



NEW SOUTH WALES AUDITOR-GENERAL'S REPORT

# Local government 2025

FINANCIAL AUDIT | 28 JANUARY 2026

## THE ROLE OF THE AUDITOR-GENERAL

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

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

Financial audits are designed to give reasonable assurance that financial statements are true and fair, enhancing their value to end users. Also, the existence of such audits provides a constant stimulus to entities to ensure sound financial management.

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

We also conduct performance audits. These assess whether the activities of government entities are being carried out effectively, economically, efficiently and in compliance with relevant laws. Audits may cover all or parts of an entity's operations, or consider particular issues across a number of entities. Our performance audits may also extend to activities of non-government entities that receive money or resources, whether directly or indirectly, from or on behalf of government entities for a particular purpose.

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



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In accordance with section 421D of the *Local Government Act 1993*, I present a report titled '**Local government 2025**'.

A handwritten signature in black ink, which appears to read 'Bola Oyetunji'.

**Bola Oyetunji**

Auditor-General for New South Wales  
28 January 2026

## RECONCILIATION STATEMENT

We pay our respect and recognise Aboriginal peoples as the traditional custodians of the land in NSW who have cared for and protected the environment, waterways, and sacred sites over many millennia. We honour and thank the traditional custodians of the land on which our office is located, the Gadigal people of the Eora Nation, and the traditional custodians of all the lands on which our employees live and work. We pay our respects to their Elders past and present, and to the next generation of leaders.

As we mark our 200th anniversary, and our contribution to fostering accountability and transparency in the government and Parliament, we also acknowledge that our long history is shared with the histories of colonisation in New South Wales. We acknowledge the impacts of colonisation, and the resulting marginalisation and disadvantage of Aboriginal and Torres Strait Islander peoples in this state.

We embrace our role in holding government agencies to account for the delivery of effective services for Aboriginal and Torres Strait Islander peoples. We are committed to ensuring that our audits are culturally responsive, respectful and inclusive, and that we engage with Aboriginal and Torres Strait Islander peoples and communities in a meaningful and collaborative way.

We recognise the ancestral tie of Aboriginal and Torres Strait Islander peoples to this land, and we acknowledge that we have much to learn from their wisdom, rich and diverse culture, languages, knowledge and practices.

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# 1. Report snapshot

This report presents key findings and recommendations from financial audits of local councils, joint organisations and county councils for the year ended 30 June 2025.

It also comments on the sector's financial sustainability, internal controls and governance, major capital projects, artificial intelligence (AI) and cyber security.

## Key findings

Unmodified audit opinions were issued for the financial statements of 125 councils, 8 county councils and 11 joint organisations. Three council audits were in progress at the time of this report.

### Financial reporting quality has improved

The number and value of errors in the financial statements declined from the previous year, and fewer versions of financial statements were submitted for audit, indicating improving financial reporting processes.

### Financial sustainability continues to be a concern for some councils

Seventeen councils reported operating losses this year and 19 had insufficient cash (not subject to external restrictions) to cover 3 months of general expenses. Six of the 19 councils identified as being the least liquid also incurred operating losses.

[Appendix 2](#) lists 11 councils with heightened financial sustainability risk due to various combinations of operating losses, insufficient cash, declining populations and low capacity to generate own source revenue.

### Water supply infrastructure needs \$1 billion to ensure access to safe and secure water

Two regional and 13 rural councils that supply water made operating losses. Even when operating costs can be covered, it is unlikely they will recover enough, based on council estimates, to enable infrastructure upgrades to agreed service levels.

### Councils held \$5.4 billion in local infrastructure contributions (LIC), but spending was low for some

There were 14 councils that held more than half of LIC funds. Of these, 10 spent less than 20% of their balance in the 2024–25 financial year. Delays between collecting and spending LIC funds may indicate that infrastructure planning and delivery processes are not operating effectively. The current LIC system is particularly complex for councils experiencing significant population growth.

### Capital project guidance is outdated and inadequate

Of the 29 major capital projects reviewed, 14 were delayed by more than 6 months, and 6 were more than 10% over budget. Current guidelines are more than 15 years old and do not reflect the complexity and risks of modern infrastructure delivery.

### Internal controls and governance processes had deficiencies

Deficiencies in internal controls and governance were identified at most councils, mainly associated with asset management, information technology (IT) and fraud control.

### Most councils lack AI strategy and governance

Councils are in the early stages of adopting AI. Fewer than half have a strategy or governance framework, limiting oversight and opportunities to leverage benefits and mitigate AI risks.

### Significant cyber security control deficiencies exist

Councils have critical weaknesses in managing supply chain risks. Policies and processes for assessing the cyber security exposure of technology assets are inadequate, and monitoring of cyber security investments and their associated benefits is limited.

## Recommendations

The report makes 5 recommendations (see page 6 for full details).

## Fast facts

69%

of audit findings relate to IT and asset management

\$1b

required for water infrastructure to meet agreed service levels

11%

of councils have a strategy for AI adoption

14

major capital projects were delayed by more than 6 months

\$5.4b

held in local infrastructure contributions at 30 June 2025

88%

of councils lodged financial statements by the deadline

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## 2. Executive summary

This report provides an overview of the key findings and recommendations from financial audits of local councils, joint organisations and county councils for the year ended 30 June 2025. The report also comments on the sector's management of:

- financial sustainability
- internal controls and governance
- major capital projects, including progress against timelines and budgets for capital projects with budgets over \$30 million
- technology, including cyber security and emerging technologies like artificial intelligence (AI).

[Chapter 3](#) includes key areas for improvement and practical lessons for councils. Refer to [Appendix 5](#) for a list and results of completed financial audits of local councils, county councils and joint organisations.

### 2.1. Financial audit results

#### **Unmodified audit opinions were issued for all completed 30 June 2025 financial statements**

Unmodified audit opinions were issued for the 30 June 2025 financial statements of 125 (of 128) councils, 8 (of 8) county councils and 11 (of 13) joint organisations.

Eighty-eight per cent of councils met the statutory deadline of 31 October for lodging financial statements (88% for 30 June 2024). Fourteen councils and 2 joint organisations (12%) received extensions from the Office of Local Government (OLG). Audits remain in progress for 3 councils.

Eighty-nine independent auditors' reports were issued in the five days before the statutory deadline. Councils, the Audit Office, and Audit, Risk and Improvement Committees (ARICs) can take further steps to improve the timeliness of financial reporting and the audit process. Early financial reporting procedures can improve the quality and timeliness of financial reporting.

#### **Quality of financial reporting has improved**

The number and value of errors in financial statements have declined, and fewer versions of financial statements were submitted for audit, indicating improving financial reporting processes. Quality of financial reporting could be further improved by addressing longstanding deficiencies in record keeping and timely valuations of infrastructure, property, plant and equipment (IPPE). Performing early financial reporting procedures, such as completing valuations by 30 June, will enable more complete draft financial statements.

#### **NSW councils have a greater financial reporting burden than other Australian states**

Progress by the OLG to declutter financial statements and reduce the burden of reporting has been slow. NSW councils continue to have a greater financial reporting burden than councils in other Australian states and are required to prepare and submit more statements for audit, such as special purpose financial statements.

OLG's current financial reporting framework is 'one size fits all' as it does not scale to the varying size, risk profiles and complexity of councils, county councils and joint organisations in NSW. There is currently a disproportionate impact on smaller entities such as rural councils, county councils and joint organisations. The overall sector outcomes could be achieved with a scalable approach which considers resources available in different locations.

## 2.2. Key findings

### Financial sustainability

#### More councils reported operating losses for the year ended 30 June 2025

Seventeen councils reported operating losses this year. Continued operating losses may indicate financial sustainability risks. Councils with operating losses need to prioritise comprehensive budget repair through long-term financial planning, with expenditure control, to improve their financial sustainability.

#### Nineteen councils did not have cash and investments to meet 3 months of general fund expenses

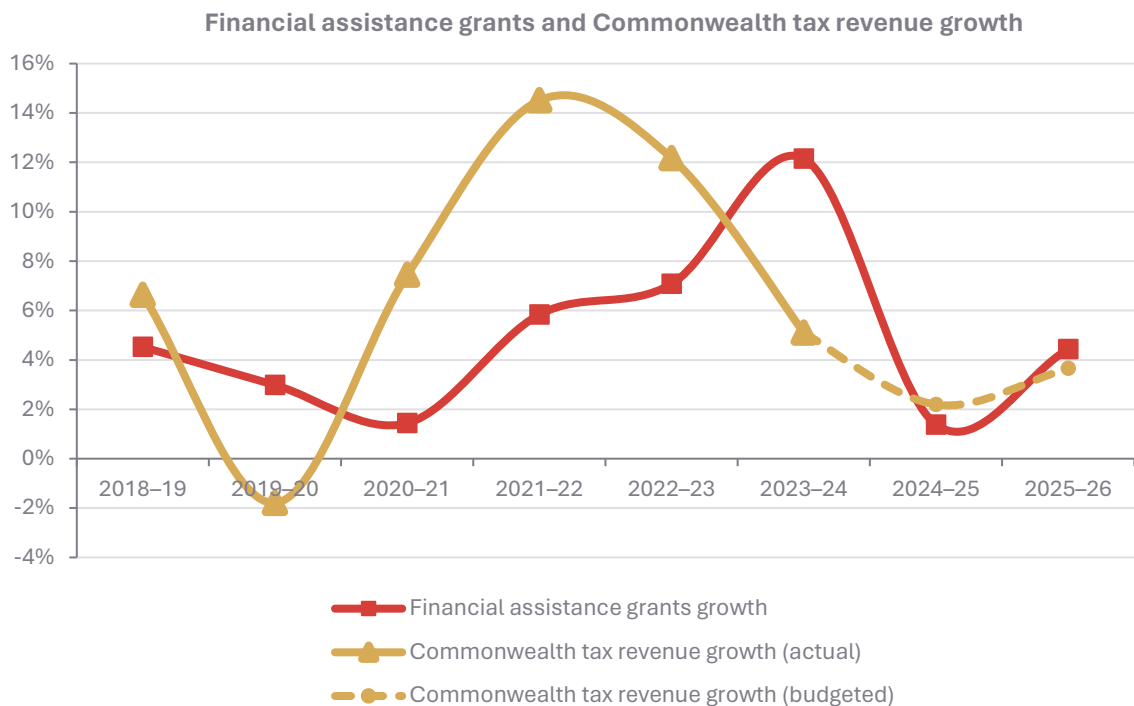
Nineteen councils (2 metropolitan, 8 regional and 9 rural) had insufficient cash and investments, not subject to external restrictions, to pay 3 months of general fund expenses (compared with 16 at 30 June 2024). This highlights ongoing liquidity challenges for the sector, particularly for regional and rural councils. [Appendix 2](#) contains details on the 11 councils most at risk.

#### Two councils spent restricted cash in breach of the *Local Government Act 1993*

Bathurst Regional Council and Upper Hunter Shire Council breached the *Local Government Act 1993* by spending restricted cash for purposes other than those intended.

#### Financial assistance grants in 2024–25 had lowest growth in 7 years

The graph below shows the growth in financial assistance grants compared with growth in Commonwealth tax revenue.



Source: Australian Bureau of Statistics 'Taxation Revenue' and the Department of Infrastructure, Transport, Regional Development, Communications, Sports and Arts 'Financial Assistance Grants'.

In 2024–25, the increase was 1.4%, the smallest increase since 2018–19.

### **Water supply infrastructure requires almost \$1 billion to ensure that rural and regional communities have access to safe and secure water**

Based on council estimates, almost \$1 billion is required to ensure water infrastructure continues to meet agreed service levels. Fifteen councils made operating losses for their water supply businesses for the year ended 30 June 2025. Even if councils can cover operating costs, a small customer base makes it unlikely they can generate sufficient revenue to upgrade infrastructure to councils estimates of agreed service levels. Fifteen councils reported operating losses for water supply businesses in 2024–25; without grant funding 30 would have reported operating losses. Grants are the primary source of funding for water supply infrastructure managed by councils.

### **Councils held \$5.4 billion in local infrastructure contributions at 30 June 2025, but spending was low for some councils**

Over half of the contributions were held by 14 councils. Ten of these spent less than 20% of their contributions balance in 2024–25. Delays between the collection of contributions and subsequent expenditure could indicate that infrastructure planning and delivery processes are not operating effectively to deliver the intended outcomes. As costs escalate and land becomes scarce, lagging expenditure on infrastructure risks a reduction in community amenities and less ability to fund the intended level and standards of infrastructure.

## **Internal controls and governance**

There were deficiencies in internal controls and governance that are mainly associated with asset management, information technology (IT) and fraud control. Nearly all audits in the sector found deficiencies in the design, implementation and/or operating effectiveness of internal controls and governance.

### **Deficiencies in controls and monitoring of user access undermine the integrity of data and finance systems**

Control weaknesses over system access were found in 71 councils. This included granting, removing and monitoring system access. Maintaining appropriate access to key systems supporting the preparation of financial statements reduces the risk of fraud, error, cyber attacks or invalid transactions.

### **Councils should improve managing, recording and valuing assets**

Sixty-three councils had inaccurate and incomplete fixed asset registers, and 68 councils have deficiencies in asset valuation processes. Maintaining accurate and complete asset records supports informed decisions in asset management and helps to lay the foundation for robust asset management plans. Ineffective asset valuation processes also impact the quality and timeliness of financial reporting.

### **Councils need to improve fraud control frameworks**

While more councils have implemented fraud and corruption prevention policies and conflict of interest policies, some councils need to improve training, fraud risk assessments and use of technology to prevent and detect fraud. One council with inadequate controls over changes to vendor details experienced fraud. Councils should ensure changes to vendor details are independently verified with the vendor to avoid financial loss and reputational damage.

### **Not all ARICs cover the required aspects of council operations**

All councils have established an ARIC, but six did not have the required number of independent members. Some ARICs were not provided cash management policies and processes, or management's certification of the effectiveness of internal controls. All committees should ensure that they cover the aspects of operations required by the Local Government (General) Regulation 2021 and the 'Guidelines for Risk Management and Internal Audit'. Gaps in oversight could lead to unaddressed risks.

## Major capital projects

During 2024–25, councils spent \$6.1 billion (\$5.9 billion in 2023–24) to renew and acquire IPPE to meet the needs of local communities. Funding for these assets comes from different sources, including grants, rates, developer contributions, user fees and charges collected for a specific purpose, and cash reserves.

### Fourteen major capital projects have significant delays, while 7 are on time and within budget

Twenty-nine projects over \$30 million are being delivered by councils, for a total cumulative budget of \$1.5 billion. Seven of these projects are on time and within budget. Fourteen projects have been delayed by more than 6 months and 6 of these had exceeded the original budget by more than 10% at 30 June 2025.

### Guidance for managing capital projects is outdated and inadequate

The regulatory framework and guidance provided to councils to support the successful delivery of major capital projects is limited. The current Capital Expenditure Guidelines were introduced in 2010, have a narrow focus on project initiation and do not reflect the complexity and risks of modern infrastructure delivery. The guidelines do not cover the full project life cycle, or all types of projects and do not provide advice on assurance arrangements that could be implemented to support project delivery.

## Artificial intelligence

### As councils begin using AI, fit-for-purpose governance frameworks and strategies are essential

Councils are in the early stages of using AI, and will need to integrate AI into their existing governance arrangements as use grows. Fewer than half of the councils have implemented formal AI policies and most have yet to fully integrate the specific and unique risks posed by AI into their existing governance frameworks, such as risk management, procurement, IT, and monitoring and reporting systems.

Enhanced visibility of opportunities, challenges and risks will put councils in a better position to leverage the benefits of AI. Only 11% currently have a strategy for AI adoption. This, combined with limited oversight, could significantly hinder councils from fully leveraging the potential benefits that AI offers and lead to fragmented efforts that don't fully align with councils' objectives.

### The OLG does not require councils to follow a mandatory framework for responsible AI adoption

The OLG has not established a mandatory framework or minimum requirements for councils in relation to the adoption and responsible use of AI. Mandating a framework would provide a consistent, responsible and effective method for managing AI risks and opportunities across councils.

The Australian and NSW governments have issued separate frameworks that offer a reference for councils to evaluate their readiness for implementing AI responsibly.

## Cyber security

### Weak controls and oversight expose supply chain cyber security risks

Cyber security risk management practices vary across councils. Seventy-three per cent of councils do not have formal policies that address supply chain cyber security risks, such as incidents and control gaps from third parties. Seventy per cent of councils did not have formal processes to risk assess their technology assets, limiting their ability to effectively identify and manage cyber security risks. In addition, there is weak third-party oversight, including unclear contractual roles and limited monitoring of responsibilities throughout the service agreement. Weak cyber security controls and a lack of third-party management have the potential to disrupt operations, compromise sensitive data and contribute to financial losses.

### Ineffective investments undermine cyber security outcomes

Seventy-two per cent of councils did not measure the effectiveness of their cyber security spending by formally monitoring benefit realisation or ensuring alignment of cyber security spending with current

threats. Only 21% of councils identify and manage underutilised, redundant or outdated cyber security tools and services. Continuous formal assessment of cyber security investments help councils to ensure that their investments remain effective to protect assets and data from cyber security risks.

Many councils must balance strategic cyber security needs with limited resources. Combining and leveraging available resources has worked well for some councils to meet the OLG's Cyber Security Guidelines. A case study on how a group of councils have collaboratively shared a Chief Information Security Officer is included in Chapter 10 of this report, highlighting the benefits and lessons learned.

## 2.3. Recommendations

1. **By 30 June 2026, the Department of Planning, Housing and Infrastructure (the Department), should work with relevant State agencies to:**
  - set a mandatory framework to guide councils in the responsible implementation of AI, drawing on existing frameworks established by other levels of government.
2. **By 30 June 2026, councils should review their readiness for increased use of AI by:**
  - reviewing and ensuring that fit-for-purpose governance arrangements are in place before deploying AI
  - considering the benefits of developing an AI strategy that can be integrated into a broader organisational plan to ensure that AI initiatives are coordinated and aligned with councils' strategic priorities and objectives.
3. **By 30 June 2026, councils should improve cyber security control frameworks by:**
  - strengthening supply chain risk management governance
  - improving investment accountability by introducing cost-benefit analysis, return on investment tracking, aligning cyber spending with current threat landscapes, and managing underutilised, redundant and/or outdated cyber security tools and services.
4. **By 30 June 2027, the Department should review its financial reporting framework in NSW by progressing:**
  - a more scalable framework to reduce unnecessary administrative burden on rural councils, county councils and joint organisations
  - staged implementation of new requirements to allow smaller councils to learn from and leverage the experience of larger councils
  - opportunities for sharing resources, policy frameworks and information systems to achieve improved value for money and reduce duplicated effort across the sector.
5. **By 30 June 2027, the Department should implement updated guidelines on major capital projects and ensure they:**
  - align with assurance arrangements for the NSW Government sector, and include provisions for independent assurance
  - are scaled to project size and complexity, council size and location
  - address the full project lifecycle.

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## 3. Key areas of improvement and practical lessons

This chapter outlines key areas of improvement and practical lessons that can be applied by all councils. The *Local Government Act 1993* requires councils to apply sound financial management principles including responsible and sustainable expenditure, investment, and effective financial and asset management.

### Financial sustainability

#### Governance and oversight

Councils require adequate governance and oversight, including identifying and responding to early warning signs. This can be achieved by councils ensuring:

- council officers cultivate a culture of openness, transparency and accountability. This ensures concerns are raised promptly and financial information and analysis is comprehensively reviewed and questions appropriately dealt with
- there is clarity and documented evidence on how decisions were reached
- lead and lag performance indicators are established and reported against, to assist with oversight and monitoring
- Audit, Risk and Improvement Committees are involved in reviewing and questioning quarterly business review statements and other key reports.

#### Long-term financial planning

Financial sustainability is achieved, over the medium and longer term, by ensuring:

- revenue is sufficient to cover expenses by building budgets based on realistic assumptions and being agile to constrain expenditure when revenue falls below the target
- cash flows and risks are well managed
- sources of revenue are diverse
- the quality of asset management data is improved to better inform long-term financial planning, budgets and financial decisions.

#### Budget monitoring and reporting

Councils should:

- regularly monitor financial performance, financial position, cash flows and capital programs
- ensure those responsible for budgets understand the key drivers that can have adverse effect on a sustainable budget position, are accountable and escalate promptly
- undertake service reviews to better understand net cost of services to inform budgets and financial planning decisions.



### Internal controls

Councils can improve financial sustainability by addressing deficiencies in controls and processes and:

- building the competency of those responsible for finance and budgeting
- ensuring that financial systems are being used to their full potential, for example, revenue and expenses being allocated by fund for each transaction
- effectively managing cash by regularly reconciling by fund and where possible ensure cash inflows precede cash outflows
- controlling costs and monitoring discretionary spending, cancelling non-essential expenditure and re-negotiating activities when economies of scale can be achieved by working with other councils or leveraging existing products.

## Major capital projects

### Robust project planning

Poorly planned projects with an unclear scope typically have cost overruns, variations for design changes, and delays. Better practices to mitigate this risk include:

- underpinning of business cases by sound evidence and realistic assumptions
- explicitly defining scope, dependencies and deliverables, including enabling works, project design and any contingent costs
- robust option analysis and prioritisation of competing projects
- ensuring that plans and projections include life cycle project costs to fund the delivery and maintenance of the required capacity
- identifying risks and opportunities and appropriately responding to and managing risks throughout the project
- leaving adequate time to build a robust business case and plan, and engaging experts to deal with complex projects or contract negotiations as required.

### Monitoring and contract management

Monitoring and contract management function should be performed at the project level to ensure councils are getting what was promised, when it was promised, at the agreed price. There should be a focus on the technical specifications, scheduled milestones, payment processing and variations. Councils should ensure:

- project managers have the right skills and resources to effectively manage contracts, monitor suppliers and assess performance
- there is regular, transparent reporting to decision-makers on progress, costs and risks
- escalations and decision-making pathways are clear.

### Oversight and assurance

Effective governance and independent oversight are critical to project success. Strong governance and assurance arrangements ensure accountability, transparency and early detection of issues. Without effective oversight and accountability, there is a risk that projects can underestimate risk, proceed under incorrect assumptions or ignore emerging issues

For major capital projects, councils should ensure that:

- governance bodies with appropriate expertise, independence and authority are set up to challenge assumptions and major decisions
- regular assurance reviews, assessing not only compliance with policies, but also assumptions, enabling works risks and strategic alignment, are implemented.



## Fraud prevention and detection



### Fraud control and prevention strategies

Fraud has the potential to impede operations, diminish service quality, damage reputation and result in financial losses.

Council should detect and prevent fraud by implementing better practices such as:

- ensuring that policies are regularly updated and their effectiveness is regularly tested
- implementing an ethical framework, including a code of conduct, statement of business ethics, fraud control policy
- developing processes to effectively manage conflicts of interest and secondary employment
- performing a fraud risk assessment regularly and update controls based on findings
- clearly defining roles and responsibilities for fraud, undertaking fraud awareness training and regularly having staff acknowledge their compliance with the code of conduct
- embedding detection tools, including emerging technologies, to assist in the identification of, and response to, suspected fraud
- undertaking environment scans and assurance activities, including reviewing industry information, such as that published by the Independent Commission Against Corruption, to identify risks and opportunities
- undertaking assurance activities to obtain assurance over controls, monitor and address deficiencies promptly.

### Fraud awareness culture

Committed executive and oversight committees that actively endorse fraud control measures and model ethical behaviour help reduce fraud risks and incentives.

Councils can promote ethical behaviour by:

- clearly defining roles and responsibilities in fraud prevention
- undertaking regular fraud awareness training
- having staff regularly acknowledge their compliance with the code of conduct
- establishing confidential reporting channels that allow staff or others to tip off fraud without identification.

### Prevention of loss to third parties

Third-party scammers are becoming increasingly sophisticated. Councils can prevent loss to third parties by independently verifying all changes to vendor details directly with the vendor before payments are made.

## Artificial intelligence



### Governance and oversight

As AI becomes increasingly common in IT environments, it is necessary for councils to maintain suitable governance and oversight of both the AI pipeline and AI tools used in production.

While it is not mandatory for councils to apply it, the National framework for the assurance of artificial intelligence in government specifically identifies that:

‘Governments should ensure their use of AI is disclosed to users or people who may be impacted by it. Governments should maintain a register of when it uses AI, its purpose, intended uses, and limitations’.

### Strategic use of artificial intelligence

When senior leaders are kept informed of both the opportunities and challenges associated with AI, they are better positioned to champion strategic initiatives, address resource needs, and ensure that ethical and governance standards are upheld.

## Cyber security



### Managing supply chain cyber security risks

The foundation of an effective cyber security strategy is knowledge of the IT environment. Maintaining an IT asset inventory is crucial for strong cyber security as it provides visibility into what needs to be protected, enabling better risk management, threat detection and incident response.

Unmonitored external systems, such as those managed by third-party vendors and their extended supply chain, can introduce further risks if they do not adhere to industry security standards.

Furthermore, not including supply chain risk in the risk register means that these risks are not being tracked or managed effectively. This oversight can result in a lack of readiness for potential cyber incidents involving third-party vendors.

### Cyber security spending

Effective management of cyber security investment helps councils ensure that their investments are having the desired results, in compliance with regulations, and ultimately safeguarding their operations while ensuring effective and efficient spending on cyber security.

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## 4. Introduction

### 4.1. Local government in New South Wales

In NSW, local councils are established under the *Local Government Act 1993* (the LG Act), which defines the powers and geographical areas for which councils are responsible. At 30 June 2025, there were:

- 128 local councils (57 rural, 37 regional, 34 metropolitan)
- 13 joint organisations
- 8 county councils.

Councils provide a range of services and infrastructure for their local government area. Services include waste collection, planning and building approvals, animal management, libraries and recreational services. Councils build and maintain infrastructure, including roads, footpaths and stormwater. In many regional and rural areas, councils also provide the infrastructure for water supply and sewerage services.

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

Joint organisations were formed in regional NSW to improve the way local councils and other stakeholders work together to deliver regional priorities.

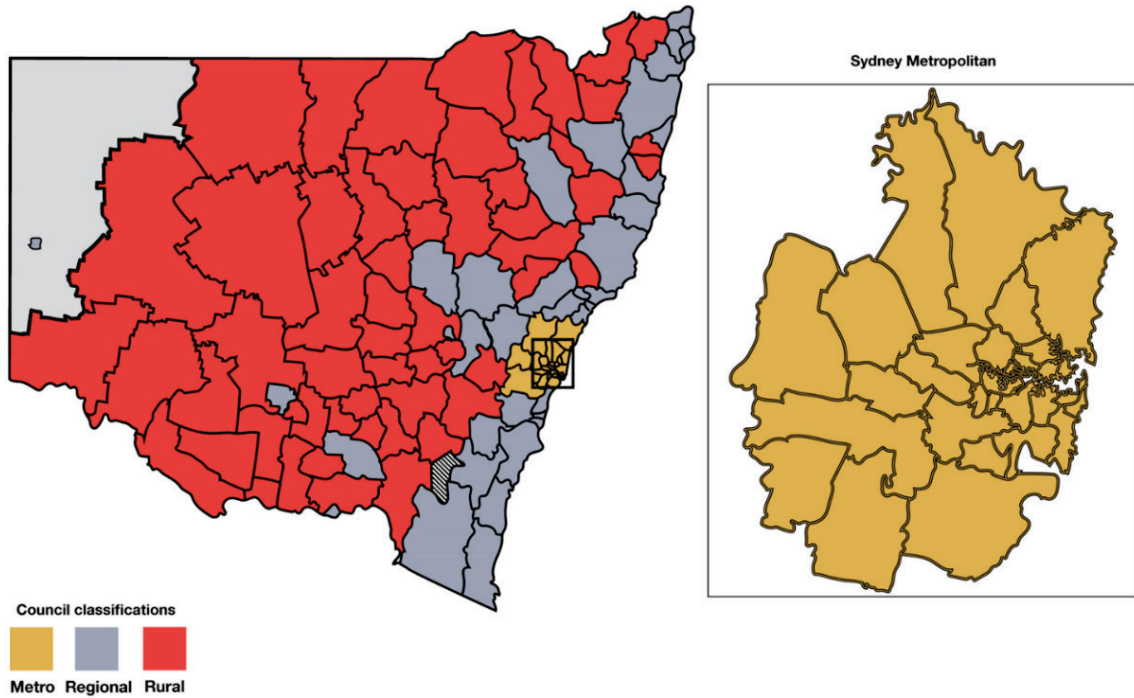
The Office of Local Government (OLG), within the Department of Planning, Housing and Infrastructure, is responsible for the regulation and oversight of councils, county councils and joint organisations.

#### **Each council has unique characteristics**

A local council's size, location, demographics and the nature of the services it provides to its communities impact its financial sustainability and the risks it faces. To enable meaningful comparison, and for the purposes of analysing their financial results, councils are classified as 'metropolitan', 'regional' or 'rural' throughout this report. County councils and joint organisations are classified separately. Refer to [Appendix 5](#) for a list of local councils and their classifications.

The map below shows the council classifications across NSW.

### Council classifications by LGA



Key	Council classification	Population	Land area	Density
<span style="color: yellow;">■</span>	Metropolitan	5.6 million	12,135 km <sup>2</sup>	457.91 per km <sup>2</sup>
<span style="color: blue;">■</span>	Regional	2.4 million	135,642 km <sup>2</sup>	17.95 per km <sup>2</sup>
<span style="color: red;">■</span>	Rural	486,804	559,811 km <sup>2</sup>	0.87 per km <sup>2</sup>

Source: OLG time series data for population and land area.

## 4.2. Overview of this report

Financial audits provide independent opinions on the financial statements of councils. They are designed to give reasonable assurance that financial statements are true and fair, thus enhancing the degree of confidence users have in the financial statements.

This report analyses the audit results and findings of the financial audits of 125 councils, 8 county councils and 11 joint organisations for 2024–25. The financial statements and audits of 3 councils remain in progress at the date of this report.

It is important that the local government sector prepares financial statements that are free from material error to ensure transparency, accountability and confidence in financial management. Councils deliver a wide range of services and are exposed to varying degrees of financial, operational and strategic risk, each presenting unique challenges to accurate financial reporting.

In addition to presenting the results of financial audits, this report provides the NSW Parliament and NSW councils, county councils and joint organisations with insights into important areas of public sector financial accounting and management, which have important operational complexity, financial risk and long-term sustainability implications.

The table below details the analysis undertaken in this report.

Chapter	Overview
Financial audit results	<a href="#">Chapter 5</a> provides an overview of the results of audits for 2024–25, including the number and type of audit opinions issued, and the quality and timeliness of financial reporting.
Financial sustainability	<a href="#">Chapter 6</a> provides an overview of financial sustainability, including liquidity, financial performance, funding of water supply infrastructure and a summary of local infrastructure contributions.
Internal controls and governance	<a href="#">Chapter 7</a> provides an overview of the findings and deficiencies in internal controls and governance identified in financial audits at all councils, county councils and joint organisations.
Major capital projects	Councils are responsible for managing land and other assets so that current and future local community needs are met in an affordable way. <a href="#">Chapter 8</a> analyses a selection of major capital projects with total budgets of greater than \$30 million.
Artificial Intelligence	Councils are increasingly integrating emerging technologies like AI to streamline operations, foster innovation and enhance delivery of public services. <a href="#">Chapter 9</a> examines current and future planned use of AI and governance, and risk and assurance mechanisms to support ethical adoption of AI by the councils who advised that they are using AI.
Cyber security	Cyber risk is a critical concern; threats can disrupt operations and interrupt supply chains. Dependence on third-party vendors and overall supply chains introduces risk. <a href="#">Chapter 10</a> examines how councils manage cyber risks in supply chains and maximise the return on investment in tools that mitigate and manage cyber security.
Looking forward	<a href="#">Chapter 11</a> provides a snapshot of the annual work program and current performance audits.

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## 5. Financial audit results

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

Indicators of quality financial reporting include:

- relevant, unbiased and clear information
- unmodified audit opinions
- low number and value of errors, including disclosure deficiencies, in the financial statements
- low number of different versions of financial statements submitted for audit.

This chapter outlines the financial audit results for 2024–25.

### Chapter highlights

- NSW councils have a greater financial reporting burden than other Australian states. Progress to declutter financial reporting requirements within the code has been slow. There are no major changes.
- Unmodified audit opinions were issued for the 30 June 2025 financial statements of 125 councils, 8 county councils and 11 joint organisations. Two councils resolved issues that resulted in qualified audit opinions in previous years.
- Eighty-eight per cent of councils lodged their 30 June 2025 financial statements by the statutory deadline of 31 October – the same percentage as in 2023–24. Fourteen councils and two joint organisations received extensions from the Office of Local Government (OLG).
- More than half of the independent auditor’s reports were issued in the five days before the statutory deadline. Councils, the Audit Office, and Audit, Risk and Improvement Committees (ARICs) can take further steps to improve the timeliness of financial reporting and the audit process. Early financial reporting procedures can improve the quality and timeliness of financial reporting.
- There are indicators that the quality of financial statements has improved, including fewer prior period and uncorrected errors, and fewer versions of the financial statements. Councils could further improve the quality of financial reporting by addressing longstanding deficiencies in record keeping and timely valuations of infrastructure, property, plant and equipment (IPPE).

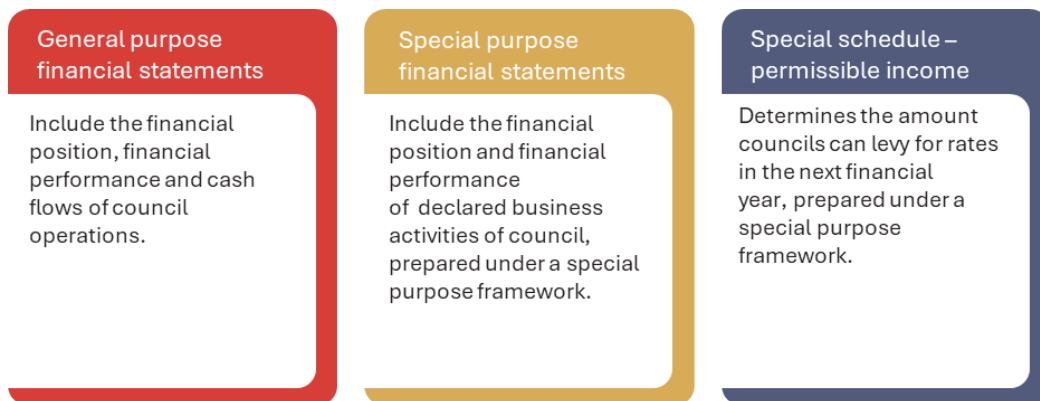
## 5.1. Financial reporting requirements

### NSW councils have a greater financial reporting burden than other Australian states

The *Local Government Act 1993* (the LG Act) requires the Auditor-General to issue an audit opinion on each council's:

- general purpose financial statements
- special purpose financial statements
- special schedule – permissible income.

Each year, as required by the State or Commonwealth Governments, the Auditor-General must also complete at least three grant acquittal audits.



The content of the general and special purpose financial statements and the special schedule – permissible income is guided by the 'Local Government Code of Accounting Practice and Financial Reporting' (the Code), which is updated annually by the OLG. There is a 'one size fits all' approach to financial reporting requirements at NSW councils, which is not scaled to the varying size, risk profiles and complexity of councils, county councils and joint organisations. There is currently a disproportionate impact on smaller entities such as rural councils, county councils and joint organisations. The overall sector outcomes could be achieved with a scalable approach which considers resources available in different locations.

The OLG has taken steps to declutter the financial reporting requirements within the Code, but progress is slow. NSW councils continue to have a greater regulatory financial reporting burden than councils in other Australian states. The 2025–26 version of the Code has not made any significant steps to reduce this burden.

The increased financial reporting burden for NSW councils impacts the quality and timeliness of financial statements. This, along with the timing of when councils sign the financial statements, contributes to when the Audit Office's independent audit reports can be issued. The OLG should consider a phased approach to submission dates, for example by requiring larger well-resourced councils to submit audited financial statements at an earlier date.

## 5.2. Quality of financial reporting

### Audit opinions

At the date of this report, unmodified audit opinions were issued for the 30 June 2025 financial statements of:

- 125 councils
- 8 county councils
- 11 joint organisations.

Issuance of an unmodified opinion means sufficient audit evidence was obtained to conclude that the financial statements were free of material misstatement and were prepared in accordance with Australian Accounting Standards and Chapter 13, Part 3, Division 2 of the LG Act.

The table below lists the audits that are in progress at the date of this report and the reasons why.

Council	Reason for extension to the statutory deadline
Lachlan Shire	Resourcing challenges, including the capacity of the council to deliver financial statements.
Orange City	Resourcing challenges, including the capacity of the council to deliver financial statements, and delays in valuations.
Glen Innes Severn	Resourcing challenges, including allocation of resources to implement a new business system to replace a financial system with ongoing issues that resulted in the issuance of a disclaimed audit opinion in 2023–24.

### Two councils resolved issues that resulted in qualified audit opinions in previous years

During 2024–25, because of the resolution of issues described in the table below, an unmodified audit opinion was issued on both councils' 30 June 2025 financial statements.

Council	Action taken by council to resolve issues identified in prior years' audits
Snowy Valleys	A qualified audit opinion was issued on the 2023–24 financial statements, relating to the non-recognition of Rural Fire Service assets located on council-owned land. In 2024–25, Rural Fire Service buildings located on council land were recognised at fair value. As a result, an unmodified audit opinion was issued.
Moree Plains Shire	A qualified audit opinion was issued on the 2023–24 financial statements, relating to the impact of the inability to obtain sufficient appropriate audit evidence on the opening balances of roads, water supply and sewerage network assets. For 2024–25, action was taken by the council to enhance its asset register, and sufficient, appropriate evidence was available to support road, water supply and sewerage network assets. As a result, an unmodified audit opinion was issued.

## Prior-period errors

A prior-period error is a misstatement made by a council in previous financial years. It is identified by the auditor or council in the current financial year, and is corrected retrospectively by restating the opening balances and comparatives in the financial statements. The existence of prior-period errors corrected retrospectively can indicate deficiencies in a council's financial reporting processes and internal controls.

### The number of prior-period errors decreased in 2024–25, but remains high

Seven councils and one joint organisation retrospectively corrected 15 prior-period errors in their 30 June 2025 financial statements (32 in 2023–24). While there has been an improvement in the number of prior-period errors identified in 2024–25, indicating an uplift in the quality and reliability of councils' financial reporting, the number of prior-period errors remains high.

Of the 15 prior-period errors identified, six councils had errors exceeding \$30 million. These errors all related to IPPE.

The table below details the prior-period errors exceeding \$30 million.

Council	Reason
<b>Central Coast</b>	To recognise assets contributed by third parties and other assets previously omitted (\$56.5 million increase in IPPE at 1 July 2023).
<b>City of Parramatta</b>	A review of the fixed asset register in 2024–25 resulted in corrections to bridges, roads and stormwater assets (\$41.2 million net decrease in IPPE at 1 July 2023).
<b>Newcastle City</b>	To recognise assets contributed by third parties and constructed in prior years and correct valuation methodology for bulk earthworks (\$143.2 million net increase in IPPE at 1 July 2023).
<b>Penrith City</b>	To recognise bridge assets and bulk earthworks previously omitted (\$153 million increase in IPPE at 1 July 2023).
<b>Shoalhaven City</b>	A review of the fixed asset register in 2024–25 resulted in corrections to roads assets (\$31.6 million net decrease in IPPE at 1 July 2023).
<b>The Hills Shire</b>	To reclassify land and buildings from IPPE to investment properties (\$36.7 million decrease in IPPE at 1 July 2023).

Source: Engagement closing reports from 30 June 2025 audits.

## Uncorrected errors

### Some errors in councils' 30 June 2025 financial statements were not corrected

An uncorrected error is an error identified by the auditor or council in the financial statements that has not been corrected by the council. In other words, while errors are reported to council management, the errors have not been corrected because they do not consider them material, either individually or in aggregate. While the financial statements would be more accurate if the errors had been corrected, the errors are not sufficiently material to require the auditor to modify the Audit Office's opinion of the councils' financial statements.

The total number and value of uncorrected errors declined in 2024–25, an indication of improved quality of councils' financial statement preparation processes. In 2024–25, there were 135 reportable errors (184 in 2023–24) and the total value of these errors was \$344 million (\$459 million in 2023–24).

The table below shows the number and value of uncorrected errors identified in 2024–25.

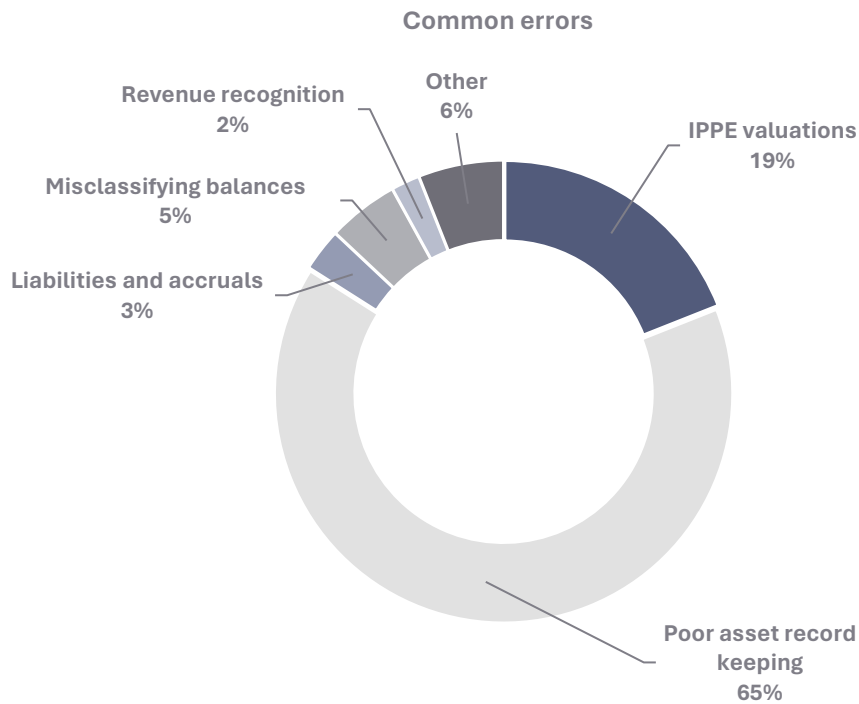
Value of errors	Uncorrected errors		Council classification (2025 only)				
	2025	2024	Metro	Regional	Rural	County	JO
Less than \$249,999	13	25	--	1	6	2	4
\$250,000 to \$999,999	34	57	2	6	25	1	--
\$1 million to \$4.9 million	63	80	11	19	32	--	1
Greater than \$5 million	25	22	6	9	10	--	--
<b>Total number of errors</b>	<b>135</b>	<b>184</b>	<b>19</b>	<b>35</b>	<b>73</b>	<b>3</b>	<b>5</b>
<b>Total value of errors (\$ million)</b>	<b>344</b>	<b>459</b>	<b>50</b>	<b>117</b>	<b>175</b>	<b>--</b>	<b>2</b>

Source: Engagement closing reports from 30 June 2025 audits.

While they are decreasing, the number and value of errors identified indicates that financial statement preparation and quality assurance processes could be improved.

### IPPE valuations and poor asset record keeping account for the majority of uncorrected errors

The chart below details the key drivers for uncorrected errors identified. In addition to all prior-period errors over \$30 million mentioned above, 84% of the uncorrected errors relate to the measurement and recognition of IPPE, including errors in the valuation process and poor asset record-keeping practices leading to inaccurate asset register information.



Source: Engagement closing reports from 30 June 2025 audits.

## Versions of financial statements

### More councils than last year submitted quality financial statements and supporting working papers

Presenting multiple versions of financial statements for audit can mean governance over the financial reporting process is inadequate and needs improvement. Multiple versions of financial statements delay the timeliness of financial reporting to users, diminish public accountability and result in higher audit costs.

The number of versions of financial statements submitted for audit declined in 2024–25. Ninety-one per cent of councils submitted 5 versions or fewer, improving from last year (86%). A reduction in the number of versions of financial statements presented for audit is an indication of improved financial reporting and quality assurance processes.

The table below shows the number of versions of financial statements presented for audit.

Versions of financial statements	Count		Council classification (2025 only)		
	2025	2024	Metro	Regional	Rural
Draft and final only	34	39	9	10	15
3–5	80	70	22	22	36
6–10	10	13	3	3	4
More than 10	1	6	--	1	--
<b>Total</b>	<b>125</b>	<b>128</b>	<b>34</b>	<b>36</b>	<b>55</b>

Source: Audit Office findings.

Councils with higher-quality financial reporting typically have a draft and final set of financial statements, with few or no amendments between those versions. Most councils submitted between three to five versions of their financial statements for audit.

### 5.3. Timeliness of financial reporting

The LG Act requires councils to submit audited financial statements to the OLG by 31 October. If a council cannot meet this date, it can apply to the Minister for Local Government (or their delegate) for an extension of time. Timely financial reporting is an indicator of sound financial management and helps inform decision-making by the councils' elected representatives.

**Eighty-eight per cent of councils lodged their 30 June 2025 audited financial statements by the statutory deadline – the same percentage as the last financial year**

For the 30 June 2025 financial audits:

- 114 councils, 8 county councils and 9 joint organisations met the statutory deadline (113 councils, 8 county councils and 8 joint organisations for the 30 June 2024 financial statements)
- 14 councils and 2 joint organisations (12%) received one or more extensions to lodge their audited financial statements after 31 October (15 councils, 2 county councils, 3 joint organisations for the 30 June 2024 financial statements)
- 2 joint organisations breached the LG Act by missing the statutory deadline and not requesting an extension (2 joint organisations for the 30 June 2024 financial statements). These joint organisations are not currently operating and have asked the Minister for Local Government to approve their dissolution.

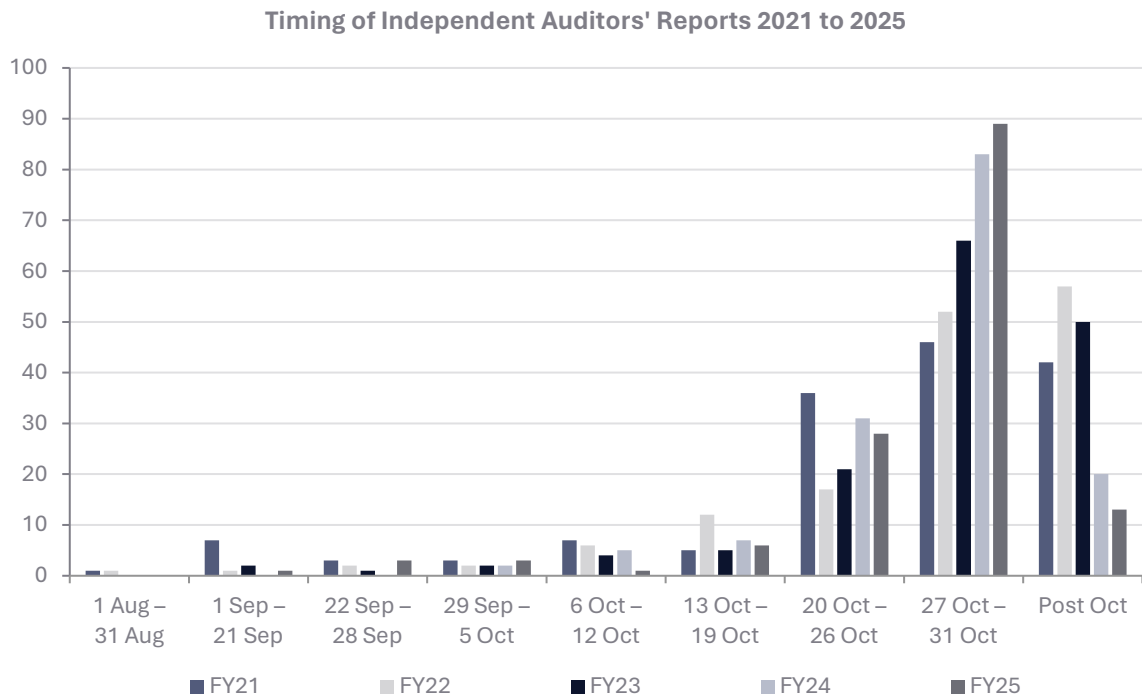
The most common reasons councils cited when applying for extensions related to:

- accounting or other matters that required more time to resolve
- resolving issues or complexity in undertaking asset valuations
- council resourcing issues, including turnover of key staff or inability to fill key financial management positions
- the impact of natural disasters, and the required prioritisation of recovery efforts.

Refer to [Appendix 5](#) for further details.

## Independent auditors' reports for 89 councils were issued in the last 5 days before the statutory deadline

The graph below shows that most of the independent auditors' reports were issued in October with 89 being issued in the last 5 days before the statutory deadline.



Further work is required by councils, the Audit Office, and ARICs to bring forward financial reporting and audit processes.

## Early financial reporting procedures can improve the quality and timeliness of financial reporting

Performing early financial reporting procedures, such as completing valuations by 30 June, will enable more complete draft financial statements and reduce the risk of requiring adjustments. It can also contribute to a timelier audit, as key judgements, estimates and financial reporting processes are considered and agreed before year-end.

The case study below describes some actions that led to quality and timely financial reporting at one council.

### Case study – Successful early financial reporting procedures

One council effectively planned for preparation of its financial statements by undertaking early financial reporting procedures. Actions taken by the council before 30 June that enhanced preparedness included:

- engaging with valuers and the auditor about the valuation approach for assets
- preparing pro-forma financial statements
- processing results of revaluations, including management's documented review of key assumptions
- completing fair value assessments for all asset classes.

This allowed the council to effectively engage with the audit team, and the ARIC, on key issues and risks impacting financial statement preparation well before year-end. Such early financial reporting procedures are beneficial to the finance team, because they spread the workload and contribute to higher-quality financial reporting and a timelier year-end audit process.

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## 6. Financial sustainability

Financial sustainability is the ability to meet current and future financial obligations without reducing essential services or borrowing money to fund successive operational deficits. This is achieved by ensuring that over the medium and longer term, revenue is sufficient to cover expenses; cash flow and risks are well managed; long-term financial planning is effective; and sources of revenue are diverse.

Councils are required to prepare long-term financial plans to help ensure they remain financially viable.

The graphs and tables presented in this chapter are prepared from councils' financial statement data and in many cases represent averages of the metropolitan, regional and rural councils.

This chapter analyses the liquidity, financial performance and position of councils at 30 June 2025.

### Chapter highlights

- There has been an increase in the number of councils making operating losses – 17 councils. There is insufficient cash, not subject to external restrictions, to meet 3 months of general fund expenses at 19 councils (16 at 30 June 2024).
- Two councils (Bathurst Regional and Upper Hunter Shire) spent restricted cash in breach of the *Local Government Act 1993* (the LG Act).
- Councils estimate that almost \$1 billion is required to ensure that water supply infrastructure continues to meet agreed service levels.
- Councils held \$5.4 billion in local infrastructure contributions at 30 June 2025, but spending remains low for some councils. Over half of these contributions was held by 14 councils. Ten of these spent less than 20% of their contributions balance in 2024–25. The current system is particularly complex for councils with significant population growth to navigate.
- Long-term financial plans for 21% of councils did not financially model for different scenarios.

### 6.1. Council financial performance

#### **An increasing number of councils made operating losses for the year ended 30 June 2025, with most highly dependent on grant funding**

An operating loss means operating revenue is insufficient to meet operating expenses. In 2024–25, 17 councils made operating losses (one metropolitan, 4 regional and 12 rural) compared to 5 councils in 2023–24. Continued operating losses may indicate financial sustainability risks. Six of the 19 councils identified as being the least liquid also made an operating loss.

#### **Councils with operating losses need to prioritise comprehensive budget repair through long-term financial planning, with expenditure control, to improve financial sustainability**

Rates are the most substantial source of a council's revenue. If elected councillors want to increase rates beyond the rate peg set by the Independent Pricing and Regulatory Tribunal (IPART), they must apply for a special rate variation (SRV). Approval of an SRV takes time, involves community consultation and must be supported by the council.

Grant funding is the second most significant revenue stream for councils, but the timing and quantum of grant funding is less predictable than other sources of revenue.

Because many councils have experienced natural disaster events in successive years, placing their communities and their resources under pressure, grant money has been made available. Consistent with the aims of the programs, grant funding is also allocated to councils under the Roads to Recovery program and the Local Roads and Community Infrastructure Program for specified purposes.

Grant funding, except for the general component of the annual Financial Assistance Grant, is tied to specific activities and cannot be used for councils' general operating expenses. The local road component of the Financial Assistance Grants is untied but must be spent on roads. Financial Assistance Grants are paid in advance, but the percentage received in advance has decreased each year, which has led to a decline in revenue each year. In June 2025, councils received 50% of the 2025–26 allocation, while in the previous year it was about 85%. This 35% reduction in cash receipts led to an increased number of councils with operating losses for the year ended 30 June 2025.

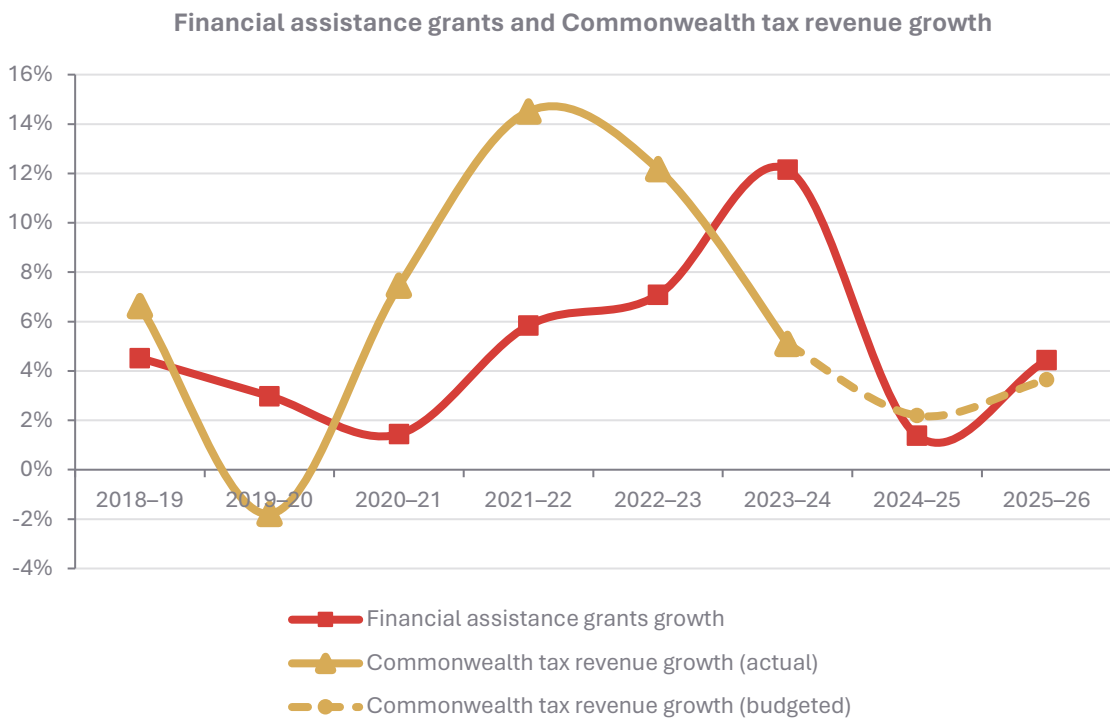
Other grants are generally paid on achievement of predetermined milestones relating to specific projects. There is often a time lag between when costs are incurred and when these grant revenues are received.

The need to preserve an operating cash balance means councils may defer certain expenditures that are discretionary or non-essential until additional funds are available.

**Financial Assistance Grants in 2024–25 had their lowest growth over the past seven years**

National principles for distributing Financial Assistance Grants to councils began on 1 July 1995 under the *Local Government (Financial Assistance) Act 1995*.

The graph below shows the percentage growth in Financial Assistance Grants against growth in Commonwealth tax revenue.



Source: Australian Bureau of Statistics 'Taxation Revenue' and the Department of Infrastructure, Transport, Regional Development, Communications, Sports and Arts 'Financial Assistance Grants'.

For 2024–25 the increase was 1.4%, the lowest increase since 2018–19.

The value of the Financial Assistance Grants has declined from about one per cent of Commonwealth taxation revenue in the mid-1990s to approximately 0.5% today.

## 6.2. Council liquidity

Councils hold cash and investments that are restricted by legislation or contractual arrangements. Effective management of these balances is crucial to ensure compliance with legislation and contract conditions while planning for future spending, including capital projects. Interest income earned on restricted funds is similarly restricted.

The LG Act states that ‘money received as a result of levying a special rate or charge may not be used otherwise than for the purpose for which the rate or charge was levied’. Under the LG Act, the Minister can approve internal loans to use money collected through a special rate or charge for another purpose. In the absence of ministerial approval, only non-restricted cash can be used for operational purposes. Common types of special rates and charges include those for water, sewerage, drainage, domestic waste and stormwater management.

Restricted cash does not need to be kept in a separate bank account and is recorded in, and controlled using, subledgers.

### Two councils spent restricted cash in breach of the LG Act

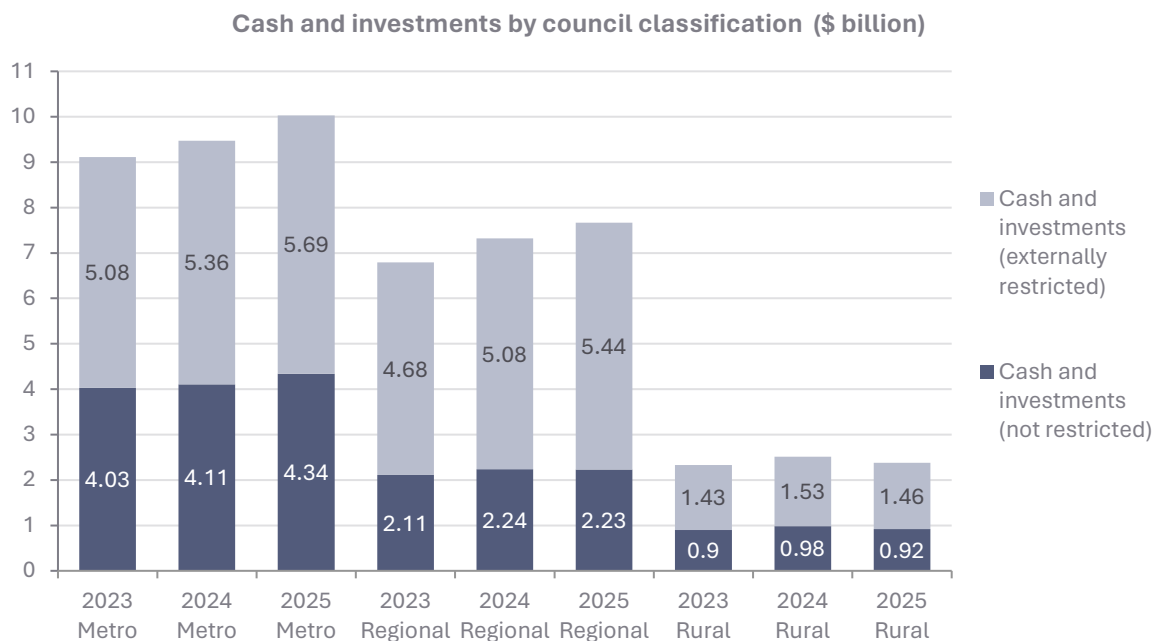
Bathurst Regional Council and Upper Hunter Shire Council breached the LG Act by spending externally restricted cash for purposes other than those intended.

At times during 2024–25, these councils had insufficient cash flows, not subject to external restriction, to meet general fund expenses.

Both councils have subsequently received ministerial approval to use internal borrowings to support their cash flow.

### Most cash and investments held by councils are externally restricted and can only be used for specific purposes

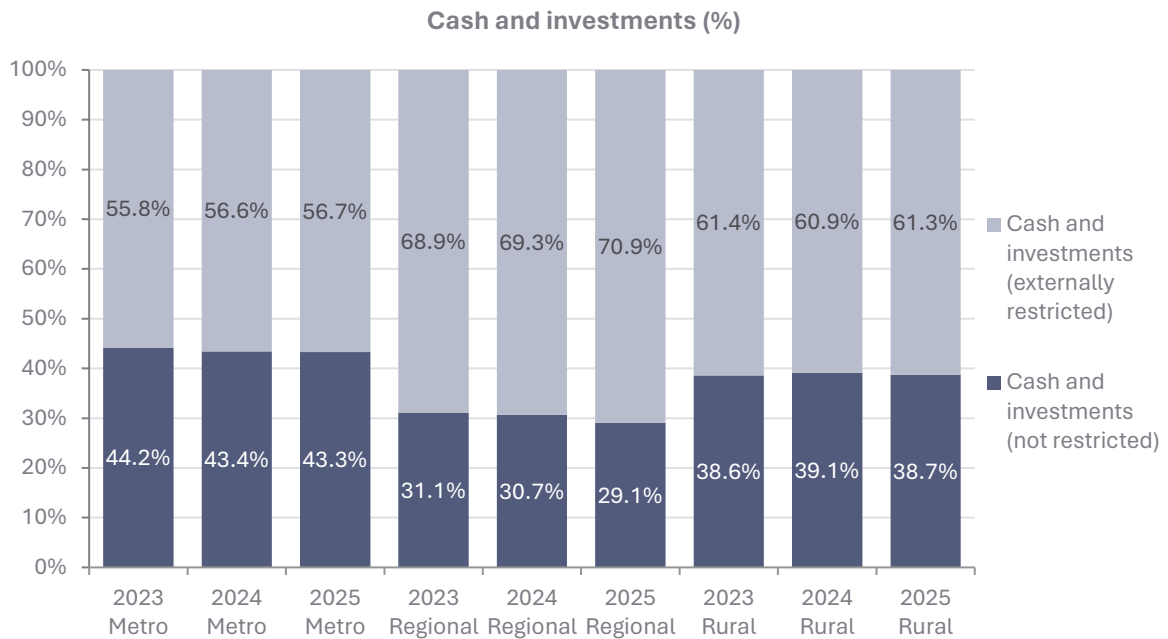
The graph below shows the total cash and investment balances split into externally restricted and not restricted, by council classification, over the past 3 financial years.



Source: Councils' financial statements (audited).

At 30 June 2025, total cash and investments across councils was \$20.1 billion (\$19.3 billion at 30 June 2024), with \$12.6 billion (\$12 billion at 30 June 2024) being externally restricted. Over the past 12 months, total cash and investments have grown in metropolitan and regional councils, but they have declined in rural councils.

The graph below shows the proportion of cash and investment balances split into externally restricted and not restricted, by council classification, over the past 3 financial years.



Source: Councils' financial statements (audited).

The proportion of externally restricted cash and investments has increased by small amounts over the three years, with regional councils having the highest proportion at 71% and metropolitan councils the lowest at almost 57%. This means that metropolitan councils have a higher proportion of their cash and investment balances available to meet general fund expenses. Many regional and rural councils collect rates and charges for water and sewerage services, which are externally restricted, contributing to higher proportions of externally restricted balances.

**At 30 June 2025, 19 councils did not have available cash and investments to meet three months of expenses**

One indicator of council liquidity is whether the cash and investments balance, not subject to external restrictions, can meet 3 months of general fund expenses (excluding depreciation and borrowing costs). A 3 month period is generally the cycle that councils usually receive rates (quarterly) to support their cash flow and expenditure. At 30 June 2025, there were 19 councils (2 metropolitan, 8 regional and 9 rural) with insufficient cash and investments, not subject to external restrictions, to meet 3 months' worth of expenses (16 at 30 June 2024).

Further analysis, including operating performance, unrestricted current ratio and level of own source revenue, was performed on the 19 councils to determine which councils had heightened financial sustainability concerns. The 11 councils identified from this further analysis are listed in [Appendix 2](#).

Having low levels of available cash increases the risk of spending externally restricted cash for improper purpose, in breach of the LG Act.

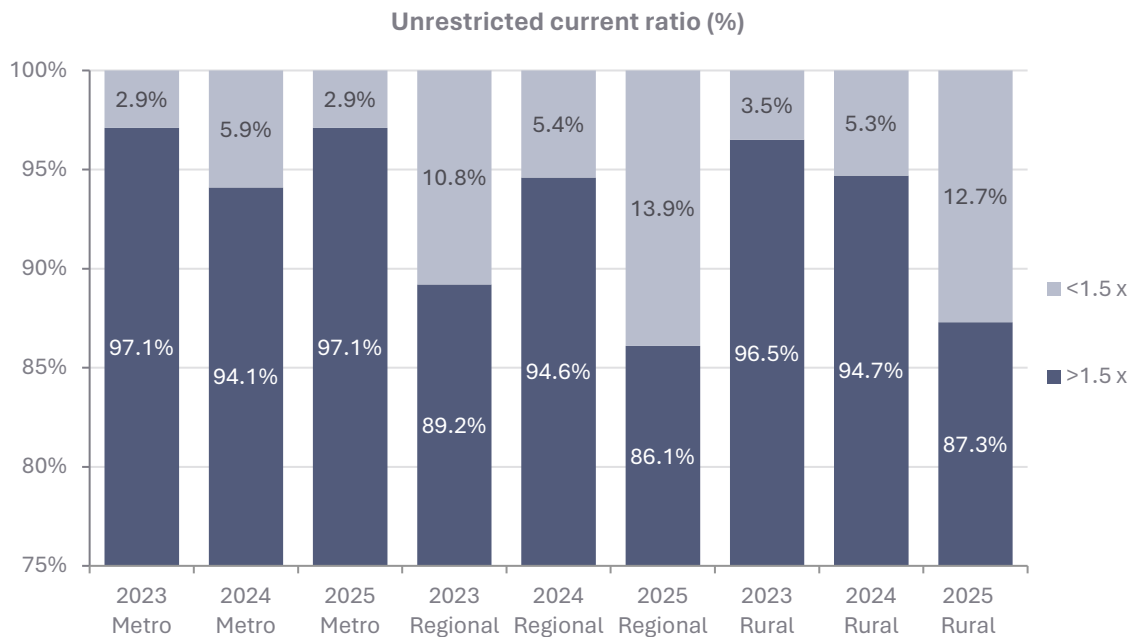
Councils with liquidity concerns need to take action to optimise cash management and financial planning. Such action can include:

- improved recovery of debtors
- new revenue sources and/or ensuring that fees recover the costs of service delivery
- a focus on delivery of essential services
- effective budgeting, forecasting and long-term financial planning
- tighter control over the amount and timing of expenses
- ongoing monitoring of externally restricted cash to reduce the risk that it is used to fund operations, in breach of the LG Act
- where capacity permits, internal or external borrowings.

**The balance of most councils' current assets is 1.5 times the balance of current liabilities**

Another measure of financial sustainability is the unrestricted current ratio, which measures the ability to meet short-term obligations. The measure shows the unrestricted current assets available to meet current liabilities. The Office of Local Government had a previous benchmark of 1.5 for this ratio. This benchmark indicates that the councils have \$1.50 in current assets for every \$1 in current liabilities.

The graph below shows the percentage of councils, by classification, with an unrestricted current ratio above or below 1.5 times.



Source: Audit Office calculation from financial statements.

All but one metropolitan council had a value of current assets greater than 1.5 times current liabilities at 30 June 2025. Both regional (13.9%) and rural (12.7%) councils had more councils with insufficient current assets to meet current liabilities. Twelve of the 19 councils identified above as being the least liquid did meet this measure. Amounts due from the NSW Government contribute to achieving this measure and liquidity will improve as cash is received. Time lags between incurring expenses and receiving revenue put pressure on cash flows.

### 6.3. Water supply and infrastructure

NSW residents and businesses receive water from Sydney Water Corporation, Hunter Water Corporation and local water utilities that are operated by councils or county councils.

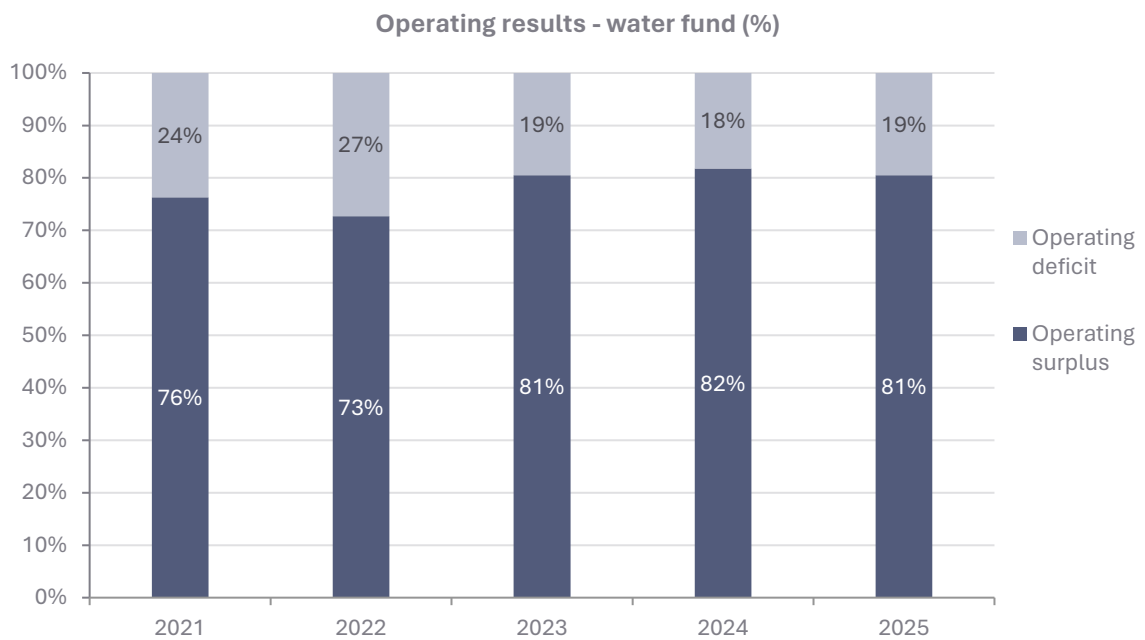
Approximately 1.9 million people receive water from councils or county councils. Councils set water rates, though many rural councils with small populations have a small number of customers, so annual revenue is low.

**Fifteen councils made operating losses for the water fund for the year ended 30 June 2025**

Seventy-seven councils operate a water supply business, with 15 councils (2 regional and 13 rural) making an operating loss for these businesses for the year ended 30 June 2025. Councils with higher surpluses tend to be those with higher populations and more water connections that provide revenue.

There is a high reliance on funding from grants to operate and fund asset acquisition and renewal for water supply businesses. When grants revenue was removed, 30 councils (10 regional and 20 rural) had an operating loss.

The graph below shows the proportion of operating results of water supply businesses over the period 2021–25.



Source: Councils’ financial statements (audited).

**Water supply infrastructure requires almost \$1 billion to meet agreed service levels set by councils**

Based on council estimates, almost \$1 billion is required to ensure that water supply infrastructure continues to meet agreed service levels. This estimate has increased by 161% since 2021. Many councils providing this essential service are not fully recovering operating costs. Even when they can cover operating costs it is unlikely, with a small customer base, that they will recover enough to bring infrastructure to agreed service levels. Grants are the primary source of funding for water supply infrastructure managed by councils.

The Auditor General’s performance audit, [Support for regional town water infrastructure](#), published in 2020, concluded that ‘the former Department of Planning, Industry and Environment has not effectively supported or overseen town water infrastructure planning in regional NSW since at least 2014. It has also lacked a strategic, evidence-based approach to target investments in town water infrastructure’.

The NSW Government has published several Regional Water Strategies that set out a long-term roadmap of actions to deliver and manage water for local communities.

Ageing water supply infrastructure can lead to failure and lack of water security, as demonstrated in the case study below.

#### **Case study – Regional water infrastructure failure**

A leak occurred in a 450 mm main trunk water line. Safety requirements to repair it meant stopping water flowing into the line from the water treatment plant (WTP) and the immediate reservoir, as well as de-pressurising the water line. When excavation commenced, a 100 mm high-pressure line burst, causing damage to the concrete wall of the main trunk water line.

The WTP had been shut down and the whole of the main trunk line between the WTP and the receiving reservoir had been drained. This significantly reduced the availability of water to residents and businesses in the regional local government area, leaving 60% of households with no water supply.

Council enacted its business continuity plan, which included sourcing certified potable water suppliers to safely transport and pump drinking water back into the local lines, thus replenishing the network.

## 6.4. Local infrastructure contributions

Councils collect local infrastructure contributions from developers under the *Environmental Planning and Assessment Act 1979*, the *LG Act* and the *City of Sydney Act 1988* to fund infrastructure required to service and support new development. There are 3 types of contributions:

- section 7.11 – charged where there is a demonstrated link between the development and the infrastructure being funded
- section 7.12 – alternative to section 7.11 contributions and charged as a percentage of the estimated cost of the development
- planning agreements – a legal agreement negotiated between a developer and a planning authority to deliver an infrastructure outcome.

Councils are required to consider practice notes issued by the Secretary of the Department of Planning, Housing and Infrastructure when using contribution plans or planning agreements.

These contributions help councils to deliver roads, footpaths, traffic management, stormwater drainage, community facilities, parks and other recreation areas. Capital costs include the initial costs of providing infrastructure such as land acquisition, construction of facilities, costs of any borrowings and some administrative costs incurred by the council.

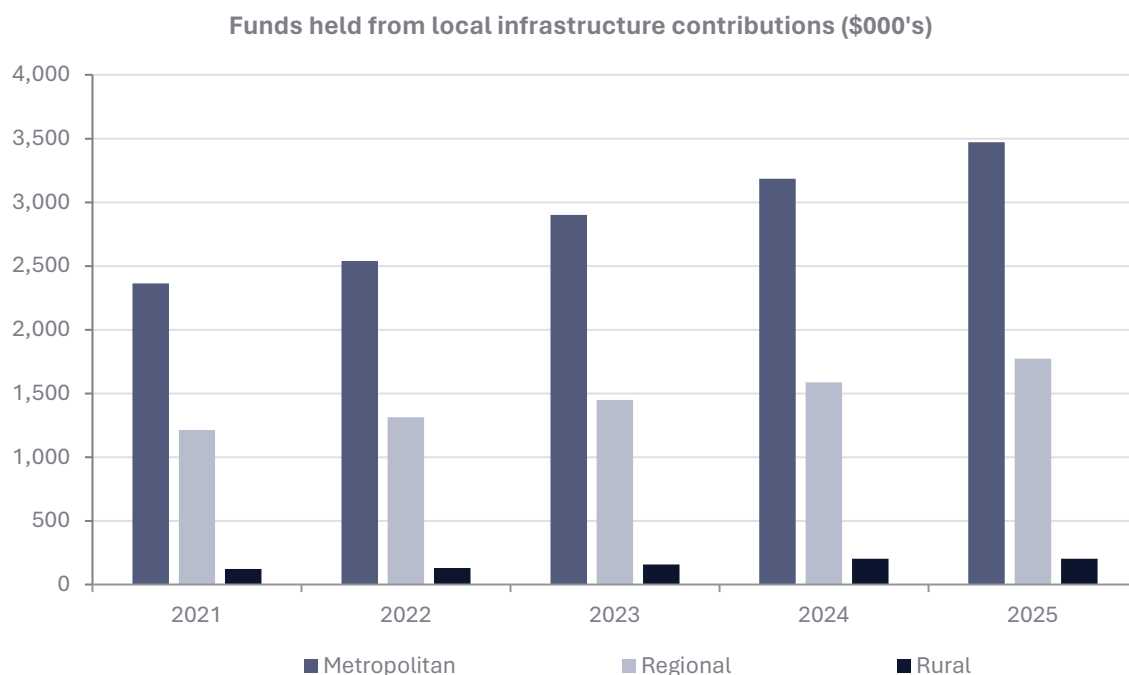
Councils collecting these contributions must prepare a contributions plan outlining how these contributions will be calculated and apportioned across different types of infrastructure, works programs and delivery plans. Councils can pool contributions to allow more timely funding of infrastructure.

In 2009, under section 7.11, a threshold of \$20,000 per lot was introduced for all development, unless a Ministerial direction specifies a higher amount. This amount has not been indexed. Councils can charge above the threshold set by the Minister for Planning and Public Spaces, if they request an IPART review of a contribution plan, and the recommendation is approved by the Minister. These approvals are restricted to collect only for infrastructure on the essential works list. Twelve councils have obtained approval to charge above the cap for specific contribution plans.

### **Councils held \$5.4 billion in local infrastructure contributions at 30 June 2025, with balances increasing**

At 30 June 2025, councils across NSW collectively held \$5.4 billion (\$4.3 billion at 30 June 2024) in contributions collected from developers. The balance of contributions held by councils increased by \$2.2 billion from 2020–21 to 2024–25.

The graph below shows the 30 June balance of externally restricted cash and investments, collected from developers, by council classification for the past 5 years.



Source: Councils' financial statements (audited).

Metropolitan councils have the highest level of development, and the balance of funds held has increased each year from 2020–21 to 2024–25. Whilst regional and rural councils have less development and as a result a lower level of contributions, their contribution balances have also increased over this period.

Fourteen councils account for approximately 50%, or \$2.6 billion, of the balance of funds held at 30 June 2025. The table below shows the contribution balances for these councils at 30 June 2023, 30 June 2024, and 30 June 2025.

Council	30 June 2025 (\$m)	30 June 2024 (\$m)	30 June 2023 (\$m)
Bayside	348	326	336
Blacktown City	213	281	237
Camden	175	147	193
Canterbury-Bankstown	131	135	128
Central Coast	216	201	191
City of Parramatta	193	165	142
City of Ryde	143	126	80
Cumberland City	145	130	113
Georges River	118	108	99
Hills Shire	245	243	219
Ku-ring-gai	102	116	108
Lake Macquarie	144	130	149
Liverpool City	317	277	281
Maitland	143	127	118

Council	30 June 2025 (\$m)	30 June 2024 (\$m)	30 June 2023 (\$m)
<b>Total</b>	<b>2,633</b>	<b>2,512</b>	<b>2,394</b>

Source: Councils' financial statements (audited).

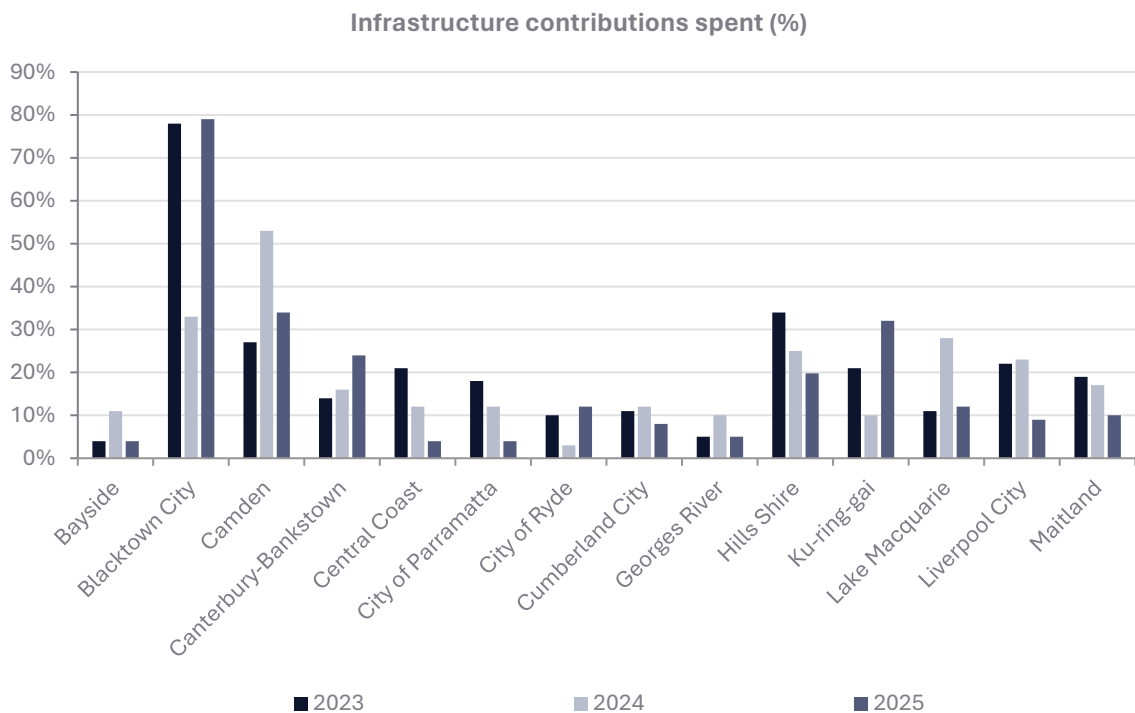
As required, all 14 councils publish contribution registers, showing all funds received from developers by contributions plan.

Not all council contribution registers include the date the contribution was first received and, therefore, it can be difficult to determine how timely the subsequent expenditure and infrastructure investment by councils has been. There are 2 plans from 2001 with no recent expenditure. A further 5 plans included contributions collected over ten years ago.

**Ten of the 14 councils spent less than 20% of their local infrastructure contributions balance during 2024–25**

All 14 councils advised that they have capital expenditure budgets that include plans for spending these funds. However, during 2024–25, 10 councils spent less than 20% of the contributions fund balances held at 30 June 2024 (9 councils during 2023–24 and 8 during 2022–23).

The graph below shows the percentage of funds spent by these councils from 2023–25.



Source: Audit Office calculation from financial statements.

Large growth councils, like Blacktown City, Liverpool City, Camden and Hills Shire, have a significant number of development activities which resulted in holding high infrastructure contribution funds. Blacktown City spent 80% of the balance held in LICs in 2023 and 2025.

Councils advised a range of impediments to spending, including:

- financial capacity:
  - a lack of funds for maintaining and renewing existing assets, reducing available council funds required to fund growth assets or top up plans
  - slow receipt of funds which is not aligned with when the new residents need the infrastructure
  - insufficient funds to complete projects based on contributions received, contributing to a reliance on seeking grant funding to complete projects
  - contribution thresholds not indexed
  - escalating costs leading to funding gaps, making planned projects unaffordable
- delivery capacity:
  - existing asset renewal taking priority over new infrastructure in the council's delivery program
  - time and resources required to effectively plan, design and approve major projects
  - delays and other difficulties in acquiring land, including through compulsory acquisition, to build infrastructure
  - construction delays
- rapid population growth and growth in locations other than those predicted
- significant time and resources required to amend contribution plans to respond to changes.

Delays between the collection of developer contributions and subsequent expenditure on new infrastructure could be an indicator that infrastructure planning and delivery processes are not operating effectively to deliver the intended outcomes. Delays in expenditure can risk:

- the ability to fund the intended level and standards of infrastructure, due to changes in purchasing power as costs escalate and land becomes scarce
- a reduction in community amenities, as new developments are delivered without the planned or necessary infrastructure in place.

The Productivity Commission tabled its review of infrastructure contributions in 2020, which found the infrastructure contributions system was not fully enabling the State and councils to provide the infrastructure required to support development. The report made 29 recommendations, underpinned by a set of principles setting out where infrastructure costs should be recovered from developers or landowners and where governments should rely on other sources of funding. The NSW Government is using a staged approach to implementing recommendations.

## 6.5. Long-term financial planning

Section 403 of the LG Act requires councils to have a long-term strategy for providing resources required to perform its functions. This is known as the Resourcing Strategy, which consists of 3 elements:

- long-term financial planning
- asset management planning
- workforce planning.

The OLG issued the 'Integrated Planning & Reporting Handbook' to provide guidance to councils on how to prepare and implement integrated planning.

## Councils can improve modelling for different scenarios in financial planning

The table below presents compliance levels with some of the mandatory requirements for long-term financial planning (LTFP).

LTFP components	Complied		Council classification (2025 only)		
	2025	2024	Metro	Regional	Rural
Income and expenditure, balance sheet and cash flow statement	99	87	100	97	100
Sensitivity analysis	91	63	100	92	85
Financial modelling for different scenarios	79	56	91	78	73
Methods for monitoring financial performance	89	64	100	89	84
<b>Clearly defined key assumptions used for revenue, expenditure and financial challenges</b>	<b>96</b>	<b>n/a</b>	<b>100</b>	<b>94</b>	<b>95</b>

Source: Audit Office findings.

All councils' long-term financial plans covered a 10-year period and included income and expenditure, balance sheet and cash flows. Metropolitan (9%), regional (22%) and rural (27%) councils should improve financial modelling for planned, optimistic and conservative scenarios. Some regional and rural councils should improve sensitivity analysis and methods for monitoring financial performance. Strengthening processes for scenario modelling, sensitivity analysis and methods for monitoring financial reporting will increase the effectiveness of long-term financial plans.

The Audit Office has commenced a performance audit on long-term financial planning. Refer to [Looking forward](#) for more information.

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## 7. Internal controls and governance

A strong system of internal controls and governance enables agencies to operate effectively and efficiently, produce reliable financial statements, comply with laws and regulations, and support ethical and transparent decision-making. Good governance promotes public confidence in the integrity and effectiveness of a council's systems and operations.

Well-governed, strong internal controls will enable councils to operate effectively and efficiently, produce reliable financial information, comply with laws and regulations, and support ethical government.

Financial audits include:

- procedures to understand the design, implementation and operating effectiveness of internal controls and governance relevant to the preparation of a council's financial statements
- consideration of the extent to which an agency has complied with applicable laws, and the regulatory and policy requirements relevant to financial management and reporting.

This chapter highlights findings on internal controls and governance identified in 2024–25 audits.

### Chapter highlights

- The Audit Office's audits reported on the design, implementation and/or operating effectiveness of internal controls and governance at nearly all councils, joint organisations and county councils. Almost 70% of reported findings related to weaknesses in governance, asset management and information technology (IT).
- Deficiencies in controls and monitoring of user access, including privileged users, were reported at most councils, increasing the risk of loss, error or unauthorised transactions.
- Councils should improve managing, recording and valuing assets. 63 councils had inaccurate and incomplete fixed asset registers, and 68 councils are deficient in asset valuation processes. These deficiencies could reduce the effectiveness of planning and decisions related to assets.
- Councils need to improve their fraud control frameworks. While more councils have implemented policies for fraud and corruption prevention and conflicts of interest, some councils need to improve training, fraud risk assessments and use of technology to detect and prevent fraud.
- All councils have established an Audit, Risk and Improvement Committee (ARIC), but 6 do not have the required number of independent members. Not all of these committees are covering the required aspects of council operations. Gaps in oversight could lead to unaddressed risks.

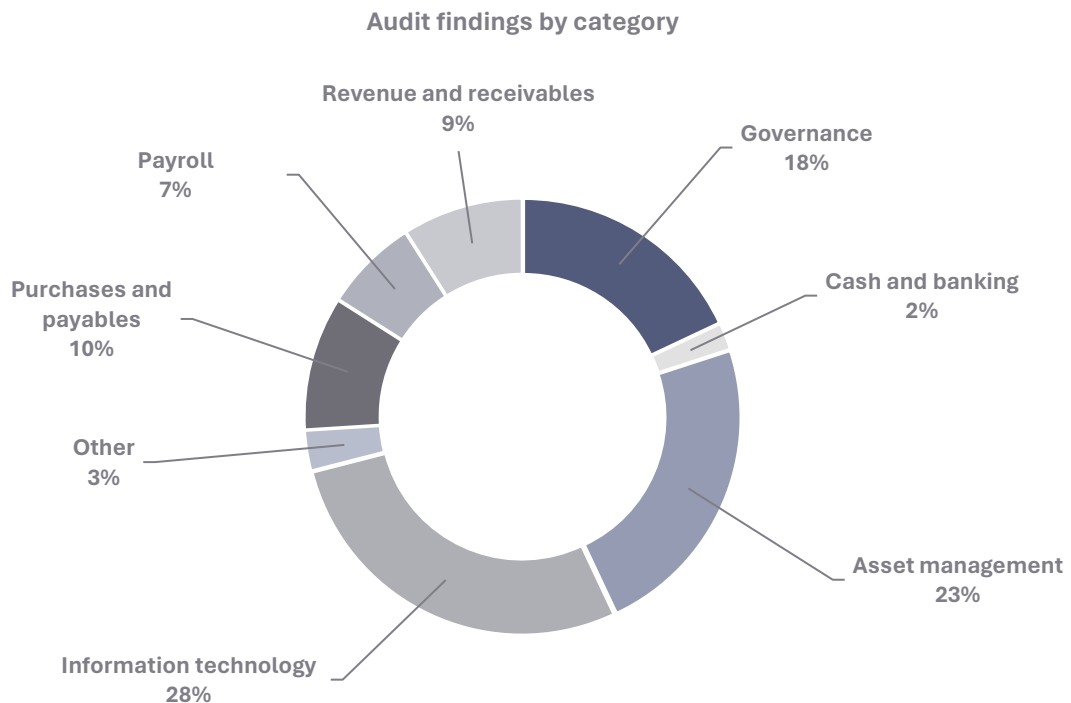
## 7.1. Audit findings

An audit of financial statements requires the auditor to obtain an understanding of councils' internal controls that are relevant to the preparation of the financial statements. This includes evaluating the design and implementation of controls over financial reporting and identifying and reporting internal control deficiencies. Breakdowns and weaknesses in internal controls can increase the risk of non-compliance, fraud and error.

The Audit Office's management letters report deficiencies in internal controls and other matters of governance interest to those charged with governance, including the general manager and ARICs.

The Audit Office reported audit findings to all councils, county councils and joint organisations in 2024–25. The total number of reported audit findings (1,410) was consistent with that in 2023–24 (1,406).

As explained in the chart below, 69% of reported findings were related to weaknesses in governance, asset management and IT.



Source: Audit management letter for 30 June 2025.

## 7.2. Key audit findings

The Audit Office identified key findings across the following areas:

- governance matters
- asset management
- IT
- purchases and payables
- payroll
- revenue and receivables
- cash and banking, including the management of externally restricted balances.

## Governance matters

### Deficiencies in governance frameworks reduce confidence in the integrity and effectiveness of systems and operations

One high-risk finding was reported as a council had not formalised its business continuity plan to define the processes required to continue operations during an event.

Other common reported findings include:

- absent or outdated policies and procedures
- incomplete contract register
- business continuity plans not formalised or tested
- inadequate procedures to ensure compliance with laws and regulations.

### Councils need to improve their fraud control frameworks

Robust fraud risk assessment and control processes help to protect councils from events that risk serious reputational damage and financial loss.

While more councils have implemented policies for fraud and corruption prevention and conflicts of interest, some councils need to improve their training and fraud risk assessments. Deficiencies in fraud control processes are summarised in the table below.

Fraud control deficiencies	Number of councils/ joint organisations	
	2025	2024
No fraud awareness training	32	36
No fraud risk assessment	36	35
No conflict-of-interest policy	5	n/a
No fraud and corruption prevention policy, or it was outdated	6	10
Not ensuring requested changes to bank account details are valid	24	n/a
Staff not required to annually acknowledge compliance with the code of conduct	66	79
Not reviewing Independent Commission Against Corruption publications to identify risks and improvement opportunities	22	n/a

Source: Audit Office findings. Some of the fraud control deficiencies were only collected this year.

Councils should take steps to provide improved governance related to fraud, including providing fraud awareness training to their staff and undertaking regular fraud risk assessments.

## Changing vendor details without proper verification can lead to fraud

All requests to change vendor details should be independently verified and all changes should be independently reviewed. Ineffective controls to detect and prevent fraud can expose councils to financial loss, as demonstrated in the case study below.

### Case study – Potential fraud

A scammer, posing as a supplier, contacted the council to change their contact details (email and phone). An employee emailed a remittance advice with the supplier's bank account details to the email address provided by the scammer. The following week, the scammer requested a change to the bank account details, and the vendor master file was updated. Within a month, a legitimate supplier invoice was received and paid to the updated bank account, which was fraudulent. In this case, the only reason the money was not lost was due to the bank identifying an anomaly with the bank account and stopping the payment.

Key lessons for the sector:

- verify all requests for changes to supplier details through sources independent of the change request
- independently review all changes to the vendor master file
- document processes employees should follow, and provide training
- identify fraud risks and keep employees aware of evolving scams
- explore new technologies to prevent and detect fraudulent transactions.

## Asset management

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

### Councils should improve managing, recording and valuing assets

Nine high-risk findings were reported for:

- deficiencies in asset valuation processes
- lack of timely review and management of work-in-progress
- not maintaining fixed asset registers in a secure format.

Other common reported findings include inadequate asset valuation processes and inaccurate and incomplete fixed asset registers.

Ineffective controls, including lack of timely reviews and management of work-in-progress, can lead to errors in financial statements, as demonstrated in the case study below.

#### **Case study – Capital work in progress**

A council reviews and capitalises capital work in progress annually, which means that the progress of projects at this council is not being reviewed and monitored effectively, resulting in delayed transfer of completed assets. As a result, financial statements submitted for audit were adjusted by \$33.8 million, including transfer of \$25.9 million to correct asset classes and derecognising \$6.7 million in duplicate assets.

Key lessons for the sector:

- regularly review and monitor work in progress balances
- regularly engage with project management and engineering staff to ensure integrated financial management for projects
- establish clear responsibility and accountability for project tracking and asset capitalisation
- review long outstanding and inactive work in progress balances to ensure timely capitalisation
- ensure assets are capitalised when ready for use.

#### **Sixty-three councils had inaccurate and incomplete fixed asset registers**

Having complete and accurate records of assets in place informs asset management decisions, improves the robustness of asset management plans and allows for effective monitoring of asset condition and performance.

Errors in underlying asset register data lead to errors in financial reporting.

Councils should take steps to improve the accuracy and completeness of fixed asset registers by:

- removing duplicate assets
- analysing data and comparing it to other systems such as ratings systems for completeness of land and technical asset registers for infrastructure
- regularly updating asset additions and disposals
- ensuring a strong alignment between fixed asset registers and other sources of information, including engineering records and asset management plans
- maintaining fixed asset registers in a secure format.

#### **Sixty-eight councils have deficiencies in asset valuation processes**

Incomplete and inaccurate underlying asset records, such as fixed asset registers, contribute to errors in asset valuations. They also contribute to errors in financial reporting.

Councils can improve their valuation processes by:

- having a valuation policy
- effectively planning valuations and starting the process early
- updating and reconciling registers before providing them to valuers to ensure they are accurate and complete
- completing key reconciliations between relevant databases
- documenting management's review of draft and final valuation reports, including questioning valuers
- preparing position papers explaining methodology, key assumptions and judgements, and the reasons for movements
- engaging with auditors throughout the valuation process.

## Information technology

### Deficiencies in controls and monitoring of user access undermine the integrity of data and finance systems

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

Financial audits review IT general controls for key financial systems that support the preparation of council financial statements. These include:

- policies and procedures
- risk management
- privileged user access restriction and monitoring
- user access management
- system software acquisition, change and maintenance
- patch management
- disaster recovery planning
- cyber security ([see Chapter 10](#)).

Four high-risk findings were reported for:

- lack of policies and procedures for disaster recovery and password controls
- no monitoring of privileged user activity
- not performing user access reviews
- password parameters not meeting better practice.

Other common reported IT findings include:

- absence of policies and procedures
- failing to perform user access reviews to ensure access to key IT systems is appropriate and commensurate with their roles and responsibilities
- gaps in restricting privileged users' access and not monitoring their activity
- absence of disaster recovery planning.

Risks arising from weak IT controls include:

- unauthorised access to data that may result in destruction of data or improper modification
- unauthorised changes to IT applications or other aspects of the IT environment
- inability to recover from IT incidents
- compromised segregation of duties and management that override established controls.

### Most councils had insufficient controls over user and privileged user access to systems

Control weaknesses over system access were reported at 71 councils in 2024–25. Weaknesses in granting, removing and monitoring user access to systems can lead to inappropriate and unauthorised system access, increasing the risk of fraud, cyber attacks and invalid transactions. This can compromise the integrity, confidentiality and accuracy of financial data.

Councils should ensure that:

- access to the system is granted only after obtaining the necessary approvals, which should be formally documented and retained
- access removal is timely at employee termination, and processes are in place to allow timely communication by HR/payroll teams to system administrators to disable or delete inappropriate access
- reviews of user access are regularly performed to ensure existing access permissions are appropriate and user accounts are still required. Reviews and corrective action should be prompt and evidence of changes should be retained.

## Purchases and payables

### Deficiencies in procurement and contract management controls could impact value for money outcomes

It is critical to have appropriate probity, accountability and transparency in procurement to achieve value for money and reduce the risk of unauthorised purchases, and corrupt and fraudulent behaviour.

Three high-risk findings were reported for:

- significant weaknesses in procurement practices, lack of segregation of duties and over reliance on contractors, leading to alleged corrupt conduct
- inadequate review of changes to the vendor master file resulting in fraud
- non-compliance with the council's own policies and the tendering requirements of the LG Act.

Other common findings include:

- inadequate reviews of changes to the vendor master file
- poor contract management frameworks
- lack of segregation of duties
- financial delegations not enforced.

Weak purchasing and payable controls, including those related to management of vendor master data and approval of payments, increase the risk of error, waste and fraud.

Ineffective controls in purchasing and payables management can expose a council to loss and fraud, as demonstrated in the case study below.

#### Case study – Misappropriation of security bonds

At one council, an employee fraudulently applied for reimbursement of security bonds (\$1.5 million in total). The application forms for these refunds used data that looked legitimate and involved various bank accounts across different banks. All fraudulent refunds related to bonds held for longer than 6 years.

The council's investigation revealed that the employee also authorised payment of the refund requests and submitted them to accounts payable. While the forms appeared to be dually authorised, it was suspected that the other employee's signature was misused and the suspected employee acted alone.

Key lessons for the sector:

- implement training for the accounts payable team to increase fraud awareness and red flags, for example, emails or requests sent late at night, evidence of documents being altered
- ensure email requests for all payments are sent by both authorising officers so both signatories are aware of the payment
- provide opportunities to use data analytics to detect fraud.

## Payroll

### Weak controls and lack of segregation of duties increase the risk of fraud, waste and error

Payroll is a significant expense. Effective payroll processes ensure councils manage their workforce in compliance with legislation, employment agreements and the Local Government Award.

Common payroll findings include:

- inadequate review of changes to the employee master file
- no review of termination payments
- leave forms not reviewed, not updated in the payroll system and not filed
- lack of segregation of duties
- lack or untimely review of payroll reconciliations.

Payroll processes, controls and information systems should be designed to protect the integrity of employee records. They should be designed to ensure accuracy of payments to employees and to prevent fraud and waste.

## Cash and banking

### Controls at some councils failed to prevent use of externally restricted cash and investments for improper purposes

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

Two high-risk findings were reported for Bathurst Regional Council and Upper Hunter Shire Council who breached the LG Act by spending externally restricted cash and investments for an improper purpose.

Other common findings include:

- poor controls and processes for recording, monitoring and reporting externally restricted cash and investment balances
- outdated banking signatories
- non-compliance with loan covenant requirements.

Lack of effective cash management, including externally restricted cash, can lead to a breach of the LG Act, as outlined in the case study below.

#### Case study – Externally restricted cash

One council relies on a highly manual, annual process to manage and report cash and investments subject to external restrictions. This process has been ineffective and has resulted in errors. Cash and investments not subject to external restrictions continue to be low and there is evidence of these funds being spent for general operating purposes, which is in breach of the LG Act.

Key lessons for the sector:

- implement regular reconciliation and monitoring of restricted cash, which can reduce the risk of spending externally restricted cash outside of its intended purpose
- improve cash management through enhanced processes and controls as manual processes can be subject to error
- ensure regular transparent reporting to decision makers, which is crucial in the oversight of externally restricted cash.

Some councils have established effective cash management, as outlined in the case study below.

### Case study – Externally restricted cash

One council monitors restricted cash regularly and has directly linked its quarterly Cash and Investment Budget Review Statement to the general ledger. Prepared each quarter, this statement is independently reviewed by officers in the council's finance team. The council has configured its general ledger to reflect externally restricted balances and does not rely on manual processes to identify and record income and expenditure. Clear transaction coding rules are established in the general ledger to ensure all restricted and allocated income and expenditure items are identified and used for their intended purposes.

Key lessons for the sector:

- link reporting on budget against actuals directly to the general ledger to improve accuracy and eliminate the risk of errors in manual processes
- establish clear transaction coding rules to help ensure contributions, grants, special rates and charges are collected and spent in compliance with the LG Act
- ensure appropriate levels of review and oversight, including by the ARIC, to enhance governance over an externally restricted cash position.

## Revenue and receivables

Councils receive revenue from a range of different sources, including ratepayers, users of facilities, other levels of government and developers. Councils require appropriate controls to accurately record revenue and receivables in compliance with Australian Accounting Standards and other legal requirements.

### Many councils need to improve their revenue processes and controls

One high-risk finding was reported for lack of controls and effective process for collecting revenue from water supply, including lack of effective review of quarterly billing reports, resulting in incorrect charges to customers.

Other revenue and receivables findings include:

- not formally assessing grant funding against measurement criteria under AASB 15 'Revenue from Contracts with Customers' and AASB 1058 'Income of Not-for-Profit-Entities'
- not regularly updating and reconciling the grant register
- a lack of independent review of changes made to data in revenue systems and revenue master files
- a lack of exception reporting
- incorrect classification of properties for rating purposes.

Poor revenue controls can negatively impact customers and the reputation of councils, as outlined in the case study below.

#### **Case study – Incorrect water billing**

A county council issued incorrect invoices to customers for water supply due to a lack of effective controls. Current and previous audits had identified issues, and further investigation by management identified system inefficiencies, manual and outdated processes, data inaccuracies, billing errors, unauthorised meter removals and zero-usage readings. Each of these contributed to additional costs, reputational risk, debtor write-offs and prolonged debt recovery.

Key lessons for the sector:

- implement regular documented reviews of billing reports to identify errors
- replace outdated, non-integrated systems that increase manual workload and the risk of billing inaccuracies
- attend to historical issues which, if not addressed, can affect customer trust, staff morale and debt recovery efficiency
- conduct periodic reviews of gross margins, loss factors and performance of water operations to provide insights.

### **7.3. Risk management and internal audit**

From 1 July 2024, the Local Government (General) Regulation 2021 (the Regulation) requires all councils, county councils and joint organisations to:

- adopt and implement a framework for identifying and managing risk
- appoint an internal audit coordinator and adopt an internal audit charter
- have a chairperson and at least two independent members on the ARIC
- attest to compliance with Division 6A of the Regulation in their annual reports.

The Regulation requires councils, county councils and joint organisations to notify the Departmental Chief Executive within 28 days of the failure to comply with the Regulation, and to publish a statement of non-compliance in the annual report.

The OLG has issued ‘Guidelines for Risk Management and Internal Audit’, a model terms or reference for ARICs, model charter for internal audit and other templates to assist councils in implementing the requirements.

#### **Risk management**

Risk management helps councils to identify, assess and address potential risks. Maintaining sound risk management ensures that the council can manage uncertainties in a proactive way. This delivers benefits, such as improved decision-making and efficiency, while protecting resources and reputation.

#### **Not all joint organisations have a framework for identifying and managing risk**

Four joint organisations do not have a framework for identifying and managing risk as required by the Regulation.

Deficiencies in risk management could contribute to poor decision making, the inability to achieve organisational objectives, and financial losses. Councils should identify and effectively manage risks and opportunities to mitigate threats to assets, reputation and operational continuity.

## Internal audit

The Institute of Internal Auditors defines internal audit as an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

### There is no internal audit function at eight councils and seven joint organisations

Eight councils and 7 joint organisations do not have an internal audit function as required by the Regulation.

These councils and joint organisations are missing out on opportunities to improve the effectiveness of their internal control environment, including risk management, compliance, fraud control, improved efficiency and cyber resilience. They should establish internal audit or consider sharing internal audit with another council.

The case study below shows the benefits of sharing the internal audit function.

#### Case study – Sharing the internal audit function

A group of councils share a chief audit executive and an internal audit function, allowing them to strengthen governance, risk management and internal controls more effectively. By adopting a shared model with a common audit framework, role description and deed of agreement, the councils were able to access high-quality internal audit services that would have been too costly individually. The shared arrangement enabled coordinated audit planning, resource sharing and consistent audit practice across councils, while still tailoring audit plans to each council's needs.

This collaborative approach delivered significant benefits, including access to specialist expertise, improved control environments, better risk mitigation, cost savings from shared procurement, and efficiency gains through coordinated audit scheduling and benchmarking across councils.

Key lessons for the sector:

- clearly define and agree on the internal audit function's roles, responsibilities, expectations and accountability
- foster a collaborative culture among councils and audit providers to support shared insights, coordinated resources and consistent high-quality outcomes
- leverage group procurement and shared resources to maximise cost savings and reduce duplication
- maintain transparency, accountability and effective oversight to ensure trust and strong stakeholder relationships.

## Audit, Risk and Improvement Committees

In accordance with the LG Act, an ARIC must keep under review the following aspects of the council's operations:

- compliance
- risk management
- fraud control
- financial management
- governance
- implementation of the strategic plan, delivery program and strategies
- service reviews
- collection of performance measurement data by the council
- any other matters prescribed by the regulations.

### All councils have an ARIC, but six do not comply with membership requirements

All councils have an ARIC, and all but 6 have a chairperson and 2 independent members as required. The 6 councils advised that they are in the process of seeking additional independent members. Councils should enhance succession planning arrangements to ensure membership of ARICs comply with requirements.

Five joint organisations have no ARIC. Some of these are in the process of being dissolved. The remaining joint organisations should consider a shared ARIC in 2025–26.

### Not all ARICs cover the required aspects of council operations

Many councils do not comply with certain requirements of the Act and guidelines that set out the elements of council operations that should be considered. This is summarised in the table below.

Compliance requirements	Number of councils
ARIC not established	--
No review of the financial statements prior to submission to audit	33
Management did not provide certification of the effectiveness of internal controls	61
No review of financial management processes	14
No review of cash management policies and processes	19
No monitoring or review of the risk management framework	--

Source: Audit Office findings.

In setting the agenda for the ARIC work plan, councils should review the requirements of the Act and guidelines to ensure that the committee is being provided with information on, and giving appropriate attention to, all aspects of council operations.

Due to the timing of meetings, it was not always possible for financial statements to be reviewed prior to submission to audit. In most of the 33 councils where the committee did not review financial statements prior to submission, the ARIC reviewed the financial statements at the completion of the audit and before presentation of the financial statements to the governing body.

Councils should consider the timing of ARIC meetings in conjunction with financial statement preparation timelines to ensure that these committees review financial statements before they are presented for audit.

### Management did not certify the effectiveness of internal controls at 61 councils

From 1 July 2024, ARIC responsibilities have included reviewing and advising on whether:

- financial management processes and controls are adequate
- cash management policies and procedures are adequate
- controls are monitored and reviewed to ensure that they are operating as intended.

To fulfil these and other responsibilities, management should certify the effectiveness of internal controls for the ARIC. There is no template for this in the OLG guidelines and the ARICs are still determining the form and content of what they need from management to satisfy this requirement. It is better practice to also provide this certification to those signing the Statement by Councillors and Management in the financial statements.

NSW government agencies' chief finance officers must provide an annual letter of certification that:

- acknowledges their responsibility in designing, implementing, monitoring and continually evaluating the operating of the internal controls framework over the agency's financial systems and information
- certifies the effectiveness of the operation of the internal control framework over financial systems and information throughout the financial year, and summarises any control weaknesses and deficiencies, their potential impact on financial systems and information, and any remedial action plans, including mitigating controls.

Some councils use an abridged version to satisfy this requirement.

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## 8. Major capital projects

In accordance with the *Local Government Act 1993* (the LG Act), councils are responsible for managing land and other assets so that current and future local community needs are met in an affordable way. Councils should invest in responsible and sustainable infrastructure for the benefit of the local community. They should also have effective asset management, including policies and processes to manage asset maintenance and enhancement.

Strong governance is fundamental to the successful delivery of infrastructure projects, which can be complex, have long delivery timelines and require significant investment. Without clear decision-making frameworks, strong oversight and robust processes for monitoring costs, schedules, scope and risks, projects can experience delays and cost overruns, or fail to deliver expected benefits.

A good governance framework ensures accountability, supports informed decision-making, mitigates systemic and project-level risks and provides a framework for learning from past projects to improve outcomes for the community. Best practice governance is structured, transparent and tailored to the scale, complexity and risk profile of the project.

This chapter analyses the status of major capital projects with a budget of greater than \$30 million for 2024–25.

### Chapter highlights

- In 2024–25, councils spent \$6.1 billion to renew and acquire infrastructure, property, plant and equipment (IPPE) for the benefit of the local community.
- 14 capital projects over \$30 million were delayed by more than 6 months and 6 of these were more than 10 per cent over budget.
- Guidance for managing capital projects is outdated and inadequate. Guidelines do not cover the full project life cycle, or all types of projects, and do not provide advice on assurance arrangements that would support project delivery.

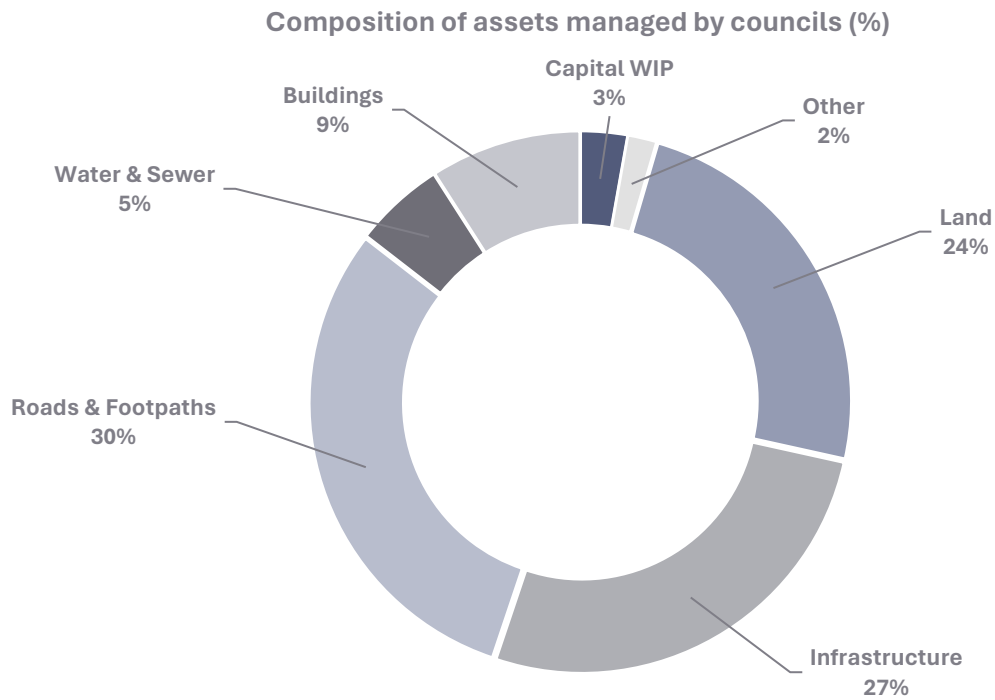
### 8.1. Background

Councils are responsible for development and management of a wide range of infrastructure, including roads, bridges, footpaths, stormwater drainage, water supply and sewerage.

#### **Councils spent \$6.1 billion to renew and acquire IPPE during 2024–25**

At 30 June 2025, councils collectively managed \$223 billion of IPPE.

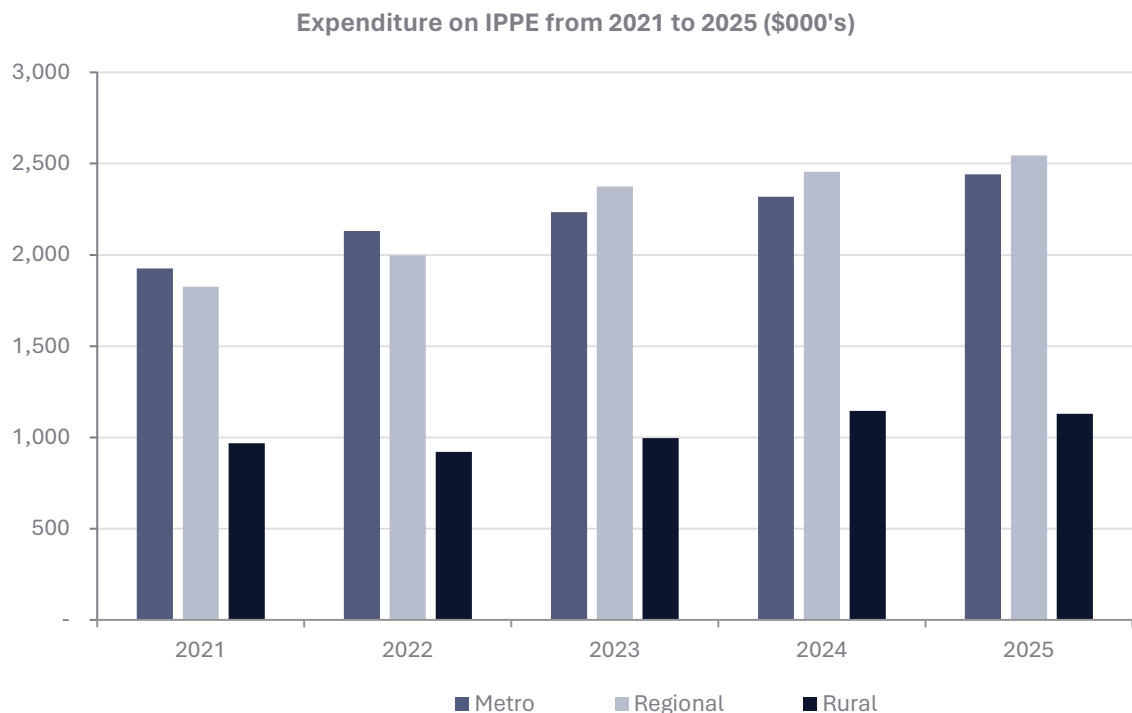
The graph below shows the composition of assets managed by councils at 30 June 2025.



Source: Councils' financial statements (audited).

During 2024–25, councils spent \$6.1 billion (\$5.9 billion in 2023–24) to renew and acquire IPPE to meet the needs of local communities. Funding for these assets comes from different sources, including grants, rates, developer contributions, user fees and charges collected for a specific purpose, and cash reserves.

The graph below shows the total expenditure on renewal and acquisition of IPPE for the period 2020–21 to 2024–25.



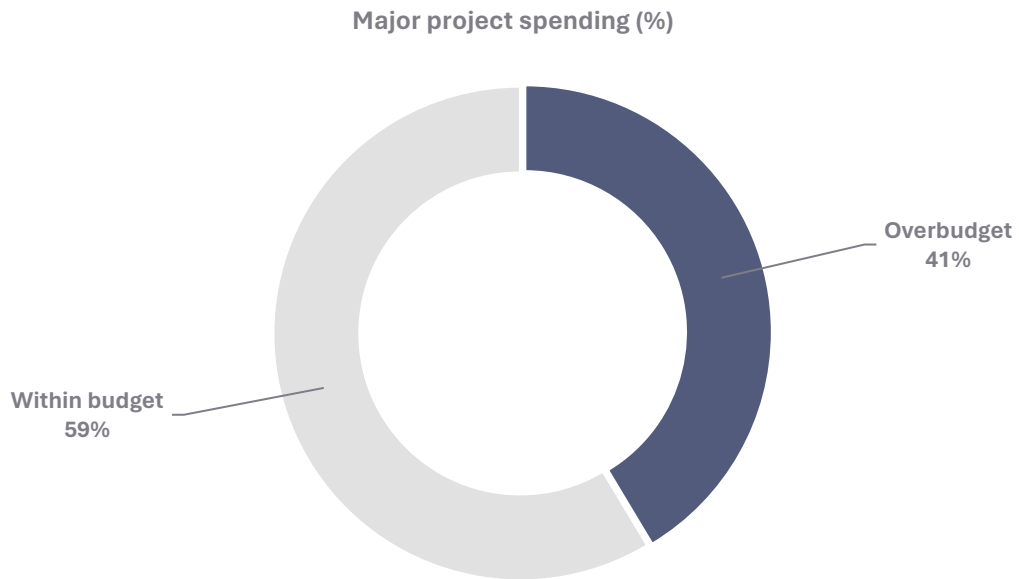
Source: Councils' financial statements (audited).

## 8.2. Major capital projects

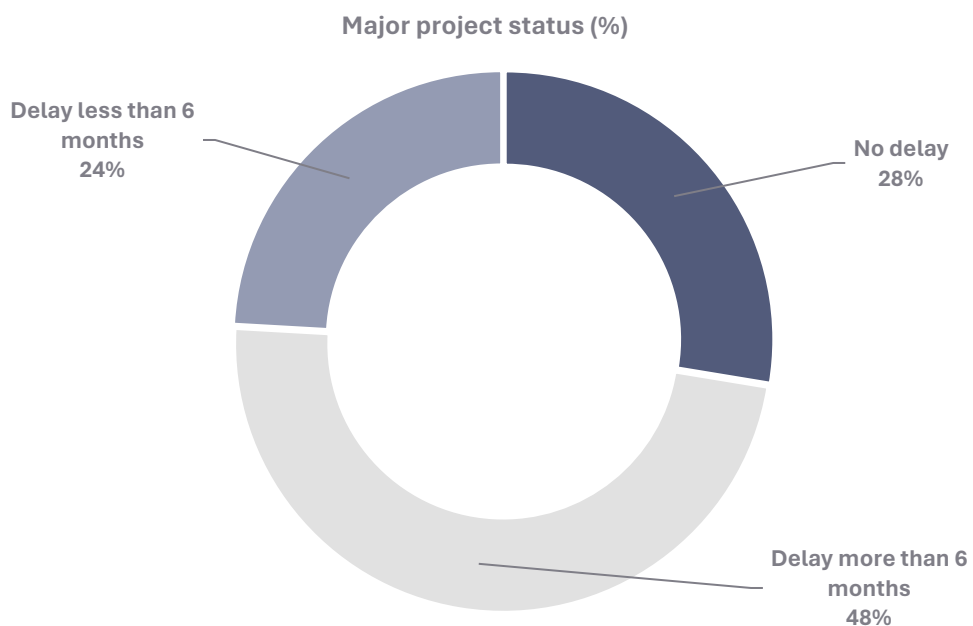
### Councils are delivering 29 projects with total capital budgets of more than \$30 million

Councils were delivering 29 projects with total capital budgets of more than \$30 million at 30 June 2025. The total collective budget for these projects was \$1.5 billion.

The graphs below show the status of the budget and schedule for each of these projects. Fifty-nine per cent of councils were within the original budget at 30 June 2025. In contrast, 72% of projects are experiencing delays, ranging between 24 days and 5 years.



Source: Audit Office analysis of data provided by councils for 29 major capital projects over \$30 million.



Source: Audit Office analysis of data provided by councils for 29 major capital projects over \$30 million.

## Fourteen major capital projects have significant delays, while 7 are on time and budget

Of the capital projects valued at over \$30 million, 7 are on time and within budget. Fourteen capital projects are delayed by more than 6 months. Of these, 6 have exceeded the original budget by more than 10 per cent at 30 June 2025. All councils had an approval process for variations and revised budgets were approved. [Appendix 3](#) contains additional details on these projects.

Project delays can lead to additional costs due to variations and inflation. For projects starting in 2019, COVID-19 shutdowns impacted timelines and significantly increased construction costs. Many projects were delayed due to drawn out negotiation and approval processes, and regulatory requirements, especially for water and wastewater treatment plants. Other reasons for delays include natural disasters, land transfer delays, supply chain interruptions, time to secure funding, addressing site contamination issues, industrial action and delaying tenders until construction costs have decreased.

Projects can go over budget due to unforeseen circumstances during the construction phase like the discovery of asbestos, but with improved risk assessment and better contract negotiation these costs can be minimised. Other causes for budget overruns include underestimating project costs, design changes, technical challenges, selecting the wrong supplier/contractor, weather events, scope changes and inadequate governance.

Projects typically encounter difficulties that can result in delays and overruns. Some reasons include:

- the initial business case or scope lacked sufficient rigour
- underestimating cost and time, typically due to poor risk assessment and/or inadequate risk response
- inadequate time and expertise when considering complex tenders
- poor contract negotiation skills
- inadequate contingency planning
- poor contract management and monitoring of performance
- inconsistencies in governance, assurance and oversight
- lack of suitable expertise, independence or authority on project committees.

Major capital projects with significant variations can impact reputation and long-term financial plans as demonstrated in the case study below.

### Case study – Major capital project

A council pool needed refurbishment due to ageing structures, concrete cancer and structural issues. Council entered a construction contract in December 2020 for an original approved budget of \$63.9 million with a planned completion date of November 2022. The project has not met the timeframe or budget. The current revised project budget is \$122 million with an opening date planned for 2026. Council has taken out loans and is considering other actions to ensure that it remains financially sustainable.

Key lessons for the sector:

- conduct a robust risk assessment to inform contingency levels rather than using benchmark percentages as each project has a different risk profile
- include project management and required consultants in the budget
- ensure that decisions consider associated risks and not just costs (in this case some decisions created significant risks that have been realised and ended up costing more over the life of the project)
- consider the financial capacity to build and operate the new infrastructure and develop a financial strategy
- community consultation to ensure the project is clearly aligned to their needs and expectations

- consider the expertise of council staff in delivering projects of a similar type, size and complexity and whether an external project management is required
- include a technical expert/advisor on the project steering committee
- ensure that risk management practices support effective decision making
- establish contracting strategies
- take more time to negotiate and consider complex tenders and contracting.

## 8.3. Capital Expenditure Guidelines

### Guidance for managing capital projects is outdated and inadequate

The Office of Local Government (OLG) requires that councils apply the Capital Expenditure Guidelines for all infrastructure facilities that will cost more than 10 per cent of ordinary annual rate revenue, or \$1 million, whichever is greater. The guidelines do not apply to:

- capital expenditure on land purchases, land remediation, water supply networks, sewerage networks, stormwater drainage, domestic waste management facilities, roads, footpaths and bridges
- public–private partnerships
- projects funded under the *Public Reservices Management Fund Act 1987*
- design and feasibility studies that do not commit to a project.

The guidelines require councils to:

- develop a preliminary business case
- undertake a capital expenditure review that considers the need for the project, the capacity of the council to manage the project to completion, financial implications, alternative approaches and public consultation
- for projects of more than \$10 million, develop project management, risk management and probity plans
- report on projects to council on a regular basis.

Under these guidelines, councils are required to notify the OLG of all capital expenditure projects that meet the criteria. This process does not provide assurance or approval. Councils are responsible for approval and management under their own financial delegations and governance arrangements.

The current guidelines have a narrow focus on project initiation and do not reflect the complexity and risks of modern infrastructure delivery. Other NSW public sector agencies are governed by a framework of policies and guidelines that aim to ensure value for money, efficient procurement and effective project management across the project life cycle.

These guidelines, and the notification process, do not provide guidance for councils on the types of project assurance arrangements, such as gateway reviews or assurance programs, which could be considered in project delivery and across the project life cycle. Neither do they provide assurance of a business case at the outset.

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## 9. Artificial intelligence

Councils are increasingly integrating emerging technologies like artificial intelligence (AI) to streamline operations, foster innovation and enhance delivery of services.

This chapter examines:

- the use of AI in the 90 councils that reported having adopted AI
- whether appropriate governance, risk and assurance mechanisms are in place to support the ethical adoption of AI
- future plans and strategies for AI use by councils.

While there is no single definition of AI, the NSW Government's Artificial Intelligence Ethics Policy defines AI as intelligent technology, programs and advanced computing algorithms that can augment decision-making by identifying meaningful patterns in data.

### Chapter highlights

- The Office of Local Government (OLG) does not require councils to follow a mandatory framework for responsible AI adoption. A mandated framework would provide a consistent, responsible and effective method for managing AI risks and opportunities across councils.
- Councils are in the early stages of AI adoption. Several challenges and barriers affecting the adoption and use of AI have been noted by councils, including funding constraints, the development of governance frameworks, management of data quality, security and privacy, and limited AI literacy.
- Councils will need to integrate AI into their existing governance arrangements as use grows. Fewer than half of the councils have implemented formal AI policies and most have yet to fully integrate the specific and unique risks posed by AI into their existing governance frameworks. This includes evaluating the broader impacts of AI on accountability structures, policies and procedures (such as information technology (IT), procurement, risk management), and monitoring and reporting systems.
- Enhanced visibility of opportunities, challenges and risks will allow councils to leverage the benefits of AI. While they are in the early stages of AI adoption, only 11% of councils currently have a strategy for adopting AI. This, and the limited level of oversight, could significantly hinder councils from fully leveraging the potential benefits that AI offers and lead to fragmented efforts that don't fully align with councils' objectives.

## 9.1. Background

### **The OLG does not require councils to follow a mandatory framework for responsible AI adoption**

To safeguard ethical standards and uphold the integrity of public institutions, as well as the rights of constituents, it is essential that councils establish robust governance frameworks to guide the development, deployment and oversight of AI technologies.

The OLG has not established a mandatory framework or minimum requirements for councils in relation to the adoption and responsible use of AI. While the Australian and NSW Governments have issued separate frameworks, it is not mandatory for a council to follow either. This increases the risk that councils may not have a robust approach to managing both the opportunities and risks presented by AI technologies.

The frameworks issued by both the Australian and NSW Governments establish:

- AI ethics principles
- AI assurance assessment requirements
- various other guidance and supporting material, including specific guidance on facets like generative and agentic AI and procurement essentials.

These frameworks offer a reference for councils to evaluate their readiness for implementing AI. The OLG could draw on the principles and guidance established in these frameworks to inform a mandatory framework or minimum requirements for councils. This will help to ensure that a consistent, responsible and effective method for managing AI risks is used across the local government sector.

## 9.2. Adoption of artificial intelligence

### **Councils are in the early stages of AI adoption**

Ninety councils have reported adopting a total of 109 different AI tools, either in pilot or fully implemented. However, this figure may be underestimated, as fewer than half of the councils currently monitor the number of AI tools they have implemented, and AI is increasingly being integrated into procured software solutions. One council reported adopting 15 AI tools, the most of any council.

Councils advised that they mostly use generative AI tools for general productivity and workflow enhancements. On a more limited basis, councils also reported using AI for:

- resident/developer interaction and support, including support for understanding land use or completing planning applications
- recruitment support
- cyber security support
- asset quality and maintenance assessments
- waste contamination identification.

Councils expect that AI use will continue to grow. Of the councils included in this chapter, 51% advised that they had AI tools under consideration, planning or development that were not yet in use at time of this report.

### **Councils should ensure that fit-for-purpose governance arrangements are in place before deploying AI**

Although councils are only in the initial phases of adopting AI, emphasising governance and strategy before implementation will position them for long-term success. A strong foundation will help councils proactively address potential risks, such as bias, security and privacy, and removing barriers that will hinder effective adoption.

Sections 9.3 and 9.4 of this chapter consider in more detail the current state of councils' governance and strategies supporting the use of AI.

### Councils will need to remove several key barriers to support effective AI adoption

Councils identified challenges associated with the adoption and use of AI, including the following:

- **Resource and budget constraints:** councils reported limited financial resources, staffing and capacity to take advantage of the emergence of AI.
- **Data quality, security, and privacy:** concerns included ensuring data is accurate, secure, properly classified and protected, especially given the sensitive nature of council information.
- **AI literacy and education:** councils highlighted the need for comprehensive staff education on AI, including ethical and responsible use. The rapid evolution of AI creates a challenge for councils to keep governance, security and skills up to date.
- **Governance, policy and ethical use:** councils face challenges in establishing and maintaining effective AI governance, including developing policies, frameworks and ethical guardrails that keep pace with rapidly evolving technology and regulatory requirements.
- **Technology readiness and integration:** many councils reported challenges with outdated IT infrastructure, making it difficult to adopt, integrate and manage AI tools securely and effectively.
- **Vendor management and approved tools:** councils noted challenges in controlling which AI tools are used by staff, and managing risks associated with AI being embedded into operational systems without awareness.

### Councils will need to maintain central oversight of AI adoption

Only 10 per cent of councils advised that they had identified and documented all AI tools implemented in a centralised inventory. This is likely impacted by the fact that many councils have only adopted a few AI tools. However, as new AI tools emerge and are being implemented, councils may struggle to maintain visibility over which technologies are in use. This challenge is also affected by the growing integration of AI into procured software and in updates to existing software, increasing the risk councils do not know which AI is being used by staff and how and whether it is being managed responsibly and ethically.

A centralised inventory of AI tools in use is important for transparency, oversight and accountability. Without such oversight, councils cannot assure themselves that they have fit-for-purpose governance arrangements in place to oversee the use of AI.

## 9.3. Policies for responsible use of artificial intelligence

Good governance and assurance arrangements support the effective delivery of ethical and lawful AI. There is no one size fits all governance model. The [National framework for the assurance of artificial intelligence in government](#) outlines that governance structures should be proportionate and adaptable to encourage innovation while maintaining ethical standards and protecting public interests.

### Fewer than half of all councils have an AI policy

Only 40% of councils have established formal AI policies or embedded consideration of AI into existing policies. Some councils reported that an AI policy was under development or review.

An AI policy is an important element of good governance because it establishes ethical principles that guide the development, deployment and ongoing management of AI tools. It also provides a clear framework for decision making and accountability.

## Councils must integrate AI into their existing governance arrangements as use grows

Councils must integrate AI considerations into their governance frameworks more effectively to address the specific and unique risks posed by AI. This includes evaluating AI's broader impacts on accountability structures, policies and procedures (such as IT, procurement, risk management), and ensuring staff are adequately trained to take advantage of AI and ensure its responsible use. As more AI tools are developed and deployed, appropriate integration with current governance structures will become more important.

The table below details the governance over the adoption and use of AI by councils, focusing on whether the specific and unique risks posed by AI have been considered.

Element	Details	Percentage of councils that considered the element
<b>Accountability</b>	While exact responsibilities may differ, generally, an overall owner is responsible for overseeing the deployment, ethical use and maintenance of AI tools, as well as ensuring that they align with the council's objectives and legal and regulatory standards.	46%
<b>Risk management</b>	Reviewing a council's risk management framework when adopting and rolling out AI is essential because AI introduces new, complex and evolving risks that traditional frameworks may not adequately address.	12%
<b>Procurement</b>	The <a href="#">National framework for the assurance of artificial intelligence in government</a> specifically outlines that careful consideration must be applied to procurement documentation and contractual arrangements. This includes consideration of: <ul style="list-style-type: none"> <li>• AI ethics principles</li> <li>• clearly established accountabilities</li> <li>• transparency of data</li> <li>• access to information assets</li> <li>• proof or performance testing throughout an AI system's life cycle.</li> </ul>	3% (Given the prevalence of procured AI solutions, councils may need to develop specific procurement guidelines tailored to AI tools. The NSW Government also provides detailed guidance on AI procurement essentials, see <a href="#">Artificial intelligence (AI) procurement essentials   info.buy.nsw.</a> )
<b>Information technology</b>	The unique nature of AI may require revisions to IT policies and procedures, including enhanced pre- and post-implementation testing protocols to identify and mitigate potential risks associated with AI systems, such as unintended biases and vulnerabilities.	10%
<b>Training</b>	Training staff in the responsible use of AI is essential to ensure that AI is used ethically and within guardrails set by the council, enabling councils to maximise benefits and minimise risks.	41%

Element	Details	Percentage of councils that considered the element
<b>Reporting process</b>	Regular reporting to senior management or governance bodies ensures ongoing oversight of AI adoption, aiding strategic alignment, risk management and transparency.	17% (had policy or procedures for monitoring, evaluating and reporting on the adoption and use of AI)  10% (had undertaken some reporting to senior management or a relevant governance committee)

## 9.4. Strategic use of artificial intelligence

### Enhanced visibility of opportunities, challenges and risks will better position councils to leverage the benefits of AI; however, most councils do not yet have an AI strategy

Only 10% of councils have reported to senior management or relevant council committees regarding the adoption and use of AI. Additionally, just 24% are systematically recording or monitoring risks associated with AI within their risk registers. While councils are in the early stages of adopting AI, only 11% have an AI adoption strategy.

This, and the limited level of oversight, could significantly hinder councils from fully leveraging the potential benefits that AI offers, leading to fragmented efforts that don't fully align with councils' objectives. Additionally, risks, both strategic and operational, may not be identified and mitigated.

Some councils are currently developing either a dedicated AI strategy or integrating one into a broader plan.

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## 10. Cyber security

Cyber security is a major concern for local government. Cyber threats have the potential to disrupt operations, compromise sensitive data and, when combined with fraudulent activity, contribute to financial losses. Dependence on third-party vendors and overall supply chains introduces risk, as these external parties may not have strong cyber security measures in place. Identifying and managing cyber risk, including those from third parties, is critical in maintaining business operations and protecting information assets.

Councils have the option to follow the Office of Local Government's (OLG) [Cyber Security Guidelines - Local Government 2024](#) (the Guidelines). The Guidelines aim to help councils develop a basis for cyber security policy and measures.

This chapter analyses how councils:

- manage their internal and supply chain cyber security risks
- control and monitor their cyber security investments.

### Chapter highlights

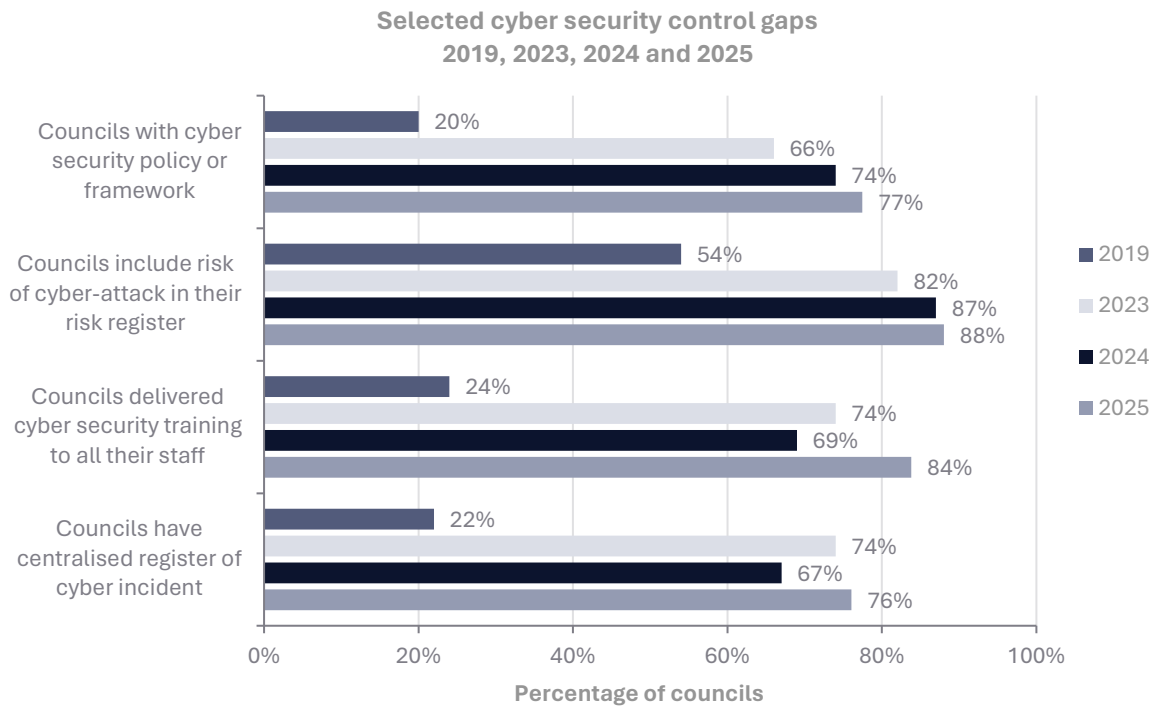
- Councils have gradually but inconsistently improved in relation to four cyber security governance controls dealing with policies, risk registers, staff training and incident recording. Challenges remain for the consistent delivery of staff training and registration of cyber security incidents, and around a quarter of councils are missing at least one of the four selected cyber security controls.
- There are significant weaknesses in councils' management of supply chain risks. Seventy-three per cent of councils do not have formal policies addressing supply chain cyber security risks and 70% of councils did not have formal processes to assess their technology assets. These weaknesses include not formalising policies to manage supply chain cyber security risk, not monitoring third-party cyber security responsibilities throughout the service agreement, and not including third-party providers during cyber incident response plan testing.
- There are opportunities for councils to improve the management of their cyber security spending. There is limited monitoring of investment/benefit realisation on cyber security investments. Seventy-two per cent of councils did not assess the effectiveness of their cyber security spending or ensure that it aligned with current threats. Only 21% of councils identify and manage underutilised, redundant or outdated cyber security tools and services.

### 10.1. Background

[Cyber security insights 2025](#) highlights the following issues in local government cyber security risk management and processes over the past 8 years:

- cyber security policy adoption was only improving incrementally
- cyber security framework adoption improved but only 26% of councils adopted the Guidelines
- councils had not identified all their information assets that required protection.

The chart below shows selected cyber security control gaps from 2019–25. While the results do not mean that all risks are mitigated, it is encouraging that councils have focused on these gaps and there have been some improvements to cyber security controls over the past three years, in comparison to when the Audit Office first reviewed these controls in 2019.



Source: Audit Office findings.

While the overall trend indicates improvements in these key cyber security controls, especially regarding governance, the trend in cyber security training and cyber incident management has been inconsistent. Twenty-four per cent of councils have not met at least one of the key cyber security controls, with incident management the lowest in 2025.

[Cyber security insights 2025](#) also identifies issues in how government manages third parties and their cyber security risks. This chapter covers some aspects of cyber security risk management, cyber security risks from third-party suppliers and the management of cyber security investment based on data collected from NSW councils.

## 10.2. Managing supply chain cyber security risks

As organisations continue to utilise third-party systems and services, the potential for cyber threats originating from a breached third party has grown significantly. Understanding and managing cyber risk in supply chains is essential for maintaining business continuity and protecting valuable data and assets.

The Audit Office reviewed the process in place for managing cyber security risk, including risk arising from supply chains. This assessment focused on determining whether councils:

- effectively maintain, manage and monitor their cyber security risks, encompassing both internal threats and those associated with third parties and overall supply chains
- maintain up to date inventories of all assets related to both external and internal systems, supported by robust procedures to ensure completeness and appropriate risk classification of each asset
- employ structured protocols for third-party management, including formal due diligence practices, clear definition and oversight of roles and responsibilities, as well as ongoing management of security risks throughout the life cycle of IT partnerships.

### **Seventy-five councils do not include cyber security supply chain risk in their risk register**

Only 75 councils (60%) included cyber threats in their risk register. Of these:

- only 80% have formal plans to mitigate their cyber security risk
- 60% (75) have not recognised cyber security supply chain risk in their registers.

Adoption of them is not mandatory, but the Guidelines provide advice on managing these cyber security supply chain risks. Foundational and detailed requirements 1.10 guides councils in how to identify and manage third-party service provider risks, facilitated by governance and contractual controls.

### **Seventy per cent of councils have not risk assessed their technology assets, and 31% do not record their understanding of external systems or services**

Seventy per cent of councils did not have formal processes or criteria to formally classify and risk assess their technology assets that need protection. Identifying and assessing risk to their technology assets enable councils to prioritise cyber security controls according to business-critical information and high-risk assets.

There are gaps in understanding council third-party systems and services. Eighty-seven per cent of councils inventoried their internal systems and hardware, yet only 69% identified third-party services or systems. This may leave them vulnerable to understanding their interdependency and their exposure to third-party cyber security risks.

### **Seventy-one per cent of councils lacked formal governance over exception approvals for patching systems**

Seventy-one per cent of councils did not have formal processes for documenting and approving exceptions where a business has accepted the risk of not applying required or recommended patches. Leaving systems without required or recommended patches may lead to vulnerabilities in the system and the IT environment, increasing the possibility of systems and information being breached.

### **More cyber security incident planning involving third-party providers is needed**

Councils have weaknesses in their readiness to respond adequately and appropriately to cyber security incidents. Thirty-two per cent of councils do not have a formal cyber incident response plan, and 61% of councils do not periodically test their plans. Further, many do not have plans to test them or testing is ad hoc. Eighty per cent of councils do not include third-party providers when testing their cyber incident response plans.

### **There are weaknesses in managing third-party cyber security risks**

Councils that do not manage third-party cyber security risks effectively expose themselves to significant vulnerabilities that may lead to data breaches, operational disruptions, financial losses and reputational damage.

Only 42% of councils have a formal due diligence process that includes cyber security risk that must be performed before entering supplier relationships. The remaining councils explained that they do not have those due diligence processes formalised, and cyber security risk is not specifically considered or will be developed.

In addition:

- 73% of councils do not have formal policies and procedures for the management of supply chain cyber security risk
- 63% of councils do not monitor and enforce third-party cyber security responsibilities throughout the technology product and service life cycle.

[Cyber security insights 2025](#) identifies third-party risk management as one of the most significant and ongoing challenges facing NSW public sector agencies. These issues were more persistent from the [Cyber security in local government](#) audit, which reported that all three councils were not identifying or managing third-party cyber security risks effectively. Case studies of cyber incidents involving third parties are highlighted in both reports, showing the reality of cyber security risks coming from third parties.

The [Guidelines](#) give optional requirements to manage third-party risks. Once providers are identified, incidents, compliance and contract clauses must be managed.

### 10.3. Management of cyber security spending

In addressing ongoing cyber threats, councils must respond and protect their assets and data. However, technology is changing constantly in response to evolving cyber threats, making it crucial to continuously assess the effectiveness of cyber security investments. Regular monitoring ensures that the security measures in place are up to date and capable of addressing the latest threats and risks.

It also helps identify any gaps or outdated systems that may no longer provide adequate protection.

The Audit Office analysed processes that are in place for managing cyber security procurement and benefit realisation, including identification and management of duplicate/redundant cyber security tools and services. The assessment focused on determining whether councils:

- measure the effectiveness of their cyber security spending
- have processes or practices to prevent resource wastage or duplication of efforts in cyber security initiatives.

#### **Seventy-two per cent of councils do not measure the effectiveness of cyber security spending**

Seventy-two per cent of councils do not measure the effectiveness of their spending on cyber security. Evaluation of effectiveness was limited at most councils due to the absence of formal and proactive processes or a performance management framework. Informal assessment of financial effectiveness was considered during procurement or in response to budgetary pressures.

Forty councils that measured their spending effectiveness used qualitative metrics, including evaluation of their performance against their cyber frameworks or metrics on the number of blocked cyber security attacks. Twenty-two (55%) of these councils did not measure the financial benefits or cost efficiency of their cyber security spending. Assessing the cost efficiency of cyber security investments is crucial for efficient resource allocation, justifying expenditures, managing risks, ensuring stakeholder confidence, maintaining regulatory compliance and enabling continuous improvement.

### Case study – Sharing the Chief Information Security Officer

A number of councils worked collaboratively to engage and share a Chief Information Security Officer (CISO), enabling each of them to improve their cyber security control environment.

These councils adapted a shared collaborative concept, established a shared role description and executed a deed of agreement. The agreement outlined services, payment terms and employment arrangements between the councils. Thus, they shared the financial responsibility, which allowed a more competitive remuneration package to be offered. The funding model was proportioned on the number of ratable properties within each council.

This approach extended to the operation of the CISO function across the councils and involved:

- collaborative strategic planning with all Chief Information Officers (CIOs)
- sharing time across the councils
- flexibility for specific requirements on a temporary basis
- embedding strategic risk management with the CISO at executive meetings
- tailoring strategic and tactical plans and engagement for each council
- sharing a common cyber security framework with goals and timelines adapted for each council
- sharing resources and expertise across councils for cyber security tools and projects.

Benefits to the councils include the ability to leverage cyber security insights and solution creation; collective and individual improvement of cyber security resilience through standardised practices and milestones; and cost savings through group purchasing and a reduction in duplicate efforts.

Key lessons for the sector:

- collectively establish and agree on the CISO's roles, responsibilities, expectations and accountability up front and during the arrangement
- find a CISO who has the right skillset of technical, leadership and interpersonal capability to fit with the collaborative style of the role, including being able to manage stakeholders
- foster a culture of collaboration and mutual support across all CIOs and operational teams to leverage their individual insights and share resources.

### Seventy-nine per cent of councils do not have a formal process for identifying and managing underutilised, redundant or outdated cyber security tools and services

Managing underutilised, redundant or outdated cyber security tools and services is essential as it:

- helps maintain a robust security posture by ensuring that all tools and services are effective and up to date, thereby reducing vulnerabilities and potential entry points for cyber attackers
- optimises resource allocation, allowing agencies to reallocate funds from ineffective tools to more impactful security measures. This not only enhances overall security but also ensures that the cyber security budget is used efficiently.

Councils advised that:

- 21 councils have at least one underutilised cyber security tool due to staff capability gaps or projects still in progress
- 8 councils have at least one redundant cyber security tool, but several councils were still developing processes to identify redundant tools
- 7 councils have outdated tools or services. Two of these councils are planning to upgrade and migrate their systems to improve their capability
- 42 councils have terminated a cyber security tool or service that was not improving their capability, not cost effective or was underutilised, redundant or outdated.

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# 11. Looking forward

## **Audit Work Program 2025–28**

The Audit Office’s [Audit Work Program](#) sets out the Auditor-General’s planned financial and performance audits for the next three financial years and is refreshed annually to stay responsive to emerging risks and evolving stakeholder needs. It is designed to deliver independent assurance and practical insights that inform, influence, and improve public sector performance. The current program is organised around five themes that target systemic and priority issues, so that reports create public value and help agencies achieve more with finite public funds.

The next local government–focused report scheduled for tabling is ‘[Long-term financial planning in local government](#)’. For more information, or to subscribe to updates, please visit our website.

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# Appendix 1 – Response from the Department of Planning, Housing and Infrastructure

Department of Planning, Housing and Infrastructure  
Office of Local Government



Our Ref: A991839

Mr Bola Oyetunji  
Auditor General for New South Wales  
GPO Box 12  
SYDNEY NSW 2001



27 January 2026

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**Subject: Draft NSW Auditor General's Report on Local Government 2025**

Dear Mr Oyetunji

Thank you for your email of 15 December 2025 and the opportunity to respond to your draft Financial Audit Report on Local Government 2025 (the Report).

It is pleasing that your audits indicate that the quality of financial reporting has improved. I also note that the reported council operating losses and the infrastructure spending needs indicate that there is still more to be done to address financial sustainability across the sector. You will be aware the NSW Government's response to the Standing Committee on State Development's recommendations on the ability of local governments to fund infrastructure and services seeks to address many of the concerns you have raised. It includes an action to streamline financial reporting to reduce unnecessary complexity.

In relation to the specific findings in the Report, particularly the recommendations to the Office of Local Government (OLG), Department of Planning, Housing and Infrastructure, I provide the following notes for your information.

### **The regulatory framework**

As the responsible agency for regulation of the NSW local government sector, OLG is committed to improving the capacity and capability of all councils while also managing the appropriate regulatory burden. OLG continually monitors and improves its processes and frameworks and seeks to reduce reporting obligations while ensuring councils operate within the requirements of the *Local Government Act 1993* (the Act) and remain answerable to their communities.

Each year OLG releases an updated Code of Accounting Practice and Financial Reporting (the Code) for use by councils and Joint Organisations to prepare their annual financial statements. The Audit Office has been an active participant in the Code Working Group, working with OLG, key stakeholders, and councils. The 2025/26 Code Working Group considered a range of issues,

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including simplifying reporting requirements and providing additional guidance about materiality. I can confirm that the OLG and the Code Working Group remain committed to continuing to streamline the Code and designing improvements that consider the proportionate impact on councils of varying size, risk profiles and complexity.

### **Council liquidity and cash flow**

In August 2025, OLG released revised Quarterly Budget Review Statement (QBRs) Guidelines introducing a standardised reporting template that requires councils to report to its councillors and communities on an individual fund level. The guidelines also introduced a new requirement for councils to provide OLG with an electronic QBRs throughout the financial year. Reporting clear, up-to-date financial information will increase the ability of councillors, the public and OLG to oversee council budgets throughout the financial year.

The Audit report cites an increasing number of councils reporting operating losses for the financial year ended 30 June 2025 with 19 councils with insufficient cash and investments and 2 councils breaching the Act by spending restricted cash without approval.

OLG monitors the financial performance of all councils using a risk management framework to identify those requiring a greater level of scrutiny and assistance. The introduction of standardised QBRs reporting will provide more timely insights into their financial health. It should be noted that OLG meets with these identified councils regularly to ensure that cash flow and long term financial sustainability issues are being addressed.

### **Major capital projects**

The need for improvement in this area has been highlighted in the Report with a number of council capital works projects running into difficulty. These often adversely impact the financial sustainability of councils. The need to better address the challenges associated with capital expenditure within the local government sector is recognised by OLG and a review and revision of the framework has commenced.

### **AI and cyber security**

As noted in response to the Audit Office's Local Government report 2024, updated Cyber Security Guidelines were released for the sector in January 2025 in conjunction with Cyber Security NSW. Further, OLG has collaborated with Cyber Security NSW to establish quarterly Cyber Security Councils Forum events to support information sharing on cyber security risks and highlight good practices within councils and to guide councils' implementation of cyber security control frameworks.

OLG would be pleased to collaborate with either Digital NSW or Cyber Security NSW in the preparation of a framework to guide councils on the responsible implementation of Artificial Intelligence.

Department of Planning, Housing and Infrastructure  
Office of Local Government



[Redacted signature area]

Yours Sincerely

A handwritten signature in black ink, appearing to read "Kiersten Fishburn".

Kiersten Fishburn  
**Secretary**

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## Appendix 2 – Financial sustainability

For the year ended 30 June 2025, the Audit Office calculated whether councils' available cash and investments (not subject to external restrictions) were sufficient to meet 3 months of general fund expenses (excluding depreciation and borrowing costs). Further analysis, including operating performance, unrestricted current ratio and level of own source revenue, determined which councils had heightened financial sustainability concerns. A summary of this analysis is in the table below.

Council	Commentary
<b>Financial sustainability risks due to ongoing operating losses or other indicators</b>	
Cessnock City	Insufficient revenue to cover expenses, causing a decline in available cash balances. Unrestricted current ratio was less than 1 and has low levels of own source revenue.
Cootamundra – Gundagai Regional	Insufficient revenue to cover expenses, causing a decline in available cash balances and incurred operating losses.
Kiama Municipal	Cash balance impacted by repayment of borrowings during 2024–25 and ongoing losses from one aged-care facility, which was subsequently sold during 2024–25.
Lithgow City	Cash balances negatively impacted by \$7.2 million in rejected natural disaster claims, which led to an operating loss.
<b>Financial sustainability risks due to low levels of available cash</b>	
Bathurst Regional	Low available cash balance resulting in an additional internal loan was drawn from the sewerage fund to ensure general fund expenses are paid as they fall due. Also, unrestricted current ratio was less than 1.
Glen Innes Severn	Low available cash balance. This is based on the 2023–24 financial statements, as the 2024–25 audit remains in progress.
Upper Hunter Shire	Low available cash balances, has low levels of own source revenue and unrestricted current ratio was less than 1.
<b>Financial sustainability risks due to a small and/or declining population</b>	
Central Darling Shire	Low available cash balance, operating loss and has low levels of own source revenue. Highly dependent on government grants.
Cobar Shire	Insufficient revenue to cover expenses, including high costs of running aged-care facility as the supplier of last resort. Highly dependent on government grants.
Liverpool Plains Shire	Operating loss and low available cash balance as funds being used for capital projects, were not fully met by grants. Highly dependent on government grants.
Walgett Shire	Insufficient revenue to cover expenses, causing a decline in available cash balances. Operating loss, negative operating cash flows and has low levels of own source revenue. Highly dependent on government grants.

Source: Audit Office analysis from financial statements. Used the previous benchmark of 1.5 for assessing unrestricted current ratio.

## Appendix 3 – Major capital projects

The Audit Office examined 29 projects to assess whether they met original timeframes and budgets. All variations to original budgets were approved. Many of the delays in regional and rural areas were due to severe weather events and natural disasters.




The infographic below presents projects valued at over \$30 million, categorised by whether they are within timeframes and/or original budgets at 30 June 2025.






	<b>Within budget and on time</b>	<ul style="list-style-type: none"> <li>Cedar Party Creek Bridge</li> <li>Crown Street Public Domain</li> <li>Hornsby Park</li> <li>Merriwa to Willow Tree Road</li> <li>Ocean Drive Duplication, Port Macquarie</li> <li>Parramatta Admin Office</li> <li>Rhodes Recreation Centre</li> </ul>
	<b>Within budget and less than 6-month delay</b>	<ul style="list-style-type: none"> <li>Bowral Treatment Plant</li> <li>Hunter Sports Centre</li> <li>Indoor Sports Centre St Ives High School</li> <li>Moss Vale Treatment Plant</li> <li>Wollombi Road, Cessnock</li> </ul>
	<b>Less than 10% over budget and less than 6-month delay</b>	<ul style="list-style-type: none"> <li>Crago Mill Precinct</li> <li>Gulawa Recreation Centre</li> </ul>
	<b>Within budget and more than 6-month delay</b>	<ul style="list-style-type: none"> <li>Astra Street, Newcastle Landfill Remediation, Shortland</li> <li>Gosford Regional Library</li> <li>GreenWay Project, Inner West</li> <li>Green Square to Ashmore Connector</li> <li>Mardi Water Treatment Plant</li> </ul>
	<b>Less than 10% over budget and more than 6-month delay</b>	<ul style="list-style-type: none"> <li>Canterbury Leisure and Aquatics</li> <li>Merrylands CBD Drainage</li> <li>Willoughby Leisure Centre</li> </ul>
	<b>More than 10% over budget and on time</b>	<ul style="list-style-type: none"> <li>Oran Park Leisure Centre</li> </ul>
	<b>More than 10% over budget and more than 6-month delay</b>	<ul style="list-style-type: none"> <li>Eurobodalla Southern Water Supply Storage</li> <li>Far North Collector Road</li> <li>Gipps Street Recreation Precinct, Claremont Meadows</li> <li>North Sydney Olympic Pool</li> <li>Regatta Park, Emu Plains</li> <li>Newcastle Art Gallery</li> </ul>

Source: Audit Office analysis of data provided by councils for 29 major capital projects over \$30 million.

# Appendix 4 – Status of previous recommendations

The Audit Office's previous reports to Parliament focusing on local government made recommendations to the councils and the Department of Planning, Housing and Infrastructure (the Department). The implementation status of the Audit Office's recommendations is summarised below with the relevant findings for 2024–25.

Recommendations to the Department	Comment	Current status
<b>Financial reporting</b>		
The Department should reduce councils' financial reporting burden, and remove non-value-adding disclosures from financial statements.	<p>The OLG, within the Department, removed the performance ratios from the 'Local Government Code of Accounting Practice and Financial Reporting'.</p> <p>The NSW Government's response to the State Development Committee's Inquiry into the 'Ability of local governments to fund infrastructure and services' committed to establish an Expert Advisory Panel to streamline local government financial statements.</p>	
<b>Developer contributions</b>		
The Department, as the principal department responsible for administration of the <i>Environmental Planning and Assessment Act 1979</i> , addresses how funds collected under one plan are treated if a contribution plan is repealed, or repealed and replaced with a new contributions plan.	The Department advised that it has developed material to be included in the new local infrastructure contributions practice notes.	
<b>Rural firefighting equipment</b>		
The Department assess council's compliance with legislative responsibilities and standards or guidelines regarding the rural firefighting equipment vested to councils under section 119(2) of the <i>Rural Fires Act 1997</i> .	<p>The Standing Committee on State Development report on 'Ability of local governments to fund infrastructure and services' recommended the legislation be amended so these assets are vested to the Rural Fire Service. On the 30 January 2024, this recommendation was referred to the Public Accounts Committee.</p> <p>On 27 May 2025, the Public Accounts Committee tabled its report, findings and recommendations on the Inquiry: 'Assets, premises and funding of the NSW Rural Fire Services'.</p> <p>The NSW Government responded to the recommendations of the Inquiry on 28 November 2025. It is initiating an audit of red fleet assets with the outcome to be used to develop a business case for considering whether to transfer the red fleet assets to the NSW Government and consider any necessary changes to legislation.</p>	








Recommendations to the Department	Comment	Current status
<b>Early financial reporting procedures</b>		
The Department should consider requiring early financial reporting procedures across the local government sector.	<p>The Department is not implementing mandatory early financial procedures.</p> <p>The Department will continue to remind councils to engage early with values and ensure asset valuations are completed before 30 June.</p>	
<b>Quality of financial reporting</b>		
Councils should perform more robust month-end processes and quality reviews of financial statements and supporting working papers before they are submitted for audit.	Most councils have improved the quality of their financial reporting as indicated by fewer errors and fewer versions of financial statements being submitted for audit.	
<b>Asset valuations</b>		
Councils should complete asset revaluations before financial year-end.	Councils should complete asset valuations before financial year-end to help improve the quality and timeliness of financial reporting.	
<b>Asset source records</b>		
Councils should improve controls and processes to ensure the integrity and completeness of asset source records.	<p>Councils should continue to improve controls and processes to ensure the integrity and completeness of asset source records.</p> <p>Many councils have opportunities to improve the completeness, accuracy and security of fixed asset registers. All significant prior-period errors were caused by incomplete and inaccurate asset records.</p>	
<b>Cyber security</b>		
<p>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.</p> <p>Councils should refer to the 'Cyber Security Guidelines – Local Government' released by the OLG.</p>	<p>Councils should continue to focus on improving cyber security governance and controls.</p> <p>Cyber security findings were reported to 24% of councils for absence of at least one of the following governance and internal controls to manage cyber security:</p> <ul style="list-style-type: none"> <li>cyber security framework, policy and procedures</li> <li>register of cyber incidents</li> <li>cyber security training and awareness program.</li> </ul>	

Key  Fully addressed  Partially addressed  Not addressed  Closed

# Appendix 5 – Status of audits

Below is a list of local councils, county councils and joint organisations. The list includes a summary of the status of the 2024–25 financial statement audits, including the type of audit opinion and the date it was issued.

## Key

Type of audit opinion		Date of audit opinion	
Unmodified opinion		Financial statements were lodged by the statutory deadline of 31 October 2025*	
Unmodified opinion with an emphasis of matter		Extensions to the statutory deadline (met)	
Modified opinion: Qualified opinion or a disclaimer of opinion		Extensions to the statutory deadline (incomplete)	
		Financial statements not prepared or lodged after extension lapsed.	

\* Date of lodgement could be later than the date of the audit opinion.



















## Council classifications

The Audit Office adopted the following methodology when classifying councils in its report

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

## 2024–25 audits

### Metropolitan councils

Council	Type of opinion		Date of audit opinion	
Bayside	Unmodified		24 October 2025	
Blacktown City	Unmodified		31 October 2025	
Blue Mountains City	Unmodified		27 October 2025	
Burwood	Unmodified		2 October 2025	
Camden	Unmodified		17 October 2025	
Campbeltown	Unmodified		28 October 2025	
Canterbury-Bankstown	Unmodified		31 October 2025	
Central Coast	Unmodified		23 October 2025	
City of Canada Bay	Unmodified		23 October 2025	

Council	Type of opinion	Date of audit opinion
City of Parramatta	Unmodified	29 October 2025
City of Ryde	Unmodified	22 October 2025
Cumberland City	Unmodified	31 October 2025
Fairfield City	Unmodified	22 October 2025
Georges River	Unmodified	31 October 2025
Hawkesbury City	Unmodified	21 October 2025
Hornsby Shire	Unmodified	1 October 2025
Inner West	Unmodified	30 October 2025
Ku-ring-gai	Unmodified	24 September 2025
Lane Cove Municipal	Unmodified	24 October 2025
Liverpool City	Unmodified	30 October 2025
Mosman Municipal	Unmodified	20 October 2025
North Sydney	Unmodified	15 October 2025
Northern Beaches	Unmodified	21 October 2025
Penrith City	Unmodified	29 October 2025
Randwick City	Unmodified	1 October 2025
Strathfield Municipal	Unmodified	29 October 2025
Sutherland Shire	Unmodified	27 October 2025
The City of Sydney	Unmodified	29 October 2025
The Hills Shire	Unmodified	26 September 2025
The Municipality of Hunters Hill	Unmodified	28 October 2025
Waverley	Unmodified	14 October 2025
Willoughby City	Unmodified	27 October 2025
Wollondilly Shire	Unmodified	30 October 2025
Woollahra Municipal	Unmodified	25 September 2025

## Regional councils

Council	Type of opinion		Date of audit opinion	
Albury City	Unmodified	✓	29 October 2025	✓
Armidale Regional	Unmodified	✓	31 October 2025	✓
Ballina Shire	Unmodified	✓	24 October 2025	✓
Bathurst Regional	Unmodified	✓	14 November 2025	✓
Bega Valley Shire	Unmodified	✓	30 October 2025	✓
Broken Hill City	Unmodified	✓	27 October 2025	✓
Byron Shire	Unmodified	✓	28 November 2025	✓
Cessnock City	Unmodified	✓	28 October 2025	✓
Clarence Valley	Unmodified	✓	22 October 2025	✓
Coffs Harbour City	Unmodified	✓	28 October 2025	✓
Dubbo Regional	Unmodified	✓	31 October 2025	✓
Eurobodalla Shire	Unmodified	✓	31 October 2025	✓
Goulburn Mulwaree	Unmodified	✓	31 October 2025	✓
Griffith City	Unmodified	✓	31 October 2025	✓
Kempsey Shire	Unmodified	✓	31 October 2025	✓
Kiama Municipal	Unmodified	✓	22 October 2025	✓
Lake Macquarie City	Unmodified	✓	29 October 2025	✓
Lismore City	Unmodified	✓	11 December 2025	✓
Lithgow City	Unmodified	✓	31 October 2025	✓
Maitland City	Unmodified	✓	28 October 2025	✓
MidCoast	Unmodified	✓	22 October 2025	✓
Mid-Western Regional	Unmodified	✓	31 October 2025	✓
Newcastle City	Unmodified	✓	31 October 2025	✓
Orange City				!
Port Macquarie-Hastings	Unmodified	✓	24 October 2025	✓
Port Stephens	Unmodified	✓	23 October 2025	✓
Queanbeyan-Palerang Regional	Unmodified	✓	17 November 2025	✓
Richmond Valley	Unmodified	✓	30 October 2025	✓
Shellharbour City	Unmodified	✓	31 October 2025	✓
Shoalhaven City	Unmodified	✓	31 October 2025	✓
Singleton	Unmodified	✓	28 October 2025	✓
Snowy Monaro Regional	Unmodified	✓	29 October 2025	✓
Tamworth Regional	Unmodified	✓	31 October 2025	✓

Council	Type of opinion		Date of audit opinion	
Tweed Shire	Unmodified	✓	24 October 2025	✓
Wagga Wagga City	Unmodified	✓	30 October 2025	✓
Wingecarribee Shire	Unmodified	✓	30 October 2025	✓
Wollongong City	Unmodified	✓	30 October 2025	✓

## Rural councils

Council	Type of opinion		Date of opinion	
Balranald Shire	Unmodified	✓	31 October 2025	✓
Bellingen Shire	Unmodified	✓	22 October 2025	✓
Berrigan Shire	Unmodified	✓	31 October 2025	✓
Bland Shire	Unmodified	✓	30 October 2025	✓
Blayney Shire	Unmodified	✓	8 October 2025	✓
Bogan Shire	Unmodified	✓	29 October 2025	✓
Bourke Shire	Unmodified	✓	29 October 2025	✓
Brewarrina Shire	Unmodified	✓	29 October 2025	✓
Cabonne	Unmodified	✓	30 October 2025	✓
Carrathool Shire	Unmodified	✓	30 October 2025	✓
Central Darling Shire	Unmodified	✓	31 October 2025	✓
Cobar Shire	Unmodified	✓	31 October 2025	✓
Coolamon Shire	Unmodified	✓	27 October 2025	✓
Coonamble Shire	Unmodified	✓	30 October 2025	✓
Cootamundra-Gundagai Regional	Unmodified	✓	5 December 2025	✓
Cowra Shire	Unmodified	✓	30 October 2025	✓
Dungog Shire	Unmodified	✓	11 December 2025	✓
Edward River	Unmodified	✓	31 October 2025	✓
Federation	Unmodified	✓	17 December 2025	✓
Forbes Shire	Unmodified	✓	31 October 2025	✓
Gilgandra Shire	Unmodified	✓	31 October 2025	✓
Glen Innes Severn				!
Greater Hume Shire	Unmodified	✓	31 October 2025	✓
Gunnedah Shire	Unmodified	✓	30 October 2025	✓
Gwydir Shire	Unmodified	✓	20 October 2025	✓
Hay Shire	Unmodified	✓	29 October 2025	✓
Hilltops	Unmodified	✓	31 October 2025	✓

Council	Type of opinion		Date of opinion	
Inverell Shire	Unmodified	✓	31 October 2025	✓
Junee Shire	Unmodified	✓	31 October 2025	✓
Kyogle	Unmodified	✓	31 October 2025	✓
Lachlan Shire				!
Leeton Shire	Unmodified	✓	30 October 2025	✓
Liverpool Plains Shire	Unmodified	✓	30 October 2025	✓
Lockhart Shire	Unmodified	✓	30 October 2025	✓
Moree Plains Shire	Unmodified	✓	30 October 2025	✓
Murray River	Unmodified	✓	29 October 2025	✓
Murrumbidgee	Unmodified	✓	28 November 2025	✓
Muswellbrook Shire	Unmodified	✓	31 October 2025	✓
Nambucca Valley	Unmodified	✓	23 October 2025	✓
Narrabri Shire	Unmodified	✓	12 December 2025	✓
Narrandera Shire	Unmodified	✓	28 October 2025	✓
Narromine Shire	Unmodified	✓	27 October 2025	✓
Oberon	Unmodified	✓	24 October 2025	✓
Parkes Shire	Unmodified	✓	17 October 2025	✓
Snowy Valleys	Unmodified	✓	12 December 2025	✓
Temora Shire	Unmodified	✓	31 October 2025	✓
Tenterfield Shire	Unmodified	✓	22 October 2025	✓
Upper Hunter Shire	Unmodified	✓	30 November 2025	✓
Upper Lachlan Shire	Unmodified	✓	30 October 2025	✓
Uralla Shire	Unmodified	✓	30 October 2025	✓
Walcha	Unmodified	✓	31 October 2025	✓
Walgett Shire	Unmodified	✓	30 October 2025	✓
Warren Shire	Unmodified	✓	30 October 2025	✓
Warrumbungle Shire	Unmodified	✓	30 October 2025	✓
Weddin Shire	Unmodified	✓	31 October 2025	✓
Wentworth Shire	Unmodified	✓	30 October 2025	✓
Yass Valley	Unmodified	✓	31 October 2025	✓

## County councils

County council	Type of opinion		Date of opinion	
Castlereagh Macquarie	Unmodified	✓	29 October 2025	✓
Central Tablelands	Unmodified	✓	14 October 2025	✓
Goldenfields Water	Unmodified	✓	22 October 2025	✓
Hawkesbury River	Unmodified	✓	21 October 2025	✓
Riverina Water	Unmodified	✓	24 October 2025	✓
Rous	Unmodified	✓	24 October 2025	✓
Upper Hunter	Unmodified	✓	30 October 2025	✓
Upper Macquarie	Unmodified	✓	23 October 2025	✓

Note: The New England County Council was dissolved by the Local Government (Dissolution of New England County Council) Proclamation 2025 on 16 June 2025.

## Joint organisations

Joint organisation	Type of opinion		Date of opinion	
Canberra Region	Unmodified	✓	28 November 2025	✓
Central NSW	Unmodified	✓	27 October 2025	✓
Far North West	Unmodified	✓	13 October 2025	✓
Far South West*	Unmodified with an emphasis of matter	—	30 October 2025	✓
Hunter	Unmodified	✓	22 October 2025	✓
Illawarra Shoalhaven	Unmodified	✓	24 October 2025	✓
Mid North Coast	Unmodified	✓	27 October 2025	✓
Namoi*	Unmodified with an emphasis of matter	—	31 October 2025	✓
New England*			Financial statement not prepared	!
Northern Rivers	Unmodified	✓	31 October 2025	✓
Orana*			Financial statement not prepared	!
Riverina and Murray	Unmodified	✓	28 November 2025	✓
Riverina*	Unmodified with an emphasis of matter	—	9 September 2025	✓

\* Joint organisations awaiting dissolution.

## 2023–24 audits

Below is a summary of the status of incomplete 2023–24 financial statement audits, concluded after the Audit Office's 'Local Government 2024' report was tabled on 31 March 2025.

Council/joint organisation	Type of opinion		Date of opinion	
Lachlan Shire	Unmodified	✓	8 October 2025	!

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