Local government 2024

FINANCIAL AUDIT | 31 MARCH 2025

NEW SOUTH WALES AUDITOR-GENERAL'S REPORT

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*.

AUDITOR-GENERAL NEW SOUTH WALES

GPO Box 12
Sydney NSW 2001

The Legislative Assembly
Parliament House
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The Legislative Council
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In accordance with section 421D of the *Local Government Act 1993,* I present a report titled **'Local government 2024'.**

Bola Oyetunji
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.

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

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

Section 1 –

Local government 2024

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.

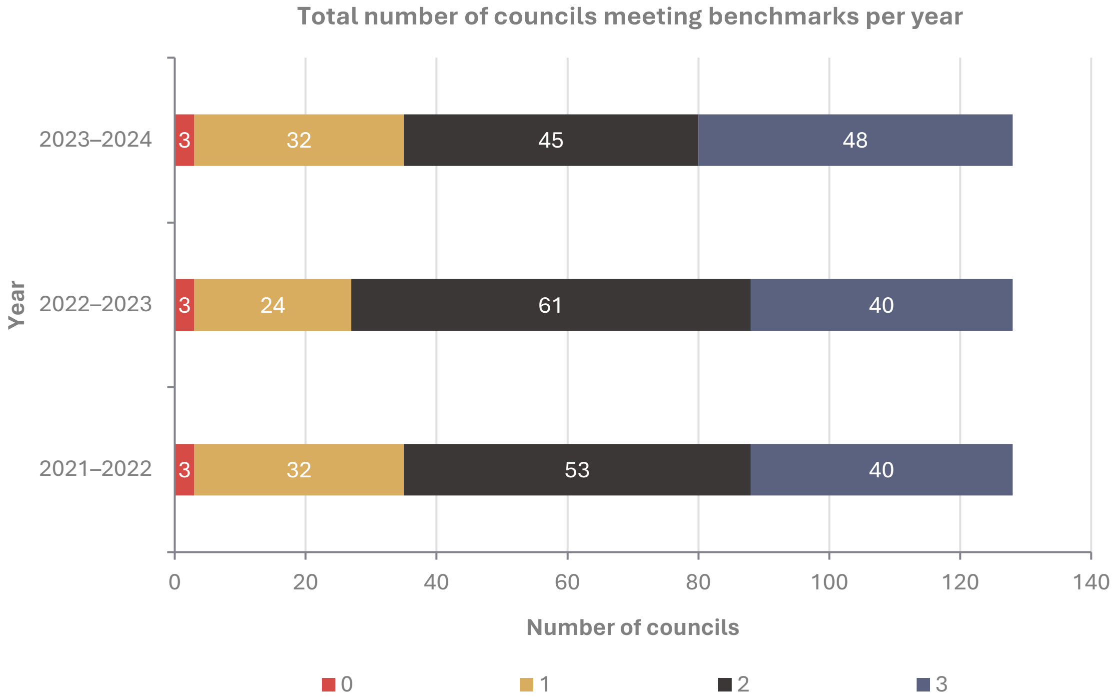
Eighty-eight per cent of councils lodged their 30 June 2024 audited financial statements by the statutory deadline (67% for 30 June 2023)

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 expenses[1] (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.

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.

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.

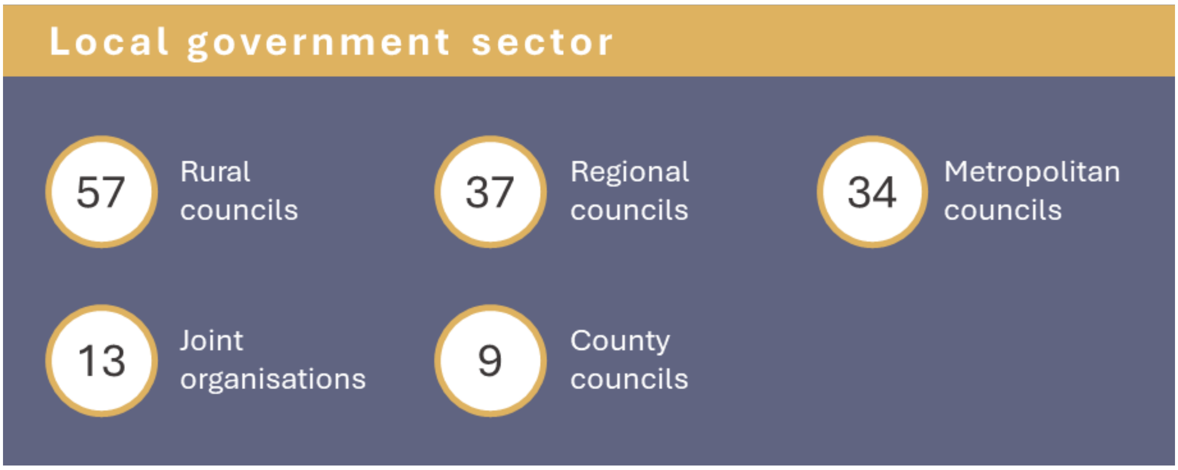
[2] The Standing Committee on State Development's inquiry, 'Ability of Local Government to Fund Infrastructure and Services', had similar findings and recommendations.

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.

General purpose financial statements	Special purpose financial statements	Special schedule – permissible income
Include the financial position, financial performance and cash flows of council operations.	Include the financial position and financial performance of declared business activities of council, prepared under a special purpose framework.	Determines the amount councils can levy for rates in the next financial year, prepared under a special purpose framework.

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:

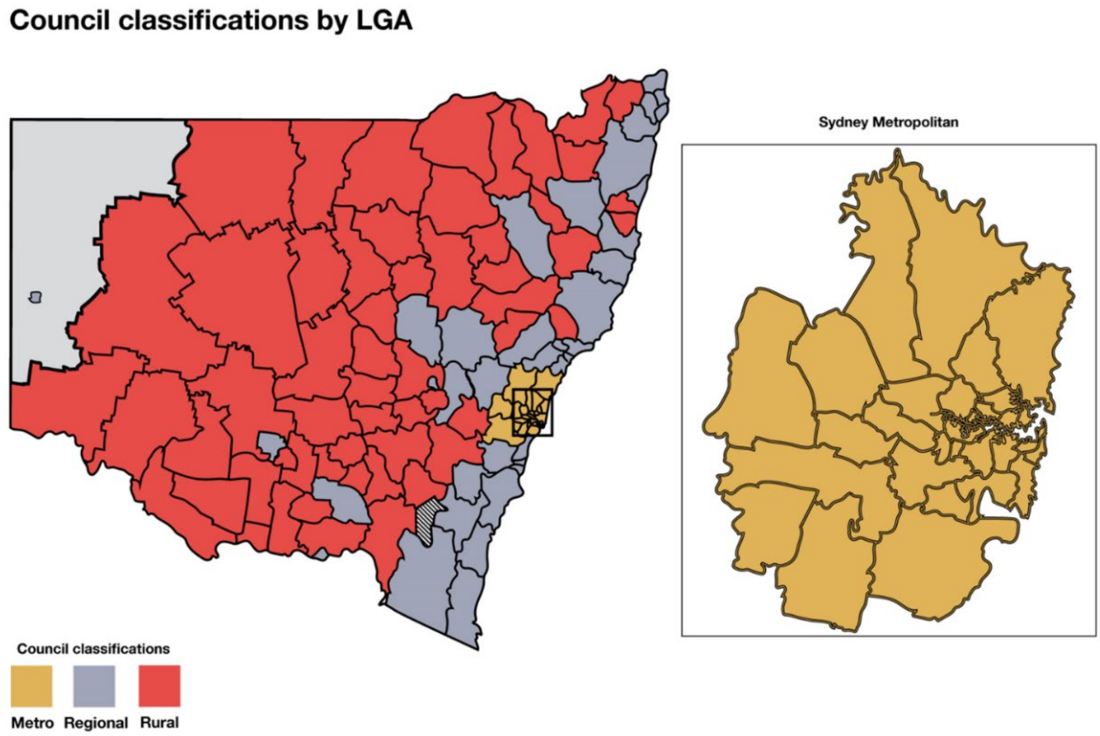
- 2023–24 general purpose financial audits of 127 councils, nine county councils and 13 joint organisations
- 2022–23 general purpose financial audits of seven councils, one county council and one joint organisation.

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.



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.

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.

	Uncorrected errors		Council classification (2024 only)				
Value of errors	**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)

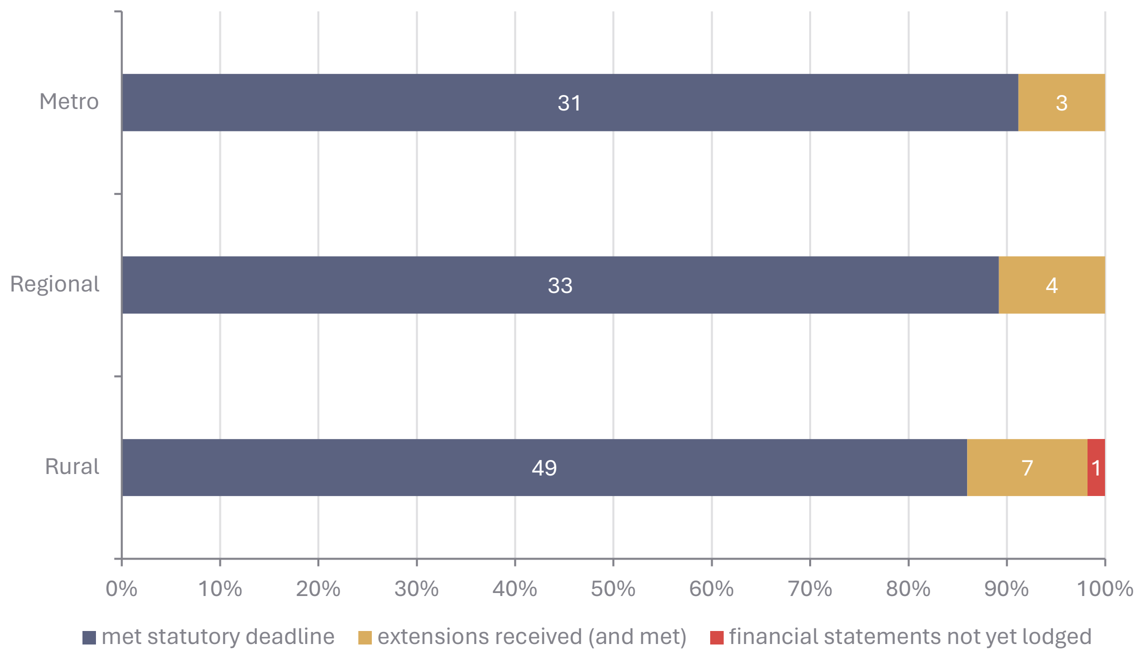
For the 30 June 2024 financial audits of councils, county councils and joint organisations:

- 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).

Timeliness of financial reporting 30 June 2024



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.

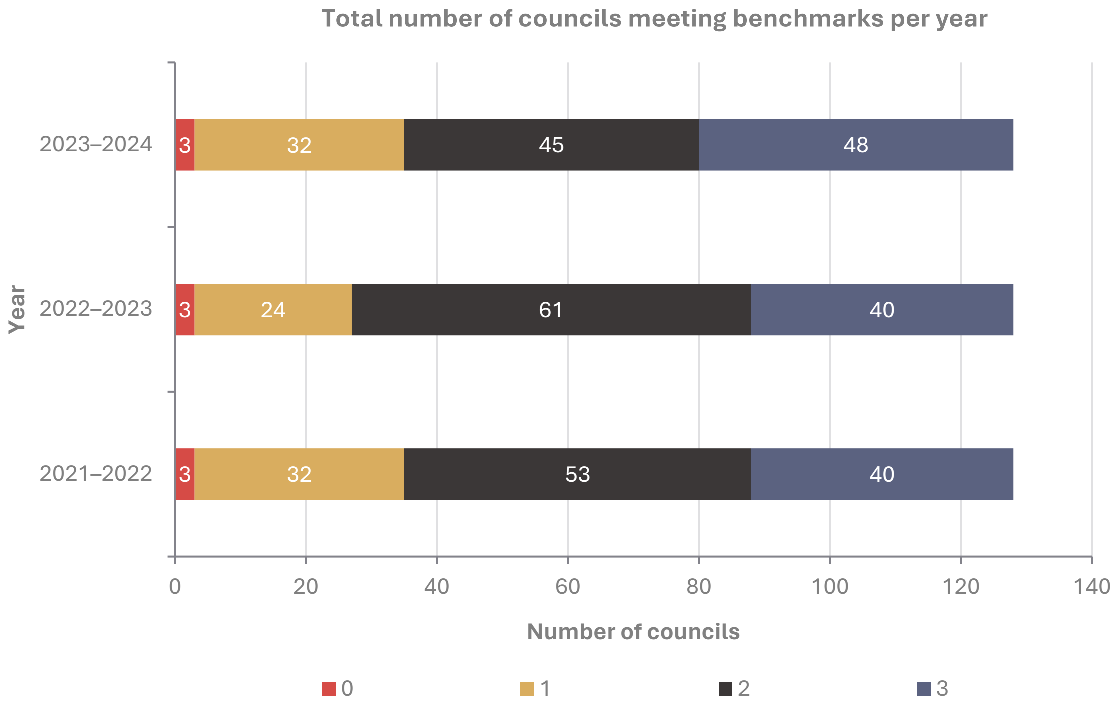
4.1. Key performance measures

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%

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 expenses[3] (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 expenses[4] (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.

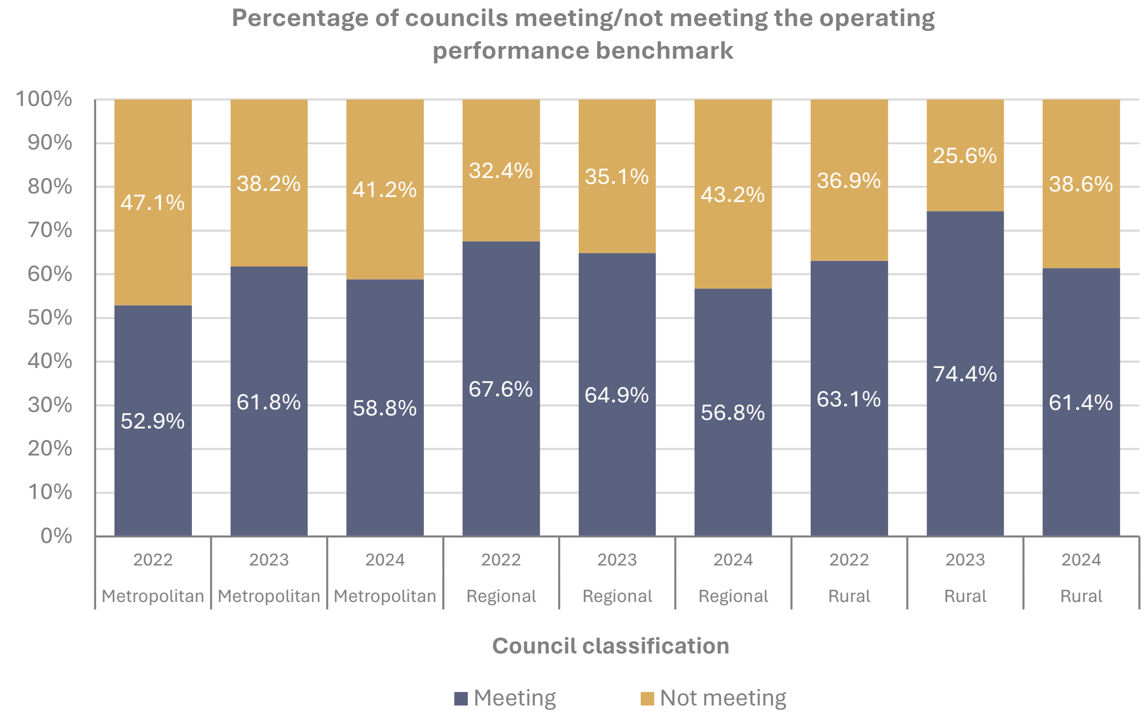
It is crucial that all councils have effective long-term financial plans that aim to ensure they meet key financial sustainability benchmarks.

[3] From the general fund only.
[4] From the general fund only.

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.

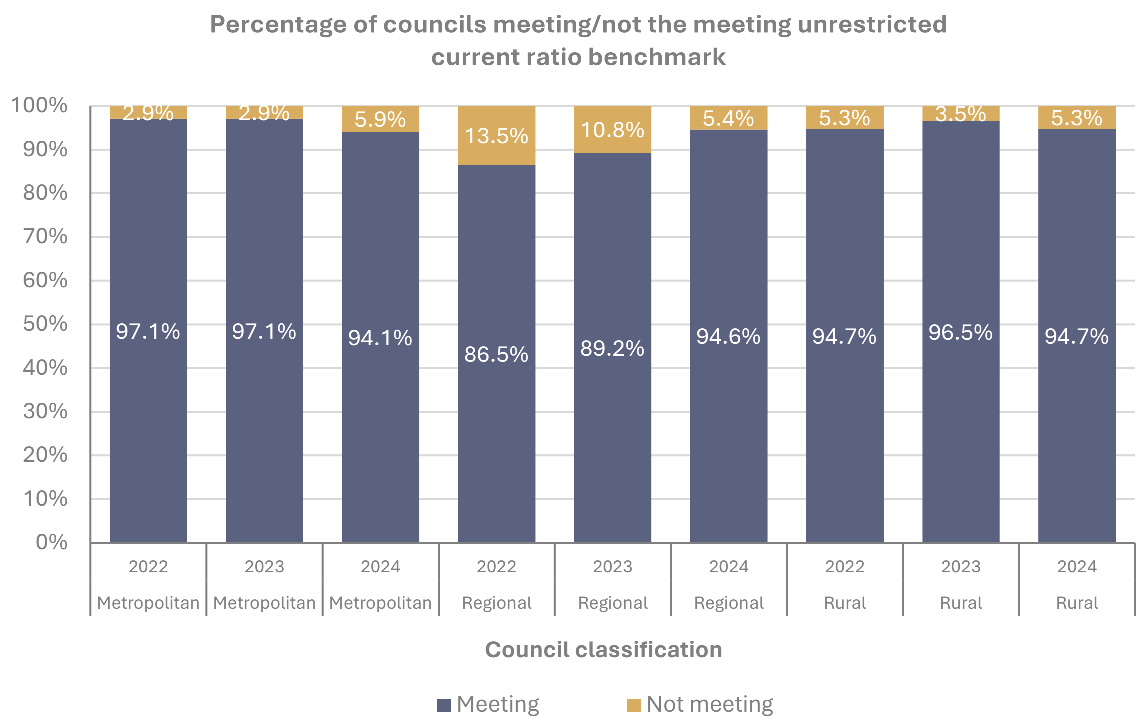


Source: Councils' financial statements (audited).

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.

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.

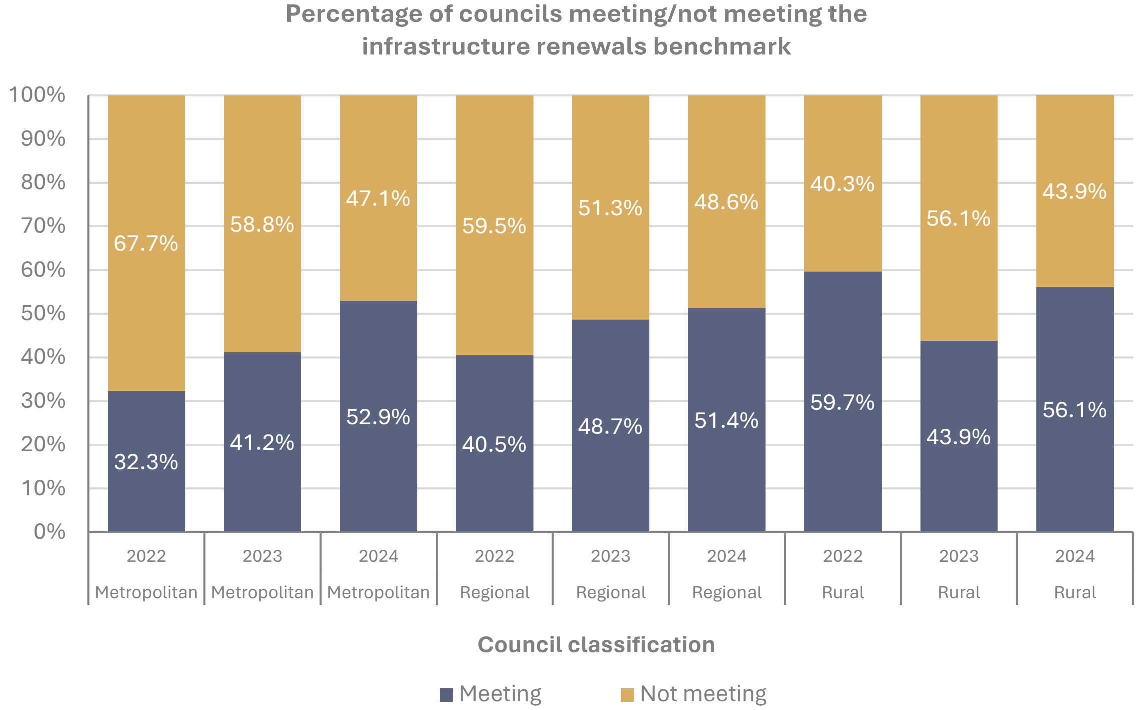


Source: Councils' financial statements (audited).

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

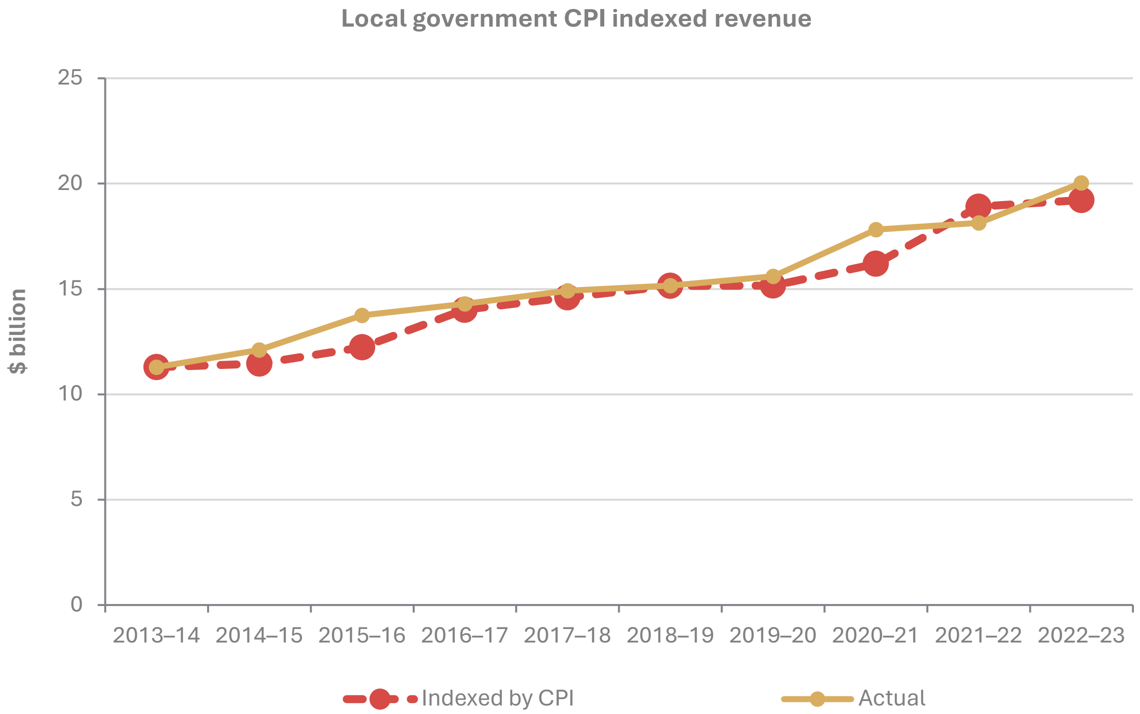
Section 8 of the LG Act requires councils to apply the following principles relating to sound financial management:

- 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.

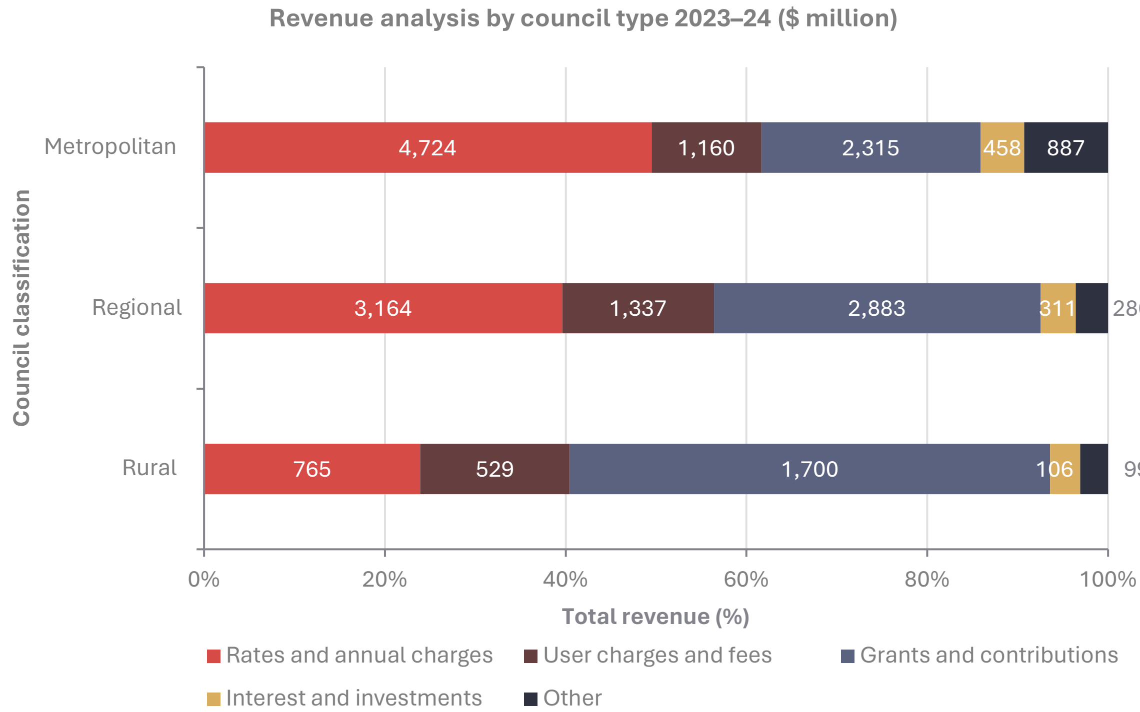


Source: ABS Government Finance Statistics.

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.

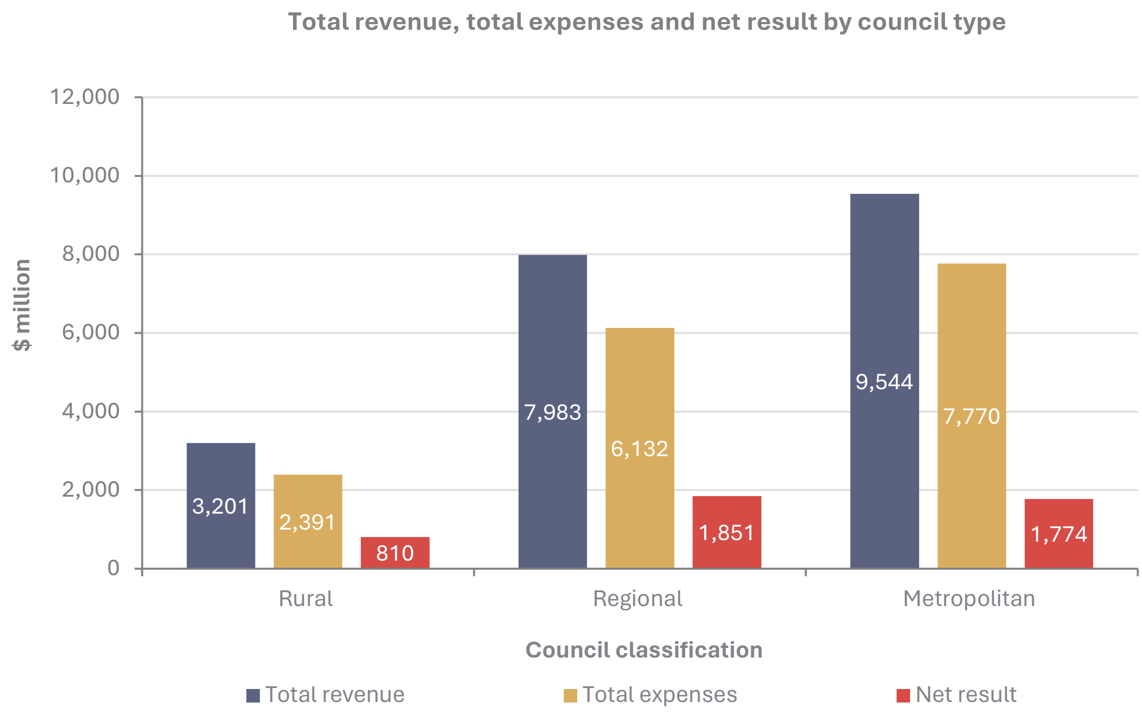
Lack of alternative revenue sources puts pressure on budgets and creates a dependency on grant funding. Rural councils' ability to make and realise long-term plans is diminished, as the timing and amounts of receipts from Commonwealth and state grants are uncertain. Yet the range of services communities 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.



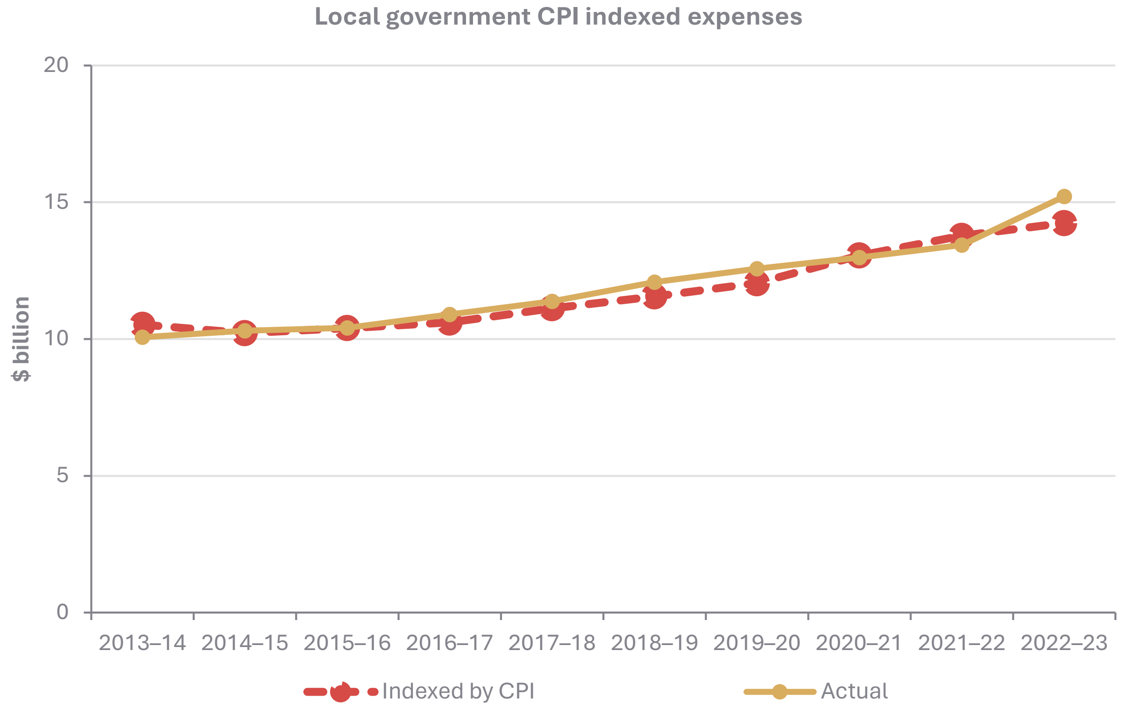
Source: 2023–24 financial statements (audited).

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'.

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.

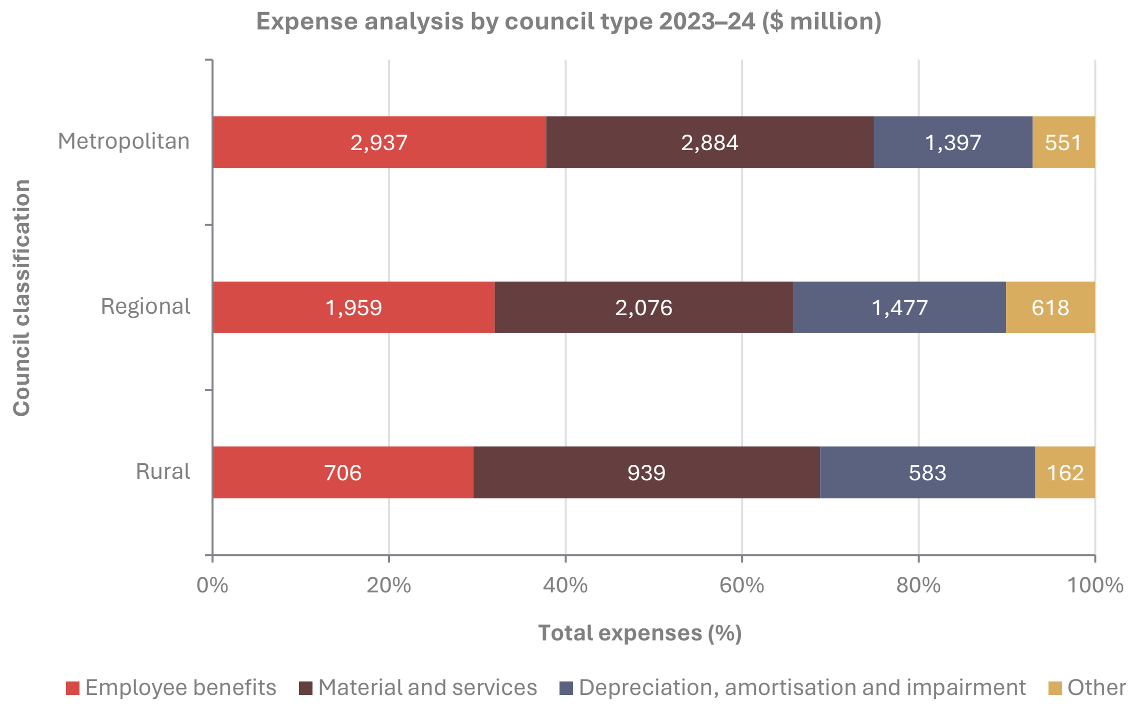


Source: ABS Government Finance Statistics.

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.

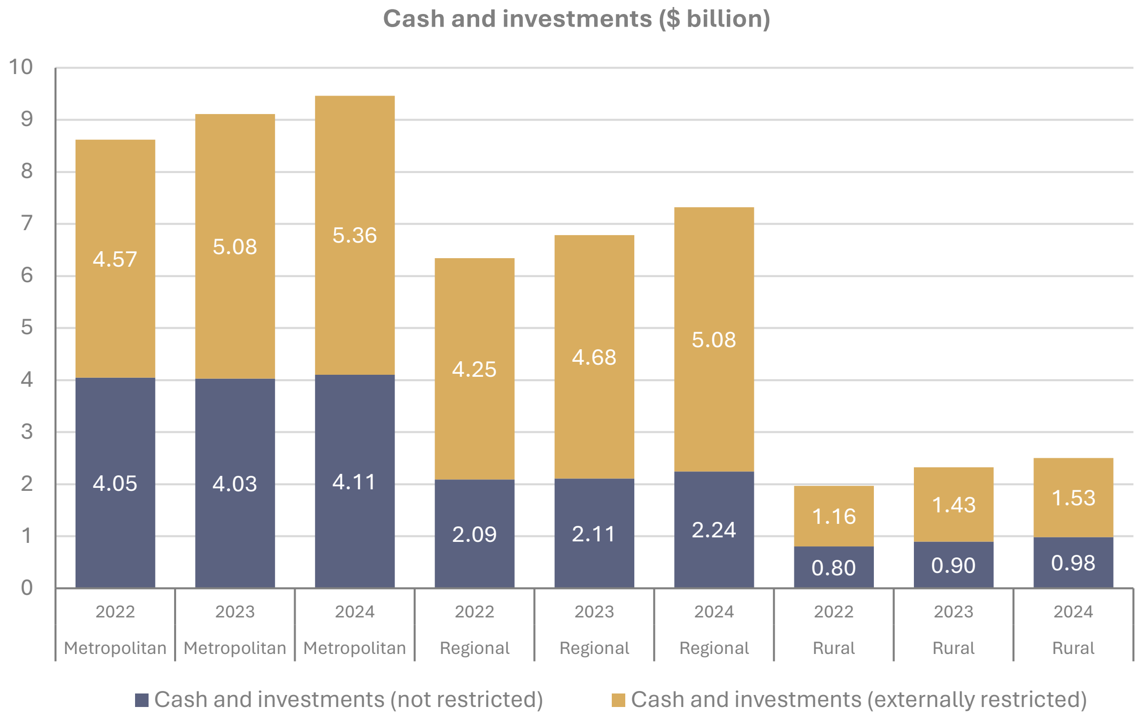
However, while depreciation does not necessarily provide for an asset's replacement and is not a substitute for long-term financial planning, it does serve to preserve some cash from each year's net result that might be applied to the asset's eventual replacement. In other words, if councils aim to break 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.

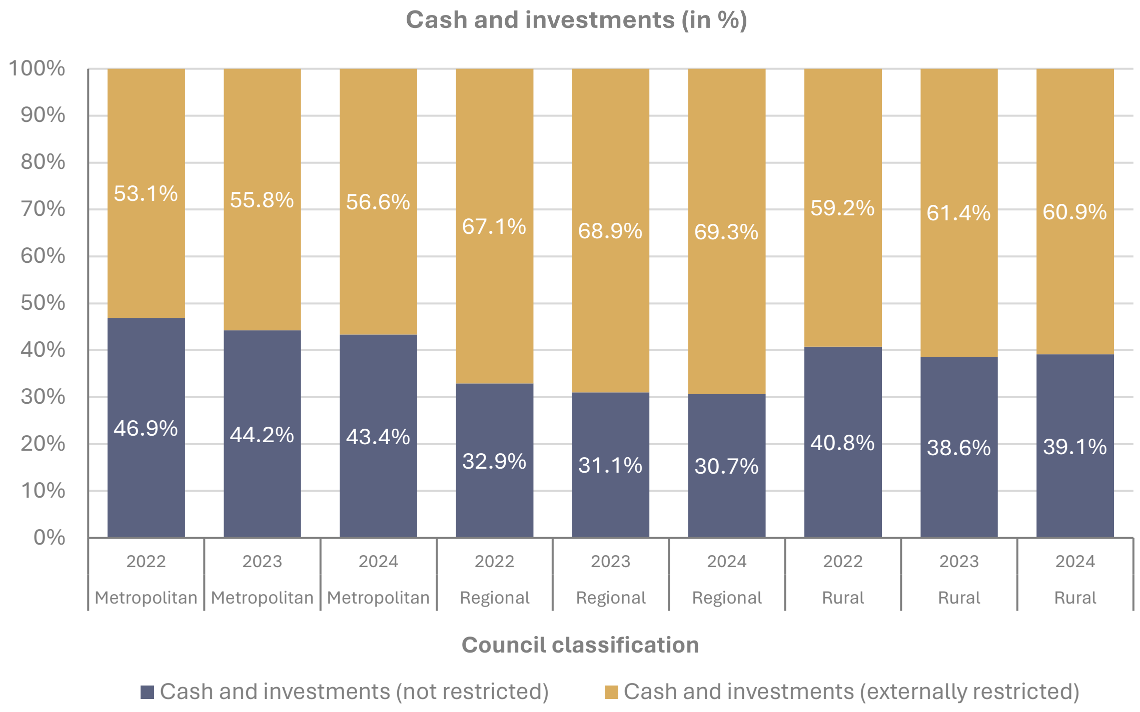
The graph below shows the total cash and investment balances, by council classification, split into externally restricted and not restricted portions over the past three years.



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.

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.

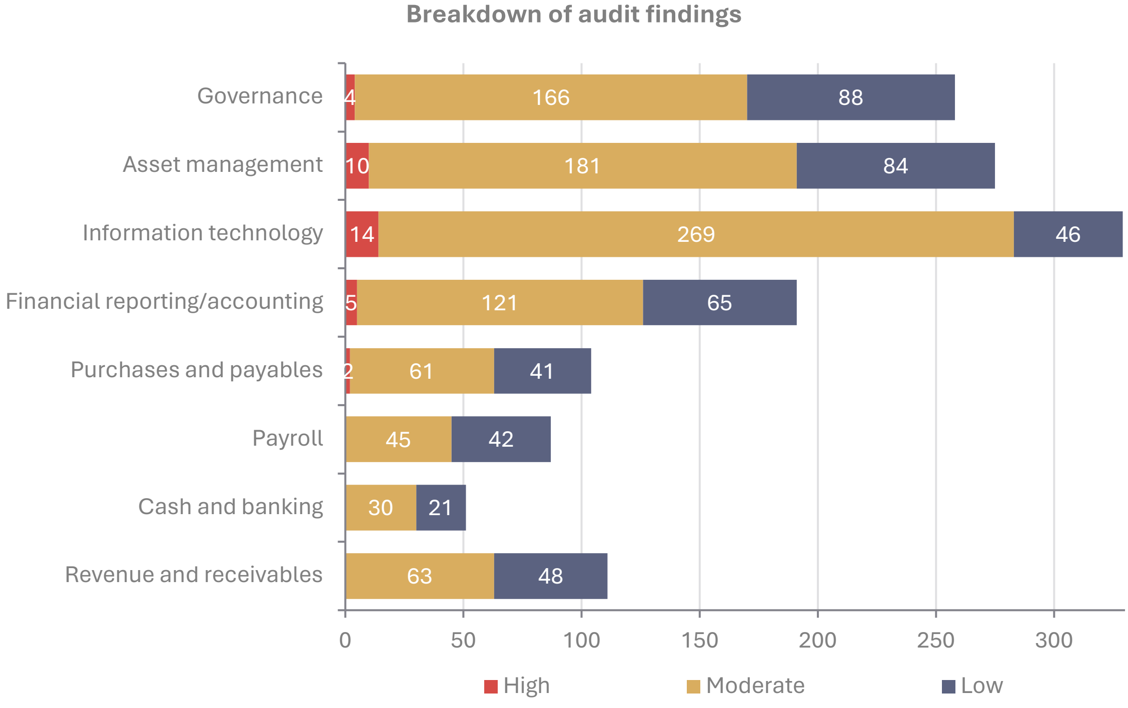
5.1. Key audit findings

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.

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

Planning the valuation

- Regular communication between council's finance and engineering staff.
- Clear scope of assets included for valuation.
- Early engagement of qualified and experienced valuers (internal or external).

Conducting the valuation

- Engagement letter and/or valuer instructions should identify the scope, methodology, key assumptions and acceptable sources of evidence.
- Ensure accuracy and completeness of asset records provided to the valuer.
- Benchmark useful lives against IPWEA guidelines and support variations with evidence.
- Complete key reconciliations between relevant databases.
- Document management's QA review of draft and final asset valuation reports.

Auditing the valuation

- Submit final valuation report with a position paper documenting management's quality review process and rationale for significant movements, or changes in key assumptions/judgements to the Audit Office.

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 identity 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 it's 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

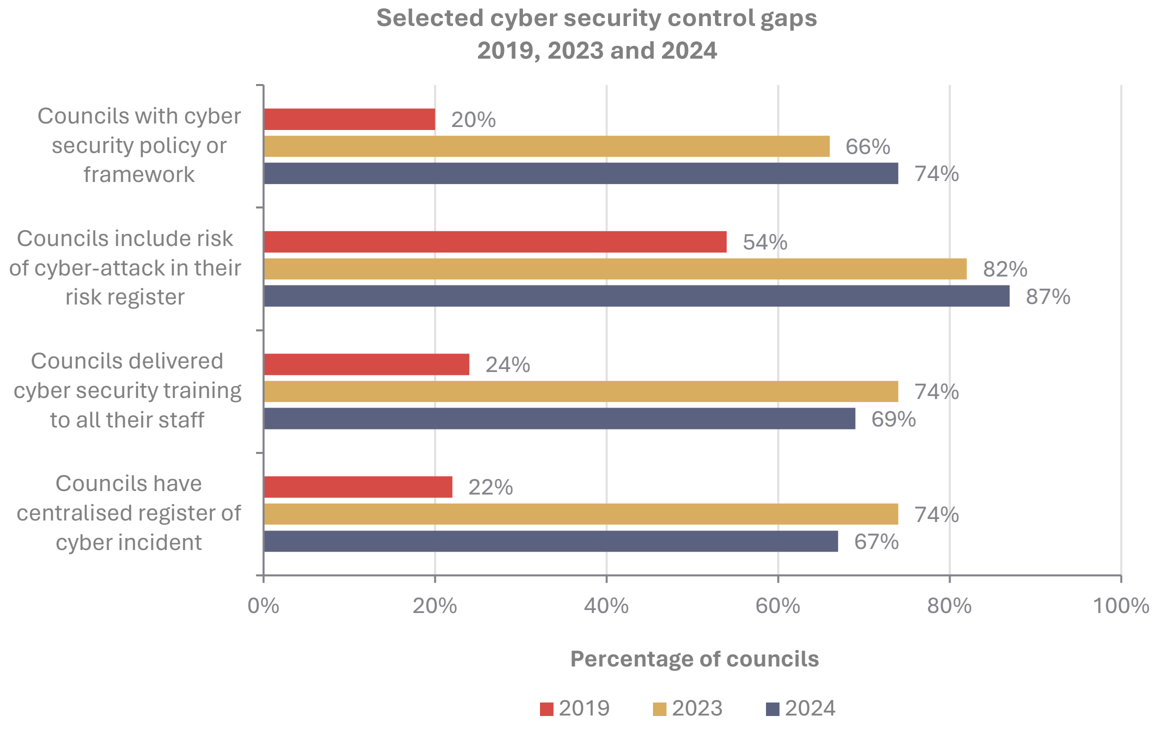
Councils increasingly depend on digital technologies and are a target for state-based, criminal and activist threat actors. Risks identified by the OLG when it released the Guidelines include major disruption to services and operations, and risks to critical infrastructure and services.

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).

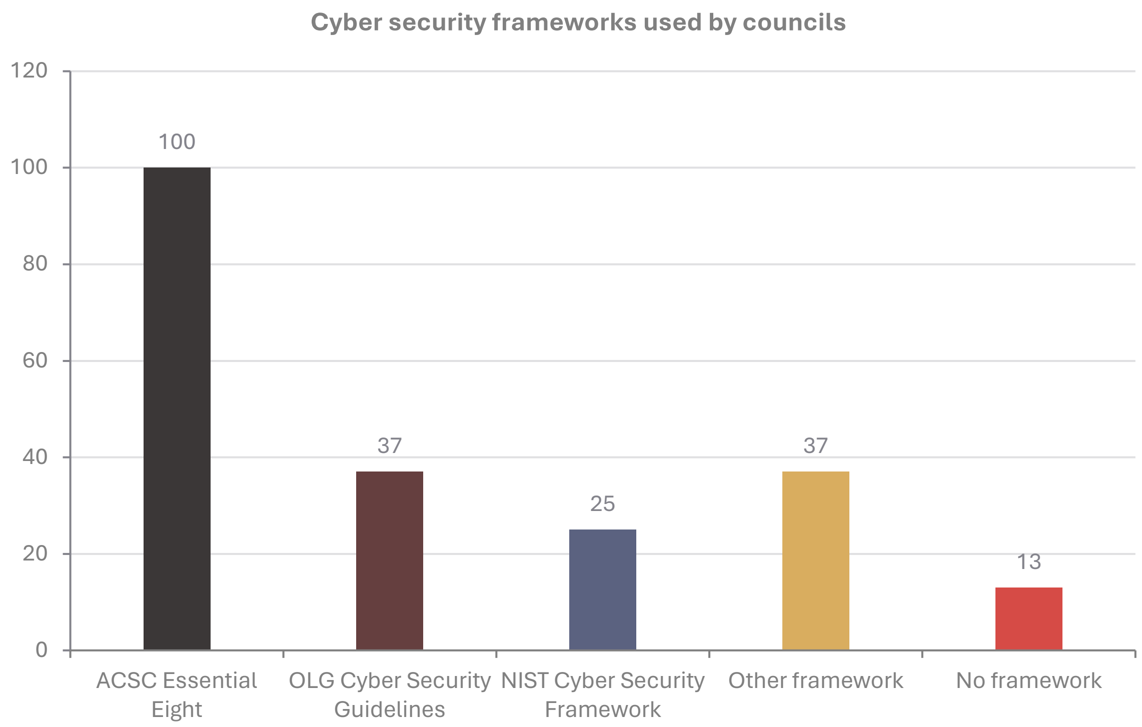
The 2025 Guidelines were updated with the following key changes:

- 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 though 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.

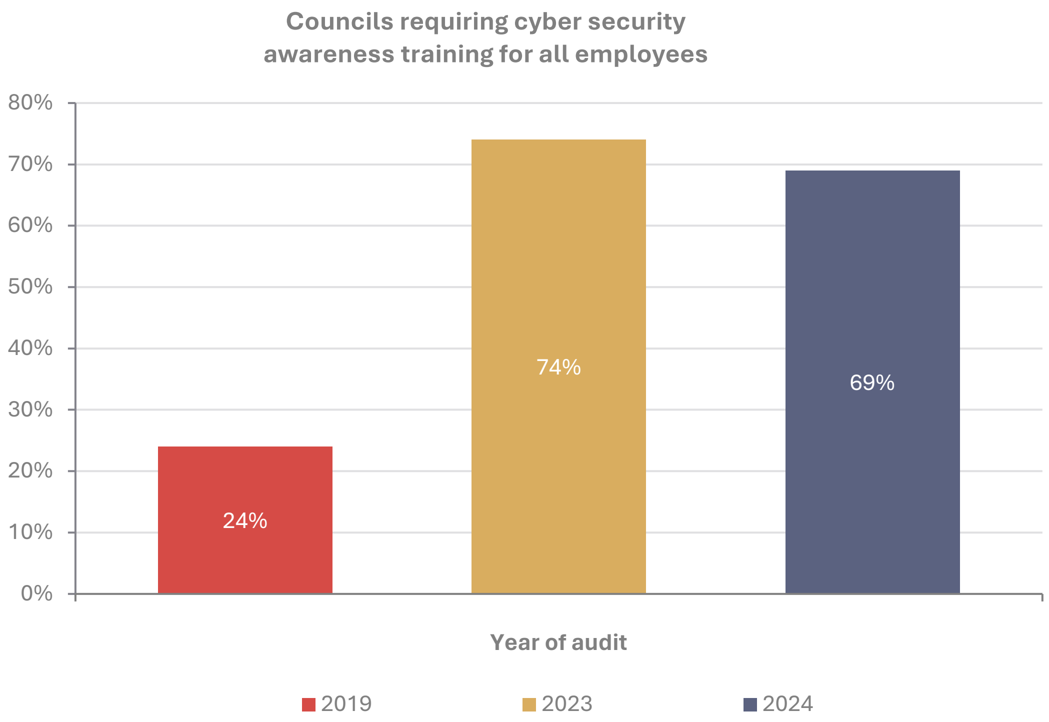
The 12 councils that acknowledged that their cyber spend was insufficient during 2024 had spent between zero and $120,000 to resource their cyber security uplift programs. These councils comprised five metropolitan councils, three regional councils, one rural council and three joint organisations. Councils 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.



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?

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.

Section 2 –

Appendices

Appendix 1 – Response from the Office of Local Government within the Department of Planning, Housing and Infrastructure

Department of Planning, Housing and Infrastructure

NSW GOVERNMENT

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.

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 appraised 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.

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,

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**

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
Campbeltown	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

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

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

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	

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	

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.

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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