Queensland Audit Office

Results of audit: Local government entities 2012–13

Report 14 : 2013–14

Queensland Audit Office

Location Level 14, 53 Albert Street, Brisbane Qld 4000

PO Box 15396, City East Qld 4002

Telephone (07) 3149 6000

Email qao@qao.qld.gov.au

Online www.qao.qld.gov.au

QUEENSLAND
Prepared under Part 3 Division 3 of the *Auditor-General Act 2009*

Front cover image is an edited photograph of Queensland Parliament, taken by QAO.

ISSN 1834-1128

Your ref:
Our ref: 10666

Queensland Audit Office

March 2014

The Honourable F Simpson MP
Speaker of the Legislative Assembly
Parliament House
BRISBANE QLD 4000

Dear Madam Speaker

Report to Parliament

This report is prepared under Part 3 Division 3 of the *Auditor-General Act 2009*, and is titled Results of audit: Local government entities 2012–13.

In accordance with s.67 of the Act, would you please arrange for the report to be tabled in the Legislative Assembly.

Yours sincerely

Andrew Greaves
Auditor-General

Contents

Summary 1

Audit opinions issued 1
Quality of financial statements submitted for audit 2
Timeliness of preparation of financial statements 3
Internal control frameworks 3
Financial sustainability 4
Recommendations 5
Reference to comments 6

1 Context 7

1.1 Local government responsibilities 7
1.2 Audit responsibilities 9
1.3 Report structure 11

2 Results of financial audits 13

2.1 Background 14
2.2 Conclusions 14
2.3 Financial audit opinions 14
2.4 Status of outstanding opinions from prior years 18
2.5 Financial sustainability statements 20

3 Significant financial reporting issues 21

3.1 Background 22
3.2 Conclusions 22
3.3 Valuation and depreciation of infrastructure assets 22
3.4 Natural Disaster Relief and Recovery Arrangements (NDRRA) 27
3.5 De-amalgamations 30

4 Timeliness and quality of financial statements 35

4.1 Background 36
4.2 Conclusions 36
4.3 Quality of draft financial statements 36
4.4 Timeliness of financial statements 38
4.5 Annual reports 43
4.6 Recommendations 44

5 Internal control frameworks 45

5.1 Background 46
5.2 Conclusions 47
5.3 Internal control frameworks 47
5.4 Appointment of financial controllers and advisors to Indigenous councils 56
5.5 Recommendations 57

6 Financial sustainability 59

6.1 Background 60
6.2 Conclusions 60
6.3 Results for each measure 61
6.4 Recommendations 67

Appendix A— Comments 71
Appendix B— Status of financial statements 81
Appendix C— Status of current-year financial sustainability statements 93
Appendix D— Status of financial statements of exempt entities 97
Appendix E— Local government entities for which audit opinions will not be issued 99
Appendix F— Status of 2011–12 financial statements 101
Appendix G— Financial sustainability measures 103
Appendix H— Queensland council areas by category 113

Summary

Local governments (councils) operate autonomously and are directly responsible to their communities. They vary widely in size and provide a broad range of community services including infrastructure and waste management.

A council's annual report is its primary accountability document to its ratepayers, residents, funding bodies and users of council services. It sets out councils' operational and financial performance and position and includes audited financial statements. The audit opinion accompanying the financial statements provides readers with added assurance that the financial information is reliable.

This report summarises the results of our audits of the financial statements of the 73 local governments (councils), and of the entities they control.

Audit opinions issued

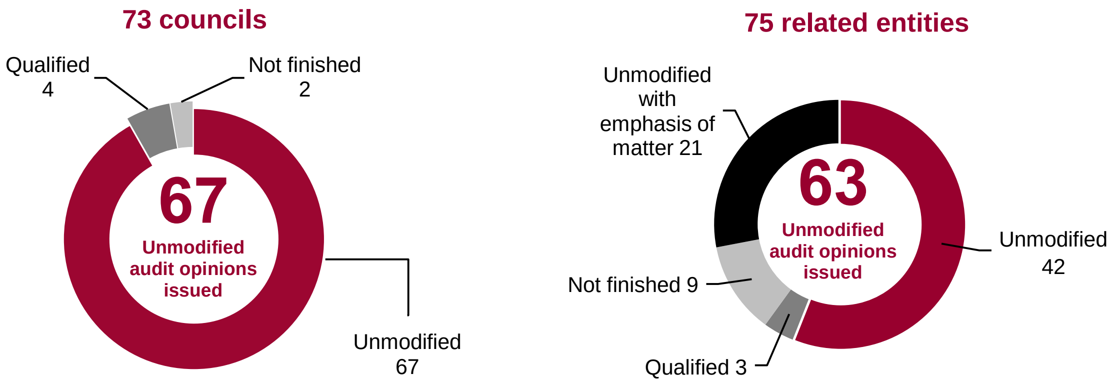
For 2012–13, audit opinions were required for 148 local government entities, including 73 councils: to date, 137 opinions have been issued, including 71 of the 73 council financial statements.

The majority of audit opinions issued (95 per cent) were unmodified, confirming that those financial statements were prepared according to the requirements of legislation and relevant accounting standards.

The audit opinion is qualified when part or all of the financial statements do not comply with relevant legislative requirements and/or accounting standards. Seven qualified opinions (four councils and three related entities) were issued for 2012–13 (2011–12: nine councils and six related entities).

We issued fewer modified audit opinions for the sector this year than last, because a number of prior year accounting issues relating to the 2010—11 natural disasters were resolved.

Figure A
Analysis of audit opinions



Note: Audit findings on the two remaining councils and nine related controlled entities will be included in the 2014-15 Report to Parliament on local government financial statements for 2013–14.

Source: QAO

Quality of financial statements submitted for audit

In 63 of the 71 audited councils, adjustments of $2.6 billion were made to the management certified statements after they were submitted to us for auditing. This poor result is consistent with last year, when adjustments totalling $2.7 billion were made across 54 of the same 71 councils. These results demonstrate that many councils' financial report preparation processes and related quality assurance checks continue to be ineffective.

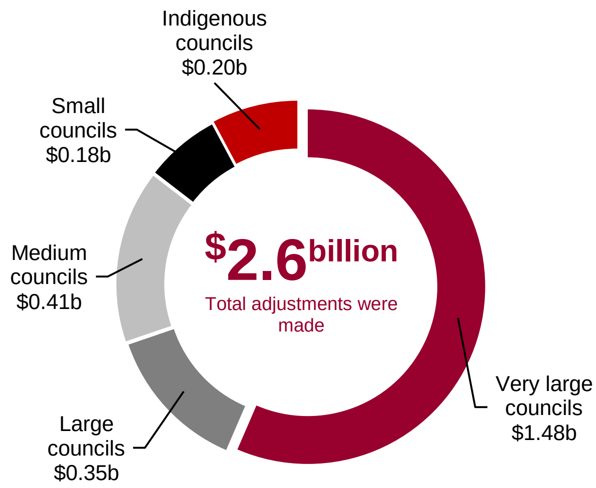
There was no clear correlation between the quality of financial statements and the size and location of councils. Several small and Indigenous councils with limited resources consistently produce good quality management certified financial statements.

Figure B
Analysis of audit adjustments

Key financial data (71 completed councils only)	
Income	Expense
2013: $12.5 billion	2013: $9.2 billion
2012: $9.9 billion	2012: $8.6 billion
▲ 26 %	▲ 7 %
Assets	Liabilities
2013: $98.2 billion	2013: $8.4 billion
2012: $92.8 billion	2012: $7.4 billion
▲ 6 %	▲ 14 %

Source: QAO

(71 completed councils)



Source: QAO

Consistent also with previous years, changes arising from asset valuation processes are the main cause of adjustments to draft financial statements submitted for audit. Twenty-five councils could have avoided the need for these adjustments by finishing their asset revaluations earlier.

The valuation and depreciation of infrastructure assets remains the most significant financial reporting issue for the sector with high levels of valuation volatility continuing to be experienced. The key asset related figures reported in council financial statements indicate that councils are not replacing their assets as fast as they are consumed and, therefore, councils need to reconsider urgently their service delivery options, service delivery standards and proposed funding sources or they risk being financially unsustainable in the long term.

These reported results are also a reflection of inconsistencies between the data and assumptions councils use for financial reporting and those used for asset management purposes. Inconsistencies of this nature can lead to inappropriate decision making by councils and other interested parties (such as funding bodies) which are unable to gauge the true current position or the preferred future direction.

Councils' quality assurance practices over their published annual reports were also ineffective. Of the 59 annual reports currently publically available on council websites, 31 annual reports initially presented their financial information incorrectly. While the majority of these errors were corrected once we brought this to the councils' attention in February 2014, any interested parties that accessed these annual reports prior to the corrections being affected may have been misled by the published information.

Timeliness of preparation of financial statements

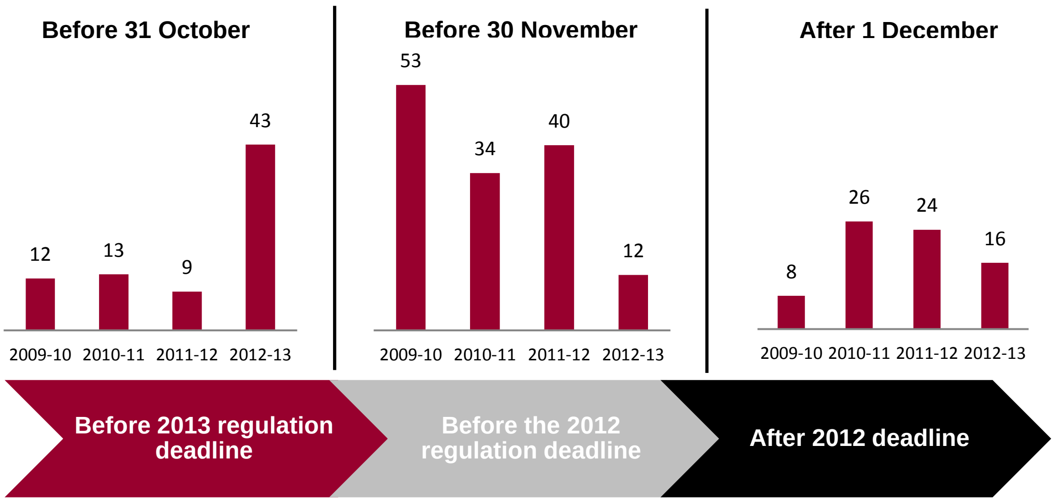
The changes in legislative reporting time frame which brought the deadline forward by one month, as well as the introduction of financial sustainability reporting requirements, are significant steps forward in relevant, reliable and timely accountability. To deliver this, however, requires each council to prioritise its financial reporting and view annual reporting to the community as more than simply a compliance activity.

The fact that 43 councils (59 per cent) achieved the new 31 October financial reporting deadline with minimal lead time demonstrates there has always been capacity within the sector for earlier financial reporting and indicates that, in past years, most councils simply elected to take advantage of the generous time frames previously available.

While larger councils adapted comfortably to the change in the financial reporting deadline, all councils that had planned ahead, regardless of their size, were able to achieve the new deadline.

The preparation of 'shell' financial statements for audit review before balance date, together with earlier completion of asset valuations and the active involvement of audit committees in the financial statement preparation process, were the key factors that improved a council's likelihood of meeting its legislated annual reporting deadline.

Figure C
Council financial statement timeliness



Source: QAO

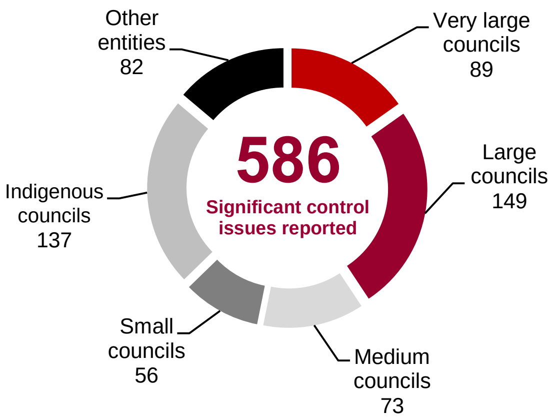
Internal control frameworks

The weaknesses in internal financial control frameworks we identified during our audits increased this year compared to last.

We identified 586 significant control weaknesses at 92 entities during 2012–13, compared with 503 issues at 93 entities in 2011–12.

The number and nature of issues reported indicate systemic problems continue in strengthening financial control frameworks. These issues relate particularly to management attitudes to control—poor 'control consciousness' and weak governance, ineffective oversight and monitoring of control.

Figure D
Analysis of significant control weaknesses



Source: QAO

Many councils continue to regard their internal audit functions as a legislative compliance burden, rather than as a critical component of control assurance required to give them and their communities greater confidence about the efficient, effective and economical use of public monies. As a result, internal audit services across the sector are not used effectively to assess and, where possible, mitigate strategic, financial, or operational risks. The internal audit services provided by the Local Government Association of Queensland Ltd (LGAQ), while an effective tool for councils to identify efficiencies and assess the overall appropriateness of internal controls, did not satisfy all the requirements of a recognised internal audit function.

Internal controls were compromised because personnel and finances were diverted from core financial reporting functions to deal with major projects such as restoration works resulting from natural disasters, de-amalgamation and systems implementations.

Financial sustainability

We assessed councils again this year using the three financial sustainability measures required by the Local Government Regulation 2012 against the sustainability targets set by the Department of Local Government, Community Recovery and Resilience.

Based on these measures, 16 of the 71 councils audited are at higher risk of becoming unsustainable, including ten of the 15 Indigenous councils audited to date. This result is largely because these 16 councils have consistently incurred substantial operating losses over the last four years.

A further 18 councils are assessed as being at moderate risk because of consistent operating losses; significant debt levels; or insufficient spending on asset maintenance and renewal.

Figure E
Relative risk assessment

Category	Higher	Moderate	Lower
Very large	1	7	4
Large	2	3	11
Medium	0	3	10
Small	3	1	11
Indigenous	10	4	1
Total	**16**	**18**	**37**
Per cent	**23**	**25**	**52**

Source: QAO

The debt levels of councils in high population growth areas are continuing to rise. While this is not a significant issue if it is over the short term, these councils need careful planning and financial strategies to maintain manageable debt levels over the longer term without affecting service delivery.

Under the Natural Disaster Relief and Recovery Arrangements (NDRRA), $1.05 billion of outstanding capital works have to be completed by councils before 30 June 2014 and $1.2 billion of works by 30 June 2015. Completing the volume of outstanding restoration work associated with the NDRRA within the required time frames remains a major challenge for those councils inexperienced in managing large capital works projects. Failure to complete the works by the required date, or undertaking ineligible works, may reduce the Australian Government's contribution and result in these costs being met by the respective councils.

Recommendations

A number of recommendations have been made in this report. All councils should assess which ones are relevant to them and implement necessary corrective action.

It is recommended:

1. **all councils prepare 'shell' financial statements and finalise asset valuation processes prior to 30 June each year**
2. **the Department of Local Government, Community Recovery and Resilience educates councils about legislated annual report requirements and monitors council compliance for 2013–14**
3. **the Department of Local Government, Community Recovery and Resilience educates councils on the benefits of a robust internal audit function and how this can add value to council operations**
4. **the Department of Local Government, Community Recovery and Resilience works with the Local Government Association of Queensland Ltd (LGAQ) to ensure the low-cost internal audit services provided by LGAQ result in an effective internal audit function**
5. **the Department of Local Government, Community Recovery and Resilience retains the current provisions of the legislation requiring each council to have an audit committee from 1 July 2014**
6. **the Department of Local Government, Community Recovery and Resilience provides more descriptive guidance on the calculation of renewals for the asset sustainability ratio with practical examples drawn from council experience.**

Reference to comments

In accordance with section 64 of the *Auditor-General Act 2009*, a copy of this report was provided to the Director-General, Department of Local Government, Community Recovery and Resilience, with relevant sections provided to the Local Government Association of Queensland Ltd, the Queensland Reconstruction Authority and all councils named in this report with significant financial reporting, internal control or sustainability issues. All of these parties had an opportunity to comment on the proposed report.

Their views have been considered and are represented to the extent relevant and warranted in preparing this report.

The comments received are included in Appendix A of this report.

1 Context

This chapter provides information on the financial reporting framework and audit requirements of entities in the Queensland local government sector.

1.1 Local government responsibilities

1.1.1 Local government reporting entities

The local government sector comprises 179 entities; 73 councils and 106 entities that they control, either individually or jointly. As 31 of the controlled entities are classified as non-reporting under the accounting standards, there are only 148 entities that prepare financial statements.

Figure 1A summarises the number of reporting entities, categorised by council size. These classifications are based on the 2013 categories used by the Queensland Local Government Remuneration and Discipline Tribunal.

Figure 1A
Local government reporting entities

Category	Type of entities	2013	2012
Very large	Councils	12	12
	Entities they control	27	27
Large	Councils	16	16
	Entities they control	13	13
Medium	Councils	13	13
	Entities they control	1	1
Small	Councils	16	16
	Entities they control	2	2
Indigenous	Councils	16	16
	Entities they control	3	3
Other	Jointly controlled entities	24	25
	Joint local government	2	2
	Audited by arrangement	3	4
Total		**148**	**150**

Note: Councils within each category are shown in Appendix G and H.

Source: QAO

Changes for 2013–14

In its 2013 report, the Local Government Remuneration and Discipline Tribunal significantly reassigned councils within the various remuneration categories, effective from 1 July 2014. This has resulted in all Special Category and Category 1 and 2 councils being reassigned to Category 3. In this report, we allocate these three categories between our Indigenous, small and medium categories. As a consequence, we will reconsider our council categorisations in our 2013–14 report.

Following de-amalgamation polls in 2013, four new councils commenced from 1 January 2014:

- Douglas Shire Council (de-amalgamated from Cairns Regional Council)
- Livingstone Shire Council (de-amalgamated from Rockhampton Regional Council)
- Mareeba Shire Council (de-amalgamated from Tablelands Regional Council)
- Noosa Shire Council (de-amalgamated from Sunshine Coast Regional Council).

These new councils will prepare financial statements for the first time in 2013–14.

1.1.2 Financial reporting time frames

Legislation for councils is administered by the Minister for Local Government, Community Recovery and Resilience. All councils, except Brisbane City Council which has its own Act, are subject to the *Local Government Act 2009* and its related legislation.

The local government legislation was revised in late 2012. This resulted in repeal of the following regulations:

- Local Government (Beneficial Enterprises and Business Activities) Regulation 2010
- Local Government (Finance, Plans and Reporting) Regulation 2010
- Local Government (Operations) Regulation 2010.

The new Local Government Regulation 2012 effective from 14 December 2012 requires councils to provide their financial statements to audit by a date agreed between a council's Chief Executive Officer and the Auditor-General. The date agreed must allow for the audit to be completed by 31 October. The council must then adopt its annual report within one month of the audit opinion date. However, the Minister may grant an extension to the deadlines where extraordinary circumstances exist.

Under the Local Government Regulation 2012, councils must now provide to audit a current-year financial sustainability statement along with their financial statements. The current-year financial sustainability statement reports a council's performance against three legislated financial ratios and targets. A separate audit opinion is provided on this statement.

Brisbane City Council has its own Act, the *City of Brisbane Act 2010* and its own regulation. Similar to the general local government legislation, a new City of Brisbane Regulation 2012 came into effect from 14 December 2012, replacing three repealed regulations. The new regulation imposes the same financial reporting time frames and financial reporting requirements on the Brisbane City Council as for other councils.

Disclosure requirements

Figure 1B identifies the key legislative disclosure requirements for council annual reports.

Figure 1B
Key disclosure requirements

Requirements
• General purpose financial statement and the Auditor-General's audit report • Current-year financial sustainability statement and the Auditor-General's audit report • Unaudited long term financial sustainability statement • Community financial report • Particulars of councillors' remuneration including total remuneration, superannuation contributions, expenses incurred by and facilities provided to councillors • Overseas travel made by a councillor or council employee including destination, purpose and cost • Summary of expenditure on grants to community organisations • Summary of expenditure from each councillor's discretionary fund including the name of each community organisation allocated funds and the amount and purpose of the allocation • An annual operations report for each commercialised business unit • Assessment of performance in implementing the 5-year corporate plan and annual operational plan • Report on the internal audit • Total remuneration packages payable to senior management and the number of senior management employees being paid in bands of $100 000.

Source: QAO

1.2 Audit responsibilities

Section 40 of the *Auditor-General Act 2009* requires the Auditor General to audit the annual financial statements of all public sector entities, including those of local governments and their controlled entities and to prepare an auditor's report.

The auditor's report, which includes the audit opinion, provides assurance about the reliability of the financial reports, including compliance with legislative requirements. In accordance with Australian Auditing Standards, one or more of the following audit opinion types is issued:

- An unmodified opinion is issued where the financial statements comply with relevant accounting standards and prescribed requirements.
- A qualified opinion is issued when the financial statements as a whole comply with relevant accounting standards and legislative requirements, but with particular exceptions.
- An adverse opinion is issued when the financial statements as a whole do not comply with relevant accounting standards and legislative requirements.
- A disclaimer of opinion is issued when the auditor is unable to express an opinion as to whether the financial statements comply with relevant accounting standards and legislative requirements.

An emphasis of matter paragraph may be included with the audit opinion to highlight an issue of which the auditor believes users of the financial statements need to be made aware. The inclusion of an emphasis of matter paragraph does not modify the audit opinion.

The *Auditor-General Act 2009* requires that, after the audit opinion has been issued, a copy of the certified statements and the audit opinion must be provided to the Chief Executive Officer as well as to the Mayor and the Minister.

As part of the financial audit, elements of councils' internal control frameworks are assessed to determine if the controls in place are operating effectively and the extent of councils' compliance with legislative requirements.

Significant issues identified during the audit and recommendations for improvement are reported to the Mayor and Chief Executive Officer at the conclusion of the audit.

The *Auditor-General Act 2009* also requires that the Auditor-General reports to Parliament on each financial audit conducted. The report must state whether the audit has been completed and the financial statements audited. It must also include details of significant deficiencies where financial management functions were not performed properly, along with any actions taken to improve deficiencies reported in previous reports. This report satisfies these requirements.

Section 212 of the Local Government Regulation 2012 and section 202 of the City of Brisbane Regulation 2012 impose an additional audit requirement on councils. From 2012–13, all councils are required to prepare a current-year financial sustainability statement which is to be audited by the Auditor-General. The statement includes the following three measures of financial sustainability:

- operating surplus ratio
- net financial liabilities ratio
- asset sustainability ratio.

An opinion is provided on whether the statement has been calculated accurately. We do not form an opinion on the appropriateness or relevance of the reported ratios, nor on the council's future sustainability.

The Local Government Regulation 2012 requires Chief Executive Officers to negotiate a date with the Auditor-General to enable the audit of the statements and audit report on the statements to be completed within four months of the end of the financial year. To assist the financial reporting process to stay on track, we formally agree on a timetable for key stages of the process to ensure we have a shared understanding of the deadlines required to be met to achieve the legislated time frame.

1.2.1 Local government entities exempted from audit

Section 30A of the *Auditor-General Act 2009* provides the Auditor-General with the authority to exempt a public sector entity from having to be audited by us. Exemptions are granted only where there are no public interest reasons for us to undertake the audit and we consider the entity to be small in size and of low risk. In undertaking this assessment we consider:

- the financial performance and financial position of the entity
- the nature of the entity and its operations
- the results of audits previously conducted.

Exempted entities must appoint an appropriately qualified person to undertake the audit. Six local government entities were exempted from audit by the Auditor-General on this basis for 2012–13.

In addition, section 32 of the *Auditor-General Act 2009* allows for the Auditor General to exempt foreign-based controlled entities from audit by the Auditor-General. Where a controlled entity is based overseas and / or is legally obliged to be audited under another company's law, the entity may be audited by an auditor approved by the Auditor-General.

One local government entity was exempted from audit by the Auditor-General on this basis for 2012–13.

Appendix D provides details on the status of these audits and the appointed auditor.

1.3 Report structure

The remainder of this report is structured as follows:

- Chapter 2 provides the results of the audits of local government entities for the 2012–13 financial year.
- Chapter 3 discusses the major financial reporting issues across the sector during 2012--13.
- Chapter 4 discusses the timeliness and quality of financial statements for the local government sector in 2012–13.
- Chapter 5 assesses the internal control framework of councils and other local government entities for which the 2012–13 audits were finalised at the time of this report.
- Chapter 6 examines the financial sustainability of the local government sector.
- Appendix A contains responses received from the Department of Local Government, Community Recovery and Resilience as well as particular councils.
- Appendix B contains the status of the 2012–13 financial statements of councils and other local government entities.
- Appendix C contains the status of the 2012–13 current-year financial sustainability statements of councils.
- Appendix D contains the status of the 2012–13 financial statements of exempt entities.
- Appendix E contains listing of local government entities for which audit opinions will not be issued in 2012–13.
- Appendix F contains the status of 2011–12 financial statements not previously finalised.
- Appendix G shows the financial sustainability measures of councils where the councils' financial statements were finalised at the time of this report.
- Appendix H shows a map of Queensland depicting each local government area by category.

2 Results of financial audits

In brief

Background

Audited financial statements for councils must be included in their annual reports.

Conclusions

- We identified significant financial reporting risks and issues; some led us to modify the audit opinion.
- The number of qualified audit opinions has reduced; this improvement is because financial reporting issues related to the 2010–11 natural disasters have now been resolved.

Key findings

- Seven qualified opinions (four councils / three related entities) were issued, due primarily to inadequate records supporting prior year comparative balances and poor internal control systems.
- Two councils and six related local government entities have not yet finalised their 30 June 2013 financial statements.
- All 70 audit opinions issued on the 2012–13 current-year financial sustainability statements were unmodified, confirming that the statements had been calculated accurately in accordance with the legislative requirements.
- Of the 14 entities whose 2011–12 financial statements were unfinished at this time last year, four received qualified opinions—all related to asset valuation issues.

2.1 Background

The local government sector consists of councils administering local government areas; jointly controlled entities established to administer joint council activities; controlled entities including companies, trusts and incorporated associations; and entities audited by arrangement.

All have a 30 June balance date, apart from South West Queensland Local Government Association with a 31 March balance date, Burdekin Cultural Complex Board Inc. with a 30 April balance date and Brisbane Festival Limited, Major Brisbane Festivals Pty Ltd and North Queensland Local Government Association with 31 December balance dates.

2.2 Conclusions

The reduction in the number of qualified audit opinions for the sector reflects the resolution of a number of accounting issues that arose from the 2011 natural disasters.

2.3 Financial audit opinions

2.3.1 Overall result

Audit opinions have been issued for 137 (93 per cent) of 148 local government entities required to prepare financial statements this year, which is consistent with the same time last year when opinions were issued for 136 of 150 entities (91 per cent). Figure 2A shows the entities by type and the overall status of their financial statements.

Figure 2A
Status of the financial statements

Entity type	Total	Unfinished audits	Unmodified opinions issued	Qualified opinions issued	Unmodified but with an emphasis of matter
Councils	73	2	67	4	0
Controlled entities	46	3	31	2*	10^
Joint local governments	2	1	0	0	1
Jointly controlled entities	24	5	9	1	9
Audited by arrangement	3	0	2	0	1
Total	**148**	**11+**	**109**	**7**	**21**

* Includes one entity that also received an emphasis of matter
^ Includes four entities that received two emphasis of matters
+ Includes three exempt entities whose financial year is 1 January 2013 to 31 December 2013 (refer Appendix D for further details)

Source: QAO

2.3.2 Unfinished audits

Audit opinions have yet to be issued for two councils and nine related local government entities. We are working actively with these entities to finalise outstanding audit opinions as soon as possible. The underlying reasons for delays with the councils are included in Figure 2B.

Figure 2B
Unfinished audits

Council	Reason	Ministerial extension
Burke Shire Council	Delays in supplying information for audit	Not approved
Kowanyama Aboriginal Shire Council	Delays in finalising audit for 2011–12	Not requested

Source: QAO

Kowanyama Aboriginal Shire Council was outstanding at the same time last year.

2.3.3 Unmodified opinions

For completed financial statements, 130 (95 per cent) unmodified opinions were issued, confirming that these financial statements were prepared in accordance with legislation and relevant accounting standards. This result is an improvement, in percentage terms, on the previous financial year's 135 (90 per cent) unmodified opinions issued and indicates that a number of financial reporting issues related to the 2010–11 natural disasters have now been resolved.

2.3.4 Qualified opinions

Seven qualified opinions (five per cent) have been issued so far this year, an improvement over the previous year when 15 qualified opinions (ten per cent) were issued. Of the seven qualified opinions issued this year, only one was issued for the first time on 2012–13 financial statements. The remaining six qualifications relate to matters identified in 2011–12 or earlier, which have not yet been rectified. As in previous years, qualifications primarily relate to asset valuations which take a number of years to resolve. Figure 2C details the qualified opinions issued and their underlying causes.

Figure 2C
Qualified audit opinions

Entity	Reason	Previously qualified
	Councils	
North Burnett Regional Council	The January 2013 flood event caused extensive damage to the council's roads, drainage and bridges; water; and sewerage assets and, as a result, the council was not in a position to undertake a full valuation of these asset classes. Consequently, the council was unable to demonstrate that these assets were reported at fair value as required by AASB116 *Property, Plant and Equipment*. These affected asset balances and the associated revaluation decrement cannot be relied upon.	
Maranoa Regional Council	In 2011–12, the council did not perform condition assessments of roads, drainage and bridge network assets which had been damaged by flood events. Consequently, there was insufficient evidence to support the asset balances. These 2011–12 amounts, used for comparative purposes in the 2012–13 financial statements, could not be relied upon.	2010–11 2011–12
Burdekin Shire Council	In 2011–12, a comprehensive revaluation of the council's road and bridge assets identified significant anomalies in the data recorded in the asset register. Their identification cast significant doubt over the completeness and accuracy of the 2011–12 depreciation expense. Further, in 2011–12, the council did not provide sufficient evidence to support condition and useful life assessments over water, sewerage and drainage assets as required by AASB116 *Property, Plant and Equipment*. Consequently, the reported 2011–12 written down values of water, sewerage and drainage assets, associated depreciation expenses and the asset revaluation surplus balance, used for comparative purposes in the 2012–13 financial statements, could not be relied upon.	2011–12
Cloncurry Shire Council	In 2011–12, the council did not have sufficient evidence to demonstrate that its road, drainage and bridge infrastructure assets were valued in accordance with AASB116 *Property, Plant and Equipment*. While the council has subsequently corrected this error as at 30 June 2012, it is still unable to support the 2011–12 comparative depreciation expense associated with these assets as the expense was calculated on the previously incorrect figures. Consequently, the 2011–12 depreciation expense amounts, used for comparative purposes in the 2012–13 financial statements, could not be relied upon.	2011–12
	Controlled entities	
The Rockhampton Art Gallery Trust	The trust could not demonstrate it had identified and recorded all revenue from donations. The qualification drew attention to the risk inherent in management assuring the complete recording of cash collected through donations.	2007–08 to 2011–12
Woorabinda Pastoral Company Pty Ltd	The company did not undertake a full stock take of all biological assets, and did not have sufficient evidence to support the existence of all of the total reported number of cattle, nor their market value.	2010–11 2011–12

Entity	Reason	Previously qualified
	Jointly controlled entities	
Local Buy Trading Trust	The trust could not demonstrate it had identified and recorded all revenue owing from tender arrangements. This qualification arose from inherent limitations in the trust's system of internal controls over tender revenue that relies on the completeness and accuracy of statistical returns provided by suppliers.	2008–09 to 2011–12

Source: QAO

2.3.5 Emphasis of matter paragraphs

A paragraph can be included with the audit opinion, drawing attention to or emphasising a matter in the financial statements without warranting modification of the audit opinion. Emphasis of matter paragraphs were included with 21 unmodified audit opinions (16 per cent) issued for completed financial statements, compared to 24 (18 per cent) issued last year.

Of the 21 emphasis of matter paragraphs, 14 drew attention only to the use of Special Purpose Financial Statements as required by Australian auditing standards. These entities are detailed in Appendix B.

The remaining seven emphasis of matter paragraphs highlight either decisions to wind up the entity during the next financial year, or a potential inability for the entity to continue to operate (refer to Figure 2D).

Figure 2D
Unmodified audit opinions but with an emphasis of matter

Entities	Reason
Controlled entities	
Castra Retirement Home Limited	The company is being wound up and the financial statements were not prepared on a going concern basis.
Noosa Biosphere Limited	The company was being transferred as part of the de-amalgamation from Sunshine Coast Regional Council but, as the Noosa Shire Council was not yet established, there was uncertainty about future funding arrangements and the company's ability to continue as a going concern.
The Brolga Theatre Board Inc.	The board is being wound up and the financial statements were not prepared on a going concern basis.
Warwick Tourism and Events Pty Ltd	The company is reliant on support from its parent entity Southern Downs Regional Council to fund its operations, creating uncertainty about its ability to continue as a going concern.
Joint local governments	
Esk-Gatton-Laidley Water Board	The board is being wound up and the financial statements were not prepared on a going concern basis.
Jointly controlled entities	
Central Queensland Local Government Association Inc.	The association is being wound up and the financial statements were not prepared on a going concern basis.
Govcloud Joint Venture	The joint venture is being wound up and the financial statements were not prepared on a going concern basis.

Source: QAO

2.4 Status of outstanding opinions from prior years

Fourteen local government entities had not received audit opinions on their 2011–12 financial statements when *Results of audits: Local government entities 2011-12* (Report 10 : 2012-13) was tabled in April 2013. Audit opinions have now been issued for all of these entities and details of these opinions are included in Appendix F.

The financial statements for Wujal Wujal Aboriginal Shire Council, Advance Cairns Operations Ltd (formerly Advance Cairns Limited), Brisbane Festival Limited and Major Brisbane Festivals Pty Ltd were issued with unmodified audit opinions. Four qualified opinions were issued and these are summarised in Figure 2E.

Figure 2E
Qualified audit opinions 2011–12

Entity	Reason	Previously qualified
	Councils	
Carpentaria Shire Council	An independent revaluation of property, plant and equipment at 30 June 2012 identified significant inaccuracies in the valuation data used in previous years. As council did not retrospectively restate the comparative balances, a qualified audit opinion was issued in relation to the 2011 comparative figures reported for road infrastructure assets, water and sewerage assets.	—
Kowanyama Aboriginal Shire Council	In 2010–11, the council did not have sufficient evidence to demonstrate that its buildings, residential housing, roads, drainage, water, sewerage and other infrastructure assets were valued in accordance with AASB116 *Property, Plant and Equipment*. These 2010–11 balances and the associated depreciation expenses, used for comparative purposes in the 2011–12 financial statements, could not be relied upon. Council failed to maintain an effective system of internal control and adequate supporting documentation for its inventory management. Consequently, the reported 30 June 2012 inventory balances could not be relied upon. An emphasis of matter was also included to highlight that the council used grant monies to meet operational needs, casting doubt on its ability to meet future obligations without government support.	—
Maranoa Regional Council	The council did not perform condition assessments of roads, drainage and bridge network assets which had been damaged by flood events and there was not sufficient evidence to support the asset balances.	2010–11
	Controlled entities	
Ipswich City Properties Pty Ltd	Freehold land acquired in March 2009 had not been subject to subsequent revaluation and there was insufficient evidence to demonstrate that the reported values were a reliable measurement of their fair values at 30 June 2012. In addition, the board were unable to provide adequate documentation to substantiate that an impairment assessment was performed for freehold land, buildings and plant and equipment. Therefore it was not possible to express an opinion on the reported written down value of these assets.	—

Source: QAO

Emphasis of matter paragraphs were included with six other audit opinions. Five drew attention only to the use of Special Purpose Financial Statements as required by Australian auditing standards. These are disclosed in Appendix F of this report.

An emphasis of matter paragraph was also included with the audit opinion provided to Whitsunday Regional Council to highlight that the Queensland Reconstruction Authority had reviewed the council's claims for reimbursement of costs incurred to restore assets damaged by flood events and considered these ineligible under the Natural Disaster Relief and Recovery Arrangements, thus placing considerable strain on the council's financial position.

2.5 Financial sustainability statements

In 2012–13, the Local Government Regulation 2012 through the *Financial Management (Sustainability) Guideline 2013* introduced the requirement that each council prepares and has audited a current-year financial sustainability statement.

Audit opinions have been issued for 70 (96 per cent) of 73 councils required to prepare current-year financial sustainability statements. The three councils yet to finalise these statements are:

- Burke Shire Council
- Kowanyama Aboriginal Shire Council
- Palm Island Aboriginal Shire Council.

Aside from Palm Island Aboriginal Shire Council, these councils also have unfinished financial statements for 2012–13 (refer section 2.3.2 *Unfinished audits* in this report).

All 70 councils (100 per cent) that completed current-year financial sustainability statements received unmodified opinions, confirming that the statements had been accurately calculated in accordance with the requirements of the Regulation. The audit did not extend to forming an opinion on the appropriateness or relevance of the reported ratios, nor on a council's future sustainability.

As these statements are Special Purpose Financial Statements, all 70 (100 per cent) unmodified opinions issued were accompanied by an emphasis of matter paragraph drawing attention to this fact as required by Australian auditing standards. These results are further detailed in Appendix C.

A commentary on the financial sustainability of councils is included in Chapter 6 *Financial sustainability* of this report and specific ratios are contained in Appendix G. This commentary arises from our analysis of financial sustainability in comparison to the last four years (as applicable).

3 Significant financial reporting issues

In brief

Background

Councils operate autonomously and are directly responsible to their communities. While they vary widely in size and provide a broad range of community services, including management of essential public infrastructure, many significant financial reporting risks and issues are common across the sector.

Conclusions

- Valuation and depreciation of infrastructure assets remains the most significant financial reporting issue for the sector with significant volatility in valuations continuing to be experienced across councils from year to year.
- Councils' ability to maintain and manage their infrastructure assets is hampered by outdated asset management plans and poor underlying data.
- Small and medium councils face a significant challenge to complete the volume of outstanding restoration work associated with the Natural Disaster Relief and Recovery Arrangements (NDRRA) within the required time frames.
- De-amalgamation has created specific financial reporting and managerial risks that need to be mitigated through new councils establishing strong governance and risk management practices; and continuing councils assessing and redesigning their internal control frameworks.

Key findings

- Reported figures suggest that councils need to reconsider urgently their service delivery options; service delivery standards; and proposed funding sources.
- Only 37 per cent of councils have any form of documented criteria for, or training on, assessing the condition of their infrastructure assets.
- Around $15 million was incurred in de-amalgamation costs to 31 December 2013 which was significantly less than original Queensland Treasury Corporation estimates.

3.1 Background

Local governments (councils) operate autonomously and are directly responsible to their communities. While they vary widely in size and provide a broad range of community services, including management of essential public infrastructure, many significant financial reporting risks and issues are common across the sector.

3.2 Conclusions

Councils are stewards of major public infrastructure. Most of the financial reporting issues we identified during our audits continue to relate to the recording, recognition, depreciation and valuation of these assets, with significant volatility in valuations continuing to be experienced across councils, year on year.

Achieving comparability and consistency in valuation and depreciation of specialised public sector infrastructure assets is a significant challenge for councils, given the differences in the methodologies adopted by valuers and the subjective nature of the key inputs and assumptions applied in the valuation and depreciation processes.

Councils do not understand their financial reporting methodologies and assumptions and, therefore, cannot be assured that these are consistent with their intended asset management practices.

In response to our previous recommendations, the Department of Local Government, Community Recovery and Resilience (the department), the Office of the Valuer-General and the Local Government Association of Queensland Ltd (LGAQ) are developing a framework for valuing Queensland local government infrastructure. This requires a commitment over a number of years to ensure the result is both robust and compliant with the standards as well as being cost effective for councils to implement.

The effect of natural disasters adds to this complexity and presents real financial risks in terms of access to federal and state assistance. Completing the volume of outstanding restoration work associated with the Natural Disaster Relief and Recovery Arrangements (NDRRA) within the required time frames continues to be a major challenge for small and medium sized councils not experienced in managing large capital works projects. Failure to complete the works by the required date or undertaking ineligible works may reduce the federal contribution and result in these costs being met by the respective councils.

For four councils, de-amalgamations have added further complexity with significant resource commitments and a need to reassess current business practices and planned future works within a changing budget environment.

3.3 Valuation and depreciation of infrastructure assets

Infrastructure assets, including roads, bridges, sewerage and water assets, represent a significant balance in the financial statements of all Queensland councils. These assets are reported at their estimated fair value in accordance with AASB 116 *Property, Plant and Equipment*.

In our last report on local government audits *Results of audits: Local government entities 2011–12* (Report 10 : 2012–13), we identified significant volatility in valuations being experienced across councils from one year to the next and recommended that comparability and consistency in valuations could be enhanced through:

- developing an agreed methodology for valuing local government infrastructure assets
- using the skills and experience available in the Office of the Valuer-General to engage professional valuers.

The department is actively working on implementing these previous recommendations. However, 2012–13 again saw significant volatility in the reported fair value of infrastructure assets across the sector. These significant, continued fluctuations reinforce the need for the department to persist with its work in finding a long term solution to this issue.

3.3.1 Effect of movements in fair value on audited financial statements

The 71 councils audited to date reported infrastructure assets with a total estimated fair value of $73.6 billion as at 30 June 2013 ($65.8 billion for the same 71 councils at 30 June 2012).

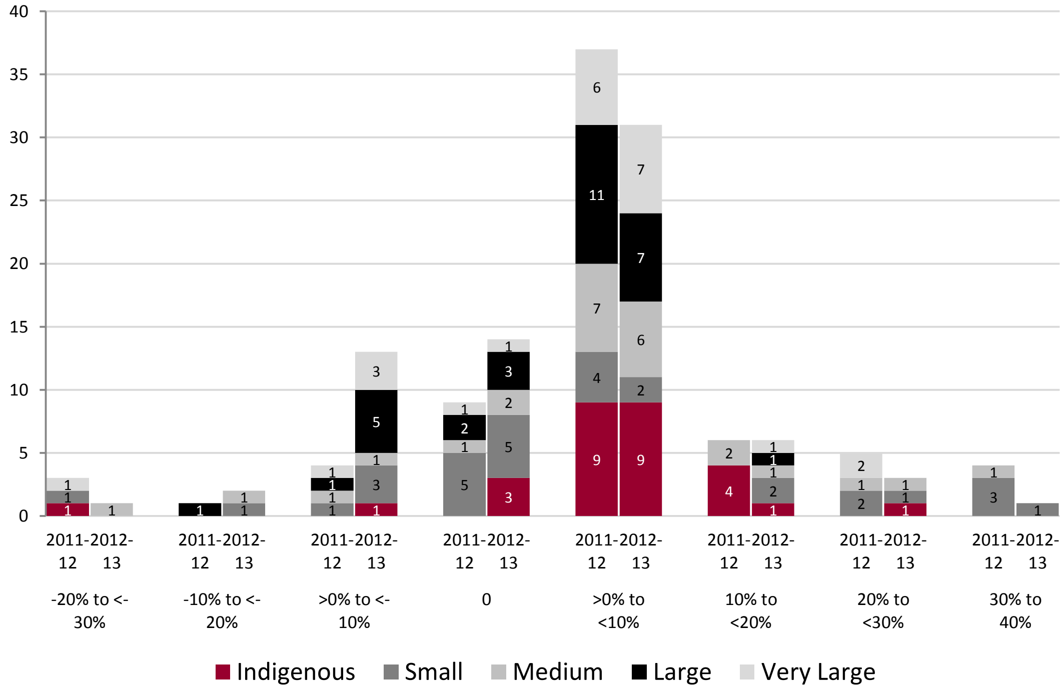
The net revaluation increment for these infrastructure assets during 2012–13 was $0.8 billion (2011–12: $2.5 billion). This net increment comprised:

- 41 councils that reported increments totalling $1.3 billion (2011–12: 54 councils totalling $3.4 billion)
- 16 councils that reported decrements totalling $0.4 billion (2011–12: eight councils totalling $0.8 billion)
- 14 councils that reported no movement in the fair value of their assets (2011–12: nine councils).

Of the 41 councils reporting an increase in the fair value of infrastructure assets, 10 councils (2011–12: 15 of 54) reported valuation increments that were over 10 per cent of the reported fair values at year end. The largest single increment during 2012–13 was over 35 per cent of the reported fair value (2011–12: 48 per cent).

Of the 16 councils reporting a decrease in the fair value of infrastructure assets, three councils (2011–12: four of eight) reported valuation decrements that were over 10 per cent of the reported fair values at year end. The largest single decrement during 2012–13 was over 22 per cent of the reported fair value (2011–12: 29 per cent).

Figure 3A
Fluctuations in asset valuations for 2011–12 and 2012–13 by council category



Source: QAO

While these adjustments can arise from changes in prevailing economic conditions or other external factors such as recent natural disasters, these annual fluctuations regularly result from councils:

- maintaining incomplete or inaccurate underlying asset component data
- treating valuation and depreciation purely as a financial reporting process rather than being a reflection of the council's anticipated asset management practices
- changing methodologies and assumptions inappropriately to derive a particular financial statement outcome
- applying unrealistic assumptions in valuation and depreciation calculations.

To ensure the valuation and depreciation figures published in councils' annual financial statements are meaningful, councils need to understand the methodologies and assumptions they are applying and assess whether these truly reflect the underlying nature of their asset management practices and their strategies for long term financial sustainability.

3.3.2 Relevance of reported data to sustainability

While done to meet legislative or accounting standard requirements, valuing and depreciating long lived infrastructure assets also fulfils an important community information need. Financial statements allow readers to assess whether council-controlled assets are being properly maintained, replaced and funded to enable the council to meet the community's current and future service delivery expectations. Depreciation is also particularly important in determining the full cost of services provided by a council.

Figure 3B shows how the key figures related to infrastructure assets were reported in the 2012–13 financial statements across each council category. Figure 3C then shows how readers of financial statements can correlate particular financial statement figures.

Figure 3B
Key financial statement figures by council category

Council category	Gross replacement cost (GRC)* $ m	Written down value (WDV)* $ m	Own source revenue (OSR) $ m	Depreciation expense $ m	Net result^ $ m	Avg. net operating cash flows (NOCF) $ m	Asset additions $ m
Indigenous	2 609	1 719	108	70	(65)	21	60
Small	2 846	2 256	243	58	82	65	151
Medium	6 912	5 003	424	101	68	137	155
Large	18 516	13 584	1 358	336	411	372	1 547
Very large	71 571	51 063	5 309	1 261	654	1 153	8 469
Total	**102 453**	**73 624**	**7 443**	**1 825**	**1 150**	**1 748**	**10 383**

* Infrastructure assets only
^ excluding the gain on restructure following the dissolution of Allconnex Water

Source: QAO

Figure 3C
Correlation of key infrastructure assets figures by council category

Council category	WDV % of GRC	Depreciation % of WDV	Asset additions % of GRC	GRC divided by NOCF (years)	GRC divided by OSR (years)
Indigenous	65.9%	4.1%	2.3%	128.4	24.1
Small	79.3%	2.6%	5.3%	37.3	11.7
Medium	72.4%	2.0%	2.2%	50.3	16.3
Large	73.4%	2.5%	8.4%	49.8	13.6
Very large	71.3%	2.5%	11.8%	62.1	13.5
Total	**71.9%**	**2.5%**	**10.1%**	**58.6**	**13.8**

Source: QAO

Using the 2012–13 results, if asset written down values continue to depreciate at an average rate of 2.5 per cent per annum then, on average, all council infrastructure assets would be fully depreciated in 40 years.

Given that these assets are, on average, 28.1 per cent through their useful lives; this implies also that the average total life for all council infrastructure assets is approximately 56 years (i.e. 40 years divided by 71.9 per cent). The actual averages and useful lives vary significantly across council categories: notably, infrastructure assets in Indigenous councils reporting remaining lives of around 24 years with a total life of 37 years, and medium sized councils reporting 50-year remaining useful lives with total lives of 69 years.

Net operating cash flows represent the funds councils are able to generate each year from their normal operations, including grants received for operating purposes. To have sufficient funds available to replace their assets at the end of their useful lives, councils need to reserve a portion of their net operating cash flows each year. Using average net operating cash flows over the last three years, councils are currently reserving approximately $1.748 million each year.

This is significantly below the required $2.561 million (that is, total gross replacement cost (GRC) of $102 453 million divided by 40 years). This annual $0.813 million funding shortfall means that councils are currently only reserving enough cash to fund the replacement of their assets in 58.6 years (that is, GRC divided by net operating cash flows (NOCF)). Given that, on average, all assets will require replacement in 40 years, this equates to an 18.6-year (or $32.5 billion) funding gap over the remaining life of these assets.

Indigenous and very large councils are the most precarious, with gaps of 104 years and 22.1 years respectively. Small and medium councils, on average, are presently reserving enough cash to replace their assets when assets reach the end of their useful lives.

These calculations do not take into account councils expanding their asset bases by purchasing or acquiring new assets to meet the community's future service delivery needs.

3.3.3 Determining fair values for assets

Based on the reported figures, many councils need to reconsider their service delivery options, service delivery standards and proposed funding sources, or they risk becoming financially unsustainable in the long term.

But first, they should make sure the asset data they are using for financial reporting and, indeed, for their own internal decision making, reflect reality.

For the 2013–14 financial year, councils will need to adopt the requirements of Australian accounting standard AASB 13 *Fair Value Measurement*. This standard requires entities to adopt appropriate valuation techniques for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. This poses a challenge for valuing council infrastructure assets as there are no markets for infrastructure assets from which inputs might be observable.

This increased focus on inputs will require councils to have a greater understanding of their valuation methodologies and key inputs and assumptions, such as:

- nature and dimensions of the asset's component parts—such as the length and width of road pavements; the diameter of drainage pipes
- unit rates used for estimating the current replacement cost of each asset component—labour and materials
- total and remaining estimated useful life of the asset component—taking into account potential for obsolescence
- estimated residual value at the end of the asset's useful life—either scrap value or recondition and re-use
- present condition of the asset—its physical attributes and functionality and how these change over time
- depreciation method—which needs to reflect the pattern in which the service potential of the asset is consumed over its useful life.

Councils should ensure key inputs and assumptions are reliable and adequately supported. Foremost, asset valuations and assessments of useful lives and depreciation rates must be consistent with actual maintenance and replacement strategies contained in their asset management plans. Aligning the financial data with council engineering data will assist in addressing this requirement.

3.3.4 Asset management plans

Infrastructure assets come with significant financial, managerial and political risks, particularly in a State as susceptible to natural disasters as Queensland. Councils that apply strategic asset management principles to determine the most cost effective way to provide the required level of service to their communities (both present and future) are best equipped to manage these risks.

Asset management plans are a cornerstone in the pursuit of operational efficiencies and more effective renewal practices. They document council intentions with respect to service delivery standards and the construction, acquisition, operation and maintenance, renewal and disposal of infrastructure assets. They also allow for a better allocation of limited council resources and improved alignment of council operations with community expectations.

Long term asset management plans were made compulsory for all Queensland councils from 1 July 2010. Councils were given an extension until 30 November 2011 to have their original plans finalised. While most councils eventually completed their original asset management plans, as at 30 June 2013, only 69 per cent of councils had up to date asset management plans.

The department has not assessed the robustness and maturity of council asset management plans. As the focus of local government legislation continues to shift towards long term sustainability, the department could take a stronger role in making sure councils understand why long term asset management plans are required and understanding whether councils have the capability to update them appropriately.

Asset management plans are an important reference point to establish and test the key assumptions used when preparing financial statements. This is particularly true with respect to their current replacement cost; estimated useful lives (including consideration of potential obsolescence); and appropriate units of account (segmenting and categorising assets).

These plans also set asset performance standards, including physical condition and the rate, timing and nature of planned maintenance. These factors impinge directly on the useful lives of assets and the rate at which their service potential is consumed.

3.3.5 Condition assessments

Regular periodic condition assessments help councils deliver better value for money services to their communities but they also help councils determine useful lives for financial reporting. Given this critical dual role, it is in councils' interests to ensure condition assessments are determined accurately and consistently from one year to the next.

Only 37 per cent of councils have any form of documented criteria for, or training on, assessing the condition of their infrastructure assets. A further 35 per cent rely solely on the continuing involvement of particular external valuers or internal staff, while 28 per cent have no formal process for ensuring consistent condition assessments. In addition, 37 per cent of councils did not provide their asset management plans / key asset management assumptions to their valuers as part of the annual valuation process.

3.4 Natural Disaster Relief and Recovery Arrangements (NDRRA)

To facilitate recovery after major natural disasters, the Australian Government provides financial assistance to the state government through the Natural Disaster Relief and Recovery Arrangements (NDRRA). The Australian Government reimburses up to 75 per cent of eligible costs incurred by the state. These costs relate primarily to the restoration of state and local government roads and other public infrastructure.

As at 30 June 2013, the state's funding program under NDRRA was estimated at $14.02 billion with works due for completion by 30 June 2015. Of this, $5.33 billion relates to restoration works being undertaken by Queensland councils.

The table at Figure 3D details the estimated program of reconstruction works against the year in which the natural disaster event occurred, the value of the works program delivered by councils as at 30 June 2013 and the value of works still to be completed.

Figure 3D
Estimated NDRRA reconstruction works by disaster event year

Nature of works	Unit	2010 and prior	2011	2012	2013	Total
Total program estimate*	$ billion	2.74	6.98	1.87	2.43	**14.02**
Total program estimate relating to local councils*	$ billion	1.11	2.25	0.74	1.23	**5.33**
Total value of works program delivered relating to local councils as at 30 June 2013*	$ billion	1.11	1.72	0.19	0.06	**3.08**
Total value of works program to be completed by local councils *	$ billion	0.00	0.53	0.55	1.17	**2.25**
Works programs outstanding	Per cent	—	23.6	74.3	95.1	**42.2**

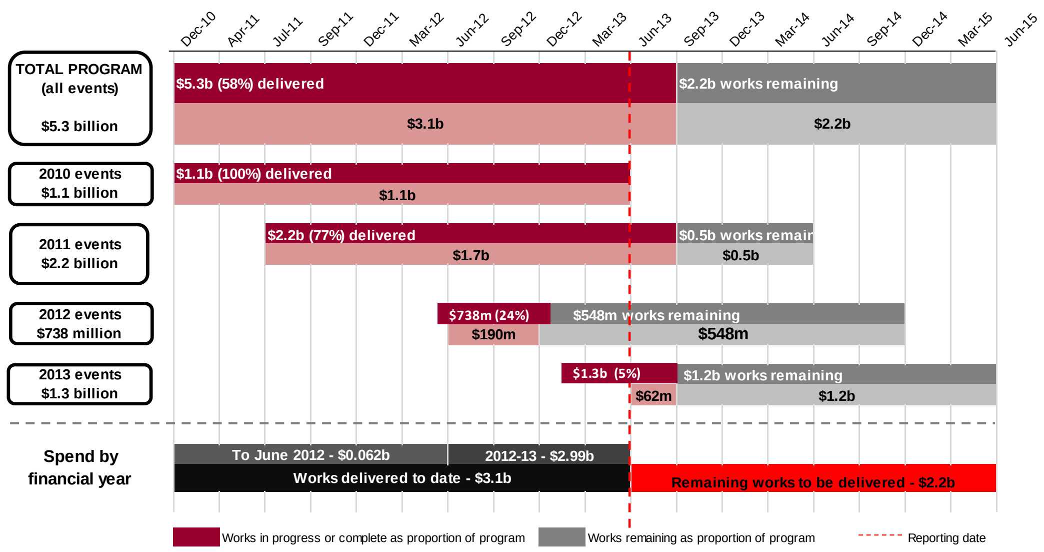
* Unaudited budget figures supplied by QRA

Source: QAO

In relation to the remaining $2.25 billion, the value of works required to be completed by councils by 30 June 2014 is $1.05 billion (19.8 per cent) of the total council works program; and, by 30 June 2015, is $1.2 billion. Failing to complete the works by these deadlines may reduce the contribution from the Australian Government.

Figure 3E shows the status of the program of works as at 30 June 2013 relative to the allowable delivery time frame for each of the disaster event periods.

Figure 3E
Status of NDRRA works program for Queensland local governments



Source: QAO

A number of small and medium sized councils require abnormally large capital works programs in 2013–14 to deliver these projects by 30 June 2014. While these capital works programs appear to be on track, the requirement for completion by a strict deadline creates a major challenge for these councils—councils inexperienced in managing large capital works projects in short time frames—in ensuring other council services and activities are not adversely affected and financial accountability is not compromised. Where activities are outsourced, councils also need to monitor these projects closely.

3.4.1 Status of the audits of state acquittals of NDRRA grants

Qualified opinions were issued on the state's NDRRA acquittals to the Australian Government for the financial years 2009–10, 2010–11 and 2011–12 because it was not possible to assess reliably the pre-flood damage condition of assets–a prerequisite to being able to establish the validity of restoration claims made. These qualifications, in aggregate, related to the eligibility of $930 million of council claims (36 per cent of the total state expenditure of $2.6 billion) that lacked the necessary documentation to allow a reliable assessment in line with the NDRRA Determinations.

We continue to work closely with Queensland Treasury and Trade and the Queensland Reconstruction Authority to determine if any further audit evidence can be gathered from councils to enable us to assess reliably the pre-disaster condition of the damaged assets and issue a revised, unqualified opinion. The Australian Government has indicated that it will not release funds until an unqualified acquittal is provided.

The state's acquittal for 2012–13 claims totalling $2.5 billion is being audited currently and must be submitted to the Australian Government by 31 March 2014. In contrast to prior years, the Authority is solely responsible for the administration of these claims and it has now established a clear understanding with councils and a greater certainty about compliance requirements with NDRRA determinations. This was evidenced previously by our ability to determine the eligibility of expenditure on claims processed through the Authority.

3.5 De-amalgamations

Following the de-amalgamation polls held on 9 March 2013, the Minister for Local Government, Community Recovery and Resilience (the Minister) announced that de-amalgamations would proceed in four Queensland local government areas:

- Douglas Shire de-amalgamating from Cairns Regional Council
- Livingstone Shire de-amalgamating from Rockhampton Regional Council
- Mareeba Shire de-amalgamating from Tablelands Regional Council
- Noosa Shire de-amalgamating from Sunshine Coast Regional Council.

The new councils commenced operations on 1 January 2014.

For the continuing councils as at 30 June 2013, the Minister approved an extension of time for the completion of the audit of the 2012–13 financial statements to 30 December 2013. A further extension was granted for Tablelands Regional Council to 28 February 2014.

In accordance with the Local Government (De-amalgamation Implementation) Regulation 2013 (the Regulation), which took effect on 12 April 2013, the Minister appointed four transfer managers to manage the establishment of each new council. These transfer managers became the acting chief executive officers of the new breakaway councils from 1 January 2014.

As per the de-amalgamation conditions, the breakaway councils are responsible for all de-amalgamation costs incurred after the March 9 referendum.

Each continuing council established a working capital facility with Queensland Treasury Corporation (QTC) for the sole purpose of paying de-amalgamation costs. The working capital facility was transferred to the new council on 1 January 2014 and must be fully paid by the new council no later than 31 December 2014.

3.5.1 Estimated one-off costs of de-amalgamation

In 2012, the Queensland Boundaries Commission engaged QTC to review the de-amalgamation proposals that were referred to the Minister. The review included a financial analysis of the proposed de-amalgamating council to:

- determine the costs of de-amalgamating for both the new and continuing councils
- to assess the financial viability of the new councils under the de-amalgamation proposal.

QTC identified the following one-off costs that the new councils would likely incur to facilitate the de-amalgamation:

- operating costs: for example, governance, planning and implementation; industrial relations; community and staff engagement; due diligence processes; and the reimbursements of costs to the continuing council
- fixed asset costs: for example, new information technology (IT) costs; additional property, plant and equipment to maintain service delivery standards.

As at 31 December 2013, costs of $13.389 million have been incurred, representing 46 per cent of QTC's total estimated costs. IT costs are by far the largest component for three of the four councils. The significant variance between the QTC estimates and the reported costs incurred by Noosa Shire Council (Noosa) reflect that, as at 31 December 2013, no IT-related costs had been incurred. This is an outcome of the contractual arrangement between Noosa and their IT service provider, which resulted in Noosa's one-off de-amalgamation IT cost of $1.5 million being deferred until January 2014. Noosa's IT solution also involves continuing costs which will be incurred over the life of the contract.

To 31 December 2013, the department had incurred de-amalgamation costs totalling $1.596 million, primarily related to the employment of the transfer managers and electoral commission expenses. These costs were initially met by the continuing councils through the working capital facilities, but were passed on ultimately to the de-amalgamating councils.

Figure 3F shows de-amalgamation costs incurred to 31 December 2013 by the continuing councils (including relevant costs on-charged by the department), compared to the original QTC estimates. While the final quantum of de-amalgamation costs incurred by the respective councils will depend on the individual budgetary decisions of the various councils, significant de-amalgamation costs will continue to be incurred beyond 31 December 2013.

Figure 3F
De-amalgamation costs to 31 December 2013 compared to QTC estimates

New council	Continuing council costs $	Estimated one-off costs QTC model $
Douglas Shire Council	2 504 547	4 455 000
Livingstone Shire Council	5 226 993	7 723 000
Mareeba Shire Council	3 427 048	6 008 000
Noosa Shire Council	2 230 042*	11 020 000
Total	**13 388 630**	**29 206 000**

* excludes de-amalgamation costs for IT solutions of $1.5 million which were incurred by the new council in January 2014

Source: QAO

De-amalgamation costs incurred by the continuing councils predominantly include those salaries and wages of staff engaged on the de-amalgamation process, IT consultancy costs, costs associated with the Transfer Managers and IT separation costs.

3.5.2 Financial sustainability of new councils

In addition to the one-off costs, having two separate councils' results also in increments to recurrent costs. QTC's estimate of these costs for each new council is shown in Figure 3G.

Figure 3G
QTC's estimated annual incremental de-amalgamation costs

New council	Annual incremental costs $
Douglas Shire Council	3 691 000
Livingstone Shire Council	2 260 000
Mareeba Shire Council	2 192 000
Noosa Shire Council	2 631 000
Total	**10 774 000**

Source: QTC De-amalgamation Analysis Reports

QTC's financial viability assessment of the existing, new and continuing councils considered each council's five-year forecast against established sustainability ratios and benchmarks. This culminated in QTC determining an estimated sustainability rating for each new council, based on the following sliding scale:

- Very strong
- Strong
- Sound
- Moderate
- Weak
- Very weak
- Distressed.

A ratings outlook was also assigned. Outlooks may be positive, neutral or negative and generally focus on the potential movement in a council's rating in the short term (that is, less than 24 months).

Figure 3H shows QTC's estimated sustainability ratings (and outlook) for each council.

Figure 3H
QTC's assigned de-amalgamation sustainability ratings (and outlook)

De-amalgamation area	Existing council	New council	Continuing council
Douglas Shire	Sound (Neutral)	Very weak (Negative)	Sound (Neutral)
Livingstone Shire	Moderate (Neutral)	Moderate (Neutral)	Weak (Negative)
Mareeba Shire	Moderate (Neutral)	Very weak (Negative)	Moderate (Neutral)
Noosa Shire	Strong (Neutral)	Moderate (Neutral)	Strong (Neutral)

Source: QTC De-amalgamation Analysis Reports

The 'very weak' rating attributed to the Mareeba and Douglas Shire Councils reflects the estimated sustained operating deficits over the first five years of operation, contributing to these councils being exposed to liquidity issues.

The 'weak' rating attributed to the Rockhampton Regional Council derives from the expectation of sustained operating deficits through to the 2014–15 financial year and a level of debt that, while serviceable at present, will affect the council's level of financial flexibility and corresponding ability to respond to unexpected financial shocks.

3.5.3 Financial reporting and control risks for new councils

De-amalgamation has created specific financial reporting and managerial risks that need to be mitigated by the respective councils through:

- establishing opening asset and liability balances that comply with Australian accounting standards—due to delays by some councils in finalising these amounts, the creation of opening balances and comprehensive reporting by a new council may not be completed within a reasonable time frame, thereby limiting the usefulness of management information
- determining the completeness and fair value of the new councils' non-current assets—the new council may need to undertake a full revaluation as at 1 January 2014.
- documenting accounting policies—these may be different to those in place at the continuing councils but must be consistently applied from 1 January 2014; all accounting policies should be formally approved and endorsed by the new council and accurately reflected in the financial statements
- developing robust accounting systems with clear delineation around roles and responsibilities, particularly with respect to the use of IT systems—where shared service arrangements have been established, even if only a short term proposition, clear service level agreements need to be put in place
- maintaining a clear audit trail to evidence the completeness and accuracy of transferred data—including clear assignment of accountability and responsibility for quality assurance
- establishing strong governance and risk management practices—including an effective audit committee and internal audit function; appropriately qualified and experienced finance section; and documenting policies and procedures coupled with suitable staff training
- assessing and redesigning the continuing council's internal control framework—the loss of key staff at the continuing councils and the downsizing of operations will necessitate adjustment to previous internal controls.

4 Timeliness and quality of financial statements

In brief

Background

The usefulness of council financial reports depends on the quality of the information contained in them and the time taken to produce them.

Conclusions

- Earlier reporting deadlines, while a significant step forward, cannot improve the sector's overall performance without a commitment from each individual council to prioritise its financial reporting and view annual reporting to the community as more than simply a compliance activity.
- The preparation of 'shell' financial statements and the involvement of audit committees in the financial statement preparation process improve a council's likelihood of meeting the legislative reporting deadline.

Key findings

- Adjustments totalling $2.6 billion were made to management certified statements for 63 of 71 audited councils.
- More timely completion of 2012–13 asset valuations would have reduced total adjustments.
- 14 councils have failed to meet the legislative reporting deadline for the past two years.
- There were ten councils granted financial reporting extensions from the Minister for 2012–13. Three of these councils also requested extensions last year for similar reasons.
- 59 of the 71 councils audited to date have made their annual reports available on their respective websites.
- 31 councils initially published incorrect versions of their annual reports on their websites.

Recommendations

It is recommended:

1. **all councils prepare 'shell' financial statements and finalise asset valuation processes prior to 30 June each year**
2. **the Department of Local Government, Community Recovery and Resilience educates councils about legislated annual report requirements and monitors council compliance for 2013–14.**

4.1 Background

The *Local Government Act 2009* requires each council to establish financial management systems that identify and manage financial risks, including risks to reliable and timely reporting. The performance of financial management systems requires regular review.

Effective financial systems are able to produce timely and reliable financial information routinely for management, councillors and users of council services. An efficient system will integrate internal management reporting with external accountability reporting as far as possible.

4.2 Conclusions

The changes in legislative reporting deadlines and reporting requirements are a significant step forward in relevant, reliable and timely accountability. To deliver this requires each council to prioritise its financial reporting and view annual reporting to the community as more than simply a compliance activity.

The fact that so many councils could achieve the new 31 October financial reporting deadline with minimal lead time demonstrates there has always been capacity within the sector for earlier financial reporting. This indicates that, in past years, most councils simply elected to take advantage of the generous time frames previously available. This apparent approach does not sit well with annual reports being councils' primary accountability documents to their communities and the communities' need for relevant (timely) and reliable (quality) information for decision making.

Significant adjustments continue to be made to draft financial statements prior to certification by audit with asset related adjustments the most common. The timing of the annual asset valuations has a direct effect on the extent of adjustments required to draft financial statements.

The preparation of 'shell' financial statements for audit review before balance date, together with earlier completion of asset valuations and the active involvement of audit committees in the financial statement preparation process, were the key factors that improved a council's likelihood of meeting its legislated annual reporting deadline.

4.3 Quality of draft financial statements

The frequency and size of errors in the draft financial statements are a direct measure of accuracy. All errors identified during the audit process are raised with the council; where errors are material, adjustments are requested.

Before audit review, the draft financial statements should be subject to quality checks by the council to be assured that they are materially complete, are in accordance with management's understanding of the council's operations for the year, comply with accounting requirements and are ready for audit.

Ideally, each council prepares one set of financial statements and no adjustments are made or required after the statements are provided for audit. This ideal was not achieved for the 2012–13 financial statements of 63 of 71 councils audited to date.

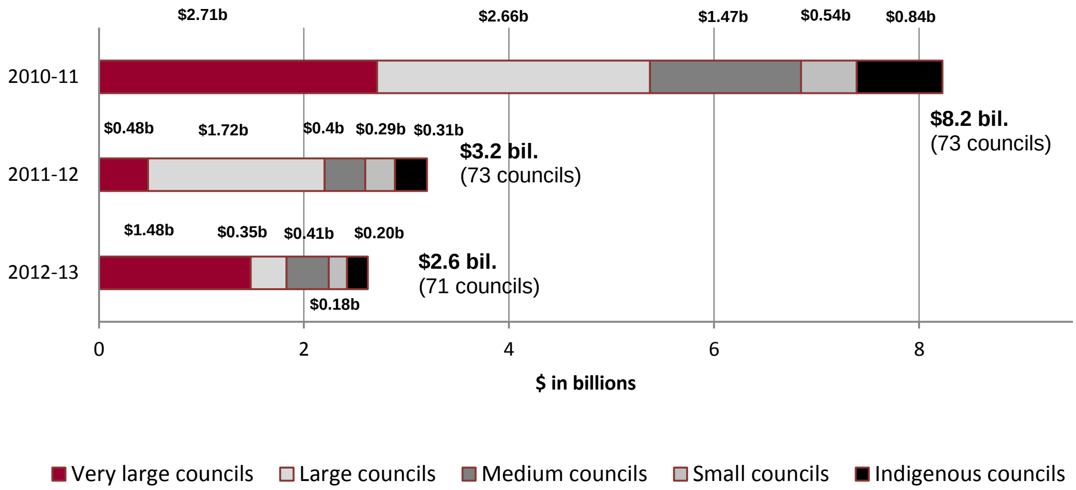
Of the eight councils that prepared one set of financial statements, six prepared 'shell' financial statements and provided these to audit prior to 30 June. This allowed for the early identification and resolution of reporting issues before councils prepared the full accounts, thus facilitating a timely, efficient and cost effective year end process.

'Shell' financial statements do not rely on the availability of current year figures. They involve rolling the prior year figures into the comparative columns; updating the accounting policy notes for any changes in accounting standards or council policies; and updating other key disclosure notes for known events / significant transactions (such as an asset valuation or a new controlled entity).

Adjustments initiated by management or arising from audit examination, totalled $2.6 billion in 2012–13 (71 councils audited to date), compared to $3.2 billion in 2011–12 (73 councils).

For 2012–13, very large councils accounted for 56 per cent (15 per cent in 2011–12) and large councils accounted for 13 per cent (54 per cent in 2011–12) of the significant adjustments. Figure 4A compares the extent of financial statement adjustments with prior years by council categorisation.

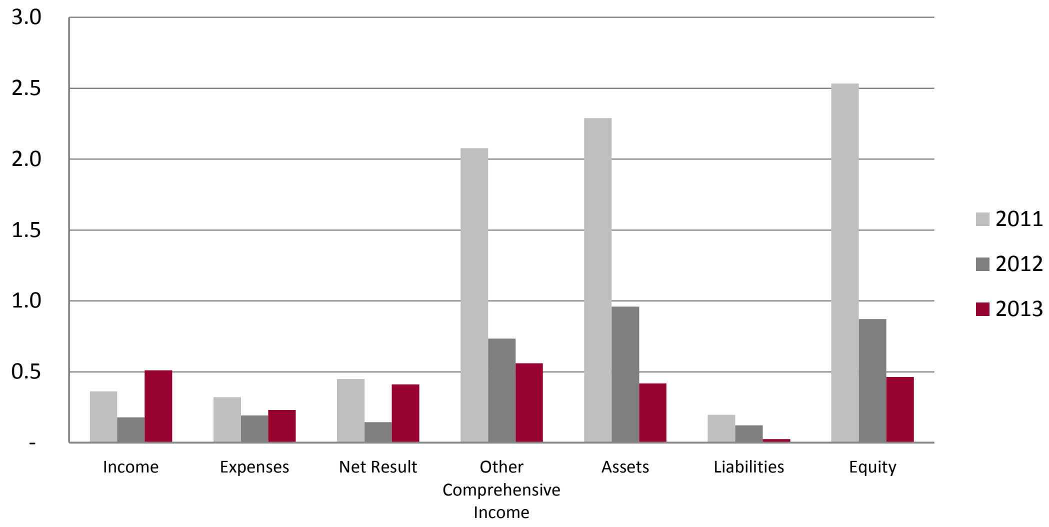
Figure 4A
Financial statement adjustments by council type ($ billions)



Source: QAO

Of the $3.2 billion in total adjustments in the prior year, $2.7 billion related to the 71 councils audited to date. Both the level and cause of adjustments have remained consistent between years. Figure 4B compares the adjustments with the two previous years for all key financial statement components.

Figure 4B
Adjustments by financial statement component ($ billions)



Source: QAO

Of the total adjustments of $2.6 billion in 2012–13, asset related adjustments totalled $1.9 billion. This resulted in a $0.56 billion change to other comprehensive income, a $0.83 billion change to asset balances and a $0.46 billion change in equity. Delays in councils finalising their annual asset valuation process which resulted in draft financial statements being prepared using outdated asset values was the most common reason for these adjustments. If these councils had finalised their asset valuation processes in time for the draft financial statements to be updated, asset related adjustments would have been reduced by $0.47 billion (25 per cent).

In addition to these current-year adjustments, 26 councils reported corrections of prior period errors in 2012–13 totalling $0.5 billion. The majority of these adjustments related to the recognition or de-recognition of assets arising from a 2012–13 revaluation process or cleansing of asset management data. These results further demonstrate the need for councils to adopt earlier valuation processes and engage in more rigorous internal quality assurance practices.

4.4 Timeliness of financial statements

4.4.1 Councils

Larger councils adapted well to the change in the financial reporting deadline, but all councils that had planned ahead, regardless of size, were able to achieve the new deadline.

The legislative time frame for councils to finalise their 2012–13 audited financial statements was 31 October, which is four months after the balance date of 30 June. In previous years, the deadline was 30 November. Figure 4C shows 43 of the 73 councils' financial statements (59 per cent) were certified by management and audit within this legislated time frame. While this is six fewer councils than last year, councils were given one less month in 2012–13 to finalise their audited financial statements.

Figure 4C
Audit opinions issued by the legislated deadline

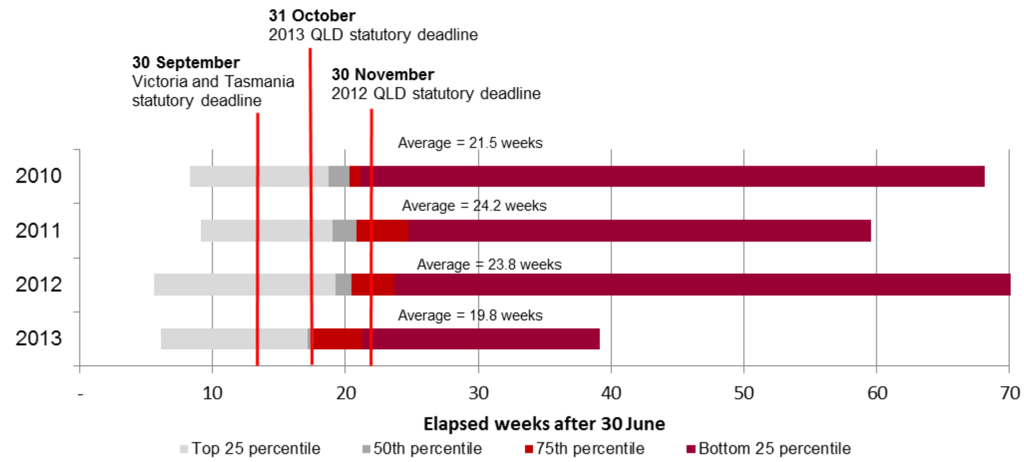
Element	2012–13	2011–12	2010–11
Deadline	31 October	30 November	30 November
Number finalised	43	49	47
Per cent	59	67	64

Source: QAO

By way of comparison, the legislative deadline for councils in Victoria and Tasmania to finalise their audited financial statements was 30 September: 96 per cent of councils in Victoria and 93 per cent of councils in Tasmania met these deadlines for 2012–13. Only four Queensland councils (five per cent) achieved this time frame.

Figure 4D shows the average time to finalise council financial statements over the past four years. This year, the average time has improved significantly from 23.8 weeks in 2011–12 to 19.8 weeks. This four-week difference is a direct result of the legislative change which brought the financial reporting deadline forward by one month.

Figure 4D
Average time to finalise council financial reports



Note: For unfinalised 2013 audits, the estimated audit opinion date was based on the Ministerial extension date and QAO expectation.

Source: QAO

The following 14 councils did not meet the legislative time frame for the second consecutive year:

- Aurukun Shire Council
- Balonne Shire Council
- Burdekin Shire Council
- Cherbourg Aboriginal Shire Council
- Cloncurry Shire Council
- Cook Shire Council
- Hinchinbrook Shire Council
- Kowanyama Aboriginal Shire Council
- Maranoa Regional Council
- Northern Peninsula Area Regional Council
- Paroo Shire Council
- Pormpuraaw Aboriginal Shire Council
- Whitsunday Regional Council
- Woorabinda Aboriginal Shire Council.

Of these councils, 13 did not complete asset valuations prior to 30 June 2013; nine councils also did not prepare ‘shell’ financial statements. Preparation of ‘shell’ financial statements, performance of asset valuations before the end of the financial year and involvement of the audit committee in the financial statement preparation process significantly increased the likelihood of councils finalising their financial statements by the legislative deadline.

For 2012–13:

- eight councils prepared both shell financial statements and completed early asset valuations and all eight (100 per cent) met the statutory time frame
- 23 councils prepared shell financial statements with 17 (74 per cent) meeting 31 October
- 17 of the 23 councils (74 per cent) that completed early asset valuations met the legislative deadline
- 16 councils provided financial statements to their audit committees for review prior to providing them to audit, with 12 (75 per cent) meeting the deadline.

4.4.2 Ministerial extensions

While councils are now less likely to be granted extensions, this has had little effect on the number of councils that have failed to meet the financial statement deadline.

The Local Government Regulation 2012 allows the Minister to approve an extension to the date for the completion of the audited financial statements where the Minister considers there to be extraordinary circumstances that make it impractical for the local government to comply.

Fifteen councils formally requested such an extension this year. Figure 4E details the 10 councils where the Minister considered there to be extraordinary circumstances. This was 58 per cent less than the 24 extensions provided last year, indicating councils are now less likely to be able to demonstrate that extraordinary circumstances exist.

Of the five councils where extensions were not approved, all five subsequently failed to meet the legislative deadline. Of the 10 extensions granted, four councils still failed to meet the extended date.

As shown in Figure 4E, four of 10 councils (40 per cent) which received an extension of time were those affected by the de-amalgamation while a further four had issues with turnover or availability of key staff.

Three of 10 councils that received extensions for 2012–13 also received an extension in 2011–12. The circumstances for requests made in the current and prior year are similar, indicating that these councils have a continuing issue with a specific aspect of financial reporting this has not yet been addressed.

Figure 4E
Financial statement extensions 2012–13

Council	Reason for extension	Date extension granted to	Date audit opinion signed	2011–12 extension
Cairns Regional Council	De-amalgamation issues	30.12.2013	20.12.2013	No
Diamantina Shire Council	Financial statement issues affecting financial sustainability ratios	20.12.2013	3.12.2013	No
Flinders Shire Council	Resignation of CEO	30.11.2013	10.02.2014	No
Lockyer Valley Regional Council	Effects of 2013 natural disasters; and resignation of finance staff	20.12.2013	11.12.2013	No
Northern Peninsula Area Regional Council	Inexperienced finance staff	30.11.2013	12.12.2013	Availability of key personnel; and timing of council meeting to adopt report
Rockhampton Regional Council	De-amalgamation issues	30.12.2013	28.10.2013	No
Sunshine Coast Regional Council	De-amalgamation issues	30.12.2013	25.11.2013	No
Tablelands Regional Council	De-amalgamation issues	28.02.2014	28.02.2014	No
Torres Shire Council	Loss of finance staff and finance system issues	30.11.2013	10.01.2014	Asset Valuation issues; implementation of new finance system
Whitsunday Regional Council	Natural Disaster Relief and Recovery Arrangements scheme	30.11.2013	21.02.2014	Natural Disaster Relief and Recovery Arrangements scheme; staff changes; and going concern

Source: QAO

4.4.3 Timeliness by council size

While larger, better resourced councils were more able to adapt to the change in the financial reporting deadline, councils' attitudes to financial reporting—not a council's size—were the main reasons in councils being able to meet this earlier time frame.

Figure 4F shows that six fewer councils were able to meet the legislative deadline than last year. While, prima facie, this might seem like a poor result, when balanced with earlier reporting deadlines and the understandable delays experienced by three of the four councils subject to de-amalgamation, this is a positive result that reflects a capacity across the sector to produce more timely financial reports.

Figure 4F
Audit opinions issued by annual reporting deadline

	Very large	Large	Medium	Small	Indigenous	Total
Number of councils	12	16	13	16	16	**73**
2012–13*	10 (83%)	12 (75%)	5 (38%)	8 (50%)	8 (50%)	**43 (59%)**
2011–12^	12 (100%)	12 (75%)	6 (46%)	12 (75%)	7 (44%)	**49 (67%)**
Variance	**-2 (-17%)**	**No change**	**-1 (-8%)**	**-4 (-25%)**	**+1 (+6%)**	**-6 (8%)**

* 31 October legislative reporting deadline
^ 30 November legislative reporting deadline

Source: QAO

Case study 1

Better practice: Annual financial statement preparation processes

Hope Vale Aboriginal Shire Council was the first council to finalise their financial statements in 2012–13 and 2011–12. The council achieves this outcome through having:

- designated, experienced staff involved in the financial statement preparation process
- rigorous quality control processes
- involvement of internal audit in both the financial statements preparation process and asset valuation process
- discussions between audit, council and valuers prior to valuations being performed
- finalisation of asset valuation by 30 April
- preparation of shell financial statements prior to 30 June
- regular communication with audit throughout the financial year
- resolution of audit matters in a timely fashion
- robust monthly reporting processes.

4.4.4 Other local government entities

Audit opinions on the financial statements of nine other local government entities remain unissued at the date of this report.

Figure 4G shows the timeliness of the 2012–13 audited financial statements of other local government entities, compared to the 2010–11 and 2011-12 results.

Figure 4G
Financial statement timeliness of other local government entities

Time to finalise audited statements after year end	2012–13 no.	2012–13 %	2011–12 no.	2011–12 %	2010–11 no.	2010–11 %
Less than 3 months	12	18	23	30	20	26
3 to 4 months	31	47	17	22	16	20
4 months or more	23	35	37	48	42	54
Total	**66**	**100**	**77**	**100**	**78**	**100**

Source: QAO

Although a consistent number of entities were completed within four months of the end of the financial year, the earlier financial reporting deadlines for councils did not translate into timelier reporting for other related entities in the sector. The number of entities finalised within three months deteriorated significantly (down from 23 to 12) which reflects the increased resources allocated to completing council financial statements within the new legislative reporting deadline.

4.5 Annual reports

A council's annual report is a key accountability document and the principal way for councils to report on their activities. Communities are interested in their council's performance and achievements and timely and accurate financial information is needed to allow community members to assess council performance critically.

4.5.1 Timeliness of council annual reports

Under the Local Government Regulation 2012, councils must adopt their annual reports within one month of the audit opinion date. The adopted annual report is then required to be available on the council's website within two weeks of adoption.

To assist members of the community to assess council's financial performance and its financial sustainability, the annual report must include:

- audited general purpose financial statements and an associated audit report
- an audited current-year financial sustainability statement and an associated audit report
- an unaudited long term financial sustainability statement.

Annual reports must clearly distinguish audited and unaudited financial information. This allows community members to make an informed assessment of the information presented.

Of the 71 councils audited to date, 67 should have had their annual reports available on their websites by 28 February 2014. Of these, eight councils—seven being Indigenous councils—had not made their 2012–13 annual reports available in this form. Consequently, eight months after the end of the financial year, members of these communities have been denied access to information to assess the performance of their elected council.

4.5.2 Quality of council annual reports

Of the 59 annual reports that are now available on council websites, 31 first presented their financial information incorrectly. Common publishing / presentation deficiencies included:

- incomplete financial statements
- omission of independent auditor’s reports
- incorrect placement of independent auditor’s reports, making it unclear for readers to ascertain what information was audited
- omission of one or both financial sustainability statements
- removal of dates from management certificates and independent auditor’s reports.

Following our advice, most councils have now corrected these deficiencies. Any interested parties that accessed these annual reports prior to the corrections being affected may have made inappropriate decisions based on incorrect or misleading information.

4.6 Recommendations

It is recommended:

1. **all councils prepare ‘shell’ financial statements and finalise asset valuation processes prior to 30 June each year**
2. **the Department of Local Government, Community Recovery and Resilience educates councils about legislated annual report requirements and monitors council compliance for 2013–14.**

5 Internal control frameworks

In brief

Background

Internal controls include the systems, policies and activities established by councils to ensure the effectiveness and efficiency of their operations, reliability of financial reporting and compliance with applicable legislation. As part of the financial audit, we assess key internal controls over the reliability of financial reporting, with any weaknesses identified raised with management for their corrective action.

Conclusions

- The number and nature of audit issues reported indicate systemic problems continue in strengthening financial control frameworks, particularly around management attitudes to control and ineffective oversight and monitoring of control.
- Many councils continue to regard their internal audit functions as a legislative compliance burden, rather than as a critical component of control assurance required to give them and their communities greater confidence about the efficient, effective and economical use of public monies.

Key findings

- There were 586 significant control weaknesses reported across the sector for 2012–13.
- Issues at council related entities almost doubled to 82 (up from 45 in 2011–12).
- 13 councils continued to have inadequate, incomplete or undocumented plans for business continuity and disaster recovery.
- 10 councils did not have an up to date risk management policy or risk register.
- 11 councils were identified as having no internal audit activity during 2012–13.
- Reassignment of Local Government Remuneration and Discipline Tribunal categories will require all councils to have an audit committee from 1 July 2014.
- System implementations can divert resources from core financial reporting functions and leave councils with weakened internal control frameworks.

Recommendations

It is recommended:

3. **the Department of Local Government, Community Recovery and Resilience educates councils on the benefits of a robust internal audit function and how this can add value to council operations**
4. **the Department of Local Government, Community Recovery and Resilience works with the Local Government Association of Queensland Ltd (LGAQ) to ensure the low-cost internal audit services provided by LGAQ result in an effective internal audit function**
5. **the Department of Local Government, Community Recovery and Resilience retains the current provisions of the legislation requiring each council to have an audit committee from 1 July 2014.**

5.1 Background

Under the *Local Government Act 2009* and Local Government Regulation 2012, councils are required to have an effective system of internal control.

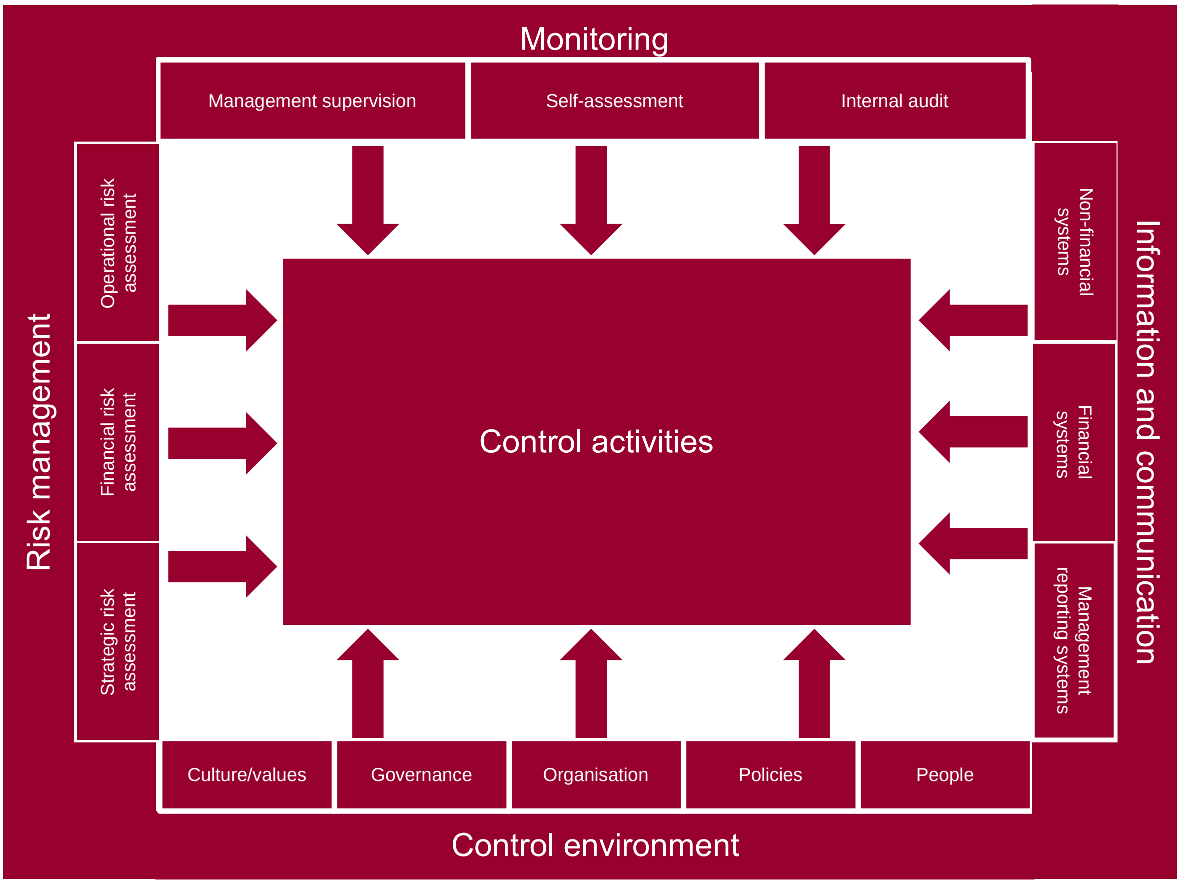
Each council is responsible for developing measures for managing risks to which their operations are exposed. These measures include maintaining an adequate system of internal control to ensure that financial records and other information are complete and accurate; assets are safeguarded; and errors and other irregularities are prevented or detected.

When all of the components identified in Figure 5A are present in an integrated system of internal control and they operate together effectively, risks to the achievement of objectives are reduced to the levels considered to be acceptable by management.

Internal controls cannot eliminate risk altogether. They operate to provide reasonable assurance to management about:

- the effectiveness and efficiency of their operations
- the reliability of internal and external financial reporting
- the compliance by the entity with laws and regulations.

Figure 5A
Components of an internal control framework



Source: Queensland Audit Office adapted from Internal Control: An Integrated Framework—Committee of Sponsoring Organisations of the Treadway Commission.

In Figure 5A, there are five core elements of an integrated system for control:

- Control environment—management’s actions, attitudes, policies and values that influence day to day operations. Control environment factors include management's integrity and operating style; organisational culture and values, structure and assignment and delegation of authority; and processes for sourcing and developing qualified and skilled employees.
- Risk assessment—management's processes for the consideration of risks to achieve their organisation’s objectives, forming a basis for how the risks should be managed.
- Control activities—the policies and procedures implemented that help ensure management directives are carried out and that necessary actions are taken to address identified risks. Control activities operate at all levels and in all functions. They include activities such as approvals, authorisations, verifications, reconciliations, reviews of operating performance, security of assets and segregation of incompatible duties.
- Information and communication—the systems used to provide information in a form and time frame that allows employees to discharge their responsibilities; and the way that control responsibilities are communicated throughout the entity.
- Monitoring of controls—the methods management employs to oversight and assess the operating effectiveness of control activities in practice. This may be achieved through ongoing supervision, periodic self-assessments and separate evaluations.

5.2 Conclusions

The number and nature of audit issues raised across the sector has increased. While this increase can be attributed partially to the significant increase in issues raised at council-related entities, the sustained volume of significant council issues indicate systemic problems continue in trying to strengthen financial control frameworks. This is particularly true around management attitudes to control—poor ‘control consciousness’ and weak governance, ineffective oversight and monitoring of control.

Many councils continue to regard internal audit as a legislative compliance burden, rather than as a critical component of control assurance required to give them and their communities greater confidence about the efficient, effective and economical use of public monies. As a result, internal audit services across the sector are not used effectively to assess and, where possible, mitigate strategic, financial, or operational risks.

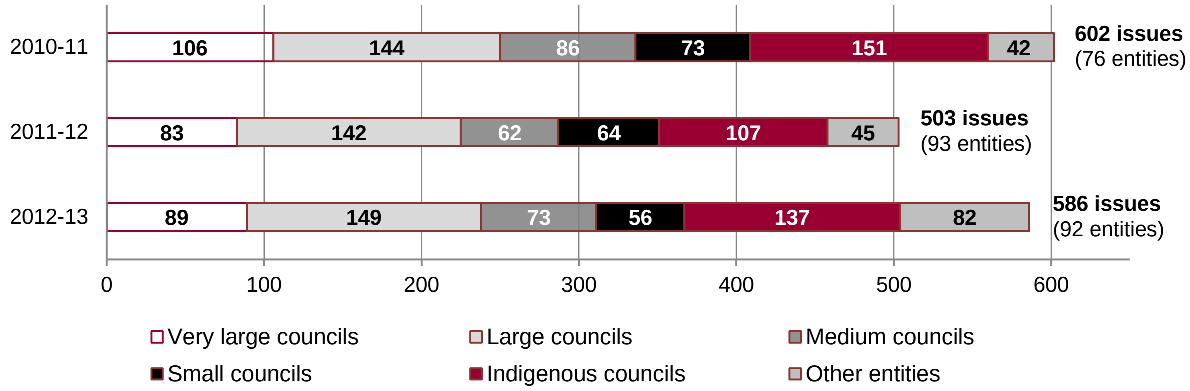
This attitude has led to a situation where low cost internal audit services provided by the Local Government Association of Queensland Ltd (LGAQ), while adding value, do not satisfy all the requirements of an effective internal audit function.

5.3 Internal control frameworks

As part of the financial audit, an assessment is made of key internal controls over the reliability of financial reporting and any weaknesses identified are raised with management for corrective action.

Across the sector, we reported 586 control weaknesses to management during 2012–13 as illustrated in Figure 5B.

Figure 5B
Significant control weaknesses reported by category



Source: QAO

We continue to find most control weaknesses in the large and the Indigenous councils. These 30 councils (33 per cent) accounted for half (2011–12: 53 per cent) of the significant issues raised across the sector.

Analysed against the five components of the internal control framework 82 per cent (2011–12: 81 per cent) of the control issues identified related to weaknesses in 'control activities' and 'information and communication'.

This year, there was a significant increase in the number of control issues raised at council-related entities (82 issues this year, up from 45 in 2011–12). This increase primarily relates to these entities having:

- poor quality assurance processes over their financial statements
- a lack of understanding of the more complex accounting standard requirements relevant to their businesses
- no formal agreement with their parent council for ongoing financial support
- no risk management policies or risk registers.

As councils are responsible for the activities of their controlled entities, they have an obligation to ensure these entities are being managed effectively, achieving their objectives and providing positive outcomes to the community. Where this is not the case, councils need to reassess whether these entities remain the most appropriate vehicles for delivering these services.

5.3.1 Control environments

Planning and accountability documents outline the goals, strategies and policies for implementing an organisation's vision, managing finances, ensuring information system security and achieving sustainable management of infrastructure. Effective policies and plans allow management to reinforce relevant legislative requirements and organisational priorities and are a cornerstone in establishing a good control environment.

Having documented and approved policies and plans for the recovery of information systems and continuity of all critical business functions in disaster situations is particularly important.

Despite the significant effect natural disasters have had on Queensland local governments in recent years, the following 13 councils continued to have inadequate, incomplete or undocumented plans for business continuity and disaster recovery:

- Burdekin Shire Council
- Burke Shire Council
- Cassowary Coast Regional Council
- Central Highlands Regional Council
- Cook Shire Council
- Goondiwindi Regional Council
- Gympie Regional Council
- Lockyer Valley Regional Council
- Mapoon Aboriginal Shire Council
- Maranoa Regional Council
- Mount Isa City Council
- Northern Peninsula Area Regional Council
- Southern Downs Regional Council.

As at 30 June 2013, each of these councils was addressing this issue.

5.3.2 Risk management

Risk management is the process of establishing and maintaining an effective method to identify, analyse and mitigate risks relevant to achieving business objectives and/or preparing reliable financial statements. Risk management policies and risk registers identify councils' major risk exposures and the control measures adopted to mitigate those risks.

This continues to be a neglected area across parts of the sector, with 10 councils identified as not having an up to date risk management policy or risk register:

- Boulia Shire Council
- Burdekin Shire Council
- Burke Shire Council
- Cook Shire Council
- Gympie Regional Council
- Mapoon Aboriginal Shire Council
- Mount Isa City Council
- Northern Peninsula Area Regional Council
- Richmond Shire Council
- Western Downs Regional Council.

Failure to identify and document appropriately the significant and emerging business risks diminishes the effectiveness of these councils at managing risks to their financial position and their ability to deal with unexpected events.

As at 30 June 2013, each of these councils was addressing this issue.

5.3.3 Control activities

Control activities are the specific procedures established to protect assets, ensure reliable accounting records, promote efficiency and encourage adherence to the organisation's policies. Effective controls provide early warning of weaknesses or susceptibility to error; support for timely reporting; and early identification of irregularities.

Progress on addressing issues identified in prior years that remain unresolved was followed up during 2012–13. Approximately 31 per cent of issues identified in 2011–12 remain unresolved in 2012–13 and were raised again with the councils.

Consistent with previous years, the major issues identified were:

- weaknesses in information system and user access controls, including inadequate change management controls which increased the risk of unauthorised or inappropriate access to core financial systems and data
- non-compliance with procurement and tendering policies which affected achieving value for money and increased the risk of fraud
- inadequate monitoring and review of reports, reconciliations and processes across non-current assets, expenditure and payables, employee expenses and benefits and general ledger journals which increased the likelihood of unauthorised or inappropriate transactions
- inadequate segregation of key duties across expenditure and payables, employee expenses and benefits and revenue and receivables which increased the risk of inappropriate activities such as fraudulent payments or misappropriation
- inadequate review of changes to vendor and employee standing data which increased the risk of fraudulent activities
- failure to manage excessive leave balances of staff which created possible workplace health and safety issues and large leave liabilities
- incomplete contract registers which increased the risk that commitments are not properly managed and fully recorded
- incomplete grant registers which increased the risk of non-compliance with the accountability and reporting requirements of grant funding agreements
- breakdowns in controls over corporate card processes, including review and authorisation of transactions incurred and non-compliance with internal council policies, which increased the risk of incurring inappropriate transactions.

5.3.4 Information and communication systems

The information system is how an entity initiates, records, processes and reports transactions including the related business processes relevant to financial reporting. Communication involves formalising individual roles and responsibilities pertaining to internal control over financial reporting.

The major issues identified were:

- shortcomings in controls over the valuation of non-current assets, including incomplete asset registers, a lack of understanding of the valuation methodology adopted and insufficient documentation to support management's review of the key assumptions used and reasonableness of valuation outcomes
- insufficient documentation to support asset condition assessments
- untimely capitalisation of work in progress
- untimely recognition of contributed and donated assets
- poor quality assurance processes over financial statement preparation
- policy and accounting manuals not being up to date.

System Implementations

Detailed planning is required before councils embark on significant system implementations as these projects require a large resource commitment (both dollars and people) over a long period of time. This diverts resources from core financial reporting functions and often leaves councils with a weakened internal control framework. In our 2011–12 report, we also identified system implementations as being a significant cause of delays in financial reporting.

Of the 11 councils that have implemented new finance systems over the last two years, 46 audit issues have been raised across all aspects of the implementation process. Simultaneously, several of these councils also recorded a significant increase in the number of other audit issues raised, compared to previous years. The main issues identified were:

- inappropriate user access with no mitigating monitoring controls or exception reporting
- a lack of reporting functionality, leading to untimely and/or unusable information being available for council decision making
- ineffective or undocumented change management processes
- inadequate segregation of duties between key processing functions.

Approximately 13 councils have recently implemented, are in the process of implementing or will be implementing new finance systems in the foreseeable future. Brisbane City Council and Council of the City of Gold Coast are two such councils, establishing large programs (which include finance system replacements) with costs of around $351 million and $160 million respectively. These costs include implementation costs and ongoing support costs over the life of the systems. The Council of the City of Gold Coast implementation does not include a payroll component.

Overall, both Brisbane City Council and Council of the City of Gold Coast developed good business cases, clearly setting out how the proposed investment is in line with strategic outcomes and included detailed options analysis. Brisbane City Council included benefits profiles within the business case and has actively used the benefits to drive the program and its implementation. Council of the City of Gold Coast, however, does not have a mature process for managing program benefits.

While other councils will not manage implementations the size of Brisbane City Council or Council of the City of Gold Coast, the following are good, scalable practices that all councils can adopt when implementing new systems.

New system implementation programs need to be carefully planned with business cases that document the reasons for establishing a program, based on the estimated costs and benefits. In addition, councils need to review business processes to take advantage of opportunities for economic benefits. Figure 5D outlines some of the principles to consider when implementing new systems.

Figure 5D
Key considerations in implementing new systems

Area of focus	Consider points
Business process *Processes for business areas to achieve organisational objectives*	• Review business processes and workflows for enhanced efficiency • Any requirements that result in system customisation are to be supported by benefits compared with costs • Change in business processes to be considered from the perspective of achieving organisational objectives
Managing the business case *A business cases sets out the reason for investment*	• Clearly demonstrate that the proposed investment will contribute to the strategic objectives • Include options analysis with respect to costs, benefits and associated program risks • Include implementation plan for the selected option • Develop and include outcome based benefit profiles and measures when submitting the business case for approval • Obtain relevant approval for the business case • Use the business case as living documents that are reviewed throughout the program to ensure their currency • Refresh the business case in the event of significant changes to the program
Managing benefits *Benefits are measurable improvements that contribute towards strategic objectives*	• Ensure there is a benefits management methodology / framework that is relevant to the size and scope of the program • Benefits are the key focus of the business case so benefit profiles need to be clearly linked to those identified in the business case and any changes to the benefits are to be supported by appropriate approvals • Benefits are measurable, agreed and championed by stakeholders • Each benefit to have an owner responsible for ensuring benefits are realised • Benefits to be managed strategically and actively throughout the program • Benefits drive the program so that new process designs and system functions enable achievement of benefits outlined in the business case • Benefits are routinely measured and reported to program governance bodies

Source: QAO

5.3.5 Monitoring and review over control activities

Monitoring and review activities evaluate whether the components of the system of internal control are in place and operating effectively, with a view to detecting and remediating any control deficiencies. An internal audit function and an audit committee are two key monitoring and review activities.

An effective internal audit provides assurance to a council that appropriate internal controls exist and are operating effectively; risks are being managed; and operations are being run economically.

To be an effective component of the internal control environment, key elements of the internal audit function need to be in line with, or close to, better practice, including:

- the position of internal audit within a council’s governance framework and the role it plays must be well defined, appropriate to the assurance needs of the council and allows effective discharge of internal audit's responsibilities
- internal audit is adequately resourced through its budget and has access to necessary skills and experience
- internal audit uses a robust planning process to align its focus and activities to the council's risks and priorities
- performance of internal audit is periodically assessed and opportunities for improvement are identified and addressed
- internal audit's recommendations are implemented within the time frames suggested by internal audit.

An effective audit committee provides a forum to promote communication with internal and external audit; oversees internal audit activity; and ensures the integrity of financial reporting. Without an audit committee, there is no independent monitoring of remedies to internal audit issues raised.

An audit committee is recognised internationally as a key element of good governance and an effective audit committee provides a council with added confidence in its organisation's financial reporting, internal controls, risk management, legislative compliance and audit functions.

Effectiveness of the internal audit function

Since 1 July 2010, all councils have been legislatively required to establish an internal audit function. We previously reported two councils as not having an internal audit function and, as at 30 June 2013, this had not changed:

- Barcaldine Regional Council
- Winton Shire Council.

Both of these councils established an internal audit function during 2013–14.

In addition, the following nine councils had no internal audit activity during 2012–13:

- Bulloo Shire Council
- Carpentaria Shire Council
- Cloncurry Shire Council
- Longreach Regional Council
- Maranoa Regional Council
- Northern Peninsula Area Regional Council
- Torres Shire Council
- Wujal Wujal Aboriginal Shire Council
- Yarrabah Aboriginal Shire Council.

Seven of the 11 councils identified as having no internal audit activity during 2012–13 (64 per cent) did not have their financial statements audited within the legislative time frame of 31 October 2013.

The establishment of an internal audit function is more than a matter of legislative compliance. Internal audit adds significant value to council operations by assessing whether business processes are operating efficiently, effectively and economically. The expertise of the internal audit function can also be used in the annual financial statement preparation process. This involvement could include reviewing the entire financial statements, analysing material balances and transactions, reviewing the pro forma financial statements or simply providing oversight of the financial statement preparation process.

During 2012–13, 10 councils used the Local Government Association of Queensland Ltd (LGAQ) to assess work practices and provide an internal audit function. While these services were an effective tool for councils to identify efficiencies and assess the overall appropriateness of internal controls and were performed by officers experienced in local government financial management, the services did not satisfy all the requirements of a recognised internal audit function. The requirements not met are:

- LGAQ officers performing reviews do not have professional qualifications such as membership of CPA Australia, the Institute of Chartered Accountants in Australia or the Institute of Internal Auditors Australia to demonstrate compliance with relevant auditing standards and codes of ethics—by way of comparison, heads of internal audit for Queensland state government departments and statutory bodies must hold at least one professional membership
- a documented audit program, including procedures for identifying, analysing, evaluating and documenting information, supported by audit working papers underpinning review findings is not prepared
- reviews performed are not subject to an independent quality review process as required under professional internal auditing standards
- a strategic one-year to three-year internal audit plan is not prepared.

Effectiveness of audit committees

Since 1 July 2010, the local government legislation has required all councils within remuneration category 3 and higher, as determined by the Local Government Remuneration and Discipline Tribunal (that is, all councils other than small, Indigenous, and some medium sized councils) to establish an audit committee.

In its 2013 report, the Local Government Remuneration and Discipline Tribunal significantly reassigned councils within the various remuneration categories, effective from 1 July 2014. This has resulted in no councils being assigned to categories lower than category 3. As a consequence, if the legislation remains unchanged, all councils will be required to have an audit committee from 1 July 2014.

As at 30 June 2013, all 35 councils required to have an audit committee had one in place. In addition, Torres Strait Island Regional Council has voluntarily established a committee.

During 2012–13, we reviewed the role and effectiveness of council audit committees:

- Nine committees (25 per cent) did not have an approved annual work program. Audit committees should underpin their operations with a robust charter and comprehensive annual work plan. An annual work plan outlines the activities that are to be covered at audit committee meetings during the year. Without a plan, the audit committee cannot demonstrate its accountability for considering and addressing all key topics during the year.
- Three committees (eight per cent) did not comprise any independent members, while a further three committees (eight per cent) only had one independent member. Independent members can bring different points of view as well as expertise in areas such as finance, risk management or legal services.
- 20 committees (56 per cent) did not review draft financial statements. Councils should use the expertise available in audit committees to provide additional quality assurance over the financial statements, including support for proposed accounting treatments for significant transactions and events.
- 22 committees had no input into the annual asset valuation process. Many audit committee members, particularly independent members, are knowledgeable about asset valuations. Councils should use this to their advantage by providing the committee with briefing papers on the proposed valuation approaches (before the valuation commences) as well as summary reports on the effect of the valuation (after the valuation concludes) for their consideration and endorsement.

Figure 5C

Audit committee better practices
• Audit committees should have a clearly documented charter that has been determined having regard to relevant legislative requirements and the entity's broader corporate governance framework; includes the committee's responsibilities; and is approved by the council. They should also plan their committee activities to meet their responsibilities; focus on the important issues and risks; be forward looking; and adopt a continuous improvement approach in interactions with council management. • Audit committees should be chaired by a person who is able to lead discussions, encourage the participation of other members, and conduct meetings in an effective manner. The membership of each committee should comprise individuals with the right combination of skills and experience so that the group possesses broad business, financial management and public sector experience and expertise. These individuals need to be knowledgeable about the council's operations, particularly the council's risks and the arrangements in place for the management of these risks. • The members of an effective audit committee receive appropriate levels of support and sufficient opportunities to keep abreast of key developments in the council and the public sector generally. This includes being provided with an appropriate agenda and supporting materials in sufficient time to ask challenging questions and fulfil the audit committee charter responsibilities. • An audit committee should have a sound working relationship with the chief executive officer and the council and be able to exercise discretion in determining how best to meet its responsibilities. This includes adopting an independent perspective which separates management and audit committee responsibilities. • The committee members should encourage and maintain open and constructive dialogue with senior management, internal and external audit, and other committees. Holding separate sessions with auditors and management is also conducive to achieving the financial oversight responsibilities and obtaining feedback for annual self-assessment. • Effective audit committees monitor the implementation of recommendations made by internal and external audit and other review activities. They ensure that internal audit coverage: is aligned with the council's risks; is an appropriate mix of performance and compliance audits; and includes a focus on the areas of greatest risk.

5.4 Appointment of financial controllers and advisors to Indigenous councils

Our previous reports to Parliament have identified significant internal control weaknesses at Torres Strait Island Regional Council, Northern Peninsula Area Regional Council and Kowanyama Aboriginal Shire Council.

The prolonged nature of these weaknesses was a catalyst for the Director-General, Department of Local Government, Community Recovery and Resilience appointing an advisor or financial controller to each of these councils during 2012–13. The appointments were made under sections 117 and 118 of the *Local Government Act 2009*.

As shown in Figure 5D, the total cost of these appointments is estimated to be $726 000, $273 000 of which was incurred in 2012–13. While all fees and outlays of the financial controllers and advisor were initially met by the Department of Local Government, Community Recovery and Resilience, the department has an option to recover the costs of the financial controllers from the respective councils once the councils' financial situations improve. Such a recovery has already been made in respect of Torres Strait Island Regional Council. The costs associated with the advisor at Northern Peninsula Area Regional Council were met from the department's Local Government Capacity Building Program.

Figure 5D
Appointment of financial controllers and advisor

Council	Appointment	Period	Total cost $	Responsible agency
Torres Strait Island Regional Council	Financial controller	October 2012 to April 2013	170 000	Council
Northern Peninsula Area Regional Council	Financial advisor	May 2013 to July 2013	96 000	Department
Kowanyama Aboriginal Shire Council	Financial controller	May 2013 to February 2014	460 000*	Department^

* projected cost
^ option to recover from Council once finances improve

Source: QAO

The number of significant control issues identified at Torres Strait Island Regional Council decreased this year. This was due, in part, to the improved effectiveness of the council's corporate governance framework. This council is the only Indigenous council with an audit committee and a full time internal auditor.

Both Northern Peninsula Area Regional Council and Kowanyama Aboriginal Shire Council continue to have numerous significant control issues identified (13 and 25 respectively). These deficiencies affected the finalisation of the 2012–13 financial reports. The audit opinion on Northern Peninsula Area Regional Council’s financial report was only issued on 12 December 2013, six weeks after the statutory deadline, while Kowanyama Aboriginal Shire Council’s 2012–13 financial report has not yet been finalised, which is not surprising given the council’s 2011–12 statements were only finalised on 4 March 2014.

5.5 Recommendations

It is recommended:

3. **the Department of Local Government, Community Recovery and Resilience educates councils on the benefits of a robust internal audit function and how this can add value to council operations**
4. **the Department of Local Government, Community Recovery and Resilience works with the Local Government Association of Queensland Ltd (LGAQ) to ensure the low-cost internal audit services provided by LGAQ result in an effective internal audit function**
5. **the Department of Local Government, Community Recovery and Resilience retains the current provisions of the legislation requiring each council to have an audit committee from 1 July 2014.**

6 Financial sustainability

In brief

Background

To be sustainable, councils need to adopt longer term planning processes that manage future financial risk, while maintaining an appropriate level of services to their communities.

This section details our assessment of councils' financial sustainability from an analysis of these financial sustainability measures:

- operating surplus ratio—capacity to meet operating expenditure from operating revenue
- net financial liabilities ratio—capacity of the council to repay long term liabilities, especially borrowings
- asset sustainability ratio—extent to which assets are being replaced as they reach the end of their useful lives.

Conclusions

- Indigenous councils were rated overall as being at higher risk of becoming financially unsustainable.
- Very large councils were assessed as having a moderate overall financial sustainability risk.
- Councils in high population growth areas need careful financial planning and strategies to maintain manageable debt levels in the long term.

Key findings

- 16 councils were at higher risk of becoming unsustainable if the results from the previous four years continued.
- A further 18 councils were assessed as being at moderate risk.
- 20 councils reported insufficient spending on asset replacement and renewal which could result in reduced service levels or place significant financial burdens on future ratepayers.
- Small and medium councils reported a disproportionately high operating surplus due to lucrative sales revenue generated from the Department of Transport and Main Roads for repairing damaged state owned road infrastructure in regional areas.

Recommendations

It is recommended:

6. **the Department of Local Government, Community Recovery and Resilience provides more descriptive guidance on the calculation of renewals for the asset sustainability ratio with practical examples drawn from council experience.**

6.1 Background

To be financially sustainable, councils need to adopt longer term planning processes that manage future financial risk while maintaining an appropriate level of services to their communities.

Business risks that affect liquidity, key infrastructure assets and debt financing require evaluation within a sustainability strategy. By measuring sustainability using financial indicators, each council could highlight the strengths and weaknesses of its current strategy.

Under the Local Government Regulation 2012, council annual reports are required to include three measures:

- operating surplus ratio
- net financial liabilities ratio
- asset sustainability ratio.

The legislation requires the Auditor-General, as part of the annual financial audit, to assess and issue an independent audit opinion on the accurate calculation of these three financial sustainability measures for the current financial year. 2012–13 was the first time such an opinion has been required. Appendix G details the financial sustainability measures used and the 2012–13 results for each council.

Last year, we used a capital replacement ratio in lieu of an asset sustainability ratio, because there was insufficient information in the audited financial statements to determine that measure. With the application of the Local Government Regulation 2012 for 2012–13, councils have now provided sufficient information to calculate this ratio.

Our assessment of the operating surplus ratio and the net financial liabilities ratio was based on actual results for the last four years, while the asset sustainability ratio was based on the current year only. We did not take into account councils' long term forecasts or credit assessments undertaken by Queensland Treasury Corporation (QTC). QTC's assessments are forward looking and apply other credit metrics overlaid with qualitative characteristics.

Our overall financial sustainability relative risk assessment used the financial data reported for the past four years, starting with 2009–10 which was the first 12-month financial year for all amalgamating councils (mainly regional councils) under the former Local Government Reform Implementation Regulation 2008. Our future assessments will continue to mature until we have five years of historical data.

The risk rating assigned does not mean that councils are presently unsustainable. It was based on actual experience over the past four years and on the premise that, if this actual experience continued, the risk of councils becoming unsustainable increased.

6.2 Conclusions

The 16 councils rated this year as at higher risk of becoming unsustainable consistently incurred operating losses over the last four years. Operating surpluses are required over the long term so that councils can self-fund their asset acquisitions and repay debt. Of these 16 councils, 10 are Indigenous councils which, as a category, face significant financial sustainability challenges due to their limited access to own source revenue.

A further 18 councils were assessed as being at moderate risk of becoming unsustainable because of either consistent operating losses, significant debt levels or insufficient spending on asset maintenance and renewal. Without careful financial planning and long term financial strategies, there is an increased risk that councils experiencing high population growth will be unable to maintain manageable debt levels over the long term which, in turn, may affect the level of community services provided.

6.3 Results for each measure

The three financial sustainability measures were calculated using information from the 71 financial statements (consolidated where applicable) completed to date and were compared to the targets identified by the Department of Local Government, Community Recovery and Resilience, as contained in the department-issued *Financial Management (Sustainability) Guideline 2013*.

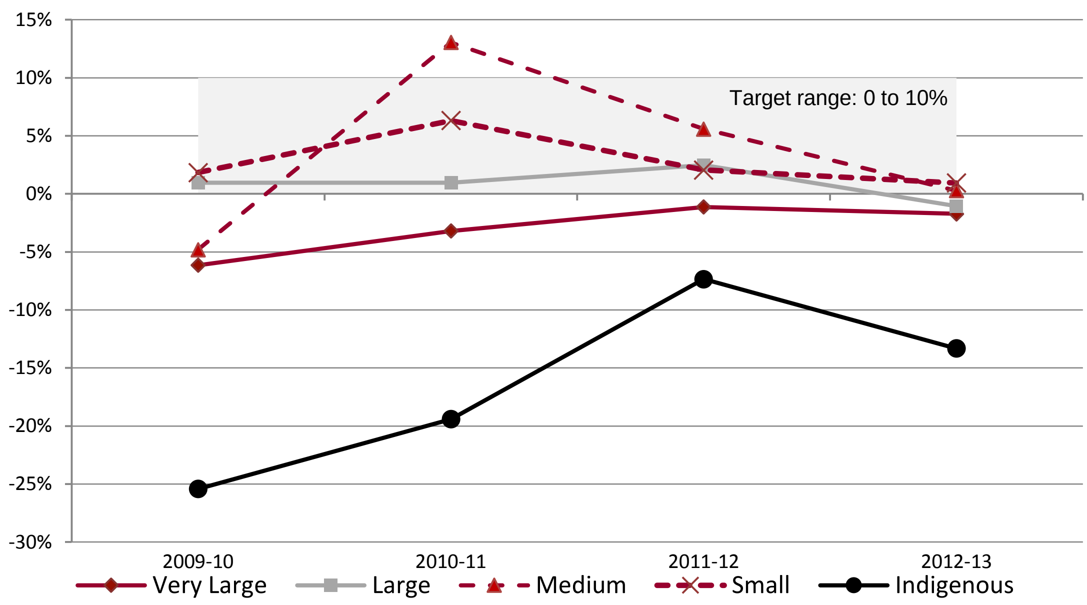
Appendix G (Figure G4) details the individual financial sustainability ratios for the councils audited to date.

6.3.1 Operating surplus ratio

This ratio indicated the extent to which operating revenues raised covered operating expenses. The department's target range for councils was an operating surplus (that is, positive) ratio of between 0 and 10 per cent.

Figure 6A compares the movement in the average operating surplus ratio over the past four financial years by council category, based on the 71 councils audited to date.

Figure 6A
Operating surplus ratio (average by council category)



Source: QAO

For 2012–13, 36 of 71 councils (51 per cent) completed to date spent more than they earned: 22 of these councils also reported operating deficits in 2011–12.

A further 13 councils exceeded the department's target of greater than 10 per cent of total operating revenue. Of these, four also exceeded the target in 2011–12. Exceeding this target is positive in the short term but should not be at the expense of maintaining appropriate service levels and effective infrastructure for the local community.

To rate a council's overall financial sustainability (refer Appendix G, Figure G4), we used the average operating result for the last four years. This provides a more informed indicator of actual trends, rather than looking at the 2012–13 actual results in isolation.

The overall financial sustainability of 16 councils (2011–12: 16 councils) is rated as being at higher risk, based on their four-year average operating surplus ratios:

- Blackall–Tambo Regional Council
- Cherbourg Aboriginal Shire Council
- Cook Shire Council
- Council of the City of Gold Coast
- Doomadgee Aboriginal Shire Council
- Lockhart River Aboriginal Shire Council
- Mapoon Aboriginal Shire Council
- Mornington Shire Council
- Northern Peninsula Area Regional Council
- Palm Island Aboriginal Shire Council
- Paroo Shire Council
- Pormpuraaw Aboriginal Shire Council
- Southern Downs Regional Council
- Torres Strait Island Regional Council
- Western Downs Regional Council
- Yarrabah Aboriginal Shire Council.

With the exception of Western Downs Regional Council, which reported a healthy operating surplus for the second year in a row and is showing signs of improvement, these councils all incurred substantial operating deficits in 2012–13, with minimal improvement (if any) from 2011–12. While achieving an operating surplus in 2011–12, Paroo Shire Council again incurred a significant operating deficit in 2012–13.

Southern Downs Regional Council's assessment has deteriorated from moderate risk in 2011–12 after incurring another significant operating deficit this year. Blackall–Tambo Regional Council's assessment has also deteriorated for the same reason.

Redland City Council and Woorabinda Aboriginal Shire Council, both identified as being at higher risk in 2011–12, have improved their overall financial sustainability risk assessment to moderate risk. This demonstrates that these councils have sustained changes to their income and expenditure policies to create a more sustainable business model.

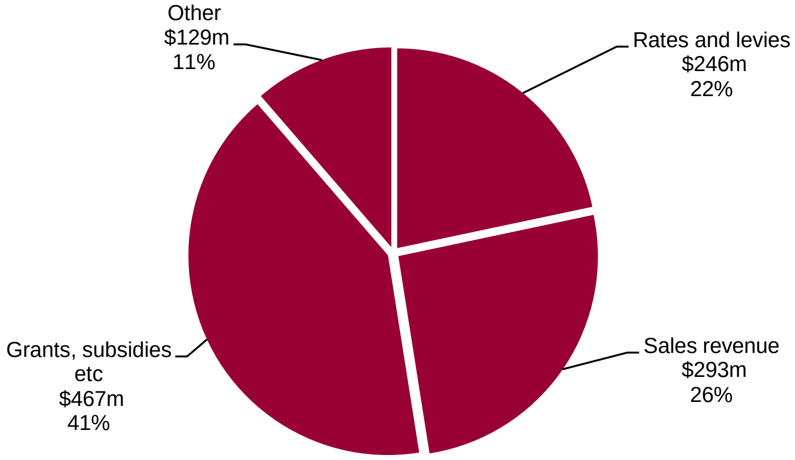
Based on average operating results for the past four years, 35 councils achieved an average operating surplus (that is, above zero); 21 of these (60 per cent) were medium and small councils. This seemingly disproportionate result is primarily attributed to the lucrative sales revenue (termed contract and recoverable works) generated from the Department of Transport and Main Roads for repairing damaged state owned road infrastructure in regional Queensland. Such work is influenced by the extent, severity and regularity of natural disaster events across the state. For 2012–13, six councils received more than 50 per cent of their operating revenue from contract and recoverable works:

- Barcaldine Regional Council
- Barcoo Shire Council
- Boulia Shire Council
- Diamantina Shire Council
- Flinders Shire Council
- Quilpie Shire Council

With the exception of Flinders and Quilpie shire councils, these councils also received more than 50 per cent of their 2011–12 operating revenue from the same source.

Figure 6B depicts the amalgamated 2012–13 operating revenue composition for small and medium councils. A council's operating revenue base includes grants, subsidies, contributions and donations received from external bodies.

Figure 6B
Operating revenue composition—small and medium councils



Source: QAO

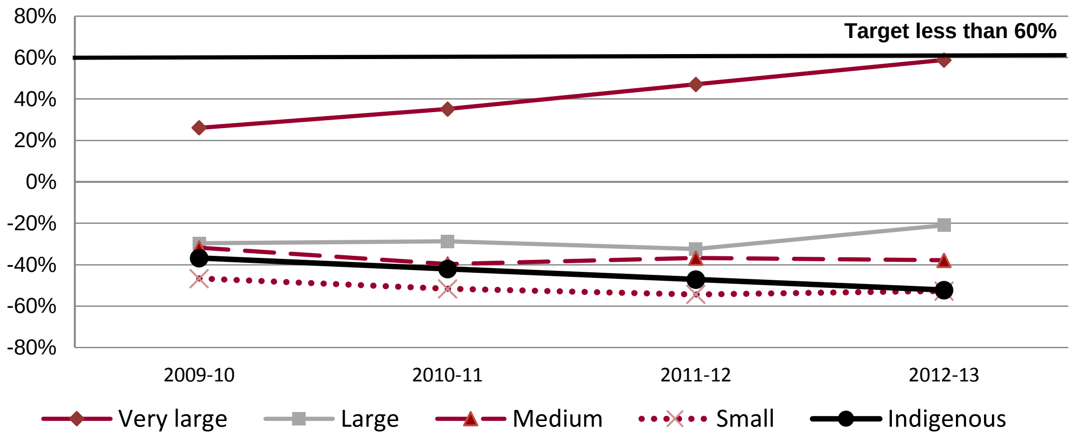
As shown in Figure 6B, in addition to operational grant funding provided by the federal and state governments, small and medium councils are also heavily reliant on sales revenue generated from the rectification work undertaken on state roads. The revenue derived from this source is disproportionately high in times of natural disaster, so the significance of recent natural disasters in Queensland may be masking the long term sustainability positions of these councils.

6.3.2 Net financial liabilities ratio

The net financial liabilities ratio indicates the extent to which a council's operating revenues can service its net liabilities (usually loans and leases) while maintaining its assets and level of community services. The department's target range for councils is a net financial liabilities ratio of not greater than 60 per cent. If net financial liabilities are greater than 60 per cent of operating revenue, councils have limited capacity to increase loan borrowings and may experience stress in servicing their debt.

Figure 6C compares the movement in average net financial liabilities ratio over the past four years by council categorisation, based on the 71 councils audited to date.

Figure 6C
Net financial liabilities ratio (average by council category)



Source: QAO

For 2012–13, four very large councils had net financial liabilities that exceeded the 60 per cent target:

- Brisbane City Council
- Ipswich City Council
- Rockhampton Regional Council
- Townsville City Council.

These councils also had net financial liabilities that exceeded the 60 per cent target in 2011--12.

Brisbane City Council reported a significant escalation in its ratio in 2012–13, due to increased state government loans incurred to facilitate the construction of major infrastructure projects such as Legacy Way.

The impending sale of the tolling rights for both Legacy Way and the Go Between Bridge to Queensland Motorways Holding Pty Limited should allow Brisbane City Council to reduce these significant debt levels over the short term. The total upfront consideration in cash for the combined assets is approximately $239 million. Further payments will be made for the Go Between Bridge in 2018 and for Legacy Way in 2017 and 2020 for specific revenue outcomes. Brisbane City Council estimates the possible payments, depending on traffic outcomes, are up to $763 million for Legacy Way and $167 million for the Go Between Bridge. Under the concession arrangements, Brisbane City Council may also receive additional payments for future revenue shares from higher than expected traffic outcomes or additional refinancing benefits.

Rockhampton Regional Council's results, which are largely an outcome of significant capital investment over the last four years, need to be considered in the light of de-amalgamation. As with other councils subject to de-amalgamation, the 2012–13 net financial liabilities ratio for Rockhampton Regional Council excluded estimated asset and liability balances transferring to Livingstone Shire Council. As discussed in section 3.5 *De-amalgamations* of this report, QTC's analysis of Rockhampton Regional Council post de-amalgamation predicts that, based on financial forecasts to 2017, the council will continue to fail to meet this financial liabilities benchmark.

Indebtedness

An indebtedness ratio can be used to further analyse a council's ability to cover its non-current liabilities. This ratio compares non-current liabilities (mainly comprising borrowings) to own sourced revenue which excludes grants, subsidies, contributions and donations. It is calculated as total non-current liabilities divided by own sourced revenue. The higher the percentage, the less ability a council has to cover its long term debts from self-generated revenues.

While an indebtedness ratio is not required by the Local Government Regulation 2012, its application in 2012–13 revealed that one medium council (2012: nil), seven large councils (2012: six) and nine (2012: 10) very large councils had an indebtedness ratio more than 60 per cent. This result is consistent with last financial year and generally coincides with high population growth areas in south-east Queensland or along the eastern coastline.

We further analysed the indebtedness of these councils by comparing their annual interest payments on their state government debt to their own sourced revenue. The higher the percentage, the less own sourced revenue a council has to meet community needs.

On average, large and very large councils annually spent 3.5 per cent (2012: 3.3 per cent) of their own sourced revenues on interest payments. For those 17 councils with an indebtedness ratio of more than 60 per cent, seven councils spent more than five per cent of their own sourced revenues in servicing their state government debt:

- Council of the City of Gold Coast
- Fraser Coast Regional Council
- Ipswich City Council
- Mackay Regional Council
- Moreton Bay Regional Council
- Rockhampton Regional Council
- Townsville City Council.

Population growth places further pressure on councils to deliver and fund infrastructure and services to meet community needs. The Office of Economic and Statistical Research 2011 edition *Queensland Government population projections to 2056* forecast these seven councils as having an average annual population growth of more than two per cent to 2021. Further, the Local Government Association of Queensland Ltd report *Factors impacting Local Government Financial Sustainability: A Council Segment Approach* (September 2013) commented that, "*in 2011–12, 93 per cent of debt was held by councils located in South East Queensland and Coastal segments and debt levels for these two segments are on a steep incline, reflective of the financial demands imposed by population growth*".

6.3.3 Asset sustainability ratio

Asset sustainability approximates the extent to which a council is replacing its assets as these assets reach the end of their useful lives. The ratio indicates the extent of spending on existing assets through renewal, restoration and replacement compared with depreciation. Results higher than 100 per cent indicate that spending is higher than the depreciation rate.

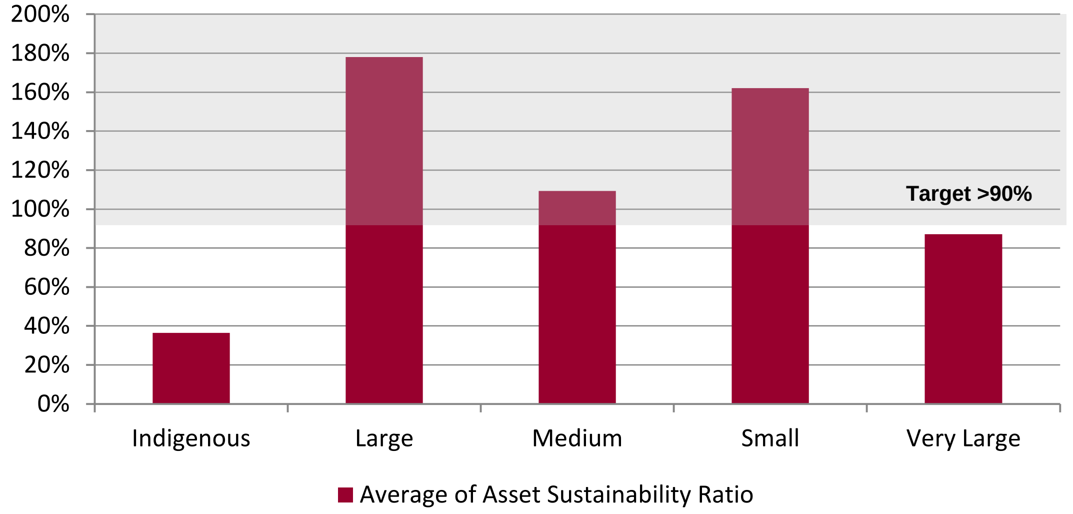
The department's target range for councils is a ratio greater than 90 per cent. A value less than 90 per cent may indicate a declining asset base and/or an inadequate asset management plan. A low percentage may also indicate the asset base is relatively new, such as those resulting from rectifying extensive natural disaster damage, which does not require replacement or renewal.

The department-issued *Financial Management (Sustainability) Guideline 2013* requires the calculation to be based on that portion of capital expenditure that relates to asset renewal expenditure on existing assets, excluding expenditure incurred on the construction or acquisition of new assets.

In auditing this ratio, a number of councils experienced delays in finalising supporting documentation due to uncertainty over what constituted an asset renewal for their various asset classes. The guideline example refers to a two lane road that is replaced with a four lane road—expenditure to replace the existing two lanes would be a renewal (included in this calculation) while expenditure on the two new lanes would be an upgrade (excluded from this ratio). Given the diversity of council asset holdings, many councils initially found it difficult to apply this criterion to dissect their annual capital expenditure.

Figure 6D depicts the asset sustainability ratio for 2012–13, based on the 70 councils audited to date. No comparison information is available as this was the first year councils' renewals expenditure had been audited.

Figure 6D
Asset sustainability ratio (average by council category)



Source: QAO

Indigenous councils reported particularly poor asset sustainability ratios, with 12 of 14 councils audited to date having ratios less than 50 per cent, which is significantly below the department's target range. In addition, Palm Island Aboriginal Shire Council has been unable to provide any supporting documentation for its reported asset renewals.

In recognition of Indigenous councils' limited financial resources, the requisite infrastructure for roads, water, sewerage and community facilities has historically been provided by the federal and state governments under special infrastructure programs. Without continued long term federal and state government grant funding or significant changes to their current operational strategies, Indigenous councils will be unable to meet ongoing asset maintenance requirements. This would place a significant burden on future community residents who will either incur financial costs to restore these assets or face significantly reduced service levels.

A further eight councils also reported asset sustainability ratios less than 50 per cent:

- Barcoo Shire Council
- Cook Shire Council
- Council of the City of Gold Coast
- Etheridge Shire Council
- Lockyer Valley Regional Council
- Redland City Council
- Tablelands Regional Council
- Torres Shire Council.

While recent natural disasters may have affected some of these ratios, the lower the percentage, the more likely it is that the council has an inadequate asset management plan. In some cases, these percentages may further evidence a misalignment between financial reporting and asset management practices (refer section 3.3 *Valuation and depreciation of infrastructure assets*).

These concerning results are reinforced by the Local Government Association of Queensland Ltd report *Factors impacting Local Government Financial Sustainability: A Council Segment Approach* issued in September 2013 which compared local government financial sustainability initiatives across Australia and reported that:

> *…recent studies into local government financial sustainability have concluded that numerous State and national inquiries, as well as academic research, have demonstrated that the Australian Local Government sector is financially stressed, with the burden of the fiscal distress falling on a backlog of infrastructure provision, maintenance and renewal.*

6.4 Recommendations

It is recommended:

6. the Department of Local Government, Community Recovery and Resilience provides more descriptive guidance on the calculation of renewals for the asset sustainability ratio with practical examples drawn from council experience.

Appendices

Appendix A— Comments 71
Appendix B— Status of financial statements 81
Appendix C— Status of current-year financial sustainability statements 93
Appendix D— Status of financial statements of exempt entities..97
Appendix E— Local government entities for which audit opinions will not be issued......99
Appendix F— Status of 2011–12 financial statements...101
Appendix G— Financial sustainability measures...103
Appendix H— Queensland council areas by category 113

Appendix A—Comments

In accordance with section 64 of the *Auditor-General Act 2009*, a copy of this report was provided to the Department of Local Government, Community Recovery and Resilience and relevant sections were provided to the Local Government Association of Queensland Ltd, the Queensland Reconstruction Authority and all councils named in the report with an opportunity for comment.

These views have been considered and are represented to the extent relevant and warranted in preparing this report.

Responsibility for the accuracy, fairness and balance of the comments rests with the head of these agencies.

Comments received from Director-General, Department of Local Government, Community Recovery and Resilience on 26 February 2014

Queensland Government

Department of
Local Government, Community Recovery and Resilience

RECEIVED
28 FEB 2014
QUEENSLAND AUDIT OFFICE

Our ref: DGC14/203

26 FEB 2014

Mr Andrew Greaves
Auditor-General
Queensland Audit Office
PO Box 15396
CITY EAST QLD 4002

Dear Mr ~~Greaves~~ Andrew

Thank you for the opportunity to comment on your draft report 'Results of Audits: Local Government entities 2012-13' (Report) soon be tabled in Parliament. I found your Report informative and agree with many of your recommendations and observations.

I am pleased to note that across many areas of your audit program, significant improvement in local government performance has been observed.

In respect of your specific recommendations for the Department of Local Government, Community Recovery and Resilience (the Department), I provide the following comments:

Recommendation 1: ***All councils prepare 'shell' financial statements and finalise asset valuation processes prior to 30 June each year.***

Although this recommendation is primarily aimed at Councils, the Department is preparing information to assist them with this issue. The information will provide Councils with suggestions to improve the quality and timeliness of their general purpose financial statements and Annual Report. This will include the preparation of 'shell' financial statements and finalisation of asset valuations prior to 30 June each year.

This issue is also on the discussion list for this year's 'Tropical' information sessions for local government finance officers, at which your officers will be co-presenting.

Recommendation 2: ***The Department of Local Government, Community Recovery and Resilience educate councils about legislated annual report requirements and monitor council compliance for 2013-14.***

The Department generally supports this recommendation and already issues an annual report checklist to assist councils to be aware of, and comply with, statutory obligations and disclosures required under the *Local Government Act 2009* and *Local Government Regulation 2012*. In addition, with the recent changes to the legislative requirements, the Department has been working with Councils to ensure annual reports include the signed general purpose financial statements, the current-year financial sustainability statement, the long-term financial sustainability statement and the two signed audit reports.

Level 18 Mineral House
41 George Street Brisbane
PO Box 15009 City East
Queensland 4002 Australia

ABN 25 166 523 889

Response to recommendations

This issue will also be raised in the 'Tropical' information sessions mentioned under recommendation 1.

The Department will continue to inform councils of their obligations as issues arise.

Recommendation 3: ***The Department of Local Government, Community Recovery and Resilience educate councils on the benefits of a robust internal audit function and how this can add value to council operations.***

The Department agrees with this recommendation and I will write to each local government, before the end of this financial year, emphasising the importance of a robust internal audit function. In addition, the Department will prepare supporting information for publication on its website.

Recommendation 4: ***The Department of Local Government, Community Recovery and Resilience work with the Local Government Association of Queensland Ltd (LGAQ) to ensure the low-cost internal audit services provided by LGAQ result in an effective internal audit function.***

The Department supports local governments having an effective internal audit function in line with the requirements of the *Local Government Act 2009*, and agrees that Councils need to assess the effectiveness of their service, regardless of cost. The Department considers the services provided by LGAQ are a matter for LGAQ and Councils to discuss, and notes that you have provided the LGAQ with a copy of your draft Report.

Recommendation 5: ***The Department of Local Government, Community Recovery and Resilience retain the current provisions of the legislation requiring each council to have an audit committee from 1 July 2014.***

The Department is currently considering this issue. As a result of the Local Government Remuneration and Discipline Tribunal's decision to reclassify all the councils that are currently Special Category, Category 1 and Category 2 to Category 3 from 1 July 2014, thirty-eight (38) small, remote, rural and indigenous councils will now have to establish and maintain an audit committee. This was an unintended consequence of the Tribunal's decision and the management of the flow-on impacts requires further consideration.

Recommendation 6: ***The Department of Local Government, Community Recovery and Resilience provide more descriptive guidance on the calculation of renewals for the asset sustainability ratio with practical examples drawn from council experience.***

There are no plans to amend the *Financial Management (Sustainability) Guideline 2013* in the near future. However, the Department will further investigate this issue with a view to issuing supplementary guidance material if required.

I note your report indicates Barcaldine Regional Council does not have an internal audit function, however it is my understanding that an internal auditor was appointed to that council in August 2013.

Page 2 of 3

Responses to recommendations

Your report also indicates that in relation to council de-amalgamations, the actual de-amalgamation costs were $16 million lower than those estimated by Queensland Treasury Corporation, as at 31 December 2013. This comparison could be misleading as it does not reflect costs incurred by affected councils after 1 January 2014 or on a continuing basis. For example, redundancy costs paid in January 2014 by Noosa Shire Council amounted to $6.8 million. Similarly, the election costs for the four new councils as advised by the Electoral Commission of Queensland total approximately $475,000 (excluding GST).

I look forward to receiving your final Report in due course.

If you require any further information, please contact Bill Gilmore, Director, Finance and Funding Branch on (07) 3452 6702 or bill.gilmore@dlgcrr.qld.gov.au, who will be pleased to assist you.

Yours sincerely

Craig Evans AM
Director-General
Department of Local Government,
Community Recovery and Resilience

Page 3 of 3

Comments received from Chief Executive Officer, Brisbane City Council on 27 February 2014

BRISBANE CITY

Dedicated to a better Brisbane

Brisbane City Council ABN 72 002 765 795

Office of the Lord Mayor and Chief Executive Officer
Chief Executive's Office
Level 23, 266 George Street Brisbane
GPO Box 1434 Brisbane Qld 4001
T 07 3403 8888 F 07 3334 0043
www.brisbane.qld.gov.au

27 February 2014

Mr Andrew Greaves
Auditor-General
Queensland Audit Office
PO Box 15396
CITY EAST QLD 4002

Dear Mr ~~Greaves~~ Andrew

Thank you for your letter of 4 February 2014 which provided a copy of the draft Section 5, Internal Control Frameworks, from your proposed report to Parliament on the Results of Audit: Local Government Financial Statements for 2012-13.

I can assure you that Brisbane City Council is very mindful of its obligations. We have a rigorous budget process regarding the setting and administration of the budget. This includes responsible spending on the infrastructure needs of a growing city.

As covered in Section 5.3.5, Council has a highly qualified Internal Audit Section whose work is relied upon by your office.

In Section 5.3 of your report, both council-related entities and controlled entities are used interchangeably. Controlled entities are defined in the *Auditor-General Act 2009* but council-related entities are not defined. Use of the alternate term could cause confusion.

Should you wish to discuss this matter further, please contact Mr Andrew MacLeod, Chief Internal Auditor, on 3403 8888.

Thank you for writing to me.

Yours sincerely

Colin Jensen
CHIEF EXECUTIVE OFFICER

Ref: CO04665-2014

Comments received from Chief Executive Officer, Council of the City of Gold Coast on 28 February 2014

Date: 27 February 2014
Contact: Mr John Blair
Location: Waterside East Office
Telephone: (07) 5581 6397
Your reference: 10666
Our reference: FN342/341/14(P1) #43475788

CITY OF GOLDCOAST.

RECEIVED
28 FEB 2014
QUEENSLAND AUDIT OFFICE

Mr Andrew Greaves
Auditor-General
Queensland Audit Office
PO Box 15396
CITY EAST, Qld 4002

Dear Mr Greaves

Re: Results of audit: Local Government Financial Statements for 2012-13

Thank you for providing us with the opportunity to respond to the correspondence received from your office dated 24 February 2014.

The Council of the City of Gold Coast (Council) does not agree that it is a higher financial risk. Although Council does not dispute the results of the assessment conducted by the Queensland Audit Office (QAO) based on the three sustainability ratios specified in the Local Government Act 2009, it does dispute the validity of two of these ratios used in arriving at that assessment.

The operating surplus and asset sustainability ratios do not provide an accurate measure of the revenue required to fund asset renewals due to the impact of depreciation on the measures.

Depreciation is a measure of the "pattern in which the asset's future economic benefits are expected to be consumed by the entity" (AASB116), not a measure of the revenue required to fund the renewal of assets.

Council will strongly recommend to the Department of Local Government, Community Recovery and Resilience that the financial sustainability ratios be amended so that they are reliant on asset management information, and more accurately measure the revenue required to fund asset renewals.

In the meantime, Council is carefully managing sustainability through robust asset management and financial planning.

Should you have any further queries of Council in relation to these matters, please feel free to contact John Blair, Manager Corporate Finance on 5581 6397.

Yours faithfully

Dale Dickson
CHIEF EXECUTIVE OFFICER

City of Gold Coast
PO Box 5042 GCMC Qld 9729 Australia
ABN 84858548460

E mail@goldcoast.qld.gov.au
W cityofgoldcoast.com.au
P 1300 GOLDCOAST (1300 465 326)

Surfers Administration Centre
135 Bundall Road Surfers Paradise
F +61 7 5596 3653

Nerang Administration Centre
833 Southport Nerang Road Nerang
F +61 7 5596 3653

Comments received from Chief Executive Officer, Lockyer Valley Regional Council on 10 March 2014

Lockyer Valley Regional Council
Lockyer Valley Regional Council
26 Railway Street, PO Box 82, Gatton Qld 4343
All official correspondence to be addressed to the CEO
Telephone 1300 005 872 | Facsimile (07) 5462 3269
Email mailbox@lvrc.qld.gov.au | www.lockyervalley.qld.gov.au
ABN 52 673 165 312

References: 2223979
2214782
Enquiries: 5462 0372

10 March 2014

Mr A Greaves
Auditor-General
Queensland Audit Office
PO Box 15396,
CITY EAST QLD 4002

Dear Mr Greaves

RESULTS OF AUDIT: LOCAL GOVERNMENT FINANCIAL STATEMENTS FOR 2012-13

I refer to your correspondence to me dated 4 February 2014 in which you sought comments under *Section 64(1) of the Auditor-General Act 2009* on your proposed report to Parliament on the results of audit of local government financial statements for 2012-13.

Under the provisions of the *Auditor-General Act 2009*, I would like to provide you with comments where Lockyer Valley Regional Council is specifically mentioned in your report with specific comments, by item, following:

Internal Control Frameworks – Control Environments
Council is mentioned in your report as having an inadequate, incomplete or undocumented plan for business continuity and disaster recovery.

I acknowledge that Council has inadequate business continuity plans but I would like to advise that Council has well documented disaster recovery plans and procedures with these being used to great effect in the January 2013 flood event.

In relation to Council business continuity plans, these are very much a work in progress with draft planning underway across Council units and specific information technology plans already in place.

Financial Sustainability – Asset Sustainability Ratio
In your report you mention that Council has a sustainability ratio of less than 50% indicating that while recent natural disasters may have impacted this ratio, the lower the ratio the more likely it is that Council has an inadequate asset management plan or misalignment between financial reporting and asset management practices.

In Lockyer Valley Regional Council's case, the asset sustainability ratio of 26% is below target as throughout the financial year Council focused on recovery and reconstruction works for Council infrastructure. This was a conscious decision by Council in recognition of both the higher priority to be given to the recovery and reconstruction works and an acknowledgment that Council did not have the capacity to sustain its normal level of capital works at the same time.

Comments received from Chief Executive Officer, Lockyer Valley Regional Council on 10 March 2014

Page 2 of 2

With a further flood event in 2013, Council has again reduced the level of capital works delivered and will expect a similar result for the ratio in the 2013/2014 financial year. Council's long term financial plan provides for a return to a higher level of capital expenditure once the recovery and reconstruction works are completed in 2015. Since the 2011 flood event, Council has accounted for the majority of the recovery and reconstruction work as operating expenditure which is excluded from this ratio; however, it represents material expenditure (in exceeding our total capital works expenditure) for Council .

Thank you for providing the opportunity to comment on your report and if you would like to discuss any of the matters raised above in any further detail, please contact me on the number above or Council's Executive Manager Corporate and Community Services, David Lewis on 5462 0318.

Yours sincerely

Ian Flint
CHIEF EXECUTIVE OFFICER

Comments received from Chief Executive Officer, Paroo Shire Council on 27 February 2014

PAROO SHIRE COUNCIL
QUEENSLAND
Constituted 1879

Paroo Shire Council
49 Stockyard Street, Cunnamulla

Address All Correspondence to:
Chief Executive Officer
P.O. Box 75
Cunnamulla QLD 4490

Telephone: (07) 4655 8400
Fax: (07) 4655 1647
Email: council@paroo.qld.gov.au

Our Ref: ML:ml

27 February 2014

Andrew Greaves
Auditor-General
Queensland Audit Office
P O Box 15396
CITY EAST QLD 4022

Dear Andrew

RE: Results of audit: Local government financial statements for 2012-13

Thank you for providing an opportunity for council to comment on your proposed report to Parliament. I wish to provide the following information:

3.4 Natural Disaster Relief and Recovery Arrangements (NDRRA)
Council's 2012 NDRRA works are being managed on a project basis separate to council's normal service delivery. As at 30 December 2013, 60 % of NDRRA works have been completed. The project has an estimated completion date in advance of the 30 June 2014 deadline. The project is closely monitored with the delivery running to schedule. However the impact of any additional flooding from significant events between now and 30 June 2014 would present a threat to the project.

4.4 Timeliness of financial statements
The changes to audit deadlines and the timing of all necessary authorizations impacted on council's timeliness of financial statements for the 2012-13 financial year. Through recruitment, training and system improvements council now has an increased level of capacity to address this issue.

6.3.1 Operating surplus ratio
Paroo Shire Council's operating deficit for the 2012-2013 financial year resulted primarily from two events: a write off of current assets after council's depot was destroyed by fire and a significant increase in depreciation. Neither of these events has impacted on council's short term financial position. Council's asset renewal ratio of 604% is well above the target of greater than 90% and net financial liabilities ratio of -76% is well below the target of less than 60%. With two of the three financial sustainability ratios in a very strong position, council is well placed to focus on improving its operating surplus ratio.

Please contact me by phone on 07 4655 8429 or by email at myrene.lovegrove@paroo.qld.gov.au if you wish to discuss further.

Yours faithfully

MLovegrove

Myrene Lovegrove
Chief Executive Officer

Home of the Cunnamulla Fella

Appendix B—Status of financial statements

Figure B1
Status of 2012–13 financial statement audits

Audit	Date statements signed	Date opinion issued	Opinion	Ministerial extension issued to date	Timeliness (since 30 June)		
					< 3 mths	3–4 mths	> 4 mths
Councils and controlled entities							
Aurukun Shire Council	30.10.2013	14.11.2013	U	No			✓
Balonne Shire Council	9.12.2013	16.12.2013	U	No			✓
Banana Shire Council	22.10.2013	30.10.2013	U	No		✓	
Barcaldine Regional Council	29.10.2013	14.11.2013	U	No			✓
Barcoo Shire Council	23.10.2013	20.12.2013	U	No			✓
Blackall-Tambo Regional Council	13.01.2014	23.01.2014	U	No			✓
Boulia Shire Council	11.10.2013	30.10.2013	U	No		✓	
Brisbane City Council	16.08.2013	26.08.2013	U	No	✓		
• Brisbane Green Heart CitySmart Pty Ltd	21.09.2013	24.09.2013	U	N/A	✓		
• Brisbane Marketing Pty Ltd	27.09.2013	27.09.2013	U	N/A	✓		
• Brisbane Powerhouse Pty Ltd	3.10.2013	4.10.2013	U	N/A		✓	
• Brisbane Powerhouse Foundation	3.10.2013	4.10.2013	U	N/A		✓	
• City of Brisbane Investment Corporation Pty Ltd	15.08.2013	26.08.2013	U	N/A	✓		

Audit	Date statements signed	Date opinion issued	Opinion	Ministerial extension issued to date	Timeliness (since 30 June) < 3 mths	3–4 mths	> 4 mths
• Museum of Brisbane Pty Ltd	20.09.2013	23.09.2013	U	N/A	✓		
• Tradecoast Land Pty Ltd	14.10.2013	15.10.2013	U	N/A		✓	
Bulloo Shire Council	23.10.2013	31.10.2013	U	No		✓	
Bundaberg Regional Council	18.10.2013	24.10.2013	U	No		✓	
Burdekin Shire Council	28.10.2013	14.11.2013	Q	No			✓
• Burdekin Cultural Complex Board Inc.^	22.07.2013	13.08.2013	E*	N/A	✓		
Burke Shire Council	Not completed	Not completed		No			
Cairns Regional Council	18.12.2013	20.12.2013	U	30.12.2013			✓
• Cairns Regional Gallery Limited	13.12.2013	29.01.2014	U	N/A			✓
Carpentaria Shire Council	8.10.2013	31.10.2013	U	No		✓	
Cassowary Coast Regional Council	24.10.2013	31.10.2013	U	No		✓	
Central Highlands Regional Council	25.10.2013	31.10.2013	U	No		✓	
• Central Highlands (Qld) Housing Company Ltd	25.10.2013	23.12.2013	E*	N/A			✓
• Central Highlands Development Corporation Ltd	Not completed	Not completed		N/A			

Audit	Date statements signed	Date opinion issued	Opinion	Ministerial extension issued to date	Timeliness (since 30 June)		
					< 3 mths	3–4 mths	> 4 mths
Charters Towers Regional Council	28.10.2013	31.10.2013	U	No		✓	
Cherbourg Aboriginal Shire Council	30.10.2013	11.11.2013	U	No			✓
Cloncurry Shire Council	28.11.2013	20.12.2013	Q	No			✓
Cook Shire Council	3.12.2013	16.12.2013	U	No			✓
Croydon Shire Council	16.10.2013	25.10.2013	U	No		✓	
Diamantina Shire Council	22.11.2013	3.12.2013	U	20.12.2013			✓
Doomadgee Aboriginal Shire Council	15.10.2013	31.10.2013	U	No		✓	
Etheridge Shire Council	13.09.2013	4.10.2013	U	No		✓	
Flinders Shire Council	12.12.2013	10.02.2014	U	30.11.2013			✓
Fraser Coast Regional Council	22.10.2013	29.10.2013	U	No		✓	
• The Brolga Theatre Board Inc.	19.12.2013	20.12.2013	E E*	N/A			✓
• Wide Bay Water Corporation	28.10.2013	31.10.2013	U	N/A		✓	
Gladstone Regional Council	25.10.2013	28.10.2013	U	No		✓	
• Gladstone Airport Corporation	28.10.2013	7.11.2013	U	N/A			✓
Gold Coast City Council	24.10.2013	31.10.2013	U	No		✓	
• Broadbeach Alliance Limited	28.10.2013	31.10.2013	U	N/A		✓	

Audit	Date statements signed	Date opinion issued	Opinion	Ministerial extension issued to date	Timeliness (since 30 June)		
					< 3 mths	3–4 mths	> 4 mths
• Connecting Southern Gold Coast Limited	30.10.2013	31.10.2013	U	N/A		✓	
• Gold Coast Arts Centre Pty Ltd	31.10.2013	31.10.2013	U	N/A		✓	
• Surfers Paradise Alliance Limited	29.10.2013	31.10.2013	U	N/A		✓	
Goondiwindi Regional Council	11.09.2013	20.09.2013	U	No	✓		
Gympie Regional Council	22.10.2013	30.10.2013	U	No		✓	
Hinchinbrook Shire Council	29.10.2013	25.11.2013	U	No			✓
Hope Vale Aboriginal Shire Council	2.08.2013	12.08.2013	U	No	✓		
Ipswich City Council	15.10.2013	22.10.2013	U	No		✓	
• Ipswich Arts Foundation	16.09.2013	23.09.2013	U	N/A	✓		
• Ipswich Arts Foundation Trust	16.09.2013	10.10.2013	U	N/A		✓	
• Ipswich City Developments Pty Ltd	16.10.2013	22.10.2013	U	N/A		✓	
• Ipswich City Enterprises Investments Pty Ltd	30.10.2013	31.10.2013	U	N/A		✓	
• Ipswich City Enterprises Pty Ltd	30.10.2013	31.10.2013	U	N/A		✓	
• Ipswich City Properties Pty Ltd	Not completed	Not completed		N/A			

Audit	Date statements signed	Date opinion issued	Opinion	Ministerial extension issued to date	Timeliness (since 30 June)		
					< 3 mths	3–4 mths	> 4 mths
• Ipswich Mayor's Carols by Candlelight Fund Inc.	07.11.2013	19.11.2013	E*	N/A			✓
Isaac Regional Council	25.10.2013	31.10.2013	U	No		✓	
• Isaac Affordable Housing Fund Pty Ltd	19.02.2014	25.02.2014	U	N/A			✓
• Isaac Affordable Housing Trust	19.02.2014	25.02.2014	U	N/A			✓
• Moranbah Early Learning Centre Pty Ltd	19.02.2014	25.02.2014	U	N/A			✓
Kowanyama Aboriginal Shire Council	Not completed	Not completed		No			
Lockhart River Aboriginal Shire Council	25.10.2013	31.10.2013	U	No		✓	
• Lockhart River Aerodrome Company Pty Ltd	25.10.2013	31.10.2013	U	N/A		✓	
Lockyer Valley Regional Council	09.12.2013	11.12.2013	U	20.12.2013			✓
Logan City Council	23.09.2013	24.09.2013	U	No	✓		
Longreach Regional Council	25.10.2013	08.11.2013	U	No			✓
Mackay Regional Council	25.10.2013	31.10.2013	U	No		✓	

Audit	Date statements signed	Date opinion issued	Opinion	Ministerial extension issued to date	Timeliness (since 30 June) < 3 mths	Timeliness (since 30 June) 3–4 mths	Timeliness (since 30 June) > 4 mths
Mapoon Aboriginal Shire Council	18.10.2013	25.10.2013	U	No		✓	
Maranoa Regional Council	31.10.2013	04.12.2013	Q	No			✓
McKinlay Shire Council	30.10.2013	30.10.2013	U	No		✓	
Moreton Bay Regional Council	17.10.2013	18.10.2013	U	No		✓	
Mornington Shire Council	06.11.2013	25.11.2013	U	No			✓
Mount Isa City Council	30.10.2013	31.10.2013	U	No		✓	
• Outback@ Isa Pty Ltd	Not completed	Not completed		N/A			
Murweh Shire Council	11.10.2013	23.10.2013	U	No		✓	
Napranum Aboriginal Shire Council	23.10.2013	29.10.2013	U	No		✓	
North Burnett Regional Council	28.10.2013	18.11.2013	Q	No			✓
Northern Peninsula Area Regional Council	27.11.2013	12.12.2013	U	30.11.2013			✓
Palm Island Aboriginal Shire Council	25.10.2013	31.10.2013	U	No		✓	
• Palm Island Community Company Limited	10.10.2013	15.10.2013	U	N/A		✓	
Paroo Shire Council	21.10.2013	03.12.2013	U	No			✓
Pormpuraaw Aboriginal Shire Council	25.10.2013	26.11.2013	U	No			✓

Audit	Date statements signed	Date opinion issued	Opinion	Ministerial extension issued to date	Timeliness (since 30 June)		
					< 3 mths	3–4 mths	> 4 mths
Quilpie Shire Council	18.10.2013	29.10.2013	U	No		✓	
Redland City Council	15.10.2013	23.10.2013	U	No		✓	
Richmond Shire Council	15.10.2013	30.10.2013	U	No		✓	
• The Kronosaurus Korner Board Inc.	19.11.2013	09.12.2013	E*	N/A			✓
Rockhampton Regional Council	25.10.2013	28.10.2013	U	30.12.2013		✓	
• The Rockhampton Art Gallery Trust	18.10.2013	22.10.2013	Q E*	N/A		✓	
Scenic Rim Regional Council	17.10.2013	26.10.2013	U	No		✓	
Somerset Regional Council	14.10.2013	22.10.2013	U	No		✓	
South Burnett Regional Council	31.10.2013	13.11.2013	U	No			✓
• Castra Retirement Home Limited	14.11.2013	20.11.2013	E	N/A			✓
• Kingaroy Private Hospital Limited	15.11.2013	20.11.2013	U	N/A			✓
Southern Downs Regional Council	25.10.2013	29.10.2013	U	No		✓	
• Warwick Tourism and Events Pty Ltd	10.12.2013	20.12.2013	E	N/A			✓

Audit	Date statements signed	Date opinion issued	Opinion	Ministerial extension issued to date	Timeliness (since 30 June)		
					< 3 mths	3–4 mths	> 4 mths
Sunshine Coast Regional Council	06.11.2013	25.11.2013	U	30.12.2013			✓
• Noosa Biosphere Limited	01.11.2013	11.11.2013	E E*	N/A			✓
Tablelands Regional Council	26.02.2014	28.02.2014	U	28.02.2014			✓
Toowoomba Regional Council	30.10.2013	31.10.2013	U	No		✓	
• Empire Theatre Projects Pty Ltd	20.08.2013	26.08.2013	U	N/A	✓		
• Empire Theatres Foundation	26.08.2013	02.09.2013	U	N/A	✓		
• Empire Theatres Pty Ltd	20.08.2013	26.08.2013	U	N/A	✓		
• Jondaryan Woolshed Pty Ltd	28.10.2013	04.11.2013	U	N/A			✓
• Toowoomba and Surat Basin Enterprise Pty Ltd	27.09.2013	03.10.2013	E*	N/A		✓	
Torres Shire Council	19.12.2013	10.01.2014	U	30.11.2013			✓
Torres Strait Island Regional Council	04.10.2013	14.10.2013	U	No		✓	
Townsville City Council	28.10.2013	30.10.2013	U	No		✓	
Western Downs Regional Council	22.10.2013	25.10.2013	U	No		✓	

Audit	Date statements signed	Date opinion issued	Opinion	Ministerial extension issued to date	Timeliness (since 30 June)		
					< 3 mths	3–4 mths	> 4 mths
• Western Downs Housing Trust	28.10.2013	29.01.2014	E*	N/A			✓
Whitsunday Regional Council	14.02.2014	21.02.2014	U	30.11.2013			✓
Winton Shire Council	15.10.2013	26.10.2013	U	No		✓	
• Waltzing Matilda Centre Ltd	15.10.2013	25.10.2013	U	N/A		✓	
Woorabinda Aboriginal Shire Council	16.12.2013	20.12.2013	U	No			✓
• Woorabinda Pastoral Company Pty Ltd	16.11.2013	20.12.2013	Q	N/A			✓
Wujal Wujal Aboriginal Shire Council	25.10.2013	31.10.2013	U	No		✓	
Yarrabah Aboriginal Shire Council	04.11.2013	07.11.2013	U	No			✓
Joint local governments							
Esk-Gatton-Laidley Water Board	18.12.2013	18.12.2013	E	N/A			✓
Nogoa River Flood Plain Board	Not completed	Not completed		N/A			
Jointly controlled entities							
Central Queensland Local Government Association Inc.	12.12.2013	18.12.2013	E E*	N/A			✓
Council of Mayors (SEQ) Pty Ltd	11.10.2013	14.10.2013	U	N/A		✓	

Audit	Date statements signed	Date opinion issued	Opinion	Ministerial extension issued to date	Timeliness (since 30 June)		
					< 3 mths	3–4 mths	> 4 mths
Local Government Association of Queensland Ltd	26.09.2013	02.10.2013	U	N/A		✓	
• DDS Unit Trust	23.09.2013	04.10.2013	U	N/A		✓	
• Govcloud Joint Venture	23.09.2013	04.10.2013	E E*	N/A		✓	
• Local Buy Trading Trust	23.09.2013	04.10.2013	Q	N/A		✓	
• Local Partnerships Services Pty Ltd	23.09.2013	02.10.2013	E*	N/A		✓	
• Prevwood Pty Ltd	24.09.2013	01.10.2013	U	N/A		✓	
• QPG Shared Services Support Centres Joint Venture	23.09.2013	04.10.2013	E*	N/A		✓	
Local Government Infrastructure Services Pty Ltd	03.09.2013	03.09.2013	U	N/A	✓		
Queensland Local Government Mutual Liability Pool (LGM Queensland)	04.11.2013	19.11.2013	U	N/A			✓
Queensland Local Government Workers Compensations Self-Insurance Scheme (trading as Local Government Workcare)	04.11.2013	19.11.2013	U	N/A			✓

Audit	Date statements signed	Date opinion issued	Opinion	Ministerial extension issued to date	Timeliness (since 30 June)		
					< 3 mths	3–4 mths	> 4 mths
Services Queensland	23.09.2013	04.10.2013	E*	N/A		✓	
SEQ Regional Recreational Facilities Pty Ltd	23.10.2013	25.10.2013	U	N/A		✓	
South West Queensland Local Government Association#	30.10.2013	09.12.2013	E*	N/A			✓
Townsville Breakwater Entertainment Centre Joint Venture	20.11.2013	12.12.2013	E*	N/A			✓
The Wide Bay Burnett Regional Organisation of Councils Inc.	Not completed	Not completed		N/A			
Western Queensland Local Government Association	Not completed	Not completed		N/A			
Audits by arrangement							
Local Government Superannuation Scheme	15.10.2013	15.10.2013	U	N/A		✓	
Queensland Local Government Superannuation Board (trading as LG Super)	15.10.2013	15.10.2013	U	N/A		✓	
• LG Super Asian Infrastructure Investment Trust	15.10.2013	15.10.2013	E*	N/A		✓	

* An emphasis of matter paragraph was issued to alert users of the financial statements to the fact that special purpose financial statements had been prepared.
^ The financial year of Burdekin Cultural Complex Board Inc. was 1 May 2012 to 30 April 2013.
+ The financial year of Brisbane Festival Limited, Major Brisbane Festivals Pty Ltd and North Queensland Local Government Association was 1 January 2013 to 31 December 2013.
# The financial year of South West Queensland Local Government Association was 1 April 2012 to 31 March 2013.

Opinion key: U = unmodified Q = qualified A = adverse E = unmodified with emphasis of matter D = disclaimer.

Source: QAO

Appendix C—Status of current-year financial sustainability statements

Figure C1
Status of 2012–13 financial sustainability statement audits

Audit	Date statements signed	Date opinion issued	Opinion	Timeliness (since 30 June)		
				< 3 mths	3 – 4 mths	> 4 mths
Councils						
Aurukun Shire Council	30.10.2013	14.11.2013	E*			✓
Balonne Shire Council	09.12.2013	16,12,2013	E*			✓
Banana Shire Council	22.10.2013	30.10.2013	E*		✓	
Barcaldine Regional Council	29.10.2013	14.11.2013	E*			✓
Barcoo Shire Council	07.02.2014	10.02.2014	E*			✓
Blackall-Tambo Regional Council	13.01.2014	23.01.2014	E*			✓
Boulia Shire Council	11.10.2013	30.10.2013	E*		✓	
Brisbane City Council	29.08.2013	03.09.2013	E*	✓		
Bulloo Shire Council	24.09.2013	31.10.2013	E*		✓	
Bundaberg Regional Council	18.10.2013	24.10.2013	E*		✓	
Burdekin Shire Council	12.11.2013	14.11.2013	E*			✓
Burke Shire Council	Not Completed	Not Completed				
Cairns Regional Council	18.12.2013	20.12.2013	E*			✓
Carpentaria Shire Council	08.10.2013	31.10.2013	E*		✓	
Cassowary Coast Regional Council	28.10.2013	31.10.2013	E*		✓	
Central Highlands Regional Council	25.10.2013	31.10.2013	E*		✓	
Charters Towers Regional Council	28.10.2013	31.10.2013	E*		✓	

Audit	Date statements signed	Date opinion issued	Opinion	Timeliness (since 30 June)		
				< 3 mths	3 – 4 mths	> 4 mths
Cherbourg Aboriginal Shire Council	30.10.2013	11.11.2013	E*			✓
Cloncurry Shire Council	28.11.2013	20.12.2013	E*			✓
Cook Shire Council	03.12.2013	16.12.2013	E*			✓
Croydon Shire Council	16.10.2013	25.10.2013	E*		✓	
Diamantina Shire Council	22.11.2013	03.12.2013	E*			✓
Doomadgee Aboriginal Shire Council	25.10.2013	31.10.2013	E*		✓	
Etheridge Shire Council	16.10.2013	11.11.2013	E*			✓
Flinders Shire Council	12.12.2013	10.02.2014	U			✓
Fraser Coast Regional Council	22.10.2013	29.10.2013	E*		✓	
Gladstone Regional Council	25.10.2013	28.10.2013	E*		✓	
Gold Coast City Council	28.10.2013	31.10.2013	E*		✓	
Goondiwindi Regional Council	11.09.2013	20.09.2013	E*	✓		
Gympie Regional Council	22.10.2013	30.10.2013	E*		✓	
Hinchinbrook Shire Council	29.10.2013	25.11.2013	E*			✓
Hope Vale Aboriginal Shire Council	02.08.2013	12.08.2013	E*	✓		
Ipswich City Council	15.10.2013	22.10.2013	E*		✓	
Isaac Regional Council	25.10.2013	31.10.2013	E*		✓	
Kowanyama Aboriginal Shire Council	Not Completed	Not Completed				
Lockhart River Aboriginal Shire Council	25.10.2013	31.10.2013	E*		✓	
Lockyer Valley Regional Council	09.12.2013	11.12.2013	E*			✓
Logan City Council	23.09.2013	24.09.2013	E*	✓		

Audit	Date statements signed	Date opinion issued	Opinion	Timeliness (since 30 June)		
				< 3 mths	3 – 4 mths	> 4 mths
Longreach Regional Council	28.10.2013	08.11.2013	E*			✓
Mackay Regional Council	25.10.2013	31.10.2013	E*		✓	
Mapoon Aboriginal Shire Council	18.10.2013	25.10.2013	E*		✓	
Maranoa Regional Council	31.10.2013	04.12.2013	E*			✓
McKinlay Shire Council	30.10.2013	30.10.2013	E*		✓	
Moreton Bay Regional Council	17.10.2013	18.10.2013	E*		✓	
Mornington Shire Council	06.11.2013	25.11.2013	E*			✓
Mt Isa City Council	30.10.2013	31.10.2013	E*		✓	
Murweh Shire Council	11.10.2013	23.10.2013	E*		✓	
Napranum Aboriginal Shire Council	23.10.2013	29.10.2013	E*		✓	
North Burnett Regional Council	28.10.2013	18.11.2013	E*			✓
Northern Peninsula Area Regional Council	27.11.2013	12.12.2013	E*			✓
Palm Island Aboriginal Shire Council	Not Completed	Not Completed				
Paroo Shire Council	21.10.2013	03.12.2013	E*			✓
Pormpuraaw Aboriginal Shire Council	25.10.2013	26.11.2013	E*			✓
Quilpie Shire Council	18.10.2013	29.10.2013	E*		✓	
Redland City Council	15.10.2013	23.10.2013	E*		✓	
Richmond Shire Council	15.10.2013	30.10.2013	E*		✓	
Rockhampton Regional Council	25.10.2013	28.10.2013	E*		✓	
Scenic Rim Regional Council	17.10.2013	26.10.2013	E*		✓	
Somerset Regional Council	11.09.2013	22.10.2013	E*		✓	

Audit	Date statements signed	Date opinion issued	Opinion	Timeliness (since 30 June)		
				< 3 mths	3 – 4 mths	> 4 mths
South Burnett Regional Council	31.10.2013	13.11.2013	E*			✓
Southern Downs Regional Council	25.10.2013	29.10.2013	E*		✓	
Sunshine Coast Regional Council	26.11.2013	03.12.2013	E*			✓
Tablelands Regional Council	26.02.2014	28.02.2014	E*			✓
Toowoomba Regional Council	31.10.2013	31.10.2013	E*		✓	
Torres Shire Council	19.12.2013	10.01.2014	E*			✓
Torres Strait Island Regional Council	04.10.2013	14.10.2013	E*		✓	
Townsville City Council	28.10.2013	30.10.2013	E*		✓	
Western Downs Regional Council	22.10.2013	25.10.2013	E*		✓	
Whitsunday Regional Council	14.02.2014	21.02.2014	E*			✓
Winton Shire Council	28.10.2013	30.10.2013	E*		✓	
Woorabinda Aboriginal Shire Council	16.12.2013	20.12.2013	E*			✓
Wujal Wujal Aboriginal Shire Council	25.10.2013	31.10.2013	E*		✓	
Yarrabah Aboriginal Shire Council	04.11.2013	07.11.2013	E*			✓

* An emphasis of matter paragraph was issued to highlight to users of these statements that they were prepared on a special purpose basis.
Opinion key: U = unmodified Q = qualified A = adverse E = unmodified with emphasis of matter D = disclaimer.

Source: QAO

Appendix D—Status of financial statements of exempt entities

Figure D1
Status of 2012–13 financial statement audits

Audit	Audit Firm	Date statements signed	Date opinion issued	Opinion	Timeliness (since 30 June)		
					< 3 mths	3–4 mths	> 4 mths
Exempt local government entities (s.30A – small in size and of low risk)							
Brisbane Festival Limited+	KPMG	Not Completed	Not Completed				
Central Western Queensland Remote Area Planning and Development Board (RAPAD)	Walsh Accounting	29.10.2013	29.10.2013	U		✓	
Far North Queensland Regional Organisation of Councils	KH Accountants and Consultants	28.11.2013	28.11.2013	E*			✓
Gulf Savannah Development Inc.	Crowe Horwath	24.09.2013	24.09.2013	E*	✓		
Major Brisbane Festivals Pty Ltd+	KPMG	Not Completed	Not Completed				
North Queensland Local Government Association+	Crowe Horwath	Not Completed	Not Completed				
Exempt local government entities (s.32 – foreign-based controlled entity)							
Gold Coast City Council Insurance Company Limited	Ernst & Young LLP	09.08.2013	09.08.2013	U	✓		

* An emphasis of matter was issued to alert users of the financial statements to the fact that special purpose financial statements had been prepared.
+ The financial year of Brisbane Festival Limited, Major Brisbane festival Pty Ltd and North Queensland Local Government Association was 1 January 2013 to 31 December 2013. As at the date of this Report, results of these audits were not yet available.
Opinion key: U = unmodified Q = qualified A = adverse E = unmodified with emphasis of matter D = disclaimer

Source: QAO

Appendix E—Local government entities for which audit opinions will not be issued

Figure E1
Local government entities for which audit opinions will not be issued for 2012–13

Entity	Parent entity	Reason
Controlled entities		
Brisbane Arts Trust	Brisbane City Council	Wound Up
Brisbane Environment Trust	Brisbane City Council	Wound Up
Brisbane Tolling Pty Ltd	Brisbane City Council	Dormant
City of Brisbane Arts and Environment Limited	Brisbane City Council	Dormant
City Parklands Transition Services Pty Ltd (formerly Nuffield Pty Ltd)	Brisbane City Council	Dormant
City Super Pty Ltd	Brisbane City Council	Dormant
Museum of Brisbane Trust	Brisbane City Council	Non-reporting
Riverfestival Brisbane Pty Ltd	Brisbane City Council	Dormant
Widelinx Pty Ltd	Fraser Coast Regional Council	Non-reporting
Fraser Coast Opportunities Ltd	Fraser Coast Regional Council	Dormant
Citipac International Pty Ltd	Gold Coast City Council	Dormant
Invest Logan Pty Ltd	Logan City Council	Non-reporting
Rodeo Capital Pty Ltd	Mount Isa City Council	Non-reporting
RM Williams Australian Bush Learning Centre Ltd	North Burnett Regional Council	Wound Up
Edward River Crocodile Farm Pty Ltd	Pormpuraaw Aboriginal Shire Council	Under administration
Redheart Pty Ltd	Redland City Council	Dormant
Mayoress Regional Charity Foundation Ltd	Rockhampton Regional Council	Wound Up
Quad Park Corporation Pty Ltd	Sunshine Coast Regional Council	Winding Up
Sunshine Coast Events Centre Pty Ltd	Sunshine Coast Regional Council	Non-reporting

Entity	Parent entity	Reason
Poruma Island Pty Ltd	Torres Strait Island Regional Council	Wound Up
Western Downs Disaster Relief Fund	Western Downs Regional Council	Dormant
Western Downs Housing Fund Pty Ltd	Western Downs Regional Council	Dormant
Jointly controlled entities		
Local Buy Pty Ltd	Local Government Association of Queensland Ltd	Dormant
Resolute Information Technology Pty Ltd	Local Government Association of Queensland Ltd	Dormant
Resolute IT Pty Ltd	Local Government Association of Queensland Ltd	Under administration
Queensland Partnerships Group (LG Shared Services) Pty Ltd	Local Government Association of Queensland Ltd	Dormant
LG Disaster Recovery Services Pty Ltd	Local Government Association of Queensland Ltd	Dormant
GovCloud Pty Ltd	Local Government Association of Queensland Ltd	Dormant
LG Cloud Pty Ltd	Local Government Association of Queensland Ltd	Dormant
Whitsunday ROC Limited	Various Councils	Dormant
SEQ Distribution Entity (Interim) Pty Ltd	Various SEQ Councils	Wound Up

Source: QAO

Appendix F—Status of 2011–12 financial statements

Figure F1
Status of 2011–12 financial statement audits not previously reported

Entity	Date Statements Signed	Date Opinion Issued	Opinion
Councils			
Carpentaria Shire Council	2.07.2013	23.07.2013	Q
Kowanyama Aboriginal Shire Council	20.02.2014	04.03.2014	Q E
Maranoa Regional Council	20.06.2013	26.06.2013	Q
Whitsunday Regional Council	22.04.2013	29.04.2013	E
Wujal Wujal Aboriginal Shire Council	12.06.2013	13.06.2013	U
Controlled entities			
Ipswich City Properties Pty Ltd	27.02.2013	1.03.2013	Q
Toowoomba and Surat Basin Enterprise Pty Ltd	9.05.2013	10.05.2013	E*
Western Downs Housing Trust	18.10.2013	25.10.2013	E*
Jointly controlled entities			
Advance Cairns Operations Ltd (formerly Advance Cairns Limited)+	05.02.2014	10.02.2014	U
Brisbane Festival Limited#	19.04.2013	23.04.2013	U
Major Brisbane Festivals Pty Ltd#	17.04.2013	18.04.2013	U
North Queensland Local Government Association#	4.07.2013	25.07.2013	E*
South West Queensland Local Government Association^	30.10.2013	9.12.2013	E*
Townsville Breakwater Entertainment Centre Joint Venture	8.08.2013	2.09.2013	E*

* An emphasis of matter paragraph was issued to alert users of the financial statements to the fact that special purpose financial statements had been prepared.
+ Advance Cairns Operations Ltd is no longer a public sector entity and therefore the financial statements will no longer be audited by the Auditor-General.
\# The financial year of Brisbane Festival Limited, Major Brisbane Festivals Pty Ltd and North Queensland Local Government Association was 1 January 2012 to 31 December 2012.
^ The financial year of South West Queensland Local Government Association was 1 April 2011 to 31 March 2012.

Source: QAO

Appendix G—Financial sustainability measures

The ratios reflecting short-term and long-term sustainability are detailed in Figure G1.

Figure G1
Financial sustainability measures for councils

Measure	Formula	Description	Target range
Operating surplus ratio	Net operating result divided by total operating revenue (excludes capital items) Expressed as a percentage	Indicates the extent to which operational revenues raised cover operational expenses	Between 0% and 10% (Per department-issued guidelines)
	A negative result indicates an operating deficit and the larger the negative percentage, the worse the result. Operating deficits cannot be sustained in the long-term. A positive percentage indicates that surplus revenue is available to support the funding of capital expenditure, or to be held in reserve to offset past or expected future operating deficits. Councils that consistently achieve an operating surplus and expect that they can do so in the future, having regard to asset management and community service level needs, are considered financially sustainable.		
Net financial liabilities ratio	Total liabilities less current assets divided by total operating revenue Expressed as a percentage	Indicates the extent to which its operating revenues (including grants and subsidies) can cover a council's net financial liabilities (usually loans and leases)	Not greater than 60% (Per department-issued guidelines)
	If net financial liabilities are greater than 60 per cent of operating revenue, the council has limited capacity to increase loan borrowings and may experience stress in servicing current debt.		
Asset sustainability ratio	Capital expenditure on replacement of assets (renewals) divided by depreciation expense. Expressed as a percentage	Indicates the extent to which assets are being replaced as they reach the end of their useful lives.	Greater than 90% (Per department-issued guidelines)
	If greater than 90 per cent, the council is likely to be sufficiently maintaining, replacing and/or renewing its assets as they reach the end of their useful lives. While a low percentage may indicate that the asset base is relatively new (as may result from rectifying extensive natural disaster damage) and does not require replacement, the lower the percentage, the more likely it is that the council has inadequate asset management plans and practices.		

Source: QAO

The risk assessment criteria used for the financial sustainability measures are detailed in Figure G2.

Figure G2
Risk assessment criteria for financial sustainability measures

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

Source: QAO

The overall financial sustainability risk assessment is calculated using the ratings determined for each measure as shown in Figure G3 and the assignment of the criteria is shown in Figure G4.

Figure G3
Overall financial sustainability relative risk assessment

Risk level	Detail of risk
Higher risk	Higher risk of sustainability issues arising in the short- to medium-term if current operating income and expenditure policies continue, as indicated by: • average operating deficits (losses) of more than 10% of operating revenue.
Moderate risk	Moderate risk of sustainability issues over the longer-term if current debt financing and capital investment policies continue, as indicated by: • current net financial liabilities more than 80% of operating revenue or • asset sustainability ratio less than 50% or • average operating deficits (losses) of more than 2% of operating revenue or • realising two or more of the ratios per the moderate risk assessment (Figure G2).
Lower risk	Lower risk of financial sustainability concerns based on current income, expenditure, asset investment and debt financing policies.

Source: QAO

Our assessment of financial sustainability risk factors does not take into account councils' long-term forecasts, nor is it a credit assessment, which is undertaken by Queensland Treasury Corporation.

Figure G4
Financial sustainability risk assessment: Results at the end of 2012–13

Council	Current operating surplus ratio %	Avg operating surplus ratio %	Trend	Net financial liabilities ratio %	Trend	Asset sustainability ratio %	Relative risk assessment
Very large councils							
Brisbane City Council	-3.00	-1.97	↓	141.00	↓	76.00	Moderate
Cairns Regional Council	-1.33	-1.76	—	7.78	—	140.72	Lower
Council of the City of Gold Coast	-11.00	-13.02	↑	41.00	↓	24.00	**Higher**
Ipswich City Council	3.68	-1.33	↑	189.39	↓	136.89	Moderate
Logan City Council	-8.70	-4.75	↓	11.70	↓	61.60	Moderate
Mackay Regional Council	-3.00	-3.33	—	43.00	↓	86.00	Moderate
Moreton Bay Regional Council	5.60	2.86	↑	50.60	↓	70.00	Lower
Redland City Council	-6.71	-9.33	↑	14.49	—	26.95	Moderate
Rockhampton Regional Council	-2.70	-4.09	↑	67.30	↓	75.70	Moderate
Sunshine Coast Regional Council	6.50	2.07	↑	14.00	↓	63.00	Lower
Toowoomba Regional Council	-0.07	0.55	↓	38.60	↓	194.60	Lower

Council	Current operating surplus ratio %	Avg operating surplus ratio %	Trend	Net financial liabilities ratio %	Trend	Asset sustainability ratio %	Relative risk assessment
Townsville City Council	0.00	-2.50	↑	87.00	↑	90.00	Moderate
Very large average	**-1.73**	**-3.05**		**58.82**		**87.12**	
Very large – combined risk assessment		**Moderate**		**Lower**		**Moderate**	**Moderate**
			Large councils				
Bundaberg Regional Council	0.00	0.68	↓	-12.00	↑	75.00	Lower
Cassowary Regional Council	4.00	-0.59	↑	-9.00	↓	256.00	Lower
Central Highlands Regional Council	22.85	5.87	↑	-41.03	↑	118.72	Lower
Fraser Coast Regional Council	0.35	-1.93	↑	8.77	↓	86.81	Moderate
Gladstone Regional Council	4.00	4.25	↓	45.00	↓	185.00	Lower
Gympie Regional Council	10.34	6.81	↑	-68.47	—	106.08	Lower
Isaac Regional Council	5.33	21.55	↓	-83.78	—	170.08	Lower

Council	Current operating surplus ratio (%)	Avg operating surplus ratio (%)	Trend	Net financial liabilities ratio (%)	Trend	Asset sustainability ratio (%)	Relative risk assessment
Lockyer Valley Regional Council	-7.77	-2.72	↓	15.30	↓	26.00	Moderate
Mount Isa City Council	6.00	0.82	↑	-18.00	↑	72.00	Lower
Scenic Rim Regional Council	5.00	-0.95	↑	-17.00	↑	569.00	Lower
Somerset Regional Council	-13.00	2.34	↓	-106.00	↓	621.00	Lower
South Burnett Regional Council	-34.00	-9.78	↓	-19.00	↓	97.00	Moderate
Southern Downs Regional Council	-22.35	-12.14	↓	28.29	↑	71.78	**Higher**
Tablelands Regional Council	-7.20	6.25	↓	-55.20	↓	26.70	Lower
Western Downs Regional Council	4.42	-11.22	↑	-15.34	↑	279.44	**Higher**
Whitsunday Regional Council	-2.60	2.26	↓	35.45	↓	80.59	Lower*
Large average	**-1.54**	**0.72**		**-19.50**		**177.58**	
Large - combined risk assessment		**Lower**		**Lower**		**Lower**	**Lower**

Council	Current operating surplus ratio (%)	Avg operating surplus ratio (%)	Trend	Net financial liabilities ratio (%)	Trend	Asset sustainability ratio (%)	Relative risk assessment
Medium councils							
Balonne Shire Council	-27.70	13.51	↓	-25.00	↓	159.00	Lower
Banana Shire Council	11.30	4.85	↑	-12.82	—	83.52	Lower
Barcaldine Regional Council	-3.57	-8.36	↑	-41.42	—	51.33	Moderate
Burdekin Shire Council	8.88	5.30	↑	-31.83	↑	116.46	Lower
Carpentaria Shire Council	-1.00	5.35	↓	-49.00	↑	159.00	Lower
Charters Towers Regional Council	14.00	4.27	↑	-62.00	↑	125.00	Lower
Cloncurry Shire Council	9.00	13.64	↓	-87.00	↑	101.00	Lower
Goondiwindi Regional Council	2.60	2.25	—	-61.60	↑	74.50	Lower
Hinchinbrook Shire Council	-18.00	-4.89	↓	-19.00	↑	127.00	Moderate
Longreach Regional Council	3.86	3.94	—	-42.00	—	166.80	Lower
Maranoa Regional Council	-7.22	3.64	↓	-20.24	↑	86.25	Lower
Murweh Shire Council	-6.90	2.45	↓	12.80	↓	101.20	Lower
North Burnett Regional Council	18.42	-0.11	↑	-52.96	↑	69.82	Moderate

Council	Current operating surplus ratio (%)	Avg operating surplus ratio (%)	Trend	Net financial liabilities ratio (%)	Trend	Asset sustainability ratio (%)	Relative risk assessment
Medium average	**0.28**	**3.53**		**-37.85**		**109.30**	
Medium - combined risk assessment		**Lower**		**Lower**		**Lower**	**Lower**
Small councils							
Barcoo Shire Council	12.00	10.54	—	-78.00	↑	30.00	Lower
Blackall–Tambo Regional Council	-71.00	-14.69	↓	18.00	↑	119.00	**Higher**
Boulia Shire Council	12.00	10.92	—	-68.00	↑	79.00	Lower
Bulloo Shire Council	2.99	11.53	↓	-81.00	↓	342.00	Lower
Burke Shire Council	Financial statements not finalised						
Cook Shire Council	-6.45	-10.53	↑	-15.69	—	24.57	**Higher**
Croydon Shire Council	4.80	8.41	↓	-71.00	↑	119.00	Lower
Diamantina Shire Council	30.19	8.18	↑	-42.92	—	409.44	Lower
Etheridge Shire Council	17.10	-3.06	↑	-46.57	—	32.47	Moderate
Flinders Shire Council	13.01	7.25	↑	-37.43	↑	119.84	Lower
McKinlay Shire Council	-8.00	7.20	↓	-98.00	↑	221.00	Lower

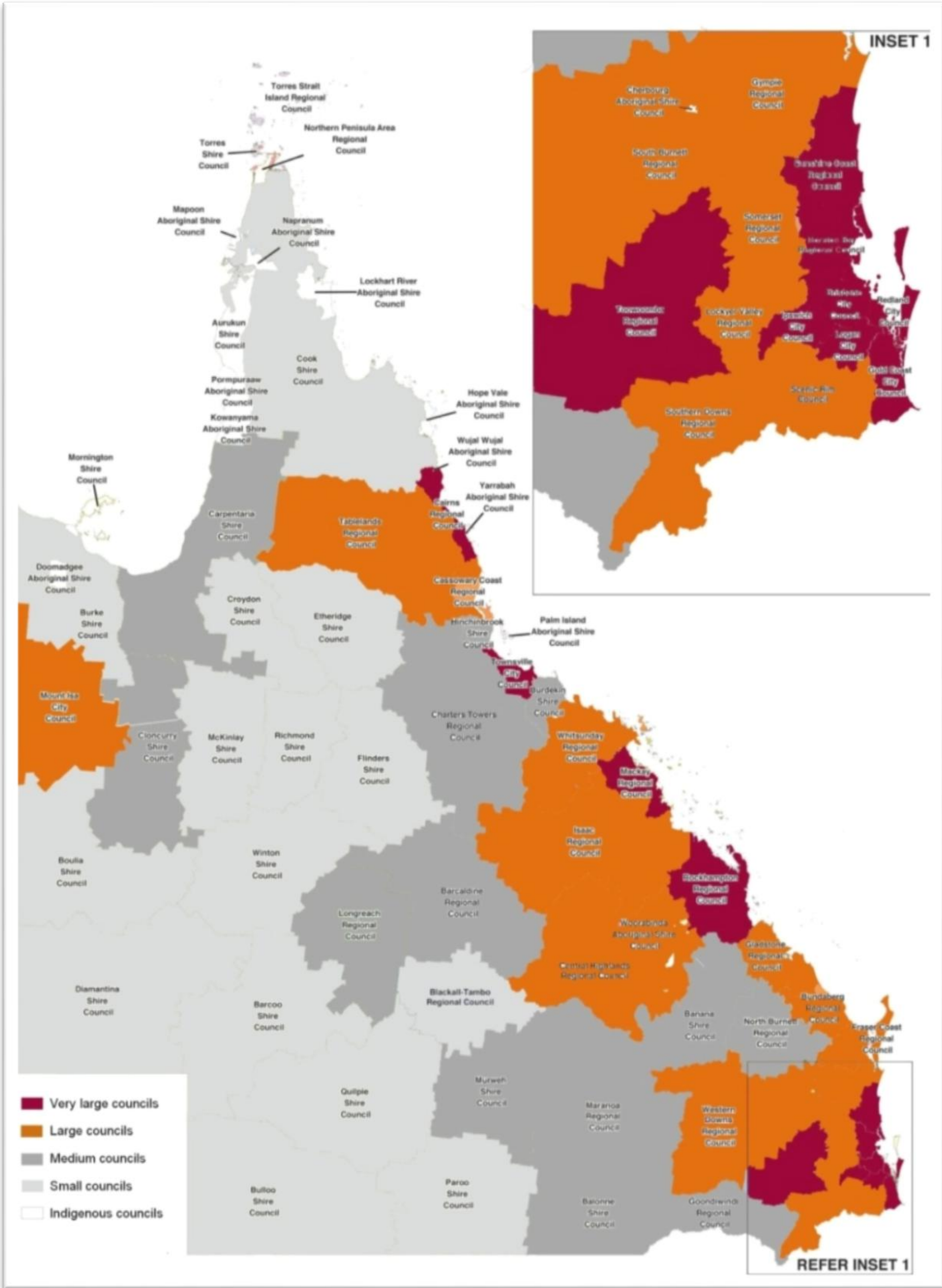
Council	Current operating surplus ratio (%)	Avg operating surplus ratio (%)	Trend	Net financial liabilities ratio (%)	Trend	Asset sustainability ratio (%)	Relative risk assessment
Paroo Shire Council	-16.60	-14.40	—	-76.50	↑	604.06	**Higher**
Quilpie Shire Council	-2.00	1.84	↓	-28.00	↓	88.00	Lower
Richmond Shire Council	21.00	11.14	↑	-51.00	↑	62.00	Lower
Torres Shire Council	-8.00	2.51	↓	-81.00	↑	26.00	Lower
Winton Shire Council	13.00	11.03	—	-86.00	↑	151.00	Lower
Small average	**0.94**	**3.22**		**-56.21**		**161.83**	
Small - combined risk assessment		**Lower**		**Lower**		**Lower**	**Lower**
Indigenous councils							
Aurukun Shire Council	8.00	-3.25	↑	-91.00	↑	7.00	Moderate
Cherbourg Aboriginal Shire Council	-16.00	-12.10	↓	-21.00	↑	49.00	**Higher**
Doomadgee Aboriginal Shire Council	-28.00	-25.94	—	-92.00	↑	29.00	**Higher**
Hope Vale Aboriginal Shire Council	2.00	8.33	↓	-48.00	↑	112.00	Lower
Kowanyama Aboriginal Shire Council	Financial statements not finalised						
Lockhart River Aboriginal Shire Council	-22.01	-16.28	↓	-41.35	↑	18.11	**Higher**

Council	Current operating surplus ratio (%)	Avg operating surplus ratio (%)	Trend	Net financial liabilities ratio (%)	Trend	Asset sustainability ratio (%)	Relative risk assessment
Mapoon Aboriginal Shire Council	-13.00	-17.37	↑	-44.00	↑	29.78	**Higher**
Mornington Shire Council	-23.00	-15.52	↓	-115.00	↑	9.00	**Higher**
Napranum Aboriginal Shire Council	59.00	9.21	↑	-51.00	—	10.00	Moderate
Northern Peninsula Area Regional Council	-53.00	-46.85	↓	-25.00	↑	1.00	**Higher**
Palm Island Aboriginal Shire Council	-8.07	-16.29	↑	-15.66	↓	^	**Higher**
Pormpuraaw Aboriginal Shire Council	-15.00	-16.51	—	-57.00	↑	36.00	**Higher**
Torres Strait Island Regional Council	-47.00	-40.77	↓	-24.00	↑	18.00	**Higher**
Woorabinda Aboriginal Shire Council	-7.24	-9.59	—	-51.00	↓	4.51	Moderate
Wujal Wujal Aboriginal Shire Council	-0.30	-2.54	↑	-79.00	↑	169.00	Moderate
Yarrabah Aboriginal Shire Council	-36.00	-34.21	—	-29.00	↓	17.00	**Higher**
Indigenous average	**-13.31**	**-15.98**		**-52.25**		**36.39**	
Indigenous - combined risk assessment		**Higher**		**Lower**		**Higher**	**Higher**

* Whitsunday Regional Council reported a contingent liability in its 2012-13 current-year financial sustainability statement of $10.8 million in relation to NDRRA funds that may have to be repaid. Had this amount been recognised as a liability as at 30 June 2013, the Council would have been on the border of a moderate relative risk assessment.
^ Current-year financial sustainability statement not yet provided.

Source: QAO

Appendix H—Queensland council areas by category



Source: Department of Local Government, Community Recovery and Resilience.

Auditor-General Reports to Parliament

Reports tabled in 2013–14

Number	Title	Date tabled in Legislative Assembly
1.	Right of private practice in Queensland public hospitals	July 2013
2.	Supply of specialist subject teachers in secondary schools	October 2013
3.	Follow up of selected 2011 audits—Report 9 for 2011: Acquisition and public access to the Museum, Art Gallery and Library collections	October 2013
4.	Follow up of selected 2011 audits—Report 1 for 2011: Management of offenders subject to supervision in the community	October 2013
5.	Traffic management systems	November 2013
6.	Results of audit: Internal control systems	November 2013
7.	Results of audit: Water sector entities 2012–13	November 2013
8.	Results of audit: Hospital and Health Services entities 2012–13	November 2013
9.	Results of audit: Energy sector entities 2012–13	December 2013
10.	Contract management: Renewal and transition	December 2013
11.	Results of audit: State public sector entities for 2012–13	December 2013
12.	Results of audit: Queensland state government financial statements 2012–13	December 2013
13.	Right of private practice: Senior medical officer conduct	February 2014
14.	Results of audit: local government entities 2012–13	March 2014

www.qao.qld.gov.au