

Auditor-General of Queensland



Report 2 : 2012

May 2012

Results of audits:

Local government financial statements for 2010-11

Auditor-General of Queensland

Report 2 : 2012

Results of audits:

Local government financial statements for 2010-11



© The State of Queensland. Queensland Audit Office (2012)

Copyright protects this publication except for purposes permitted by the Copyright Act. Reproduction by whatever means is prohibited without the prior written permission of the Auditor-General of Queensland. Reference to this document is permitted only with appropriate acknowledgement.

Queensland Audit Office
Level 14, 53 Albert Street, Brisbane Qld 4000
GPO Box 15396, City East Qld 4002
Phone 07 3149 6000
Fax 07 3149 6011
Email enquiries@qao.qld.gov.au
Web www.qao.qld.gov.au



This report has been produced using paper stock manufactured to ISO 14001 environmental standards. Hanno Art Silk is totally chlorine free, acid free, has pulp sourced from sustainably managed forests and meets ISO 9706 archival standards. It was proudly printed in Queensland by Goprint meeting ISO 14001 environmental and ISO 9001 quality standards.

ISSN 1834-1128

Publications are available at www.qao.qld.gov.au or by phone on 07 3149 6000.

Auditor-General of Queensland

May 2012

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

Dear Madam Speaker

This report is prepared under Part 3 Division 3 of the *Auditor-General Act 2009*, and is titled *Results of audits: Local government financial statements for 2010-11*.

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



Level 14, 53 Albert St, Brisbane Qld 4000
PO Box 15396, City East Qld 4002

Phone: 07 3149 6000
Fax: 07 3149 6011

Email: enquiries@qao.qld.gov.au
Web: www.qao.qld.gov.au

Contents

Summary.....	1
Introduction	1
Results of audits	1
Timeliness and quality of reporting	1
Internal control	2
Sustainability	3
Recommendations	4
Submissions and comments received.....	5
1 Context.....	7
1.1 Local government responsibilities.....	7
1.2 Audit responsibilities	9
1.3 Structure of this report	9
2 Results of audits of financial statements.....	11
2.1 Audit opinions	12
2.2 Financial reporting issues	16
3 Effectiveness of financial management systems.....	23
3.1 Introduction	24
3.2 Timeliness and quality of externally reported financial information.....	24
4 Effectiveness of control	31
4.1 Introduction	33
4.2 Internal control framework	34
4.3 Audit focus on key control areas.....	38
5 Financial sustainability.....	41
5.1 Financial sustainability measures	42
5.2 Financial sustainability annual report disclosures	46
5.3 Action undertaken by the Department of Local Government	47
5.4 Parliamentary committee report on the financial sustainability of remote councils	47
Appendices	49
Appendix A <i>Auditor-General Act 2009</i> (Section 64) – Submissions and comments received	50
Appendix B Status of financial statements	53
Appendix C Councils by size and DLG regional office responsibility	61

Summary

Introduction

This report to Parliament is prepared under section 60 of the *Auditor General Act 2009*. It summarises the results of our 2010-11 financial audits of local government councils and the entities they control.

Councils provide a wide range of community services, adding to their traditional areas of infrastructure and waste management. The size of the councils varies widely, based on the functions they perform and the extent of the community they serve. Each council operates autonomously and is directly responsible to its own community.

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

The number and type of audit opinions issued; the timeliness and quality of financial reporting by the local government sector; and systemic issues with internal control identified during our financial audits are discussed in this report. This year we have also added an analysis of the indicators of financial sustainability that councils are required to include in their annual reports.

Results of audits

For 2010-11, audit opinions must be issued for 151 local government entities, including 73 councils. To date, 135 audit opinions have been issued, 69 on council financial statements.

The majority of audit opinions issued (73 per cent) were unmodified, confirming that the financial statements were prepared according to the requirements of legislation and relevant accounting standards.

Qualified audit opinions are issued when part or all of the financial statements do not comply with relevant legislative requirements and accounting standards. At the date of this report, for 2010-11, 12 qualified opinions were issued, the same number as for 2009-10, as reported in *Auditor-General of Queensland Report to Parliament No. 2 for 2011- Results of local government audits*. This is a positive result when set against the background of the natural disasters of early 2011. Without prompt action by the councils, particularly on the valuation of assets, more councils would have had a qualified audit opinion.

Timeliness and quality of reporting

The protracted time taken by councils to produce their annual reports and provide financial statements for audit has been a persistent theme of past reports to Parliament.

The relevance and usefulness of the annual report is limited and accountability less effective where annual reports are not available to the community soon after the end of the financial year. From this perspective local government is the least timely, and hence least accountable, of the three tiers of government.

The legislative timeframes for council financial reporting are generous when compared to state government departments and statutory bodies:

- The annual reports of departments and statutory bodies must be tabled in Parliament by 31 October each year while councils' annual reports must be tabled in council by 30 November.
- Departments and statutory bodies must have completed and audited financial statements by 31 August while councils must provide financial statements for audit by 15 September.

Even with these timeframes, only 47 councils, or 64 per cent, had their financial statements audited by the annual report legislative deadline of 30 November 2011, compared to 65 councils or 86 per cent in 2010. While the lateness of some financial statements this year was in part due to the natural disasters, many councils continue to be slow to produce financial statements and table their annual reports.

Adjustments totalling \$8.0 billion were made to management certified statements for 63 councils, either by management on their initiative, or arising from audit examination. Significant changes were required in the notes to the financial statements to fully and accurately reflect councils' policies, describe the processes for valuations and impairment of infrastructure assets, and meet disclosures required under the accounting standards.

The large number and extent of significant changes required to financial statements prior to certification by audit signifies poor quality assurance within councils, including inadequate assessment of the reasonableness of reported information by council.

Disclosures about the impact of the natural disasters in financial statements varied significantly between councils. Five of 17 councils with estimated damages from the natural disasters greater than \$50 million provided no disclosures. Disclosures of the effects of significant events on financial results are useful in providing readers of financial statements with information to make informed decisions.

Internal control

The number and nature of internal control weaknesses being identified in the local government sector is of concern. Significant control issues were identified in 69 (51 per cent) of the 135 councils and local government entities audited; with 484 significant control issues reported to management from the 2010-11 audits.

The number of control issues identified during our audits demonstrates that significant scope for improvement exists for this fundamental governance responsibility.

One area that requires attention is that of internal audit and its oversight by audit committees. An internal audit function and audit committee assists councillors to determine whether internal controls are in existence and operating throughout the year, promote timely communication of internal control breakdowns and deficiencies, and monitor the effectiveness of corrective actions. In their absence it is not clear that councillors can satisfy themselves that an effective internal control structure has been implemented.

For 2010-11, all councils were required to establish an internal audit function; and 35 large/very large councils required to establish an audit committee. Eight of the 73 councils did not have an internal audit function, and one large council of the 35 large/very large category of councils did not have an audit committee.

Sustainability

Every year we assess whether each council has made an internal assessment of its sustainability by evaluating business risks that could affect liquidity and key infrastructure assets. For 2010-11, we assessed councils using six financial sustainability measures, and against the sustainability targets set by the Department of Local Government (DLG).

Across the 69 councils where an audit opinion had been issued, there were 134 instances found where the results were outside the targets. This is a high number and indicates councils will need to review their longer term plans to more effectively manage future financial risk.

We will continue to monitor the results of councils against the targets set by the DLG, to track whether the number of exceptions remains high, and report on the results of individual councils next year.

Recommendations

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

1. When significant events occur councillors should determine and approve the nature and wording of specific additional disclosures to be included in financial statements in order to provide meaningful information to users of their statements.
2. Councils should obtain sufficient evidence to support the extent of work undertaken and the assumptions used in determining asset values.
3. Councils who expect to be unable to meet their 15 September financial statement deadline should seek an extension before that date, and establish plans to achieve their statutory annual report deadline.
4. The 62 councils taking more than four months to prepare and finalise their statements should establish:
 - effective oversight of the financial statement process by senior management and the audit committee
 - detailed plans, with timeframes, budgets and clear accountabilities, for the year-end close processes that feed into financial statement preparation
 - accounting systems that can produce financial statement information with minimal manual intervention.
5. Councils requiring significant adjustments to their financial statements should establish:
 - comprehensive supporting work papers, cross-referenced to the reported information
 - independent review and challenge of the results of asset revaluations and other account balances based on the work of experts
 - independent quality assurance checks of draft financial statements to identify and correct errors
 - rigorous analysis of key balances against budgets and prior year to satisfy themselves as to the reasonableness of the reported figures in the context of the council's current operations.
6. Councils without comprehensive information system policies or sustainability plans should take action to document these and obtain council approval.
7. Local government entities without comprehensive information systems policies should take action to document these and obtain board approval.
8. Councils without up to date risk management policies and risk registers need to take action to make them current.
9. Councils with no internal audit function should take immediate action to comply with this legislative requirement.
10. Councils, whether or not required by law, should establish an audit committee to strengthen governance.

11. Councils with audit committees should update their committee's charter to include reviews of financial statements and monitor progress in addressing internal control breakdowns and deficiencies.
12. The DLG should improve the contents of the *Financial Management (Sustainability) Guidelines 2011* to assist councils in calculating sustainability measures and in assessing the implications of having a measure outside of the department's indicative targets.
13. The DLG should request from each council an annual certification from the Chief Executive Officer on compliance with legislative requirements that includes financial sustainability. This could be certified at the council meeting when the annual report is tabled.
14. The DLG should monitor the extent, timeliness and accuracy of annual disclosure of sustainability measures and work with non-compliant councils to remedy this issue.

Submissions and comments received

In accordance with section 64 of the *Auditor-General Act 2009*, a copy of this report was provided to the Department of Local Government with a request for submissions or comments.

The full comments received from the department are included in Appendix A of this report.

1 Context

1.1 Local government responsibilities

The local government sector comprises 73 local and Indigenous councils and 78 entities that they control, either individually or jointly. The role of these councils is to manage facilities and deliver services for the community with full responsibility and autonomy to manage local issues with their community.

Councils vary widely in size, population, nature and financial activity. Figure 1A provides an indication of councils by size and Department of Local Government (DLG) regional office responsibility.

Figure 1A
Indicative size of councils

Size category	DLG regional office responsibility					
	Far North	Northern	Central	South East	South West	Total
Small/Indigenous	15	7	6	0	4	32
Medium	0	5	3	0	5	13
Large	2	1	4	3	6	16
Very large	1	1	2	7	1	12
Total	18	14	15	10	16	73

Source: Based on the categories used by the Queensland Local Government Remuneration and Discipline Tribunal. Councils within each category are shown in Appendix C

Financial reporting timeframes

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

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

The timeframes for financial reporting by council are specified in this legislation. The *Local Government (Finance, Plans and Reporting) Regulation 2010* requires a council's financial statements be provided to audit as soon as practicable after the end of the financial year and by no later than 15 September each year. An extension of time to prepare financial statements can be granted by the Minister if a council has not been able to provide its financial statements for audit by 15 September because of extraordinary circumstances.

The financial statements must be accompanied by a certification of the Mayor and Chief Executive Officer stating that their financial statements have been prepared to comply with the relevant accounting and legislative standards, and that they accurately reflect the council's financial performance and position for the financial year.

The audited financial statements and the audit opinion must be included in the council's annual report. The annual report is to be presented to the council for adoption before 30 November, unless an extension to this date is granted by the Minister.

These Acts do not apply to the Brisbane City Council, which has its own Act, *City of Brisbane Act 2010* and its related legislation. Under this legislation, the Brisbane City Council must prepare financial statements and provide these to audit by 15 September. These statements must be audited and included in the annual report, which must be completed by 31 October.

The timeframe for council financial reporting is later than that for departments and statutory bodies set out in the *Financial and Performance Management Standard 2009*. The Standard requires Accountable Officers and statutory bodies to provide financial statements by an agreed date to enable the audit of the statements to be completed no later than two months after the end of the financial year. For departments and statutory bodies with a financial year ending 30 June, that is by 31 August.

Disclosure requirements

The *Local Government (Finance, Plans and Reporting) Regulation 2010* is the key legislation for financial management of councils. It includes requirements for the keeping of financial accounts, documents, policies, records and reports of councils. It also contains the areas councils are required to disclose in the annual report. Figure 1B outlines key disclosure requirements.

Figure 1B
Key disclosure requirements

Requirements
<ul style="list-style-type: none"> ● General purpose financial statement and the Auditor-General's audit report ● Community financial report ● Current year and next nine years of relevant measures of financial sustainability and an explanation of the council's financial management strategy ● Particulars of councillors' remuneration including total remuneration, superannuation contributions, expenses incurred by and facilities provided to councillors ● Overseas travel made by a councillor or council employee including destination, purpose and cost ● Summary of expenditure on grants to community organisations ● Summary of expenditure from each councillor's discretionary fund including the name of each community organisation allocated funds, and the amount and purpose of the allocation ● Details of land that are reserves and roads that the council does not own ● Assessment of performance in implementing the long term community plan, corporate plan and annual operational plan ● Report on the internal audit ● Finances relating to distributor-retailers including profits received and tax equivalents paid by the council, and payments made and liabilities owed by the council to the distributor-retailer and by the distributor-retailer to the council.

In addition, the *Local Government Act 2009* requires the total remuneration packages payable to senior contract employees and the number of contract employees being paid the remuneration packages to be disclosed in the annual report.

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 government, and prepare an auditor's report.

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

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

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

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

A report on the outcomes of the audit is also provided to management to highlight significant issues identified during the audit and recommendations for improvement. This report includes details of significant weaknesses to be reported to Parliament.

The *Auditor-General Act 2009* requires the Auditor-General to prepare a report to Parliament on each 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 and any actions taken to improve deficiencies reported in previous reports. This report satisfies these requirements.

1.3 Structure of this report

This report is structured as follows:

- Section 2 provides the results of the audits of councils and other local government entities that were finalised at the time of this report.
- Section 3 discusses the timeliness and quality of the financial statements produced.
- Section 4 deals with systemic financial management issues being raised at councils and their controlled entities.
- Section 5 examines the current financial sustainability of the councils.
- Appendix A contains the response provided by the department.

- Appendix B contains the status of the 2010-11 financial statements of councils and other local government entities.
- Appendix C shows the councils by size and DLG regional office responsibility.

2 Results of audits of financial statements

Summary

Background

This section contains the results of the audits completed for 135 of the 151 councils and local government entities required to prepare financial statements. The audited financial statements for councils must be included in their annual report.

Key findings

- Unmodified opinions were issued for 55 councils and 43 related local government entities.
- Twelve qualified opinions were issued, mainly related to asset valuations, insufficient internal control systems and inadequate records to support prior year comparative balances.
- Eleven emphasis of matter paragraphs were included to highlight business risk issues.
- A further 14 emphasis of matter paragraphs were included only to highlight the use of special purpose financial statements.
- Disclosures about the impact of the natural disasters in financial statements varied significantly between councils. Five of 17 councils with estimated damages from the natural disasters greater than \$50 million provided no disclosures.
- Condition assessments made by the councils of assets affected by natural disasters were not supported by the evidence provided to audit.

Key recommendations

1. When significant events occur councillors should determine and approve the nature and wording of specific additional disclosures to be included in financial statements in order to provide meaningful information to users of their statements.
2. Councils should obtain sufficient evidence to support the extent of work undertaken and the assumptions used in determining asset values.

2.1 Audit opinions

The local government sector consists of councils administering local government areas, jointly controlled entities established to administer joint council activities, controlled entities including companies, trusts and incorporated associations, and entities audited by arrangement. All have a 30 June balance date, apart from one entity with a 31 March balance date and two entities with a 30 April balance date.

For 2010-11, audit opinions for 151 local government entities must be issued. 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 number	Unfinalised audits	Audit opinion issued		
			Unmodified	Qualified	Unmodified with emphasis of matter
Councils	73	4	55	8	6
Controlled entities	44	5	28	3	8
Joint local governments	2	0	1	0	1
Jointly controlled entities	27	7	9	1	10
Audited by arrangement	5	0	5	0	0
Total	151	16	98	12	25

Unfinalised audits

Audit opinions have yet to be issued for four councils and twelve other local government entities. We are working actively with these entities to finalise outstanding audit opinions as soon as possible.

The four councils are:

- Burke Shire Council
- Central Highlands Regional Council
- Cherbourg Aboriginal Shire Council
- Kowanyama Aboriginal Shire Council.

Appendix B sets out the dates the financial statements were signed by management and the audit opinion issued.

2.1.1 Unmodified audit opinions

Ninety-eight unmodified opinions (73 per cent) were issued on the 135 financial statements completed for 2010-11. An unmodified audit opinion confirms that the financial statements have been prepared according to the requirements of legislation and relevant accounting standards. This compares unfavourably to 118 unmodified opinions (80 per cent) of the 147 financial statements for 2009-10.

2.1.2 Qualifications

Of the twelve qualified opinions issued to date, eight were on council financial statements.

The impact of the 2011 natural disasters on reported asset values was not able to be adequately resolved by Gympie, Lockyer Valley and Maranoa Regional Councils, resulting in qualifications for these councils. These qualifications should not need to recur provided the councils address the valuation of their assets this financial year.

The continuing need to qualify Torres Strait Island Regional Council and Pormpuraaw Aboriginal Shire Councils is of more concern, as these qualifications relate to systemic issues with underlying records and internal controls that remain unresolved.

Councils

Cook Shire Council received a qualified audit opinion because it did not have sufficient evidence to demonstrate that its road, drainage and bridge infrastructure assets were valued in accordance with Australian Accounting Standard *AASB 116 Property Plant and Equipment*. The council did not make necessary corrections following the revaluation of these assets in 2011, affecting the 2010 comparative property, plant and equipment and the asset revaluation surplus balances.

Gympie Regional Council and **Lockyer Valley Regional Council** received qualified audit opinions because the councils could not quantify the impact that the floods had on their road, bridge and drainage assets. As flooding caused extensive damage to the councils' road, bridge and drainage assets the councils were unable to demonstrate that the reported value of its road and drainage network were at fair value as required by required by Australian Accounting Standard *AASB 116 Property, Plant and Equipment*. Had the councils been in a position to do so, the reported asset values would have been materially lower than stated. Lockyer Valley Regional Council also did not write off any road, bridge or drainage assets damaged by the floods. Had it been in a position to do so, the reported annual operating result would have been significantly lower.

The audit opinion of **Maranoa Regional Council** was qualified because it did not have sufficient evidence to support road, drainage and bridge infrastructure related balances and disclosures in the financial statements. The council had undertaken a comprehensive revaluation during the year. However, this was completed prior to the 2011 natural disasters and consequently could not reflect the condition of the road, drainage and bridge network at year-end. The council also did not write off any road, drainage and bridge assets destroyed by the natural disasters.

The 2009 and 2010 audit opinions for **Doomadgee Aboriginal Shire Council** were qualified because the council's records were not adequate to support outstanding housing rentals, which predate 2005. While the council wrote off these balances in 2011, this did not affect the 2010 comparative balance. A qualified opinion was issued in relation to this comparative amount.

Mapoon Aboriginal Shire Council received a qualified audit opinion because in 2009-10 it did not have appropriate systems to reliably allocate the cost of purchased services, materials, direct labour and labour overheads to capital work in progress. Systems have been implemented in 2010-11 to resolve this issue, but corrections to prior year balances were not made and could not be relied on. Also, due to the transfer of assets included in the opening work-in-progress balance, an opinion could not be expressed on the increase in the asset revaluation surplus.

Pormpuraaw Aboriginal Shire Council received a qualified audit opinion as the council did not provide sufficient evidence to audit to support condition and useful life assessments over property, plant and equipment at 30 June 2010 and 30 June 2011, as required by Australian Accounting Standard *AASB 116 Property, Plant and Equipment*. The valuations performed were based on the assumption that there was no change in useful lives, remaining useful lives or condition ratings of the council's property, plant and equipment assets. As a result, the underlying assumptions of the valuation were not reliable for audit purposes. The council also did not write off any infrastructure assets following the 2011 natural disasters.

Pormpuraaw Aboriginal Shire Council also did not maintain effective controls and reconciliations over their kiosk revenue, with numerous variances identified between cash register readings and cash per register, and between cash counted and cash banked. The council was also unable to provide adequate documentation to support the 2010 comparative balance for fuel revenues.

Torres Strait Island Regional Council received a qualified audit opinion as:

- Council failed to maintain an effective system of internal control and adequate supporting documentation in respect of its payroll function, including employee benefit liabilities.
- weaknesses existed in the internal controls over cash and cash equivalents and the identification of cash losses.
- significant uncertainty existed over the completeness and accuracy of the reported opening balances for property, plant and equipment and the reported movements in the asset revaluation surplus and retained surplus balances. The associated depreciation expense was also qualified.
- prior period errors and the manner in which these errors were corrected in the financial statements were not adequately disclosed or sufficiently supported by documentation.
- the audit opinion for 2010 was qualified on similar bases. Additionally the 2010 opinion was qualified as:
 - Council was unable to provide adequate supporting documentation or appropriate reconciliations to substantiate the completeness and accuracy of rental income, the associated debtors balance and the aging analysis of receivables. These 2010 comparative amounts and disclosures remain qualified in 2011.
 - significant uncertainty existed over the completeness and accuracy of the reported property, plant and equipment and the asset revaluation surplus balances.
- as the Council did not maintain effective systems of internal control over its financial operations in 2008-09, an opinion could not be expressed on 2009 comparative amounts and disclosures reported.

Included after the qualified audit opinion was an emphasis of matter paragraph casting doubt on the Council's ability to continue as a going concern as the council continues to generate significant operating losses, has a diminishing cash balance and negotiated a deferred payment arrangement with the Australian Taxation Office to settle significant outstanding GST liabilities.

Controlled entities

The **Rockhampton Art Gallery Trust** received a qualified audit opinion because they could not demonstrate they had identified and recorded all revenue from donations. The qualification draws attention to the risk inherent in management assuring the complete recording of cash collected through donations.

Local Buy Trading Trust received a qualified audit opinion because they could not demonstrate they had identified and recorded all revenue owing from tender arrangements. This qualification arises from inherent limitations in the Trust's system of internal control over tender revenue that relies on the completeness and accuracy of statistical returns provided by suppliers.

The **Woorabinda Pastoral Company Pty Ltd** received a qualified audit opinion as the company did not undertake a stock take of all biological assets for 2010-11. This resulted in an inability to support the existence of breeding cattle at 1 July 2010 and therefore the comparative net market increment for livestock for 2010-11. This was also the basis of the qualified opinion in 2010 and as this issue has not been resolved, the 2010 comparative figures remain qualified.

The **Edward River Crocodile Farm** received an adverse audit opinion because its financial statements were prepared incorrectly on a going concern basis. The company's parent entity had resolved to liquidate the company prior to the signing of the financial statements, so the company was no longer a going concern and the financial statements should not have been prepared on that basis. In 2009-10, the audit opinion was qualified as no documentation existed to support the monetary value of each breeding livestock. Inadequacies in controls over inventory movements resulted in the changes in the fair value movements of the crocodiles and the write off of crocodile breeders reported in the Statement of Comprehensive Income not being able to be substantiated. Due to this issue, comparative balances for 2010 cannot be substantiated.

2.1.3 Emphasis of matter paragraphs

In certain circumstances it is appropriate to include a paragraph in the independent auditor's report drawing attention to or emphasising a matter in the financial statements without warranting qualification of the audit opinion. Emphasis of matter paragraphs were included in 25 independent auditor's reports, although in 14 out of the 25 reports the emphasis of matter paragraph drew attention only to the use of Special Purpose Financial Statements as required by Australian Auditing Standards. The remaining eleven emphasis of matter paragraphs related to business risk issues.

Australian Auditing Standard *ASA 800 Special Considerations – Audits of Financial Reports Prepared in Accordance with Special Purpose Frameworks* requires an emphasis of matter paragraph to be included to highlight the basis of preparation where the financial statements are prepared using a special purpose framework. An emphasis of matter was included for 14 entities to highlight that special purpose financial statements were prepared for 2010-11.

An emphasis of matter paragraph was included in the independent auditor's reports of **Gold Coast, Logan and Redland City Councils** drawing attention to events potentially affecting the value of the councils' investment in Allconnex Water.

In July 2010, South-East Queensland councils transferred their water activities to three new water authorities set up to manage and operate water retail and distribution activities. In April 2011, the Premier announced that the Queensland Government would change the *South-East Queensland Water (Distribution and Retail Restructuring) Act 2009* and provide councils with the option to withdraw from the authorities and re-establish water businesses. In July and August 2011, Gold Coast, Logan and Redland City Councils advised the Queensland Government of their desire to opt out of their water authority, Southern SEQ Distributor-Retailer Authority, trading as Allconnex Water, and re-establish their own retail water distribution operations as of 1 July 2012.

On 14 February 2012, Parliament passed the *South-East Queensland Water (Distribution and Retail Restructuring) and Other Legislation Amendment Bill* formalising the decisions made by the councils. Due to the necessary amendments to legislation not being passed at the time audit opinions were issued on the 2010-11 financial statements, it was uncertain then whether the participating councils could withdraw from Allconnex Water. The effects of amendments to the legislation and participation agreements on the value of the council's investment in Allconnex Water reported in the financial statements were unknown at that time.

Also, in June 2011, the *Fairer Water Prices for SEQ Amendment Bill 2011* was passed by Parliament, requiring participating councils to develop and publish final price paths for water and wastewater charges for the period 1 July 2013 to 30 June 2019, and for residential and small customers by 30 March 2013. As these price paths had not been set when the independent auditor's reports were issued, uncertainty existed about the value of infrastructure assets owned by Allconnex Water that may be returned to the councils.

An emphasis of matter paragraph was included after the audit opinion of **Northern Peninsula Area Regional Council** as the council has utilised grant monies to meet operational needs, casting doubt about their ability to continue as a going concern. An emphasis of matter paragraph was included after the audit opinion of **The Brolga Theatre Board Inc.** as in 2010-11 their liabilities exceeded their assets, casting doubt about their ability to continue as a going concern. An emphasis of matter paragraph was included after the audit opinion of **Outback@Isa Pty Ltd** as the company is reliant on subsidies from its parent entity, Mount Isa City Council to fund its operations, creating uncertainty about its ability to continue as a going concern.

An emphasis of matter paragraph was included after the audit opinions of the **Esk-Gatton-Laidley Water Board**, **Sunshine Coast Enterprises Pty Ltd** and **Urban Local Government Association of Queensland Inc.** as their financial statements were not prepared on a going concern basis as they were being wound up.

An emphasis of matter paragraph was included after the audit opinion of **Somerset Regional Council** to draw attention to a note in the financial statements on the value of road and bridge assets that was written down due to extensive damage from the January 2011 floods.

An emphasis of matter paragraph was included after the audit opinion of **Hope Vale Aboriginal Shire Council** to highlight that the original financial statements certified by management on 8 August 2011 and the unmodified opinion issued on 17 August 2011 was superseded. Subsequent to the original opinion being issued, a material misstatement was identified in the financial statements.

2.2 Financial reporting issues

2.2.1 Impact of natural disasters on council assets

The natural disasters in early 2011 were identified in *Auditor-General of Queensland Report to Parliament No. 2 for 2011 - Results of local government audits* as being likely to have a significant impact on the 2010-11 financial statements of councils. During 2011, 17 councils reported that the estimated damages from the natural disasters were greater than \$50 million, as shown in Figure 2B.

Figure 2B
Councils with estimated damage greater than \$50m

Council	Estimated damage \$m	Restoration work applications at 23.12.2011 \$m	Total value of property, plant and equipment at 30.06.2011 \$m
Brisbane City Council	213.7	205.2	17 050.6
Lockyer Valley Regional Council	174.7	136.9	317.6
Cassowary Coast Regional Council	129.7	30.8	748.3
South Burnett Regional Council	114.7	10.2	554.8
Mackay Regional Council	110.7	115.7	2 530.7
Toowoomba Regional Council	110.0	101.9	3 052.3
Hinchinbrook Shire Council	101.4	22.9	249.1
Whitsunday Regional Council	100.0	17.6	645.2
Ipswich City Council	95.3	95.6	1 821.5
Townsville City Council	83.0	27.5	3 685.1
Western Downs Regional Council	81.1	84.4	1 334.3
Southern Downs Regional Council	80.5	2.0	768.5
Gladstone Regional Council	72.8	25.8	1 196.9
Tablelands Regional Council	73.5	11.0	669.3
Bundaberg Regional Council	58.9	0	1 563.1
Somerset Regional Council	56.4	47.6	153.5
Rockhampton Regional Council	53.9	60.8	2 277.5
Total	1 710.3	995.9	38 618.3

Source: Based on information submitted to the Queensland Reconstruction Authority in support of Natural Disaster Relief and Recovery Arrangement funding proposals

The level of disclosure on the impact of the natural disasters in the 2010-11 financial statements of these councils varied significantly, with five councils providing no disclosure about the impacts of the natural disasters in their financial statements.

Disclosure of such matters allows the community to better assess the impact of the natural disaster on the council's assets, the council's ability to service the community, and progress made in reinstating their assets.

The types of disclosure that would have assisted in this regard include:

- grant funding received and expended under the Natural Disaster Relief and Recovery Arrangement
- clean up and repair costs incurred
- assets written off due to loss or damage sustained as a result of the natural disaster
- impact on the valuation of infrastructure assets as at 30 June 2011.

Recommendation

1. **When significant events occur councillors should determine and approve the nature and wording of specific additional disclosures to be included in financial statements in order to provide meaningful information to users of their statements.**

Effect of damage on asset values at reporting date

In assessing the value of their land, buildings and infrastructure assets at 30 June 2011, councils assessed whether these assets were impacted by the natural disasters through movements in the market values of the assets or the condition of the assets as at the reporting date. In undertaking these assessments, seven councils recognised significant decreases in the value of assets at 30 June 2011, totalling approximately \$526.7 million (2.3 per cent) from their combined infrastructure asset bases of \$23 107.7 million.

Write off of damaged assets

Australian Accounting Standard AASB 116 *Property, Plant and Equipment* requires councils to write off assets that have been disposed of or which are no longer expected to provide future economic benefits. To comply with AASB 116, councils needed to assess the condition of their assets impacted by the natural disasters to determine whether any assets or significant parts of assets were lost, or so severely damaged that the assets should be derecognised and written off in the 2010-11 financial statements. Four councils reported significant asset write offs that totalled approximately \$76.9 million.

Condition assessments

As identified in section 2.1.2, three councils received qualified audit opinions as the evidence provided to support the condition assessments of assets was inadequate. A further 12 councils requested extensions from the Minister for tabling their 2011-12 annual reports due to issues relating to the valuation of assets damaged by natural disasters. For these councils additional time and audit effort was required to establish the evidence needed to support the reported asset values. This resulted in significant delays in the finalisation of the audited financial statements.

As these condition assessments represent a key assumption in valuation methodologies used to estimate the value of infrastructure assets, clear documentation is required to support how the assessments were undertaken and how they were applied in estimating the value of the assets. Where external valuers are engaged by councils, this information should be documented in the valuation report provided to the council. International Valuation Standard 4.4 *Valuation Reporting*, considered best practice, requires valuation reports to specify all significant assumptions that are relevant to the valuations provided.

Queensland Treasury's website (www.treasury.qld.gov.au) contains *Non-Current Asset Policies Tools* which include a comprehensive checklist for revaluations. The use of the self-assessment checklist for annual revaluation of property, plant and equipment assists agencies in achieving better practice in their revaluation processes. While these policies do not apply to councils, councils are encouraged to complete this checklist to provide assurance that management has appropriately evaluated their revaluation processes and disclosures.

Recommendation

- 2. Councils should obtain sufficient evidence to support the extent of work undertaken and the assumptions used in determining asset values.**

2.2.2 Changes in remote Indigenous housing arrangements

40 year social housing leases

In December 2008, the National Partnership Agreement on Remote Indigenous Housing was entered into between the Commonwealth of Australia and the States and Territories. The agreement provides \$5.5 billion nationally over 10 years to implement major reforms to the delivery and management of social housing in remote communities. This includes significant investment in the construction and refurbishment of houses to reduce overcrowding and housing shortage.

One outcome of this agreement was that all remote Indigenous councils agreed in principle to lease their future housing assets to the State Government for 40 years. Cherbourg and Yarrabah Aboriginal Shire Councils were not included as they were not deemed to be remote Indigenous councils. As at 30 June 2011, seven of the 14 remote Indigenous councils had signed leases covering 376 houses on 365 lots. Figure 2C outlines the proportion of housing leasing in participating councils.

The Department of Housing and Public Works, like the former Department of Communities, will make lease payments to trustees and rates equivalent payments to councils. In addition, the Department of Housing and Public Works is responsible for maintaining and repairing the houses and collecting rental income from tenants. As such, the Department of Housing and Public Works has largely taken on the risks and benefits associated with these assets for the next 40 years.

By entering such contracts, individual councils have secured their stake in national funding. These arrangements for councils include a guaranteed income stream under the lease arrangements, the removal of possible bad debts associated with non-payment of rental by tenants, and the avoidance of future maintenance and insurance costs for social housing. From the perspective of the total cost of ownership, the councils will be better off financially under the lease arrangement.

In accounting terms, the houses subject to lease become assets of the Department of Housing and Public Works. Rather than housing assets, the councils now recognise a receivable equating to the value of the payments they will receive over the lease term.

As the majority of councils have not previously entered into leases of this type, the accounting for these arrangements has been challenging. The leases are unusual in that the present value of the lease payments is significantly lower than the 'fair value' reported for these houses by the councils immediately prior to the commencement of the leases. This has made the accounting for the leases more complicated, and has resulted in councils reporting significant one-off 'book' losses in respect of the leases of existing houses, as shown in Figure 2C.

These losses are a consequence of the valuation methodology used by councils prior to the leases, which was their 'written down replacement cost'. This methodology was appropriate where the council was the owner and controlled these assets, as there was no reliable market value for these houses.

Figure 2C
Loss on initial recognition of social housing leases in 2010-11

Council	Number of new houses leased	Number of existing houses leased	Total number of houses leased	Houses leased as % of total community housing	Fair value of existing leased houses \$m	Present value of expected lease payments for existing houses \$m	Book 'loss' on entering into lease / reduction in community equity for existing houses \$m	Average book 'loss' per existing house \$
Mornington Shire Council	23	189	212	100	44.2	13.9	30.3	160 166
Doomadgee Aboriginal Shire Council	5	65	70	42	28.6	4.9	23.7	364 806
Hope Vale Aboriginal Shire Council	5	48	53	25	6.3	3.7	2.6	54 251
Napranum Aboriginal Shire Council	18	0	18	<10	N/A	N/A	N/A	N/A
Woorabinda Aboriginal Shire Council	13	0	13	<10	N/A	N/A	N/A	N/A
Kowanyama Aboriginal Shire Council	6	0	6	<5	N/A	N/A	N/A	N/A
Palm Island Aboriginal Shire Council	4	0	4	<5	N/A	N/A	N/A	N/A
Total	74	302	376					

Note: N/A – Not applicable as no existing houses are leased

As can be seen in Figure 2C, the average loss per house varies greatly between councils. This arises as the carrying value of housing assets in councils' books reflects their age, condition and number of bedrooms, but the lease payments received by councils under these arrangements is a fixed amount.

Further losses may also be reported by Indigenous councils if additional leases over existing houses are entered into.

99 year home ownership leases

A further objective of the National Partnership Agreement on Remote Indigenous Housing was to resolve land tenure on community titled land and contribute to an increase in the level of home ownership in Indigenous communities. In 2008, changes to the *Aboriginal Land Act 1991* and the *Torres Strait Islander Land Act 1991* enabled 99 year leases to be granted by trustees to Indigenous peoples, providing them exclusive access to a parcel of residential land. Further amendments in 2011 to both Acts included a statutory right of renewal. The intention was that the leaseholder purchase any house located on the land, or build a new house if the land is vacant. Councils are required to use sale proceeds to provide housing services for Indigenous people.

In the *Home Ownership on Indigenous Communal Lands* discussion paper, the former Department of Communities states that the purchase price of existing houses will be based on a market value comparable with properties in nearby communities. As independent sales of comparable properties are rare, it is difficult to reliably estimate the market value of a house on community land located in Indigenous councils.

The discussion paper provides an example range of market values between \$80 000 and \$150 000 depending on size, condition and location. Currently no market valuation data is available. Councils value their social housing stock at depreciated replacement cost. This often equates to more than \$400 000 per dwelling, much higher than the market value suggested by the former Department of Communities.

While the specific accounting treatment for these transactions is yet to be determined, it is likely that councils will also need to recognise substantial accounting losses for each house sold under these arrangements.

As the consultation phase of the discussion paper was extended to the end of May 2011, no home ownership lease arrangements were entered into prior to 30 June 2011.

2.2.3 Wind up of Poruma Island Pty Ltd

Previous Auditor-General Reports to Parliament have reported that the audit opinions on the financial statements for Poruma Island Pty Ltd for the years 2008-09 and 2009-10 have not been issued. Poruma Island Pty Ltd operated a resort facility on Poruma Island catering for tourists in the Torres Strait. The company was a controlled entity of the Torres Strait Island Regional Council.

The company prepared financial statements for 2008-09 which were audited. The company entered voluntary administration on 3 January 2011, prior to the directors certifying the 2008-09 financial statements, and the audit was never finalised. No further financial statements were prepared by the company. A meeting of creditors on 15 March 2011 passed a motion to wind up the company. At the date of this report, the company is yet to be deregistered.

While the Auditor-General is no longer recognised as the auditor under the *Corporations Act 2001*, the *Financial Accountability Act 2009* still identifies Poruma Island Pty Ltd to be a public sector entity. Until deregistration, the Auditor-General will continue to have a responsibility to audit Poruma Island Pty Ltd.

Attempts were made to undertake an accountability audit to ensure that revenue and expenditure transactions recorded in the general ledger were adequately supported and that no misappropriation of funds had occurred. As limited financial records were available, our audit procedures were confined to reviewing bank statements for the period 1 July 2009 to 15 March 2011. As the company had ceased trading, the level of financial activity was low. No instances of fraud or misappropriation were identified.

At the date of this report, the company is yet to be deregistered, and the administrators are yet to finalise the settlement of liabilities and disposal of residual assets of the company.

3

Effectiveness of financial management systems

Summary

Background

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

Key findings

- Nine councils (12 per cent) provided financial statements for audit after the deadline of 15 September 2011, and 22 councils (30 per cent) had audit opinions issued after the 30 November deadline.
- Management or audit-initiated amendments were required for 63 (91 per cent) of the 69 management certified financial statements provided for audit by councils.
- Audit examination identified \$8.0 billion in adjustments to financial statements. The disclosures in the notes to financial statements also required significant changes.

Key recommendations

3. Councils who expect to be unable to meet their 15 September financial statement deadline should seek an extension before that date, and establish plans to achieve their statutory annual report deadline.
4. The 62 councils taking more than four months to prepare and finalise their statements should establish:
 - effective oversight of the financial statement process by senior management and the audit committee
 - detailed plans, with timeframes, budgets and clear accountabilities, for the year-end close processes that feed into financial statement preparation
 - accounting systems that can produce financial statement information with minimal manual intervention.
5. Councils requiring significant adjustments to their financial statements should establish:
 - comprehensive supporting work papers, cross-referenced to the reported information
 - independent review and challenge of the results of asset revaluations and other account balances based on the work of experts
 - independent quality assurance checks of draft financial statements to identify and correct errors
 - rigorous analysis of key balances against budgets and prior year to satisfy themselves as to the reasonableness of the reported figures in the context of the council's current operations.

3.1 Introduction

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

Effective financial systems produce timely and reliable financial information for management, and allow management to report externally. An efficient system will integrate internal management reporting with external accountability reporting, to the extent practicable.

3.2 Timeliness and quality of externally reported financial information

Late completion of financial statements weakens accountability, and can indicate poor financial control. In comparison to last year, 18 fewer financial statements (25 per cent) were finalised by 30 November.

This slippage was reasonably attributable to the impact of natural disasters in many cases, but as a sector, local government performs poorly in terms of timely reporting. Too many councils fail to meet statutory deadlines, which are generous compared to other jurisdictions, and compared to the requirements for state public sector entities.

The financial statements provided for audit by 63 councils (91 per cent) required numerous changes before the audit opinion could be issued. This is an indicator of poor quality assurance practices, and also of poor system and report preparation processes.

3.2.1 Timeliness

Councils

While preparing annual financial statements is required by legislation, their importance is both in the information they provide to stakeholders and as an indication of the council's effective management and performance. If these financial statements are not available within a reasonable timeframe, the ability of the community to assess the financial performance of the council is limited and the accountability process less effective.

Figure 3A shows the number of audit opinions issued on or prior to 30 November 2011, to enable councils to meet their annual report deadline.

Figure 3A
Audit opinions issued by the 30 November annual reporting deadline

	2010-11		2009-10	
	Number	Per cent	Number	Per cent
By 30 November 2011	47	64	65	89

While audit opinions for 47 (64 per cent) of the 73 councils were issued by 30 November, 32 councils requested an extension of time from the Minister for the annual report to be presented to the council for adoption.

Figure 3B shows the councils granted an extension of time, the reasons provided to support the request, and the date of the audit opinion.

Figure 3B
Annual report extensions

Council	Reason for extension	Date the annual report extension granted	Date audit opinion signed
Gladstone Regional Council	Timing of the council meeting to adopt the annual report	06.12.2011	23.11.2011
Somerset Regional Council	Asset valuation issues (flood)	07.12.2011	02.12.2011
Paroo Shire Council	Accounting treatment of Natural Disaster Relief and Recovery Arrangement funding	13.12.2011	12.12.2011
Banana Shire Council	Asset valuation issues (flood), timing of the council meeting to adopt the annual report	15.12.2011	07.12.2011
Palm Island Aboriginal Shire Council	Delay in council adopting annual report due to inability to achieve a quorum	15.12.2011	15.11.2011
South Burnett Regional Council	Asset valuation issues, flood damaged assets	15.12.2011	15.12.2011
Balonne Shire Council	Asset valuation issues (floods)	16.12.2011	20.12.2011
Burdekin Shire Council	Asset valuation issues	31.12.2011	25.11.2011
Carpentaria Shire Council	Timing of council meeting to adopt the annual report	31.12.2011	15.11.2011
Doomadgee Aboriginal Shire Council	Issues relating to prior housing debtor qualification and staffing	31.12.2011	30.11.2011
Southern Downs Regional Council	Asset valuation issues, flood damaged assets	31.12.2011	19.12.2011
Yarrabah Aboriginal Shire Council	Timing of council meeting to adopt the annual report	01.01.2012	21.11.2011
Isaac Regional Council	Asset valuation issues	30.01.2012 (Original extension to 31.12.2011)	16.12.2011
Cook Shire Council	Asset valuation issues, staffing and systems issues	31.01.2012	11.01.2012
Goondiwindi Regional Council	Valuation of flood affected assets	31.01.2012	20.12.2011
Western Downs Regional Council	Asset valuation issues, flood damaged assets	31.01.2012 (Original extension to 16.12.2011)	07.02.2012
Mackay Regional Council	Asset valuation issues, systems and staffing issues	17.02.2012 (Original extension to 31.12.2011)	14.02.2012
Lockyer Valley Regional Council	Asset valuation issues	20.02.2012 (Original extension to 30.12.2011, requested further extension post 20.02.2012)	19.03.2012
Hinchinbrook Shire Council	Valuation of flood affected assets	28.02.2012	20.02.2012
Hope Vale Aboriginal Shire Council	Accounting treatment of housing leases	28.02.2012 (Original extension to 30.01.2012)	28.02.2012
Pompuraaw Aboriginal Shire Council	Asset valuation issues	28.02.2012 (Original extension to 31.01.2012)	02.03.2012

Council	Reason for extension	Date the annual report extension granted	Date audit opinion signed
Cassowary Coast Regional Council	Asset valuation issues (Tropical Cyclone Yasi)	29.02.2012 (Original extension to 17.02.2011)	20.02.2012
Cherbourg Aboriginal Shire Council	Changes in accounting staff, inability to provide adequate documentation	29.02.2012	Not completed
Northern Peninsula Area Regional Council	Treatment of/changes due to divestment at Council enterprises and other accounting errors	29.02.2012 (Original extensions to 30.12.2012 and 31.01.2012)	12.04.2012
Torres Strait Island Regional Council	Council elected to revisit deficiency in financial statements in an attempt to relieve severity of modified opinion	29.02.2012	27.04.2012
Whitsunday Regional Council	Delays caused by problems with the new financial software system and impairment assessments for infrastructure assets	29.02.2012 (Original extension to 31.12.2011)	21.02.2012
Woorabinda Aboriginal Shire Council	Asset valuation and financial statement issues	29.02.2012 (Original extension to 27.12.2011)	03.04.2012
Maranoa Regional Council	Systems issues	15.03.2012 (Original extension to 31.01.2012)	29.02.2012
Kowanyama Aboriginal Shire Council	Asset valuation issues	31.03.2012 (Original extension to 31.01.2012 and 29.02.2012)	Not completed
Gympie Regional Council	Valuation of flood affected assets	04.04.2012 (Original extensions to 31.12.2011 and 29.02.2012)	23.03.2012
Burke Shire Council	Delay due to concerns over Natural Disaster Relief and Recovery Arrangements Scheme	13.04.2012 (Original extension to 29.02.2012)	Not completed
Central Highlands Regional Council	Asset valuation issues (floods)	13.04.2012 (Original extension to 28.02.2012)	Not completed

As shown in Figure 3B, 13 of the 32 councils received extensions because they needed to undertake detailed assessments of the condition of assets impacted by natural disasters, and this led to justifiable delays in the preparation and audit of their financial statements.

Under the *Local Government (Finance, Plans and Reporting) Regulation 2010*, a council is required to provide financial statements certified by management for auditing as soon as practicable after the end of the financial year and no later than 15 September, unless the Minister has approved an extension of time.

An extension of time granted by the Minister for the annual report to be presented to the council for adoption, is not the same as an extension of time to provide financial statements for audit. Although councils have received extensions of time for their annual reports, most of these did not seek an extension to provide their financial statements for audit later than 15 September. This resulted directly in untimely audit reports, with significant audit issues reported upon up to nine months after year-end.

Figure 3C shows that eight councils were granted an extension of time to provide their financial statements for audit. It is notable and commendable that both Redland City and Diamantina Shire were able nonetheless to have their statements finalised and audit opinions issued before the 30 November deadline.

Figure 3C
Financial statement extensions of time

Council	Reason for extension	Financial statement extensions granted	Date management certified statements provided for audit	Date financial statements finally signed by management
Redland City Council	Issues surrounding Allconnex	29.09.2011	29.09.2011	08.11.2011
Western Downs Regional Council	Floods and valuation of assets	30.09.2011	30.09.2011	03.02.2012
Diamantina Shire Council	Valuation of assets	14.10.2011	11.10.2011	29.11.2011
South Burnett Regional Council	Floods and valuation of assets	15.10.2011	14.10.2011	14.12.2011
Isaac Regional Council	Floods and valuation of assets	22.12.2011 (Original extension to 14.10.2011)	29.11.2011	29.11.2011
Central Highlands Regional Council	Floods and valuation of assets	31.01.2012	28.11.2011	Not completed
Hinchinbrook Shire Council	Floods and valuation of assets	31.01.2012	20.12.2011	20.02.2012
Cassowary Coast Regional Council	Floods and valuation of assets	17.02.2012	05.01.2012	16.02.2012

The *Local Government (Finance, Plans and Reporting) Regulation 2010* requires a certificate by the Mayor and the Chief Executive Officer to accompany the financial statements presented to audit, certifying that the statements were prepared in accordance with the relevant accounting standards and the statements accurately reflect the council's financial position for the financial year.

Of the 64 councils that provided financial statements for audit by 15 September 2011, management certified 59; five were not certified. This certification is important as it indicates that the council is satisfied that the financial statements are in a fit state for audit. Without evidence of management certification, there is less assurance that management considers the financial statements to be reliable and that all quality checking processes have been carried out by the council.

Another nine councils provided management certified financial statements by the extension date approved by the Minister, as shown in Figure 3C. One very large council provided management certified financial statements after 15 September 2011 but had not requested or obtained an extension of time approved by the Minister.

Recommendation

3. Councils who expect to be unable to meet the 15 September financial statement deadline should seek an extension before that date, and establish plans to achieve the statutory annual report deadline.

Better practice financial reporting includes reporting as soon as practicable after the end of the financial year. The timely provision of this information not only enhances accountability, but also allows councils to focus on the year ahead. For state government entities, the statutory deadline for reporting is generally two months after year-end. In Victoria, the deadline for councils to table their annual reports is three months after year-end. From these two perspectives, the current statutory deadlines for local government in Queensland are generous.

From the perspective of good corporate governance and sound financial management, councils should interpret statutory requirements as standards to be met, if not exceeded, rather than adopt a minimum compliance approach.

Figure 3D sets out the performance of councils in achieving timely reporting. It shows that overall the timeliness of reporting in 2010-11 worsened compared to 2009-10. No council was able to have their financial statements completed and audited within two months in 2010-11, and 18 more councils than in 2009-11 took five months or more to finalise their financial statements.

Figure 3D
Financial statement timeliness of councils

Number of months after the end of financial year audited statements were finalised	2010-11		2009-10	
	Number	Per cent	Number	Per cent
Less than 2 months	0	0	2	3
2 to 3 months	4	5	1	1
3 to 4 months	7	10	10	14
4 to 5 months	36	49	52	71
More than 5 months*	26	36	8	11
Total	73	100	73	100

*Includes four councils where an audit opinion has not yet been issued for 2010-11

Recommendation

- 4. The 62 councils taking more than four months to prepare and finalise their statements should establish:**
- **effective oversight of the financial statement process by senior management and the audit committee**
 - **detailed plans, with timeframes, budgets and clear accountabilities, for the year-end close processes that feed into financial statement preparation**
 - **accounting systems that can produce financial statement information with minimal manual intervention.**

Other local government entities

Audit opinions for the financial statements of 12 other local government entities remain unissued at the date of this report.

Figure 3E shows the timeliness of the 2010-11 audited financial statements of other local government entities, compared to the 2009-10 financial statements.

Figure 3E
Financial statement timeliness of other local government entities

Number of months after the end of financial year audited statements were finalised	2010-11		2009-10	
	Number	Per cent	Number	Per cent
Less than 3 months	21	27	6	8
3 to 5 months	24	30	47	64
5 months or more	33	43	21	28
Total	78	100	74	100

3.2.2 Quality

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

Before audit review, the draft financial statements should be subject to quality checks by the council to be assured that they are materially complete, are in accordance with management's understanding of the councils 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 they are provided for audit. This ideal was not achieved for the 2010-11 financial statements of 63 councils.

Adjustments totalling \$8.0 billion were made to management certified statements for 63 councils, either by management on their initiative, or arising from audit examination.

Figures reported in the two key financial statements, the Statement of Comprehensive Income and the Statement of Financial Position, provided for audit were compared with those subsequently certified to establish the extent of changes made to the financial statements during the audit process. Changes made to councils' financial statements are summarised in Figure 3F.

Figure 3F
Changes to councils' management certified financial statements
prior to audit certification*

Financial statement area	Small/ Indigenous \$m	Medium \$m	Large \$m	Very large \$m	Total changes \$m
Income	32.8	42.4	108.8	145.2	329.2
Expenses	91.1	14.0	165.4	45.6	316.1
Net result	120.7	24.5	146.3	152.5	444.0
Other comprehensive income	305.9	493.7	539.3	726.6	2 065.5
Assets	190.4	445.1	845.1	795.8	2 276.4
Liabilities	17.5	3.8	90.9	8.0	120.2
Equity	388.2	448.9	768.0	838.5	2 443.6
Total	1 146.6	1 472.4	2 663.8	2 712.2	7 995.0
Number of councils that processed a change	27	11	14	11	63

*The extent of changes made within each individual council's financial statements was considered based on materiality to the financial statements

In addition to changes in the reported figures, significant changes were required in the notes to the financial statements so that the disclosures fully and accurately reflected the councils' policies, appropriately described the processes for valuations and impairment of infrastructure assets, and met disclosures required under the accounting standards.

The large number and extent of significant changes required to financial statements prior to certification by audit signifies poor quality assurance within councils, including inadequate assessment of the reasonableness of reported information by council.

Quality assurance checks should make sure:

- the main financial statements agree with the supporting notes
- notes to the accounts adequately explain the council's policies or provide the level of disclosure required under accounting standards
- notes to the financial statements are relevant to the operations of the council

- accounting entries relating to revaluations of non-current assets are included
- information on movements in non-current assets reconcile to prior year financial statements or underlying asset registers.

There was no strong correlation between the quality of financial statements and the size and location of councils, as several small councils with limited resources consistently produce good quality management certified financial statements.

The quality of financial reporting depends more on the importance placed on it by the council and the attitude of management and the council. Quality is better where financial reporting is viewed positively as an opportunity to provide accountability in a meaningful and transparent way to stakeholders, rather than as a compliance activity.

Recommendation

5. Councils requiring significant adjustments to their financial statements should establish:

- **comprehensive supporting work papers, cross-referenced to the reported information**
- **independent review and challenge of the results of asset revaluations and other account balances based on the work of experts**
- **independent quality assurance checks of draft financial statements to identify and correct errors**
- **rigorous analysis of key balances against budgets and prior year to satisfy themselves as to the reasonableness of the reported figures in the context of the council's current operations.**

4 Effectiveness of control

Summary

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

This year, in addition to the annual review of key controls, two areas of control relating to salary overpayments and leave management were emphasised, as part of the financial audit to identify systemic issues.

Key findings

- Twenty-two local government entities did not have policies and plans over information systems change management, user security access, business continuity and disaster recovery, or long term financial sustainability plans.
- Nine councils did not have an up to date risk management policy or risk register, potentially exposing them to significant adverse financial consequences.
- Sixty-five councils and local government entities had significant control weaknesses raised in relation to the accounting systems and processes that pose significant risk, and require corrective action as matter of high priority.
- Significant monitoring and control issues were raised at 15 councils including requirements to establish an internal audit function or audit committee, quality review of financial statements and follow up action to address reported control issues.

Key recommendations

6. Councils without comprehensive information systems policies or sustainability plans should take action to document these and obtain council approval.
7. Local government entities without comprehensive information systems policies should take action to document these and obtain board approval.
8. Councils without up to date risk management policies and risk registers need to take action to make them current.
9. Councils with no internal audit function should take immediate action to comply with this legislative requirement.

10. Councils, whether or not required by law, should establish an audit committee to strengthen governance.
11. Councils with audit committees should update their committee's charter to include reviews of financial statements and monitor progress in addressing internal control breakdowns and deficiencies.

4.1 Introduction

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

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

The Committee of Sponsoring Organisations of the Treadway Commission (COSO)'s Internal Control – Integrated Framework is widely used and recognised as a leading framework for the design, implementation, and evaluation of the effectiveness of internal control.

Figure 4A sets out the five components of internal control used in that framework.

Figure 4A
Financial reporting controls

Element	Components
Control environment	Management's actions, attitudes, policies and values that influence day to day operations
Risk assessment	Consideration of relevant risks to achievement of the organisation's objectives, forming a basis for how the risks should be managed
Information and communication	Systems that support the capture and exchange of relevant information in a form and time frame that enables people to carry out their responsibilities
Control activities	Policies and procedures that help ensure management directives are carried out
Monitoring and review	Assessment of the internal controls in practice to ensure they are in use over time, effective and meet the changing needs of the organisation.

Source: Based on the Committee of Sponsoring Organisations of the Treadway Commission (COSO)'s Internal Control – Integrated Framework

Elements of the councils internal control framework were assessed to determine if the controls put in place were operating and whether they were effective.

The extent of councils' compliance with legislative requirements was also assessed. Where significant issues are identified, they are discussed with council management and summarised in reports to the council.

Significant control issues were identified in 69 (51 percent) out of the 135 councils and local government entities audited. In total 484 significant control issues were reported to management from 2010-11 audits where an audit opinion had been issued.

Figure 4B summarises by category of council and other local government entities the number of significant control weaknesses/issues reported.

Figure 4B
Significant control weaknesses reported

Category	2010-11		2009-10	
	Number of entities	Number of issues	Number of entities	Number of issues
Councils				
Small/Indigenous	25	148	27	207
Medium	10	81	9	81
Large	12	119	14	82
Very large	12	108	12	98
Other				
Local government entities	10	28	17	48
Total	69	484	79	516

4.2 Internal control framework

The 484 reported issues have been analysed against the relevant components of the internal control framework.

4.2.1 Control environment

Planning and accountability documents outline the goals, strategies, and policies for implementing an organisation's vision, managing finances, ensuring information system security and the sustainable management of infrastructure. Policies and plans assist management to reinforce relevant legislation and best practices.

Twenty-two local government entities did not have policies and plans for:

- information systems change management, user security access, business continuity and disaster recovery
- long term financial sustainability plans for councils that included a comprehensive asset management plan as required by local government legislation.

Lack of comprehensive documented and approved information systems policies can result in unauthorised information system access, increasing the risk of unauthorised or inappropriate access to financial systems and data, and the processing of unauthorised transactions.

Financial sustainability and asset management plans are required to ensure councils are able to maintain their infrastructure and remain financially viable over the long term.

The number of significant **control environment** weaknesses reported by category of council is summarised in Figure 4C.

Figure 4C
Significant control environment weaknesses reported

Category	2010-11	
	Number of entities	Number of issues
Councils		
Small/Indigenous	8	11
Medium	4	10
Large	3	3
Very large	4	5
Other		
Local government entities	3	4
Total	22	33

Recommendation

6. **Councils without comprehensive information system policies or sustainability plans should take action to document these and obtain council approval.**
7. **Local government entities without comprehensive information systems policies should take action to document these and obtain board approval.**

4.2.2 Risk management

An organisation faces risks that may be difficult to quantify or control. It is important to identify and manage these risks and formulate responses to deal with them if the risks eventuate.

A commitment to risk management contributes to sound management practice and increases community confidence. Nine councils did not have an up to date risk management policy or risk register, decreasing their effectiveness at managing risks to their financial position and their ability to deal with unexpected events. Figure 4D shows the councils with significant **risk management** issues by category of council.

Figure 4D
Significant risk management weaknesses

Category	2010-11	
	Number of entities	Number of issues
Council		
Small/Indigenous	6	6
Medium	2	2
Large	0	0
Very large	1	2
Total	9	10

Recommendation

- 8. Councils without up to date risk management policies and risk registers need to take action to make them current.**

4.2.3 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 can provide early warning of weaknesses or susceptibility to error, support for timely reporting and the early identification of irregularities.

The number and nature of audit issues raised this year under this element of the control framework indicates systemic problems relating to a lack of control consciousness and weakened governance within councils and local government entities.

Sixty-five councils and local government entities had significant weaknesses in control activities associated with their accounting and supporting systems and processes. These pose a business or financial risk and need corrective action as matter of high priority. The major issues were:

- shortcomings in controls over the valuation of non-current assets, including incomplete asset registers, and insufficient documentation as evidence of management work undertaken over impairment assessments and year-end valuations
- weaknesses in information system and user access controls, increasing the risk of unauthorised or inappropriate access to core financial systems and data
- non-compliance with procurement policies, insufficient documentation and inadequate segregation of key duties
- poor debt control and debtor reconciliations not performed, potentially resulting in higher debtor balances and reduced cash flow
- inadequate monitoring and review of reports and processes across the non-current assets, expenditure and payables, employee expenses and benefits and information systems. Such weaknesses may result in unauthorised or inappropriate transactions
- inadequate segregation of key duties across expenditure and payables, employee expenses and benefits and revenue and receivables. This increases the risk of users having access to two or more functions within a process that may lead to inappropriate activities such as fraudulent payments or misappropriation
- salary overpayments and staff with excessive leave balances.

Figure 4E shows the number of significant **control activity** issues reported by category of council.

Figure 4E
Significant control activity weaknesses

Category	2010-11	
	Number of entities	Number of issues
Councils		
Small/Indigenous	24	127
Medium	10	63
Large	11	110
Very large	12	99
Other		
Local government entities	8	24
Total	65	423

4.2.4 Monitoring and review

Areas of concern identified related to non-compliance with establishing an internal audit function, audit committee, quality review of financial statements and follow up on the status of corrective action to address reported control issues. Figure 4F shows the number of significant **monitoring and review** issues reported by category of council.

Figure 4F
Significant monitoring and review weaknesses

Category	2010-11	
	Number of entities	Number of issues
Councils		
Small/Indigenous	3	4
Medium	6	6
Large	4	6
Very large	2	2
Other		
Local government entities	0	0
Total	15	18

Legislation requires all 73 councils to establish an internal audit function. The 35 large/very large councils (based on Local Government Remuneration and Discipline Tribunal council categories) are required to establish an audit committee.

The establishment of an internal audit function and audit committee strengthens governance by assisting management and councillors to:

- determine whether internal controls are in existence and operating throughout the year
- promote timely communication of internal control breakdowns and deficiencies
- monitor the effectiveness of corrective actions.

Eight of the 73 councils did not have an internal audit function, and one large council of the 35 large/very large category of councils did not have an audit committee.

The *Local Government (Finance, Plans and Reporting) Regulation* requires the audit committee to review draft financial statements prior to certification by management. While all established audit committees complied with this requirement, the extent of quality review undertaken is an area for improvement.

A number of audit committees also were not monitoring the status of corrective action taken on reported internal control breakdowns and deficiencies.

Recommendations

9. **Councils with no internal audit function should take immediate action to comply with this legislative requirement.**
10. **Councils, whether or not required by law, should establish an audit committee to strengthen governance.**
11. **Councils with audit committees should update their committee's charter to include reviews of financial statements and monitor progress in addressing internal control breakdowns and deficiencies.**

4.3 Audit focus on key control areas

The following two areas of control were emphasised this year across 14 medium to very large councils as part of the financial audit:

- the nature, extent, monitoring and reporting of salary overpayments
- the management of employee leave entitlements.

These areas were emphasised because continued salary overpayments and inadequate leave management can not only have a financial impact, but also adversely affect the relationship between employer and employee. When employees are not taking regular leave, there is also more opportunity for fraud to occur.

It is positive that no significant systemic issues were identified in the councils examined for these at-risk areas of control. Where weaknesses were identified at individual councils, these were reported directly to management.

4.3.1 Salary overpayments

Although salary overpayments may occur through no fault of the employee concerned, the council is required to recover overpayments and manage their systems efficiently and effectively. Assessments were made to determine the nature and extent of salary overpayments incurred and the effectiveness of management and monitoring of overpayments.

The relevant legislation covering salary overpayments is included in the *Industrial Relations Act 1999* (Chapter 11, Part 2, Division 3) and the *Industrial Relations Regulation 2000* (section 17).

Salary overpayments identified by councils were well managed. The value of salary overpayments over the period audited was not significant, representing 0.03 per cent of the amount of annual salaries and wages paid by the 14 councils.

Issues raised with individual councils about improving their controls in this area included:

- having a policy for salary overpayments outlining appropriate procedures for reporting and recovery
- maintaining a salary overpayments register to ensure these payments were followed up and reconciling the register and the general ledger
- regularly reporting the number and value of salary overpayments to executive management to allow for greater transparency and accountability.

4.3.2 Leave management

Poor leave management can lead to excessive leave entitlements, which will increase the liabilities of the council as disclosed in the annual financial statements, both because an employee's leave entitlement hours will increase annually and because of increases in an employee's salary.

The objective was to determine how leave was managed across the councils selected. The *Industrial Relations Act* (section 366) requires adequate leave records to be maintained as part of the records on the employment conditions of each employee.

Excessive leave balances can affect succession planning and capability of the council's workforce since long periods of leave will be required to reduce the excess.

It was found that 2 760 employees had accrued about 378 000 excess leave hours, valued at \$15.5 million. This was an average of 137 hours per employee. All the councils audited were affected by the recent natural disasters which required staff to work during periods where leave might usually have been taken.

Although leave balances were high, excess leave was well managed, with councils identifying and reporting on specific staff and the nature of the leave involved, where the leave was either approaching or had exceeded the maximum level permitted by the relevant award, agreement or policy.

5 Financial sustainability

Summary

Background

To be sustainable, councils need to adopt longer term planning processes that manage future financial risk, without having to significantly adjust their current revenue or expenditure policies.

Business risks that affect liquidity, key infrastructure assets and debt financing require evaluation within a sustainability strategy. By measuring sustainability using financial indicators, councils can highlight the strengths and weakness of their current strategy. The measures of sustainability are defined as ratios and published in the Department of Local Government (DLG) *Financial Management (Sustainability) Guideline 2011*. All councils are required to adopt these measures.

Key findings

- Review of financial sustainability ratios identified areas of potential concern with two councils having more than one ratio outside the target financial capital sustainability ratio and five councils having more than one ratio outside infrastructure capital sustainability target ratios.
- Incorrect disclosure of financial sustainability measures in annual reports makes comparison with other councils difficult and could result in the publication of potentially misleading information.
- Annual report disclosures required by legislation are extensive. A management certification would assist councillors and the DLG to assess the extent of the council's compliance with legislative requirements.

Key recommendations

12. The DLG should improve the contents of the *Financial Management (Sustainability) Guidelines 2011* to assist councils in calculating sustainability measures and in assessing the implications of having a measure outside of the department's indicative targets.
13. The DLG should request from each council an annual certification from the Chief Executive Officer on compliance with legislative requirements that includes financial sustainability. This could be certified at the council meeting when the annual report is tabled.
14. The DLG should monitor the extent, timeliness and accuracy of annual disclosure of sustainability measures and work with non-compliant councils to remedy this issue.

5.1 Financial sustainability measures

Councils achieve financial sustainability by managing their financial and infrastructure capital over the long term. This occurs through identifying business risks, formulating effective responses to those risks, and measuring the outcomes achieved.

The *Local Government (Finance, Plans and Reporting) Regulation 2010* defines six financial sustainability measures to be included in councils' annual reports. Three of the sustainability measures relate to infrastructure management and three to financial capital viability. The Department of Local Government (DLG) monitors compliance with this disclosure. There is no requirement for these measures to be audited.

The targets of financial sustainability are set by the DLG *Financial Management (Sustainability) Guideline 2011* and are in accordance with the National Frameworks for Sustainability.

Financial sustainability ratios have been calculated by audit from information contained in the 69 audited 2010-11 financial statements, without further adjustment, and compared to the targets identified by the DLG. The results have been impacted by the natural disasters of early 2011, and should not be considered in isolation but in conjunction with other factors such as management standards, financial budgets, asset replacement strategies, cash and investment balances and capacity to generate revenue. Councils within each category are shown in Appendix C.

5.1.1 Financial capital sustainability measures

Financial capital sustainability ratios measure:

- the council's current available working capital
- the council's ability to generate sufficient income to fund the ongoing operational commitments
- the financial capability of the council as presented in the Statement of Financial Position.

The financial capital sustainability ratios for 68 of the 69 local governments where an audit opinion had been issued, indicate that these councils currently have the financial resources to meet their obligations.

For one very large council all three financial capital sustainability ratios are currently outside the indicative targets. In another very large council two of the three ratios are outside the indicative target. These councils were extensively affected by the natural disasters and it therefore requires a longer period of analysis to determine whether there are any areas of underlying concern or financial weakness that require remedying.

Working capital

Working capital measures the extent to which a council has liquid assets available to meet their short term financial obligations, that is, within the next 12 months.

The department's indicative working capital ratio has a target range of between 1:1 and 4:1, which indicates sound working capital management.

A ratio lower than 1:1 means liquid assets are not available to cover current liabilities, and a ratio higher than 1:1 means there is more cash and liquid assets than short term liabilities. Ratios higher than 4:1 may also indicate a lack of management attention to cash holdings and receivables.

Figure 5A
Working capital

Data and calculation	Measure not meeting target	Number of councils outside target ranges				
		Small/ Indigenous	Medium	Large	Very large	Total
Current assets (CA) divided by current liabilities (CL)	Current assets to current liabilities < 1:1	0	0	0	1	1
Expressed as an X : 1 where X = CA / CL	Current assets to current liabilities > 4:1	18	10	11	4	43

The fact that 43 of the 69 councils where an audit opinion had been issued at the date of this report have a working capital ratio greater than 4:1 indicates that there is a need to reconsider their working capital strategies, including better using available cash reserves. Almost half of these councils are small or Indigenous councils.

Operating surplus

This ratio indicates the extent to which revenues raised cover operational expenses.

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.

The department's target range for councils is an operating surplus ratio between 0 and 10 per cent.

Figure 5B
Operating surplus

Data and calculation	Measure not meeting target	Number of councils outside target ranges				
		Small/ Indigenous	Medium	Large	Very large	Total
Net result divided by total operating revenue	Operating deficit < zero per cent of total operating revenue	10	1	4	7	22
Expressed as a percentage	Operating surplus > 10 per cent of total operating revenue	14	8	7	2	31

Twenty-two councils have operating deficits that if they persist will lead to long term sustainability issues. These councils will need to develop strategies to address these issues.

Thirty-one councils exceeded the target range. Exceeding this target is positive in the short term, but should not be at the expense of service levels and infrastructure.

Net financial liability

Net financial liability ratios indicate the extent to which its operating revenues can service a council's net financial liabilities (usually loans and leases).

The department's target range for councils is that net financial liabilities should be less than 60 per cent of operating revenue. 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.

Figure 5C
Net financial liability

Data and calculation	Measure not meeting target	Number of councils outside target ranges				
		Small/ Indigenous	Medium	Large	Very large	Total
(Total liabilities less current assets) divided by total operating revenue Expressed as a percentage	Net financial liabilities > 60 per cent of operating revenue.	0	0	0	3	3

Three very large councils have net financial liabilities greater than 60 per cent of their operating revenue. These councils have higher than recommended levels of debt and should re-evaluate and disclose their strategies to address future debt servicing.

5.1.2 Infrastructure capital sustainability measures

Financing both the day-to-day operations of councils and their less frequent but larger, and more complex infrastructure programs is a considerable challenge.

Infrastructure demands continue to remain high due to a burgeoning population and ageing infrastructure. Infrastructure assets that include roads, sewerage, drainage, buildings and capital works in progress generally comprise the majority of a council's balance sheet. Infrastructure management that includes maintenance and renewal is a core function and responsibility of a council. How well it is undertaken is critical to the financial wellbeing of each council.

The infrastructure capital sustainability ratios for the 69 local governments, where an audit opinion had been issued, reveal that these councils are investing in infrastructure at the required level, are maintaining and replacing infrastructure at an appropriate level, and have affordable interest expense commitments.

While 34 councils have an infrastructure capital sustainability ratio that is outside the indicative target, none failed all three categories, although two of these unfavourable ratios were present in four small or Indigenous councils and one large council.

Asset sustainability

Asset sustainability approximates the extent the council is replacing infrastructure assets as these assets reach the end of their useful lives. The ratio indicates the extent of spending on existing assets through renewing, restoring and replacement compared with depreciation.

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

Figure 5D
Asset sustainability

Data and calculation	Measure not meeting target	Number of councils outside target ranges				
		Small/ Indigenous	Medium	Large	Very large	Total
Capital expenditure (infrastructure) divided by depreciation expense (infrastructure) Expressed as a percentage	Capital expenditure on infrastructure < 90 per cent of depreciation expense of infrastructure assets	6	1	4	2	13

Thirteen councils, six of which are small or Indigenous councils, did not meet the target level of investment.

Asset consumption

This ratio seeks to highlight the average proportion of 'as new' value left in assets.

The department's target range for councils is between 40 per cent and 80 per cent. A percentage less than 40 per cent may indicate that a council's overall asset stock has low residual values or a relatively aged asset base. This is a concern if the council does not have an adequate asset management plan addressing replacement and renewal.

A percentage greater than 80 per cent may indicate that a council's infrastructure asset base has useful lives that are too long or residual values that are too high. This is not a concern if assets are relatively new, such as those replaced as a result of natural disaster damage rectification.

Figure 5E
Asset consumption

Data and calculation	Measure not meeting target	Number of councils outside target ranges				
		Small/ Indigenous	Medium	Large	Very large	Total
Written down value of infrastructure assets divided by gross replacement cost of infrastructure assets Expressed as a percentage	Written down value of infrastructure assets < 40 per cent of the gross replacement cost of infrastructure assets	0	0	0	0	0
	Written down value of infrastructure assets > 80 per cent of the gross replacement cost of infrastructure assets.	11	1	5	4	21

The 21 councils with a target measure of greater than 80 per cent were all impacted by the replacements of assets as part of natural disaster recovery efforts.

Interest coverage

Interest coverage indicates the extent to which a council's operating revenues are committed to interest expense.

The department's target range for councils is between zero per cent and 5 per cent. The higher the ratio, the less likely it will be that the council will be able to service its debt.

Figure 5F
Interest coverage

Data and calculation	Measure not meeting target	Number of councils outside target ranges				
		Small/ Indigenous	Medium	Large	Very large	Total
Net interest expense divided by total operating revenue Expressed as a percentage	Net interest expense is greater than 5 per cent of operating revenue	0	0	0	0	0

All councils met the target for interest coverage.

5.2 Financial sustainability annual report disclosures

Councils' compliance with the requirement to disclose in the annual report the financial sustainability measures for 2010-11 was assessed.

While a council may have had its annual report adopted at a council meeting by the legislative timeframe of 30 November, or by a date approved by the Minister as an extension, not all annual reports are subsequently published and available on councils' websites after adoption. At the date of this report, only 54 of the 69 annual reports were made readily available on council websites.

Figure 5G shows the extent of disclosure of all six financial sustainability measures.

Figure 5G
Disclosure of financial sustainability measures

Sustainability measures disclosed	Number of councils
All six measures disclosed for actual results	31
Less than the required six measures disclosed for actual results	23

Of the 23 councils with less than the required six measures disclosed for actual results:

- 18 councils reported on measures other than the required six measures, or disclosed the required measure as not available due to incomplete asset management plans, or disclosed measures based on budgets rather than actual results
- five councils, including one very large council, did not disclose any financial sustainability measures.

This indicates councils may not fully understand the purpose of the measures and targets being used by the department.

Non-disclosure or incorrect disclosure of measures means measures cannot be compared with other councils, and can result in the publication of potentially misleading information. The department should take a leading role in assisting councils to comply with legislative requirements by providing better guidance in the *Financial Management (Sustainability) Guidelines 2011* on the measures and targets, and by including examples.

Recommendation

12. The DLG should improve the contents of the *Financial Management (Sustainability) Guidelines 2011* to assist councils in calculating sustainability measures and in assessing the implications of having a measure outside of the department's indicative targets.

5.3 Action undertaken by the Department of Local Government

The Department of Local Government regulates legislative compliance by councils, including ensuring compliance by councils with financial sustainability and long term planning disclosure requirements as part of annual reporting.

The department evaluates the sustainability of local government through:

- preparing the results of an annual evaluation of key aspects of council financial management sustainability for the Minister. This evaluation focuses on a review of unaudited long term financial forecasts. The results for 61 of the 73 councils that responded during 2010-11 have been published in *Report on the annual return on Financial Management (Sustainability) Guidelines 2011*, available on the department's website.
- providing support and assistance to councils through financial management and sustainability workshops, regional forums and information sessions and the issue of the *Financial Management (Sustainability) Guidelines 2011*.
- monitoring the extent of legislative compliance in disclosure of the measures of sustainability within the council's annual report.

For the department to fulfil its regulatory role over councils and be a key provider of advice and assistance, it is essential the department undertake these activities in a timely manner to provide the councils with greater guidance and assistance.

Local government legislation requires an extensive range of disclosures within the annual report including financial sustainability measures as noted in section 5.2. An annual certification from Chief Executive Officers would improve councils' accountability and assist the department to assess the extent of councils' compliance with legislative requirements.

Recommendation

13. The DLG should request from each council an annual certification from the Chief Executive Officer on compliance with legislative requirements that includes financial sustainability. This could be certified at the council meeting when the annual report is tabled.
14. The DLG should monitor the extent, timeliness and accuracy of annual disclosure of sustainability measures and work with non-compliant councils to remedy this.

5.4 Parliamentary committee report on the financial sustainability of remote councils

The Parliamentary Transport and Local Government Committee tabled *Report No 7 – Financial Sustainability of Remote Councils* on 20 January 2012. This report presented findings from their inquiry into the financial sustainability of remote councils.

The committee initiated this inquiry after a number of Auditor-General's Reports to Parliament raised sustainability issues.

The committee reported the sustainability issue is typically more acute in smaller councils, predominately located in rural or remote areas with limited own-source revenue streams, and complicated by less depth in financial and asset management capabilities.

The committee made recommendations to assist councils to achieve long term financial sustainability. These included acknowledging the importance of the ten year long term financial forecasts disclosed in councils' annual reports and recommending the department audit councils' long term plans and their underpinning assumptions in consultation with the Auditor-General to ensure they are reasonable and form a viable basis for the forecast.

The Auditor-General is currently working with the DLG on the implications of these recommendations.

Appendices

Appendix A <i>Auditor-General Act 2009</i> (Section 64) – Submissions and comments received	50
Appendix B Status of financial statements	54
Appendix C Councils by size and Department of Local Government – Regional office responsibility	61

Appendix A

Auditor-General Act 2009 (Section 64) – Submissions and comments received

Introduction

In accordance with section 64 of the *Auditor-General Act 2009* a copy of this report was provided to the Department of Local Government with a request for comments.

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

Submissions and comments received

Response provided by the Director-General, Department of Local Government on 22 May 2012.



**Queensland
Government**

Department of Local Government

Our ref: DGC12/523

Your ref: 10414

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

Dear Mr Greaves

Thank you for your letter of 27 April 2012 and I welcome the opportunity to provide comment on your forthcoming Report to Parliament. I found your Report informative and agree with the majority of your recommendations and observations.

Recommendations from 1 to 5 are supported. While the floods and cyclones impacted the capacity of many local governments to provide accurate, informative and timely financial reports, it is clear that local governments need to be more diligent and timely in the provision of financial statements and annual reports. The Department of Local Government (the Department) understands that the Auditor-General will also require contracted auditors to be more timely in undertaking and finalising their audits.

Similarly the Department also supports recommendations 6 to 11 in the context that they are necessary for sound governance.

The Department will notify local governments by way of a Bulletin advising of your recommendations to Parliament and providing support to your recommendations. Specific advice will be provided where necessary on appropriate actions to be taken. Departmental officers will reinforce this requirement at meetings and on training courses held for local governments.

In respect of your specific recommendations for the Department regarding financial sustainability, the following comments are provided:

Recommendation 12: *The Department should improve the contents of the Financial Management (Sustainability) Guidelines 2011 to assist councils in calculating sustainability measures and in assessing the implications of having a measure outside of the Department's indicative targets.*

The Department recognises the difficulty in providing a single set of metrics/benchmarks that are just as applicable to Brisbane City Council as they are to a remote local government with a population of 300.

Level 18 Mineral House
41 George Street
PO Box 15216 City East
Queensland 4002 Australia
Telephone +61 7 3006 2463
Facsimile +61 7 3405 6930

Submissions and comments received

Response provided by the Director-General, Department of Local Government on 22 May 2012.

The Department is undertaking a review to further refine the Financial Management (Sustainability) Guidelines (Guidelines). The Guidelines were originally issued in 2009 and reviewed and reissued in 2011. The aim of the review is to further clarify the definitions and align the measures at a national level. The work of the Department is recognised nationally and agreement has been reached on the common use of four indicators by all states.

The Department is currently working with its South Australian counterparts to provide national consistency in respect of definitions and targets. This will likely mean changes to the Department's current definitions and targets. The current Guidelines align the terminology with that used in the Tropical Illustrative Annual Financial Statements and the review will involve liaison with key stakeholders including Queensland Treasury Corporation, Queensland Audit Office (QAO), and other states and territories.

Recommendation 13: *The Department should request an annual certification from the Chief Executive Officer on compliance with legislative requirements.*

While the Department agrees this is a very sound control measure, the Department does not generally seek statements of compliance from local governments. The Department's preferred approach is to continue to build capacity and capability in local government and act as an advisor to local governments on achieving ongoing compliance with the *Local Government Act 2009* (the Act) and Regulations. The Department independently obtains a copy of every local government's adopted annual budget and annual report each year and compares the contents and disclosures for compliance with the Act and Regulations.

The Department takes a proactive approach with local governments in respect of the requirements in order to improve awareness and compliance. Where common breaches are noted, the Department responds via Bulletins or Guidelines and also highlights at financial training workshops the areas where compliance needs to be improved. This will always be the Department's preferred approach.

Retrospectively the Department will also address the issue of non-compliance with individual local governments

Recommendation 14: *The Department should monitor the extent timeliness and accuracy of annual disclosure and sustainability measures.*

The Department does monitor all local governments for compliance with the requirements of the *Local Government Act 2009* and associated Regulations. An analysis of compliance with annual report requirements was undertaken by the Department and yielded similar results to those reported by the Auditor-General.

It has been noted by the Department that a number of local governments did not provide the necessary disclosures in annual reports for 2010-11, which is not acceptable. The Department will take steps to communicate with local governments on the requirement to meet these requirements.

Your report comments on the connection between financial sustainability and the long-term planning process. The Department promotes long-term integrated planning by local governments and the development of a financial sustainability strategy as being integral to the long term planning processes. The evaluations conducted by the Department are with reference to the overall financial sustainability strategy rather than individual ratio outputs over a ten year period.

Submissions and comments received

Response provided by the Director-General, Department of Local Government on 22 May 2012.

The Department undertakes initiatives each year to monitor local government compliance, with legislative requirements for contents and disclosures for both annual budgets and annual reports. For annual budgets, *Local Government (Finance, Plans and Reporting) Regulation 2010 Section 99* states the minimum requirements for the local government's annual budget. For annual reports, *Local Government (Finance, Plans and Reporting) Regulation 2010 Sections 110 to 119* states the minimum requirements for each local government's annual report. The Department independently obtains a copy of each local government's adopted annual budget and annual report each year and assesses compliance.

The Department takes a proactive approach to making local governments aware of disclosure requirements. As the legislation has been in place since 2010, local government should now be fully aware of their compliance and disclosure requirements. The Department will therefore, take a firmer approach with each local government by providing feedback, highlighting non-conformity and seeking remedial action.

In relation to other issues and recommendations raised in your Report:

- 1) The Department will be conducting Tropical Workshops training sessions for 2011-12 in May and June 2012 and the issues raised by your Report will be discussed at the workshops. The Department will then issue a Bulletin summarising the issues raised. The Department will also be conducting financial management and sustainability workshops in June and July 2012 with mayors, councillors and CEOs.
- 2) Your Report notes that only 54 of the 69 annual reports have been made available on councils' websites. The Department monitors the status of publication of council annual reports and of the 69 councils that have completed audits, to date only three have not yet published annual reports for the period.

If you require any further information, please contact Mr David Dobbs, Director, Local Government Financial and Funding Services, on 3239 0020 or by email at david.dobbs@dlgp.qld.gov.au, who will be pleased to assist.

Yours sincerely



Neil Castles
Director-General
Department of Local Government
22 MAY 2012

Appendix B

Status of financial statements

Opinion key: U = Unmodified Q = Qualified A = Adverse E = Emphasis of matter D = Disclaimer

* Date annual report Ministerial extension granted.

Audit	Financial statements signed	Audit opinion issued	Audit opinion	Min Ext?*	Timeliness		
					<3 mths	3-5 mths	>5 mths
Councils and controlled entities							
Aurukun Shire Council	31.10.2011	31.10.2011	U	No		✓	
Balonne Shire Council	20.12.2011	20.12.2011	U	16.12			✓
Banana Shire Council	29.11.2011	07.12.2011	U	15.12			✓
Barcaldine Regional Council	10.11.2011	11.11.2011	U	No		✓	
Barcoo Shire Council	17.11.2011	18.11.2011	U	No		✓	
Blackall Tambo Regional Council	23.11.2011	29.11.2011	U	No		✓	
Boulia Shire Council	21.11.2011	21.11.2011	U	No		✓	
Brisbane City Council	26.08.2011	02.09.2011	U	No		✓	
Brisbane Arts Trust	Not completed	Not completed		N/A			
Brisbane Environment Trust	Not completed	Not completed		N/A			
Brisbane Green Heart CitySmart Pty Ltd	22.09.2011	23.09.2011	U	N/A		✓	
Brisbane Marketing Pty Ltd	28.09.2011	29.09.2011	U	N/A		✓	
Brisbane Powerhouse Pty Ltd	29.09.2011	30.09.2011	U	N/A		✓	
City of Brisbane Arts and Environment Ltd	Not completed	Not completed		N/A			
City of Brisbane Investment Corporation Pty Ltd	19.10.2011	19.10.2011	U	N/A		✓	
Nuffield Pty Ltd	05.10.2011	11.10.2011	U	N/A		✓	
TradeCoast Land Pty Ltd	26.10.2011	28.10.2011	U	N/A		✓	
Bulloo Shire Council	05.10.2011	04.11.2011	U	No		✓	
Bundaberg Regional Council	28.11.2011	28.11.2011	U	No		✓	
Burdekin Shire Council	11.11.2011	25.11.2011	U	31.12		✓	
Burdekin Cultural Complex Board Inc^	14.07.2011	22.07.2011	E*	N/A	✓		
Burke Shire Council	Not completed	Not completed		13.04			
Cairns Regional Council	13.09.2011	13.09.2011	U	No		✓	
Cairns Regional Gallery Limited	10.10.2011	10.10.2011	U	N/A		✓	

Audit	Financial statements signed	Audit opinion issued	Audit opinion	Min Ext?*	Timeliness		
					<3 mths	3-5 mths	>5 mths
Carpentaria Shire Council	09.11.2011	15.11.2011	U	31.12		✓	
Cassowary Coast Regional Council	16.02.2012	20.02.2012	U	29.02			✓
Central Highlands Regional Council	Not completed	Not completed		13.04			
Charters Towers Regional Council	14.11.2011	14.11.2011	U	No		✓	
Cherbourg Aboriginal Shire Council	Not completed	Not completed		29.02			
Cloncurry Shire Council	30.11.2011	30.11.2011	U	No		✓	
Cook Shire Council	09.01.2012	11.01.2012	Q	31.01			✓
Croydon Shire Council	16.11.2011	17.11.2011	U	No		✓	
Diamantina Shire Council	29.11.2011	30.11.2011	U	No		✓	
Doomadgee Aboriginal Shire Council	22.11.2011	30.11.2011	Q	31.12		✓	
Etheridge Shire Council	19.09.2011	19.09.2011	U	No		✓	
Flinders Shire Council	16.11.2011	16.11.2011	U	No		✓	
Fraser Coast Regional Council	07.11.2011	07.11.2011	U	No		✓	
The Brolga Theatre Board Inc.	13.12.2011	20.12.2011	E	N/A			✓
Wide Bay Water Corporation	31.10.2011	31.10.2011	U	No		✓	
Widelinx Pty Ltd	06.12.2011	14.12.2011	E*	N/A			✓
Gladstone Regional Council	22.11.2011	23.11.2011	U	06.12		✓	
Gold Coast City Council	10.11.2011	17.11.2011	E	No		✓	
Broadbeach Alliance Limited	28.09.2011	29.09.2011	U	N/A		✓	
Connecting Southern Gold Coast Limited	22.08.2011	26.08.2011	U	N/A	✓		
Gold Coast Arts Centre Pty Ltd	11.10.2011	17.10.2011	U	N/A		✓	
Surfers Paradise Alliance Limited	25.08.2011	26.08.2011	U	N/A	✓		
Goondiwindi Regional Council	16.12.2011	20.12.2011	U	31.01			✓
Gympie Regional Council	22.02.2012	23.03.2012	Q	04.04			✓
Hinchinbrook Shire Council	20.02.2012	20.02.2012	U	28.02			✓
Hope Vale Aboriginal Shire Council	13.02.2012	28.02.2012	E	28.02			✓
Ipswich City Council	18.11.2011	18.11.2011	U	No		✓	
Ipswich Arts Foundation	10.10.2011	14.10.2011	U	N/A		✓	
Ipswich Arts Foundation Trust	26.10.2011	02.11.2011	U	N/A		✓	

Audit	Financial statements signed	Audit opinion issued	Audit opinion	Min Ext?*	Timeliness		
					<3 mths	3-5 mths	>5 mths
Ipswich City Enterprises Investments Pty Ltd	22.12.2011	23.12.2011	U	N/A			✓
Ipswich City Enterprises Pty Ltd	22.12.2011	23.12.2011	U	N/A			✓
Ipswich City Properties Pty Ltd	22.12.2011	23.12.2011	U	N/A			✓
Isaac Regional Council	29.11.2011	16.12.2011	U	30.01			✓
Isaac Affordable Housing Fund Pty Ltd	10.11.2011	16.12.2011	U	N/A			✓
Isaac Affordable Housing Trust	27.10.2011	16.12.2011	U	N/A			✓
Kowanyama Aboriginal Shire Council	Not completed	Not completed		31.03			
Lockhart River Aboriginal Shire Council	07.11.2011	07.11.2011	U	No		✓	
Lockhart River Aerodrome Company Pty Ltd	31.10.2011	31.10.2011	U	N/A		✓	
Lockyer Valley Regional Council	21.02.2012	19.03.2012	Q	20.02			✓
Logan City Council	26.09.2011	29.09.2011	E	No		✓	
Longreach Regional Council	19.08.2011	07.10.2011	U	No		✓	
Mackay Regional Council	14.02.2012	14.02.2012	U	17.02			✓
Mapoon Aboriginal Shire Council	15.11.2011	23.11.2011	Q	No		✓	
Maranoa Regional Council	21.02.2012	29.02.2012	Q	15.03			✓
McKinlay Shire Council	17.11.2011	17.11.2011	U	No		✓	
Moreton Bay Regional Council	02.11.2011	03.11.2011	U	No		✓	
Mornington Shire Council	14.11.2011	15.11.2011	U	No		✓	
Mount Isa City Council	22.11.2011	25.11.2011	U	No		✓	
Outback @ Isa Pty Ltd	23.03.2012	30.03.2012	E	N/A			✓
Rodeo Capital Pty Ltd	22.11.2011	25.11.2011	U	No		✓	
Murweh Shire Council	24.10.2011	26.10.2011	U	No		✓	
Napranum Aboriginal Shire Council	11.10.2011	26.10.2011	U	No		✓	
North Burnett Regional Council	08.11.2011	10.11.2011	U	No		✓	
Northern Peninsula Area Regional Council	27.02.2012	12.04.2012	E	29.02			✓
Palm Island Aboriginal Shire Council	09.11.2011	15.11.2011	U	15.12		✓	
Paroo Shire Council	30.11.2011	12.12.2011	U	13.12			✓

Audit	Financial statements signed	Audit opinion issued	Audit opinion	Min Ext?*	Timeliness		
					<3 mths	3-5 mths	>5 mths
Pompuraaw Aboriginal Shire Council	24.02.2012	02.03.2012	Q	28.02			✓
Edward River Crocodile Farm Pty Limited	20.02.2012	07.03.2012	A	N/A			✓
Quilpie Shire Council	29.11.2011	30.11.2011	U	No		✓	
Redland City Council	08.11.2011	17.11.2011	E	No		✓	
Richmond Shire Council	18.10.2011	28.11.2011	U	No		✓	
The Kronosaurus Korner Board Inc.	Not completed	Not completed		N/A			
Rockhampton Regional Council	19.10.2011	20.10.2011	U	No		✓	
The Rockhampton Art Gallery Trust	14.09.2011	16.09.2011	Q E*	N/A		✓	
Scenic Rim Regional Council	08.11.2011	08.11.2011	U	No		✓	
Somerset Regional Council	02.12.2011	02.12.2011	E	07.12			✓
South Burnett Regional Council	14.12.2011	15.12.2011	U	15.12			✓
Castra Retirement Home Limited	22.09.2011	12.03.2012	U	N/A			✓
Kingaroy Private Hospital Limited	24.08.2011	12.03.2012	U	N/A			✓
Southern Downs Regional Council	15.12.2011	19.12.2011	U	31.12			✓
Warwick Tourism and Events Pty Ltd	02.12.2011	06.12.2011	U	N/A			✓
Sunshine Coast Regional Council	14.11.2011	29.11.2011	U	No		✓	
Noosa Biosphere Limited	20.10.2011	10.11.2011	E*	N/A		✓	
Quad Park Corporation Pty Ltd	25.10.2011	10.11.2011	E*	N/A		✓	
Sunshine Coast Enterprises Pty Ltd	15.11.2011	21.11.2011	E	N/A		✓	
Sunshine Coast Events Centre Pty Ltd	25.10.2011	10.11.2011	E*	N/A		✓	
Tablelands Regional Council	11.10.2011	18.10.2011	U	No		✓	
Toowoomba Regional Council	24.11.2011	25.11.2011	U	No		✓	
Empire Theatre Projects Pty Ltd	15.08.2011	16.08.2011	U	N/A	✓		
Empire Theatres Foundation	31.08.2011	31.08.2011	U	N/A	✓		
Empire Theatres Pty Ltd	15.08.2011	16.08.2011	U	N/A	✓		
Torres Shire Council	15.11.2011	17.11.2011	U	No		✓	
Torres Strait Island Regional Council	23.04.2012	27.04.2012	Q E	29.02			✓

Audit	Financial statements signed	Audit opinion issued	Audit opinion	Min Ext?*	Timeliness		
					<3 mths	3-5 mths	>5 mths
Townsville City Council	17.10.2011	24.10.2011	U	No		✓	
Townsville Breakwater Entertainment Centre Joint Venture	Not completed	Not completed		N/A			
Western Downs Regional Council	03.02.2012	07.02.2012	U	31.01			✓
Whitsunday Regional Council	20.02.2012	21.02.2012	U	29.02			✓
Waltzing Matilda Centre Ltd	26.10.2011	26.10.2011	U	N/A		✓	
Winton Shire Council	17.11.2011	21.11.2011	U	No		✓	
Woorabinda Aboriginal Shire Council	21.03.2012	03.04.2012	U	29.02			✓
Woorabinda Pastoral Company Pty Ltd	21.03.2012	03.04.2012	Q	N/A			✓
Wujal Wujal Aboriginal Shire Council	16.11.2011	16.11.2011	U	No		✓	
Yarrabah Aboriginal Shire Council	17.11.2011	21.11.2011	U	01.01		✓	
Joint local governments							
Esk-Gatton-Laidley Water Board	24.10.2011	03.11.2011	E	N/A		✓	
Nogoa River Flood Plain Board	16.11.2011	16.11.2011	U	N/A		✓	
Jointly controlled entities							
Advance Cairns Limited	20.02.2012	20.02.2012	U	N/A			✓
Central Queensland Local Government Association Inc.	13.10.2011	13.10.2011	E*	N/A		✓	
Central Western Queensland Remote Area Planning & Development Board (Reporting) Ltd	02.11.2011	03.11.2011	U	N/A		✓	
Council of Mayors (SEQ) Pty Ltd	18.11.2011	18.11.2011	U	N/A		✓	
DDS Unit Trust	27.09.2011	30.09.2011	U	N/A		✓	
Far North Queensland Regional Organisation of Councils	03.03.2012	26.04.2012	E*	N/A			✓
Gulf Savannah Development Inc.	29.09.2011	12.10.2011	E*	N/A		✓	
LG Disaster Recovery Services Pty Ltd	Not completed	Not completed		N/A			
Local Buy Trading Trust	27.09.2011	27.09.2011	Q	N/A		✓	
Local Government Association of Queensland Ltd	30.09.2011	30.09.2011	U	N/A		✓	

Audit	Financial statements signed	Audit opinion issued	Audit opinion	Min Ext?*	Timeliness		
					<3 mths	3-5 mths	>5 mths
Local Partnerships Services Pty Ltd	27.09.2011	27.09.2011	E*	N/A		✓	
North Queensland Local Government Association	Not completed	Not completed		N/A			
Palm Island Community Company Limited	28.10.2011	28.10.2011	U	N/A		✓	
Prevwood Pty Ltd	27.09.2011	28.09.2011	E*	N/A		✓	
QPG Shared Services Support Centres Joint Venture	27.09.2011	27.09.2011	E*	N/A		✓	
Queensland Local Government Mutual Liability Pool (LGM Queensland)	23.11.2011	30.11.2011	U	N/A		✓	
Queensland Local Government Workers Compensation Self-Insurance Scheme (trading as Local Government Workcare)	23.11.2011	30.11.2011	U	N/A		✓	
Queensland Partnerships Group (LG Shared Services) Pty Ltd	Not completed	Not completed		N/A			
Resolute I.T. Pty Ltd	27.09.2011	27.09.2011	E*	N/A		✓	
SEQ Regional Recreational Facilities Pty Ltd	12.12.2011	14.12.2011	U	N/A			✓
Services Queensland	27.09.2011	27.09.2011	E*	N/A		✓	
South West Queensland Local Government Association+	Not completed	Not completed		N/A			
Urban Local Government Association of Queensland Inc.^	21.03.2012	29.03.2012	E	N/A			✓
Western Queensland Local Government Association	Not completed	Not completed		N/A			
Western Sub Regional Organisation of Councils	Not completed	Not completed		N/A			
Whitsunday Hinterland and Mackay Bowen Regional Organisation of Councils Inc.	Not completed	Not completed		N/A			
Wide Bay Burnett Regional Organisation of Councils Inc.	10.04.2012	19.04.2012	E*	N/A			✓
Audited by arrangement							
Brisbane City Council Superannuation Plan	20.10.2011	26.10.2011	U	N/A		✓	
Brisbane Powerhouse Foundation	29.09.2011	30.09.2011	U	N/A		✓	

Audit	Financial statements signed	Audit opinion issued	Audit opinion	Min Ext?*	Timeliness		
					<3 mths	3-5 mths	>5 mths
City Super Pty Ltd (As Trustee for BCC Superannuation Plan)	20.10.2011	26.10.2011	U	N/A		✓	
Local Government Superannuation Scheme	19.10.2011	27.10.2011	U	N/A		✓	
Queensland Local Government Superannuation Board (trading as LGsuper)	19.10.2011	27.10.2011	U	N/A		✓	

* 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 The Burdekin Cultural Complex Board Inc. and Urban Local Government Association of Queensland was 1 May 2010 to 30 April 2011.

^ The financial year of South West Queensland Local Government Association was 1 April 2010 to 31 March 2011.

Appendix C

Councils by size and Department of Local Government regional office responsibility

Council	Size category	DLG regional office responsibility*
Aurukun Shire Council	Small/Indigenous	Far North
Balonne Shire Council	Medium	South West
Banana Shire Council	Medium	Central
Barcaldine Regional Council	Medium	Central
Barcoo Shire Council	Small/Indigenous	Central
Blackall Tambo Regional Council	Small/Indigenous	Central
Boulia Shire Council	Small/Indigenous	Central
Brisbane City Council	Very large	South East
Bulloo Shire Council	Small/Indigenous	South West
Bundaberg Regional Council	Large	South West
Burdekin Shire Council	Medium	Northern
Burke Shire Council	Small/Indigenous	Northern
Cairns Regional Council	Very large	Far North
Carpentaria Shire Council	Medium	Northern
Cassowary Coast Regional Council	Large	Far North
Central Highlands Regional Council	Large	Central
Charters Towers Regional Council	Medium	Northern
Cherbourg Aboriginal Shire Council	Small/Indigenous	South West
Cloncurry Shire Council	Medium	Northern
Cook Shire Council	Small/Indigenous	Far North
Croydon Shire Council	Small/Indigenous	Far North
Diamantina Shire Council	Small/Indigenous	Central
Doomadgee Aboriginal Shire Council	Small/Indigenous	Northern
Etheridge Shire Council	Small/Indigenous	Far North
Flinders Shire Council	Small/Indigenous	Northern
Fraser Coast Regional Council	Large	South West
Gladstone Regional Council	Large	Central
Gold Coast City Council	Very large	South East
Goondiwindi Regional Council	Medium	South West
Gympie Regional Council	Large	South West

Council	Size category	DLG regional office responsibility*
Hinchinbrook Shire Council	Medium	Northern
Hope Vale Aboriginal Shire Council	Small/Indigenous	Far North
Ipswich City Council	Very large	South East
Isaac Regional Council	Large	Central
Kowanyama Aboriginal Shire Council	Small/Indigenous	Far North
Lockhart River Aboriginal Shire Council	Small/Indigenous	Far North
Lockyer Valley Regional Council	Large	South East
Logan City Council	Very large	South East
Longreach Regional Council	Medium	Central
Mackay Regional Council	Very large	Central
Mapoon Aboriginal Shire Council	Small/Indigenous	Far North
Maranoa Regional Council	Medium	South West
McKinlay Shire Council	Small/Indigenous	Northern
Moreton Bay Regional Council	Very large	South East
Mornington Shire Council	Small/Indigenous	Northern
Mount Isa City Council	Large	Northern
Murweh Shire Council	Medium	South West
Napranum Aboriginal Shire Council	Small/Indigenous	Far North
North Burnett Regional Council	Medium	South West
Northern Peninsula Area Regional Council	Small/Indigenous	Far North
Palm Island Aboriginal Shire Council	Small/Indigenous	Northern
Paroo Shire Council	Small/Indigenous	South West
Pompuraaw Aboriginal Shire Council	Small/Indigenous	Far North
Quilpie Shire Council	Small/Indigenous	South West
Redland City Council	Very large	South East
Richmond Shire Council	Small/Indigenous	Northern
Rockhampton Regional Council	Very large	Central
Scenic Rim Regional Council	Large	South East
Somerset Regional Council	Large	South East
South Burnett Regional Council	Large	South West
Southern Downs Regional Council	Large	South West
Sunshine Coast Regional Council	Very large	South East
Tablelands Regional Council	Large	Far North
Toowoomba Regional Council	Very large	South West
Torres Shire Council	Small/Indigenous	Far North
Torres Strait Island Regional Council	Small/Indigenous	Far North

Council	Size category	DLG regional office responsibility*
Townsville City Council	Very large	Northern
Western Downs Regional Council	Large	South West
Whitsunday Regional Council	Large	Central
Winton Shire Council	Small/Indigenous	Central
Woorabinda Aboriginal Shire Council	Small/Indigenous	Central
Wujal Wujal Aboriginal Shire Council	Small/Indigenous	Far North
Yarrabah Aboriginal Shire Council	Small/Indigenous	Far North

* Department of Local Government Regional Offices.

Source: Based on categories used by the Queensland Local Government Remuneration and Discipline Tribunal

Auditor-General Reports to Parliament

Tabled in 2012

Report No.	Title	Date tabled in Legislative Assembly
1	Improving student attendance	May 2012
2	Results of audits: Local government financial statements for 2010-11	May 2012

Publications are available at www.qao.qld.gov.au or by phone on 07 3149 6000.