Councils manage a significant range and value of infrastructure, property, plant and equipment. These assets are significant to the financial statements of councils and are subject to management judgements and estimates when determining their fair values. These judgements and estimates often require the assistance of a qualified expert valuer.

Deficiencies were identified in infrastructure asset valuations at 58 councils, including:

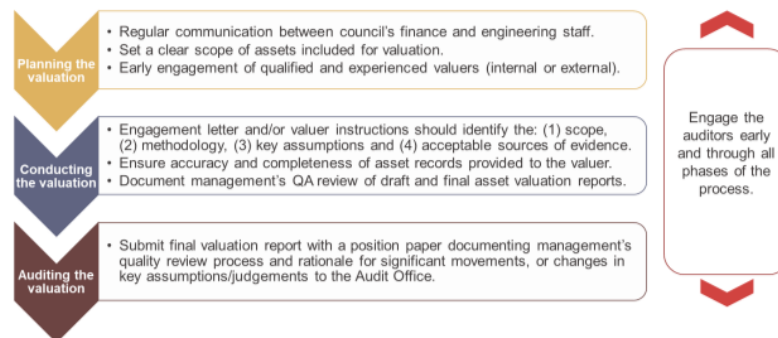
- inadequate documentation to support key assumptions and judgements applied including:
 - useful lives and condition assessments
 - unit rates used to value infrastructure assets
- incorrect classification of assets
- incorrect exclusion of some assets from valuations
- management not documenting their quality review over the asset valuation.

Opportunities for councils to improve the valuation process

Performing asset valuations earlier gives time for management and auditors to complete all requirements before the financial statements are prepared and allows earlier sign offs to be achieved.

Councils should have a project plan in place to manage the asset valuation process. Suggested deliverables to be included in a timetable for council valuations may include the following:

Project plan asset valuations



Improvements to council landfill rehabilitation accounting practices required at 26 councils

Australian Accounting Standards require a provision for landfill remediation when the obligation to operate landfill sites would result in cash outflows for the council, and when it can be reliably measured. Such provisions should be annually reassessed for changes in assumptions, legal requirements and emergence of new landfill remediation techniques.

Common findings identified in council landfill rehabilitation accounting practices include:

- no formal assessment of obligations made to rehabilitate landfill sites
- insufficient documentation of provision calculations to support inputs, assumptions and key data for accounting of the provisions
- costs associated with post-closure, aftercare and monitoring of landfill sites in their provisions not included in the assessment.

3.6 Purchases and payables

Councils spend substantial funds each year to procure goods and services. It is important there is appropriate probity, accountability and transparency in procurement to reduce the risk of unauthorised purchases, corrupt and fraudulent behaviour, and value for money not being achieved.

Purchases and payables findings decreased from 118 to 105

Audit management letters reported 105 findings relating to purchases and payables (2019–20: 118 findings). Fifty-five per cent were repeat or partial repeat findings.

		FY 2020	Change %	FY 2021
Reported findings	Total	118	↓ 11%	105
	High	3	↓ 100%	0
	Moderate	94	↓ 17%	78
	Low	21	↑ 29%	27



Source: Audit management letters for 30 June 2020 and 30 June 2021 audits.

High-risk findings

There were no high-risk findings related to purchases and payables processes in 2020–21. Two of the 2019–20 high-risk findings were resolved, and one finding was reclassified to moderate risk in 2020–21 as management has taken action to mitigate the risks.

Common findings

The common purchases and payables findings reported in audit management letters related to controls around purchase orders, review of creditor information and deficiencies in credit card management practices.

Controls around purchase orders were not enforced or absent at 37 councils

At 12 councils, it was identified that employees could approve their own purchase orders. At five councils, it was identified that purchase orders were approved without appropriate delegation. It is important there is segregation of duties and appropriate delegation in procurement to reduce the risk of fraud and misuse of public money.

Purchase orders were approved after the receipt of goods or services at 28 councils. Purchase orders should be issued before requesting goods or services to reduce the risk of unauthorised transactions.

Insufficient review of changes to creditor information at 29 councils

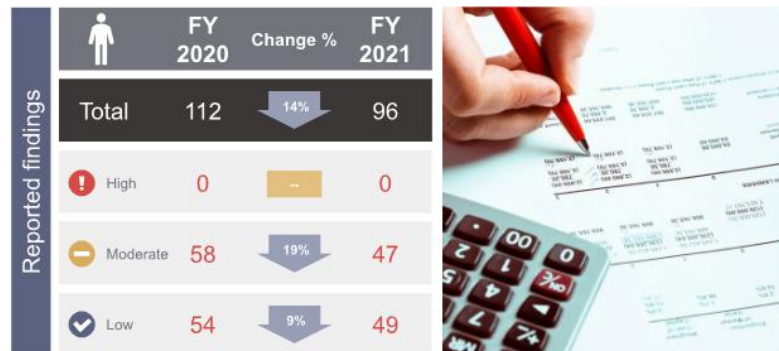
Twenty-nine councils did not perform sufficient review of changes to creditor information in the supplier master file, including bank account details. This increases the risk of transactions paid to incorrect accounts, resulting in financial losses for councils. Councils should review each change or perform regular collective review of changes.

3.7 Payroll

Effective payroll processes ensure councils manage their workforce in compliance with legislation, employment agreements and the Local Government Award. Payroll processes and information systems should protect the integrity of employee records and timesheet data to ensure accurate payments to employees and leave entitlement calculations.

Payroll findings decreased from 112 to 96

Audit management letters reported 96 findings relating to payroll processes (2019–20: 112 findings). Sixty per cent were repeat or partial repeat findings.



Source: Audit management letters for 30 June 2020 and 30 June 2021 audits.

High-risk findings

There were no high-risk findings related to payroll processes in 2020–21 (2019–20: Nil).

Common findings

The common payroll findings reported in audit management letters related to deficiencies in the review of employee payroll data and excessive annual leave balances.

Excessive annual leave balances were reported at 49 councils

Managing excess annual leave was a challenge for councils given the recent emergency events. Councils continued to deliver essential services in uncertain times and in a disrupted work environment. Many council employees, particularly in frontline roles, deferred leave plans and have taken little or no annual leave. To support council employees during the COVID-19 pandemic, legislative amendments were made to allow councils and their employees to agree to:

- council making a payment to an employee in lieu of annual leave, provided the employee will still have a balance of at least four weeks of leave remaining
- an employee taking annual leave at double or half pay.

Changes to employee payroll data are not reviewed at 26 councils

Twenty-six councils did not have adequate processes in place to review changes to employee payroll data. This includes instances where changes are reviewed, but not by an independent person. This increases the risk of unauthorised changes or errors remaining undetected, resulting in financial loss to councils.

3.8 Cash and banking

Councils process a high volume of transactions each year. Effective controls over cash collection, disbursements and reconciliations reduce the risk of fraud and error.

Cash and banking findings decreased from 53 to 36

Audit management letters reported 36 findings relating to cash and banking (2019–20: 53 findings). Thirty-six per cent were repeat or partial repeat findings.



Source: Audit management letters for 30 June 2020 and 30 June 2021 audits.

High-risk findings

There were no high-risk findings related to cash and banking processes in 2020–21. One high-risk finding was raised in 2019–20 and it was resolved.

Common findings

The common cash and banking findings reported in audit management letters related to the lack of security of payment files and the lack of segregation of duties in the cash handling process.

Outdated bank signatories at 14 councils

Bank signatories are not being removed on a timely basis. Fourteen councils still had their former employees listed as an account signatory for bank accounts. This increases the risk of unauthorised transactions.

Deficiencies in the cash handling processes at 12 councils

Deficiencies in the cash handling process were identified at 12 councils, including lack of daily cashier reconciliation and lack of segregation of duty. This increases the risk of undetected balancing errors and misappropriation of cash or cheques.

Lack of security of payment files for pay runs at nine councils

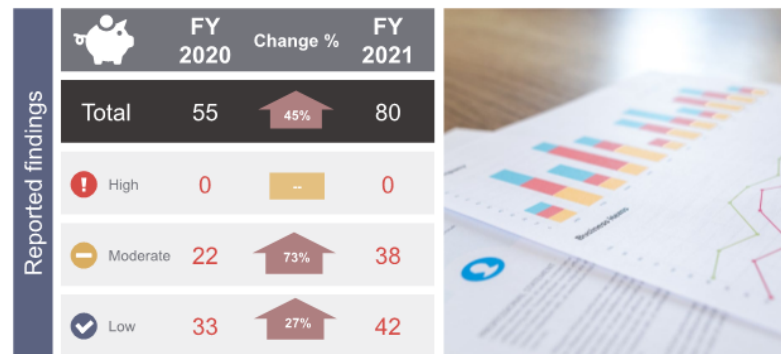
Nine councils did not encrypt Electronic Funds Transfer (EFT) payment files from editing or sufficiently restrict access to payment files on the network before they were uploaded to online banking portals. This increases the risk of unauthorised or fraudulent transactions.

3.9 Revenue and receivables

Councils receive revenue from a range of different sources, including rates and annual charges, user charges and fees, operating and capital grants and contributions, and other revenue (such as interest, investments and asset disposals). It is important that councils have appropriate internal controls to accurately record revenue and receivables in compliance with accounting standards and legal requirements.

Revenue and receivable findings increased from 55 to 80

Audit management letters reported 80 findings relating to revenue and receivables (2019–20: 55 findings). Forty per cent were repeat or partial repeat findings.



Source: Audit management letters for 30 June 2020 and 30 June 2021 audits.

High-risk findings

There were no high-risk findings related to revenue and receivable processes in 2020–21 (2019–20: Nil).

Common findings

The common revenue and receivables findings reported in audit management letters related to deficiencies in the review of changes to fee tables and property data in council rates systems, and inappropriate revenue recognition practices.

Lack of review of changes to fee tables and property data in the rating system at 26 councils

Council systems contain fee tables and property information, which is used to determine rates and annual charges levied on different properties. Twenty-six councils do not adequately review changes for accuracy and appropriateness. This increases the risk of errors in recording rates and annual charges in the financial statements.

Inappropriate revenue recognition at 15 councils

Twelve councils had findings raised relating to their revenue recognition practices, including:

- no effective internal controls to ensure the completeness of revenue activities recorded
- deficiencies in grants recognition that resulted in misstatement in the financial statements
- use of cash accounting basis to recognise some revenue transactions, rather than accruals.

Deficiencies in revenue recognition practices resulted in 57 errors identified in councils' financial statements, totalling \$93.4 million.

3.10 Information technology (IT)

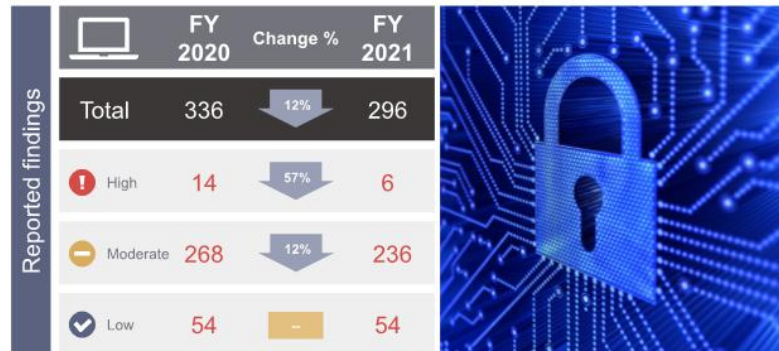
Councils rely on IT to deliver services and manage information. While IT delivers considerable benefits, it also presents risks that councils need to address. IT general controls relate to the procedures and activities designed to ensure confidentiality, and integrity of systems and data. These controls underpin the integrity of financial reporting.

Financial audits involve the review of IT general controls relating to key financial systems supporting the preparation of council financial statements, addressing:

- policies and procedures
- IT risk management
- user access management
- privileged user access restriction and monitoring
- system software acquisition, change and maintenance
- disaster recovery planning
- cybersecurity and patch management.

IT findings decreased from 336 to 296

Audit management letters reported 296 findings relating to IT (2020–21: 336 findings). Sixty-seven per cent were repeat, partial repeat or ongoing findings.



Source: Audit management letters for 30 June 2021 and 30 June 2022 audits.

High-risk findings

High-risk findings, including repeat and ongoing findings, were reported at the following councils. One 2019–20 high-risk finding was not resolved, and seven findings were reclassified to moderate risk in 2020–21 as management has taken action to mitigate the risks.

High-risk findings detailed below relate to gaps in system implementation and user access controls.

Council	Description
2020–21 findings	
Bayside Council (new finding)	One high-risk finding reported for gaps found in council's new financial system implementation process: - Documentation of data migration testing lacked detail. - User access rights were copied from the previous year and validated after the system go live date. - Lack of segregation of duties as privileged access rights to the new system were given to the CFO to diagnose and resolve issues.
Dubbo Regional Council (repeat finding*)	One high-risk finding reported in relation to gaps found in council's information technology access controls: - No formal periodic review of user access rights to ensure access levels are commensurate with job responsibilities. - Audit logs of privileged account activity can be amended or deleted. - Lack of evidence on monitoring of privileged user activity. - There were gaps in the password configuration.
Greater Hume Shire Council (repeat finding)	Audit logs of privileged users are not maintained and reviewed.
Lismore City Council (repeat finding*)	One high-risk finding reported in relation to gaps found in council's information technology access controls: - No periodic review of activities by generic user accounts. - No periodic review of users who have the ability to purge access logs. - Audit logs of privileged users are not periodically reviewed.
Nambucca Valley Council (repeat finding*)	One high-risk finding reported in relation to gaps found in council's information technology access controls: - No formal periodic review of user access rights to ensure access levels are commensurate with job responsibilities. - Audit logs of privileged users are not monitored by an independent employee.
Wagga Wagga City Council (repeat finding*)	One high-risk finding reported in relation to gaps found in council's information technology access controls: - Generic accounts are being used and shared across users, with no formal process to remove access for generic accounts when it is no longer required. - Payroll system's superuser is also responsible for processing payroll data. - No formal policies and procedures for monitoring and managing privileged users. - No formal periodic review of user access rights to ensure access levels are commensurate with job responsibilities. - Audit logs of privileged users are not reviewed for the finance and payroll systems. - Due to system limitations, audit logs or privileged access activities cannot be generated in the asset management system.

* The findings identified were previously reported as separated moderate-risk findings and yet to be resolved by management as part of the 30 June 2021 audit. Due to the aggregated risk of the findings, these have been reassessed as a high-risk finding.

Common findings

The common IT findings reported in audit management letters related to deficiencies in IT policies and procedures, lack of a cybersecurity framework, and controls and gaps in user access management processes. This is aligned with what we reported in the prior year's report.

IT policies and procedures were outdated or not in place at 59 councils

Fifty-nine councils did not formalise and/or regularly review their key IT policies and procedures. It is important for key IT policies to be formalised and regularly reviewed to ensure emerging risks are considered and policies are reflective of changes to the IT environment. Lack of formal IT policies and procedures may result in inconsistent and inappropriate practices and an increased likelihood of inappropriate access to key systems.

Lack of periodic user access review at 42 councils and insufficient control over privileged users at 73 councils

The following common access management findings were identified:

- Forty-two councils did not perform a periodic user access review to ensure users' access to key IT systems were appropriate and commensurate with their roles and responsibilities.
- Seventy-three councils had gaps in privileged users management process. This includes gaps in restriction of privileged users or monitoring of the privileged accounts' activity logs.

Where robust access management processes are not in place, inappropriate access may exist. This increases the risk of unauthorised transaction or modification of sensitive data and transactions. The common findings above may be rated high-risk when there are no mitigating controls to prevent or detect any unauthorised transactions.

Cybersecurity frameworks and related internal controls were not in place at 65 councils

The NSW Cybersecurity Policy states that the term cybersecurity covers all measures used to protect systems and information processed, stored or communicated on these systems from compromise of confidentiality, integrity and availability. Strong cybersecurity is an important component of the NSW Beyond Digital Strategy, enabling the effective use of emerging technologies and ensuring confidence in the services provided by NSW Government.

While there is currently no requirement for councils to comply with the NSW Government's Cybersecurity Policy, councils may find it useful to refer to the policy for further guidance.

Cybersecurity findings were reported in 65 councils as they did not have at least one of the following governance and internal controls to manage cybersecurity such as having a:

- cybersecurity framework, policy and procedure
- register of cyber incidents
- simulated cyber attack testing (penetration testing)
- cybersecurity training and awareness program.

The Report on Local Government 2019 recommended for the Office of Local Government (OLG) within the Department of Planning and Environment to develop a cybersecurity policy by 30 June 2021 to ensure cybersecurity risks over key data and IT assets are appropriately managed across councils, and key data is safeguarded. As at the date of this report, this policy has not been completed and published. Refer to Appendix two for more information.

OLG needs to develop a cybersecurity policy to be applied by councils as a matter of high priority in order to ensure cybersecurity risks over key data and IT assets are appropriately managed across councils, and key data is safeguarded.

Formal cybersecurity frameworks/policy in place for at 80 councils

A cybersecurity framework consists of threat identification, protection, detection, response and recovery of IT systems.

In the absence of guidance from OLG, our additional data collection identified that 80 councils (54%) have developed a formal cybersecurity policy and/or framework. These councils have adopted guidance from the following sources to aid them in developing their cybersecurity policies/frameworks:

- Cybersecurity NSW
- The Australian Cybersecurity Centre (ACSC)
- International Organization for Standardization (ISO standards)
- The National Institute of Standards and Technology (NIST)
- Payment Card Industry Data Security Standard (PCI DSS)
- councils' internal/external experts' recommendations.

Based on data collected across all 150 councils and JOs:

Policy and procedures

46% of councils do not have a formal cyber security policy and/or framework

Training and awareness sessions

51% of councils have yet to roll out training and awareness programs on cyber security to all their employees during 2020–21

Roles and responsibilities

39% of councils have not established formal cyber security roles and responsibilities

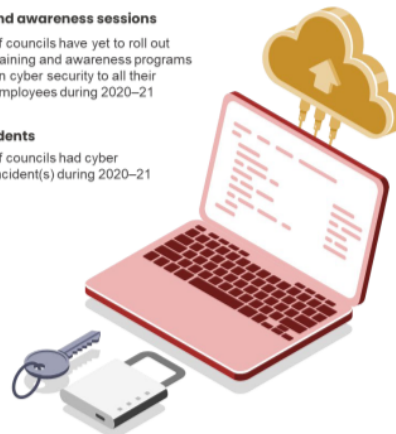
Cyber incidents

28% of councils had cyber incident(s) during 2020–21

Cyber risk management

28% of councils do not have cyber security identified/included as a risk in their enterprise risk register

24% of councils have not communicated cyber security risks with those charged with governance



Source: Additional data collection from 30 June 2021 audits.

Poor management of cybersecurity can expose councils to a broad range of risks, including financial loss, reputational damage and data breaches. Furthermore, without a formal policy and framework, formal roles and responsibilities, and involvement of those charged with governance, councils are at risk of inappropriate planning and execution of their cybersecurity responses, which may also lead to inefficient use of their cybersecurity budget.

Fifty-one per cent of councils have yet to roll out cybersecurity training and awareness programs

With 51% of councils yet to roll out cybersecurity training and awareness programs for staff, councils have an increased risk of being exposed to a cyber incident. In addition, of the 51% of councils that have not yet rolled out training and awareness programs, 57% did not cover their third parties who have access to the council's systems, in these training programs (i.e., contractors, consultants, vendors, partners).

**Item 8.1 - New Item (8) Auditor General Local Government
reports**

**01 - NSW Auditor General's report on
local government for 2021**

Cyber criminals aggressively target certain staff by sending fraudulent emails, stealing credentials and sending malicious attachments, which deploy because they entice people to interact with them. The most targeted staff are those in senior positions and finance roles. Completion of cyber awareness training by all staff, contractors and third-party providers help them recognise potentially malicious emails and avoid inadvertently activating attachments and software designed to infect devices and steal data to be used by cyber criminals.

Twenty-eight per cent of councils advised that they had cyber incidents during the financial year, represented by 41 councils.

The Australian Cybersecurity Centre (ACSC) was established in 2014 to lead the Australian Government's work to improve cybersecurity. ACSC is part of the Australian Signals Directorate within the Defence portfolio. The ACSC reports that:

the focus on cybersecurity is increasing for government agencies as the digital footprint of government expands. Risks have been further amplified by the COVID-19 pandemic as governments increasingly transact and deliver services to citizens through online platforms. Cyber-attacks by criminals and state actors are becoming more sophisticated and complex and the attacks are more likely to be substantial in impact.

Further, the ACSC, through their 2020–21 Annual Cyber Threat Report, has revealed that they received over 67,500 cybercrime reports, a 13% increase on the previous financial year. ACSC also stated the self-reported losses from cybercrime during the 2021 financial year was totalling more than \$33 billion.

It is well known that cyber attacks are increasing, resulting in the need for councils to uplift their cybersecurity plans immediately.

The potential impacts from poor management of cybersecurity include:

- theft of corporate and financial information and intellectual property
- theft of money
- denial of service
- destruction of data
- costs of repairing affected systems, networks and devices
- legal fees and/or legal action from losses arising from denial-of-service attacks causing system downtime in critical systems
- third-party losses when personal information stored on government systems is used for criminal purposes.

4. Looking forward

Audit Office's annual work program for 2021–22 onwards

Focus on integrity of systems, good governance and good advice

We have a fundamental role in helping the Parliament hold government accountable for the use of public resources. In doing so, we examine whether councils' systems and processes are effective in supporting integrity, accountability and transparency. Key aspects of integrity that we expect to see through conduct of our financial and performance audits over the next three years include the integrity of systems, good governance and good advice. These focus areas have arisen from the collation of key findings and recommendations from our past reports.

Focus on local councils' continued response to recent emergencies

The COVID-19 pandemic continues to have a significant impact on the people and the public sector of New South Wales. Local councils are continuing to assist communities in their recovery from the 2019–20 bushfires and subsequent and recent flooding. The full extent of some of these events remain unclear and will likely continue to have an impact into the future.

The Office of Local Government within the Department of Planning and Environment continues to work with other state agencies to assist local councils and their communities to recover from these unprecedented events.

The increasing and changing risk environment presented by these events has meant that we have recalibrated and focused our efforts on providing assurance on how effectively aspects of responses to these emergencies have been delivered.



This includes financial and governance risks arising from the scale and complexity of government responses to these events.

We will take a phased approach to ensure our financial and performance audits address the following elements of the emergencies and the Local Government's responses:

- local councils' planning and preparedness for emergencies
- local councils' initial responses to support people and communities impacted by COVID-19 and the 2019–20 bushfires and recent floods
- governance and oversight risks that arise from the need for quick decision-making and responsiveness to emergencies
- effectiveness and robustness of processes to direct resources toward recovery efforts and ensure good governance and transparency in doing so
- the mid to long-term impact of government responses to the natural disasters and COVID-19
- whether government investment has achieved desired outcomes.

**Item 8.1 - New Item (8) Auditor General Local Government
reports**

**01 - NSW Auditor General's report on
local government for 2021**

Focus on the effectiveness of cybersecurity in local government

The increasing global interconnectivity between computer networks has dramatically increased the risk of cybersecurity incidents. Such incidents can harm local government service delivery and may include theft of information, denial of access to critical technology, or even hijacking of systems for profit or malicious intent.

Outdated IT systems and capability present risks to government cybersecurity. Local councils need to be alert to the need to update and replace legacy systems, and regularly train and upskill staff in their use. To add to this, cybersecurity risks have been exacerbated by recent emergencies, which have resulted in greater and more diverse use of digital technology.

Our approach to auditing cybersecurity across in the sector involves:

- considering how local councils are responding to the risks associated with cybersecurity across our financial audits
- examining the effectiveness of cybersecurity planning and governance arrangements within local councils
- conducting deep-dive performance audits of the effectiveness of cybersecurity measures in selected councils.

Local government elections

Local government elections took place in 2021–22

The local government elections were deferred for one year due to the COVID-19 pandemic and were held on 4 December 2021.

As part of our audits, we will consider the impact of any significant change on key decisions and activities for councils, county councils and joint organisations following the local government elections.

New rate peg methodology to support growing councils

The Independent Pricing and Regulatory Tribunal (IPART) has completed its review of the local government rate peg methodology to include population growth.

On 10 September 2021, IPART provided the final report on this review to the Minister for Local Government.

The minister has endorsed the new rate peg methodology and has asked IPART to give effect to it in setting the rate peg from the 2022–23 financial year.

As part of our audits, we will consider the impact of these changes on the financial statements and on key decisions and activities for councils, county councils and joint organisations.

**Item 8.1 - New Item (8) Auditor General Local Government
reports**

**01 - NSW Auditor General's report on
local government for 2021**

Item 6.1

Section two

Appendices

Enclosure 2

Appendix one – Response from the Office of Local Government within the Department of Planning and Environment

Strengthening local government



**Office of
Local Government**

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Locked Bag 3015 NOWRA NSW 2541

Our Reference: A822114
Your Reference: D2206464
Contact: Ally Dench
Phone: 02 4428 4100

Ms Margaret Crawford
Auditor-General for New South Wales
GPO Box 12
SYDNEY NSW 2001

Email:

7 June 2022

Dear Ms Crawford

Thank you for the opportunity to review an updated draft of the report on Local Government 2021.

I have reviewed the changes in the draft report and would like to clarify my feedback in relation to the recognition of rural firefighting equipment (RFS Assets) for your consideration in finalising the report.

I acknowledge the State's position is that it does not control RFS assets. Councils need to assess whether they control any rural firefighting equipment in accordance with Australian Accounting Standards. Councils need to recognise, in their financial statements, any material assets under their control and state the relevant accounting policy in relation to the treatment to the Audit Office.

The Minister for Local Government and the Department do not have legal authority to direct councils in this matter. However, we are working closely with Treasury to educate, guide and assist councils to understand the State's view regarding the ownership and recognition of the RFS assets in their financial reporting.

Should you require further assistance in relation to these matters, please do not hesitate to contact Ally Dench, OLG's Executive Director on or by email at olg@olg.nsw.gov.au

Yours sincerely



Michael Cassel
Secretary
Department of Planning and Environment

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A822114

Appendix two – Status of previous recommendations

Recommendation (year)	Current status
Legal framework (2020)	
OLG should clarify the legal framework relating to restrictions of water, sewerage and drainage funds (restricted reserves) by either seeking an amendment to the relevant legislation or by issuing a policy instrument to remove ambiguity from the current framework.	This recommendation has not been implemented. 
Accounting for rural fire equipment (2020)	
OLG should communicate the State's view that rural firefighting equipment is controlled by councils in the local government sector, and therefore this equipment should be properly recorded in their financial statements.	This recommendation has not been implemented.  OLG communicated the following to councils: 'The NSW Government has confirmed its view that these assets are not controlled by the NSW Rural Fire Services or the State. Councils need to assess whether they control any rural firefighting equipment in accordance with Australian Accounting Standards and recognise in their financial statements any material assets under their control and state the relevant accounting policy in relation to the treatment.' Refer to section 2.1 for further information on this issue.
Cybersecurity policy (2019)	
OLG should develop a cybersecurity policy by 30 June 2021 to ensure a consistent response to cybersecurity risks across councils.	This recommendation has not been implemented.  OLG are working with Cybersecurity NSW to develop a draft cybersecurity policy to share with councils.
Key:	 Fully addressed  Partially addressed  Not addressed

Appendix three – Status of audits

Below is a summary of the status of the 2020–21 financial statement audits, including the type of audit opinion and the date it was issued.

2020–21 audits

Key

Type of audit opinion		Date of audit opinion	
Unmodified opinion	✓	Financial statements were lodged by the statutory deadline of 30 October 2021	✓
Unmodified opinion with emphasis of matter	—	Extensions to the statutory deadline (and met)	✓
Modified opinion: Qualified opinion, an adverse opinion, or a disclaimer of opinion	!	Extensions to the statutory deadline (and not met)	—
		Financial statements not submitted as at tabling date	!

Council classifications

We adopted the following methodology when classifying councils in our report.

OLG classification	Audit Office grouping
Metropolitan	Metropolitan
Regional town/city	Regional
Metropolitan fringe	Metropolitan
Rural	Rural
Large rural	Rural

Source: OLG classifications and Audit Office.

Metropolitan councils

Council	Type of opinion		Date of audit opinion	
Bayside Council	Unmodified	✓	22 October 2021	✓
Blacktown City Council	Unmodified	✓	29 October 2021	✓
Blue Mountains City Council	Unmodified	✓	22 December 2021	✓
Burwood Council	Unmodified	✓	28 October 2021	✓
Camden Council	Unmodified	✓	5 November 2021	✓
Campbelltown City Council	Unmodified	✓	20 September 2021	✓
Canterbury-Bankstown Council	Unmodified	✓	28 October 2021	✓
Central Coast Council	Modified	!	28 February 2022	✓
City of Canada Bay Council	Unmodified	✓	13 December 2021	✓
Cumberland City Council	Unmodified	✓	8 November 2021	✓

**Item 8.1 - New Item (8) Auditor General Local Government
reports**

**01 - NSW Auditor General's report on
local government for 2021**

Council	Type of opinion		Date of audit opinion	
Fairfield City Council	Unmodified	✓	20 October 2021	✓
Georges River Council	Unmodified	✓	31 January 2022	✓
Hawkesbury City Council	Unmodified	✓	26 October 2021	✓
Hornsby, The Council of the Shire of	Unmodified	✓	21 October 2021	✓
Hunters Hill, The Council of the Municipality of	Unmodified	✓	26 October 2021	✓
Inner West Council	Unmodified	✓	29 October 2021	✓
Ku-ring-gai Council	Unmodified	✓	22 September 2021	✓
Lane Cove Municipal Council	Unmodified	✓	21 October 2021	✓
Liverpool City Council	Unmodified	✓	25 November 2021	✓
Mosman Municipal Council	Unmodified	✓	29 October 2021	✓
North Sydney Council	Unmodified	✓	27 October 2021	✓
Northern Beaches Council	Unmodified	✓	29 September 2021	✓
Parramatta Council, City of	Unmodified	✓	27 October 2021	✓
Penrith City Council	Unmodified	✓	28 October 2021	✓
Randwick City Council	Unmodified	✓	15 September 2021	✓
Ryde Council, City of	Unmodified	✓	29 October 2021	✓
Strathfield Municipal Council	Unmodified	✓	24 November 2021	✓
Sutherland Shire Council	Unmodified	✓	26 October 2021	✓
Sydney, Council of the City of	Unmodified	✓	21 October 2021	✓
The Hills Shire Council	Unmodified	✓	27 September 2021	✓
Waverley Council	Unmodified	✓	29 October 2021	✓
Willoughby City Council	Unmodified	✓	22 October 2021	✓
Wollondilly Shire Council	Unmodified	✓	26 May 2022	—
Woollahra Municipal Council	Unmodified	✓	5 October 2021	✓

Item 6.1

Enclosure 2

**Item 8.1 - New Item (8) Auditor General Local Government
reports**

**01 - NSW Auditor General's report on
local government for 2021**

Regional councils

Council	Type of opinion	Date of audit opinion	
Albury City Council	Unmodified	31 March 2022	✓
Armidale Regional Council	Unmodified	23 December 2021	✓
Ballina Shire Council	Unmodified	29 October 2021	✓
Bathurst Regional Council	Unmodified	27 October 2021	✓
Bega Valley Shire Council	Unmodified	30 November 2021	✓
Broken Hill City Council	Unmodified	21 October 2021	✓
Byron Shire Council	Unmodified	28 October 2021	✓
Cessnock City Council	Unmodified	22 October 2021	✓
Clarence Valley Council	Unmodified	30 November 2021	✓
Coffs Harbour City Council	Unmodified	29 October 2021	✓
Dubbo Regional Council	Unmodified	28 October 2021	✓
Eurobodalla Shire Council	Unmodified	29 October 2021	✓
Goulburn Mulwaree Council	Unmodified	29 October 2021	✓
Griffith City Council	Unmodified	13 December 2021	✓
Kempsey Shire Council	Unmodified	9 November 2021	✓
Kiama Municipal Council	--	--	!
Lake Macquarie City Council	Unmodified	29 October 2021	✓
Lismore City Council	Unmodified	27 October 2021	✓
Lithgow City Council	Unmodified	16 November 2021	✓
Maitland City Council	Unmodified	22 October 2021	✓
Mid-Coast Council	Unmodified	30 November 2021	✓
Mid-Western Regional Council	Unmodified	22 October 2021	✓
Newcastle City Council	Unmodified	8 October 2021	✓
Orange City Council	Unmodified	31 October 2021	✓
Port Macquarie-Hastings Council	Unmodified	22 October 2021	✓
Port Stephens Council	Unmodified	8 October 2021	✓
Queanbeyan-Palerang Regional Council	Unmodified	20 December 2021	✓
Richmond Valley Council	Unmodified	26 October 2021	✓
Shellharbour City Council	Unmodified	15 November 2021	✓
Shoalhaven City Council	Unmodified	18 November 2021	✓
Singleton Council	Unmodified	26 October 2021	✓
Snowy Monaro Regional Council	Unmodified	30 November 2021	✓
Tamworth Regional Council	Unmodified	23 October 2021	✓

**Item 8.1 - New Item (8) Auditor General Local Government
reports**

**01 - NSW Auditor General's report on
local government for 2021**

Council	Type of opinion	Date of audit opinion
Tweed Shire Council	Unmodified	29 October 2021
Wagga Wagga City Council	Unmodified	25 October 2021
Wingecarribee Shire Council	Unmodified	28 October 2021
Wollongong City Council	Unmodified	26 October 2021

Rural councils

Council	Type of opinion	Date of audit opinion
Balranald Shire Council	Unmodified	9 December 2021
Bellingen Shire Council	Unmodified	28 October 2021
Berrigan Shire Council	Unmodified	29 October 2021
Bland Shire Council	Unmodified	28 October 2021
Blayney Shire Council	Unmodified	11 October 2021
Bogan Shire Council	Unmodified	24 September 2021
Bourke Shire Council	Unmodified	14 September 2021
Brewarrina Shire Council	Unmodified	21 September 2021
Cabonne Council	Unmodified	22 October 2021
Carrathool Shire Council	Unmodified	25 October 2021
Central Darling Shire Council	Unmodified	29 October 2021
Cobar Shire Council	Unmodified	29 October 2021
Coolamon Shire Council	Unmodified	25 October 2021
Coonamble Shire Council	Unmodified	27 October 2021
Cootamundra-Gundagai Regional Council	Unmodified	28 February 2022
Cowra Shire Council	Unmodified	15 October 2021
Dungog Shire Council	Unmodified	29 October 2021
Edward River Council	Unmodified	29 October 2021
Federation Council	Unmodified	29 October 2021
Forbes Shire Council	Unmodified	1 November 2021
Gilgandra Shire Council	Unmodified	26 October 2021
Glen Innes Severn Council	Unmodified	28 October 2021
Greater Hume Shire Council	Unmodified	6 October 2021
Gunnedah Shire Council	Unmodified	26 October 2021
Gwydir Shire Council	Unmodified	15 December 2021
Hay Shire Council	Unmodified	29 October 2021
Hilltops Council	Unmodified	16 December 2021
Inverell Shire Council	Unmodified	28 October 2021

52

NSW Auditor-General's Report to Parliament | Local Government 2021 | Appendix three – Status of audits

**Item 8.1 - New Item (8) Auditor General Local Government
reports**

**01 - NSW Auditor General's report on
local government for 2021**

Council	Type of opinion	Date of audit opinion	
Junee Shire Council	Unmodified	22 October 2021	✓
Kyogle Council	Unmodified	27 October 2021	✓
Lachlan Shire Council	Unmodified	26 October 2021	✓
Leeton Shire Council	Unmodified	28 October 2021	✓
Liverpool Plains Shire Council	Unmodified	28 October 2021	✓
Lockhart Shire Council	Unmodified	9 December 2021	✓
Moree Plains Shire Council	Unmodified	30 November 2021	✓
Murray River Council	Unmodified	21 December 2021	✓
Murrumbidgee Council	Unmodified	29 October 2021	✓
Muswellbrook Shire Council	Unmodified	26 October 2021	✓
Nambucca Valley Council	Unmodified	19 October 2021	✓
Narrabri Shire Council	Unmodified	26 November 2021	✓
Narrandera Shire Council	Unmodified	3 September 2021	✓
Narromine Shire Council	Unmodified	26 October 2021	✓
Oberon Council	Unmodified	30 November 2021	✓
Parkes Shire Council	Unmodified	27 October 2021	✓
Snowy Valleys Council	Unmodified	12 October 2021	✓
Temora Shire Council	Unmodified	21 October 2021	✓
Tenterfield Shire Council	Unmodified	3 November 2021	✓
Upper Hunter Shire Council	Unmodified	31 January 2022	✓
Upper Lachlan Shire Council	Unmodified	3 November 2021	✓
Uralla Shire Council	Unmodified	30 November 2021	✓
Walcha Council	Unmodified	28 October 2021	✓
Walgett Shire Council	Unmodified	30 October 2021	✓
Warren Shire Council	Unmodified	7 October 2021	✓
Warrumbungle Shire Council	Unmodified	8 February 2022	✓
Weddin Shire Council	Unmodified	22 December 2021	✓
Wentworth Shire Council	Unmodified	28 October 2021	✓
Yass Valley Council	Unmodified	29 November 2021	✓

Item 6.1

Enclosure 2

**Item 8.1 - New Item (8) Auditor General Local Government
reports**

**01 - NSW Auditor General's report on
local government for 2021**

County councils

County council	Type of opinion	Date of audit opinion
Castlereagh Macquarie County Council	Unmodified	28 October 2021
Central Tablelands County Council	Unmodified	15 October 2021
Goldenfields Water County Council	Unmodified	30 September 2021
Hawkesbury River County Council	Unmodified	25 October 2021
New England Weeds Authority	Unmodified	20 October 2021
Riverina Water County Council	Unmodified	13 September 2021
Rous County Council	Unmodified	21 October 2021
Upper Hunter County Council	Unmodified	26 October 2021
Upper Macquarie County Council	Unmodified	13 August 2021

Joint organisations

Joint organisation	Type of opinion	Date of audit opinion
Canberra Region Joint Organisation	Unmodified	29 October 2021
Central NSW Joint Organisation	Unmodified	25 October 2021
Far North West Joint Organisation	Unmodified	14 October 2021
Far South West Joint Organisation	Unmodified	29 October 2021
Hunter Joint Organisation	Unmodified	1 December 2021
Illawarra Shoalhaven Joint Organisation	Unmodified	30 November 2021
Mid North Coast Joint Organisation	Unmodified	22 October 2021
Namoi Joint Organisation	Unmodified	11 October 2021
New England Joint Organisation	Unmodified	20 October 2021
Northern Rivers Joint Organisation	Unmodified	12 November 2021
Orana Joint Organisation	Unmodified	28 October 2021
Riverina and Murray Joint Organisation	Unmodified	18 October 2021
Riverina Joint Organisation	Unmodified	1 September 2021

Item 8.1 - New Item (8) Auditor General Local Government
reports

01 - NSW Auditor General's report on
local government for 2021

Professional people with purpose

OUR VISION

Our insights inform and challenge
government to improve outcomes
for citizens.

OUR PURPOSE

To help Parliament hold government
accountable for its use of
public resources.

OUR VALUES

Pride in purpose
Curious and open-minded
Valuing people
Contagious integrity
Courage (even when it's uncomfortable)

Item 6.1

Enclosure 2

**Item 8.1 - New Item (8) Auditor General Local Government
reports**

**01 - NSW Auditor General's report on
local government for 2021**

Item 6.1

Enclosure 2

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Item 8.1 - New Item (8) Auditor General Local Government
reports

0 2 - NSW Auditor General's report on
local government for 2022



Item 6.1

Enclosure 2

Local Government 2022

NEW SOUTH WALES AUDITOR-GENERAL'S REPORT



Item 8.1 - New Item (8) Auditor General Local Government
reports

02 - NSW Auditor General's report on
local government for 2022

THE ROLE OF THE AUDITOR-GENERAL

The roles and responsibilities of the Auditor-General, and hence the Audit Office, are set out in the *Government Sector Audit Act 1983* and the *Local Government Act 1993*.

We conduct financial or 'attest' audits of state public sector and local government entities' financial statements. We also audit the Consolidated State Financial Statements, a consolidation of all state public sector agencies' financial statements.

Financial audits are designed to add credibility to financial statements, enhancing their value to end-users. Also, the existence of such audits provides a constant stimulus to entities to ensure sound financial management.

Following a financial audit the Audit Office issues a variety of reports to entities and reports periodically to Parliament. In combination, these reports give opinions on the truth and fairness of financial statements, and comment on entity internal controls and governance, and compliance with certain laws, regulations and government directives. They may comment on financial prudence, probity and waste, and recommend operational improvements.

We also conduct performance audits. These examine whether an entity is carrying out its activities effectively and doing so economically and efficiently and in compliance with relevant laws. Audits may cover all or parts of an entity's operations, or consider particular issues across a number of entities.

As well as financial and performance audits, the Auditor-General carries out special reviews, compliance engagements and audits requested under section 27B(3) of the *Government Sector Audit Act 1983*, and section 421E of the *Local Government Act 1993*.

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Sydney NSW 2000

The Legislative Council
Parliament House
Sydney NSW 2000

In accordance with section 421D of the *Local Government Act 1993*,
I present a report titled '**Local Government 2022**'.

A handwritten signature in blue ink, appearing to read 'Margaret Crawford'.

Margaret Crawford PSM
Auditor-General for New South Wales
13 June 2023

**Item 8.1 - New Item (8) Auditor General Local Government
reports**

**0 2 - NSW Auditor General's report on
local government for 2022**



The Audit Office of New South Wales pay our respect and recognise
Aboriginal people as the traditional custodians of the land in NSW.

We recognise that Aboriginal people, as custodians, have a spiritual, social and
cultural connection with their lands and waters, and have made and continue
to make a rich, unique and lasting contribution to the State. We are committed
to continue learning about Aboriginal and Torres Strait Islander peoples' history
and culture.

We honour and thank the traditional owners of the land on which our office is
located, the Gadigal people of the Eora nation, and the traditional owners of
the lands on which our staff live and work. We pay our respects to their Elders
past and present, and to the next generation of leaders.

Item 8.1 - New Item (8) Auditor General Local Government
reports

0 2 - NSW Auditor General's report on
local government for 2022

Item 6.1

contents

Local Government 2022

Auditor-General's foreword	1
Section one – Local Government 2022	
Introduction	5
Audit results	10
Key audit findings	24
Section two – Appendices	
Appendix one – Response from the Office of Local Government within the Department of Planning and Environment	57
Appendix two – Status of audits	59
Appendix three – Councils received qualified audit opinions	65
Appendix four – Common reasons for council extensions	68

Enclosure 2

Auditor-General's foreword

Pursuant to the *Local Government Act 1993* I am pleased to present my Auditor-General's report on Local Government 2022. My report provides the results of the 2021–22 financial audits of 126 councils, 11 joint organisations and nine county councils. The audits for two councils and two joint organisations are in progress due to significant accounting issues.

Unqualified audit opinions were issued for 83 councils, 11 joint organisations and nine county councils' 2021–22 financial statements. The statements for 43 councils were qualified due to non-recognition of rural firefighting equipment vested under section 119 (2) of the *Rural Fires Act 1997*. And the audit opinion on Kiama Municipal Council's 30 June 2021 financial statements was disclaimed due to deficiencies in books and records.

This year has again been challenging for many New South Wales local councils still recovering from the impact of emergency events and facing cost and resourcing pressures. We appreciate the efforts of council staff and management in meeting their financial reporting obligations. We share a mutual interest in raising the standard of financial management in this sector, and the importance of accurate and transparent reporting.

Disappointingly, accounting for the value of rural firefighting equipment vested in councils continued to be an unnecessary distraction and resulted in 43 councils having their financial statements qualified. We continue to recommend that the Office of Local Government should intervene where councils fail to comply with Australian Accounting Standards by not recognising assets vested to them under section 119(2) of the *Rural Fires Act 1997*.

Sound financial management is critical to councils' ability to instil trust and properly serve their communities. The recommendations in this report are intended to further improve their financial management and reporting capability, and encourage sound governance arrangements and cyber resilience. I am committed to continuing this work with councils in the 2022–23 year and beyond.

Margaret Crawford PSM
Auditor-General for New South Wales

**Item 8.1 - New Item (8) Auditor General Local Government
reports**

**0 2 - NSW Auditor General's report on
local government for 2022**

Item 6.1

Section one

Local Government 2022

This report analyses the results of our audits of local councils for the year ended 30 June 2022.

Enclosure 2

1. Introduction

1.1 The local government sector

Local government is the third tier of government. It is established under state legislation, which defines the powers and geographical areas each council is responsible for.

At 30 June 2022, there were 128 local councils, 13 joint organisations and nine county councils in New South Wales.



Councils provide a range of services and infrastructure for a geographical area. Services include waste collection, planning, child and family day care, and recreational services. Councils also build and maintain infrastructure, including roads, footpaths and drains, and enforce various laws. While core functions such as waste collection are similar across councils, the range of services each council provides can vary depending on the needs of each community.

County councils are formed for specific purposes, such as to supply water, manage flood plains or eradicate noxious weeds.

Joint organisations (JO) are formed by councils in regional New South Wales. Core activities of JOs include regional strategic planning and priority setting, engaging in shared services with member councils, and regional advocacy and collaboration with the state and federal governments.

1.2 Financial audit

This report provides the results and findings of the completed 2021–22 financial audits of 126 councils, 11 joint organisations and nine county councils. The audits of two councils and two joint organisations are in progress as at the date of this report.

In preparing this report, our observations and analyses were drawn from:

- audited financial statements
- performance audit reports
- data collected from councils
- audit findings reported to councils in audit management letters.

Each local council has unique characteristics such as its size, location and services provided to their communities. To enable comparison, we divided councils into three categories – metropolitan, regional and rural. County councils and joint organisations are separately identified in the report.

Details of councils grouped into categories are provided in Appendix two.

1.3 Performance audit

Our performance audits assess whether the activities of government entities are being carried out effectively, economically, efficiently, and in compliance with relevant laws. Our mandate to conduct these audits is provided under the *Local Government Act 1993* (LG Act).

Performance audits relevant to the local government sector in 2022–23 included:

Regulation and monitoring of local government

The Office of Local Government (OLG) within the Department of Planning and Environment (the department) is responsible for strengthening the local government sector, including through its regulatory functions.

Regulation and monitoring of local government assessed whether the OLG is effectively monitoring and regulating the sector under the *Local Government Act 1993*. The audit covered:

- the effectiveness of departmental arrangements for the OLG to undertake its regulatory functions
- whether the OLG has effective mechanisms to monitor and respond to risks and issues relating to council compliance and performance.

We found that the OLG does not conduct effective, proactive monitoring to enable timely risk-based responses to council performance and compliance issues. The OLG has not clearly defined and communicated its regulatory role to ensure that its priorities are well understood. The OLG does not routinely review the results of its regulatory activities to improve its approaches.

The department lacks an adequate framework to define, measure and report on the OLG's performance, limiting transparency and its accountability. The OLG's new strategic plan presents an opportunity for the OLG to better define, communicate, and deliver on its regulatory objectives.

Item 8.1 - New Item (8) Auditor General Local Government
reports

02 - NSW Auditor General's report on
local government for 2022

Item 6.1

Enclosure 2

We recommended that the OLG should:

- publish a tool to support councils to self-assess risks and report on their performance and compliance
- ensure its council engagement strategy is consistent with its regulatory approach
- report each year on its regulatory activities and performance
- publish a calendar of its key sector support and monitoring activities
- enhance processes for internally tracking operational activities
- develop and maintain a data management framework
- review and update frameworks and procedures for regulatory responses.

Development applications: assessment and determination stages

Local councils in New South Wales are responsible for assessing local and regional development applications. Most development applications are assessed and determined by council staff under delegated authority. However, some development applications must be referred to independent local planning panels, or Sydney and regional planning panels for determination. Councils provide support to local planning panels. The Department of Planning and Environment provides support to Sydney and regional planning panels.

Development applications: assessment and determination stages assessed whether Byron Shire Council, Northern Beaches Council and The Hills Shire Council had effectively assessed and determined development applications in compliance with legislative and other requirements.

It also assessed whether The Hills Shire Council, Northern Beaches Council and the Department of Planning and Environment had provided effective support to relevant independent planning panels.

All councils had established clear roles, responsibilities and delegations for assessment and determination of development applications and had also established processes to ensure quality of assessment reports.

Northern Beaches Council and The Hills Shire Council have established comprehensive approaches to considering and managing risks related to development assessment.

Northern Beaches Council's approach to publishing its assessment reports promotes transparency.

Across a sample of development applications assessed and determined between 2020–22:

- Northern Beaches Council and The Hills Shire Council had assessed and determined applications in compliance with legislative and other requirements. However, The Hills Shire Council could do more to transparently document any conflicts of interest within assessment reports.
- Byron Shire Council had assessed most applications in compliance with legislative and other requirements. However, we found opportunities for the council to:
 - ensure determinations were made in line with delegations
 - strengthen its approach to transparent management of conflicts of interest and quality review of assessments.

The Hills Shire Council and Northern Beaches Council had effectively supported their respective local planning panels.

The Department of Planning and Environment had processes that meet requirements for supporting regional planning panels but could do more to promote consistency in approach, share information across panels and measure the effectiveness of its support.

We made four recommendations to Byron Shire Council and four recommendations to the Department of Planning and Environment and one recommendation to The Hills Shire Council to address the gaps identified and improve the transparency of development assessment processes.

Planning and managing bushfire equipment

This [Planning and managing bushfire equipment](#) audit assessed the effectiveness of the NSW Rural Fire Service (RFS) and local councils in planning and managing equipment for bushfire prevention, mitigation, and suppression.

We found that the RFS has focused its fleet development activity on modernising and improving the safety of its firefighting fleet, and on the purchase of new firefighting aircraft. There is limited evidence that the RFS has undertaken strategic fleet planning or assessment of the capability of the firefighting fleet to respond to current bushfire events or emerging fire risks. The RFS does not have an overarching strategy to guide its planning, procurement, or distribution of the firefighting fleet. The RFS does not have effective oversight of fleet maintenance activity across the State, and is not ensuring the accuracy of District Service Agreements with local councils, where maintenance responsibilities are described.

We recommended that by December 2023, the Rural Fire Service should:

- develop a fleet enhancement framework and strategy that is informed by an assessment of current fleet capability, and research into appropriate technologies to respond to emerging fire risks
- develop performance measures to assess the performance and capabilities of the fleet in each RFS District by recording and publicly reporting on fire response times, fire response outcomes, and completions of fire hazard reduction works
- report annually on fleet allocations to RFS Districts, and identify the ways in which fleet resources align with district-level fire risks
- develop a strategy to ensure that local brigade volunteers are adequate in numbers and appropriately trained to operate fleet appliances in RFS Districts where they are required
- establish a fleet maintenance framework to ensure regular update of District Service Agreements with local councils
- review and improve processes for timely recording of fleet asset movements, locations, and maintenance status.

Cyber Security NSW: governance, roles and responsibilities

Cyber Security NSW is part of the Department of Customer Service, and aims to provide the NSW Government with an integrated approach to preventing and responding to cyber security threats.

This [Cyber Security NSW: governance, roles and responsibilities](#) audit assessed the effectiveness of Cyber Security NSW's arrangements in contributing to the NSW Government's commitments under the NSW Cyber Security Strategy, in particular, increasing the NSW Government's cyber resiliency. The audit asked:

- Are internal planning and governance processes in place to support Cyber Security NSW meet its objectives?
- Are Cyber Security NSW's roles and responsibilities defined and understood across the public sector?

We recommended the Department of Customer Service, by 30 June 2023, should:

- implement an approach that provides reasonable assurance that NSW government agencies are assessing and reporting their compliance with the NSW Government Cyber Security Policy in a manner that is consistent and accurate
- ensure that Cyber Security NSW has a strategic plan that clearly demonstrates how the functions and services provided by Cyber Security NSW contribute to meeting its purpose and achieving NSW government outcomes
- ensure that Cyber Security NSW has a detailed, complete and accessible catalogue of services available to agencies and councils
- develop a comprehensive engagement strategy and plan for the local government sector, including councils, government bodies, and other relevant stakeholders.

Item 8.1 - New Item (8) Auditor General Local Government
reports

02 - NSW Auditor General's report on
local government for 2022

The following local government performance audit reports are either planned or in progress with an expectation to complete them in 2023–24:

- Financial management and governance in MidCoast Council**
Under the LG Act, councils must apply sound financial management principles that require responsible and sustainable spending and investment and ensure that future decisions consider intergenerational effects and equity. This audit will assess whether MidCoast Council has effective financial management arrangements that support councillors and management to fulfill their financial stewardship responsibilities.
- Cyber security in local government**
The increasing global interconnectivity between computer networks has dramatically increased the risk of cyber security incidents. Such incidents can harm local government service delivery and may include the theft of information, denial of access to critical technology, or even the hijacking of systems for profit or malicious intent.
This audit will consider how effectively City of Parramatta Council, Singleton Council and Warrumbungle Shire Council identify and manage cyber security risks.

Item 6.1

Enclosure 2

2. Audit results

Financial reporting is an important element of good governance. Confidence in and transparency of public sector decision-making are enhanced when financial reporting is accurate and timely.

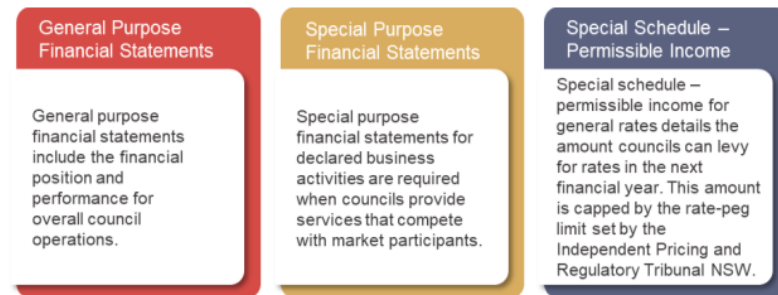
This chapter outlines audit observations related to the financial reporting audit results of councils and joint organisations.

Section highlights

- Ninety-three councils and joint organisations (2020–21: 109) lodged audited financial statements with OLG by the statutory deadline of 31 October.
- More councils received extensions. Fifty-seven councils and joint organisations (2020–21: 41) received extensions to submit audited financial statements to OLG.
- Unqualified audit opinions were issued for 83 councils, 11 joint organisations and nine county councils 2021–22 financial statements.
- A disclaimer of audit opinion was issued to Kiama Municipal Council relating to the 30 June 2021 financial statements.
- The audits of two councils and two joint organisations are still in progress as at the date of this report due to significant accounting issues.
- Qualified audit opinions were issued for 43 councils (2020–21: one) due to non-recognition of rural firefighting equipment vested to councils under the *Rural Fires Act 1997* in their financial statements. Forty-seven councils appropriately recognised this equipment.
- Since 2017, the Audit Office of New South Wales has recommended that OLG address the different practices across the local government sector in accounting for the rural firefighting equipment. Despite repeated recommendations, the OLG has not been effective in resolving this issue.
- The OLG within the department should now intervene where councils do not recognise rural firefighting equipment.
- The total number of errors and total dollar values (including corrected and uncorrected) in the financial statements decreased compared to prior year.
- Eighty-two per cent of councils performed some early financial reporting procedures (2020–21: 59%). We continue to recommend that OLG should require early close procedures across the local government sector.

2.1 Quality of financial reporting

The Auditor-General is required under the LG Act to issue an audit opinion on the following reports prepared by councils.



Indicators of quality financial reporting include:

- unqualified audit opinions
- the number of errors in financial statements
- timeliness in preparing financial statements.

Audit opinions

Unqualified audit opinions were issued for 103 councils and joint organisations

We issued a total of 146 audit opinions on councils and joint organisations 2021–22 financial statements as at the date of this report. One hundred and three councils and joint organisations received unqualified audit opinions for their 30 June 2022 financial statements audits. For these councils sufficient audit evidence was obtained to conclude the financial statements were free of material misstatement, and were prepared in accordance with Australian Accounting Standards and the LG Act.

A disclaimed audit opinion was issued to Kiama Municipal Council relating to its 30 June 2021 financial statements

A disclaimer of opinion was issued for the 30 June 2021 financial statements of the Kiama Municipal Council.

A disclaimed audit opinion is issued when the auditor is unable to obtain sufficient appropriate audit evidence upon which to form an opinion on the council's financial statements, and the auditor concludes that the possible effects of undetected misstatements in the financial statements could be both material and pervasive.

Councillors and management declared, in the Statement required by Councillors and Management (the Statement) under Section 413(2)(c) of the LG Act, that they were unable to certify as to the completeness and reliability of the financial statements taken as a whole for the year ended 30 June 2021.

In the period leading up to the preparation of the 30 June 2021 financial statements council implemented a new financial management information system. However, data was lost during the migration from the legacy system to the new system. During the implementation council also experienced high rates of staff turnover. The combination of these factors contributed to the loss of both data and corporate knowledge. As a result, there was insufficient data to support a significant number of financial statement line items, and the staff who might have provided explanations had left council's employment.

Item 8.1 - New Item (8) Auditor General Local Government
reports

02 - NSW Auditor General's report on
local government for 2022

There was an inadequate system of internal control to support accurate financial reporting and to mitigate the risk of fraud. Council's accounting records were insufficient to support reliable reporting or comply with legislative obligations.

The deficiencies in books and records, which have been acknowledged by councillors and management in their Statement, mean we have been unable to obtain sufficient appropriate audit evidence or perform alternative testing procedures to enable us to conclude on the completeness and accuracy of the council's financial statements as a whole.

Non-recognition of rural firefighting equipment by councils was the single largest source of error within council financial statements

While 47 (2020–21: 41) councils recognised the rural firefighting equipment vested to them in their financial statements, including 14 councils that recognised the equipment for the first time, inconsistent and non-compliant practices regarding recognition of this equipment persist across the local government sector.

The continued non-recognition of rural firefighting equipment in financial management systems of some councils increases the risk that these assets are not properly maintained and managed. Councils that have rural firefighting equipment vested under section 119(2) of the *Rural Fires Act 1997* (Rural Fires Act), should recognise these assets in their financial management systems, as well as considering their condition and useful life.

As previously reported in [Local Government 2021](#) and [Planning and Environment 2022](#) Auditor-General's reports (tabled in NSW Parliament on 22 June 2022 and 15 December 2022 respectively), the Audit Office of New South Wales advised councils and the department that any council not recognising this equipment is not complying with the requirements of the Australian Accounting Standards. We further reported in 'Local Government 2021' that the non-recognition of this equipment may impact the financial statement audit opinions of those councils.

These assets are controlled by the councils and should be recognised as assets in accordance with AASB 116 'Property, Plant and Equipment'. Australian Accounting Standards refer to control of an asset as being the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset. Control includes the ability to prevent other entities from directing the use of, and obtaining the benefits from an asset.

Rural firefighting equipment is controlled by councils as:

- these assets are vested in the council under Section 119(2) of the Rural Fires Act, giving councils legal ownership
- councils have the ability, outside of emergency events as defined in Section 44 of the Rural Fires Act, to prevent the NSW Rural Fire Service from directing the use of the rural firefighting equipment by either not entering into a service agreement, or cancelling the existing signed service agreements
- councils have specific responsibilities for fire mitigation and safety works and bushfire hazard reduction under Part 4 of the Rural Fires Act. Councils obtain economic benefits from the rural firefighting equipment as these assets are used to fulfil councils' responsibilities. In the event of the loss of an asset, the insurance proceeds must be paid into the New South Wales Rural Fire Fighting Fund (Section 119(4) of the Rural Fires Act) and be used to reacquire or build a similar asset, which is again vested in the councils as an asset provided free of charge.

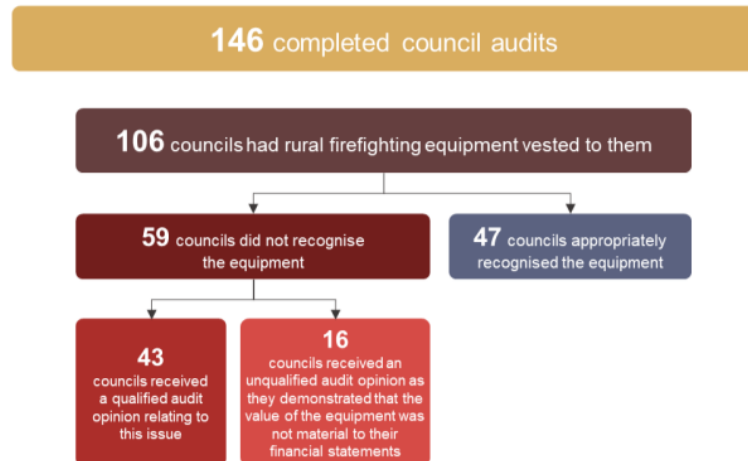
Item 8.1 - New Item (8) Auditor General Local Government
reports

02 - NSW Auditor General's report on
local government for 2022

Item 6.1

Enclosure 2

Forty-three qualified audit opinions were issued on councils' financial statements due to non-recognition of vested rural firefighting equipment



Fifty-nine (2020–21: 68) councils did not record rural firefighting equipment in their financial statements, of which 43 of the 146 completed audits of councils received qualified audit opinions on their 2022 financial statements due to non-recognition of rural firefighting equipment as assets within 'Infrastructure, property, plant and equipment' in their Statement of Financial Position at 30 June 2022. These qualifications took different forms depending on the circumstances surrounding the non-recognition.

A qualified audit opinion is issued when the auditor:

- having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in aggregate, are material but not pervasive to the financial statements
- is unable to obtain sufficient appropriate audit evidence on which to base the opinion, but the possible effects of undetected misstatements on the financial statements are material but not pervasive.

Refer to Appendix three for a list of the 43 councils that received qualified audit opinions in 2021–22.

Forty of the 43 qualified audit opinions were modified because these councils imposed a limitation of scope on the audit regarding vested rural firefighting equipment

Forty out of the 43 councils that were issued a qualified audit opinion did not undertake procedures to confirm the completeness, accuracy, existence or condition of these assets. Nor had the councils performed procedures to identify the fair value of assets vested to them during the year.

Consequently, we were unable to determine the carrying values of vested rural firefighting equipment assets and related amounts that should be recorded and recognised in the councils' 30 June 2022 financial statements.

This resulted in the audit opinions on these councils' 30 June 2022 financial statements to be qualified, given the limitation on the scope of our audits.

Item 8.1 - New Item (8) Auditor General Local Government
reports

02 - NSW Auditor General's report on
local government for 2022

Item 6.1

Enclosure 2

The continued non-recognition of rural firefighting equipment in financial management systems of some councils increases the risk that these assets are not properly maintained and managed. Councils who have vested rural firefighting equipment should recognise these assets in their financial management systems and consider their condition and useful life.

Three councils' audit opinions were qualified for material misstatement relating to rural firefighting equipment

Three councils undertook procedures to confirm the fair value of this equipment, including assets vested in it during the year, but did not recognise these assets in their financial statements. This omission was material to their financial statements and we issued a qualified audit opinion on these council's financial statements.

Two councils' audit opinions were qualified for derecognising previously recognised rural firefighting equipment, and their accounting treatment upon derecognition

Two of the 43 councils that received qualified audit opinions, removed previously recognised rural firefighting equipment from their financial statements in 2021–22. These councils derecognised these assets through retained earnings, describing their previous treatment as an error. This treatment resulted in an additional qualification in the audit opinion.

There has been no change in the legal framework since these councils first recognised these assets, nor has there been any change in the relevant accounting standards impacting recognition of these assets. These councils' previous recognition of these assets complied with the requirements of AASB 116 'Property, Plant and Equipment'. The derecognition of these assets and the related disclosures describing past practice as an error does not comply with AASB 108 'Accounting Policies, Changes in Accounting Estimates and Errors'.

Sixteen councils that did not record vested rural firefighting equipment did not receive qualified audit opinions. These councils had performed procedures to confirm that the value of these assets was not material to their financial statements

The remaining 16 councils that did not record rural firefighting equipment had performed procedures to determine the value of these assets was not material to the financial statements taken as a whole. While not material to the financial statements, and reported as an uncorrected error, these councils should nonetheless have recognised the equipment in their financial statements, which was vested to these councils under section 119(2) of the Rural Fires Act. There remains a risk that their stance on non-recognition may result in qualifications in the future if the amount becomes material to their financial statements, and raises the risk that these important assets are not being properly maintained and managed for operational purposes.

Forty-seven councils recognised their rural firefighting equipment, 14 of these for the first time

Forty-seven (2020–21: 41) councils recognised this equipment in their financial statements, highlighting the continuing inconsistency in recognition practices across the local government sector.

Fourteen councils recognised vested rural firefighting equipment in their financial statements for the first time in 2021–22.

Recommendation to councils (repeat issue)

Councils should perform a full asset stocktake of rural firefighting equipment, including a condition assessment for 30 June 2023 financial reporting purposes.

Consistent with the requirements of the Australian Accounting Standards, councils should recognise this equipment as assets in their 30 June 2023 financial statements.

Item 8.1 - New Item (8) Auditor General Local Government
reports

02 - NSW Auditor General's report on
local government for 2022

The department should intervene to assess councils' compliance with legislative responsibilities, standards and guidelines

The financial statements of the NSW Total State Sector and the NSW Rural Fire Service do not include rural firefighting equipment that has been vested to councils under section 119(2) of the Rural Fires Act. The State Government has reconfirmed its view that rural firefighting equipment vested to councils under Section 119(2) of the Rural Fires Act is not controlled by the State. In reaching this conclusion, the State argued that on balance it would appear the councils control the rural firefighting equipment that has been vested to them. It is important to note that there are only two parties to the agreements that govern the use of vested rural firefighting equipment, leaving only two parties who would be considered to control this equipment – the NSW Rural Fire Service in the State sector, or councils in the local government sector.

Since 2017, the Audit Office has recommended that the Office of Local Government (OLG) and then the Department of Planning and Environment (the department) address the differing practices across the local government sector in accounting for rural firefighting equipment. In doing so, the Audit Office recommended that OLG should work with NSW Treasury to ensure there is a whole-of-government approach.

In 2021, having again considered the accounting position papers prepared by the respective stakeholders, the Audit Office of New South Wales advised councils and the department that any council not recognising this equipment is not complying with the requirements of the Australian Accounting Standards. We recommended that the department intervene when councils do not recognise vested rural firefighting equipment.

The department's role includes assessing whether intervention is appropriate with respect to councils' compliance with, and performance against legislative responsibilities, standards or guidelines. Given the law and the State's clear position, it would appear that any council not recognising this equipment is non-compliant with the relevant Australian Accounting Standards.

Despite these repeated recommendations in our 'Local Government 2021' and 'Planning and Environment 2022' Auditor-General's reports, the department has not been effective in resolving this issue. Forty-three of 146 completed audits of councils received qualified audit opinions on their 2022 financial statements. Sufficient time and engagement have been afforded to avoid these qualified audit opinions. This situation is unlikely to be resolved in the absence of regulatory intervention.

The department should now intervene to address this matter as a priority.

Recommendation to the department (repeat issue)

Consistent with the NSW Government's accounting position on control of vested rural firefighting equipment and the department's role to assess councils' compliance with legislative responsibilities, standards or guidelines, the department should intervene where councils do not recognise rural firefighting equipment vested to them under section 119(2) of the Rural Fires Act.

Item 8.1 - New Item (8) Auditor General Local Government
reports

02 - NSW Auditor General's report on
local government for 2022

Removal of qualified audit opinion on Central Coast Council's 2021–22 financial statements

In 2021–22 Central Coast Council addressed the issues that led to a qualified audit opinion in 2020–21 by having sufficient evidence to support the completeness and accuracy of the opening asset balances that were subject to audit qualification.

A qualified audit opinion was issued for the Central Coast Council's 30 June 2021 financial statements because council was unable to provide sufficient appropriate evidence to support the carrying value of \$5.5 billion of roads, bridges, footpaths, bulk earthworks, stormwater drainage, water supply and sewerage network assets. Council had been unable to reconcile the asset data (technical asset register) used to value these assets to its financial records (fixed asset register) prior to the valuation.

Council addressed these issues in 2021–22 by performing a reconciliation of its 30 June 2021 technical asset register to its fixed asset register (pre-2021 valuation) and obtained an updated independent valuation of its roads, bridges, footpaths, bulk earthworks, stormwater drainage, water supply and sewerage network assets at 30 June 2021.

Emphasis of matter paragraphs were included in Gwydir Shire Council and Tenterfield Shire Council's audit opinions relating to non-compliance with the LG Act

An emphasis of matter paragraph was included in the Independent Auditor's Report to draw attention to non-compliance with the LG Act which the council self-disclosed in its financial statements.

The councils acknowledge they may have breached Sections 409 and 410 of the LG Act by accessing restricted funds without the required approvals.

Council	Reason
Gwydir Shire Council	- Council's inability to determine whether they had a negative unrestricted cash position between 1 July 2022 to 30 September 2022 represents a breach of Section 409(3) of the LG Act. - Council is unable to verify that funds raised by special rates or charges were not used to pay for general fund expenses between 1 July 2022 to 30 September 2022. - Council acknowledges it may have used restricted special rates and charges funds for purposes other than their intended use, without ministerial approval. Such unapproved use would not comply with Section 410(3) of the LG Act.
Tenterfield Shire Council	- Council's negative unrestricted cash balance from 1 July 2021 to March 2022 represents a breach of Section 409(3) of the LG Act. - Council is unable to verify that funds raised by special rates or charges were not used to pay for general fund expenses during the year ended 30 June 2022. - Council acknowledges it may have used restricted special rates and charges funds for purposes other than their intended use, without ministerial approval. Such unapproved use would not comply with Section 410(3) of the LG Act.

Four audits are still in progress in 2021–22

The following four audits remain outstanding and the outcome will be reported in next year’s report to Parliament.

Council	Reason
Canberra Region Joint Organisation	Resolving accounting issues, delays in submission of the draft financial statements for audit.
Hunter Joint Organisation	Resolving issues relating to going concern assessment by seeking financial support agreement with member councils.
Narrabri Shire Council	Resourcing constraints impacted by high turnover of senior staff.
	Resolving accounting issues relating to impairment and remediation of flood damage. Delays in providing evidence to support the recognition status of assets including land, intangibles and RFS buildings.
Kiama Municipal Council	The commencement of the 2021–22 audit was delayed given the late completion of the 2020–21 audit in April 2023. The 2020–21 was delayed due to significant accounting issues and council responding to Performance Improvement Orders issued by the Minister for Local Government.

Errors identified through audits

Decrease in the number and dollar value of corrected errors identified

Our audits identified fewer corrected errors and the total dollar value of these errors was lower compared to the prior year. Corrected errors decreased from 246 errors in 2020–21, with a total value of \$1.7 billion, to 217 errors with a total value of \$1.3 billion in 2021–22.

It is important that councils perform robust reviews to minimise errors identified in financial statements. There were 18 councils (2020–21: 18 councils) where no errors were identified in their financial statements.

Corrected errors

A corrected error is an error identified by the auditor or council, which is subsequently corrected by council in the financial statements.

Year ended 30 June	Corrected errors		By council type (2022 only)				
	2022	2021	Metro	Regional	Rural	County	JO
Less than \$250,000	61	66	3	10	25	12	11
\$250,000 to \$500,000	22	37	3	5	13	1	--
\$500,000 to \$1 million	31	38	4	12	14	1	--
\$1 million to \$5 million	62	69	13	35	12	2	--
\$5 million to \$15 million	26	19	4	20	2	--	--
\$15 million to \$30 million	4	4	3	1	--	--	--
\$30 million to \$50 million	7	6	3	3	1	--	--
\$50 million and greater	4	7	1	3	--	--	--
Total number of errors	217	246	34	89	67	16	11
Total value of errors (\$ million)	1,268	1,686	355	817	91	5	--

Source: Engagement Closing Reports issued by the Audit Office.

Item 8.1 - New Item (8) Auditor General Local Government
reports

02 - NSW Auditor General's report on
local government for 2022

Of the 217 corrected errors identified in the 30 June 2022 financial statements, the common areas are summarised below.

Common areas of corrected errors	Number of errors
Poor record keeping of asset data, such as: - unrecorded assets controlled by council (including found assets) - assets recorded that are no longer controlled by council - duplicate assets - assets incorrectly classified.	42
Asset revaluation errors, such as: - incorrect data provided to the valuer - inappropriate valuation assumptions applied (for example, inappropriate unit rates, valuations did not reflect the physical and legislative restrictions on these assets, or impairment indicators not assessed) - inaccurate calculations derived from the revaluation work paper - incorrect recording of revaluation or impairment adjustments.	42
Incorrect accounting for liabilities and accruals.	48

Of the 217 corrected errors identified in the 30 June 2022 financial statements, corrected errors greater than \$50 million were:

Council	Description of corrected error
Inner West Council	Council's revaluation process identified newly found assets (roads, footpath, kerb, gutter, bulk earthwork and other road assets) of \$71.8 million at 1 July 2020, that had not been previously recognised in the financial statements.
Maitland City Council	Council undertook a revaluation of its infrastructure assets including a condition assessment. The fair value recognised in the financial statements inadvertently did not contain the impact of the condition assessment. This resulted in a \$54.2 million increase to the value of the assets.
Shellharbour City Council	Council's review of its accounting for the Shell Cove project identified \$117.9 million of Marina assets controlled by the council, which had not been recognised in the financial statements.
Shoalhaven City Council	Management had not reflected the updated revaluation impacts on all infrastructure, property, plant and equipment (IPPE) asset classes within its financial statements. Council subsequently corrected these revaluation adjustments for various asset classes within IPPE, amounting to \$288.6 million.

Fair value assessments highlighted material differences between the carrying values and fair value of infrastructure, property, plant and equipment

Infrastructure, property, plant and equipment (IPPE) represents a significant part of councils' total assets. The majority of these assets are carried at fair value using current replacement cost as the valuation technique.

Comprehensive revaluations are performed generally over three to five-year cycles for IPPE with fair value assessments undertaken during the intervening years to determine whether the carrying amounts of the assets are materially different to fair value at each reporting date.

This year's fair value assessments by the councils identified material departures between the carrying value and fair value of their IPPE assets since these assets were last comprehensively valued. This resulted in significant adjustments to the fair value of councils' IPPE assets amounting to \$3.2 billion across 54 councils.

The predominant driver of these valuation uplifts, specifically in buildings, was inflation of construction costs, which affected the Australian domestic economy more broadly over the past 12 months.

In some cases, audit procedures identified material differences between the carrying value and the fair value of councils' asset, resulting in adjustments to the financial statements after the financial statements were submitted for audit. In some other cases, councils used indices that were less relevant or reliable to assess movements in fair value. These also required adjustments by councils.

Councils are responsible for the asset valuations included in their financial statements and are required to assess annually whether the carrying value of IPPE materially reflects fair value, the reasonableness of the useful lives applied and whether any assets are impaired.

An absence of appropriate evidence to support key judgements/assumptions used in this annual fair value assessment, or a lack of thorough quality assurance processes can delay the outcomes of a valuation and/or cause incorrect or unsupported valuations.

Given the ongoing inflationary environment, councils should bring forward the timing of annual fair value assessments or revaluation exercises. This is to ensure that the carrying values reported in the financial statements more accurately reflect fair value at each balance date.

Uncorrected errors

An uncorrected error is an error identified by the auditor or council in the financial statements, which has not been corrected by council. There are various reasons why errors are not corrected, the most common being it is not material to the financial statements taken as a whole.

! Year ended 30 June	Uncorrected errors		By council type (2022 only)					
	2022	2021	Metro	Regional	Rural	County	JO	
Less than \$250,000	97	88	11	9	65	6	6	
\$250,000 to \$500,000	47	44	5	14	27	1	--	
\$500,000 to \$1 million	34	37	12	10	12	--	--	
\$1 million to \$5 million	38	68	13	18	6	--	1	
\$5 million to \$15 million	5	6	3	1	1	--	--	
Total number of errors	221	243	44	52	111	7	7	
Total value of errors (\$ million)	158	238	72	54	28	1	3	

Source: Engagement Closing Reports issued by the Audit Office.

In 2020–21, 68 councils did not record vested rural firefighting equipment in their financial statements estimated to be \$145 million, which were reported as uncorrected errors. In 2021–22, this issue resulted in 43 councils receiving qualified audit opinions on their 2022 financial statements. As previously noted, the uncorrected errors relating to these assets could not be accurately quantified for 40 of the 43 councils that received a qualified audit opinion, given the absence of council procedures to determine the value, condition or existence of these assets. The risk that these assets are not being properly maintained and managed for operational purposes also increases. We have not included the potential misstatements in relation to these unrecorded assets within the 2022 table of uncorrected errors.

Prior period errors

A prior period financial statement error is an error identified in the current year that relates to the previous year's audited financial statements.

	Prior period errors		By council type (2022 only)				
Year ended 30 June	2022	2021	Metro	Regional	Rural	County	JO
Less than \$250,000	6	4	--	3	2	--	1
\$250,000 to \$500,000	1	2	--	1	--	--	--
\$500,000 to \$1 million	6	4	--	1	5	--	--
\$1 million to \$5 million	29	11	11	3	14	1	--
\$5 million to \$15 million	12	19	6	4	1	1	--
\$15 million to \$30 million	8	6	6	1	1	--	--
\$30 million to \$50 million	2	4	1	1	--	--	--
\$50 million and greater	3	4	2	1	--	--	--
Total number of errors	67	54	26	15	23	2	1
Total value of errors (\$ million)	627	777	395	163	56	13	--

Source: Engagement Closing Reports issued by the Audit Office.

Of the 67 prior period errors, five were greater than \$30 million. All these errors were asset related.

Council	Description of prior period error
Lake Macquarie City Council	Council did not recognise \$38.2 million non-cash contributions of assets in the year in which they were dedicated to the council. This understated both capital contribution revenue and assets in the prior years.
Inner West Council	Council's revaluation of infrastructure assets identified \$71.8 million of assets controlled by the council at 1 July 2020, which had not been recognised in the financial statements.
Shellharbour City Council	Council's review of its accounting for the Shell Cove project identified assets controlled by the council, which had not been recognised in the financial statements amounting to \$54.3 million.
Central Coast Council	Council's comprehensive valuation of Community Recreation Services (open space) assets, and reconciliation between technical and fixed asset registers identified assets controlled by the council that had not been recognised in the financial statements amounting to \$43.6 million. Council's updated revaluation process for 2020–21 and internal reconciliation between the technical and fixed asset registers, identified corrections to the valuation of roads, drainage, water and sewer assets amounting to \$102 million.

Of the 67 prior period errors, 50 were assets related that were identified in 31 councils. The common areas where prior period errors were identified are outlined below.

Seventy-nine per cent of the total prior period errors were asset related

Common prior period errors	Number of errors
Poor record keeping of asset data, such as: - unrecorded assets controlled by council - assets recorded that are no longer controlled by council - duplicate assets - assets incorrectly classified.	42
Assets revaluation errors, such as: - incorrect data provided to the valuer - valuation assumptions that were not appropriate (for example, inappropriate unit rates applied, valuations did not reflect the physical and legislative restrictions on these assets, or impairment indicators not assessed) - inaccurate calculations derived from the revaluation work paper - incorrect recording of revaluation or impairment adjustments.	8

2.2 Timeliness of financial reporting

The LG Act requires councils to submit their audited financial reports to OLG by the statutory deadline of 31 October or apply for an extension.

Sixty-two per cent of councils lodged their audited financial statements by the statutory deadline

Of the 146 councils for which we have issued Independent Audit Reports:

- 93 councils (2020–21: 109 councils) met the statutory deadline
- 53 councils (2020–21: 41 councils) received one or more extension to lodge their audited financial statements at a later date.

Refer to Appendix three for further details.

The number of extensions received by councils increased from 41 in 2020–21 to 57 in 2021–22

Fifty-seven councils and joint organisations (2021: 41) applied for, and received an extension to, lodge their audited financial statements at a later date. Twenty-three (2020–21: 15) councils applied for more than one extension.

Fewer councils met the statutory lodgement deadline in 2021–22. Many councils continued to face challenges responding to the impacts of natural disasters (floods and droughts) and resourcing constraints.

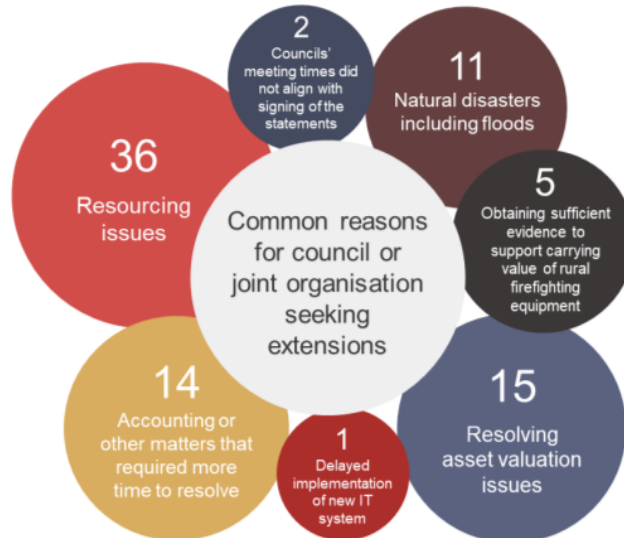
Item 8.1 - New Item (8) Auditor General Local Government
reports

02 - NSW Auditor General's report on
local government for 2022

Item 6.1

Enclosure 2

The reasons that councils and joint organisations sought extensions to submit their financial statements after the statutory deadline are shown below.



Source: Council extension letters submitted to OLG.

The most common reasons councils cited when applying for extensions related to:

- resourcing issues
- resolving asset valuation issues
- accounting or other matters that required more time to resolve
- impacts from natural disasters including flood recovery.

Refer to Appendix four for details of the names of each council or joint organisation that received extensions.

More councils performed some early financial reporting procedures

Early close procedures allow financial reporting issues and risks to be addressed by management and audit early in the financial statement close process. Such procedures help to confirm that key controls over councils' balances are carried out and that there is early dialogue with councils and the Audit Office on significant issues. This helps to improve the quality and timeliness of financial reporting.

Councils can work with the Audit Office to agree on key early close procedures and an agreed timetable to complete the procedures that can be audited before 30 June. This process will allow for audit observations and feedback on the early close outcomes in time for them to be considered in the year-end financial reporting process.

The intention of these procedures is to facilitate earlier preparation of councils' financial statements as well as improve quality and minimise the risk of audit qualifications or errors in financial statements submitted to the Audit Office.

Early close plans should allow sufficient time for management review and involvement of Audit Risk and Improvement Committees.

**Item 8.1 - New Item (8) Auditor General Local Government
reports**

**02 - NSW Auditor General's report on
local government for 2022**

Item 6.1

Enclosure 2

Some early close procedures that councils should consider include:

- completing proforma financial statements and ensuring management has endorsed the statements and reviewed the supporting working papers
- performing and documenting an annual assessment of the fair value of IPPE, their useful lives, and the reasons why the carrying value was not materially different to the fair value. This assessment is performed between comprehensive revaluations
- completing the comprehensive revaluation of IPPE by an agreed early close date
- explaining all unresolved prior year audit issues, with a proposed action plan to resolve them
- documenting all significant management judgements and assumptions made when estimating transactions and balances
- reconciling all key account balances (including annual leave provisions) and clearing reconciling items
- supporting work papers evidencing how management has considered the requirements of new and updated accounting standards.

Recommendation (repeat)

OLG should consider requiring early close procedures across the local government sector.

It is generally accepted that timely year-end financial reporting is an indicator of sound financial management processes. Accordingly, measures aimed at the earlier finalisation of financial statements to both council and the regulator should be a priority.

Given the continued increase in the number of extensions granted by OLG for councils to lodge their audited financial statements, there is room for more to be done to improve the timeliness of financial reporting by councils. OLG should, after discussing policy changes with the key stakeholders within the sector to ensure benefits can be realised, require early close procedures. Early close procedures should prioritise early completion of infrastructure, property, plant and equipment fair value assessments, impairment assessments and comprehensive valuations before 30 June.

This year, 82% (2020–21: 59%) of councils performed at least some early financial reporting procedures, including:

- completing infrastructure, property, plant and equipment valuations before 30 June (45 councils, 2020–21: 42 councils)
- performing fair value assessments of infrastructure, property, plant and equipment (36 councils, 2020–21: 24 councils)
- preparing proforma financial statements and associated disclosures (46 councils, 2020–21: 25 councils)
- assessing the impact of material, complex and one-off significant transactions (49 councils, 2020–21: 26 councils)
- explaining all unresolved prior year audit issues, with an action plan proposed to resolve them (69 councils, 2020–21: 39 councils)
- assessing the continuing impact of significant new accounting standards adopted in prior years (43 councils, 2020–21: 58 councils).

While more councils performed some early financial reporting procedures prior to 30 June 2022, the number of councils performing early close procedures over infrastructure, property, plant and equipment valuations prior to year-end did not substantially increase. In a year where market forces have inflated the values of both assets and asset inputs, the absence of IPPE early close procedures caused avoidable delays and adjustments to many councils' financial statements.

3. Key audit findings

A strong system of internal controls enables councils to operate effectively and efficiently, produce reliable financial reports, comply with laws and regulations, and support ethical government.

This chapter outlines the overall trends in governance and internal controls across councils and joint organisations in 2021–22.

Financial audits focus on key governance matters and internal controls supporting the preparation of councils' financial statements. Breakdowns and weaknesses in internal controls increase the risk of fraud and error. Deficiencies in internal controls, matters of governance interest and unresolved issues are reported to management and those charged with governance through audit management letters. These letters include our observations, related implications, recommendations and risk ratings.

Section highlights

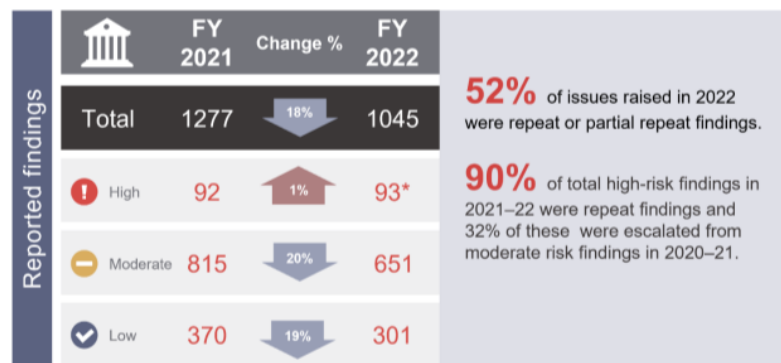
- Total number of audit findings reported in audit management letters decreased from 1,277 in 2020–21 to 1,045 in 2021–22.
- Total number of high-risk audit findings increased from 92 in 2021–21 to 93 in 2021–22. Forty-three (2020–21: 60) of the high-risk findings in 2021–22 related to the non-recognition of vested rural firefighting equipment in councils' financial statements.
- Ninety per cent of total high-risk findings in 2021–22 were repeat findings. Thirty-two per cent of these high-risk findings were escalated from unactioned moderate risk findings in 2020–21.
- Fifty-two per cent (2020–21: 53%) of findings reported in audit management letters were repeat or partial repeat findings. We continue to recommend councils and those charged with governance track progress of implementing recommendations from our audits.
- Governance, asset management and information technology comprise over 65% (2020–21: 62%) of findings and continue to be key areas requiring improvement. Eleven per cent of these findings were high risk in 2021–22.
- A number of repeat recommendations were made relating to asset valuations and integrity of asset data records, in response to the findings that:
 - 52 (2021: 67) councils had weak processes over maintenance, completeness and security of fixed asset registers
 - 53 (2021: 58) councils had deficiencies in their processes to revalue infrastructure assets.
- Sixty-three (2021: 65) councils have yet to implement basic governance and internal controls to manage cyber security. We recommended that all councils should create a cyber security plan in order to ensure cyber security risks over key data and IT assets are appropriately managed and key data is safeguarded. Councils should refer to the 'Cyber Security Guidelines for NSW Local Government' released by the OLG.

**Item 8.1 - New Item (8) Auditor General Local Government
reports**

**02 - NSW Auditor General's report on
local government for 2022**

Total number of findings reported in audit management letters decreased

The following shows the overall findings of the 2021–22 audits reported in management letters compared with the previous year.



* Includes two findings relating to the 2020–21 audit finalised after 'Local Government 2021' was published.

Findings are classified as new, repeat or ongoing, based on:

- new findings first reported in 2021–22 audits
- repeat findings first reported in prior year audits, but remain unresolved in 2021–22
- ongoing findings first reported in prior year audits, but the action due dates to address the findings are after 2021–22.

In rating the risk of audit findings, we assess the likelihood and consequence of the finding having regard to the length of time the issue remains unresolved. The lack of timeliness in resolving issues may indicate systemic issues and/or poor governance practices that warrant an increase in the consequence level. The longer the risk remains unresolved, the greater the chance the weakness could be exploited, or an adverse event or events could occur. As such, unresolved or unaddressed issues from prior periods are reassessed annually. This reassessment may lead to an increase in the risk rating adopted.

Findings are categorised as:

- governance
- financial reporting
- financial accounting
- asset management*
- purchases and payables
- payroll
- cash and banking
- revenue and receivables
- information technology.

* Accounting for the recording and valuation of assets in accordance with Accounting Standards.

The following table shows the breakdown of audit findings of the 2021–22 audits based on the defined categories and risk ratings.

Category	Total findings	High	Moderate	Low
Governance	177	8	112	57
Financial reporting	42	7	27	8
Financial accounting	66	9	37	20
Asset management	267	55	165	47
Purchases and payables	77	2	49	26
Payroll	82	1	40	41
Cash and banking	29	2	12	15
Revenue and receivables	69	—	31	38
Information technology	236	9	178	49
Total	1,045*	93*	651	301

* Includes two findings relating to the 2020–21 audit finalised after the 'Local Government 2021' was published.

The high-risk and common audit findings across these areas are explored further in this chapter.

3.1 Sector-wide common audit findings

Status of previous report recommendations

Our previous reports to Parliament focusing on Local Government made recommendations to all councils and to the Department of Planning and Environment. The current status of implementation of our recommendations is summarised as below, as well as relevant audit findings in 2021–22.

Recommendations to councils	Current status
Accounting for and full stocktake of rural firefighting equipment	
Councils should perform a full asset stocktake of rural firefighting equipment, including a condition assessment for 30 June 2022 financial reporting purposes. Consistent with the requirements of the Australian Accounting Standards, councils should recognise this equipment as assets in their 30 June 2022 financial statements.	We continue to recommend that councils recognise vested rural firefighting equipment (repeat recommendation) One hundred and six of the 146 completed audits of councils received rural firefighting equipment in 2021–22. Sixty-six councils have performed a full stocktake of these assets and 40 councils did not. Forty-seven councils recognised these assets in their 2021–22 financial statements. As reported in Section 2.1 of this report, 59 councils did not record rural firefighting equipment in their financial statements and 43 of these councils received qualified audit opinions because councils did not recognise rural firefighting equipment or because councils had not performed stocktake procedures to confirm the existence, condition and value of these assets. Sixteen councils did not record rural firefighting equipment, but had performed procedures to support their assertion that the carrying amount was not material to the financial statements. These councils received unqualified audit opinions. Three councils' stocktakes of rural firefighting equipment confirmed that the unrecognised balance of this equipment was material resulting in a qualified audit opinion.

**Item 8.1 - New Item (8) Auditor General Local Government
reports**

**02 - NSW Auditor General's report on
local government for 2022**

Recommendations to councils	Current status	
Asset valuations		
Councils should have all comprehensive asset revaluations completed by April of the financial year subject to audit.	We continue to recommend that councils complete asset valuations before financial year-end to help avoid issues with the revaluation process (repeat recommendation)	Not addressed
Councils should:	Sixty-nine of the 146 completed audits of councils have at least partially implemented these recommendations in 2021–22 (35 councils have fully implemented our recommendation and 34 councils have partially addressed our recommendation).	
- have a project plan in place to manage the asset valuation process - include in the plan a timetable with deliverables and dates - consider in the plan the scope of asset valuations, timing and engagement with internal and external stakeholders (for example, using an expert) managing the timing of deliverables and quality review of the outputs.	In 2021–22 we identified a total of 267 (2021: 288) findings that related to asset management. Further, we identified that 53 (2021: 58) councils had deficiencies in their annual process to ensure their assets are stated at fair value. Common issues in annual fair value assessments and in comprehensive revaluations include: - inadequate documentation to support key assumptions and judgements applied including useful lives and condition assessments and unit rates used to value infrastructure assets - indexation adjustments to fair value/deficiencies in the annual fair value assessment process - inaccurate calculations derived from the revaluation work paper - incorrect classification of assets - incorrect exclusion of some assets from valuations - management not documenting their quality review over asset valuations - valuations commencing too late in the financial year and delaying the preparation of the financial statements. Council's financial statements contained corrected errors relating to asset valuations: 28 (2020–21: 35) councils corrected 42 (2020–21: 45) errors relating to asset valuations that amounted to \$832 million (2021: \$1 billion) 6 (2020–21: 13) councils had 8 (2020–21: 18) prior period errors relating to asset revaluations that amounted to \$140 million (\$253 million).	

Item 6.1

Enclosure 2

**Item 8.1 - New Item (8) Auditor General Local Government
reports**

**02 - NSW Auditor General's report on
local government for 2022**

Item 6.1

Enclosure 2

Recommendations to councils	Current status	
Improvements to controls and processes over asset source records		
Councils need to improve controls and processes to ensure integrity and completeness of asset source records.	We continue to recommend that councils improve controls and processes to ensure integrity and completeness of asset source records (repeat recommendation)	Not addressed
Councils should:	One hundred and six of 146 completed audits of councils have at least partially addressed these recommendations in 2021–22. Sixty-six councils have fully addressed our recommendations and 40 councils have partially addressed our recommendations.	
perform timely and regular reconciliations of the fixed asset register to source data records to the general ledger	Fifty-two (2021: 67) councils had weak processes over maintenance, completeness and security of fixed asset registers as reported in Section 3.5 below.	
perform regular review of capital works in progress to identify assets ready for use and capitalise these timely	Common issues identified include: - inaccurate and incomplete data in asset registers such as duplicate or missing assets - fixed asset registers for additions and disposals were not regularly updated - asset registers were not maintained in a secure format.	
improve communication and processes between finance and asset/engineering units as this will improve the accuracy and completeness of asset data and the understanding of asset movements required to be updated to councils' source records	As reported in Chapter 2, 'Audit results', 28 (2020–21: 19) councils had 42 (2020–21: 27) prior period financial statement errors amounting to \$439.1 million (2020–21: \$417.1 million). These were related to the accuracy and completeness of asset records, such as found and duplicate assets.	
implement processes to ensure developer contributed assets are recorded and valued in a timely manner once controlled by the council.	Forty-two (2020–21: 46) corrected errors from 31 councils, amounting to \$243.1 million (2020–21: \$102.1 million), relate to poor record keeping of asset data, such as: - unrecorded assets controlled by council - assets recorded that are no longer controlled by council - duplicate assets - assets incorrectly classified.	
Tracking recommendations		
Councils and those charged with governance should track the progress of implementing recommendations from financial audits, performance audits and public inquiries.	More councils are tracking audit recommendations. Councils should focus on tracking audit recommendations and prioritise high-risk repeat issues	Not addressed
	One hundred and twenty-two of 146 completed audits of councils have at least partially addressed these recommendations in 2021–22. Ninety-eight councils have fully addressed this recommendation and track progress of implementing recommendations from financial audits, performance audits and public inquiries. Twenty-four councils partially addressed our recommendation by not tracking all recommendations covering financial audits, performance audits and public inquiries.	
	Given 52% (2020–21: 53%) of total findings reported in 2021–22 audit management letters were repeat or partial repeat findings from prior years, councils need to focus on tracking audit recommendations, giving priority to high-risk repeat issues.	

Item 8.1 - New Item (8) Auditor General Local Government
reports

02 - NSW Auditor General's report on
local government for 2022

Recommendations to the department	Current status	
The department should intervene where councils do not recognise rural firefighting equipment		
Consistent with the department's role to assess council's compliance with legislative responsibilities, standards or guidelines, the department should intervene where councils do not recognise rural firefighting equipment.	We continue to recommend that the department should intervene where councils do not recognise vested rural firefighting equipment (repeat recommendation) Since 2017, the Audit Office has recommended that the OLG and then the department address the different practices across the local government sector in accounting for rural firefighting equipment. In doing so, the Audit Office recommended that OLG should work with NSW Treasury to ensure there is a whole-of-government approach. NSW Treasury has articulated and communicated its clear position. In 2021, the Audit Office of New South Wales advised councils and the department that not recognising this equipment is non-compliant with the Australian Accounting Standards. We recommended that the department should intervene when councils do not recognise rural firefighting equipment. It is the department's role to assess whether intervention is appropriate with respect to councils' compliance with and performance against legislative responsibilities, standards or guidelines. Despite these repeated recommendations in our 'Local Government 2021' and 'Planning and Environment 2022' Auditor-General's reports, the department has not been effective in resolving this issue. Forty-three of 146 completed audits of councils received qualified audit opinions on their 2022 financial statements in relation to this issue. It is our view that this situation is unlikely to be resolved in the absence of regulatory intervention and the department should now intervene to address this matter as a priority. Refer to Section 2.1 for further information on this issue.	Not addressed
Early close procedures		
OLG should require early close procedures across the local government sector by 30 April 2023.	We continue to recommend that OLG consider requiring early close procedures across the local government sector (repeat recommendation) Potential policy requirements requiring early close procedures have not been discussed with key stakeholders, nor have requirements to perform early close procedures been communicated by OLG to councils and joint organisations as at the date of this report.	Not addressed

Recommendations to the department	Current status	
Legal framework		
In our Report on Local Government 2020, we recommended OLG should clarify the legal framework relating to restrictions of water, sewerage and drainage funds (restricted reserves) by either seeking an amendment to the relevant legislation or by issuing a policy instrument to remove ambiguity from the current framework.	This recommendation has not been implemented.	Not addressed

Cyber security management

Poor management of cyber security can expose councils to a broad range of risks, including financial loss, reputational damage and breaches of data involving the unauthorised release of sensitive data and personally identifiable information.

The NSW Cyber Security Policy states that the term cyber security covers all measures used to protect systems and information processed, stored or communicated on these systems from compromise of confidentiality, integrity and availability.

A lack of cyber security maturity continues to be a sector-wide common audit finding among councils.

Cyber security findings were reported in 63 councils (2020–21: 65 councils) as they did not have at least one of the following basic governance and internal controls to manage cyber security such as having a:

- cyber security framework, policy and procedure
- register of cyber incidents
- simulated cyber attack testing (penetration testing)
- cyber security training and awareness program.

Refer to Section 3.10 'Information technology' for further details on gaps identified in cyber security management.

Forty-seven per cent of councils do not have a formal cyber security strategy/plan in place

Our data collection from 30 June 2022 council audits identified that only 53% of councils have created a formal cyber security strategy/plan.

In response to previous audit recommendations, OLG released Cyber Security Guidelines for NSW local government on 19 December 2022. The guidelines:

- allow councils to assess their cyber security maturity and their maturity uplift
- outline cyber security standards and controls recommended by Cyber Security NSW for NSW local governments
- can be adopted by councils or used to form the basis of an internally developed cyber security policy
- are strongly recommended to councils for adherence but is voluntary with no requirement to report maturity scores to Cyber Security NSW.

Item 8.1 - New Item (8) Auditor General Local Government
reports

02 - NSW Auditor General's report on
local government for 2022

Sixty-nine councils (47% of councils) do not have a formal cyber security plan. These councils need to prioritise creation of a cyber security plan, based on the OLG's [Cyber Security Guidelines for NSW Local Government](#), in order to ensure cyber security risks over key data and IT assets are appropriately managed and key data is safeguarded. All councils should update their cyber security plans based on the guidelines.

The risks associated with poor cyber security maturity are compounded by information technology control weaknesses and poor information systems security hygiene. Our findings in relation to these deficiencies are detailed in Section 3.10 of this report.

Recommendation to councils

All councils need to prioritise and create a cyber security plan in order to ensure cyber security risks over key data and IT assets are appropriately managed and key data is safeguarded.

Councils should refer to the 'Cyber Security Guidelines for NSW Local Government' released by the OLG.

3.2 Governance

Governance is the framework of rules, processes and systems that enables organisations to achieve goals and comply with legal requirements. Good governance promotes public confidence and satisfaction in councils' operations. Key governance areas include appropriate accountability mechanisms, operational and financial risk management, and fraud prevention.

Governance findings decreased from 214 to 177

Audit management letters reported 177 findings relating to governance (2020–21: 214 findings). Sixty-three per cent (2021: 65%) were repeat or partial repeat findings.



Source: Audit management letters for 30 June 2021 and 30 June 2022 audits.

High-risk findings

Seven high-risk findings were reported at the following councils, including one new finding and six repeat findings elevated from moderate risk in 2020–21. All the six 2020–21 high-risk findings were resolved or reclassified to moderate risk in 2021–22 as management has taken action to mitigate the risks. One new high-risk finding related to 2020–21.

Council	Description
2021–22 findings	
Coonamble Shire Council (repeat finding, elevated from moderate to high risk in 2021–22)	Council does not have a documented legislative compliance policy, legislative compliance register, risk management policy, fraud control plan, cyber risk policy or framework. Council's fraud control policy was last updated in 2005 and council has not undertaken a fraud control risk assessment.
Lismore City Council (repeat finding, elevated from moderate to high risk in 2021–22)	Council does not have a centralised legislative compliance register. Council does not have formalised process for allocating compliance responsibility or identifying and monitoring instances of non-compliance.
Brewarrina Shire Council (repeat finding, elevated from moderate to high risk in 2021–22)	Council does not have a documented legislative compliance policy, council-wide risk register, fraud control plan, cyber risk policy or framework. Council's public interest disclosure policy has not been reviewed since 2013. Council did not undertake a fraud control health check, cyber security penetration testing, or fraud awareness and cyber security training.
Gwydir Shire Council (one repeat finding elevated from moderate to high-risk in 2021–22 and one new finding)	Council is in the process of completing the fraud control health check and fraud risk assessment. However, there is no fraud control policy or plan and no fraud awareness training has been conducted. Council was unable to determine whether they spent restricted funds for unrestricted purposes during 2021–22, without the appropriate approvals under the LG Act (new finding).
Cootamundra-Gundagai Regional Council (repeat finding, elevated from moderate to high-risk in 2021–22)	Council does not have a formal legislative compliance policy or legislative compliance register to capture and report on its compliance with key legislation.
Tamworth Regional Council (repeat finding, elevated from moderate to high-risk in 2021–22)	Council does not have a fraud control plan to manage potential fraud risk. However, Council performed a fraud risk assessment in June 2021.
2020–21 findings*	
Kiama Municipal Council	The council should continue to develop strategies to: - ensure it maintains sufficient liquidity - regularly review and update cash flow projections using the best available data and relevant assumptions - avoid using externally restricted cash for other purposes, or seek the Minister's permission, where required - regularly report its cash flow position and projections to those charged with governance.

* This audit was finalised on 20 April 2023 after the 'Local Government 2021' report was published.

Common findings

The common governance findings reported in audit management letters related to deficiencies in corporate governance policies, fraud controls and legislative compliance.

Key corporate governance policies were not in place or regularly updated at 62 councils

The common areas where councils were missing governance policies are summarised below.

Area of corporate governance with absent or outdated policies	Number of councils
Risk management	15
Contract management	13
Business continuity plan	19
Gifts and benefits	5
Public interest disclosures	7
Other policies not formally adopted or subject to timely review	31

Corporate governance policies are essential for ensuring councils operate in accordance with external and internal requirements. It is important that the rules, standards and expectations are clearly outlined, and staff are provided adequate guidance to inform their actions.

Further issues were identified in contract management for 23 (2020–21: 30) councils. While contract management policies were in place for these councils, we identified deficiencies in their contract management practices or contract register management. There is an increased risk of non-compliance with the *Government Information (Public Access) Act 2009* or contractual terms.

Deficiencies in fraud control processes at 20 councils

Twenty councils reported deficiencies in fraud control processes, an improvement from 34 councils reported in 2020–21.

The following fraud control deficiencies were reported in audit management letters.

Fraud control deficiencies	Number of councils
Council did not provide fraud awareness training to staff	7
Council did not perform a fraud risk assessment	9
Council did not have a fraud and corruption prevention policy, or it was outdated	10
Council did not require staff to provide annual attestations to the Code of Conduct	8

Effective fraud controls and ethical frameworks help protect councils from events that risk serious reputational damage and financial loss.

Lack of legislative compliance policies or register at 21 councils

Twenty-one councils did not have a sufficient legislative compliance policy or register. This has decreased from 25 councils reported in 2020–21.

Legislative compliance frameworks assist councils to monitor compliance with key laws and regulations. This is important as councils provide a broad range of services to the community and are subject to many legal requirements. A legislative breach can attract penalties, impact service delivery and cause significant reputational damage.

Item 8.1 - New Item (8) Auditor General Local Government
reports

02 - NSW Auditor General's report on
local government for 2022

Councils and joint organisations that do not currently have an ARIC should take action to ensure they comply with legislative requirements

Audit, Risk and Improvement Committees (ARIC) are an important contributor to good governance. They help councils to understand strategic risks and how they can mitigate them. An effective committee helps councils to build community confidence, meet legislative and other requirements, and meet standards of probity, accountability and transparency.

Without an effective ARIC, there is a lack of independent oversight on how council is functioning and managing risk.

The Office of Local Government has issued comprehensive 'Guidelines for Risk Management and Internal Audit for Local Government in NSW' to assist councils and joint organisations to implement these requirements.

One hundred and nineteen councils have established an Audit, Risk and Improvement Committee as at 4 June 2022, as required under the LG Act

As at 30 June 2022, 31 councils or joint organisations have not established an ARIC at 30 June 2022. These councils have not complied with the requirements of the LG Act, but more importantly, a key governance mechanism is absent.

Under the LG Act, all councils and joint organisations were required to have an ARIC or to have entered into an arrangement with another council or joint organisation to share an ARIC from 4 June 2022.

In August 2021, the OLG issued draft 'Guidelines for Risk Management and Internal Audit for Local Councils in NSW (the Guidelines)', which has not been finalised. The Guidelines cover the requirements for ARICs (including membership), risk management framework and internal audit function.

Subsequent to the draft Guidelines, OLG and NSW Treasury agreed that the NSW Government's Prequalification Scheme for Audit and Risk Committee Chairs and Members will not be suitable for use by councils and joint organisations. On 20 July 2022, OLG issued a Circular 22-21 'Update on membership requirements for audit, risk and improvement committees', to confirm this agreement.

Under the new requirements, councils must ensure ARIC chairs and members meet the eligibility and independence requirements, as set out in the Guidelines, from 1 July 2024.

On 19 December 2022, the OLG issued a further circular to inform the sector that the draft guidelines have been approved but remain in draft until amendments to the supporting Local Government (General) Regulation 2021 (giving statutory force to elements of the Guidelines) come into force in 2023.

Item 6.1

Enclosure 2

Item 8.1 - New Item (8) Auditor General Local Government
reports

02 - NSW Auditor General's report on
local government for 2022

Item 6.1

Enclosure 2

ARICs can be more effective in discharging all of their functions

ARICs could be more effective in discharging all of their functions and managing councils' risks including:

- cyber risk management (refer to Section 3.10) including 25% of councils that have not communicated cyber risk with those charged with governance, including council ARICs
- tracking the progress of implementing recommendations from financial audits, performance audits and public inquiries (refer to Section 3.1)
- prioritising tracking of repeat and high-risk audit findings. Fifty-two per cent of total audit findings reported in 2021–22 audit management letters were repeat or partial repeat findings from prior years (refer to Section 3.1)
- ensuring internal certification processes have occurred and reviewing the financial statements for completeness and accuracy. ARICs can play an important role in providing feedback on financial statements before they are submitted to audit as part of management's quality review process. Sixty-seven (2021: 44) councils' ARICs reviewed financial statements before submission to the Audit Office. Fifty-two (2021: 67) councils' ARICs did not review financial statements before submission to the Audit Office. Only 28 (2021: 16) ARICs obtained certification of effectiveness of internal controls from management to support the financial statements and information.

As previously reported, there is an opportunity for OLG to issue guidance to councils to develop an internal control certification process as better practice. In the NSW state sector, Chief Financial Officers provide an annual certification as to the effectiveness of its systems, processes and internal controls for ensuring that financial information is relevant and reliable.

As at 30 June 2022, 119 councils have established an ARIC. Of the 119 councils, ten have a shared arrangement with other councils. Opportunities also exist for councils to gain efficiencies by increasing the number of shared ARICs where scale or geographical location makes it practicable to do so.

3.3 Financial reporting

Financial reporting is an important element of good governance. Confidence in and transparency of public sector decision-making is enhanced when financial reporting is accurate and timely.

Financial reporting findings decreased from 83 to 42

Audit management letters reported 42 findings relating to financial reporting (2020–21: 83 findings). Fifty-five per cent (2021: 45%) were repeat or partial repeat findings.



Source: Audit management letters for 30 June 2021 and 30 June 2022 audits.

High-risk findings

High-risk findings, including two repeat findings, one new finding and four repeat findings elevated from moderate risk in 2020–21, were reported at the following councils. Four of the six 2020–21 high-risk findings were resolved or reclassified to moderate risk in 2021–22 as management has taken action to mitigate the risks.

Council	Description
2021–22 findings	
Central Coast Council (repeat finding)	While noting improvements in the quality and timeliness of the financial statements and supporting work papers provided to audit, the financial statements required amendments to correct material monetary misstatements and disclosure deficiencies.
Cootamundra-Gundagai Regional Council (repeat finding, elevated from moderate to high risk in 2021–22)	The supporting work papers for the financial statements provided to audit were significantly delayed and contained errors and omissions causing delays to the audit process.
Edward River Council (repeat finding, elevated from moderate to high-risk in 2021–22)	Quality and timeliness of financial statements and supporting work papers needs improvement. Several amendments were required which delayed the audit process and required council to seek extensions with OLG.
Hilltops Council (repeat finding elevated from moderate to high risk in 2021–22)	While noting improvements in timeliness of responses to most of the audit requests, there were delays with some supporting documentation for the comprehensive valuations of IPPE, the going concern assessment and bank confirmation differences.
Shoalhaven City Council (repeat finding)	Quality and timeliness of financial statements and supporting work papers needs improvement. The financial statements required amendment to correct misstatements and disclosure deficiencies, and working papers did not satisfactorily reconcile to the financial statements.
Queanbeyan-Palerang Regional Council (new finding)	Quality and timeliness of financial statements and supporting work papers needs improvement. The financial statements required amendment to correct misstatements and disclosure deficiencies.
Murray River Council (repeat finding, elevated from moderate to high risk in 2021–22)	Quality and timeliness of financial statements and supporting work papers needs improvement. The financial statements required amendment to correct misstatements and disclosure deficiencies. These matters led to delays and inefficiencies in the audit process and required council to seek extensions with OLG.

Common findings

Common findings across councils include:

- Financial statements submitted for audit for 16 (2020–21: 30) councils contained numerous errors and disclosure deficiencies.
- Lack of preparation for the audit, such as having a financial reporting plan, impacted the timeliness of financial reporting at 18 (2020–21: 21) councils.
- Eight (2021: 11) councils had deficiencies in related parties' policies and disclosure.

Further analysis and insights on financial reporting findings are detailed in Chapter 2 'Audit results'.

3.4 Financial accounting

Financial accounting refers to the processes adopted by management to record and review financial information across the business. Councils use a combination of manual and automated processes and digital information systems to process financial information. Effective processes support the accuracy and completeness of information presented in the financial statements.

Financial accounting findings decreased from 79 to 66

Audit management letters reported 66 findings relating to financial accounting (2020–21: 79 findings). Fifty per cent (2021: 38%) were repeat or partial repeat findings.



Source: Audit management letters for 30 June 2021 and 30 June 2022 audits.

High-risk findings

Eight high-risk findings, including two new findings, four repeat findings and two repeat findings elevated from moderate risk in 2020–21, were reported at the following councils. One new high-risk finding related to 2020–21.

Council	Description
2021–22 findings	
Cootamundra-Gundagai Regional Council (repeat finding, elevated from moderate to high risk in 2021–22)	Council lacks segregation of duties over the processing of manual journals. Manual journals can be prepared and posted to the system by the same employee without an independent review.
Hilltops Council (new finding)	Council's initial going concern assessment was inadequate and did not sufficiently support cash flow forecasts and management's modelling assumptions.
Snowy Monaro Regional Council (three findings - two repeat and one new finding)	Council continued to face financial sustainability pressure in 2021–22. To meet day-to-day operational requirements, council may have used its internally allocated funds, which are decreasing. Management did not provide a detailed cash flow forecast by 28 February 2022, as agreed in response to our recommendation in the prior year's management letter. Management used a high-level cash flow forecast to support its going concern assessment. However, it did not assess the appropriateness of the cash flow assumptions it used in that forecast, nor did it proactively monitor the level of restricted and unrestricted cash balances throughout the year.

Item 8.1 - New Item (8) Auditor General Local Government reports

02 - NSW Auditor General's report on local government for 2022

Council	Description
	Council's financial accounting processes and controls had the following deficiencies (new finding): - month-end procedural checklist was not followed and reviewed - lack of segregation of duties in processing manual journals - reconciliations were not always prepared and reviewed in a timely manner - status and analysis of balance sheet items were not included in the monthly management reports or the quarterly business review statement - monthly reports on capital projects was not prepared 2020–21 trial balance was not rolled forward to 2021–22 in a timely manner due to discrepancies.
Dungog Shire Council (repeat finding)	Council lacks segregation of duties over the processing of manual journals. Manual journals can be prepared and posted to the system by the same employee without an independent review.
MidCoast Council (repeat finding)	Council did not perform monthly general ledger reconciliations during 2021–22. Management was not able to validate the reasons behind some immaterial unreconciled balances.
Orange City Council (repeat finding, elevated from moderate to high risk in 2021–22)	Council lacks segregation of duties over the processing of manual journals. Manual journals can be prepared and posted to the system by the same employee without an independent review. There is no automated audit trail showing the preparer and approver of journals.
2020–21 findings*	
Kiama Municipal Council	Councillors and management were unable to attest as to whether the financial statements were a true and fair representation of the council's financial position and performance. As a result, we issued a Disclaimer of Opinion over the council's financial statements. The factors that led to this relate primarily to the loss of data and supporting documentation from an earlier migration of the financial management information system and significant staff turnover, which led to a loss of corporate knowledge.

* This audit was finalised on 20 April 2023 after the 'Local Government 2021' report was published.

Common findings

The common financial accounting findings reported in audit management letters related to deficiencies in key account reconciliations and processing of manual journal adjustments.

Lack of segregation of duties with manual journal adjustments at 12 councils

There was a lack of segregation of duties over the posting of manual journal adjustments to financial information at 12 councils. An independent review of manual journal adjustments is important to reduce the risk of fraud or error in the financial statements.

Key account reconciliations were not prepared in a timely manner or independently reviewed at 29 councils

Regular reconciliations of financial information, which are appropriately reviewed ensures timely identification of errors and facilitates a more efficient audit process. It was reported in audit management letters that:

- there was no evidence of independent review of key account reconciliations at 20 councils
- 15 councils did not reconcile all key balances in the financial statements in a timely manner.

3.5 Asset management

Councils own and manage large infrastructure asset portfolios to support the delivery of community services. Asset management involves operational aspects such as maintenance and physical security, as well as accounting procedures such as recording and valuing assets in accordance with Accounting Standards.

Asset management findings decreased from 288 to 267

Audit management letters reported 267 findings relating to asset management (2020–21: 288 findings). Fifty-nine per cent (157 findings) (2020–21: 39%, 112 findings) were repeat or partial repeat findings.



Source: Audit management letters for 30 June 2021 and 30 June 2022 audits.

High-risk findings

High-risk findings decreased from 69 to 55 in 2021–22, including 45 (2021: six) repeat findings and eight repeat moderate findings elevated to high risk. The decrease was mainly due to the drop of high-risk findings in relation to the non-recognition of rural firefighting equipment from 60 to 43.

Forty-three councils had a high-risk finding reported in their audit management letter relating to unrecorded vested rural firefighting equipment

Chapter 2 'Audit results' reported 59 councils did not record rural firefighting equipment in their financial statements. This was reported as a high-risk finding for 43 councils in 2021–22. Sixteen councils that had high-risk findings in 2020–21 relating to the non-recognition of rural firefighting equipment addressed the issue in 2021–22 by performing procedures to determine that the value of these assets was not material.

Item 8.1 - New Item (8) Auditor General Local Government
reports

02 - NSW Auditor General's report on
local government for 2022

Item 6.1

Enclosure 2

2021–22 councils with high-risk findings on unrecorded rural firefighting equipment

Bathurst Regional Council	Cootamundra-Gundagai Regional Council	Lachlan Shire Council	Tamworth Regional Council
Bega Valley Shire Council	Dungog Shire Council	Leeton Shire Council	Temora Shire Council
Bellingen Shire Council	Edward River Council	Lockhart Shire Council	Tenterfield Shire Council
Bland Shire Council	Federation Council	Mid-Western Regional Council	Tweed Shire Council
Blayney Shire Council	Forbes Shire Council	Moree Plains Shire Council	Upper Lachlan Shire Council
Byron Shire Council	Glen Innes Severn Council	Murray River Council	Wagga Wagga City Council
Cabonne Council	Greater Hume Shire Council	Murrumbidgee Council	Warrumbungle Shire Council
Carrathool Shire Council	Griffith City Council	Queanbeyan-Palerang Regional Council	Weddin Shire Council
Cessnock City Council	Hilltops Council	Snowy Monaro Regional Council	Wollondilly Shire Council
Clarence Valley Council	Junee Shire Council	Snowy Valleys Council	Yass Valley Council
Coolamon Shire Council	Kempsey Shire Council	Sutherland Shire Council	

Chapter 2 'Audit results' includes more information on the recognition of rural firefighting equipment.

Other high-risk findings

Twelve (2020–21: nine) other high-risk findings predominantly related to data integrity of asset registers, fair value assessment of assets, asset valuation process, and provision for rehabilitation landfill sites. These were identified in the following councils.

Council	Description
2021–22 findings	
Central Coast Council (repeat issue)	Council's initial fair value assessment of IPPE did not consider the most relevant data/indices. This resulted in material corrections to the financial statements.
Cobar Shire Council (repeat finding, elevated from moderate to high risk in 2021–22)	Council did not formally assess its provision for rehabilitation of landfill sites in prior years and was required to revisit the key assumptions in the estimates including timeframes, costs and type/nature of the landfill cells. Subsequently, council revised the assumptions within the 2019 independent valuation estimate and recognised a provision for rehabilitation of landfill sites in its 30 June 2022 financial statements.
Dubbo Regional Council (repeat finding, elevated from moderate to high risk in 2021–22)	Issues identified with asset revaluations and management processes: - Comprehensive revaluations for some asset classes (land improvement depreciable and non-depreciable and other assets) have not been performed since 2010. Subsequently, corrections were made to reflect current replacement cost in the 2021–22 financial statements. - Fair value assessment requires improvements and more robust quality review. - Accounting records for many asset classes include capital work in progress balances, requiring manual intervention to disaggregate, reconcile, and review asset movements for purposes of disclosure in the financial statements.

**Item 8.1 - New Item (8) Auditor General Local Government
reports**

**02 - NSW Auditor General's report on
local government for 2022**

Council	Description
Leeton Shire Council (repeat finding, elevated from moderate to high risk in 2021–22)	Council's fixed asset register, which contains the financial records supporting IPPE, is maintained within Microsoft Excel spreadsheets, rather than an IT application.
Murrumbidgee Council (repeat finding, elevated from moderate to high risk in 2021–22)	Council does not recognise the cost for asset remediation as a provision for the tip sites and quarries. Council disclosed this as a contingency in its financial statements as it was unable to reliably estimate the financial cost of such work and did not have a formal landfill and environmental management plan.
Gwydir Shire Council (repeat finding, elevated from moderate to high risk in 2021–22)	Council's fair value and impairment assessment for its IPPE assets is inadequate and resulted in material amendments to the 30 June 2022 financial statements.
Hilltops Council (repeat finding, elevated from moderate to high risk in 2021–22)	Council does not have documented evidence of its assessment of the cost estimates and remaining useful life of its tip and quarry sites, used in its rehabilitation provision.
Orange City Council (repeat finding, elevated from moderate to high risk in 2021–22)	Council's fair value and impairment assessment for its IPPE assets is inadequate and resulted in material amendments to the 30 June 2022 financial statements.
Shoalhaven City Council (repeat finding, elevated from moderate to high-risk in 2021–22)	Council's fair value and impairment assessment for its IPPE assets is inadequate. Also: - Comprehensive valuations for land improvements and other infrastructure were not completed timely. - Prior period errors were identified for unrecorded Crown Land and 'found' assets. - Fully depreciated assets were still in use. - Comprehensive revaluation of other structures, swimming pools and open space/recreational asset classes not performed for more than five years.
Murray River Council (two repeat findings)	The following weaknesses identified with accounting procedures for IPPE: - the asset register is not reconciled to the general ledger - difficulties in reconciling capital work-in-progress (WIP) from the asset register to general ledger.
Inner West Council (repeat finding, elevated from moderate to high risk in 2021–22)	Council's comprehensive revaluations process of roads, footpaths, kerb and gutters, bulk earthworks, other road assets and car parks contained the following deficiencies: - information used to recognise the revaluation movements in the financial statements did not reconcile to the valuer's report resulting in material corrections to the financial statements. - prior period errors for 'found' assets of \$71.8 million at 1 July 2020, required corrections to disclosures - lack of appropriate quality review procedures on revaluation results, draft financial statements and their supporting information.

Common findings

The common asset management findings reported in audit management letters related to deficiencies in asset revaluation processes, maintenance of information in asset management systems and landfill rehabilitation accounting practices.

Weak processes over maintenance, completeness and security of fixed asset registers at 52 councils

Maintaining accurate and up-to-date asset data helps councils to make appropriate decisions around asset management. The common issues reported in audit management letters relating to fixed asset registers are summarised below.

Fixed asset register issues reported in audit management letters	Number of councils
Council did not maintain an accurate and complete fixed asset register. This included: • issues with duplicate or missing assets • incorrect categorisation of assets • incorrect componentisation of assets.	29
Council did not regularly update their fixed asset register for additions and disposals.	32
Asset registers were not maintained in a secure format (for example, use of unlocked spreadsheets or multiple systems).	13

We continue to see weak processes over maintenance and security of fixed asset registers. There continues to be issues with accuracy and completeness of the asset register, duplication or missing assets, and asset registers not being reconciled with the asset management systems.

Prior period errors continue to predominately relate to the quality of asset records and asset revaluation errors such as found and duplicate assets.

Deficiencies in infrastructure asset revaluation processes at 53 councils

Councils manage a significant range and value of infrastructure, property, plant and equipment. These assets are significant to the financial statements of councils and are subject to management judgements and estimates when determining their fair values. These judgements and estimates often require the assistance of a qualified expert valuer.

Deficiencies were identified in infrastructure asset valuations at 53 councils, including:

- inadequate documentation to support key assumptions and judgements applied including:
 - useful lives and condition assessments
 - unit rates used to value infrastructure assets
- incorrect classification of assets
- incorrect exclusion of some assets from valuations
- management not documenting their quality review over the asset valuation
- errors in annual fair value assessments when applying indices to adjust fair values/deficiencies in the annual fair value assessment process.

Item 8.1 - New Item (8) Auditor General Local Government
reports

02 - NSW Auditor General's report on
local government for 2022

Opportunities for councils to improve the valuation process and perform valuations earlier

Performing asset valuations earlier gives time for management and auditors to complete all requirements before the financial statements are prepared and facilitates earlier sign offs. The effective date of the valuation of any asset category can be at any point during the financial year subject to audit. As reported in Chapter 2 'Audit results':

- 45 (2020–21: 42) councils completed infrastructure, property, plant and equipment valuations before 30 June 2022
- 36 (2020–21: 24) councils performed fair value assessments of infrastructure, property, plant and equipment.

Councils should have a project plan in place to manage the asset valuation process. Suggested deliverables to be included in a timetable for council valuations may include the following:

Project plan asset valuations



Improvements to council landfill rehabilitation accounting practices required at 25 councils

Australian Accounting Standards require recognition of a provision for landfill remediation when the obligation to operate landfill sites would result in cash outflows for the council, and when it can be reliably measured. Such provisions should be annually reassessed for changes in assumptions, legal requirements and emergence of new landfill remediation techniques.

Common findings identified in council landfill rehabilitation accounting practices include:

- no formal assessment of obligations to rehabilitate landfill sites
- insufficient documentation of provision calculations to support inputs, assumptions and key data for accounting of the provisions
- costs associated with post-closure, aftercare and monitoring of landfill sites in their provisions not included in the assessment.

3.6 Purchases and payables

Councils spend substantial funds each year to procure goods and services. It is important there is appropriate probity, accountability and transparency in procurement to reduce the risk of unauthorised purchases, corrupt and fraudulent behaviour, and value for money not being achieved.

Purchases and payables findings decreased from 105 to 77

Audit management letters reported 77 findings relating to purchases and payables (2020–21: 105 findings). Forty-nine per cent (2021: 55%) were repeat or partial repeat findings.



Source: Audit management letters for 30 June 2021 and 30 June 2022 audits.

High-risk findings

Two high-risk findings, both elevated from moderate risk in 2020–21, were reported at the following councils.

Council	Description
2021–22 findings	
Cootamundra-Gundagai Regional Council (repeat finding, elevated from moderate to high risk in 2021–22)	Council's creditor Masterfile changes report was not prepared or reviewed.
Liverpool Plains Shire Council (repeat finding, elevated from moderate to high risk in 2021–22)	Council's procurement process contained the following deficiencies: 62% of purchase orders had the same employee raising and authorising a purchase order before receipting the goods 46% of purchase orders were raised on receipt of the invoice.

Common findings

The common purchases and payables findings reported in audit management letters related to controls around purchase orders, review of creditor information and deficiencies in credit card management practices.

Increase in number of councils with controls around purchase orders being absent or not enforced

At 35 (2020–21: 12) councils, we identified that employees could approve their own purchase orders. At 44 (2020–21: five) councils, we identified that purchase orders were approved without appropriate delegation. It is important there is segregation of duties and appropriate delegation in procurement to reduce the risk of fraud and misuse of public money.

Purchase orders were approved after the receipt of goods or services at 56 (2020–21: 28) councils. Purchase orders should be issued before requesting goods or services to reduce the risk of unauthorised transactions.

Insufficient review of changes to creditor information at 13 councils

Thirteen (2020–21: 29) councils did not perform sufficient review of changes to creditor information in the supplier master file, including bank account details. This increases the risk of transactions paid to incorrect accounts, resulting in financial losses for councils. Councils should review each change or perform a regular collective review of changes.

3.7 Payroll

Effective payroll processes ensure councils manage their workforce in compliance with legislation, employment agreements and the Local Government Award. Payroll processes and information systems should protect the integrity of employee records and timesheet data to ensure accurate payments to employees and leave entitlement calculations.

Payroll findings decreased from 96 to 82

Audit management letters reported 82 findings relating to payroll processes (2020–21: 96 findings). Sixty-five per cent (2020–21: 60%) were repeat or partial repeat findings.



Source: Audit management letters for 30 June 2021 and 30 June 2022 audits.

High-risk findings

One high-risk finding relating to payroll processes in 2021–22 (2020–21: nil) reported at the following council. The high-risk finding was a repeat issue elevated from moderate risk in 2020–21.

Council	Description
2021–22 findings	
Cootamundra-Gundagai Regional Council (repeat finding, elevated from moderate to high risk in 2021–22)	Council's payroll Masterfile changes report was not prepared or reviewed.

Common findings

The common payroll findings reported in audit management letters related to deficiencies in the review of employee payroll data and excessive annual leave balances.

Changes to employee payroll data are not reviewed at 16 councils

Sixteen councils did not have adequate processes in place to review changes to employee payroll data. This includes instances where changes are reviewed, but not by an independent person. This increases the risk of unauthorised changes or errors remaining undetected, resulting in financial loss to councils.

3.8 Cash and banking

Councils process a high volume of transactions each year. Effective controls over cash collection, disbursements and reconciliations reduce the risk of fraud and error.

Cash and banking findings decreased from 36 to 29

Audit management letters reported 29 findings relating to cash and banking (2020–21: 36 findings). Forty-one per cent were repeat or partial repeat findings.



Source: Audit management letters for 30 June 2021 and 30 June 2022 audits.

High-risk findings

Two high-risk findings, including one new finding and one repeat finding elevated from moderate risk in 2020–21, were reported at the following councils.

Council	Description
2021–22 findings	
Hilltops Council (repeat finding, elevated from moderate to high risk in 2021–22)	Monthly bank and investments reconciliations were not performed for some bank accounts. Misstatements in cash and investments balances were identified in both 2021–22 and 2020–21 audits.
Penrith City Council (new finding)	Under Section 355 of the LG Act, the council delegated authority to volunteer committees to manage several smaller recreational/community facilities. At 30 June 2022, the council's cash balance reported in the financial statements included cash relating to these committees. Our audit identified deficiencies in the council's process for managing the cash balances of the committees.

Common findings

The common cash and banking findings reported in audit management letters related to outdated bank signatories, the lack of segregation of duties in the cash handling process and the lack of security of payment files.

Outdated bank signatories at ten councils

Bank signatories are not being removed on a timely basis. Ten councils still had their former employees listed as an account signatory for bank accounts. This increases the risk of unauthorised transactions.

Deficiencies in the cash handling processes at six councils

Deficiencies in the cash handling process were identified at six councils, including lack of daily cashier reconciliation and lack of segregation of duty. This increases the risk of undetected balancing errors and misappropriation of cash or cheques.

Lack of security of payment files for pay runs at three councils

Three councils did not encrypt Electronic Funds Transfer payment files from editing or sufficiently restrict access to payment files on the network before they were uploaded to online banking portals. This increases the risk of unauthorised or fraudulent transactions.

3.9 Revenue and receivables

Councils receive revenue from a range of different sources, including rates and annual charges, user charges and fees, operating and capital grants and contributions, and other revenue (such as interest, investments and asset disposals). It is important that councils have appropriate internal controls to accurately record revenue and receivables in compliance with accounting standards and legal requirements.

Revenue and receivable findings decreased from 80 to 69

Audit management letters reported 69 findings relating to revenue and receivables (2020–21: 80 findings). Forty-two per cent were repeat or partial repeat findings.



Source: Audit management letters for 30 June 2021 and 30 June 2022 audits.

High-risk findings

There were no high-risk findings related to revenue and receivable processes in 2021–22 (2020–21: nil).

Common findings

The common revenue and receivables findings reported in audit management letters related to deficiencies in the review of changes to fee tables and property data in council rates systems, and inappropriate revenue recognition practices.

Lack of review of changes to fee tables and property data in the rating system at 15 councils

Council systems contain fee tables and property information, which are used to determine rates and annual charges levied on different properties. Fifteen councils do not adequately review changes for accuracy and appropriateness. This increases the risk of errors in recording rates and annual charges in the financial statements.

Inappropriate revenue recognition at 16 councils

Sixteen councils had findings raised relating to their revenue recognition practices, including:

- no effective internal controls to ensure the completeness of revenue activities recorded
- deficiencies in grants recognition that resulted in misstatement in the financial statements
- use of cash accounting basis to recognise some revenue transactions, rather than accruals.

Deficiencies in revenue recognition practices resulted in 38 errors identified in councils' financial statements, totalling \$65.1 million.

3.10 Information technology (IT)

Councils rely on IT to deliver services and manage information. While IT delivers considerable benefits, it also presents risks that councils need to address. IT general controls relate to the procedures and activities designed to ensure confidentiality, and integrity of systems and data. These controls underpin the integrity of financial reporting.

Financial audits involve the review of IT general controls relating to key financial systems supporting the preparation of council financial statements, addressing:

- policies and procedures
- IT risk management
- user access management
- privileged user access restriction and monitoring
- system software acquisition, change and maintenance
- disaster recovery planning
- cyber security and patch management.

IT findings decreased from 296 to 236

Audit management letters reported 236 findings relating to IT (2020–21: 296 findings). Seventy-three per cent were repeat, partial repeat or ongoing findings.



Source: Audit management letters for 30 June 2021 and 30 June 2022 audits.

High-risk findings

High-risk findings, including repeat and ongoing findings, were reported at the following councils. Increase in high-risk findings are due to a number of unresolved prior year's moderate risk findings being reassessed as high risk. These repeat findings need to be resolved as a priority.

Council	Description
2021–22 findings**	
Dubbo Regional Council (repeat finding)	Council had the following information technology (IT) access control issues: • Audit logs of privileged account activity can be amended or deleted. • Lack of evidence on monitoring of privileged user activity. • Inadequate password configuration.
Lismore City Council (repeat finding)	No periodic review of users who can purge audit logs.
Wagga Wagga City Council (repeat finding)	Council had the following IT access control issues: • No formal policies and procedures for monitoring and managing privileged users. • Due to system limitations, audit logs or privileged access activities cannot be generated in the asset management system. • Audit logs of privileged users are not reviewed for the payroll system. • No formal periodic review of user access rights for payroll and asset management systems. Periodic user access review for finance system was conducted incompletely. • Generic accounts are being used in finance system.
City of Paramatta Council (repeat finding*)	Council had the following IT access control issues: • Audit logs of privileged users are not periodically reviewed. • No periodic review of users who have direct access to the databases of finance, revenue and payroll systems.
Dungog Shire Council (repeat finding*)	Council had the following IT control issues: • missing key IT policies • no IT risk register • audit logs of privileged users are not periodically reviewed • gaps in cyber security management and password configuration.
Liverpool Plains Shire Council (repeat finding*)	Council's key formal IT policies are missing or outdated.
Coonamble Shire Council (repeat finding*)	Council had the following IT access control issues: • Privileged users' activity monitoring only started in June 2022 and hence audit logs of privileged users were not reviewed throughout the financial year. • Lack of segregation of duties as the finance officer has the system administrator role, granting full access to all major modules including general ledger, accounts payable, banking software and bank reconciliations. This officer is also an Electronic Fund Transfer (EFT) transferor.
Orange City Council (repeat finding*)	Council did not have formal IT security policy and procedures.
Uralla Shire Council (repeat finding*)	Council did not have key IT policies, IT business continuity plan or IT disaster recovery plan.

* The findings identified were previously reported as separated moderate-risk findings and yet to be resolved by management as part of the 30 June 2022 audit. Due to the aggregated risk of the findings, these have been reassessed as a high-risk finding.

** Additional audit procedures were performed to respond to and address the weakness identified.

Common findings

The common IT findings reported in audit management letters related to deficiencies in IT policies and procedures, lack of a cyber security framework, and controls and gaps in user access management processes. This is consistent with what we reported in our 'Local Government 2021' report.

IT policies and procedures were outdated or not in place at 43 councils

Forty-three councils (2020–21: 59 councils) did not formalise and/or regularly review their key IT policies and procedures. It is important for key IT policies to be formalised and regularly reviewed to ensure emerging risks are considered and policies are reflective of changes to the IT environment. Lack of formal IT policies and procedures may result in inconsistent and inappropriate practices and an increased likelihood of inappropriate access to key systems.

Lack of periodic user access review at 28 councils and insufficient control over privileged users at 46 councils

The following common access management findings were identified:

- 28 councils (2020–21: 42 councils) did not perform a periodic user access review to ensure users' access to key IT systems were appropriate and commensurate with their roles and responsibilities.
- 46 councils (2020–21: 73 councils) had gaps in privileged users' management process. This includes gaps in restriction of privileged users' access or monitoring of the privileged users' activity logs.

Where robust access management processes are not in place, inappropriate access may exist. This increases the risk of unauthorised transaction or modification of sensitive data and transactions. The common findings above may be rated high-risk when there are no mitigating controls to prevent or detect any unauthorised transactions.

While the above two findings are considered as common findings across councils, we have noticed a significant improvement compared to last year with a 33% reduction in the number of councils with periodic user access review findings, and a 37% reduction in the number of councils with insufficient control over privileged users.

Cyber security frameworks and related internal controls were not in place at 63 councils

The NSW Cyber Security Policy states that the term cyber security covers all measures used to protect systems and information processed, stored or communicated on these systems from compromise of confidentiality, integrity and availability.

While there is currently no requirement for councils to comply with the NSW Government's Cyber Security Policy, councils may find it useful to refer to the policy for further guidance.

Cyber security findings were reported in 63 councils (2020–21: 65 councils) as they did not have at least one of the following basic governance and internal controls to manage cyber security such as having a:

- cyber security framework, policy and procedure
- register of cyber incidents
- simulated cyber attack testing (penetrations testing)
- cyber security training and awareness program.

**Item 8.1 - New Item (8) Auditor General Local Government
reports**

**02 - NSW Auditor General's report on
local government for 2022**

Item 6.1

Enclosure 2

Poor management of cyber security can expose councils to a broad range of risks, including:

- theft of corporate and financial information and intellectual property
- theft of money
- denial of service
- destruction of data
- costs of repairing affected systems, networks and devices
- legal fees and/or legal action from losses arising from denial-of-service attacks causing system downtime in critical systems
- third-party losses when personal information stored on government systems is used for criminal purposes.

Gaps in cyber security management in the local government sector have been continuously highlighted, since our [Report on Local Government 2019](#) first recommended that the Office of Local Government (OLG) within the Department of Planning and Environment should develop a cyber security policy to ensure cyber security risks over key data and IT assets are appropriately managed across councils, and key data is safeguarded.

As of 19 December 2022, OLG has published Cyber Security Guidelines for NSW Local Government. OLG highlighted that councils can adopt the Guidelines or use them to form the basis of an internally developed cyber security policy. Adherence to the Guidelines is strongly recommended by OLG, but voluntary, with no requirement to report maturity scores to the OLG or to Cyber Security NSW.

Given compliance with the guidelines released by OLG is not mandatory, there is an increased risk that councils may not develop an appropriate cyber security plan, which may prevent them from implementing key cyber security controls. With no timeframes set for councils to create a cyber security plan or reporting requirements to the OLG, this further increase the risk that councils may have delays in the implementation of their cyber security controls.

The Cyber Security Guidelines were released by OLG after the 2021–22 financial audit period and hence the full impact of it to councils' cyber security maturity is yet to be seen. However, the data we collected across all 150 councils and joint organisations, identified that at the time when the guidance from OLG was yet to be published, some councils had started developing their cyber security plans adopting guidance from the following sources:

- Cyber Security NSW
- the Australian Cyber Security Centre (ACSC)
- International Organization for Standardization (ISO standards)
- the National Institute of Standards and Technology (NIST)
- Payment Card Industry Data Security Standard (PCI DSS).

Item 8.1 - New Item (8) Auditor General Local Government
reports

02 - NSW Auditor General's report on
local government for 2022

Cyber security management

Cyber security continues to be a sector-wide common audit finding among councils. However, we are seeing some improvements over the implementation of basic cyber security controls that we expect councils to have in place. Whilst our review shown below is limited to the high-level governance of cyber security implementation in local government, the improvements noted indicate that even though there was no formal policy/guidance published for councils at the time of our audit, some councils are working to improve gaps identified in their cyber security management.

Gaps identified	FY2021	FY2022	%
Councils with no formal cyber security policy	46%	47%	1% ↑
Councils with no formal cyber security roles and responsibilities established	39%	33%	6% ↓
Councils that have not communicated cyber risk with those charged with governance	24%	25%	1% ↑
Councils that do not have cyber security identified as a risk in their enterprise risk register	28%	23%	5% ↓
Councils without a register of cyber attack/incidents	40%	30%	10% ↓
Councils that are yet to conduct cyber security training and awareness programs to their staff	51%	34%	17% ↓

Source: Additional data collection from 30 June 2022 audits of councils and joint organisations.

Forty-seven per cent of councils do not have a formal cyber security strategy/plan in place

Our data collection from 30 June 2022 council audits identified that only 53% of councils have created a formal cyber security strategy/plan.

In response to previous audit recommendations, OLG released Cyber Security Guidelines for NSW Local Government on 19 December 2022. The guidelines:

- allow councils to assess their cyber security maturity and their maturity uplift
- outline cyber security standards and controls recommended by Cyber Security NSW for NSW local governments
- can be adopted by councils or used to form the basis of an internally developed cyber security policy
- are strongly recommended to councils for adherence but is voluntary with no requirement to report maturity scores to Cyber Security NSW.

We recommended that all councils should create/update a cyber security plan in order to ensure cyber security risks over key data and IT assets are appropriately managed and key data is safeguarded. Councils should refer to the 'Cyber Security Guidelines for NSW Local Government' released by the OLG.

**Item 8.1 - New Item (8) Auditor General Local Government
reports**

**0 2 - NSW Auditor General's report on
local government for 2022**

Item 6.1

Section two

Appendices

Enclosure 2

Appendix one – Response from the Office of Local Government within the Department of Planning and Environment

Department of Planning and Environment



Ref:
Your Ref: D2306800

Ms Margaret Crawford
Auditor-General for New South Wales
GPO Box 12
SYDNEY NSW 2001

Dear Mrs Crawford

Thank you for your letter of 28 April 2023 and the opportunity to respond to your Report on Local Government 2022 (the Report). I would like to recognise the contribution of the Audit Office towards strengthening governance, financial management and reporting in the local government sector.

Stronger regulatory stance

The Report identifies a clear need for a stronger regulatory stance by the Office of Local Government (OLG). The Report highlights a number of individual and systemic weaknesses across the whole local government sector, notwithstanding that greater intervention may often be needed for individual councils.

Vested Rural firefighting equipment

Regarding a number of references in the Report to rural firefighting equipment, I understand the NSW Government's view is that it does not control rural firefighting equipment and on balance it would appear the councils control the rural firefighting equipment vested to them. I also note the Auditor General's very clear opinion that 43 councils have not complied with the Australian Accounting Standards (AAS) by qualifying their accounts over the failure to account for rural firefighting equipment.

Councils are required to prepare financial statements in accordance with the *Local Government Act 1993* (Act), the AAS and other pronouncements of the Australian Accounting Standards Board and the Local Government Code of Accounting Practice and Financial Reporting (the Code).

OLG will strongly communicate to the local government sector the NSW Government's position that vested rural firefighting equipment is not controlled by the State and on balance councils control the firefighting equipment. OLG will require councils to include rural firefighting equipment in future accounts.

While OLG will take a stronger regulatory stance as recommended by the Audit Office, assistance from the Office on managing the issue of depreciation would be appreciated. Councils have flagged their major objection to the inclusion of rural firefighting equipment is the non-cash impact of depreciation on their accounts. OLG will work on a policy approach to ensure councils are not disadvantaged by depreciation costs for these assets.

Early close procedures

The Department continues to support, in principle, the recommendation that councils adopt early close procedures and recognises a number of councils continue to be unable to meet the statutory deadline for the lodgement of their annual financial statements without applying for an extension. The adoption of a practice which assists councils in meeting the reporting timetable is to be encouraged.

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1

**Item 8.1 - New Item (8) Auditor General Local Government
reports**

**02 - NSW Auditor General's report on
local government for 2022**

Item 6.1

Enclosure 2

Given the differing levels of resources and capabilities across the local government sector, the arbitrary introduction of early close procedures will be problematic. OLG would like to work across the sector and with the Audit Office on an appropriate introduction timetable that recognises the differing levels of capability and capacity across councils.

While mandatory early close timetables are being developed, a council's Audit, Risk and Improvement Committee remains the most suitable body to identify and implement measures to ensure regulatory requirements are met. Councils are, and will continue to be, encouraged to bring forward various financial reporting activities, such as asset valuations, rather than instituting early close procedures across the range of financial reporting activities. OLG notes there was an increase in the number of councils that performed some early financial reporting procedures, 82% in 2021-22 compared with 59% in 2020-21.

Should you require further assistance in relation to these matters, please do not hesitate to contact Brett Whitworth, OLG's Deputy Secretary on or by email at olg@olg.nsw.gov.au

Yours sincerely



**Kiersten Fishburn
A/Secretary**

8 June 2023

Appendix two – Status of audits

Below is a summary of the status of the 2021–22 financial statement audits, including the type of audit opinion and the date it was issued.

2021–22 audits

Key

Type of audit opinion	Date of audit opinion		
Unmodified opinion	✓	Financial statements were lodged by the statutory deadline of 31 October 2022	✓
Unmodified opinion with emphasis of matter	–	Extensions to the statutory deadline (and met)	✓
Modified opinion: qualified opinion, an adverse opinion, or a disclaimer of opinion	!	Extensions to the statutory deadline (and not met)	–
		Financial statements not submitted as at tabling date	!

Council classifications

We adopted the following methodology when classifying councils in our report.

OLG classification	Audit Office grouping
Metropolitan	Metropolitan
Regional town/city	Regional
Metropolitan fringe	Metropolitan
Rural	Rural
Large rural	Rural

Source: OLG classifications and Audit Office.

Metropolitan councils

Council	Type of opinion	Date of audit opinion		
Bayside Council	Unmodified	✓	27 October 2022	✓
Blacktown City Council	Unmodified	✓	28 October 2022	✓
Blue Mountains City Council	Unmodified	✓	31 October 2022	✓
Burwood Council	Unmodified	✓	31 October 2022	✓
Camden Council	Unmodified	✓	18 November 2022	✓
Campbelltown City Council	Unmodified	✓	19 October 2022	✓
Canterbury-Bankstown Council	Unmodified	✓	21 October 2022	✓
Central Coast Council	Unmodified	✓	28 February 2023	✓
City of Canada Bay Council	Unmodified	✓	31 October 2022	✓
Cumberland City Council	Unmodified	✓	25 October 2022	✓

**Item 8.1 - New Item (8) Auditor General Local Government
reports**

**02 - NSW Auditor General's report on
local government for 2022**

Council	Type of opinion	Date of audit opinion
Fairfield City Council	Unmodified	19 October 2022
Georges River Council	Unmodified	22 December 2022
Hawkesbury City Council	Unmodified	7 November 2022
Hornsby Shire Council	Unmodified	27 October 2022
The Council of the Municipality of Hunter's Hill	Unmodified	18 October 2022
Inner West Council	Unmodified	7 December 2022
Ku-ring-gai Council	Unmodified	21 September 2022
Lane Cove Municipal Council	Unmodified	31 October 2022
Liverpool City Council	Unmodified	28 October 2022
Mosman Municipal Council	Unmodified	27 October 2022
North Sydney Council	Unmodified	14 December 2022
Northern Beaches Council	Unmodified	28 September 2022
City of Parramatta Council	Unmodified	2 November 2022
Penrith City Council	Unmodified	31 October 2022
Randwick City Council	Unmodified	11 October 2022
Ryde Council, City of	Unmodified	31 October 2022
Strathfield Municipal Council	Unmodified	31 January 2023
Sutherland Shire Council	Modified	19 October 2022
Council of the City of Sydney	Unmodified	1 November 2022
The Hills Shire Council	Unmodified	13 October 2022
Waverley Council	Unmodified	31 October 2022
Willoughby City Council	Unmodified	25 October 2022
Wollondilly Shire Council	Modified	17 November 2022
Woollahra Municipal Council	Unmodified	28 September 2022

Item 6.1

Enclosure 2

**Item 8.1 - New Item (8) Auditor General Local Government
reports**

**02 - NSW Auditor General's report on
local government for 2022**

Regional councils

Council	Type of opinion	Date of audit opinion	
Albury City Council	Unmodified	27 October 2022	
Armidale Regional Council	Unmodified	31 October 2022	
Ballina Shire Council	Unmodified	27 October 2022	
Bathurst Regional Council	Modified	27 October 2022	
Bega Valley Shire Council	Modified	28 February 2023	
Broken Hill City Council	Unmodified	24 October 2022	
Byron Shire Council	Modified	25 November 2022	
Cessnock City Council	Modified	28 October 2022	
Clarence Valley Council	Modified	30 March 2023	
Coffs Harbour City Council	Unmodified	28 October 2022	
Dubbo Regional Council	Unmodified	28 October 2022	
Eurobodalla Shire Council	Unmodified	2 December 2022	
Goulburn Mulwaree Council	Unmodified	13 December 2022	
Griffith City Council	Modified	22 December 2022	
Kempsey Shire Council	Modified	28 October 2022	
Kiama Municipal Council	--	--	
Lake Macquarie City Council	Unmodified	31 October 2022	
Lismore City Council	Unmodified	23 December 2022	
Lithgow City Council	Unmodified	13 December 2022	
Maitland City Council	Unmodified	26 October 2022	
MidCoast Council	Unmodified	31 October 2022	
Mid-Western Regional Council	Modified	25 October 2022	
Newcastle City Council	Unmodified	10 October 2022	
Orange City Council	Unmodified	30 November 2022	
Port Macquarie-Hastings Council	Unmodified	29 October 2022	
Port Stephens Council	Unmodified	7 October 2022	
Queanbeyan-Palerang Regional Council	Modified	30 November 2022	
Richmond Valley Council	Unmodified	26 October 2022	
Shellharbour City Council	Unmodified	2 March 2023	
Shoalhaven City Council	Unmodified	23 December 2022	
Singleton Council	Unmodified	19 October 2022	
Snowy Monaro Regional Council	Modified	25 November 2022	

61
NSW Auditor-General's Report to Parliament | Local Government 2022 | Appendix two – Status of audits

Item 8.1 - New Item (8) Auditor General Local Government reports

02 - NSW Auditor General's report on local government for 2022

Council	Type of opinion		Date of audit opinion	
Tamworth Regional Council	Modified	!	31 October 2022	✓
Tweed Shire Council	Modified	!	28 October 2022	✓
Wagga Wagga City Council	Modified	!	18 October 2022	✓
Wingecaribee Shire Council	Unmodified	✓	31 October 2022	✓
Wollongong City Council	Unmodified	✓	28 November 2022	✓

Rural councils

Council	Type of opinion		Date of audit opinion	
Balranald Shire Council	Unmodified	✓	31 October 2022	✓
Bellingen Shire Council	Modified	!	27 October 2022	✓
Berrigan Shire Council	Unmodified	✓	8 December 2022	✓
Bland Shire Council	Modified	!	31 October 2022	✓
Blayney Shire Council	Modified	!	21 October 2022	✓
Bogan Shire Council	Unmodified	✓	14 October 2022	✓
Bourke Shire Council	Unmodified	✓	13 October 2022	✓
Brewarrina Shire Council	Unmodified	✓	31 October 2022	✓
Cabonne Council	Modified	!	5 December 2022	✓
Carrathool Shire Council	Modified	!	21 October 2022	✓
Central Darling Shire Council	Unmodified	✓	18 November 2022	✓
Cobar Shire Council	Unmodified	✓	31 October 2022	✓
Coolamon Shire Council	Modified	!	31 October 2022	✓
Coonamble Shire Council	Unmodified	✓	28 November 2022	✓
Cootamundra-Gundagai Regional Council	Modified	!	29 March 2023	✓
Cowra Shire Council	Unmodified	✓	26 October 2022	✓
Dungog Shire Council	Modified	!	21 December 2022	✓
Edward River Council	Modified	!	27 February 2023	✓
Federation Council	Modified	!	31 October 2022	✓
Forbes Shire Council	Modified	!	31 October 2022	✓
Gilgandra Shire Council	Unmodified	✓	31 October 2022	✓
Glen Innes Severn Council	Modified	!	27 February 2023	✓
Greater Hume Shire Council	Modified	!	7 October 2022	✓
Gunnedah Shire Council	Unmodified	✓	10 November 2022	✓
Gwydir Shire Council	Unmodified	—	29 November 2022	✓
Hay Shire Council	Unmodified	✓	31 October 2022	✓

62

NSW Auditor-General's Report to Parliament | Local Government 2022 | Appendix two – Status of audits

Item 6.1

Enclosure 2

Item 8.1 - New Item (8) Auditor General Local Government reports

02 - NSW Auditor General's report on local government for 2022

Council	Type of opinion		Date of audit opinion	
Hilltops Council	Modified	!	28 February 2023	✓
Inverell Shire Council	Unmodified	✓	30 November 2022	✓
Junee Shire Council	Modified	!	20 October 2022	✓
Kyogle Council	Unmodified	✓	13 December 2022	✓
Lachlan Shire Council	Modified	!	28 October 2022	✓
Leeton Shire Council	Modified	!	28 October 2022	✓
Liverpool Plains Shire Council	Unmodified	✓	30 November 2022	✓
Lockhart Shire Council	Modified	!	27 October 2022	✓
Moree Plains Shire Council	Modified	!	28 November 2022	✓
Murray River Council	Modified	!	9 December 2022	✓
Murrumbidgee Council	Modified	!	31 October 2022	✓
Muswellbrook Shire Council	Unmodified	✓	18 November 2022	✓
Nambucca Valley Council	Unmodified	✓	25 October 2022	✓
Narrabri Shire Council	--	--	--	!
Narrandera Shire Council	Unmodified	✓	30 September 2022	✓
Narromine Shire Council	Unmodified	✓	28 October 2022	✓
Oberon Council	Unmodified	✓	29 October 2022	✓
Parkes Shire Council	Unmodified	✓	7 October 2022	✓
Snowy Valleys Council	Modified	!	31 October 2022	✓
Temora Shire Council	Modified	!	31 October 2022	✓
Tenterfield Shire Council	Modified	!	15 November 2022	✓
Upper Hunter Shire Council	Unmodified	✓	31 January 2023	✓
Upper Lachlan Shire Council	Modified	!	22 December 2022	✓
Uralla Shire Council	Unmodified	✓	28 February 2023	✓
Walcha Council	Unmodified	✓	28 October 2022	✓
Walgett Shire Council	Unmodified	✓	26 October 2022	✓
Warren Shire Council	Unmodified	✓	19 October 2022	✓
Warrumbungle Shire Council	Modified	!	28 November 2022	✓
Weddin Shire Council	Modified	!	19 December 2022	✓
Wentworth Shire Council	Unmodified	✓	14 November 2022	✓
Yass Valley Council	Modified	!	31 March 2023	✓

**Item 8.1 - New Item (8) Auditor General Local Government
reports**

**02 - NSW Auditor General's report on
local government for 2022**

Item 6.1

Enclosure 2

County councils

County council	Type of opinion	Date of audit opinion	
Castlereagh Macquarie County Council	Unmodified	✓ 27 October 2022	✓
Central Tablelands County Council	Unmodified	✓ 21 October 2022	✓
Goldenfields Water County Council	Unmodified	✓ 25 October 2022	✓
Hawkesbury River County Council	Unmodified	✓ 25 October 2022	✓
New England Weeds Authority	Unmodified	✓ 27 February 2023	✓
Riverina Water County Council	Unmodified	✓ 4 October 2022	✓
Rous County Council	Unmodified	✓ 24 October 2022	✓
Upper Hunter County Council	Unmodified	✓ 31 October 2022	✓
Upper Macquarie County Council	Unmodified	✓ 16 August 2022	✓

Joint organisations

Joint organisation	Type of opinion	Date of audit opinion	
Canberra Region Joint Organisation	--	-- --	!
Central NSW Joint Organisation	Unmodified	✓ 7 October 2022	✓
Far North West Joint Organisation	Unmodified	✓ 19 October 2022	✓
Far South West Joint Organisation	Unmodified	✓ 31 October 2022	✓
Hunter Joint Organisation	--	-- --	!
Illawarra Shoalhaven Joint Organisation	Unmodified	✓ 28 February 2023	✓
Mid North Coast Joint Organisation	Unmodified	✓ 31 October 2022	✓
Namoi Joint Organisation	Unmodified	✓ 31 October 2022	✓
New England Joint Organisation	Unmodified	✓ 28 November 2022	✓
Northern Rivers Joint Organisation	Unmodified	✓ 20 December 2022	✓
Orana Joint Organisation	Unmodified	✓ 27 October 2022	✓
Riverina and Murray Joint Organisation	Unmodified	✓ 14 October 2022	✓
Riverina Joint Organisation	Unmodified	✓ 31 October 2022	✓

2020–21 audits

Regional councils

Council	Type of opinion	Date of audit opinion	
Kiama Municipal Council	Disclaimer	! 20 April 2023	—

Appendix three – Councils received qualified audit opinions

No.	Council	Qualification
1.	Bathurst Regional Council	Non-recognition of rural firefighting equipment (and no evidence to support fair value)
2.	Bega Valley Shire Council	Non-recognition of rural firefighting equipment (and no evidence to support fair value)
3.	Bellingen Shire Council	Non-recognition of rural firefighting equipment (and no evidence to support fair value)
4.	Byron Shire Council	Non-recognition of rural firefighting equipment (and no evidence to support fair value)
5.	Cabonne Council	Non-recognition of rural firefighting equipment (and no evidence to support fair value)
6.	Carrathool Shire Council	Non-recognition of rural firefighting equipment (and no evidence to support fair value)
7.	Cessnock City Council	Non-recognition of rural firefighting equipment (and no evidence to support fair value)
8.	Coolamon Shire Council	Non-recognition of rural firefighting equipment (and no evidence to support fair value)
9.	Dungog Shire Council	Non-recognition of rural firefighting equipment (and no evidence to support fair value)
10.	Edward River Council	Non-recognition of rural firefighting equipment (and no evidence to support fair value)
11.	Federation Council	Non-recognition of rural firefighting equipment (and no evidence to support fair value)
12.	Forbes Shire Council	Non-recognition of rural firefighting equipment (and no evidence to support fair value)
13.	Greater Hume Shire Council	Non-recognition of rural firefighting equipment (and no evidence to support fair value)
14.	Griffith City Council	Non-recognition of rural firefighting equipment (and no evidence to support fair value)
15.	Hilltops Council	Non-recognition of rural firefighting equipment (and no evidence to support fair value)
16.	Kempsey Shire Council	Non-recognition of rural firefighting equipment (and no evidence to support fair value)
17.	Lachlan Shire Council	Non-recognition of rural firefighting equipment (and no evidence to support fair value)
18.	Leeton Shire Council	Non-recognition of rural firefighting equipment (and no evidence to support fair value)
19.	Lockhart Shire Council	Non-recognition of rural firefighting equipment (and no evidence to support fair value)
20.	Mid-Western Regional Council	Non-recognition of rural firefighting equipment (and no evidence to support fair value)

**Item 8.1 - New Item (8) Auditor General Local Government
reports**

**02 - NSW Auditor General's report on
local government for 2022**

No.	Council	Qualification
21.	Moree Plains Shire Council	Non-recognition of rural firefighting equipment (and no evidence to support fair value)
22.	Murray River Council	Non-recognition of rural firefighting equipment (and no evidence to support fair value)
23.	Murrumbidgee Council	Non-recognition of rural firefighting equipment (and no evidence to support fair value)
24.	Queanbeyan-Palerang Regional Council	Non-recognition of rural firefighting equipment (and no evidence to support fair value)
25.	Snowy Monaro Regional Council	Non-recognition of rural firefighting equipment (and no evidence to support fair value)
26.	Sutherland Shire Council	Non-recognition of rural firefighting equipment (and no evidence to support fair value)
27.	Tamworth Regional Council	Non-recognition of rural firefighting equipment (and no evidence to support fair value)
28.	Temora Shire Council	Non-recognition of rural firefighting equipment (and no evidence to support fair value)
29.	Tweed Shire Council	Non-recognition of rural firefighting equipment (and no evidence to support fair value)
30.	Upper Lachlan Shire Council	Non-recognition of rural firefighting equipment (and no evidence to support fair value)
31.	Wagga Wagga City Council	Non-recognition of rural firefighting equipment (and no evidence to support fair value)
32.	Weddin Shire Council	Non-recognition of rural firefighting equipment (and no evidence to support fair value)
33.	Wollondilly Shire Council	Non-recognition of rural firefighting equipment (and no evidence to support fair value)
34.	Glen Innes Severn Council	Non-recognition of rural firefighting equipment and buildings on council controlled land (and no evidence to support fair value)
35.	Junee Shire Council	Non-recognition of rural firefighting equipment and buildings on council controlled land (and no evidence to support fair value)
36.	Snowy Valleys Council	Non-recognition of rural firefighting equipment and buildings on council controlled land (and no evidence to support fair value)
37.	Blayney Shire Council	Non recognition of rural firefighting equipment (and evidence to support fair value exceeds materiality set for the audit)
38.	Tenterfield Shire Council	Non recognition of rural firefighting equipment and buildings on council controlled land (and evidence to support fair value exceeds materiality set for the audit)
39.	Warrumbungle Shire Council	Non-recognition of rural firefighting equipment (and no evidence to support fair value) and Council determined to remove rural firefighting equipment from financial statements
40.	Bland Shire Council	Non-recognition of rural firefighting equipment and buildings (and no evidence to support fair value) and Council determined to remove rural firefighting equipment from financial statements

Item 8.1 - New Item (8) Auditor General Local Government reports

0 2 - NSW Auditor General's report on local government for 2022

No.	Council	Qualification
41.	Yass Valley Council	Non-recognition of rural firefighting equipment (and no evidence to support fair value)
42.	Cootamundra-Gundagai Regional Council	Non-recognition of rural firefighting equipment and buildings on council controlled land (and no evidence to support fair value)
43.	Clarence Valley Council	Non recognition of rural firefighting equipment (and evidence to support fair value exceeds audit overall materiality)

Item 6.1

Enclosure 2

Appendix four – Common reasons for council extensions

Common reasons for seeking extension	Council or joint organisation
Natural disasters including floods recovery	• Byron Shire Council • Camden Council • Clarence Valley Council • Dungog Shire Council • Edward River Council • Hawkesbury City Council • Kyogle Council • Lismore City Council • Muswellbrook Shire Council • Northern Rivers Joint Organisation • Weddin Shire Council
Obtaining sufficient evidence to support carrying value of rural firefighting equipment	• Bega Valley Shire Council • Gunnedah Shire Council • Hilltops Council • Moree Plains Shire Council • Warrumbungle Shire Council
Resolving asset valuation issues	• Coonamble Shire Council • Cootamundra-Gundagai Regional Council • Eurobodalla Shire Council • Goulburn Mulwaree Council • Hawkesbury City Council • Griffith City Council • Inner West Council • Lithgow City Council • Muswellbrook Shire Council • Orange City Council • Shoalhaven City Council • Snowy Monaro Regional Council • Upper Hunter Shire Council • Wentworth Shire Council • Wollongong City Council
Delayed implementation of new IT systems	• Murray River Council

**Item 8.1 - New Item (8) Auditor General Local Government
reports**

**02 - NSW Auditor General's report on
local government for 2022**

Common reasons for seeking extension	Council or joint organisation
Resourcing issues	• Bega Valley Shire Council • Berrigan Shire Council • Cabonne Council • Camden Council • Canberra Region Joint Organisation • Central Darling Shire Council • Cootamundra-Gundagai Regional Council • Dungog Shire Council • Edward River Council • Eurobodalla Shire Council • Georges River Council • Glen Innes Severn Council • Griffith City Council • Goulburn Mulwaree Council • Hilltops Council • Illawarra Shoalhaven Joint Organisation • Inner West Council • Inverell Shire Council • Kiama Municipal Council • Lithgow City Council • Liverpool Plains Shire Council • Moree Plains Shire Council • Narrabri Shire Council • New England Weeds Authority • Orange City Council • Shellharbour City Council • Shoalhaven City Council • Tenterfield Shire Council • Upper Hunter Shire Council • Upper Lachlan Shire Council • Uralla Shire Council • Warrumbungle Shire Council • Weddin Shire Council • Wentworth Shire Council • Wollondilly Shire Council • Yass Valley Council

Item 8.1 - New Item (8) Auditor General Local Government reports

0 2 - NSW Auditor General's report on local government for 2022

Common reasons for seeking extension	Council or joint organisation
Accounting or other matters that required more time to resolve	- Central Coast Council - Canberra Region Joint Organisation - Cootamundra-Gundagai Regional Council - Dungog Shire Council - Edward River Council - Gwydir Shire Council - Kiama Municipal Council - New England Joint Organisation - Narrabri Shire Council - North Sydney Council - Queanbeyan-Palerang Regional Council - Shellharbour City Council - Strathfield Municipal Council - Tenterfield Shire Council - Hunter Joint Organisation
Councils' meeting times did not align with signing of the statements.	- Council of the City of Sydney - City of Parramatta Council

Source: Council extension letters submitted to OLG.

Item 6.1

Enclosure 2

Item 8.1 - New Item (8) Auditor General Local Government
reports

0 2 - NSW Auditor General's report on
local government for 2022

Professional people with purpose

OUR VISION

Our insights inform and challenge
government to improve outcomes
for citizens.

OUR PURPOSE

To help Parliament hold government
accountable for its use of
public resources.

OUR VALUES

Pride in purpose
Curious and open-minded
Valuing people
Contagious integrity
Courage (even when it's uncomfortable)

Item 6.1

Enclosure 2

Item 8.1 - New Item (8) Auditor General Local Government reports

0 2 - NSW Auditor General's report on local government for 2022

Item 6.1

Enclosure 2

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Item 8.1 - New Item (8) Auditor General Local Government
reports

03 - NSW Auditor General's report on
local government for 2023



Item 6.1

Enclosure 2

Local Government 2023

NEW SOUTH WALES AUDITOR-GENERAL'S REPORT



Item 8.1 - New Item (8) Auditor General Local Government
reports

03 - NSW Auditor General's report on
local government for 2023

THE ROLE OF THE AUDITOR-GENERAL

The roles and responsibilities of the Auditor-General, and hence the Audit Office, are set out in the *Government Sector Audit Act 1983* and the *Local Government Act 1993*.

We conduct financial or 'attest' audits of state public sector and local government entities' financial statements. We also audit the Consolidated State Financial Statements, a consolidation of all state public sector agencies' financial statements.

Financial audits are designed to give reasonable assurance that financial statements are true and fair, enhancing their value to end users. Also, the existence of such audits provides a constant stimulus to entities to ensure sound financial management.

Following a financial audit the Audit Office issues a variety of reports to entities and reports periodically to Parliament. In combination, these reports give opinions on the truth and fairness of financial statements, and comment on entity internal controls and governance, and compliance with certain laws, regulations and government directives. They may comment on financial prudence, probity and waste, and recommend operational improvements.

We also conduct performance audits. These assess whether the activities of government entities are being carried out effectively, economically, efficiently and in compliance with relevant laws. Audits may cover all or parts of an entity's operations, or consider particular issues across a number of entities. Our performance audits may also extend to activities of non-government entities that receive money or resources, whether directly or indirectly, from or on behalf of government entities for a particular purpose.

As well as financial and performance audits, the Auditor-General carries out special reviews, compliance engagements and audits requested under section 27B(3) of the *Government Sector Audit Act 1983*, and section 421E of the *Local Government Act 1993*.

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GPO Box 12
Sydney NSW 2001

The Legislative Assembly
Parliament House
Sydney NSW 2000

The Legislative Council
Parliament House
Sydney NSW 2000

In accordance with section 421D of the *Local Government Act 1993*,
I present a report titled '**Local Government 2023**'.

A handwritten signature in blue ink, appearing to read 'Margaret Crawford'.

Margaret Crawford PSM
Auditor-General for New South Wales
26 March 2024

**Item 8.1 - New Item (8) Auditor General Local Government
reports**

**03 - NSW Auditor General's report on
local government for 2023**



The Audit Office of New South Wales pay our respect and recognise
Aboriginal people as the traditional custodians of the land in NSW.

We recognise that Aboriginal people, as custodians, have a spiritual, social and
cultural connection with their lands and waters, and have made and continue
to make a rich, unique and lasting contribution to the State. We are committed
to continue learning about Aboriginal and Torres Strait Islander peoples' history
and culture.

We honour and thank the traditional owners of the land on which our office is
located, the Gadigal people of the Eora nation, and the traditional owners of
the lands on which our staff live and work. We pay our respects to their Elders
past and present, and to the next generation of leaders.

Item 8.1 - New Item (8) Auditor General Local Government reports

0 3 - NSW Auditor General's report on local government for 2023

Item 6.1

contents

Local Government 2023

Auditor-General's foreword	1
Section one – Local Government 2023	
Introduction	3
Audit results	6
Key audit findings	19
Section two – Appendices	
Appendix one – Response from the Office of Local Government within the Department of Planning, Housing and Infrastructure	45
Appendix two – NSW Crown Solicitor's advice	48
Appendix three – Status of previous recommendations	62
Appendix four – Status of audits	66
Appendix five – Councils received qualified audit opinions for non-recognition of rural firefighting equipment	72

Enclosure 2

Auditor-General's foreword

Pursuant to the *Local Government Act 1993* I am pleased to present my Auditor-General's report on Local Government 2023. My report provides the results of the 2022–23 financial audits of 121 councils, eight county councils and 12 joint organisations. It also includes the results of the 2021–22 audits for two councils and two joint organisations which were completed after tabling of the Auditor-General's report on Local Government 2022. The 2022–23 audits for eight councils, one county council and one joint organisation remain in progress due to significant accounting issues.

This will be my last consolidated report on local councils in NSW as my term as Auditor-General ends in April. Without a doubt, the change in mandate to make me the auditor of the local government sector has been the biggest challenge in my term. Challenging for councils as they adjust to consistent audit arrangements and for the staff of the Audit Office of NSW as they learn about the issues facing NSW councils.

The change in mandate aimed to improve the quality of financial management and reporting across the sector. This will take time. But this report does show some 'green shoots' with more councils submitting financial reports to the Office of Local Government by 31 October and more councils having Audit, Risk and Improvement Committees.

I also want to acknowledge that councils face significant challenges responding to and recovering from emergency events whilst cost and resourcing pressures have been persistent.

The findings from our audits identify opportunities to further improve timeliness and quality of financial reporting and integrity of systems and processes. The recommendations in this report are also intended to improve financial management and reporting capability, encourage sound governance, and boost cyber resilience.

Margaret Crawford PSM
Auditor-General for New South Wales

**Item 8.1 - New Item (8) Auditor General Local Government
reports**

**0 3 - NSW Auditor General's report on
local government for 2023**

Item 6.1

Section one

Local Government 2023

This report analyses the results of our audits of local councils for the year ended 30 June 2023.

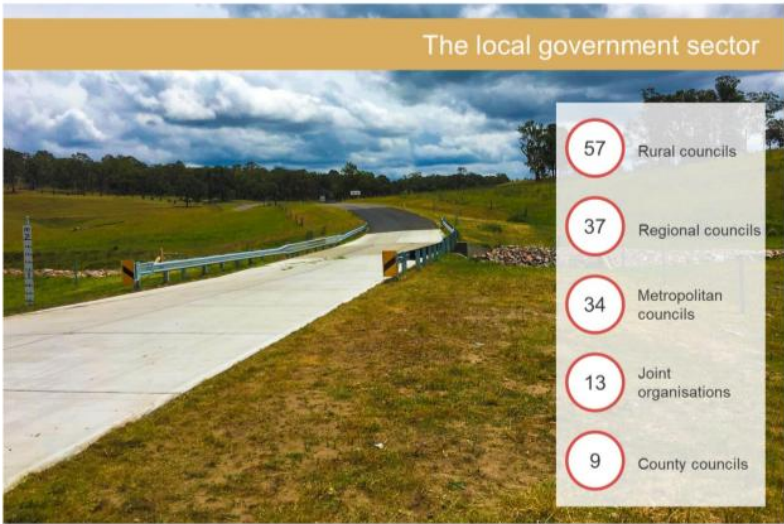
Enclosure 2

1. Introduction

1.1 The local government sector

Local government is the third tier of government. It is established under state legislation, which defines the powers and geographical areas each council is responsible for.

At 30 June 2023, there were 128 local councils, 13 joint organisations and nine county councils in New South Wales.



Councils provide a range of services and infrastructure for a geographical area. Services include waste collection, planning, child and family day care, and recreational services. Councils also build and maintain infrastructure, including roads, footpaths, stormwater and in many regional and rural areas water and sewer. While core functions, such as waste collection, are similar across councils, the range of services each council provides can vary depending on the needs of each community.

County councils were established for specific purposes, such as to supply water, manage flood plains or eradicate noxious weeds.

Joint organisations were formed in regional New South Wales to improve infrastructure and service delivery in regional communities.

1.2 Financial audit

This report provides the results and findings of the completed 2022–23 financial audits of 121 councils, eight county councils and 12 joint organisations, and the completed 2021–22 financial audits of two councils and two joint organisations.

The audits for seven councils, one county council and one joint organisation remain in progress as at the date of this report.

In preparing this report, our observations and analyses were drawn from:

- audited financial statements
- performance audit reports
- data collected from councils
- audit findings reported to councils in audit management letters.

Each local council has unique characteristics such as its size, location and services provided to their communities. To enable comparison, we divided councils into three categories – metropolitan, regional and rural. County councils and joint organisations are separately identified in the report.

1.3 Performance audit

Our performance audits assess whether the activities of government entities are being carried out effectively, economically, efficiently, and in compliance with relevant laws. Our mandate to conduct these audits is provided under the *Local Government Act 1993* (LG Act).

The recent performance audits relevant to the local government sector included:

Financial management and governance in MidCoast Council

The *Local Government Act 1993* requires councils to apply sound financial management principles, including sustainable expenditure, effective financial management and regard to intergenerational equity.

This audit assessed whether MidCoast Council had effective financial management arrangements that support councillors and management to fulfill their responsibilities as financial stewards.

MidCoast Council did not meet all legislative and policy requirements for long-term financial planning.

From 2019–20 to 2020–21 financial years, the Council had financial management and governance gaps. Some gaps were addressed throughout 2021–22.

MidCoast Council experienced significant challenges in its implementation of a consolidated financial management system following amalgamation in 2016 and the merging of MidCoast Water in 2017. This led to gaps in finance processes and data quality.

We recommended MidCoast Council to:

- ensure its long-term financial plan meets legislative and policy requirements
- undertake service reviews to better understand net costs to inform budget and financial planning decisions
- improve the quality of asset management information to inform budget and financial planning decisions
- use the financial management components of the MC1 system to its full potential
- address control and process gaps identified in audits and reviews
- ensure competency of those responsible for finance and budget
- ensure financial sustainability initiatives account for the cost of services and asset management information.

Item 8.1 - New Item (8) Auditor General Local Government
reports

03 - NSW Auditor General's report on
local government for 2023

Findings and recommendations around the effectiveness of long-term financial planning, comprehensive and timely financial reporting and financial management governance arrangements are relevant for all councils.

Cyber security in local government

Councils use various information systems and software to manage significant amounts of information and data relevant to their corporate functions, infrastructure and service delivery. This may include sensitive information about residents, customers and staff.

The threat from cyber security incidents continues to rise. Such incidents can harm local government service delivery and may include theft of information, denial of access to critical technology, or even the hijacking of systems for profit or malicious intent.

This audit assessed how effectively the City of Parramatta Council, Singleton Council and Warrumbungle Shire Council identified and managed cyber security risks. The audit considered whether the councils:

- effectively identify and plan for cyber security risks
- have controls in place to effectively manage identified cyber security risk
- have processes in place to detect, respond to, and recover from cyber security incidents.

Refer to [Cyber security in local government](#) for the findings and recommendations, which are relevant for all councils.

Performance audits planned or in progress

The following local government performance audit reports are either planned or in progress:

- **Road asset management**
New South Wales has over 180,000 km of roads across its network. Local councils manage over 85% of these roads.
This audit will consider how effectively three councils are managing their road assets. The audit will examine whether the selected councils have a strategic framework in place for road assets, have effective data and systems for managing road assets and whether they manage their road assets in line with planned service levels and quality outcomes.
The councils selected for this audit are Gwydir Shire Council, Wollondilly Shire Council and Clarence Valley Council.
- **Coastal management reforms**
The coast is one of our greatest assets in New South Wales and is home to nearly 85% of the state's population. The NSW Government has established a framework to manage the coastal environment in a sustainable way for the wellbeing of the people of New South Wales. This includes the *Coastal Management Act 2016*, which requires certain local councils to prepare a coastal management program, and the State Environmental Planning Policy (Resilience and Hazards) 2021. The Department of Planning, Housing and Infrastructure (the Department) is responsible for the Act and assists local councils in the coastal zone ('coastal councils') by administering grant funding and offering technical support and coordination for their coastal management programs.
This audit could assess how effectively the Department has overseen and implemented key elements of this reform package, and how effectively coastal councils have progressed coastal management planning and delivered coastal management programs.

2. Audit results

Financial reporting is an important element of good governance. Confidence in and transparency of public sector decision-making are enhanced when financial reporting is accurate and timely.

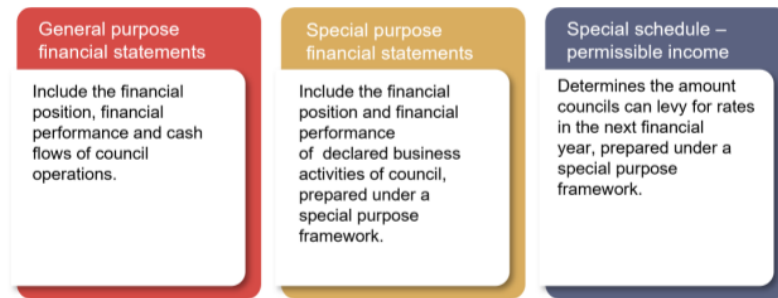
This chapter outlines audit observations related to the financial reporting audit results of councils, county councils and joint organisations.

Section highlights

- Unqualified audit opinions were issued for 85 councils, eight county councils and 12 joint organisation's 2022–23 financial statements.
- Disclaimers of opinion were issued to Kiama Municipal Council and Narrabri Shire Council for their 30 June 2022 financial statements.
- Qualified audit opinions were issued for 36 councils due to their financial statements not recognising rural firefighting equipment vested to councils under the *Rural Fires Act 1997*.
- The audits for seven councils, one county council and one joint organisation remain in progress at the date of this report due to significant accounting issues.
- Council financial statements include 242 uncorrected errors and 75 retrospective correction of prior period errors.
- One hundred councils, county councils and joint organisations (2021–22: 93) lodged audited financial statements with the Office of Local Government (OLG) by the statutory deadline of 31 October. Fifty councils, county councils and joint organisations missed the 31 October deadline.
- Three joint organisations and one council breached the *Local Government Act 1993* as they did not seek extensions from the OLG and missed the statutory deadline.
- Fifty-four per cent of councils performed some early financial reporting procedures, such as revaluing assets before the 30 June (2021–22: 82%).

2.1 Quality of financial reporting

The Auditor-General is required, under the *Local Government Act 1993* (LG Act), to issue an audit opinion on each of the following reports prepared by councils. The information in this chapter focusses on general purpose financial statements.



Indicators of quality financial reporting include:

- unqualified audit opinions
- low number of errors, including disclosure deficiencies, in financial statements.

Audit opinions

Unqualified audit opinions were issued for 105 councils and joint organisations

At the date of this report, we issued unqualified audit opinions for the 2022–23 financial statements of 85 councils, eight county councils and 12 joint organisations. This means sufficient audit evidence was obtained to conclude the financial statements were free of material misstatement and were prepared in accordance with Australian Accounting Standards and the LG Act.

Unqualified audit opinions were issued for the 2021–22 financial statements of Canberra Region Joint Organisation and Hunter Joint Organisation, after tabling of the 'Local Government 2022' report.

Disclaimer of opinion for Kiama Municipal Council's 30 June 2022 financial statements

Councillors and management declared, in the Statement required by Councillors and Management under Section 413(2)(c) of the LG Act, that they were unable to:

- rely on the prior year comparative information presented, which represent the opening balances for the 2021–22 financial statements
- warrant the completeness, accuracy and valuation of the net carrying values of infrastructure, property, plant and equipment (IPPE), excluding buildings and operational land
- attest to the completeness, accuracy and valuation of disclosures related to IPPE
- verify the accuracy of restricted cash, cash equivalents and investments
- certify the financial statements as a whole due to these issues.

A disclaimer of opinion was issued for the 30 June 2022 financial statements of the Kiama Municipal Council.

Item 8.1 - New Item (8) Auditor General Local Government
reports

03 - NSW Auditor General's report on
local government for 2023

A disclaimed audit opinion is issued when the auditor is unable to obtain sufficient appropriate audit evidence upon which to form an opinion on the council's financial statements, and the auditor concludes that the possible effects of undetected misstatements in the financial statements could be both material and pervasive.

An emphasis of matter was also included to draw attention to externally restricted funds being used for a purpose other than their intended use without Ministerial approval.

In November 2022, the former Minister issued a performance improvement order setting out actions to be taken to improve Council's financial management.

Disclaimer of opinion for Narrabri Shire Council's 30 June 2022 financial statements

Councillors and management declared, in the Statement required by Councillors and Management under Section 413(2)(c) of the LG Act, that the underlying books and records were insufficient to support significant balances impacted by multiple flood events and disclosures. These included:

- carrying value of capital work in progress
- carrying value of road assets
- validity of prior period errors recorded in the financial statements.

A disclaimer of opinion was issued for the 30 June 2022 financial statements of Narrabri Shire Council.

Non-recognition of vested rural firefighting equipment by councils led to 36 qualified audit opinions

Thirty-six councils (2021–22: 43) received qualified audit opinions on their 2022–23 financial statements due to non-recognition of vested rural firefighting equipment as assets within their financial statements at 30 June 2023. These qualified audit opinions took different forms depending on the circumstances surrounding the non-recognition, as follows:

- 34 councils imposed a limitation of scope on the audit by not undertaking procedures to confirm the completeness, accuracy, existence or condition of the equipment
- 2 councils for omitting material assets in their financial statements, despite undertaking procedures to confirm the completeness, accuracy, existence, and condition of the equipment.

A qualified audit opinion is issued when the auditor:

- having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in aggregate, are material but not pervasive to the financial statements, or
- is unable to obtain sufficient appropriate audit evidence on which to base the opinion, but the possible effects of undetected misstatements on the financial statements are material but not pervasive.

The 2022 qualified opinions on six councils were removed as they addressed audit recommendations. The remaining council has an extension and is not reported in this chapter.

Refer to [Appendix five](#) for a list of councils with qualified audit opinions in 2022–23 relating to rural firefighting equipment.

The continued non-recognition of vested rural firefighting equipment in financial management systems of some councils increases the risk that these assets are not properly maintained and managed. Councils that have rural firefighting equipment vested under section 119(2) of the *Rural Fires Act 1997* (Rural Fires Act), should recognise these assets in their financial management systems and maintain the assets to the required standards in readiness for fire mitigation and prevention activities.

Item 8.1 - New Item (8) Auditor General Local Government
reports

03 - NSW Auditor General's report on
local government for 2023

Councils have specific responsibilities for fire mitigation and safety works and bush fire hazard reduction under Part 4 of the Rural Fires Act. The Council obtains economic benefits from the rural firefighting equipment as these assets are used to fulfil Council's responsibilities.

In accordance with the Australian Accounting Standards, vested rural firefighting equipment is recorded as an asset and contribution revenue for assets acquired free of charge so there is no cash impact. Over the useful life of the asset, the revenue is offset by the depreciation charge. There is no impact on cash or net assets at the end of the asset's useful life.

Twenty councils performed sufficient procedures to confirm the value of these assets was not material to their financial statements and received unqualified audit opinions

Twenty councils do not record rural firefighting equipment in their financial statements, but performed sufficient procedures to demonstrate the value of unrecorded assets was not material to the financial statements taken as a whole. These omissions were reported as an uncorrected error. The risk of future qualifications remains as the value may become material to the financial statements as further firefighting equipment is vested to them in future years. There is also a heightened risk that these important assets are not being properly maintained and managed for operational purposes.

Forty-nine councils recognised their rural firefighting equipment, two of these for the first time

Forty-nine (2021–22: 47) councils recognised vested rural firefighting equipment in their financial statements, with two councils recognising the equipment in their financial statements for the first time in 2022–23.

The continuing inconsistency in the recognition and management practices for rural firefighting equipment across the local government sector puts at risk the operational capability for the deployment of these assets.

The Office of Local Government has updated the 'Local Government Code of Accounting Practice for 2023–24' to require councils to recognise material rural firefighting equipment in the financial statements.

Two councils received qualified audit opinions

In addition to receiving qualified audit opinions for non-recognition of vested rural firefighting equipment, two councils received other qualifications in the Independent Auditor's Reports for the 2022–23 financial statements. The table below includes the reasons for these qualified audit opinions.

Council	Reason
Snowy Monaro Regional	Council certified it was unable to provide sufficient and appropriate audit evidence to support completeness and accuracy of road assets within its infrastructure, property, plant and equipment balance as at 30 June 2023.
Moree Plains Shire	Council certified it was unable to provide sufficient and appropriate audit evidence to support the carrying values of roads, water supply network and sewerage network assets within its infrastructure, property, plant and equipment balance as at 30 June 2023.

Emphasis of matter paragraphs were included in four audit opinions

An emphasis of matter paragraph is included in the Independent Auditor's Report to refer to a matter presented or disclosed in the financial statement that we deem is fundamental to the understanding of the financial statements. The table below details the emphasis of matter paragraphs reported in the Independent Auditor's Reports for the 2022–23 financial statements.

Council/Joint Organisation	Reason
Weddin Shire	Council acknowledged it had used the following funds for purposes other than their intended use during the year ended 30 June 2023: - externally restricted funds (non-compliance with s.409 of the LG Act) - special rates and charges funds (non-compliance with s.410 of the LG Act).
Gwydir Shire	Council acknowledged it had used externally restricted funds for purposes other than their intended use between 1 July 2022 and 31 August 2022 (non-compliance with s.409 of the LG Act). Council is also unable to verify that special rates or charges funds were not used to pay for general expenses between 1 July 2022 and 31 August 2022 (non-compliance with s.410 of the LG Act).
New England	The financial statements were prepared on a non-going concern basis as the joint organisation intends to cease operations within the next 12 months.

Other matter paragraphs were included in two audit opinions

An other matter paragraph is included in the Independent Auditor's Report to refer to a matter not presented in the financial statements that we deem relevant to the understanding of the audit, the auditor's responsibilities or the auditor's report.

The table below details the other matter paragraph reported in the Independent Auditor's Report for the 2022–23 financial statements.

Joint Organisation	Reason
New England	The joint organisation did not comply with the following requirements of the LG Act and LG Regulation: - has not met more than four times per year (s.400T(9) of the LG Act) - no financial contributions were paid to the joint organisation by member councils for the year ended 30 June 2023 (s.397L of the LG Regulation) - has not published a statement of strategic regional priorities (s.397H of the LG Regulation), annual performance statement (s.397J of the LG Regulation) and annual statement of the revenue policy (s.397I of the LG Regulation).

The audit of the City of Ryde was delayed while we considered a significant audit matter relating to the use and management of restricted cash and investments

On 26 May 2023, Council wrote to the Auditor-General for NSW, highlighting several matters concerning the management of funds held in restricted cash and investments. The letter highlighted several potential breaches of legislation in relation to the movement and expenditure of funds collected under developer contribution plans, voluntary planning agreements and for domestic waste management, and set out the main steps Council was taking to address the matters noted. The matters raised ultimately did not impact our opinion on Council's 2023 financial statements, which was issued on 28 February 2024, but did require significant analysis as to interpretation of the legal view and the requirements of the accounting framework.

In 2020–21, Council moved \$88 million from its externally restricted cash and investments

Council adopted a new developer contributions plan (referred to as the 2020 Plan), effective 1 July 2020, and repealed its old plan (referred to as the 2014 Plan). Following the repeal of the 2014 Plan, Council moved \$88 million of funds collected under the 2014 Plan from its externally restricted cash and investments from developer contributions. Council moved:

- \$35.5 million to the Ryde Central Reserve, as an internal allocation, which was not spent
- \$52.5 million to the Asset Expansion Reserve, as an internal allocation. Council identified that the funds were largely spent on projects identified in the 2014 or 2020 Plans. However, \$11.6 million of these funds was spent on projects not identified in either of these plans, but provided amenities or services to the community in accordance with Council's Delivery Program.

In 2021–22, Council also transferred \$1.1 million from its externally restricted cash and investments to the employee leave entitlement reserve, as an internal allocation, which was not spent.

In 2020–21, Council provided the Audit Office with a piece of legal advice as evidence to support its disclosures within its 2020–21 and 2021–22 financial statements. This advice, from 2016, dealt with certain matters around expenditure of what were then section 94 contributions under the *Environmental Planning and Assessment Act 1979* (EPA Act). While this advice was on another matter, it specifically discusses the principles and case law that might apply to the future use of funds once a contributions plan has been repealed.

Council has received subsequent legal advice on the movement and expenditure of externally restricted cash and investments

Council obtained legal advice on the movements and use of the funds from a legal firm in 2022–23. Council's most recent legal advice, upon which it relied to inform the movements and disclosures within its 2023 financial statements, identified that the transfer of the developer contributions collected under the 2014 Plan and certain expenditures from prior years, noted above, were potential breaches of the EPA Act.

The advice also identified breaches of legislation relating to expenditure in 2020–21:

- \$3.7 million from voluntary planning agreement contributions to fund Council's operations in response to COVID-19 income reductions and software related purchases. This expenditure breached section 7.3 of the EPA Act and section 409(3) of the Act.
- \$1 million of domestic waste management funds to fund COVID-19 hardship rates. This expenditure breached sections 504 and 409(3) of the Act.

The Audit Office obtained advice from the Crown Solicitor

We concurred that the expenditure in prior years of the voluntary planning agreement contributions and domestic waste management funds for COVID-19 related purposes was inconsistent with relevant legislation. However, due to the lack of case law precedent and explicit guidance in the EPA Act or Regulation, the movement and use of repealed developer contribution funds is a more complex legal matter.

The Audit Office sought legal advice from the Crown Solicitor about the general application of the law on the use and management of funds collected under repealed development contributions plans (DCPs), and for domestic waste management.

In relation to the use and management of funds collected under repealed DCPs, the Crown Solicitor advised that:

Neither the EPA Act and the EPA regulation, nor present authorities, provide explicit or substantial guidance as to the extent to which a DCP may enable the carrying-over and application of contributions previously collected under a repealed plan. Nor by extension, do they provide significant assistance in determining whether a specific DCP is to be interpreted as permitting this practice.

Item 8.1 - New Item (8) Auditor General Local Government
reports

03 - NSW Auditor General's report on
local government for 2023

Some of the principles expressed by the Crown Solicitor differed from those of Council. As a result of these differences and feedback from Council, we sought further advice from the Crown Solicitor on Council's specific circumstances.

Council's movement of these funds back to externally restricted reserves in 2023 is in accordance with its most recent legal advice

We note that to address the potential breaches in prior years detailed above, on 27 June 2023, Council resolved to return:

- \$35.5 million from the Ryde Central Reserve to the s7.11 Externally Restricted Reserves
- \$1.1 million from Employee Leave Entitlements Reserve to s7.11 Externally Restricted Reserves
- \$1.1 million from interest earned in prior years from the Accommodation Reserve to the s7.11 Externally Restricted Reserves.

The same resolution also reimbursed Council's externally restricted reserves for the following amounts:

- \$3.7 million related to funds collected under voluntary planning agreements from the Accommodation Reserve to the Voluntary Planning Agreement Reserve
- \$1 million of domestic waste management funds from the Accommodation Reserve to the Domestic Waste Management Reserve.

In consideration of Council's most recent legal advice and the Crown Solicitor's advice, we supported the transfers of the funds back to externally restricted reserves in 2022–23.

As noted above, we sought and received further specific advice from the Crown Solicitor, to inform our view on whether Council breached legislation in prior years. That advice confirmed the Crown Solicitor's previous general advice that merely transferring funds to council's internal reserves did not breach Council's legal obligations under s7.3(1) of the EPA Act. The Crown Solicitor's general advice is at appendix two to this report.

The potential for any breach of legislation did not impact the 2022–23 financial statement disclosures, namely Note C 1-3 'Restricted and allocated cash, cash equivalents and investments', Note F 3-1 'Summary of developer contributions', Note F 3-2 'Developer contributions by plan' and Note F 3-3 'Contributions not under plans', nor did it impact our Independent Auditor's Report thereon.

The legislative requirements regarding the use of funds from repealed contributions plans would benefit from clarification

One of the key issues highlighted by the matters above, is that there is no specific guidance in the EPA Act or the EPA Regulation that provides for how funds collected under one DCP are to be treated if a contributions plan is repealed, or repealed and replaced by a new contributions DCP. Council's legal advice noted a lack of clarity in the Local Government Code of Accounting Practice and Financial Reporting (the Code). The Crown Solicitor noted a lack of clarity in the legislation:

I nonetheless note that the question would benefit greatly from clarification by way of amendment of the EPA and/or its sundry regulations.

Our recommendations arise from the issues noted by the legal counsel engaged by Council and by the Crown Solicitor.

Item 6.1

Enclosure 2

Recommendation to the Department

The Department of Planning, Housing and Infrastructure, as the principal department primarily responsible for administration of the EPA Act, specifically address how funds collected under one plan are to be treated if a contributions plan is repealed, or repealed and replaced by a new contributions plan.

The Department, through the Office of Local Government make more explicit in the Code how funds from Developer Contribution Plans are to be disclosed in councils' financial statements.

Errors identified through audits

Uncorrected errors

An uncorrected error is an error identified by the auditor or council in the financial statements, which has not been corrected by council. In our view, errors should be corrected. They are reported to management for this purpose. Management has determined not to correct some errors because they are not material, either individually or in aggregate.

The table below shows the number and value of uncorrected errors by council type for the past two years.

Year ended 30 June	Uncorrected errors		By council type (2023 only)				
	2023	2022	Metro	Regional	Rural	County	JO
Less than \$250,000	106	97	6	16	72	7	5
\$250,000 to \$500,000	59	47	6	25	27	--	1
\$500,000 to \$1 million	38	34	8	24	6	--	--
\$1 million to \$5 million	37	38	7	25	5	--	--
\$5 million to \$15 million	2	5	1	--	1	--	--
Total number of errors	242	221	28	90	111	7	6
Total value of errors (\$ million)	151	158	33.3	76.9	40.0	0.4	0.6

Source: Engagement Closing Reports issued by the Audit Office.

In 2022–23, 46 councils had no uncorrected errors in their financial statements (2021–22: 49).

Of the 242 uncorrected errors, 52 across 48 councils were related to non-financial assets. The common areas where errors were identified are outlined below.

Common errors	Number of errors
Councils making assets revaluation errors, such as:	26
• providing incorrect data to the valuer	
• using inappropriate valuation assumptions:	
– inappropriate and incorrect unit rates	
– not considering physical and legislative restrictions	
– not assessing impairment	
• incorrect calculations	
• recording incorrect valuation and/or impairment adjustments.	

Item 8.1 - New Item (8) Auditor General Local Government
reports

03 - NSW Auditor General's report on
local government for 2023

Common errors	Number of errors
Council's poor record keeping of asset data, such as:	26
• unrecorded assets	
• recording assets no longer under council control	
• duplicate assets	
• incorrectly classified.	

Prior period errors

A prior period error is a misstatement made by council in previous financial years, identified by the auditor or council in the current financial year, which was corrected retrospectively by restating the opening balances in the financial statements.

The table below shows the number and value of prior period errors by council type for the past two years.

Year ended 30 June	Prior period errors		By council type (2023 only)				
	2023	2022	Metro	Regional	Rural	County	JO
Less than \$250,000	4	6	1	--	1	1	1
\$250,000 to \$500,000	1	1	1	--	--	--	--
\$500,000 to \$1 million	11	6	1	3	7	--	--
\$1 million to \$5 million	24	29	10	7	6	1	--
\$5 million to \$15 million	19	12	10	6	3	--	--
\$15 million to \$30 million	6	8	1	2	3	--	--
\$30 million to \$50 million	6	2	6	--	--	--	--
\$50 million and greater	4	3	3	1	--	--	--
Total number of errors	75	67	33	19	20	2	1
Total value of errors (\$ million)	894	627	597	201	95.3	1.3	0.1

Source: Engagement Closing Reports issued by the Audit Office.

Of the 75 prior period errors, ten were greater than \$30 million and were asset related. These are detailed in the table below.

Council	Description of prior period error
Blacktown City	Incorrectly classified operational land as inventories – real estate (\$32.5 million).
Camden	Applied incorrect unit rates to sandstone retaining walls (\$35.4 million).
Cumberland	Found assets and incorrectly classified community land as operational land (\$35 million).
Liverpool City	Error in indexing of infrastructure, property, plant and equipment (\$33.9 million).
North Sydney	Omission of service concession assets for affordable housing portfolio (\$77.4 million).
Shellharbour City	Applied incorrect valuation methodology for land under roads (\$64.9 million).
Sutherland Shire	Incorrectly capitalised operating expense as stormwater drainage assets (\$34.4 million), omission and incorrect index applied for operational land assets (\$33.4 million) and error in indexing of water quality devices (\$73.7 million).
Willoughby City	Applied incorrect unit rates to community land assets (\$77.7 million).

Item 8.1 - New Item (8) Auditor General Local Government
reports

03 - NSW Auditor General's report on
local government for 2023

Of the 75 prior period errors, 54 across 39 councils were related to non-financial assets. The common causes of prior period errors were similar to those causing current year uncorrected errors, which are reported on the previous page, namely revaluation errors and poor record keeping of asset data. Refer also to [Section 3.2](#), which details our findings in relation to asset management. Unresolved internal control deficiencies can lead to errors in the financial statements.

2.2 Timeliness of financial reporting

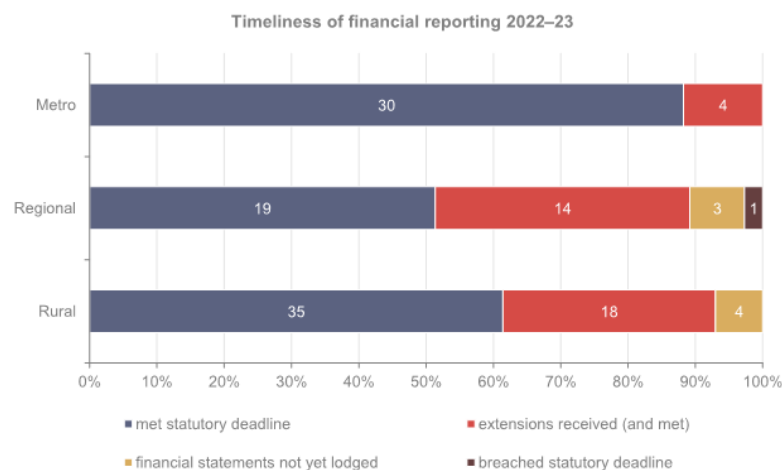
The LG Act requires councils to submit their audited financial reports to OLG by the statutory deadline of 31 October or apply for an extension from OLG.

Sixty-seven per cent of councils lodged their audited financial statements by the statutory deadline

Of the 141 councils, county councils and joint organisations for which we have issued independent audit reports:

- 100 councils, county councils and joint organisations (2021–22: 93) met the statutory deadline
- 38 councils received one or more extension to lodge their audited financial statements at a later date
- 2 joint organisations and one council breached the LG Act by not requesting an extension and missing the statutory deadline.

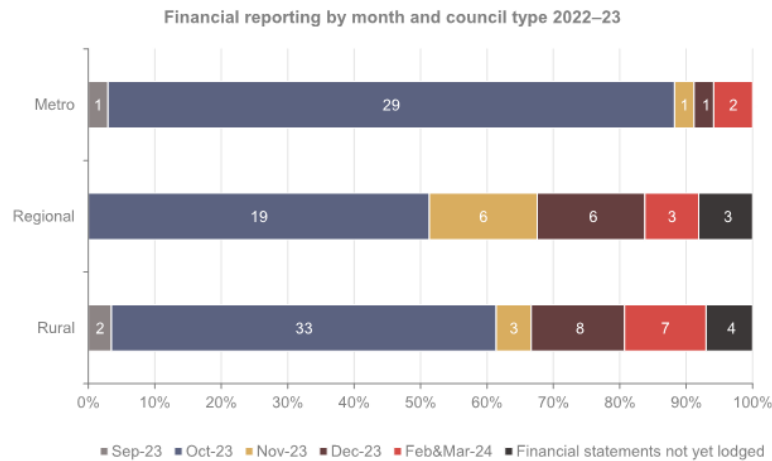
The graph below breaks down the timeliness of financial reporting for 30 June 2023 by type of council. Eighty-eight per cent of metropolitan councils submitted their financial statements to OLG by 31 October 2023. Rural and regional councils had more challenges meeting the 31 October deadline achieving 61% and 51% respectively.



Item 8.1 - New Item (8) Auditor General Local Government
reports

03 - NSW Auditor General's report on
local government for 2023

The graph below shows the submission of audited financial reports by month and type of council.
Across all types of councils most were submitting in October 2023.



Refer to [Appendix four](#) for further details.

This report does not include the nine incomplete audits

The following audits remain outstanding and the outcomes will be reported in next year's report to Parliament.

Council/Joint Organisation	Reasons for delay
Canberra Region	Delays with preparing quality financial statements.
Glen Innes Severn	Ongoing system implementation issues and council resourcing issues.
Kiama Municipal	The commencement of the 2022-23 audit was delayed given the council signed its 2021-22 financial statements on 26 September 2023. We concluded on the 2021-22 audit in September 2023. The 2021-22 and 2020-21 audits were delayed due to significant accounting issues.
Liverpool Plains Shire	Outstanding valuation for a significant water infrastructure asset.
Narrabri Shire	The commencement of the 2022-23 audit was delayed given the council signed its 2021-22 financial statements on 22 August 2023. We concluded the audit in August 2023. The 2021-22 audit was delayed due to significant accounting issues.
New England Weeds Authority	Internal control issues have delayed the preparation of the financial statements.
Orange City	Accounting matters taking time to resolve along with council resourcing issues.
Singleton	Delay in valuations and council resourcing issues.
Upper Hunter Shire	Delay in valuations and council resourcing issues.

Item 8.1 - New Item (8) Auditor General Local Government
reports

03 - NSW Auditor General's report on
local government for 2023

Item 6.1

Enclosure 2

The reasons that councils, county councils and joint organisations sought extensions to submit their financial statements after the statutory deadline are shown below.



Source: Council extension letters submitted to OLG.

The most common reasons councils cited when applying for extensions related to:

- accounting or other matters that required more time to resolve
- resolving asset valuation issues
- council resourcing issues including turnover of key staff.

Refer to [Appendix four](#) for the names of each council or joint organisation that received extensions.

Some councils performed early financial reporting procedures

This year, 54% (2021–22: 82%) of councils performed at least some early financial reporting procedures, including:

- completing infrastructure, property, plant and equipment valuations before 30 June (43 councils, 2021–22: 45)
- completing fair value assessments of infrastructure, property, plant and equipment (22 councils, 2021–22: 36)
- assessing the impact of material, complex and one-off significant transactions (23 councils, 2021–22: 49)
- working through unresolved prior year audit issues, with an action plan to resolve them (37 councils, 2021–22: 69)
- documenting significant management judgements and assumptions for estimating transactions and balances (19 councils)
- preparing proforma financial statements and associated disclosures (27 councils, 2021–22: 46).

Item 8.1 - New Item (8) Auditor General Local Government
reports

03 - NSW Auditor General's report on
local government for 2023

Early financial reporting procedures can assist councils to meet the statutory deadline and submit audited financial statements to OLG by 31 October. These procedures also help to improve quality of financial reporting by identifying and addressing significant risks, and resolving accounting issues before submitting the financial statements for audit.

Councils can work with the Audit Office to select financial reporting procedures to complete and have audited before 30 June. The planned approach should allow sufficient time for management review and involvement of Audit, Risk and Improvement Committees. This process will allow for audit observations and feedback in time for them to be considered in the year-end financial reporting process.

In addition to the procedures listed above, councils should consider the following early financial reporting procedures:

- quality review of the proforma financial statements and the supporting working papers
- reconciling all key account balances and clearing reconciling items
- assessing accounting implications of significant contracts
- assessing the impact of new and updated accounting standards and preparing supporting working papers.

Recommendation to the Department (repeat)

The Department of Planning, Housing and Infrastructure should consider requiring early financial reporting procedures across the local government sector.

It is generally accepted that timely year-end financial reporting is an indicator of sound financial management processes. Accordingly, measures aimed at earlier financial reporting should be a priority for both councils and the regulator.

For the past two years, about a third of councils, county councils and joint organisations have not lodged their audited financial statements with OLG by the statutory deadline. To assist with improving timeliness of financial reporting OLG should, after discussing policy changes with the key stakeholders within the sector to ensure benefits can be realised, require early financial reporting procedures.

Fewer councils performed early financial reporting procedures prior to 30 June 2023. Forty-three councils performed procedures over infrastructure, property, plant and equipment (IPPE) valuations. As IPPE is the largest financial statement balance and a significant estimate, coupled with the inflationary environment, early valuation procedures can improve quality and timeliness of financial reporting.

3. Key audit findings

A strong system of internal controls enables councils to operate effectively and efficiently, produce reliable financial reports, comply with laws and regulations, and support ethical government.

This chapter outlines the overall trends in governance and internal controls across councils, county councils and joint organisations in 2022–23.

Financial audits focus on key governance matters and internal controls supporting the preparation of councils' financial statements. Breakdowns and weaknesses in internal controls increase the risk of fraud and error. Deficiencies in internal controls, matters of governance interest and unresolved issues are reported to management and those charged with governance through audit management letters. These letters include our observations with risk ratings, related implications, and recommendations.

Section highlights

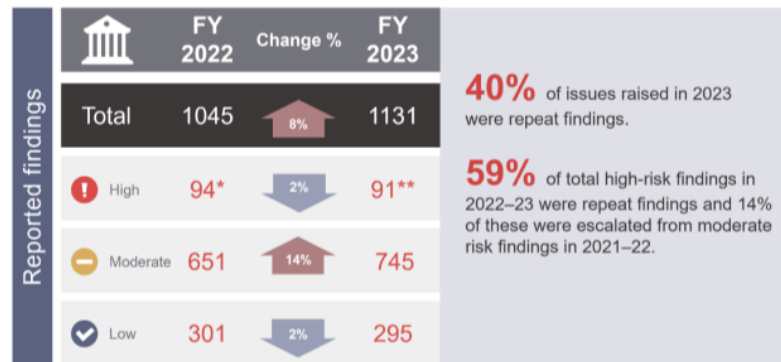
- Total number of audit findings reported in audit management letters increased from 1,045 in 2021–22 to 1,131 in 2022–23.
- Governance, asset management and information technology comprise of 65% (2021–22: 65%) of findings and continue to be key areas requiring improvement.
- Total number of high-risk audit findings decreased from 94 in 2021–22 to 91 in 2022–23.
- Fifty-nine per cent of total high-risk findings in 2022–23 were repeat findings. Fourteen per cent of these high-risk findings were escalated from unactioned moderate risk findings in 2021–22. We continue to recommend councils and those charged with governance track progress of implementing recommendations from our audits.
- Fifty (2021–22: 63) councils do not have basic governance and internal controls to manage cyber security. We continue to recommend all councils create a cyber security plan to ensure cyber security risks over key data and IT assets are appropriately managed and key data is safeguarded. Councils should refer to the 'Cyber Security Guidelines – Local Government' released by the Office of Local Government.

Item 8.1 - New Item (8) Auditor General Local Government
reports

03 - NSW Auditor General's report on
local government for 2023

Total number of findings reported in audit management letters increased

The following shows the overall findings of the 2022–23 audits reported in management letters compared with the previous year.



* Includes three findings relating to prior year audits finalised after 'Local Government 2021' was published.

** Includes three findings relating to prior year audits finalised after 'Local Government 2022' was published.

Source: Audit management letters for 30 June 2022 and 30 June 2023 audits.

Findings are classified as new, repeat or ongoing, based on:

- new findings first reported in 2022–23 audits
- repeat findings are those first reported in prior year audits, but remain unresolved in 2022–23
- ongoing findings first reported in prior year audits, but the dates to address the findings are after 2022–23.

In rating the risk of audit findings, we assess the likelihood and consequence of the finding having regard to the length of time the issue remains unresolved. The likelihood a weakness will be exploited increases the longer it remains unresolved. Additionally, the lack of timeliness in resolving issues may indicate systemic issues and/or poor governance practices that warrant an increase in the consequence level. Accordingly, unresolved issues from prior periods are reassessed annually. This reassessment may lead to an increase in the risk rating of audit findings.

Findings are categorised as:

- governance
- asset management*
- information technology
- financial reporting
- financial accounting
- purchases and payables
- payroll
- cash and banking
- revenue and receivables.

* Accounting for the recording and valuation of assets in accordance with Accounting Standards.

The following table shows the breakdown of audit findings for the 2022–23 audits based on the defined categories and risk ratings.

Category	Total findings	High	Moderate	Low
Governance*	210	13	125	72
Asset management	266	48	183	35
Information technology	262	17	204	41
Financial reporting	62	7	38	17
Financial accounting	76	1	51	24
Purchases and payables	71	4	44	23
Payroll	77	--	43	34
Cash and banking	42	--	24	18
Revenue and receivables	65	1	33	31
Total	1,131	91	745	295

* Includes three findings relating to the 2021–22 audit finalised after the 'Local Government 2022' was published.

The high-risk and common audit findings across these areas are explored further in this chapter.

3.1 Governance

Governance is the framework of rules, processes and systems to enable organisations to achieve goals and comply with legal requirements. Good governance promotes public confidence in the integrity and effectiveness of councils' systems and operations. The [Annual Work Program 2023–26](#) highlights the following aspects of integrity expected in systems and processes to support good governance:

- maintain accurate and complete records, especially records of key decisions
- identify, manage and escalate risks
- manage conflicts of interest and implement fraud and corruption controls
- apply and document authorisations and delegations
- implement effective information technology controls including cyber security controls
- track and implement recommendations.

Item 8.1 - New Item (8) Auditor General Local Government
reports

03 - NSW Auditor General's report on
local government for 2023

Governance findings increased from 177 to 210

Audit management letters reported 210 findings relating to governance (2021–22: 177 findings).
Thirty-seven per cent were repeat findings (2021–22: 63%).



* Includes three findings relating to the 2021–22 audit finalised after the 'Local Government 2022' was published.
Source: Audit management letters for 30 June 2022 and 30 June 2023 audits.

High-risk findings

Thirteen high-risk findings were reported across the control deficiency areas as detailed in the table below.

Control deficiency*	Council/Joint Organisation	Status
Business continuity plan		
Lack of formal business continuity plan	Weddin	⊖
Compliance with legislation/policy		
Missed statutory deadline/approved extension date	Cessnock City	⊕
Non-compliance with the LG Act and LG Regulation	New England	⊖
Inappropriate use of externally restricted cash	Kiama	⊕
	Weddin	⊕
	Gwydir Shire	⊕
Breach of policy by not externally restricting enough of the residential aged care bonds	Kiama	⊕
Conflicts of interest		
Inappropriate conflicts of interest disclosure	Kiama	⊕
Fraud and corruption		
No fraud control policy and plan	Gwydir Shire	⊕
	Moree Plains	⊕
No fraud health checks/risk assessments	Moree Plains	⊕
	Warren Shire	⊕

Control deficiency*	Council/Joint Organisation	Status
Staff not required to annually attest to compliance with the code of conduct	Moree Plains	
	Warren Shire	
Gifts and benefits		
Weak gifts and benefits policy	Warren Shire	
Legislative compliance register		
No centralised register of compliance obligations	Lismore	
Risk management framework/policy		
No robust risk and compliance processes and framework	Hunter	
	Warren Shire	

Key

 New – first reported in current year.

 Ongoing – prior year finding with due date after 30 June 2023.

 Repeat – prior year finding not fully addressed.

* Additional audit procedures were performed to respond to and address the weakness identified.

Common findings

The common governance findings reported in audit management letters were deficiencies in corporate governance policies, fraud controls and legislative compliance.

Key governance policies were not in place or regularly updated

The common areas where councils and joint organisations had missing or out-dated governance policies are summarised below.

Governance policy areas (absent or out-dated)	Number of councils/ joint organisations
Risk management	15
Contract management	58
Legislative compliance policy	47
Business continuity plan	31
Crisis management plan	38
Gifts and benefits	17
Public interest disclosures	12
Policies not reviewed and updated	50

Corporate governance policies are essential for ensuring councils operate in accordance with external and internal requirements. It is important that the rules, standards and expectations are clearly outlined, and staff are provided adequate guidance to inform their actions.

Further issues were identified in contract management for 30 councils (2021–22: 23). While councils had contract management policies in place, we identified deficiencies in contract management practices and contract register management. These increase the risk of non-compliance with the *Government Information (Public Access) Act 2009* (GIPA Act) or contractual terms.

The Information and Privacy Commission issued its report on local government [GIPA compliance](#) report in June 2023. The Commission found most councils had improved compliance with mandatory reporting requirements, such as making returns of interest by councillors and designated persons publicly available and easy to access. However, it was reported six councils have wilful disregard for duties and the public's right to know.

Thirty-one councils have outdated or no business continuity plan

Thirty-one councils and joint organisations do not have a business continuity plan (BCP), or have an outdated business continuity plan. Ninety-five councils with BCPs in place recently tested the plans. However, testing at 17 councils was limited to testing information and technology elements of the BCPs. Twenty-three councils have not recently tested their BCPs.

Business continuity plans are a widespread mechanism used by organisations to ensure they are prepared to respond effectively to disruptions, such as natural disasters. Business continuity management involves developing, implementing and maintaining policies, frameworks and programs to assist an organisation to manage business disruptions. Plans should be tested regularly to provide confidence they will be reliable during an actual event, and to provide feedback for continuous improvement.

All councils are required to appropriately assess and manage risks under the *Local Government Act 1993*. The Department of Planning, Housing and Infrastructure published 'Risk Management and Internal Audit for Local Government in NSW' in December 2022. These guidelines are mandatory from 1 July 2024 and will require:

- the Audit Risk and Improvement Committee and internal audit to be responsible for the review of the effectiveness of business continuity arrangements, including business continuity plans, disaster recovery plans and the periodic testing of these plans
- risk management be a core responsibility of all senior management of council.

Forty councils do not have a crisis management plan in place

Forty councils and joint organisations do not have a separate crisis management plan in place or a BCP which covers crisis management.

A crisis management plan outlines how your business will react if a crisis occurs. The plan should identify who will act and what their roles will be. The goal of a crisis management plan is to minimise damage and restore business operations as quickly as possible. A crisis management plan can be within the business continuity plan or a separate plan.

Deficiencies in fraud control processes at councils and joint organisations

Deficiencies in fraud control processes identified at councils are summarised in the table below.

Fraud control deficiencies	Number of councils/joint organisations
No fraud awareness training	44
No fraud risk assessment	46
No fraud and corruption prevention policy, or it was outdated	21
Staff not required to annually attest to compliance with the code of conduct	85

Effective fraud controls and ethical frameworks help protect councils from events that risk serious reputational damage and financial loss.

Item 8.1 - New Item (8) Auditor General Local Government
reports

03 - NSW Auditor General's report on
local government for 2023

One hundred and twenty-seven councils have an ARIC

Four councils, two county councils and eight joint organisations did not have an Audit, Risk and Improvement Committee (ARIC) in place at 30 June 2023. ARICs are an important contributor to good governance. They help councils to manage and mitigate their strategic risks. An effective committee helps councils to build community confidence, meet legislative and other requirements, and meet standards of probity, accountability and transparency.

Without an effective ARIC, there is a lack of independent oversight on how a council is functioning and managing risk.

The Office of Local Government has issued comprehensive 'Guidelines for Risk Management and Internal Audit for Local Government in NSW' to assist councils and joint organisations to implement these requirements by 1 July 2024. Joint organisations can apply for an exemption from requirements.

ARICs can be more effective in discharging their functions

Whilst the guidelines are not mandatory till 1 July 2024 they provide a framework for ARICs to work towards so they are more effective in discharging their functions and managing councils' risks including:

- cyber risk management (refer to [Section 3.3](#)) including 18% of councils that have not communicated cyber risk with those charged with governance or ARICs
- tracking the progress of implementing recommendations from financial audits, performance audits and public inquiries
- prioritising tracking of repeat and high-risk audit findings. The 2022–23 audit management letters highlighted that 40% of total audit findings from prior years had not been actioned
- ensuring management appropriately certify the effectiveness of internal controls supporting the financial statements. Only 49 ARICs obtained this certification
- reviewing the financial statements for quality prior to submission for audit. This was performed by 80 ARICs.

3.2 Asset management

Councils own and manage large infrastructure asset portfolios to support the delivery of community services. Asset management involves operational aspects such as maintenance and physical security, as well as accounting procedures such as recording and valuing assets in accordance with Australian Accounting Standards.

Asset management findings decreased from 267 to 266

Audit management letters reported 266 findings relating to asset management (2021–22: 267). Forty-three per cent (113 findings) were repeat findings, (2021–22: 52%, 157 repeat findings).



Source: Audit management letters for 30 June 2022 and 30 June 2023 audits.

High-risk findings

High-risk findings decreased from 55 to 48 in 2022–23. There were 33 (2021: 45) repeat findings with no repeat moderate findings elevated to high risk.

Thirty-six councils with unrecorded vested rural firefighting equipment had a high-risk finding

Councils with unrecorded statutorily vested rural firefighting equipment, where insufficient procedures have been undertaken to verify the value, had a high-risk finding reported in their management letters. Six councils with high-risk findings in 2021–22 relating to the non-recognition of rural firefighting equipment either recognised the assets or addressed the issue in 2022–23 by performing sufficient procedures to verify that the value of these assets was not material to the financial statements taken as a whole.

2022–23 councils with high-risk findings for unrecorded rural firefighting equipment			
Bathurst Regional	Cootamundra-Gundagai Regional	Lachlan Shire	Snowy Valleys
Bega Valley Shire	Dungog Shire	Leeton Shire	Tamworth Regional
Bellingen Shire	Edward River	Lockhart Shire	Temora Shire
Bland Shire	Federation	Mid-Western Regional	Tenterfield Shire
Cabonne	Greater Hume Shire	Moree Plains Shire	Upper Lachlan Shire
Carrathool Shire	Griffith City	Murray River	Wagga Wagga City

**Item 8.1 - New Item (8) Auditor General Local Government
reports**

**03 - NSW Auditor General's report on
local government for 2023**

2022–23 councils with high-risk findings for unrecorded rural firefighting equipment

Cessnock City	Hilltops	Murrumbidgee	Warrumbungle Shire
Clarence Valley	Junee Shire	Queanbeyan-Palerang Regional	Weddin Shire
Coolamon Shire	Kempsey Shire	Snowy Monaro Regional	Yass Valley

Other high-risk findings

Twelve (2021–22: 12) other high-risk findings across the control deficiency areas are detailed in the table below.

Control deficiency*	Council	Status
Asset management		
Untimely capitalisation of completed projects and no work-in-progress additions listing could be produced.	Shoalhaven City	+
Insufficient evidence to support the completeness and accuracy of road assets	Snowy Monaro	+
Infrastructure, property, plant and equipment valuation		
Incomplete fair value assessment	Bega Valley Shire	+
Incorrect fair value calculation	Armidale Regional	+
Outdated comprehensive valuation exercise	Bega Valley Shire	↻
	Cessnock City	+
Insufficient evidence to support valuation key inputs (e.g. asset useful lives)	Cessnock City	+
Insufficient management oversight of valuer's work, including lack of documentation to support key assumptions and judgements	Cessnock City	↻
	Shoalhaven City	+
Inaccurate and incomplete asset records	Armidale Regional	+
	Shoalhaven City	+
	Strathfield Municipal**	+
Inadequate impairment assessment for natural disaster	Tenterfield Shire	+
Valuation of landfill/remediation provision		
Outdated key inputs to value the landfill remediation provision	Cobar Shire	↻
	Singleton	+

Key

⊕ New – first reported in current year.

⊖ Ongoing – prior year finding with due date after 30 June 2023.

↻ Repeat – prior year finding not fully addressed.

* Additional audit procedures were performed to respond to and address the weakness identified.

** Finding resolved post 30 June 2023.

Common findings

The common asset management findings reported in audit management letters were deficiencies in asset revaluation processes, maintenance of information in asset management systems and landfill rehabilitation accounting practices.

Fixed asset register issues at 43 councils

Maintaining accurate and up-to-date asset data helps councils to make appropriate decisions around asset management. The common issues reported in audit management letters relating to fixed asset registers are summarised below.

Fixed asset register issues reported in audit management letters	Number of councils
Council did not maintain an accurate and complete fixed asset register. This included: - issues with duplicate or missing assets - incorrect categorisation of assets - incorrect componentisation of assets - issues with assessing useful lives - discrepancies between fixed asset register and other information records (technical asset registers).	26
Council did not regularly update the fixed asset register for additions and disposals.	23
Asset registers were not maintained in a secure format (for example, use of unlocked spreadsheets or multiple unreconciled systems).	10

We continue to identify weak processes over updating, maintaining and securing fixed asset registers. Asset registers are not accurate and complete, there are duplicate or missing assets, and asset registers are not being reconciled with the asset management systems.

Prior period errors continue to predominately relate to the quality of asset records and asset valuation errors such as found and duplicate assets.

Deficiencies in infrastructure asset revaluation processes at 48 councils

Councils manage a significant range and value of infrastructure, property, plant and equipment. These assets are significant to the financial statements of councils and are subject to management judgements and estimates when determining their fair values. These judgements and estimates often require the assistance of a qualified expert valuer.

Deficiencies were identified in infrastructure asset valuations at 48 councils, including:

- not annually assessing useful lives, condition and possible impairment, and fair value for all asset classes
- inadequate documentation to support key assumptions and judgements applied including:
 - useful life assessments
 - condition and impairment assessments
 - fair value assessments
 - unit rates
- incorrect classification of assets
- incorrect exclusion of some assets from valuations
- management not documenting their quality review over the asset valuation
- errors in annual fair value assessments when applying indices to adjust fair values
- deficiencies in the annual fair value assessment process.

Item 8.1 - New Item (8) Auditor General Local Government
reports

03 - NSW Auditor General's report on
local government for 2023

Item 6.1

Enclosure 2

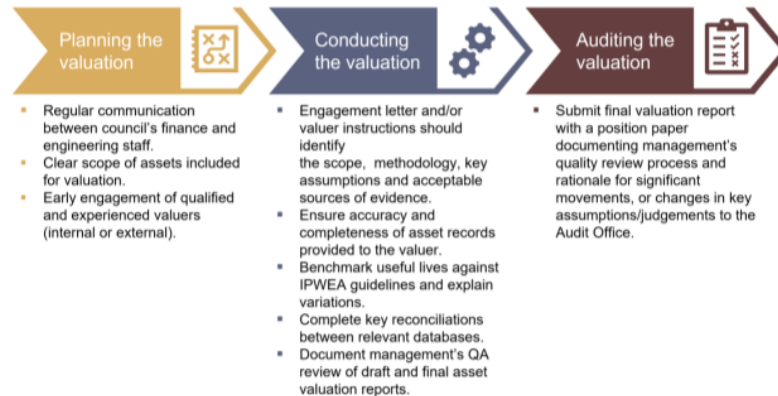
Councils need to improve their valuation process and perform valuations earlier

Performing asset valuations earlier gives time for management and auditors to complete procedures and identify potential issues before the financial statements are prepared, and can improve timeliness of financial reporting. The effective date of the valuation of any asset category can be at any point during the financial year subject to audit. As reported in Chapter 2 'Audit results':

- 43 (2021–22: 45) councils completed infrastructure, property, plant and equipment valuations before 30 June 2023
- 22 (2021–22: 36) councils performed fair value assessments of infrastructure, property, plant and equipment before 30 June 2023.

Councils should have a project plan in place to manage the asset valuation process. Suggested deliverables to be included in a timetable for council valuations may include the following:

Project plan asset valuations



Improvements to council landfill rehabilitation accounting practices required at 27 councils

Australian Accounting Standards require recognition of a provision for landfill remediation when the obligation to operate landfill sites would result in cash outflows for the council, and when those outflows can be reliably measured. Such provisions should be assessed annually for changes in assumptions, legal requirements and emergence of new landfill remediation techniques.

Common findings identified in council landfill rehabilitation accounting practices include:

- no formal assessment of legal and other obligations to rehabilitate landfill sites
- insufficient documentation of liability calculations to support inputs, assumptions and key data for accounting for rehabilitation provisions
- costs associated with post closure, aftercare and monitoring of landfill sites excluded from the assessment.

3.3 Information technology (IT)

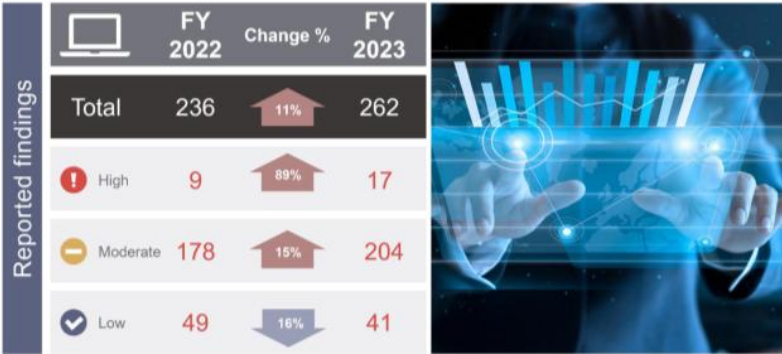
Councils rely on IT to deliver services and manage information. While IT delivers considerable benefits, it also presents risks that councils need to address. IT general controls relate to the procedures and activities designed to ensure confidentiality, and integrity of systems and data. These controls underpin the integrity of financial reporting.

Financial audits involve the review of IT general controls relating to key financial systems supporting the preparation of council financial statements, addressing:

- policies and procedures
- IT risk management
- privileged user access restriction and monitoring
- user access management
- system software acquisition, change and maintenance
- disaster recovery planning
- cyber security and patch management.

IT findings increased from 236 to 262

Audit management letters reported 262 findings relating to IT (2021–22: 236). Fifty-one per cent (134 findings) were repeat or ongoing findings (2021–22: 73%).



Source: Audit management letters for 30 June 2022 and 30 June 2023 audits.

High-risk findings

Seventeen high-risk findings were reported across the control deficiency areas as detailed in the table below.

Control deficiency*	Council/Joint Organisation	Status
Policies and procedures		
Absence of or outdated policies and procedures	Dungog Shire	
	Hunter	
	Liverpool Plains Shire	
	Uralla Shire	
	Walcha	
	Warren Shire	
	Cootamundra-Gundagai Regional	
	Eurobodalla Shire	
	Upper Lachlan Shire	
	Yass Valley	
Privileged user restriction and monitoring		
No formal privileged user activity review	Bayside	
	City of Parramatta	
	Dubbo Regional	
	Dungog Shire	
	Mid-Coast	
	Sutherland Shire	
	Wagga Wagga City	
	Warren Shire	
	Cootamundra-Gundagai Regional	
	Eurobodalla Shire	
	Upper Lachlan Shire	
User access management		
No periodic review of user access rights to ensure access levels are commensurate with job responsibilities	Dungog Shire	
	Mid-Coast	
	Sutherland Shire	
	Warren Shire	
	Cootamundra-Gundagai Regional	

**Item 8.1 - New Item (8) Auditor General Local Government
reports**

**03 - NSW Auditor General's report on
local government for 2023**

Control deficiency*	Council/Joint Organisation	Status
	Eurobodalla Shire	
	Upper Lachlan Shire	
	Yass Valley	
Password		
Inappropriate parameters and account lockout configurations	Dungog Shire	
	Warren Shire	
	Cootamundra-Gundagai Regional	
Backup and restoration		
Backups are performed but no formal periodic checking if they can be restored	Maitland City	
Disaster recovery planning		
Absence of or outdated disaster recovery planning policies and procedures	Cootamundra-Gundagai Regional	
	Eurobodalla Shire	
	Maitland City	
Cybersecurity		
Absence of or outdated cyber risk policy or framework	Dungog Shire	
	Hunter	
	Uralla Shire	
	Warren Shire	
	Walcha	
No established formal roles and responsibility over cyber security	Dungog Shire	
	Warren Shire	
Cyberattack not included in risk register	Warren Shire	
	Eurobodalla Shire	
No cyber incidents register	Dungog Shire	
No cybersecurity penetration testing	Warren Shire	
No training provided to staff	Warren Shire	
Key  New – first reported in current year.  Ongoing – prior year finding with due date after 30 June 2023.  Repeat – prior year finding not fully addressed. * Additional audit procedures were performed to respond to and address the weakness identified.		

Common findings

The common IT findings reported in audit management letters were deficiencies in IT policies and procedures, lack of a cyber security framework, and missing controls and gaps in user access management processes.

IT policies and procedures were outdated or not in place at 53 councils

Fifty-three councils (2021–22: 43) did not formalise and/or regularly review their key IT policies and procedures. It is important for key IT policies to be formalised and regularly reviewed to ensure emerging risks are considered and policies are reflective of changes to the IT environment. Lack of formal IT policies and procedures may result in inconsistent and inappropriate practices and an increased likelihood of inappropriate access to key systems.

Lack of periodic user access review at 55 councils and insufficient control over privileged users at 38 councils

The following common access management findings were identified:

- 55 councils (2021–22: 28) did not perform a periodic user access review to ensure users' access to key IT systems was appropriate and commensurate with their roles and responsibilities
- 38 councils (2021–22: 46) had gaps in privileged users' management process. This includes gaps in restricting privileged users' access and monitoring logs of privileged users' activity.

The number of councils with insufficient control over privileged users reduced by 17% as councils addressed previously reported matters.

Where robust access management processes are not in place, inappropriate access may exist. This increases the risk of the unauthorised processing or modifying of transactions, or of sensitive data being stolen. These common findings may be rated high-risk when there are no mitigating controls to prevent or detect unauthorised activity.

Cyber security frameworks and related internal controls were not in place at 50 councils

The NSW Cyber Security Policy states that the term 'cyber security' covers all measures used to protect systems and information processed, stored or communicated on systems from compromise of confidentiality, integrity and availability.

The Office of Local Government (OLG) issued 'Cyber Security Guidelines – Local Government' referencing the cyber security standards recommended by Cyber Security NSW. OLG strongly encourages compliance with the guidelines, but has not made compliance mandatory. Unlike state sector agencies, there is no requirement to annually report maturity assessments to Cyber Security NSW or to another regulatory body such as the OLG.

As part of the Audit Office's financial audits, cyber security findings were reported for 50 councils (2022–23: 63). Councils should implement the following basic governance and internal controls to help identify and manage cyber security risks:

- having in place a cyber security framework, policy and procedures
- performing regular cyber maturity assessments and gap analysis
- maintaining a register of cyber incidents
- conducting simulated cyber-attack testing (penetration testing)
- having an ongoing cyber security training and awareness program for all staff.

Item 8.1 - New Item (8) Auditor General Local Government
reports

03 - NSW Auditor General's report on
local government for 2023

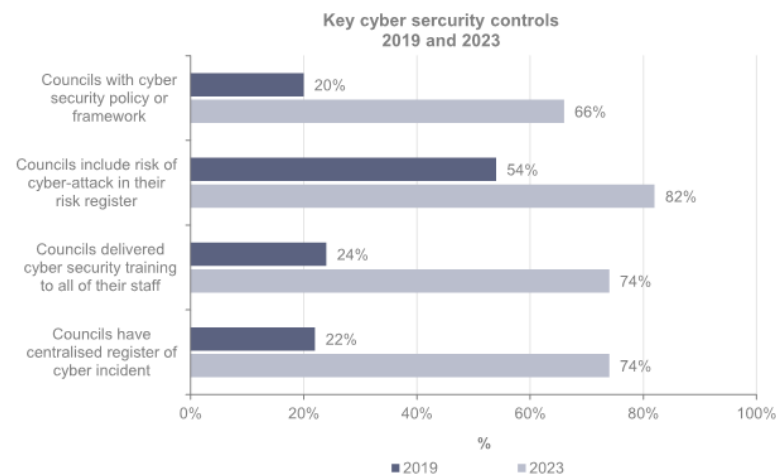
Item 6.1

Enclosure 2

Poor management of cyber security can expose councils to a broad range of risks, including:

- theft of corporate and financial information and intellectual property or money
- service interruptions from a denial-of-service attack
- destruction of data
- costs of repairing affected systems, networks and devices
- legal fees and/or legal action from losses arising from denial-of-service attacks causing system downtime in critical systems
- third-party losses when personal information stored on councils' government systems is used for criminal purposes
- reputational damage.

Our audits have been reporting cyber security findings in management letters since 2019. The table below is limited to the high-level gaps in cyber security controls where we have focussed our audit procedures. While it does not mean all risks are mitigated, it is encouraging that councils have focussed on these gaps and improved cyber security management in these areas. Around two thirds of councils have implemented some of these key cyber security controls since 2019.



Source: Data collection from 30 June 2023 audits.

Fifty councils do not have in place any formal cyber security planning and governance. These councils need to prioritise planning and governing cyber security, based on the OLG's '[Cyber Security Guidelines – Local Government](#)', to ensure cyber security risks over key data and IT assets are appropriately managed and key data is safeguarded.

The risks associated with poor cyber security maturity are compounded where councils also have deficiencies in their information technology controls and poor information systems security hygiene.

Item 8.1 - New Item (8) Auditor General Local Government reports

0 3 - NSW Auditor General's report on local government for 2023

Item 6.1

Recommendation to councils (repeat issue)

Councils should prioritise planning and governing cyber security to ensure cyber security risks over key data and IT assets are appropriately managed and key data is safeguarded.

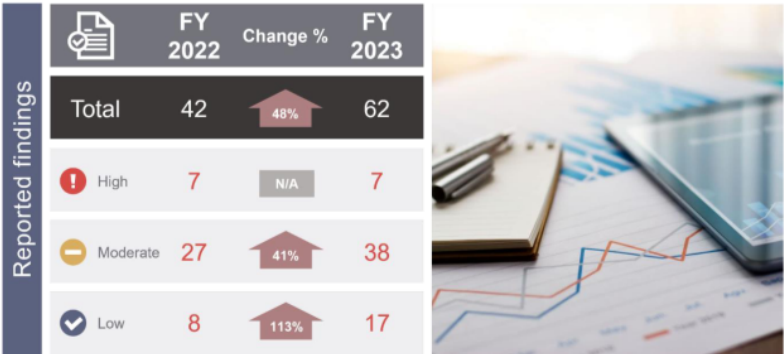
Councils should refer to the 'Cyber Security Guidelines – Local Government' released by the OLG.

3.4 Financial reporting

Financial reporting is an important element of good governance. Confidence in, and transparency of public sector decision-making is enhanced when financial reporting is accurate and timely.

Financial reporting findings increase from 42 to 62

Audit management letters reported 62 findings relating to financial reporting (2021–22: 42). Thirty-five per cent were repeat findings (2021–22: 55%).



Source: Audit management letters for 30 June 2022 and 30 June 2023 audits.

Enclosure 2

High-risk findings

Seven high-risk findings were reported at the following councils.

Control deficiency*	Council/Joint Organisation	Status
Poor quality financial statements submitted for audit	Cessnock City	
	Clarence Valley	
	Kempsey Shire	
	Shoalhaven City	
	Snowy Monaro	
	Canberra Region	
Lack of documentation and management review of judgements and assumptions used in financial reporting.	Hilltops	

- Key
-  New – first reported in current year.
 -  Ongoing – prior year finding with due date after 30 June 2023.
 -  Repeat – prior year finding not fully addressed.
- * Additional audit procedures were performed to respond to and address the weakness identified.

Common findings

Common findings across councils include:

- Financial statements submitted for audit contained numerous errors and disclosure deficiencies.
- Lack of preparation for the audit, such as not having a financial reporting plan, impacted the timeliness of financial reporting at 15 (2021–22: 18) councils.
- Two (2021–22: 8) councils had deficiencies in related parties' policies and disclosures.
- Five (2021–22: 2) councils had deficiencies in infrastructure, property, plant and equipment note disclosure.

Further analysis and insights on financial reporting findings are detailed in Chapter 2 'Audit results'.

3.5 Financial accounting

Financial accounting refers to the processes adopted by management to record and review financial information across the business. Councils use a combination of manual and automated processes and digital information systems to process financial information. Effective processes support the accuracy and completeness of information presented in the financial statements.

Financial accounting findings increased from 66 to 76

Audit management letters reported 76 findings relating to financial accounting (2021–22: 66). Thirty per cent were repeat findings (2021–22: 50%).



Source: Audit management letters for 30 June 2022 and 30 June 2023 audits.

High-risk findings

One repeat high-risk finding was reported at the following council.

Control deficiency	Council	Status
Segregation of duties over the preparation and review of manual journals	Dungog Shire	

Key

- New – first reported in current year.
- Ongoing – prior year finding with due date after 30 June 2023.
- Repeat – prior year finding not fully addressed.

Common findings

The common financial accounting findings reported in audit management letters were control deficiencies performing key account reconciliations and processing manual journal adjustments.

Lack of segregation of duties with manual journal adjustments at 12 councils

There was a lack of segregation of duties over the posting of manual journal adjustments to financial ledgers at 12 councils. An independent review and authorisation of manual journal adjustments is important to reduce the risk of fraud or error in the financial statements.

Key account reconciliations were not prepared in a timely manner or independently reviewed

Regular reconciliations of financial information, with appropriate review processes help to identify and resolve discrepancies between different systems and records, preserves integrity of financial statements and can identify fraud. Our audits identified:

- There was no evidence of independent review of key account reconciliations at 18 councils.
- Twenty-eight councils did not perform timely reconciliations of all key balances in the financial statements.

3.6 Purchases and payables

Councils spend substantial funds each year to procure goods and services. It is important there is appropriate probity, accountability and transparency in procurement to reduce the risk of unauthorised purchases, corrupt and fraudulent behaviour, and value for money not being achieved.

Purchases and payables findings decreased from 77 to 71

Audit management letters reported 71 findings relating to purchases and payables (2021–22: 77). Forty-seven per cent were repeat findings (2021–22: 49%).



Source: Audit management letters for 30 June 2022 and 30 June 2023 audits.

High-risk findings

Four high-risk findings as detailed in the table below.

Control deficiency	Council/Joint Organisation	Status
Lack of segregation of duties	Liverpool Plains Shire	
Approved transactions above delegation limit	Albury City	
Lack of robust controls and governance in procurement	Hunter	
Non-compliance with the LGA Act tendering requirements	Hunter	

Key

-  New – first reported in current year.
-  Ongoing – prior year finding with due date after 30 June 2023.
-  Repeat – prior year finding not fully addressed.

Common findings

The common purchases and payables findings reported in audit management letters were weak purchase order controls and a lack of review of vendor master file changes.

At three councils (2021–22: 35), employees could approve their own purchase orders. At four councils (2021–22: 44), purchase orders were approved without appropriate delegation. Segregation of duties and appropriate delegation in procurement help to reduce the risk of fraud and misuse of public money.

Purchase orders were approved after the receipt of goods or services at 19 councils (2021–22: 56). Purchase orders should be generated and approved before staff order goods or services to reduce the risk of unauthorised or fraudulent transactions.

Insufficient review of changes to creditor information at six councils

Six (2021–22: 13) councils did not perform sufficient review of changes to creditor information in the supplier master file, including bank account details. This increases the risk of transactions paid to incorrect accounts, resulting in financial losses for councils. Cyber-crime is on the rise increasing the risk of control weaknesses being exploited.

3.7 Payroll

Effective payroll processes ensure councils manage their workforce in compliance with legislation, employment agreements and the Local Government Award. Payroll processes and information systems should protect the integrity of employee records and timesheet data to ensure accurate payments to employees and leave entitlement calculations.

Payroll findings decreased from 82 to 77

Audit management letters reported 77 findings relating to payroll processes (2021–22: 82). Forty-seven per cent were repeat findings (2021–22: 65%).



Source: Audit management letters for 30 June 2022 and 30 June 2023 audits.

High-risk findings

There were no high-risk findings related to payroll in 2022–23 (2021–22: nil).

Common findings

The common payroll findings reported in audit management letters were deficiencies in the review of employee payroll data.

Twelve councils are not reviewing changes to employee payroll data

Twelve councils did not have adequate processes in place to review changes to employee payroll data. This includes instances where changes are reviewed, but not by an independent person. This increases the risk of unauthorised changes or errors remaining undetected, resulting in financial loss to councils. Cyber criminals are increasingly attempting to exploit vulnerabilities in payroll processes and controls.

3.8 Cash and banking

Councils process a high volume of transactions each year. Effective controls over cash collection, disbursements and reconciliations reduce the risk of fraud and error.

Audit management letters reported 42 findings relating to cash and banking (2021–22: 29). Twenty-four per cent were repeat findings (2021–22: 41%).



Source: Audit management letters for 30 June 2022 and 30 June 2023 audits.

High-risk findings

There were no high-risk findings related to cash and banking in 2022–23 (2021–22: 2).

Common findings

The common cash and banking findings reported in audit management letters were outdated bank signatories, the lack of segregation of duties in the cash handling process and the lack of security of payment files.

Outdated bank signatories at eight councils

Expired bank signatories are not being removed on a timely basis. Eight councils had former employees listed as an account signatory for bank accounts. This increases the risk of unauthorised transactions.

Deficiencies in the cash handling processes at five councils

Deficiencies in the cash handling process were identified at five councils, including lack of daily cashier reconciliation and lack of segregation of duties. This increases the risk of undetected balancing errors and misappropriation of cash or cheques.

Lack of security of payment files for pay runs at one council

One council did not encrypt Electronic Funds Transfer payment files from editing or sufficiently restrict access to payment files on the network before they were uploaded to online banking portals. This increases the risk of unauthorised or fraudulent transactions.

3.9 Revenue and receivables

Councils receive revenue from a range of different sources, including rates and annual charges, user charges and fees, operating and capital grants and contributions, and other revenue (such as interest, investments and asset disposals). Councils require appropriate internal controls to accurately record revenue and receivables in compliance with accounting standards and legal requirements.

Revenue and receivable findings decreased from 69 to 65

Audit management letters reported 65 findings relating to revenue and receivables (2021–22: 69). Thirty per cent were repeat findings (2021–22: 42%).



Source: Audit management letters for 30 June 2022 and 30 June 2023 audits.

High-risk findings

One high-risk finding was reported at the following joint organisation.

Control deficiency	Joint Organisation	Status
Lack of assessment of revenue recognition for each significant grant	Illawarra Shoalhaven	

Key

- New – first reported in current year.
- Ongoing – prior year finding with due date after 30 June 2023.
- Repeat – prior year finding not fully addressed.

Common findings

The common revenue and receivables findings reported in audit management letters were deficiencies in revenue recognition, weak revenue processes such as lack of review when updating of fees and charges resulting in undercharging customers and ratepayers, and not reconciling subsidiary and general ledgers.

Inappropriate revenue recognition at 35 councils

Thirty-five councils (2021–22: 16) had gaps in revenue recognition practices, including:

- not formally assessing grant funding against measurement criteria under AASB 15 'Revenue from Contracts with Customers' and AASB 1058 'Income of Not-for-Profit-Entities' leading to errors in the financial statements
- not reconciling the grant register and not keeping it up to date
- errors in applying AASB 16 'Leases' for rental income recognition.

Deficiencies in revenue recognition practices resulted in 25 errors identified in councils' financial statements, totalling \$22 million.

**Item 8.1 - New Item (8) Auditor General Local Government
reports**

**0 3 - NSW Auditor General's report on
local government for 2023**

Item 6.1

Section two

Appendices

Enclosure 2

Appendix one – Response from the Office of Local Government within the Department of Planning, Housing and Infrastructure

Department of Planning, Housing and Infrastructure



Ref: A891070

Ms Margaret Crawford
Auditor General for New South Wales
GPO Box 12
SYDNEY NSW 2001

Dear Ms Crawford,

Thank you for your email of 12 February 2024 and the opportunity to respond to your draft Report on Local Government 2023 (the Report). I would like to recognise the contribution of the Audit Office towards strengthening governance, financial management, and reporting in the local government sector. I note the report's recommendations to the Department of Planning, Housing, and Infrastructure and provide a response to these below (the Department).

Rural firefighting assets

As you would be aware the Office of Local Government (OLG) amended the Local Government Code of Accounting 2023-24 to require councils to recognise material Rural Fire Service (RFS) assets in their financial statements. Councils are required to prepare financial statements in accordance with the *Local Government Act 1993* (the Act), the Australian Accounting Standards and other pronouncements of the Australian Accounting Standards Board and the Local Government Code of Accounting Practice and Financial Reporting.

I note that you report a number of councils' financial statements were qualified in the 2022 - 2023 financial year because they did not recognise RFS assets or were unable to determine the carrying value of roads, water and sewerage assets.

OLG will continue to communicate to the local government sector that councils should recognise material RFS assets.

I also note that the Minister for Local Government has asked the Public Accounts Committee to examine the arrangement for assets, premises, and funding of the RFS.

Developer Contributions

Developer contributions are governed by the *Environmental Planning and Assessment Act 1979*. The administration of policy regarding the collection and expenditure of these contributions falls under the responsibility of the Planning Group within the Department.

Section 7.3 of the *Environmental Planning and Assessment Act 1979* states that all contribution funds, including interest earned on those funds, must be held for the purpose for which they were paid and must be applied towards that purpose within a reasonable time. This makes it clear that money collected under councils' contributions plans must be held as an externally restricted asset. The revenue can only be used to fund infrastructure identified in a plan.

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Item 8.1 - New Item (8) Auditor General Local Government
reports

03 - NSW Auditor General's report on
local government for 2023

Item 6.1

Enclosure 2

The legislation does not specifically refer to repealed funds, which is revenue collected under a contributions plan that has been repealed by a council. The Audit Offices' recommendation for more clarity on the classification and use of these funds is supported. The Planning Group of the Department will work closely with OLG to develop and publish this advice. It is expected that it will be delivered through the Department's policy guidance to councils, the Infrastructure Contributions Practice Notes and any necessary updates to the Local Government Code of Accounting Practice and Financial Reporting.

Early financial reporting procedures

The Department continues to support, in principle, the recommendation that councils adopt early financial reporting procedures and recognises a number of councils continue to be unable to meet the statutory deadline for the lodgement of their annual financial statements without applying for an extension. The adoption of a practice will assist councils in meeting the reporting timetable and it is to be encouraged.

A council's Audit and Risk and Improvement Committee remains the most suitable body to identify and implement measures to ensure regulatory requirements are met. Councils are, and will continue to be, encouraged to commence earlier processes for financial reporting activities including asset valuations.

However, to support the move to wider early close procedures OLG will include key steps/stages for Councils in the Compliance Calendar. The calendar is provided to Councils early to assist the identification of key regulatory and governance actions.

Cyber Security

In December 2022, OLG released the 'Cyber Security Guidelines - Local Government'. Compliance with the Guidelines is voluntary, but strongly encouraged. The Report mentions that 47 councils did not have in place any formal cyber security planning and governance.

I understand that the Audit Office is undertaking a performance audit of cyber security in local government. Given this, OLG will await the results from that audit before deciding additional actions that may be taken to encourage councils to have appropriate cyber security measures in place.

Status of previous recommendations

I note Appendix 3 sets out the status of previous recommendations. In relation to the previous recommendation to the Department about the legal framework relating to restrictions of water, sewerage, and drainage funds (restricted reserves), I can advise that OLG has met with the NSW Department of Climate Change, Environment, Energy and Water and is considering regulatory options which may be available.

Finally, I note the report refers to the issue of a Performance Improvement Order for Kiama Council. It should be noted the Minister for Local Government has publicly identified and issued Council with a notice of intent to vary the Order to extend its timeframes and continue to hold Council to its roadmap for financial improvement. OLG has also identified a number of minor amendments that are listed in the attached.

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Item 8.1 - New Item (8) Auditor General Local Government
reports

0 3 - NSW Auditor General's report on
local government for 2023

Item 6.1

Enclosure 2

Should you require further assistance in relation to these matters, please do not hesitate to contact
Brett Whitworth, Deputy Secretary, Office of Local Government on or by email at
plg@olg.nsw.gov.au

Sincerely,



Kiersten Fishburn
Secretary

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Appendix two – NSW Crown Solicitor's advice

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Crown Solicitor's Office



ADVICE

USE OF RESTRICTED FUNDS COLLECTED BY A COUNCIL

Executive summary

1. You seek my advice concerning the application of certain monies paid to local councils under the *Environmental Planning and Assessment Act 1979* ("the *EPA Act*") and the *Local Government Act 1993* ("the *LG Act*").

Question 1: Application of development contributions where DCP repealed

2. I have addressed the three scenarios set out in your instructions at [29]-[31] (Scenario 1), [32]-[36] (Scenario 2), and [37]-[39] (Scenario 3).
3. In each case, my answer in respect of the scenario in question is governed by my view (attended by not insubstantial doubt) that:
 - (a) contributions under a repealed Development Contributions Plan ("DCP") may ordinarily be expended under a subsequent DCP by which it is repealed; and
 - (b) absent any clear indication to the contrary in the DCP itself, the subsequent DCP should be construed as permitting this outcome.

Question 2: Transition of funds between development plans

4. I do not think that a practice involving transfer of funds collected under s. 7.3 of the *EPA Act* to a council's internal reserves would give rise to non-compliance with the *EPA Act*, if the funds concerned are not in fact expended.

Question 3: Expenditure of money charged for domestic waste management services

5. Funds collected for domestic waste management services by a council may, in principle, be spent on advertising concerning, and information related to, domestic waste management. However, whether such expenditure is permissible will ultimately depend on an assessment of the particular advertising or information.
6. On the other hand, there is no ready basis for characterising expenditure for non-domestic waste management rebates as being within the purposive limitation identified by s. 409(2) of the *LG Act*. There are nonetheless two scenarios where the application of funds collected for domestic waste management services might be applied for that purpose:
 - (a) where it is expended on the basis of an internal loan within the council pending its expenditure on domestic waste management services, and the loan is approved by the Minister; or

Prepared for: AUD018 Audit Office of NSW
Client ref: Nathan Carter
Author: Michael Granziera

Date: 20 September 2023

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202302816 D2023/811422

Item 8.1 - New Item (8) Auditor General Local Government
reports

03 - NSW Auditor General's report on
local government for 2023

Item 6.1

Enclosure 2

Sensitive: Legal

Crown Solicitor's Office NEW SOUTH WALES

- (b) where the charge for domestic waste management services under which the money was obtained has been discontinued, the purpose of that charge has been achieved or is no longer required to be achieved, and the procedural requirements of s. 410(2) have been satisfied.

Analysis

Question 1: Application of development contributions where DCP repealed

7. You ask me to advise on the ability of a local council to apply funds collected under the EPA Act in accordance with a DCP in several scenarios involving the repeal of that DCP.
8. It is convenient to consider the overall operation of the DCP regime in relevant respects, before addressing the individual scenarios. In considering those scenarios, I have assumed, in each case, that the council has repealed an existing DCP by making a subsequent DCP in accordance with either cl. 215 of the *Environmental Planning and Assessment Regulation 2021* ("the EPA Regulation") or its immediate predecessor.¹

Development contributions under the EPA Act

9. Division 7.1 of the EPA Act provides for the imposition of development contributions in connection with development consents. A consent authority, including a local council,² may impose a condition on a development consent requiring, relevantly:
- (a) under s. 7.11(1)(b) – the payment of a monetary contribution, where the consent authority is satisfied that development for which consent is sought will or is likely to require the provision of or increase the demand for public amenities and public services within the area. That contribution may be imposed to require "a reasonable... contribution for the provision, extension or augmentation of the public amenities and public services concerned" (per s. 7.11(2));
- (b) under s. 7.11(3) – the payment of a monetary contribution towards recoupment of the cost of providing public amenities or public services, where the development will benefit from the provision of those amenities and services, and they were provided by the consent authority within the area in preparation for, or to facilitate the carrying out of development in the area; or
- (c) under s. 7.12(1) – a levy of the percentage (authorised by a contributions plan) of the proposed cost of carrying out the development. Money paid under s. 7.12(1) is, subject to any relevant provisions of the applicable contributions plan, "to be applied towards the provision, extension or augmentation of public amenities or public services (or towards recouping the cost of their provision, extension or augmentation)" (per s. 7.12(3)).

¹ Clause 32 of the *Environmental Planning and Assessment Regulation 2000*

² See generally, s. 4.5 of the EPA Act

Item 8.1 - New Item (8) Auditor General Local Government
reports

03 - NSW Auditor General's report on
local government for 2023

Sensitive: Legal

Crown Solicitor's Office NEW SOUTH WALES

10. A consent authority that is a council may impose conditions requiring payments and levies as set out above *only* if it is a condition of a kind allowed by, and is determined in accordance with, a contributions plan, subject to any applicable Ministerial direction (s. 7.13(1)). Sections 7.18 and 7.19 provide for the making of contributions plans.
11. Section 7.3 addresses the manner in which a consent authority, including a council, is to hold and apply certain monies collected under Div. 7.1:
- 7.3 Provisions relating to money etc contributed under this Division (other than Subdivision 4)** (of previous s 93E)
- (1) A consent authority or planning authority is to hold any monetary contribution or levy that is paid under this Division (other than Subdivision 4) in accordance with the conditions of a development consent or with a planning agreement for the purpose for which the payment was required, and apply the money towards that purpose within a reasonable time.
- (2) However, money paid under this Division (other than Subdivision 4) for different purposes in accordance with the conditions of development consents may be pooled and applied progressively for those purposes, subject to the requirements of any relevant contributions plan or ministerial direction under this Division (other than Subdivision 4)
- ...
- (4) A reference in this section to a monetary contribution or levy includes a reference to any additional amount earned from its investment.³
- (my emphasis)
12. The effect of s. 7.3 is that monetary contributions and levies collected under ss 7.11 and 7.12 must be held and applied by a council for a public purpose, being the purpose for which their payment was required.³ The extent of that purposive limitation and, more particularly, the manner in which it is conditioned by the terms of the DCP under which the contribution or levy was collected, are central to addressing the questions you have raised.
13. The current EPA Act arrangements whereby imposition of a condition requiring the payment of a contribution or levy itself requires authorisation under a DCP commenced on 1 July 1993,⁴ and were considered in some detail in *Frevcourt v Wingecarribee Shire Council* (2005) 139 LGERA 140. I note at the outset that the scheme of the EPA Act and sundry regulations considered in *Frevcourt* was identical in material respects to the present scheme, notwithstanding some subsequent amendments and the renumbering of the constituent provisions of the EPA Act.
14. The appellants in *Frevcourt* relevantly contended that the respondent council was obliged to repay contributions made under a DCP on the basis that the council had
- ³ *Frevcourt v Wingecarribee Shire Council* (2005) 139 LGERA 140 at 150 per Beazley JA, Jpp and McCall JJA agreeing, considering s. 93E (now s. 7.3)
- ⁴ Following the commencement of the *Environmental Planning and Assessment (Contributions Plan) Amendment Act 1991*, discussed in *Frevcourt* at 155

3

Sensitive: Legal

202302816 D2023/811422

Item 8.1 - New Item (8) Auditor General Local Government
reports

03 - NSW Auditor General's report on
local government for 2023

Item 6.1

Enclosure 2

Sensitive: Legal

Crown Solicitor's Office NEW SOUTH WALES

abandoned the works for which the contributions were first required.⁵ In support of this position, they advanced a restrictive construction of ss 93E and 94 (predecessors of ss 7.3 and 7.11). On the appellants' argument, a council was unable to abandon works specified in a DCP;⁶ was limited to varying those works by making a new DCP, and only if the new works related to works specified in the plan under which the initial contributions were collected;⁷ and was unable to "carry across" contributions made under a DCP into an amended or substituted plan.⁸

15. The lead judgement in *Frevcourt* was delivered by Beazley JA (Ipp and McCall JJA agreeing).⁹ In rejecting the appellants' contentions, her Honour described the "overall thrust" of the DCP scheme as being that:¹⁰

"[A] council must expend s. 94 contributions on the amenities for which the contributions were required. This is subject to any amendment of the Contributions Plan".

16. Her Honour continued:¹¹

"Given the absence of any restriction in the type or extent of amendments that may be made, I am of the opinion that a council can amend a plan so as to alter both the extent and type of public amenity or service that is reasonably required by the development and apply existing s 94 funds to those amenities or services.

In my opinion, and it follows from what I have said, a council's entitlement to amend a Contributions Plan encompasses a right to reduce the scope of works specified in a Contributions Plan, even if this means that some works stipulated in the original Contributions Plan are no longer to be carried out. I should add that as this case is concerned with a reduction in the scope of roadworks, and not with the substitution of different works, it is not necessary to reach a final conclusion on whether a Council can amend the type of amenity or service so as to substitute different work and use existing s 94 contributions for that different purpose. I would further add that if the right to amend did not encompass the ability to eliminate or abandon (or indeed to substitute different amenities), a Council arguably would be limited to being able to make minimal changes of the detail of the work originally proposed. Amendments of that type would, in my view, be variations of a type in respect of which a council has a continuing discretion in any event. In this regard, I agree with the trial judge that a limited discretion remains after the 1 July 1993 amendments." (citations omitted)

(my emphasis)

17. There is an apparent tension between the two highlighted passages in the foregoing quote, insofar as the first suggests her Honour formed a definitive conclusion that a council enjoys a broad latitude to apply existing contributions to amenities of a "different extent or type" through amendment of a DCP, while the second indicates that no

⁵ At 158

⁶ Ibid

⁷ At 159

⁸ Ibid

⁹ At 168

¹⁰ At 159

¹¹ Ibid

Item 8.1 - New Item (8) Auditor General Local Government
reports

03 - NSW Auditor General's report on
local government for 2023

Item 6.1

Enclosure 2

Sensitive: Legal

Crown Solicitor's Office NEW SOUTH WALES

conclusion was intended on the question of substitution. However, her Honour subsequently characterised her conclusion as being that:¹²

"[T]he power to amend a Contributions Plan involves the ability to use funds (initially required for a particular amenity or service) for the amenity or service substituted, changed or varied in the amended Plan".

Reading these statements together, the safer approach is to treat her Honour's statement that the right to amend a DCP extends to *reducing or altering* the scope of works as part of the judgement's *ratio*, while treating her comments concerning the ability to *substitute* works by way of amendment as *obiter*.

18. Beazley JA disposed of the appellants' contention on the basis that (inter alia) the council legitimately altered the scope of works for which contributions had been made pursuant to an amendment to the relevant DCP, such that no breach of the *EPA Act* giving rise to a putative right of recovery had arisen. Her Honour nonetheless proceeded to consider (in *obiter*) the appellants' argument that, in the event of a breach of the Act, they were entitled to a refund of the relevant contribution. In holding that no power arose under the *EPA Act* to repay contributions previously made,¹³ several points of her Honour's reasoning are worth noting for present purposes:

- (a) Where a DCP is repealed without replacement after contributions have been made, there is no breach of the *EPA Act* involved in a council continuing to hold contributions previously made.¹⁴ At the same time, while there is no longer a public purpose for which monies are held in event of the repeal of a DCP without replacement, a contributor has no right analogous to that of the beneficiary of a trust for recovery purposes, although the prospect of recovery based on a general law monies had and received claim cannot be excluded.¹⁵
- (b) As contributions are able to be combined as a part of a fund and expended progressively on different amenities provided for under a DCP,¹⁶ significant difficulties would arise in separating and identifying individual contributors' rights to the corpus.¹⁷
- (c) In light of these difficulties, it may be that the only remedy available to a party in the event of a breach of the Act would be a right to compel the council to use funds for the purposes for which they had been paid, albeit that proposition would itself create difficulties in the event that a surplus of monies remained after all amenities covered by a DCP were paid for.¹⁸

¹² At 162

¹³ While this conclusion is strictly *obiter*, it was subsequently endorsed by the Court of Appeal (again, in *obiter*) in *Ku-ring-gai Council v Buyaza Pty Ltd* [2021] NSWCA 177.

¹⁴ At 162

¹⁵ *Ibid*

¹⁶ A position now made explicit in s. 7.3(2).

¹⁷ At 162

¹⁸ *Ibid*

Item 8.1 - New Item (8) Auditor General Local Government
reports

03 - NSW Auditor General's report on
local government for 2023

Item 6.1

Enclosure 2

Sensitive: Legal

Crown Solicitor's Office NEW SOUTH WALES

19. *Frevcourt* remains the leading authority to date with respect the latitude enjoyed by councils in applying monies collected under conditions authorised by DCPs. It stands clearly for the proposition that a consent authority may alter the scope of work for which a contribution was provided by amending a DCP. As appellate level *obiter*, the conclusion that existing contributions may be applied to new or substituted works following amendment of DCP should also be afforded considerable weight, and I do not discern any clear reason, as a matter of construction of the *EPA Act* and sundry regulations, to depart from that view.
20. That does not, however, answer the question of how monies collected under one plan are to be treated if a plan is repealed *in toto*, or repealed and replaced. That issue has not been addressed in any subsequent authority I have been able to identify.
21. It is not a matter that is addressed in any provision of Div. 7.1 of the *EPA Act*. Nor is it expressly addressed in Pt 9 of the *EPA Regulation 2021*, which deals with (amongst matters) the making of contributions plan, or (based on my review) under any predecessor regulation. Relevantly, with respect to the constituent provisions of Pt 9:
- (a) in setting out the content of a contributions plan, cl. 212 does not require a plan to explicitly address whether the plan extends to funds carried over from a prior plan;
 - (b) in stipulating the records to be kept in relation to DCPs, Div. 4 makes reference to records relevant to expenditure of any "carry over" of funds from a previous plan;
22. Nor does Pt 9 make express provision for DCPs to include savings and transitional provisions addressed to the consequences of amendments or repeals. It is, however, of some significance for present purposes that cl. 215 of the *EPA Regulation* contemplates that (i) the amendment of plan will occur by way of the making of a subsequent plan, subject to limited exceptions,¹⁹ and (ii) the repeal of a plan will occur by way of the making of a subsequent plan, or by notice.²⁰
23. It follows that neither the *EPA Act* and the *EPA Regulation*, nor present authorities, provide explicit or substantial guidance as to the extent to which a DCP may enable the carrying-over and application of contributions previously collected under a repealed plan. Nor, by extension, do they provide significant assistance in determining whether a specific DCP is to be interpreted as permitting this practice.
24. However, on balance, and while it is attended by not insubstantial doubt, I prefer the view that, in principle:
- (a) contributions under a repealed DCP may be expended under a subsequent DCP by which it is repealed; and
 - (b) absent any clear indication to the contrary in the DCP itself, the subsequent DCP should be construed as permitting this outcome.

¹⁹ Clause 215(1) and (5)

²⁰ Clause 215(2)

Item 8.1 - New Item (8) Auditor General Local Government
reports

03 - NSW Auditor General's report on
local government for 2023

Item 6.1

Enclosure 2

Sensitive: Legal

Crown Solicitor's Office NEW SOUTH WALES

25. I reach this view on the following bases:

- (a) Consistent with the position adopted in *Frevcourt*, the better view is that a DCP may be amended so as to alter the works for which contributions collected under the plan may be expended.
- (b) Insofar as both may be effected by the making of a subsequent plan, cl. 215 of the *EPA Regulation* does not draw a material distinction between the amendment of a plan, on the one hand, and the repeal of a plan, on the other.
- (c) In these circumstances, there is some difficulty in drawing a distinction of substance between the two outcomes. In both cases, the *EPA Regulation* appears to proceed on the basis that the later plan will supersede the earlier one, with revisions to authorised works as a council may consider appropriate.
- (d) To construe the Act and Regulation as precluding a "carry over" in the event of repeal and substitution would give rise to complexities of the kind discussed in *obiter* in *Frevcourt* with respect to consequential obligations with respect to monies collected to date. It is apparent from the terms of s. 7.3 of the *EPA Act* and the reasoning in *Frevcourt* that the expenditure of collected funds remains subject to the obligation to hold expend them for a limited purpose.²¹ At the same time, however, no power to repay funds arises under the Act. To read the Act and Regulation as precluding this practice would effectively create a financial lacuna, leaving a body of funds "frozen" without clear legal direction as to their ultimate disposition.
- (e) More broadly, authorities concerning the scope of a council's obligation to expend contributions for the purposes for which they are collected under different iterations of the contributions regime have acknowledged that councils must necessarily enjoy some latitude and discretion with respect to contributions expenditure to address changes in infrastructure priorities.²² It appears to me to be consistent with that underlying premise to allow councils some discretion with respect to the allocation of existing contributions in the event of the repeal of a DCP, by permitting a carry over of funds and their application to revised programs of works, at the same time avoiding difficulties associated with the "freezing" of funds to the extent possible.
- (f) In the absence of any requirement under the *EPA Regulation* for a subsequent DCP to address expenditure of funds under the DCP it is repealing, I do not think that there are compelling grounds for construing a subsequent DCP as precluding carry-over expenditure unless it provides for this explicitly. It would instead be consistent with the scope of the power under which the DCP is made to proceed on the basis that such a carry-over is impliedly permitted.

²¹ The fundamental limitation on the expenditure of contributions imposed by s. 7.3 and its predecessors (that is, that the funds must be held and expended only for the purposes for which they were collected, whatever the precise ambit of that concept) has been consistently emphasised in authorities concerning the various iterations of the contributions scheme under the *EPA Act*; see, for example, *Levadies v Hawkesbury Shire Council* (1988) 67 LRA 190 at 195; *Idameneo (No 9) Pty Ltd v Great Lakes Shire Council* (1990) 70 LGRA 26 at 30-31.

²² *Denham Pty Ltd v Manly Council* (1995) 89 LGERA 108 at 114-115; *Frevcourt* at 160.

7

Sensitive: Legal

202302816 D2023/811422

Item 8.1 - New Item (8) Auditor General Local Government
reports

03 - NSW Auditor General's report on
local government for 2023

Item 6.1

Enclosure 2

Sensitive: Legal

Crown Solicitor's Office NEW SOUTH WALES

26. That in-principle view is subject to the general caveat that it would still be necessary to demonstrate some connection between the development for which the contribution was made, on the one hand, and the requirement for the amenity or service on which it was expended, on the other. That flows from the bases on which contributions are levied under ss 7.11 and 7.12, and the framing of the scope of the amendment power in the passage from *Frevcourt* quoted at [16] above. This being said, I note that the statutory provision for pooling of funds under s. 7.3(2) creates considerable difficulty in identifying a direct connection between any given amount of levy and particular work it is ultimately expended upon. As a result, it seems to me that, as a matter of practice, not insubstantial weight needs to be accorded to a DCP as a measure of the connection between the body of contributions collected by a council and the matters on which they may ultimately be expended.²³

27. In reaching this general position, I nonetheless note that the question would benefit greatly from clarification by way of amendment of the *EPA Act* and/or its sundry regulations.

28. I now turn to the three scenarios identified in your instructions.

Scenario 1

29. You have identified a scenario where:

- (a) a council repeals a previous DCP, and adopts a new DCP; and
- (b) the new DCP is silent as to how funds collected under the repealed plan should be applied.

30. You ask whether, in this scenario:

- (a) the remaining funds collected under the repealed DCP can be used for any purpose determined by the council, or whether they remain restricted under s. 7.3; and
- (b) if they remain restricted under s. 7.3 – those funds can be applied towards any public purpose, a similar public purpose to that identified in the repealed plan, or in accordance with the new plan?

31. Consistent with my reasoning above, I prefer the view that the expenditure of the funds collected under the repealed DCP would remain restricted by s. 7.3, but those funds could be applied in accordance with the new DCP.

²³ In this context, I note that the imposition of a condition requiring a contribution is itself subject to a test of validity, and must meet criteria of (amongst matters) being reasonable for the provision, extension or augmentation of identified public services or amenities, and being fairly and reasonably related to the development concerned (*Lake Macquarie City Council v Hammersmith Management Pty Ltd* [2003] NSWCA 313 at [52]). There is a degree of tension between the relative stringency attending the purposes for which a contribution may be collected, on the one hand, and the conclusion that a DCP may nonetheless substantially alter the purpose of expenditure, on the other. However, for the reasons cited at [25], I lean towards the view that the *EPA Act* should be taken to allow some latitude in determining expenditure post-collection through the DCP-making process.

8

Sensitive: Legal

202302816 D2023/811422

Item 8.1 - New Item (8) Auditor General Local Government
reports

03 - NSW Auditor General's report on
local government for 2023

Item 6.1

Enclosure 2

Sensitive: Legal

Crown Solicitor's Office NEW SOUTH WALES

Scenario 2

32. You have identified a scenario where:

- (a) a council repeals a previous DCP, and adopts a new DCP; and
- (b) the new DCP includes a clause that specifies that funds collected under the repealed plan will be applied towards a particular purpose, such as the council's delivery program. The programs in the delivery program may or may not be identified specifically in the new DCP.

33. You ask whether, in this scenario:

- (a) the remaining funds collected under the repealed DCP can be used towards the adopted delivery program, even where they are not programs included in the repealed or new contributions plan;
- (b) if so – whether they are still restricted by s. 7.3; or
- (c) if not – how those funds may be used.

34. Consistent with my reasoning above, I prefer the view that the expenditure of the funds collected under the repealed DCP would remain restricted by s. 7.3, but those funds could be applied in accordance with the new DCP.

35. It is not clear to me that a DCP which contemplates the application of contributions to works not specified in the DCP itself would be strictly consistent with the *EPA Regulation*. Clause 212(1) requires a DCP to include fairly specific identification of the public amenities and services to be provided by a council (para. (f)), a works schedule containing an estimate of the cost and staging of those amenities and services (para. (g)), and the priorities for expenditure of pooled funds, by reference to that works schedule (para. (h)). It is difficult to see how that level of specificity could appear when the DCP merely cross-refers to a program of works specified in another document, and those works may or may not themselves be identified in the DCP.

36. This notwithstanding, there appear to me to be grounds (based on the way in which the situation is described) for saying that the works not specified in the DCP itself are, at least, incorporated by reference as services and amenities it is contemplated will be funded under the plan. In these circumstances, and while it is subject to an appreciable level of doubt, I prefer the view that the carried-over funds could be applied to fund the works specified in the delivery program.

Scenario 3

37. You have identified a scenario where:

- (a) a council repeals a previous DCP, and adopts a new DCP; and
- (b) the new DCP provides that funds collected under the previous DCP will be applied under the new DCP.

9

Sensitive: Legal

202302816 D2023/811422

Item 8.1 - New Item (8) Auditor General Local Government
reports

03 - NSW Auditor General's report on
local government for 2023

Item 6.1

Enclosure 2

Sensitive: Legal

Crown Solicitor's Office NEW SOUTH WALES

38. You ask whether, in this scenario:
- (a) the remaining funds collected under the repealed DCP can be used under the new DCP, even where expenditure is not for programs included in the repealed DCP; and
 - (b) if not – how those funds may be used.
39. Consistent with my reasoning above, in this scenario, the funds collected under the repealed DCP may be applied under the new DCP. That position is made clearest, in this case, by the terms of the new DCP.

Question 2: Transition of funds between development plans

40. You ask whether, if funds collected in the scenarios discussed in Question 1 remain restricted by s. 7.3 and are transferred to a council's internal reserves, but are not spent, non-compliance with the *EPA Act* would result if they were subsequently transferred back.
41. Consistent with the foregoing discussion, the obligations imposed by s. 7.3 are to "hold" and "apply" contributions for a specific statutory purpose. Where those funds continue to be held by the council as part of its general monetary reserves and are not expended for any purpose, I do not think they could be said to have been "applied" within the meaning of s. 7.3.
42. In terms of how such funds are to be held, cl. 218(1) of the *EPA Regulation* requires a council to keep accounting records that allow development contributions or development levies received in the form of money, and any addition amounts earned from the investment of that money, to be distinguished from all other money held by the council. In *Frevcourt*, Beazley JA observed (in respect of materially identical predecessor to cl. 218(1)) that the regulations did not require a council to hold contributions in a separate fund, but rather to ensure that they were distinguished as an accounting matter.²⁴
43. That approach suggests that a council has some discretion as to how contributions are banked pending expenditure, provided that they continue to be accounted for as restricted funds and cannot be said to have been expended for an extraneous purpose.²⁵ Assuming that this is the case, there does not appear to me to be a basis for saying that a council would breach its obligation to "hold" funds under s. 7.3 in the event that it temporarily transferred funds to its internal reserves in the manner suggested.

²⁴ At 155.

²⁵ I note, in this context, that monies held under s. 7.3 are not subject to a trust obligation at general law (*Frevcourt* at 150). They are not accordingly subject to obligations with respect to the segregation of trust monies that attach to a "true" trust.

Item 8.1 - New Item (8) Auditor General Local Government
reports

03 - NSW Auditor General's report on
local government for 2023

Item 6.1

Enclosure 2

Sensitive: Legal

Crown Solicitor's Office NEW SOUTH WALES

Question 3: Expenditure of money charged for domestic waste management services

44. You ask whether funds collected for domestic waste management services by a council may be spent on:
- (a) advertising and promotion of, and information concerning or related to, domestic waste management; or
 - (b) providing ratepayers with COVID-19 hardship rebates for non-domestic waste rates.
45. Chapter 15 of the *LG Act* is entitled "How are councils financed?". The means by which a council may obtain income are broadly summarised in s. 491, and then prescribed with a greater degree of specificity in the body of the Chapter. Those sources of income include both "rates" and "charges" (as adverted to in s. 491). Relevantly, for present purposes:
- (a) A council must make and levy an "ordinary rate" for each year on all rateable land in its area (s. 494(1)), subject to other provisions of the Chapter.
 - (b) A council must also make and levy an annual charge for the provision of "domestic waste management services" for each parcel of land for which the service is available (s. 496(1)).²⁶ "Domestic waste management services" are "services comprising the periodic collection of domestic waste for individual parcels of land rateable land and services that are associated with those services" (per the Dictionary to the Act).
46. Within Ch. 15, a council's ability to raise income for domestic waste management services is constrained by s. 504 (cited in my instructions), which provides:
- "504 Domestic waste management services**
- (1) A council must not apply income from an ordinary rate towards the cost of providing domestic waste management services.
 - (1A) Subsection (1) does not prevent income from an ordinary rate from being lent (by way of internal loan) for use by the council in meeting the cost of providing domestic waste management services.
 - (2) Income to be applied by a council towards the cost of providing domestic waste management services must be obtained from the making and levying of annual charges or the imposition of charges for the actual use of the service, or both.
 - (3) Income obtained from charges for domestic waste management must be calculated so as to not exceed the reasonable cost to the council of providing those services."

²⁶ A charge levied under s. 496 may be made according to the actual use of domestic waste management services (per s. 502), and/or may be made in addition to an ordinary rate, or in addition to or instead of a "special rate", subject to exceptions (s. 503). The calculation of annual charges for domestic waste management services (amongst other charges and rates) is constrained by Pt 2 ("Limit of annual income from rates and charges").

Item 8.1 - New Item (8) Auditor General Local Government
reports

03 - NSW Auditor General's report on
local government for 2023

Item 6.1

Enclosure 2

Sensitive: Legal

Crown Solicitor's Office NEW SOUTH WALES

47. The constraints imposed by s. 504 are not directed, in their terms, to the purpose for which funds collected by way of a charge collected for domestic waste management may be applied. Instead, the section:
- (a) prescribes the manner in which income collected for that purpose is to be obtained and calculated (subs (2) and (3)), regulating the manner of exercise of the charging functions conferred by s. 496; and
 - (b) limits the extent to which funds collected from an ordinary rate may be applied for the purpose of funding those services (subs. (1), subject to the qualification in subs. (1A)).
48. Funds collected by way of charges for domestic waste management are nonetheless subject to the general provisions of the Act concerning financial management and, in particular, those of Ch. 13 ("How are councils made accountable for their actions?"). Relevantly, under Pt 3 ("Financial management"):
- (a) A council must have both a consolidated fund and a trust fund (s. 408).
 - (b) All money and property received by a council must be held in the council's consolidated fund, unless it is required to be held in the council's trust fund (s. 409(1)).
 - (c) While money held in the consolidated fund may be applied towards any purpose allowed by legislation (s. 409(2)), that is subject to the specific limitation that money received as a result of the levying of (relevantly) a "charge" may not be used otherwise than for the purpose for which it was levied (s. 409(3)(a)).
 - (d) Pending its expenditure for that purpose, such money may not be held otherwise than in an account with a bank, building society or credit union, or in an investment in which in which such money is authorised to be invested under an Act (s. 409(4)). It may also be lent, by way of "internal loan", for use by council for any other purpose if (and only if) its use for that other purpose is approved by the Minister.
 - (e) Section 410(2) provides that:
 - (2) If the special rate or charge has been discontinued and the purpose for which the money was received has been achieved, or is no longer required to be achieved, any remaining money may be used by the council for any other purpose if, and only if—
 - (a) a proposal to that effect has been included in a draft operational plan for the current year or for a previous year; and
 - (b) notice of the fact that the proposal was included in the operational plan adopted by the council for that year has been published in a manner that the council is satisfied is likely to bring the notice to the attention of members of the public in the area.
49. In circumstances where the primary limitation on the expenditure on money collected by way of a charge for domestic waste management services – namely, that it not be used otherwise than for the purpose of those services – is expressed in peremptory terms and subject to a limited range of exceptions, the *LG Act* should be approached on the basis

12

Sensitive: Legal

202302816 D2023/811422

Item 8.1 - New Item (8) Auditor General Local Government
reports

03 - NSW Auditor General's report on
local government for 2023

Item 6.1

Enclosure 2

Sensitive: Legal

Crown Solicitor's Office NEW SOUTH WALES

that the expressed exceptions are a complete statement and other exceptions are excluded.²⁷

50. As to whether particular expenditure can be characterised as being for the purpose for which the charge is collected – the “provision of domestic waste management services”, I note the following:

- (a) “Domestic waste management services” encompass both the services comprising the periodic collection of domestic waste (as defined in the Dictionary) from parcels of land, and services that are “associated with” those services.
- (b) The concept of a “service” is not defined in the LG Act, and should take its ordinary meaning understood with regard to the context and purpose of the provisions in which it appears.²⁸ That context suggests the connotation of the supply of a need to the public.²⁹
- (c) Relational terms such as “associated with” carry a broad connotation of connection or relationship between subject matters,³⁰ the ambit of which is ultimately to be determined from the context in which it appears.³¹ In the present case, the words “associated with” periodic collection services appear to connote services bearing a functional connection with those services.
- (d) Reading the applicable provisions together, expenditure will need to be for the “purpose... of the provision of” those services.
- (e) The concept of the “purpose” of should be understood as the object or function for which action (in this case expenditure) is undertaken.

51. I turn to the characterisation of the expenditure described in your instructions.

52. While reasonable minds may differ and there is an element of impression involved, I am of the view that expenditure on advertising concerning, and the dissemination of information related to, domestic waste management is generally something on which such funds may be expended. It may, in a given case, involve an “associated” service insofar as it is a service involving the provision of information which informs beneficiaries of the periodic collection services and thereby assists in the efficacy of its provision. The functional linkage is an appreciably close one. Equally, it could be said funding such advertising or information provision is directed to the end of the provision of periodic collection of domestic waste on similar grounds.

²⁷ Reflecting the principle *expressio unius est exclusio alterius*; an express reference to one matter indicates that other matters are excluded (see Pearce, *Statutory Interpretation in Australia* (9th Edition) at [4.43]).

²⁸ SZTAL v Minister for Immigration and Border Protection (2017) 262 CLR 362 at [14].

²⁹ Noting the relevant definition of the term in the Macquarie Dictionary, albeit as a guide to its range of grammatical meanings (cf *South Western Sydney Local Health District v Gould* [2018] NSWCA 69 at [77]-[79]).

³⁰ See, for example, *Trustees Executors & Agency Co Ltd v Reilly* [1941] VLR 110.

³¹ See, for example, *Technical Products Pty Ltd v State Government Insurance Office* (1989) 167 CLR 45 at 47.

13

Sensitive: Legal

202302816 D2023/811422

Item 8.1 - New Item (8) Auditor General Local Government
reports

03 - NSW Auditor General's report on
local government for 2023

Sensitive: Legal

Crown Solicitor's Office | NEW SOUTH WALES

53. Hence, while it will ultimately be a matter of understanding the role played by particular advertising or information, there are grounds for characterising that broad class of expenditure as permissible.
54. On the other hand, there is no ready basis for characterising expenditure for non-domestic waste management rebates as being within the purposive limitation identified by s. 409(2) of the LG Act. There is no apparent functional or subject matter-derived connection between that expenditure, on the one hand, and provision of services comprising the periodic collection of domestic waste, on the other.
55. That is not a complete answer to whether charges collected for domestic waste management services may be expended for the that purpose. There are two scenarios where the application of funds for that purpose is possible; namely, where:
- (a) it is expended on the basis of an internal loan within the council pending its expenditure on domestic waste management services, and the loan is approved by the Minister (see [48(d)], above); or
 - (b) the charge for domestic waste management services under which the money was obtained has been discontinued, the purpose of that charge has been achieved or is no longer required to be achieved, and the procedural requirements of s. 410(2) have been satisfied (see [48(e)] above).
56. Whether either of these situations applies or applied in the context of particular expenditure on rebates will be a question of fact.


Karen Smith
Crown Solicitor

14

Sensitive: Legal

202302816 D2023/811422

Appendix three – Status of previous recommendations

Our previous reports to Parliament focusing on Local Government made recommendations to the Department of Planning, Housing and Infrastructure and councils. The current status of implementation of our recommendations is summarised below with the relevant audit findings for 2022–23.

Recommendations to the department	Comment	Current status
Rural firefighting equipment (repeat issue)		
Consistent with the NSW Government's accounting position on the control of vested rural firefighting equipment and the department's role to assess council's compliance with legislative responsibilities, standards or guidelines, the department should intervene where councils do not recognise rural firefighting equipment vested to them under section 119(2) of the <i>Rural Fires Act 1997</i> .	We continue to recommend the department should intervene where councils do not recognise vested rural firefighting equipment. Since 2017, the Audit Office has recommended that the Office of Local Government (OLG) and then the department address the different practices across the local government sector in accounting for rural firefighting equipment. It is the department's role to assess whether intervention is appropriate with respect to councils' compliance with and performance against legislative responsibilities, standards or guidelines. The department has communicated the Government's position to the sector and confirmed it will take a stronger regulatory stance to require councils to include rural firefighting equipment in their future financial statements. The 'Local Government Code of Accounting Practice and Financial Reporting for 2023–24' requires councils to recognise material rural firefighting equipment in their financial statements. The department has worked with NSW Treasury, the NSW Rural Fire Service (RFS) and the Audit Office of NSW on the following: • NSW Treasury shared its position paper and guidance with the local government sector • RFS shared its asset listing and costings, and encouraged its brigades to provide councils with access to the assets • The department delivered an information webinar, to provide Treasury, the RFS and the Audit Office the opportunity to provide advice and guidance to the sector about reporting vested rural firefighting equipment	

**Item 8.1 - New Item (8) Auditor General Local Government
reports**

**03 - NSW Auditor General's report on
local government for 2023**

Recommendations to the department	Comment	Current status
	wrote to all councils that had received a qualified independent audit opinion on their 2021–22 financial statements requesting these councils provide the OLG with the strategies implemented to address the qualified audit opinion, to address any significant audit risks raised and provide a copy of the Audit Office's 2021–22 management letter and Council's response. Thirty-six councils with completed audits received qualified audit opinions on their 2023 financial statements in relation to this issue. It is our view that this situation is unlikely to be resolved in the absence of regulatory intervention. Refer to Section 2.1 for further information on this issue.	
Early financial reporting procedures (repeat issue)		
The department should consider requiring early financial reporting procedures across the local government sector.	We continue to recommend the department consider requiring early financial reporting procedures across the local government sector. In February 2024, the department reminded councils to start the asset valuation process earlier, to ensure it is completed prior to the commencement of the audit.	—
Legal framework (repeat issue)		
The department should clarify the legal framework relating to restrictions of water, sewerage and drainage funds (restricted reserves) by either seeking an amendment to the relevant legislation or by issuing a policy instrument to remove ambiguity from the current framework.	This recommendation has not been implemented.	!
Key:  Fully addressed  Partially addressed  Not addressed		

Item 6.1

Enclosure 2

**Item 8.1 - New Item (8) Auditor General Local Government
reports**

**03 - NSW Auditor General's report on
local government for 2023**

Recommendations to councils	Comment	Current status
Rural firefighting equipment (repeat issue)		
Councils should perform a full asset stocktake of rural firefighting equipment, including a condition assessment for financial reporting purposes. Consistent with the requirements of the Australian Accounting Standards and the 'Local Government Code of Accounting Practice and Financial Reporting for 2023–24', councils should recognise this equipment as assets in their financial statements.	We continue to recommend councils perform procedures to confirm completeness, accuracy and condition of rural firefighting equipment and recognise this as assets in their financial statements. Forty-nine councils out of the 106 councils with vested rural firefighting equipment have recognised these assets in their 2022–23 financial statements. One audit is in progress. Seventy-one councils performed some procedures to confirm the accuracy and completeness of rural firefighting equipment. Refer to Section 2.1 and Appendix three for further details.	–
Asset valuations (repeat issue)		
Councils should complete asset revaluations before financial year-end.	We continue to recommend councils complete asset valuations before financial year-end to help improve quality and timeliness of financial reporting. Common issues with asset valuation include: • using inappropriate valuation assumptions • inadequate documentation to support key assumptions and judgements including useful lives, condition assessments and unit rates • inaccurate calculations and/or recording of adjustments • incorrect classifications • providing incorrect data to the valuer • no quality review performed by management • commencing valuation process too late which delayed the preparation of the financial statements. Forty-three of the 121 completed audits of councils have partially implemented these recommendations in 2022–23.	–
Asset source records (repeat issue)		
Councils should improve controls and processes to ensure integrity and completeness of asset source records.	We continue to recommend councils improve controls and processes to ensure integrity and completeness of asset source records. Forty-three councils had weak processes over maintenance, completeness and security of fixed asset registers as reported in Section 3.2.	–

**Item 8.1 - New Item (8) Auditor General Local Government
reports**

**03 - NSW Auditor General's report on
local government for 2023**

Recommendations to councils	Comment	Current status
	Common issues identified include: - inaccurate and incomplete data in asset registers such as duplicate or missing assets - assets recorded that are no longer controlled - asset incorrectly classified.	
Tracking recommendations (repeat issue)		
Councils should focus on tracking audit recommendations and prioritise high-risk repeat issues.	We continue to recommend councils track audit recommendations and prioritise high-risk repeat issues. More councils are tracking audit recommendations. Forty per cent (2021–22: 52%) of total findings reported in 2022–23 audit management letters were repeat findings from prior years, tracking of status and implementation plans continues to be important.	—
Cyber security (repeat issue)		
Councils should prioritise planning and governing cyber security to ensure cyber security risks over key data and IT assets are appropriately managed and key data is safeguarded. Councils should refer to the 'Cyber Security Guidelines – Local Government' released by the Office of Local Government.	We continue to recommend councils focus on improving cyber security governance and controls. Cyber security findings were reported in 50 councils (2021–22: 63 councils) as they did not have at least one of the following basic governance and internal controls to manage cyber security such as having a: - cyber security framework, policy and procedure - register of cyber incidents - simulated cyber-attack testing (penetration testing) - cyber security training and awareness program.	—
Key:  Fully addressed  Partially addressed  Not addressed		

Item 6.1

Enclosure 2

Appendix four – Status of audits

Below is a summary of the status of the 2022–23 financial statement audits, including the type of audit opinion and the date it was issued.

2022–23 audits

Key

Type of audit opinion	Date of audit opinion		
Unmodified opinion		Financial statements were lodged by the statutory deadline of 31 October 2023	
Unmodified opinion with emphasis of matter		Extensions to the statutory deadline (and met)	
Modified opinion: Qualified opinion, an adverse opinion, or a disclaimer of opinion		Breached statutory deadline	
		Financial statements not lodged as at tabling date	

Council classifications

We adopted the following methodology when classifying councils in our report.

OLG classification	Audit Office grouping
Metropolitan	Metropolitan
Regional town/city	Regional
Metropolitan fringe	Metropolitan
Rural	Rural
Large rural	Rural

Source: OLG classifications and Audit Office.

Metropolitan councils

Council	Type of opinion	Date of audit opinion		
Bayside	Unmodified		27 October 2023	
Blacktown City	Unmodified		23 November 2023	
Blue Mountains City	Unmodified		27 October 2023	
Burwood	Unmodified		26 October 2023	
Camden	Unmodified		1 December 2023	
Campbelltown	Unmodified		24 October 2023	
Canterbury-Bankstown	Unmodified		30 October 2023	
Central Coast Council	Unmodified		31 October 2023	
City of Canada Bay	Unmodified		30 October 2023	
Cumberland City	Unmodified		25 October 2023	

**Item 8.1 - New Item (8) Auditor General Local Government
reports**

**03 - NSW Auditor General's report on
local government for 2023**

Council	Type of opinion	Date of audit opinion	
Fairfield City	Unmodified	30 October 2023	
Georges River	Unmodified	31 October 2023	
Hawkesbury City	Unmodified	31 October 2023	
Hornsby Shire	Unmodified	26 October 2023	
The Municipality of Hunters Hill	Unmodified	18 October 2023	
Inner West	Unmodified	16 October 2023	
Ku-ring-gai	Unmodified	22 September 2023	
Lane Cove Municipal	Unmodified	26 October 2023	
Liverpool City	Unmodified	31 October 2023	
Mosman Municipal	Unmodified	26 October 2023	
North Sydney	Unmodified	26 October 2023	
Northern Beaches	Unmodified	25 October 2023	
City of Parramatta	Unmodified	30 October 2023	
Penrith City	Unmodified	31 October 2023	
Randwick City	Unmodified	4 October 2023	
City of Ryde	Unmodified	28 February 2024	
Strathfield Municipal	Unmodified	7 March 2024	
Sutherland Shire	Unmodified	18 October 2023	
City of Sydney	Unmodified	30 October 2023	
The Hills Shire	Unmodified	30 October 2023	
Waverley	Unmodified	26 October 2023	
Willoughby City	Unmodified	31 October 2023	
Wollondilly Shire	Unmodified	31 October 2023	
Woollahra Municipal	Unmodified	10 October 2023	

Regional councils

Council	Type of opinion	Date of audit opinion	
Albury City	Unmodified	31 October 2023	
Armidale Regional	Unmodified	21 December 2023	
Ballina Shire	Unmodified	27 October 2023	
Bathurst Regional	Modified	31 October 2023	
Bega Valley Shire	Modified	31 October 2023	
Broken Hill City	Unmodified	25 October 2023	
Byron Shire	Unmodified	29 October 2023	

**Item 8.1 - New Item (8) Auditor General Local Government
reports**

**03 - NSW Auditor General's report on
local government for 2023**

Council	Type of opinion		Date of audit opinion	
Cessnock City	Modified	!	20 December 2023	!
Clarence Valley	Modified	!	29 February 2024	✓
Coffs Harbour City	Unmodified	✓	31 October 2023	✓
Dubbo Regional	Unmodified	✓	27 October 2023	✓
Eurobodalla Shire	Unmodified	✓	31 October 2023	✓
Goulburn Mulwaree	Unmodified	✓	20 December 2023	✓
Griffith City	Modified	!	27 November 2023	✓
Kempsey Shire	Modified	!	13 February 2024	✓
Kiama Municipal	--		Financial statements not lodged as at tabling date	!
Lake Macquarie City	Unmodified	✓	20 November 2023	✓
Lismore City	Unmodified	✓	22 December 2023	✓
Lithgow City	Unmodified	✓	21 February 2024	✓
Maitland City	Unmodified	✓	31 October 2023	✓
Mid-Coast	Unmodified	✓	31 October 2023	✓
Mid-Western Regional	Modified	!	31 October 2023	✓
Newcastle City	Unmodified	✓	31 October 2023	✓
Orange City	--		Financial statements not lodged as at tabling date	!
Port Macquarie-Hastings	Unmodified	✓	31 October 2023	✓
Port Stephens	Unmodified	✓	10 October 2023	✓
Queanbeyan-Palerang Regional	Modified	!	30 November 2023	✓
Richmond Valley	Unmodified	✓	18 October 2023	✓
Shellharbour City	Unmodified	✓	30 November 2023	✓
Shoalhaven City	Unmodified	✓	13 December 2023	✓
Singleton	--		Financial statements not lodged as at tabling date	!
Snowy Monaro Regional	Modified	!	19 December 2023	✓
Tamworth Regional	Modified	!	30 November 2023	✓
Tweed Shire	Unmodified	✓	30 October 2023	✓
Wagga Wagga City	Modified	!	30 November 2023	✓
Wingecarribee Shire	Unmodified	✓	31 October 2023	✓
Wollongong City	Unmodified	✓	31 October 2023	✓

**Item 8.1 - New Item (8) Auditor General Local Government
reports**

**03 - NSW Auditor General's report on
local government for 2023**

Rural councils

Council	Type of opinion	Date of audit opinion
Balranald Shire	Unmodified	31 October 2023
Bellingen Shire	Modified	30 October 2023
Berrigan Shire	Unmodified	30 October 2023
Bland Shire	Modified	31 October 2023
Blayney Shire	Unmodified	31 October 2023
Bogan Shire	Unmodified	6 October 2023
Bourke Shire	Unmodified	26 October 2023
Brewarrina Shire	Unmodified	26 October 2023
Cabonne	Modified	8 February 2024
Carrathool Shire	Modified	31 October 2023
Central Darling Shire	Unmodified	30 November 2023
Cobar Shire	Unmodified	27 October 2023
Coolamon Shire	Modified	30 October 2023
Coonamble Shire	Unmodified	31 October 2023
Cootamundra-Gundagai Regional	Modified	30 October 2023
Cowra Shire	Unmodified	28 October 2023
Dungog Shire	Modified	9 February 2024
Edward River	Modified	25 October 2023
Federation	Modified	13 December 2023
Forbes Shire	Unmodified	31 October 2023
Gilgandra Shire	Unmodified	27 October 2023
Glen Innes Severn	--	Financial statements not lodged as at tabling date
Greater Hume Shire	Modified	18 October 2023
Gunnedah Shire	Unmodified	31 October 2023
Gwydir Shire	Unmodified	21 December 2023
Hay Shire	Unmodified	31 October 2023
Hilltops	Modified	27 February 2024
Inverell Shire	Unmodified	31 October 2023
Junee Shire	Modified	24 October 2023
Kyogle	Unmodified	12 December 2023
Lachlan Shire	Modified	31 October 2023

**Item 8.1 - New Item (8) Auditor General Local Government
reports**

**03 - NSW Auditor General's report on
local government for 2023**

Council	Type of opinion	Date of audit opinion
Leeton Shire	Modified	21 February 2024
Liverpool Plains Shire	--	Financial statements not lodged as at tabling date
Lockhart Shire	Modified	12 December 2023
Moree Plains Shire	Modified	16 February 2024
Murray River	Modified	31 October 2023
Murrumbidgee	Modified	15 December 2023
Muswellbrook Shire	Unmodified	29 February 2024
Nambucca Valley	Unmodified	31 October 2023
Narrabri Shire	--	Financial statements not lodged as at tabling date
Narrandera Shire	Unmodified	18 September 2023
Narromine Shire	Unmodified	31 October 2023
Oberon	Unmodified	31 October 2023
Parkes Shire	Unmodified	29 September 2023
Snowy Valleys	Modified	31 October 2023
Temora Shire	Modified	30 October 2023
Tenterfield Shire	Modified	21 December 2023
Upper Hunter Shire	--	Financial statements not lodged as at tabling date
Upper Lachlan Shire	Modified	28 November 2023
Uralla Shire	Unmodified	24 November 2023
Walcha	Unmodified	31 October 2023
Walgett Shire	Unmodified	28 February 2024
Warren Shire	Unmodified	31 October 2023
Warrumbungle Shire	Modified	26 October 2023
Weddin Shire	Modified	21 December 2023
Wentworth Shire	Unmodified	30 October 2023
Yass Valley	Modified	21 December 2023

Item 6.1

Enclosure 2

**Item 8.1 - New Item (8) Auditor General Local Government
reports**

**03 - NSW Auditor General's report on
local government for 2023**

County councils

County council	Type of opinion	Date of audit opinion	
Castlereagh Macquarie	Unmodified	31 October 2023	✓
Central Tablelands	Unmodified	24 October 2023	✓
Goldenfields Water	Unmodified	31 October 2023	✓
Hawkesbury River	Unmodified	25 October 2023	✓
New England Weeds Authority	--	Financial statements not lodged as at tabling date	!
Riverina Water	Unmodified	12 October 2023	✓
Rous	Unmodified	24 October 2023	✓
Upper Hunter	Unmodified	18 December 2023	✓
Upper Macquarie	Unmodified	5 September 2023	✓

Joint organisations

Joint organisation	Type of opinion	Date of audit opinion	
Canberra Region	--	Financial statements not lodged as at tabling date	!
Central NSW	Unmodified	26 October 2023	✓
Far North West	Unmodified	20 October 2023	✓
Far South West	Unmodified	26 October 2023	✓
Hunter	Unmodified	31 October 2023	✓
Illawarra Shoalhaven	Unmodified	20 December 2023	✓
Mid North Coast	Unmodified	30 October 2023	✓
Namoi	Unmodified	31 October 2023	✓
New England	Unmodified	19 December 2023	!
Northern Rivers	Unmodified	31 October 2023	✓
Orana	Unmodified	31 October 2023*	✓
Riverina and Murray	Unmodified	31 October 2023	✓
Riverina	Unmodified	30 October 2023	✓

* Audit Opinion issued on 31 October 2023 but not submitted to OLG till 20 November 2023, breaching statutory requirements.

Appendix five – Councils received qualified audit opinions for non-recognition of rural firefighting equipment

Qualification: Non-recognition of rural firefighting equipment (and no evidence to support fair value)			
Bathurst Regional	Cootamundra-Gundagai Regional	Lachlan Shire	Snowy Monaro Regional
Bega Valley Shire	Dungog Shire	Leeton Shire	Tamworth Regional
Bellingen Shire	Edward River	Lockhart Shire	Temora Shire
Bland Shire	Federation	Mid-Western Regional	Upper Lachlan Shire
Cabonne	Greater Hume Shire	Moree Plains Shire	Wagga Wagga City
Carrathool Shire	Griffith City	Murray River	Warrumbungle Shire
Cessnock City	Hilltops	Murrumbidgee	Weddin Shire
Coolamon Shire	Kempsey Shire	Queanbeyan-Palerang Regional	Yass Valley
Qualification: Non-recognition of rural firefighting equipment and buildings (and no evidence to support fair value)			
Junee Shire	Snowy Valleys		
Qualification: Non-recognition of rural firefighting equipment (and evidence to support fair value exceeds materiality)			
Clarence Valley			
Qualification: Non-recognition of rural firefighting equipment and buildings (and evidence to support fair value exceeds materiality)			
Tenterfield Shire			

Item 8.1 - New Item (8) Auditor General Local Government reports

0 3 - NSW Auditor General's report on local government for 2023

Item 6.1

Enclosure 2

OUR VISION

Our insights inform and challenge government to improve outcomes for citizens.

OUR PURPOSE

To help Parliament hold government accountable for its use of public resources.

OUR VALUES

- Pride in purpose
- Curious and open-minded
- Valuing people
- Contagious integrity
- Courage (even when it's uncomfortable)



**Item 8.1 - New Item (8) Auditor General Local Government
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**03 - NSW Auditor General's report on
local government for 2023**

Item 6.1

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reports

04 - NSW Auditor General's report on
local government for 2024



Local government 2024

FINANCIAL AUDIT | 31 MARCH 2025

NEW SOUTH WALES AUDITOR-GENERAL'S REPORT



Item 8.1 - New Item (8) Auditor General Local Government
reports

04 - NSW Auditor General's report on
local government for 2024

ROLE OF THE AUDITOR-GENERAL

The roles and responsibilities of the Auditor-General and the Audit Office, are set out in the *Government Sector Audit Act 1983* and the *Local Government Act 1993*.

We conduct financial or 'attest' audits of state public sector and local government entities' financial statements. We also audit the Consolidated State Financial Statements, a consolidation of all state public sector agencies' financial statements.

Financial audits are designed to give reasonable assurance that financial statements are true and fair, enhancing their value to end users. Also, the existence of such audits provides a constant stimulus to entities to ensure sound financial management.

Following a financial audit the Audit Office issues a variety of reports to entities and reports periodically to Parliament. In combination, these reports give opinions on the truth and fairness of financial statements, and comment on entity internal controls and governance, and compliance with certain laws, regulations and government directives. They may comment on financial prudence, probity and waste, and recommend operational improvements.

We also conduct performance audits. These assess whether the activities of government entities are being carried out effectively, economically, efficiently and in compliance with relevant laws. Audits may cover all or parts of an entity's operations, or consider particular issues across a number of entities. Our performance audits may also extend to activities of non-government entities that receive money or resources, whether directly or indirectly, from or on behalf of government entities for a particular purpose.

As well as financial and performance audits, the Auditor-General carries out special reviews, compliance engagements and audits requested under section 27B(3) of the *Government Sector Audit Act 1983*, and section 421E of the *Local Government Act 1993*.



GPO Box 12
Sydney NSW 2001

The Legislative Assembly
Parliament House
Sydney NSW 2000

The Legislative Council
Parliament House
Sydney NSW 2000

In accordance with section 421D of the *Local Government Act 1993*, I present a report titled '**Local government 2024**'.

A handwritten signature in black ink, reading 'Bola Oyeturji'.

Bola Oyeturji
Auditor-General for New South Wales
31 March 2025

RECONCILIATION STATEMENT

We pay our respects and recognise Aboriginal peoples as the traditional custodians of the land in NSW who have cared for and protected the environment, waterways, and sacred sites over many millennia. We honour and thank the traditional custodians of the land on which our office is located, the Gadigal people of the Eora Nation, and the traditional custodians of all the lands on which our employees live and work. We pay our respects to their Elders past and present, and to the next generation of leaders.

We acknowledge that our long history of helping to foster accountability and transparency in the government and Parliament is also shared with the histories of colonisation and the resulting disadvantage of Aboriginal and Torres Strait Islander peoples in this state.

We embrace our role in holding government agencies to account for the delivery of effective services for Aboriginal and Torres Strait Islander peoples. We are committed to ensuring that our audits are culturally responsive, respectful and inclusive, and that we engage with Aboriginal and Torres Strait Islander peoples and communities in a meaningful and collaborative way.

We recognise the ancestral tie of Aboriginal and Torres Strait Islander peoples to this land, and we acknowledge that we have much to learn from their wisdom, rich and diverse culture, languages, knowledge and practices.

Image: 'Yarning Circle' by Caitlin Liddle, Audit Office Indigenous Internship Program participant. Used with permission.

**Item 8.1 - New Item (8) Auditor General Local Government
reports**

**04 - NSW Auditor General's report on
local government for 2024**

Item 6.1

contents

Local government 2024

Section 1 – Local government 2024

1.	Executive summary	1
1.1.	Introduction	1
1.2.	Audit results	1
1.3.	Financial sustainability	2
1.4.	Fraud risks	3
1.5.	Information technology and cyber risks	3
1.6.	Recommendations	4
2.	Introduction	5
2.1.	Local government sector	5
2.2.	Financial audit	6
3.	Audit results	8
3.1.	Quality of financial reporting	8
3.2.	Timeliness of financial reporting	14
4.	Financial sustainability	16
4.1.	Key performance measures	16
4.2.	Revenue and expense analysis	21
4.3.	Cash analysis	26
4.4.	Long-term financial planning	28
5.	Internal controls and governance	30
5.1.	Key audit findings	30
6.	Cyber security	40
6.1.	Background	40
6.2.	Policy framework	42
6.3.	Identifying cyber security risk	44
6.4.	Responding and planning to improve cyber security	45
6.5.	Identifying and responding to cyber security incidents	45
6.6.	Resourcing of cyber security	47
6.7.	Cyber security awareness and training	47
7.	Looking forward	49

Enclosure 2

Item 8.1 - New Item (8) Auditor General Local Government
reports

0 4 - NSW Auditor General's report on
local government for 2024

Section 2 – Appendices

Appendix 1 – Response from the Office of Local Government within the Department of Planning, Housing and Infrastructure	52
Appendix 2 – Status of previous recommendations	55
Appendix 3 – Status of audits	57
Appendix 4 – Council liquidity	64

Item 6.1

Enclosure 2

Item 8.1 - New Item (8) Auditor General Local Government
reports

0 4 - NSW Auditor General's report on
local government for 2024

Item 6.1

Section 1 –
Local government 2024

Enclosure 2

1. Executive summary

1.1. Introduction

This report presents the audit results and key themes from the Audit Office's 30 June 2024 financial audits of New South Wales (NSW) councils' financial statements.

Councils provide a wide range of services and infrastructure for their geographical areas. These are funded through rates and annual charges, user fees and charges, and grants and contributions. At 30 June 2024, there were 128 councils, 13 joint organisations and nine county councils in NSW.

The *Local Government Act 1993* (the LG Act) requires the Auditor-General to issue an audit opinion on the general purpose financial statements, the special purpose financial statements and the special schedule – permissible income. In addition, at least three grant acquittal audits are required annually by state and Commonwealth departments. NSW councils have a higher financial reporting burden than councils in other Australian states and territories.

1.2. Audit results

Unqualified audit opinions were issued for 124 councils and modified opinions for three councils' 30 June 2024 financial statements

Unqualified audit opinions were issued for 124 councils, eight county councils and 11 joint organisations' 30 June 2024 financial statements. The audit of Lachlan Shire Council remains in progress as at the date of this report.

A disclaimer of opinion was issued for Glen Innes Severn Council's 30 June 2024 financial statements due to poorly managed system implementation on 1 July 2022. This resulted in lost financial data leading to errors in reporting and reconciliations.

A disclaimer of opinion was issued for the New England Weeds Authority's 30 June 2024 financial statements as the administrator and management were unable to certify the completeness and reliability of their financial statements.

Snowy Valleys Council received a qualified audit opinion for its 30 June 2024 financial statements for not recording buildings located on council land.

Moree Plains Shire received a qualified audit opinion for its 30 June 2024 financial statements as the qualified audit opinion on the 30 June 2023 financial statements affected the auditor's ability to obtain sufficient appropriate audit evidence on the opening balances of roads, water supply and sewerage network assets (IPPE) at 1 July 2023.

Eighteen councils submitted too many versions of financial statements and supporting workpapers for audit

Eighteen councils submitted more than six versions of financial statements, with many amendments, which can indicate poor quality financial reporting. Multiple attempts to produce accurate, auditable financial statements delay the timeliness of financial reporting to users, diminishes public accountability and results in higher audit costs.

Item 8.1 - New Item (8) Auditor General Local Government
reports

04 - NSW Auditor General's report on
local government for 2024

Item 6.1

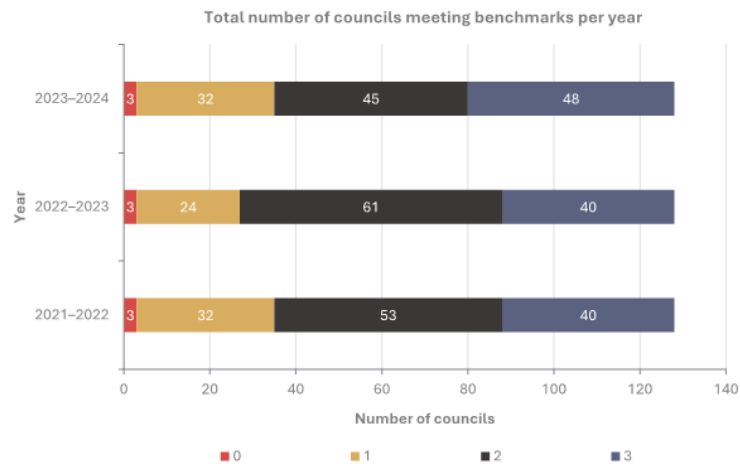
Eighty-eight per cent of councils lodged their 30 June 2024 audited financial statements by the statutory deadline (67% for 30 June 2023)

Only 15 councils, two county councils and five joint organisations did not lodge audited financial statements with the Office of Local Government (OLG) by the statutory deadline of 31 October. This was a significant improvement on the previous year, when 43 councils, two county councils and two joint organisations did not lodge by 31 October.

1.3. Financial sustainability

Thirty-five councils met just one or none of the three key financial sustainability benchmarks

The graph below shows the number of councils meeting the financial sustainability benchmarks over the past three years.



At 30 June 2024, 35 councils (10 metropolitan, 10 regional and 15 rural) met just one or none of the three key financial sustainability benchmarks. Fifty-two councils (40%) did not meet the operating performance benchmark, and 59 councils (46%) did not meet the infrastructure renewal benchmark. Two councils – Bathurst Regional and Shoalhaven City – have not met any of the benchmarks for at least three years. In addition, the cash and investments of these two councils (not subject to external restrictions) were insufficient to meet three months of their expenses¹ (excluding depreciation and borrowing costs). This indicates more serious risks to their continued financial sustainability.

A further 14 councils did not have cash and investments (not subject to external restrictions) to meet three months of their expenses (excluding depreciation and borrowing costs). See Appendix 4.

¹ From the general fund only.

Enclosure 2

Revenue growth lags expenditure growth after adjusting for inflation, resulting in negative growth in real terms

Revenue and expenses across the councils from 2014 to 2023 have been relatively consistent with inflation. However, expenses indexed by CPI are \$0.2 billion higher than indexed revenue, indicating negative growth in real terms.

In 2023–24, total revenue, excluding capital grants and contributions, was \$16.1 billion, which is lower than total expenses of \$16.3 billion, an overall \$0.2 billion shortfall.

About 40% of councils did not break even in 2023–24.

Inadequate long-term financial planning at many councils has contributed to poor financial sustainability

Not all councils were fully compliant with the legislative requirements for long-term financial planning (LTFP). This undermines the effectiveness of these plans and increases the risk that future operating results are insufficient to sustain investments in capital works and meet the ongoing maintenance costs.

Forty-five councils (36%) did not have methods to monitor their financial performance, with rural councils having the most gaps in LTFP. Rural councils receive over 50% of their revenue from grants and contributions, much of which is tied to delivery of capital projects. This reliance on grant funding, for which timing and amounts are uncertain, adds complexity to the development of long-term plans. However, data regarding the operational inflows and outflows is available and should underpin the 10-year rolling plan. Without sufficient net operational cash flows, a council will not remain financially viable in the longer term.

Our performance audit on Financial Management and Governance in MidCoast Council includes recommendations on LTFPs and related practices, which are relevant to all councils.

1.4. Fraud risks

Weaknesses in fraud prevention controls increase risks for councils

Thirty-five councils had not conducted fraud awareness training, and fraud remains a major risk in councils. Seventy-two councils had no annual training or requirement for staff to attest compliance with their codes of conduct. This year, we notified the Independent Commission Against Corruption of 47 cases of potential fraud and corruption across 22 councils, two county councils and two joint organisations. Forty-six of these were also self-reported.

1.5. Information technology and cyber risks

Insufficient controls over user access and privileged user accounts increase cyber risks

Thirty-two councils did not perform periodic user access reviews, which ensure that users' access to key information technology (IT) systems is appropriate and commensurate with their roles and responsibilities. Further, there were gaps in privileged users' management processes at 29 councils. This includes gaps in restricting privileged users' access and monitoring the activity of privileged users. Where robust access management processes are not in place, inappropriate access may occur. This increases the risk of unauthorised transactions, or theft of sensitive information.

Item 8.1 - New Item (8) Auditor General Local Government
reports

04 - NSW Auditor General's report on
local government for 2024

Cyber security controls have improved but risks remain when third-party systems are compromised

Cyber security governance across councils has improved, but third-party risks remain (see the two case studies of actual cyber security incidents in NSW councils included in this report).

Further improvement in cyber security is needed as:

- 26% of councils did not have a cyber security policy
- 64% of councils had not identified all information assets requiring protection
- 37% of the councils that had evaluated their cyber security risks rated their residual risk as being above their risk appetite
- there are significant shortcomings in planning for cyber security improvements
- not all councils mandate regular cyber security awareness training.

1.6. Recommendations

Department of Planning, Housing and Infrastructure

- The Department should reduce councils' financial reporting burden, and remove non-value-adding disclosures from financial statements.²

Councils

- Councils should perform more robust month-end processes, quality reviews of financial statements and supporting working papers before they are submitted for audit.

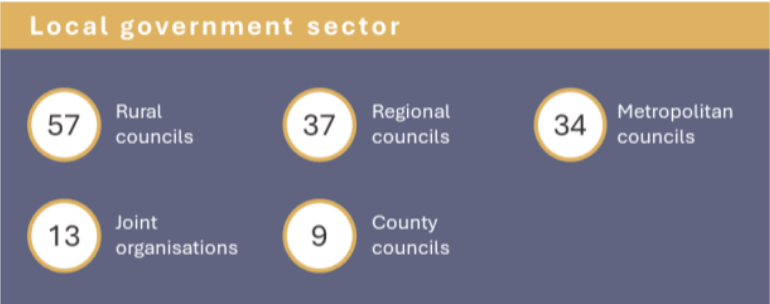
² The Standing Committee on State Development's inquiry, 'Ability of Local Government to Fund Infrastructure and Services', had similar findings and recommendations.

2. Introduction

2.1. Local government sector

Local government is one of the three levels of government. It is established under state legislation, which defines the powers and geographical areas for which each council is responsible.

At 30 June 2024, there were 128 local councils, 13 joint organisations and nine county councils in NSW.



Councils provide a range of services and infrastructure for their local government area. Services include waste collection, planning and building approvals, animal management, libraries and recreational services. Councils build and maintain infrastructure, including roads, footpaths and stormwater. In many regional and rural areas councils also provide the infrastructure for water supply and sewerage services. The range of services provided, and infrastructure built and maintained, varies between councils and depends on the location, size, demographics, resources and needs of the community.

County councils were established for specific purposes, such as to supply water, manage flood plains or eradicate noxious weeds.

Joint organisations were formed in regional NSW to improve the way local councils and other stakeholders work together to deliver regional priorities.

2.2. Financial audit

The LG Act requires the Auditor-General to issue an audit opinion on each of the following council reports.



Note: In addition to the statements above and the special schedule, at least three types of audit opinions are issued for other grant acquittals required by the state and Commonwealth departments each year.

The content of the general and special purpose financial statements and the special schedule – permissible income is guided by the 'Local Government Code of Accounting Practice and Financial Reporting', which is updated annually by the OLG. The OLG is within the Department of Planning, Housing and Infrastructure (DPHI). The OLG has taken steps to declutter the financial reporting requirements within the Code and reduce the number of additional assurance engagements, but progress is slow. NSW councils continue to have a higher regulatory financial reporting burden compared to councils in other Australian states and territories.

Recommendation

The Department of Planning, Housing and Infrastructure should reduce the financial reporting burden for councils and remove non-value-adding disclosures from financial statements.

This report provides the results and findings of the:

- 2023–24 general purpose financial audits of 127 councils, nine county councils and 13 joint organisations
- 2022–23 general purpose financial audits of seven councils, one county council and one joint organisation.

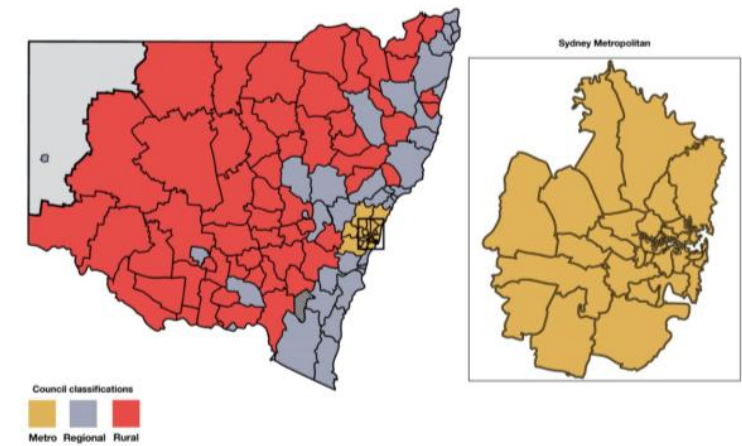
The audit of Lachlan Shire Council remains in progress as at the date of this report. Three joint organisations are in the process of dissolving, and two of these did not prepare 2023–24 financial statements.

In preparing this report, our observations and analyses were drawn from:

- audited general purpose financial statements
- performance audit reports
- data collected from councils
- audit findings reported to councils.

Each local council has unique characteristics. Its size, location and population, and the nature of the services it provides to its communities impact its financial sustainability and the risks it faces. To enable meaningful comparison, we classify the NSW councils as 'metropolitan', 'regional' or 'rural' throughout this report for the purposes of analysing their financial results. We identify county councils and joint organisations separately. See [Appendix 3](#) for classifications.

Council classifications by LGA



Key	Council classification	Population	Land area	Density
■	Metropolitan	5.4 million	12,135 km ²	449,140 per km ²
■	Regional	2.4 million	135,642 km ²	17.74 per km ²
■	Rural	484,735	559,811 km ²	0.87 per km ²

Source: OLG time series data for population and land area.

3. Audit results

Financial reporting is an important element of good governance. Confidence in, and transparency of, local government decision-making is enhanced when financial reporting is accurate and timely.

This chapter outlines the financial reporting audit results of councils, county councils and joint organisations.

Key points

- Unqualified audit opinions were issued for the 30 June 2024 financial statements of 124 councils, eight county councils and 11 joint organisations.
- Disclaimers of opinion were issued for the 30 June 2023 and 30 June 2024 financial statements of Glen Innes Severn Council, and the 30 June 2023 and 30 June 2024 financial statements of the New England Weeds Authority.
- Snowy Valleys Council and Moree Plains Shire Council received qualified audit opinions for their 30 June 2024 financial statements.
- Eighty-eight per cent of councils lodged their 30 June 2024 audited financial statements by the statutory deadline (67% for the 30 June 2023).
- Fifteen councils, two county councils and five joint organisations did not lodge audited financial statements with the OLG by the statutory deadline of 31 October. These councils received extensions from the OLG.
- Eighteen councils submitted more than six versions of financial statements which can indicate poor-quality financial reporting.
- 61% of councils performed some early financial reporting procedures, such as revaluing assets before 30 June (54% in 2023).

3.1. Quality of financial reporting

Indicators of quality financial reporting include:

- relevant, unbiased and clear information
- unqualified audit opinions
- low number and value of errors, including disclosure deficiencies, in the financial statements
- low number of different versions of the financial statements submitted for audit.

Audit opinions

Unqualified audit opinions were issued for the 30 June 2024 financial statements of 124 councils, eight county councils and 11 joint organisations. This means sufficient audit evidence was obtained to conclude that the financial statements were free of material misstatement and were prepared in accordance with Australian Accounting Standards and the LG Act.

Item 8.1 - New Item (8) Auditor General Local Government
reports

04 - NSW Auditor General's report on
local government for 2024

Item 6.1

Enclosure 2

The audit opinion on Snowy Valleys Council's 30 June 2024 financial statements was qualified

Snowy Valleys Council received a qualified audit opinion for its 30 June 2024 financial statements. Rural Fire Service buildings located on council land were not recognised in the financial statements. Council has not undertaken procedures to confirm the completeness, accuracy, existence, condition or value of these buildings.

The audit opinion on Moree Plains Shire Council's 30 June 2024 financial statements was qualified

Moree Plains Shire Council received a qualified audit opinion on its 30 June 2024 financial statements. A qualified audit opinion on the 2022–23 financial statements affected the auditor's ability to obtain sufficient appropriate audit evidence on the opening balances of roads, water supply and sewerage network assets (IPPE) at 1 July 2023.

An emphasis of matter paragraph was included in the audit report of Riverina Joint Organisation and Namoi Joint Organisation

An emphasis of matter paragraph is included in the Independent Auditor's Report where there is a matter presented or disclosed in the financial statements that we believe is fundamental to the understanding of the financial statements.

An emphasis of matter paragraph was reported in the Independent Auditor's Reports for the 30 June 2024 financial statements of the Riverina Joint Organisation and the Namoi Joint Organisation, drawing attention to their disclosures to dissolve, subject to the Governor's approval, and that they had prepared their financial statements on a non-going concern basis.

A disclaimer of opinion was issued for Glen Innes Severn Council's 30 June 2023 and 2024 financial statements

A disclaimed audit opinion is issued when the auditor is unable to obtain sufficient appropriate audit evidence upon which to form an opinion on the council's financial statements, and the auditor concludes that the possible effects of undetected misstatements in the financial statements could be material and pervasive. Such opinions are rare and generally speak to a serious breakdown in controls and processes, and/or an absence of appropriate books and records.

Glen Innes Severn Council implemented a new financial management system on 1 July 2022, which resulted in lost financial data leading to errors in reporting and reconciliations. This and other matters incidental to the implementation were acknowledged in the Statement required by Councillors and Management (the Statement) under section 413(2)(c) of the LG Act. The deficiencies in the council's books and records resulted in a disclaimer of the opinion within our Independent Auditor's Report on the council's 30 June 2023 financial statements.

The deficiencies acknowledged by councillors and management in their 2023 statement were not rectified and thus continued throughout the 2024 financial year. They were similarly acknowledged in their 2024 Statement. These deficiencies resulted in a disclaimer of the opinion within our Independent Auditor's Report on the council's 30 June 2024 financial statements.

Case study – Glen Innes Severn Council’s system implementation

Glen Innes Severn Council implemented a new financial management system on 1 July 2022, at an estimated cost of \$610,000. Lack of governance and ineffective management of this implementation resulted in significant control deficiencies and inadequacies in books and records. This led to disclaimed audit opinions for the 2022–23 and 2023–24 financial statements. The following issues were identified:

- key modules, critical to local government, were not developed or ready for implementation at Go-Live
- ineffective project management
- poor data migration prior to Go-Live
- failure to run parallel systems during Go-Live
- limited training and lack of change management.

While management had implemented certain manual workarounds, operational issues continued throughout 2023–24 and resulted in:

- inappropriate user access restrictions
- incomplete listings of journal entries
- duplication errors in receipting modules
- lost financial data leading to errors in reporting, reconciliations and interfund accounting
- poor functionality and integrity of data within the rating module
- inability to extract subsidiary ledger information for rates, annual and user charges.

Management has estimated additional costs incurred to date at \$638,000, and anticipate a further \$500,000 would be needed to resolve the system issues. The timeframe for remediation would extend to July 2026.

A disclaimer of opinion was issued for the New England Weeds Authority’s 30 June 2023 and 30 June 2024 financial statements

The New England Weeds Authority did not maintain adequate books and records to support transactions, balances and disclosures reported in its financial statements. Councillors and management declared, in the Statement under section 413(2)(c) of the LG Act, that they were unable to certify the completeness and reliability of their financial statements for the year ended 30 June 2023. This resulted in a disclaimer of opinion for the 30 June 2023 financial statements.

The deficiencies acknowledged by councillors and management in their 2023 statement were not rectified and thus continued throughout the 2024 financial year. They were similarly acknowledged, by the administrator and management, in their 2024 Statement. These deficiencies resulted in a disclaimer of opinion for the 30 June 2024 financial statements.

Two councils resolved issues that resulted in disclaimed or qualified audit opinions in previous years

Since the tabling of our Local Government 2023 report, we have issued qualified audit opinions on the 30 June 2023 financial statements of Kiama Municipal and Narrabri Shire Councils. Both councils received disclaimers of opinion for their 30 June 2022 financial statements and Kiama Municipal Council was similarly disclaimed for its 30 June 2021 financial statements. During the current audit cycle, because of the resolution of issues described in the table below, we were able to issue unmodified audit opinions on both councils' 30 June 2024 financial statements.

Council	Issues identified in prior years' audits
Kiama Municipal	A disclaimer of opinion on the 2021–22 financial statements affected the auditor's ability to obtain sufficient appropriate audit evidence on the opening balances of infrastructure property, plant and equipment (IPPE) at 1 July 2022. Also, there were further limitations on the scope of the audit as the council certified it was unable to: - provide sufficient and appropriate audit evidence to support the carrying values of some classes of IPPE in the financial statements at 30 June 2023 - confirm the completeness and accuracy of two sub classes within externally restricted cash at 30 June 2023.
Narrabri Shire	Issues that resulted in a disclaimer of opinion on the council's 2021–22 financial statements continued to affect the auditor's ability to obtain sufficient appropriate audit evidence on the opening balance of roads and bridges assets at 1 July 2022.

Prior period and uncorrected errors

Fewer prior period errors required retrospective correction in councils' 30 June 2024 financial statements

A prior period error is a misstatement made by a council in previous financial years, identified by the auditor or council in the current financial year, which is corrected retrospectively by restating the opening balances in the financial statements.

Twenty-one councils retrospectively corrected 32 prior period errors in their 30 June 2024 financial statements (85 in 2022–23). This is a significant improvement from previous years indicating an uplift in the quality and reliability of councils' financial reporting.

Of the 32 prior period errors, six were greater than \$30 million and were asset-related. These are detailed in the table below.

Council	Reason
Cumberland City	To reclassify investment properties, operational land and community land to align the latest Local Environmental Plans and Plans of Management (\$55.6 million).
Central Coast	Road assets contributed by third parties in prior years and controlled by the council had not been recognised (\$31.5 million).
Greater Hume Shire	A portion of depreciation on road pavement had been omitted (\$31.8 million).
Lake Macquarie City	Assets dedicated to the council in prior years had not been recognised (\$125 million).
Newcastle and Port Stephens	These two councils jointly operate the Newcastle airport. Their 50% share of the joint operation's IPPE was recorded at cost instead of fair value, resulting in assets for each council being understated by \$57.4 million.

Source: Engagement closing reports from 30 June 2024 audits.

Not all errors in councils' 30 June 2024 financial statements were corrected

Quality financial reporting implies that financial statements are error-free. An uncorrected error is an error identified by the auditor or council in the financial statements that has not been corrected by council. In other words, while errors are reported to council management, they have not corrected these errors because they do not consider them material, either individually or in aggregate. While the financial statements would be more accurate if the errors had been corrected, the errors are not sufficiently material to cause us to modify our opinion of the councils' financial statements.

The table below shows the number and value of uncorrected errors by council classification.

Value of errors	Uncorrected errors		Council classification (2024 only)				
	2024	2023	Metro	Regional	Rural	County	JO
Less than \$250,000	25	106	2	7	9	4	3
\$250,000 to \$500,000	25	59	1	2	21	1	--
\$500,000 to \$1 million	32	38	3	10	18	1	--
\$1 million to \$5 million	80	37	10	34	34	2	--
\$5 million to \$15 million	20	2	5	9	6	--	--
\$15 million to \$30 million	2	--	1	1	--	--	--
Total number of errors	184	242	22	63	88	8	3
Total value of errors (\$ million)	459	151	124	185	145	5	--

Source: Engagement closing reports from 30 June 2024 audits.

Another indicator of improved quality in councils' financial statements is the number of councils without reportable errors. In 2023–24, 58 councils had no reportable errors in their financial statements (46 in 2022–23).

The table below highlights some common errors councils make in their financial reporting.

Common errors	Number of errors
Errors when valuing assets, such as: - providing incorrect data to the valuer - using incorrect valuation assumptions - using incorrect unit rates - ignoring physical and legislative restrictions - recording incorrect valuation and/or impairment adjustments.	36
Poor asset record keeping, such as: - not recording assets controlled by council - continuing to record assets no longer under council control - duplicating asset records - issues with depreciation and useful lives.	66
Incorrect revenue recognition, including: - informally or incorrectly assessing grant funding against measurement criteria in Australian Accounting Standards - not reconciling the grant register or keeping it up to date.	18

The number of low-value uncorrected errors has significantly decreased, whilst the total value of errors has increased.

Versions of councils’ financial statements

Some councils are submitting too many different versions of financial statements and supporting workpapers for audit

If a council presents multiple versions of the financial statements for audit, it typically means governance over the financial reporting process is inadequate. Multiple attempts to produce accurate, auditable financial statements delay the timeliness of financial reporting to users, diminish public accountability and result in higher audit costs.

The table below shows the number of versions of financial statements presented for audit in total and by council classification.

		By council classification (2024 only)		
Versions of financial statements	Count	Metro	Regional	Rural
Draft and final only	39	12	9	18
3–5	70	17	24	29
6–10	13	4	4	5
More than 10	5	--	1	4
Total	127	33	38	56

Source: Audit Office findings.

Councils with better-quality financial reporting typically have a draft and final set of financial statements, with few or no amendments between those versions. Most councils submitted between three to five versions of their financial statements for audit. One regional and four rural councils submitted more than 10 versions of the financial statements.

Performing early financial reporting procedures, such as completing valuations by 30 June, will enable more complete draft financial statements and reduce the risk of requiring adjustments.

Recommendation

Councils should perform more robust month-end processes and quality reviews of financial statements and supporting working papers before they are submitted for audit.

3.2. Timeliness of financial reporting

The LG Act requires councils to submit their audited financial reports to the OLG by the statutory deadline of 31 October, or apply for an extension if they are unable to meet that date. Timely financial reporting is an indicator of sound financial management and helps inform decision-making by the councils' elected representatives. Overall, more councils, county councils and joint organisations met the statutory deadline for their 30 June 2024 financial statements.

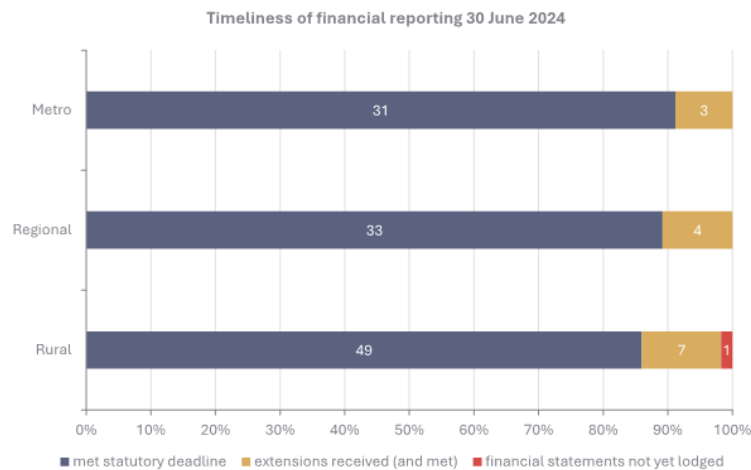
Eighty-eight per cent of councils lodged their 30 June 2024 audited financial statements by the statutory deadline (67% for the 30 June 2023)

For the 30 June 2024 financial audits of councils, county councils and joint organisations:

- the statutory deadline was met by 113 councils, seven county councils and eight joint organisations (84 councils, seven county councils and nine joint organisations for 30 June 2023 financial statement)
- fifteen councils, two county councils and three joint organisations received one or more extensions (43 councils, two county councils, two joint organisations in 2023) to lodge their audited financial statements after 31 October
- two joint organisations breached the LG Act by not requesting an extension and missing the statutory deadline (one council and two joint organisations in 2023). Both joint organisations have commenced processes to dissolve their operations.

Joint organisations required extensions where the timing of post-election council meetings delayed them establishing boards. Refer to [Appendix 3](#) for details on extensions.

The graph below breaks down the timeliness of financial reporting for 30 June 2024 by council classification. Ninety-one per cent of metropolitan councils submitted their financial statements to the OLG by 31 October 2024 (88% in 2022–23). Whilst there was a significant improvement, regional and rural councils continued to experience more challenges in meeting the 31 October deadline, achieving 89% and 88% respectively (51% and 61% in 2022–23).



Refer to [Appendix 3](#) for further details.

More councils performed early financial reporting procedures, which helped meet the statutory deadline

This year, 61% of councils (54% in 2022–23) performed at least some early financial reporting procedures, including:

- completing IPPE valuations before 30 June (37 councils, 2022–23: 43)
- completing fair value assessments of IPPE (36 councils, 2022–23: 22)
- assessing the impact of material, complex and one-off significant transactions and preparing position papers supporting their accounting treatment (30 councils, 2022–23: 23)
- working through unresolved prior-year audit issues, and developing an action plan to resolve them (63 councils, 2022–23: 37)
- documenting significant management judgements and assumptions for estimating transactions and balances (29 councils, 2022–23: 19)
- preparing proforma financial statements and associated disclosures (34 councils, 2022–23: 27).

Early financial reporting procedures help councils meet the statutory deadline of 31 October. They also help to improve the quality of financial reporting by identifying and addressing significant risks and resolving accounting issues before the financial statements are submitted for audit.

Councils can work with the Audit Office to select financial reporting procedures to complete and have audited before 30 June. The planned approach should allow sufficient time for management review and involvement of Audit, Risk and Improvement Committees. This process will allow for audit observations and feedback to be considered prior to the year-end financial reporting process.

In addition to the procedures listed above, councils should consider the following early financial reporting procedures:

- preparing proforma financial statements, and removing boilerplate financial statement disclosures, and immaterial and irrelevant information
- reconciling all key account balances and clearing reconciling items
- assessing the accounting implications of significant contracts and grant agreements
- assessing the impact of new and updated accounting standards and preparing supporting working papers.

4. Financial sustainability

Financial sustainability is the ability to meet current and future financial obligations without reducing essential services or borrowing money to fund successive operational deficits. This is achieved by ensuring that over the medium and longer term, revenue is sufficient to cover expenses, cash flow and risks are well managed, long-term financial planning is effective and sources of revenue are diverse.

Councils are required to prepare long-term financial plans to help ensure they remain financially viable. Benchmarks established by the OLG are used to assess past performance and indicate areas where councils are under pressure.

The graphs and tables presented in this chapter are prepared from councils' financial statement data and in many cases represent averages of the metropolitan, regional and rural councils.

Key points

- Three key measures for financial sustainability showed that 35 councils (10 metropolitan, 10 regional and 15 rural) met just one or none of the three benchmarks.
- The operating performance benchmark was not met by 41% of metropolitan, 43% of regional and 39% of rural councils.
- The unaudited infrastructure renewal benchmark was not met by 47% of metropolitan, 49% of regional and 44% of rural councils.
- 54% of rural councils' revenue was comprised of grants and contributions, compared to 24% for metropolitan councils and 36% for regional councils.
- Revenue growth lags expenses growth after adjusting for inflation, resulting in negative growth in real terms.
- Bathurst Regional Council and Glen Innes Severn Council spent externally restricted cash during the 2023–24 financial year without ministerial approval in breach of the LG Act.
- Sutherland Shire Council and City of Ryde Council spent externally restricted cash in previous years without ministerial approval in breach of the LG Act.
- Not all councils were fully compliant with the legislative requirements for long-term financial planning. Thirty-six per cent had not developed methods for monitoring their financial performance.

4.1. Key performance measures

The OLG has established key performance measures and benchmarks for councils. The table below presents three of these measures that focus on financial sustainability.

Operating performance	Current ratio	Infrastructure renewals
Measures how well operating expenses are contained within operating revenue.	Measures the ability to meet short-term obligations.	Rate at which assets are renewed against the rate at which they are depreciated.
Benchmark >0%	Benchmark >1.5 times	Benchmark >100%

Item 8.1 - New Item (8) Auditor General Local Government
reports

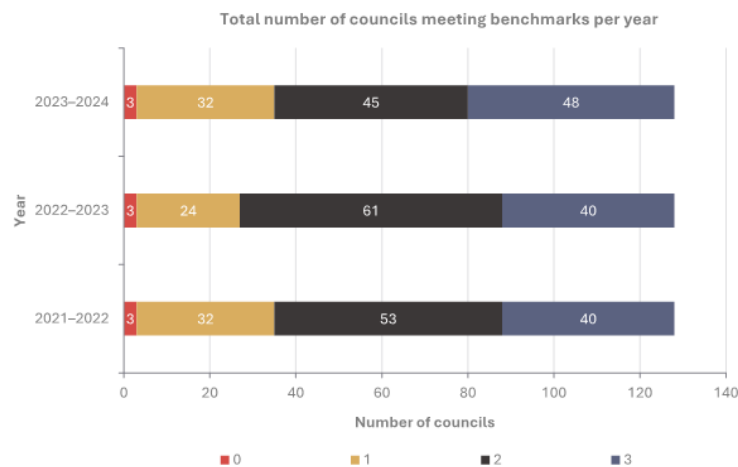
04 - NSW Auditor General's report on
local government for 2024

Item 6.1

Enclosure 2

Thirty-five councils met just one or none of the three financial sustainability benchmarks

The graph below shows the number of councils meeting the financial sustainability benchmarks described in the table above. Overall, 52 councils (40%) did not meet the operating performance benchmark, and 59 councils (46%) did not meet the infrastructure renewal benchmark. The trend over time is significant; the longer a council does not meet benchmarks, the greater the risk that it will not be financially sustainable.



Source: Councils' financial statements (audited).

The analysis for 2023-24 shows that 48 councils met all three of the financial sustainability benchmarks, an improvement on previous years. These councils are therefore controlling expenses within revenue, can renew infrastructure and pay debts as they fall due. A further 45 councils met two of the benchmarks. However, three councils – Bathurst Regional Council, Liverpool City Council and Shoalhaven City Council – did not meet any of the benchmarks. Two of these – Bathurst Regional Council and Shoalhaven City Council – have not met any of the benchmarks for at least three years. This indicates more serious concerns regarding their continued financial sustainability.

We also calculated whether councils' available cash and investments (not subject to external restrictions) were sufficient to meet three months of expenses³ (excluding depreciation and borrowing costs). At 30 June 2024, 16 councils (four metropolitan, seven regional and five rural) had liquidity constraints and will need to increase sources of cash inflows and control expenditure to fund these short-term cash requirements. Only 17 councils had sufficient cash and investments at 30 June 2024 to meet more than 12 months of expenses⁴ (excluding depreciation and borrowing costs). Due to regular inflow of cash from rates and annual charges, all councils remain going concerns for financial reporting purposes. See Appendix 4 for further details on liquidity.

It is crucial that all councils have effective long-term financial plans that aim to ensure they meet key financial sustainability benchmarks.

³ From the general fund only.

⁴ From the general fund only.

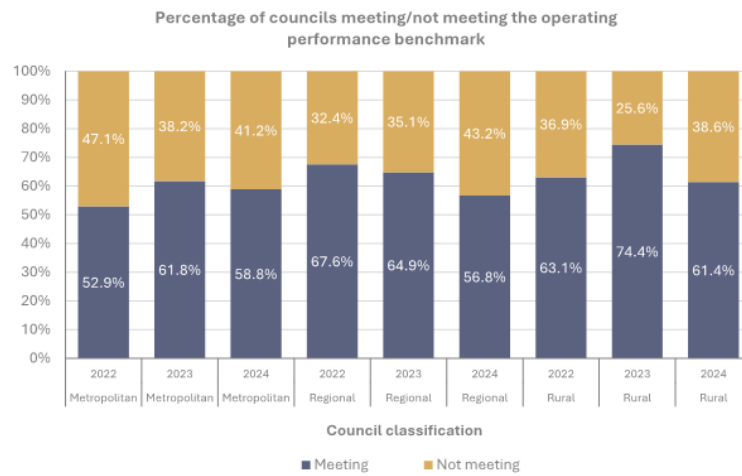
Item 8.1 - New Item (8) Auditor General Local Government
reports

04 - NSW Auditor General's report on
local government for 2024

In November 2024, the Standing Committee on State Development released its report on 'Ability of local governments to fund infrastructure and services'. This report highlighted challenges councils face in maintaining and improving assets and infrastructure, along with the growing cost of providing required community services. Many of the Committee's 17 recommendations relate to the sufficiency of revenue, with the aim for income to keep pace with the cost of services.

A significant proportion of councils did not meet the operating performance benchmark

The graph below shows the percentage of councils, by classification, meeting or not meeting the operating performance benchmark (>0) for the past three financial years.



Source: Councils' financial statements (audited).

In 2023–24, 41% of metropolitan, 43% of regional and 39% of rural councils did not meet the operating performance benchmark. This has deteriorated since the previous year (38% of metropolitan, 35% of regional and 26% of rural councils in 2022–23). Not meeting this benchmark means that these councils' expenses are growing at a faster rate than the revenue they collect, which is not sustainable.

Item 8.1 - New Item (8) Auditor General Local Government reports

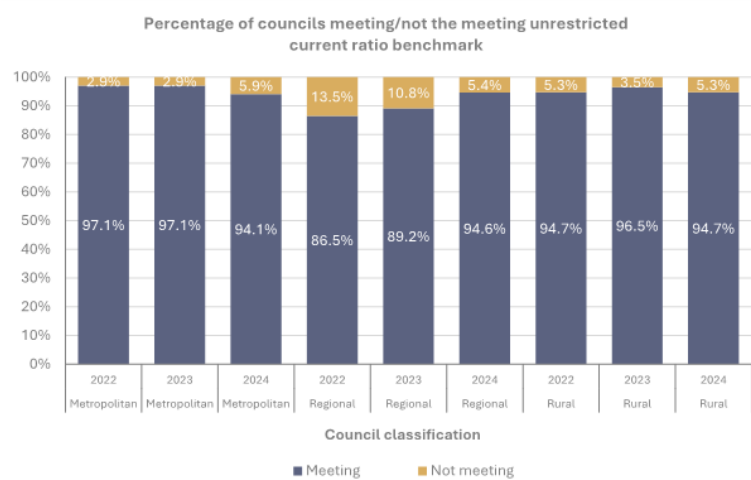
04 - NSW Auditor General's report on local government for 2024

Item 6.1

Enclosure 2

Most councils met the unrestricted current ratio benchmark

The graph below shows the percentage of councils, by classification, that met or did not meet the unrestricted current ratio benchmark (>1.5 times) for the past three financial years. This ratio measures councils' short-term liquidity. This measure shows the current assets available to meet current liabilities.

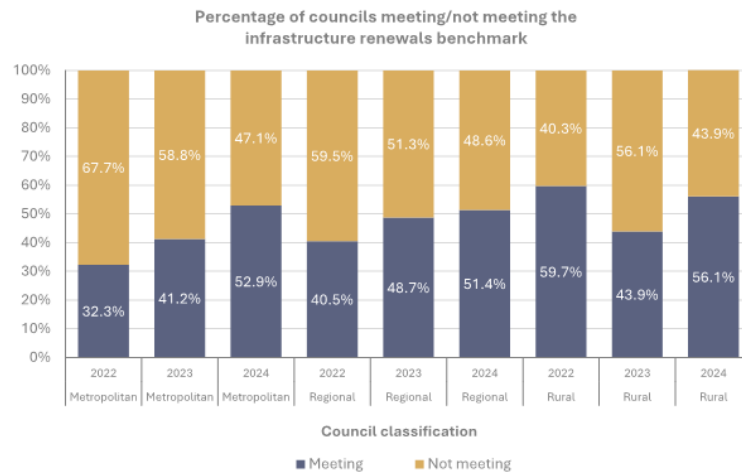


Source: Councils' financial statements (audited).

All but one metropolitan council are meeting this benchmark. Regional councils have improved since 2021–22, when 86% of these council met the benchmark. In 2023–24, 95% met benchmark. The percentage of rural councils meeting the benchmark has remained stable over the same period, at about 95%.

Increasing proportion of councils met the infrastructure renewals benchmark in 2023–24

The graph below shows the percentage of councils, by classification, meeting or not meeting the infrastructure renewals performance benchmark (>100%) for the past three financial years.



Source: 2021–22, 2022–23 and 2023–24 schedules (unaudited).

The performance of metropolitan councils has improved since 2021–22, when 68% did not meet the benchmark. The proportion of metropolitan councils meeting the benchmark in 2023–24 increased to 53%. Over the same period regional councils improved from 59% not meeting the benchmark to 49%, however, the situation for rural councils deteriorated from 40% not meeting the benchmark to 44%.

Several factors impact the ability of councils to meet this benchmark, including rising inflation and resource constraints driving up cost of capital projects and timing of natural disasters. Higher costs of constructing assets may require funding from other sources to complete projects already planned. This is compounded by lack of appropriate budgeting for ongoing operational costs to maintain these assets.

In addition, growth councils that appropriately focus on building new infrastructure and renewing existing assets will not meet this benchmark during the growth phase.

Regional and rural councils with large infrastructure balances have the least own-source revenue and rely on grants and contributions to renew assets.

4.2. Revenue and expense analysis

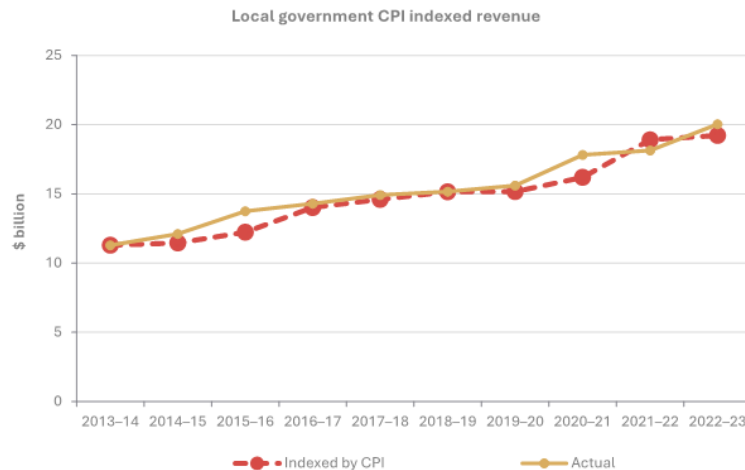
Section 8 of the LG Act requires councils to apply the following principles relating to sound financial management:

- responsible and sustainable spending that aligns revenue and expenses
- investment in responsible and sustainable infrastructure for the benefit of the local community
- effective financial and asset management
- consideration of intergenerational equity, including effects on future generations and the cost to the current generation.

Our analysis below aims to show whether councils have sound financial management and are managing expenses within revenue to remain financially sustainable.

Growth in council revenue over the longer term is consistent with CPI increases, but shows no real long-term growth

The graph below shows councils' actual revenue compared to the base year's revenue indexed for the consumer price index (CPI) from the 2014 to 2023 financial years.

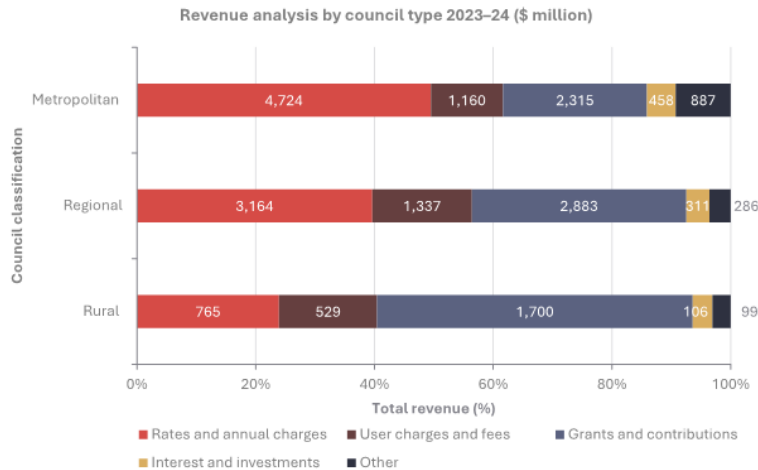


Source: ABS Government Finance Statistics.

The increases in total revenue for NSW councils for the financial years between 2014 and 2023 is consistent with movements in the CPI. Without real growth in revenue, councils' financial sustainability will continue to be at risk.

The composition of revenue types for each council classification has been relatively consistent over the past three financial years. The following analysis focuses on the 2023-24 financial year.

The graph below shows 2023–24 revenue totals by type and council classification.



Source: 2023–24 financial statements (audited).

Metropolitan councils derive half of their revenue from rates and annual charges

Metropolitan councils tend to have larger populations and higher property values, which contributes to 50% of their revenue coming from rates and annual charges. The next highest component is grants and contributions (24%), which includes developer contributions, and then user charges (12%). These steady, reliable and predictable sources of revenue contribute to councils’ medium and longer term financial sustainability.

Regional councils derive almost 40% of their revenue from rates and annual charges

Regional councils’ largest source of revenue are rates and annual charges from ratepayers. However, these comprise only 40% of their total revenue, with further income received from grants and contributions (36%) and user charges (17%).

Regional councils tend to cover larger land areas but have fewer ratepayers than metropolitan councils. They rely on grants and contributions from other levels of government more than metropolitan councils, but not as much as rural councils. Regional councils rely on grant income to supplement their own resources to renew and maintain infrastructure assets, including roads.

More than half the revenue of rural councils comes from grants and contributions

Rural councils only receive 24% of their revenue from rates and annual charges. Of the three council classifications in this report, rural local government areas typically have the lowest populations, larger land holdings and lower ratable property values. These factors limit the ability of these councils to generate revenue from rates and annual charges, with negative consequences for their financial sustainability over the medium to longer term. They are highly dependent on grants and contributions from other levels of government, which account for 54% of their total annual revenue.

Rural councils have proportionately greater road lengths, more bridges, and often maintain their own water and sewerage infrastructure. They receive a higher proportion of grant funding, which they rely upon for the renewal and maintenance of their infrastructure.

Item 8.1 - New Item (8) Auditor General Local Government reports

0 4 - NSW Auditor General's report on local government for 2024

Item 6.1

Enclosure 2

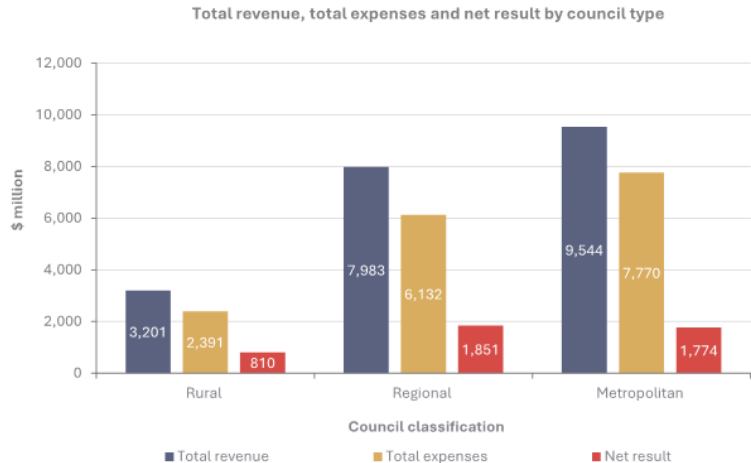
Lack of alternative revenue sources puts pressure on budgets and creates a dependency on grant funding. Rural councils' ability to make and realise long-term plans is diminished, as the timing and amounts of receipts from Commonwealth and state grants are uncertain. Yet the range of services communities expect of their rural councils continues to grow.⁵ Rural councils often become the provider of last resort (such as in the provision of childcare and aged care) when private sector providers find it uneconomic to enter or remain in markets.

Strategic initiatives, technological advances, infrastructure projects and major maintenance projects can be delayed until funding and other resources are available as these councils prioritise day-to-day operational necessities.

Total expenses of \$16.3 billion exceeded total revenue of \$16.1 billion (excluding \$4.6 billion in capital grants and contributions)

In 2023–24, across the NSW local government sector, total expenses were less than total revenue for all council classifications. When capital grants and contributions are excluded, expenses exceeded revenue by \$0.2 billion. About 40% of councils did not break even in 2023–24.

The graph below shows the total revenue, expenses and net result by council classification for 2023–24.



Source: 2023–24 financial statements (audited).

Our analysis highlights that, on average, rural councils face the biggest challenge. Rural councils had the lowest differential between revenue and expenses of \$810 million, compared to metropolitan (\$1.78 billion) and regional (\$1.85 billion) councils.

⁵ The Standing Committee on State Development's inquiry 'Ability of local government to fund infrastructure and services'.

Item 8.1 - New Item (8) Auditor General Local Government
reports

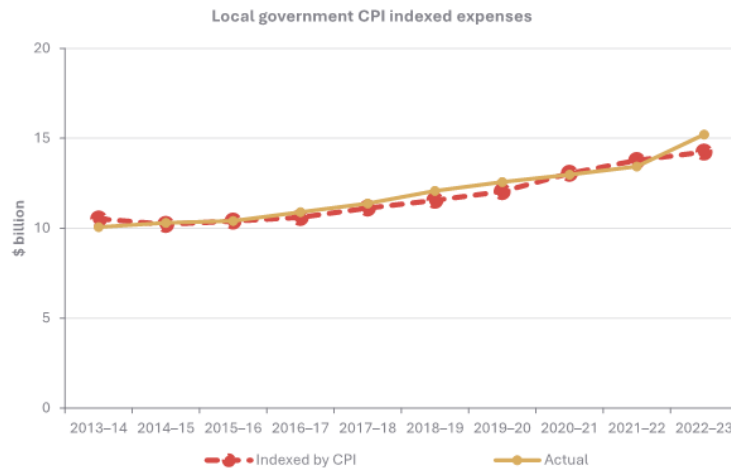
04 - NSW Auditor General's report on
local government for 2024

Item 6.1

Enclosure 2

Revenue growth lags expenditure growth after adjusting for inflation, resulting in negative growth
in real terms

The graph below shows actual expenses compared to expenses if indexed for the CPI from the 2014 to
2023 financial years.

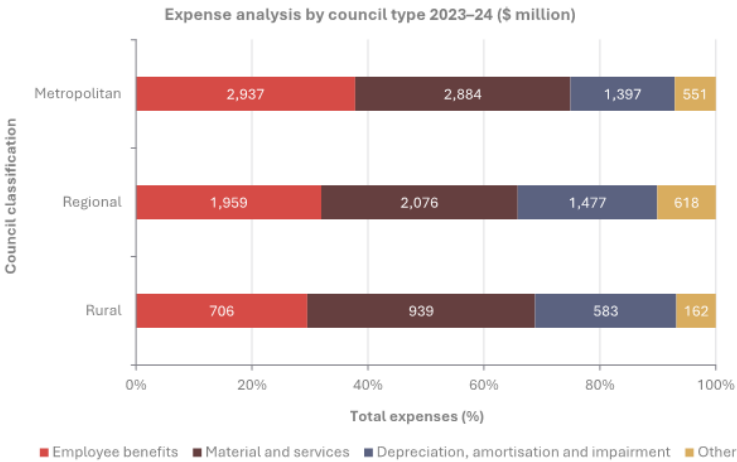


Source: ABS Government Finance Statistics.

The total expenses for NSW councils for the financial years between 2014 and 2023 are consistent with the base year's expenses indexed for annual CPI movements. In the 2023 financial year, expenses increased by more than CPI. Expenses were \$1 billion higher (15.2 billion) than those indicated by the CPI movement (\$14.2 billion). Over the longer term, spending exceeded CPI.

With reference to the revenue analysis presented previously, revenue growth lags expenditure growth after adjusting for inflation, resulting in negative growth in real terms. Expenses indexed by CPI are \$0.2 billion higher than indexed revenue.

While the composition of expense types for each council classification has been relatively consistent over the past three financial years, our analysis focuses on the 2023–24 financial year.



Source: 2023–24 financial statements (audited).

Employee benefits expenses accounted for 38% of total expenses for metropolitan councils

Employee benefits expenses represented around a third of total expenses across all council classifications, with metropolitan councils having the highest (38%) and rural councils the lowest (30%).

Material and services expenses accounted for 40% of total expenses for rural councils

Material and services expenses ranged from 34% in regional councils to 40% in rural councils, with metropolitan councils sitting between the two at 37%. Effective procurement and contract management can help contain these costs, but inflation has proved to be a challenge in this area.

Rural councils face particular challenges in containing costs because they access a smaller pool of suppliers and resources, which limits price competition. Given their heavy reliance on grant funding and limited sources of other revenue, rural councils will continue to face challenges controlling costs within revenue.

Depreciation accounted for a higher proportion of expenses for regional and rural councils

Depreciation, amortisation and impairment expenses are non-cash items and accounted for 24% of total expenses in regional and rural councils. In metropolitan councils these expenses represented 18% of total expenses. For regional and rural councils, many cover large areas and have greater lengths of road to maintain. Many rural and regional councils also maintain their own water and sewerage infrastructure assets. All of these capital assets are subject to depreciation.

Depreciation is a requirement of the Code, which reflects the requirements of the Australian Accounting Standards. It is a concept that is common to both historical cost and fair value accounting conventions. Instead of writing off the entire cost of an asset in its year of acquisition, depreciation allocates the value of an asset as an annual non-cash expense over its useful life.

Many councils find depreciation challenging as the non-cash charge accounts for a significant proportion of the net result, reducing the funds that might otherwise have been available to provide goods and services. It is not 'controllable' by management, yet it factors into how their performance is measured.

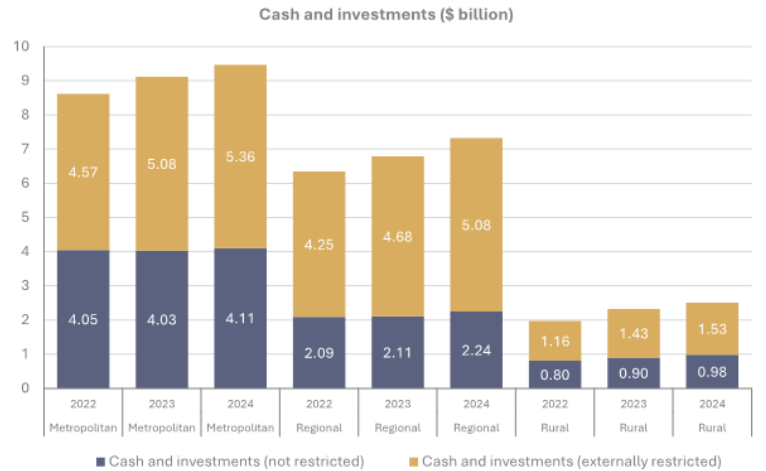
However, while depreciation does not necessarily provide for an asset's replacement and is not a substitute for long-term financial planning, it does serve to preserve some cash from each year's net result that might be applied to the asset's eventual replacement. In other words, if councils aim to break even each year, then at the end of the life of an asset, a cash amount equivalent to the previous depreciation charges would be available for replacing the asset.

The preservation of cash for the eventual replacement of assets helps ensure intergenerational equity for councils' constituents.

4.3. Cash analysis

Councils hold certain cash and investments that are restricted by legislation or contractual agreements. Effective management of these balances is crucial to ensure compliance with legislation and contract conditions whilst planning for future spending, including on capital projects. Interest and investment income earned on restricted funds is similarly restricted.

The graph below shows the total cash and investment balances, by council classification, split into externally restricted and not restricted portions over the past three years.



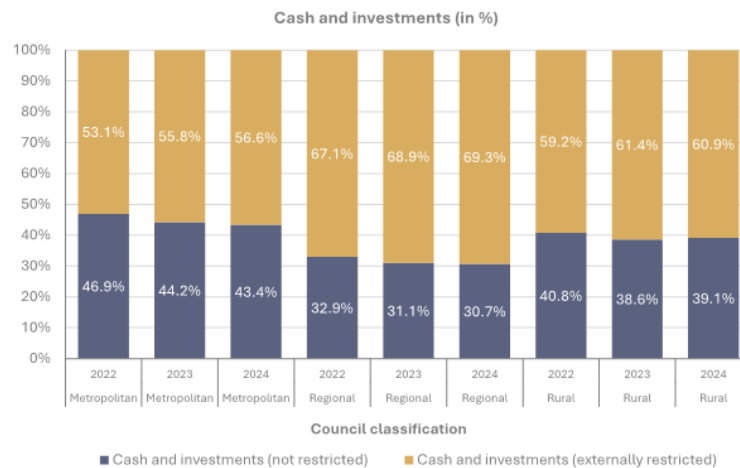
Source: Councils' financial statements (audited).

Total cash and investments across councils is \$19.3 billion, with \$12.0 billion externally restricted. NSW councils' cash and investment balances have grown over the past two years.

Item 8.1 - New Item (8) Auditor General Local Government
reports

04 - NSW Auditor General's report on
local government for 2024

The graph below shows the proportion of total cash and investment balances, by council classification, split into externally restricted and not restricted portions over the past three financial years.



Source: Councils' financial statements (audited).

The LG Act states that 'money received as a result of levying a special rate or charge may not be used otherwise than for the purpose for which the rate or charge was levied'. Under the LG Act, the Minister can approve internal loans to use money collected through a special rate or charge for another purpose. In the absence of ministerial approval, only non-restricted cash can be used for operational purposes. Common types of special rates and charges include those for water, sewerage, drainage, domestic waste and stormwater management.

Restricted cash does not need to be kept in a separate bank account and is recorded in, and controlled using, subledgers.

The proportion of cash that is externally restricted has grown slightly for metropolitan councils. While the overall balances at regional and particularly rural councils is lower, the proportion that is restricted has remained static for each of the three years presented. For all council classifications, the highest proportion of cash and investments is externally restricted.

Bathurst Regional Council and Glen Innes Severn Council spent restricted cash during the 2023–24 financial year for other than their intended purposes without ministerial approval, in breach of the LG Act. Sutherland Shire Council and City of Ryde Council spent restricted cash for other than their intended purposes in previous years without ministerial approval, also in breach of the LG Act.

Over the past three financial years all councils had positive operating cash flows. Trends in cash flows can indicate where councils are likely to face challenges in remaining financially sustainable. Where there are negative net cash flows from operating activities that continue for two to three years, action needs to be taken to optimise cash management. Such action can include:

- managing debtors to minimise days locked up in debtors and write-offs
- tighter control of the amount and timing of expenses
- ensuring that procurement processes for materials and services deliver value for money
- monitoring cash balances and subledger accounts to reduce the risk that restricted cash is used to fund operations, leading to non-compliance with the LG Act.

Time lags between incurring expenses and receiving revenue put pressure on cash flows

Rates are the most substantial source of a council’s revenue. Where elected councillors wish to increase rates beyond the rate peg set by the Independent Pricing and Regulatory Tribunal (IPART) they must apply for a special rate variation (SRV). Approval of a SRV takes time, involves community consultation and must be supported by the council.

Grant funding is the second most significant revenue stream for councils, but the timing and quantum of grant funding is less predictable than other sources of revenue. The Standing Committee of State Development recommends the consideration of grant models that provide a more secure and sustainable source of funding, allowing greater discretion and determination in a timely manner.⁶

Because many councils have experienced natural disaster events in successive years, placing their communities and their resources under enormous pressure, grant money has been made available. Grant funding is also allocated to councils under the Roads to Recovery program and the Local Roads and Community Infrastructure for specified purposes consistent with the aims of those programs.

Grant funding, except for the general component of the annual Financial Assistance Grants, is tied to specific activities and cannot be used for the general operating expenses of councils. The local road component of the Financial Assistance Grants is untied, but must be spent on roads. While Financial Assistance Grants are paid in advance, other grants are generally paid on achievement of predetermined milestones relating to specific projects. There is often a time lag between when costs are incurred and when these grant revenues are received.

The need to preserve an operating cash balance means councils may defer certain expenditures that are discretionary in terms of nature and timing until additional funds are available.

4.4. Long-term financial planning

Under section 403 of the LG Act, a council must have a long-term Resourcing Strategy for the provision of the resources required to perform its functions, including implementing the strategies set out in the Community Strategic Plan. One of the three elements of the Resourcing Strategy is the Long-Term Financial Plan (LTFP), which is a 10-year rolling plan intended to inform decision-making and capture the financial implications of asset management and workforce planning. These LTFPs should promote financial sustainability by eliminating operating deficits, establish new revenue paths, ensure adequate funding of infrastructure maintenance and renewal, and identify plans to borrow and invest responsibly.

The LTFP must include:

- projected income and expenditure statement, a projected balance sheet and a projected cash flow statement
- sensitivity analysis highlighting factors and assumptions most likely to impact the LTFP
- financial modelling for different scenarios
- methods for monitoring financial performance.

⁶ The Standing Committee on State Development’s inquiry ‘Ability of Local Government to Fund Infrastructure and Services’.

Long-term financial planning at many councils does not comply with requirements

The table below shows the percentage of councils that complied with the required LTFP components.

LTFP components	Complied	Council classification (2024 only)		
		Metro	Regional	Rural
%				
Income and expenditure, balance sheet and cash flow statement	87	94	92	80
Sensitivity analysis	63	88	73	41
Financial modelling for different scenarios	56	79	65	35
Methods for monitoring financial performance	64	82	78	43

Source: Audit Office findings.

As noted in the table above, 15 councils (13%) did not present their LTFP, as required. Of the 100 (87%) that did present, many missed key elements. The methods for monitoring financial performance were not developed for 41 (36%) councils. Non-compliance with the LTFP requirements undermines the effectiveness of these plans and increases the risk that future operating results are insufficient to sustain investments in capital works and meet the ongoing maintenance costs. Rural councils have the most gaps in their LTFP. Rural councils receive over 50% of revenue from grants and contributions, much of which is tied to capital projects. The reliance on grant funding, for which timing and amounts can be uncertain, adds complexity to the development of long-term plans. However, data about the operational inflows and outflows is available and should underpin the 10-year rolling LTFP.

For councils not meeting the financial sustainability benchmarks and/or experiencing negative net cash flows, effective LTFP can provide a roadmap to recovery.

Our performance audit on Financial Management and Governance in MidCoast Council includes the following recommendations on LTFPs and related practices, which are relevant to all councils:

- Ensure the LTFP meets the legislative and policy requirements by:
 - ensuring the plan complies with guidance issued by the OLG
 - updating the plan annually to reflect changes to the council delivery program and operational plan
 - monitoring and addressing unforeseen changes in the external environment that would impact financial sustainability aims.
- Obtain a complete understanding of the net cost of service by undertaking service reviews and ensure this informs budget decisions and financial planning.
- Improve the quality of asset management information to inform budget decisions and financial planning.
- Ensure the financial competency of all those responsible for managing the budget and finance by:
 - completing and delivering professional development plans and councillors’ training in financial management
 - identifying and delivering financial management (or refresher) training for budget owners
 - monitoring the finance training that has been delivered and how it supports financial competencies established under role descriptions.

Refer to the ‘Looking forward’ section of this report for the planned performance audit on this topic.

5. Internal controls and governance

Governance is the framework of rules, processes and systems that enable organisations to achieve goals and comply with legal requirements. Good governance promotes public confidence in the integrity and effectiveness of councils' systems and operations. A strong system of internal controls enables councils to operate effectively and efficiently, produce reliable financial reports, comply with laws and regulations, and support ethical government.

This chapter outlines our findings on internal controls and governance across councils, county councils and joint organisations.

Financial audits focus on the key internal controls and governance that support the preparation of financial statements. Breakdowns and weaknesses in internal controls can increase the risk of fraud and error. Our management letters report deficiencies in internal controls, matters of governance interest and unresolved issues to those charged with governance. These letters also include risk ratings, implications, recommendations and management responses.

Key points

- Governance, asset management and IT account for over two-thirds of audit findings and require improvement.
- Thirty-five councils had not conducted fraud awareness training. Seventy-two councils had not conducted annual training, nor did they require annual acknowledgement of compliance with their codes of conduct.
- Lack of periodic user access review and insufficient controls over privileged users are IT control weaknesses.
- There are opportunities to improve controls within key transaction cycles, such as revenue and receivables, cash and banking, purchasing and payables, and payroll.
- Control weaknesses within the financial reporting process include incomplete key reconciliations and lack of preparation for the audit.

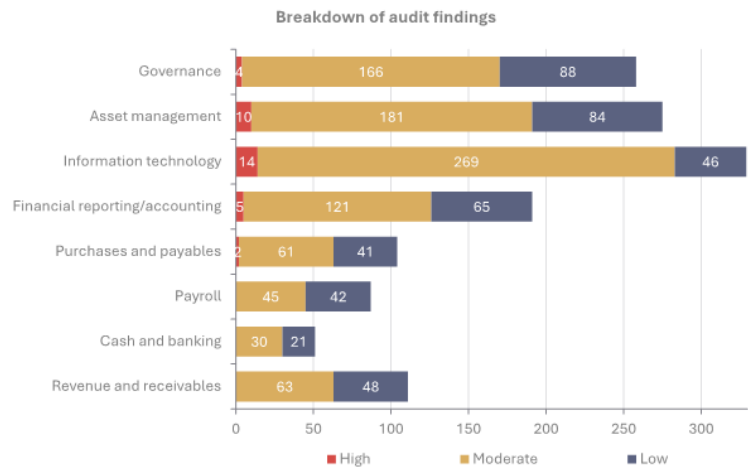
5.1. Key audit findings

The figure below shows the overall audit findings of the past two financial years, which have been reported in our management letters.

Reported findings			
	FY 2024	FY 2023	Change %
Total	1,406	1,131	24%
High	35	91	62%
Moderate	936	745	26%
Low	435	295	47%

Source: Audit management letters for 30 June 2023 and 30 June 2024 audits.

The graph below shows the breakdown of 30 June 2024 audit findings by key themes and risk.



Source: Audit Office findings.

The high-risk and common audit findings across these areas are explored further below. Governance, asset management and IT continue to dominate audit findings.

Governance

High-risk findings

Four high-risk findings were reported for this area, as detailed in the table below.

Area	Reasons
Compliance with legislation	- no formal process for allocating responsibility for compliance management and not identifying and monitoring instances of non-compliance. - governance issues related to long-term financial planning.
Absent policies and procedures	no current business continuity plan.
Conflicts of interest	register covering all employees not maintained.

Common findings

Common governance findings reported in audit management letters include:

- absence of policies and procedures
- absence of business continuity plans (BCPs)
- deficiencies in risk management
- weak fraud controls
- poor contract management.

Thirteen councils had an outdated or no business continuity plan

A BCP is a widespread mechanism used by organisations to ensure that they are prepared to respond effectively to disruptions, including natural disasters. Business continuity management involves developing, implementing and maintaining policies, frameworks and programs to assist an organisation manage business disruptions. Plans should be tested regularly under a range of scenarios to ensure that they will be reliable during an actual event, and to provide feedback for continuous improvement.

Thirteen councils did not have a BCP, or their BCP was outdated (31 in 2022–23). Fifty-seven councils with BCPs in place recently tested the plans (93 in 2022–23). However, testing at 19 councils was limited to testing information and technology elements of the BCPs. Sixty-seven councils had not tested their BCPs recently.

All councils are required to appropriately assess and manage risks under the LG Act. The DPHI published its ‘Risk Management and Internal Audit for Local Government in NSW’ in December 2022. These guidelines became mandatory from 1 July 2024 and require:

- the Audit Risk and Improvement Committee and internal audit to be responsible for the review of the effectiveness of business continuity arrangements, including BCPs, disaster recovery plans and the periodic testing of these plans
- that risk management is a core responsibility of all senior council management.

Thirty-one councils did not have a crisis management plan in place

Thirty-one councils did not have a separate crisis management plan in place or a BCP that covers crisis management (40 in 2022–23).

A crisis management plan outlines how a business will react if a crisis occurs. It can be part of the BCP or it can be a separate plan. It should identify who will act and what their role(s) will be. The goal of a crisis management plan is to minimise damage and restore business operations as quickly as possible.

Councils need to improve their fraud control frameworks

Effective fraud control processes help to protect councils from events that risk serious reputational damage and financial loss. Councils should improve their fraud control frameworks.

Deficiencies in fraud control processes are summarised in the table below.

Fraud control deficiencies	Number of councils/ joint organisations	
	2024	2023
No fraud awareness training	36	44
No fraud risk assessment	35	46
No fraud and corruption prevention policy, or it was outdated	10	21
Staff not required to annually acknowledge compliance with the code of conduct	79	85

Source: Audit Office findings.

During the 2023–24 financial audits we notified the Independent Commission Against Corruption of 47 potential fraud and corruption cases across 22 councils, three county councils and two joint organisations. All but one matter were also self-reported. These matters included:

- accepting gifts to influence decisions
- improper procurement/contractor engagement
- bias in development consents
- improper appointment processes for new hires
- not acquitting credit card charges for fuel, food, beverages and clothing as legitimate business expenses
- misuse of resources for private purposes
- inappropriate employee timesheets and expense claims
- misappropriation of development bonds.

Asset management

Councils own and manage large infrastructure asset portfolios to support the delivery of community services. Asset management involves operational aspects such as maintenance and physical security, as well as accounting procedures such as recording and valuing assets in accordance with Australian Accounting Standards.

High-risk findings

Ten high-risk findings were reported for this area, as detailed in the table below.

Area	Reasons
IPPE valuation	• inadequate impairment assessment for roads and bridge assets. • seven councils had deficiencies in their IPPE valuations.
Management of work-in-progress	• capital work in progress included expenses that did not meet the asset capitalisation criteria under AASB 116 'Property Plant and Equipment'.
Fixed asset registers	• not maintained in a secure format (e.g., use of unlocked spreadsheets or multiple unreconciled systems).

Common findings

Our audit management letters reported deficiencies in asset valuation processes, and inaccurate and incomplete fixed asset registers.

Thirty-nine councils had inaccurate and incomplete fixed asset registers

Maintaining accurate and up-to-date asset data helps councils make appropriate decisions around asset management. The fixed asset register issues at 39 councils included:

- not maintaining an accurate and complete fixed asset register:
 - issues with duplicate or missing assets
 - incorrect classification of assets
 - incorrect componentisation of assets
 - issues with assessing useful lives
 - discrepancies between fixed asset register and other information records (e.g., Crown land information database and technical asset registers)
- not regularly updating the fixed asset register for additions and disposals
- not maintaining the asset registers in a secure format (using unlocked spreadsheets or multiple unreconciled systems).

The source of prior period errors and uncorrected errors continue to relate mainly to the quality of asset records and asset valuations.

Item 8.1 - New Item (8) Auditor General Local Government
reports

04 - NSW Auditor General's report on
local government for 2024

Item 6.1

Enclosure 2

There were deficiencies in infrastructure asset revaluation processes at 54 councils

We identified deficiencies in infrastructure asset valuation processes at 54 councils (48 in 2022–23). These included:

- not assessing the useful life, condition and fair value of all asset classes annually
- inadequate supporting documents for key assumptions and judgements applied, including:
 - useful life assessments
 - condition and impairment assessments
 - fair value assessments
 - unit rates
- incorrectly classifying assets
- incorrectly excluding some assets from valuations
- errors in annual fair value assessments when applying indices to adjust fair values
- deficiencies in the annual fair value assessment process
- management not documenting their quality review over the asset valuation.

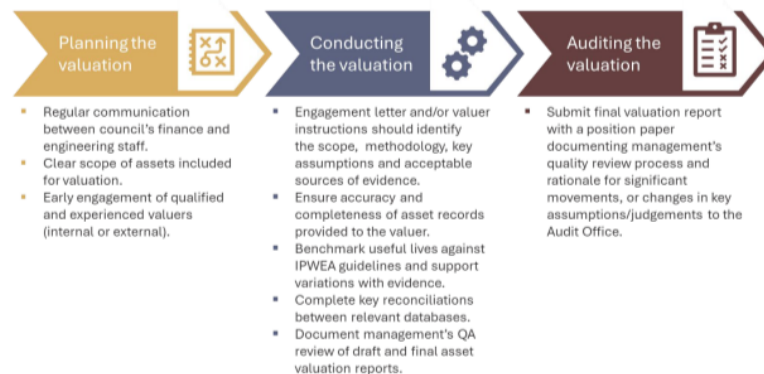
Some councils have ineffective valuation processes which are performed too late

Performing asset valuations allows management and auditors time to complete procedures and identify potential issues before the financial statements close process. Bringing this work forward can improve the timeliness and accuracy of financial reporting. The effective date of the comprehensive valuation of any asset category can be any point during the financial year subject to audit. As reported in Chapter 2 'Audit results':

- thirty-seven councils (43 in 2022–23) completed IPPE valuations before 30 June 2024
- thirty-six councils (32 in 2022–23) performed fair value assessments of IPPE before 30 June 2024.

Councils should have a project plan in place to manage the asset valuation process. Suggested deliverables to be included in a timetable for council valuations may include the following.

Project plan asset valuations



Engage the auditors early and through all phases of the process.

Information technology

Councils rely on IT to deliver services and manage information. While IT delivers considerable benefits, it also presents risks that councils need to address. IT general controls relate to the procedures and activities designed to ensure the confidentiality and integrity of systems and data. These controls underpin the integrity of financial reporting.

Financial audits review IT general controls for key financial systems that support the preparation of council financial statements. These include:

- policies and procedures
- IT risk management
- privileged user access restriction and monitoring
- user access management
- system software acquisition, change and maintenance
- patch management
- disaster recovery planning
- cyber security (refer to the next chapter).

High-risk findings

High-risk findings reported in this area are detailed in the table below.

Area	Reasons
Policies and procedures	• four councils did not have policies or procedures relating to IT risk management, access management, change management, incident response and disaster recovery.
Privileged user access restriction and monitoring	• five councils did not monitor privileged user activity.
User access management	• four councils required improvements in user access management.
System migration	• one council had three high-risk findings related to system migration, which delayed the financial statements being prepared.
Password parameters	• one council's password parameters did not meet better practice, and the council also allowed the sharing of passwords amongst IT contractors.

Common findings

In addition to the high-risk findings reported above, our audit management letters reported deficiencies in IT policies and procedures and a lack of user access management, including management of privileged users.

There are insufficient controls over access to systems by users and privileged users

We identified the following common access management findings:

- periodic user access review, which ensures that users' access to key IT systems is appropriate and commensurate with their roles and responsibilities, was not performed at 37 councils (55 in 2022–23)
- there were gaps in the management of privileged users at 42 councils (38 in 2022–23). This included gaps in restricting privileged users' access and monitoring their activity.

The number of councils with insufficient control over user access management, including privileged users, has reduced as councils have addressed previously reported matters.

Where robust access management processes are not in place, inappropriate access may exist. This increases the risk of the unauthorised processing or modifying of transactions, or of sensitive data being stolen. These common findings may be rated high-risk when there are no mitigating controls to prevent or detect unauthorised activity.

Financial reporting and accounting

Financial reporting is an important element of good governance. Confidence in, and transparency of, public sector decision-making is enhanced when financial reporting is accurate and timely. Financial accounting refers to the processes adopted by management to record and review financial information. Councils use a combination of manual and automated processes and information systems to process financial information. Effective processes and controls support the accuracy and completeness of information presented in the financial statements.

High-risk findings

There were five high-risk findings in this area, as detailed in the table below.

Area	Reasons
Poor quality and timeliness of financial reporting for audit	three councils provided poor-quality financial statements later than the agreed timetable.
Preparedness for audit	one council was unable to provide a reliable trial balance or supporting working papers.
Key account reconciliations	one council did not complete key account reconciliations for most of the financial year.

Common findings

A lack of segregation of duties over the posting of manual journal adjustments at 22 councils

Independent review and authorisation of manual journal adjustments is important to reduce the risk of fraud or error in the financial statements. There was a lack of segregation of duties over the posting of manual journal adjustments to financial ledgers at 22 councils (12 in 2022–23).

Preparation of key account reconciliations was not timely or independently reviewed

Regular reconciliations of financial information, with appropriate review processes, help to identify and resolve discrepancies between different systems and records. They also preserve the integrity of financial statements and can identify fraud. Our audits found:

- no evidence of independent reviews of key account reconciliations at 35 councils (18 in 2022–23).
- untimely reconciliations of all key balances in the financial statements at 26 councils (28 in 2022–23).

Purchases and payables

Councils spend substantial funds each year to procure goods and services. It is therefore important that there is appropriate probity, accountability and transparency in procurement to achieve value for money and reduce the risk of unauthorised purchases, and corrupt and fraudulent behaviour.

High-risk findings

Two high-risk findings were reported for this area, as detailed in the table below.

Area	Reasons
Non-compliance in procurement process	one council appointed suppliers in breach of its procurement process and the LG Act.
Deficiencies in procurement practices	one council had significant weaknesses in procurement processes, outdated conflicts of interest registers, lack of segregation of duties and over-reliance on contractors, leading to alleged corrupt conduct.

Common findings

Credit card management requires improvement

Credit cards are a convenient and efficient procurement method. However, as they access council funds, it is in the public interest for their use to be monitored. Credit cards are subject to misuse and fraud by cardholders, merchants and fraudsters. It is important that councils effectively manage credit card use, minimise the risk of misuse and fraud, and ensure that the intended benefits are realised.

Common findings identified in council credit card management practices include:

- absence of or outdated credit card policies and procedures
- insufficient controls over credit card reconciliations
- inadequate or absence of timely review or authorisation of credit card expenses.

Insufficient review of changes to creditor information at 13 councils

Thirteen councils (six in 2022–23) did not perform a sufficient review of changes to creditor information in the supplier master file, including verification of bank account details. This increases the risk of unauthorised changes to key information, resulting in payments to incorrect or fraudulent accounts, leading to financial losses for councils. The increasing rates and sophistication of cybercrime amplify the risk of control weaknesses being exploited and going undetected for longer periods.

Payroll

Effective payroll processes ensure councils manage their workforce in compliance with legislation, employment agreements and the Local Government Award. Payroll processes, controls and information systems should protect the integrity of employee records to ensure accuracy of employee payments and leave entitlement calculations.

Common findings

Eighteen councils did not review changes to employee payroll data

Eighteen councils did not have adequate processes in place to review changes to employee payroll data (12 in 2022–23). This includes not generating reports to identify changes to master file data and/or pay run variance reports. In some cases, although reports were produced, they were not independently reviewed. This increases the risk of unauthorised changes or errors being undetected and remaining undetected for long periods, increasing the risk of financial loss to councils. Cyber criminals also target vulnerabilities in payroll processes and controls.

Payroll processes need to improve at many councils

Other common findings identified in payroll include:

- no review of termination payments
- leave forms not reviewed, not updated in the system and not filed
- lack of segregation of duties
- lack or untimely review of payroll reconciliations.

Cash and banking

Councils process a high volume of transactions each year. Effective controls over cash collection, disbursements and reconciliations reduce the risk of fraud and error.

Common findings

Outdated bank signatories at 14 councils

Expired bank signatories are not being removed on a timely basis. Fourteen councils (eight in 2022–23) had former employees listed as account signatories for bank accounts. This increases the risk of unauthorised transactions.

Revenue and receivables

Councils receive revenue from a range of different sources, including ratepayers, users of facilities, other levels of government, developers and investments. Councils require appropriate controls to accurately record revenue and receivables in compliance with Australian Accounting Standards and other legal requirements.

High-risk findings

One high-risk finding was reported for this area, as detailed in the table below.

Area	Reasons
Revenue processing practices	• one council incorrectly applied sewerage service tariff rates and overcharged for commercial properties.

Common findings

Revenue processes and controls need to improve at many councils

Other common findings across councils include:

- not formally assessing grant funding against measurement criteria under AASB 15 'Revenue from Contracts with Customers' and AASB 1058 'Income of Not-for-Profit-Entities', leading to errors in the financial statements
- not reconciling the grant register and not keeping it up to date
- lack of independent review of changes made to data in revenue systems and revenue master files
- lack of exception reporting
- incorrect classification of properties for rating purposes.

Deficiencies in revenue recognition practices resulted in the identification of 18 uncorrected errors (totalling \$34.3 million) in councils' financial statements, and three prior period errors (totalling \$7.1 million) (25 errors, \$22 million in 2022–23). While there has been some improvement, many of the errors were detected by auditors rather than through appropriate and consistently applied management processes and controls.

Internal audit

The Institute of Internal Auditors defines internal audit as ‘an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations’. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

According to the Local Government Regulation and the ‘Guidelines for Risk Management and Internal Audit for Local Government in NSW’, commencing 1 July 2024, councils (including county councils and joint organisations) must have an internal audit function to review the council’s operations, risk management and control activities.

No internal audit function at 10 councils, four county councils and 12 joint organisations

The table below shows the number of councils, county councils and joint organisations with gaps in their internal audit functions.

Internal audit improvement areas	Number of councils/ joint organisations
Internal audit function not established	26
Internal audit plan not documented	6
Internal audit plan not aligned to strategic risks	11
Internal audit recommendations not tracked by ARIC	8
No budget allocated to internal audit function	32

Source: Audit Office findings.

It is likely, given the weaknesses noted above, that several councils will not comply with the newly commenced internal audit requirements of the Local Government Regulation. The Regulation requires councils, county councils and joint organisations to notify the Departmental Chief Executive within 28 days of the failure to comply with the Regulation and publish a statement of non-compliance details in the annual report. There was no internal audit function at 10 councils, four county councils and all but one joint organisation.

For the councils and county councils that did have internal audit functions, the table below shows the range of internal audit annual budgets by classification.

(\$'000)	Minimum	Maximum	Average
Metro	41	814	230
Regional	15	282	112
Rural	10	224	45
County	25	35	30

Source: Audit Office analysis.

Metropolitan councils have the largest budgets for internal audit. In the current audits we identified no areas for improvement relating to the internal audit functions and their governance.

The operations of rural and regional councils range in size and complexity. The nature of their internal audit functions and governance also range in maturity and in the budget allocated to their delivery. It is important that internal audit budgets are sufficient to ensure appropriate coverage by internal audit of acknowledged risks. However, not all improvements involve additional expense. Improved governance processes and adequate oversight of internal audit activities and recommendations can also achieve better outcomes for smaller councils.

Councils, county councils and joint organisations can share an internal audit function. This should be a formal arrangement that outlines the governance arrangements, how it will operate and how the costs will be shared.

6. Cyber security

This chapter focuses on the cyber security environment for councils, how they have assessed and responded to the relevant risks, and the extent to which they have implemented or plan to implement controls. We also focus on how councils educate and raise awareness of cyber security risks for those with access to their IT systems and information.

Key points

- The OLG strongly recommends that councils adopt the Cyber Security Guidelines for Local Government (the Guidelines), but have not made them mandatory. The Guidelines do not impose any specific cyber security requirements on councils to improve their cyber security environment.
- One hundred councils have adopted the Australian Cyber Security Centre's (ACSC) Essential Eight Cyber Security framework (the Essential Eight). However, the Guidelines have a broader focus, and include the Essential Eight.
- Thirty-six councils did not rate their cyber risks. Of the remaining councils that evaluated their cyber risks, 37% (46) rated their residual risk above their risk appetite.
- There are significant shortcomings in council plans to improve their cyber security.
- Cyber security governance has generally improved across councils, but further improvement is needed in cyber security awareness training and incident management.
- Two councils had recent cyber security incidents where third-party systems were compromised.

6.1. Background

Cyber security needs to be managed to ensure information, data and systems are appropriately safeguarded so councils can provide their essential services and infrastructure.

The ACSC in its *Annual Cyber Threat Report 2023–2024* note over 87,400 cybercrime reports, with 12% of incidents reported relating to state and local government.

Our focus on cyber security is outlined in our *Annual work program 2024–27*. Our financial audits consider cyber security planning and governance, and whether cyber security incidents might have a material impact on the financial statements.

Cyber security risks in the local government sector

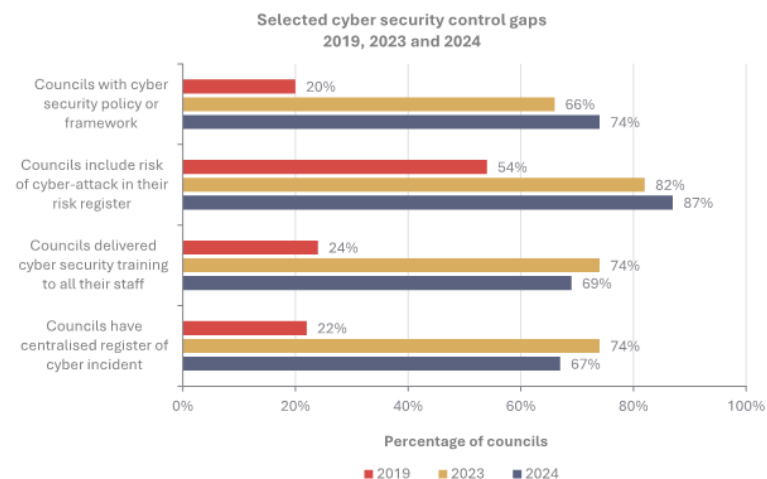
Councils increasingly depend on digital technologies and are a target for state-based, criminal and activist threat actors. Risks identified by the OLG when it released the Guidelines include major disruption to services and operations, and risks to critical infrastructure and services.

Our performance audit on *Cyber security in local government* found the following issues in cyber security risk management and processes across the three NSW local councils reviewed:

- the councils were not effectively identifying and managing cyber security risks
- the councils did not have up-to-date plans and processes to support effective detection, response and recovery from cyber security incidents
- Cyber Security NSW and the OLG could do more to monitor whether the Guidelines are enabling better cyber security risk management in the sector.

The report also notes key takeaways that are relevant for all councils' cyber security governance and risk management. Our 2023–24 financial audits found 73 cyber security deficiencies, which highlight weaknesses in cyber security policies and cyber security response plans.

The chart below shows the journey of selected cyber security control gaps. While it does not mean that all risks are mitigated, it is encouraging that councils have focused on these gaps and there have been some improvements to cyber security controls since 2019.



Source: Audit Office findings. Data are not available for all years. The graph shows the trend from when we first reviewed these controls in 2019.

While the overall trend indicates improvements in these key cyber security controls, especially regarding governance, there has been a slight drop in cyber security training and awareness and cyber incident management. The improved areas of cyber security policy and risk management have been a focus of our financial audits and it is encouraging to see councils responding to the recommendations in our financial statement audit management letters and our *Local Government 2023 Auditor-General's Report*.

This chapter covers some aspects of cyber security risk management, cyber security training and further analysis of the above controls based on data collected from NSW councils.

6.2. Policy framework

The NSW Government has not set mandatory cyber security requirements for local councils but provides guidance through the OLG.

The OLG issued the Guidelines in December 2022, following an Audit Office recommendation. In January 2025, the OLG issued an update to the Guidelines, which is based on a 2024 update of the NSW Cyber Security Policy by Cyber Security NSW (CSNSW).

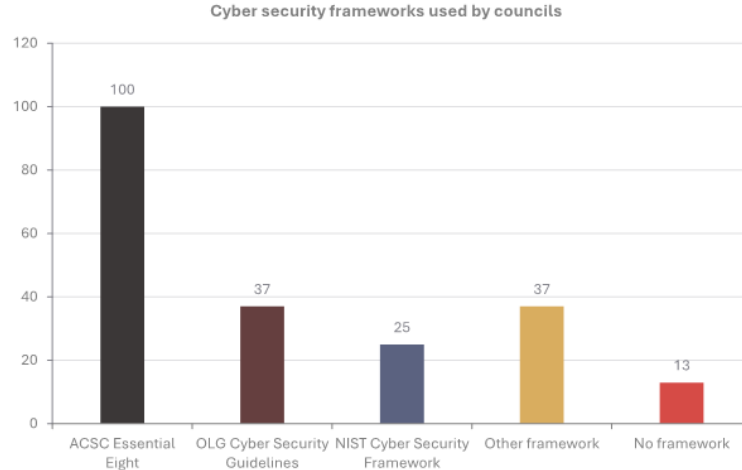
The 2025 Guidelines were updated with the following key changes:

- inclusion of threat-based cyber risk management
- revised 'Foundational Requirements' and new 'Detailed Requirements'
- incorporation of the Essential Eight into the 'Foundational Requirements'.

The OLG strongly recommends compliance with the Guidelines but, similar to the approach adopted for state agencies, it has not made compliance mandatory. Unlike state sector agencies, there is no requirement to annually report self-assessments of compliance to CSNSW or to any other regulatory body, such as the OLG. Councils are advised to use the Guidelines as the basis of their cyber security policies, and assess themselves against the requirements.

Many councils have adopted the Essential Eight framework. The Guidelines have a broader focus

The lack of specific and mandatory requirements means that councils can select from several frameworks. However, there are some clear trends in council preferences. While the infographic below presents the cyber security frameworks adopted by councils, it is important to note that councils also may have adopted elements from multiple cyber security frameworks.



Source: Audit Office findings for councils, county councils and joint organisations.

The clear preference of cyber security frameworks is the Essential Eight (chosen by 100 councils). Thirty-eight per cent of councils have selected it as their only framework. Other frameworks that councils have adopted include the NSW Cyber Security Policy, the federal Information Security Manual, ISO 27001 'Information Security, Cybersecurity and Privacy Protection – Information Security Management Systems – Requirements', or frameworks purchased from vendors.

Fifty-five per cent of councils followed only one of the above frameworks, with the remainder selecting elements from two to four different frameworks. The following table shows the combinations of cyber security frameworks used by councils.

Cyber security frameworks used by councils

Number of frameworks used	Cyber security frameworks used by councils	Number of councils	Percentage of councils
1	Essential Eight (E8)	53	38%
	Another framework	14	10%
	The Guidelines	8	6%
	NIST Cyber Security Framework (CSF)	3	2%
2	ACSC E8 and the Guidelines	11	7%
	ACSC E8 and NIST CSF	8	6%
	ACSC E8 and another framework	8	6%
	The Guidelines and NIST CSF	1	1%
	The Guidelines and another framework	1	1%
	NIST CSF and another framework	1	1%
3	ACSC E8, the Guidelines and another framework	8	6%
	ACSC E8, NIST CSF and the Guidelines	7	4%
	ACSC E8, NIST CSF and another framework	4	2%
4	ACSC E8, NIST CSF, the Guidelines and another framework	1	1%
0	No framework used	13	9%

Source: Audit Office analysis for councils, county councils and joint organisations.

The cyber security frameworks differ in their scope and purpose. Selection of some frameworks may limit the focus and attention to components of cyber security rather than provide a comprehensive approach. The differences in the two main frameworks used by councils are as follows:

- The [Essential Eight](#) is a subset of eight mitigation strategies to protect against cyber threats
- The Guidelines have a broader set of requirements covering governance and identification, detection, response and recovery, and protection. The Guidelines target councils, integrate the Essential Eight into their requirements and suggest a minimum standard for the Essential Eight.

Adopting the Essential Eight alone may protect key systems and data, but may not provide sufficient focus on other cyber security elements that are included in the Guidelines.

Thirty-seven councils did not have a cyber security policy

Translating cyber security frameworks into cyber security policy is important to set organisational-wide expectations and objectives, and to articulate the scope for users and stakeholders. It is also key to articulating a council’s posture on cyber security.

There has been an improvement in the adoption of cyber security policies by councils. In 2024, 26% councils (34% in 2023; 80% in 2019) did not have a current cyber security policy, and six were in the process of developing a draft policy. Forty-nine per cent of councils without a cyber security policy are rural councils.

6.3. Identifying cyber security risk

This section of the report describes how councils identify the cyber security risks that apply to their IT environment. Inadequate identification of systems, information or assets that remain unprotected, combined with ineffective cyber security risk management can leave councils vulnerable to unrecognised and unacknowledged risks. Exploitation of vulnerabilities can result in disruption of services, loss of reputation, privacy breaches and damage to both the entity and its stakeholders.

ISO 31000 'Risk Management – Guidelines' and ISO 27001 'Information Security, Cybersecurity and Privacy Protection – Information Security Management Systems – Requirements' provide guidance on common risk management techniques for information security. They include understanding what systems, information and assets to protect. This aids in analysing the risk and its impact, and focusing responses and resources to mitigate the risks.

Sixty-four per cent of councils had not identified all information assets requiring protection

Failing to identify information assets and systems that need protection may increase exposure to cyber security risks. Identification of vulnerable assets and the risks that could threaten those assets remains in progress, but there are indications of improvement. Councils that have not completed this process may unintentionally leave assets vulnerable to cyber security threats and attacks. Our data collection identified:

- 64% of councils (90) had not identified all their information assets. Forty-six per cent (41) are rural councils.
- Of the councils that had identified their information assets, 44% had not assessed their assets' business value.

Thirty-seven per cent of councils that evaluated cyber security risks rated the residual risk as being above their risk appetite

Evaluating the level of cyber security risk, identifying controls to reduce the risk, and communicating risk management activities to senior management and those charged with governance is part of a robust risk management framework. If the residual risk (after risk mitigation) is acknowledged as being above the risk appetite, the council's cyber security risk is at an unacceptable level. To avoid placing organisational objectives at risk, it is important that action is prioritised to bring the residual risk within the appetite.

Thirty-seven per cent (46) of the 121 councils that had identified cyber security as a risk had evaluated the residual cyber security risk as being above tolerable or acceptable. A further 30% (36) were unable to advise if their residual risk was above or below their tolerable or acceptable risk. Ten per cent (14) of councils had not discussed their cyber security risk appetite with the relevant governance committees and/or councillors.

Councils' identification of cyber security risks has improved, but 13% (18% in 2023; 46% in 2019) are yet to formally acknowledge cyber security on their risk registers. Fifty-three per cent of these are rural councils. Our performance audit on *Cyber security in local government* noted that two of the three councils reviewed had identified cyber security as a strategic risk and all three had gaps in their risk management processes.

The use of IT service providers is common, especially where skills and resources cannot be sourced inhouse. While process and controls are managed by these service providers, councils remain responsible for those functions and must be comfortable with how these service providers deal with cyber security risks. Forty per cent of councils did not assess the cyber security risk exposure of their service providers. Of those that did, 65% assessed the risks before engaging with the providers and reassessed them during the engagement. The remaining 35% only performed an initial review before engagement.

6.4. Responding and planning to improve cyber security

Reducing and managing cyber security risks requires focused plans to improve protection, detection, response and recovery as outlined in both the [NIST Cybersecurity Framework](#) and the [Guidelines](#).

There are significant shortcomings in planning improvements for cyber security

Forty-one per cent of councils (58) did not have formal plans or programs to improve cyber security. Seventeen of these councils also rated their cyber security risk as being above tolerable and acceptable.

Thirty-five per cent of councils (49) did not formally assess their cyber security maturity against their cyber security frameworks. The assessment of maturity, though not required by the Guidelines, provides guidance and can support the improvement of risk management, culture and capability. Ongoing assessment of maturity may help councils assess their own maturity level, identify areas to improve and compare their results over time.

Thirty per cent of councils had not formally established the allocation of responsibility and roles for cyber security.

6.5. Identifying and responding to cyber security incidents

Cyber security incidents have become commonplace, and the [Australian Signals Directorate](#) fields over 36,700 calls to its Australian cyber security hotline. The ability to detect, contain and respond promptly and appropriately not only reduces the financial impact on operations but limits the impact and allows agencies to learn and improve their responses.

Within NSW local government there are several gaps in relation to cyber security incident management processes:

- 33% of councils did not have a centralised register of cyber incidents. Nine councils advised they had no incidents. It is not clear why more councils are not maintaining a register of cyber incidents, but our [Performance Audit on Cyber security in local government](#) notes that ongoing maintenance of registers is a challenge
- 43% of councils did not have a cyber incident response plan; 14 are in development
- 44% of the councils who had cyber incident response plans did not have playbooks supporting their response plans. Playbooks are documented step-by-step actions that are tailored to address plausible cyber security incidents and support the cyber incident response plans.

Councils should learn from cyber security incidents when third-party systems are compromised

Councils remain responsible for the risks from their use of third-party service providers. This includes responsibility for cyber security incident management and handling suspected or actual security incidents.

Following are case studies of two councils that experienced cyber security incidents in 2024. We describe the incident, how the council managed it and what was learned.

Case studies – Learnings from cyber security incidents

Case study 1

One council was the victim of a carding attack on a vendor-hosted payment system. A carding attack occurs when a threat actor uses a victim's system to automatically verify the authenticity of randomly generated or stolen credit card numbers by making small transactions. Once these credit card numbers are validated, they can be used for future fraudulent transactions elsewhere. Whilst there were several transactions made through the system, the council advised that this incident did not occur because the system was compromised.

The council followed its cyber incident response plan to manage the incident. This included temporarily taking the system offline once the vendor had notified council. Investigations were conducted and the council actively communicated with the vendor and relevant government agencies to inform and seek guidance about how best to respond to the event. The council followed its cyber incident response plan and BCP to allow business operations to continue through alternative processes until the nature and source of the attack were identified and solutions were put in place.

Key learnings:

- communication with stakeholders is a key component of incident management
- cyber incident response plans and BCPs are important in responding to cyber security incidents
- councils are still accountable for risks where services are provided by a third-party. They need to take leadership and ensure appropriate governance over operations and incident management
- expectations of vendors as to how incidents are managed, and the respective obligations and responsibilities of the vendor and the council, should be specified within contracts
- communication of decision-making is important to ensure transparency, provide clarity to customer-facing teams and consistency of messaging to customers.

Case study 2

A second council was subject to a cyber-attack in which a third-party library system was compromised and may have resulted in unauthorised access to customers' personal information. The council advised that the same system was being used by other councils and universities in NSW. The council had to assess whether the data breach was a reportable data breach under the *Privacy and Personal Information Protection Act* and the Mandatory Notification of Data Breach Scheme. The council identified the attack and notified the vendor. The council engaged its IT and legal teams and the third-party vendor as part of the response team. The council also engaged forensic investigators and an external party to guide and support the incident response. The council understands that the vendor was aware of the system vulnerability before the attack. While it had planned to fix the vulnerability, it had not done so in time and had not informed the council of the risk.

Key learnings:

- active engagement with stakeholders and an internal and external communications strategy are essential
- clear analysis and definition of the nature and extent of the cyber-attack by the IT team is necessary, with legal teams considering compliance and privacy issues
- if council does not have inhouse capability or capacity, external specialists in incident management and forensic investigators may provide additional expertise
- developing a public-facing Data Breach Policy and integrating it with cyber incident plans and BCPs helps councils respond to cyber security incidents quickly, consistently and appropriately
- active management of vendors is necessary to secure data and ensure they understand the legislative requirements for the protection of that data
- contracts with vendors should specify protocols for how cyber incidents are to be reported and managed, and the respective obligations and responsibilities of the vendor and the council.

6.6. Resourcing of cyber security

Resourcing cyber security capability is a key issue for local government where funding constraints add to the challenges of attracting and retaining skilled personnel. However, councils have used several strategies to address this, including different resourcing and responsibility models. These models include:

- resourcing within the entity
- engaging managed service providers
- sharing resources between independent councils, especially for rural councils
- using IT and resources from lead councils, especially for joint organisations.

Responsibility models vary across the sector and depend on the scale of the IT function. Models include:

- individual roles dedicated to cyber security
- no dedicated roles but allocation of cyber security to senior and technical personnel
- no dedicated roles but allocation of cyber security across the IT team
- cyber security responsibility within the role of an IT officer.

Allocating the appropriate amount of financial resources to cyber security uplift programs is key to uplifting cyber security capability. Fifty-eight councils had no cyber security uplift program. Eighty-three councils (59%) had a cyber security uplift program, but 12 (14%) advised their spending on cyber security was insufficient to adequately resource their cyber security uplift program.

The 12 councils that acknowledged that their cyber spend was insufficient during 2024 had spent between zero and \$120,000 to resource their cyber security uplift programs. These councils comprised five metropolitan councils, three regional councils, one rural council and three joint organisations. Councils advised that they had insufficient funds to complete their cyber security uplift programs, and limitations due to lack of appropriately skilled staff. Personnel responsible for cyber security had competing responsibilities, or councils had difficulty attracting and retaining skilled resources. More generally, specialist cyber security resources were scarce.

6.7. Cyber security awareness and training

Cyber criminals exploit vulnerabilities in human behaviour, which leads to cyber security incidents. Cyber security awareness and training programs help users understand their security responsibilities, and recognise and avoid common attacks like social engineering and phishing. Educated users can help councils identify and appropriately respond to cyber security threats and attacks. This section explains how agencies use education programs to reduce risks from user behaviour.

Not all councils mandated regular cyber security awareness training

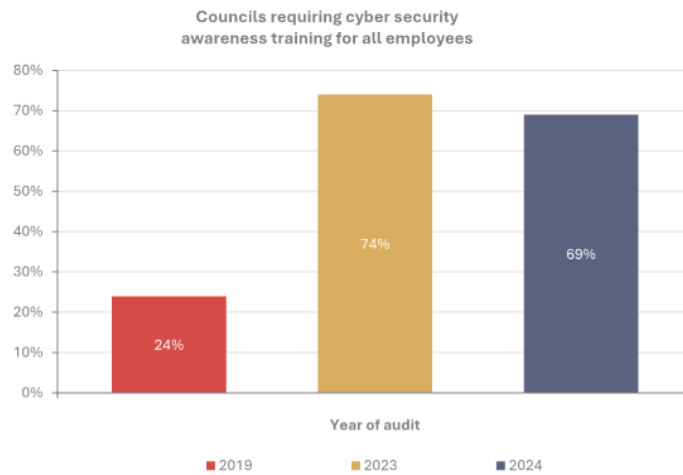
In 2024, 69% of councils required all employees to complete cyber awareness training. This was slightly lower than the prior year (74%) but much higher than 2019 (24%). The councils that did not mandate this training comprised three metropolitan councils, eight regional councils, 22 rural councils, five county councils and six joint organisations. Our performance audit on cyber security in local government also found that one of three councils did not mandate all staff to complete cyber security training.

Item 8.1 - New Item (8) Auditor General Local Government
reports

04 - NSW Auditor General's report on
local government for 2024

Item 6.1

Enclosure 2



Source: Audit Office findings.

Phishing is when cyber criminals trick people into giving them information that can enable unauthorised access. They send emails or messages purporting to be from large known and trusted organisations, and often demand urgent action by recipients.

Forty-five per cent of councils did not run a phishing simulation during the 2024 financial year. Of the 55% of councils that did run a phishing exercise, five councils did not give staff any feedback if they did react inappropriately to the phishing exercise. These councils are working on procedures to ensure that users are aware of the risks associated with their actions.

When individual staff did not respond appropriately to a phishing exercise, councils used the following methods to improve their cyber security awareness:

- they required the staff member to attend additional training (51 councils)
- they provided written or verbal feedback about the exercise and how they should have responded (30)
- they informed the staff member's manager of the result (10)
- they reflected repeated phishing test failures in staff appraisals (6)
- they performed other actions such as praising staff who successfully passed, focused on particular business units and informed users of the overall results (28).

7. Looking forward

The Audit Office’s Annual Work Program

Each year, the Audit Office’s Annual Work Program includes an ongoing strategic assessment of the risks and challenges facing government. It outlines future focus areas for financial audits, as well as planned performance audit topics published as a three-year rolling program. We aim to inform the NSW Parliament, the public sector and the community about key risks we identify, as well as priorities and expected timeframes for delivering our work. This helps give our stakeholders the best opportunity to prepare for, and engage with, our audits.

Our financial audit program for local government includes:

- assessments of controls and governance on cyber security
- analyses of financial sustainability
- reporting of findings and recommendations.

Audits will target the efficient and responsible use of public resources

The *Government Sector Audit Act 1983* provides that the Auditor-General may have regard to the wastage of public resources in the exercise of their functions and may deal with reports made by public officials about serious and substantial waste of public money. The Audit Office defines serious and substantial waste as the uneconomical, inefficient or ineffective use of resources, whether authorised or unauthorised, and which could result in a loss of public funds or resources.

Waste can result in an opportunity cost for councils where money could have been used for better purposes, or better spent on achieving the same purpose. Waste can also lead to higher costs being incurred to address failings in either procurement, budgeting or contract management.

Our audits may focus on whether procurement practices, budgeting and contract management have effectively reduced waste.

Our performance audit program for local government includes the following performance audits in progress.

Coastal management reforms

The coast is one of NSW’s greatest assets and is home to nearly 85% of the state’s population. The NSW Government has established a framework to manage the coastal environment in a sustainable way for the wellbeing of the people of NSW. The key policy instruments are the *Coastal Management Act 2016*, under which local councils in the coastal zone prepare coastal management programs, and the *State Environmental Planning Policy (Resilience and Hazards) 2021*.

The Department of Climate Change, Energy and Water (DCCEEW) and the DPHI oversee and facilitate implementation of the coastal management framework by local councils.

This audit will answer the following questions:

- Are the DCCEEW and the DPHI effectively overseeing and facilitating councils’ implementation of the coastal management framework?
- Have councils effectively developed plans and priorities for coastal management?

Item 8.1 - New Item (8) Auditor General Local Government
reports

0 4 - NSW Auditor General's report on
local government for 2024

Long-term financial planning

Sustainable financial management is a significant risk and priority for the local government sector. Under the legislative and policy requirements, all NSW local councils must prepare and adopt a long-term financial plan. This plan should reflect and inform decision-making for important processes like longer-term strategic planning, and immediate and short-term budget processes.

This audit will assess whether selected local councils have established effective and compliant long-term financial plans that promote financial sustainability and reflect their communities' priorities for services and assets.

Item 6.1

Enclosure 2

**Item 8.1 - New Item (8) Auditor General Local Government
reports**

**0 4 - NSW Auditor General's report on
local government for 2024**

Item 6.1

**Section 2 –
Appendices**

Enclosure 2

Appendix 1 – Response from the Office of Local Government within the Department of Planning, Housing and Infrastructure

Department of Planning, Housing and Infrastructure



Our ref: A952405

Mr Bola Oyetunji
Auditor General for New South Wales
GPO Box 12
SYDNEY NSW 2001

26 March 2025

Subject: Draft NSW Auditor-General's Report - Local Government 2024

Dear Mr Oyetunji

Thank you for your email of 19 February 2025 and the opportunity to respond to your draft Report on Local Government 2024 (the Report).

In the first instance, I wish to acknowledge the active role you have taken since becoming the Auditor General, your strong engagement with the sector to consider the views, opportunities and challenges faced by councils in NSW.

I recognise the critical role of the Audit Office of NSW in strengthening governance, financial management, and reporting in the local government sector.

It is pleasing to see the significant improvement in the reduction of councils seeking extensions to lodge their financial statements and the number of unqualified audit reports for 2024. I thank you for your role in supporting this improvement.

I note the Report's recommendations to the Department of Planning, Housing, and Infrastructure and outline our response below.

Reduction in financial reporting burden

I have noted your recommendation that the Department should continue to reduce the financial reporting burden for councils and remove non-value adding disclosures from financial statements.

The Legislative Council's State Development Committee Inquiry into the ability of local government to fund infrastructure and services has made a similar finding, recommending a review of the financial reporting guidelines and accounting model for local government. The NSW Government is considering its response to the Inquiry.

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1

Item 8.1 - New Item (8) Auditor General Local Government
reports

04 - NSW Auditor General's report on
local government for 2024

Item 6.1

Enclosure 2

Department of Planning, Housing and Infrastructure



Each year the Office of Local Government (OLG) develops the Code of Accounting Practice and Financial Reporting (the Code). The Code must be used by councils and Joint Organisations to prepare their annual financial statements in a consistent, easy to read and comparable manner.

Your report acknowledges that OLG has taken steps to declutter the financial reporting requirements in the Code and reduce the number of additional assurance engagements. I thank the Audit Office for actively working with OLG, and as member of a consultative Code Working Group including senior finance staff from a range of NSW councils, to continue to refine and improve the Code each year.

OLG is actively considering the recommendation to remove the Special Purpose Financial Statements (the Statements) from the Code. I have been advised OLG had a number of conversations last year with the Audit Office on this matter, and that OLG will continue to further consult with the Audit Office, the broader Code Working Group, and with relevant Government agencies to determine the removal of the Statements from the Code.

I also recognise your suggestion that OLG bring together select general managers and chief financial officers to discuss the best approach to review a range of financial policy matters. I intend to convene these round tables during 2025, and I will ensure that OLG will keep you apprised of the outcomes.

Robust month-end processes

I have also noted your recommendation that councils should perform more robust month-end processes, quality reviews of financial statements and supporting working papers before they are submitted for audit.

On 6 March 2025, OLG released draft Quarterly Budget Review Statement Guidelines and an accompanying Consultation Guide. The proposed framework has been designed to ensure councillors and their communities are provided with clear, consistent, and valuable information that enables elected officials to have effective oversight and be visibly in control of the financial performance of their council.

The draft Guidelines put in place mandatory reporting requirements for all NSW councils including standardised Quarterly Budget Review Statement reporting to be presented to councillors, the community and to the OLG on a quarterly basis. It is anticipated that this reporting requirement will encourage councils to implement quality reviews of the financial reporting and the working papers prior to audit. These changes will also address concerns that the governing body and communities are not receiving clear, relevant and meaningful financial information.

2

Item 8.1 - New Item (8) Auditor General Local Government
reports

04 - NSW Auditor General's report on
local government for 2024

Item 6.1

Enclosure 2

Department of Planning, Housing and Infrastructure



In late 2024, the Audit Office collaborated with OLG to develop a suite of training videos aimed to improve council financial and accounting practices. I understand these videos include insights and advice including a 'Meet the Auditor-General', 'Tips and Tricks for End of Year Processes' and 'Early Close Procedures'. OLG intends to publish the videos in the coming months. This is a great initiative to complement OLG's existing financial training resources and will be valuable tools to support councils in addressing your recommendation.

Further, the Audit Risk and Improvement Committee framework has been established to ensure councils have effective systems and controls in place for statutory compliance, risk management, fraud control, financial management, and governance. Councils are encouraged to leverage their committee to provide independent advice about how the council is functioning and a view on its performance.

Status of previous recommendations

I note Appendix 2 sets out the status of previous recommendations. OLG will continue to work with councils in addressing these matters. As noted in the Report, updated Cyber Security Guidelines were released for the sector in January 2025 in conjunction with Cyber Security NSW.

Should you require further assistance in relation to these matters, please do not hesitate to contact Brett Whitworth, Deputy Secretary, Office of Local Government on [REDACTED] or by email at olg@olg.nsw.gov.au.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Kiersten".

Kiersten Fishburn

Secretary

3

Appendix 2 – Status of previous recommendations

Our previous reports to Parliament focusing on local government made recommendations to the councils and the Department of Planning, Housing and Infrastructure. The implementation status of our recommendations is summarised below with the relevant audit findings for 2023–24.

Recommendations to Department	Comment	Current status
Rural firefighting equipment		
In 2023, we recommended that the Department assess council's compliance with legislative responsibilities and standards or guidelines regarding the rural firefighting equipment vested to councils under section 119(2) of the Rural Fires Act 1997.	The Public Accounts Committee has a current inquiry: 'Assets, premises and funding of the NSW Rural Fire Services'.	—
Early financial reporting procedures		
The Department should consider requiring early financial reporting procedures across the local government sector.	We continue to recommend that the Department consider requiring early financial reporting procedures across the local government sector. The Department reminds councils to engage with valuers earlier, to ensure that asset valuations are completed by 30 June 2024. The Department should consider assessing whether councils are complying with this requirement.	—
Legal framework		
The Department should clarify the legal framework relating to restrictions of water, sewerage and drainage funds (restricted reserves) by either seeking an amendment to the relevant legislation or by issuing a policy instrument to remove ambiguity from the current framework.	Water Management Amendment (Central Coast Council) Act 2024 was assented to on 15 August 2024 to clarify the legal framework.	✓
Developer contributions		
The Department, as the principal department responsible for administration of the EPA Act, addresses how funds collected under one plan are treated if a contribution plan is repealed, or repealed and replaced with a new contributions plan.	The Department issued draft infrastructure contribution practice notes between December 2023 and February 2024, with responses being considered.	—
Key  Fully addressed  Partially addressed  Not addressed		

Item 8.1 - New Item (8) Auditor General Local Government
reports

04 - NSW Auditor General's report on
local government for 2024

Recommendations to councils	Comment	Current status
Asset valuations		
Councils should complete asset revaluations before financial year-end.	We continue to recommend that councils complete asset valuations and fair value assets before financial year-end to help improve the quality and timeliness of financial reporting. Thirty-seven councils implemented this recommendation in 2023–24.	—
Asset source records		
Councils should improve controls and processes to ensure integrity and completeness of asset source records.	We continue to recommend that councils improve controls and processes to ensure the integrity and completeness of asset source records. Thirty-nine councils had weak processes over maintenance, completeness and security of fixed asset registers, as reported in Section 3.2.	—
Tracking recommendations		
Councils should focus on tracking audit recommendations and prioritise high-risk repeat issues.	Most councils track audit recommendations.	✓
Cyber security		
Councils should prioritise planning and governance of cyber security to ensure cyber security risks over key data and IT assets are appropriately managed and key data are safeguarded. Councils should refer to the 'Cyber Security Guidelines – Local Government' released by the OLG.	We continue to recommend that councils focus on improving cyber security governance and controls. Cyber security findings were reported in 73 councils as they did not have at least one of the following basic governance and internal controls to manage cyber security: - a cyber security framework, policy and procedures - a register of cyber incidents - simulated cyber-attack testing (penetration testing) - a cyber security training and awareness program.	—
Key	✓ Fully addressed	— Partially addressed
		! Not addressed

Appendix 3 – Status of audits

Below is a summary of the status of the 2023–24 financial statement audits, including the type of audit opinion and the date it was issued.

Key	
Type of audit opinion	Date of audit opinion
Unmodified opinion	✓ Financial statements were lodged by the statutory deadline of 31 October 2024* ✓
Unmodified opinion with an emphasis of matter	– Extensions to the statutory deadline (and met) ✓
Modified opinion: Qualified opinion or a disclaimer of opinion	! Extensions to the statutory deadline (incomplete) !
	Financial statements not prepared !
* Date of lodgement could be later than the date of the audit opinion.	

Council classifications

We adopted the following methodology when classifying councils in our report

OLG classification	Audit Office grouping
Metropolitan	Metropolitan
Regional town/city	Regional
Metropolitan fringe	Metropolitan
Rural	Rural
Large rural	Rural

2023–24 audits

Metropolitan councils

Council	Type of opinion	Date of audit opinion	
Bayside	Unmodified	✓ 24 October 2024	✓
Blacktown City	Unmodified	✓ 31 October 2024	✓
Blue Mountains City	Unmodified	✓ 13 February 2025	✓
Burwood	Unmodified	✓ 8 October 2024	✓
Camden	Unmodified	✓ 25 October 2024	✓
Campbelltown	Unmodified	✓ 28 October 2024	✓
Canterbury-Bankstown	Unmodified	✓ 24 October 2024	✓
Central Coast	Unmodified	✓ 24 October 2024	✓
City of Canada Bay	Unmodified	✓ 30 October 2024	✓
Cumberland City	Unmodified	✓ 13 December 2024	✓

Item 8.1 - New Item (8) Auditor General Local Government
reports

04 - NSW Auditor General's report on
local government for 2024

Item 6.1

Enclosure 2

Council	Type of opinion	Date of audit opinion	
Fairfield City	Unmodified	✓ 23 October 2024	✓
Georges River	Unmodified	✓ 31 October 2024	✓
Hawkesbury City	Unmodified	✓ 25 October 2024	✓
Hornsby Shire	Unmodified	✓ 24 October 2024	✓
The Municipality of Hunters Hill	Unmodified	✓ 22 October 2024	✓
Inner West	Unmodified	✓ 25 October 2024	✓
Ku-ring-gai	Unmodified	✓ 24 October 2024	✓
Lane Cove Municipal	Unmodified	✓ 28 October 2024	✓
Liverpool City	Unmodified	✓ 21 October 2024	✓
Mosman Municipal	Unmodified	✓ 28 October 2024	✓
North Sydney	Unmodified	✓ 30 October 2024	✓
Northern Beaches	Unmodified	✓ 17 October 2024	✓
City of Parramatta	Unmodified	✓ 31 October 2024	✓
Penrith City	Unmodified	✓ 30 October 2024	✓
Randwick City	Unmodified	✓ 1 October 2024	✓
City of Ryde	Unmodified	✓ 27 November 2024	✓
Strathfield Municipal	Unmodified	✓ 30 October 2024	✓
Sutherland Shire	Unmodified	✓ 25 October 2024	✓
The City of Sydney	Unmodified	✓ 29 October 2024	✓
The Hills Shire	Unmodified	✓ 11 October 2024	✓
Waverley	Unmodified	✓ 31 October 2024	✓
Willoughby City	Unmodified	✓ 29 October 2024	✓
Wollondilly Shire	Unmodified	✓ 30 October 2024	✓
Woollahra Municipal	Unmodified	✓ 10 October 2024	✓

Regional councils

Council	Type of opinion	Date of audit opinion	
Albury City	Unmodified	✓ 30 October 2024	✓
Armidale Regional	Unmodified	✓ 31 October 2024	✓
Ballina Shire	Unmodified	✓ 25 October 2024	✓
Bathurst Regional	Unmodified	✓ 31 October 2024	✓
Bega Valley Shire	Unmodified	✓ 31 October 2024	✓
Broken Hill City	Unmodified	✓ 25 October 2024	✓
Byron Shire	Unmodified	✓ 30 October 2024	✓

**Item 8.1 - New Item (8) Auditor General Local Government
reports**

**04 - NSW Auditor General's report on
local government for 2024**

Council	Type of opinion	Date of audit opinion	
Cessnock City	Unmodified	30 October 2024	
Clarence Valley	Unmodified	29 October 2024	
Coffs Harbour City	Unmodified	28 October 2024	
Dubbo Regional	Unmodified	28 October 2024	
Eurobodalla Shire	Unmodified	30 October 2024	
Goulburn Mulwaree	Unmodified	31 October 2024	
Griffith City	Unmodified	13 February 2025	
Kempsey Shire	Unmodified	25 October 2024	
Kiama Municipal	Unmodified	31 October 2024	
Lake Macquarie City	Unmodified	29 October 2024	
Lismore City	Unmodified	31 October 2024	
Lithgow City	Unmodified	30 October 2024	
Maitland City	Unmodified	24 October 2024	
Mid-Coast	Unmodified	22 October 2024	
Mid-Western Regional	Unmodified	30 October 2024	
Newcastle City	Unmodified	31 October 2024	
Orange City	Unmodified	31 January 2025	
Port Macquarie-Hastings	Unmodified	28 October 2024	
Port Stephens	Unmodified	25 October 2024	
Queanbeyan-Palerang Regional	Unmodified	31 October 2024	
Richmond Valley	Unmodified	23 October 2024	
Shellharbour City	Unmodified	28 November 2024	
Shoalhaven City	Unmodified	31 October 2024	
Singleton	Unmodified	25 October 2024	
Snowy Monaro Regional	Unmodified	29 November 2024	
Tamworth Regional	Unmodified	30 October 2024	
Tweed Shire	Unmodified	28 October 2024	
Wagga Wagga City	Unmodified	30 October 2024	
Wingecarribee Shire	Unmodified	31 October 2024	
Wollongong City	Unmodified	31 October 2024	

Item 6.1

Enclosure 2

Item 8.1 - New Item (8) Auditor General Local Government
reports

04 - NSW Auditor General's report on
local government for 2024

Rural councils

Council	Type of opinion	Date of opinion	
Balranald Shire	Unmodified	30 October 2024	
Bellingen Shire	Unmodified	25 October 2024	
Berrigan Shire	Unmodified	18 October 2024	
Bland Shire	Unmodified	30 October 2024	
Blayney Shire	Unmodified	4 October 2024	
Bogan Shire	Unmodified	16 October 2024	
Bourke Shire	Unmodified	29 October 2024	
Brewarrina Shire	Unmodified	24 October 2024	
Cabonne	Unmodified	30 October 2024	
Carrathool Shire	Unmodified	30 October 2024	
Central Darling Shire	Unmodified	31 October 2024	
Cobar Shire	Unmodified	31 October 2024	
Coolamon Shire	Unmodified	28 October 2024	
Coonamble Shire	Unmodified	31 October 2024	
Cootamundra-Gundagai Regional	Unmodified	11 December 2024	
Cowra Shire	Unmodified	28 October 2024	
Dungog Shire	Unmodified	20 December 2024	
Edward River	Unmodified	31 October 2024	
Federation	Unmodified	28 October 2024	
Forbes Shire	Unmodified	31 October 2024	
Gilgandra Shire	Unmodified	31 October 2024	
Glenn Innes Severn	Disclaimer	13 February 2025	
Greater Hume Shire	Unmodified	30 October 2024	
Gunnedah Shire	Unmodified	20 October 2024	
Gwydir Shire	Unmodified	18 October 2024	
Hay Shire	Unmodified	25 October 2024	
Hilltops	Unmodified	18 October 2024	
Inverell Shire	Unmodified	30 October 2024	
Junee Shire	Unmodified	29 October 2024	
Kyogle	Unmodified	29 October 2024	
Lachlan Shire	--	--	
Leeton Shire	Unmodified	30 October 2024	
Liverpool Plains Shire	Unmodified	29 November 2024	

NSW Auditor-General's Report to Parliament | Local government 2024 | Appendix 3 – Status of audits

**Item 8.1 - New Item (8) Auditor General Local Government
reports**

**04 - NSW Auditor General's report on
local government for 2024**

Council	Type of opinion	Date of opinion	
Lockhart Shire	Unmodified		28 October 2024
Moree Plains Shire	Modified		27 February 2025
Murray River	Unmodified		13 November 2024
Murrumbidgee	Unmodified		30 October 2024
Muswellbrook Shire	Unmodified		31 October 2024
Nambucca Valley	Unmodified		29 October 2024
Narrabri Shire	Unmodified		12 December 2024
Narrandera Shire	Unmodified		8 October 2024
Narromine Shire	Unmodified		31 October 2024
Oberon	Unmodified		8 October 2024
Parkes Shire	Unmodified		17 October 2024
Snowy Valleys	Modified		31 October 2024
Temora Shire	Unmodified		25 October 2024
Tenterfield Shire	Unmodified		25 October 2024
Upper Hunter Shire	Unmodified		31 October 2024
Upper Lachlan Shire	Unmodified		29 October 2024
Uralla Shire	Unmodified		30 October 2024
Walcha	Unmodified		30 October 2024
Walgett Shire	Unmodified		29 October 2024
Warren Shire	Unmodified		30 October 2024
Warrumbungle Shire	Unmodified		30 October 2024
Weddin Shire	Unmodified		31 October 2024
Wentworth Shire	Unmodified		31 October 2024
Yass Valley	Unmodified		31 October 2024

Item 6.1

Enclosure 2

Item 8.1 - New Item (8) Auditor General Local Government
reports

04 - NSW Auditor General's report on
local government for 2024

County councils

County council	Type of opinion	Date of opinion		
Castlereagh Macquarie	Unmodified	✓	28 October 2024	✓
Central Tablelands	Unmodified	✓	21 October 2024	✓
Goldenfields Water	Unmodified	✓	23 October 2024	✓
Hawkesbury River	Unmodified	✓	26 November 2024	✓
New England Weeds Authority	Disclaimer	!	27 March 2025	✓
Riverina Water	Unmodified	✓	22 October 2024	✓
Rous	Unmodified	✓	31 October 2024	✓
Upper Hunter	Unmodified	✓	31 October 2024	✓
Upper Macquarie	Unmodified	✓	31 October 2024	✓

Joint organisations

Joint organisation	Type of opinion	Date of opinion		
Canberra Region	Unmodified	✓	25 October 2024	✓
Central NSW	Unmodified	✓	25 October 2024	✓
Far North West	Unmodified	✓	14 November 2024	✓
Far South West	Unmodified	✓	17 October 2024	✓
Hunter	Unmodified	✓	29 October 2024	✓
Illawarra Shoalhaven	Unmodified	✓	31 October 2024	✓
Mid North Coast	Unmodified	✓	31 October 2024	✓
Namoi	Unmodified with an emphasis of matter	—	30 October 2024	✓
New England*			Financial statements not prepared	!
Northern Rivers	Unmodified	✓	13 November 2024	✓
Orana*			Financial statements not prepared	!
Riverina and Murray	Unmodified	✓	29 November 2024	✓
Riverina*	Unmodified with an emphasis of matter	—	30 October 2024	✓

* Joint organisations awaiting dissolution.

Below is a summary of the status of the 2022–23 financial statement audits, concluded after then ‘Local Government 2023’ report was tabled.

2022–23 audits

Council/joint organisation	Type of opinion	Date of opinion	
Canberra Region	Unmodified		21 March 2024
Glen Innes Severn	Disclaimed		21 August 2024
Kiama Municipal	Modified		30 April 2024
Liverpool Plains Shire	Unmodified		28 March 2024
Narrabri Shire	Modified		20 June 2024
New England Weeds Authority	Disclaimed		16 April 2024
Orange City	Unmodified		2 April 2024
Singleton	Unmodified		17 April 2024
Upper Hunter Shire	Unmodified		28 March 2024

Appendix 4 – Council liquidity

At 30 June 2024, we calculated whether councils' available cash and investments (not subject to external restrictions) were sufficient to meet three months of general fund expenses (excluding depreciation and borrowing costs). The tables below list the most and least liquid councils based on this calculation.

Most liquid councils			
Bland Shire	Coffs Harbour City	Lane Cove Municipal	The Hills Shire
Balranald Shire	Dubbo Regional	Muswellbrook Shire	Tweed Shire
Blayney Shire	Edward River	Narrandera Shire	
Bourke Shire	Federation	Newcastle City	
Carrathool Shire	Inverell Shire City	The City of Sydney	

Least liquid councils			
Bathurst Regional	Dungog Shire	Kiama Municipal	Tamworth Regional
Blue Mountains City	Glen Innes Severn	Lismore City	Upper Hunter Shire
Central Darling Shire	Griffith City	Liverpool City	Warren Shire
Cessnock City	Hawkesbury City	Shoalhaven City	Wollondilly Shire

Note: the calculation used differs from the cash expense cover ratio in the Code, which doesn't exclude externally restricted cash or expenses from water and sewer funds.

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0 4 - NSW Auditor General's report on
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Enclosure 2

OUR VISION

Our insights inform and challenge
government to improve outcomes
for citizens.

OUR PURPOSE

To help Parliament hold
government accountable for its
use of public resources.

OUR VALUES

- Pride in purpose
- Curious and open-minded
- Valuing people
- Contagious integrity
- Courage (even when it's uncomfortable)



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Enclosure 2

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NEW SOUTH WALES AUDITOR-GENERAL'S REPORT

Local government 2025

FINANCIAL AUDIT | 28 JANUARY 2026



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05 - NSW Auditor General's report on
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THE ROLE OF THE AUDITOR-GENERAL

The roles and responsibilities of the Auditor-General and the Audit Office, are set out in the *Government Sector Audit Act 1983* and the *Local Government Act 1993*.

We conduct financial or 'attest' audits of state public sector and local government entities' financial statements. We also audit the Consolidated State Financial Statements, a consolidation of all state public sector agencies' financial statements.

Financial audits are designed to give reasonable assurance that financial statements are true and fair, enhancing their value to end users. Also, the existence of such audits provides a constant stimulus to entities to ensure sound financial management.

Following a financial audit the Audit Office issues a variety of reports to entities and reports periodically to Parliament. In combination, these reports give opinions on the truth and fairness of financial statements, and comment on entity internal controls and governance, and compliance with certain laws, regulations and government directives. They may comment on financial prudence, probity and waste, and recommend operational improvements.

We also conduct performance audits. These assess whether the activities of government entities are being carried out effectively, economically, efficiently and in compliance with relevant laws. Audits may cover all or parts of an entity's operations, or consider particular issues across a number of entities. Our performance audits may also extend to activities of non-government entities that receive money or resources, whether directly or indirectly, from or on behalf of government entities for a particular purpose.

As well as financial and performance audits, the Auditor-General carries out special reviews, compliance engagements and audits requested under section 27B(3) of the *Government Sector Audit Act 1983*, and section 421E of the *Local Government Act 1993*.



GPO Box 12
Sydney NSW 2001

The Legislative Assembly
Parliament House
Sydney NSW 2000

The Legislative Council
Parliament House
Sydney NSW 2000

In accordance with section 421D of the *Local Government Act 1993*, I present a report titled '**Local government 2025**'.

A handwritten signature in black ink, reading 'Bola Oyetunji'.

Bola Oyetunji
Auditor-General for New South Wales
28 January 2026

RECONCILIATION STATEMENT

We pay our respect and recognise Aboriginal peoples as the traditional custodians of the land in NSW who have cared for and protected the environment, waterways, and sacred sites over many millennia. We honour and thank the traditional custodians of the land on which our office is located, the Gadigal people of the Eora Nation, and the traditional custodians of all the lands on which our employees live and work. We pay our respects to their Elders past and present, and to the next generation of leaders.

As we mark our 200th anniversary, and our contribution to fostering accountability and transparency in the government and Parliament, we also acknowledge that our long history is shared with the histories of colonisation in New South Wales. We acknowledge the impacts of colonisation, and the resulting marginalisation and disadvantage of Aboriginal and Torres Strait Islander peoples in this state.

We embrace our role in holding government agencies to account for the delivery of effective services for Aboriginal and Torres Strait Islander peoples. We are committed to ensuring that our audits are culturally responsive, respectful and inclusive, and that we engage with Aboriginal and Torres Strait Islander peoples and communities in a meaningful and collaborative way.

We recognise the ancestral tie of Aboriginal and Torres Strait Islander peoples to this land, and we acknowledge that we have much to learn from their wisdom, rich and diverse culture, languages, knowledge and practices.

Image: 'Yarning Circle' by Carlin Liddle, Audit Office Indigenous Internship Program participant. Used with permission.

**Item 8.1 - New Item (8) Auditor General Local Government
reports**

**0 5 - NSW Auditor General's report on
local government for 2025**

Item 6.1

contents

Local government 2025

1.	Report snapshot	1
2.	Executive summary	2
2.1.	Financial audit results	2
2.2.	Key findings	3
2.3.	Recommendations	6
3.	Key areas of improvement and practical lessons	7
4.	Introduction	11
4.1.	Local government in New South Wales	11
4.2.	Overview of this report	13
5.	Financial audit results	14
5.1.	Financial reporting requirements	15
5.2.	Quality of financial reporting	15
5.3.	Timeliness of financial reporting	19
6.	Financial sustainability	21
6.1.	Council financial performance	21
6.2.	Council liquidity	23
6.3.	Water supply and infrastructure	25
6.4.	Local infrastructure contributions	27
6.5.	Long-term financial planning	30
7.	Internal controls and governance	32
7.1.	Audit findings	33
7.2.	Key audit findings	33
7.3.	Risk management and internal audit	41
8.	Major capital projects	45
8.1.	Background	45
8.2.	Major capital projects	47
8.3.	Capital Expenditure Guidelines	49
9.	Artificial intelligence	50
9.1.	Background	51
9.2.	Adoption of artificial intelligence	51
9.3.	Policies for responsible use of artificial intelligence	52
9.4.	Strategic use of artificial intelligence	54

Enclosure 2

Item 8.1 - New Item (8) Auditor General Local Government
reports

0 5 - NSW Auditor General's report on
local government for 2025

10. Cyber security	55
10.1. Background	55
10.2. Managing supply chain cyber security risks	56
10.3. Management of cyber security spending	58
11. Looking forward	60
Appendix 1 – Response from the Department of Planning, Housing and Infrastructure	61
Appendix 2 – Financial sustainability	64
Appendix 3 – Major capital projects	65
Appendix 4 – Status of previous recommendations	66
Appendix 5 – Status of audits	68

Item 6.1

Enclosure 2

1. Report snapshot

This report presents key findings and recommendations from financial audits of local councils, joint organisations and county councils for the year ended 30 June 2025.

It also comments on the sector’s financial sustainability, internal controls and governance, major capital projects, artificial intelligence (AI) and cyber security.

Key findings

Unmodified audit opinions were issued for the financial statements of 125 councils, 8 county councils and 11 joint organisations. Three council audits were in progress at the time of this report.

Financial reporting quality has improved

The number and value of errors in the financial statements declined from the previous year, and fewer versions of financial statements were submitted for audit, indicating improving financial reporting processes.

Financial sustainability continues to be a concern for some councils

Seventeen councils reported operating losses this year and 19 had insufficient cash (not subject to external restrictions) to cover 3 months of general expenses. Six of the 19 councils identified as being the least liquid also incurred operating losses.

Appendix 2 lists 11 councils with heightened financial sustainability risk due to various combinations of operating losses, insufficient cash, declining populations and low capacity to generate own source revenue.

Water supply infrastructure needs \$1 billion to ensure access to safe and secure water

Two regional and 13 rural councils that supply water made operating losses. Even when operating costs can be covered, it is unlikely they will recover enough, based on council estimates, to enable infrastructure upgrades to agreed service levels.

Councils held \$5.4 billion in local infrastructure contributions (LIC), but spending was low for some

There were 14 councils that held more than half of LIC funds. Of these, 10 spent less than 20% of their balance in the 2024–25 financial year. Delays between collecting and spending LIC funds may indicate that infrastructure planning and delivery processes are not operating effectively. The current LIC system is particularly complex for councils experiencing significant population growth.

Capital project guidance is outdated and inadequate

Of the 29 major capital projects reviewed, 14 were delayed by more than 6 months, and 6 were more than 10% over budget. Current guidelines are more than 15 years old and do not reflect the complexity and risks of modern infrastructure delivery.

Internal controls and governance processes had deficiencies

Deficiencies in internal controls and governance were identified at most councils, mainly associated with asset management, information technology (IT) and fraud control.

Most councils lack AI strategy and governance

Councils are in the early stages of adopting AI. Fewer than half have a strategy or governance framework, limiting oversight and opportunities to leverage benefits and mitigate AI risks.

Significant cyber security control deficiencies exist

Councils have critical weaknesses in managing supply chain risks. Policies and processes for assessing the cyber security exposure of technology assets are inadequate, and monitoring of cyber security investments and their associated benefits is limited.

Recommendations

The report makes 5 recommendations (see page 6 for full details).

Fast facts		
69%	\$1b	11%
of audit findings relate to IT and asset management	required for water infrastructure to meet agreed service levels	of councils have a strategy for AI adoption
14	\$5.4b	88%
major capital projects were delayed by more than 6 months	held in local infrastructure contributions at 30 June 2025	of councils lodged financial statements by the deadline

NSW Auditor-General's Report to Parliament | Local government 2025 | Report snapshot

2. Executive summary

This report provides an overview of the key findings and recommendations from financial audits of local councils, joint organisations and county councils for the year ended 30 June 2025. The report also comments on the sector’s management of:

- financial sustainability
- internal controls and governance
- major capital projects, including progress against timelines and budgets for capital projects with budgets over \$30 million
- technology, including cyber security and emerging technologies like artificial intelligence (AI).

Chapter 3 includes key areas for improvement and practical lessons for councils. Refer to Appendix 5 for a list and results of completed financial audits of local councils, county councils and joint organisations.

2.1. Financial audit results

Unmodified audit opinions were issued for all completed 30 June 2025 financial statements

Unmodified audit opinions were issued for the 30 June 2025 financial statements of 125 (of 128) councils, 8 (of 8) county councils and 11 (of 13) joint organisations.

Eighty-eight per cent of councils met the statutory deadline of 31 October for lodging financial statements (88% for 30 June 2024). Fourteen councils and 2 joint organisations (12%) received extensions from the Office of Local Government (OLG). Audits remain in progress for 3 councils.

Eighty-nine independent auditors’ reports were issued in the five days before the statutory deadline. Councils, the Audit Office, and Audit, Risk and Improvement Committees (ARICs) can take further steps to improve the timeliness of financial reporting and the audit process. Early financial reporting procedures can improve the quality and timeliness of financial reporting.

Quality of financial reporting has improved

The number and value of errors in financial statements have declined, and fewer versions of financial statements were submitted for audit, indicating improving financial reporting processes. Quality of financial reporting could be further improved by addressing longstanding deficiencies in record keeping and timely valuations of infrastructure, property, plant and equipment (IPPE). Performing early financial reporting procedures, such as completing valuations by 30 June, will enable more complete draft financial statements.

NSW councils have a greater financial reporting burden than other Australian states

Progress by the OLG to declutter financial statements and reduce the burden of reporting has been slow. NSW councils continue to have a greater financial reporting burden than councils in other Australian states and are required to prepare and submit more statements for audit, such as special purpose financial statements.

OLG’s current financial reporting framework is ‘one size fits all’ as it does not scale to the varying size, risk profiles and complexity of councils, county councils and joint organisations in NSW. There is currently a disproportionate impact on smaller entities such as rural councils, county councils and joint organisations. The overall sector outcomes could be achieved with a scalable approach which considers resources available in different locations.

2.2. Key findings

Financial sustainability

More councils reported operating losses for the year ended 30 June 2025

Seventeen councils reported operating losses this year. Continued operating losses may indicate financial sustainability risks. Councils with operating losses need to prioritise comprehensive budget repair through long-term financial planning, with expenditure control, to improve their financial sustainability.

Nineteen councils did not have cash and investments to meet 3 months of general fund expenses

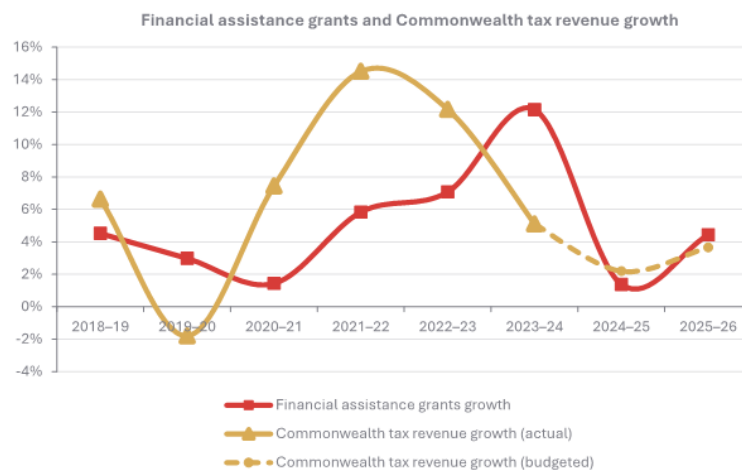
Nineteen councils (2 metropolitan, 8 regional and 9 rural) had insufficient cash and investments, not subject to external restrictions, to pay 3 months of general fund expenses (compared with 16 at 30 June 2024). This highlights ongoing liquidity challenges for the sector, particularly for regional and rural councils. Appendix 2 contains details on the 11 councils most at risk.

Two councils spent restricted cash in breach of the *Local Government Act 1993*

Bathurst Regional Council and Upper Hunter Shire Council breached the *Local Government Act 1993* by spending restricted cash for purposes other than those intended.

Financial assistance grants in 2024–25 had lowest growth in 7 years

The graph below shows the growth in financial assistance grants compared with growth in Commonwealth tax revenue.



Source: Australian Bureau of Statistics 'Taxation Revenue' and the Department of Infrastructure, Transport, Regional Development, Communications, Sports and Arts 'Financial Assistance Grants'.

In 2024–25, the increase was 1.4%, the smallest increase since 2018–19.

Water supply infrastructure requires almost \$1 billion to ensure that rural and regional communities have access to safe and secure water

Based on council estimates, almost \$1 billion is required to ensure water infrastructure continues to meet agreed service levels. Fifteen councils made operating losses for their water supply businesses for the year ended 30 June 2025. Even if councils can cover operating costs, a small customer base makes it unlikely they can generate sufficient revenue to upgrade infrastructure to councils estimates of agreed service levels. Fifteen councils reported operating losses for water supply businesses in 2024–25; without grant funding 30 would have reported operating losses. Grants are the primary source of funding for water supply infrastructure managed by councils.

Councils held \$5.4 billion in local infrastructure contributions at 30 June 2025, but spending was low for some councils

Over half of the contributions were held by 14 councils. Ten of these spent less than 20% of their contributions balance in 2024–25. Delays between the collection of contributions and subsequent expenditure could indicate that infrastructure planning and delivery processes are not operating effectively to deliver the intended outcomes. As costs escalate and land becomes scarce, lagging expenditure on infrastructure risks a reduction in community amenities and less ability to fund the intended level and standards of infrastructure.

Internal controls and governance

There were deficiencies in internal controls and governance that are mainly associated with asset management, information technology (IT) and fraud control. Nearly all audits in the sector found deficiencies in the design, implementation and/or operating effectiveness of internal controls and governance.

Deficiencies in controls and monitoring of user access undermine the integrity of data and finance systems

Control weaknesses over system access were found in 71 councils. This included granting, removing and monitoring system access. Maintaining appropriate access to key systems supporting the preparation of financial statements reduces the risk of fraud, error, cyber attacks or invalid transactions.

Councils should improve managing, recording and valuing assets

Sixty-three councils had inaccurate and incomplete fixed asset registers, and 68 councils have deficiencies in asset valuation processes. Maintaining accurate and complete asset records supports informed decisions in asset management and helps to lay the foundation for robust asset management plans. Ineffective asset valuation processes also impact the quality and timeliness of financial reporting.

Councils need to improve fraud control frameworks

While more councils have implemented fraud and corruption prevention policies and conflict of interest policies, some councils need to improve training, fraud risk assessments and use of technology to prevent and detect fraud. One council with inadequate controls over changes to vendor details experienced fraud. Councils should ensure changes to vendor details are independently verified with the vendor to avoid financial loss and reputational damage.

Not all ARICs cover the required aspects of council operations

All councils have established an ARIC, but six did not have the required number of independent members. Some ARICs were not provided cash management policies and processes, or management's certification of the effectiveness of internal controls. All committees should ensure that they cover the aspects of operations required by the Local Government (General) Regulation 2021 and the 'Guidelines for Risk Management and Internal Audit'. Gaps in oversight could lead to unaddressed risks.

Major capital projects

During 2024–25, councils spent \$6.1 billion (\$5.9 billion in 2023–24) to renew and acquire IPPE to meet the needs of local communities. Funding for these assets comes from different sources, including grants, rates, developer contributions, user fees and charges collected for a specific purpose, and cash reserves.

Fourteen major capital projects have significant delays, while 7 are on time and within budget

Twenty-nine projects over \$30 million are being delivered by councils, for a total cumulative budget of \$1.5 billion. Seven of these projects are on time and within budget. Fourteen projects have been delayed by more than 6 months and 6 of these had exceeded the original budget by more than 10% at 30 June 2025.

Guidance for managing capital projects is outdated and inadequate

The regulatory framework and guidance provided to councils to support the successful delivery of major capital projects is limited. The current Capital Expenditure Guidelines were introduced in 2010, have a narrow focus on project initiation and do not reflect the complexity and risks of modern infrastructure delivery. The guidelines do not cover the full project life cycle, or all types of projects and do not provide advice on assurance arrangements that could be implemented to support project delivery.

Artificial intelligence

As councils begin using AI, fit-for-purpose governance frameworks and strategies are essential

Councils are in the early stages of using AI, and will need to integrate AI into their existing governance arrangements as use grows. Fewer than half of the councils have implemented formal AI policies and most have yet to fully integrate the specific and unique risks posed by AI into their existing governance frameworks, such as risk management, procurement, IT, and monitoring and reporting systems.

Enhanced visibility of opportunities, challenges and risks will put councils in a better position to leverage the benefits of AI. Only 11% currently have a strategy for AI adoption. This, combined with limited oversight, could significantly hinder councils from fully leveraging the potential benefits that AI offers and lead to fragmented efforts that don't fully align with councils' objectives.

The OLG does not require councils to follow a mandatory framework for responsible AI adoption

The OLG has not established a mandatory framework or minimum requirements for councils in relation to the adoption and responsible use of AI. Mandating a framework would provide a consistent, responsible and effective method for managing AI risks and opportunities across councils.

The Australian and NSW governments have issued separate frameworks that offer a reference for councils to evaluate their readiness for implementing AI responsibly.

Cyber security

Weak controls and oversight expose supply chain cyber security risks

Cyber security risk management practices vary across councils. Seventy-three per cent of councils do not have formal policies that address supply chain cyber security risks, such as incidents and control gaps from third parties. Seventy per cent of councils did not have formal processes to risk assess their technology assets, limiting their ability to effectively identify and manage cyber security risks. In addition, there is weak third-party oversight, including unclear contractual roles and limited monitoring of responsibilities throughout the service agreement. Weak cyber security controls and a lack of third-party management have the potential to disrupt operations, compromise sensitive data and contribute to financial losses.

Ineffective investments undermine cyber security outcomes

Seventy-two per cent of councils did not measure the effectiveness of their cyber security spending by formally monitoring benefit realisation or ensuring alignment of cyber security spending with current

**Item 8.1 - New Item (8) Auditor General Local Government
reports**

**05 - NSW Auditor General's report on
local government for 2025**

threats. Only 21% of councils identify and manage underutilised, redundant or outdated cyber security tools and services. Continuous formal assessment of cyber security investments help councils to ensure that their investments remain effective to protect assets and data from cyber security risks.

Many councils must balance strategic cyber security needs with limited resources. Combining and leveraging available resources has worked well for some councils to meet the OLG's Cyber Security Guidelines. A case study on how a group of councils have collaboratively shared a Chief Information Security Officer is included in Chapter 10 of this report, highlighting the benefits and lessons learned.

2.3. Recommendations

1. **By 30 June 2026, the Department of Planning, Housing and Infrastructure (the Department), should work with relevant State agencies to:**
 - set a mandatory framework to guide councils in the responsible implementation of AI, drawing on existing frameworks established by other levels of government.
2. **By 30 June 2026, councils should review their readiness for increased use of AI by:**
 - reviewing and ensuring that fit-for-purpose governance arrangements are in place before deploying AI
 - considering the benefits of developing an AI strategy that can be integrated into a broader organisational plan to ensure that AI initiatives are coordinated and aligned with councils' strategic priorities and objectives.
3. **By 30 June 2026, councils should improve cyber security control frameworks by:**
 - strengthening supply chain risk management governance
 - improving investment accountability by introducing cost-benefit analysis, return on investment tracking, aligning cyber spending with current threat landscapes, and managing underutilised, redundant and/or outdated cyber security tools and services.
4. **By 30 June 2027, the Department should review its financial reporting framework in NSW by progressing:**
 - a more scalable framework to reduce unnecessary administrative burden on rural councils, county councils and joint organisations
 - staged implementation of new requirements to allow smaller councils to learn from and leverage the experience of larger councils
 - opportunities for sharing resources, policy frameworks and information systems to achieve improved value for money and reduce duplicated effort across the sector.
5. **By 30 June 2027, the Department should implement updated guidelines on major capital projects and ensure they:**
 - align with assurance arrangements for the NSW Government sector, and include provisions for independent assurance
 - are scaled to project size and complexity, council size and location
 - address the full project lifecycle.

3. Key areas of improvement and practical lessons

This chapter outlines key areas of improvement and practical lessons that can be applied by all councils. The *Local Government Act 1993* requires councils to apply sound financial management principles including responsible and sustainable expenditure, investment, and effective financial and asset management.

Financial sustainability

Governance and oversight

Councils require adequate governance and oversight, including identifying and responding to early warning signs. This can be achieved by councils ensuring:

- council officers cultivate a culture of openness, transparency and accountability. This ensures concerns are raised promptly and financial information and analysis is comprehensively reviewed and questions appropriately dealt with
- there is clarity and documented evidence on how decisions were reached
- lead and lag performance indicators are established and reported against, to assist with oversight and monitoring
- Audit, Risk and Improvement Committees are involved in reviewing and questioning quarterly business review statements and other key reports.

Long-term financial planning

Financial sustainability is achieved, over the medium and longer term, by ensuring:

- revenue is sufficient to cover expenses by building budgets based on realistic assumptions and being agile to constrain expenditure when revenue falls below the target
- cash flows and risks are well managed
- sources of revenue are diverse
- the quality of asset management data is improved to better inform long-term financial planning, budgets and financial decisions.

Budget monitoring and reporting

Councils should:

- regularly monitor financial performance, financial position, cash flows and capital programs
- ensure those responsible for budgets understand the key drivers that can have adverse effect on a sustainable budget position, are accountable and escalate promptly
- undertake service reviews to better understand net cost of services to inform budgets and financial planning decisions.



Internal controls

Councils can improve financial sustainability by addressing deficiencies in controls and processes and:

- building the competency of those responsible for finance and budgeting
- ensuring that financial systems are being used to their full potential, for example, revenue and expenses being allocated by fund for each transaction
- effectively managing cash by regularly reconciling by fund and where possible ensure cash inflows precede cash outflows
- controlling costs and monitoring discretionary spending, cancelling non-essential expenditure and re-negotiating activities when economies of scale can be achieved by working with other councils or leveraging existing products.

Major capital projects

Robust project planning

Poorly planned projects with an unclear scope typically have cost overruns, variations for design changes, and delays. Better practices to mitigate this risk include:

- underpinning of business cases by sound evidence and realistic assumptions
- explicitly defining scope, dependencies and deliverables, including enabling works, project design and any contingent costs
- robust option analysis and prioritisation of competing projects
- ensuring that plans and projections include life cycle project costs to fund the delivery and maintenance of the required capacity
- identifying risks and opportunities and appropriately responding to and managing risks throughout the project
- leaving adequate time to build a robust business case and plan, and engaging experts to deal with complex projects or contract negotiations as required.

Monitoring and contract management

Monitoring and contract management function should be performed at the project level to ensure councils are getting what was promised, when it was promised, at the agreed price. There should be a focus on the technical specifications, scheduled milestones, payment processing and variations. Councils should ensure:

- project managers have the right skills and resources to effectively manage contracts, monitor suppliers and assess performance
- there is regular, transparent reporting to decision-makers on progress, costs and risks
- escalations and decision-making pathways are clear.

Oversight and assurance

Effective governance and independent oversight are critical to project success. Strong governance and assurance arrangements ensure accountability, transparency and early detection of issues. Without effective oversight and accountability, there is a risk that projects can underestimate risk, proceed under incorrect assumptions or ignore emerging issues

For major capital projects, councils should ensure that:

- governance bodies with appropriate expertise, independence and authority are set up to challenge assumptions and major decisions
- regular assurance reviews, assessing not only compliance with policies, but also assumptions, enabling works risks and strategic alignment, are implemented.



Fraud prevention and detection

Fraud control and prevention strategies

Fraud has the potential to impede operations, diminish service quality, damage reputation and result in financial losses.

Council should detect and prevent fraud by implementing better practices such as:

- ensuring that policies are regularly updated and their effectiveness is regularly tested
- implementing an ethical framework, including a code of conduct, statement of business ethics, fraud control policy
- developing processes to effectively manage conflicts of interest and secondary employment
- performing a fraud risk assessment regularly and update controls based on findings
- clearly defining roles and responsibilities for fraud, undertaking fraud awareness training and regularly having staff acknowledge their compliance with the code of conduct
- embedding detection tools, including emerging technologies, to assist in the identification of, and response to, suspected fraud
- undertaking environment scans and assurance activities, including reviewing industry information, such as that published by the Independent Commission Against Corruption, to identify risks and opportunities
- undertaking assurance activities to obtain assurance over controls, monitor and address deficiencies promptly.

Fraud awareness culture

Committed executive and oversight committees that actively endorse fraud control measures and model ethical behaviour help reduce fraud risks and incentives.

Councils can promote ethical behaviour by:

- clearly defining roles and responsibilities in fraud prevention
- undertaking regular fraud awareness training
- having staff regularly acknowledge their compliance with the code of conduct
- establishing confidential reporting channels that allow staff or others to tip off fraud without identification.

Prevention of loss to third parties

Third-party scammers are becoming increasingly sophisticated. Councils can prevent loss to third parties by independently verifying all changes to vendor details directly with the vendor before payments are made.



Artificial intelligence

Governance and oversight

As AI becomes increasingly common in IT environments, it is necessary for councils to maintain suitable governance and oversight of both the AI pipeline and AI tools used in production.

While it is not mandatory for councils to apply it, the National framework for the assurance of artificial intelligence in government specifically identifies that: 'Governments should ensure their use of AI is disclosed to users or people who may be impacted by it. Governments should maintain a register of when it uses AI, its purpose, intended uses, and limitations'.

Strategic use of artificial intelligence

When senior leaders are kept informed of both the opportunities and challenges associated with AI, they are better positioned to champion strategic initiatives, address resource needs, and ensure that ethical and governance standards are upheld.



Cyber security

Managing supply chain cyber security risks

The foundation of an effective cyber security strategy is knowledge of the IT environment. Maintaining an IT asset inventory is crucial for strong cyber security as it provides visibility into what needs to be protected, enabling better risk management, threat detection and incident response.

Unmonitored external systems, such as those managed by third-party vendors and their extended supply chain, can introduce further risks if they do not adhere to industry security standards.

Furthermore, not including supply chain risk in the risk register means that these risks are not being tracked or managed effectively. This oversight can result in a lack of readiness for potential cyber incidents involving third-party vendors.

Cyber security spending

Effective management of cyber security investment helps councils ensure that their investments are having the desired results, in compliance with regulations, and ultimately safeguarding their operations while ensuring effective and efficient spending on cyber security.



4. Introduction

4.1. Local government in New South Wales

In NSW, local councils are established under the *Local Government Act 1993* (the LG Act), which defines the powers and geographical areas for which councils are responsible. At 30 June 2025, there were:

- 128 local councils (57 rural, 37 regional, 34 metropolitan)
- 13 joint organisations
- 8 county councils.

Councils provide a range of services and infrastructure for their local government area. Services include waste collection, planning and building approvals, animal management, libraries and recreational services. Councils build and maintain infrastructure, including roads, footpaths and stormwater. In many regional and rural areas, councils also provide the infrastructure for water supply and sewerage services.

County councils were established for specific purposes, such as to supply water, manage flood plains or eradicate noxious weeds.

Joint organisations were formed in regional NSW to improve the way local councils and other stakeholders work together to deliver regional priorities.

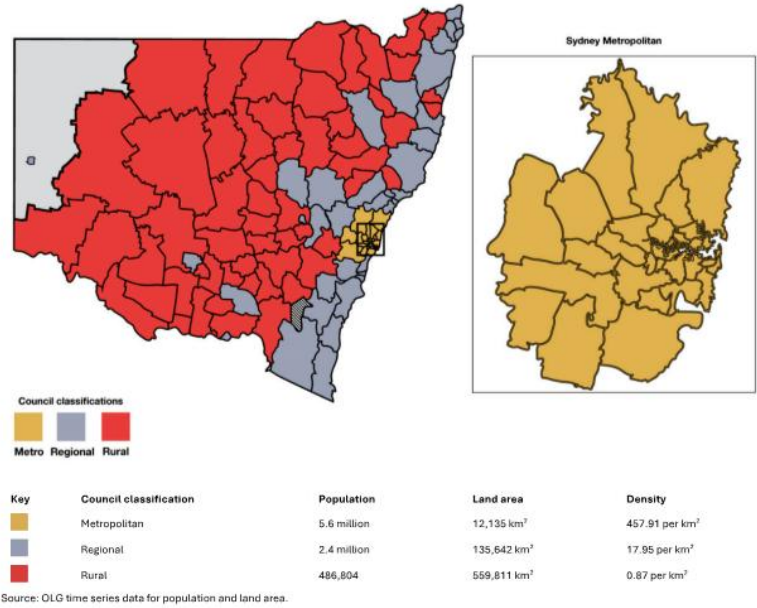
The Office of Local Government (OLG), within the Department of Planning, Housing and Infrastructure, is responsible for the regulation and oversight of councils, county councils and joint organisations.

Each council has unique characteristics

A local council's size, location, demographics and the nature of the services it provides to its communities impact its financial sustainability and the risks it faces. To enable meaningful comparison, and for the purposes of analysing their financial results, councils are classified as 'metropolitan', 'regional' or 'rural' throughout this report. County councils and joint organisations are classified separately. Refer to [Appendix 5](#) for a list of local councils and their classifications.

The map below shows the council classifications across NSW.

Council classifications by LGA



4.2. Overview of this report

Financial audits provide independent opinions on the financial statements of councils. They are designed to give reasonable assurance that financial statements are true and fair, thus enhancing the degree of confidence users have in the financial statements.

This report analyses the audit results and findings of the financial audits of 125 councils, 8 county councils and 11 joint organisations for 2024–25. The financial statements and audits of 3 councils remain in progress at the date of this report.

It is important that the local government sector prepares financial statements that are free from material error to ensure transparency, accountability and confidence in financial management. Councils deliver a wide range of services and are exposed to varying degrees of financial, operational and strategic risk, each presenting unique challenges to accurate financial reporting.

In addition to presenting the results of financial audits, this report provides the NSW Parliament and NSW councils, county councils and joint organisations with insights into important areas of public sector financial accounting and management, which have important operational complexity, financial risk and long-term sustainability implications.

The table below details the analysis undertaken in this report.

Chapter	Overview
Financial audit results	Chapter 5 provides an overview of the results of audits for 2024–25, including the number and type of audit opinions issued, and the quality and timeliness of financial reporting.
Financial sustainability	Chapter 6 provides an overview of financial sustainability, including liquidity, financial performance, funding of water supply infrastructure and a summary of local infrastructure contributions.
Internal controls and governance	Chapter 7 provides an overview of the findings and deficiencies in internal controls and governance identified in financial audits at all councils, county councils and joint organisations.
Major capital projects	Councils are responsible for managing land and other assets so that current and future local community needs are met in an affordable way. Chapter 8 analyses a selection of major capital projects with total budgets of greater than \$30 million.
Artificial Intelligence	Councils are increasingly integrating emerging technologies like AI to streamline operations, foster innovation and enhance delivery of public services. Chapter 9 examines current and future planned use of AI and governance, and risk and assurance mechanisms to support ethical adoption of AI by the councils who advised that they are using AI.
Cyber security	Cyber risk is a critical concern; threats can disrupt operations and interrupt supply chains. Dependence on third-party vendors and overall supply chains introduces risk. Chapter 10 examines how councils manage cyber risks in supply chains and maximise the return on investment in tools that mitigate and manage cyber security.
Looking forward	Chapter 11 provides a snapshot of the annual work program and current performance audits.

5. Financial audit results

Financial reporting is an important element of good governance. Confidence in, and transparency of, local government decision-making is enhanced when financial reporting is accurate and timely.

Indicators of quality financial reporting include:

- relevant, unbiased and clear information
- unmodified audit opinions
- low number and value of errors, including disclosure deficiencies, in the financial statements
- low number of different versions of financial statements submitted for audit.

This chapter outlines the financial audit results for 2024–25.

Chapter highlights

- NSW councils have a greater financial reporting burden than other Australian states. Progress to declutter financial reporting requirements within the code has been slow. There are no major changes.
- Unmodified audit opinions were issued for the 30 June 2025 financial statements of 125 councils, 8 county councils and 11 joint organisations. Two councils resolved issues that resulted in qualified audit opinions in previous years.
- Eighty-eight per cent of councils lodged their 30 June 2025 financial statements by the statutory deadline of 31 October – the same percentage as in 2023–24. Fourteen councils and two joint organisations received extensions from the Office of Local Government (OLG).
- More than half of the independent auditor’s reports were issued in the five days before the statutory deadline. Councils, the Audit Office, and Audit, Risk and Improvement Committees (ARICs) can take further steps to improve the timeliness of financial reporting and the audit process. Early financial reporting procedures can improve the quality and timeliness of financial reporting.
- There are indicators that the quality of financial statements has improved, including fewer prior period and uncorrected errors, and fewer versions of the financial statements. Councils could further improve the quality of financial reporting by addressing longstanding deficiencies in record keeping and timely valuations of infrastructure, property, plant and equipment (IPPE).

5.1. Financial reporting requirements

NSW councils have a greater financial reporting burden than other Australian states

The *Local Government Act 1993* (the LG Act) requires the Auditor-General to issue an audit opinion on each council's:

- general purpose financial statements
- special purpose financial statements
- special schedule – permissible income.

Each year, as required by the State or Commonwealth Governments, the Auditor-General must also complete at least three grant acquittal audits.



The content of the general and special purpose financial statements and the special schedule – permissible income is guided by the 'Local Government Code of Accounting Practice and Financial Reporting' (the Code), which is updated annually by the OLG. There is a 'one size fits all' approach to financial reporting requirements at NSW councils, which is not scaled to the varying size, risk profiles and complexity of councils, county councils and joint organisations. There is currently a disproportionate impact on smaller entities such as rural councils, county councils and joint organisations. The overall sector outcomes could be achieved with a scalable approach which considers resources available in different locations.

The OLG has taken steps to declutter the financial reporting requirements within the Code, but progress is slow. NSW councils continue to have a greater regulatory financial reporting burden than councils in other Australian states. The 2025–26 version of the Code has not made any significant steps to reduce this burden.

The increased financial reporting burden for NSW councils impacts the quality and timeliness of financial statements. This, along with the timing of when councils sign the financial statements, contributes to when the Audit Office's independent audit reports can be issued. The OLG should consider a phased approach to submission dates, for example by requiring larger well-resourced councils to submit audited financial statements at an earlier date.

5.2. Quality of financial reporting

Audit opinions

At the date of this report, unmodified audit opinions were issued for the 30 June 2025 financial statements of:

- 125 councils
- 8 county councils
- 11 joint organisations.

Item 8.1 - New Item (8) Auditor General Local Government reports

0 5 - NSW Auditor General's report on local government for 2025

Item 6.1

Enclosure 2

Issuance of an unmodified opinion means sufficient audit evidence was obtained to conclude that the financial statements were free of material misstatement and were prepared in accordance with Australian Accounting Standards and Chapter 13, Part 3, Division 2 of the LG Act.

The table below lists the audits that are in progress at the date of this report and the reasons why.

Council	Reason for extension to the statutory deadline
Lachlan Shire	Resourcing challenges, including the capacity of the council to deliver financial statements.
Orange City	Resourcing challenges, including the capacity of the council to deliver financial statements, and delays in valuations.
Glen Innes Severn	Resourcing challenges, including allocation of resources to implement a new business system to replace a financial system with ongoing issues that resulted in the issuance of a disclaimed audit opinion in 2023–24.

Two councils resolved issues that resulted in qualified audit opinions in previous years

During 2024–25, because of the resolution of issues described in the table below, an unmodified audit opinion was issued on both councils' 30 June 2025 financial statements.

Council	Action taken by council to resolve issues identified in prior years' audits
Snowy Valleys	A qualified audit opinion was issued on the 2023–24 financial statements, relating to the non-recognition of Rural Fire Service assets located on council-owned land. In 2024–25, Rural Fire Service buildings located on council land were recognised at fair value. As a result, an unmodified audit opinion was issued.
Moree Plains Shire	A qualified audit opinion was issued on the 2023–24 financial statements, relating to the impact of the inability to obtain sufficient appropriate audit evidence on the opening balances of roads, water supply and sewerage network assets. For 2024–25, action was taken by the council to enhance its asset register, and sufficient, appropriate evidence was available to support road, water supply and sewerage network assets. As a result, an unmodified audit opinion was issued.

Prior-period errors

A prior-period error is a misstatement made by a council in previous financial years. It is identified by the auditor or council in the current financial year, and is corrected retrospectively by restating the opening balances and comparatives in the financial statements. The existence of prior-period errors corrected retrospectively can indicate deficiencies in a council's financial reporting processes and internal controls.

The number of prior-period errors decreased in 2024–25, but remains high

Seven councils and one joint organisation retrospectively corrected 15 prior-period errors in their 30 June 2025 financial statements (32 in 2023–24). While there has been an improvement in the number of prior-period errors identified in 2024–25, indicating an uplift in the quality and reliability of councils' financial reporting, the number of prior-period errors remains high.

Of the 15 prior-period errors identified, six councils had errors exceeding \$30 million. These errors all related to IPPE.

The table below details the prior-period errors exceeding \$30 million.

Council	Reason
Central Coast	To recognise assets contributed by third parties and other assets previously omitted (\$56.5 million increase in IPPE at 1 July 2023).
City of Parramatta	A review of the fixed asset register in 2024-25 resulted in corrections to bridges, roads and stormwater assets (\$41.2 million net decrease in IPPE at 1 July 2023).
Newcastle City	To recognise assets contributed by third parties and constructed in prior years and correct valuation methodology for bulk earthworks (\$143.2 million net increase in IPPE at 1 July 2023).
Penrith City	To recognise bridge assets and bulk earthworks previously omitted (\$153 million increase in IPPE at 1 July 2023).
Shoalhaven City	A review of the fixed asset register in 2024-25 resulted in corrections to roads assets (\$31.6 million net decrease in IPPE at 1 July 2023).
The Hills Shire	To reclassify land and buildings from IPPE to investment properties (\$36.7 million decrease in IPPE at 1 July 2023).

Source: Engagement closing reports from 30 June 2025 audits.

Uncorrected errors

Some errors in councils' 30 June 2025 financial statements were not corrected

An uncorrected error is an error identified by the auditor or council in the financial statements that has not been corrected by the council. In other words, while errors are reported to council management, the errors have not been corrected because they do not consider them material, either individually or in aggregate. While the financial statements would be more accurate if the errors had been corrected, the errors are not sufficiently material to require the auditor to modify the Audit Office's opinion of the councils' financial statements.

The total number and value of uncorrected errors declined in 2024-25, an indication of improved quality of councils' financial statement preparation processes. In 2024-25, there were 135 reportable errors (184 in 2023-24) and the total value of these errors was \$344 million (\$459 million in 2023-24).

The table below shows the number and value of uncorrected errors identified in 2024-25.

Value of errors	Uncorrected errors		Council classification (2025 only)				
	2025	2024	Metro	Regional	Rural	County	JO
Less than \$249,999	13	25	--	1	6	2	4
\$250,000 to \$999,999	34	57	2	6	25	1	--
\$1 million to \$4.9 million	63	80	11	19	32	--	1
Greater than \$5 million	25	22	6	9	10	--	--
Total number of errors	135	184	19	35	73	3	5
Total value of errors (\$ million)	344	459	50	117	175	--	2

Source: Engagement closing reports from 30 June 2025 audits.

While they are decreasing, the number and value of errors identified indicates that financial statement preparation and quality assurance processes could be improved.

Item 8.1 - New Item (8) Auditor General Local Government
reports

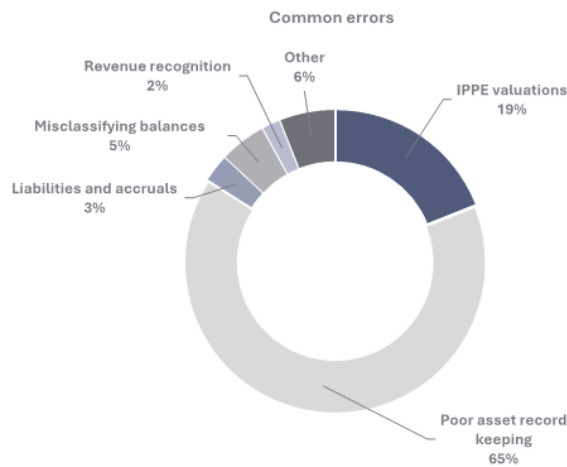
0 5 - NSW Auditor General's report on
local government for 2025

Item 6.1

Enclosure 2

IPPE valuations and poor asset record keeping account for the majority of uncorrected errors

The chart below details the key drivers for uncorrected errors identified. In addition to all prior-period errors over \$30 million mentioned above, 84% of the uncorrected errors relate to the measurement and recognition of IPPE, including errors in the valuation process and poor asset record-keeping practices leading to inaccurate asset register information.



Source: Engagement closing reports from 30 June 2025 audits.

Versions of financial statements

More councils than last year submitted quality financial statements and supporting working papers

Presenting multiple versions of financial statements for audit can mean governance over the financial reporting process is inadequate and needs improvement. Multiple versions of financial statements delay the timeliness of financial reporting to users, diminish public accountability and result in higher audit costs.

The number of versions of financial statements submitted for audit declined in 2024–25. Ninety-one per cent of councils submitted 5 versions or fewer, improving from last year (86%). A reduction in the number of versions of financial statements presented for audit is an indication of improved financial reporting and quality assurance processes.

The table below shows the number of versions of financial statements presented for audit.

Versions of financial statements	Count		Council classification (2025 only)		
	2025	2024	Metro	Regional	Rural
Draft and final only	34	39	9	10	15
3–5	80	70	22	22	36
6–10	10	13	3	3	4
More than 10	1	6	--	1	--
Total	125	128	34	36	55

Source: Audit Office findings.

Councils with higher-quality financial reporting typically have a draft and final set of financial statements, with few or no amendments between those versions. Most councils submitted between three to five versions of their financial statements for audit.

5.3. Timeliness of financial reporting

The LG Act requires councils to submit audited financial statements to the OLG by 31 October. If a council cannot meet this date, it can apply to the Minister for Local Government (or their delegate) for an extension of time. Timely financial reporting is an indicator of sound financial management and helps inform decision-making by the councils' elected representatives.

Eighty-eight per cent of councils lodged their 30 June 2025 audited financial statements by the statutory deadline – the same percentage as the last financial year

For the 30 June 2025 financial audits:

- 114 councils, 8 county councils and 9 joint organisations met the statutory deadline (113 councils, 8 county councils and 8 joint organisations for the 30 June 2024 financial statements)
- 14 councils and 2 joint organisations (12%) received one or more extensions to lodge their audited financial statements after 31 October (15 councils, 2 county councils, 3 joint organisations for the 30 June 2024 financial statements)
- 2 joint organisations breached the LG Act by missing the statutory deadline and not requesting an extension (2 joint organisations for the 30 June 2024 financial statements). These joint organisations are not currently operating and have asked the Minister for Local Government to approve their dissolution.

The most common reasons councils cited when applying for extensions related to:

- accounting or other matters that required more time to resolve
- resolving issues or complexity in undertaking asset valuations
- council resourcing issues, including turnover of key staff or inability to fill key financial management positions
- the impact of natural disasters, and the required prioritisation of recovery efforts.

Refer to [Appendix 5](#) for further details.

Item 8.1 - New Item (8) Auditor General Local Government
reports

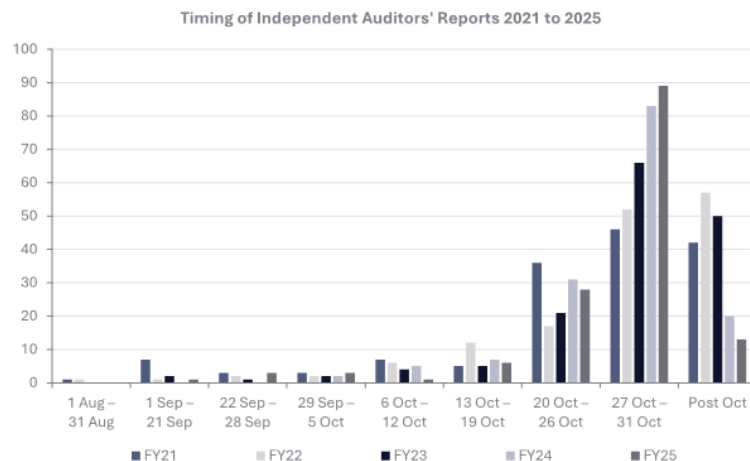
05 - NSW Auditor General's report on
local government for 2025

Item 6.1

Enclosure 2

Independent auditors' reports for 89 councils were issued in the last 5 days before the statutory deadline

The graph below shows that most of the independent auditors' reports were issued in October with 89 being issued in the last 5 days before the statutory deadline.



Further work is required by councils, the Audit Office, and ARICs to bring forward financial reporting and audit processes.

Early financial reporting procedures can improve the quality and timeliness of financial reporting

Performing early financial reporting procedures, such as completing valuations by 30 June, will enable more complete draft financial statements and reduce the risk of requiring adjustments. It can also contribute to a timelier audit, as key judgements, estimates and financial reporting processes are considered and agreed before year-end.

The case study below describes some actions that led to quality and timely financial reporting at one council.

Case study – Successful early financial reporting procedures

One council effectively planned for preparation of its financial statements by undertaking early financial reporting procedures. Actions taken by the council before 30 June that enhanced preparedness included:

- engaging with valuers and the auditor about the valuation approach for assets
- preparing pro-forma financial statements
- processing results of revaluations, including management's documented review of key assumptions
- completing fair value assessments for all asset classes.

This allowed the council to effectively engage with the audit team, and the ARIC, on key issues and risks impacting financial statement preparation well before year-end. Such early financial reporting procedures are beneficial to the finance team, because they spread the workload and contribute to higher-quality financial reporting and a timelier year-end audit process.

6. Financial sustainability

Financial sustainability is the ability to meet current and future financial obligations without reducing essential services or borrowing money to fund successive operational deficits. This is achieved by ensuring that over the medium and longer term, revenue is sufficient to cover expenses; cash flow and risks are well managed; long-term financial planning is effective; and sources of revenue are diverse.

Councils are required to prepare long-term financial plans to help ensure they remain financially viable.

The graphs and tables presented in this chapter are prepared from councils' financial statement data and in many cases represent averages of the metropolitan, regional and rural councils.

This chapter analyses the liquidity, financial performance and position of councils at 30 June 2025.

Chapter highlights

- There has been an increase in the number of councils making operating losses – 17 councils. There is insufficient cash, not subject to external restrictions, to meet 3 months of general fund expenses at 19 councils (16 at 30 June 2024).
- Two councils (Bathurst Regional and Upper Hunter Shire) spent restricted cash in breach of the *Local Government Act 1993* (the LG Act).
- Councils estimate that almost \$1 billion is required to ensure that water supply infrastructure continues to meet agreed service levels.
- Councils held \$5.4 billion in local infrastructure contributions at 30 June 2025, but spending remains low for some councils. Over half of these contributions was held by 14 councils. Ten of these spent less than 20% of their contributions balance in 2024–25. The current system is particularly complex for councils with significant population growth to navigate.
- Long -term financial plans for 21% of councils did not financially model for different scenarios.

6.1. Council financial performance

An increasing number of councils made operating losses for the year ended 30 June 2025, with most highly dependent on grant funding

An operating loss means operating revenue is insufficient to meet operating expenses. In 2024–25, 17 councils made operating losses (one metropolitan, 4 regional and 12 rural) compared to 5 councils in 2023–24. Continued operating losses may indicate financial sustainability risks. Six of the 19 councils identified as being the least liquid also made an operating loss.

Councils with operating losses need to prioritise comprehensive budget repair through long-term financial planning, with expenditure control, to improve financial sustainability

Rates are the most substantial source of a council's revenue. If elected councillors want to increase rates beyond the rate peg set by the Independent Pricing and Regulatory Tribunal (IPART), they must apply for a special rate variation (SRV). Approval of an SRV takes time, involves community consultation and must be supported by the council.

Grant funding is the second most significant revenue stream for councils, but the timing and quantum of grant funding is less predictable than other sources of revenue.

Because many councils have experienced natural disaster events in successive years, placing their communities and their resources under pressure, grant money has been made available. Consistent with the aims of the programs, grant funding is also allocated to councils under the Roads to Recovery program and the Local Roads and Community Infrastructure Program for specified purposes.

Grant funding, except for the general component of the annual Financial Assistance Grant, is tied to specific activities and cannot be used for councils' general operating expenses. The local road component of the Financial Assistance Grants is untied but must be spent on roads. Financial Assistance Grants are paid in advance, but the percentage received in advance has decreased each year, which has led to a decline in revenue each year. In June 2025, councils received 50% of the 2025–26 allocation, while in the previous year it was about 85%. This 35% reduction in cash receipts led to an increased number of councils with operating losses for the year ended 30 June 2025.

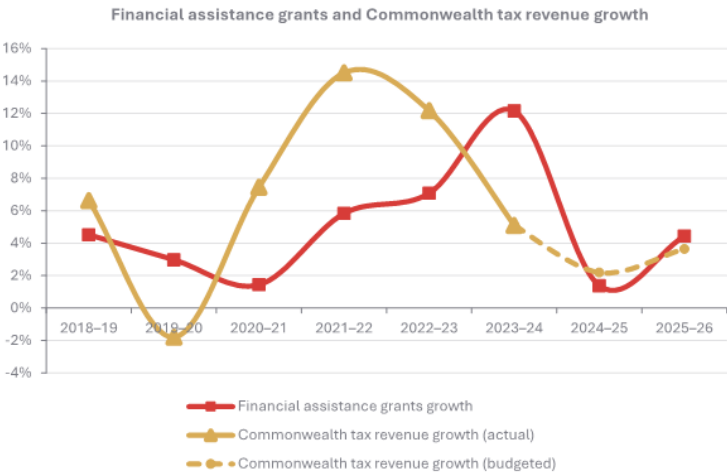
Other grants are generally paid on achievement of predetermined milestones relating to specific projects. There is often a time lag between when costs are incurred and when these grant revenues are received.

The need to preserve an operating cash balance means councils may defer certain expenditures that are discretionary or non-essential until additional funds are available.

Financial Assistance Grants in 2024–25 had their lowest growth over the past seven years

National principles for distributing Financial Assistance Grants to councils began on 1 July 1995 under the *Local Government (Financial Assistance) Act 1995*.

The graph below shows the percentage growth in Financial Assistance Grants against growth in Commonwealth tax revenue.



Source: Australian Bureau of Statistics 'Taxation Revenue' and the Department of Infrastructure, Transport, Regional Development, Communications, Sports and Arts 'Financial Assistance Grants'.

For 2024–25 the increase was 1.4%, the lowest increase since 2018–19.

The value of the Financial Assistance Grants has declined from about one per cent of Commonwealth taxation revenue in the mid-1990s to approximately 0.5% today.

6.2. Council liquidity

Councils hold cash and investments that are restricted by legislation or contractual arrangements. Effective management of these balances is crucial to ensure compliance with legislation and contract conditions while planning for future spending, including capital projects. Interest income earned on restricted funds is similarly restricted.

The LG Act states that ‘money received as a result of levying a special rate or charge may not be used otherwise than for the purpose for which the rate or charge was levied’. Under the LG Act, the Minister can approve internal loans to use money collected through a special rate or charge for another purpose. In the absence of ministerial approval, only non-restricted cash can be used for operational purposes. Common types of special rates and charges include those for water, sewerage, drainage, domestic waste and stormwater management.

Restricted cash does not need to be kept in a separate bank account and is recorded in, and controlled using, subledgers.

Two councils spent restricted cash in breach of the LG Act

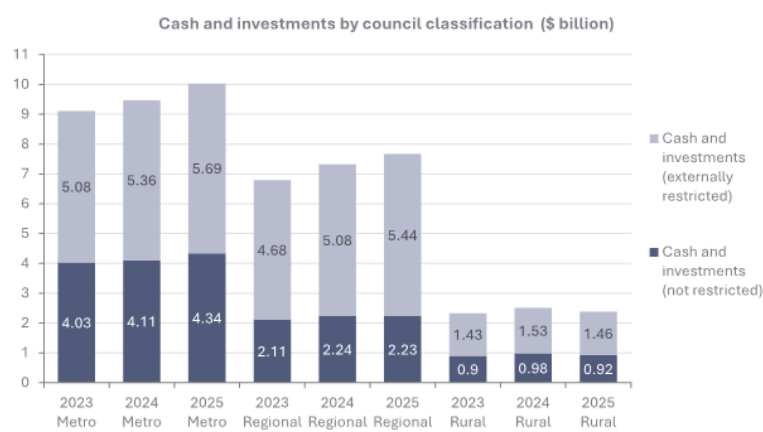
Bathurst Regional Council and Upper Hunter Shire Council breached the LG Act by spending externally restricted cash for purposes other than those intended.

At times during 2024–25, these councils had insufficient cash flows, not subject to external restriction, to meet general fund expenses.

Both councils have subsequently received ministerial approval to use internal borrowings to support their cash flow.

Most cash and investments held by councils are externally restricted and can only be used for specific purposes

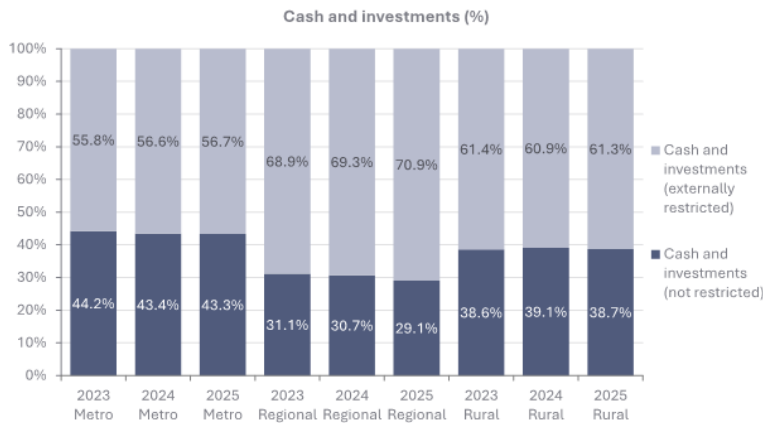
The graph below shows the total cash and investment balances split into externally restricted and not restricted, by council classification, over the past 3 financial years.



Source: Councils' financial statements (audited).

At 30 June 2025, total cash and investments across councils was \$20.1 billion (\$19.3 billion at 30 June 2024), with \$12.6 billion (\$12 billion at 30 June 2024) being externally restricted. Over the past 12 months, total cash and investments have grown in metropolitan and regional councils, but they have declined in rural councils.

The graph below shows the proportion of cash and investment balances split into externally restricted and not restricted, by council classification, over the past 3 financial years.



Source: Councils' financial statements (audited).

The proportion of externally restricted cash and investments has increased by small amounts over the three years, with regional councils having the highest proportion at 71% and metropolitan councils the lowest at almost 57%. This means that metropolitan councils have a higher proportion of their cash and investment balances available to meet general fund expenses. Many regional and rural councils collect rates and charges for water and sewerage services, which are externally restricted, contributing to higher proportions of externally restricted balances.

At 30 June 2025, 19 councils did not have available cash and investments to meet three months of expenses

One indicator of council liquidity is whether the cash and investments balance, not subject to external restrictions, can meet 3 months of general fund expenses (excluding depreciation and borrowing costs). A 3 month period is generally the cycle that councils usually receive rates (quarterly) to support their cash flow and expenditure. At 30 June 2025, there were 19 councils (2 metropolitan, 8 regional and 9 rural) with insufficient cash and investments, not subject to external restrictions, to meet 3 months' worth of expenses (16 at 30 June 2024).

Further analysis, including operating performance, unrestricted current ratio and level of own source revenue, was performed on the 19 councils to determine which councils had heightened financial sustainability concerns. The 11 councils identified from this further analysis are listed in Appendix 2.

Having low levels of available cash increases the risk of spending externally restricted cash for improper purpose, in breach of the LG Act.

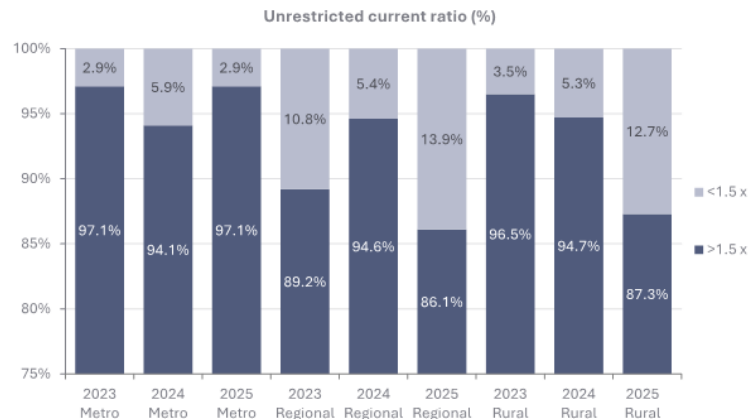
Councils with liquidity concerns need to take action to optimise cash management and financial planning. Such action can include:

- improved recovery of debtors
- new revenue sources and/or ensuring that fees recover the costs of service delivery
- a focus on delivery of essential services
- effective budgeting, forecasting and long-term financial planning
- tighter control over the amount and timing of expenses
- ongoing monitoring of externally restricted cash to reduce the risk that it is used to fund operations, in breach of the LG Act
- where capacity permits, internal or external borrowings.

The balance of most councils' current assets is 1.5 times the balance of current liabilities

Another measure of financial sustainability is the unrestricted current ratio, which measures the ability to meet short-term obligations. The measure shows the unrestricted current assets available to meet current liabilities. The Office of Local Government had a previous benchmark of 1.5 for this ratio. This benchmark indicates that the councils have \$1.50 in current assets for every \$1 in current liabilities.

The graph below shows the percentage of councils, by classification, with an unrestricted current ratio above or below 1.5 times.



Source: Audit Office calculation from financial statements.

All but one metropolitan council had a value of current assets greater than 1.5 times current liabilities at 30 June 2025. Both regional (13.9%) and rural (12.7%) councils had more councils with insufficient current assets to meet current liabilities. Twelve of the 19 councils identified above as being the least liquid did meet this measure. Amounts due from the NSW Government contribute to achieving this measure and liquidity will improve as cash is received. Time lags between incurring expenses and receiving revenue put pressure on cash flows.

6.3. Water supply and infrastructure

NSW residents and businesses receive water from Sydney Water Corporation, Hunter Water Corporation and local water utilities that are operated by councils or county councils.

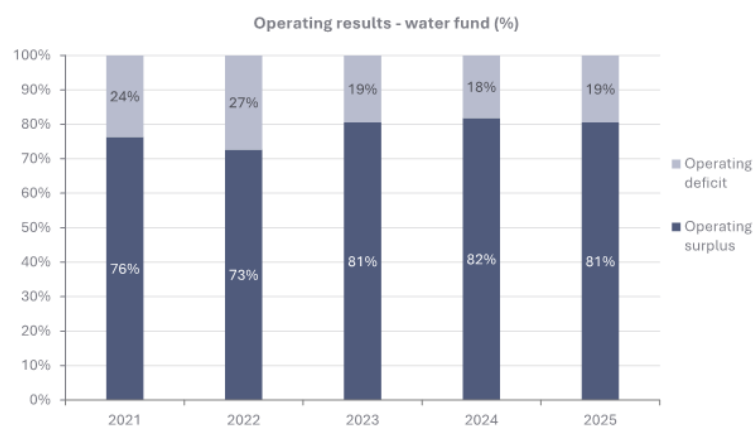
Approximately 1.9 million people receive water from councils or county councils. Councils set water rates, though many rural councils with small populations have a small number of customers, so annual revenue is low.

Fifteen councils made operating losses for the water fund for the year ended 30 June 2025

Seventy-seven councils operate a water supply business, with 15 councils (2 regional and 13 rural) making an operating loss for these businesses for the year ended 30 June 2025. Councils with higher surpluses tend to be those with higher populations and more water connections that provide revenue.

There is a high reliance on funding from grants to operate and fund asset acquisition and renewal for water supply businesses. When grants revenue was removed, 30 councils (10 regional and 20 rural) had an operating loss.

The graph below shows the proportion of operating results of water supply businesses over the period 2021–25.



Source: Councils' financial statements (audited).

Water supply infrastructure requires almost \$1 billion to meet agreed service levels set by councils

Based on council estimates, almost \$1 billion is required to ensure that water supply infrastructure continues to meet agreed service levels. This estimate has increased by 161% since 2021. Many councils providing this essential service are not fully recovering operating costs. Even when they can cover operating costs it is unlikely, with a small customer base, that they will recover enough to bring infrastructure to agreed service levels. Grants are the primary source of funding for water supply infrastructure managed by councils.

The Auditor General's performance audit, [Support for regional town water infrastructure](#), published in 2020, concluded that 'the former Department of Planning, Industry and Environment has not effectively supported or overseen town water infrastructure planning in regional NSW since at least 2014. It has also lacked a strategic, evidence-based approach to target investments in town water infrastructure'.

The NSW Government has published several Regional Water Strategies that set out a long-term roadmap of actions to deliver and manage water for local communities.

Item 8.1 - New Item (8) Auditor General Local Government
reports

05 - NSW Auditor General's report on
local government for 2025

Ageing water supply infrastructure can lead to failure and lack of water security, as demonstrated in the case study below.

Case study – Regional water infrastructure failure

A leak occurred in a 450 mm main trunk water line. Safety requirements to repair it meant stopping water flowing into the line from the water treatment plant (WTP) and the immediate reservoir, as well as de-pressurising the water line. When excavation commenced, a 100 mm high-pressure line burst, causing damage to the concrete wall of the main trunk water line.

The WTP had been shut down and the whole of the main trunk line between the WTP and the receiving reservoir had been drained. This significantly reduced the availability of water to residents and businesses in the regional local government area, leaving 60% of households with no water supply.

Council enacted its business continuity plan, which included sourcing certified potable water suppliers to safely transport and pump drinking water back into the local lines, thus replenishing the network.

6.4. Local infrastructure contributions

Councils collect local infrastructure contributions from developers under the *Environmental Planning and Assessment Act 1979*, the *LG Act* and the *City of Sydney Act 1988* to fund infrastructure required to service and support new development. There are 3 types of contributions:

- section 7.11 – charged where there is a demonstrated link between the development and the infrastructure being funded
- section 7.12 – alternative to section 7.11 contributions and charged as a percentage of the estimated cost of the development
- planning agreements – a legal agreement negotiated between a developer and a planning authority to deliver an infrastructure outcome.

Councils are required to consider practice notes issued by the Secretary of the Department of Planning, Housing and Infrastructure when using contribution plans or planning agreements.

These contributions help councils to deliver roads, footpaths, traffic management, stormwater drainage, community facilities, parks and other recreation areas. Capital costs include the initial costs of providing infrastructure such as land acquisition, construction of facilities, costs of any borrowings and some administrative costs incurred by the council.

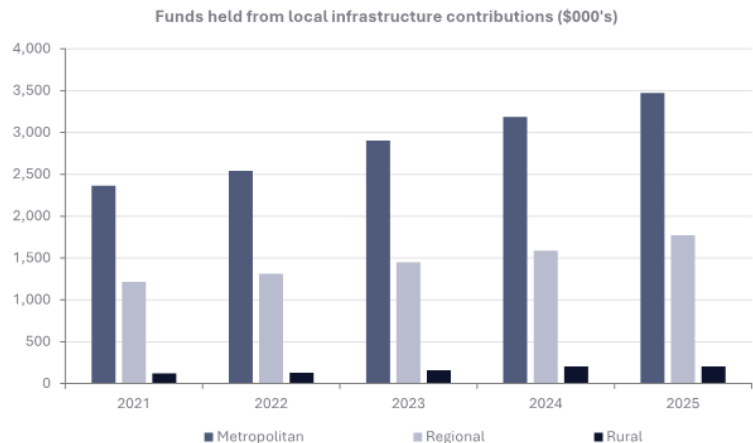
Councils collecting these contributions must prepare a contributions plan outlining how these contributions will be calculated and apportioned across different types of infrastructure, works programs and delivery plans. Councils can pool contributions to allow more timely funding of infrastructure.

In 2009, under section 7.11, a threshold of \$20,000 per lot was introduced for all development, unless a Ministerial direction specifies a higher amount. This amount has not been indexed. Councils can charge above the threshold set by the Minister for Planning and Public Spaces, if they request an IPART review of a contribution plan, and the recommendation is approved by the Minister. These approvals are restricted to collect only for infrastructure on the essential works list. Twelve councils have obtained approval to charge above the cap for specific contribution plans.

Councils held \$5.4 billion in local infrastructure contributions at 30 June 2025, with balances increasing

At 30 June 2025, councils across NSW collectively held \$5.4 billion (\$4.3 billion at 30 June 2024) in contributions collected from developers. The balance of contributions held by councils increased by \$2.2 billion from 2020–21 to 2024–25.

The graph below shows the 30 June balance of externally restricted cash and investments, collected from developers, by council classification for the past 5 years.



Source: Councils' financial statements (audited).

Metropolitan councils have the highest level of development, and the balance of funds held has increased each year from 2020–21 to 2024–25. Whilst regional and rural councils have less development and as a result a lower level of contributions, their contribution balances have also increased over this period.

Fourteen councils account for approximately 50%, or \$2.6 billion, of the balance of funds held at 30 June 2025. The table below shows the contribution balances for these councils at 30 June 2023, 30 June 2024, and 30 June 2025.

Council	30 June 2025 (\$m)	30 June 2024 (\$m)	30 June 2023 (\$m)
Bayside	348	326	336
Blacktown City	213	281	237
Camden	175	147	193
Canterbury-Bankstown	131	135	128
Central Coast	216	201	191
City of Parramatta	193	165	142
City of Ryde	143	126	80
Cumberland City	145	130	113
Georges River	118	108	99
Hills Shire	245	243	219
Ku-ring-gai	102	116	108
Lake Macquarie	144	130	149
Liverpool City	317	277	281
Maitland	143	127	118

Council	30 June 2025 (\$m)	30 June 2024 (\$m)	30 June 2023 (\$m)
Total	2,633	2,512	2,394

Source: Councils' financial statements (audited).

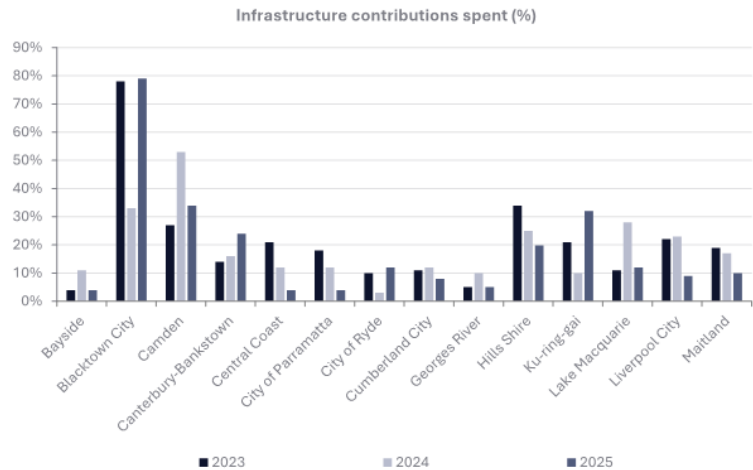
As required, all 14 councils publish contribution registers, showing all funds received from developers by contributions plan.

Not all council contribution registers include the date the contribution was first received and, therefore, it can be difficult to determine how timely the subsequent expenditure and infrastructure investment by councils has been. There are 2 plans from 2001 with no recent expenditure. A further 5 plans included contributions collected over ten years ago.

Ten of the 14 councils spent less than 20% of their local infrastructure contributions balance during 2024–25

All 14 councils advised that they have capital expenditure budgets that include plans for spending these funds. However, during 2024–25, 10 councils spent less than 20% of the contributions fund balances held at 30 June 2024 (9 councils during 2023–24 and 8 during 2022–23).

The graph below shows the percentage of funds spent by these councils from 2023–25.



Source: Audit Office calculation from financial statements.

**Item 8.1 - New Item (8) Auditor General Local Government
reports**

**05 - NSW Auditor General's report on
local government for 2025**

Item 6.1

Enclosure 2

Large growth councils, like Blacktown City, Liverpool City, Camden and Hills Shire, have a significant number of development activities which resulted in holding high infrastructure contribution funds. Blacktown City spent 80% of the balance held in LICs in 2023 and 2025.

Councils advised a range of impediments to spending, including:

- financial capacity:
 - a lack of funds for maintaining and renewing existing assets, reducing available council funds required to fund growth assets or top up plans
 - slow receipt of funds which is not aligned with when the new residents need the infrastructure
 - insufficient funds to complete projects based on contributions received, contributing to a reliance on seeking grant funding to complete projects
 - contribution thresholds not indexed
 - escalating costs leading to funding gaps, making planned projects unaffordable
- delivery capacity:
 - existing asset renewal taking priority over new infrastructure in the council's delivery program
 - time and resources required to effectively plan, design and approve major projects
 - delays and other difficulties in acquiring land, including through compulsory acquisition, to build infrastructure
 - construction delays
- rapid population growth and growth in locations other than those predicted
- significant time and resources required to amend contribution plans to respond to changes.

Delays between the collection of developer contributions and subsequent expenditure on new infrastructure could be an indicator that infrastructure planning and delivery processes are not operating effectively to deliver the intended outcomes. Delays in expenditure can risk:

- the ability to fund the intended level and standards of infrastructure, due to changes in purchasing power as costs escalate and land becomes scarce
- a reduction in community amenities, as new developments are delivered without the planned or necessary infrastructure in place.

The Productivity Commission tabled its review of infrastructure contributions in 2020, which found the infrastructure contributions system was not fully enabling the State and councils to provide the infrastructure required to support development. The report made 29 recommendations, underpinned by a set of principles setting out where infrastructure costs should be recovered from developers or landowners and where governments should rely on other sources of funding. The NSW Government is using a staged approach to implementing recommendations.

6.5. Long-term financial planning

Section 403 of the LG Act requires councils to have a long-term strategy for providing resources required to perform its functions. This is known as the Resourcing Strategy, which consists of 3 elements:

- long-term financial planning
- asset management planning
- workforce planning.

The OLG issued the 'Integrated Planning & Reporting Handbook' to provide guidance to councils on how to prepare and implement integrated planning.

Councils can improve modelling for different scenarios in financial planning

The table below presents compliance levels with some of the mandatory requirements for long-term financial planning (LTFP).

LTFP components	Complied		Council classification (2025 only)		
	2025	2024	Metro	Regional	Rural
Income and expenditure, balance sheet and cash flow statement	99	87	100	97	100
Sensitivity analysis	91	63	100	92	85
Financial modelling for different scenarios	79	56	91	78	73
Methods for monitoring financial performance	89	64	100	89	84
Clearly defined key assumptions used for revenue, expenditure and financial challenges	96	n/a	100	94	95

Source: Audit Office findings.

All councils' long-term financial plans covered a 10-year period and included income and expenditure, balance sheet and cash flows. Metropolitan (9%), regional (22%) and rural (27%) councils should improve financial modelling for planned, optimistic and conservative scenarios. Some regional and rural councils should improve sensitivity analysis and methods for monitoring financial performance. Strengthening processes for scenario modelling, sensitivity analysis and methods for monitoring financial reporting will increase the effectiveness of long-term financial plans.

The Audit Office has commenced a performance audit on long-term financial planning. Refer to *Looking forward* for more information.

7. Internal controls and governance

A strong system of internal controls and governance enables agencies to operate effectively and efficiently, produce reliable financial statements, comply with laws and regulations, and support ethical and transparent decision-making. Good governance promotes public confidence in the integrity and effectiveness of a council's systems and operations.

Well-governed, strong internal controls will enable councils to operate effectively and efficiently, produce reliable financial information, comply with laws and regulations, and support ethical government.

Financial audits include:

- procedures to understand the design, implementation and operating effectiveness of internal controls and governance relevant to the preparation of a council's financial statements
- consideration of the extent to which an agency has complied with applicable laws, and the regulatory and policy requirements relevant to financial management and reporting.

This chapter highlights findings on internal controls and governance identified in 2024–25 audits.

Chapter highlights

- The Audit Office's audits reported on the design, implementation and/or operating effectiveness of internal controls and governance at nearly all councils, joint organisations and county councils. Almost 70% of reported findings related to weaknesses in governance, asset management and information technology (IT).
- Deficiencies in controls and monitoring of user access, including privileged users, were reported at most councils, increasing the risk of loss, error or unauthorised transactions.
- Councils should improve managing, recording and valuing assets. 63 councils had inaccurate and incomplete fixed asset registers, and 68 councils are deficient in asset valuation processes. These deficiencies could reduce the effectiveness of planning and decisions related to assets.
- Councils need to improve their fraud control frameworks. While more councils have implemented policies for fraud and corruption prevention and conflicts of interest, some councils need to improve training, fraud risk assessments and use of technology to detect and prevent fraud.
- All councils have established an Audit, Risk and Improvement Committee (ARIC), but 6 do not have the required number of independent members. Not all of these committees are covering the required aspects of council operations. Gaps in oversight could lead to unaddressed risks.

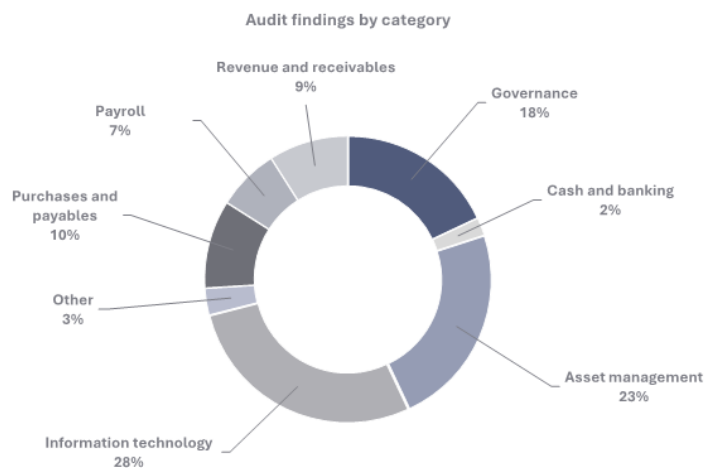
7.1. Audit findings

An audit of financial statements requires the auditor to obtain an understanding of councils' internal controls that are relevant to the preparation of the financial statements. This includes evaluating the design and implementation of controls over financial reporting and identifying and reporting internal control deficiencies. Breakdowns and weaknesses in internal controls can increase the risk of non-compliance, fraud and error.

The Audit Office's management letters report deficiencies in internal controls and other matters of governance interest to those charged with governance, including the general manager and ARICs.

The Audit Office reported audit findings to all councils, county councils and joint organisations in 2024–25. The total number of reported audit findings (1,410) was consistent with that in 2023–24 (1,406).

As explained in the chart below, 69% of reported findings were related to weaknesses in governance, asset management and IT.



Source: Audit management letter for 30 June 2025.

7.2. Key audit findings

The Audit Office identified key findings across the following areas:

- governance matters
- asset management
- IT
- purchases and payables
- payroll
- revenue and receivables
- cash and banking, including the management of externally restricted balances.

Governance matters		
Deficiencies in governance frameworks reduce confidence in the integrity and effectiveness of systems and operations		
One high-risk finding was reported as a council had not formalised its business continuity plan to define the processes required to continue operations during an event.		
Other common reported findings include:		
- absent or outdated policies and procedures - incomplete contract register - business continuity plans not formalised or tested - inadequate procedures to ensure compliance with laws and regulations.		
Councils need to improve their fraud control frameworks		
Robust fraud risk assessment and control processes help to protect councils from events that risk serious reputational damage and financial loss.		
While more councils have implemented policies for fraud and corruption prevention and conflicts of interest, some councils need to improve their training and fraud risk assessments. Deficiencies in fraud control processes are summarised in the table below.		
Fraud control deficiencies	Number of councils/ joint organisations	
	2025	2024
No fraud awareness training	32	36
No fraud risk assessment	36	35
No conflict-of-interest policy	5	n/a
No fraud and corruption prevention policy, or it was outdated	6	10
Not ensuring requested changes to bank account details are valid	24	n/a
Staff not required to annually acknowledge compliance with the code of conduct	66	79
Not reviewing Independent Commission Against Corruption publications to identify risks and improvement opportunities	22	n/a
Source: Audit Office findings. Some of the fraud control deficiencies were only collected this year.		
Councils should take steps to provide improved governance related to fraud, including providing fraud awareness training to their staff and undertaking regular fraud risk assessments.		

Changing vendor details without proper verification can lead to fraud

All requests to change vendor details should be independently verified and all changes should be independently reviewed. Ineffective controls to detect and prevent fraud can expose councils to financial loss, as demonstrated in the case study below.

Case study – Potential fraud

A scammer, posing as a supplier, contacted the council to change their contact details (email and phone). An employee emailed a remittance advice with the supplier's bank account details to the email address provided by the scammer. The following week, the scammer requested a change to the bank account details, and the vendor master file was updated. Within a month, a legitimate supplier invoice was received and paid to the updated bank account, which was fraudulent. In this case, the only reason the money was not lost was due to the bank identifying an anomaly with the bank account and stopping the payment.

Key lessons for the sector:

- verify all requests for changes to supplier details through sources independent of the change request
- independently review all changes to the vendor master file
- document processes employees should follow, and provide training
- identify fraud risks and keep employees aware of evolving scams
- explore new technologies to prevent and detect fraudulent transactions.

Asset management

Councils own and manage large infrastructure asset portfolios to support the delivery of community services. Asset management involves operational aspects such as maintenance and physical security, as well as accounting procedures such as recording and valuing assets in accordance with Australian Accounting Standards.

Councils should improve managing, recording and valuing assets

Nine high-risk findings were reported for:

- deficiencies in asset valuation processes
- lack of timely review and management of work-in-progress
- not maintaining fixed asset registers in a secure format.

Other common reported findings include inadequate asset valuation processes and inaccurate and incomplete fixed asset registers.

**Item 8.1 - New Item (8) Auditor General Local Government
reports**

**05 - NSW Auditor General's report on
local government for 2025**

Item 6.1

Enclosure 2

Ineffective controls, including lack of timely reviews and management of work-in-progress, can lead to errors in financial statements, as demonstrated in the case study below.

Case study – Capital work in progress

A council reviews and capitalises capital work in progress annually, which means that the progress of projects at this council is not being reviewed and monitored effectively, resulting in delayed transfer of completed assets. As a result, financial statements submitted for audit were adjusted by \$33.8 million, including transfer of \$25.9 million to correct asset classes and derecognising \$6.7 million in duplicate assets.

Key lessons for the sector:

- regularly review and monitor work in progress balances
- regularly engage with project management and engineering staff to ensure integrated financial management for projects
- establish clear responsibility and accountability for project tracking and asset capitalisation
- review long outstanding and inactive work in progress balances to ensure timely capitalisation
- ensure assets are capitalised when ready for use.

Sixty-three councils had inaccurate and incomplete fixed asset registers

Having complete and accurate records of assets in place informs asset management decisions, improves the robustness of asset management plans and allows for effective monitoring of asset condition and performance.

Errors in underlying asset register data lead to errors in financial reporting.

Councils should take steps to improve the accuracy and completeness of fixed asset registers by:

- removing duplicate assets
- analysing data and comparing it to other systems such as ratings systems for completeness of land and technical asset registers for infrastructure
- regularly updating asset additions and disposals
- ensuring a strong alignment between fixed asset registers and other sources of information, including engineering records and asset management plans
- maintaining fixed asset registers in a secure format.

Sixty-eight councils have deficiencies in asset valuation processes

Incomplete and inaccurate underlying asset records, such as fixed asset registers, contribute to errors in asset valuations. They also contribute to errors in financial reporting.

Councils can improve their valuation processes by:

- having a valuation policy
- effectively planning valuations and starting the process early
- updating and reconciling registers before providing them to valuers to ensure they are accurate and complete
- completing key reconciliations between relevant databases
- documenting management's review of draft and final valuation reports, including questioning valuers
- preparing position papers explaining methodology, key assumptions and judgements, and the reasons for movements
- engaging with auditors throughout the valuation process.

Information technology

Deficiencies in controls and monitoring of user access undermine the integrity of data and finance systems

Councils rely on IT to deliver services and manage information. While IT delivers considerable benefits, it also presents risks that councils need to address. IT general controls relate to the procedures and activities designed to ensure the confidentiality and integrity of systems and data.

Financial audits review IT general controls for key financial systems that support the preparation of council financial statements. These include:

- policies and procedures
- risk management
- privileged user access restriction and monitoring
- user access management
- system software acquisition, change and maintenance
- patch management
- disaster recovery planning
- cyber security (see Chapter 10).

Four high-risk findings were reported for:

- lack of policies and procedures for disaster recovery and password controls
- no monitoring of privileged user activity
- not performing user access reviews
- password parameters not meeting better practice.

Other common reported IT findings include:

- absence of policies and procedures
- failing to perform user access reviews to ensure access to key IT systems is appropriate and commensurate with their roles and responsibilities
- gaps in restricting privileged users' access and not monitoring their activity
- absence of disaster recovery planning.

Risks arising from weak IT controls include:

- unauthorised access to data that may result in destruction of data or improper modification
- unauthorised changes to IT applications or other aspects of the IT environment
- inability to recover from IT incidents
- compromised segregation of duties and management that override established controls.

Most councils had insufficient controls over user and privileged user access to systems

Control weaknesses over system access were reported at 71 councils in 2024–25. Weaknesses in granting, removing and monitoring user access to systems can lead to inappropriate and unauthorised system access, increasing the risk of fraud, cyber attacks and invalid transactions. This can compromise the integrity, confidentiality and accuracy of financial data.

Item 8.1 - New Item (8) Auditor General Local Government
reports

05 - NSW Auditor General's report on
local government for 2025

Item 6.1

Enclosure 2

Councils should ensure that:

- access to the system is granted only after obtaining the necessary approvals, which should be formally documented and retained
- access removal is timely at employee termination, and processes are in place to allow timely communication by HR/payroll teams to system administrators to disable or delete inappropriate access
- reviews of user access are regularly performed to ensure existing access permissions are appropriate and user accounts are still required. Reviews and corrective action should be prompt and evidence of changes should be retained.

Purchases and payables

Deficiencies in procurement and contract management controls could impact value for money outcomes

It is critical to have appropriate probity, accountability and transparency in procurement to achieve value for money and reduce the risk of unauthorised purchases, and corrupt and fraudulent behaviour.

Three high-risk findings were reported for:

- significant weaknesses in procurement practices, lack of segregation of duties and over reliance on contractors, leading to alleged corrupt conduct
- inadequate review of changes to the vendor master file resulting in fraud
- non-compliance with the council's own policies and the tendering requirements of the LG Act.

Other common findings include:

- inadequate reviews of changes to the vendor master file
- poor contract management frameworks
- lack of segregation of duties
- financial delegations not enforced.

Weak purchasing and payable controls, including those related to management of vendor master data and approval of payments, increase the risk of error, waste and fraud.

Ineffective controls in purchasing and payables management can expose a council to loss and fraud, as demonstrated in the case study below.

Case study – Misappropriation of security bonds

At one council, an employee fraudulently applied for reimbursement of security bonds (\$1.5 million in total). The application forms for these refunds used data that looked legitimate and involved various bank accounts across different banks. All fraudulent refunds related to bonds held for longer than 6 years.

The council's investigation revealed that the employee also authorised payment of the refund requests and submitted them to accounts payable. While the forms appeared to be dually authorised, it was suspected that the other employee's signature was misused and the suspected employee acted alone.

Key lessons for the sector:

- implement training for the accounts payable team to increase fraud awareness and red flags, for example, emails or requests sent late at night, evidence of documents being altered
- ensure email requests for all payments are sent by both authorising officers so both signatories are aware of the payment
- provide opportunities to use data analytics to detect fraud.

Payroll

Weak controls and lack of segregation of duties increase the risk of fraud, waste and error

Payroll is a significant expense. Effective payroll processes ensure councils manage their workforce in compliance with legislation, employment agreements and the Local Government Award.

Common payroll findings include:

- inadequate review of changes to the employee master file
- no review of termination payments
- leave forms not reviewed, not updated in the payroll system and not filed
- lack of segregation of duties
- lack or untimely review of payroll reconciliations.

Payroll processes, controls and information systems should be designed to protect the integrity of employee records. They should be designed to ensure accuracy of payments to employees and to prevent fraud and waste.

Cash and banking

Controls at some councils failed to prevent use of externally restricted cash and investments for improper purposes

Councils process a high volume of cash transactions each year. Effective controls over cash collection, disbursements and reconciliations can reduce the risk of fraud and error.

Two high-risk findings were reported for Bathurst Regional Council and Upper Hunter Shire Council who breached the LG Act by spending externally restricted cash and investments for an improper purpose.

Other common findings include:

- poor controls and processes for recording, monitoring and reporting externally restricted cash and investment balances
- outdated banking signatories
- non-compliance with loan covenant requirements.

Lack of effective cash management, including externally restricted cash, can lead to a breach of the LG Act, as outlined in the case study below.

Case study – Externally restricted cash

One council relies on a highly manual, annual process to manage and report cash and investments subject to external restrictions. This process has been ineffective and has resulted in errors. Cash and investments not subject to external restrictions continue to be low and there is evidence of these funds being spent for general operating purposes, which is in breach of the LG Act.

Key lessons for the sector:

- implement regular reconciliation and monitoring of restricted cash, which can reduce the risk of spending externally restricted cash outside of its intended purpose
- improve cash management through enhanced processes and controls as manual processes can be subject to error
- ensure regular transparent reporting to decision makers, which is crucial in the oversight of externally restricted cash.

Some councils have established effective cash management, as outlined in the case study below.

Case study – Externally restricted cash

One council monitors restricted cash regularly and has directly linked its quarterly Cash and Investment Budget Review Statement to the general ledger. Prepared each quarter, this statement is independently reviewed by officers in the council's finance team. The council has configured its general ledger to reflect externally restricted balances and does not rely on manual processes to identify and record income and expenditure. Clear transaction coding rules are established in the general ledger to ensure all restricted and allocated income and expenditure items are identified and used for their intended purposes.

Key lessons for the sector:

- link reporting on budget against actuals directly to the general ledger to improve accuracy and eliminate the risk of errors in manual processes
- establish clear transaction coding rules to help ensure contributions, grants, special rates and charges are collected and spent in compliance with the LG Act
- ensure appropriate levels of review and oversight, including by the ARIC, to enhance governance over an externally restricted cash position.

Revenue and receivables

Councils receive revenue from a range of different sources, including ratepayers, users of facilities, other levels of government and developers. Councils require appropriate controls to accurately record revenue and receivables in compliance with Australian Accounting Standards and other legal requirements.

Many councils need to improve their revenue processes and controls

One high-risk finding was reported for lack of controls and effective process for collecting revenue from water supply, including lack of effective review of quarterly billing reports, resulting in incorrect charges to customers.

Other revenue and receivables findings include:

- not formally assessing grant funding against measurement criteria under AASB 15 'Revenue from Contracts with Customers' and AASB 1058 'Income of Not-for-Profit-Entities'
- not regularly updating and reconciling the grant register
- a lack of independent review of changes made to data in revenue systems and revenue master files
- a lack of exception reporting
- incorrect classification of properties for rating purposes.

Item 8.1 - New Item (8) Auditor General Local Government
reports

05 - NSW Auditor General's report on
local government for 2025

Item 6.1

Enclosure 2

Poor revenue controls can negatively impact customers and the reputation of councils, as outlined in the case study below.

Case study – Incorrect water billing

A county council issued incorrect invoices to customers for water supply due to a lack of effective controls. Current and previous audits had identified issues, and further investigation by management identified system inefficiencies, manual and outdated processes, data inaccuracies, billing errors, unauthorised meter removals and zero-usage readings. Each of these contributed to additional costs, reputational risk, debtor write-offs and prolonged debt recovery.

Key lessons for the sector:

- implement regular documented reviews of billing reports to identify errors
- replace outdated, non-integrated systems that increase manual workload and the risk of billing inaccuracies
- attend to historical issues which, if not addressed, can affect customer trust, staff morale and debt recovery efficiency
- conduct periodic reviews of gross margins, loss factors and performance of water operations to provide insights.

7.3. Risk management and internal audit

From 1 July 2024, the Local Government (General) Regulation 2021 (the Regulation) requires all councils, county councils and joint organisations to:

- adopt and implement a framework for identifying and managing risk
- appoint an internal audit coordinator and adopt an internal audit charter
- have a chairperson and at least two independent members on the ARIC
- attest to compliance with Division 6A of the Regulation in their annual reports.

The Regulation requires councils, county councils and joint organisations to notify the Departmental Chief Executive within 28 days of the failure to comply with the Regulation, and to publish a statement of non-compliance in the annual report.

The OLG has issued 'Guidelines for Risk Management and Internal Audit', a model terms of reference for ARICs, model charter for internal audit and other templates to assist councils in implementing the requirements.

Risk management

Risk management helps councils to identify, assess and address potential risks. Maintaining sound risk management ensures that the council can manage uncertainties in a proactive way. This delivers benefits, such as improved decision-making and efficiency, while protecting resources and reputation.

Not all joint organisations have a framework for identifying and managing risk

Four joint organisations do not have a framework for identifying and managing risk as required by the Regulation.

Deficiencies in risk management could contribute to poor decision making, the inability to achieve organisational objectives, and financial losses. Councils should identify and effectively manage risks and opportunities to mitigate threats to assets, reputation and operational continuity.

Internal audit

The Institute of Internal Auditors defines internal audit as an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

There is no internal audit function at eight councils and seven joint organisations

Eight councils and 7 joint organisations do not have an internal audit function as required by the Regulation.

These councils and joint organisations are missing out on opportunities to improve the effectiveness of their internal control environment, including risk management, compliance, fraud control, improved efficiency and cyber resilience. They should establish internal audit or consider sharing internal audit with another council.

The case study below shows the benefits of sharing the internal audit function.

Case study – Sharing the internal audit function

A group of councils share a chief audit executive and an internal audit function, allowing them to strengthen governance, risk management and internal controls more effectively. By adopting a shared model with a common audit framework, role description and deed of agreement, the councils were able to access high-quality internal audit services that would have been too costly individually. The shared arrangement enabled coordinated audit planning, resource sharing and consistent audit practice across councils, while still tailoring audit plans to each council's needs.

This collaborative approach delivered significant benefits, including access to specialist expertise, improved control environments, better risk mitigation, cost savings from shared procurement, and efficiency gains through coordinated audit scheduling and benchmarking across councils.

Key lessons for the sector:

- clearly define and agree on the internal audit function's roles, responsibilities, expectations and accountability
- foster a collaborative culture among councils and audit providers to support shared insights, coordinated resources and consistent high-quality outcomes
- leverage group procurement and shared resources to maximise cost savings and reduce duplication
- maintain transparency, accountability and effective oversight to ensure trust and strong stakeholder relationships.

Audit, Risk and Improvement Committees

In accordance with the LG Act, an ARIC must keep under review the following aspects of the council's operations:

- compliance
- risk management
- fraud control
- financial management
- governance
- implementation of the strategic plan, delivery program and strategies
- service reviews
- collection of performance measurement data by the council
- any other matters prescribed by the regulations.

All councils have an ARIC, but six do not comply with membership requirements

All councils have an ARIC, and all but 6 have a chairperson and 2 independent members as required. The 6 councils advised that they are in the process of seeking additional independent members. Councils should enhance succession planning arrangements to ensure membership of ARICs comply with requirements.

Five joint organisations have no ARIC. Some of these are in the process of being dissolved. The remaining joint organisations should consider a shared ARIC in 2025–26.

Not all ARICs cover the required aspects of council operations

Many councils do not comply with certain requirements of the Act and guidelines that set out the elements of council operations that should be considered. This is summarised in the table below.

Compliance requirements	Number of councils
ARIC not established	--
No review of the financial statements prior to submission to audit	33
Management did not provide certification of the effectiveness of internal controls	61
No review of financial management processes	14
No review of cash management policies and processes	19
No monitoring or review of the risk management framework	--

Source: Audit Office findings.

In setting the agenda for the ARIC work plan, councils should review the requirements of the Act and guidelines to ensure that the committee is being provided with information on, and giving appropriate attention to, all aspects of council operations.

Due to the timing of meetings, it was not always possible for financial statements to be reviewed prior to submission to audit. In most of the 33 councils where the committee did not review financial statements prior to submission, the ARIC reviewed the financial statements at the completion of the audit and before presentation of the financial statements to the governing body.

Councils should consider the timing of ARIC meetings in conjunction with financial statement preparation timelines to ensure that these committees review financial statements before they are presented for audit.

Management did not certify the effectiveness of internal controls at 61 councils

From 1 July 2024, ARIC responsibilities have included reviewing and advising on whether:

- financial management processes and controls are adequate
- cash management policies and procedures are adequate
- controls are monitored and reviewed to ensure that they are operating as intended.

To fulfil these and other responsibilities, management should certify the effectiveness of internal controls for the ARIC. There is no template for this in the OLG guidelines and the ARICs are still determining the form and content of what they need from management to satisfy this requirement. It is better practice to also provide this certification to those signing the Statement by Councillors and Management in the financial statements.

Item 8.1 - New Item (8) Auditor General Local Government
reports

0 5 - NSW Auditor General's report on
local government for 2025

NSW government agencies' chief finance officers must provide an annual letter of certification that:

- acknowledges their responsibility in designing, implementing, monitoring and continually evaluating the operating of the internal controls framework over the agency's financial systems and information
- certifies the effectiveness of the operation of the internal control framework over financial systems and information throughout the financial year, and summarises any control weaknesses and deficiencies, their potential impact on financial systems and information, and any remedial action plans, including mitigating controls.

Some councils use an abridged version to satisfy this requirement.

Item 6.1

Enclosure 2

8. Major capital projects

In accordance with the *Local Government Act 1993* (the LG Act), councils are responsible for managing land and other assets so that current and future local community needs are met in an affordable way. Councils should invest in responsible and sustainable infrastructure for the benefit of the local community. They should also have effective asset management, including policies and processes to manage asset maintenance and enhancement.

Strong governance is fundamental to the successful delivery of infrastructure projects, which can be complex, have long delivery timelines and require significant investment. Without clear decision-making frameworks, strong oversight and robust processes for monitoring costs, schedules, scope and risks, projects can experience delays and cost overruns, or fail to deliver expected benefits.

A good governance framework ensures accountability, supports informed decision-making, mitigates systemic and project-level risks and provides a framework for learning from past projects to improve outcomes for the community. Best practice governance is structured, transparent and tailored to the scale, complexity and risk profile of the project.

This chapter analyses the status of major capital projects with a budget of greater than \$30 million for 2024–25.

Chapter highlights

- In 2024–25, councils spent \$6.1 billion to renew and acquire infrastructure, property, plant and equipment (IPPE) for the benefit of the local community.
- 14 capital projects over \$30 million were delayed by more than 6 months and 6 of these were more than 10 per cent over budget.
- Guidance for managing capital projects is outdated and inadequate. Guidelines do not cover the full project life cycle, or all types of projects, and do not provide advice on assurance arrangements that would support project delivery.

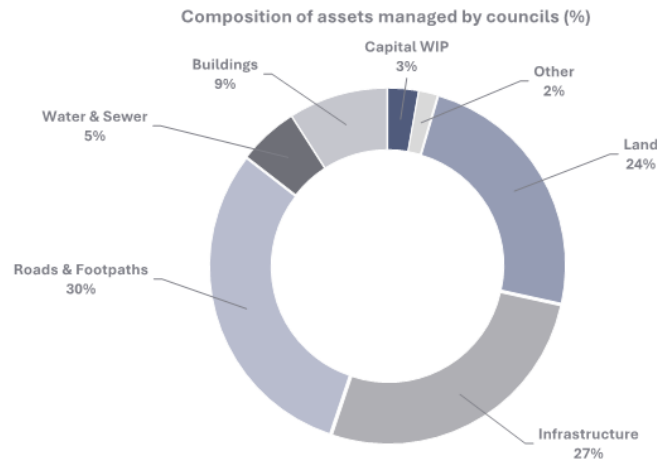
8.1. Background

Councils are responsible for development and management of a wide range of infrastructure, including roads, bridges, footpaths, stormwater drainage, water supply and sewerage.

Councils spent \$6.1 billion to renew and acquire IPPE during 2024–25

At 30 June 2025, councils collectively managed \$223 billion of IPPE.

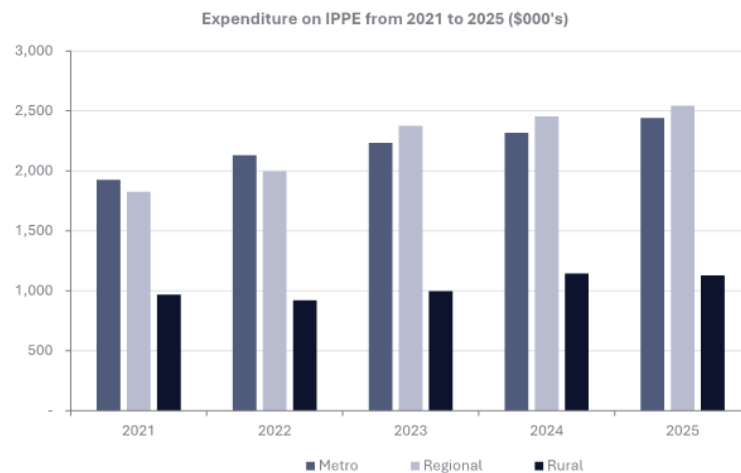
The graph below shows the composition of assets managed by councils at 30 June 2025.



Source: Councils' financial statements (audited).

During 2024–25, councils spent \$6.1 billion (\$5.9 billion in 2023–24) to renew and acquire IPPE to meet the needs of local communities. Funding for these assets comes from different sources, including grants, rates, developer contributions, user fees and charges collected for a specific purpose, and cash reserves.

The graph below shows the total expenditure on renewal and acquisition of IPPE for the period 2020–21 to 2024–25.



Source: Councils' financial statements (audited).

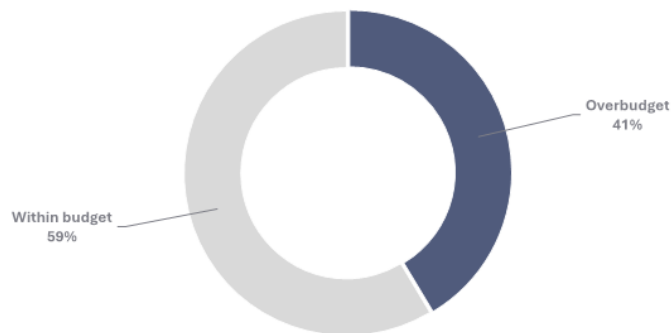
8.2. Major capital projects

Councils are delivering 29 projects with total capital budgets of more than \$30 million

Councils were delivering 29 projects with total capital budgets of more than \$30 million at 30 June 2025. The total collective budget for these projects was \$1.5 billion.

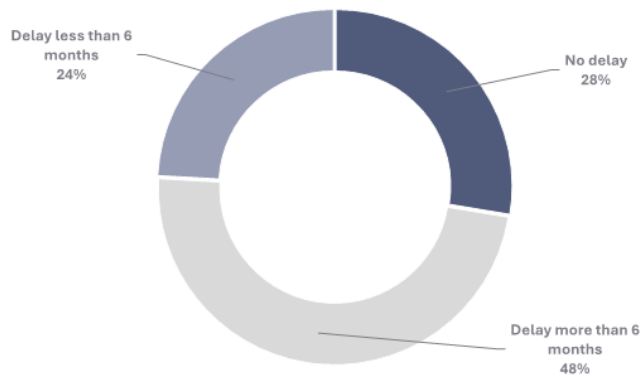
The graphs below show the status of the budget and schedule for each of these projects. Fifty-nine per cent of councils were within the original budget at 30 June 2025. In contrast, 72% of projects are experiencing delays, ranging between 24 days and 5 years.

Major project spending (%)



Source: Audit Office analysis of data provided by councils for 29 major capital projects over \$30 million.

Major project status (%)



Source: Audit Office analysis of data provided by councils for 29 major capital projects over \$30 million.

Item 8.1 - New Item (8) Auditor General Local Government
reports

05 - NSW Auditor General's report on
local government for 2025

Fourteen major capital projects have significant delays, while 7 are on time and budget

Of the capital projects valued at over \$30 million, 7 are on time and within budget. Fourteen capital projects are delayed by more than 6 months. Of these, 6 have exceeded the original budget by more than 10 per cent at 30 June 2025. All councils had an approval process for variations and revised budgets were approved. Appendix 3 contains additional details on these projects.

Project delays can lead to additional costs due to variations and inflation. For projects starting in 2019, COVID-19 shutdowns impacted timelines and significantly increased construction costs. Many projects were delayed due to drawn out negotiation and approval processes, and regulatory requirements, especially for water and wastewater treatment plants. Other reasons for delays include natural disasters, land transfer delays, supply chain interruptions, time to secure funding, addressing site contamination issues, industrial action and delaying tenders until construction costs have decreased.

Projects can go over budget due to unforeseen circumstances during the construction phase like the discovery of asbestos, but with improved risk assessment and better contract negotiation these costs can be minimised. Other causes for budget overruns include underestimating project costs, design changes, technical challenges, selecting the wrong supplier/contractor, weather events, scope changes and inadequate governance.

Projects typically encounter difficulties that can result in delays and overruns. Some reasons include:

- the initial business case or scope lacked sufficient rigour
- underestimating cost and time, typically due to poor risk assessment and/or inadequate risk response
- inadequate time and expertise when considering complex tenders
- poor contract negotiation skills
- inadequate contingency planning
- poor contract management and monitoring of performance
- inconsistencies in governance, assurance and oversight
- lack of suitable expertise, independence or authority on project committees.

Major capital projects with significant variations can impact reputation and long-term financial plans as demonstrated in the case study below.

Case study – Major capital project

A council pool needed refurbishment due to ageing structures, concrete cancer and structural issues. Council entered a construction contract in December 2020 for an original approved budget of \$63.9 million with a planned completion date of November 2022. The project has not met the timeframe or budget. The current revised project budget is \$122 million with an opening date planned for 2026. Council has taken out loans and is considering other actions to ensure that it remains financially sustainable.

Key lessons for the sector:

- conduct a robust risk assessment to inform contingency levels rather than using benchmark percentages as each project has a different risk profile
- include project management and required consultants in the budget
- ensure that decisions consider associated risks and not just costs (in this case some decisions created significant risks that have been realised and ended up costing more over the life of the project)
- consider the financial capacity to build and operate the new infrastructure and develop a financial strategy
- community consultation to ensure the project is clearly aligned to their needs and expectations

Item 8.1 - New Item (8) Auditor General Local Government
reports

05 - NSW Auditor General's report on
local government for 2025

- consider the expertise of council staff in delivering projects of a similar type, size and complexity and whether an external project management is required
- include a technical expert/advisor on the project steering committee
- ensure that risk management practices support effective decision making
- establish contracting strategies
- take more time to negotiate and consider complex tenders and contracting.

8.3. Capital Expenditure Guidelines

Guidance for managing capital projects is outdated and inadequate

The Office of Local Government (OLG) requires that councils apply the Capital Expenditure Guidelines for all infrastructure facilities that will cost more than 10 per cent of ordinary annual rate revenue, or \$1 million, whichever is greater. The guidelines do not apply to:

- capital expenditure on land purchases, land remediation, water supply networks, sewerage networks, stormwater drainage, domestic waste management facilities, roads, footpaths and bridges
- public-private partnerships
- projects funded under the *Public Reserves Management Fund Act 1987*
- design and feasibility studies that do not commit to a project.

The guidelines require councils to:

- develop a preliminary business case
- undertake a capital expenditure review that considers the need for the project, the capacity of the council to manage the project to completion, financial implications, alternative approaches and public consultation
- for projects of more than \$10 million, develop project management, risk management and probity plans
- report on projects to council on a regular basis.

Under these guidelines, councils are required to notify the OLG of all capital expenditure projects that meet the criteria. This process does not provide assurance or approval. Councils are responsible for approval and management under their own financial delegations and governance arrangements.

The current guidelines have a narrow focus on project initiation and do not reflect the complexity and risks of modern infrastructure delivery. Other NSW public sector agencies are governed by a framework of policies and guidelines that aim to ensure value for money, efficient procurement and effective project management across the project life cycle.

These guidelines, and the notification process, do not provide guidance for councils on the types of project assurance arrangements, such as gateway reviews or assurance programs, which could be considered in project delivery and across the project life cycle. Neither do they provide assurance of a business case at the outset.

9. Artificial intelligence

Councils are increasingly integrating emerging technologies like artificial intelligence (AI) to streamline operations, foster innovation and enhance delivery of services.

This chapter examines:

- the use of AI in the 90 councils that reported having adopted AI
- whether appropriate governance, risk and assurance mechanisms are in place to support the ethical adoption of AI
- future plans and strategies for AI use by councils.

While there is no single definition of AI, the NSW Government's Artificial Intelligence Ethics Policy defines AI as intelligent technology, programs and advanced computing algorithms that can augment decision-making by identifying meaningful patterns in data.

Chapter highlights

- The Office of Local Government (OLG) does not require councils to follow a mandatory framework for responsible AI adoption. A mandated framework would provide a consistent, responsible and effective method for managing AI risks and opportunities across councils.
- Councils are in the early stages of AI adoption. Several challenges and barriers affecting the adoption and use of AI have been noted by councils, including funding constraints, the development of governance frameworks, management of data quality, security and privacy, and limited AI literacy.
- Councils will need to integrate AI into their existing governance arrangements as use grows. Fewer than half of the councils have implemented formal AI policies and most have yet to fully integrate the specific and unique risks posed by AI into their existing governance frameworks. This includes evaluating the broader impacts of AI on accountability structures, policies and procedures (such as information technology (IT), procurement, risk management), and monitoring and reporting systems.
- Enhanced visibility of opportunities, challenges and risks will allow councils to leverage the benefits of AI. While they are in the early stages of AI adoption, only 11% of councils currently have a strategy for adopting AI. This, and the limited level of oversight, could significantly hinder councils from fully leveraging the potential benefits that AI offers and lead to fragmented efforts that don't fully align with councils' objectives.

9.1. Background

The OLG does not require councils to follow a mandatory framework for responsible AI adoption

To safeguard ethical standards and uphold the integrity of public institutions, as well as the rights of constituents, it is essential that councils establish robust governance frameworks to guide the development, deployment and oversight of AI technologies.

The OLG has not established a mandatory framework or minimum requirements for councils in relation to the adoption and responsible use of AI. While the Australian and NSW Governments have issued separate frameworks, it is not mandatory for a council to follow either. This increases the risk that councils may not have a robust approach to managing both the opportunities and risks presented by AI technologies.

The frameworks issued by both the Australian and NSW Governments establish:

- AI ethics principles
- AI assurance assessment requirements
- various other guidance and supporting material, including specific guidance on facets like generative and agentic AI and procurement essentials.

These frameworks offer a reference for councils to evaluate their readiness for implementing AI. The OLG could draw on the principles and guidance established in these frameworks to inform a mandatory framework or minimum requirements for councils. This will help to ensure that a consistent, responsible and effective method for managing AI risks is used across the local government sector.

9.2. Adoption of artificial intelligence

Councils are in the early stages of AI adoption

Ninety councils have reported adopting a total of 109 different AI tools, either in pilot or fully implemented. However, this figure may be underestimated, as fewer than half of the councils currently monitor the number of AI tools they have implemented, and AI is increasingly being integrated into procured software solutions. One council reported adopting 15 AI tools, the most of any council.

Councils advised that they mostly use generative AI tools for general productivity and workflow enhancements. On a more limited basis, councils also reported using AI for:

- resident/developer interaction and support, including support for understanding land use or completing planning applications
- recruitment support
- cyber security support
- asset quality and maintenance assessments
- waste contamination identification.

Councils expect that AI use will continue to grow. Of the councils included in this chapter, 51% advised that they had AI tools under consideration, planning or development that were not yet in use at time of this report.

Councils should ensure that fit-for-purpose governance arrangements are in place before deploying AI

Although councils are only in the initial phases of adopting AI, emphasising governance and strategy before implementation will position them for long-term success. A strong foundation will help councils proactively address potential risks, such as bias, security and privacy, and removing barriers that will hinder effective adoption.

Item 8.1 - New Item (8) Auditor General Local Government
reports

05 - NSW Auditor General's report on
local government for 2025

Item 6.1

Enclosure 2

Sections 9.3 and 9.4 of this chapter consider in more detail the current state of councils' governance and strategies supporting the use of AI.

Councils will need to remove several key barriers to support effective AI adoption

Councils identified challenges associated with the adoption and use of AI, including the following:

- **Resource and budget constraints:** councils reported limited financial resources, staffing and capacity to take advantage of the emergence of AI.
- **Data quality, security, and privacy:** concerns included ensuring data is accurate, secure, properly classified and protected, especially given the sensitive nature of council information.
- **AI literacy and education:** councils highlighted the need for comprehensive staff education on AI, including ethical and responsible use. The rapid evolution of AI creates a challenge for councils to keep governance, security and skills up to date.
- **Governance, policy and ethical use:** councils face challenges in establishing and maintaining effective AI governance, including developing policies, frameworks and ethical guardrails that keep pace with rapidly evolving technology and regulatory requirements.
- **Technology readiness and integration:** many councils reported challenges with outdated IT infrastructure, making it difficult to adopt, integrate and manage AI tools securely and effectively.
- **Vendor management and approved tools:** councils noted challenges in controlling which AI tools are used by staff, and managing risks associated with AI being embedded into operational systems without awareness.

Councils will need to maintain central oversight of AI adoption

Only 10 per cent of councils advised that they had identified and documented all AI tools implemented in a centralised inventory. This is likely impacted by the fact that many councils have only adopted a few AI tools. However, as new AI tools emerge and are being implemented, councils may struggle to maintain visibility over which technologies are in use. This challenge is also affected by the growing integration of AI into procured software and in updates to existing software, increasing the risk councils do not know which AI is being used by staff and how and whether it is being managed responsibly and ethically.

A centralised inventory of AI tools in use is important for transparency, oversight and accountability. Without such oversight, councils cannot assure themselves that they have fit-for-purpose governance arrangements in place to oversee the use of AI.

9.3. Policies for responsible use of artificial intelligence

Good governance and assurance arrangements support the effective delivery of ethical and lawful AI. There is no one size fits all governance model. The [National framework for the assurance of artificial intelligence in government](#) outlines that governance structures should be proportionate and adaptable to encourage innovation while maintaining ethical standards and protecting public interests.

Fewer than half of all councils have an AI policy

Only 40% of councils have established formal AI policies or embedded consideration of AI into existing policies. Some councils reported that an AI policy was under development or review.

An AI policy is an important element of good governance because it establishes ethical principles that guide the development, deployment and ongoing management of AI tools. It also provides a clear framework for decision making and accountability.

Councils must integrate AI into their existing governance arrangements as use grows

Councils must integrate AI considerations into their governance frameworks more effectively to address the specific and unique risks posed by AI. This includes evaluating AI's broader impacts on accountability structures, policies and procedures (such as IT, procurement, risk management), and ensuring staff are adequately trained to take advantage of AI and ensure its responsible use. As more AI tools are developed and deployed, appropriate integration with current governance structures will become more important.

The table below details the governance over the adoption and use of AI by councils, focusing on whether the specific and unique risks posed by AI have been considered.

Element	Details	Percentage of councils that considered the element
Accountability	While exact responsibilities may differ, generally, an overall owner is responsible for overseeing the deployment, ethical use and maintenance of AI tools, as well as ensuring that they align with the council's objectives and legal and regulatory standards.	46%
Risk management	Reviewing a council's risk management framework when adopting and rolling out AI is essential because AI introduces new, complex and evolving risks that traditional frameworks may not adequately address.	12%
Procurement	The National framework for the assurance of artificial intelligence in government specifically outlines that careful consideration must be applied to procurement documentation and contractual arrangements. This includes consideration of: - AI ethics principles - clearly established accountabilities - transparency of data - access to information assets - proof or performance testing throughout an AI system's life cycle.	3% (Given the prevalence of procured AI solutions, councils may need to develop specific procurement guidelines tailored to AI tools. The NSW Government also provides detailed guidance on AI procurement essentials, see Artificial intelligence (AI) procurement essentials info.buy.nsw.gov .)
Information technology	The unique nature of AI may require revisions to IT policies and procedures, including enhanced pre- and post-implementation testing protocols to identify and mitigate potential risks associated with AI systems, such as unintended biases and vulnerabilities.	10%
Training	Training staff in the responsible use of AI is essential to ensure that AI is used ethically and within guardrails set by the council, enabling councils to maximise benefits and minimise risks.	41%

Element	Details	Percentage of councils that considered the element
Reporting process	Regular reporting to senior management or governance bodies ensures ongoing oversight of AI adoption, aiding strategic alignment, risk management and transparency.	17% (had policy or procedures for monitoring, evaluating and reporting on the adoption and use of AI) 10% (had undertaken some reporting to senior management or a relevant governance committee)

9.4. Strategic use of artificial intelligence

Enhanced visibility of opportunities, challenges and risks will better position councils to leverage the benefits of AI; however, most councils do not yet have an AI strategy

Only 10% of councils have reported to senior management or relevant council committees regarding the adoption and use of AI. Additionally, just 24% are systematically recording or monitoring risks associated with AI within their risk registers. While councils are in the early stages of adopting AI, only 11% have an AI adoption strategy.

This, and the limited level of oversight, could significantly hinder councils from fully leveraging the potential benefits that AI offers, leading to fragmented efforts that don't fully align with councils' objectives. Additionally, risks, both strategic and operational, may not be identified and mitigated.

Some councils are currently developing either a dedicated AI strategy or integrating one into a broader plan.

10. Cyber security

Cyber security is a major concern for local government. Cyber threats have the potential to disrupt operations, compromise sensitive data and, when combined with fraudulent activity, contribute to financial losses. Dependence on third-party vendors and overall supply chains introduces risk, as these external parties may not have strong cyber security measures in place. Identifying and managing cyber risk, including those from third parties, is critical in maintaining business operations and protecting information assets.

Councils have the option to follow the Office of Local Government's (OLG) [Cyber Security Guidelines - Local Government 2024](#) (the Guidelines). The Guidelines aim to help councils develop a basis for cyber security policy and measures.

This chapter analyses how councils:

- manage their internal and supply chain cyber security risks
- control and monitor their cyber security investments.

Chapter highlights

- Councils have gradually but inconsistently improved in relation to four cyber security governance controls dealing with policies, risk registers, staff training and incident recording. Challenges remain for the consistent delivery of staff training and registration of cyber security incidents, and around a quarter of councils are missing at least one of the four selected cyber security controls.
- There are significant weaknesses in councils' management of supply chain risks. Seventy-three per cent of councils do not have formal policies addressing supply chain cyber security risks and 70% of councils did not have formal processes to assess their technology assets. These weaknesses include not formalising policies to manage supply chain cyber security risk, not monitoring third-party cyber security responsibilities throughout the service agreement, and not including third-party providers during cyber incident response plan testing.
- There are opportunities for councils to improve the management of their cyber security spending. There is limited monitoring of investment/benefit realisation on cyber security investments. Seventy-two per cent of councils did not assess the effectiveness of their cyber security spending or ensure that it aligned with current threats. Only 21% of councils identify and manage underutilised, redundant or outdated cyber security tools and services.

10.1. Background

[Cyber security insights 2025](#) highlights the following issues in local government cyber security risk management and processes over the past 8 years:

- cyber security policy adoption was only improving incrementally
- cyber security framework adoption improved but only 26% of councils adopted the Guidelines
- councils had not identified all their information assets that required protection.

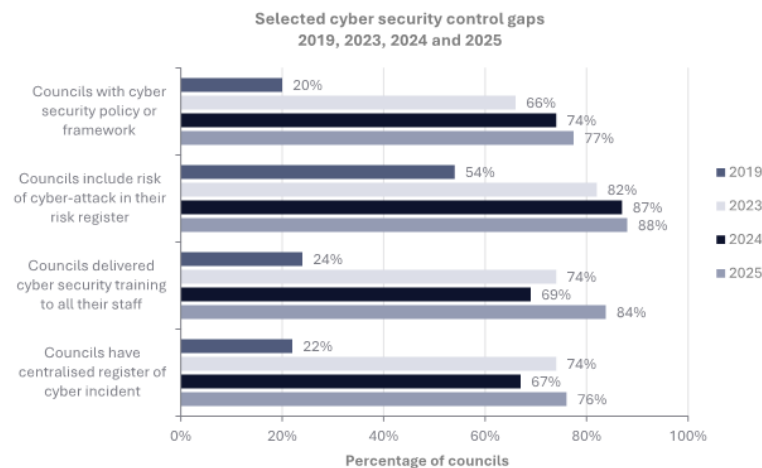
Item 8.1 - New Item (8) Auditor General Local Government
reports

05 - NSW Auditor General's report on
local government for 2025

Item 6.1

Enclosure 2

The chart below shows selected cyber security control gaps from 2019–25. While the results do not mean that all risks are mitigated, it is encouraging that councils have focused on these gaps and there have been some improvements to cyber security controls over the past three years, in comparison to when the Audit Office first reviewed these controls in 2019.



Source: Audit Office findings.

While the overall trend indicates improvements in these key cyber security controls, especially regarding governance, the trend in cyber security training and cyber incident management has been inconsistent. Twenty-four per cent of councils have not met at least one of the key cyber security controls, with incident management the lowest in 2025.

Cyber security insights 2025 also identifies issues in how government manages third parties and their cyber security risks. This chapter covers some aspects of cyber security risk management, cyber security risks from third-party suppliers and the management of cyber security investment based on data collected from NSW councils.

10.2. Managing supply chain cyber security risks

As organisations continue to utilise third-party systems and services, the potential for cyber threats originating from a breached third party has grown significantly. Understanding and managing cyber risk in supply chains is essential for maintaining business continuity and protecting valuable data and assets.

The Audit Office reviewed the process in place for managing cyber security risk, including risk arising from supply chains. This assessment focused on determining whether councils:

- effectively maintain, manage and monitor their cyber security risks, encompassing both internal threats and those associated with third parties and overall supply chains
- maintain up to date inventories of all assets related to both external and internal systems, supported by robust procedures to ensure completeness and appropriate risk classification of each asset
- employ structured protocols for third-party management, including formal due diligence practices, clear definition and oversight of roles and responsibilities, as well as ongoing management of security risks throughout the life cycle of IT partnerships.

Item 8.1 - New Item (8) Auditor General Local Government
reports

05 - NSW Auditor General's report on
local government for 2025

Item 6.1

Enclosure 2

Seventy-five councils do not include cyber security supply chain risk in their risk register

Only 75 councils (60%) included cyber threats in their risk register. Of these:

- only 80% have formal plans to mitigate their cyber security risk
- 60% (75) have not recognised cyber security supply chain risk in their registers.

Adoption of them is not mandatory, but the Guidelines provide advice on managing these cyber security supply chain risks. Foundational and detailed requirements 1.10 guides councils in how to identify and manage third-party service provider risks, facilitated by governance and contractual controls.

Seventy per cent of councils have not risk assessed their technology assets, and 31% do not record their understanding of external systems or services

Seventy per cent of councils did not have formal processes or criteria to formally classify and risk assess their technology assets that need protection. Identifying and assessing risk to their technology assets enable councils to prioritise cyber security controls according to business-critical information and high-risk assets.

There are gaps in understanding council third-party systems and services. Eighty-seven per cent of councils inventoried their internal systems and hardware, yet only 69% identified third-party services or systems. This may leave them vulnerable to understanding their interdependency and their exposure to third-party cyber security risks.

Seventy-one per cent of councils lacked formal governance over exception approvals for patching systems

Seventy-one per cent of councils did not have formal processes for documenting and approving exceptions where a business has accepted the risk of not applying required or recommended patches. Leaving systems without required or recommended patches may lead to vulnerabilities in the system and the IT environment, increasing the possibility of systems and information being breached.

More cyber security incident planning involving third-party providers is needed

Councils have weaknesses in their readiness to respond adequately and appropriately to cyber security incidents. Thirty-two per cent of councils do not have a formal cyber incident response plan, and 61% of councils do not periodically test their plans. Further, many do not have plans to test them or testing is ad hoc. Eighty per cent of councils do not include third-party providers when testing their cyber incident response plans.

There are weaknesses in managing third-party cyber security risks

Councils that do not manage third-party cyber security risks effectively expose themselves to significant vulnerabilities that may lead to data breaches, operational disruptions, financial losses and reputational damage.

Only 42% of councils have a formal due diligence process that includes cyber security risk that must be performed before entering supplier relationships. The remaining councils explained that they do not have those due diligence processes formalised, and cyber security risk is not specifically considered or will be developed.

In addition:

- 73% of councils do not have formal policies and procedures for the management of supply chain cyber security risk
- 63% of councils do not monitor and enforce third-party cyber security responsibilities throughout the technology product and service life cycle.

Item 8.1 - New Item (8) Auditor General Local Government
reports

05 - NSW Auditor General's report on
local government for 2025

Cyber security insights 2025 identifies third-party risk management as one of the most significant and ongoing challenges facing NSW public sector agencies. These issues were more persistent from the *Cyber security in local government audit*, which reported that all three councils were not identifying or managing third-party cyber security risks effectively. Case studies of cyber incidents involving third parties are highlighted in both reports, showing the reality of cyber security risks coming from third parties.

The *Guidelines* give optional requirements to manage third-party risks. Once providers are identified, incidents, compliance and contract clauses must be managed.

10.3. Management of cyber security spending

In addressing ongoing cyber threats, councils must respond and protect their assets and data. However, technology is changing constantly in response to evolving cyber threats, making it crucial to continuously assess the effectiveness of cyber security investments. Regular monitoring ensures that the security measures in place are up to date and capable of addressing the latest threats and risks.

It also helps identify any gaps or outdated systems that may no longer provide adequate protection.

The Audit Office analysed processes that are in place for managing cyber security procurement and benefit realisation, including identification and management of duplicate/redundant cyber security tools and services. The assessment focused on determining whether councils:

- measure the effectiveness of their cyber security spending
- have processes or practices to prevent resource wastage or duplication of efforts in cyber security initiatives.

Seventy-two per cent of councils do not measure the effectiveness of cyber security spending

Seventy-two per cent of councils do not measure the effectiveness of their spending on cyber security. Evaluation of effectiveness was limited at most councils due to the absence of formal and proactive processes or a performance management framework. Informal assessment of financial effectiveness was considered during procurement or in response to budgetary pressures.

Forty councils that measured their spending effectiveness used qualitative metrics, including evaluation of their performance against their cyber frameworks or metrics on the number of blocked cyber security attacks. Twenty-two (55%) of these councils did not measure the financial benefits or cost efficiency of their cyber security spending. Assessing the cost efficiency of cyber security investments is crucial for efficient resource allocation, justifying expenditures, managing risks, ensuring stakeholder confidence, maintaining regulatory compliance and enabling continuous improvement.

Case study – Sharing the Chief Information Security Officer

A number of councils worked collaboratively to engage and share a Chief Information Security Officer (CISO), enabling each of them to improve their cyber security control environment.

These councils adapted a shared collaborative concept, established a shared role description and executed a deed of agreement. The agreement outlined services, payment terms and employment arrangements between the councils. Thus, they shared the financial responsibility, which allowed a more competitive remuneration package to be offered. The funding model was proportioned on the number of ratable properties within each council.

This approach extended to the operation of the CISO function across the councils and involved:

- collaborative strategic planning with all Chief Information Officers (CIOs)
- sharing time across the councils
- flexibility for specific requirements on a temporary basis
- embedding strategic risk management with the CISO at executive meetings
- tailoring strategic and tactical plans and engagement for each council
- sharing a common cyber security framework with goals and timelines adapted for each council
- sharing resources and expertise across councils for cyber security tools and projects.

Benefits to the councils include the ability to leverage cyber security insights and solution creation; collective and individual improvement of cyber security resilience through standardised practices and milestones; and cost savings through group purchasing and a reduction in duplicate efforts.

Key lessons for the sector:

- collectively establish and agree on the CISO's roles, responsibilities, expectations and accountability up front and during the arrangement
- find a CISO who has the right skillset of technical, leadership and interpersonal capability to fit with the collaborative style of the role, including being able to manage stakeholders
- foster a culture of collaboration and mutual support across all CIOs and operational teams to leverage their individual insights and share resources.

Seventy-nine per cent of councils do not have a formal process for identifying and managing underutilised, redundant or outdated cyber security tools and services

Managing underutilised, redundant or outdated cyber security tools and services is essential as it:

- helps maintain a robust security posture by ensuring that all tools and services are effective and up to date, thereby reducing vulnerabilities and potential entry points for cyber attackers
- optimises resource allocation, allowing agencies to reallocate funds from ineffective tools to more impactful security measures. This not only enhances overall security but also ensures that the cyber security budget is used efficiently.

Councils advised that:

- 21 councils have at least one underutilised cyber security tool due to staff capability gaps or projects still in progress
- 8 councils have at least one redundant cyber security tool, but several councils were still developing processes to identify redundant tools
- 7 councils have outdated tools or services. Two of these councils are planning to upgrade and migrate their systems to improve their capability
- 42 councils have terminated a cyber security tool or service that was not improving their capability, not cost effective or was underutilised, redundant or outdated.

11. Looking forward

Audit Work Program 2025–28

The Audit Office’s [Audit Work Program](#) sets out the Auditor-General’s planned financial and performance audits for the next three financial years and is refreshed annually to stay responsive to emerging risks and evolving stakeholder needs. It is designed to deliver independent assurance and practical insights that inform, influence, and improve public sector performance. The current program is organised around five themes that target systemic and priority issues, so that reports create public value and help agencies achieve more with finite public funds.

The next local government–focused report scheduled for tabling is ‘[Long-term financial planning in local government](#)’. For more information, or to subscribe to updates, please visit our website.

Item 8.1 - New Item (8) Auditor General Local Government
reports

05 - NSW Auditor General's report on
local government for 2025

Item 6.1

Enclosure 2

Appendix 1 – Response from the Department of Planning, Housing and Infrastructure

Department of Planning, Housing and Infrastructure
Office of Local Government



Our Ref: A991839

Mr Bola Oyetunji
Auditor General for New South Wales
GPO Box 12
SYDNEY NSW 2001

27 January 2026

Subject: Draft NSW Auditor General's Report on Local Government 2025

Dear Mr Oyetunji

Thank you for your email of 15 December 2025 and the opportunity to respond to your draft
Financial Audit Report on Local Government 2025 (the Report).

It is pleasing that your audits indicate that the quality of financial reporting has improved. I also note
that the reported council operating losses and the infrastructure spending needs indicate that there
is still more to be done to address financial sustainability across the sector. You will be aware the
NSW Government's response to the Standing Committee on State Development's recommendations
on the ability of local governments to fund infrastructure and services seeks to address many of the
concerns you have raised. It includes an action to streamline financial reporting to reduce
unnecessary complexity.

In relation to the specific findings in the Report, particularly the recommendations to the Office of
Local Government (OLG), Department of Planning, Housing and Infrastructure, I provide the
following notes for your information.

The regulatory framework

As the responsible agency for regulation of the NSW local government sector, OLG is committed to
improving the capacity and capability of all councils while also managing the appropriate regulatory
burden. OLG continually monitors and improves its processes and frameworks and seeks to reduce
reporting obligations while ensuring councils operate within the requirements of the *Local
Government Act 1993* (the Act) and remain answerable to their communities.

Each year OLG releases an updated Code of Accounting Practice and Financial Reporting (the Code)
for use by councils and Joint Organisations to prepare their annual financial statements. The Audit
Office has been an active participant in the Code Working Group, working with OLG, key
stakeholders, and councils. The 2025/26 Code Working Group considered a range of issues,

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**Item 8.1 - New Item (8) Auditor General Local Government
reports**

**05 - NSW Auditor General's report on
local government for 2025**

Department of Planning, Housing and Infrastructure
Office of Local Government



including simplifying reporting requirements and providing additional guidance about materiality. I can confirm that the OLG and the Code Working Group remain committed to continuing to streamline the Code and designing improvements that consider the proportionate impact on councils of varying size, risk profiles and complexity.

Council liquidity and cash flow

In August 2025, OLG released revised Quarterly Budget Review Statement (QBRs) Guidelines introducing a standardised reporting template that requires councils to report to its councillors and communities on an individual fund level. The guidelines also introduced a new requirement for councils to provide OLG with an electronic QBRs throughout the financial year. Reporting clear, up-to-date financial information will increase the ability of councillors, the public and OLG to oversee council budgets throughout the financial year.

The Audit report cites an increasing number of councils reporting operating losses for the financial year ended 30 June 2025 with 19 councils with insufficient cash and investments and 2 councils breaching the Act by spending restricted cash without approval.

OLG monitors the financial performance of all councils using a risk management framework to identify those requiring a greater level of scrutiny and assistance. The introduction of standardised QBRs reporting will provide more timely insights into their financial health. It should be noted that OLG meets with these identified councils regularly to ensure that cash flow and long term financial sustainability issues are being addressed.

Major capital projects

The need for improvement in this area has been highlighted in the Report with a number of council capital works projects running into difficulty. These often adversely impact the financial sustainability of councils. The need to better address the challenges associated with capital expenditure within the local government sector is recognised by OLG and a review and revision of the framework has commenced.

AI and cyber security

As noted in response to the Audit Office's Local Government report 2024, updated Cyber Security Guidelines were released for the sector in January 2025 in conjunction with Cyber Security NSW. Further, OLG has collaborated with Cyber Security NSW to establish quarterly Cyber Security Councils Forum events to support information sharing on cyber security risks and highlight good practices within councils and to guide councils' implementation of cyber security control frameworks.

OLG would be pleased to collaborate with either Digital NSW or Cyber Security NSW in the preparation of a framework to guide councils on the responsible implementation of Artificial Intelligence.

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Item 8.1 - New Item (8) Auditor General Local Government reports

0 5 - NSW Auditor General's report on local government for 2025

Department of Planning, Housing and Infrastructure
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[Redacted signature area]

Yours Sincerely

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Secretary

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Item 6.1

Enclosure 2

Appendix 2 – Financial sustainability

For the year ended 30 June 2025, the Audit Office calculated whether councils’ available cash and investments (not subject to external restrictions) were sufficient to meet 3 months of general fund expenses (excluding depreciation and borrowing costs). Further analysis, including operating performance, unrestricted current ratio and level of own source revenue, determined which councils had heightened financial sustainability concerns. A summary of this analysis is in the table below.

Council	Commentary
Financial sustainability risks due to ongoing operating losses or other indicators	
Cessnock City	Insufficient revenue to cover expenses, causing a decline in available cash balances. Unrestricted current ratio was less than 1 and has low levels of own source revenue.
Cootamundra – Gundagai Regional	Insufficient revenue to cover expenses, causing a decline in available cash balances and incurred operating losses.
Kiama Municipal	Cash balance impacted by repayment of borrowings during 2024–25 and ongoing losses from one aged-care facility, which was subsequently sold during 2024–25.
Lithgow City	Cash balances negatively impacted by \$7.2 million in rejected natural disaster claims, which led to an operating loss.
Financial sustainability risks due to low levels of available cash	
Bathurst Regional	Low available cash balance resulting in an additional internal loan was drawn from the sewerage fund to ensure general fund expenses are paid as they fall due. Also, unrestricted current ratio was less than 1.
Glen Innes Severn	Low available cash balance. This is based on the 2023–24 financial statements, as the 2024–25 audit remains in progress.
Upper Hunter Shire	Low available cash balances, has low levels of own source revenue and unrestricted current ratio was less than 1.
Financial sustainability risks due to a small and/or declining population	
Central Darling Shire	Low available cash balance, operating loss and has low levels of own source revenue. Highly dependent on government grants.
Cobar Shire	Insufficient revenue to cover expenses, including high costs of running aged-care facility as the supplier of last resort. Highly dependent on government grants.
Liverpool Plains Shire	Operating loss and low available cash balance as funds being used for capital projects, were not fully met by grants. Highly dependent on government grants.
Walgett Shire	Insufficient revenue to cover expenses, causing a decline in available cash balances. Operating loss, negative operating cash flows and has low levels of own source revenue. Highly dependent on government grants.

Source: Audit Office analysis from financial statements. Used the previous benchmark of 1.5 for assessing unrestricted current ratio.

Appendix 3 – Major capital projects

The Audit Office examined 29 projects to assess whether they met original timeframes and budgets. All variations to original budgets were approved. Many of the delays in regional and rural areas were due to severe weather events and natural disasters.

The infographic below presents projects valued at over \$30 million, categorised by whether they are within timeframes and/or original budgets at 30 June 2025.

✓	Within budget and on time	
	- Cedar Party Creek Bridge - Crown Street Public Domain - Hornsby Park - Merriwa to Willow Tree Road	- Ocean Drive Duplication, Port Macquarie - Parramatta Admin Office - Rhodes Recreation Centre
⊖	Within budget and less than 6-month delay	
	- Bowral Treatment Plant - Hunter Sports Centre - Indoor Sports Centre St Ives High School	- Moss Vale Treatment Plant - Wollombi Road, Cessnock
⊖	Less than 10% over budget and less than 6-month delay	
	Crago Mill Precinct	Gulawa Recreation Centre
!	Within budget and more than 6-month delay	
	- Astra Street, Newcastle Landfill Remediation, Shortland - Gosford Regional Library - GreenWay Project, Inner West	- Green Square to Ashmore Connector - Mardi Water Treatment Plant
!	Less than 10% over budget and more than 6-month delay	
	- Canterbury Leisure and Aquatics - Merrylands CBD Drainage	Willoughby Leisure Centre
!	More than 10% over budget and on time	
	Oran Park Leisure Centre	
!	More than 10% over budget and more than 6-month delay	
	- Eurobodalla Southern Water Supply Storage - Far North Collector Road - Gipps Street Recreation Precinct, Claremont Meadows	- North Sydney Olympic Pool - Regatta Park, Emu Plains - Newcastle Art Gallery

Source: Audit Office analysis of data provided by councils for 29 major capital projects over \$30 million.

Appendix 4 – Status of previous recommendations

The Audit Office's previous reports to Parliament focusing on local government made recommendations to the councils and the Department of Planning, Housing and Infrastructure (the Department). The implementation status of the Audit Office's recommendations is summarised below with the relevant findings for 2024–25.

Recommendations to the Department	Comment	Current status
Financial reporting		
The Department should reduce councils' financial reporting burden, and remove non-value-adding disclosures from financial statements.	The OLG, within the Department, removed the performance ratios from the 'Local Government Code of Accounting Practice and Financial Reporting'. The NSW Government's response to the State Development Committee's Inquiry into the 'Ability of local governments to fund infrastructure and services' committed to establish an Expert Advisory Panel to streamline local government financial statements.	—
Developer contributions		
The Department, as the principal department responsible for administration of the <i>Environmental Planning and Assessment Act 1979</i> , addresses how funds collected under one plan are treated if a contribution plan is repealed, or repealed and replaced with a new contributions plan.	The Department advised that it has developed material to be included in the new local infrastructure contributions practice notes.	—
Rural firefighting equipment		
The Department assess council's compliance with legislative responsibilities and standards or guidelines regarding the rural firefighting equipment vested to councils under section 119(2) of the <i>Rural Fires Act 1997</i> .	The Standing Committee on State Development report on 'Ability of local governments to fund infrastructure and services' recommended the legislation be amended so these assets are vested to the Rural Fire Service. On the 30 January 2024, this recommendation was referred to the Public Accounts Committee. On 27 May 2025, the Public Accounts Committee tabled its report, findings and recommendations on the Inquiry: 'Assets, premises and funding of the NSW Rural Fire Services'. The NSW Government responded to the recommendations of the Inquiry on 28 November 2025. It is initiating an audit of red fleet assets with the outcome to be used to develop a business case for considering whether to transfer the red fleet assets to the NSW Government and consider any necessary changes to legislation.	✖

Item 8.1 - New Item (8) Auditor General Local Government
reports

05 - NSW Auditor General's report on
local government for 2025

Recommendations to the Department	Comment	Current status
Early financial reporting procedures		
The Department should consider requiring early financial reporting procedures across the local government sector.	The Department is not implementing mandatory early financial procedures. The Department will continue to remind councils to engage early with valuers and ensure asset valuations are completed before 30 June.	✕
Quality of financial reporting		
Councils should perform more robust month-end processes and quality reviews of financial statements and supporting working papers before they are submitted for audit.	Most councils have improved the quality of their financial reporting as indicated by fewer errors and fewer versions of financial statements being submitted for audit.	✓
Asset valuations		
Councils should complete asset revaluations before financial year-end.	Councils should complete asset valuations before financial year-end to help improve the quality and timeliness of financial reporting.	—
Asset source records		
Councils should improve controls and processes to ensure the integrity and completeness of asset source records.	Councils should continue to improve controls and processes to ensure the integrity and completeness of asset source records. Many councils have opportunities to improve the completeness, accuracy and security of fixed asset registers. All significant prior-period errors were caused by incomplete and inaccurate asset records.	—
Cyber security		
Councils should prioritise planning and governance of cyber security to ensure cyber security risks over key data and IT assets are appropriately managed and key data are safeguarded. Councils should refer to the 'Cyber Security Guidelines – Local Government' released by the OLG.	Councils should continue to focus on improving cyber security governance and controls. Cyber security findings were reported to 24% of councils for absence of at least one of the following governance and internal controls to manage cyber security: • cyber security framework, policy and procedures • register of cyber incidents • cyber security training and awareness program.	—
Key ✓ Fully addressed — Partially addressed ! Not addressed ✕ Closed		

Appendix 5 – Status of audits

Below is a list of local councils, county councils and joint organisations. The list includes a summary of the status of the 2024–25 financial statement audits, including the type of audit opinion and the date it was issued.

Key

Type of audit opinion		Date of audit opinion	
Unmodified opinion	✓	Financial statements were lodged by the statutory deadline of 31 October 2025*	✓
Unmodified opinion with an emphasis of matter	–	Extensions to the statutory deadline (met)	✓
Modified opinion: Qualified opinion or a disclaimer of opinion	!	Extensions to the statutory deadline (incomplete)	!
		Financial statements not prepared or lodged after extension lapsed.	!

* Date of lodgement could be later than the date of the audit opinion.

Council classifications

The Audit Office adopted the following methodology when classifying councils in its report

OLG classification	Audit Office classification
Metropolitan	Metropolitan
Regional town/city	Regional
Metropolitan fringe	Metropolitan
Rural	Rural
Large rural	Rural

2024–25 audits

Metropolitan councils

Council	Type of opinion		Date of audit opinion	
Bayside	Unmodified	✓	24 October 2025	✓
Blacktown City	Unmodified	✓	31 October 2025	✓
Blue Mountains City	Unmodified	✓	27 October 2025	✓
Burwood	Unmodified	✓	2 October 2025	✓
Camden	Unmodified	✓	17 October 2025	✓
Campbelltown	Unmodified	✓	28 October 2025	✓
Canterbury-Bankstown	Unmodified	✓	31 October 2025	✓
Central Coast	Unmodified	✓	23 October 2025	✓
City of Canada Bay	Unmodified	✓	23 October 2025	✓

**Item 8.1 - New Item (8) Auditor General Local Government
reports**

**0 5 - NSW Auditor General's report on
local government for 2025**

Council	Type of opinion	Date of audit opinion	
City of Parramatta	Unmodified	✓ 29 October 2025	✓
City of Ryde	Unmodified	✓ 22 October 2025	✓
Cumberland City	Unmodified	✓ 31 October 2025	✓
Fairfield City	Unmodified	✓ 22 October 2025	✓
Georges River	Unmodified	✓ 31 October 2025	✓
Hawkesbury City	Unmodified	✓ 21 October 2025	✓
Hornsby Shire	Unmodified	✓ 1 October 2025	✓
Inner West	Unmodified	✓ 30 October 2025	✓
Ku-ring-gai	Unmodified	✓ 24 September 2025	✓
Lane Cove Municipal	Unmodified	✓ 24 October 2025	✓
Liverpool City	Unmodified	✓ 30 October 2025	✓
Mosman Municipal	Unmodified	✓ 20 October 2025	✓
North Sydney	Unmodified	✓ 15 October 2025	✓
Northern Beaches	Unmodified	✓ 21 October 2025	✓
Penrith City	Unmodified	✓ 29 October 2025	✓
Randwick City	Unmodified	✓ 1 October 2025	✓
Strathfield Municipal	Unmodified	✓ 29 October 2025	✓
Sutherland Shire	Unmodified	✓ 27 October 2025	✓
The City of Sydney	Unmodified	✓ 29 October 2025	✓
The Hills Shire	Unmodified	✓ 26 September 2025	✓
The Municipality of Hunters Hill	Unmodified	✓ 28 October 2025	✓
Waverley	Unmodified	✓ 14 October 2025	✓
Willoughby City	Unmodified	✓ 27 October 2025	✓
Wollondilly Shire	Unmodified	✓ 30 October 2025	✓
Woollahra Municipal	Unmodified	✓ 25 September 2025	✓

Item 6.1

Enclosure 2

**Item 8.1 - New Item (8) Auditor General Local Government
reports**

**05 - NSW Auditor General's report on
local government for 2025**

Regional councils

Council	Type of opinion	Date of audit opinion	
Albury City	Unmodified	29 October 2025	
Armidale Regional	Unmodified	31 October 2025	
Ballina Shire	Unmodified	24 October 2025	
Bathurst Regional	Unmodified	14 November 2025	
Bega Valley Shire	Unmodified	30 October 2025	
Broken Hill City	Unmodified	27 October 2025	
Byron Shire	Unmodified	28 November 2025	
Cessnock City	Unmodified	28 October 2025	
Clarence Valley	Unmodified	22 October 2025	
Coffs Harbour City	Unmodified	28 October 2025	
Dubbo Regional	Unmodified	31 October 2025	
Eurobodalla Shire	Unmodified	31 October 2025	
Goulburn Mulwaree	Unmodified	31 October 2025	
Griffith City	Unmodified	31 October 2025	
Kempsey Shire	Unmodified	31 October 2025	
Kiama Municipal	Unmodified	22 October 2025	
Lake Macquarie City	Unmodified	29 October 2025	
Lismore City	Unmodified	11 December 2025	
Lithgow City	Unmodified	31 October 2025	
Maitland City	Unmodified	28 October 2025	
MidCoast	Unmodified	22 October 2025	
Mid-Western Regional	Unmodified	31 October 2025	
Newcastle City	Unmodified	31 October 2025	
Orange City			
Port Macquarie-Hastings	Unmodified	24 October 2025	
Port Stephens	Unmodified	23 October 2025	
Queanbeyan-Palerang Regional	Unmodified	17 November 2025	
Richmond Valley	Unmodified	30 October 2025	
Shellharbour City	Unmodified	31 October 2025	
Shoalhaven City	Unmodified	31 October 2025	
Singleton	Unmodified	28 October 2025	
Snowy Monaro Regional	Unmodified	29 October 2025	
Tamworth Regional	Unmodified	31 October 2025	

**Item 8.1 - New Item (8) Auditor General Local Government
reports**

**05 - NSW Auditor General's report on
local government for 2025**

Council	Type of opinion	Date of audit opinion
Tweed Shire	Unmodified	24 October 2025
Wagga Wagga City	Unmodified	30 October 2025
Wingecarribee Shire	Unmodified	30 October 2025
Wollongong City	Unmodified	30 October 2025

Rural councils

Council	Type of opinion	Date of opinion
Balranald Shire	Unmodified	31 October 2025
Bellingen Shire	Unmodified	22 October 2025
Berrigan Shire	Unmodified	31 October 2025
Bland Shire	Unmodified	30 October 2025
Blayney Shire	Unmodified	8 October 2025
Bogan Shire	Unmodified	29 October 2025
Bourke Shire	Unmodified	29 October 2025
Brewarrina Shire	Unmodified	29 October 2025
Cabonne	Unmodified	30 October 2025
Carrathool Shire	Unmodified	30 October 2025
Central Darling Shire	Unmodified	31 October 2025
Cobar Shire	Unmodified	31 October 2025
Coolamon Shire	Unmodified	27 October 2025
Coonamble Shire	Unmodified	30 October 2025
Cootamundra-Gundagai Regional	Unmodified	5 December 2025
Cowra Shire	Unmodified	30 October 2025
Dungog Shire	Unmodified	11 December 2025
Edward River	Unmodified	31 October 2025
Federation	Unmodified	17 December 2025
Forbes Shire	Unmodified	31 October 2025
Gilgandra Shire	Unmodified	31 October 2025
Glen Innes Severn		
Greater Hume Shire	Unmodified	31 October 2025
Gunnedah Shire	Unmodified	30 October 2025
Gwydir Shire	Unmodified	20 October 2025
Hay Shire	Unmodified	29 October 2025
Hilltops	Unmodified	31 October 2025

**Item 8.1 - New Item (8) Auditor General Local Government
reports**

**05 - NSW Auditor General's report on
local government for 2025**

Council	Type of opinion	Date of opinion	
Inverell Shire	Unmodified	31 October 2025	✓
Junee Shire	Unmodified	31 October 2025	✓
Kyogle	Unmodified	31 October 2025	✓
Lachlan Shire			!
Leeton Shire	Unmodified	30 October 2025	✓
Liverpool Plains Shire	Unmodified	30 October 2025	✓
Lockhart Shire	Unmodified	30 October 2025	✓
Moree Plains Shire	Unmodified	30 October 2025	✓
Murray River	Unmodified	29 October 2025	✓
Murrumbidgee	Unmodified	28 November 2025	✓
Muswellbrook Shire	Unmodified	31 October 2025	✓
Nambucca Valley	Unmodified	23 October 2025	✓
Narrabri Shire	Unmodified	12 December 2025	✓
Narrandera Shire	Unmodified	28 October 2025	✓
Narromine Shire	Unmodified	27 October 2025	✓
Oberon	Unmodified	24 October 2025	✓
Parkes Shire	Unmodified	17 October 2025	✓
Snowy Valleys	Unmodified	12 December 2025	✓
Temora Shire	Unmodified	31 October 2025	✓
Tenterfield Shire	Unmodified	22 October 2025	✓
Upper Hunter Shire	Unmodified	30 November 2025	✓
Upper Lachlan Shire	Unmodified	30 October 2025	✓
Uralla Shire	Unmodified	30 October 2025	✓
Walcha	Unmodified	31 October 2025	✓
Walgett Shire	Unmodified	30 October 2025	✓
Warren Shire	Unmodified	30 October 2025	✓
Warrumbungle Shire	Unmodified	30 October 2025	✓
Weddin Shire	Unmodified	31 October 2025	✓
Wentworth Shire	Unmodified	30 October 2025	✓
Yass Valley	Unmodified	31 October 2025	✓

Item 6.1

Enclosure 2

County councils

County council	Type of opinion	Date of opinion		
Castlereagh Macquarie	Unmodified		29 October 2025	
Central Tablelands	Unmodified		14 October 2025	
Goldenfields Water	Unmodified		22 October 2025	
Hawkesbury River	Unmodified		21 October 2025	
Riverina Water	Unmodified		24 October 2025	
Rous	Unmodified		24 October 2025	
Upper Hunter	Unmodified		30 October 2025	
Upper Macquarie	Unmodified		23 October 2025	

Note: The New England County Council was dissolved by the Local Government (Dissolution of New England County Council) Proclamation 2025 on 16 June 2025.

Joint organisations

Joint organisation	Type of opinion	Date of opinion		
Canberra Region	Unmodified		28 November 2025	
Central NSW	Unmodified		27 October 2025	
Far North West	Unmodified		13 October 2025	
Far South West*	Unmodified with an emphasis of matter		30 October 2025	
Hunter	Unmodified		22 October 2025	
Illawarra Shoalhaven	Unmodified		24 October 2025	
Mid North Coast	Unmodified		27 October 2025	
Namoi*	Unmodified with an emphasis of matter		31 October 2025	
New England*			Financial statement not prepared	
Northern Rivers	Unmodified		31 October 2025	
Orana*			Financial statement not prepared	
Riverina and Murray	Unmodified		28 November 2025	
Riverina*	Unmodified with an emphasis of matter		9 September 2025	

* Joint organisations awaiting dissolution.

2023–24 audits

Below is a summary of the status of incomplete 2023–24 financial statement audits, concluded after the Audit Office’s ‘Local Government 2024’ report was tabled on 31 March 2025.

Council/joint organisation	Type of opinion	Date of opinion		
Lachlan Shire	Unmodified		8 October 2025	

Item 8.1 - New Item (8) Auditor General Local Government
reports

0 5 - NSW Auditor General's report on
local government for 2025

Item 6.1

Enclosure 2

OUR VISION

Our insights inform and challenge
government to improve outcomes
for citizens.

OUR PURPOSE

To help Parliament hold
government accountable for its
use of public resources.

OUR VALUES

- Pride in purpose
- Curious and open-minded
- Valuing people
- Contagious integrity
- Courage (even when it's uncomfortable)

Item 8.1 - New Item (8) Auditor General Local Government
reports

0 5 - NSW Auditor General's report on
local government for 2025

Item 6.1

Enclosure 2



Audit Office of New South Wales

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Item 8.2 - New Item (8.2) Auditor General letter to OLG

**01 - Letter from Auditor General NSW
to The Hon Wendy Tuckerman MP
dated 16 August 2022**



The Hon Wendy Tuckerman MP
Minister for Local Government
GPO Box 5341
SYDNEY NSW 2001

Contact name: Margaret Crawford
Phone no: [REDACTED]
Our ref: D2215828

16 August 2022

Dear Minister

30 June 2021 Financial Statements Audit for Kiama Municipal Council

I am writing to advise you of significant matters that have come to my attention through the course of my audit of the 30 June 2021 financial statements of Kiama Municipal Council (the Council). Section 426(1) of the *Local Government Act 1993* (the LG Act) requires I communicate these matters to you. The more substantial of these issues is whether the Council is able to continue to pay its debts as and when they fall due.

Management, Council and Council's Audit, Risk and Improvement Committee (ARIC) have been made aware of all issues in relation to the 2021 audit, but the response has been insufficient to conclude the audit. Work on the audit of Council's 30 June 2022 financial statements has not commenced.

Going Concern

As at 30 June 2021, Council's draft financial statements disclose \$141.1 million in current liabilities and \$46.1 million in current assets, including \$37.6 million of cash and investments. The deficit in liquid assets available to fund Council's liabilities poses a significant risk to Council.

A key source of Council's current liquidity issues relates to the construction of the Kiama Aged Care Centre of Excellence, also referred to as Blue Haven Bonaira (Blue Haven). A project to significantly expand the aged care facility, which Council had been operating for the past 40 years, was approved in 2017. The original budget for the project was \$74 million, but the final cost is estimated at \$107.2 million.

A key source of funding for the project was a \$60 million loan from T-Corp, of which the remaining outstanding balance of around \$45 million is payable in August 2023. Repayment of the loan was to be met in part through an asset sale, which is now delayed by legal action. There is now no certainty the transaction can be completed before the T-Corp loan is due.

Council also holds Aged Care Refundable Accommodation Deposits (RADs) on behalf of Blue Haven residents. Council's draft 30 June 2021 financial statements disclose a RAD liability of \$29.5 million, of which Council has set aside \$3.0 million, the minimum required to comply with the Council's Liquidity Management Strategy at 30 June 2021, leaving an unfunded RAD liability balance of \$26.5 million.

Separately, residents of independent living units (ILU) enter a Licence Arrangement with the Council whereby they make an entry payment generally, which is generally refundable within 6 months of a resident leaving the ILU. Residents do not own or have a registered interest in the ILU. Council has not funded repayment of this liability of \$92.5 million at 30 June 2021.

Council's current liabilities also include employee entitlement liabilities of \$7.4 million at 30 June 2021. Council has set aside \$1.5 million towards its expected short-term obligations, but the unfunded liability is \$5.9 million.

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Item 8.2 - New Item (8.2) Auditor General letter to OLG

**01 - Letter from Auditor General NSW
to The Hon Wendy Tuckerman MP
dated 16 August 2022**

Item 6.1

Enclosure 2

There are a variety of economic and circumstantial factors that will impact the timing and quantum of cash required over the short to medium term to fund these liabilities. Council is preparing but has yet to provide us with a sufficiently detailed future monthly cashflow forecast, incorporating different scenarios and assumptions that sets out the potential timing and quantum of cash inflows and payments for a period of not less than 12 months from the certification of the 2021 financial statements.

Adequacy of Council's books and records

Council implemented a new financial system during the 2021 financial year. Poor data migration coupled with the loss of key finance personnel, mean that the weaknesses communicated in my letter of 22 March 2022 have persisted and prevented a satisfactory conclusion to the audit. These issues include:

- weaknesses in supporting working papers and reconciliations of key accounts and sub-ledgers
- deficiencies in the presentation and disclosures within the draft financial statements
- an absence of supporting documentation for prior period restatements of balances within previously submitted financial statements.

Use of externally restricted funds

Council has never maintained separate ledgers for Blue Haven and the Council's other operations. This means it is not possible for the Council to determine the exact financial position of Blue Haven since it commenced operations. This creates a risk that Council has used externally restricted funds for purposes that are inconsistent with section 409(3) of the LG Act. However, given the weaknesses in Council's books and records, and the lack of separation between the ledgers for Blue Haven and the Council, I have not been able to validate the nature or extent of the non-compliance. Among the issues identified:

- Council is unable to substantiate the extent to which RADs have been used to meet Council or Blue Haven operational expenses. The use of funds for these purposes would be inconsistent with section 52N-1 of the Aged Care Act 1997 (Cth) and paragraphs 62-63 of the Fees and Payments Principles 2014 (No. 2)
- \$3.4 million of developer contribution funds, intended for use on Council Chamber upgrades, appears to have been spent on the Blue Haven project during the 2018 and 2020 financial years.

If you need more information about the matters noted in this letter or have information that I should be aware of, please contact me on [REDACTED] or alternatively, Ms Alison Brown (Assistant Auditor-General) on [REDACTED]

Yours sincerely

[REDACTED]

Margaret Crawford
Auditor-General for New South Wales

Cc: Ms Jane Stroud, Kiama Municipal Council - Chief Executive Officer

Item 8.3 - New Item (8.3) PIO docs

01 - Letter from the Hon. Ron Hoenig
MP to Kiama Council date stamped 23
May 2024

Item S.1 - Receipt of Varied Performance Improvement Order

Attachments 1 - Letter from the Hon.
Ron Hoenig MP - Variation to
Performance Improvement Order -
23/05/2024 (redacted)

The Hon. Ron Hoenig MP
Leader of the House in the Legislative Assembly
Vice-President of the Executive Council
Minister for Local Government



Your Ref: JS/CB - 24/17235
Our Ref: A891535

His Worship the Mayor
Cr Neil Reilly
Kiama Municipal Council
PO Box 75
KIAMA NSW 2533

Via email: neil.reilly@kiama.nsw.gov.au

Dear Cr Reilly,

I refer to previous correspondence concerning my intention to vary the Performance Improvement Order (PIO) issued to Kiama Municipal Council (Council) under section 438A subsection (6A) of the Local Government Act 1993 (the Act).

I first want to acknowledge the work that Council has taken to date to address its financial situation. The work has been challenging for both staff and councillors and I appreciate the efforts taken by everyone to arrive at this point.

I have considered Council's submission, made by resolution of Council on 13 February 2024 and communicated by way of letter dated 16 February 2024. I note that Council has accepted my intention to issue a variation to the PIO and requested several amendments be made to the document.

Given the reasoning which was outlined in the Notice of Intention and Council's submission, I have decided to vary the PIO incorporating the amendments requested.

In varying the PIO, I have considered the mandatory criteria set out in clause 413D of the Local Government (General) Regulation 2021. I have had particular regard to concerns that Council is not moving quickly enough to ensure a stable and sustainable financial situation. The advice I received from both the Office of Local Government (OLG) and the independent financial assessment made by Mr John Rayner PSM, point to the dire state of Council's long-term financial position.

With continuing difficult financial circumstances, it is important that Council remains on track with the financial strategies that have been put in place to reduce expenditure and increase revenue. The community needs to have confidence that Council's financial management and performance has independent oversight and is being closely monitored.

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GPO Box 5341 Sydney NSW 2001

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1

Item 8.3 - New Item (8.3) PIO docs

0 1 - Letter from the Hon. Ron Hoenig MP to Kiama Council date stamped 23 May 2024

Item S.1 - Receipt of Varied Performance Improvement Order

Attachments 1 - Letter from the Hon. Ron Hoenig MP - Variation to Performance Improvement Order - 23/05/2024 (redacted)

I also request that Council place the variation to the PIO on Council's website in accordance with section 438D(2) of the Act, and that it be tabled at the next open meeting of Council.

Please also note that Council will be required to provide OLG with reports on its progress every 2 months from the date the varied PIO commences.

At my request, Ms Karin Bishop, Director, Sector Performance and Intervention, at OLG is [redacted] should you have any questions or wish to discuss any matter relating to the variation to the PIO.

Yours sincerely,

[Redacted Signature]

23 MAY 2024

The Hon. Ron Hoenig MP/
Leader of the House in the Legislative Assembly
Vice-President of the Executive Council
Minister for Local Government

Cc: Jane Stroud, General Manager, Kiama Municipal Council
janes@kiama.nsw.gov.au

Item S.1

Attachment 1

Item 6.1

Enclosure 2

Item 8.3 - New Item (8.3) PIO docs

0 2 - Letter from the Hon. Ron Hoenig
MP to Kiama Council Notice of
intention to vary PIO

Item 18.2 - Response to Minister Hoenig - Notice of Intention
to vary a Performance Improvement Order under section
438A(6A) of the Local Government Act 1993

Attachments 1 - Correspondence
from the Minister for Local
Government dated 30 January 2024 -
Notice of Intention to vary a

The Hon. Ron Hoenig MP
Leader of the House in the Legislative Assembly
Vice-President of the Executive Council
Minister for Local Government



Our Ref: A888577

Mrs Jane Stroud
General Manager
The Council of the Municipality of Kiama
PO Box 75
KIAMA NSW 2533

Via email: janes@kiama.nsw.gov.au

Dear Mrs Stroud,

I refer to Council's representations seeking the conclusion of the current Performance
Improvement Order (PIO) issued for Kiama Municipal Council (Council).

The PIO, which was issued by the former Minister for Local Government, the Hon Wendy
Tuckerman MP, required Council to address thirteen specific issues and to provide four
reports detailing Council's progress. I note that Council has provided those reports.

I am satisfied that Council has taken and is continuing to taking significant steps to
address the matters giving rise to the PIO. In this regard, the Audit Office has now signed
off on the 2020/21 financial accounts and the financial accounts for the following years
are nearing completion. Additionally, I am satisfied that Council has taken positive steps
to address other major issues, including its ongoing financial challenges, and has
adopted a long-term financial plan to replenish its financial capacity.

While I have considered the actions taken by Council to address the PIO under section
438E(2) of the *Local Government Act 1993* (the Act), I remain concerned Council is not
moving quickly enough to a stable and sustainable financial situation. I have advice from
both the Office of Local Government and the independent financial assessment from Mr
John Rayner PSM as to the dire state of Council's long term financial situation.

Given the difficult financial circumstances facing the Council, it is important Council
remains on track with the financial strategies that have been put in place to reduce
expenditure and increase revenue. The community needs to have confidence that
Council's financial management and performance has independent oversight and is
being closely monitored.

While Council has recognised these challenges and has taken some steps towards
addressing them, in my opinion the PIO should remain in place with a number of
variations to the actions required to improve performance. This will ensure both existing
councillors and any new councillors elected in the September 2024 elections are aware
of and operate within the financial constraints necessary to return Council to financial
sustainability by 2026/2027.

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GPO Box 5341 Sydney NSW 2001

02 7225 6150
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1

Item 8.3 - New Item (8.3) PIO docs

0 2 - Letter from the Hon. Ron Hoenig MP to Kiama Council Notice of intention to vary PIO

Item 18.2 - Response to Minister Hoenig - Notice of Intention to vary a Performance Improvement Order under section 438A(6A) of the Local Government Act 1993

Attachments 1 - Correspondence from the Minister for Local Government dated 30 January 2024 - Notice of Intention to vary a

In accordance with the requirements of the Act, I attach a Notice of Intention to vary the PIO as well as a proposal for the varied PIO.

I invite Council to make submissions regarding my proposed action within 28 days of the date of this letter and attach a copy of a summary sheet outlining the processes relating to a PIO under the Act.

Yours sincerely,

[Redacted Signature]

The Hon. Ron Hoenig MP
Leader of the House in the Legislative Assembly
Vice-President of the Executive Council
Minister for Local Government

Encl: Notice of intention to vary the PIO, draft varied PIO and summary sheet

Item 18.2

Attachment 1

Item 6.1

Enclosure 2

Item 8.3 - New Item (8.3) PIO docs

**0 2 - Letter from the Hon. Ron Hoenig
MP to Kiama Council Notice of
intention to vary PIO**

**Item 18.2 - Response to Minister Hoenig - Notice of Intention
to vary a Performance Improvement Order under section
438A(6A) of the Local Government Act 1993**

**Attachments 1 - Correspondence
from the Minister for Local
Government dated 30 January 2024 -
Notice of Intention to vary a**

Item 6.1

Enclosure 2

**NOTICE OF INTENTION TO VARY A PERFORMANCE IMPROVEMENT ORDER TO
KIAMA MUNICIPAL COUNCIL UNDER SECTION 438A(6A) OF THE LOCAL
GOVERNMENT ACT 1993**

Item 18.2

In accordance with section 438C of the *Local Government Act 1993* (the Act) I hereby give notice of my intention to vary the Performance Improvement Order (PIO), dated 8 November 2022, pursuant to section 438A(6A) of the Act, for actions to be taken, as identified in the proposed variation to the Performance Improvement Order, to improve the performance of the Council.

Section 438B(2) of the Act requires me to consider the performance improvement criteria prescribed by clause 413D of the Local Government (General) Regulation 2021 before issuing a Performance Improvement Order:

- a) whether the council concerned has failed to comply with its legislative responsibilities, standards or guidelines,
- b) whether there are significant risks facing the council that are not being addressed,
- c) whether previous intervention attempts have failed,
- d) whether council business is being disrupted and the council failing to exercise its functions,
- e) repealed,
- f) whether there is a pattern of poor or inappropriate behaviour, either by one or more councillors or members of staff of the council, that has not been rectified,
- g) any other matter that, in the opinion of the Minister, is relevant to the issuing of the order.

Attachment 1

I have considered these mandatory criteria in the context of the factual findings listed below. On balance I have decided that action must be taken to improve the Council's performance.

The reasons why I, as Minister, propose to vary the Performance Improvement Order (section 438C(2)(b)).

There is evidence to suggest that Council has failed in the past to meet its legislative responsibilities in relation to its financial management which continues to create challenges for its financial sustainability.

In the past it has operated and taken decisions without proper financial accounting, records and reports. The current Council has been made aware of and recognises past failures but is moving too slowly to achieve surplus budgets and become financially sustainable.

The ongoing financial and governance issues facing the Council include:

- a) An inability to produce 20/21 annual financial statements leading to a disclaimer of audit.
- b) A negative trend of increasing liabilities and trading losses.
- c) Questions raised about Council's liquidity and viability.
- d) Council's Aged Care facility/service (Blue Haven) running at a loss.
- e) Poor understanding of the loss, efficiency and compliance of the Blue Haven aged care facilities
- f) As a result of changed accounting systems Council was unable to produce reliable financial reports.

Item 8.3 - New Item (8.3) PIO docs

**0 2 - Letter from the Hon. Ron Hoenig
MP to Kiama Council Notice of
intention to vary PIO**

**Item 18.2 - Response to Minister Hoenig - Notice of Intention
to vary a Performance Improvement Order under section
438A(6A) of the Local Government Act 1993**

**Attachments 1 - Correspondence
from the Minister for Local
Government dated 30 January 2024 -
Notice of Intention to vary a**

- g) Concerns whether Council's Auditor would certify Council as a going concern
- h) Significant cost overrun in the establishment of Blue Haven Bonaira
- i) Restricted funds had been illegally applied to general use.

Given the difficult financial circumstances facing the Council, it is important that Council remains on track with the financial strategies that have been put in place to reduce expenditure and increase revenue.

The community needs to have confidence that Council's financial management and performance has independent oversight and is being closely monitored.

While Council has recognised these challenges and has taken some steps towards addressing them, in my opinion the PIO should remain in place with a number of variations to the actions required to improve performance.

Further, in my opinion, Council should provide bi-monthly reports to the Office of Local Government on the progress and effectiveness of actions taken to achieve financial sustainability for the duration of the period that this PIO remains in place.

The terms of the proposed Performance Improvement Order, including the period for compliance with the order (section 438C(2)(a)).

The attached proposed Performance Improvement Order is intended to form part of this notice. As required by section 438C(2)(a), the terms of the proposed Performance Improvement Order and period for compliance are specified in the proposed Order. As required by section 438A(3)(b),

The actions required to be taken to improve the performance of the Council are specified in the proposed Performance Improvement Order.

The actions that may be taken by me, as Minister, if a Performance Improvement Order is not complied with (section 438C(2)(c)).

If a Performance Improvement Order is not complied with, I may consider:

1. Issuing a further Performance Improvement Order; and/or
2. Temporarily suspending the Council under Chapter 13, Part 7 of the *Local Government Act 1993*.

Invitation to make submissions to me regarding the proposed Performance Improvement Order (sections 438C(3) and (4)).

I invite Council to make submissions to me in respect of the proposed variation to the Performance Improvement Order. Should Council choose to make submissions, they must be provided to me no later than 28 days from the date upon which this notice is served on it.

I will consider all submissions made to me by Council during this period before deciding whether to issue a variation to the Performance Improvement Order.

It is suggested that Council tables this notice at an open Council meeting and provides its submissions by way of resolution of the Council.

Item 8.3 - New Item (8.3) PIO docs

0 2 - Letter from the Hon. Ron Hoenig
MP to Kiama Council Notice of
intention to vary PIO

Item 18.2 - Response to Minister Hoenig - Notice of Intention
to vary a Performance Improvement Order under section
438A(6A) of the Local Government Act 1993

Attachments 1 - Correspondence
from the Minister for Local
Government dated 30 January 2024 -
Notice of Intention to vary a

I have attached an information sheet about the process for the issuing of Performance
Improvement Orders.

Signed on this 30th day of January 2024


The Hon. Ron Hoenig MP
Minister for Local Government

Encl: Information sheet and proposed Performance Improvement Order

Item 18.2

Attachment 1

Item 6.1

Enclosure 2

Item 8.3 - New Item (8.3) PIO docs

**0 2 - Letter from the Hon. Ron Hoenig
MP to Kiama Council Notice of
intention to vary PIO**

Item 6.1

Enclosure 2

Item 8.3 - New Item (8.3) PIO docs

03 - Letter from the Hon. Wendy
Tuckerman MP to Mayor and CEO
Kiama Council

Item S.1 - Letter from the Hon. Wendy Tuckerman MP,
Minister for Local Government

Attachments 1 - Letter - Cllr Neil Reilly
and Ms Jane Stroud from the Hon.
Wendy Tuckerman MP, Minister for
Local Government



The Hon. Wendy Tuckerman MP
Minister for Local Government

Our Ref: A837015

Cllr Neil Reilly and Ms Jane Stroud
Mayor and General Manager
The Council of the Municipality of Kiama
PO Box 75
KIAMA NSW 2533

Via email: neil.reilly@kiama.nsw.gov.au
janes@kiama.nsw.gov.au

Dear Cllr Reilly and Ms Stroud

**NOTICE OF INTENTION TO ISSUE A PERFORMANCE IMPROVEMENT ORDER TO KIAMA
MUNICIPAL COUNCIL UNDER SECTION 438A OF THE LOCAL GOVERNMENT ACT 1993**

In accordance with section 438C of the *Local Government Act 1993* (the Act) I hereby give notice of my intention to issue a Performance Improvement Order under section 438A of the Act, for actions to be taken to improve the performance of the Council.

A copy of the proposed Performance Improvement Order is attached.

Section 438B (2) of the Act requires me to consider the performance improvement criteria prescribed by clauses 413D and 413DA of the *Local Government (General) Regulation 2021* before issuing a Performance Improvement Order. These include:

- whether the council concerned has failed to comply with its legislative responsibilities, standards or guidelines,
- whether there are significant risks facing the council that are not being addressed,
- whether previous intervention attempts have failed,
- whether council business is being disrupted and the council failing to exercise its functions,
- whether there is a pattern of poor or inappropriate behaviour, either by one or more councillors or members of staff of the council, that has not been rectified,
- any other matter that, in my opinion, is relevant to the issuing of the order.

I have considered these mandatory criteria in the context of the factual findings listed below. On balance, I have formed the preliminary view that action must be taken to improve the Council's performance.

My concerns are as follows:

1. There is evidence to suggest that Council has failed to meet its legislative responsibilities in relation to its financial management. Specifically, Council has accessed restricted funds without approval and used those funds for purposes other than for which they were intended in breach of the *Local Government Act 1993* and the *Environmental Planning and Assessment Act 1979*.
2. There is evidence to suggest that Council may not be able to pay its debts as they fall due.

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W. Matthews
7:09

Item 8.3 - New Item (8.3) PIO docs

**0 3 - Letter from the Hon. Wendy
Tuckerman MP to Mayor and CEO
Kiama Council**

*Item S.1 - Letter from the Hon. Wendy Tuckerman MP,
Minister for Local Government*

*Attachments 1 - Letter - Cllr Neil Reilly
and Ms Jane Stroud from the Hon.
Wendy Tuckerman MP, Minister for
Local Government*

3. There were, and continue to be, serious risks faced by the Council due to its financial position having deteriorated to the extent that it had insufficient cash to cover all internal and external obligations.
4. There is evidence to suggest that Council's records do not adequately indicate Council's true financial position.
5. There is evidence that Council has not effectively monitored its liquidity.
6. There is evidence that there have been inadequacies in relation to the oversight and reporting on the financial circumstances of the Council.
7. There is evidence to suggest that Council has not fully or correctly reported the construction costs of the Blue Haven aged care facility (Blue Haven).
8. There is evidence to suggest that Council has not operated the Blue Haven aged care facility in accordance with relevant legal requirements of the *Aged Care Act 1997* (Cth).
9. There is evidence that the continued operation of the Blue Haven has caused and is causing significant financial stress to Council.
10. Council has failed to meet its statutory reporting obligations with respect to its 2021/2022 financial statements.

The community needs to have confidence that Council's financial management and performance has close oversight and is being closely monitored. Given the difficult financial circumstances facing the Council, it is important that Council builds on the financial strategies that have been put in place to reduce expenditure and increase revenue.

In my opinion, a temporary adviser with the requisite financial expertise is needed to advise Council, to report on and oversee the implementation of the financial aspects of the Performance Improvement Order.

The attached proposed Performance Improvement Order forms part of this notice. This includes the terms of the proposed Performance Improvement Order and period for compliance as required by section 438C(2)(a), and the actions required to be taken to improve the performance of the Council as required by section 438A(3)(b).

If a Performance Improvement Order is not complied with, as specified under Section 438C(2)(c), I may consider:

- issuing a further Performance Improvement Order; and/or
- issuing a compliance order (s438HA); and/or
- temporarily suspending the Council under Chapter 13, Part 7 of the Act.

I invite Council to make submissions to me in respect of the proposed Performance Improvement Order as allowed under Sections 438C (3) and (4). Should Council choose to make a submission, it must be provided to me no later than 14 days from the date upon which this notice is served.

I will consider all submissions made to me by Council during this period before deciding whether to issue a Performance Improvement Order.

It is suggested that Council tables this notice at an open Council meeting and provides its submissions by way of resolution of the Council.

Further information regarding the process for the issuing of Performance Improvement Orders is available at <https://www.olg.nsw.gov.au/councils/misconduct-and-intervention/improvement-and-intervention/early-intervention-orders/>.

Item 8.3 - New Item (8.3) PIO docs

**0 3 - Letter from the Hon. Wendy
Tuckerman MP to Mayor and CEO
Kiama Council**

*Item S.1 - Letter from the Hon. Wendy Tuckerman MP,
Minister for Local Government*

*Attachments 1 - Letter - Cllr Neil Reilly
and Ms Jane Stroud from the Hon.
Wendy Tuckerman MP, Minister for
Local Government*

If you have any questions or would like to discuss this matter in more detail please contact Karin
Bishop, Director Sector Performance and Intervention, on [REDACTED] or [REDACTED]

Yours sincerely

[REDACTED]

The Hon. Wendy Tuckerman MP
Minister for Local Government

Encl:
Proposed Performance Improvement Order
Performance Improvement Order Fact Sheet

Item S.1

Attachment 1

Item 6.1

Enclosure 2

Item 8.4 - New Item (8.4) Letter from Jeff Heinecke

01 - Email from Geoff Heinecke dated
20 April 2026 redacted

Michelle Richardson

From: Marilyn and Geoff Heinecke [mailto:mg1819@outlook.com]
Sent: Monday, 20 April 2026 8:25 PM
To: Melissa Matters
Cc: Edwin Humphries
Subject: BLUE HAVEN TERRALONG

Kiama has been my home for fifty years. We moved into BH Terralong five years ago. I am presently a member of the Resident's Committee. There are about 300 rate payers living at Blue Haven.

I watch the recent extra ordinary meeting online. It appeared to me that some Councillors had little knowledge of how Blue Haven operates and is financed. There seemed to be confusion showing in their questions to the speakers.

The Councillors will be the ones who vote on the future of Blue Haven and its residents, and we feel that they should have a better understanding of the situation before doing so. I have an open mind on what direction is best for us.

At today's residents committee meeting it was decided to invite all councillors to a meeting at BH Terralong on Monday May 25. This meeting will be structured to inform the Councillors on finances and the day-to-day operations of this large Council asset. An invitation will be sent to Councillors shortly. We believe that Councillors need to have a good understanding of operational procedures and facts relating to Retirement Villages.

Heinecke

Geoff

*Cr matters
5:09*

Item 8.4 - New Item (8.4) Letter from Jeff Heneicke

**0 1 - Email from Geoff Heinecke dated
20 April 2026 redacted**



Item 6.1

Enclosure 2