Queensland Audit Office

Results of audit: Local government entities 2013–14

Report 16: 2014–15

Queensland Audit Office

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QUEENSLAND

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

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ISSN 1834-1128

Your ref:
Our ref: 10785

May 2015

The Honourable P Wellington MP
Speaker of the Legislative Assembly
Parliament House
BRISBANE QLD 4000

Dear Mr 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 2013-14.*

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

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Contents

Summary

This report summarises the results of our financial audits of the 77 local governments (councils) and the 77 related entities they control, for the 2013–14 financial year which ended on 30 June 2014.

The financial statements, including our audit opinion, are contained within each council's and their related entity's annual reports. Our audit opinion provides assurance that these statements are reliable.

Local governments (councils) vary widely in their size and location; and in the broad range of community services they provide. To enable better like for like comparisons in this report we group them in the same way the Local Government Association of Queensland did in its 2013 report Factors impacting Local Government Financial Sustainability: A Council Segment Approach–into Coastal, Indigenous, Resources, Rural/Regional, Rural/Remote and south-east Queensland segments.

Audit opinions issued

We have issued 145 opinions, which include 69 of the 77 council financial statements.

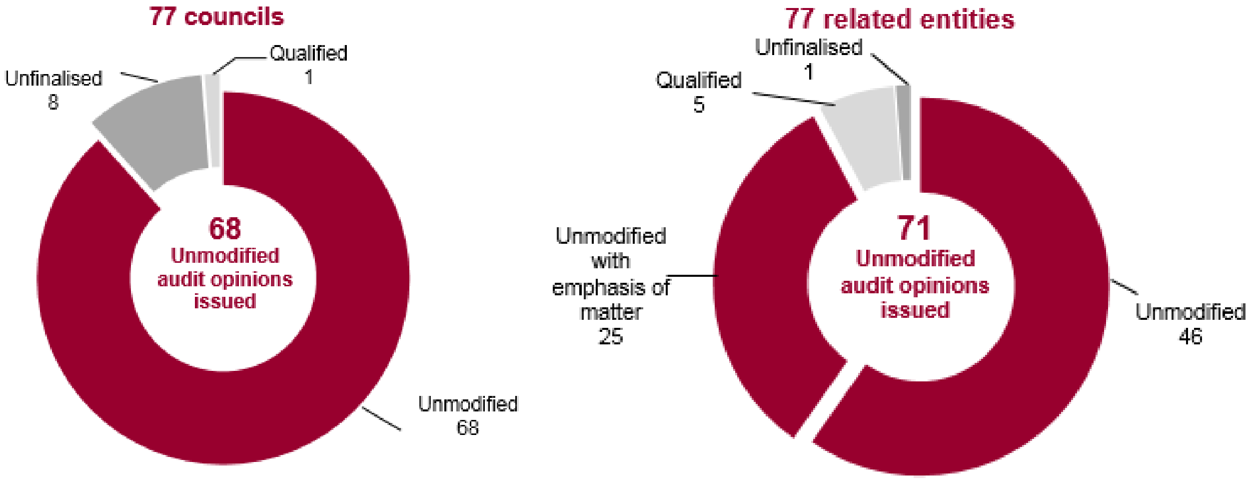
In some cases, when part or all of the financial statements do not comply with relevant legislative requirements and/or Australian accounting standards, we 'qualify' our audit opinion.

We have only needed to qualify six of our audit opinions so far, which is 4 per cent. Five of these were for the statements of related entities. We qualified four audit opinions for related entities for the 2012–13 financial year.

Last year we qualified five councils. We have qualified one council so far this year. This may appear to be an improvement, but eight council audits are still in progress, compared to two at the same time last year. Unfinished audits regularly indicate issues that translate into qualified opinions.

We also included 'emphases of matter' in 25 of the 74 opinions we issued on related entities. Emphases of matter do not change the audit opinion—they just highlight something that will help users better understand the financial report. Most often, we have drawn the attention of the reader to the fact that the statements have been prepared for a special purpose, rather than as general purpose financial statements.

Figure A
Analysis of audit opinions issued



Note: Audit findings on the eight remaining councils and one related controlled entity will be included in the 2015–16 Report to Parliament on local government financial statements for 2014–15.

Source: Queensland Audit Office

Timeliness of preparation of financial statements

Too many of the smaller councils are not giving priority to timely financial and annual reporting. They do not devote enough resources at the right time, and they do not plan well. Seventeen councils did not meet the legislative deadline for the second consecutive year. It was the third consecutive year for eight councils.

By failing to meet the legislated reporting deadlines, which are generous compared to other states, they are also failing to meet appropriate standards of accountability to the public. At present, there are no consequences for legislative non-compliance or any incentive to change.

Figure B
Comparison of council financial statement timeliness across jurisdictions

Source: Queensland Audit Office

By way of comparison, 10 per cent of councils in Tasmania, 5 per cent of councils in Victoria and 4 per cent of councils in New Zealand missed their legislative deadline compared to 32 per cent of councils in Queensland. Once the deadline has passed, unfinished councils in Queensland show little urgency in completing their financial statements.

Eight council audits are unfinalised. These councils are:

- Carpentaria Shire Council
- Kowanyama Aboriginal Shire Council
- Mareeba Shire Council
- Northern Peninsula Area Regional Council
- Richmond Shire Council
- South Burnett Regional Council
- Torres Shire Council
- Wujal Wujal Aboriginal Shire Council.

Two of these councils have not met the legislative deadline for four consecutive years. This indicates that there are systemic issues which need to be addressed. These councils are:

- Kowanyama Aboriginal Shire Council
- Northern Peninsula Area Regional Council.

On average these two councils annually take an additional four months after the 31 October deadline to finalise their financial statements with public reporting usually a further one month later.

The most common reasons given for the delays are problems arising from the annual asset valuation process and the lack of availability of key staff. These issues can be addressed through good forward planning, contracting in of expertise and actively involving audit committees and internal audit.

We observed that where audit committees were actively monitoring the preparation of councils’ financial statements, the councils were more likely to meet the deadline. From 1 July 2014, all councils are required to have an audit committee. This provides an opportunity for all councils to draw on expert guidance to achieve reliable and timely financial reporting.

While 52 councils met the deadline in 2013–14, of these, 27 did so in the three days before 31 October. By leaving it to the last few days, they risked having problems identified late in the process that could cause the deadline to be missed.

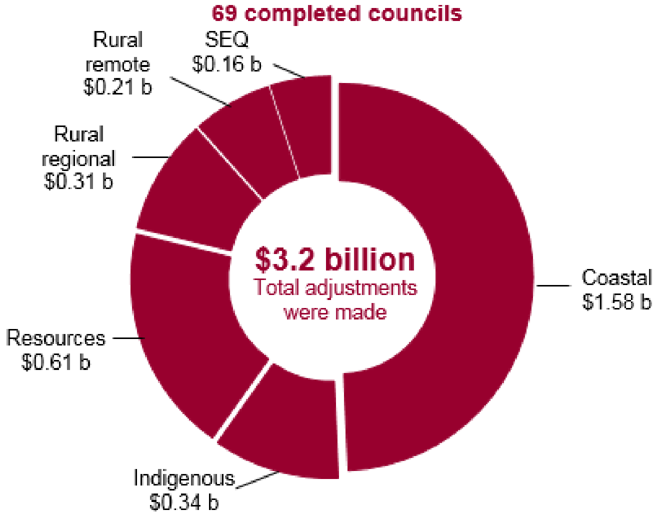
Quality of financial statements submitted for audit

Adjustments were made to the financial statements of 51 of the 69 councils finalised, after they were submitted to us for auditing.

The adjustments amounted to $3.2 billion. Approximately half of the adjustments were in councils affected by the de-amalgamations that occurred this year. While not ideal, to some extent this was expected, as these councils worked through the de-amalgamation process. Five of these are coastal councils. After allowing for such 'one-off' circumstances, the other councils improved this aspect of report quality when compared to last year.

Figure C
Analysis of audit adjustments

Key financial data (69 completed councils only)	
Income	Expenses
2014: $13.2 billion	2014: $12.0 billion
2013: $12.8 billion	2013: $9.4 billion
▲ 3%	▲ 28%
Assets	Liabilities
2014: $101.6 billion	2014: $9.1 billion
2013: $100.4 billion	2013: $8.5 billion
▲ 1%	▲ 7%



Source: Queensland Audit Office

Less satisfactory is that changes arising from weaknesses with asset valuation processes continue to be the main cause of adjustments to the draft financial statements submitted to us. We raised this issue last financial year.

Other reasons for changes to financial statements were:

- asset restoration costs being incorrectly classified as repairs and maintenance expenses instead of increasing asset values
- corrections required to be made to prior year balances due to errors in historical asset data identified during the asset valuation process.

Councils are underestimating the time and staff resources required to finalise the annual asset valuation process. This impacts directly on the accuracy of both the asset values reported and the asset data recorded in asset management systems.

It impacts also on the calculation of financial sustainability ratios which inform decisions on asset management.

Financial sustainability

In 2013–14, 66 per cent of councils spent more than they earned. Half of these also reported such operating deficits in the previous year.

This year's operating results for many councils were adversely affected by:

- the Australian Government pushing back the timing of its 2014–15 financial assistance—this is a one off impact
- reclassification of revenues and expenses between operating and capital components—this will have an ongoing impact as it represents an improved understanding of these components.

Continual operating deficits make it difficult for councils to generate enough funds to maintain their service levels and their asset base, or to invest in community infrastructure.

Against a backdrop of low population growth and declining government funding, the ability of smaller councils to sustain their external revenue streams will be an ongoing challenge.

Being responsible for major public infrastructure, means that effective asset management is one cornerstone of councils' long term financial sustainability.

Many councils continue to view asset valuation simply as an accounting process, rather than integral to effective asset management. These councils do not appreciate that, when done properly, valuations provide valuable insights into their full asset life cycle costs; and can be integrated with their long term capital planning. To do this, the asset managers, engineers and finance staff need to work together, and senior management and council need to oversee and review the processes. This takes effort, both in time and resources, but done well, its benefits in achieving sustainable outcomes, outweigh its costs.

More broadly, the benefits to be obtained from strategic asset management are not clearly understood across the sector. Asset management plans are not regularly updated. For example, at 30 June 2014, only 60 per cent of councils had current asset management plans.

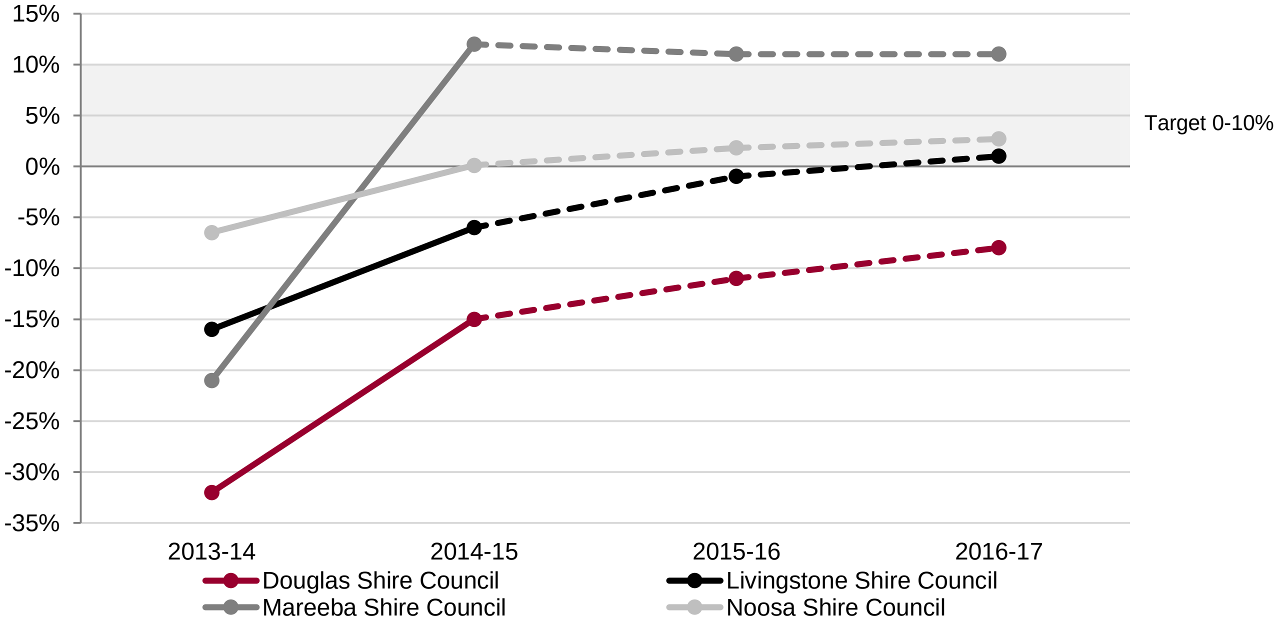
Some councils see depreciation expense as the cause of their long term financial sustainability issues. Adjusting estimated figures like depreciation to derive a particular financial statement outcome cannot make a council more financially sustainable.

A lack of reliable information for management reporting purposes makes optimal asset management decision making extremely difficult. A comprehensive suite of asset management indicators would allow council's to better understand asset performance. As well as an asset sustainability ratio, other useful indicators would be the calculation of an asset consumption ratio and asset renewal funding ratio which are used by councils in other states.

Some councils are having to revisit their infrastructure policies and asset management plans because their community demographics are changing and because there are potential changes to natural disaster funding. This means they need to develop new strategies for addressing their ongoing financial sustainability.

For the four newly de-amalgamated councils, asset management is just one of the challenges. Figure D shows the projected operating surplus ratios for these new councils up to 2016–17.

Figure D
New councils actual and forecast—operating surplus ratio for 2013–14 to 2016–17



Note: As audit of Mareeba Shire Council is unfinished is adapted from unpublished draft statements.

Source: Queensland Audit Office adapted from councils long term financial sustainability statements

All new councils are forecasting improving results over the next three years. Douglas Shire Council, however, faces the biggest challenge in achieving long term financial sustainability if it intends to maintain its current community service levels.

Internal control frameworks

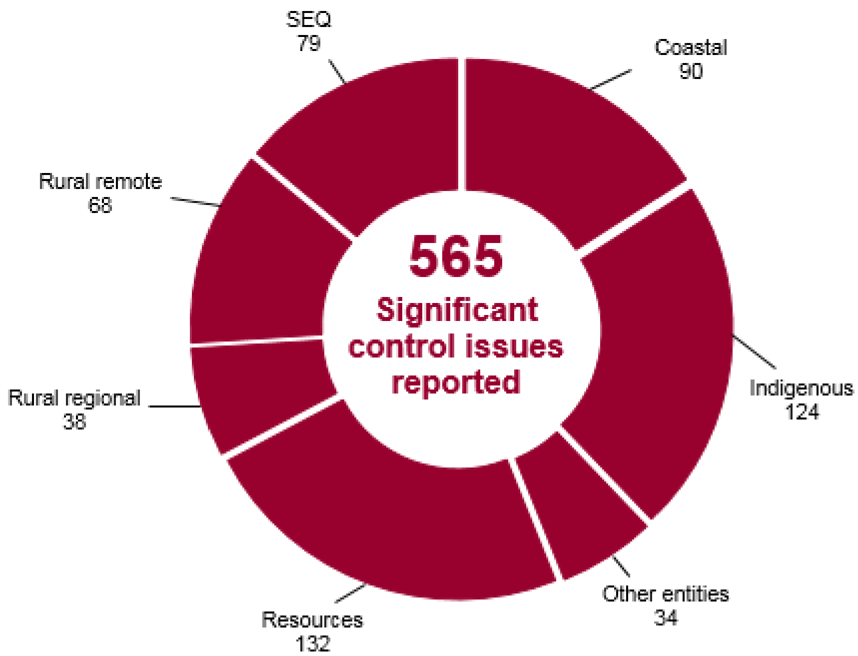
How well councils respond to the issues we raise with them is a strong indicator of the effectiveness of their systems of governance and control.

Sector-wide we have not observed a significant improvement in councils' internal control frameworks. We identified and reported to management 565 significant internal control weaknesses across 145 completed audits in 2013–14. In 2012–13, there were 672 issues from 148 completed audits. Approximately 29 per cent of issues identified in 2012–13 remained unresolved in 2013–14.

This indicates systemic problems remain in financial control frameworks, and we observe a direct link between this and the timeliness of financial statements.

Indigenous and Resource councils made up half of those which missed the financial reporting deadline. As shown in Figure E, almost half of our significant issues reported for councils were also in these segments.

Figure E
Analysis of significant control weaknesses



Source: Queensland Audit Office

Forty per cent of the issues raised for the resources segment are attributable to Burke Shire Council and Maranoa Regional Council.

The most significant sector issues are:

- weaknesses in information security controls where there is inadequate review of user roles and activities, poor management of user accounts and inadequate EFT file security
- deficiencies in reporting of non-current assets where there are incomplete asset registers, insufficient documentation to support key valuation assumptions and asset condition assessments and untimely capitalisation of finished capital works projects.

Contract management and procurement are specific areas of weakness for many councils. The lack of centralised contract registers and processes reduce councils' abilities to:

- govern their practices effectively and consistently
- analyse their expenditure and trends
- use data to improve their procurement activities.

Contract management deficiencies included half of all councils having no documentation to support the decisions they made at the end of a contract to renew, extend or re-tender. Almost half of councils had no formal contractor performance evaluations.

We also identified management reporting as another area of systemic weakness in local governments. Internal financial reports allow executives and councillors to understand their business's current operations and future directions. The type and quality of these reports varies widely across the sector.

Full accrual based reports, which make use of key financial ratios and trend analysis, allow executives and councillors to properly discharge their financial management responsibilities. They also ensure that there is a focus on long term strategies. In almost one-third of councils, full accrual based internal financial reports are not prepared.

Recommendations

It is recommended:

1. **The Department of Infrastructure, Local Government and Planning assist councils in improving asset management practices by:**
   - **providing opportunities for training and mentoring**
   - **helping to source external expertise**
   - **producing better practice guidelines.**
2. **The Department of Infrastructure, Local Government and Planning considers introducing measures (such as incentives and/or penalties) that would improve councils' compliance with their legislative financial reporting deadlines.**
3. **The Department of Infrastructure, Local Government and Planning provides descriptive guidance on how to calculate renewals for the asset sustainability ratio. This guidance should include examples from council experience as well as advice on how to distinguish between capital and operating grants.**

Reference to comments

In accordance with s.64 of the *Auditor-General Act 2009*, a copy of this report was provided to the Director-General, Department of Infrastructure, Local Government and Planning, with relevant sections provided to the Local Government Association of Queensland Ltd and all councils named in this report with significant financial reporting, internal control or sustainability issues. All 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 182 entities; 77 councils and 105 entities that they control, either individually or jointly. As 28 of the controlled entities are classified as non-reporting under the accounting standards, only 154 entities prepare financial statements.

Following de-amalgamation polls in 2013, four new councils began operating on 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 prepared financial statements for the first time in 2013–14.

Figure 1A summarises the reporting entities, categorised by council segment. These classifications are based on the categories used by the Local Government Association of Queensland (LGAQ) in their 2013 report *Factors impacting Local Government Financial Sustainability: A Council Segment Approach*.

Figure 1A
Local government reporting entities

Category	Type of entities	2014	2013
Coastal	Councils	15	12
	Entities they control	7	6
Indigenous	Councils	17	17
	Entities they control	3	3
Resources	Councils	15	15
	Entities they control	7	7
Rural/Regional	Councils	9	8
	Entities they control	3	3
Rural/Remote	Councils	13	13
	Entities they control	2	2
South-east Qld	Councils	8	8
	Entities they control	26	25
Other	Jointly controlled entities	25	24
	Joint local government	1	2
	Audited by arrangement	3	3
Total		**154**	**148**

Note: Councils within each category are shown in Appendix I.

Source: Queensland Audit Office

1.1.2 Changes for 2013–14

Previously, we classified councils using size-based categories aligned to the Queensland Local Government Remuneration and Discipline Tribunal's remuneration categories. In its 2013 report, however, the Local Government Remuneration and Discipline Tribunal significantly reassigned councils within the various remuneration categories. This has resulted in all Special Category and Category 1 and 2 councils being reassigned to Category 3.

In this report, we no longer categorise councils by size. Instead, we use segments identified by the LGAQ in their 2013 report *Factors impacting Local Government Financial Sustainability: A Council Segment Approach*.

In deriving these segments (refer Figure 1B), LGAQ considered:

> *… current LGAQ 'advocacy segments' in addition to the demographic, economic and social characteristics of each Local Government. A secondary category has been assigned to a number of Local Governments in brackets. In the instance where a secondary segment is noted, it is highly likely that the financial sustainability challenges identified for both the primary and secondary segments are applicable. This is particularly relevant for those smaller Local Governments that have been categorised under the Resources segment when they are Rural/Remote in nature.*

These new categories allow better benchmarking of councils in similar circumstances. Prior year results have been recast to ensure an appropriate comparison can be made between the reported categories.

Figure 1B
Adopted local government segments

Segment	Description	Local government
Coastal (15)	Local governments principally located along the Queensland coast line. These local governments are experiencing different growth scenarios with some experiencing strong population increases and demand for key infrastructure to service economic growth and others seeking to renew economic activity and reverse population decline.	Bundaberg RC Burdekin SC (Rural/Regional) Cairns RC Cassowary Coast RC (Rural/ Regional) Douglas SC Fraser Coast RC Gladstone RC (Resources) Gympie RC (SEQ) Hinchinbrook SC (Rural/ Regional) Livingstone SC Mackay RC Noosa SC (SEQ) Rockhampton RC Townsville CC Whitsunday RC (Resources)
Indigenous (17)	Local governments based in Indigenous communities, where service delivery is constrained by capacity and which share similar capability challenges and representational demands.	Aurukun SC Cherbourg Aboriginal SC Doomadgee Aboriginal SC Hope Vale Aboriginal SC (Resources) Kowanyama Aboriginal SC Lockhart River Aboriginal SC Mapoon Aboriginal SC Mornington SC Napranum Aboriginal SC Northern Peninsula Area RC Palm Island Aboriginal SC Pormpuraaw Aboriginal SC Torres SC Torres Strait Island RC Woorabinda Aboriginal SC Wujal Wujal Aboriginal SC Yarrabah Aboriginal SC

Segment	Description	Local government
Resources (15)	Local governments in, or adjacent to, Queensland's key mining regions/basins, where their operations are affected by current or proposed resource activity. A local government is recognised as a resources local government if greater than 30 per cent of activity in the local economy is due to the mining and mining related (manufacturing and processing) sectors.	Banana SC (Rural/Regional) Barcoo SC (Rural/Remote) Bulloo SC (Rural/Remote) Burke SC (Rural/Remote) Central Highlands RC (Rural/Regional) Charters Towers RC (Rural/Regional) Cloncurry SC (Rural/Remote) Cook SC (Coastal) Etheridge SC (Rural/Remote) Isaac RC (Rural/Regional) Maranoa RC (Rural/Regional) McKinlay SC (Rural/Remote) Mount Isa CC (Rural/Regional) Quilpie SC (Rural/Remote) Western Downs RC (Rural/ Regional)
Rural/Regional (9)	Local governments in large inland areas with populations of more than 10 000 residents, and a high reliance on agricultural activities.	Goondiwindi RC Lockyer Valley RC (SEQ) Mareeba SC North Burnett RC Scenic Rim RC (SEQ) Somerset RC (SEQ) South Burnett RC Southern Downs RC Tablelands RC
Rural/Remote (13)	Local governments west of the Great Dividing Range in large areas, with populations of fewer than 10 000 residents. Due to a limited rate base, these local governments traditionally rely on external grants and subsidies to ensure ongoing financial sustainability.	Balonne SC Barcaldine RC Blackall-Tambo RC Boulia SC (Resources) Carpentaria SC Croydon SC Diamantina SC Flinders SC Longreach RC Murweh SC Paroo SC Richmond SC Winton SC
South-east Queensland (SEQ) (8)	Higher capacity and capability local governments located in SEQ. These local governments manage high population growth resulting in increased service and infrastructure demand.	Brisbane CC Council of the City of Gold Coast (Coastal) Ipswich CC Logan CC Moreton Bay RC (Coastal) Redland CC (Coastal) Sunshine Coast RC (Coastal) Toowoomba RC

Source: LGAQ Report Factors impacting Local Government Financial Sustainability: A Council Segment Approach (September 2013) adapted by Queensland Audit Office

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.

The auditor may include an emphasis of matter paragraph with the audit opinion to highlight an issue of which users of the financial statements need to be made aware. The audit opinion is not modified by the inclusion of an emphasis of matter paragraph.

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 to determine 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 s.202 of the City of Brisbane Regulation 2012 impose an additional audit requirement on councils. 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.

1.3 Financial reporting time frames

The *Local Government Act 2009* and Local Government Regulation 2012 require councils to provide their financial statements and a current-year financial sustainability statement to us by a date agreed between a council's Chief Executive Officer and the Auditor-General. This date must allow for our audit to be completed by 31 October.

To assist the financial reporting process to stay on track, we formally agree on a timetable for the process to ensure we agree on the deadlines required to be met to achieve the legislated time frame.

The council must release its annual report within one month of the audit opinion date. The Minister for Infrastructure, Local Government and Planning, who administers legislation for councils, may grant an extension to the deadlines where extraordinary circumstances exist.

Brisbane City Council has its own Act, the *City of Brisbane Act 2010* and its own Regulation. The Regulation imposes the same financial reporting time frames and financial reporting requirements on Brisbane City Council as for other councils.

1.4 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 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. Seven local government entities were exempted from audit by the Auditor-General on this basis for 2013–14.

In addition, s.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 country's law, the entity may be audited by an auditor approved by the Auditor-General.

One local government entity, Gold Coast City Council Insurance Company Limited, was exempted from audit by the Auditor-General on this basis for 2013–14.

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

1.5 Report structure and cost

The remainder of this report is structured as follows:

- Chapter 2—the results of the audits of local government entities for the 2013–14 financial year
- Chapter 3—the major financial reporting issues across the sector during 2013–14
- Chapter 4—the timeliness and quality of financial statements for the local government sector in 2013–14
- Chapter 5—the internal control framework of councils and other local government entities for which the 2013–14 audits were finalised at the time of this report
- Chapter 6—the financial sustainability of the local government sector
- Appendix A contains responses received from the Department of Infrastructure, Local Government and Planning as well as particular councils
- Appendix B contains the status of the 2013–14 financial statements of councils and other local government entities
- Appendix C contains the status of the 2013–14 current-year financial sustainability statements of councils
- Appendix D contains the status of the 2013–14 financial statements of exempt entities
- Appendix E contains listing of local government entities for which audit opinions will not be issued in 2013–14
- Appendix F contains the status of 2012–13 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 our overall assessment of councils' financial governance
- Appendix I shows a map of Queensland locating each local government area by category.

The cost of this report was $196 000.

2 Results of financial audits

In brief

Background

Each year we audit the financial statements of councils and related entities to provide assurance on their reliability. We qualify our audit opinions when part or all of the financial statements do not comply with relevant legislative requirements and / or Australian accounting standards.

Conclusions

- One council received a qualified audit opinion in 2013–14, indicating an improved understanding of Australian accounting standard requirements. This must be balanced, however, against the significant increase in unfinished audits compared to the same time last year. Unfinished audits have historically translated into qualified opinions.
- Five related entities received qualified opinions in 2013–14, slightly worse than the previous year when four qualified opinions were issued.

Key findings

- Eight councils and one related entity have not yet finalised their 30 June 2014 financial statements.
- Of the 11 entities whose 2012–13 financial statements were unfinished at this time last year, three received qualified opinions.

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
- 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

One council received a qualified audit opinion in 2013–14. While this demonstrates an improved understanding of Australian accounting standard requirements, it must be balanced against the significant increase in unfinished audits compared with this time last year (eight in 2013–14 compared to two in 2012–13).

Historically, unfinished audits have significant audit issues that often translate into qualified opinions. Both unfinished council audits from 2012–13 (100 per cent) received qualified opinions, although Burke Shire Council's qualification was limited to the current-year financial sustainability statement only.

2.3 Financial audit opinions

2.3.1 Overall result

Audit opinions have been issued for 145 (94 per cent) of 154 local government entities required to prepare financial statements this year, which is an improvement, in percentage terms, with the same time last year when opinions were issued for 137 of 148 entities (93 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	77	8	68	1	0
Controlled entities	48	0	34	3^	11
Joint local governments	1	0	0	0	1
Jointly controlled entities	25	1	12	1	11
Audited by arrangement	3	0	0	1^	2
Total	**154**	**9**	**114**	**6**	**25**

^ Includes one entity that also received an emphasis of matter.

Source: Queensland Audit Office

2.3.2 Unfinished audits

Audit opinions have yet to be issued for eight councils and one related local government entity. 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
Carpentaria Shire Council	Asset valuations	Not requested
Kowanyama Aboriginal Shire Council*	Delays in finalising 2012–13 audit	Not requested
Mareeba Shire Council	Waiting for ministerial decision on de-amalgamation issue	30.01.2015
Northern Peninsula Area Regional Council	Delays in supplying information to audit	Under Consideration
Richmond Shire Council	Loss of key staff	31.12.2014
South Burnett Regional Council	Installation of new computer system	31.12.2014
Torres Shire Council	Installation of new computer system	31.12.2014
Wujal Wujal Aboriginal Shire Council	Delays in supplying information to audit	Not requested

* Kowanyama Aboriginal Shire Council's 2012–13 audit was unfinished at the same time last year.

Source: Queensland Audit Office

2.3.3 Unmodified opinions

For completed financial statements, 139 (96 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 130 (95 per cent) unmodified opinions issued. This indicates that the sector has a better understanding of Australian accounting standards.

2.3.4 Qualified opinions

Six qualified opinions (4 per cent) have been issued so far this year, an improvement over the previous year when nine qualified opinions (6 per cent) were issued. Of the six qualified opinions issued this year, two were issued for the first time on 2013–14 financial statements. The remaining four qualifications relate to matters identified in 2012–13 or earlier, which have not yet been rectified. Figure 2C details the qualified opinions issued and their underlying causes.

Figure 2C
Qualified audit opinions

Entity	Reason	Previously qualified
	Councils	
Paroo Shire Council	Council was unable to provide appropriate audit evidence to support adjustments made to its opening 2012–13 road asset balance. As a consequence, the council was unable to demonstrate that its road asset values as at 30 June 2014 and 30 June 2013 were valued in accordance with AASB 116 *Property, Plant and Equipment.* Further, the associated depreciation expense and the asset revaluation surplus balance for 2013–14 and those used for comparative purposes in the 2013–14 financial statements could not be relied upon. As depreciation expense is used in the calculation of the operating surplus ratio and the asset sustainability ratio, the accuracy of these ratios reported in the 2013–14 current-year financial sustainability statement was unable to be confirmed.	—
	Controlled entities	
Museum of Brisbane 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.	—
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 2012–13
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 to 2012-13
	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 2012–13
	Audits by arrangement	
Ipswich Mayors Community Fund Inc.	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.	2012-13

Source: Queensland Audit Office

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 25 unmodified audit opinions (17 per cent) issued for completed financial statements, compared to 21 (16 per cent) issued last year.

Of the 25 emphasis of matter paragraphs, 18 drew attention only to the use of Special Purpose Financial Statements as required by Australian auditing standards. All entities who received emphasis of matter paragraphs are detailed in Appendix B.

Six emphasis of matter paragraphs, issued for the following entities, highlighted decisions to wind up the entity during the next financial year:

- Castra Retirement Home Limited
- Central Queensland Local Government Association Inc.
- Ipswich City Developments Pty Ltd
- Nogoa River Flood Plains Board
- Noosa Biosphere Limited
- Outback@Isa Pty Ltd.

An emphasis of matter paragraph was also included with the audit opinion provided to Warwick Tourism and Events Pty Ltd to highlight that the company was reliant on subsidies from its parent entity, Southern Downs Regional Council, to fund its operations, creating uncertainty about its ability to continue to operate into the future.

2.4 Status of outstanding prior-year opinions

Eleven local government entities had not received audit opinions on their 2012–13 financial statements when *Results of audits: Local government entities 2012–13* (Report 14: 2013-14) was tabled in March 2014. In addition one further council had not received an audit opinion on their 2012–13 current-year financial sustainability statement only. Audit opinions have now been issued for all of these entities and details of these opinions are included in Appendix F. Two qualified opinions were issued on the general purpose financial statements and one qualified opinion on the current-year financial sustainability statements. These are summarised in Figure 2D.

Figure 2D
Qualified audit opinions 2012–13

Entity	Reason	Previously qualified
	Councils	
Kowanyama Aboriginal Shire Council	In 2011–12 and 2012–13, the council failed to maintain effective internal controls over inventory management. Consequently, the reported 30 June 2013 inventory balances and the reported comparative 30 June 2012 balances could not be relied upon.	2010–11 2011–12
Burke Shire Council	Council was unable to provide appropriate audit evidence to support capital expenditure on the replacement of assets. As this is used in the calculation of the asset sustainability ratio, the accuracy of the ratio reported in the 2012–13 current-year financial sustainability statement was unable to be confirmed.	—
	Controlled entities	
Ipswich City Properties Pty Ltd	In 2011–12 there was insufficient evidence to demonstrate that the reported values for freehold land were a reliable measure of their fair values. In addition, the company did not provide adequate documentation to substantiate that an impairment assessment was performed for freehold land, buildings and plant and equipment. The 2011–12 written down value of these assets and associated depreciation expense used for comparative purposes in the 2012–13 financial statements could not be relied upon.	2011–12

Source: Queensland Audit Office

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

An emphasis of matter paragraph was also included with the audit opinion provided to Outback@Isa Pty Ltd to highlight that the company was reliant on subsidies from its parent entity, Mount Isa City Council, to fund its operations, creating uncertainty about its ability to continue to operate into the future.

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 69 (90 per cent) of 77 councils required to prepare current-year financial sustainability statements. 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.

The eight councils yet to finalise these statements are:

- Carpentaria Shire Council
- Kowanyama Aboriginal Shire Council
- Mareeba Shire Council
- Northern Peninsula Area Regional Council
- Richmond Shire Council
- South Burnett Regional Council
- Torres Shire Council
- Wujal Wujal Aboriginal Shire Council.

These councils also have unfinished financial statements for 2013–14 (refer section 2.3.2 in this report).

Sixty eight councils 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. One council received a modified opinion, the same number as the previous financial year. (refer sections 2.3.4 and 2.4*).*

As these statements are Special Purpose Financial Statements, all 69 (100 per cent) 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.

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

- The benefits of robust asset management are not clearly understood across the sector.
- The Department of Infrastructure, Local Government and Planning has not assessed the robustness and maturity of council asset management plans. It could take a stronger role in educating and guiding councils that are not advanced in asset management practices.
- The four newly de-amalgamated councils need to focus on asset management from the outset to ensure long term financial sustainability.
- Based on its initial projections, Douglas Shire Council will need to significantly change its planned revenue and expenditure policies to maintain its current service levels and still achieve long term financial sustainability.
- The lack of centralised contract registers and processes reduce councils' ability to govern practices effectively and consistently; analyse expenditure and trends; and use data to inform strategic procurement activities.

Key findings

- Queensland councils manage infrastructure assets worth $72.1 billion.
- At 30 June 2014, only 60 per cent of councils had up to date asset management plans.
- Councils that see reduced depreciation expense as the solution to financial sustainability problems do not understand the big picture of asset management.
- Each newly de-amalgamated council has a negative operating surplus ratio this year, which is unsurprising given the one-off costs incurred in establishing these new councils. Each is forecasting incremental improvement, at varying levels, over the next three years.
- Contract management deficiencies contributed to 51 per cent of councils having no documented support for decisions made at the end of the contract to renew, extend or re-tender.
- Processes for monitoring supplier performance can be improved.
- Eleven significant audit issues were raised at Ipswich City Council in response to identified weaknesses in procurement and contracting practices.

Recommendations

It is recommended:

1. **the Department of Infrastructure, Local Government and Planning assist councils in improving asset management practices by:**
    - **providing opportunities for training and mentoring**
    - **helping to source external expertise**
    - **producing better practice guidelines.**

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

As councils are the stewards of major public infrastructure, asset management is a cornerstone of their long term financial sustainability. However, the benefits of robust asset management are not clearly understood across the sector. Asset management plans are not regularly updated and annual asset valuation processes continually identify significant asset data errors.

Councils need to effectively manage their assets and the services they deliver throughout their whole life cycle. Councils' capacity to make informed decisions is severely diminished when relevant and reliable asset performance information is not available.

The four newly de-amalgamated councils need to focus on asset management from the outset to ensure long term financial sustainability. The significant operating deficits being projected by Douglas Shire Council coupled with its low investment in asset renewals and no increase in borrowings indicate changes in the service levels the council is currently providing to the community. The council will need to significantly change its revenue and expenditure policies if it wishes to maintain its current service levels and still achieve long term financial sustainability.

Contract management and procurement are specific areas where councils can achieve savings and improve their long term financial sustainability. The lack of centralised contract registers and processes reduce councils' ability to:

- govern practices effectively and consistently
- analyse spend and trends
- use data to inform strategic procurement activities.

Where decisions to renew, extend or re-tender contracts are not documented and do not consider key performance information, council cannot demonstrate that rigorous value for money assessments have been performed. This reduces councils' awareness of committed funds and means they do not comply with legislative requirements.

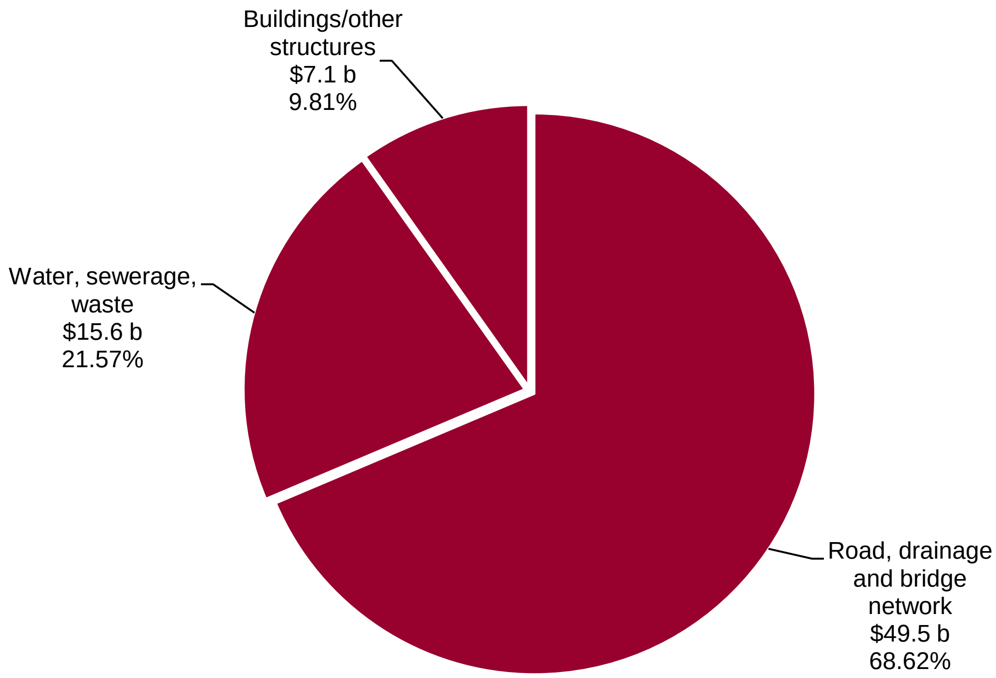
3.3 Asset management

Ineffective asset management is a significant risk affecting councils' financial sustainability. As at 30 June 2014, only 60 per cent of councils had up to date asset management plans.

Assets are the biggest balance in councils' financial statements. As at 30 June 2014, councils were responsible for infrastructure assets—roads and bridges, buildings, water supply, sewer networks and stormwater drainage—worth $72.1 billion. During 2013–14, the sector spent $1.5 billion on infrastructure asset renewals.

Figure 3A breaks down the sector's 30 June 2014 infrastructure balance by its major components.

Figure 3A
Breakdown of written down value of major infrastructure



Source: Queensland Audit Office

Infrastructure assets present significant financial, managerial and political risks. Asset management is about effectively managing these risks.

Given the sector's significant public infrastructure responsibilities, optimal asset management must be a core council skill and a consideration in all council decisions. Councils that apply strategic asset management principles to determine the most cost effective way to provide the required community service levels (both present and future) are best equipped to manage the associated risks.

Asset management information systems

Effective asset management is compromised by poor asset data and information systems.

In 2013–14, 46 councils (60 per cent) had major control issues identified relating to asset values and asset data. In the last two financial years, a third of Queensland councils reported total prior period error corrections in their annual financial statements of more than $0.78 billion each year. Most of these adjustments related to the recognition or de-recognition of infrastructure assets arising from the annual revaluation process or cleansing of asset management data.

These results indicate that many councils do not have a clear picture of their total infrastructure asset portfolio and, therefore, are making decisions based on inaccurate or incomplete asset data.

Some councils see depreciation expense as the cause of their long term financial sustainability issues. However, depreciation is simply an outcome of council practice and policy. It measures an asset's use in providing services over its life. Depreciation is part of the annual cost allocation of providing those services. It is not a measure of the expenditure required to maintain or renew assets.

Councils that see reduced depreciation expense as the solution to financial sustainability problems do not understand the big picture of asset management. Adjusting estimated figures like depreciation to derive a particular financial statement outcome cannot make a council more financially sustainable.

The key inputs to the depreciation calculation need to be consistent with councils' asset management practices.

Asset management plans

Strategic asset management plans are a cornerstone in the pursuit of operational efficiencies and more effective renewal practices.

Figure 3B identifies some key characteristics of better practice asset management plans.

Figure 3B
Better practice framework for asset management plans

Key characteristics
Better practice asset management plans: • are succinct and easy to use • are adopted by council • are reviewed annually • allocate responsibility to appropriately trained staff • are linked to asset management strategy and asset management policy • describe assets and services delivered • are linked to the long term financial plan, capital works program and maintenance program • set agreed levels and standards of service for each asset class • describe the current condition of assets • contain demand forecasts • address life cycle costs • contain long term cash flow forecasts for construction, acquisition, operation and maintenance, and renewal • address asset rationalisation and disposal • incorporate risk management strategies • explain how the performance of the plan will be monitored • provide evidence of engagement with the community.

Source: Queensland Audit Office

A 'level of service' framework is an important piece of an asset management plan. It helps councils to better understand the level of service they provide, including the life cycle costs of providing this level of service.

It also assists in determining whether this level of service is appropriate and affordable for current and future generations.

This could, for example, involve prioritising each council road based on its current community use and regional importance—be it for agriculture, tourism, business or local use. This would greatly assist councils in undertaking integrated planning across the whole network rather than viewing individual assets in isolation. It would also help them in balancing competing community demands to ensure better use of financial resources.

The Department of Infrastructure, Local Government and Planning (the department) has not assessed the robustness and maturity of council asset management plans and could take a stronger role in educating and guiding councils where they are not advanced in asset management practices.

Asset management reporting

A suite of comprehensive asset management and financial sustainability metrics provides information on whether a council can deliver effective, affordable services that meet community needs over the long term.

A lack of reliable information for management reporting purposes makes optimal asset management decision making extremely difficult. A comprehensive suite of asset management indicators provided to council would help them to better understand asset performance. As well as an asset sustainability ratio, other useful indicators would be the calculation of an asset consumption ratio and asset renewal funding ratio—these indicators are used by councils in other states.

The asset consumption ratio shows the written down current value of assets relative to the current replacement value, highlighting the aged condition of assets and the potential future capital outlays required to ensure service levels are maintained.

The asset renewal funding ratio shows the net present value of planned renewals expenditure over ten years relative to the net present value of required renewals. This highlights whether councils have the financial capacity to fund asset renewal as required. This information is sourced from long term financial plans supported by asset management plans.

3.4 De-amalgamations

Following the de-amalgamation polls held on 9 March 2013, the former 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 began operating on 1 January 2014.

As per the de-amalgamation conditions, the breakaway councils are responsible for all de-amalgamation costs incurred after 12 April 2013—the date the Local Government (De-amalgamation Implementation) Regulation 2013 (the Regulation) commenced.

Each continuing council had the option of establishing a working capital facility with Queensland Treasury Corporation (QTC) for the sole purpose of paying de-amalgamation costs. Where established, the working capital facility was transferred to the new council on 1 January 2014. It must be fully paid by the new council no later than 30 June 2015.

3.4.1 Costs

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
- 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; and additional property, plant and equipment to maintain service delivery standards.

The major costs incurred were salaries and wages of staff engaged on the de-amalgamation process (including transfer managers), IT consultancy costs and IT separation costs. Figure 3C shows the one-off operating and fixed asset costs incurred to 30 June 2014 compared to the original QTC estimates.

Figure 3C
One-off operating and fixed asset costs to 30 June 2014 compared to QTC estimates

New council	Councils' actual one-off costs $	QTC's estimated one-off costs $
Douglas Shire Council	Operating costs $1,757,130	Operating costs $2 336 000
	Fixed asset costs $1 467 012	Fixed asset costs $2 119 000
Total	**$3 224 142**	**$4 455 000**
Livingstone Shire Council	Operating costs $3,265,469	Operating costs $3 900 000
	Fixed asset costs $3 714 523	Fixed asset costs $3 823 000
Total	**$6 979 992**	**$7 723 000**
Mareeba Shire Council*	Operating costs $4 864 534	Operating costs $6 008 000
	Fixed asset costs $0	Fixed asset costs $0#
Total	**$4 864 534**	**$6 008 000**
Noosa Shire Council	Operating costs $2 163 705	Operating costs $3 605 000
	Fixed asset costs $2 192 871	Fixed asset costs $7 415 000
Total	**$4 356 576**	**$11 020 000**
Grand Total	**$19 425 244**	**$29 206 000**

* Audit is unfinished.
\# Fixed asset costs included in operating costs as these were incurred pre de-amalgamation by the continuing council and were reimbursed by the new council.

Source: Queensland Audit Office with information from QTC De-amalgamation Analysis Reports

In addition to the one-off costs, having two separate councils results in increments to recurrent costs, such as councillors' remuneration and IT costs. These recurring costs are not analysed in this report. Further, redundancy costs associated with restructuring the new councils are excluded from Figure 3C. These restructuring costs are reported in Figure 3D.

3.4.2 Impact on organisational structures

The *Local Government Act 2009* and the Regulation required both the new and continuing councils to adopt a new organisational structure to apply from 1 January 2014.

In accordance with the Regulation, the chief executive officers of the continuing councils decided the positions to transfer to the respective new councils. The number of positions transferred had to be within the following legislated ranges:

- for Cairns/Douglas—no less than 135 and no more than 165
- for Rockhampton/Livingstone—no less than 325 and no more than 400
- for Tablelands/Mareeba—no less than 245 and no more than 300
- for Sunshine Coast/Noosa—no less than 365 and no more than 450.

In establishing their new organisational structures all new councils determined the number of staff required to provide their desired level of community services.

Figure 3D shows the full time equivalent (FTE) positions transferred to the new councils and any subsequent restructuring costs as well as vacant positions as at 30 June 2014.

Figure 3D
De-amalgamation impact on organisational structures as at 30 June 2014

New council	Positions transferred (FTE)	Positions made redundant (FTE)	Cost of restructure to new council* $	Positions vacant at new council	Positions vacant at continuing council
Douglas Shire Council	141	18 (13%)	856 353	10	0
Livingstone Shire Council	393	37 (9%)	1 859 055	20	0
Mareeba Shire Council	247	7 (3%)	218 000	12	0
Noosa Shire Council	420	76 (18%)	6 607 936	0	2

* Costs include one-off redundancies and settlement of employee benefits.

Source: Queensland Audit Office

Concurrent with the de-amalgamation process, Sunshine Coast Regional Council conducted an organisational review which resulted in 52 FTE positions being made redundant at a total cost of approximately $3.71 million. No other continuing councils incurred redundancy costs.

3.4.3 Financial sustainability of new councils

To be financially sustainable, councils need to adopt longer term planning processes that manage future financial risk while maintaining appropriate community service levels.

Business risks that affect liquidity, key infrastructure assets and debt financing need to be evaluated within a sustainability strategy. Measuring sustainability using financial indicators highlights the strengths and weaknesses of each council's 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.

An audit opinion is provided on whether these ratios have been calculated accurately for the current year.

In addition, councils publish an unaudited long term financial sustainability statement which, using councils' assumptions about future operations, projects these ratios over the next ten years.

Five years baseline data is required to draw any meaningful analysis from long term sustainability indicators. As the four new de-amalgamated councils had only operated for six months from 1 January 2014, these councils have been excluded from our sector analysis of financial sustainability contained in Chapter 6. Instead, we have assessed these councils' financial sustainability using their unaudited long term financial sustainability statements. As the audit of Mareeba Shire Council is unfinished, we used the council's unpublished draft long term financial sustainability statement.

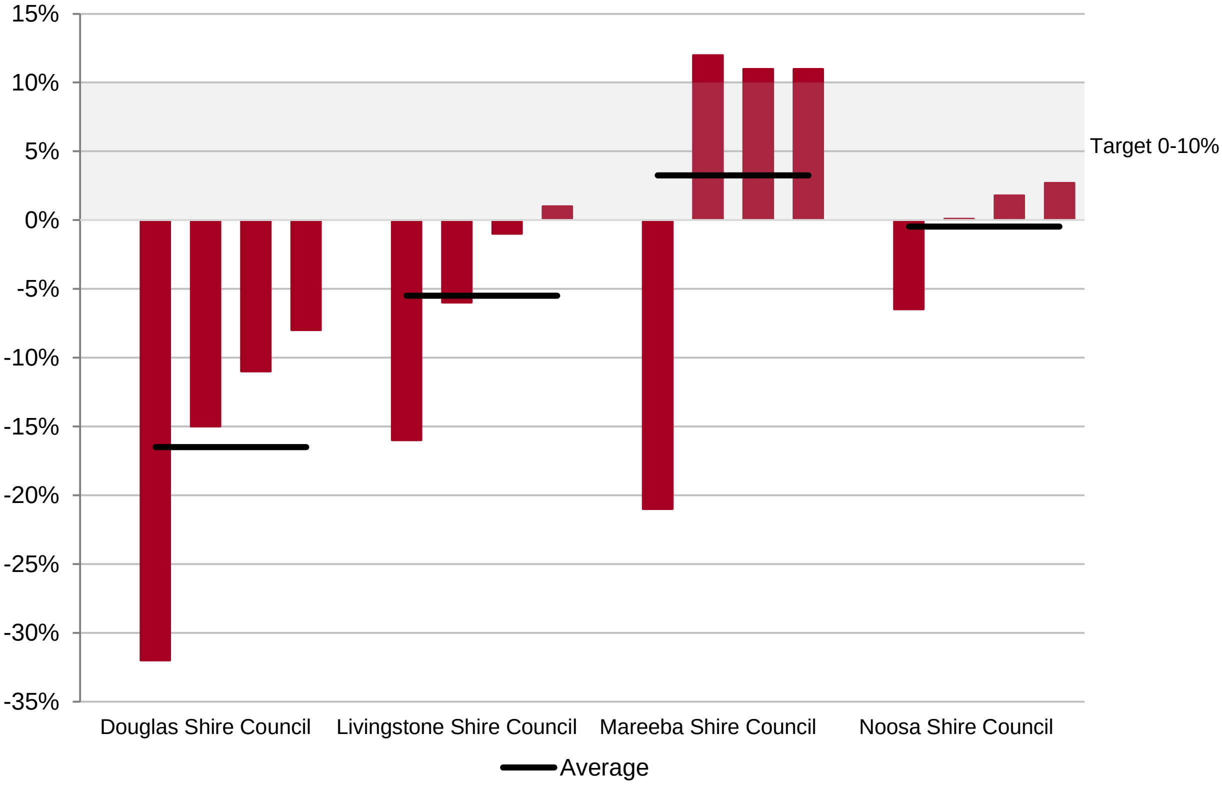
It should be noted that the financial ratios for 2013–14 only relate to the six months of operation. As such, there needs to be a degree of caution in comparing the year to year ratios as subsequent years relate to a full 12 month financial year.

Operating surplus ratio

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

Figure 3E shows the operating surplus ratios for the four new councils over the current half year to 30 June 2014 and their projections for the next three full financial years.

Figure 3E
Council forecast—operating surplus ratio from 2013–14 to 2016–17



Source: Queensland Audit Office adapted from councils' long term financial sustainability statements

Each new council has a negative operating surplus ratio for the first period, which is unsurprising given the one-off costs incurred, but they are forecasting incremental improvement over the next three years.

Douglas and Livingstone Shire Councils are forecasting operating deficits for several years. Livingstone Shire Council projects to achieve a surplus within four years, but Douglas Shire Council is forecasting operating deficits until 2020.

Mareeba Shire Council is projecting to not only break even in 2014–15, but to surpass the target range in each of the next three years. Achieving these large surpluses will be a significant challenge for the council and, while exceeding the target is positive in the short term, it should not be at the expense of maintaining appropriate service levels and effective infrastructure for the local community.

Noosa Shire Council projects to break even in 2014–15, indicating sufficient revenues to offset expenses and capacity to repay past or future deficits or invest in community infrastructure.

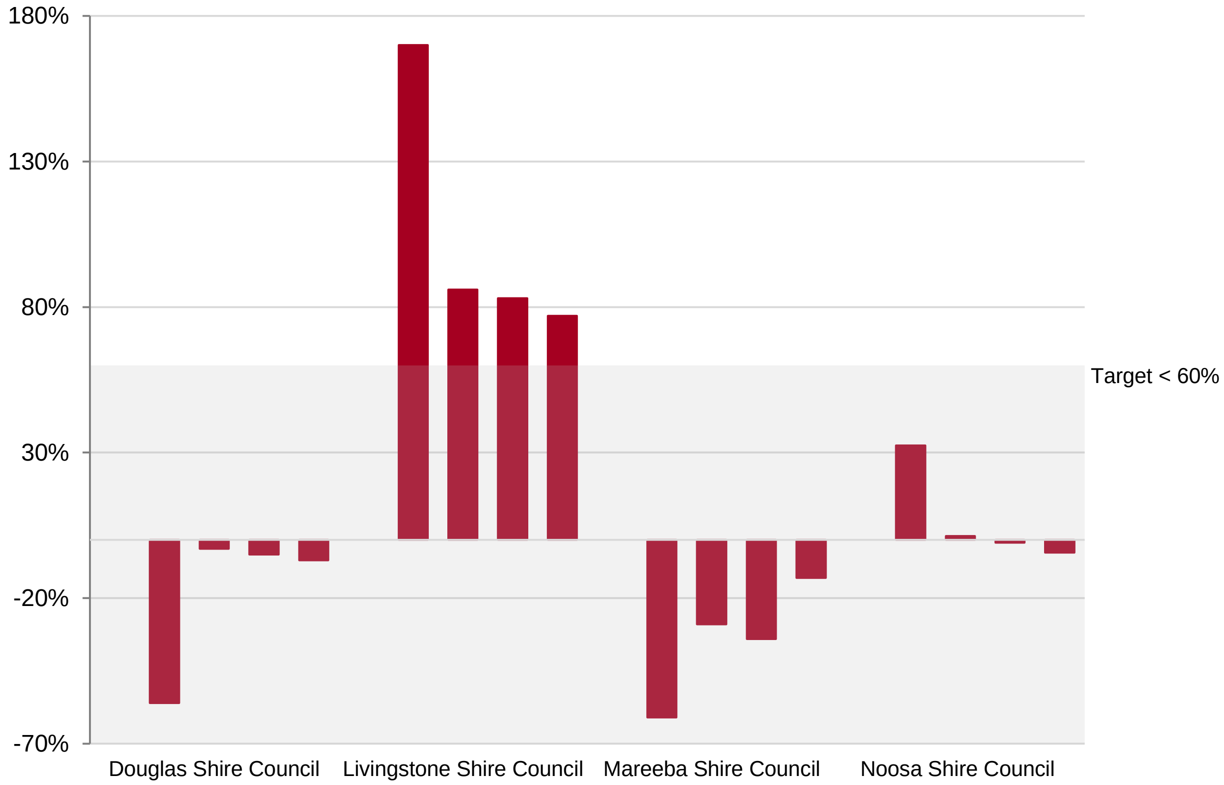
Net financial liabilities ratio

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.

It is important to note that, for all other councils, this ratio is calculated based on operating revenues achieved over a full 12 month financial year. For the four de-amalgamated councils, however, only six months' operating revenues have been earned to 30 June 2014. As such, there is likely to be a significant difference between the ratio calculated for 2013–14 and that calculated in future years.

Figure 3F compares the net financial liabilities ratios for the four new councils as at 30 June 2014 and their projected ratios for the next three years.

Figure 3F
Council forecast—net financial liabilities ratio from 2013–14 to 2016–17



Source: Queensland Audit Office adapted from councils' long term financial sustainability statements

Douglas, Mareeba and Noosa Shire Councils all project to stay within the target range over the next three years.

Livingstone Shire Council is currently above the target range and does not estimate being within the target range until 2023.

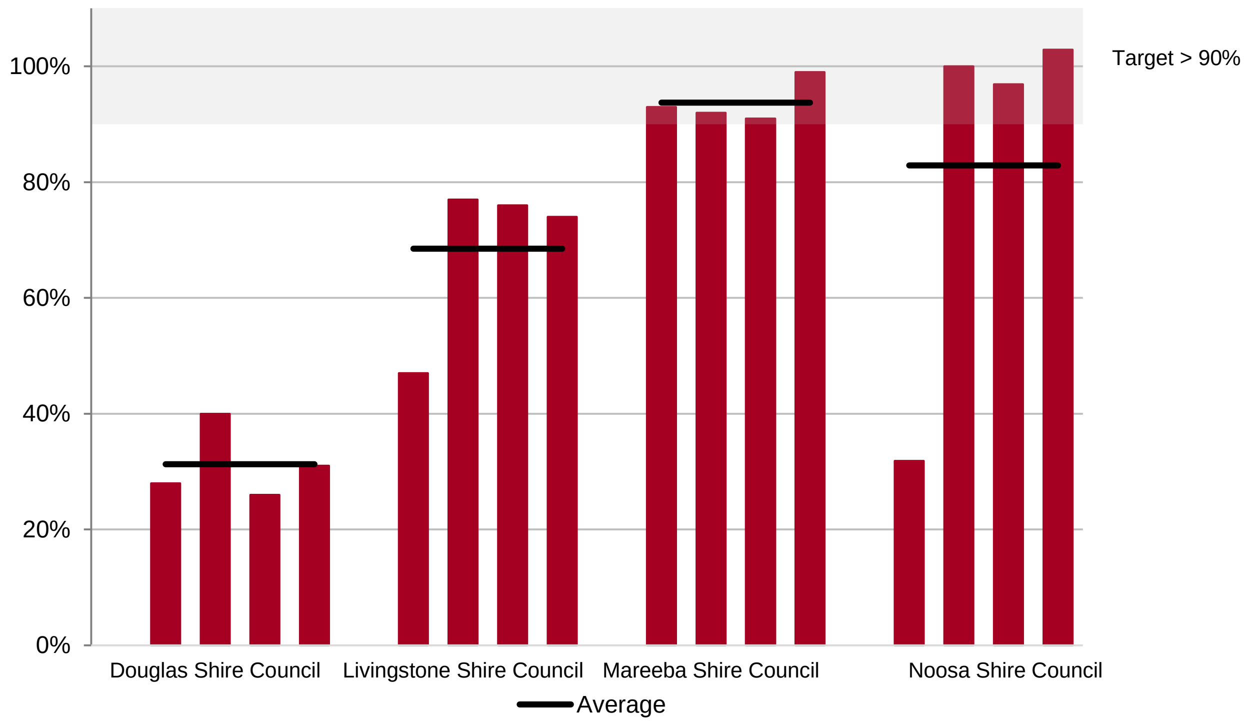
Asset sustainability ratio

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.

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 (as a result of rectifying extensive natural disaster damage) and does not currently require replacement or renewal.

Figure 3G shows the asset sustainability ratios for the four new councils over the current half year to 30 June 2014, and their projections for the next three full financial years.

Figure 3G
Council forecast—asset sustainability ratio from 2013–14 to 2016–17



Source: Queensland Audit Office adapted from councils' long term financial sustainability statements

Noosa Shire Council and Mareeba Shire Council forecast they will achieve this target in the short term. Should the other two councils continue to miss the department's target, they face the risk of a significant renewals backlog. This means they may need to borrow substantial amounts to replace declining infrastructure assets.

Queensland Treasury Corporation (QTC) analysis

In 2012, QTC assessed the financial viability of the new councils against established sustainability ratios and benchmarks using council forecasts available at the time. QTC determined 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 2012 estimated sustainability ratings and outlook for each new council.

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

De-amalgamation area	QTC rating
Douglas Shire	Very weak (Negative)
Livingstone Shire	Moderate (Neutral)
Mareeba Shire	Very weak (Negative)
Noosa Shire	Moderate (Neutral)

Source: QTC De-amalgamation Analysis Reports

Each new council will have a further QTC credit review in 2014–15 to assess their current strategies and future direction.

3.5 Contract management and procurement practices

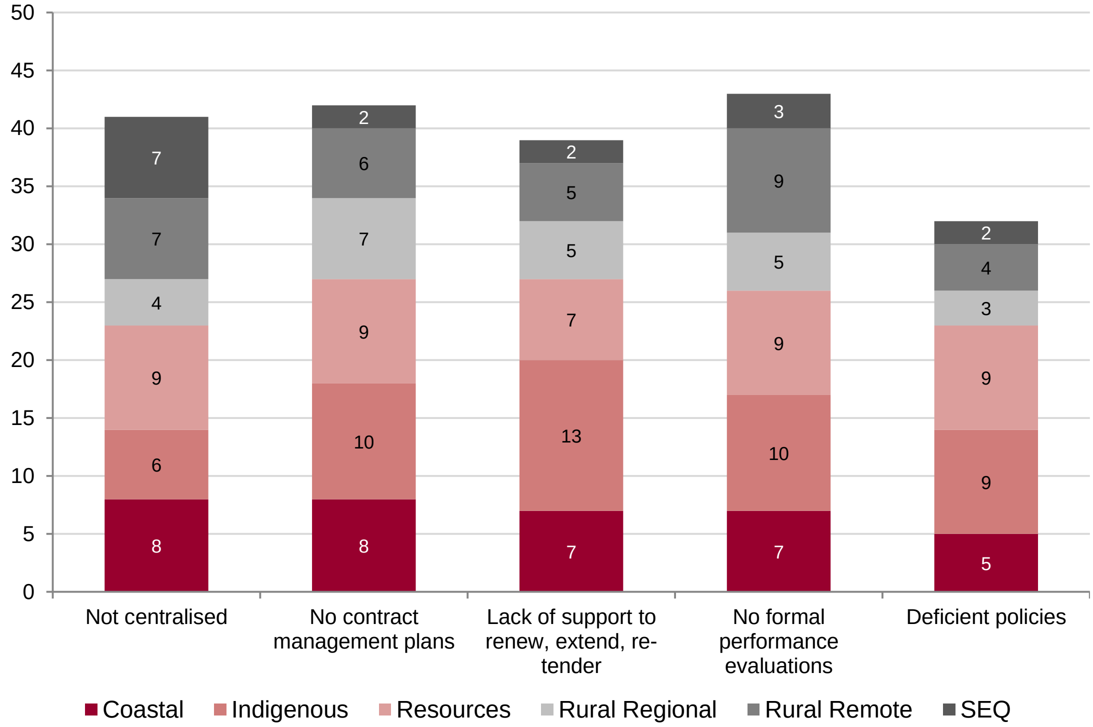
In 2013–14 we selected contract management as a focus for a detailed audit across the sector. As part of this, we conducted an in depth procurement audit at Ipswich City Council.

3.5.1 Contract management

Local governments spend around $3.4 billion annually on materials and services and have a legal obligation to obtain value for money for their contracts. To achieve long term value for money, councils must manage contracts throughout their life.

Councils need to ensure they have sound contract management capability and appropriate governance structures and systems to support the entire contract management life cycle. Across the sector, a number of deficiencies were noted, as illustrated in Figure 3I.

Figure 3I
Findings on contract management skills, governance and systems for 2013–14 by council segment



Source: *Queensland* Audit Office

Not all councils have a complete record of contracts, capturing key information to support contract management activities and reporting. Only 58 per cent of councils had a centralised contract register and 47 per cent had a centralised contract management process. Additionally, 55 per cent of councils did not adopt a contract management plan.

The lack of a contract management plan also contributed to 51 per cent of councils having no documented support for decisions made at the end of the contract to renew, extend or re-tender. Additionally, 56 per cent of councils failed to consider formal contractor performance evaluations in these decisions.

While most councils monitor contractor performance, processes can be improved by:

- holding regular performance meetings with suppliers
- formally documenting performance evaluations
- linking under performance and contractor payments.

Policies and procedures for contract management were identified as being deficient in 42 per cent of councils. These policies and procedures are important because they set expectations for effective contract management.

3.5.2 Procurement practices at Ipswich City Council

Our audit of Ipswich City Council's procurement activities covered the period July 2008 to June 2014.

Eleven major issues were identified and reported to the council. The most significant were:

- Three instances where contract variations, in excess of 23 per cent of the original contract amounts, were not subjected to separate procurement processes. In those cases there was inadequate documentation to support the council's rationale for continuing the existing arrangements. This increases the risk that the council is not receiving value for money.
- A number of instances of invoices being authorised for payment without documented evidence of an assessment of work being performed. This increases the risk of council paying for faulty products or services.

The other major issues identified included:

- overpayments of GST
- non-compliance with the council's procurement policy for obtaining multiple quotes
- deficiencies in management reporting on trends in procurement, exceptions and the achievement of performance targets.

Case study 1 provides an example from Ipswich City Council of deficiencies in monitoring contractor performance—an area that requires strengthening across the sector.

Case study 1

Deficiencies in process
A company supplied water for a park without considering the needs of the Council. A pond in the park overflowed, causing flooding. The company based the level of water supply on 50 000 litres of water evaporation each week. The company was paid in full when the responsible council officer confirmed receipt of the services. There was no documented evidence to support how this was confirmed. At a minimum, documentation should include: • confirmation from council staff that sufficient due diligence was performed to confirm work was required and performed to council standard • the time and date council staff performed this check.

Source: Queensland Audit Office

3.6 Accounting for Legacy Way

In August 2013, Brisbane City Council (BCC) finalised a long term lease and tollway concession with Queensland Motorways Holding Pty Limited (QMH) for the sale of tolling rights for both the Go-Between Bridge (GBB) and Legacy Way Tunnel (LW). The Go-Between Bridge, which was already operational, was transferred to QMH in December 2013 for upfront consideration of $102 million and a further estimated payment (depending on actual traffic and toll revenue outcomes) of $42 million in 2018.

Under the concession arrangement for LW, BCC will receive $118 million on LW's completion in mid-2015 with two subsequent payments in 2017 and 2020, estimated at a total of $141 million. The final quantum of these instalments, however, is based on actual traffic volumes and toll revenue outcomes, all of which are not guaranteed. BCC may also receive additional payments for future revenue share from higher than expected traffic outcomes.

The LW project's total cost as at 30 June 2014 was $1 412.7 million. This included $104.5 million relating to planning, development costs and costs associated with works on state-owned assets which were expensed and a further $29 million relating to improvement works on existing council-owned assets.

The remaining project costs of $1 279 million were initially capitalised as work in progress; however, council wrote down this value against the asset revaluation surplus at 30 June 2014 to align with the estimated upfront payment of $118 million due on LW's completion.

In addition to the tolling right payments, BCC has received $400 million in federal government subsidies, with a further $100 million due on completion.

Both GBB and LW have 50 year concession periods. The concessionaire is responsible for all costs associated with operating and maintaining the assets, including capital refurbishments, before returning control to BCC at the end of the concession period for no consideration.

In June 2014, as a result of the sale of QMH to the Transurban, Australian Super and Tawreed Investments Limited consortium, BCC consented to a change in the control of the concessions. All other aspects of the arrangements with QMH remain unchanged.

3.7 Recommendations

It is recommended:

1. **the Department of Infrastructure, Local Government and Planning assist councils in improving asset management practices by:**
   - **providing opportunities for training and mentoring**
   - **helping to source external expertise**
   - **producing better practice guidelines.**

4 Timeliness and quality of financial statements

In brief

Background

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

Conclusions

- Smaller councils do not make financial reporting a priority. By failing to meet the generous legislated reporting deadlines they also fail to meet appropriate standards of accountability to the public. At present there is no consequence for legislative non-compliance or incentive to change.
- Although 52 councils met the deadline in 2013–14, 27 of these did so by fewer than four days. This shows that councils continue to take as much time as legislatively allowed to prepare financial statements.
- A well planned, adequately resourced annual asset valuation process will improve the quality of financial reporting and asset management practices.
- Involvement of audit committees, better internal financial reporting, early asset valuation completion, and preparation of shell financial statements improves the likelihood of council's meeting the legislated reporting deadline.

Key findings

- In 51 of the 69 audited councils, adjustments were made to financial statements provided to audit. These adjustments amounted to $3.2 billion. Of this, $1.5 billion related to councils that were de-amalgamated.
- Expenditure adjustments of $0.75 billion were partly due to asset restoration costs being incorrectly classified as repairs and maintenance, instead of as increasing asset values.
- Material adjustments and errors are regularly being identified in asset data.
- An additional nine councils achieved the legislated deadline this year.
- Seventeen councils did not meet the legislative deadline for the second consecutive year. It was the third consecutive year for eight councils. This indicates systemic problems.
- Six of these 17 councils prioritised federal government grant acquittals above financial reporting to their communities because of the associated financial implications.

Recommendations

It is recommended:

2. the Department of Infrastructure, Local Government and Planning considers introducing measures (such as incentives and/or penalties) that would improve councils' compliance with their legislative financial reporting deadlines.

4.1 Background

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

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

4.2 Conclusions

There are systemic issues at a number of councils, reducing their ability to deliver timely financial reporting.

Although more councils made the financial reporting deadline this year, most of the sector does not make early financial reporting a priority. Further, councils failing to meet the deadline, which is generous compared to other states, do not achieve minimum standards of accountability to the public—eight councils have failed to meet the financial reporting deadline for the last three consecutive years. This is likely to continue while there is no consequence for continually missing the legislated deadline.

Councils underestimate the time, challenges and staff required to finish the annual asset valuation process. This reduces the accuracy of both the asset values being reported and the asset data recorded in asset management systems. The number of changes to prior year balances, due to errors in asset data, indicates a failure by councils to maintain accurate and current asset information. Asset data must be complete and reliable to allow informed council decisions about asset performance and future asset costs.

Councils also account for asset-related expenditure inconsistently, resulting in misstatement of both expenses and asset values. This affects the financial sustainability ratio calculations and reduces the reported ratios' relevance in assessing councils' financial performance.

Councils are more likely to finalise their financial statements by the legislative deadline if they:

- prepare shell financial statements
- perform asset valuations before the end of the financial year
- involve the audit committee in the financial statement preparation process.

4.3 Quality of draft financial statements

The frequency and size of errors in the draft financial statements are direct measures of accuracy. All errors identified during the audit process are raised with the relevant council. Where errors are material, adjustments are requested.

Before audit review, the draft financial statements should be quality checked to be sure 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 2013–14 financial statements of 51 of 69 councils audited to date—compared with 63 of 73 councils in 2012–13.

Of the 18 councils with no adjustments, 15 councils met the financial reporting deadline with the remaining three finalised in November.

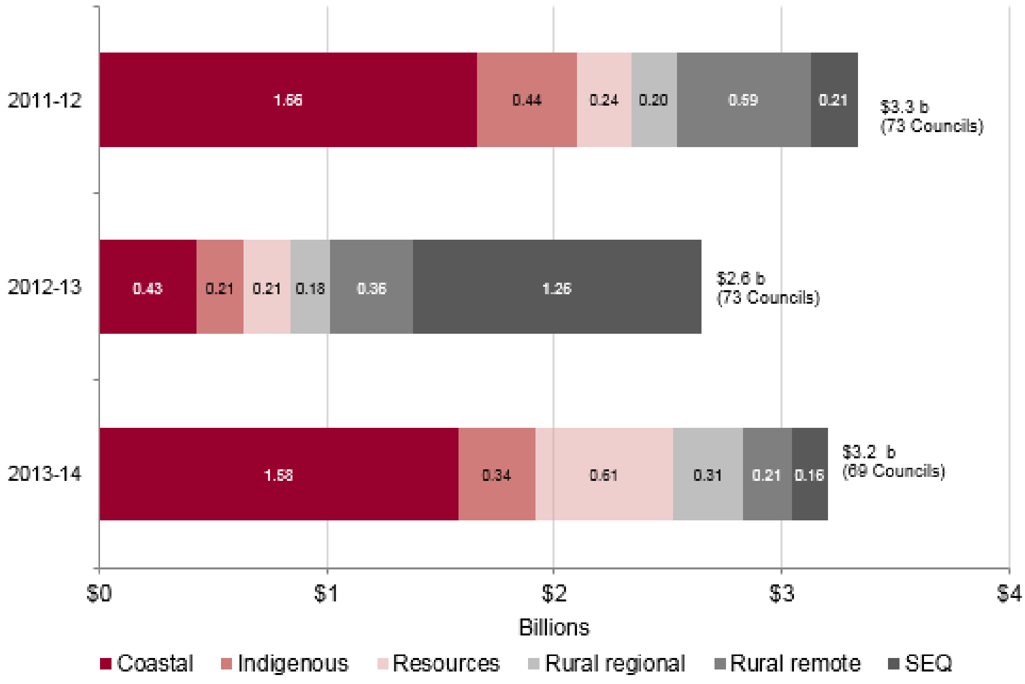
The major factors that contributed to producing financial statements requiring no adjustments were:

- adopting full accrual monthly reporting (11 councils)—this assists in preparing the annual financial report as it is an extension of the regular month-end process
- councils' valuations being performed early with reports provided prior to 30 June (ten councils)—this allows for early identification and resolution of asset valuation issues before full accounts are prepared.

Adjustments initiated by management or arising from audit examination, totalled $3.2 billion in 2013–14 (69 councils audited to date), compared to $2.6 billion in 2012–13 (73 councils).

For 2013–14, coastal councils accounted for 49 per cent (16 per cent in 2012–13) and resources councils accounted for 19 per cent (8 per cent in 2012–13) of the significant adjustments. Figure 4A compares the extent of financial statement adjustments with prior years by council segments.

Figure 4A
Financial statement adjustments by segment



Source: Queensland Audit Office

Of the $2.6 billion in total adjustments in the prior year, $2.5 billion related to the 69 councils audited to date.

Of the total adjustments of $3.2 billion in 2013–14, $1.5 billion related to the de-amalgamated councils and associated continuing councils. This was not surprising given the complexities in determining opening balances and accounting for the gains and losses arising from the de-amalgamation.

The most common reason for these adjustments was council delays in finalising their annual asset valuation process, which resulted in draft financial statements being prepared using outdated asset values.

The lack of timely finalisation of the annual valuation process continues to be a common problem across the sector. Councils are underestimating the challenges and time required to finalise the process.

The major factors contributing to this problem are:

- inadequate planning
- engaging valuers late in the financial year
- not challenging valuers about information in their reports
- insufficient documentation to support assumptions and valuation outcomes
- failure to assign appropriate internal resources.

Another common adjustment was due to expenditure on the restoration of assets being incorrectly classified as repairs and maintenance instead of as an increase in the asset's value. Correct classification of this expenditure is vital, as it affects the calculation of the financial sustainability ratios, annual depreciation charges and other information needed to make informed decisions on asset sustainability.

Financial statements contain both current and prior year balances. Changes to prior year balances can result from errors not identified in previous years, better information becoming available and changes in Australian accounting standards. Twenty-five councils reported corrections of prior period errors in 2013–14 totalling $0.78 billion (2012–13: 26 councils totalling $0.5 billion). In both the 2012–13 and 2013–14 financial years, most of these adjustments related to the recognition or de-recognition of assets arising from the annual revaluation process or cleansing of asset management data.

These results demonstrate the need for councils to adopt earlier valuation processes and engage in more rigorous internal quality assurance practices. The accuracy of asset data is critical to councils' ability to manage asset performance and plan for renewals.

Narrative disclosure errors were common across councils. These were primarily related to the first-time application of Australian accounting standard AASB 13 *Fair Value Measurement* and the disclosure of accounting policies which were not relevant or did not accurately describe councils' policies.

4.4 Timeliness of financial statements

The legislative time frame for councils to finalise their 2013–14 audited financial statements was 31 October, four months after the balance date of 30 June. The time frame for other local government entities varies depending on their entity type, but is usually also 31 October.

4.4.1 Councils

In 2013–14, more councils were able to capitalise on advancements made in the prior year in meeting their financial reporting deadline. An additional nine councils achieved the legislated deadline this year.

Although 52 councils met the deadline in 2013–14, 52 per cent of these councils met it by less than four days, showing that councils continue to take as much time as legislatively allowed for financial statement preparation. Once the deadline has passed, unfinished councils show little urgency in completing their financial statements, with 12 councils outstanding more than 60 days after the deadline.

Figure 4B shows 52 of the 77 councils' financial statements (68 per cent) were certified by management and audit within this legislated time frame.

Figure 4B
Audit opinions issued by the legislated deadline

Element	2013–14	2012–13	2011–12
Deadline	31 October	31 October	30 November*
Number finalised	52	43	49
Per cent	68	59	67

* Legislative deadline for 2011–12 was 30 November.

Source: Queensland Audit Office

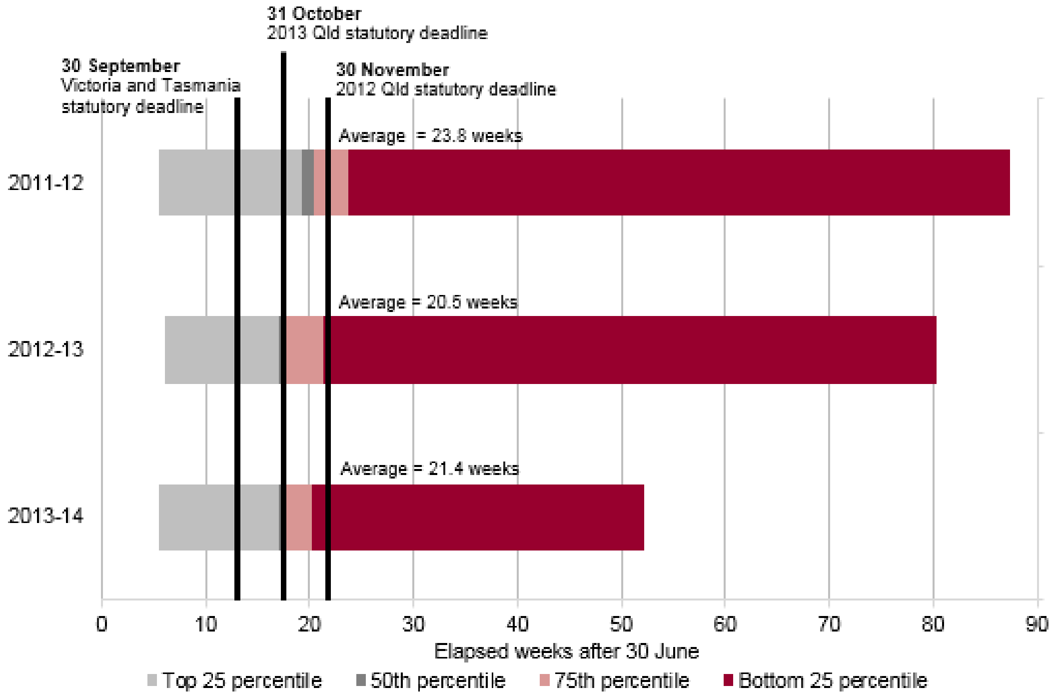
By comparison, the legislative deadline for councils in Victoria and Tasmania to finalise their audited financial statements was 30 September: 95 per cent of councils in Victoria and 90 per cent of councils in Tasmania met these deadlines for 2013–14. Only five Queensland councils (6 per cent) achieved this time frame.

For the last three years, Hope Vale Aboriginal Shire Council has been the first to finalise its financial statements, completing them by early August. The Hope Vale township is situated 46 kilometres north west of Cooktown and has a population of about 1 500 people. This shows there is no clear correlation between the locality and size of a council and the time to complete financial statements.

Common reasons for missing the legislative deadline are asset valuation issues, availability of critical staff and delays in implementing new financial accounting systems. Ministerial extensions were granted on eleven occasions.

Figure 4C shows the average time to finalise council financial statements over the past three years. This year, the average time has increased by 1 week from 20.5 weeks in 2012–13 to 21.4 weeks.

Figure 4C
Average time to finalise council financial reports



Note: For unfinalised 2014 audits, the estimated audit opinion date was based on the Ministerial extension date and QAO expectation.

Source: Queensland Audit Office

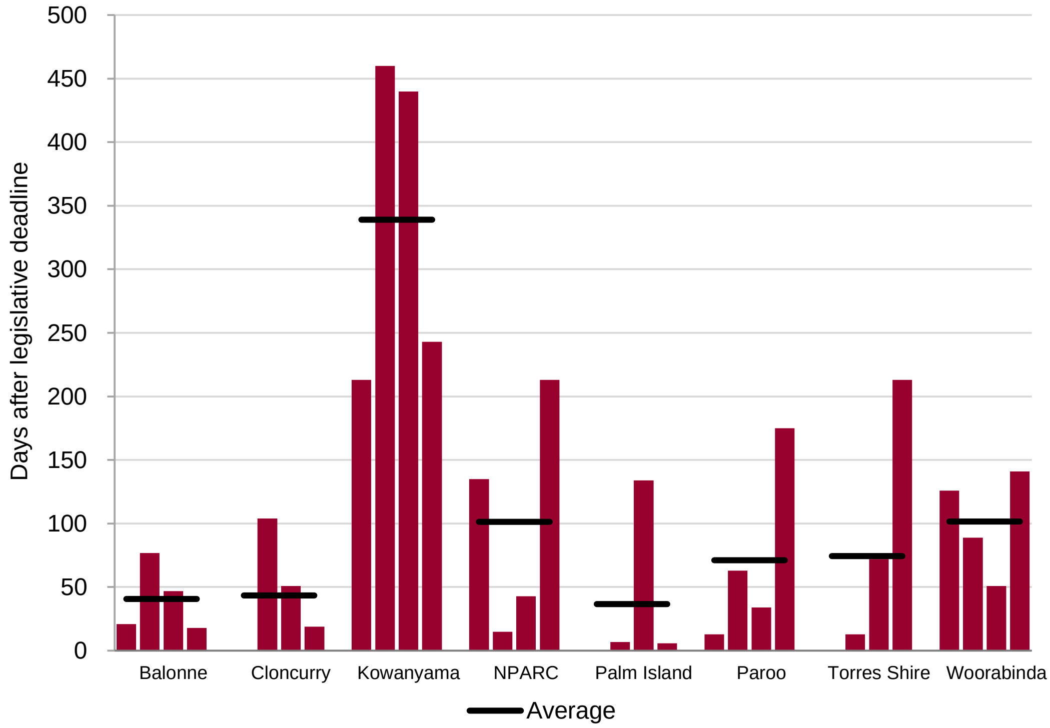
The following 17 councils did not meet the legislative time frame for the second consecutive year:

- Balonne Shire Council
- Barcaldine Regional Council
- Barcoo Shire Council
- Blackall-Tambo Regional Council
- Burke Shire Council
- Cloncurry Shire Council
- Flinders Shire Council
- Kowanyama Aboriginal Shire Council
- Longreach Regional Council
- Mornington Shire Council
- Northern Peninsula Area Regional Council (NPARC)
- Palm Island Aboriginal Shire Council
- Paroo Shire Council
- South Burnett Regional Council
- Tablelands Regional Council
- Torres Shire Council
- Woorabinda Aboriginal Shire Council.

Of these councils, eight did not meet the legislative time frame for the third consecutive year. This indicates there are systemic issues preventing a number of councils from delivering financial reports on time.

Figure 4D depicts the time taken, after the legislated deadline, for these eight councils to finalise their financial reports over the last four financial years.

Figure 4D
Excessive time to finalise council financial reports from 2010–11 to 2013–14



Note: For unfinalised 2014 audits, the estimated audit opinion date was based on the ministerial extension date and QAO expectation.

Source: Queensland Audit Office

On average, these eight councils annually take an extra three months after the 31 October legislative reporting deadline to finalise their audited financial statements, with public reporting to their communities usually a further month or two away. Consequently, these communities are deprived of timely information for assessing their council's financial performance.

Financial penalties are imposed on companies that fail to lodge annual returns on time. There are funding implications associated with not acquitting some grant programs by the prescribed date. But there are no consequences for councils that continually miss the financial reporting deadline.

Thirty-five per cent of the councils that failed to meet the financial reporting deadline for the second successive year submitted their audited 2013–14 roads to recovery grant acquittals to the federal government by the prescribed date of 31 October 2014 (the same deadline as that imposed on financial reporting). This shows that councils prioritise reporting where financial implications attach to the deadlines.

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 increase the chances of councils finalising their financial statements by the legislative deadline.

For 2013–14:

- seventeen councils prepared both shell financial statements and completed early asset valuations; all 17 met the statutory time frame
- twenty-two councils prepared shell financial statements with 20 (91 per cent) meeting 31 October
- forty-one of the 51 (80 per cent) that completed early asset valuations met the legislative deadline
- thirty-eight councils provided financial statements to their audit committees for review before providing them to audit, and 34 (89 per cent) met the deadline.

4.4.2 Other local government entities

The audit opinion on the financial statements of one other local government entity remain unissued at the date of this report.

Figure 4E shows the timeliness of the 2013–14 audited financial statements of other local government entities, compared to the 2011–12 and 2012–13 results.

Figure 4E
Financial statement timeliness of other local government entities

Time to finalise audited statements after year end	2013–14	2012–13	2011–12
Less than 3 months	26 (34%)	12 (16%)	23 (30%)
3 to 4 months	17 (22%)	26 (35%)	17 (22%)
4 months or more	34 (44%)	37 (49%)	37 (48%)
Total	**77 (100%)**	**75 (100%)**	**77 (100%)**

Source: Queensland Audit Office

There continues to be a significant number of entities finalised four months or more after year end, which is a worse result than councils. This indicates that timely financial reporting is also not as important as it should be to other entities in the sector.

4.5 Recommendations

It is recommended:

2. **the Department of Infrastructure, Local Government and Planning considers introducing measures (such as incentives and/or penalties) that would improve councils' compliance with their legislative financial reporting deadlines.**

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, and raise any identified weaknesses with management for them to correct.

Conclusions

- The number and nature of significant audit issues reported continues to indicate systemic problems in strengthening financial control frameworks, which directly correlates to the timeliness of councils' financial statements.
- Prioritising financial reporting and responding to identified audit issues reflects a council's overall governance.
- Councils with few audit issues, yet who are untimely with their financial statements, show poor overall governance.
- The type and quality of internal financial reports varies widely across the sector. High quality internal reporting is a key factor in delivering effective, long term council decision making. It is the mechanism by which executives and councillors obtain key council performance data.

Key findings

- We reported 565 significant control weaknesses across the sector during 2013–14.
- Reporting of non-current assets continues to be the most significant sector issue. We reported weaknesses at 46 councils.
- Eighteen councils had information security control weaknesses.
- Of the issues identified in 2012–13, 29 per cent remained unresolved in 2013–14 and were raised again with the respective councils.
- Full accrual based internal financial reports were not prepared by 27 per cent of the councils.
- The Local Government Association of Queensland has changed the internal audit services they offer to align with industry standards.

5.1 Background

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

Each council is responsible for developing measures to manage the 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.

The five core elements of an integrated system for control are:

- **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 the achievement of 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, including the related business processes relevant to financial reporting; and the way that control responsibilities are communicated throughout the entity.
- **Monitoring of controls**—the methods management uses to oversee and assess the operating effectiveness of control activities in practice. This may be achieved through ongoing supervision, periodic self-assessments and separate evaluations.

When all of the components 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 council management.

5.2 Conclusions

Prioritising financial reporting and responding to identified audit issues reflects a council's overall governance. Many councils with numerous internal control weaknesses still manage to complete their financial statements within the statutory deadline. This proactive approach demonstrates a desire to improve governance and a commitment to financial reporting. Councils with untimely financial statements and minimal audit issues do not adequately prioritise financial reporting to their communities and, therefore, show poor overall governance.

The sustained volume of significant control issues identified across the sector indicates that systemic problems continue to hamper the work of strengthening financial control frameworks. These issues are directly correlated to the timeliness of councils' financial statements.

Internal financial reports are a vital component of any control framework as they are the mechanism by which executives and councillors understand the business's current operations and future directions. The type and quality of these reports varies widely across the sector. Full accrual based reports, which make use of key financial ratios and trend analysis, are needed to allow executives and councillors to properly discharge their financial management responsibilities and ensure focus on long term strategies.

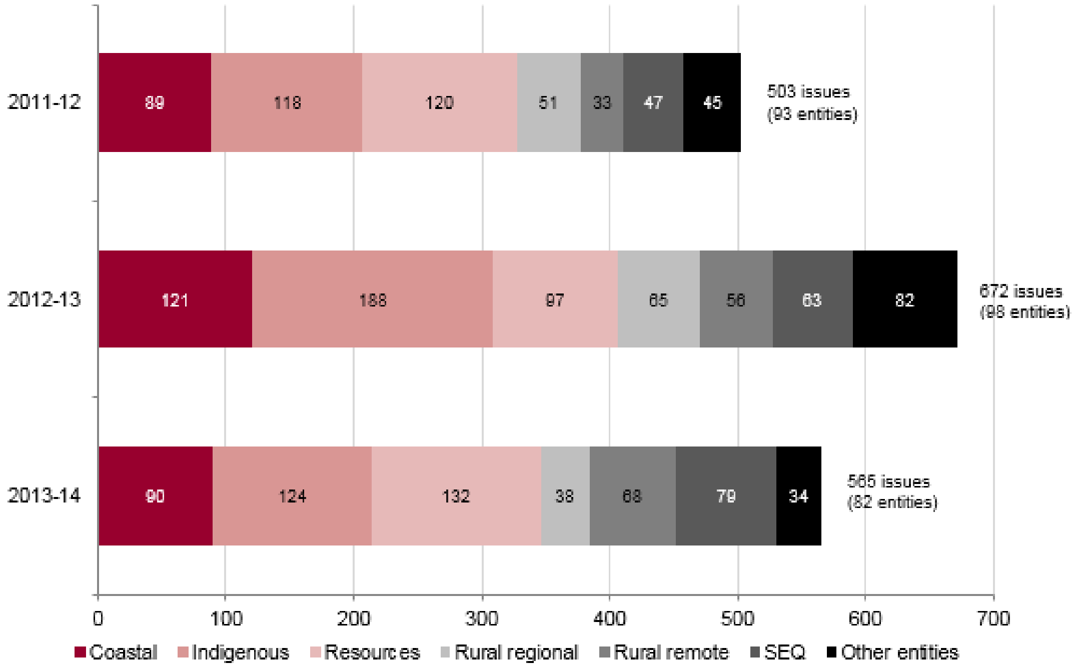
5.3 Internal control frameworks

During the financial audit, we assess key internal controls over the reliability of financial reporting. We raise any identified weaknesses with management for corrective action.

Across the sector, we reported 565 significant control weaknesses to management during 2013–14, as illustrated in Figure 5A.

We categorise significant weaknesses as high risk—with action required from management within two months, or moderate risk—which requires action within three to six months.

Figure 5A
Significant control weaknesses reported by segment



Source: Queensland Audit Office

While significant issues seem to have reduced across the sector this year, 9 entities still had unfinished audits at the time of this report (refer section 2.3.2). As the number of issues generally increases the longer the financial statements remain unfinished (refer Figure 5C), we expect that, overall, the volume of significant sector issues will be consistent with last year.

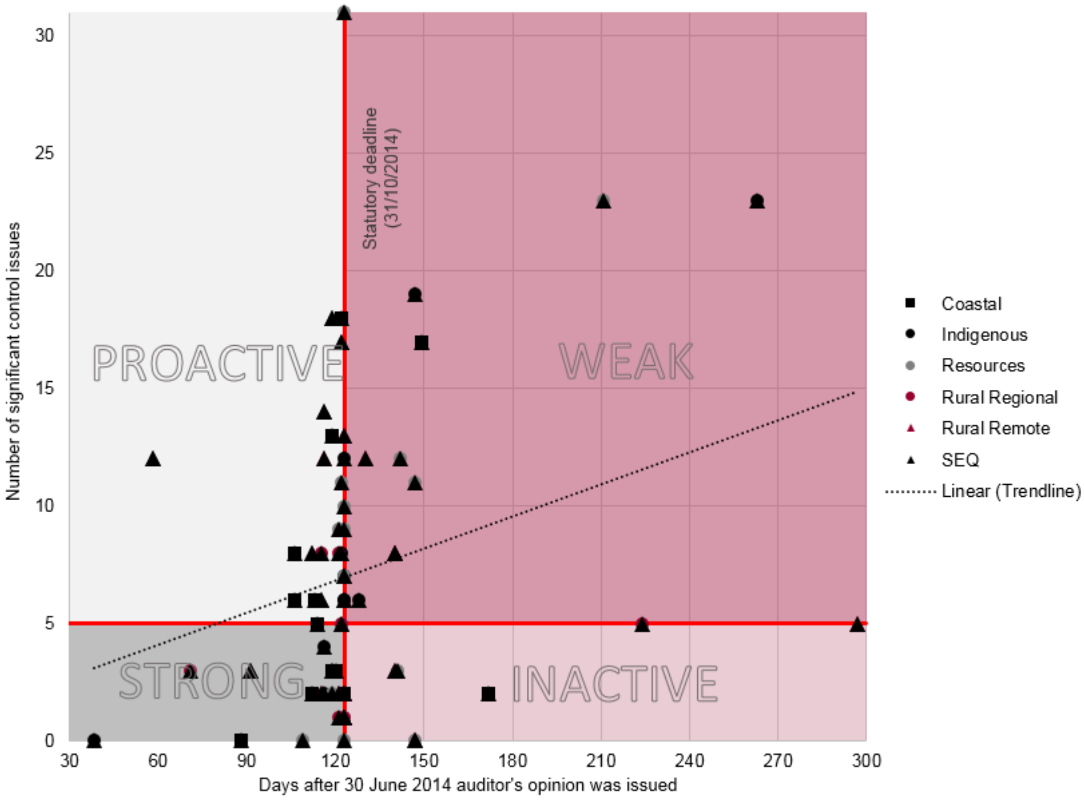
Worsening trends were experienced by councils in the resources and south-east Queensland (SEQ) segments. Several SEQ councils have undertaken major system implementations in the last few years which have directly related to the increase in significant issues we've raised for this segment.

The increase in issues for the resources segment mainly results from increases in the significant issues identified for Burke Shire Council and Maranoa Regional Council. Together these councils represent 40 per cent (2012–13: 28 per cent) of the issues raised for this segment. Both councils are actively addressing the issues identified.

During 2013–14 we followed up on councils' progress in addressing significant, unresolved prior year issues. Approximately 29 per cent of issues identified in 2012–13 remain unresolved in 2013–14 and were raised again with the respective councils.

Figure 5B illustrates the direct correlation between the number of significant control issues reported and councils' timeliness in completing their financial statements.

Figure 5B
Internal control weaknesses versus timely financial reporting



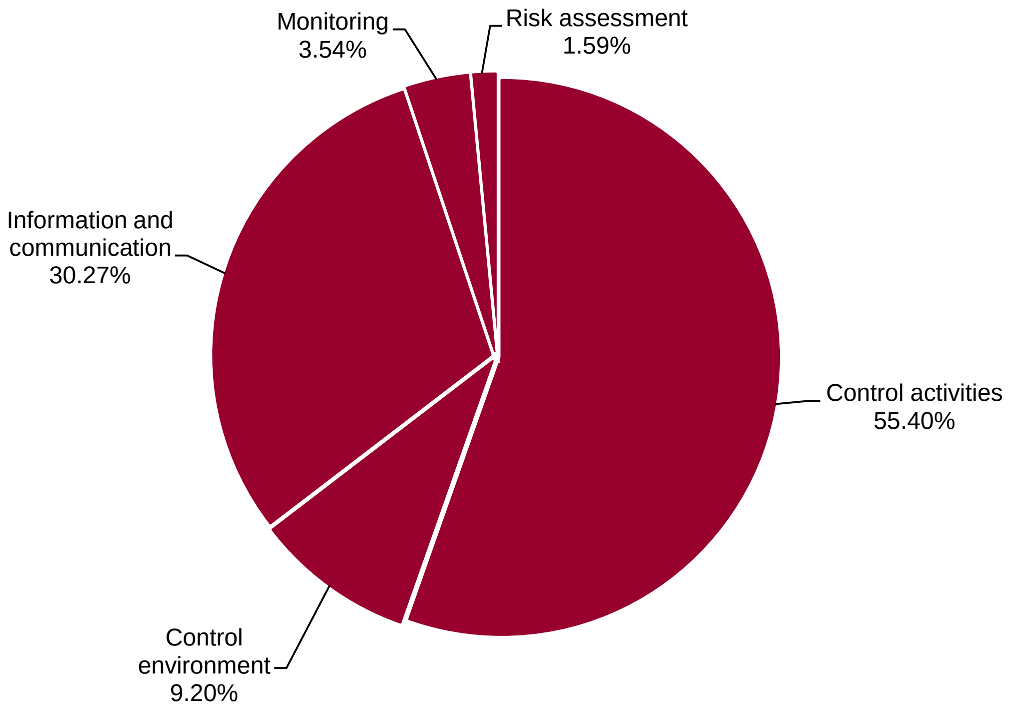
Source: Queensland Audit Office

Of the councils that missed the reporting deadline, 59 per cent had more than five significant control issues reported. This shows that these councils did not address their control weaknesses in time to allow timely financial reporting—classified as 'weak' in Figure 5B. The other 41 per cent that missed the deadline had very few issues raised indicating that, although their internal control frameworks were reasonably sound, these councils are not committed to timely financial reporting—classified as 'inactive' in Figure 5B.

Councils with minimal issues and timely financial statements are within the 'strong' quadrant. Councils with more than five significant control issues that still managed to meet the 31 October statutory reporting deadline are considered to be actively addressing the weaknesses identified and maintaining an appropriate focus on accountability.

Figure 5C shows the percentage of the sector's significant control weaknesses identified across the five components of the internal control framework.

Figure 5C
Significant control weaknesses by internal control component



Source: Queensland Audit Office

Most issues identified continue to relate to weaknesses in control activities—56 per cent (2012–13: 55 per cent) and information and communication—30 per cent (2012–13: 27 per cent).

5.4 Control activities

Control activities are the 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. They include controls such as separating duties that are in potential conflict—like raising and approving orders, confirming goods and services have been received, and authorising payments.

Information security control weaknesses continue to be a major issue across the sector (18 councils).

Information system controls operate to restrict access to systems, data and programs to authorised users and to align their access rights properly with their authority and responsibility. Without adequate controls, it is difficult to safeguard information against unauthorised use, disclosure or modification, damage or loss, and data integrity cannot be guaranteed.

The main types of security weaknesses identified were:

- Inadequate review of user roles and activities—This may result in not being able to quickly detect staff members who have inappropriate system access.
- Poor management of user accounts with broad access to all system transactions, including not maintaining strict access to these accounts and not monitoring account activity—This increases the risk of these users having inappropriate access and performing unauthorised and potentially fraudulent transactions.
- Inadequate EFT file security—Unrestricted access to change data on transfer files increases the risk of fraudulent activity occurring.

Other major control issues identified were:

- Weak controls over changes to vendor and employee masterfiles (21 councils)—This increases the risk of unauthorised changes to vendor or employee details resulting in fraudulent payments being made.
- Inadequate segregation of duties across expenditure, payroll and revenue (15 councils)—This increases the risk of errors or fraud being undetected, as a single person may be able to process a transaction completely without any other independent check to verify its validity or accuracy.
- Inadequate processes around reconciliations and general ledger journals (18 councils)—This increases the risk of errors and deliberate manipulation of amounts not being detected in financial records.

5.5 Information and communication systems

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

The major issues we continue to identify relate to the reporting of non-current assets (46 councils) and poor quality assurance processes over financial statement preparation (14 councils).

For non-current assets the major issues are:

- Shortcomings in controls over the valuation of non-current assets, including incomplete asset registers, insufficient documentation to support management's review of key assumptions used and reasonableness of valuation outcomes—This increases the risk of asset values and depreciation expenses not being accurate.
- Insufficient documentation to support asset condition assessments—This increases the risk of asset values and depreciation expenses not being accurate.
- Untimely capitalisation of work in progress—This affects depreciation expense calculations.
- Asset restoration works incorrectly classified as repairs and maintenance expense rather than as capital expenditure—This affects councils' net results, asset values and calculation of financial sustainability ratios.
- Grant funding received for capital projects incorrectly classified as recurrent grants rather than capital grants—This affects the calculation of the financial sustainability ratios.

5.5.1 Internal financial reporting

Good internal financial reporting allows executives and councillors to properly discharge their financial management responsibilities. It provides regular information on the council's performance and financial health, including progress against budget and organisational responses to financial and business risks. To be useful, these reports must provide accurate, relevant and succinct information, be easy to understand, and be comparable across reporting periods and across different council activities.

The type of financial information provided to councillors each month varies widely across the sector. Full accrual based reports were not prepared by 27 per cent of councils, with depreciation being the most common expense not reported. Councils that prepare partial accrual reports do not provide timely information about the effects of financial transactions as they occur. This results in the impact of council decisions not being fully known until the annual financial statements are prepared.

Key financial ratios and trends were not reported by 45 per cent of councils. These ratios provide insights into council's financial health and long term financial sustainability. Councils not reporting key financial ratios may not have effective long term strategies for financial sustainability.

There was no formal process for signing off on the accuracy and completeness of internal financial reports for 69 per cent of councils. The reliability of data used for decision making diminishes without a consistent documented framework for preparing internal reports and providing evidence of management's responsibility for providing accurate financial information.

Figure 5D identifies key characteristics of better practice internal financial reporting.

Figure 5D
Internal financial reporting better practices

Key characteristics
• prepare monthly reports on a full accrual basis • establish a clear framework for preparation of internal reports that aligns across the business to ensure consistency of reported information • provide timely information on achievement against budget with significant variances fully explained and analysed • dissect reports by business units/departments • regularly report on major projects/contracts • regularly report on cash flows and asset management • report by exception • use charts and graphs in preference to data tables to present information • report key financial ratios and trends to aid understanding • report against key performance indicators as stated in corporate plans/annual reports • include both financial and non-financial data when reporting performance information • include an executive summary to highlight key results and issues • confine detailed financial information to an appendix (if presented at all) • obtain sign-off from responsible managers on the underlying transactions and balances reported • produce reports from fully integrated systems.

Source: Queensland Audit Office

5.6 Monitoring and review of control activities

Monitoring and review activities evaluate whether the components of the system of internal control are in place and operating effectively. The purpose is to detect and address any control deficiencies. An internal audit function and an audit committee are two key monitoring and review activities.

5.6.1 Internal audit function

Seventeen councils used the Local Government Association of Queensland (LGAQ) to provide an internal audit function. In our report to Parliament Results of audit: Local government entities 2012–13 (Report 14: 2013–14) we reported that the services provided by LGAQ did not satisfy all the requirements of a recognised internal audit function.

LGAQ has subsequently reviewed its practices and made changes to the internal audit services it offers so that they align with industry standards. While these changes have been discussed with us and will be assessed as part of the 2014–15 audit (as all internal audit services are annually), it is each council's responsibility to determine whether LGAQ's services provide an effective internal audit function that meets council requirements.

Figure 5E lists the key characteristics of better practice internal audit functions.

Figure 5E
Better practice internal audit functions

Key characteristics
• there is an internal audit charter • a quality assurance program is in place which includes both internal and external assessments • officers have relevant qualifications and professional certifications • ongoing professional development and training is provided • there is an internal audit plan linked to the organisation's strategic objectives, risks and business drivers • internal audit conducts an annual risk assessment to support its risk-based planning • an annual and three year internal audit plan is prepared with audit committee endorsement • internal audit has adequate resources with appropriate skills • a consistent audit methodology is established and detailed working papers are prepared. • all work is independently reviewed • timely reports are prepared for management and the audit committee • internal audit monitors and reports on implementation of recommendations.

Source: Queensland Audit Office

5.6.2 Audit committees

Since 1 July 2010, local government legislation has required about a third of councils to establish an audit committee. However, all councils were required to have an audit committee from 1 July 2014.

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. It also provides the opportunity for councils to engage with outside financial management professionals who bring with them different points of view as well as expertise in areas such as finance, risk management or legal services.

To minimise the costs for committees, while remaining effective, council could consider:

- holding meetings via teleconference or video conference
- appointing experienced finance professionals from neighbouring councils as the independent member in a reciprocal arrangement
- using the LGAQ's panel of experienced, suitably qualified individuals who are available to be engaged as independent committee members.

Councils are responsible for assessing the suitability of proposed independent audit committee members.

Figure 5F shows the key attributes of audit committee better practice.

Figure 5F
Better practice audit committees

Key attributes
Audit committees monitor all aspects of financial reporting, the activities of external and internal audit and the management of risks and performance. Effective audit committees: • have an approved documented charter which includes the committee's responsibilities and has regard to relevant legislative requirements and council's broader corporate governance framework • plan their activities to meet their responsibilities and focus on the important issues and risks • are chaired by a person who is able to lead discussions, encourage the participation of other members, and conduct meetings effectively • comprise individuals with the right combination of skills and experience including broad business, financial management and public sector experience and expertise • receive appropriate levels of support and opportunities to be aware of developments in the council and the local government sector, generally through agendas and supporting materials • have a sound working relationship with the chief executive officer and the council and is able to exercise discretion in determining how best to meet their responsibilities • monitor the implementation of recommendations made by internal and external audit and other review activities • ensure 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.

Source: Queensland Audit Office

6 Financial sustainability

In brief

Background

To be sustainable, councils need to adopt longer term planning processes that manage future financial risk, while maintaining appropriate community service levels.

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—councils' capacity 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

- Effecting change in long term indicators like the operating surplus ratio requires sustained changes to income and expenditure policies across the business.
- Continually running operating deficits makes it difficult for councils to generate sufficient funds to maintain service levels and renew essential community infrastructure.
- Outside south-east Queensland, councils have a conservative approach to debt and borrowing. While debt can be used to finance infrastructure renewal, increasing borrowings is not an alternative to councils making difficult service delivery decisions to ensure community services are both appropriate and affordable for current and future generations.
- Changing community demographics and potential changes to natural disaster funding require councils to revisit their infrastructure policies and asset management plans to develop new strategies for addressing ongoing financial sustainability.

Key findings

- For 2013–14, one out of the 66 continuing councils audited to date spent more than they earned. Of these, 24 also reported operating deficits in 2012–13.
- Only 27 of 69 councils achieved an average operating surplus (that is, above zero); 16 of these were rural/remote and resources councils. This disproportionate result is primarily attributed to the lucrative sales revenue generated from the Department of Transport and Main Roads for repairing damaged state-owned road infrastructure in regional areas.
- The deterioration in average operating surplus ratios from 2012–13 results from changes in federal government funding time frames and councils' reclassification of operating and capital grants following improved understanding of departmental guideline definitions.
- Councils continued to misinterpret the asset renewal definition—usually resulting in asset upgrades being misclassified as renewals or renewals being misclassified as repairs and maintenance expense.
- South-east Queensland and coastal councils have less infrastructure asset value per person compared to other segments.

Recommendations

It is recommended:

3. The Department of Infrastructure, Local Government and Planning provides descriptive guidance on how to calculate renewals for the asset sustainability ratio. This guidance should include examples from council experience as well as advice on how to distinguish between capital and operating grants.

6.1 Background

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, infrastructure assets and debt financing need to be evaluated 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 (the Regulation), council annual reports are required to include three measures:

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

The Regulation 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. Appendix G details the financial sustainability measures used and the 2013–14 results for each council. These classifications are based on the categories used by the Local Government Association of Queensland (LGAQ) in their 2013 report *Factors impacting Local Government Financial Sustainability: A Council Segment Approach*.

Our assessment of the operating surplus ratio and the net financial liabilities ratio was based on actual results for the last five years, while the asset sustainability ratio was based on the last two years only, as audited renewals data is not available beyond that time. 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 five 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. During 2013–14, four new councils were established as a result of de-amalgamation and our assessment of their financial sustainability measures is disclosed separately in section 3.4.3 of this report.

Our assigned risk rating, explained in Appendix G, does not mean that councils are presently unsustainable. It is based on actual experience over the past five years and on the premise that, if this actual experience continued, the risk of councils becoming unsustainable would increase.

6.2 Conclusions

Effective councils continuously monitor current and projected financial constraints, as well as changing demographic projections and optimal community service levels. They incorporate these into their long term strategies. Should external funding become more difficult to secure, councils will need to seek new revenue streams, cut costs and/or reduce their service delivery standards.

Continually running operating deficits makes it difficult for councils to generate sufficient funds to maintain service levels and renew essential community infrastructure.

Councils with low populations and limited own-source revenues have less capacity to repay borrowings. While debt can be used to finance infrastructure renewal, increasing borrowings is not an alternative for councils when they are already making difficult service delivery decisions and they need to plan for future generations.

Councils that continually report average asset sustainability ratios below the Department of Infrastructure, Local Government and Planning's (the Department) target range of 90 per cent will not be able to provide today's community service levels to future generations without significant increases in future government funding or borrowings. This, in turn, increases the funding burden on future generations.

6.3 Results for each measure

The three financial sustainability measures were calculated using information from the 69 financial statements (consolidated where applicable) completed to date. We compared them to the department's targets, contained in the department-issued Financial Management (Sustainability) Guideline 2013.

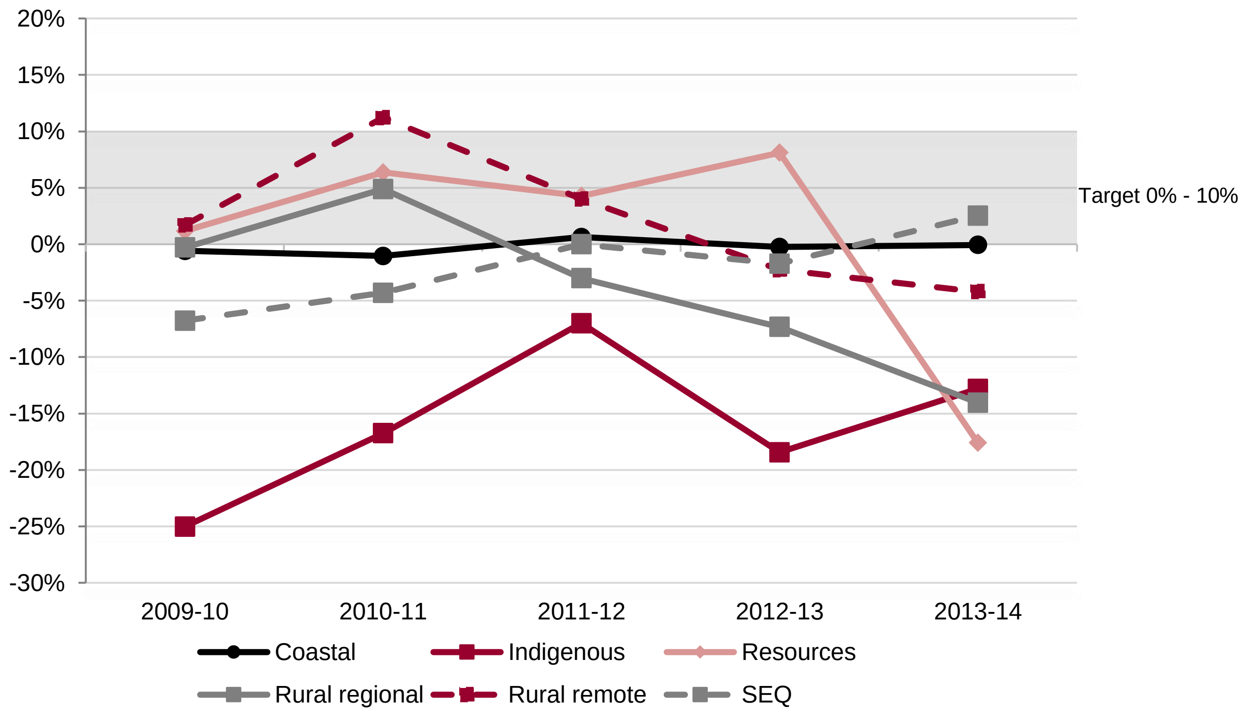
Appendix G (Figure G5) details councils' individual financial sustainability ratios.

6.3.1 Operating surplus ratio

This ratio indicates 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, by council segment, the movement in the average operating surplus ratio over the past five financial years based on the 66 (of 73) continuing councils audited to date. As the four new de-amalgamated councils only operated for six months from 1 January 2014, these councils have been excluded from the 2013–14 average. (Section 3.4.3 contains further information on the financial sustainability of these new councils.)

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



Source: Queensland Audit Office

The operating surplus ratio is a long term indicator, so we use the average ratio over the last five years when considering a council's overall financial sustainability risk rather than using the 2013–14 actual results in isolation. Baseline data has only now been established for a complete five year cycle, so it is not surprising that councils' movement between risk categories (explained in Appendix G) has not changed significantly over this time. Effecting change in a long term indicator like this requires sustained changes to income and expenditure policies across the business.

For 2013–14, 41 out of 66 continuing councils completed to date (62 per cent) spent more than they earned: 24 of these councils also reported operating deficits in 2012–13. A further three councils exceed the department's 10 per cent upper target. Minor deficits are not a concern in the short term, but councils need to at least break even over the long term to be financially sustainable. Continually running operating deficits makes it difficult for councils to generate sufficient funds to maintain service levels and renew essential community infrastructure.

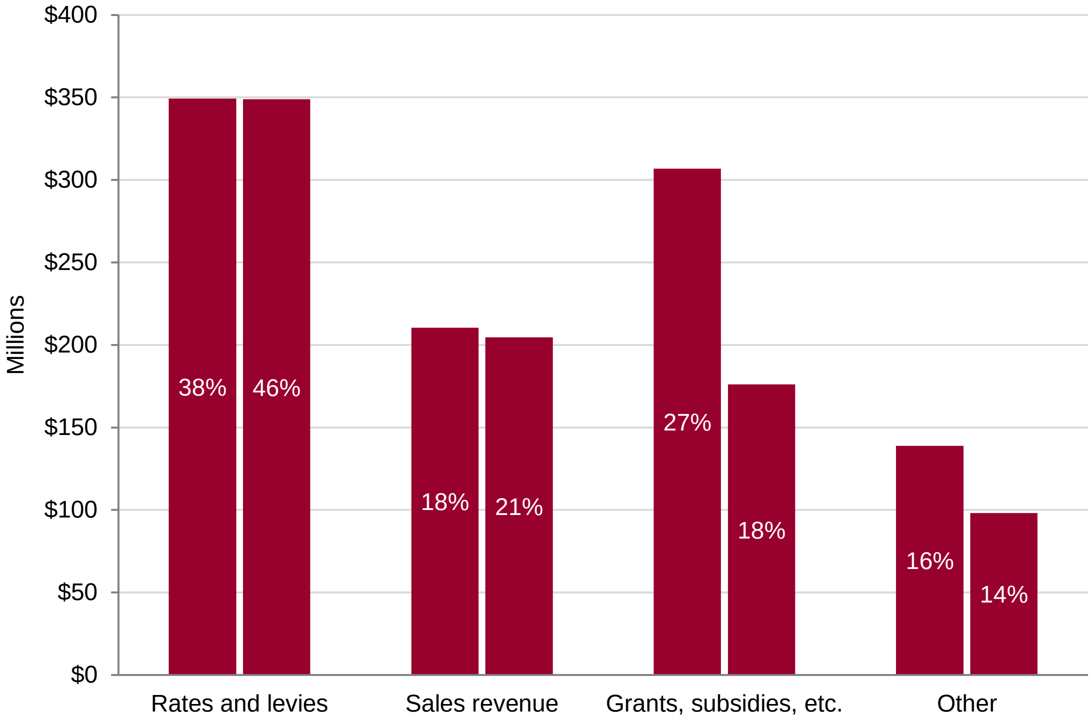
The resources councils' average operating surplus ratio significantly deteriorated from 2012–13, with 12 of the 15 councils audited (2012–13: four) reporting a negative ratio. This primarily results from a change in federal government funding time frames and councils' improved understanding and application of capital revenue and expenditure definitions.

Unlike previous years, 2014–15 federal government financial assistance grants were not paid in advance. While councils received half the 2013–14 annual grant in June 2013 ($223.9 million across the sector), no similar payment was received in June 2014. Total financial assistance grants received in 2013–14 were $222.5 million (2012–13: $428.8 million). As these grants are recognised as revenue upon receipt, in accordance with Australian accounting standard requirements, this translated into a significantly reduced current-year operating surplus ratio for councils reliant on grant funding as a major source of income.

In addition, councils built on experience gained from first-time application of the department's guidelines in 2012–13 to better analyse the classification of operating and capital revenues and expenses. This resulted in many councils reclassifying operating grants as capital grants in 2013–14, thus reducing the operating result and the associated operating surplus ratio. Councils, however, are not served well by the broad definition of capital revenues currently provided in the guidelines. Councils would significantly benefit from the department expanding this definition.

Figure 6B illustrates the impact of these changes by showing the combined major operating revenue streams for resources councils over the last two financial years. While all other revenues have stayed reasonably constant, there is a clear reduction in operating grant revenues in 2013–14.

Figure 6B
Operating revenue composition—resources councils from 2012–13 to 2013–14



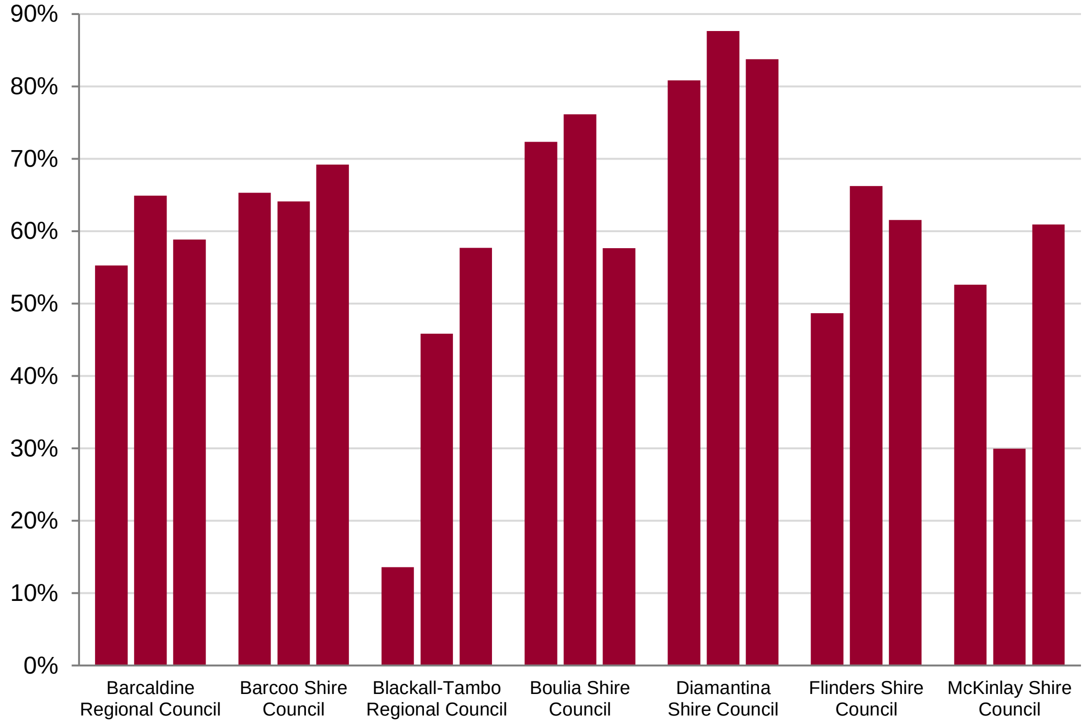
Source: Queensland Audit Office

Federal government financial assistance grant payments will normalise in 2014–15 with Queensland councils expecting total payments of $453.1 million. This should result in increased operating surplus ratios across grant-reliant segments next year.

Based on average operating results for the past five years, only 27 councils achieved an average operating surplus (that is, above zero); 16 of these (63 per cent) were rural/remote and resources councils. This seemingly disproportionate result is mostly due to the lucrative sales revenue (termed contract and recoverable works) generated from the Department of Transport and Main Roads (DTMR) for repairing damaged state-owned road infrastructure in regional Queensland.

Figure 6C shows a three year trend across the five rural/remote and two resources councils that received more than 50 per cent of their operating revenue from DTMR sales in 2013–14.

Figure 6C
Sales revenue as a percentage of operating revenue from 2011–12 to 2013–14



Source: Queensland Audit Office

The councils in Figure 6C experienced natural disasters over the last few years, so they needed major works on state-owned road infrastructure within their regions. Securing contracts to repair and rebuild damaged state roads has benefited these councils and bolstered their own-source revenues (that is, revenues other than grants). The finalisation of previous disaster recovery works, however, combined with increased competition between councils for DTMR contracts, could see a reduction in these revenue streams in future.

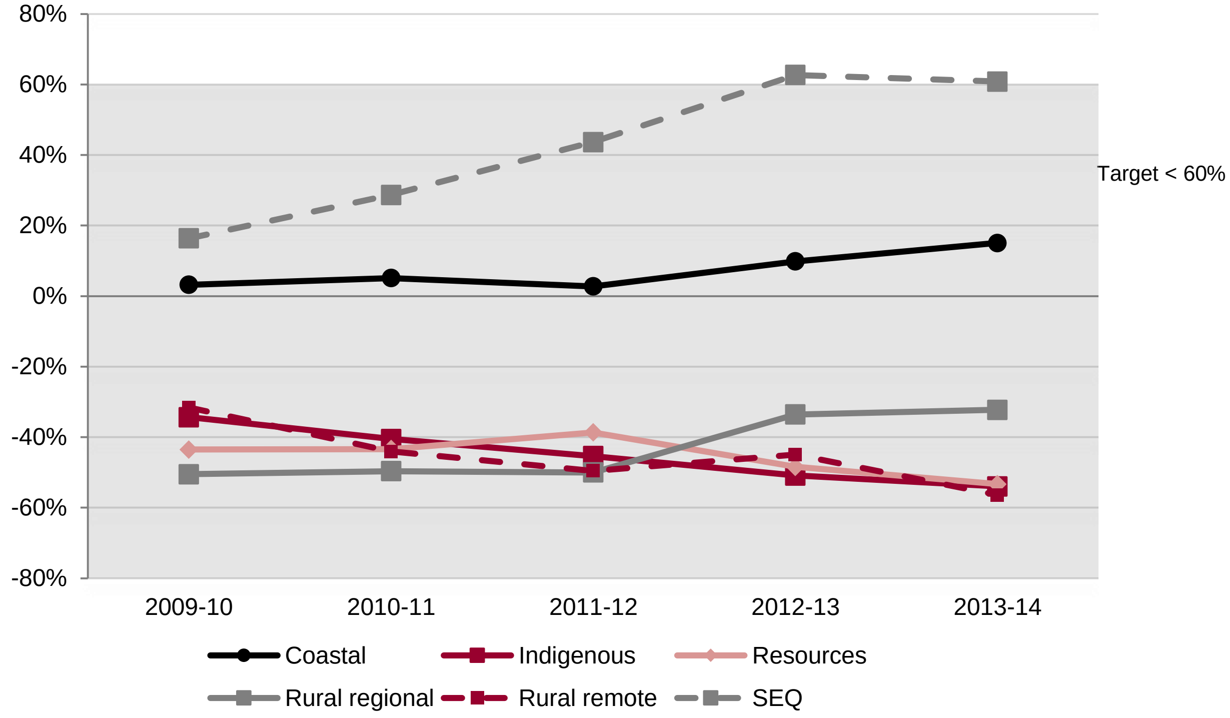
Population growth is declining and so is government grant funding. It is becoming a challenge for smaller, less populated councils to sustain the external revenue streams required to deliver community infrastructure and services to the current standard. More councils need to find external sources of revenue like these for their communities.

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 community service levels. 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 6D compares the movement in average net financial liabilities ratio over the past five years by council segment, based on 66 (of 73) continuing councils audited to date. (Section 3.4.3 contains further information on the financial sustainability of the four newly de-amalgamated councils.)

Figure 6D
Net financial liabilities ratio (average by council segment)



Source: Queensland Audit Office

As shown in Figure 6D, apart from south-east Queensland councils, the sector has taken a very conservative approach to debt and borrowing, with the department's target range being easily achieved.

Councils that have more cash in the bank than they have debt, have negative net financial liabilities ratios. In 2013–14, 46 councils reported negative ratios (2012–13: 55 councils). Forty-one of these (89 per cent) were Indigenous, rural/remote, rural/regional and resources councils, showing that councils in these segments generally avoid debt as a mechanism for managing their business. These councils generally have low populations and limited own-source revenues and, therefore, less capacity to repay borrowings.

There is no right or wrong debt level, but in an economic environment where government funding is declining, it is vital that councils make optimal asset management decisions for their communities. Debt may be a viable option for financing infrastructure renewal. It is not, however, an alternative to making difficult service delivery decisions. Councils may borrow if the service delivery model and level of service provided is still appropriate and affordable now and in the future.

Queensland legislation requires councils to obtain the department's approval before borrowing from QTC, the primary lender to all Queensland local governments. The Treasurer's approval is required for borrowings not sourced from QTC but, historically, external borrowings have been limited. This legislative process mitigates the risk experienced in some other jurisdictions where councils can source borrowings from any lender without the need for external approval.

As part of the department's assessment process, borrowing requests must be supported by strong cash flows which demonstrate a capacity to repay that will not have an adverse impact on the community. For the select number of councils facing significant challenges and/or undertaking large borrowings, the department engages QTC to undertake a comprehensive rolling, annual credit review program.

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 expense. 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. However, a low percentage may also indicate the asset base is relatively new, as a result of rectifying extensive natural disaster damage, which does not yet 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.

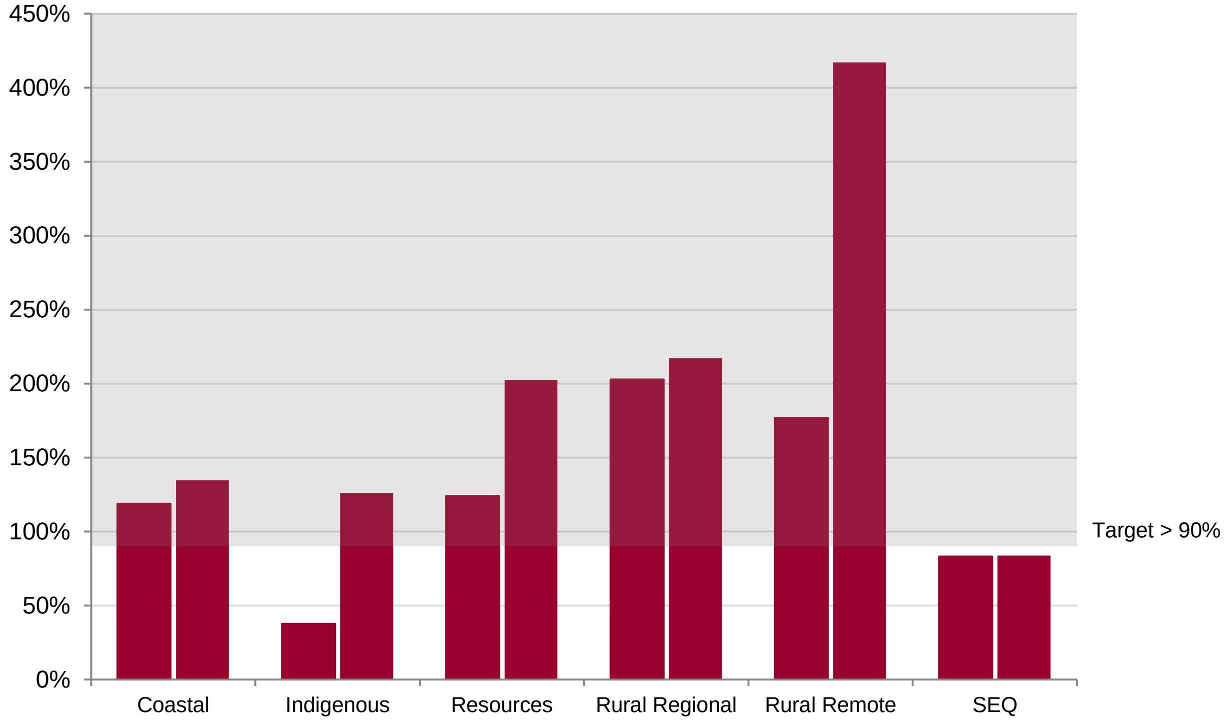
The guideline example refers to a two lane road that is replaced with a four lane road—expenditure to replace the existing two lanes would be a renewal (included in this calculation) while expenditure on the two new lanes would be an upgrade (excluded from this ratio).

A number of councils continued to experience delays in finalising supporting documentation for calculating the asset sustainability ratio, due to the misinterpretation of the asset renewal definition—usually resulting in asset upgrades being misclassified as renewals or renewals being misclassified as repairs and maintenance expense.

More descriptive departmental guidance with practical examples drawn from council experience across various infrastructure types would alleviate these difficulties.

Figure 6E depicts the asset sustainability ratio over the past two years by council segment, based on the 66 (of 73) continuing councils audited to date. (Section 3.4.3 contains further information on the financial sustainability of the four newly de-amalgamated councils.)

Figure 6E
Asset sustainability ratio (average by year by council segment) from 2012–13 to 2013–14



Source: Queensland Audit Office

For the 66 continuing councils, comparative information is only available for 2012–13, as that was the first year councils' renewals expenditure was audited.

As this is a long term indicator, at least five years of baseline data is required to make an informed assessment of a council's performance using this ratio.

For rural/remote councils, ten of 11 audited councils (2013: nine of 13 councils) had ratios in excess of the 90 per cent target. This reflects the significant road infrastructure renewal works many of these councils had to complete by 30 June 2014 under the Natural Disaster Relief and Recovery Arrangement attaching to the January/February 2012 flood events. Murweh Shire Council, with a two-year average of 976 per cent, significantly distorts Figure 6E. Had Murweh Shire Council been excluded from this analysis, the average for the rural/remote segment would be 274 per cent, which is in line with the prior year.

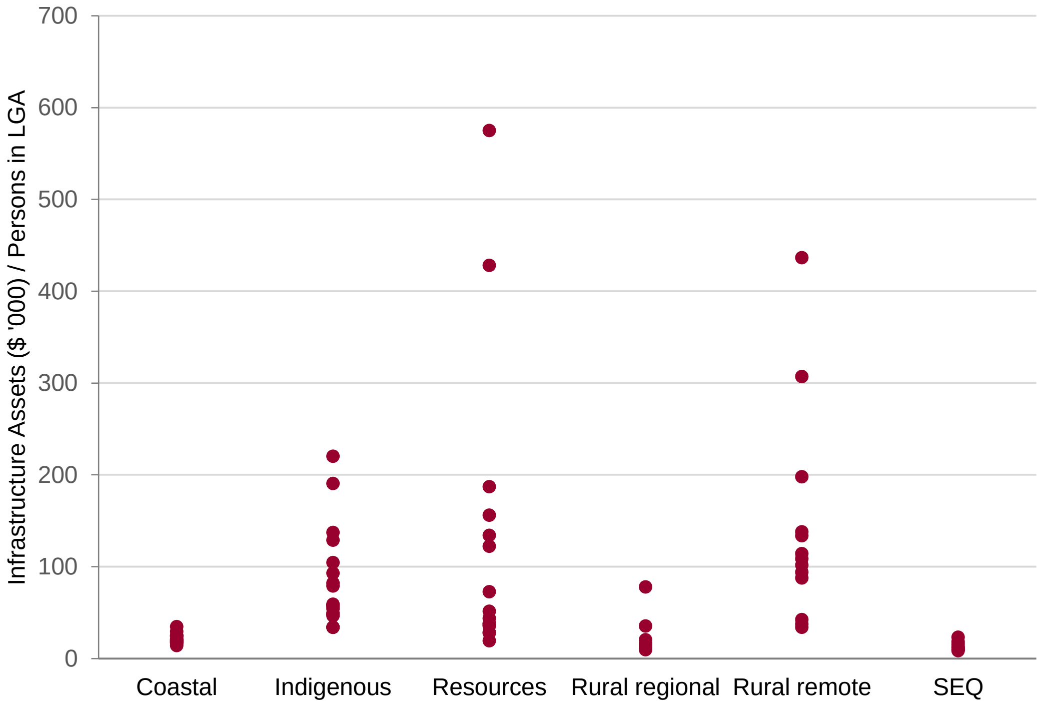
In recognition of Indigenous councils' limited financial resources, the requisite infrastructure for roads, water and sewerage, and community facilities has historically been provided by the federal and state governments under special infrastructure programs. For 2013–14, a substantial renewal of infrastructure assets was completed and transferred as a contribution to Indigenous councils, resulting in a significant improvement to the asset sustainability ratios, with seven of 13 councils (2013: three of 16 councils) audited to date reporting ratios above the target range.

Population and funding impacts

Community service levels can, quite appropriately, change over time. Councils must, however, ensure they use their community knowledge to be proactive rather than reactive to community changes. Queensland is a vast state with numerous councils having small populations, large geographic areas and significant infrastructure portfolios. Therefore, demographics within communities are a key factor in determining desired service levels in an optimal asset management approach.

Figure 6F shows the written down value of infrastructure assets per person by council segment.

Figure 6F
Infrastructure asset value per local government area population by council segment



Source: Queensland Audit Office using 2013 population data from the Queensland Government Statistician's Office

South-east Queensland and coastal councils have less infrastructure asset value per person compared to other segments. This is due to their significantly larger populations and the generally smaller geographical areas over which their infrastructure (particularly road infrastructure) provides service.

The following four sparsely-populated councils, the outliers in Figure 6F, had infrastructure assets valued at more than $300 000 per person:

- Barcoo Shire Council (resources)
- Bulloo Shire Council (resources)
- Croydon Shire Council (rural/remote)
- Diamantina Shire Council (rural/remote).

While these four councils have met the department's asset sustainability target ratio, declining operating revenue streams will reduce the ability of these councils to maintain and renew infrastructure assets to current service levels. With declining revenue streams, councils may need to consult with the community about alternative infrastructure needs, such as having a gravel road in lieu of a bitumen road.

While most rural/remote and resources councils have met the department's asset sustainability target ratio over the last two years, this primarily results from significant recent spending on flood damaged assets under the federal government's Natural Disaster Relief and Recovery Arrangement funding program. Under the current scheme, the federal government meets up to 75 per cent of the states' cost of disaster recovery on 'eligible' expenditure.

During 2013–14, the federal government established a Productivity Commission Inquiry into Natural Disaster Funding Arrangements to achieve a more effective and sustainable balance of natural disaster recovery and mitigation. The commission's draft report, issued in September 2014, recommends reducing the federal disaster funding contribution from 75 per cent to 50 per cent and spending more on mitigation strategies.

History and geography indicate that Queensland councils will have continued exposure to extreme weather events. Councils need to plan for potential funding impacts and develop strategies for addressing ongoing sustainability. This will require councils to revise their infrastructure policies and asset management plans to insert resilience and mitigation strategies. Current and projected financial constraints as well as changing demographic projections also need to be considered, as do optimal community service levels.

6.4 Recommendations

It is recommended:

3. **The Department of Infrastructure, Local Government and Planning provides descriptive guidance on how to calculate renewals for the asset sustainability ratio. This guidance should include examples from council experience as well as advice on how to distinguish between capital and operating grants.**

Appendices

Appendix A—Comments

In accordance with s.64 of the *Auditor-General Act 2009*, a copy of this report was provided to the Department of Infrastructure, Local Government and Planning and relevant sections were provided to the Local Government Association of Queensland Ltd and all councils named in the report. 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.

Responsibility for the accuracy, fairness and balance of the comments rests with the heads of these organisations.

Comments received from Acting Director-General, Department of Infrastructure, Local Government and Planning on 23 April 2015

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23 APR 2015
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Queensland Government

Department of Infrastructure, Local Government and Planning

Our ref: DGC15/366

Your ref: 10673

21 APR 2015

23/4/15

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

Dear Mr Greaves

Thank you for the opportunity to comment on your draft report *'Results of Audits: Local Government entities 2013-14'* (Report) soon to 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 Infrastructure, Local Government and Planning, I provide the following comments:

Recommendation 1: The Department of Infrastructure, Local Government and Planning assists councils in improving asset management practices by:

- **providing opportunities for training and mentoring**
- **helping to source external expertise**
- **producing better practice guidelines.**

The Department will continue to undertake activities in this area when required and will ensure that the importance of asset management is emphasised in future councillor induction training. The Department has been active in this area to date with recent work undertaken including:

- Funding a number of councils to engage assistance with understanding, preparing and implementing asset management plans. These engagements included education about the importance of asset management and the need to integrate asset and financing decisions.
- Providing 18 sponsorships for council employees to complete the nationally-accredited Diploma of Local Government Administration (Asset Management).

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ABN 251 66 523 889

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

- Engaging Queensland Treasury Corporation (QTC) to work with local governments, where requested, to ensure that their asset management strategy (expressed through asset management plans informed by engineering data/experience) is reflected in the non-current asset accounting policy such that financial reporting supports financial decision making. For example, Logan City Council found great benefit in aligning its financial reporting and asset management practices through its work with QTC. This led to a reduction in depreciation on water business assets of $13.9 million initially. The Council's sustainability ratios now reflect a more accurate picture of that Council's position.

- Promoting the benefits of asset management through the annual information sessions for finance officers.

- Working with the Department of Natural Resources and Mines to create a Standing Offer arrangement for engagement of qualified Asset Valuers. The purpose of these arrangements is to assist councils in engaging qualified and experienced valuers to assist in the revaluation of their infrastructure assets.

- Promoting the use of QTC's Whole of Life Costing tool and Project Management Framework in the recent information sessions for finance officers.

Recommendation 2: The Department of Infrastructure, Local Government and Planning considers introducing measures (such as incentives and/or penalties) that would improve councils' compliance with their legislative financial reporting deadlines.

The Department does not support the introduction of legislative penalties for councils that do not meet the timeframes for the completion of general purpose financial statements. Ultimately, councils are held to account by their community for their performance.

Instead, the Department will continue to work with councils to strengthen compliance with legislative requirements. With a major focus on those councils that have been continually late, departmental staff will actively engage with councils to ensure that they have established and agreed an appropriate timetable in order to meet the required compliance dates and then monitor council progress against the timetable.

Where necessary, direct action will be considered. Actions available range from a negotiated strategy with council management through to, in more serious cases, the use of formal monitoring and evaluation powers as prescribed in Chapter 5, Division 2 of the *Local Government Act 2009*. This includes the option of appointing Financial Controllers where councils demonstrate they are not performing their responsibilities properly or complying with the Local Government Acts.

The Department currently provides an incentive under the State Government Financial Aid program to those Indigenous councils that attain an unqualified audit result. Those councils receive half-yearly payments in advance rather than quarterly which assists with cashflow management. Opportunities to extend these arrangements will be considered.

Page 2 of 3

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

Recommendation 3: The Department of Infrastructure, Local Government and Planning provides descriptive guidance on how to calculate renewals for the asset sustainability ratio. This guidance should include examples from council experience as well as advice on how to distinguish between capital and operating grants.

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

Advice on how to distinguish between capital and operating grants has been included in the Tropical Council Illustrative Financial Statements for 2014-15.

Your Report makes comments and observations for the de-amalgamated councils, which began operating from 1 January 2014, including restating the 2012 pre de-amalgamation QTC sustainability rating and outlook forecasts.

QTC has been engaged to undertake credit reviews of all de-amalgamated councils and their respective continuing councils in 2014-15. For the de-amalgamated councils, this will be the first credit review for these councils.

While there may be some comment in relation to a differing position, it is not possible to realistically compare the 2012 review rating and outlook, and the new 2014-15 review rating and outlook.

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

If you require any further information, please contact Mr Gary Kleidon, Acting Director, Finance and Funding Branch on (07) 3452 6760 or gary.kleidon@dlgcrr.qld.gov.au, who will be pleased to assist you.

Yours sincerely

Stephen Johnston
Acting Director-General

Page 3 of 3

Comments received from Chief Executive Officer, Mackay Regional Council on 20 April 2015

Mackay REGIONAL COUNCIL

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20 APR 2015
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YOUR REF 10673
OUR REF KL/JP/LLG

16 April 2015 22/4/15

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

Results of Audit: Local Government financial statements for 2013 - 2014

Dear Mr Greaves

I am writing in response to your letter of 30 March 2015 addressed to Mayor Deirdre Comerford regarding your pending report to Parliament on the: Results of Audit: Local Government financial statements for 2013 - 2014.

The following comments are submitted in relation to the indicators attributable to the risk rating of 'moderate' recorded for the Mackay Regional Council (Council) in your draft report.

Operating Surplus Ratio

The key point to note for the negative result for this ratio is the significant amount of own source revenue (rates funding), Council used to fund capital expenditure. A significant amount of this capital expenditure was expensed during the financial year causing the negative result. If these costs (which were effectively capital funded) were excluded, the result would be a positive 4 percent. If this was taken into account, Council's strong performance against the other ratios which factor into the risk equation i.e. Net financial liabilities and Asset sustainability may result in a more favourable overall risk assessment

Timeliness

Our financial statements were certified and signed and given to our external auditors on 8 October 2014. The Management Representation letter was received, signed and returned to our external auditors on 27 October 2014, i.e. all in the same day. As a result we believe the Council provided timely completion of all our audit requirements in conjunction with our external auditors. We will continue to work with our external auditors to ensure all future requirements for audit are completed in a timely manner.

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ABN 56 240 712 069

Comments received from Chief Executive Officer, Mackay Regional Council

I trust this information provides further context in relation to the issues raised in your report and warrants a reappraisal of Council's risk rating. If you require any further information then please contact Kylie Lamb, Manager Financial Services on telephone (07) 4961 9454.

Yours sincerely

Barry Omundson
Chief Executive Officer

cc: Mayor Deirdre Comerford

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Comments received from Chief Executive Officer, Brisbane City Council on 22 April 2015

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Brisbane City Council ABN 72 002 765 795

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17 April 2015

22/4/15

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 30 March 2015 to the Lord Mayor and I about your draft report to Parliament on the results of local government financial statement audits for 2013-14.

We have reviewed the draft report and provided feedback to Mr Christopher Weh and Mr Patrick Fleming from your office. A summary is provided in Attachment A.

Regarding the Asset Sustainability Ratio (ASR) referred to in your draft report, Mr Paul Oberle, Council's Chief Financial Officer wrote to Mr Patrick Fleming, Sector Director Local Government on 30 March 2015 seeking clarification on the interpretation and intent of the ASR measurement. It is Council's view, that a comparison of actual asset renewal expenditure and asset condition, compared to recommended renewals and desired asset condition as derived from Strategic Asset Management planning, is a more effective measure of asset sustainability. This has been a subject of discussion between QAO representatives, Council's Chief Financial Officer and Council's audit committee.

If you require any further information please contact Mr Oberle on 3403 7884 or via email at Paul.Oberle@brisbane.qld.gov.au.

Yours sincerely

Colin Jensen
CHIEF EXECUTIVE OFFICER

Att.

Response to recommendations

Attachment A

Recommended amendments

1. Legacy Way

The draft report refers to total project costs including "$36.5 million in interest which was not capitalised". It is recommended this be amended to reflect that $40.5 million in 2013-14 and $48.7m in 2012-13 in interest was capitalised.

2. Average of ratios

It is suggested that in order to assist readers with interpretation of data in the report, the table on page 108 include a commentary that explains average ratios have been calculated on a five-year timeframe, except for the average Asset Sustainability ratio which is based on a two-year timeframe.

3. Differences between Council calculated ratios and ratios in draft Auditor-General report

Some minor differences have been noted between the ratios calculated by Council and the ratios in the draft report. Your office has advised these are being adjusted in the report.

Comments received from Chief Executive Officer, City of Gold Coast on 23 April 2015

Date:	21 April 2015
Contact:	Mr John Blair
Location:	Waterside West Office
Telephone:	(07) 5581 6397
Your reference:	10673 Mr P Brahman
Our reference:	FN342/341/14(P1) #48972321

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23 APR 2015
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CITY OF GOLDCOAST.

23/4/15

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 2013-14

I refer to your correspondence of 30 March 2015 in which you sought comments on your proposed report to Parliament on the above matter.

Despite the results of the financial sustainability assessment contained in your proposed report, the Council of the City of Gold Coast (Council) maintains the view that it is not a higher financial risk. Although Council does not question the ratio calculations 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 determining the relative risk 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 has put this case to the State government on a number of occasions, and will continue to strongly recommend 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 continues to responsibly manage its financial sustainability through robust asset management, long-term financial planning and stringent budget processes.

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 PSM
Chief Executive Officer
Council of the City of Gold Coast

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Nerang Administration Centre
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Comments received from Chief Executive Officer, Ipswich City Council on 24 April 2015

Your reference
Our reference
Contact Officer Andrew Roach
Telephone 07 3810 6266

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City of Ipswich

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45 Roderick St
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Email council@ipswich.qld.gov.au
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24/4/15

Mr Andrew Greaves
Auditor General
PO Box 15396
CITY EAST QLD 4002

21 April 2015

Dear Mr Greaves

I refer to your letter dated 30 March 2015 and provide the following response for your report to Parliament in May 2015.

Ipswich City Council would like to acknowledge that the matters raised in your report had formed part of Interim Audit findings for the 2014 year and did not form part of the final audit findings for 2014. The reason for this is that Council had sufficiently addressed, or had substantially commenced improvements towards the concerns raised in the interim findings.

As these matters are being tabled in Parliament we would like to place on record Ipswich City Council's position to these issues:

1. Contract Variations - Council has addressed the issues with these particular contracts and have now improved its contract management procedures to ensure that these issues are unlikely to occur again in the future. Council has also commenced a review of the entire governance, risk and contract development process for its procurement function to further advance the existing systems ensuring industry leading practice. Council has engaged an independent expert to lead this process and the outcome will be reviewed by a legal firm.
2. Invoice Processing - Council's internal Auditor reviewed these procedures through a full investigation and the findings have been implemented across Council.
3. Overpayments of GST - this was addressed immediately by Council.
4. Procurement Process - Council addressed this issue by re-educating its staff with existing policies. Additionally, Council has recently commenced another review to ensure industry best practice for its entire Procurement Policies and Procedures.

Comments received from Chief Executive Officer, Ipswich City Council

5. Procurement Reporting - Council has now built robust reporting and analysis tools for its Management Team to ensure policy and procedures are being followed and that Council is making best use of its scarce resources.

Council believe these matters had been significantly addressed and satisfied the Audit outcomes for the 30 June 2014 report, with no mention in the final Audit report for the year.

Council would like to highlight that on the overall assessment of Council's control environment and financial performance, Ipswich City Council received a green indicator across all other criteria compared to its grouped Councils. This is a significant result and shows a very sound performance in all areas of Council.

I would like to thank you for the opportunity to place Council's position on the record.

Yours faithfully

J Lindsay

Jim Lindsay
CHIEF EXECUTIVE OFFICER

Comments received from Chief Executive Officer, Lockyer Valley Regional Council on 27 April 2015

Lockyer Valley Regional Council
26 Railway Street, PO Box 82, Gatton Qld 4343
All official correspondence to be addressed to the CEO
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Email mailbox@lvrc.qld.gov.au | www.lockyervalley.qld.gov.au

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27 APR 2015
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Reference Number: 54620 372
Enquiries: Office of the CEO

23 April 2015 27/4/15.

Mr Brendan Macrae
Queensland Audit Office
PO Box 15396
CITY EAST QLD 4002

Dear Sir

LOCKYER VALLEY REGIONAL COUNCIL COMMENTS ON DRAFT LOCAL GOVERNMENT REPORT TO PARLIAMENT 2013/14

I refer to your email dated 1 April 2015, providing Council with a copy of the Draft Local Government Report to Parliament 2013/14, and herewith provide a formal response on behalf of Council.

"Council is noted as having some weakness in respect of the effectiveness of the internal control environment based on issues raised in the interim audit. Against the assessment of control effectiveness, Council had been identified as having material weaknesses of high risk (red) as shown in Figure G5. However, these controls were addressed and strengthened through improved policy and procedures, and were not listed in the final audit results. In fact, Council had no matters listed in the audit results for 2013/14".

I trust this satisfies your request and if you require anything further please do not hesitate to contact me on the number above.

Yours faithfully

Ian Flint
CHIEF EXECUTIVE OFFICER

Comments received from Chief Executive Officer, Noosa Council on 28 April 2015

NOOSA COUNCIL

Officer Name: Brett de Chastel
Officer Email: brett.dechastel@noosa.qld.gov.au
Phone No: 07 5329 6500
ECM Ref: Customer/QAO
Your Ref: 10673

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28 APR 2015
QUEENSLAND AUDIT OFFICE

27 April 2015 28/4/15.

Mr Andrew Greaves
Auditor-General
Queensland Audit Office
PO Box 15396
City East Qld 4002

Dear Mr Greaves,

Re: Report to Parliament on Local Government Audits for 2013/2014

Thank you for the opportunity to provide comments on the report that you will be presenting to parliament on the results of your audit of local governments for 2013/14.

We would like to provide a formal response to a number of matters raised in your report.

Costs associated with the De-amalgamation

As you are aware, de-amalgamation costs are defined by section 35 of the *Local Government (De-amalgamation Implementation) Regulation 2013*. Section 35 provides as follows:

35 What are de-amalgamation costs

(1) The de-amalgamation costs of a new local government are-

(a) the fees and allowances of the transfer manager under section 14; and

(b) any civil liability that attaches to the State under section 17(2); and

(c) the remuneration and other costs associated with the employees made available by the continuing local government to the transfer manager for the new local government under section 20(2)(c); and

(d) the costs identified in the transfer methodology under section 20(2)(d) to be payable by the new local government; and

(e) the costs decided by the transfer committee under section 27(c) to be payable by the new local government; and

(f) the costs, if any, decided by the Minister under section 30 to be payable by the new local government; and

(g) any civil liability that attaches to the State under section 34(2).

(2) To remove any doubt, it is declared that de-amalgamation costs may be incurred on any date, whether before or after the changeover day.

It is a matter of record that the de-amalgamation costs approved by the Transfer Committee to 30 June 2014 were $2,613,575.

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Comments received from Chief Executive Officer, Noosa Council

It is noted that your report has taken a different approach to the definition of "de-amalgamation costs" and referred to "one off costs". You have used the 2012 Queensland Treasury Corporation (QTC) report as a reference. It is also noted that you have identified that Noosa Shire Council has incurred "one off costs" of $4,356,576 using the methodology applied by QTC. This compares to the 2012 QTC estimate of "one of costs" as $11,020,000.

We note the approach in your report in identifying "one off costs" and simply note that by using a "one off costs" approach, you have reported a higher amount than would have been reported if you had used the definition of de-amalgamation costs as set out in section 35 of the Regulation. We believe that the correct approach would have been to use the definition provided by the State Government in 2013 via the Local Government (De-amalgamation Implementation) Regulation rather than the 2012 QTC report.

Further information on Redundancies

As you are aware, redundancy costs are not de-amalgamation costs as defined by section 35 of the Regulation nor were they identified as "one off costs" by QTC in their 2012 methodology. As such, you have correctly identified that such costs should not be included in the calculation of "one off costs" associated with the de-amalgamation process.

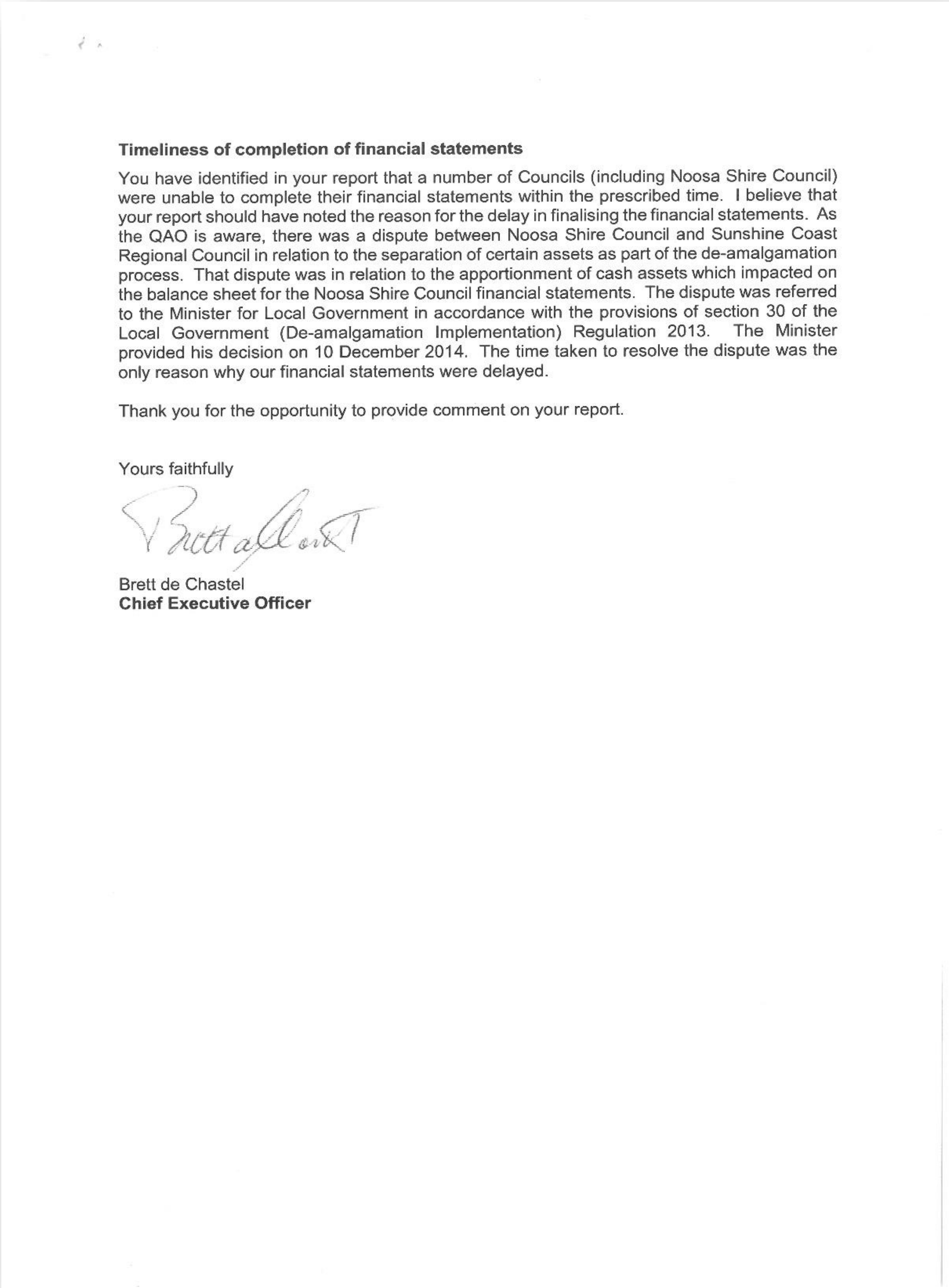
A significant number of Councils in Queensland have undertaken restructures to reduce the size of their workforce in recent years. They do so to achieve longer term financial savings. If your report is going to include the cost of redundancies, it should also identify that there are long term savings associated with a reduction in employee numbers and costs. In our case, the ongoing savings are almost $7M per year. This equates to both a saving in salaries and also a reduction in other incidental costs such as a reduction in motor vehicles, ICT costs and workers compensation insurance etc.

We also note that the amount quoted in your report as the cost of redundancies is $6.607M. That amount includes the annual leave and long service leave entitlements of employees made redundant. As you are aware, those amounts are not normally taken into account when reporting the cost of redundancies. Those leave entitlements are paid regardless of whether an employee resigns or is made redundant and those entitlements have provisions put aside. In other words, they are not extra costs incurred by a Council in undertaking redundancies. The amount of $6.607M quoted in your report for redundancy costs is therefore higher than the amount specified in our QAO audited financial statements. I draw your attention to note 8 (b) of audited financial statements where the cost of redundancies is reported as $4.787M. In our view, the amount reported in our QAO audited financial statements is the amount that should have been reported in your report to Parliament.

QTC financial assessment of de-amalgamating Councils

It is noted that your report identifies the fact that QTC undertook a financial assessment process in 2012 of the four potential de-amalgamation Councils. The purpose of that assessment was to provide information to the Local Government Boundary Commission to enable an assessment to be made as to whether those communities should be given a vote on de-amalgamation. That report is now a matter of historical record and it was based on financial models provided as part of submissions by the proponents of the proposed new Councils. As you are now aware, QTC is currently undertaking new assessments which will be based on actual operations. Those assessments are imminent and will provide a more accurate analysis of Council's financial position.

Comments received from Chief Executive Officer, Noosa Council



Timeliness of completion of financial statements

You have identified in your report that a number of Councils (including Noosa Shire Council) were unable to complete their financial statements within the prescribed time. I believe that your report should have noted the reason for the delay in finalising the financial statements. As the QAO is aware, there was a dispute between Noosa Shire Council and Sunshine Coast Regional Council in relation to the separation of certain assets as part of the de-amalgamation process. That dispute was in relation to the apportionment of cash assets which impacted on the balance sheet for the Noosa Shire Council financial statements. The dispute was referred to the Minister for Local Government in accordance with the provisions of section 30 of the Local Government (De-amalgamation Implementation) Regulation 2013. The Minister provided his decision on 10 December 2014. The time taken to resolve the dispute was the only reason why our financial statements were delayed.

Thank you for the opportunity to provide comment on your report.

Yours faithfully

Brett de Chastel
Chief Executive Officer

Comments received from Chief Executive Officer, Mareeba Shire Council on 28 April 2015

Mareeba
SHIRE COUNCIL

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28 April 2015

Brendan Macrae
Director
QAO
Via email: Brendan.Macrae@qao.qld.gov.au

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28 APR 2015
QUEENSLAND AUDIT OFFICE

Dear Brendan,

COMMENTS REGARDING PARLIAMENTARY AUDIT

Thank you for the opportunity to provide feedback on audit results for the Local Government financial statements for 2013/14.

Whilst we do acknowledge that we failed to meet the statutory deadline of finalising our financial statements, with reference to contents of the draft report a number of issues have been identified. These are as follows:

1. Timeliness of Preparation of Financial Statements

The report does not highlight the fact that the only reason for the late finalisation of our financial statements was that we did not have confirmation our final opening balances from the Minister.

The final determination of de-amalgamation opening balances was referred to the Minister for Local Government, Community Recovery and Resilience following the Transfer Committee decision in September 2014. A decision was not announced until 8 April 2015.

The draft statements were prepared and, with the exception of opening balances, were audited and available for sign off within the statutory deadlines.

Council attempted to mitigate possible delays in finalising our financial statements due to opening balances by applying to the Minister for an extension until 1 December 2014, and then a further extension was sought and granted to 30 January 2015. On 13 January Council then requested a further extension until 31 March 2015.

So as to not mislead the community, Council made the decision not to finalise the 2013/14 financial statements until the final opening balances were confirmed. Council published the draft annual report and financials in February 2015 to ensure the community was aware of our position.

2. Queensland Treasury Corporation (QTC) Analysis

The QTC sustainability analysis provided in the report was prepared by QTC on estimated figures in 2012 for the Boundary Commission. Given the historical and subjective nature of the data, we fail to see the relevance of including this information in this parliamentary report for the 2013/14 financial statements.

Comments received from Chief Executive Officer, Mareeba Shire Council

Brendan Macrae
COMMENTS REGARDING PARLIAMENTARY AUDIT 28/04/2015

QTC is currently undertaking a credit review of the de-amalgamated Councils and this information will be significantly more relevant, reflecting the actual positions of these new Councils rather than referencing historical estimates.

3. Overall assessment of Council Financial Governance
While we accept the rating provided in the overall relative risk table regarding timeliness, even though beyond Councils control, we fail to see how this might affect our rating for the quality element. QAO contract auditors have made no verbal comment regarding the quality of our draft statements for 2013/14 and Council is unaware of other reasons for this rating.

We pride ourselves on the quality of our financial statements and our decision not to finalise our 2013/14 financial statements based on the unconfirmed opening balances and potentially mislead the community is testament to this.
Yours faithfully

PETER FRANKS
CEO

Comments received from Acting Chief Executive Officer, Rockhampton Regional Council on 29 April 2015

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29 APR 2015
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Rockhampton Regional Council

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28 April 2015

29/4/15

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

Dear Mr Greaves

Results of Audit – Local Government Financial Statements for 2013-14

I refer to your letter dated 30 March 2015 addressed to our Mayor, Councillor Margaret Strelow (your ref: 10673) and thank you for the opportunity to comment.

Firstly, while I understand the intent of report, I believe that the content is generalising something that is more complex and subjective than can be portrayed here particularly Appendix H. As so many contract auditors are utilised by your office, it is unquestionable that subjectively and inconsistency will play a part in the final outcome.

I understand that the QAO has issued instructions to contract auditors regarding the risk ratings for the 2014-15 accounts to attempt to eliminate this which is positive in my view. In saying that, it may be more prudent that this report be delayed twelve months as based on the results of the 2014-15 audits.

With regards to the timeliness of preparation of financial statements, RRC's statements were signed off on the 30th October, one day outside your timeframes. I understand your office may receive a wave of statements in the last two days however, in my view the legislative deadline has been met and should be assessed as 'timely'. Important to note Council also dealt with a de-amalgamation. Also not all hold-ups are due to Council tardiness.

In conclusion I would like to add that as at the interim audit just conducted only seven remain in total of which only one and possibly two will remain at 30 June.

Rockhampton Regional Council proudly supports the CQ NRL BID

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Phone 07 4932 9000 or 1300 22 55 77 | **Fax** 07 4936 8862 or 1300 22 55 79
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Comments received from Acting Chief Executive Officer, Rockhampton Regional Council

- 2 -

Once again, thank you for the opportunity to respond to this report and I hope that you are able to consider these matters raised above. If you have any further questions please feel free to contact Mr Ross Cheesman or Mrs Alicia Cutler in this regard on 4936 8358.

Yours faithfully

Robert Holmes
Acting Chief Executive Officer

Appendix B—Status of financial statements

Figure B1
Status of 2013–14 financial statement audits

Audit	Date statements signed	Date opinion issued	Opinion	Ministerial extension issued to date	Timeliness		
					< 3 mths	3–4 mths	> 4 mths
Councils and controlled entities							
Aurukun Shire Council	30.10.2014	31.10.2014	U			✓	
Balonne Shire Council	30.10.2014	17.11.2014	U				✓
Banana Shire Council	29.10.2014	31.10.2014	U			✓	
Barcaldine Regional Council	22.10.2014	24.11.2014	U				✓
Barcoo Shire Council	30.09.2014	24.11.2014	U				✓
Blackall-Tambo Regional Council	31.10.2014	17.11.2014	U				✓
Boulia Shire Council	29.10.2014	31.10.2014	U			✓	
Brisbane City Council	20.08.2014	27.08.2014	U		✓		
• Brisbane Green Heart CitySmart Pty Ltd	18.09.2014	25.09.2014	U	N/A	✓		
• Brisbane Marketing Pty Ltd	27.08.2014	29.08.2014	U	N/A	✓		
• Brisbane Powerhouse Foundation	25.09.2014	01.10.2014	U	N/A		✓	
• Brisbane Powerhouse Pty Ltd	25.09.2014	01.10.2014	U	N/A		✓	
• City of Brisbane Investment Corporation Pty Ltd	07.08.2014	08.08.2014	U	N/A	✓		

Audit	Date statements signed	Date opinion issued	Opinion	Ministerial extension issued to date	Timeliness < 3 mths	Timeliness 3–4 mths	Timeliness > 4 mths
• City Parklands Transition Services Pty Ltd	29.07.2014	04.08.2014	U	N/A	✓		
• Museum of Brisbane Pty Ltd	15.08.2014	18.08.2014	U	N/A	✓		
• Museum of Brisbane Trust	15.08.2014	18.08.2014	Q E*	N/A	✓		
• Tradecoast Land Pty Ltd	19.08.2014	19.08.2014	U	N/A	✓		
Bulloo Shire Council	15.10.2014	31.10.2014	U			✓	
Bundaberg Regional Council	11.09.2014	21.10.2014	U			✓	
Burdekin Shire Council	10.10.2014	14.10.2014	U			✓	
• Burdekin Cultural Complex Board Inc.^	24.06.2014	26.06.2014	E*	N/A	✓		
Burke Shire Council	19.12.2014	27.01.2015	U	31.12.2014			✓
Cairns Regional Council	24.09.2014	26.09.2014	U		✓		
• Cairns Regional Gallery Limited	31.10.2014	03.11.2014	U	N/A			✓
Carpentaria Shire Council	Not Complete	Not Complete					
Cassowary Coast Regional Council	20.10.2014	22.10.2014	U			✓	
Central Highlands Regional Council	31.10.2014	31.10.2014	U			✓	
• Central Highlands (Qld) Housing Company Ltd	29.10.2014	04.11.2014	E*	N/A			✓

Audit	Date statements signed	Date opinion issued	Opinion	Ministerial extension issued to date	Timeliness		
					< 3 mths	3–4 mths	> 4 mths
• Central Highlands Development Corporation Ltd	08.12.2014	17.12.2014	E*	N/A			✓
Charters Towers Regional Council	31.10.2014	31.10.2014	U			✓	
Cherbourg Aboriginal Shire Council	22.10.2014	24.10.2014	U			✓	
Cloncurry Shire Council	31.10.2014	18.11.2014	U				✓
Cook Shire Council	07.10.2014	30.10.2014	U			✓	
Council of the City of Gold Coast	24.10.2014	30.10.2014	U			✓	
• Broadbeach Alliance Limited	22.10.2014	24.10.2014	U	N/A		✓	
• Connecting Southern Gold Coast Limited	24.10.2014	28.10.2014	U	N/A		✓	
• Gold Coast Arts Centre Pty Ltd	20.10.2014	23.10.2014	U	N/A		✓	
• Surfers Paradise Alliance Limited	23.10.2014	27.10.2014	U	N/A		✓	
Croydon Shire Council	23.10.2014	31.10.2014	U			✓	
Diamantina Shire Council	15.09.2014	29.10.2014	U			✓	
Doomadgee Aboriginal Shire Council	30.10.2014	31.10.2014	U			✓	
Douglas Shire Council	22.10.2014	27.10.2014	U			✓	
Etheridge Shire Council	26.09.2014	17.10.2014	U			✓	
Flinders Shire Council	30.10.2014	07.11.2014	U	17.11.2014			✓

Audit	Date statements signed	Date opinion issued	Opinion	Ministerial extension issued to date	Timeliness		
					< 3 mths	3–4 mths	> 4 mths
Fraser Coast Regional Council	15.10.2014	20.10.2014	U			✓	
• Fraser Coast Opportunities Ltd	03.11.2014	18.11.2014	U	N/A			✓
• Wide Bay Water Corporation	24.10.2014	31.10.2014	U	N/A		✓	
Gladstone Regional Council	20.10.2014	27.10.2014	U			✓	
• Gladstone Airport Corporation	16.10.2014	21.10.2014	U	N/A		✓	
Goondiwindi Regional Council	04.08.2014	09.09.2014	U		✓		
Gympie Regional Council	08.10.2014	14.10.2014	U			✓	
Hinchinbrook Shire Council	24.10.2014	27.10.2014	U			✓	
Hope Vale Aboriginal Shire Council	01.08.2014	07.08.2014	U		✓		
Ipswich City Council	23.10.2014	24.10.2014	U			✓	
• Ipswich Arts Foundation	08.10.2014	15.10.2014	U	N/A		✓	
• Ipswich Arts Foundation Trust	08.10.2014	15.10.2014	U	N/A		✓	
• Ipswich City Developments Enterprises Pty Ltd	24.11.2014	01.12.2014	U	N/A			✓
• Ipswich City Developments Pty Ltd	24.11.2014	10.12.2014	E	N/A			✓
• Ipswich City Enterprises Investments Pty Ltd	03.12.2014	16.01.2015	U	N/A			✓
• Ipswich City Enterprises Pty Ltd	03.12.2014	05.12.2014	U	N/A			✓

Audit	Date statements signed	Date opinion issued	Opinion	Ministerial extension issued to date	Timeliness		
					< 3 mths	3–4 mths	> 4 mths
• Ipswich City Properties Pty Ltd	12.11.2014	18.11.2014	U	N/A			✓
Isaac Regional Council	16.10.2014	29.10.2014	U			✓	
• Isaac Affordable Housing Fund Pty Ltd	26.11.2014	05.12.2014	U	N/A			✓
• Isaac Affordable Housing Trust	26.11.2014	05.12.2014	E*	N/A			✓
• Moranbah Early Learning Centre Pty Ltd	26.11.2014	05.12.2014	E*	N/A			✓
Kowanyama Aboriginal Shire Council	Not Complete	Not Complete					
Livingstone Shire Council	20.11.2014	26.11.2014	U				✓
Lockhart River Aboriginal Shire Council	31.10.2014	31.10.2014	U			✓	
• Lockhart River Aerodrome Company Pty Ltd	31.10.2014	31.10.2014	U	N/A		✓	
Lockyer Valley Regional Council	16.10.2014	23.10.2014	U			✓	
Logan City Council	23.09.2014	29.09.2014	U		✓		
Longreach Regional Council	04.11.2014	17.11.2014	U				✓
Mackay Regional Council	08.10.2014	31.10.2014	U			✓	
Mapoon Aboriginal Shire Council	20.10.2014	31.10.2014	U			✓	
Maranoa Regional Council	30.10.2014	31.10.2014	U			✓	
Mareeba Shire Council	Not Complete	Not Complete		30.01.2015			

Audit	Date statements signed	Date opinion issued	Opinion	Ministerial extension issued to date	Timeliness < 3 mths	Timeliness 3–4 mths	Timeliness > 4 mths
McKinlay Shire Council	20.10.2014	30.10.204	U			✓	
Moreton Bay Regional Council	14.10.2014	20.10.2014	U			✓	
Mornington Shire Council	19.11.2014	24.11.2014	U				✓
Mount Isa City Council	28.10.2014	31.10.2014	U			✓	
• Outback@Isa Pty Ltd	18.12.2014	15.01.2015	E	N/A			✓
Murweh Shire Council	16.10.2014	24.10.2014	U			✓	
Napranum Aboriginal Shire Council	16.10.2014	24.10.2014	U			✓	
Noosa Shire Council	18.12.2014	19.12.2014	U	31.12.2014			✓
• Noosa Biosphere Limited	24.11.2014	16.12.2014	E	N/A			✓
North Burnett Regional Council	21.10.2014	31.10.2014	U			✓	
Northern Peninsula Area Regional Council	Not Complete	Not Complete					
Palm Island Aboriginal Shire Council	25.10.2014	05.11.2014	U				✓
Paroo Shire Council	14.04.2015	23.04.2015	Q	21.11.2014			✓
Pormpuraaw Aboriginal Shire Council	22.10.2014	31.10.2014	U			✓	
Quilpie Shire Council	05.11.2014	19.11.2014	U	30.01.2015			✓
Redland City Council	16.10.2014	23.10.2014	U			✓	
Richmond Shire Council	Not Complete	Not Complete		31.12.2014			

Audit	Date statements signed	Date opinion issued	Opinion	Ministerial extension issued to date	Timeliness < 3 mths	Timeliness 3–4 mths	Timeliness > 4 mths
• The Kronosaurus Korner Board Inc.	12.11.2014	19.11.2014	E*	N/A			✓
Rockhampton Regional Council	24.10.2014	30.10.2014	U			✓	
• The Rockhampton Art Gallery Trust	30.09.2014	07.10.2014	Q	N/A		✓	
Scenic Rim Regional Council	24.10.2014	29.10.2014	U			✓	
Somerset Regional Council	16.10.2014	29.10.2014	U			✓	
South Burnett Regional Council	Not Complete	Not Complete		31.12.2014			
• Castra Retirement Home Limited	12.12.2014	19.12.2014	E	N/A			✓
• Kingaroy Private Hospital Limited	28.11.2014	11.12.2014	U	N/A			✓
Southern Downs Regional Council	30.10.2014	30.10.2014	U			✓	
• Warwick Tourism and Events Pty Ltd	10.02.2015	17.02.2015	E	N/A			✓
Sunshine Coast Regional Council	30.10.2014	31.10.2014	U			✓	
Tablelands Regional Council	30.01.2015	09.02.2015	U	30.01.2015			✓
Toowoomba Regional Council	13.10.2014	27.10.2014	U			✓	
• Empire Theatres Foundation	02.09.2014	15.09.2014	U	N/A	✓		
• Empire Theatre Projects Pty Ltd	22.08.2014	29.08.2014	U	N/A	✓		

Audit	Date statements signed	Date opinion issued	Opinion	Ministerial extension issued to date	Timeliness		
					< 3 mths	3–4 mths	> 4 mths
• Empire Theatres Pty Ltd	22.08.2014	29.08.2014	U	N/A	✓		
• Jondaryan Woolshed Pty Ltd	18.03.2015	21.04.2015	U	N/A			✓
• Toowoomba and Surat Basin Enterprise Pty Ltd	07.10.2014	07.10.2014	U	N/A		✓	
Torres Shire Council	Not Complete	Not Complete		31.12.2014			
Torres Strait Island Regional Council	20.10.2014	31.10.2014	U			✓	
Townsville City Council	24.10.2014	28.10.2014	U			✓	
Western Downs Regional Council	11.11.2014	24.11.2014	U				✓
• Western Downs Housing Trust	12.03.2015	20.03.2015	U	N/A			✓
Whitsunday Regional Council	20.10.2014	27.10.2014	U			✓	
Winton Shire Council	14.10.2014	23.10.2014	U			✓	
• Waltzing Matilda Centre Ltd	21.10.2014	21.10.2014	U	N/A		✓	
Woorabinda Aboriginal Shire Council	06.03.2015	20.03.2015	U	31.12.2014			✓
• Woorabinda Pastoral Company Pty Ltd	06.03.2015	02.04.2015	Q	N/A			✓
Wujal Wujal Aboriginal Shire Council	Not Complete	Not Complete					
Yarrabah Aboriginal Shire Council	21.10.2014	30.10.2014	U			✓	

Audit	Date statements signed	Date opinion issued	Opinion	Ministerial extension issued to date	Timeliness < 3 mths	Timeliness 3–4 mths	Timeliness > 4 mths
Joint local government							
Nogoa River Flood Plain Board	31.10.2014	31.10.2014	E	N/A		✓	
Jointly controlled entities							
Central Queensland Local Government Association Inc.	23.09.2014	29.09.2014	E	N/A	✓		
Council of Mayors (SEQ) Pty Ltd	26.09.2014	30.09.2014	U	N/A	✓		
Local Government Association of Queensland Ltd	26.09.2014	29.09.2014	U	N/A	✓		
• DDS Unit Trust	26.09.2014	29.09.2014	U	N/A	✓		
• Local Buy Trading Trust	26.09.2014	29.09.2014	Q	N/A	✓		
• Local Partnerships Services Pty Ltd	26.09.2014	29.09.2014	E*	N/A	✓		
• Prevwood Pty Ltd	26.09.2014	29.09.2014	E*	N/A	✓		
• QPG Shared Services Support Centres Joint Venture	26.09.2014	29.09.2014	E*	N/A	✓		
Local Government Infrastructure Services Pty Ltd	02.09.2014	03.09.2014	U	N/A	✓		
North West Queensland Regional Organisation of Councils	11.12.2014	22.12.2014	U	N/A			✓
Queensland Local Government Mutual Liability Pool (LGM Queensland)	04.11.2014	07.11.2014	U	N/A			✓

Audit	Date statements signed	Date opinion issued	Opinion	Ministerial extension issued to date	Timeliness		
					< 3 mths	3–4 mths	> 4 mths
Queensland Local Government Workers Compensations Self-Insurance Scheme (trading as Local Government Workcare)	04.11.2014	07.11.2014	U	N/A			✓
Services Queensland	26.09.2014	29.09.2014	E*	N/A	✓		
SEQ Regional Recreational Facilities Pty Ltd	15.09.2014	15.09.2014	U	N/A	✓		
South West Queensland Local Government Association#	04.11.2014	16.12.2014	E*	N/A			✓
Townsville Breakwater Entertainment Centre Joint Venture	Not Complete	Not Complete		N/A			
Whitsunday ROC Limited	22.10.2014	22.10.2014	U	N/A		✓	
The Wide Bay Burnett Regional Organisation of Councils Inc.	27.11.2014	16.12.2014	E*	N/A			✓
Western Queensland Local Government Association	31.10.2014	05.11.2014	E*	N/A			✓

Audit	Date statements signed	Date opinion issued	Opinion	Ministerial extension issued to date	Timeliness		
					< 3 mths	3–4 mths	> 4 mths
Audits by arrangement							
Ipswich Mayor’s Carols by Candlelight Fund Inc.	06.02.2015	12.02.2015	E*	N/A			✓
Ipswich Mayor's Community Fund Inc.	05.02.2015	27.02.2015	Q E*	N/A			✓
City of Ipswich Community Fund Trust	10.02.2015	12.02.2015	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 2013 to 30 April 2014.
# The financial year of South West Queensland Local Government Association was 1 April 2013 to 31 March 2014.

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

Source: Queensland Audit Office

Appendix C—Status of current-year financial sustainability statements

Figure C1
Status of 2013-14 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	30.10.2014	31.10.2014	E*		✓	
Balonne Shire Council	30.10.2014	17.11.2014	E*			✓
Banana Shire Council	29.10.2014	31.10.2014	E*		✓	
Barcaldine Regional Council	22.10.2014	24.11.2014	E*			✓
Barcoo Shire Council	30.09.2014	24.11.2014	E*			✓
Blackall-Tambo Regional Council	31.10.2014	17.11.2014	E*			✓
Boulia Shire Council	29.10.2014	31.10.2014	E*		✓	
Brisbane City Council	20.08.2014	27.08.2014	E*	✓		
Bulloo Shire Council	15.10.2014	31.10.2014	E*		✓	
Bundaberg Regional Council	11.09.2014	21.10.2014	E*		✓	
Burdekin Shire Council	10.10.2014	14.10.2014	E*		✓	
Burke Shire Council	19.12.2014	27.01.2015	E*			✓
Cairns Regional Council	24.09.2014	26.09.2014	E*	✓		
Carpentaria Shire Council	Not Complete	Not Complete				
Cassowary Coast Regional Council	20.10.2014	22.10.2014	E*		✓	
Central Highlands Regional Council	31.10.2014	31.10.2014	E*		✓	
Charters Towers Regional Council	31.10.2014	31.10.2014	E*		✓	
Cherbourg Aboriginal Shire Council	22.10.2014	24.10.2014	E*		✓	
Cloncurry Shire Council	31.10.2014	18.11.2014	E*			✓

Audit	Date statements signed	Date opinion issued	Opinion	Timeliness (since 30 June)		
				< 3 mths	3 – 4 mths	> 4 mths
Cook Shire Council	07.10.2014	30.10.2014	E*		✓	
Council of the City of Gold Coast	24.10.2014	30.10.2014	E*		✓	
Croydon Shire Council	23.10.2014	31.10.2014	E*		✓	
Diamantina Shire Council	15.10.2014	29.10.2014	E*		✓	
Doomadgee Aboriginal Shire Council	30.10.2014	31.10.2014	E*		✓	
Douglas Shire Council	22.10.2014	27.10.2014	E*		✓	
Etheridge Shire Council	26.09.2014	17.10.2014	E*		✓	
Flinders Shire Council	30.10.2014	07.11.2014	E*			✓
Fraser Coast Regional Council	15.10.2014	20.10.2014	E*		✓	
Gladstone Regional Council	20.10.2014	27.10.2014	E*		✓	
Goondiwindi Regional Council	04.08.2014	09.09.2014	E*	✓		
Gympie Regional Council	08.10.2014	14.10.2014	E*		✓	
Hinchinbrook Shire Council	24.10.2014	27.10.2014	E*		✓	
Hope Vale Aboriginal Shire Council	01.08.2014	07.08.2014	E*	✓		
Ipswich City Council	23.10.2014	24.10.2014	E*		✓	
Isaac Regional Council	16.10.2014	29.10.2014	E*		✓	
Kowanyama Aboriginal Shire Council	Not Complete	Not Complete				
Livingstone Shire Council	20.11.2014	26.11.2014	E*			✓
Lockhart River Aboriginal Shire Council	31.10.2014	31.10.2014	E*		✓	
Lockyer Valley Regional Council	16.10.2014	23.10.2014	E*		✓	
Logan City Council	23.09.2014	29.09.2014	E*	✓		
Longreach Regional Council	04.11.2014	17.11.2014	E*			✓

Audit	Date statements signed	Date opinion issued	Opinion	Timeliness (since 30 June)		
				< 3 mths	3 – 4 mths	> 4 mths
Mackay Regional Council	08.10.2014	31.10.2014	E*		✓	
Mapoon Aboriginal Shire Council	20.10.2014	31.10.2014	E*		✓	
Maranoa Regional Council	30.10.2014	31.10.2014	E*		✓	
Mareeba Shire Council	Not Complete	Not Complete				
McKinlay Shire Council	20.10.2014	30.10.2014	E*		✓	
Moreton Bay Regional Council	14.10.2014	20.10.2014	E*		✓	
Mornington Shire Council	24.10.2014	24.11.2014	E*			✓
Mt Isa City Council	28.10.2014	31.10.2014	E*		✓	
Murweh Shire Council	16.10.2014	24.10.2014	E*		✓	
Napranum Aboriginal Shire Council	16.10.2014	24.10.2014	E*		✓	
Noosa Shire Council	18.12.2014	19.12.2014	E*			✓
North Burnett Regional Council	21.10.2014	31.10.2014	E*		✓	
Northern Peninsula Area Regional Council	Not Complete	Not Complete				
Palm Island Aboriginal Shire Council	25.10.2014	05.11.2014	E*			✓
Paroo Shire Council	14.04.2015	23.04.2015	Q E*			✓
Pormpuraaw Aboriginal Shire Council	22.10.2014	31.10.2014	E*		✓	
Quilpie Shire Council	05.11.2014	19.11.2014	E*			✓
Redland City Council	16.10.2014	23.10.2014	E*		✓	
Richmond Shire Council	Not Complete	Not Complete				
Rockhampton Regional Council	24.10.2014	30.10.2014	E*		✓	
Scenic Rim Regional Council	24.10.2014	29.10.2014	E*		✓	
Somerset Regional Council	27.10.2014	29.10.2014	E*		✓	

Audit	Date statements signed	Date opinion issued	Opinion	Timeliness (since 30 June)		
				< 3 mths	3 – 4 mths	> 4 mths
South Burnett Regional Council	Not Complete	Not Complete				
Southern Downs Regional Council	30.10.2014	30.10.2014	E*		✓	
Sunshine Coast Regional Council	30.10.2014	31.10.2014	E*		✓	
Tablelands Regional Council	30.01.2015	09.02.2015	E*			✓
Toowoomba Regional Council	13.10.2014	27.10.2014	E*		✓	
Torres Shire Council	Not Complete	Not Complete				
Torres Strait Island Regional Council	20.10.2014	31.10.2014	E*		✓	
Townsville City Council	24.10.2014	28.10.2014	E*		✓	
Western Downs Regional Council	11.11.2014	24.11.2014	E*			✓
Whitsunday Regional Council	20.10.2014	27.10.2014	E*		✓	
Winton Shire Council	14.10.2014	23.10.2014	E*		✓	
Woorabinda Aboriginal Shire Council	06.03.2015	06.03.2015	E*			✓
Wujal Wujal Aboriginal Shire Council	Not Complete	Not Complete				
Yarrabah Aboriginal Shire Council	21.10.2014	30.10.2014	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: Queensland Audit Office

Appendix D—Status of financial statements of exempt entities

Figure D1
Status of 2013–14 financial statement audits

Audit	Audit Firm	Date statements signed	Date opinion issued	Opinion	Timeliness < 3 mths	Timeliness 3–4 mths	Timeliness > 4 mths
Exempt local government entities (s.30A—small in size and of low risk)							
Brisbane Festival Limited+	KPMG	15.04.2015	15.04.2015	U		✓	
Central Western Queensland Remote Area Planning and Development Board (RAPAD)	Walsh Accounting	24.09.2014	24.09.2014	U	✓		
Far North Queensland Regional Organisation of Councils	KH Accountants and Consultants	16.09.2014	29.09.2014	E*	✓		
Gulf Savannah Development Inc.	Crowe Horwath	26.09.2014	30.09.2014	E*	✓		
Major Brisbane Festivals Pty Ltd+	KPMG	15.04.2015	15.04.2015	U		✓	
North Queensland Local Government Association+	Crowe Horwath	03.03.2015	04.03.2015	E*	✓		
Palm Island Community Company Limited	Moore Stephens Queensland	30.10.2014	30.10.2014	U		✓	
Exempt local government entities (s.32—foreign-based controlled entity)							
Gold Coast City Council Insurance Company Limited	Ernst & Young LLP	14.08.2014	18.08.2014	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 2014 to 31 December 2014. As at the date of this Report, results for some of these audits were not yet available.

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

Source: Queensland Audit Office

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 2013–14

Entity	Parent entity	Reason
Controlled entities		
BCC Shelf One Pty Ltd (formerly City of Brisbane Arts and Environment Limited)	Brisbane City Council	Dormant
Brisbane Tolling Pty Ltd	Brisbane City Council	Dormant
City Super Pty Ltd	Brisbane City Council	Dormant
Riverfestival Brisbane Pty Ltd	Brisbane City Council	Dormant
Citipac International Pty Ltd	Council of the City of Gold Coast	Dormant
The Brolga Theatre Board Inc.	Fraser Coast Regional Council	Dormant
Widelinx Pty Ltd	Fraser Coast Regional Council	Non-reporting
Mary Valley Rattler Community Holdings Ltd	Gympie Regional Council	Dormant
Rattler Railway Company Ltd	Gympie Regional Council	Dormant
Thonorr Than Ltd	Kowanyama Aboriginal Shire Council	Dormant
Invest Logan Pty Ltd	Logan City Council	Non-reporting
Mount Isa City Council Owned Enterprises Pty Ltd	Mount Isa City Council	Non-reporting
Rodeo Capital Pty Ltd	Mount Isa City Council	Non-reporting
Edward River Crocodile Farm Pty Ltd	Pormpuraaw Aboriginal Shire Council	Under administration
Redheart Pty Ltd	Redland City Council	Dormant
Sunshine Coast Events Centre Pty Ltd	Sunshine Coast Regional Council	Non-reporting
Quad Park Corporation Pty Ltd	Sunshine Coast 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

Entity	Parent entity	Reason
Joint local government		
Esk-Gatton-Laidley Water Board	Lockyer Valley Regional Council	Wound Up
Jointly controlled entities		
Govcloud Joint Venture	Local Government Association of Queensland Ltd	Non-reporting
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	Wound Up
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

Source: Queensland Audit Office

Appendix F—Status of 2012–13 financial statements

Figure F1
Status of 2012–13 financial statement audits not previously reported

Entity	Date statements signed	Date opinion issued	Opinion
Councils			
Burke Shire Council	16.06.2014	17.07.2014	U
Kowanyama Aboriginal Shire Council	24.11.2014	13.01.2015	Q
Controlled entities			
Ipswich City Properties Pty Ltd	13.03.2014	20.03.2014	Q
Central Highlands Development Corporation Ltd	17.04.2014	07.05.2014	E*
Outback@Isa Pty Ltd	07.03.2014	14.03.2014	E
Joint local government			
Nogoa River Flood Plains Board	14.05.2014	19.05.2014	U
Jointly controlled entities			
Brisbane Festival Limited#	16.04.2014	16.04.2014	U
Major Brisbane Festivals Pty Ltd#	16.04.2014	16.04.2014	U
North Queensland Local Government Association#	22.05.2014	27.05.2014	E*
The Wide Bay Burnett Regional Organisation of Councils Inc.	26.06.2014	30.06.2014	E*
Western Queensland Local Government Association	17.04.2014	11.06.2014	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.

\# 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.

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

Source: Queensland Audit Office

Figure F2
Status of 2012–13 financial sustainability statement audits not previously reported

Entity	Date Statements Signed	Date Opinion Issued	Opinion
Councils			
Burke Shire Council	16.06.2014	07.08.2014	Q E*
Kowanyama Aboriginal Shire Council	24.11.2014	13.01.2015	E*
Palm Island Aboriginal Shire Council	05.03.2014	13.03.2014	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.

Source: Queensland Audit Office

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 cent (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 cent (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 cent (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: Queensland Audit Office

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: Queensland Audit Office

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 as shown in Figure G5.

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 per cent of operating revenue.
Moderate risk	Moderate risk of sustainability issues over the longer term if current debt financing and capital investment policies continue, as indicated by: • current net financial liabilities more than 80 per cent of operating revenue or • average asset sustainability ratio less than 50 per cent or • average operating deficits (losses) of more than 2 per cent 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: Queensland Audit Office

Our assessment of financial sustainability risk factors does not take into account councils' long term forecasts nor credit assessments undertaken by Queensland Treasury Corporation.

Figure G4 shows the symbols used in Figure G5 to represent the various sustainability trends over time.

Figure G4
Symbols used to represent financial sustainability trends

Trend rating	Represents
↑	An improving trend
—	No substantial change
↓	A deteriorating trend

Source: Queensland Audit Office

Figure G5
Financial sustainability risk assessment by council category: Results at the end of 2013–14

Council	Current operating surplus ratio %	Avg. operating surplus ratio %	Trend	Net financial liabilities ratio %	Trend	Asset sustainability ratio %	Avg. asset sustainability ratio %	Trend	Relative risk assessment
Coastal councils									
Bundaberg Regional Council	-4.54	-0.29	↓	28.70	↓	117.62	96.31	↑	Lower
Burdekin Shire Council	4.84	5.21	—	-20.03	↓	235.04	175.75	↑	Lower
Cairns Regional Council	0.90	-1.23	—	10.91	—	103.82	122.27	↓	Lower
Cassowary Coast Regional Council	-3.44	-1.14	—	-26.90	↑	219.85	237.93	↓	Lower
Douglas Shire Council*	-31.83			-55.77		28.05			Moderate
Fraser Coast Regional Council	2.28	-1.08	—	4.07	—	58.57	72.69	↓	Lower
Gladstone Regional Council	2.09	3.73	—	44.51	—	178.37	181.69	—	Lower
Gympie Regional Council	3.13	6.08	—	-81.77	↑	190.41	148.25	↑	Lower
Hinchinbrook Shire Council	-8.63	-5.56	—	-18.79	—	119.96	123.48	—	Moderate
Livingstone Shire Council*	-16.06			169.67		46.95			Moderate
Mackay Regional Council	-2.46	-3.07	—	48.98	↓	139.55	112.77	↑	Moderate
Noosa Shire Council*	-6.49			32.43		31.85			Moderate
Rockhampton Regional Council	11.36	-1.00	↑	60.60	↑	68.20	71.95	—	Moderate
Townsville City Council	1.59	-1.68	—	78.56	↑	88.48	89.24	—	Moderate
Whitsunday Regional Council	-7.80	0.25	↓	52.20	↓	95.20	87.89	↑	Lower
Coastal average**	**-3.67**	**0.02**	—	**21.82**	↓	**114.80**	**126.69**	↑	
Coastal—combined risk assessment		**Moderate**		**Lower**			**Lower**		**Lower**

* De-amalgamated council (established 1 January 2014). Operating revenues are for six month period only.
** De-amalgamated councils have been excluded from the long-term average operating surplus ratio and long-term average asset sustainability ratio.

Source: Queensland Audit Office

Council	Current operating surplus ratio %	Avg. operating surplus ratio %	Trend	Net financial liabilities ratio %	Trend	Asset sustainability ratio %	Avg. asset sustainability ratio %	Trend	Relative risk assessment
Indigenous councils									
Aurukun Shire Council	-2.55	-3.12	—	-81.92	↓	387.23	197.12	↑	Moderate
Cherbourg Aboriginal Shire Council	-28.43	-15.39	↓	-24.76	—	101.27	75.14	↑	**Higher**
Doomadgee Aboriginal Shire Council	34.12	-13.87	↑	-93.23	—	35.89	32.45	—	**Higher**
Hope Vale Aboriginal Shire Council	14.12	9.47	↑	-45.52	—	106.85	109.43	—	Lower
Kowanyama Aboriginal Shire Council	Financial statements not finalised								
Lockhart River Aboriginal Shire Council	-18.42	-16.71	—	-34.73	↓	192.01	105.06	↑	**Higher**
Mapoon Aboriginal Shire Council	-15.39	-16.89	—	-63.66	↑	25.68	27.73	—	**Higher**
Mornington Shire Council	-56.96	-23.87	↓	-129.79	↑	4.97	6.99	—	**Higher**
Napranum Aboriginal Shire Council	-14.82	-5.45	↓	-26.57	↓	11.63	10.81	—	Moderate
Northern Peninsula Area Regional Council	Financial statements not finalised								
Palm Island Aboriginal Shire Council	2.39	-12.55	↑	-15.20	—	392.51	245.25	↑	**Higher**
Pormpuraaw Aboriginal Shire Council	-22.27	-17.76	↓	-72.28	↑	100.56	68.28	↑	**Higher**
Torres Shire Council	Financial statements not finalised								
Torres Strait Island Regional Council	-40.32	-40.63	—	-34.60	↑	133.00	75.50	↑	**Higher**
Woorabinda Aboriginal Shire Council	7.29	-6.21	↑	-69.00	↑	18.27	11.39	↑	Moderate
Wujal Wujal Aboriginal Shire Council	Financial statements not finalised								
Yarrabah Aboriginal Shire Council	-25.36	-32.35	↑	-25.02	—	19.74	18.37	—	**Higher**
Indigenous average	**-12.81**	**-15.03**	↑	**-55.10**	—	**117.66**	**75.65**	↑	
Indigenous—combined risk assessment		**Higher**		**Lower**			**Moderate**		**Higher**

Source: Queensland Audit Office

Council	Current operating surplus ratio %	Avg. operating surplus ratio %	Trend	Net financial liabilities ratio %	Trend	Asset sustainability ratio %	Avg. asset sustainability ratio %	Trend	Relative risk assessment
Resources councils									
Banana Shire Council	-1.10	3.66	↓	-1.73	↓	129.14	106.33	↑	Lower
Barcoo Shire Council	-7.35	7.29	↓	-64.77	↓	109.51	69.75	↑	Lower
Bulloo Shire Council	-26.63	3.90	↓	-28.14	↓	274.31	308.15	↓	Lower
Burke Shire Council	-72.35	-8.89	↓	-214.61	↑	284.00	186.00	↑	Moderate
Central Highlands Regional Council	4.26	5.55	—	-55.51	↑	28.92	73.82	↓	Lower
Charters Towers Regional Council	-25.06	-1.51	↓	-64.09	—	117.39	121.19	—	Lower
Cloncurry Shire Council	6.47	12.30	↓	-70.39	↓	184.11	142.56	↑	Lower
Cook Shire Council	-79.74	-24.37	↓	14.12	↓	322.85	173.71	↑	**Higher**
Etheridge Shire Council	-36.94	-9.83	↓	-92.49	↑	178.57	105.52	↑	Moderate
Isaac Regional Council	-3.41	16.56	↓	-89.66	↑	318.79	244.44	↑	Lower
Maranoa Regional Council	-6.71	1.57	↓	-24.19	—	160.21	123.23	↑	Lower
McKinlay Shire Council	-9.32	3.91	↓	-62.92	↓	74.73	147.86	↓	Lower
Mount Isa City Council	-3.95	-0.13	—	13.32	↓	225.26	148.63	↑	Lower
Quilpie Shire Council	-9.95	-0.51	↓	-24.49	—	161.72	124.86	↑	Lower
Western Downs Regional Council	7.93	-7.39	↑	-34.11	↑	291.64	285.54	↑	Moderate
Resources average	**-17.59**	**0.14**	↓	**-53.31**	—	**190.74**	**157.44**	↑	
Resources—combined risk assessment		**Lower**		**Lower**			**Lower**		**Lower**

Source: Queensland Audit Office

Council	Current operating surplus ratio %	Avg. operating surplus ratio %	Trend	Net financial liabilities ratio %	Trend	Asset sustainability ratio %	Avg. asset sustainability ratio %	Trend	Relative risk assessment
Rural/regional councils									
Goondiwindi Regional Council	-0.88	1.64	—	-70.68	↑	88.98	81.74	↑	Lower
Lockyer Valley Regional Council	-11.69	-4.51	↓	29.00	↓	88.58	57.29	↑	Moderate
Mareeba Shire Council*	Financial statements not finalised								
North Burnett Regional Council	-58.03	-11.70	↓	-37.29	↓	194.06	131.94	↑	**Higher**
Scenic Rim Regional Council	-4.07	-1.66	—	5.43	↓	440.44	504.72	↓	Lower
Somerset Regional Council	16.00	5.07	↑	-159.00	↑	402.12	511.56	↓	Lower
South Burnett Regional Council	Financial statements not finalised								
Southern Downs Regional Council	-14.11	-12.54	—	42.42	↓	148.53	110.16	↑	**Higher**
Tablelands Regional Council	-25.45	-0.09	↓	-35.43	↓	156.70	125.00	↑	Lower
Rural/Regional average**	**-14.03**	**-3.40**	↓	**-32.22**	**—**	**217.06**	**217.49**	↑	
Rural/Regional—combined risk assessment		**Moderate**		**Lower**			**Lower**		**Moderate**

* De-amalgamated council (established 1 January 2014).

Source: Queensland Audit Office

Council	Current operating surplus ratio %	Avg. operating surplus ratio %	Trend	Net financial liabilities ratio %	Trend	Asset sustainability ratio %	Avg. asset sustainability ratio %	Trend	Relative risk assessment
Rural/remote councils									
Balonne Shire Council	-0.84	10.60	↓	-49.41	↑	477.29	318.14	↑	Lower
Barcaldine Regional Council	-11.08	-8.91	—	-61.77	↑	124.47	87.90	↑	Moderate
Blackall–Tambo Regional Council	12.68	-9.24	↑	-6.93	↑	128.99	123.99	—	Moderate
Boulia Shire Council	-29.42	2.76	↓	-149.75	↑	38.72	58.86	↓	Lower
Carpentaria Shire Council	Financial statements not finalised								
Croydon Shire Council	6.33	7.99	—	-61.84	↓	145.47	132.24	↑	Lower
Diamantina Shire Council	9.91	8.53	—	-77.64	↑	376.78	393.11	↓	Lower
Flinders Shire Council	-4.50	4.90	↓	-51.46	↑	309.28	214.56	↑	Lower
Longreach Regional Council	0.47	3.24	—	-49.27	↑	208.73	187.77	↑	Lower
Murweh Shire Council	-9.37	0.08	↓	-10.02	—	1850.07	975.64	↑	Lower
Paroo Shire Council	-21.39	-15.80	↓	-8.85	↓	739.15	671.61	↑	Higher
Richmond Shire Council	Financial statements not finalised								
Winton Shire Council	0.89	9.05	↓	-93.35	↑	188.16	169.58	↑	Lower
Rural/Remote average	**-4.21**	**1.20**	↓	**-56.39**	↑	**417.01**	**303.04**	↑	
Rural/Remote—combined risk assessment		**Lower**		**Lower**			**Lower**		**Lower**

Source: Queensland Audit Office

Council	Current operating surplus ratio %	Avg. operating surplus ratio %	Trend	Net financial liabilities ratio %	Trend	Asset sustainability ratio %	Avg. asset sustainability ratio %	Trend	Relative risk assessment
South-east Queensland (SEQ) councils									
Brisbane City Council	-4.59	-2.44	—	141.15	—	66.72	71.36	—	Moderate
Council of the City of Gold Coast	-5.00	-11.45	↑	35.00	↑	48.00	36.00	↑	**Higher**
Ipswich City Council	2.92	-0.51	—	184.46	—	110.64	123.76	↓	Lower
Logan City Council	2.13	-2.04	↑	13.15	—	80.31	76.76	—	Moderate
Moreton Bay Regional Council	13.05	4.90	↑	54.15	—	69.14	69.57	—	Lower
Redland City Council	6.37	-6.19	↑	-2.22	↑	45.65	36.30	↑	Moderate
Sunshine Coast Regional Council	6.86	3.03	—	13.52	—	70.03	66.51	—	Lower
Toowoomba Regional Council	-1.53	0.13	—	47.74	↓	179.88	187.24	↓	Lower
SEQ average	**2.53**	**-1.82**	↑	**60.87**	—	**83.80**	**83.44**	**—**	
SEQ—combined risk assessment		**Moderate**		**Moderate**			**Moderate**		**Moderate**

Source: Queensland Audit Office

Appendix H—Overall assessment of council financial governance

Timeliness of financial statements

We used the date the independent auditor's report was issued to assess the timeliness of each council's financial statements against the legislative deadline of 31 October.

Figure H1
Assessment criteria for financial statement timeliness

Timeliness assessment	Audit opinions issued
Timely (green)	Before 29 October
Marginal (amber)	Between 29 October and 31 October
Untimely (red)	After 31 October

Note: Where a ministerial extension was granted and the council met this revised date we assessed this as marginal, as the council was unable to meet the original statutory deadline. Where a council was unable to meet the extended date we assessed this as untimely.

Source: Queensland Audit Office

Quality of financial statements

We calculated the difference between the draft financial statements submitted to audit and the final audited financial statements for the key components of total revenue, total expenditure and net assets. Our quality assessment is based on the percentage of adjustments across each of these components.

Figure H2
Assessment criteria for financial statement quality

Quality assessment	Per cent of component adjustments
Good (green)	Adjustments across each of the three components were less than 5 per cent
Average (amber)	Adjustments for at least one of the three components were between 5 per cent and 10 per cent and no components were adjusted by more than 10 per cent
Below average (red)	Adjustments for at least one of the three components were greater than 10 per cent

Source: Queensland Audit Office

Effectiveness of internal controls

We aggregated the significant audit issues reported to management (that is, those classified as high or moderate risk) for each council across the five elements of internal control. High risk issues require prompt management action, while moderate risk issues require an action plan to be implemented within six months. While these issues may have been subsequently addressed, they are reported here as they impacted on the internal control framework during our audit.

The five internal control elements are summarised below, with more detailed explanations provided in section 5.1 of this report.

Control environment—management's actions, attitudes, policies and values that influence day to day operations.

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.

Information and communication—the systems and related business processes relevant to financial reporting used to provide information in a form and timeframe 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 oversee and assess the operating effectiveness of control activities in practice.

Figure H3
Assessment criteria for effectiveness of internal controls

Assessment of control effectiveness	Significant audit issues reported to management
Within expectations (green)	No more than two moderate risk issues and no high risk issues reported to management
Deficiencies (amber)	Between three and five moderate risk issues and no high risk issues reported to management
Material weaknesses (red)	Greater than five moderate risk issues or at least one high risk issue reported to management

Source: Queensland Audit Office

Our assessments of control effectiveness are defined below:

Ineffective internal control—a control is designed, implemented or operated in such a way that it is unable to prevent, detect or correct misstatements in the financial report**,** or a control is missing.

Deficiencies—means an ineffective control or combination of ineffective controls that is less severe than a material weakness yet in the auditor's professional judgement is of sufficient importance to merit the attention of those charged with governance.

Material weaknesses—means a significant ineffective control or combination of significant ineffective controls that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected.

Financial sustainability relative risk assessment

The detailed criteria for assessing a council's financial sustainability are explained in Appendix G Figure G2 and Figure G3. The assignment of the criteria is shown in Figure G5. Colours used for the overall relative risk levels are lower risk (green), moderate risk (amber) and higher risk (red).

Figure H4
Overall assessment of financial governance by council category for 2013–14

Council	Timeliness	Quality	Elements of internal control frameworks					Financial sustainability
			Control environment	Risk assessment	Control activities	Information and communication	Monitoring of controls	Relative risk assessment (refer Figure G5)
Coastal councils								
Bundaberg Regional Council	🟢	🟢	🟢	🟢	🔴	🟢	🟢	🟢
Burdekin Shire Council	🟢	🟢	🟢	🟢	🟢	🟡	🟢	🟢
Cairns Regional Council	🟢	🟢	🟢	🟢	🟢	🟢	🟢	🟢
Cassowary Coast Regional Council	🟢	🟢	🟢	🟢	🟡	🟢	🟢	🟢
Douglas Shire Council*	🟢	🔴	🟢	🟢	🟡	🔴	🟢	🟡
Fraser Coast Regional Council	🟢	🟢	🟢	🟢	🟢	🟢	🟢	🟢
Gladstone Regional Council	🟢	🟢	🟢	🟢	🟢	🟢	🟢	🟢
Gympie Regional Council	🟢	🟢	🟢	🟢	🔴	🟢	🟢	🟢
Hinchinbrook Shire Council	🟢	🟢	🟢	🟢	🟢	🔴	🟢	🟡
Livingstone Shire Council*	🔴	🔴	🟢	🟢	🔴	🟡	🟢	🟡
Mackay Regional Council	🟡	🟢	🟢	🟢	🟢	🟢	🟢	🟡
Noosa Shire Council*	🟡	🟢	🟢	🟢	🟢	🟢	🟢	🟡
Rockhampton Regional Council	🟡	🟢	🟢	🟢	🔴	🔴	🟢	🟡
Townsville City Council	🟢	🟢	🟢	🟢	🔴	🟢	🟢	🟡
Whitsunday Regional Council	🟢	🟡	🟢	🟢	🟢	🟢	🟢	🟢

* De-amalgamated council (established 1 January 2014).

Source: Queensland Audit Office

Council	Timeliness	Quality	Elements of internal control frameworks					Financial sustainability
			Control environment	Risk assessment	Control activities	Information and communication	Monitoring of controls	Relative risk assessment (refer Figure G5)
Indigenous councils								
Aurukun Shire Council	Yellow	Red	Green	Green	Green	Yellow	Green	Yellow
Cherbourg Aboriginal Shire Council	Green	Red	Green	Green	Green	Red	Green	Red
Doomadgee Aboriginal Shire Council	Yellow	Red	Green	Green	Green	Red	Green	Red
Hope Vale Aboriginal Shire Council	Green	Green	Green	Green	Green	Green	Green	Green
Kowanyama Aboriginal Shire Council#	Red	Red	Red	Red	Red	Red	Red	Red
Lockhart River Aboriginal Shire Council	Yellow	Red	Green	Green	Green	Green	Green	Red
Mapoon Aboriginal Shire Council	Yellow	Green	Green	Green	Green	Green	Green	Red
Mornington Shire Council	Red	Green	Red	Green	Red	Green	Green	Red
Napranum Aboriginal Shire Council	Green	Red	Green	Green	Green	Green	Green	Yellow
Northern Peninsula Area Regional Council#	Red	Red	Yellow	Red	Red	Green	Green	Red
Palm Island Aboriginal Shire Council	Red	Red	Green	Green	Red	Yellow	Green	Red
Pormpuraaw Aboriginal Shire Council	Yellow	Yellow	Green	Green	Green	Green	Green	Red
Torres Shire Council#	Red	Red	Red	Green	Green	Green	Green	Yellow
Torres Strait Island Regional Council	Yellow	Red	Green	Green	Yellow	Green	Green	Red
Woorabinda Aboriginal Shire Council	Red	Red	Yellow	Green	Red	Red	Yellow	Yellow
Wujal Wujal Aboriginal Shire Council#	Red	Red	Green	Green	Green	Red	Green	Yellow
Yarrabah Aboriginal Shire Council	Yellow	Green	Green	Green	Red	Green	Green	Red

Audit for council is unfinished. Quality of financial statements has been assessed as below average based on excessive time taken to finalise. Assessment of effectiveness of internal controls is based on issues raised during the interim audit. Financial sustainability risk assessment is based on prior year ratios.

Source: Queensland Audit Office

Council	Timeliness	Quality	Elements of internal control frameworks					Financial sustainability
			Control environment	Risk assessment	Control activities	Information and communication	Monitoring of controls	Relative risk assessment (refer Figure G5)
Resources councils								
Banana Shire Council	🟡	🟢	🟢	🟢	🟡	🟢	🟢	🟢
Barcoo Shire Council	🔴	🟢	🟢	🟢	🟢	🟢	🟢	🟢
Bulloo Shire Council	🟡	🟢	🟢	🟢	🟢	🟢	🟢	🟢
Burke Shire Council	🔴	🔴	🔴	🔴	🔴	🔴	🔴	🟡
Central Highlands Regional Council	🟡	🟢	🟢	🟢	🔴	🟢	🟢	🟢
Charters Towers Regional Council	🟡	🟢	🟢	🟢	🟢	🟢	🟢	🟢
Cloncurry Shire Council	🔴	🟢	🟢	🟢	🟢	🔴	🟢	🟢
Cook Shire Council	🟡	🟢	🟢	🟢	🟢	🔴	🟢	🔴
Etheridge Shire Council	🟢	🔴	🟢	🟢	🟢	🟢	🟢	🟡
Isaac Regional Council	🟡	🟢	🔴	🟢	🔴	🟢	🟢	🟢
Maranoa Regional Council	🟡	🔴	🔴	🟢	🔴	🟡	🟢	🟢
McKinlay Shire Council	🟡	🟢	🟢	🟢	🟢	🟢	🟢	🟢
Mount Isa City Council	🟡	🟢	🟡	🟢	🟡	🟢	🟢	🟢
Quilpie Shire Council	🟡	🟢	🟢	🟢	🔴	🔴	🟢	🟢
Western Downs Regional Council	🔴	🟡	🟢	🟢	🟢	🔴	🟢	🟡

Source: Queensland Audit Office

Council	Timeliness	Quality	Elements of internal control frameworks					Financial sustainability
			Control environment	Risk assessment	Control activities	Information and communication	Monitoring of controls	Relative risk assessment (refer Figure G5)
Rural/regional councils								
Goondiwindi Regional Council	🟢	🟢	🟢	🟢	🟢	🔴	🟢	🟢
Lockyer Valley Regional Council	🟢	🟡	🟢	🟢	🔴	🟢	🟢	🟡
Mareeba Shire Council*#	🔴	🔴	🟢	🟢	🟢	🟢	🟢	
North Burnett Regional Council	🟡	🔴	🟢	🟢	🟢	🟢	🟢	🔴
Scenic Rim Regional Council	🟡	🟢	🟢	🟢	🟡	🔴	🟢	🟢
Somerset Regional Council	🟡	🟢	🟢	🟢	🟢	🟢	🟢	🟢
South Burnett Regional Council#	🔴	🔴	🟢	🟢	🔴	🔴	🟢	🟡
Southern Downs Regional Council	🟡	🟡	🟢	🟢	🟡	🟢	🟢	🔴
Tablelands Regional Council	🔴	🟢	🟢	🟢	🟡	🟢	🟢	🟢

* De-amalgamated council (established 1 January 2014).

Audit for council is unfinished. Quality of financial statements has been assessed as below average based on excessive time taken to finalise. Assessment of effectiveness of internal controls is based on issues raised during the interim audit. Financial sustainability risk assessment is based on prior year ratios where 2012-13 financial statements were prepared.

Source: Queensland Audit Office

Council	Timeliness	Quality	Elements of internal control frameworks					Financial sustainability
			Control environment	Risk assessment	Control activities	Information and communication	Monitoring of controls	Relative risk assessment (refer Figure G5)
Rural/remote councils								
Balonne Shire Council	🔴	🔴	🟢	🟢	🟡	🟢	🟢	🟢
Barcaldine Regional Council	🔴	🟢	🟢	🟢	🟢	🟢	🟢	🟡
Blackall-Tambo Regional Council	🔴	🟡	🟢	🟢	🟡	🟡	🟢	🟡
Boulia Shire Council	🟡	🔴	🟢	🟢	🔴	🔴	🟢	🟢
Carpentaria Shire Council#	🔴	🔴	🟢	🟢	🟢	🟢	🟢	🟢
Croydon Shire Council	🟡	🔴	🟢	🟢	🟢	🟢	🟢	🟢
Diamantina Shire Council	🟡	🟢	🟢	🟢	🟢	🟢	🟢	🟢
Flinders Shire Council	🟡	🟢	🟢	🟢	🟢	🔴	🟢	🟢
Longreach Regional Council	🔴	🔴	🟢	🟢	🟢	🔴	🟢	🟢
Murweh Shire Council	🟢	🟢	🟢	🟢	🔴	🟡	🟢	🟢
Paroo Shire Council	🔴	🟢	🟢	🟢	🟢	🔴	🟢	🔴
Richmond Shire Council#	🔴	🔴	🟢	🟢	🟢	🟢	🟢	🟢
Winton Shire Council	🟢	🟢	🟢	🟢	🟢	🟢	🟢	🟢

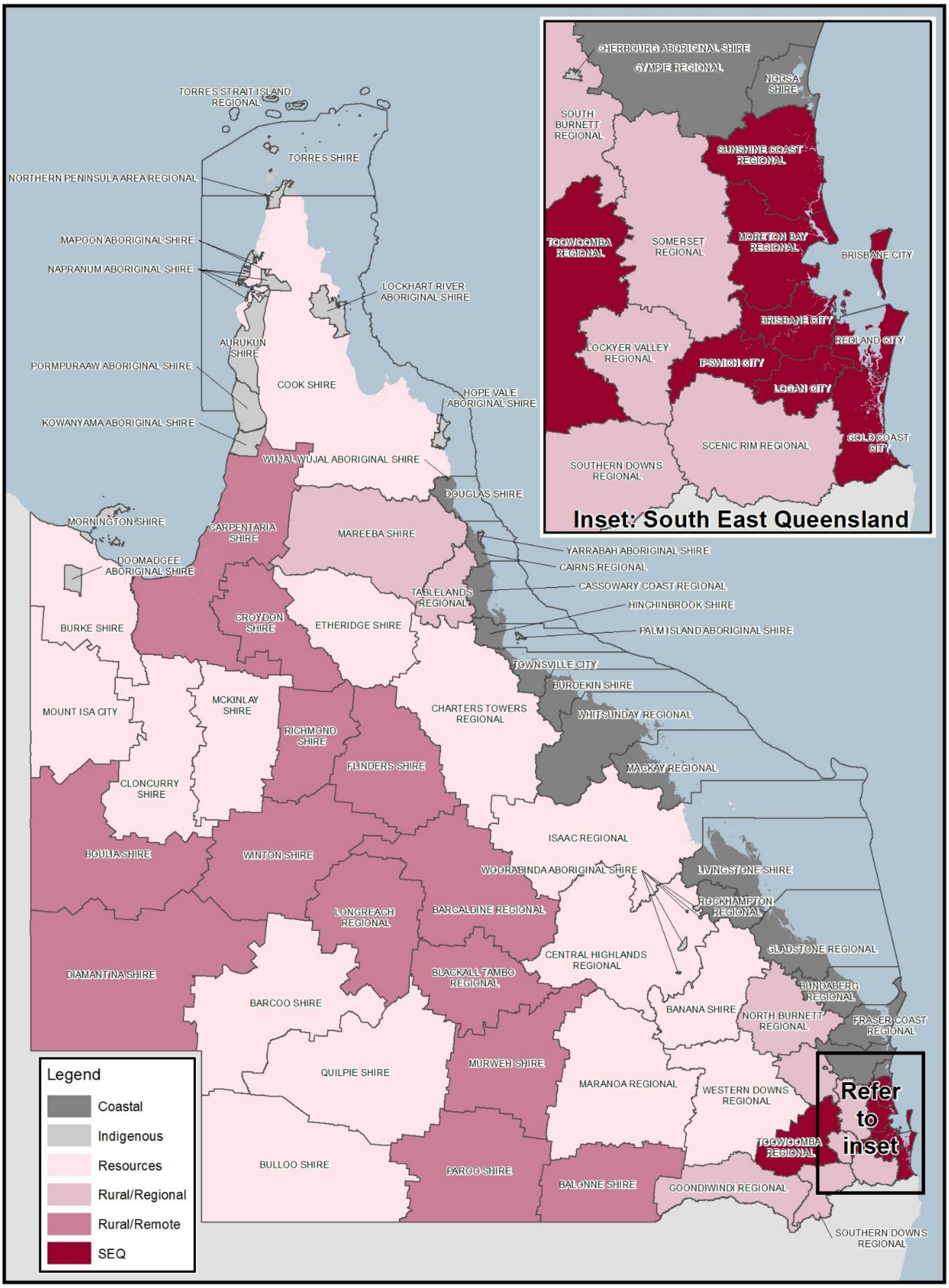
Audit for council is unfinished. Quality of financial statements has been assessed as below average based on excessive time taken to finalise. Assessment of effectiveness of internal controls is based on issues raised during the interim audit. Financial sustainability risk assessment is based on prior year ratios.

Source: Queensland Audit Office

Council	Timeliness	Quality	Elements of internal control frameworks					Financial sustainability
			Control environment	Risk assessment	Control activities	Information and communication	Monitoring of controls	Relative risk assessment (refer Figure G5)
South-east Queensland (SEQ) councils								
Brisbane City Council	🟢	🟢	🟢	🟢	🔴	🟢	🟢	🟡
Council of the City of Gold Coast	🟡	🟢	🟢	🟢	🔴	🟢	🟢	🔴
Ipswich City Council	🟢	🟢	🟢	🟢	🔴	🟢	🟢	🟢
Logan City Council	🟢	🟢	🟢	🟢	🟢	🟢	🟢	🟡
Moreton Bay Regional Council	🟢	🟢	🟢	🟢	🟡	🟡	🟢	🟢
Redland City Council	🟢	🟢	🟢	🟢	🟢	🟡	🟢	🟡
Sunshine Coast Regional Council	🟡	🟢	🟢	🟢	🟢	🟢	🟢	🟢
Toowoomba Regional Council	🟢	🟢	🔴	🟢	🟡	🟢	🟢	🟢

Source: Queensland Audit Office

Appendix I—Queensland council areas by category



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

Auditor-General Reports to Parliament

Reports tabled in 2014–15

Number	Title	Date tabled in Legislative Assembly
1.	Results of audit: Internal control systems 2013–14	11 July 2014
2.	Hospital infrastructure projects	October 2014
3.	Emergency department performance reporting	October 2014
4.	Results of audit: State public sector entities for 2013–14	November 2014
5.	Results of audit: Hospital and Health Service entities 2013–14	November 2014
6.	Results of audit: Public non-financial corporations	November 2014
7.	Results of audit: Queensland state government financial statements 2013–14	December 2014
8.	Traveltrain renewal: Sunlander 14	December 2014
9.	2018 Commonwealth Games progress	December 2014
10.	Bushfire prevention and preparedness	December 2014
11.	Maintenance of public schools	March 2015
12.	Oversight of recurrent grants to non-state schools	March 2015
13.	Procurement of youth boot camps	April 2015
14.	Follow up audit: Tourism industry growth and development	May 2015
15.	Results of audit: Education sector entities 2014	May 2015
16.	Results of audit: Local government entities 2013–14	May 2015

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