

# Auditor-General of Queensland

**Report to Parliament No. 2 for 2008**

**Results of 2006-07 Audits of Local Governments, including  
Aboriginal Shire and Torres Strait Island Councils**



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Queensland

Prepared under Part 6

Division 3 of the

*Financial Administration and Audit Act 1977*

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# Auditor-General of Queensland

April 2008

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

Dear Mr Speaker

This report is prepared under Part 6 Division 3 of the *Financial Administration and Audit Act 1977*, and is on the results of 2006-07 audits of local governments, including Aboriginal Shire and Torres Strait Island councils. It is the second in the series of Auditor-General's Reports to Parliament for 2008.

In accordance with s.105 of the Act, would you please arrange for the report to be tabled in the Legislative Assembly.

Yours sincerely



Glenn Poole  
Auditor-General



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# Glossary

## Frequently used terms and abbreviations

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**AASB** – Australian Accounting Standards Board.

**AAS** – Australian Accounting Standard.

**Accountability** is a responsibility on public sector entities to achieve their objectives, with regard to reliability of financial reporting, effectiveness and efficiency of operations, compliance with applicable laws, and reporting to interested parties.

**Auditor's opinion** is a positive written expression within a specified framework indicating the auditor's overall conclusion on the financial report based on audit evidence obtained. Refer to Appendix 6.6 for types of auditor's opinions issued by the Auditor-General.

**Authorised auditor** is the Auditor-General, Deputy Auditor-General, a staff member of the Queensland Audit Office or a contract auditor.

**Contract auditor** is an appropriately qualified individual who is not a staff member of the Queensland Audit Office who is appointed by the Auditor-General to undertake audits of public sector entities on his behalf.

**Controlled entities** are entities where another public sector entity has control or ownership because of its shareholding.

**Delegate of the Auditor-General** is an authorised auditor to whom the Auditor-General has delegated his power to sign the independent auditor's report.

**DLGSR** – Department of Local Government, Sport and Recreation.

**Financial report** is a structured representation of financial information, which ordinarily includes accompanying notes, derived from accounting records and intended to communicate an entity's economic resources or obligations at a point in time or the changes therein for a period in accordance with a financial reporting framework.

**FBT** – Fringe Benefits Tax.

**FMS** – *Financial Management Standard 1997*.

**Going concern** means an entity is expected to be able to pay its debts as and when they fall due, and continue in operation without any intention or necessity to liquidate or otherwise wind up its operations.

**GST** – Goods and Services Tax.

**Independent auditor's report** is issued as a result of an audit and contains a clear expression of the auditor's opinion on the entity's financial report.

**Joint public sector entities** are public sector entities jointly controlled by two or more public sector entities, that is, two or more public sector entities have equal shareholdings.

**LGFS** – *Local Government Finance Standard 2005*.

**LGPMC** – Local Government and Planning Ministers Council.

**Local Government Act** – *Local Government Act 1993*

**LTC** – Local Transition Committee established as part of the Local Government reform process.

**PAC** – the Parliamentary Public Accounts Committee.

**Prescribed requirements** means requirements prescribed by the *Financial Administration and Audit Act 1977*, another Act or a financial management standard, but do not include the requirements of a financial management practice manual.

**Public sector entity** means a department; a local government; a statutory body; an entity that is controlled by one, or more than one, department, local government or statutory body or by a combination of departments, local governments and statutory bodies; or an entity controlled by an entity that is a public sector entity.

**QAO** – Queensland Audit Office.





# Section 1

## Executive summary

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### 1.1 Auditor-General's overview

This report is my second report to Parliament for 2008. It deals specifically with the results of the audits of local governments including Aboriginal Shire and Torres Strait Island councils for the 2006-07 financial year which were completed and certified by audit at the date of this report.

The *Local Government (Community Government Areas) Act 2004* brought Aboriginal councils under the *Local Government Act 1993*. These councils are no longer differentiated from shire councils under the Local Government Act. Because of their transition to accrual accounting and reporting in line with local governments and the changes resulting from the local government reform process, I have included the audit results of both the Aboriginal Shire and Torres Strait Island councils with the results from other local governments in this report.

#### **2006-07 audit results**

My 2006-07 audits of local governments, Aboriginal Shire and Torres Strait Island councils revealed that significant improvements continue to be required in the systems and processes used by councils and management in the achievement of their objectives.

Uncertainty about the continued financial viability of local governments was an issue which contributed to the Government's decision to implement a reform process. Sustainability of local governments is inextricably linked to the existence of effective control processes and I am concerned that the issues identified from the 2006-07 audits may carry over into the councils which have been created through the amalgamation of two or more councils.

Within the local government sector, the majority of high risk audit issues raised by my auditors with the councils concerned the value of non-current assets. Councils own significant infrastructure assets such as road networks, water supply and sewerage facilities, major plant and equipment, and buildings. Five local government audits for 2006-07 were qualified (refer Section 2.4.1) because the way certain non-current assets included in their financial statements were valued did not comply with the requirements of the Australian Accounting Standards. In these circumstances the valuations were considered to be unreliable and the overall effect on the financial statements could not be quantified.

The 2006-07 audit findings indicate the continued problems which local governments have with the development and maintenance of quality systems for the financial management of these assets. Planned and effective long term service and infrastructure levels based on accurate and complete accounting records and asset management practices contribute to a council's financial sustainability by minimising the need for large rate and charges increases to fund unscheduled replacements or renewals of assets.

While financial statements for only 18 of the 37 Aboriginal Shire and Torres Strait Island councils and associated entities have been finalised to date, on average, seven moderate to high risk audit issues have been raised for each of these 18 entities. The audit issues result from the use of poor systems or processes to manage and control transactions associated with expenditure, revenue, inventories and assets. This number is significant and shows that there has been little improvement in financial management over the past 12 months, despite ongoing initiatives by the Department of Local Government, Sport and Recreation (DLGSR) including the appointment of financial controllers at eight councils. This is discussed further in Section 2.3.2.

At four Aboriginal Shire councils and four Torres Strait Island councils, financial controllers have been appointed to assist the councils to monitor the financial operations and budget as well as to establish systems of internal controls and to address issues raised by my auditors (Section 4.3.3). In my opinion, these financial controllers could add further value to the councils by facilitating the financial statement preparation process and ensuring the quality of the draft financial statements prior to these statements being presented to my auditors. Even so, these financial controllers are only a short term solution to these problems and there needs to be a strategy to develop skills within or associated with the councils to enable the competent management of these functions.

The ongoing use of consultants or contractors to carry out accounting functions and prepare financial statements in local governments and in Aboriginal Shire and Torres Strait Island councils has been an issue included in a number of previous reports to Parliament (Section 3.1.2). While I acknowledge that qualified accounting staff are difficult to attract and retain, particularly in regional and remote areas, councils need to have strategies in place to ensure that capacity is being built within or is readily available to councils. This may involve the consideration of alternatives such as shared service arrangements between a number of councils.

At the date of this report, financial statements for 2006-07 had not been finalised and auditor's opinions issued for eight local government entities, ten Aboriginal Shire council entities and nine Torres Strait Island council entities. Financial statements for two entities were still outstanding for 2005-06. The late completion of financial statements indicates poor accountability as well as potentially poor financial control. Timeliness of financial statements is discussed further in Section 2.5.

### ***Financial statements for abolished councils***

I hold some concern about the capacity for the financial reporting responsibilities of the recently abolished local governments for the period from 1 July 2007 to 14 March 2008 to be addressed. I have received reports of reduced staffing resources occurring at some councils prior to the amalgamations. During this period staff were focused on transitional processes with less attention being paid to the normal day-to-day governance practices and reporting requirements. Notwithstanding the closure of the councils on 14 March 2008, the normal accounting and auditing standards continued to apply to the abolished councils and financial statements supported by good quality working papers will be expected to be available to the external auditors. I may be left with no option but to issue a qualified auditor's opinion if my auditors are unable to obtain sufficient and appropriate audit evidence to support the financial statements presented for audit (Section 4.2.1).

For their 2007-08 financial statements, nine Torres Strait Island councils and five Aboriginal Shire councils are required to change from the modified cash basis of reporting to accrual reporting. Ten of these councils have been amalgamated and this represents a significant change in reporting responsibilities for the financial reporting period for the councils (Section 4.3.1).

### ***Key areas warranting attention by the newly created councils***

The 2006-07 audits have highlighted a number of key areas warranting attention by the newly created councils.

These include:

- the alignment of accounting and financial policies across the operations of the new council
- the consolidation of information systems and implementation of robust internal and external reporting practices
- the recruitment and selection of key financial accounting and asset accounting staff to provide the capacity for sound financial management practices
- the training and development of key financial management staff
- the revaluation of non-current assets brought over from the abolished councils at carrying value and the establishment of reliable opening balances for the new council's assets and liabilities
- the consideration of the continued operation of existing enterprise or commercial activities.

Timely finalisation is required of the proposed performance evaluation and reporting approval process for the councils by the DLGSR. These areas are discussed in more detail in Section 4 of this report.

While there are 12 Aboriginal Shire councils and 24 other councils not affected by the reform process, the principles of good financial management and the development and use of quality systems should also be addressed by them.

I recognise the significant efforts of the Department in the reform process to date. However, now that the amalgamated councils are in place, there remains a critical number of issues to be addressed by both the individual local governments and the Department in its legislative role.

I will continue monitoring the reform implementation and will provide the Parliament with further updates particularly on the results of the audits of the abolished councils throughout 2008.

### ***Better practice for achieving successful amalgamations***

Recently the New South Wales Audit Office (NSWAO) tabled a report titled *Managing departmental amalgamations: Department of Commerce and Department of Primary Industries*. This report was accompanied by a *Better Practice Guide: Implementing Successful Amalgamations*.

While dealing with departmental amalgamations, the better practice guide outlines four phases of an amalgamation and some key questions which I believe are relevant for councils to consider when planning, implementing and determining the success of the amalgamation process. With the permission of the NSWAO, I have reprinted these principles in Appendix 6.1.

These principles should be considered in conjunction with other better practice documents available to assist in achieving successful amalgamations such as the Local Government Managers Australia Queensland Inc.'s *Management of Change Toolkit*.

### ***Effect of the changes to local governments on audit***

Appendix 6.2 shows the local government areas as they existed for the period covered by this report before amalgamation.

For the 2007-08 financial year, I am required to complete the audits of the financial statements of the abolished councils for the period 1 July 2007 to 14 March 2008. The first financial reporting period for the newly created regional councils will be from 15 March 2008 to 30 June 2009. In the short term, the local government reform process will impact on the timing of when the final audits of the amalgamating councils will be undertaken.

To assist the newly created local governments, I have ensured that the auditor for the new council is also the auditor for the associated merging local governments. This will preserve audit knowledge and facilitate value-added advice during the transition process.

QAO staff will undertake the audits of the Torres Strait Island and Northern Peninsular Area regional councils in 2007-08 with a first audit visit scheduled in September 2008. The initial visit will include an assessment of the governance, control environment and accounting practices and procedures adopted and implemented by the new councils. These audit assessments will provide the new councils with an early opportunity to consider an independent assessment of the effectiveness of the internal control and accounting environment.

### ***Further audit activity***

In the coming months, I intend to conduct a performance management systems audit which will cover the framework and systems used by local governments to administer the various grants and funding they provide to local businesses and organisations.

While the final scope and coverage of the audit is currently being finalised, it will include examining whether systems and frameworks are in place for the planning, resourcing and monitoring of grants and funding.

Specific aspects which may be included are:

- Is the governance framework for administering grants and funding consistent with the council's corporate plan, operational plan and revenue policy?
- Are appropriate systems and processes in place for measuring the performance and evaluating the administration of grants and funding?
- Is the reporting of grants consistent with sound public administration?
- Are regular monitoring and management reporting in place to assess the costs and benefits of services delivered under discretionary funding?



# Section 2

## Audit results

### 2.1 Auditing local governments, Aboriginal Shire councils and Torres Strait Island councils

In Queensland, every public sector entity is subject to a financial and compliance audit each financial year. As the external auditor for the Queensland Parliament, I am responsible for the annual audits of 253 local governments, Aboriginal Shire council and Torres Strait Island council entities and their controlled entities.

A key outcome of a financial and compliance audit is the auditor's opinion expressed on whether the financial statements of the public sector entity are true and fair, and whether the prescribed requirements included in legislation for the establishment and keeping of accounts have been complied with in all material respects. Other outcomes include recommendations on ways public sector entities can improve their financial accountability and management.

Local governments are providers of a wide range of services to the community. Their size varies based on the community they serve as well as the functions the councils perform. Councils conduct such services as maintaining roads, water and sewerage infrastructure and the management of community services as varied as convention centres and private hospital facilities. Appendix 6.3 provides key financial information indicating the size and diversity of these councils.

Indigenous councils provide services to their communities over and above their main-stream counterparts. This includes managing businesses and other enterprise activities which provide a range of benefits to the community including work experience and training, health and human support services, banking and postal services and supermarket and tourist services. Their size varies based on the community they serve as well as the functions they perform. The wide range of activities carried out by local governments, Aboriginal Shire and Torres Strait Island councils add to the complexity of these audits.

In 2006-07, 78 per cent of the 253 local government, Aboriginal Shire council and Torres Strait Island council audits were conducted on my behalf by contracted auditors. Contracting of some audits to appropriately qualified private sector auditors is necessary due to the volume of audits conducted each year and the geographic spread of these entities. Management of these audits is discussed further in Appendix 6.4.

### 2.2 Status of 2006-07 audits

At the date of this report, 226 audits of 2006-07 financial statements were completed for the types of entities listed below, with 16 modified and 210 unmodified auditor's opinions being issued. Refer Section 5 for more details.

Table 2.1 — Status of 2006-07 audits

Entity type	Total	Unmodified	Modified	Opinion not yet issued
Local governments	125	113	8	4
Joint local governments	13	11	2	0
Local government controlled entities	48	45	0	3
Joint public sector entities	30	29	0	1
<b>Total local government entities</b>	<b>216</b>	<b>198</b>	<b>10</b>	<b>8</b>
Aboriginal Shire councils	15	4	4	7
Aboriginal Shire councils controlled entities	4	1	0	3
Torres Strait Island councils	17	7	1	9
Torres Strait Island councils controlled entities	1	0	1	0
<b>Total Aboriginal Shire and Torres Strait Island council entities</b>	<b>37</b>	<b>12</b>	<b>6</b>	<b>19</b>
<b>Total</b>	<b>253</b>	<b>210</b>	<b>16</b>	<b>27</b>

The late completion of financial statements indicates poor accountability as well as potentially poor financial control. Table 2.1 shows the audits of the financial statements for 27 entities have not yet been completed. Details of these unfinalised financial statements are provided in Section 2.5.

In addition, financial statements for Bayan Mayi-Ji Ltd and Warwick Shire Tourism and Events Pty Ltd are still outstanding for 2005-06.

## 2.3 Overall results and findings

### 2.3.1 Local governments

Financial management is an integral component of good corporate governance. Sound financial management reflects a responsible and sustainable council with an astute management team exercising good financial practices providing a foundation for effective decision making.

At 31 March 2008, 437 moderate to high risk financial management issues had been reported to management from the finalised audits of 208 local government entities. Of these:

- 47 issues or 11 per cent were high risk issues – findings which posed a significant business or financial risk to the entity and must be addressed as a matter of urgency
- 390 issues or 89 per cent were moderate risk issues – findings that pose a moderate business or financial risk and should be addressed as a matter of high priority.

Overall this equates to approximately two issues per entity. While this number of issues is not necessarily of concern, it indicates that there is a range of issues which need to be considered and addressed regardless of the current status of the councils.

Management is responsible for developing and maintaining sound internal control frameworks. A good system of internal controls substantially reduces the risk of fraud and error and provides assurance to management and audit that the amounts reported in the councils' systems and financial statements are materially correct.

The key internal control areas reported by audit to local governments for 2006-07 were:

- 55 entities had issues related to non-current physical assets, resulting from less than effective strategic asset management and a lack of regard for the requirements of the Australian Accounting Standards. Twenty-two per cent of the non-current physical asset issues raised were considered to be high risk and 78 per cent moderate risk. Issues raised included:
  - revalued assets not being correctly accounted for
  - shortcomings in the valuation processes being used
  - poor management of accounting for work in progress on capital expenditure projects
  - contributed assets not being recognised as soon as they are received
  - lack of formal asset policies
  - high level of unfunded depreciation
  - fully depreciated assets still being in use and not being revalued to recognise their continued useful life.
- 35 entities had weaknesses in processes used to make payments to employees including a lack of segregation of duties over payroll processes, no evidence of checking of payroll reports and deficiencies in payroll systems and excessive leave balances. Of the issues raised with councils, nine per cent were high risk issues and 91 per cent were moderate risk issues. These weaknesses could result in incorrect payments being made to employees and a larger employee entitlements' liability. Management of the entities involved have taken positive action to address these issues.
- 30 entities had issues relating to expenditure and accounts payable controls including inappropriate procurement practices, inappropriate expenditure approval levels, inadequate checking of expenditure transactions processed, poor controls over credit card acquittances and issues with GST and FBT. Four per cent of these issues were considered to be high risk while 96 per cent were moderate risk. While management have since taken action to address the procedural deficiencies identified by audit, these deficiencies could have led to misappropriation of council funds.

- Issues were raised at 16 entities about their information systems including the absence of policies, procedures and documentation; lack of documented disaster recovery, business continuity and IT contingency plans; inadequate password controls and lack of appropriate technical expertise. High risk issues accounted for seven per cent and moderate risk issues 93 per cent of information systems issues raised.
- Issues were raised at 17 entities about the standard of preparation of their financial statements, all of which needed to be given high priority by management.

These issues are unrelated to the council amalgamations and require constant scrutiny by councils together with the ongoing development of the expertise of staff to deal with these issues.

It is of concern to me that new councils will not only be dealing with new issues arising from the amalgamation process but will also be required to address these existing issues.

Of particular concern is the fact that 27 per cent of the issues raised relate to non-current assets, an area I identified in my *Report to Parliament No. 1 for 2007* as needing more focused attention by councils. I have made further comment on this and strategic asset management in general in Section 3.1 of this report.

Issues raised have been reviewed in total to determine if there are any systemic or sector issues which needed to be reported to Parliament. Issues identified were the use of consultants in providing accounting services, audit committees and creation of controlled entities and these are discussed in more detail in Section 3.1.

## 2.3.2 Aboriginal Shire and Torres Strait Island councils

At the date of this report, the financial statements of eight Aboriginal Shire council, eight Torres Strait Island councils and two controlled entities have been finalised by management and certified by audit.

Table 2.2 shows that while only about half of the total number of financial statements have been finalised to date, on average, seven moderate to high risk issues have been raised at each of these entities.

**Table 2.2 — Number of issues raised during 2006-07 audits**

Entities	Number of audits completed	Risk issues		Total high and moderate risk issues
		High	Moderate	
Aboriginal Shire councils	8	17	60	77
Torres Strait Island councils	8	8	40	48
Controlled entities	2	1	3	4
<b>Total</b>	<b>18</b>	<b>26</b>	<b>103</b>	<b>129</b>

This number is significant and shows that there has been little improvement in financial management over the past 12 months, despite ongoing initiatives by the Department such as the appointment of financial controllers at eight councils.

The high and moderate risk issues have arisen primarily as a result of poor systems or processes being in place to manage and control such processes as expenditure, revenue, inventories and assets. Systemic or sector issues identified from the audits completed so far are discussed in Section 3.2. These issues are debts owed to councils, loans to community members, and issues about enterprise and commercial activities.

The opportunity exists now to develop new control systems and processes to address these issues in the new Torres Strait Island and Northern Peninsular Area regional councils. The councils not amalgamated also need to ensure that they have acted on the issues raised by my auditors and have the necessary control systems in place.



## 2.4 Modified auditor's opinions issued

### 2.4.1 Local governments

I have issued 198 unmodified auditor's opinions for the 2006-07 financial year. Details of the audits where unmodified auditor's opinions have been issued are listed in Section 5.1 of this report. I have also issued ten modified auditor's opinions (qualified auditor's opinions and emphasis of matter references). Details of the modified auditor's opinions are provided in Table 2.3.

Management responses are included in Appendix 6.5. The types of auditor's opinions issued are explained in Appendix 6.6.

**Table 2.3 — 2006-07 modified auditor's opinions for local government entities**

Entity	Type of modified opinion	Reason for modified opinion
<b>Local governments</b>		
Boonah Shire Council	Emphasis of matter	Included due to Council's failure to adopt the financial report by the statutory deadline and because of transfer of assets and liabilities due to local government amalgamations. This is discussed further in the paragraph following this table.
Crows Nest Shire Council	Qualified	<ul style="list-style-type: none"> <li>• Unable to express an opinion as the Council only revalued part of the Land and Improvements asset class, contravening AASB 116 Property Plant and Equipment which requires an entire class be revalued.</li> <li>• Council did not assess the fair value of water, sewerage, drainage and bridge network, and land improvement asset classes. As a result, an opinion was not able to be expressed on related account balances.</li> <li>• Partially revaluing plant and equipment assets breaching AASB 116 and their own policy to measure plant and equipment at cost led to a qualification of this account balance and the asset revaluation reserve balance and the inability to express an opinion on the depreciation expense.</li> </ul>
Gladstone City Council	Qualified	Qualification relates to the 2006 comparative amount for depreciation expense for road infrastructure assets. This was qualified in 2005-06 and remained qualified in 2006-07.
Johnstone Shire Council	Qualified	Unable to express an opinion because the reported written down values of infrastructure assets relating to bridges, stormwater pipes, water and sewerage were based on valuations that could not be supported by sufficient or appropriate evidence. Comparative figures for 2006 for depreciation and amortisation and the net result attributable to Council were also qualified as prior year asset errors had not been corrected properly.
Morningside Shire Council	Qualified	Qualification relates to a qualification in the prior year on certain closing balances at 30 June 2006. Due to a lack of supporting documentation, the completeness and accuracy of these balances could not be verified in 2006-07.
	Emphasis of matter	Included due to Council's failure to adopt the financial report by the statutory deadline.
Noosa Shire Council	Emphasis of matter	Included due to Council's failure to adopt the financial report by the statutory deadline and because of transfer of assets and liabilities due to local government amalgamations. This is discussed further in the paragraph following this table.

Entity	Type of modified opinion	Reason for modified opinion
Pittsworth Shire Council	Qualified	Unable to express an opinion on certain account balances because Council has not conducted annual valuations of the land and buildings, water and sewerage infrastructure, and road and drainage infrastructure asset classes, comprising 95 per cent of the written down value of Property, Plant and Equipment. Council was also unable to provide adequate documentation to substantiate disclosures in relation to financial performance of activities subject to competition reforms.
Rosalie Shire Council	Emphasis of matter	Included because of transfer of assets and liabilities due to local government amalgamations. This is discussed further in the paragraph following this table.
<b>Joint local governments</b>		
Gladstone-Calliope Aerodrome Board	Qualified	The Board did not comply with AASB 136 Impairment of Assets which requires non-current assets to be assessed for indicators of impairment at each reporting date.
	Emphasis of matter	Included because of transfer of assets and liabilities due to local government amalgamations. This is discussed further in the paragraph following this table.
Mission Beach Marine Facilities Joint Board	Qualified	Qualification relates to a qualification in the prior year on comparative figures at 30 June 2006. The 2006 comparative figures remain qualified for 2007 due to Council's failure to assess the extent to which the value of its assets was impacted by asset impairment following the large scale destruction from a cyclone on 20 March 2006.

Table 2.3 lists a number of audits where an emphasis of matter has been included in my auditor's opinion because of the transfer of assets and liabilities due to the amalgamation of local governments. Although these councils ceased as entities on 14 March 2008, their financial statements for 2006-07 were prepared on a basis consistent with a going concern basis to allow the transfer of assets and liabilities to the new councils at the values reported in their balance sheets. An emphasis of matter was included to draw attention to this fact for those councils that finalised their 2006-07 financial statements in the four weeks prior to the Council elections on 15 March 2008. This was included for these councils because of the lateness of the finalisation of their financial statements and because these councils were being amalgamated on this date.

It will be necessary for me to include this emphasis of matter in my auditor's opinion on the financial statements for the period 1 July 2007 to 14 March 2008 of all abolished local government entities and Torres Strait Island councils.

## 2.4.2 Aboriginal Shire and Torres Strait Island councils

### Aboriginal Shire councils and associated entities

I have issued five unmodified auditor's opinions for the 2006-07 financial year. Details of the audits where unmodified auditor's opinions have been issued are provided in Section 5.2 of this report.

I have issued four modified auditor's opinion (qualified opinions and emphasis of matter references) and the reasons are provided in Table 2.4. The responses provided by management to these issues are provided in Appendix 6.5. The different types of auditor's opinions issued are explained further in Appendix 6.6.

**Table 2.4 — 2006-07 modified auditor's opinions for Aboriginal Shire council entities**

Entity	Type of modified opinion	Reason for modified opinion
Injinoo Aboriginal Shire Council	Emphasis of matter	Included because of transfer of assets and liabilities due to local government amalgamations.
Lockhart River Aboriginal Shire Council	Qualified	<ul style="list-style-type: none"> <li>• Unable to express an opinion on the reported written down values of water, sewerage, roads, drainage and bridge network assets as they were last revalued as at 30 June 2001.</li> <li>• Operations of the bank agency resulted in an unexplained cash deficiency of \$33,906.</li> <li>• Council applied a 50 per cent on-cost to all employee expenses incurred and an on-cost of between 10-32 per cent to asset additions which was not in accordance with accepted accounting principles and resulted in the overstatement of employee costs.</li> <li>• Unable to express an opinion as the reliability of the inventory balance could not be substantiated.</li> <li>• The reported value of the Provision for Doubtful Debts balance was materially understated by \$236,943.</li> </ul>
Palm Island Aboriginal Shire Council	Qualified	<ul style="list-style-type: none"> <li>• Council failed to maintain an effective system of control over bank agency funds and, as a result, approved the write-off of bank agency losses of \$79,733.</li> <li>• Unable to verify the completeness and accuracy of canteen sales revenue due to the Council's failure to maintain effective reconciliation between canteen stock movements and canteen sales reported.</li> </ul>
Wujal Wujal Aboriginal Shire Council	Qualified	<ul style="list-style-type: none"> <li>• The Council's wholly owned controlled entity Bayan Mayi-Ji Pty Ltd has not produced financial statements since 2003-04. The impact of the company's results and financial position on the council is uncertain and accountability requirements of the <i>Corporations Act 2001</i> have not been met.</li> <li>• Council entered into two new finance lease agreements without obtaining the approval of the Treasurer as prescribed by the <i>Statutory Bodies Financial Arrangements Act 1982</i>.</li> <li>• Unable to express an opinion on the reported written down value of infrastructure assets or associated depreciation because Council has not assessed fair value of those assets at 30 June 2007.</li> </ul>

In *Report to Parliament No. 9 for 2007* I reported that the 2005-06 financial statements of Mapoon Aboriginal Shire Council and Napranum Aboriginal Shire Council had not been completed. These have now been audited and I issued qualified auditor's opinions on 8 April 2008 and 19 November 2007 respectively. Details are provided in Table 2.5.

**Table 2.5 — 2005-06 modified auditor's opinions for Aboriginal Shire council entities**

Entity	Type of modified opinion	Reason for modified opinion
Mapoon Aboriginal Shire Council	Qualified	<ul style="list-style-type: none"> <li>● Due to errors calculating GST, the net amount owing to the Australian Taxation Office was understated in the financial report by \$214,795.</li> <li>● Inadequate documentation to support the completeness and accuracy of the reported inventory balance.</li> <li>● The value of depreciation disclosed in the income statement has been overstated by \$173,897.</li> <li>● Inadequate documentation to support the completeness and accuracy of the capital works in progress balance.</li> <li>● Unable to verify the completeness and accuracy of rentals and levies revenue or housing rental receivables.</li> <li>● Unable to verify the completeness and accuracy of the wages suspense/clearing account/contractors balance and the other creditors and retentions balance.</li> </ul>
Napranum Aboriginal Shire Council	Qualified	<ul style="list-style-type: none"> <li>● Unable to verify the completeness and accuracy of Tavern Sales revenue of \$368,551 due to inadequate supporting documentation and audit trails. The financial impact of this could not be practicably quantified.</li> <li>● There was no evidence that the council was effectively monitoring the financial operations of any of their enterprises during the year as required by the Local Government Act.</li> <li>● Council was unable to provide evidence that approval had been given for payments to CDEP participants totalling \$301,477 that were in excess of approved CDEP wage rates.</li> <li>● Council did not comply with the accounting treatment prescribed by AASB 141 Agriculture. The financial impact of this could not be practicably quantified.</li> <li>● A Statement of Budget and Actual Expenses had not been prepared. The 2006 cash budget was not amended when Council changed to an accrual basis of accounting, contravening the LGFS.</li> </ul>
	Emphasis of matter	The Council has received an advance of up to \$650,000 future funding from DLGSR. Without this, there would be significant uncertainty about the Council's ability to continue as a going concern.

## Torres Strait Island councils and associated entities

I have issued seven unmodified auditor's opinions for the 2006-07 financial year. Details of the audits where unmodified auditor's opinions have been issued are provided in Section 5.2 of this report.

I have also issued two modified auditor's opinions. The reasons for these opinions are provided in Table 2.6. Refer Appendix 6.6 for explanations of the different types of auditor's opinions issued.

**Table 2.6 — 2006-07 modified auditor's opinions for Torres Strait Island council entities**

Entity	Type of modified opinion	Reason for modified opinion
Poruma Island Pty Ltd	Emphasis of matter	Based on the company's continued dependence on the support of its parent entity, Poruma Island Council, and the Torres Strait Regional Authority, uncertainty remains as to whether the company will be able to continue as a going concern.
Yorke Island Council	Emphasis of matter	Included because of transfer of assets and liabilities due to local government amalgamations.

In *Report to Parliament No. 9 for 2007*, I reported that the 2005-06 financial statements of Erub Island Council had not been completed. These have now been audited and I issued a qualified auditor's opinion on 18 March 2008. Details are provided in Table 2.7.

**Table 2.7 — 2005-06 modified auditor's opinions for Torres Strait Island council entities**

Entity	Type of modified opinion	Reason for modified opinion
Erub Island Council	Qualified	<ul style="list-style-type: none"> <li>• Unable to verify the completeness and accuracy of the office safe balance (\$91,652) and cashier balance (\$4,613) at 30 June 2006.</li> <li>• Unable to verify the reported written down value of infrastructure assets totalling \$9,103,480 or associated depreciation of \$456,608.</li> <li>• Unable to verify the receipts or closing balance for the Department of Local Government, Planning, Sport and Recreation grants or receipts, disbursements or closing balance for the Department of Housing grants.</li> <li>• Unable to substantiate the reported balances for income, cost of sales or inventory in relation to the fish freezer operations.</li> </ul>
	Emphasis of matter	Included because of transfer of assets and liabilities due to local government amalgamations.

## 2.5 Timeliness of financial statements

The regular production and monitoring of relevant, reliable and timely information on an entity's operating results and financial position is an important element of sound financial management and governance. Providing this information through financial reports allows problem areas to be identified and addressed and informed decisions to be made on the operations of the entity.

If audited financial statements are not available within a reasonable timeframe, this reduces the ability of the local community and other interested parties to assess the financial performance of councils and reduces the effectiveness of this accountability process. It also reduces the ability of stakeholders to determine whether a council remains financially viable.

Section 5 lists all local governments, Aboriginal Shire and Torres Strait Island councils and the timeframes in which their financial statements were finalised by management and certified by audit.

### 2.5.1 Local governments

The Brisbane City Council must prepare financial statements by 31 August to comply with the *City of Brisbane Act 1924* and these statements must be audited and included in the annual report which must be completed by 31 October. The 2006-07 financial statements for Brisbane City Council were completed and certified within these timeframes.

Apart from Brisbane City Council, local governments are required to prepare and certify proposed financial statements by 15 September each year and present and adopt an annual report which contains the audited annual financial statements by 30 November each year. The annual report must contain the audited financial statements which include the independent auditor's report of the Auditor-General.

For the 2006-07 financial year, 24 councils and four joint local governments did not have their financial statements certified by 30 November (2006: 19 councils and four joint local governments). Forty-one local governments (2006: 39) were required to re-sign their financial statements following the audit process. This indicates a poor commitment to quality by the councils involved.

The local government legislation allows local governments to apply to the Minister for extensions of time in which to finalise their financial statements and annual reports where they are unable to meet the respective legislated deadlines of 15 September and 30 November. Section 5 of this report lists the 33 councils for which an extension of time was granted by the Minister for the completion of the annual report which contains the audited financial statements.

As at 31 March 2008, the financial statements of four local governments, three local government controlled entities and one joint public sector entity were yet to be finalised. These are listed in Table 2.8.

**Table 2.8 — Local government unfinalised financial statements**

Entity name	Entity type
Aurukun Shire Council	Local government
Belyando Shire Council	Local government
Isis Shire Council	Local government
Perry Shire Council	Local government
Boonah and District Art Gallery and Library Trust Fund	Local government controlled entity
Boonah and District Performing Arts Centre	Local government controlled entity
Warwick Shire Tourism and Events Pty Ltd	Local government controlled entity
North Queensland Local Government Association*	Joint public sector entity

\* This entity has a 31 December 2007 financial year.

## 2.5.2 Aboriginal Shire and Torres Strait Island councils

The 2006-07 financial statements of eight Aboriginal Shire councils, eight Torres Strait Island councils and two controlled entities had been completed and certified at the date of this report. Nineteen entities had not been finalised. These are listed in Table 2.9.

**Table 2.9 — Aboriginal Shire and Torres Strait Island council unfinalised financial statements**

Entity	Type
Doomadgee Aboriginal Shire Council	Aboriginal Shire Council
Hope Vale Aboriginal Shire Council	Aboriginal Shire Council
Kowanyama Aboriginal Shire Council	Aboriginal Shire Council
Mapoon Aboriginal Shire Council	Aboriginal Shire Council
Napranum Aboriginal Shire Council	Aboriginal Shire Council
Pormpuraaw Aboriginal Shire Council	Aboriginal Shire Council
Umagico Aboriginal Shire Council	Aboriginal Shire Council
Bayan Mayi-Ji Ltd	Aboriginal Shire Council Controlled entity
Edward River Crocodile Farm Pty Ltd	Aboriginal Shire Council Controlled entity
Lockhart River Aerodrome Company Pty Ltd	Aboriginal Shire Council Controlled entity
Badu Island Council	Torres Strait Island Council
Bamaga Island Council	Torres Strait Island Council
Dauan Island Council	Torres Strait Island Council
Erub Island Council	Torres Strait Island Council
Mabuiag Island Council	Torres Strait Island Council
Mer Island Council	Torres Strait Island Council
Saibai Island Council	Torres Strait Island Council
Seisia Island Council	Torres Strait Island Council
Ugar Island Council	Torres Strait Island Council

Of the 18 audits finalised at the date of this report, only two councils had their 2006-07 financial statements certified by audit within six months of the end of the financial year.

While there can often be some delay between the finalisation of the audit field visit, resolution of residual audit issues and the issuing of the independent auditor's report, other factors have affected the timeliness of financial completion for 2006-07. These include staff shortages because of an inability to fill key financial positions, through illnesses or resignations and uncertainty due to the local government reform process.

# Section 3

## Key issues from 2006-07 audits

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### 3.1 Local governments

#### 3.1.1 Strategic asset management

##### Property, plant and equipment

Property, plant and equipment of local governments represents a significant proportion of total assets on the balance sheet. The carrying value of these assets totalled \$58,151m at 30 June 2007 (30 June 2006: \$49,617m). These assets may comprise significant infrastructure assets such as road networks, water supply and sewerage, major plant and equipment, and buildings.

As was the situation in 2005-06, the 2006-07 audit findings for non-current assets (refer Section 2.3.1 of this report) indicate to me the continued problems which local governments have in the development and maintenance of quality financial systems for the management of these assets.

##### ***Need for strategic asset management***

Strategic asset management involves a whole-of-life approach to the acquisition, recording, maintaining and renewal and replacement of property, plant and equipment. To be effective, this approach needs to be based on robust accounting records which can only be achieved through a management commitment to quality.

Quality is achieved through a control framework which provides for the recruitment and selection of key staff including asset accountants and engineering and maintenance employees, and close monitoring by management via internal reporting on such areas as maintenance, valuation issues, renewals, depreciation and asset condition. Audit committees or an executive group should have an oversight role in these areas. Use should be made of an internal audit function to regularly test the veracity of the underlying records.

A council's long-term financial sustainability is linked to effectively planned long-term service and infrastructure levels which are based on accurate and complete accounting records and asset management practices. Sound business practices, including adequate resourcing and record keeping provide for not only effective asset management but minimise the need for large increases to rates and charges to fund unscheduled replacements or renewals.

##### ***Compliance with Australian Accounting Standards***

The *Local Government Finance Standard 2005 (LGFS)* requires local governments to value their property, plant and equipment using fair value principles as set out in Accounting Standard *AASB 116 Property, Plant and Equipment*. Audit results indicate that councils need to increase their focus on compliance with this Standard and *AASB 136 Impairment of Assets*. I wrote to councils on 1 August 2007 clearly stating my expectations that councils comply with these Standards and have the necessary robust accounting processes in place to ensure completeness, accuracy and existence of assets. Failure to observe these Standards may result in the council receiving a qualified auditor's opinion. There were five qualified auditor's opinions issued for 2006-07 audits where councils failed to comply with these accounting standards.

For those councils which merged on 15 March 2008, it was crucial that they finished their term on 14 March with assets recorded in a manner which was compliant with the accounting standards. This also includes the maintenance of sound asset registers and recording geared towards providing the new regional council with assurances relating to accuracy, completeness, existence and valuation of the assets of the abolished council. The consolidation of asset systems including the asset registers themselves and asset policy alignment represent significant challenges to the new regional councils.



Asset valuation will also be a key issue since the individual abolished councils may have asset classes valued at different dates and may have used different assumptions in the valuation methodology. The use of professional valuers with an intimate knowledge of both the local government industry and accounting requirements is essential in the inaugural year of the new regional councils. Full comprehensive revaluations of property, major plant and equipment may be required in the first year of operation to enable the regional council to be fully compliant with AASB 116 at the next balance date. Assets may also be significantly impaired as a result of changes in community needs and usage after the amalgamation process and/or surplus to requirements. Council office buildings and major plant and equipment could be examples.

Strategic asset management will continue to be a significant challenge to local governments.

## **Land Under Roads**

The Australian Accounting Standards Board (AASB) has issued Accounting Standard *AASB 1051 Land Under Roads* as part of its short-term review to incorporate the requirements of Australian Accounting Standards (AASs) 27, 29 and 31 into AASB Standards. The previous transitional relief for recognition of land under roads under AAS 27 was amended to allow entities to make a final election whether to recognise or derecognise land under roads acquired before the end of the first reporting period ending on or after 31 December 2007.

AASB 1051 will apply to local governments with annual reporting periods beginning on or after 1 July 2008. A final election has to be made on the first day of that reporting period to recognise, subject to the satisfaction of the asset recognition criteria, or not to recognise land under roads as an asset. Any adjustments from full adoption of the Standard will be made against the opening balance of accumulated surplus (deficit) as at 1 July 2008. It will not be necessary for local governments to adjust comparative data for earlier periods when they made their election effective on 1 July 2008 as it will be the first reporting date after 31 December 2007. Where a council elects to recognise land under roads, transactions need to be accounted for in accordance with *AASB 116 Property, Plant and Equipment*. A criterion for recognition of an asset in the accounting records is control. Whether or not a council controls the land under roads is a point warranting investigation by the Department of Local Government, Sport and Recreation.

Consistency in the adoption or otherwise of this Standard across Queensland is an issue which the Department needs to consider. I understand that the Department is currently developing a central position paper regarding the implementation or otherwise of this Standard as it has come into effect for councils which did not amalgamate for their 2007-08 financial statements and the new councils in 2008-09, if early adoption of the Standard is encouraged by the Department.

### **3.1.2 Use of consultants to provide accounting services**

In my *Report to Parliament No. 1 for 2007*, I indicated that at least 30 councils (2005-06: 31) used consultants to assist with the preparation of their annual financial statements for 2005-06. The dependency of councils on consultants is concerning and reflects to a certain degree a lack of expertise within the local government sector.

From the conduct of recent audits of local governments, I understand that there has been an increased usage of consultants by the councils who had diminishing staff resources prior to amalgamation and were unable to recruit suitably qualified staff for the remaining life of the councils.

Quality review is required by management to ensure the accuracy and completeness of the work performed by contractors. This is a particular problem in those instances where a consultant is engaged to undertake professional activity in the absence of suitably qualified council staff.

### **3.1.3 Audit committees**

It is disappointing that only 32 councils (23 per cent of Queensland councils) currently operate an audit committee and there are a number of anomalies in the manner in which these committees operate.

Under the LGFS, a local government is required to have a policy about the establishment or otherwise of an audit committee. If the individual local government's policy states that it is not required to establish an audit committee, the policy must provide for a review of that decision at regular intervals not longer than every three years. The need for, and composition of, the audit committee depends on the individual circumstances of each local government and the nature of the audit activity.

In my *Report to Parliament No. 1 for 2007* I expressed my expectation for audit committees to have a significant role in providing an independent review of the integrity of the internal and external reporting functions of their respective local governments. The operation of these committees will be integral to the governance of the larger councils particularly the new regional councils. Smaller councils who choose not to operate an audit committee may have these functions carried out by the council itself.

### ***Committees' terms of reference***

One of the foundations necessary for the successful operation of an audit committee is the existence of a robust terms of reference or charter, which should clearly articulate the roles and responsibilities of the committee, as approved by the council. In view of my previous recommendation, I reviewed the terms of reference or charters of the 32 councils which operated an audit committee in 2006-07.

These charters were reviewed against better practice criteria for the operation of this type of committee including the Treasury Department's *Audit Committee Guidelines: Improving Accountability and Performance* and *Audit Committees: Best Practice Guide* issued by the Australian Institute of Company Directors.

My audit found that 94 per cent or more of the local government terms of reference or charters reviewed included the purpose and role of the committee, its membership and ability to call a meeting at any time. Only 28 per cent included consideration of confidentiality and conflicts of interest. Whilst confidentiality and conflicts of interest are covered generally by the Local Government Act or in the Councillor Code of Conduct, there is merit in having these provisions included in the charters and terms of reference to ensure these areas are properly addressed at all times.

Annual performance evaluations are also poorly provided for, with only 34 per cent of documents examined including a requirement for the committee to have an evaluation of its operations. Although there is no statutory requirement for these committees to undertake a performance assessment, this is highly recommended to ensure some review of the committee's operations is undertaken and that it is carrying out its functions in accordance with the mandate approved by the council.

### ***Roles and responsibilities***

The role and responsibilities of a good audit committee should provide for wide monitoring and review. It was found that generally the types of reviews required by the LGFS such as monitoring the role of internal audit (78 per cent), reviewing the reports of the Auditor-General (88 per cent) and reviewing local government risks and the control measures to manage risks (84 per cent) were included in the terms of reference.

However only 25 per cent of the committees had a mandate to review annual financial statement prior to management certification. This detracts from the effectiveness of the committees' role for oversight of reporting. I regard oversight of quality financial reporting as a key role of these committees in adding value to councils. Poor quality financial statements provided to auditors may result in increased audit times leading to increased fees and the inability of councils to meet statutory reporting deadlines.

Only 19 per cent of the terms of reference or charters provided for the committee to review non-financial information. Reviewing the content of non-financial information in the council's annual report is important to give assurance that it is consistent with any financial information in the financial statements and the knowledge of committee members. My auditors found that, in one council where there was no effective governance within the finance section or vigilance by the audit committee, the Community Financial Report included in the annual report had been based on earlier versions of the financial statements. As a result, the Community Financial Report was factually incorrect in a number of areas.

Management representations should be integral to the committee's review of financial statements as they provide a snapshot of management's undertakings in the preparation of those statements. The fact that only three per cent of the committee's charters included this responsibility shows poor governance. Good audit committees rigorously examine the representations, including questioning management about the systems and processes underlying these representations before sign-off of the financial statements and the management representations letter by the council.

These committees should have a clear role in assessing the effectiveness or adequacy of the management information systems including those under development. This aspect adds robustness to the compliance activities of the council and provides for early warning of problems or inefficiencies. However only 38 per cent of committees had provision in their charter for this type of review. This is disappointing and adds to my view that risks may not be effectively managed in the local government sector.

While I support the need for effective audit committees in local government, a concern I have is that the achievement of better governance is not just a matter of giving the appearance that better practice structures are in place. A council can have an audit committee but it may not operate effectively, even though outwardly the council's structure looks good. One local government had an Audit and Risk Management Committee as a standing committee of the council but it met very infrequently. In addition, the same council had established an advisory committee with an independent chair which substantially operated as the audit and risk management forum for the council. This committee met frequently. Clearly this structure did not add value with a resulting lack of clarity about the roles of each of the two committees.

Using audit committees effectively to strengthen governance should be considered by all newly created councils.

### **3.1.4 Creation of new controlled entities**

A local government, in exercising its enterprise powers, may create a controlled entity pursuant to s.497 of the Local Government Act. The general powers of a local government under s.36 of the Act will also allow a local government to create a controlled entity.

However, under s.525(1) and (2) of the Local Government Act, a local government is a statutory body for the purposes of the *Statutory Bodies Financial Arrangements Act 1982* (SBFA). Section 60A of the SBFA requires that the approval of the Treasurer be sought prior to the creation of a controlled entity. Administratively, this is arranged through the DLGSR since that department has to be advised of the creation or closure of local government controlled entities.

During 2006-07, one council advised my auditors that it had neglected to apply for the Treasurer's approval for three of its controlled entities which had been in operation for several years.

The new local governments formed as a result of the reform process need to take this prescribed requirement into account if they choose to create such entities.

## **3.2 Aboriginal Shire and Torres Strait Island councils**

While the financial statements of only 16 Aboriginal Shire and Torres Strait Island councils and two of their controlled entities have been finalised, it is clear that a number of issues which I reported on last year still have not been addressed, including:

- Action being taken by many councils to recover debts owed to them is still inadequate or ineffective. By not recovering debts in a timely manner, councils' available cash flows which are not subject to grant conditions are reduced. Although local issues may impact on individual councils' ability to deal effectively with the recovery of debts, councils with large debtor balances should explore all means of recovery available to them and should also review their policies and procedures for approving transactions which may be difficult to recover. Non-grant related debts owed to councils totalled \$110.7m for the 16 councils whose audits have been finalised. Of these debts, 47.5 per cent have been assessed by these councils as being doubtful of recovery.
- Councils continue to use write-offs to clear debts rather than implementing effective debt recovery processes. Councils should explore all possible avenues of debt recovery prior to clearing these items through the write-off approval process. While weak systems of internal control can result in losses of Council assets, continued and timely action to follow up debts and the results of asset stocktakes will help ensure that adequate monitoring is undertaken and that records are maintained in a current state.
- Five of the 16 council audits finalised have revealed loans made in contravention of the respective policies thus creating significant financial risk which needs to be addressed at a policy level between the councils and Government. The legislation allows these councils to make loans but only if there is a lending policy that has been approved by resolution and been approved by the Minister.
- The high level of debt owed by some current and immediate past councillors, their spouses or partners and immediate family members is still an issue in the councils which have been audited. Of these councils, six of 16 councils had combined debts greater than \$10,000 owed by current and immediate past Councillors.
- Ineffective controls over certain aspects of enterprise and commercial activities still existed in 2006-07. The common audit issues identified were unexplained bank agency losses, ineffective controls over inventories, uncertainty about whether all sales had been recorded, and financial reporting shortcomings.

I will be reporting further on matters which have been identified across the sector in a future report to Parliament once the remaining audits of the financial statements have been finalised.

The issues identified above have been discussed in my reports to Parliament over the past three years with only minimal improvement. The opportunity exists now to develop new control systems and processes to address these issues in the new Torres Strait Island and Northern Peninsular Area regional councils.

The councils not affected by amalgamation need to ensure that they have acted on the issues raised by my auditors and have introduced the necessary control systems to address these problems.



# Section 4

## Issues for newly created councils

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### 4.1 General issues

My 2006-07 audits have highlighted the following key areas warranting significant attention by the newly created councils:

- alignment of accounting and financial policies across the operations of the new council
- consolidation of information systems and implementation of robust internal and external reporting practices
- recruitment and selection of key financial accounting and asset accounting staff to provide the capacity for sound internal and external reporting practices
- revaluing non-current assets brought over from the abolished councils at carrying value and establishing reliable opening balances for assets and liabilities
- training and development of key staff and alignment with the functionality of the new councils.

There are specific issues based on past audit results to be addressed for local governments and for Aboriginal Shire and Torres Strait Island councils.

### 4.2 Specific issues for local governments

#### 4.2.1 Financial statements for abolished councils

Four regulations were approved by Governor-in-Council on 14 February 2008 to bring into effect the objectives of the *Local Government Reform Implementation Act 2007*.

Although there was extensive consultation with stakeholders on the form and content of these regulations, this legislation was not approved until about six months after the Implementation Act had been passed and only one month before the abolition of amalgamating councils. As a result, abolished local governments and the local transition committees had little time to properly plan and make suitable arrangements for appropriate systems to be in place to produce quality financial statements and meet other prescribed requirements before the new councils commenced on 15 March 2008.

I am concerned about the ability of the new councils to finalise the reporting responsibilities relating to abolished local governments for the period 1 July 2007 to 14 March 2008. My auditors noted the diminished resources at some councils occurring prior to the amalgamations. Staff were focused on transitional processes with less attention being paid to the normal day-to-day governance practices and reporting requirements. The normal application of accounting and auditing standards apply to the abolished councils notwithstanding their closure on 14 March 2008. Financial statements supported by good quality working papers will be expected by audit. When these financial statements are audited, I may be left with no option but to issue a qualified auditor's opinion if sufficient and appropriate audit evidence and explanations are not available.

#### 4.2.2 Financial viability

On 26 March 2007, the Local Government and Planning Ministers Council (LGPMC) endorsed nationally consistent frameworks for assessing financial sustainability, asset planning and management, and financial planning and reporting for local governments. These frameworks promote a focus on:

- long-term asset management and reporting, with an emphasis on understanding long term requirements
- financial management and reporting, which includes the long term asset management and data
- integrated planning that is based on long term modelling and strategic planning and incorporates the asset management and financial management themes.

These frameworks are aimed at providing a consistent reporting mechanism for all local governments and a clearer picture for state and territory governments of the financial and management health of these local governments.

I see merit in this initiative from a national viewpoint. I note however that it will result in a greater role for DLGSR in providing for its implementation in Queensland.

Closer attention by the department in the areas of infrastructure investment through grants, subsidies and debt funding is warranted to ensure the long-term aims and objectives of the reform process and the national initiatives are achieved, particularly in relation to longer term council sustainability.

In my *Report to Parliament No. 1 for 2007*, I expressed concern about the financial viability of some councils in Queensland. As part of the traditional audit process required by the auditing standards, consideration is given to the going concern of entities. This process includes an assessment of the capacity of a local government entity to pay its debts within the next 12 months. Strong councils which have sound governance and business practices with an emphasis on sustainability do not normally encounter this problem. A combination of a number of factors may indicate that the financial viability of a local government should be closely monitored. These include:

- cashflow difficulties during the year between the receipt of revenue from the periodic rate billings
- inadequate attention to key ratios, such as the current ratio whereby current liabilities exceed current assets
- high levels of unfunded depreciation
- the existence of significant deferred capital works projects including key items of infrastructure assets
- inadequate reserve funds.

Each year I look for indicators of going concern problems. Generally, councils which have met the following criteria or indicators of ongoing viability problems have been reported to Parliament:

- current ratio (current assets over current liabilities) of less than 1.5:1
- material operating deficit (greater than 20 per cent of operating revenue)
- significant borrowings (greater than 20 per cent of operating revenue).

There were no councils which fell into all three categories although in the case of six councils, two of these criteria were present.

Fifty-five councils disclosed an operating deficit in their respective income statements for the financial year ended 30 June 2007 after allowing for transactions of a capital nature. This compared to 68 in the prior year. The aggregate of these deficits was \$250.5m (2006: \$290.09m). As mentioned last year, this trend is not sustainable in the longer term. Some of these councils amalgamated with other councils on 15 March 2008.

Notwithstanding the amalgamation process, councils should internally report on the status of going concern, particularly through the continued use of ratios and astute budget analysis.

The development by DLGSR of a revised performance evaluation and reporting approach for local government, including an emphasis on sustainable communities and sustainable councils, should provide for better oversight at a state level of financial sustainability assessment. Whilst this initiative has merit, it is heavily reliant on accurate and complete information being provided by the councils. Part of a council's commitment to quality should be to ensure that this information is internally reviewed prior to transmission to the department.

## **4.3 Specific issues for Aboriginal Shire and Torres Strait Island councils**

### **4.3.1 Changes to the financial management framework**

#### **2007-08 financial year**

For financial reporting periods ending on 30 June 2007, councils had the option to prepare their annual financial statements on either a modified cash basis of accounting or on an accrual accounting basis. In this regard, each year the Director-General, DGLSR issues the prescribed forms of the financial statements (known as XYZ financial statements). However, from 1 July 2007, all councils are required to adopt the accrual reporting framework.

A change from the modified cash basis of reporting to accrual reporting will affect nine Torres Strait Island councils and five Aboriginal Shire councils. For ten of these councils, this represents a significant change in reporting responsibilities for only one financial reporting period prior to amalgamation.

While the accrual accounting methodology does provide a basis for reporting the full costs of a council's operations and its financial position, it will not solve basic accountability issues that can only be addressed by good financial management, effective leadership and sound governance. Unfortunately, there is no automatic correlation between a change to accrual reporting and an improved standard of financial management and governance.

The non-amalgamating Aboriginal Shire councils must also comply with the following Australian Accounting Standards for the first time in 2007-08:

- AASB 116 Property, Plant and Equipment
- AASB 136 Impairment of Assets
- UIG 1030 Depreciation of long-lived physical assets: condition-based depreciation and related methods.

Based on current experience with the 2006-07 financial statements, it is my view that only eight of the 15 Aboriginal Shire councils would have been able to comply with the requirements of these accounting standards, had these standards been in effect for 2006-07. This is because many property, plant and equipment valuations currently being reported by councils are either out of date (that is, being more than four years since the last revaluation) or councils have infrastructure assets which have never previously been recognised in the balance sheet.

Inability to comply with the accounting standards would result in modified auditor's opinions being issued on the 2007-08 financial statements. An added risk is that councils may not have sufficient time in the 2007-08 financial year to scope, engage and undertake a comprehensive revaluation prior to 30 June 2008.

## **2008-09 financial year**

It is understood that the new regional councils of Torres Strait Island and Northern Peninsula Area will produce general purpose financial reports for the reporting period ending 30 June 2009 to reflect the reporting period from changeover date of 15 March 2008 to 30 June 2009.

The following issues are likely to have a significant impact on the new councils' ability to produce general purpose financial reports:

- The need to establish opening asset and liability balances that conform to Australian Accounting Standards. For many of the amalgamating councils, the closing asset and liability balances were not previously reported in accordance with Australian Accounting Standards. For example, in order to comply with these standards the new councils will need to ensure that the reported valuations for property, plant and equipment are current. For many of the assets held by the amalgamating councils, this will require a comprehensive revaluation of property, plant and equipment including infrastructure assets, some for the first time. The new councils will need to ensure that this issue is given the appropriate level of priority, resources and rigor. I am also of the view that due to the size and complexity of undertaking such a revaluation exercise, these new regional councils will need to be supported throughout the process by the Department.
- There are a number of technical accounting issues associated with the financial reporting for abolished councils, and the establishment of new councils. In this regard DLGSR has committed to preparing financial accounting technical papers that will outline the issues and provide the appropriate accounting treatments to be applied. Where it is consistent with my external audit role, my auditors are available to provide advice in any deliberations the Department might have in respect of this matter.

### **4.3.2 Divestment of commercial activities**

One of the significant issues for the new regional councils will be deciding how to divest or dispose of existing enterprises and commercial activities. Given that this issue deals with public funds and in some cases assets with significant values, the need for accountability and transparency in any divestment transaction is of the highest importance.



As divestment activities will be subject to audit, it is critical that a council can demonstrate compliance with the relevant legislation by ensuring that adequate documentation is maintained of all considerations relating to the divestment, including risk and financial analysis, declaration of pecuniary interests and the basis for key decisions. Consideration should also be given by councils to my comments in *Report to Parliament No. 3 for 2007* on the common shortcomings identified with enterprise and commercial activities which included:

- the failure to record all actual costs (for example, administrative support, depreciation and other overhead costs) associated with each activity, thereby overstating the level of profitability
- failure to separately report on the financial performance and position of each commercial activity
- significant weaknesses in controls over accounting for and physical security of inventories held at most councils.

### 4.3.3 Appointment of financial controllers

The *Local Government (Community Government Areas) Act 2004* and the *Community Services (Torres Strait) Act 1984* include provisions for the appointment of financial controllers. Under these Acts, financial controllers can be appointed by the Minister to ensure councils adhere to their budgets. Financial controllers may also give advice about financial management to the council and undertake administrative tasks as requested by the Minister and the council.

Financial controllers have been appointed at eight councils to assist in monitoring the financial operations and budget as well as to establish systems of internal controls and address issues arising out of audit. The increase in the number of financial controllers from the five reported in my *Report to Parliament No. 3 for 2007* to the current eight is acknowledged and reflects increased rigour applied in implementing the Department's intervention strategy.

While progress has been observed at a number of these councils, there are still many unresolved high risk issues where the financial controllers can provide valuable assistance to the council such as the processes and policies involved in the preparation of financial statements. Financial controllers can play a pivotal role in assisting the councils to facilitate the financial statement preparation process and ensure that a quality assurance program over the draft financial statements is undertaken prior to presentation of the statements to my auditors.

In order for this to occur to an acceptable standard, it is equally important that the financial controllers have suitable and current accounting qualifications and are also conversant with the financial reporting requirements of the Australian Accounting Standards and the XYZ template financial statements issued by DLGSR.

Aboriginal Shire councils and Torres Strait Island councils with appointed financial controllers are summarised in Table 4.1.

**Table 4.1 — Aboriginal Shire and Torres Strait Island councils with appointed financial controllers**

Council	Appointment commencement date	Appointment termination date
Badu Island Council	27 July 2007	18 March 2008
Dauan Island Council	14 December 2007	18 March 2008
Doomadgee Aboriginal Shire Council	27 July 2007	31 December 2008
Lockhart River Aboriginal Shire Council	7 December 2007	31 December 2008
Mer Island Council	4 August 2007	18 March 2008
Napranum Aboriginal Shire Council	9 November 2007	31 December 2008
Pormpuraaw Aboriginal Shire Council	9 February 2008	30 June 2008
Saibai Island Council	13 August 2007	18 March 2008

# Section 5

## Status of audits

This Section provides details of the 254 audits of the 2006-07 financial statements of local government, Aboriginal Shire and Torres Strait Island council entities within the Auditor-General's mandate. Unless otherwise indicated, these entities' financial year ended on 30 June 2007.

The following information is provided for each audit:

- the date the entity certified the 2006-07 financial statements
- the date the Auditor-General or his delegate issued the independent auditor's report
- the type of auditor's opinion issued by the Auditor-General
- whether an extension for completion of the annual report (which contains the financial statements) was granted by the Minister
- an indication of the timeliness of completion of the financial statements after the end of financial year (30 June 2007 unless otherwise indicated). Refer Section 2.5 for further information on financial reporting timeframes for these entities.

### 5.1 Local governments

Auditor's opinion key: U=Unmodified Q=Qualified E=Emphasis of matter

Extension granted key: Yes=Extension granted by Minister No=No extension granted N/A=No extension required # Not required to comply with this requirement

Local government councils	Financial statements				Timeliness of completion		
	Financial statements signed	Auditor's report signed	Auditor's opinion	Extension granted	< 3 months	3 to 6 months	> 6 months
Aramac Shire Council	31.10.2007	01.11.2007	U	N/A		✓	
Atherton Shire Council	05.10.2007	25.10.2007	U	N/A		✓	
Aurukun Shire Council				Yes			
Balonne Shire Council	13.09.2007	12.10.2007	U	N/A		✓	
Banana Shire Council	29.11.2007	07.12.2007	U	Yes		✓	
Barcaldine Shire Council	08.11.2007	15.11.2007	U	N/A		✓	
Barcoo Shire Council	02.11.2007	02.11.2007	U	N/A		✓	
Bahinia Shire Council	17.01.2008	22.02.2008	U	Yes			✓
Beaudesert Shire Council	07.09.2007	14.09.2007	U	N/A	✓		
Belyando Shire Council				Yes			
Bendemere Shire Council	24.08.2007	31.10.2007	U	N/A		✓	
Biggenden Shire Council	12.11.2007	15.11.2007	U	N/A		✓	
Blackall Shire Council	08.10.2007	15.10.2007	U	N/A		✓	
Boonah Shire Council	12.03.2008	14.03.2008	E	Yes			✓
Booringa Shire Council	18.09.2007	19.10.2007	U	N/A		✓	
Bouli Shire Council	07.09.2007	12.10.2007	U	N/A		✓	
Bowen Shire Council	14.09.2007	03.11.2007	U	N/A		✓	
Brisbane City Council	09.08.2007	31.08.2007	U	N/A	✓		
Broadsound Shire Council	19.10.2007	06.11.2007	U	N/A		✓	

Local government councils	Financial statements				Timeliness of completion		
	Financial statements signed	Auditor's report signed	Auditor's opinion	Extension granted	< 3 months	3 to 6 months	> 6 months
Bulloo Shire Council	31.10.2007	31.10.2007	U	Yes		✓	
Bundaberg City Council	07.09.2007	05.11.2007	U	N/A		✓	
Bungil Shire Council	31.08.2007	31.08.2007	U	N/A	✓		
Burdekin Shire Council	24.10.2007	31.10.2007	U	N/A		✓	
Burke Shire Council	26.07.2007	27.07.2007	U	N/A	✓		
Burnett Shire Council	05.09.2007	13.11.2007	U	N/A		✓	
Caboolture Shire Council	09.10.2007	10.10.2007	U	N/A		✓	
Cairns City Council	13.09.2007	13.09.2007	U	N/A	✓		
Calliope Shire Council	27.11.2007	07.12.2007	U	Yes		✓	
Caloundra City Council	11.09.2007	26.10.2007	U	N/A		✓	
Cambooya Shire Council	05.09.2007	02.11.2007	U	N/A		✓	
Cardwell Shire Council	07.11.2007	13.11.2007	U	N/A		✓	
Carpentaria Shire Council	14.12.2007	14.12.2007	U	Yes		✓	
Charters Towers City Council	26.10.2007	26.10.2007	U	N/A		✓	
Chinchilla Shire Council	21.09.2007	24.09.2007	U	N/A	✓		
Clifton Shire Council	21.08.2007	21.08.2007	U	N/A	✓		
Cloncurry Shire Council	27.11.2007	27.11.2007	U	Yes		✓	
Cook Shire Council	04.10.2007	31.10.2007	U	N/A		✓	
Cooloola Shire Council	13.11.2007	15.11.2007	U	N/A		✓	
Council of the City of Gold Coast	15.11.2007	23.11.2007	U	Yes		✓	
Crows Nest Shire Council	13.11.2007	20.12.2007	Q	Yes		✓	
Croydon Shire Council	23.11.2007	27.11.2007	U	N/A		✓	
Dalby Town Council	06.11.2007	06.11.2007	U	N/A		✓	
Dalrymple Shire Council	15.10.2007	29.10.2007	U	N/A		✓	
Diamantina Shire Council	16.11.2007	16.11.2007	U	Yes		✓	
Douglas Shire Council	04.12.2007	19.12.2007	U	Yes		✓	
Duaringa Shire Council	03.09.2007	12.09.2007	U	N/A	✓		
Eacham Shire Council	07.09.2007	21.09.2007	U	N/A	✓		
Eidsvold Shire Council	28.11.2007	30.11.2007	U	Yes		✓	
Emerald Shire Council	27.09.2007	19.11.2007	U	N/A		✓	
Esk Shire Council	13.11.2007	15.11.2007	U	N/A		✓	
Etheridge Shire Council	31.10.2007	31.10.2007	U	Yes		✓	
Fitzroy Shire Council	27.11.2007	28.11.2007	U	N/A		✓	
Flinders Shire Council	16.08.2007	05.09.2007	U	N/A	✓		
Gatton Shire Council	09.11.2007	19.11.2007	U	N/A		✓	
Gayndah Shire Council	10.10.2007	12.10.2007	U	Yes		✓	
Gladstone City Council	15.11.2007	23.11.2007	Q	N/A		✓	
Goondiwindi Town Council	20.09.2007	27.09.2007	U	Yes	✓		

Local government councils	Financial statements				Timeliness of completion		
	Financial statements signed	Auditor's report signed	Auditor's opinion	Extension granted	< 3 months	3 to 6 months	> 6 months
Herberton Shire Council	31.08.2007	21.09.2007	U	N/A	✓		
Hervey Bay City Council	11.12.2007	11.12.2007	U	Yes		✓	
Hinchinbrook Shire Council	24.09.2007	31.10.2007	U	N/A		✓	
Ilfracombe Shire Council	12.09.2007	31.10.2007	U	N/A		✓	
Inglewood Shire Council	10.10.2007	05.10.2007	U	N/A		✓	
Ipswich City Council	22.08.2007	22.08.2007	U	N/A	✓		
Isis Shire Council				Yes			
Isisford Shire Council	21.09.2007	10.10.2007	U	N/A		✓	
Jericho Shire Council	09.11.2007	09.11.2007	U	N/A		✓	
Johnstone Shire Council	13.12.2007	19.12.2007	Q	Yes		✓	
Jondaryan Shire Council	07.09.2007	18.09.2007	U	N/A	✓		
Kilcoy Shire Council	14.08.2007	17.10.2007	U	N/A		✓	
Kilkivan Shire Council	13.11.2007	27.11.2007	U	N/A		✓	
Kingaroy Shire Council	05.12.2007	11.12.2007	U	Yes		✓	
Kolan Shire Council	31.10.2007	20.11.2007	U	N/A		✓	
Laidley Shire Council	07.09.2007	27.11.2007	U	N/A		✓	
Livingstone Shire Council	13.09.2007	18.09.2007	U	N/A	✓		
Logan City Council	24.08.2007	24.08.2007	U	N/A	✓		
Longreach Shire Council	14.11.2007	14.11.2007	U	N/A		✓	
Mackay City Council	05.11.2007	06.11.2007	U	N/A		✓	
Mareeba Shire Council	20.11.2007	20.11.2007	U	N/A		✓	
Maroochy Shire Council	04.09.2007	02.11.2007	U	N/A		✓	
Maryborough City Council	12.12.2007	19.12.2007	U	Yes		✓	
McKinlay Shire Council	30.10.2007	13.11.2007	U	N/A		✓	
Millmerran Shire Council	02.11.2007	14.11.2007	U	N/A		✓	
Mirani Shire Council	07.09.2007	12.11.2007	U	N/A		✓	
Miriam Vale Shire Council	30.10.2007	22.11.2007	U	N/A		✓	
Monto Shire Council	21.11.2007	21.11.2007	U	N/A		✓	
Mornington Shire Council	20.11.2007	18.01.2008	Q	Yes			✓
Mount Isa City Council	07.09.2007	13.09.2007	U	Yes	✓		
Mount Morgan Shire Council	09.11.2007	09.11.2007	U	N/A		✓	
Mundubbera Shire Council	09.08.2007	21.09.2007	U	N/A	✓		
Murgon Shire Council	04.01.2008	14.01.2008	U	Yes			✓
Murilla Shire Council	12.09.2007	05.11.2007	U	N/A		✓	
Murweh Shire Council	13.09.2007	29.10.2007	U	N/A		✓	
Nanango Shire Council	12.12.2007	13.12.2007	U	Yes		✓	
Nebo Shire Council	22.11.2007	22.11.2007	U	N/A		✓	
Noosa Shire Council	13.03.2008	14.03.2008	E	Yes			✓

Local government councils	Financial statements				Timeliness of completion		
	Financial statements signed	Auditor's report signed	Auditor's opinion	Extension granted	< 3 months	3 to 6 months	> 6 months
Paroo Shire Council	03.10.2007	09.10.2007	U	N/A		✓	
Peak Downs Shire Council	19.11.2007	20.11.2007	U	N/A		✓	
Perry Shire Council				Yes			
Pine Rivers Shire Council	31.08.2007	31.08.2007	U	N/A	✓		
Pittsworth Shire Council	22.11.2007	13.12.2007	Q	Yes		✓	
Quilpie Shire Council	11.10.2007	12.10.2007	U	N/A		✓	
Redcliffe City Council	02.11.2007	05.11.2007	U	N/A		✓	
Redland Shire Council	05.11.2007	05.11.2007	U	N/A		✓	
Richmond Shire Council	13.12.2007	13.12.2007		Yes		✓	
Rockhampton City Council	07.09.2007	26.10.2007	U	N/A		✓	
Roma Town Council	01.11.2007	01.11.2007	U	N/A		✓	
Rosalie Shire Council	09.10.2007	28.02.2008	E	Yes			✓
Sarina Shire Council	23.10.2007	19.11.2007	U	N/A		✓	
Stanthorpe Shire Council	30.10.2007	05.11.2007	U	N/A		✓	
Tambo Shire Council	08.11.2007	12.11.2007	U	N/A		✓	
Tara Shire Council	12.09.2007	27.09.2007	U	N/A	✓		
Taroom Shire Council	24.09.2007	01.10.2007	U	N/A		✓	
Thuringowa City Council	21.11.2007	23.11.2007	U	N/A		✓	
Tiaro Shire Council	14.09.2007	13.11.2007	U	N/A		✓	
Toowoomba City Council	31.10.2007	31.10.2007	U	N/A		✓	
Torres Shire Council	10.09.2007	12.11.2007	U	N/A		✓	
Townsville City Council	23.11.2007	23.11.2007	U	Yes		✓	
Waggamba Shire Council	07.08.2007	13.08.2007	U	N/A	✓		
Wambo Shire Council	21.11.2007	22.11.2007	U	N/A		✓	
Warroo Shire Council	12.11.2007	15.11.2007	U	N/A		✓	
Warwick Shire Council	15.09.2007	06.11.2007	U	N/A		✓	
Whitsunday Shire Council	12.12.2007	12.12.2007	U	Yes		✓	
Winton Shire Council	13.12.2007	14.01.2008	U	Yes			✓
Wondai Shire Council	11.09.2007	18.10.2007	U	N/A		✓	
Woocoo Shire Council	13.11.2007	14.11.2007	U	N/A		✓	

Joint local governments	Financial statements				Timeliness of completion		
	Financial statements signed	Auditor's report signed	Auditor's opinion	Extension granted	< 3 months	3 to 6 months	> 6 months
Caloundra-Maroochy Water Supply Board	08.11.2007	12.11.2007	U	N/A		✓	
Dalby-Wambo Aerodrome Board	31.10.2007	31.10.2007	U	N/A		✓	
Dalby-Wambo Library Board	31.10.2007	31.10.2007	U	N/A		✓	
Dalby-Wambo Saleyards Board	21.11.2007	05.12.2007	U	No		✓	

Emerald-Peak Downs Saleyards Board	13.08.2007	15.10.2007	U	N/A	✓
Esk-Gatton-Laidley Water Board	31.08.2007	30.10.2007	U	Yes	✓
Gladstone-Calliope Aerodrome Board	11.02.2008	22.02.2008	Q	Yes	✓
Goondiwindi-Waggamba Aerodrome Board	15.08.2007	28.08.2007	U	N/A	✓
Goondiwindi-Waggamba Community Cultural Centre Board	20.09.2007	28.09.2007	U	Yes	✓
Mission Beach Marine Facilities Joint Board	01.11.2007	17.12.2007	Q	No	✓
Nogoa River Flood Plain Board	18.07.2007	22.08.2007	U	N/A	✓
Rockhampton District Saleyards Board	11.12.2007	12.12.2007	U	N/A	✓
Roma-Bungil Showgrounds and Saleyards Board	31.08.2007	31.08.2007	U	N/A	✓

Controlled entities	Financial statements				Timeliness of completion		
	Financial statements signed	Auditor's report signed	Auditor's opinion	Extension granted	< 3 months	3 to 6 months	> 6 months
Barambah Community Services Limited	10.10.2007	15.10.2007	U	N/A		✓	
Biggenden Medical Centre Pty Ltd	14.01.2008	15.01.2008	U	#			✓
Biggenden Medical Trust	14.01.2008	15.01.2008	U	#			✓
Boonah and District Art Gallery and Library Trust Fund				#			
Boonah and District Performing Arts Centre Trust Fund				#			
Brisbane Arts Trust	28.09.2007	09.10.2007	U	N/A		✓	
Brisbane Bitumen Pty Ltd	Non-reporting (Dormant)						
Brisbane Environment Trust	28.09.2007	09.10.2007	U	N/A		✓	
Brisbane Marketing Pty Ltd	25.09.2007	26.09.2007	U	N/A	✓		
Brisbane Powerhouse Pty Ltd	02.10.2007	12.10.2007	U	N/A		✓	
Brisbane.Com Pty Ltd	Non-reporting (Dormant)						
Bulloo Enterprises Pty Ltd	Non-reporting (Dormant)						
Burdekin Cultural Complex Board Inc <sup>1</sup>	13.06.2007	13.06.2007	U	N/A	✓		
Cairns Regional Gallery Limited	27.09.2007	27.09.2007	U	N/A	✓		
Caloundra City Enterprises Pty Ltd	15.10.2007	18.10.2007	U	N/A		✓	
Castra Retirement Home Limited	10.10.2007	15.10.2007	U	N/A		✓	
Citipac International Pty Ltd	Non-reporting (Dormant)						
City of Brisbane Arts and Environment Ltd	28.09.2007	05.10.2007	U	N/A		✓	
Empire Theatres Foundation	07.08.2007	14.08.2007	U	N/A	✓		
Empire Theatres Pty Ltd	13.08.2007	14.08.2007	U	N/A	✓		
Gold Coast Arts Centre Pty Ltd	06.12.2007	13.12.2007	U	#		✓	
Hervey Bay (Community Fund) Limited	30.11.2007	05.12.2007	U	#		✓	
Hervey Bay (Cultural Fund) Limited	30.11.2007	05.12.2007	U	#		✓	
Ipswich Arts Foundation	14.11.2007	14.11.2007	U	N/A		✓	
Ipswich Arts Foundation Trust	14.11.2007	14.11.2007	U	N/A		✓	

Controlled entities	Financial statements				Timeliness of completion		
	Financial statements signed	Auditor's report signed	Auditor's opinion	Extension granted	< 3 months	3 to 6 months	> 6 months
Ipswich City Enterprises Pty Ltd	Non-reporting (Dormant)						
Kingaroy Private Hospital Limited	10.12.2007	14.12.2007	U	#		✓	
Kronosaurus Korner Board Inc	13.12.2007	13.12.2007	U	#		✓	
Nuffield Pty Ltd	17.09.2007	26.09.2007	U	N/A	✓		
Organics Reclaimed Pty Ltd	10.10.2007	15.10.2007	U	N/A		✓	
OurBrisbane.Com Pty Ltd	Non-reporting (Dormant)						
Outback @ Isa Pty Ltd	13.09.2007	26.09.2007	U	N/A	✓		
Quad Park Corporation Pty Ltd	16.10.2007	18.10.2007	U	N/A		✓	
Redheart Pty Ltd	Non-reporting (Dormant)						
Riverfestival Brisbane Pty Ltd	Non-reporting (Dormant)						
Rockele Pty Ltd	31.10.2007	14.11.2007	U	N/A		✓	
Sunshine Coast Events Centre Pty Ltd	17.10.2007	22.10.2007	U	N/A		✓	
Surfers Paradise Alliance Limited	30.11.2007	30.11.2007	U	N/A		✓	
The Brolga Theatre Board Inc.	05.12.2007	11.12.2007	U	#		✓	
The Bulloo Enterprises Trust	03.10.2007	31.10.2007	U	N/A		✓	
The City of Brisbane Airport Corporation Pty Ltd	19.10.2007	06.11.2007	U	N/A		✓	
TradeCoast Land Pty Ltd	21.11.2007	04.02.2008	U	#			✓
Turany Pty Ltd	19.11.2007	10.11.2007	U	N/A		✓	
Waltzing Matilda Centre Ltd	14.11.2007	14.11.2007	U	N/A		✓	
Warwick Shire Tourism and Events Pty Ltd				#			
WBBROC Project Management Pty Ltd	12.12.2007	19.12.2007	U	#		✓	
Wide Bay Water	21.11.2007	21.11.2007	U	N/A		✓	
Widelinx Pty Ltd	30.11.2007	06.12.2007	U	#		✓	

<sup>1</sup> This entity had a financial year end date of 30 April 2007.

Joint public sector entities	Financial statements				Timeliness of completion		
	Financial statements signed	Auditor's report signed	Auditor's opinion	Extension granted	< 3 months	3 to 6 months	> 6 months
Advance Cairns Limited	18.10.2007	18.10.2007	U	N/A		✓	
Burnett Inland Economic Development Organisation Inc	06.11.2007	29.11.2007	U	N/A		✓	
Central Queensland Local Government Association Inc	30.07.2007	05.10.2007	U	N/A		✓	
Central Western Queensland Remote Area Planning and Development Board	14.09.2007	08.10.2007	U	N/A		✓	
Council of Mayors (South East Queensland)	28.09.2007	05.10.2007	U	N/A		✓	
Darling Downs Regional Organisation of Councils Limited	12.12.2007	18.12.2007	U	No		✓	

Joint public sector entities	Financial statements				Timeliness of completion		
	Financial statements signed	Auditor's report signed	Auditor's opinion	Extension granted	< 3 months	3 to 6 months	> 6 months
Far North Queensland Regional Organisation of Councils	16.11.2007	15.02.2008	U	#			✓
Gulf Savannah Development Inc	18.09.2007	18.09.2007	U	N/A	✓		
Local Buy Pty Ltd <sup>1</sup>	08.08.2007	13.08.2007	U	N/A	✓		
Local Government Association of Queensland Inc. <sup>1</sup>	08.08.2007	13.08.2007	U	N/A	✓		
Maranoa and District Regional Organisation of Councils Inc.	02.11.2007	07.11.2007	U	N/A		✓	
North Queensland Local Government Association <sup>2</sup>				#			
Port Curtis Alliance of Councils	Non-reporting (Dormant)						
Prevwood Pty Ltd <sup>1</sup>	08.08.2007	10.08.2007	U	N/A	✓		
Queensland Local Government Mutual Liability Pool	04.12.2007	05.12.2007	U	#		✓	
Queensland Local Government Workers Compensation Self-Insurance Scheme	04.12.2007	05.12.2007	U	#		✓	
Resolute Information Technology Pty Ltd <sup>1</sup>	08.08.2007	14.08.2007	U	N/A	✓		
South Burnett Local Government Association Inc	08.10.2007	18.10.2007	U	N/A		✓	
South East Queensland Healthy Waterways Partnership	23.10.2007	23.10.2007	U	N/A		✓	
South West Queensland Local Government Association <sup>3</sup>	03.04.2007	11.05.2007	U	N/A	✓		
Southern Regional Organisation of Councils	27.07.2007	30.07.2007	U	N/A	✓		
Townsville & Thuringowa Cemetery Trust <sup>2</sup>							
Townsville Breakwater Entertainment Centre Joint Venture	31.10.2007	31.10.2007	U	N/A		✓	
Townsville-Thuringowa Water Supply Joint Board	23.10.2007	15.10.2007	U	N/A		✓	
Urban Local Government Association of Queensland Inc <sup>4</sup>	08.05.2007	20.06.2007	U	N/A	✓		
Western Downs Regional Organisation of Councils	18.09.2007	19.10.2007	U	N/A		✓	
Western Queensland Local Government Association	20.12.2007	16.01.2008	U	#			✓
Western Sub Regional Organisation of Councils	07.12.2007	07.12.2007	U	#		✓	
Whitsunday Hinterland and Mackay Bowen Regional Organisation of Councils Inc.	22.11.2007	22.11.2007	U	N/A		✓	
Wide Bay Burnett Regional Organisation of Councils Inc.	19.12.2007	19.12.2007	U	#		✓	

1 These entities had a financial year end date of 31 May 2007.

2 These entities had a financial year end date of 31 December 2007.

3 This entity had a financial year end date of 31 March 2007.

4 This entity had a financial year end date of 30 April 2007.



## 5.2 Aboriginal Shire and Torres Strait Island councils

Key: U=Unmodified Q=Qualified E=Emphasis of matter

Extension granted key: Yes=Extension granted by Minister No=No extension granted N/A=No extension required # Not required to comply with this requirement

Aboriginal shire councils	Financial statements				Timeliness of completion		
	Financial statements signed	Auditor's report signed	Auditor's opinion	Extension granted	< 3 months	3 to 6 months	> 6 months
Cherbourg Aboriginal Shire Council	22.10.2007	29.10.2007	U	Yes		✓	
Doomadgee Aboriginal Shire Council							
Hope Vale Aboriginal Shire Council							
Injinoo Aboriginal Shire Council	21.12.2007	08.04.2008	E	No			✓
Kowanyama Aboriginal Shire Council							
Lockhart River Aboriginal Shire Council	10.01.2008	08.02.2008	Q	No			✓
Mapoon Aboriginal Shire Council							
Napranum Aboriginal Shire Council							
New Mapoon Shire Council	30.08.2007	24.01.2008	U	No			✓
Palm Island Aboriginal Shire Council	04.03.2008	08.04.2008	Q	No			✓
Pormpuraaw Aboriginal Shire Council				Yes			
Umagico Aboriginal Council							
Woorabinda Aboriginal Shire Council	17.01.2008	07.02.2008	U	Yes			✓
Wujal Wujal Aboriginal Shire Council	10.12.2007	20.03.2007	Q	No			✓
Yarrabah Aboriginal Shire Council	22.10.2007	12.02.2008	U	No			✓

Torres Strait Island councils	Financial statements				Timeliness of completion		
	Financial statements signed	Auditor's report signed	Auditor's opinion	Extension granted	< 3 months	3 to 6 months	> 6 months
Badu Island Council				#			
Bamaga Island Council				#			
Boigu Island Council	29.11.2007	11.01.2008	U	#			✓
Dauan Island Council				#			
Erub Island Council				#			
Hammond Island Council	22.10.2007	13.02.2008	U	#			✓
Iama Island Council	19.10.2007	12.02.2008	U	#			✓
Kubin Community Council	27.09.2007	20.02.2008	U	#			✓
Mabuiag Island Council				#			
Mer Island Council				#			
Poruma Island Council	19.09.2007	13.02.2008	U	#			✓
Saibai Island Council				#			
Seisia Island Council				#			
St Pauls Island Council	23.10.2007	06.02.2008	U	#			✓
Ugar Island Council				#			
Warraber Island Council	27.09.2007	13.12.2007	U	#		✓	
Yorke Island Council	14.03.2008	02.04.2008	E	#			✓

Controlled entities	Financial statements				Timeliness of completion		
	Financial statements signed	Auditor's report signed	Auditor's opinion	Extension granted	< 3 months	3 to 6 months	> 6 months
Bayan Mayi-Ji Ltd				#			
Edward River Crocodile Farm Pty Ltd				#			
Lockhart River Aerodrome Company Pty Ltd				#			
Poruma Island Pty Ltd	27.09.2007	20.02.2008	E	No			✓
Woorabinda Pastoral Company Pty Ltd	07.12.2007	08.01.2008	U	No			✓



# Section 6

## Appendices

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### 6.1 Achieving successful amalgamations

The New South Wales Audit Office (NSWAO) recently tabled a report titled *Managing departmental amalgamations: Department of Commerce and Department of Primary Industries*. This report was accompanied by a *Better Practice Guide: Implementing Successful Amalgamations*.

The better practice guide outlines four phases of an amalgamation and some key questions. These have been reprinted with the permission of the NSWAO.

#### **Achieving amalgamation – the four phases**

##### ***Taking action early***

- Is the senior executive of the new organisation driving the change and maintaining momentum from the start?
- Have key issues and risks been assessed without delay?
- Is the rationale justifying the amalgamation benefits clear?
- Can messages be communicated quickly outlining clearly the reasons for the amalgamation?
- Are the structures of the merging organisations compatible?
- Is there an accurate estimate of the costs of the amalgamations?

##### ***Developing formal plans***

- Is it clear who has responsibility for developing the overarching amalgamation plan and its sub plans?
- Has a due diligence review, or equivalent, supported amalgamation planning?
- Do plans include what values and cultures are to be reinforced?
- Is funding of the costs of amalgamation agreed? (voluntary redundancies, office and information, communication and technology (ICT) modifications)
- Do plans include both managing amalgamation change issues and business as usual issues?
- Is a communication strategy in place?
- Are project teams and project management in place?

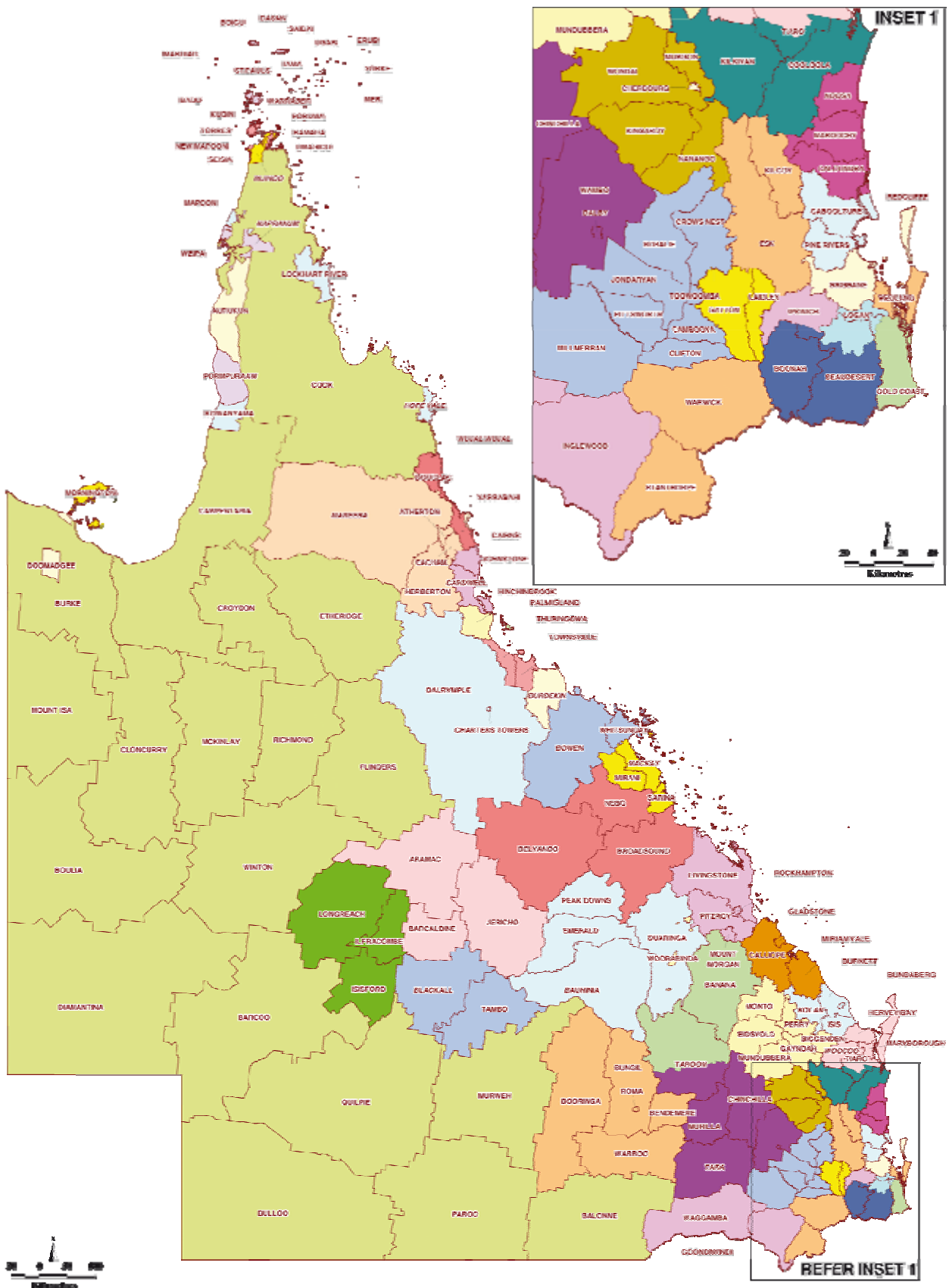
##### ***Implementing the amalgamation***

- Is implementation being pursued with clear purpose and accountability?
- Are procedures in place for dealing with variations to plans?
- Is progress against plans regularly reviewed by the executive?
- Are employees involved in developing solutions?

##### ***Assessing results against objectives and related targets***

- Has implementation produced the desired benefits at the right time?
- Is it possible to provide a comprehensive presentation of the benefits achieved by the amalgamation?

## 6.2 Local government areas prior to amalgamation



Source: Department of Local Government, Sport and Recreation

## 6.3 Key financial information

Key broad financial information for local governments has been reported in Tables 6.1 to 6.3 to reflect the diversity and size of the councils as they existed at 30 June 2007.

Table 6.1 shows the total revenue, expenses, assets and liabilities for local governments over the past four financial years.

**Table 6.1 — Consolidated financial information**

	2006-07 \$m	2005-06 \$m	2004-05 \$m	2003-04 \$m
Total revenues	7,446	6,682	6,107	5,449
Total expenses	5,979	5,644	5,112	4,733
Total assets	62,654	55,441	48,308	41,207
Total liabilities	4,800	3,798	3,559	3,485
<b>Total number of councils</b>	<b>121*</b>	<b>125</b>	<b>125</b>	<b>125</b>

\* Refer to Section 2.5.1 for a list of local governments whose financial statements are still outstanding.

Tables 6.2 and 6.3 provide indicative information about total revenue and total assets within particular bands for these councils for the 2005-06 and 2006-07 financial years.

**Table 6.2 — Total revenue**

Ranges \$	No. of councils 2006-07	Total revenue 2006-07 \$m	No. of councils 2005-06	Total revenue 2005-06 \$m
1m-10m	29	205	34	233
10m-20m	48	726	45	636
20m-50m	20	613	23	645
50m-100m	9	652	8	511
100m-500m	13	2,570	13	2,273
500m-1,000m	1	971	1	775
1,000m+	1	1,709	1	1,609
<b>Total</b>	<b>121*</b>	<b>7,446</b>	<b>125</b>	<b>6,682</b>

\* Refer to Section 2.5.1 for a list of local governments whose financial statements are still outstanding.

**Table 6.3 — Total assets**

Ranges \$	No. of councils 2006-07	Total assets 2006-07 \$m	No. of councils 2005-06	Total assets 2005-06 \$m
10m-100m	49	3,166	56	3,322
100m-500m	53	10,856	51	9,708
500m-1,000m	7	5,300	7	5,042
1,000m-5,000m	10	17,369	9	13,770
5,000m-10,000m	1	8,975	1	8,588
10,000m+	1	16,988	1	15,010
<b>Total</b>	<b>121*</b>	<b>62,654</b>	<b>125</b>	<b>55,441</b>

\* Refer to Section 2.5.1 for a list of local governments whose financial statements are still outstanding.

## 6.4 Managing local government audits

### 6.4.1 Auditor-General's role

Local government entities subject to audit by the Auditor-General in 2006-07 included 125 councils each administering a local government area, 13 joint local governments established to administer specific activities, such as aerodromes, water, libraries and saleyards, 48 controlled entities of those local governments including a local government owned corporation (Wide Bay Water) and 30 joint public sector entities.

Whilst the Brisbane City Council is constituted under the *City of Brisbane Act 1924*, other Queensland local governments are constituted under the *Local Government Act 1993*. Both Acts are administered by the Minister for Main Roads and Local Government. Under the Local Government Act, the Auditor-General is to prepare a report on any audit performed of a local government. Copies of that audit report are to be given to the Mayor who is required to table a copy of the Auditor-General's report at the next ordinary meeting of the local government. The Auditor-General is also required to give copies of this report to the Chief Executive Officer of the relevant local government and the Minister.

Independent auditor's reports on each local government's financial statements are provided by the Auditor-General under the Local Government Act. The audited financial statements, together with the independent auditor's report, are required to be included in the annual report of the local government which is to be presented to that local government for adoption by 30 November.

For the 2006-07 financial year, the Aboriginal Shire council and Torres Strait Island council sector in Queensland consisted of 15 Aboriginal Shire councils and 17 Torres Strait Island councils each administering an equivalent to a local government area, and five controlled entities.

Aboriginal Shire councils are local governments as defined in Queensland by the Local Government Act and are governed by the *Local Government (Community Government Areas) Act 2004*, and the *Local Government (Community Government Areas) Finance Standard 2004*. The provisions of the Local Government Act also apply except where stated in the Local Government (Community Government Areas) Act. Torres Strait Island councils are governed by the *Community Services (Torres Strait) Act 1984* and the *Community Services (Island Council) Accounting Standard 2002*.

The relevant legislation requires the Auditor-General to prepare a report on any audit of an Aboriginal Shire council or Torres Strait Island council. In the case of the Aboriginal Shire councils, copies of that report are required to be given to the Mayor who is in turn required to table a copy of this report at the next ordinary meeting of the Council. For Torres Strait Island councils, a copy of the audit report is provided to the Council Clerk. Copies of the audit reports are also required to be given to the Minister.

### 6.4.2 Managing the audit process

Extensive use is made of contract auditors by the Auditor-General to assist in completing these audits.

**Table 6.4 — Contracted audits during 2006-07**

Number and type of entity	Number of audits	Number of audits undertaken by contractors
Local government councils	125	110
Joint local governments	13	11
Controlled entities of local governments	48	28
Joint public sector entities	30	20
Aboriginal Shire councils	15	12
Torres Strait Island councils	17	15
Controlled entities of Aboriginal Shire and Torres Strait Island councils	5	3
<b>Total</b>	<b>253</b>	<b>199</b>

In all cases, contract auditors are persons with proven experience who are professionally qualified and practising as private sector auditors. To be eligible to be appointed as contract auditors, individuals must be partners of firms which have the capability to conduct financial and compliance audits and have an audit methodology and quality assurance process which fully comply with the Australian Auditing Standards. Each partner must be a member of CPA Australia, the Institute of Chartered Accountants in Australia or the National Institute of Accountants at the Professional National Accountant (PNA) level.

The management of local government audits is subject to ongoing review to ensure high quality audits and best value are achieved for councils and the Auditor-General. Audits are generally performed by QAO on a rotational basis with the objective of QAO covering all councils on a cyclical basis.



## 6.5 Management responses received

The responses have been received in relation to the issues raised in Section 2.4.

**Table 6.5 — Management responses – Local governments**

Entity and issue	Management response
<b>Crows Nest Shire Council (qualified opinion)</b>	<p>On behalf of the Council, the Director Corporate and Financial Services advised:</p> <p><i>"In response to this audit issue your recommendations have been noted. As advised during your onsite audit, Council did not have the resources during the financial year to conduct revaluation works on the abovementioned assets. It should be noted Land assets were revalued during the reporting period, however improvements such as footpaths were not."</i></p>
<b>Johnstone Shire Council (qualified opinion)</b>	<p>The Chief Executive Officer advised:</p> <p><i>"Council will continue to develop and refine the methodology used for determining the value of infrastructure assets. The amalgamation with the Cardwell Shire to form the Cassowary Coast Regional Council will, in any case, require a further assessment of the methodology."</i></p>
<b>Pittsworth Shire Council (qualified opinion)</b>	<p>In relation to the non-current assets, the Chief Executive Officer advised:</p> <p><i>"Following the 2005-06 audit, which highlighted some inconsistencies in the previous valuation protocols, Council was aware that revaluations of roads and other assets were due to be carried out in relation to the 2006-07 financial reports. Just prior to Council tendering for these services, the State Government announced the forced amalgamations of local councils into Regional Authorities effective from 14 March 2008.</i></p> <p><i>Council considered the ramifications of this legislative decision by the State Government in terms of a cost/benefit analysis relating to the valuation of Council's assets in June 2007 when these assets are to be amalgamated with eight other Councils' assets some eight months later.</i></p> <p><i>Council has received advice that each of the eight Councils have asset valuations based on different valuation dates using different methodology as a basis for the valuations. One of the first tasks for the new Council will be a revaluation process of all assets using a consistent methodology.</i></p> <p><i>Based on the foregoing, Council decided to defer the asset revaluation process as the expected cost of the interim revaluations of \$20,000 would have been a gross waster of ratepayers funds."</i></p> <p>In relation to the National Competition Policy disclosures, the Deputy Chief Executive Officer indicated that the Council did not engage their consultant to prepare these figures and they were therefore unexplainable and if needed qualifiable.</p>
<b>Rosalie Shire Council (emphasis of matter)</b>	<p>The Chief Executive Officer advised:</p> <p><i>"If this item is listed in the IAR for EVERY council audited for 2006/2007, then it is fine with me. If not, I believe there is an INCONSISTENCY in the audit process between those councils signed off earlier and ours, and accordingly Note 36 should be sufficient as it stands."</i></p>
<b>Mission Beach Marine Facilities Joint Board (qualified opinion)</b>	<p>The Chief Executive Officer advised:</p> <p><i>"the basis for the qualification is noted and accepted"</i></p>

**Table 6.6 — Management responses – Aboriginal Shire councils**

Entity	Management response
<b>Lockhart River Aboriginal Shire Council (qualified opinion)</b>	<p>The Mayor advised in his letter of 4 March 2008:</p> <p><i>“Thank you for your letter of 8 February 2008 outlining the basis of the Qualified Auditor’s Opinion given. While it is noted that the QAO recognises there have been some improvements in accountability practices in 2006-07, rest assured that Council is striving towards improving those practices to ensure future audit opinions are unqualified.</i></p> <p><i>Council and staff look forward to working with you in the future to improve Council’s accountability and internal controls...”</i></p>

## 6.6 Types of auditor's opinions

As the independent external auditor for Queensland's Parliament, I issue independent auditor's reports on the financial reports of all public sector entities. The independent auditor's report provides the people of Queensland, through the Parliament, with assurance as to the veracity of the financial reporting of public sector entities including compliance with prescribed requirements. One of the following auditor's opinion types may be expressed when issuing independent auditor's reports in respect of the financial report of an entity. The auditor's opinion is issued pursuant to Australian Auditing Standard *ASA 700 The Auditor's Report on a General Purpose Financial Report* and *ASA 701 Modifications to the Auditor's Report*.

### Unmodified auditor's opinion

An unmodified auditor's opinion is an unqualified auditor's opinion that has not been modified by the inclusion of an emphasis of matter paragraph (refer below). An unqualified auditor's opinion is issued on financial reports where:

- all of the information and explanations required have been received
- the financial report gives a true and fair view or is presented fairly in accordance with the requirements of the applicable financial reporting framework
- in the Auditor-General's opinion, the prescribed requirements of applicable legislation have been complied with in all material respects in relation to the establishment and keeping of accounts.

### Modified auditor's opinion

A modified auditor's opinion may be expressed either to highlight a matter affecting the financial report or where the auditor is unable to express an unqualified auditor's opinion on the financial report. A modified auditor's opinion is only issued after an auditor has, in a timely fashion, exhausted all reasonable steps to be able to express an unmodified opinion. There are four types of modified auditor's opinions:

- **Emphasis of matter** is included when the Auditor-General wishes to highlight disclosures made in the notes to the financial statements that more extensively discuss a particular matter impacting on the financial report. An emphasis of matter can accompany either an unqualified opinion, qualified opinion, disclaimer of opinion or adverse opinion. An emphasis of matter paragraph is expressly stated to be made "without qualification" to the auditor's opinion.

The most common example of emphasis of matter paragraphs arise where the Auditor-General identifies the existence of significant uncertainty in relation to either an entity's ability to continue as a going concern or judgements used by management in the calculation of complex accounting estimates (e.g. asset fair values or liabilities provided for). In determining whether an emphasis of matter paragraph will be sufficient without qualification of the auditor's opinion, the Auditor-General takes into account the degree of objective data to support the reasonableness of the accounting estimate and the extent and appropriateness of the disclosures included in the financial report.

- **Qualified opinion** is expressed when the Auditor-General concludes that, except for the effect of a disagreement with those charged with governance, a conflict between applicable financial reporting frameworks or a limitation on scope that is considered material to an element of the financial report, the remainder of the financial report can be relied upon.
- **Adverse opinion** is expressed when the effect of a disagreement with those charged with governance or there is a conflict between applicable financial reporting frameworks so material and pervasive that the Auditor-General concludes that the financial report taken as a whole is misleading or of little use to the addressee of the audit report.
- **Disclaimer of opinion** is expressed when a limitation on the scope of the audit exists that is so material and pervasive that the Auditor-General is unable to express an opinion on the financial report.

# Section 7

## Publications

### 7.1 Publications

Publication	Date released
Annual Report 2007	October 2007
<b>INFORM</b>	
Issue 2 for 2008	April 2008
Issue 1 for 2008	February 2008
<b>Guidelines</b>	
Better Practice Guide — Risk Management	October 2007
Checklist for Organisational Change — Managing MOG Changes	September 2006
Checklist — Preparation of Financial Statements	August 2006
Better Practice Guide — Output Performance Measurement and Reporting	February 2006
Better Practice Guide — Strategies for earlier financial statement preparation	December 2005
<b>Other</b>	
Auditor-General of Queensland Auditing Standards	April 2007
Performance Management Systems Audits — An Overview	January 2006

### 7.2 Auditor-General's Reports to Parliament 2008

Report No.	Subject	Date tabled in the Legislative Assembly
1	Auditor-General's Report No. 1 for 2008 Enhancing Accountability through Annual Reporting A Performance Management Systems Audit	17 April 2008
2	Auditor-General's Report No. 2 for 2008 Results of 2006-07 Audits of Local Governments, including Aboriginal Shire and Torres Strait Island Councils	May 2008

Queensland Audit Office publications are available at [www.qao.qld.gov.au](http://www.qao.qld.gov.au) or by phone on (07) 3405 1100

