Queensland Audit Office

Results of audit: Local government entities 2014–15

Report 17: 2015–16

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QUEENSLAND

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Queensland Audit Office

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Our ref: 11476

May 2016

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

Dear Mr Speaker

Report to Parliament

This report is prepared under Part 3 Division 3 of the *Auditor-General Act 2009*, and is titled Results of audit: Local government entities 2014-15.

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

Yours sincerely

Andrew Greaves
Auditor-General

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Summary

This report summarises the results of our financial audits of the 77 Queensland local governments (councils), and the 78 related entities they control, for the 2014–15 financial year, which ended on 30 June 2015.

Each council produces an annual report that contains their financial statements. They also contain our audit opinion, which provides assurance that these statements are reliable.

Councils vary widely in their size and location and in the broad range of community services they provide. To enable better like for like comparisons, we group them in the same way the Local Government Association of Queensland did in its 2013 report *Factors Impacting Local Government Financial Sustainability: A Council Segment Approach* — namely, Coastal, Indigenous, Resources, Rural/Regional, Rural/Remote and South East Queensland (SEQ).

Audit opinions issued

We issued 150 opinions, including on 73 of the 77 council financial statements. The delay in issuing the remaining five opinions has been caused by the entities.

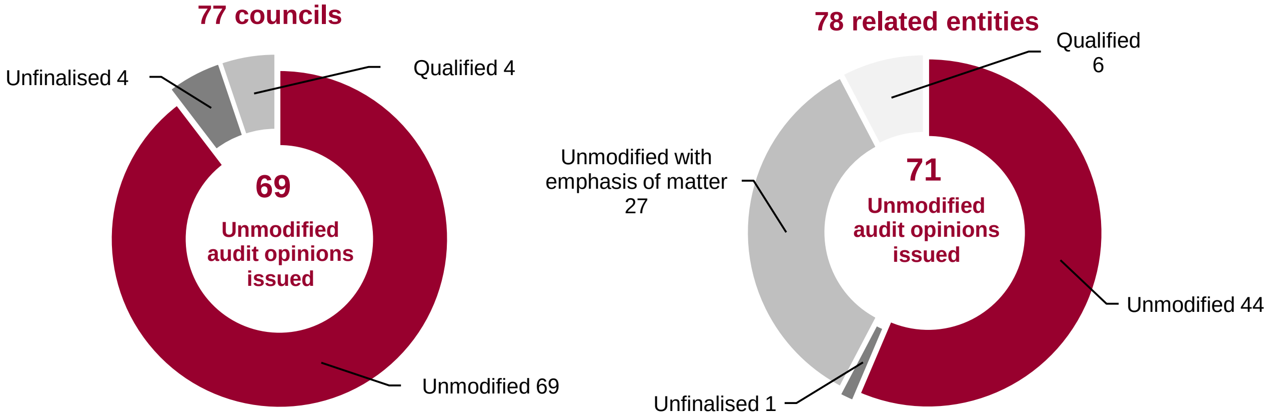
The majority of audit opinions we have issued were unmodified, indicating that the financial statements fairly represented the transactions and balances for the reporting period and complied with relevant legislative requirements and/or Australian accounting standards. We 'qualify' our audit opinion where financial statements do not comply and are not accurate or reliable.

We have issued 10 qualified audit opinions so far, four for councils and six for related entities. All four qualifications for councils were about their asset valuations. In comparison, across the entire sector for the prior financial year, we issued nine qualifications, of which four were to councils.

We also included 'emphases of matter' in 27 of the 77 opinions we issued on council-related entities. Emphases of matter highlight something that will help users better understand the financial report. They do not change the audit opinion.

Most often, we use an emphasis of matter to draw the attention of the reader to the fact that the statements have been prepared for a special purpose, rather than as general purpose financial statements.

Figure A
Audit opinions issued



Note: Audit findings on the four remaining councils and one related entity will be included in our 2016–17 report on local government entities.

Source: Queensland Audit Office

The four councils with unfinished audits are:

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

Torres Shire Council's financial statements were finalised in the week before this report was issued for comment.

Unfinished audits regularly indicate issues that may translate into qualified opinions. Kowanyama Aboriginal Shire Council has received four previous (consecutive) qualifications.

These four councils' plus Torres Shire Council's financial statements and associated public reporting were not available for their communities to use to assess their performance prior to the Queensland local government elections which took place on 19 March. This diminishes their usefulness as an accountability document in that context.

Timeliness of preparation of financial statements

We use 'traffic lights' to depict our assessment of councils' timeliness in reporting. The parameters for assessment are outlined in Appendix H. A green light is awarded where councils had their financial statement audits completed at least three days before the statutory deadline.

Figure B shows that for 2014–15, 68 councils (88 per cent) either achieved the financial reporting deadline of 31 October or met the date of their ministerial extension. This is the best result in the history of local government financial reporting in Queensland.

Figure B
Timeliness based on 2014–15 traffic light criteria

Timeliness milestone	2015	2014
After 31 October ●	9	22
Between 29 and 31 October ● (or meeting Ministerial extension)	17	30
Before 29 October ●	51	25
Total	**77**	**77**

Source: Queensland Audit Office

The significant improvement in timeliness indicates that as a sector, most councils are meeting the standards of accountability their communities expect. Four councils, however, have not met the time frame for four consecutive years. These councils are:

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

The most common reasons given for the delays are problems arising from the annual asset valuation process, system implementation issues and lack of availability of key staff. We have recommended ways to improve, such as using forward planning more effectively, contracting in of expertise and actively involving audit committees and internal audit. These councils have not acted on our advice.

Quality of financial statements submitted for audit

We assess the accuracy of draft financial statements and the quality of the processes used to compile them by measuring the frequency and size of the errors we find. Fifty-seven of the 73 councils who submitted their financial statements to us for auditing subsequently made adjustments.

Figure C
Financial statement adjustments

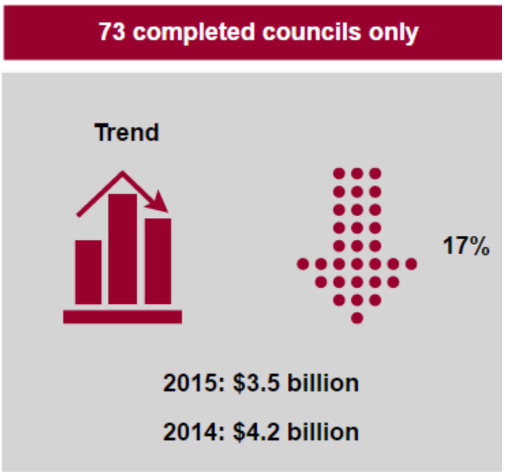
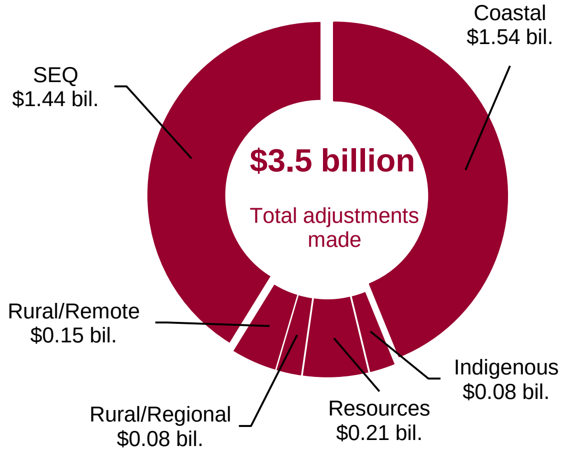


Figure D
Analysis of audit adjustments



Source: Queensland Audit Office

We consider the total adjustment of $3.5 billion for 73 completed councils this year to be a deterioration from prior years. In 2013–14, 77 completed councils made $4.2 billion of adjustments, but this result reflected a large number of adjustments associated with de-amalgamations ($1.5 billion).

The significant adjustments for this year were to asset balances. This was due mainly to the late completion of revaluations after draft statements were provided and, in one council, the initial recognition of an asset component previously not accounted for.

Next year, each council will be required to disclose when its financial results include dealings with 'related' parties (including people or entities). In 2015, the Australian Accounting Standards Board (AASB) issued an amendment to the accounting standards to extend the disclosure requirements for related parties to not-for-profit entities. This will be a step forward in terms of accountability and transparency in financial reporting for this sector.

Presently, there is a real risk that the information needed to make disclosures about related parties may not be readily evident in councils' systems. As a result, some councils will need to develop additional processes to compile this information. While councils have begun assessing the adequacy of their policies, procedures and systems for capturing related party information, they have a lot more to do.

Financial sustainability

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

We analysed three financial sustainability indicators (or ratios) relating to councils' operating surpluses, net financial liabilities, and asset sustainability. The criteria for our analysis are explained in Figures G2 and G3 of Appendix G.

Figure E outlines the sector-wide average sustainability ratios. As two of the ratios are calculated on a multi-year basis, de-amalgamated councils have been excluded as they have only been operating for eighteen months.

For the asset sustainability ratio, comparative information is only available from 2012–13 (two years of data), as that was the first year councils' renewals expenditure was audited.

Figure E
Sector sustainability ratios

Sustainability ratios (excluding de-amalgamated councils)	2015	2014	Trend
Five year average sector operating surplus ratio	-1.96%	-3.93%	↑
Annual average sector net financial liabilities ratio	-30.88%	-27.05%	↑
Three year average sector asset sustainability ratio	147.31%	152.21%	↓

Source: Queensland Audit Office

On average, over the past five years, the local government sector as a whole spent more than it earned. If they are to become and remain sustainable, councils should be planning to at least break even over the longer term, so they generate enough funds to maintain existing service levels and their current asset base. Operating surpluses will allow them to invest in further infrastructure or expand into new services.

Two newly de-amalgamated councils — Noosa and Mareeba shire councils — achieved operating surpluses. The other two — Douglas and Livingstone shire councils — had operating deficits. Douglas Shire Council forecasts operating deficits until 30 June 2019. Because of this, this council continues to have a higher risk that its revenue and expenditure policies are financially unsustainable.

All councils can presently service their financial liabilities. The fact that many are growing their net financial assets (that is, they have a negative net financial liabilities ratio) indicates that a number of councils are accumulating cash and investment reserves in preference to debt, to use to replace or expand their assets.

While sector results for asset sustainability as a whole are positive, there are 19 councils with three-year average asset sustainability ratios below the 90 per cent target set by the Department of Infrastructure, Local Government and Planning. Seven of these are Indigenous councils, six from SEQ, four from coastal and two from resource councils. For these councils, a lower ratio could indicate they are not replacing their assets as they are consumed, creating a future sustainability risk. Alternatively in some cases, it may reflect newer asset bases as a result of responding to natural disasters, and therefore less need to renew assets early in their life cycle.

Asset management planning

Asset management planning, a key to ensuring long-term financial sustainability, has worsened this year. Only 37 per cent of councils' asset management plans are current. This is a significant decline from last year, when 60 per cent of councils' management plans were up to date at 30 June 2014.

In addition, many asset plans lack evidence of community engagement, and long-term cash flow forecasts and linkages to long-term financial plans are missing.

Council business activities

Council operations are expanding, providing a wide and varied range of services. A number of councils have plans to increase these activities further during 2015–16. These business activities are of significant interest to their communities.

Our analysis of their business activities identified that councils are providing services through vehicles such as internal business units or are using separate entities that they control.

Controlled entities do not have to comply with the local government legislative framework. For example, controlled entities do not have to comply with the contracting or code of competitive conduct provisions of local government legislation. The code of competitive conduct has specific requirements for council businesses competing with the private sector. Controlled entities are also generally tax-exempt: of these only local government corporatised entities pay a notional tax-equivalent to their parent council.

As a result, councils who control the operating policies of these entities have more operational freedom than they would have if they delivered the service through an internal business unit of the council.

The legislated disclosure requirements in relation to business activities are generally not well understood by councils. We identified deficiencies in annual report disclosures in relation to listing of business activities. If a council's external reporting is deficient, then the communities they service cannot assess their performance in running these activities. It also makes it more difficult to understand the financial sustainability of non-essential community services being delivered by controlled entities.

Internal control frameworks

Most councils can improve their internal controls over the accuracy and reliability of financial reporting. We identified significant control weaknesses in 60 councils. We also consistently identify the same types of issues across the sector, with approximately 31 per cent of issues raised in 2014–15 remaining unresolved from 2013–14.

An effective internal control framework needs competent oversight. An effective audit committee provides a council with added confidence in its organisation's financial reporting, internal controls, risk management, legislative compliance and audit functions.

Due to a change in categorisation of councils by the Remuneration and Discipline Tribunal (the tribunal), all councils were required to have an audit committee from 1 July 2014. This is because the requirement to have an audit committee under local government legislation is linked to the categorisation of councils by the tribunal.

Of the 38 councils impacted, only two had not established a functioning audit committee by 31 March 2016. While several committees are still maturing, this has been a positive step towards improved corporate governance, and councils are commended for their actions to date.

We note that the tribunal has once again changed its categorisation of councils, effective 1 July 2016. This could impact on established audit committees, as the requirement to have an audit committee will again become optional for some councils.

Well-functioning audit committees demonstrably enhance performance. We observe a direct positive correlation between the effectiveness of audit committees and lack of, or reduction in, the control and financial reporting issues we identify.

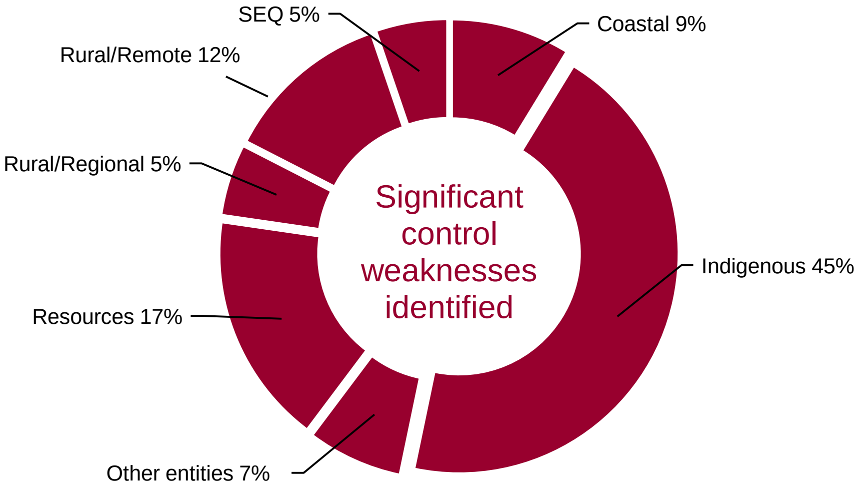
We also see a direct link between the prevalence of audit issues and the stability of senior management. Seventy-one chief executive officer (CEO) positions have changed across 56 councils since the 2012 local government elections (not including around 30 acting appointments of two months or more), and this has impacted on reporting and controls.

This is a turnover rate of 1.3 for those councils over the last term. Twelve councils had, on average, 4.6 CEOs (including acting CEOs) over this period. Senior management's commitment to the control environment is crucial in establishing appropriate internal control frameworks and timely and quality financial reporting.

Figure F shows that more than half of the significant issues we reported to councils in the current year were from Indigenous and resource councils, which have, on average, the highest turnover of CEOs. The councils in these segments also missed their financial reporting deadline by between 19 to 50 days over a four year period. In addition, 17 councils from these segments have the least mature audit committees.

These councils, more than any others, would benefit from having an effective audit committee and continuity in executive leadership to provide the necessary oversight and additional expertise.

Figure F
Percentage of significant control weaknesses by segment



Source: Queensland Audit Office

Recommendations

It is recommended that:

1. councils give greater prioritisation to the preparation and update of long-term asset management plans that link to their long-term financial forecasts
2. councils make publicly available, through tabling in council, the financial statements of their controlled entities
3. councils act now to ensure they have the necessary information to support their 2016–17 financial statement related party disclosures by:
   - developing formal policies and procedures to ensure that related party information is gathered for financial reporting purposes
   - updating related party information on at least a six monthly basis, with the last update at 30 June
   - consolidating the information for disclosure purposes and for consideration of materiality
4. the Department of Infrastructure, Local Government and Planning mandates audit committees for all councils.

Reference to comments

In accordance with s.64 of the *Auditor-General Act 2009*, a copy of this report was provided to the Director-General, Department of Infrastructure, Local Government and Planning and all councils. All parties had an opportunity to comment on the proposed report.

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

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

1. Context

Local government responsibilities

Local government reporting entities

The local government sector comprises 188 entities: 77 councils and 111 entities that they control, either individually or jointly with other councils. As 33 of the controlled entities are classified as non-reporting under the accounting standards, only 155 entities prepare financial statements.

Figure 1A summarises the reporting entities, categorised by local government segment. These match the categories used by the Local Government Association of Queensland (LGAQ) in their 2013 report *Factors Impacting Local Government Financial Sustainability: A Council Segment Approach.*

Figure 1A
Local government reporting entities

Category	Type of entities	2015	2014
Coastal	Councils	15	15
	Entities they control	8	7
Indigenous	Councils	17	17
	Entities they control	2	3
Resources	Councils	15	15
	Entities they control	8	7
Rural/Regional	Councils	9	9
	Entities they control	2	3
Rural/Remote	Councils	13	13
	Entities they control	2	2
South East Queensland	Councils	8	8
	Entities they control	25	26
Other	Jointly-controlled entities	27	25
	Joint local government	1	1
	Audited by arrangement	3	3
Total		**155**	**154**

Note: Local government areas within each category are shown in Appendix I

Source: Queensland Audit Office

Audit responsibilities

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

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

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

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

The Act requires that, after the audit opinion has been issued, a copy of the certified statements and the audit opinion must be provided to the chief executive officer (CEO) as well as to the mayor and the minister.

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

Significant issues identified during the audit and recommendations for improvement are reported to the mayor and CEO at the conclusion of the audit.

The Act also requires that the auditor-general reports to parliament on each financial audit conducted. The report must state whether the audit has been completed and the financial statements audited. It must also include details of significant deficiencies where financial management functions were not performed properly, along with any actions taken to improve deficiencies listed in previous reports.

This report satisfies these requirements.

Section 212 of the Local Government Regulation 2012 and s.202 of the City of Brisbane Regulation 2012 impose an additional audit requirement on councils. All councils are required to prepare a current year financial sustainability statement which is to be audited by the auditor-general. The statement includes the following three measures of financial sustainability:

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

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

Financial reporting time frames

The *Local Government Act 2009* and Local Government Regulation 2012 require councils to provide their financial statements and their current year financial sustainability statement to us by a date agreed between each council's chief executive officer and the auditor-general. This date must allow for our audit to be completed by 31 October.

To assist the financial reporting process to stay on track and achieve legislative time frames, we formally agree on a timetable for key stages of the audit process.

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

Brisbane City Council has the *City of Brisbane Act 2010* and City of Brisbane Regulation 2012. The regulation imposes the same financial reporting time frames and financial reporting requirements on Brisbane City Council as for other councils.

Local government entities exempted from audit

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

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

Exempted entities must appoint an appropriately qualified person to undertake the audit. Seven local government entities were exempted from audit by the auditor-general on this basis for 2014–15.

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

One local government entity, Gold Coast City Council Insurance Company Limited, was exempted from audit by the auditor-general on this basis for 2014–15.

Appendix D provides details on the status of these audits.

Report structure and cost

The remainder of this report is structured as follows:

Chapter	Description
Chapter 2	presents the results of the audits of local government entities for the 2014–15 financial year.
Chapter 3	contains the major financial reporting issues across the sector during 2014–15.
Chapter 4	discusses the timeliness and quality of financial statements for the local government sector in 2014–15.
Chapter 5	summarises the results of our internal control evaluations of councils and other local government entities for which the 2014–15 audits were finalised at the time of this report.
Chapter 6	discusses the financial sustainability of the local government sector.
Appendix A	contains responses received from the Department of Infrastructure, Local Government and Planning as well as particular councils.
Appendix B	contains the status of the 2014–15 financial statements of councils and other local government entities.
Appendix C	contains the status of the 2014–15 current year financial sustainability statements of councils.
Appendix D	contains the status of the 2014–15 financial statements of exempt entities.
Appendix E	contains a listing of local government entities for which audit opinions will not be issued in 2014–15.
Appendix F	contains the status of 2013–14 financial statements not previously finalised.
Appendix G	shows the financial sustainability measures of councils those councils whose financial statements were finalised at the time of this report.
Appendix H	shows our overall assessment of councils' financial governance.
Appendix I	shows a map of Queensland locating each local government area by category.
Appendix J	contains a better practice guide to assist audit committees establish a 12 month work plan.

The cost of this report was $228 000.

2. Results of financial audits

In brief

Background

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

Conclusions

- One hundred and forty unmodified audit opinions were issued across the sector, confirming the accuracy and reliability and fair presentation of the responsible entities' financial statements.
- Councils with qualifications and unfinalised financial statements have not demonstrated a focus on resolving their significant financial reporting issues.
- Communities were unable to assess the financial performance of councils with unfinalised statements prior to the March 2016 elections due to a lack of up-to-date information.

Key findings

- Ten qualified audit opinions (four councils and six related entities) were issued, which is consistent with the prior year.
- Four councils and one related entity have not yet finalised their 30 June 2015 financial statements.
- Of the eight councils whose 2013–14 financial statements were unfinished at this time last year, three received qualified opinions.
- Four consecutive qualifications have been issued for Kowanyama Aboriginal Shire Council since 2010–11. Their 2014–15 financial statements are unfinalised.

Background

The local government sector consists of:

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

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

Conclusions

One hundred and forty unmodified audit opinions were issued across the sector confirming the accuracy, reliability and fair presentation of the responsible councils' and entities' financial statements.

Four councils and six local government entities received qualified audit opinions for their 2014–15 financial statements. This is one more qualified opinion than was issued at the same time in the prior year. While three of the qualified opinions for councils were due to the qualification on prior year figures, there are still four audits to be completed.

Historically, unfinalised audits have significant audit issues that often translate into qualified opinions. Of the eight councils we reported as unfinalised in the prior year, three received qualified opinions.

Financial audit opinions

Overall result

Audit opinions have been issued for 150 (97 per cent) of the 155 local government entities required to prepare financial statements this year. This is a slight improvement than the same time last year, when opinions were issued for 146 of 154 entities (95 per cent).

Figure 2A shows the entities by type and the overall status of their financial statements.

Figure 2A
Status of the financial statements

Entity type	Total	Unfinished audits	Unmodified opinions issued	Qualified opinions issued	Unmodified but with an emphasis of matter
Councils	77	4	69	4^	0
Controlled entities	47	1	30	4*	12
Joint local governments	1	0	0	0	1
Jointly-controlled entities	27	2	14	1	12
Audited by arrangement	3	0	0	1^	2
Total	**155**	**5**	**113**	**10**	**27**

^ Includes one entity that also received an emphasis of matter
* All four controlled entities with qualified opinions also received an emphasis of matter

Source: Queensland Audit Office

Unfinished audits

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

Figure 2B
Unfinished audits

Council	Reason	Ministerial extension
Kowanyama Aboriginal Shire Council	Turnover of key staff Delays in finalising 2013–14 financial statements*	28.02.2016
Mornington Shire Council	Resolving financial reporting issues	14.12.2015
Northern Peninsula Area Regional Council	Late completion of 2013–14 financial statements^ Turnover of key staff Resolving financial reporting issues	31.03.2016
Wujal Wujal Aboriginal Shire Council	Delays in finalising asset valuations Turnover of key staff Resolving financial reporting issues	31.03.2016

* Kowanyama Aboriginal Shire Council's 2013–14 audit was finalised in November 2015 with a qualified opinion
^ Northern Peninsula Area Regional Council's 2013–14 audit was finalised in June 2015 with a qualified opinion

Source: Queensland Audit Office

Unmodified opinions

For completed financial statements, we have issued 140 (93 per cent) unmodified opinions, confirming that these financial statements were prepared in accordance with legislation and relevant accounting standards. This result is a slightly worse than that of the previous financial year, when 140 (96 per cent) unmodified opinions were issued. This indicates the sector has continued to remain current with its understanding of Australian accounting standards.

Qualified opinions

We have issued ten qualified opinions (7 per cent) so far this year, which is a slight increase from last year, when nine qualified opinions (6 per cent) were issued. Importantly, nine of these entities still managed to have their opinions issued within their legislative deadline for financial reporting.

Of the ten opinions qualified, four were issued only because of material errors in the 2013–14 comparative balances reported. These errors did not impact on the reported 2014–15 figures. (Errors are material if information is misstated or not disclosed, and that information has the potential to affect the economic decisions of users of the financial report.)

Figure 2C details the four qualified opinions issued for councils, and their underlying causes.

Figure 2C
Council qualified audit opinions

Entity	Reason	Previously qualified?
	Councils	
Boulia Shire Council	We identified material errors in the council's road asset register when undertaking the audit of the revaluation of road infrastructure assets in 2014–15.While the council addressed these errors during the 2014–15 year, they did not make corrections to the recorded comparative balances. As the council did not retrospectively restate comparative balances as required by the Australian accounting standards, we were unable to express an opinion in relation to the related comparative balances.	No
Mount Isa City Council	We identified material errors in the council's road asset register when undertaking the audit of the revaluation of road infrastructure assets in 2014–15. While the council addressed these errors during the 2014–15 year, they did not make corrections to the recorded comparative balances. As the council did not retrospectively restate comparative balances as required by the Australian accounting standards, we were unable to express an opinion in relation to the related comparative balances.	No
Paroo Shire Council	The council was unable to support adjustments made to its opening 2012–13 road asset balance. As a consequence, the council was unable to demonstrate that its road asset values were in accordance with Australian accounting standards until a revaluation of those assets was undertaken as at 30 June 2015. Further, the associated depreciation expense for 2014–15 and the asset revaluation surplus balance for 2014–15 and those used for comparative purposes in the 2013–14 financial statements could not be relied upon. As depreciation expense is used in the calculation of the operating surplus ratio and the asset sustainability ratio, we could not confirm the accuracy of these ratios reported in the 2014–15 financial sustainability statement.	2013–14
South Burnett Regional Council	In 2013–14, the council was unable to provide sufficient evidence to support the unit rates used in the valuation of its road, drainage and bridge network as at 30 June 2013. While the council resolved the issue from 30 June 2014 by performing a revaluation, in 2014–15, we were still unable to express an opinion on these comparative balances.	2013–14

Source: Queensland Audit Office

For the other local government entities, we issued four qualified opinions on the basis that the entities could not demonstrate they had identified and recorded all donation revenue. This qualification is common amongst entities who undertake cash fundraising activities that are a significant source of revenue. In these entities, the costs of implementing effective internal controls often exceeds the benefits obtained from the activity. The management of the following entities has determined that establishment of controls is impractical:

- Museum of Brisbane Trust (previously qualified 2013–14)
- The Rockhampton Art Gallery Trust (previously qualified 2007–08 to 2013–14)
- Cairns Regional Gallery Arts Trust (previously qualified 2013–14).

Ipswich Mayor's Community Fund Inc. received a qualification on prior year comparative figures only (previously qualified 2012–13 to 2013–14) and has implemented new processes in the current year to ensure that donation revenue is appropriately controlled.

Figure 2D details the remaining two qualified opinions issued for other local government entities and their underlying causes.

Figure 2D
Other local government entities' qualified audit opinions

Entity	Reason	Previously qualified
	Controlled entities	
Woorabinda Pastoral Company Pty Ltd	The company did not undertake a full stocktake of all biological assets, and did not have sufficient evidence to support the existence of all of the total reported number of cattle, or their market value.	2010–11 to 2013–14
	Jointly-controlled entities	
Local Buy Trading Trust	The trust could not demonstrate it had identified and recorded all revenue owing from tender arrangements. This qualification arose from inherent limitations in the trust's system of internal controls over tender revenue that relies on the completeness and accuracy of statistical returns provided by suppliers.	2008–09 to 2013–14

Source: Queensland Audit Office

Emphases of matter

We include an emphasis of matter with audit opinions to highlight issues of which users of the financial statements need to be aware. Including an emphasis of matter does not modify our audit opinion. In 2014–15, we included emphases of matter in 27 of 140 unmodified audit opinions or 19.3 per cent (26 of 119 or 22 per cent in 2013–14).

Of the 27 issued emphases of matter, 22 drew attention to the basis of accounting used in the statements, as required by Australian auditing standards for special purpose financial reports. All entities that received emphases of matter are detailed in Appendix B.

Emphases of matter were also issued for the following entities, highlighting decisions to transfer the operations of these entities within their respective council group:

- Wide Bay Water Corporation
- Outback @ Isa Pty. Ltd.

A further two entities — Burdekin Cultural Complex Board Inc. and Nogoa River Flood Plain Board — also each received an emphasis of matter to highlight that the entities ceased trading and disbursed their remaining assets and liabilities. Burdekin Cultural Complex Board transferred its remaining assets and liabilities to the Burdekin Shire Council. Nogoa River Flood Plain Board's remaining assets were distributed to its member councils — Central Highlands and Isaac regional councils. Nogoa River Flood Plain Board also received an emphasis of matter to draw attention to the basis of accounting used in its special purpose financial report.

South Burnett Community Hospital Foundation Limited received an emphasis of matter to highlight uncertainty about the company's ability to continue as a going concern due to the withdrawal of the operator of the Kingaroy Private Hospital.

Status of outstanding prior year opinions

Nine local government entities had not received audit opinions on their 2013–14 financial statements when *Results of audit: Local government entities 2013–14* (Report 16:2014–15) was tabled in May 2015. Audit opinions have now been issued for all of these entities and details of these opinions are included in Appendix F.

Three qualified opinions were issued on the general purpose financial statements, with these three councils also receiving qualified opinions on their current year financial sustainability statements. These are summarised in Figure 2E.

Figure 2E
Qualified audit opinions 2013–14

Entity	Reason	Previously qualified
	Councils	
Kowanyama Aboriginal Shire Council	In 2012–13 and 2013–14, the council failed to maintain effective internal controls over inventory management. Consequently, the reported 30 June 2014 inventory balances and the reported comparative 30 June 2013 balances could not be relied upon. Also, the council had not established adequate internal controls over the recognition of certain revenue streams. As it was not possible for audit procedures to extend beyond the amounts recorded by the council, no opinion was expressed on the completeness or accuracy of revenue from those sources in 2013–14. As the revenue impacts on the calculation of both the operating surplus ratio and net financial liabilities ratio, we could not confirm the accuracy of these ratios reported in the 2013–14 financial sustainability statement.	2010–11 2011–12 2012–13
Northern Peninsula Area Regional Council	The council was unable to demonstrate that the written-down value of its community housing assets at 30 June 2014 and 30 June 2013 equated to fair value. Consequently, we gave no opinion on the: ▪ valuation of these assets ▪ associated depreciation expense ▪ loss on transfer of housing assets via finance lease ▪ reported community housing asset revaluation balance. As depreciation expense is used in the calculation of the operating surplus ratio and the asset sustainability ratio, we could not confirm the accuracy of these ratios reported in the 2013–14 financial sustainability statement.	No
South Burnett Regional Council	A large increase in the gross value of the road, drainage and bridge network was recognised at 30 June 2014 due to changes in unit rates. The council was unable to prove that the unit rates for the comparative period did not differ materially from their current value. Consequently, we gave no opinion on the: ▪ comparative carrying value of the road, drainage and bridge network ▪ change in the asset revaluation surplus ▪ depreciation expense for this asset class for the years ending 30 June 2013 and 30 June 2014. As depreciation expense is used in the calculation of the operating surplus ratio and the asset sustainability ratio, we could not confirm the accuracy of these ratios reported in the 2013–14 financial sustainability statement. An emphasis of matter was also issued as the council had an unreconciled difference between the general ledger, its cash at bank and trust funds. We did not qualify the statements on this matter.	No

Source: Queensland Audit Office

Financial sustainability statements

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

Audit opinions have been issued for 73 (95 per cent) of the 77 councils required to prepare current year financial sustainability statements. The audit did not extend to forming an opinion on the appropriateness or relevance of the reported ratios, nor on councils' future sustainability.

The four councils yet to finalise these statements are:

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

These councils also have unfinished financial statements for 2014–15. As identified in Figure 2E, Kowanyama Aboriginal Shire Council's and Northern Peninsula Area Regional Council's previous financial sustainability statements received modified opinions.

Seventy-two councils that completed current year financial sustainability statements received unmodified opinions, confirming that the statements had been accurately calculated in accordance with the requirements of the regulation. As identified in Figure 2C, Paroo Shire Council received a modified opinion.

As these statements are special purpose financial statements, all 73 (100 per cent) opinions issued were accompanied by an emphasis of matter paragraph drawing attention to this fact, as required by Australian auditing standards. These results are further detailed in Appendix C.

3. Significant financial reporting issues

In brief

Background

Local governments (councils) vary in size and provide different types of community services. However, they all operate autonomously and are directly responsible to their communities. Similar, significant financial reporting risks and issues arise across the sector.

Conclusions

- The disclosure requirements in relation to business activities are complex and are not well understood by many councils. Without appropriate disclosures in councils' annual reports, communities cannot assess councils' performance in running these activities. Nor can they engage in discussions about the provision of non-essential community services in the context of financial sustainability.
- Asset management plans are not being used effectively, with negative implications for councils' long-term financial sustainability.
- There are many issues for councils to consider in implementing and gathering data for related party disclosures ahead of the new accounting standard's implementation date of 1 July 2016. Councils have started their assessments of whether policies, procedures and systems are adequate for capturing related party information; however, there is still a lot of work to do.

Key findings

- Queensland councils manage infrastructure assets worth $77.6 billion. At 30 June 2015, only 37 per cent of councils had up-to-date asset management plans.
- In 2015 the Australian Accounting Standards Board (AASB) issued clarification that the re-use of in-situ materials did not meet the broad definition of asset residual value. Councils removed non-compliant residual values and appropriately re-assessed the useful lives of affected asset components, resulting in minimal change in depreciation expense.
- Forty-seven local governments did not include in their annual report a list of all the business activities they conduct.
- Controlled entities running airports and providing property, housing and other services have incurred deficits of $9.2 million.

Recommendations

It is recommended that:

1. councils give greater prioritisation to the preparation and update of long-term asset management plans that link to their long-term financial forecasts
2. councils make publicly available, through tabling in council, the financial statements of their controlled entities
3. councils act now to ensure they have the necessary information to support their 2016–17 financial statement related party disclosures by:
   - developing formal policies and procedures to ensure that related party information is gathered for financial reporting purposes
   - updating related party information on at least a six monthly basis, with the last update at 30 June
   - consolidating the information for disclosure purposes and for consideration of materiality.

Background

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

This year, we highlight issues relating to asset management planning, and weaknesses in disclosure of council business activities and related parties.

Conclusions

The disclosure requirements in relation to business activities are complex and do not appear to be well understood by local governments. The lack of community disclosure may be symptomatic of councils' lack of visibility over their various business activities, which is manifested in poor internal management reports.

We continue to find deficiencies in asset management planning by councils. These long-term plans are essential for the ongoing financial sustainability of councils and their ability to provide services to their communities to the expected levels. Councils need to prioritise asset management planning.

There are many issues for councils to consider in implementing and gathering data for related party disclosures ahead of the 1 July 2016 implementation date of Australian Accounting Standard (AASB) 124 *Related Party Disclosures.*

Some key related party transactions and commitments may not be readily recorded in councils' systems and may need to be manually collated. This will include those transactions which are provided to key management personnel and other related parties at terms that are generally not available to the public.

Asset management

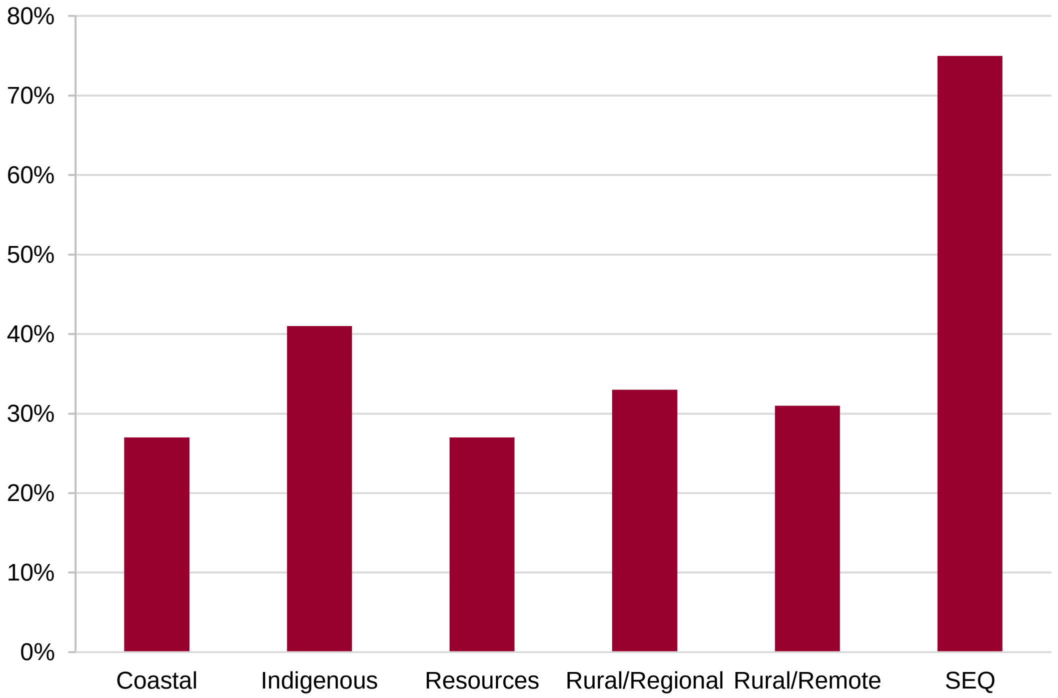
The Local Government Regulation 2012 (the regulation) requires councils to prepare and adopt long-term asset management plans. The regulation requires that long-term asset management plans must:

- provide for strategies to ensure the sustainable management of council assets
- state the estimated capital expenditure for renewing, upgrading and extending the assets
- be part of and be consistent with the long-term financial forecast.

Effective asset management is a core responsibility of each council due to the significant value of their assets, the importance of the services provided through these assets and the ramifications for each council's long-term financial sustainability.

We continue to find widespread deficiencies in long-term asset management planning by councils. Although councils are the custodians of infrastructure assets worth more than $77.6 billion, only 37 per cent of councils were considered to have up-to-date asset management plans in place. This is significantly less than the 60 per cent of councils that had up-to-date asset management plans as at 30 June 2014.

Figure 3A
Up-to-date asset management plans in place



Source: Queensland Audit Office

We identified incomplete and out-of-date plans as common deficiencies. The following are examples relating to specific councils:

- The asset management plan (AMP) provided by one council was dated November 2012, was still in draft format and had not been adopted by council.
- One council-adopted AMP was prepared in 2010, and adopted in 2011. Since adoption, there is little evidence to suggest that the council has actively adopted or implemented the AMP or integrated it into financial or operational processes.
- Although an AMP has been formally adopted by a council, areas of the document are still incomplete.
- In another case, an AMP was from 2011 and the council has identified that it is not sufficient to meet the requirements of the regulation, or to enable appropriate management of the council's assets.
- Another AMP is currently being revised, as Natural Disaster Relief and Recovery Activation events threw the management plans out. AMPs are not currently tied in with the long-term financial plans. The council plans to finalise these within the next 12 months.

Non-current (or long-term) assets are the most significant element of council financial statements. As at 30 June 2015, councils reported total non-current assets of $102 billion, including $77.6 billion in infrastructure assets. During 2014–15, the sector reported $3.35 billion on payments for property, plant and equipment.

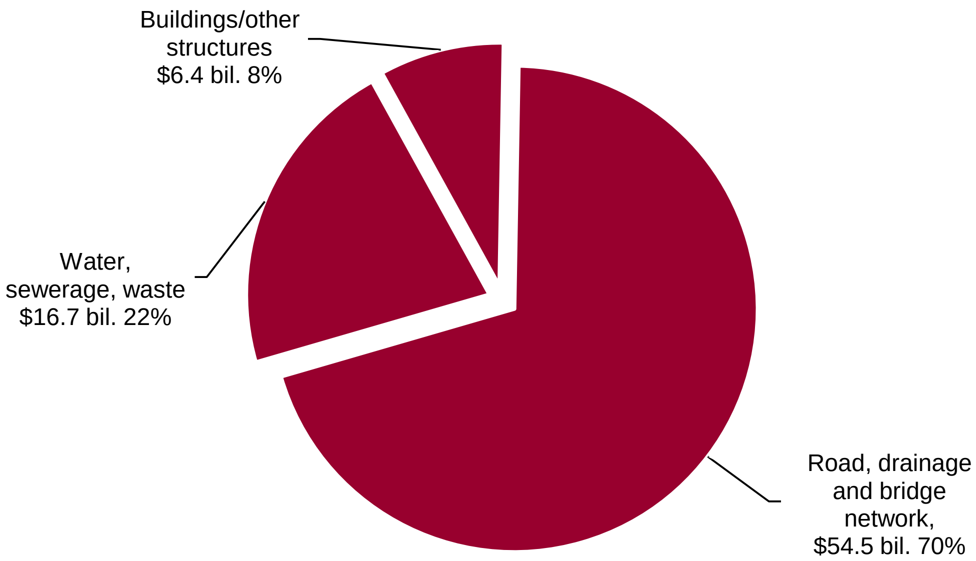
Non-current assets impact on council financial sustainability through:

- depreciation expense
- expenditure on repairs and maintenance
- new asset construction costs
- borrowings for capital purposes
- fair value adjustments
- gains and losses on disposal.

The quality of each council's non-current assets also impacts on the revenues that councils receive in rates, fees and charges, rental income and in some cases, the level of capital grant funding they can attract. The standard of council infrastructure can also influence the level of private sector property development attracted to the council area.

Figure 3B breaks down the sector's 30 June 2015 infrastructure balance by its major components.

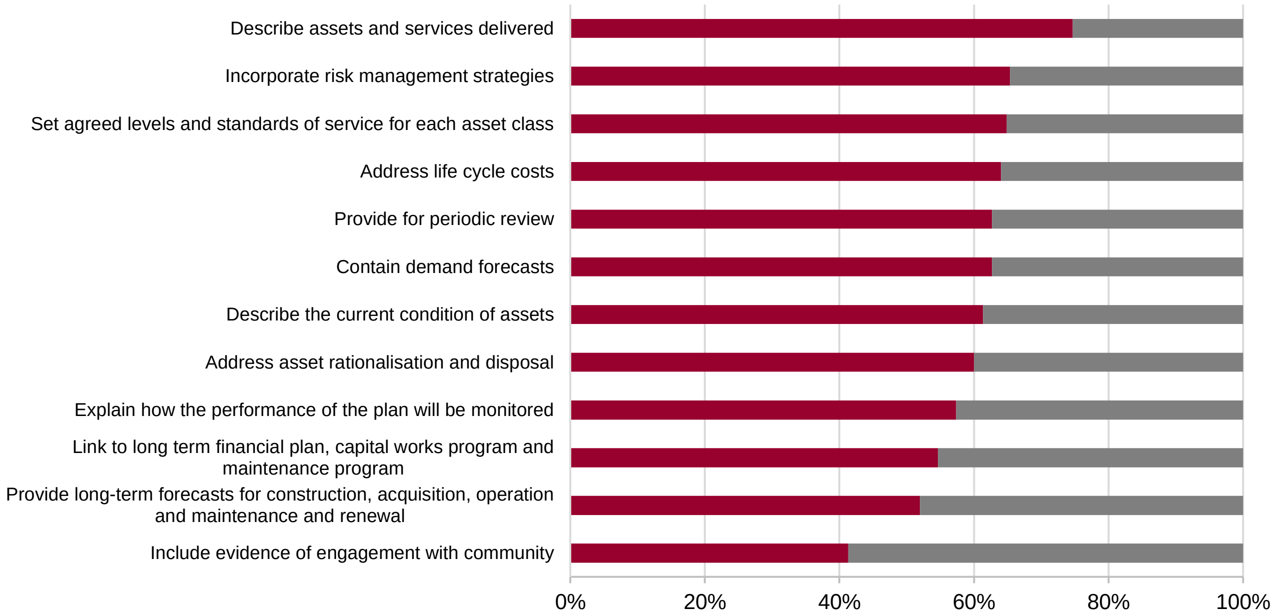
Figure 3B
Breakdown of written-down value of major infrastructure



Source: Queensland Audit Office

Our *Results of audit: Local Government Entities 2013–14* (Report 16: 2014–15), included a better practice framework for asset management plans. This year, we assessed council's asset management plans to identify better practice elements. The results are shown in Figure 3C.

Figure 3C
Percentage of asset management plans containing better practice elements



Source: Queensland Audit Office

The results in Figure 3C show the rate of inclusion of better practice elements in complete and draft asset management plans. The low rate is consistent with our finding that many asset management plans were not up to date.

Asset residual values and depreciation expense

In February 2015, the AASB issued a tentative decision that the re-use of in-situ materials did not meet the definition of residual value contained in AASB 116 *Property, Plant and Equipment*. This tentative decision was confirmed by the AASB in May 2015.

In simple terms, AASB 116 defines the residual value of an asset as the amount expected to be received when an asset is disposed of at the end of its useful life.

In previous years, a number of councils adopted the practice of accounting for components of infrastructure, such as gravel that will be re-used when carrying out capital maintenance or road widening, as a residual value. Some councils also assigned a residual value of 100 per cent to road earthworks on the basis that no depreciation expense should be applied where the asset has the same unlimited life characteristics as land.

The AASB decision highlighted that components that are re-used in the construction of new assets have not met the end of their useful life. The AASB decision did not represent a new requirement but rather the clarification of an existing requirement, meaning those councils with non-compliant residual values had to reassess them immediately. This had the potential to impact on depreciation expense calculations.

If the asset residual values were to be removed in isolation, then depreciation expense would increase. This, however, has not been the general experience at councils, as in removing residual values, councils have also appropriately reassessed their asset components and useful lives.

The actions taken by councils were consistent with AASB advice. We established that for most councils there was sufficient evidence to support that depreciation expense was fairly stated and that the revised asset lives for infrastructure asset components were appropriate.

Business activities of local governments

Disclosure of business activities

In addition to their traditional roles, many councils are also involved in a wide range of business activities, that is 'trading in goods and services' as defined by the *Local Government Act 2009*. Examples range from providing agency banking services, operating cafés and delivering key community services such as water and sewerage operations; to providing recreation services for the community, for example, theatres, golf parks and museums.

Figure 3D
Business activities of councils

Source: Queensland Audit Office

Councils either carry out these activities directly, or they create separate entities to perform them. In some instances, they trade in direct competition with the private sector.

Where separate entities are used, they are generally tax-exempt and also do not have to comply with local government legislation or other requirements, such as contract procurement rules and disclosures of plans, fees and budgets. The financial statements do not have to be made publicly available, unlike those of some other Queensland government-controlled entities.

The legislation in regard to business activities contained in Division 2 of the *Local Government Act 2009* is complex and does not appear well understood or consistently applied by many councils.

Councils must list all their business activities in their annual report. They must also identify and disclose significant business activities. A business activity becomes significant when it is conducted in competition with the private sector, and meets the expenditure threshold outlined in the Local Government Regulation 2012 (the regulation). For the 2014–15 year, the threshold was $13 300 000 for water and sewerage combined activities and $8 900 000 for any other business activity.

From our review of the 63 local government annual reports available at 31 January 2016, we determined that 47 local governments (75 per cent) did not provide a clear list of all the business activities they conduct. We also identified that some councils stated in their annual report that they had conducted no business activities yet reported fees from business activities in their financial statements.

Councils must also state in their annual reports whether they have applied the competitive neutrality principle to their significant business activities. The competitive neutrality principle essentially means that a council should not enjoy a net advantage over the private sector by conducting a business activity. The advantages can be financial, procedural or regulatory.

The competitive neutrality principle also applies where the council has applied the code of competitive conduct. The code of competitive conduct applies the neutrality principles plus additional pricing and reporting obligations. This code must be applied to roads and business certifying activities, but can also be applied electively to any prescribed business activity. (A business activity meets the definition of ‘prescribed’ where the amount of expenditure for the business activity for the previous financial year is $325 000 or more.)

A council must decide each financial year, by resolution, whether or not to apply the code of competitive conduct to a business activity prescribed under the regulation.

Thirty-two councils have disclosed in their financial statements that they have applied the competitive neutrality principle. The main activities these have been applied to are:

- road contracting services,
- sewerage, waste and water services
- building certifying activities
- airports and other transport services
- quarries, saleyards and plant operations
- golf courses, caravan parks, aquatic centres, cemeteries and entertainment centres.

Sustainability of business activities of local governments

Along with being non-compliant with local government legislation, the non-reporting of business activities by local governments inhibits their effective oversight — by the council and by the wider community.

With long-term financial sustainability being one of the biggest issues affecting the local government sector, monitoring how these business activities are operating and performing should be a high priority — from the council's perspective in terms of sustainability, and from the local community's perspective in terms of value for their rates paid.

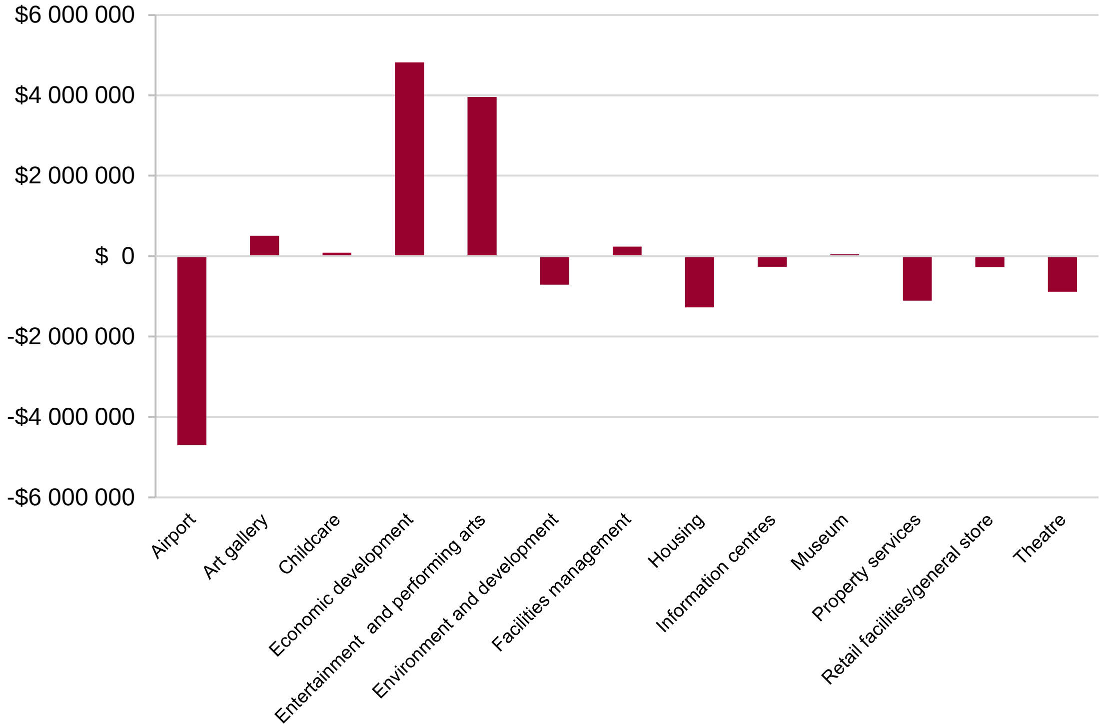
Our analysis shows the following activities often run at a loss:

- sports and aquatic centres
- road contracting services
- waste and recycling
- housing services
- building certifying activities
- museums
- airports
- gymnasiums.

We examined the audited financial reports of controlled entities and identified that a number of these entities incurred losses in 2014–15, while others generated profits. Entity types making losses included airports, and housing and property services entities — with losses totalling $9.2 million. The most profitable were investment, economic development and entertainment centre entities. Investment entities made a combined profit of $28.8 million for their councils. The remainder made combined profits of $9.6 million.

The net profits/losses of different types of entities, excluding investment entities, are shown in Figure 3E.

Figure 3E
2014–15 combined net surplus/loss of controlled entities by type



Source: Queensland Audit Office

Related party disclosures

In 2015, the AASB extended the scope of AASB 124 *Related Party Disclosures* (AASB 124) to include not-for-profit public sector entities from 1 July 2016. Disclosing information on the existence and nature of related party transactions promotes accountability and transparency across the public sector.

Related party transactions occur between parties with interlinking relationships, and the relationships create the potential for the private interests of key management personnel (KMP) in councils to come into conflict with their duty to act in the public interest.

Councils are required to ensure that the approval of such transactions is based on sound economic decisions that are in the best interest of their entity. The disclosure of these transactions in the councils' financial statements is an important step forward in making these decisions clearly visible.

From next year, financial statement disclosures must include all material transactions and outstanding balances between a council and its related parties. Separate disclosures on the nature of the related party relationship as well as information about the terms and conditions of those transactions and balances is required to enable users to understand the potential effect of the relationship on the financial statements. The total remuneration paid to KMP must also be disclosed.

What councils need to do

Councils will apply AASB 124 for the first time from 1 July 2016 and their 2016–17 financial statements will be the first to disclose related party transactions. Councils need to act now to ensure they have the necessary information to support their 2016–17 financial statement disclosures.

To be prepared for AASB 124, councils need to:

- identify related parties and related party transactions
- identify the KMP — the people in charge of council — usually the councillors and senior executives
- develop a system to capture related party relationships and any transactions with these related parties
- understand the terms and conditions for any related party transactions — to determine if they differ from those offered to the general public.

How councils are currently positioned

Most councils are still in the process of assessing whether their current policies, processes and accounting systems are adequate for capturing related party information. Many are indicating from their preliminary assessment that policies and processes will need to be enhanced*;* some are waiting for additional guidance from the Department of Infrastructure, Local Government and Planning (DILGP).

A number of councils have indicated that their general ledger, accounts payable and payroll systems have adequate information to extract reports for individual related party transactions. Others have indicated that business intelligence tools or modifications to their systems may be required to extract the information effectively.

The Local Government Regulation 2012 requires registers of interests to be kept for councillors, chief executive officers (CEOs), senior executive employees and their relatives. These forms are used to gather a wide range of financial and non-financial interests; however, only councillor interests are required to be available to the public.

The legislation also requires all council officers to keep their information up to date and make changes to their notifications within 30 days of a change being required.

While noting the legislative requirements, councils have established widely varying processes to gather this information and ensure that it is kept up to date. For example:

- Register of interest forms are updated by officers on a variety of bases — annual, bi-annual, quarterly, monthly and ad hoc. An annual update is the most popular method (24 councils). Three councils only request updates after each election or every two years.
- Only 47 councils consolidate their register of interest forms.
- Twenty-seven per cent of councils do not have formal policies or processes established, relying instead on general reminders, officers understanding their requirements to update their register information, or informal processes and other policies (for example, conflicts of interests).

Updating the registers of interests is only a starting point in gathering information for related party disclosure. Given the above, it is clearly not enough in some cases. Register of interest policies and processes alone will be insufficient in gathering the types of information required for consideration and disclosure under the standard.

Councils' related parties may be different to the people for whom these registers are kept. A senior executive may be considered to meet the definition of KMP when a council’s structure and the officer's responsibilities are considered. However, that officer may not meet the definition of a senior executive employee under the *Local Government Act 2009*.

With the implementation date of the standard now only months away, councils need to take immediate action. Relying on the information solely supplied by KMP will be insufficient.

Challenges for councils

Figure 3F outlines some of the challenges and some proposed actions for councils to consider implementing. We understand that DILGP has prepared related party guidance for councils, which will be of assistance. Nevertheless, councils have some work to do on this and they need to start now.

Figure 3F
Challenges for councils

Challenges	Actions
Related party relationships ▪ identifying related parties — related parties can commence and cease during the reported period. Related parties do not have to be in existence at 30 June to be reported ▪ defining control — the definition of control under the accounting standards (AASB 10) is crucial to understanding and defining related parties ▪ defining KMP and their close family members ▪ designing formal, documented policies and procedures.	▪ Gain a good understanding of AASB 124 and AASB 10. ▪ Design and document controls/policies and procedures to identify related parties (entities and persons) and capture associated transactions. ▪ Determine which senior executives are KMP — consider legislation, organisational charts, position descriptions, contracts and executive management teams. ▪ Review registers, minutes of key committees and lists of customers/suppliers for identification of related party relationships. ▪ Provide training and guidance material to finance staff and KMPs on related parties. ▪ Prepare a consolidated list of related parties. This will be a live document that will be updated on a regular basis during the financial year, ideally at least six monthly. ▪ Obtain formal sign-off from the mayor, CEO, councillors and senior executives at 30 June that their related party information is up to date for financial reporting purposes and is compliant with AASB 124.
Related party transactions ▪ defining what is quantitatively/qualitatively material — i.e. what information will influence the decisions of users? ▪ developing systems to capture these transactions — not all related party transactions will be recorded in the council's accounting systems. (e.g. transactions provided at no cost) ▪ gathering supporting evidence — they need to substantiate statements about transactions being on 'normal' terms and conditions.	▪ Discuss with KMPs and key committees. ▪ Review minutes of key committees, contracts, loan and service level agreements with related party entities or persons to identify guarantees given or received, transactions occurring but not given accounting recognition, and transactions that may not be on 'normal' terms and conditions. ▪ Prepare lists of services or goods provided to or by the council at no cost or on non-market terms. ▪ Collate information from accounting systems — transactions, balances, provisions for doubtful debts and bad debt expense, commitments and KMP compensation by category. ▪ Document terms and conditions and the location of supporting evidence. ▪ Consider materiality in discussion with external auditor and audit committee. ▪ Identify individually or collectively significant transactions — transactions at no cost or on non-market terms may be qualitatively material. ▪ Make sure there is a documented audit trail.

Challenges	Actions
Disclosures ▪ transparency — understanding that elected officials and senior executives may be unfamiliar with related party disclosures and may find the disclosures confronting ▪ accountability — ensuring that relationships and the nature of the relationship are disclosed, irrespective of whether there have been transactions. Terms and conditions of transactions are important to understanding the effect on the financial statements ▪ review — recognising that councils have a responsibility to ensure disclosures are accurate and complete.	▪ Prepare a disclosure checklist. ▪ Consider disclosures prepared in other jurisdictions. ▪ Prepare template disclosures to include them in pro forma financial statements based on at least six months data and present them to the audit committee and senior executives for review. ▪ Complete disclosures at 30 June and provide them to elected officers and senior executives and audit committee for review. ▪ Check that all quantitatively and qualitatively material transactions are disclosed.

Source: Queensland Audit Office

Recommendations

It is recommended that:

1. councils give greater prioritisation to the preparation and update of long-term asset management plans that link to their long-term financial forecasts
2. councils make publicly available, through tabling in council, the financial statements of their controlled entities
3. councils act now to ensure they have the necessary information to support their 2016–17 financial statement related party disclosures by:
   - developing formal policies and procedures to ensure that related party information is gathered for financial reporting purposes
   - updating related party information on at least a six monthly basis, with the last update at 30 June
   - consolidating the information for disclosure purposes and for consideration of materiality.

4. Timeliness and quality of financial statements

In brief

Background

The usefulness of local government (council) financial statements depends on their quality and on the time taken to produce them. Timely and accurate financial reporting is essential for effectiveness in decision-making, management of public funds and the delivery of public accountability.

Financial reporting is a key aspect of sound financial management.

Conclusions

- Timelier reporting was achieved through the earlier preparation of shell accounts and councils' commitment, facilitated by their audit committees, to meeting legislative time frames.
- The frequency and size of adjustments to financial statements are direct measures of the quality of the financial reports submitted to audit. In councils with significant adjustments, management needs to improve the quality reviews they perform.
- The performance by the four councils that continually do not meet legislative financial reporting deadlines is not acceptable. These councils need to embed a culture that gives priority to accountability and transparency through timely financial reporting.

Key findings

- Eighty-six per cent of councils met the 31 October financial reporting deadline. This is the best result in the history of local government financial reporting in Queensland.
- Four councils have failed to meet the legislative reporting deadline for the past four years and each were granted an extension.
- Forty councils prepared shell accounts compared to 22 councils in 2013–14.
- The number of adjustments to financial statements decreased from $4.2 billion to $3.5 billion in 2014–15. South East Queensland and coastal councils accounted for 87 per cent of the adjustments.

Background

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

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

To show accountability in the use of public monies, entities should prepare and publish their financial information as soon as possible after the end of the financial year. The later entities publish financial reports after their balance date, the less relevant and useful financial reporting is to stakeholders.

Conclusions

In 2014–15, timelier reporting was achieved through the earlier preparation of shell accounts. It was also improved by the commitment made by management, councils and their audit committees to ensure financial statements and associated financial reporting issues were completed, resolved and reviewed to meet legislative time frames.

The frequency and size of adjustments to financial statements are direct measures of the quality and timeliness of the financial reports submitted to audit. A small number of councils continually provide draft financial statements to audit before finalising and resolving their asset valuation and associated issues.

Timeliness of financial statements

Timely reporting is an indicator of the robustness of each individual entity's governance and financial management processes. A measure of this aspect is meeting the legislative time frame for financial reporting. The legislative time frame for councils to finalise their 2014–15 audited financial statements was 31 October, four months after the balance date of 30 June. The time frame for other local government entities varies depending on their entity type, but is usually also 31 October.

Councils

In 2014–15, more councils were able to capitalise on advancements made in the prior year in meeting their financial reporting deadline. An additional 14 councils (18 per cent) achieved the legislated deadline this year. This is a significant improvement across the sector.

Figure 4A shows 66 of the 77 councils' financial statements (86 per cent) were certified by management and audit within the legislated time frame. It also compares this figure to that of prior years.

Figure 4A
Audit opinions issued by the legislated deadline

Element	2014–15	2013–14	2012–13
Deadline	31 October	31 October	31 October
Number finalised	66	52	43
Per cent	86	68	59

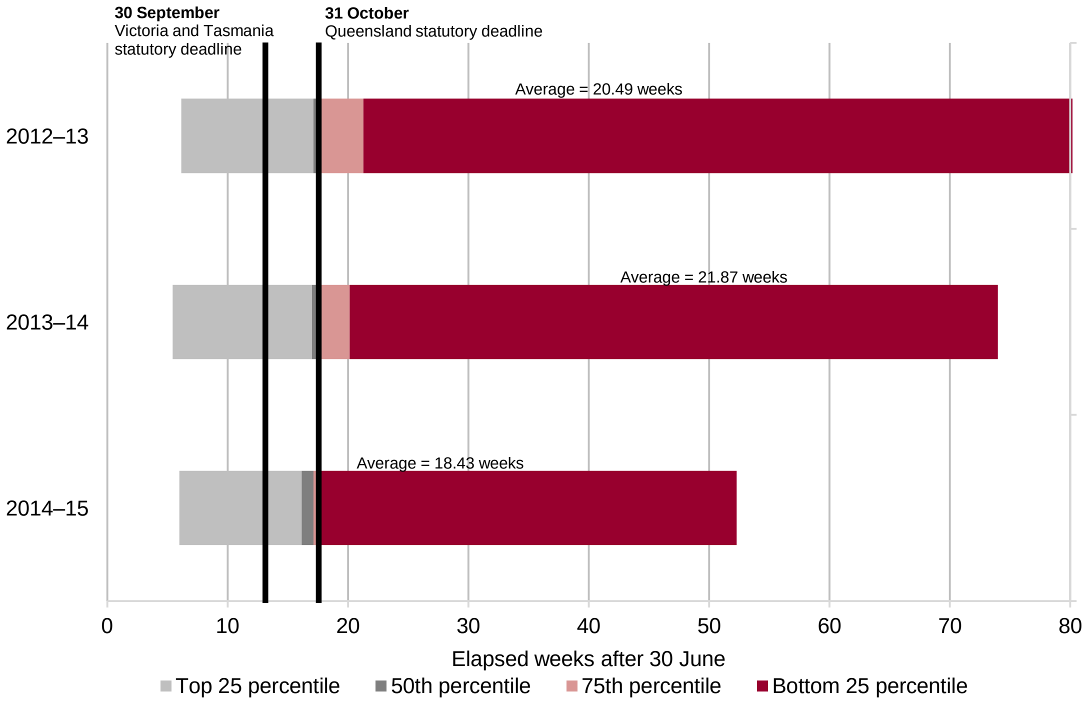
Source: Queensland Audit Office

One of the drivers for this improvement was the introduction of our traffic light reporting in 2013–14. This provided a snapshot of councils' performance and clearly highlighted those missing the deadline as red (see Appendix H for 2014–15 assessment).

Another contributor to timelier reporting was the fact that 40 councils prepared shell statements prior to 30 June in 2014–15 compared to 22 councils in 2013–14.

Figure 4B shows the average time to finalise council financial statements over the past three years compared to other council jurisdictions audited by auditors-general. This year, the average time has decreased by 3.5 weeks from just under 21.9 weeks in 2013–14 to just over 18.4 weeks.

Figure 4B
Average time to finalise council financial reports



Note: For unfinalised 2014–15 audits, the estimated audit opinion date was based on the ministerial extension date and QAO expectation.

Source: Queensland Audit Office

Although 66 councils met the deadline in 2014–15, 15 of these councils (23 per cent) met it by less than three days. This shows that several councils continue to take as much time as legislatively allowed for financial statement preparation.

This also indicates councils do not appear well placed to accommodate any future reductions in financial and annual reporting timetables, should Queensland ever come into line with other states audited by auditors-general.

Once the deadline has passed, unfinished councils show little urgency in completing their financial statements, with six councils' statements still outstanding more than 60 days after the deadline. Four of these six statements remain outstanding as at the time of publishing this report.

Common reasons for missing the legislative deadline are asset valuation issues, unavailability of critical staff, and deficiencies in newly implemented financial accounting systems.

The following five councils did not meet the legislative time frame for the third consecutive year:

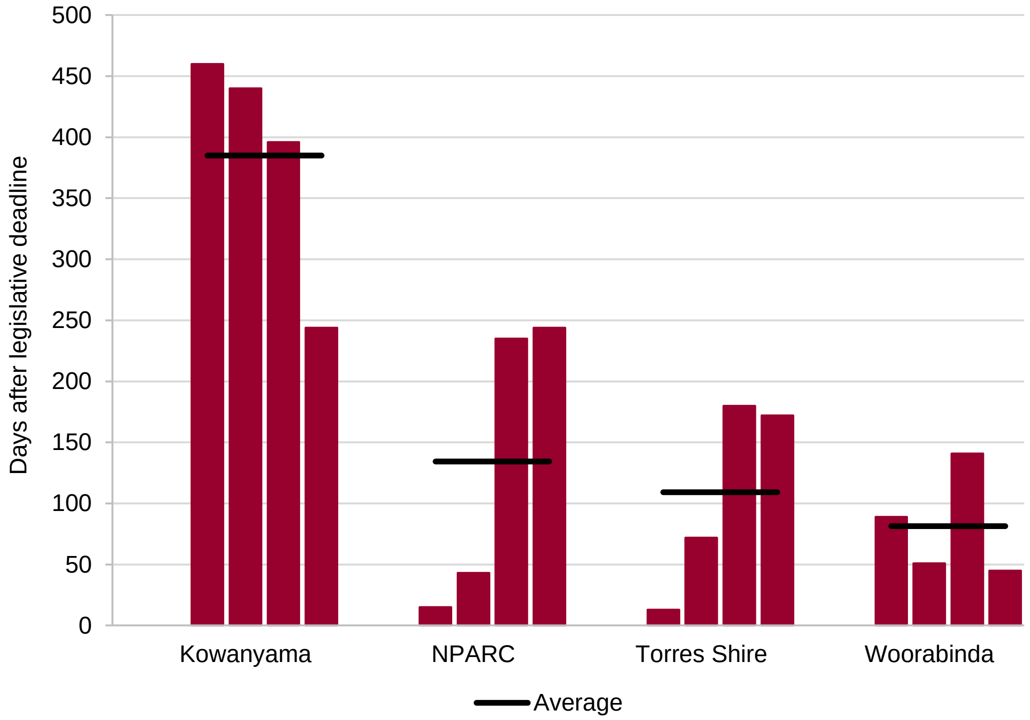
- Kowanyama Aboriginal Shire Council
- Mornington Shire Council
- Northern Peninsula Area Regional Council (NPARC)
- Torres Shire Council
- Woorabinda Aboriginal Shire Council.

Of these councils, four did not meet the legislative time frame for the fourth consecutive year. This indicates there are systemic issues preventing these councils from delivering timely financial reports, including continual turnover of management, system changes and delays in finalising asset valuations. The performance by these councils is not acceptable.

These councils need to embed a culture that gives priority to accountability and transparency through timely financial reporting. If these councils need assistance, they need to seek it early.

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

Figure 4C
Excessive time to finalise council financial reports from 2011–12 to 2014–15



Note: For unfinalised 2014–2015 audits, the estimated audit opinion date was based on the ministerial extension date and QAO expectation.

Source: Queensland Audit Office

Other local government entities

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

Figure 4D shows the timeliness of the 2014–15 audited financial statements of other local government entities, compared to the last two years. The timeliness of financial reporting has improved. This was mainly attributable to Ipswich City Council establishing earlier time frames for completion of their controlled entities' financial statements.

Figure 4D
Financial statement timeliness of other local government entities

Time to finalise audited statements after year end	2014–15	2013–14	2012–13
Less than 3 months	26 (33%)	29 (38%)	12 (16%)
3 to 4 months	29 (37%)	17 (22%)	26 (35%)
More than 4 months	23 (29%)	31 (40%)	37 (49%)
Total	**78 (100%)**	**77 (100%)**	**75 (100%)**

Source: Queensland Audit Office

The quality and timeliness of controlled entities' financial statements is the responsibility of their respective governing bodies. Councils, as the ultimate controlling bodies, have adopted various practices to manage their relationships with their controlled entities with a view to monitoring their effectiveness. However, not all controlled entity financial statements are being tabled at council meetings or made publicly available.

Quality of draft financial statements

We measure the accuracy of draft financial statements and the quality of the processes used to compile them by the frequency and size of the errors we find. We raise errors identified with each council. Where errors are material, we request adjustments. Councils must correct any material errors before we can issue an unmodified audit opinion.

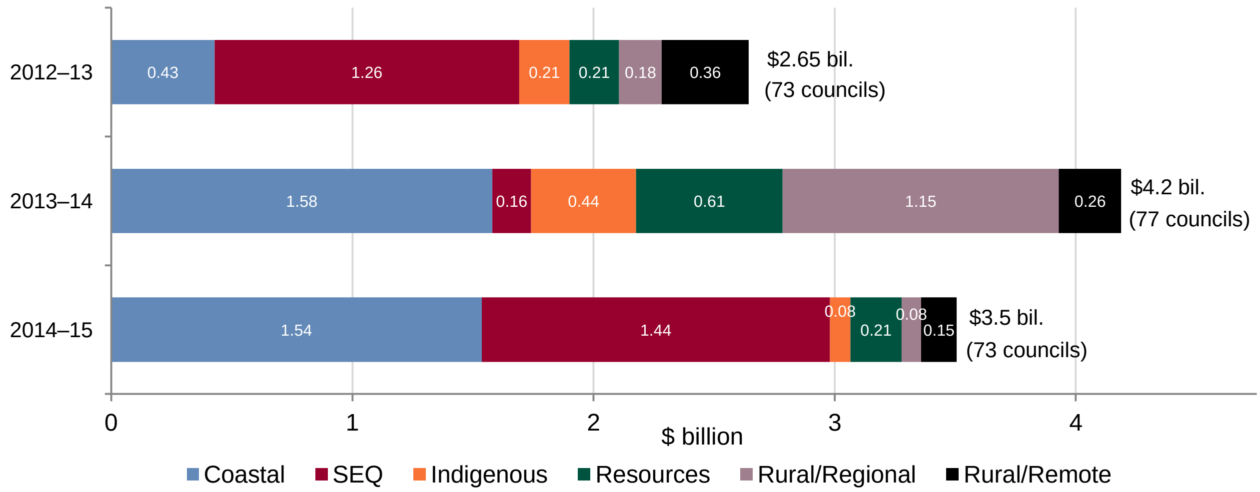
Before audit review, the council should check that draft financial statements are materially correct, correlate with management's understanding of the council's operations for the year, comply with accounting requirements and are ready for audit.

Ideally, each council prepares and provides one set of financial statements for audit and these should not require amendment. This ideal was not achieved for the 2014–15 financial statements of 57 of the 73 councils audited to date — compared with 59 of 77 councils in 2013–14. Fifteen of the 16 councils with no adjustments met the financial reporting deadline.

Figure 4E shows that the financial statement adjustments initiated by management or arising from audit examination totalled $3.5 billion in 2014–15 (73 councils audited to date), compared to $4.2 billion in 2013–14 (77 councils).

We consider the total adjustment of $3.5 billion to be a deterioration from prior years, because the prior year adjustments of $4.2 billion included significant one-off adjustments associated with de-amalgamations ($1.5 billion).

Figure 4E
Financial statement adjustments by segment



Source: Queensland Audit Office

For 2014–15, coastal councils accounted for 44 per cent (38 per cent in 2013–14) and South East Queensland councils accounted for 41 per cent (4 per cent in 2013–14) of the significant adjustments.

The majority of adjustments for South East Queensland councils resulted from initial recognition of earthworks previously not accounted for in one council. Adjustments within this segment are expected to reduce significantly going forward. Coastal council adjustments were primarily due to valuation issues in two councils.

5. Internal control frameworks

In brief

Background

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

Conclusions

- Audit committees are recognised internationally as a key element of good governance. The requirement to have an audit committee should not be based on the categorisation of councils for remuneration purposes used by the Remuneration and Discipline Tribunal.
- Where there is stability in senior management and an effective audit committee, significant control deficiencies and untimely and poor quality financial statements are less likely.
- Inductions for senior officers are vital in enabling knowledge transfer and in fast tracking effectiveness. Where inductions are inadequate or ad hoc, new officers may not understand their responsibilities or the key issues facing their entities. This is especially important in election years (when there may be new mayors or councillors) and in entities where turnover of chief executive officers (CEOs) is high.

Key findings

- The nature of audit issues we reported indicates we are identifying the same issues and weakness in controls each year. Information security weaknesses and reporting on non-current assets continue to be the most common sector issues.
- Thirty-one per cent of issues raised in 2014–15 were issues unresolved from 2013–14.
- Seventy-one CEO positions have changed since the 2012 election. The average turnover rate for CEOs was highest in Indigenous and resource councils. These councils also had the highest percentage of significant control deficiencies identified.
- Induction processes for CEOs in a significant number of councils were administrative only and did not include outlining the councils' strategic objectives, key performance indicators and financial position.
- Thirty-six out of the 38 councils that were required to have an audit committee for the first time in 2014–15 have established functioning audit committees. These councils have embraced the process and, while they are still maturing, they are starting to see the benefits of enhanced governance.

Recommendations

The control matters have been reported separately to each council as required by the auditing standards. We expect that councils will take remedial action to address weaknesses and areas for improvements on a timely basis.

It is recommended that:

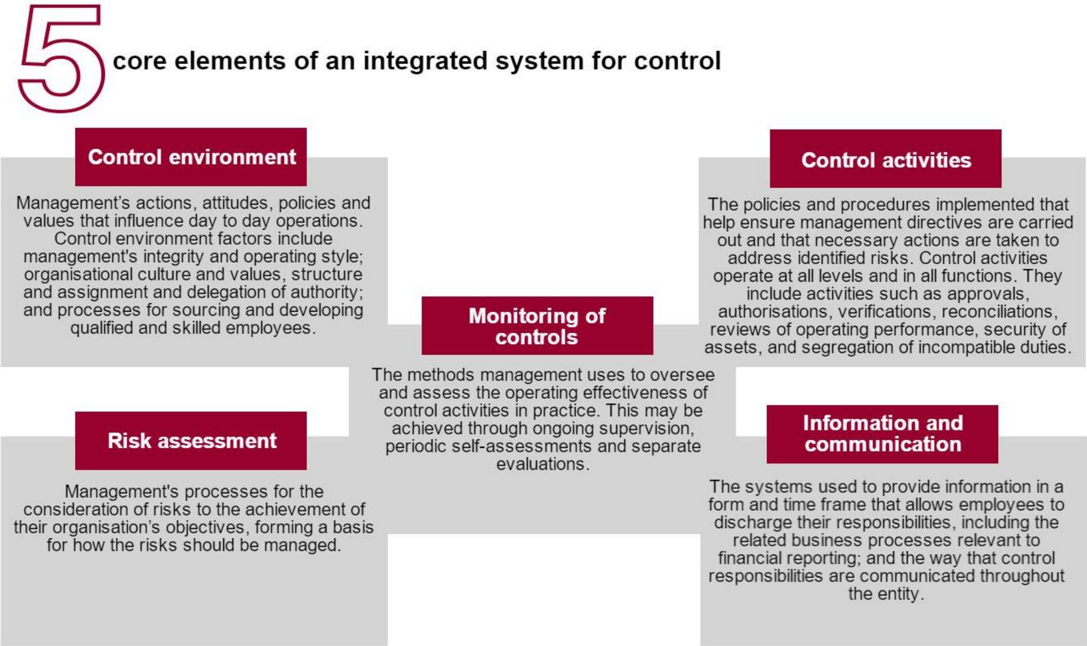
4. the Department of Infrastructure, Local Government and Planning mandates audit committees for all councils.

Background

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

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

Figure 5A
Core elements of an integrated system for control



Source: Queensland Audit Office

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

Conclusions

With the majority of councils now having established audit committees, there is an opportunity to enhance corporate governance and use the expertise of members to improve financial reporting and strengthen control frameworks. The requirement to have an audit committee should not be based on the categorisation of councils for remuneration purposes used by the Remuneration and Discipline Tribunal.

Instability in senior management is one factor that can have an effect on the control environment and the quality of financial reporting. Inductions for senior officers, promoting a smooth transition and appropriate knowledge transfer, are integral to ensuring council objectives continue to be met.

Internal control frameworks

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

This year, we revised the classification of our issues to align them with the requirements of the Australian Auditing Standards. The revised categories are: material deficiency; significant deficiency; and deficiency. The previous categories were high, moderate and low.

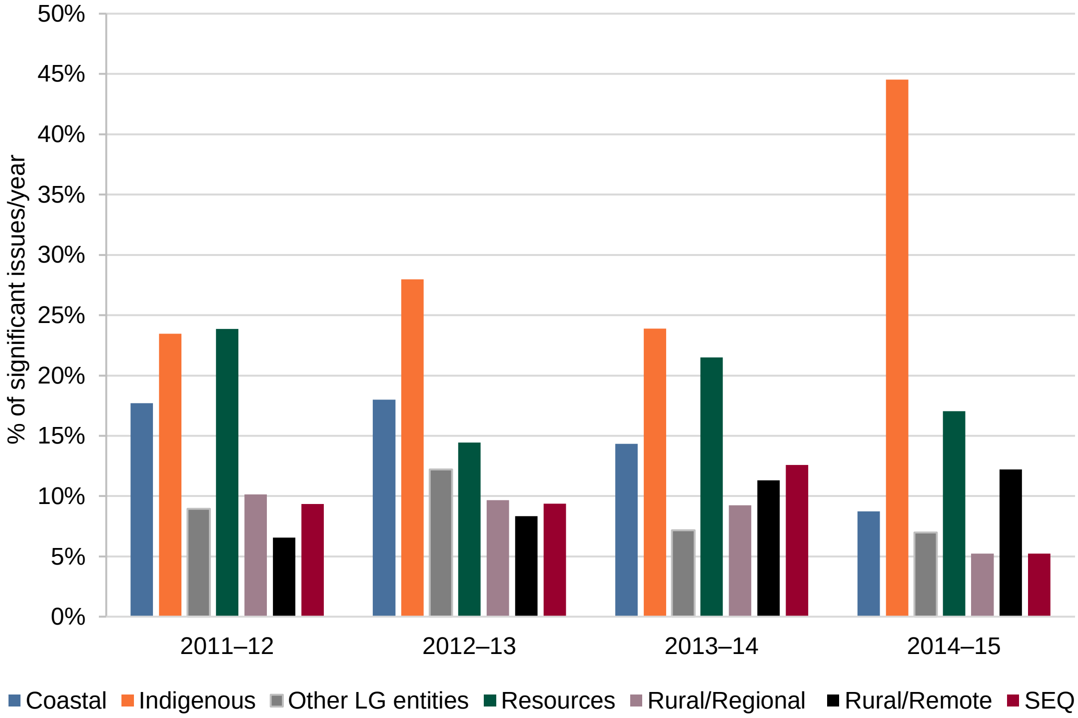
Material deficiencies and significant deficiencies are the most serious and these are analysed in this report as 'significant control weaknesses'. A detailed description of the revised risk categories is included in Appendix H (Figure H3).

This change in classification makes it difficult to compare the number of issues by significance between the years as the categories do not align exactly. Consequently, we have only analysed issues by financial element, internal control element and council segment.

Issues raised in the current year, regardless of whether they have been resolved by management, have been included in this report as they represent breakdowns in the internal control framework during the reporting period. All significant prior year issues that were unresolved at the start of the year have also been included.

Figure 5B compares the percentage of significant control weaknesses identified by council segment over the last four years. Indigenous and resource councils account for the most significant control weaknesses identified, contributing 62 per cent of all significant weaknesses identified in 2014–15 (2013–14: 45 per cent).

Figure 5B
Significant control weaknesses reported by segment



Source: Queensland Audit Office

As noted in prior years, there is a direct correlation between the number of significant control issues reported and councils' timeliness in completing their financial statements.

In the current year, six Indigenous councils, two rural/remote and one resource council did not meet the legislative time frames for completion of financial statements. This was due to significant asset issues, turnover of key members in council finance teams, or deficiencies identified in financial reporting systems.

In our audits this year, we have also identified correlations between significant issues raised and the stability of senior management and the effectiveness of audit committees. We analyse this later in this chapter and identify that:

- turnover of chief executive officers (CEOs) since the last Queensland local government elections in 2012 was highest in Indigenous and resource councils
- audit committees were still maturing in Indigenous and resource councils, where 25 out of 32 councils were required to establish committees for the first time as at 1 July 2014.

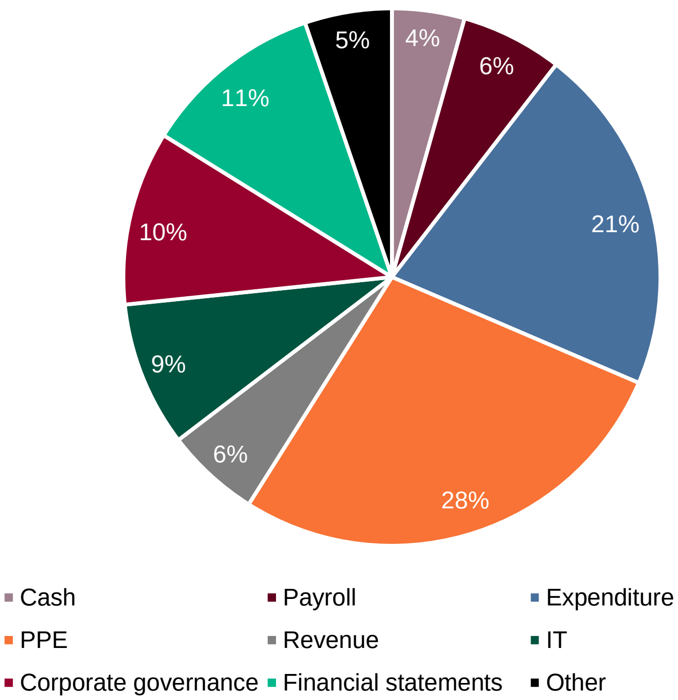
During 2014–15, we followed up on councils' progress in addressing significant, unresolved prior year issues. Thirty-one per cent of issues raised in the current year result from management not yet taking effective corrective action on significant prior year issues.

This indicates that the agreements and commitments made by the management of these 30 councils to resolve issues are not being kept or prioritised. It may also indicate that management are not being held accountable by their key governance bodies.

Indigenous and resource councils have the most unresolved issues across the sector.

Figure 5C shows the percentage of significant control weaknesses by financial statement area.

Figure 5C
Significant control weaknesses by category



Source: Queensland Audit Office

Most issues identified relate to weaknesses in property, plant and equipment (PPE), expenditure, and financial reporting — 60 per cent. The major control issues identified for these areas were consistent with the prior year.

Internal control deficiencies identified for control activities, information and communication (IT) and risk assessment also had similar results to previous years. It is therefore disappointing to note that learnings from previous reports to parliament are not being leveraged by councils and audit committees to strengthen their internal control frameworks.

This year we have focused our audit analysis on two specific elements of the integrated framework — control environment and monitoring and review of control activities.

Control environment

The control environment sets the context within which control activities are undertaken. It establishes the control culture and includes matters such as the assignment of authority; the capacity and capability of staff; and the scope and currency of the strategies, plans and procedures that guide operations.

The control environment is heavily influenced by the tone at the top. This tone communicates the council's commitment to integrity and ethical values and the importance of maintaining effective internal controls. In this section, we have considered the effect of the stability of the CEO position on a council's control environment and the timeliness of its financial reporting.

Stability of senior management

Senior management's commitment to transparency and accountability are key factors in establishing an appropriate accountability framework within a council. We have observed instances of high CEO turnover in our financial audits and deterioration in those councils' control frameworks and timeliness of statutory reporting.

Seventy-one CEO positions have changed since the last council elections in 2012. In total, including acting, there were 179 CEOs for the 77 councils over that period. While stability alone is not the cause of deficiencies in the internal control framework or lack of timely financial reporting, it is clearly a contributing factor.

We assessed the impact of CEO turnover on councils' performance by assessing the quality of the internal control environment and the timeliness of financial reporting against the number of CEOs a council has had since 2012. We found clear indicators that the higher the number of CEOs during the period:

- the less timely the financial statements
- the higher the number of significant audit issues raised over the internal control environment of council.

Impact on timeliness of financial reporting

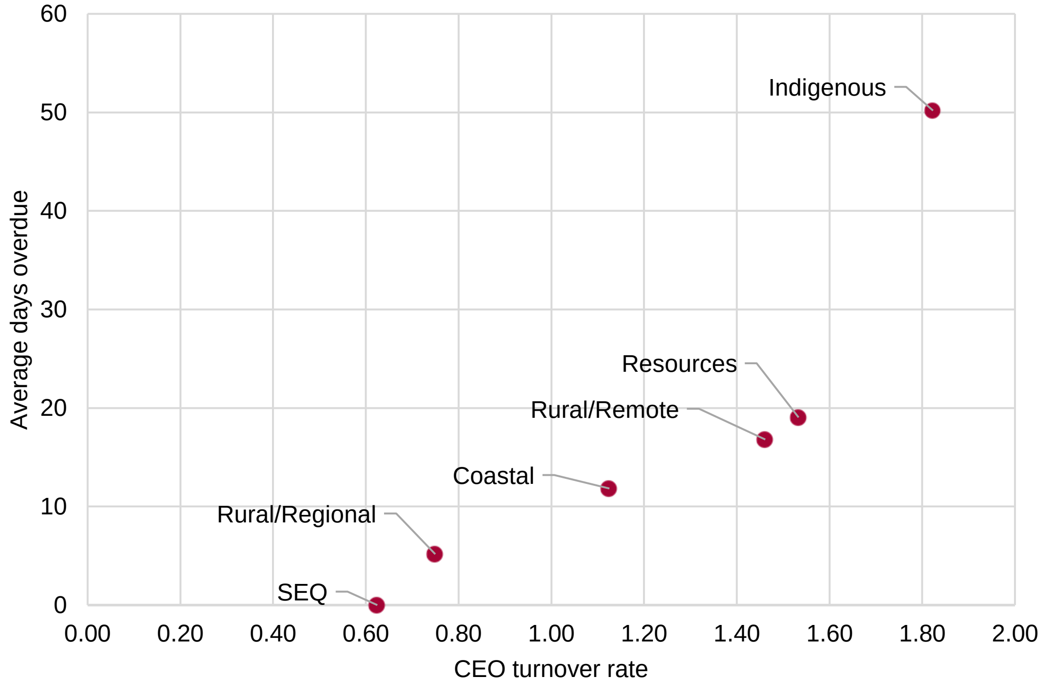
We compared the timeliness of council financial reporting over the last four financial years against the average number of CEOs for the same period to see if there was a correlation.

South East Queensland (SEQ) councils performed best, with 100 per cent of the councils in that segment meeting the statutory deadline over the four year period. This segment had one of the lower CEO turnover rates over the period.

In contrast, Indigenous councils were the worst performers, with only 51 per cent of the segment being on time over the four year period. This equated to being on average 50 days late in completion of financial statements. This segment had the highest level of CEO turnover.

Figure 5D shows the average number of days each segment's financial statements were overdue compared to the CEO turnover rate (including acting CEO positions of two months or more).

Figure 5D
Comparison of average number of days financial statements overdue compared to CEO turnover since 2011–12 in each segment



Source: Queensland Audit Office

Impact on internal control environment

In line with the timeliness of financial statements, there was also a correlation between the number of CEOs and the number of significant issues we raised. We identified that councils with a lower or nil turnover of CEOs had a lower number of issues.

There were 21 councils with only one CEO during the period, and they averaged 19 significant issues. In contrast, the six councils that had employed five CEOs or more had, on average, more than 31 significant issues over the period.

Figure 5E shows the number of CEOs (including acting CEOs) compared to the average number of issues over the last four years.

Figure 5E
Number of CEOs compared to average number of issues per council

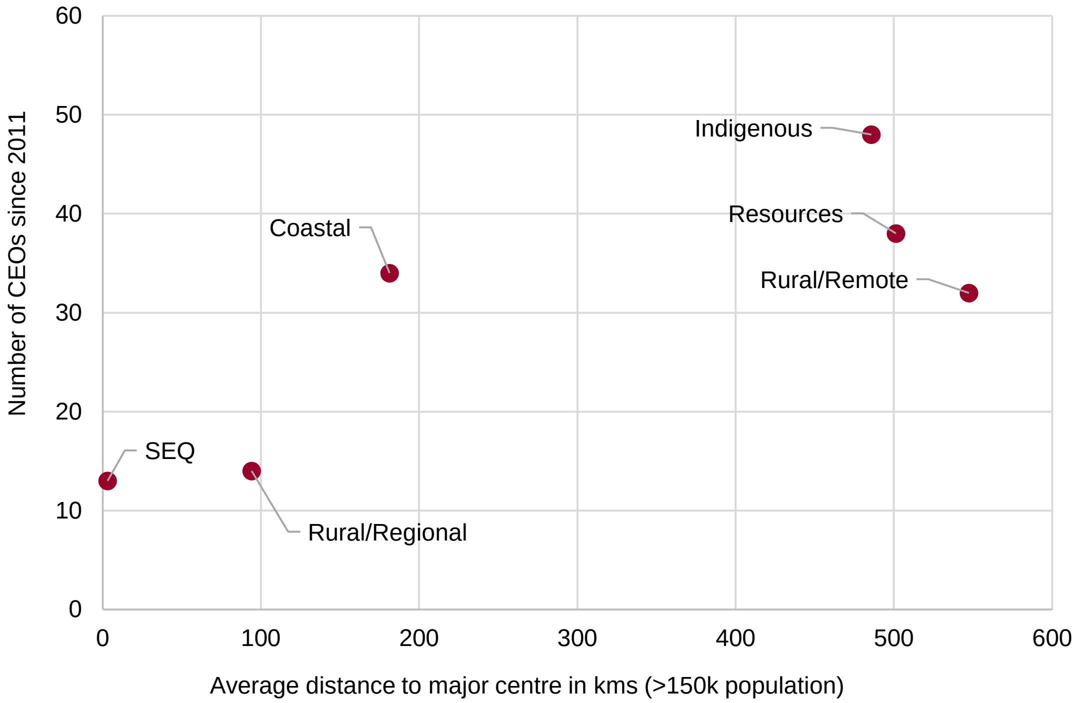
CEOs	Total issues since 2011–12 financial year	Councils	Average issues since 2011–12 financial year
1	399	21	19
2 to 4	1 163	50	23
5+	187	6	31

Source: Queensland Audit Office

In identifying some factors that led to the above results, we observed that segments that were furthest away from major population centres had more CEOs than those that were closer to major population centres. This is one factor that may be driving the poor performance of Indigenous and resource councils.

Figure 5F shows the total number of CEOs (including acting CEOs) per segment compared to the distance from a major centre, by segment.

Figure 5F
Number of CEOs compared to average distance from a major centre per segment



Source: Queensland Audit Office

We also collated qualitative information as part of our analysis in order to identify some other factors that may impact CEO turnover and/or performance. Some of our key observations were:

- councils determined CEO remuneration packages — only 19 councils engaged external remuneration consultants
- termination provisions in CEO contracts across a number of councils contained generous notice periods exceeding six months
- subjective performance standards or key performance indicators (KPIs) were common in CEO contracts
- performance reviews have been completed for the current CEO in all but two councils
- not all performance reviews were formal documented
- induction processes for CEOs in a significant number of councils were administrative only and did not include outlining councils' strategic objectives, KPIs and financial positions.

For councils where CEO turnover is high, the use of specialists may assist the council in setting the remuneration level, developing appropriate contracts with measurable KPIs and attracting appropriately skilled staff.

Two councils had no formal performance assessment process in place or could not provide evidence of a formal process of review of CEO performance. Effective, formalised performance management systems ensure that staff are engaged and contributing effectively to the organisational objectives. Policies and procedures should be established and training should be provided to mayors to ensure they have the necessary skills to conduct the performance assessments of CEOs.

We also reviewed what induction processes, if any, were used by councils to induct their CEOs. Of particular interest was whether councils discussed their key strategic objectives, key performance measures and their financial performance during the induction.

We found that only 21 per cent of councils had formal induction processes that discussed formal responsibilities for the CEO. These varied between strategic objectives, key responsibilities, statutory obligations, and the financial position of the council. A further 55 per cent had formal induction processes that were only administrative in nature.

Figure 5H outlines the induction types we identified from our audit.

Figure 5G
Type of induction

Induction type	Number of councils
Formal — responsibilities	16
Formal — administrative only	43
Informal or no induction	18
Total	**77**

Source: Queensland Audit Office

Staff inductions are vital in getting new CEOs and senior managers productive as quickly as possible and enabling knowledge transfer. Where induction programs are informal or ad hoc, new staff may not understand their responsibilities or the employer's expectation of them.

Our findings are consistent with those identified by the Centre for Excellence for Local Government, which issued a research report in April 2014 on attraction and retention of CEOs and senior staff in rural/remote and Indigenous councils. The report includes numerous tips and guidance.

Some of the key points provide helpful context to the observations above:

- Significant thought needs to be given to recruitment strategies and remuneration packages and using recruitment agencies where there is an absence of those specific skills in the council.
- CEOs should have clear position descriptions and have a firm understanding of what the council wants the CEO to achieve.
- Councils should have a significant on boarding process and perform regular formal performance assessments. Performance targets in CEO contracts need to reflect the outcomes the council wants to achieve.
- Councils should offer mentoring opportunities to new CEOs, mayors and councillors to assist in performance management.

Monitoring and review of control activities

Monitoring and review activities evaluate whether the components of the system of internal control are in place and operating effectively. The purpose is to detect and address any control deficiencies.

An internal audit function and an audit committee are two key monitoring and review activities. All significant control deficiencies identified in 2014–15 were related to the establishment or effectiveness of an audit committee and/or internal audit function.

Seven councils were identified as having ineffective internal audit functions during 2014–15. Internal audits add value to council operations by assessing whether business processes are operating effectively, efficiently and economically. Audit committees should be reviewing and approving the scope of the internal audit plan and ensuring that reports are tabled during the year for their consideration.

Audit committees

An effective audit committee provides a council with added confidence in its organisation's financial reporting, internal controls, risk management, legislative compliance and audit functions.

Due to a change in the categorisation of councils by the Remuneration and Discipline Tribunal (the tribunal), all councils were required to have an audit committee from 1 July 2014. This change affected 38 councils that were previously categorised as Special or Category 1 or 2 councils (tribunal categories).

The proactive approach a number of councils have taken in adopting this additional layer of governance is encouraging. For example, Burke Shire Council arranged with Townsville City Council (TCC) for a member to attend TCC's audit committee meeting to observe proceedings.

Councils have worked to assist each other to meet their new requirements, for example, sharing their appropriately qualified finance staff with a sister council to assist them with meeting the composition requirements (membership and experience) of audit committees as detailed in the Local Government Regulation 2012.

A number of councils have sought guidance from QAO on better practices to adopt. In *Results of audit: Local government entities 2013–14* (Report 16: 2014–15), we reported key attributes of audit committee as better practice.

The Department of Infrastructure, Local Government and Planning also issued a Bulletin (08/15: Local Government Bulletins — Internal Audit and Audit Committees). This bulletin references guidance provided by Queensland Treasury: Audit Committee Guidelines — Improving Accountability and Performance June 2012.

Although the above has been provided, the following councils did not have a functioning audit committee (please note that 'functioning' has been taken to mean that the committee had at least sat as an established audit committee prior to 31 March 2016):

- Northern Peninsula Area Regional Council [#]
- Torres Shire Council.

[#] This council has also not had their financial statement audit completed for the 2014–15 year.

At the time of the audit, a number of the 38 councils were still working on meeting their compliance requirements under the local government legislation. The main areas where further effort is required include:

- reviewing internal audit plans and reports
- reviewing progress on audit recommendations
- meeting membership composition requirements
- providing a report to their council on the matters reviewed and decisions made.

Forty-five per cent of the newly established audit committees have not been provided (by management) with a report on legislation, government policy and regulatory requirements that would enable them to assess the effectiveness of legislative compliance for their council. Thirty-four per cent have not reviewed their councils' risk registers and mitigation strategies for these risks.

Effectively operating audit committees are recognised internationally as a key element of good governance. Councils and audit committee members should use the current requirement to have an audit committee to drive improvement in accountability and performance.

Appendix J of this report provides an audit committee calendar working plan that covers all key audit committee responsibilities. By addressing these key responsibilities, audit committees will drive improvements in internal controls and in the accuracy and timeliness of financial reporting.

We note that the tribunal has once again changed its categorisation of councils, effective 1 July 2016. This could impact on established audit committees as the requirement to have an audit committee will again become optional for some councils.

This has the potential to undo some of the positive steps councils have taken over the last 12–18 months. As audit committees enhance performance, the establishment of an audit committee should be mandatory for all councils, regardless of size. If the legislation is not changed, those councils that have not fully embraced having an audit committee will fall further behind in good governance.

Recommendations

It is recommended that:

4. the Department of Infrastructure, Local Government and Planning mandates audit committees for all councils.

6. Financial sustainability

In brief

Background

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

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

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

Conclusions

- Councils are more likely to be able to maintain community service levels and have funds available for capital asset replacement or to reduce debt if they achieve operating surpluses over the longer term. Councils that, on average, are not achieving at least a break-even position are at a higher risk of becoming financially unsustainable.
- All councils have the capacity to repay their long-term liabilities.
- All councils who wish to effect a positive change in their long-term indicators need to integrate budget and asset planning in consultation with their communities. An annual review of associated infrastructure policies, operations and plans is integral to meeting community expectations for service delivery.

Key findings

- Twelve councils were assessed as being at higher risk of becoming financially unsustainable.
- Thirty-six out of 69 non-de-amalgamated councils audited to date have a negative five year average operating surplus ratio.
- South East Queensland councils reduced their average net financial liability ratio from 60 per cent to 33 per cent in 2015 due to Queensland Urban Utilities' repayment of loans to Brisbane and Ipswich city councils.
- Of the four newly de-amalgamated councils, Noosa and Mareeba shire councils achieved operating surpluses in 2015, while Douglas and Livingstone shire councils had operating deficits. Douglas Shire Council is forecasting to maintain operating deficits until 30 June 2019.

Background

Local governments (councils) need to adopt longer-term planning processes that manage future financial risk while maintaining an appropriate level of services to their communities.

Business risks that affect liquidity, infrastructure assets and debt financing need to be evaluated within a sustainability strategy. By measuring sustainability using financial indicators, each council can highlight the strengths and weaknesses of its current strategy.

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

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

The Regulation requires the auditor-general, as part of the annual financial audit, to assess and issue an independent audit opinion on the accurate calculation of these three measures for the current financial year. Appendix G details the financial sustainability measures used and the 2014–15 results for each council.

The councils are grouped into the categories used by the Local Government Association of Queensland (LGAQ) in their 2013 report *Factors Impacting Local Government Financial Sustainability: A Council Segment Approach*.

Our assessment of the operating surplus ratio and the net financial liabilities ratio was based on actual results for the last five years, while the asset sustainability ratio was based on the last three years only, as audited renewals data is not available beyond that time. We did not take into account councils' long-term forecasts or credit assessments undertaken by the Queensland Treasury Corporation (QTC). QTC's assessments are forward-looking and apply other credit metrics overlaid with qualitative characteristics.

Councils established as a result of de-amalgamation in 2013–14, having only 18 months of data, have been excluded from our segment ratio analysis. A separate analysis has been undertaken on these councils in this chapter.

Our overall financial sustainability relative risk assessment uses the financial data reported for the past five years (with the exception of the newly de-amalgamated councils which, as stated above, have been calculated based on 18 months of data). Our prior year comparatives have been updated for council statements finalised after the date of last year's report.

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

Sustainability statements

Audit opinions have been issued for 73 (95 per cent) of the 77 councils required to prepare current year financial sustainability statements.

The four councils yet to finalise these statements are:

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

Paroo Shire Council's sustainability statement was qualified in 2014–15, consistent with the qualification of their financial statement's road asset values. As depreciation expense is used in the calculation of the operating surplus ratio and the asset sustainability ratio, the accuracy of these ratios reported in the 2014–15 current year financial sustainability statement could not be confirmed.

Appendix G, Figure G4 contains a collation of the ratios for each council.

Conclusions

Councils that do not achieve positive operating surplus ratios in the longer term will find it difficult to maintain community service levels and have funds available for capital asset replacement or to reduce debt.

All councils' net financial liabilities are able to be serviced from their operating revenues. While debt can be used to finance infrastructure renewal, increasing borrowings is not always an alternative, especially for councils with small populations and limited means to repay.

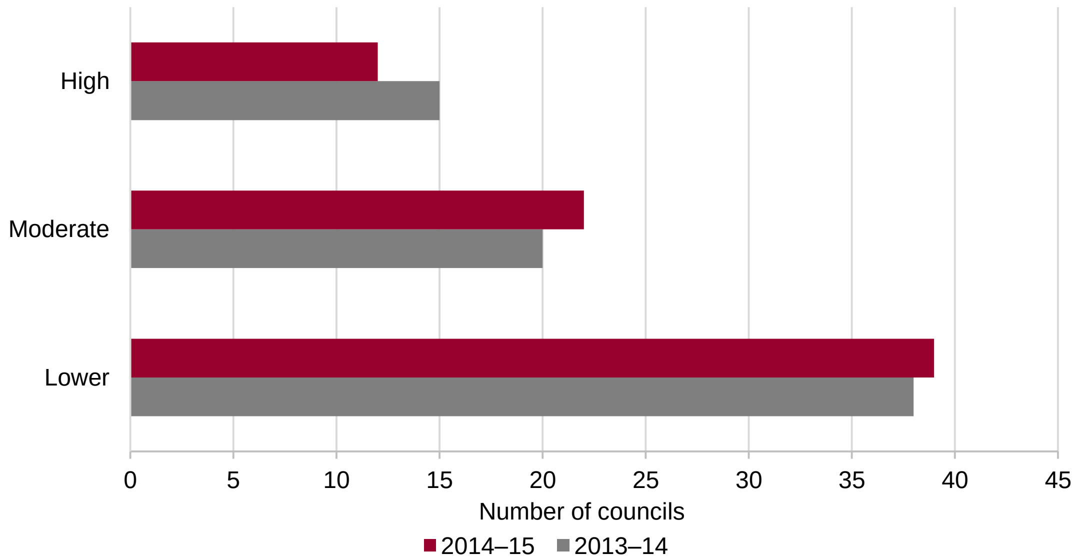
A number of councils are prioritising the accumulation of cash and investments as a means to fund asset replacement and fund future operating deficits. However, with reduced government funding always a possibility, a focus on asset management planning with community consultation on service levels is necessary for all councils.

Two newly de-amalgamated councils — Noosa and Mareeba shire councils — have achieved operating surpluses in their first full year of operation. Douglas and Livingstone shire councils achieved operating deficits. Douglas Shire Council is forecasting to maintain operating deficits until 30 June 2019. This council continues to be a higher risk of being unsustainable.

Financial sustainability risk assessment

Figure 6A summarises the risk assessments for 73 out of the 77 councils (excluding de-amalgamated councils). Unfinalised audits have been included in 2014–15 at their previous year's assessment.

Figure 6A
Summary of financial sustainability risk assessment



Source: Queensland Audit Office

Our analysis indicated an overall improvement in risk assessments, with 12 councils with a high rating compared to 15 councils in 2013–14. Four councils — three Indigenous and one rural/remote — improved their ratings from high in 2013–14 to moderate in 2014–15. One council worsened, given they had a previous rating of moderate.

The improved assessments were due to the Indigenous councils lowering their average operating surplus ratio. Each of the councils has achieved at least one operating surplus in the last two years. These surpluses have been due to receiving additional operating grants and/or improved sales and contract revenue.

The rural/remote council had incurred a significant deficit in 2013–14 due to flood repair expenditure, where they had received some operational funding in the prior year. They achieved a very small operating deficit this year, which improved their average operating deficit to less than -10 per cent.

The council with the worsening assessment now has an average operating surplus ratio of -17 per cent. This council has reported operating deficits greater than -10 per cent in three out of the last five years.

Results for each measure

Figure 6B
Sustainability snapshot

Source: Queensland Audit Office

The three financial sustainability measures were calculated using information from the 69 non-de-amalgamated council financial statements completed to date. We compared them to the targets of the Department of Infrastructure, Local Government and Planning (DILGP), contained in the DILGP-issued Financial Management (Sustainability) Guideline 2013.

Appendix G (Figure G4) details councils' individual financial sustainability ratios. The average five year operating surplus ratio at -1.96 per cent for the sector indicates that, as a sector, revenues from operating activities over the longer term are not meeting operational expenditure. Therefore, there is no surplus available for funding capital expenditure or debt repayments.

The sector average net financial liabilities ratio is within DIGLP's recommended levels of sustainability. The negative ratio for the sector result indicates that, in some councils, current assets exceed total liabilities, indicating that there may be capacity to increase loan borrowings if required.

A three year average sector asset sustainability ratio at 147 per cent indicates that councils are maintaining, replacing and renewing assets as they reach their useful lives.

Operating surplus ratio

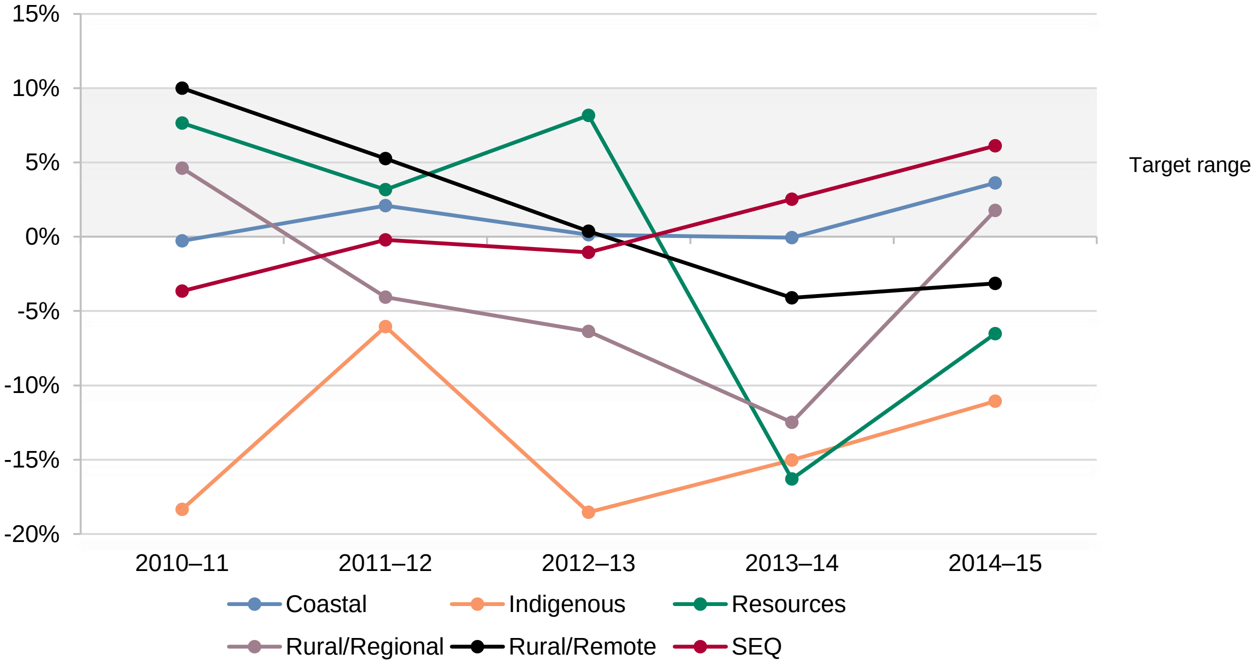
This ratio indicates the extent to which operating revenues raised covered operating expenses. A negative ratio means expenses exceed revenues.

DILGP's target range for councils was an operating surplus (that is, positive) ratio of between 0 and 10 per cent. While a break-even position or having small operating deficits may be acceptable in the short term, these will not generate funds for a council to enhance service delivery, or address new infrastructure needs or emergent maintenance needs.

Figure 6C compares, by council segment, the average operating surplus ratio by segment in each of the past five financial years using data from 69 (of 73) continuing councils audited to date. As the four new de-amalgamated councils have only operated for 18 months from 1 January 2014, these councils have been excluded from the 2013–14 and 2014–15 averages.

It also shows that the average operating surplus ratio by segment improved compared to last year for all segments, with SEQ, coastal and rural/regional averages above zero.

Figure 6C
Operating surplus ratio (average by council segment for each of the past five years)



Source: Queensland Audit Office

The operating surplus ratio is a long-term indicator, so it is better to consider how this ratio performs as an average over the last five years.

Based on average operating results, 33 councils (2013–14: 29 councils) achieved a five year average operating surplus ratio greater than zero. Sixty per cent of these councils were rural/remote, coastal and SEQ councils.

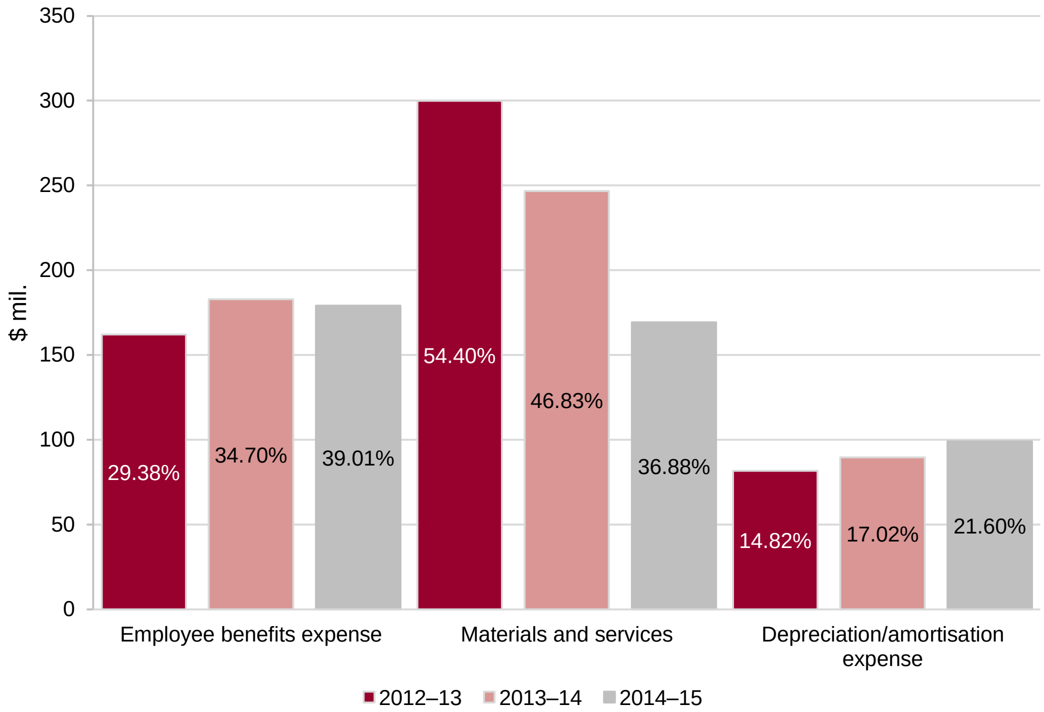
Thirty-six councils have negative five year operating ratios. Indigenous councils continued to achieve the worst results over the longer term with negative five yearly average operating ratios. Hope Vale Aboriginal Shire Council was the exception.

For most segments, increases in the average operating surplus ratio have arisen due to decreases in operating expenditure. The exception to this was the SEQ segment, which has increased its operating revenue by $286 million from the prior period. This was most notably in Sunshine Coast and Moreton Bay Regional Councils where annual ratios increased by over 7 per cent. Sunshine Coast Regional Council increased annual surplus ratio was primarily due to increases in rates revenue, share of profits from associates and operational grants. Moreton Bay Regional Council improved annual operating ratio result was primarily due to increase share of profit from associates and to a smaller extent increases in rates revenue, operating grants and fees and charges.

The largest improvement in the ratio was in rural/regional councils. While there was an improvement in total operating revenue over the last three years, the significant improvement in the ratio was attributable to decreases in operating expenditure.

Figure 6D illustrates the impact of these changes by showing the combined major operating expenditure streams for rural/regional councils over the last three financial years. While all other material operating expenditures have stayed reasonably constant, there was a reduction in materials and services expenditure from 2012–13 to 2014–15 as spending on damage from flooding events associated with Ex-Cyclone Oswald was completed.

Figure 6D
Operating expenditure composition — rural/regional councils



Source: Queensland Audit Office

Net financial liabilities ratio

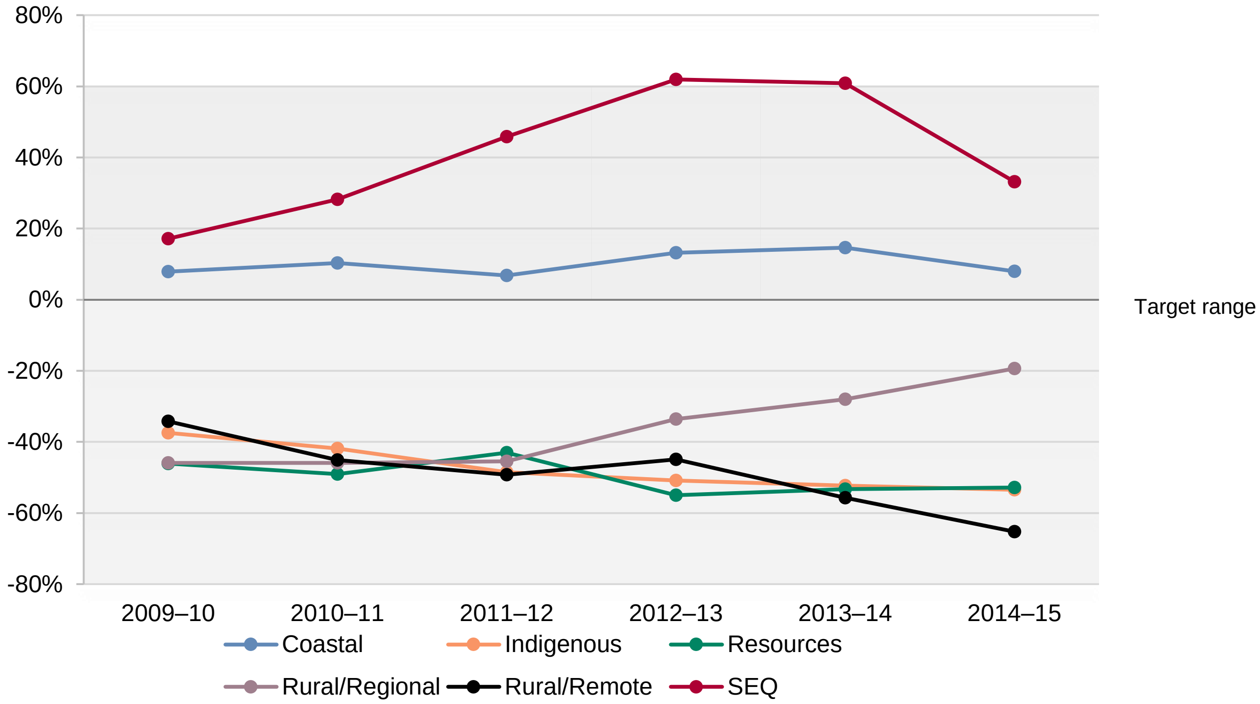
The net financial liabilities ratio indicates the extent to which a council's operating revenues can service its net liabilities (usually loans and leases) while maintaining its assets and community service levels. DILGP's target range for councils is a net financial liabilities ratio of not greater than 60 per cent.

If net financial liabilities are greater than 60 per cent of operating revenue, councils have limited capacity to increase loan borrowings and may experience stress in servicing their debt.

If councils have more cash and investments than they have debt, they will have a negative net financial liabilities ratio. This demonstrates that they prioritise the accumulation of financial assets and avoid debt as a mechanism for managing their business. This usually occurs where councils have limited own sourced revenues and therefore less capacity to repay borrowings.

Figure 6E compares the movement in the average net financial liabilities ratio over the past five years by council segment, based on 69 (of 73) continuing councils audited to date.

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



Source: Queensland Audit Office

SEQ councils reduced their average net financial liabilities ratio from 60 per cent to 33 per cent in 2014–15. The largest contributors to this reduction were Brisbane City Council (BCC) and Ipswich City Council (ICC).

These councils used repayment of loans from Queensland Urban Utilities (QUU) to reduce their general and specific borrowings with the Queensland Treasury Corporation. BCC's ratio reduced from 141.12 per cent in 2014 to 90.58 per cent.

The councils had loaned moneys to the QUU as a part of its establishment when water and waste water functions were extracted from the councils and transferred to QUU. The loan term was due to end on 30 June 2023. The Queensland Treasurer had approved the original loans and loan extensions in accordance with the *Statutory Bodies Financial Arrangements Act 1982*.

In 2015, the councils and QUU agreed to extinguish the debt. The debt to ICC was repaid in full while the BCC loan would be paid in two tranches, with the first tranche paid in 2015.

An amount of $972.3 million was received by BCC and ICC in the current year and $758 million debt was extinguished (BCC: $556 million, ICC: $202.3 million). The second tranche payment due to BCC is $471 million.

Lockyer Valley, Scenic Rim and Somerset Regional Councils also loaned moneys to QUU as part of the above agreement. They have loans to QUU totalling $43.2 million at 30 June 2015. These councils have not sought to change the repayment terms and will continue to receive a revenue stream from these loans.

Consistent with the prior year, Indigenous, rural/remote, rural/regional and resource councils continue to have negative ratios. Forty-seven councils reported negative ratios in 2014–15 (2013–14: 52 councils). While this means they have sufficient funds to meet their liabilities and manage their businesses, it also may indicate an overly conservative approach to debt, especially in relation to funding asset renewals.

Of these councils, 16 have no borrowings, but hold $208 million in cash and investments. These entities are predominantly those with low population bases, with limited own-source revenue and therefore they have less capacity to repay borrowings. Four per cent of these councils' cash and investments have external restrictions. Councils’ cash holdings can be subject to both internal and external restrictions that limit the discretionary use of those funds. Usually, these restrictions relate to unspent grant funding for specific purposes (external) or monies set aside by councils for future expenditure or capital works (internal).

Three of the 16 councils' have populations exceeding 10,000. Their cash and investments approximate 94 per cent of their operating revenue, and only an inconsequential amount of their cash and investments are externally restricted. This indicates that they save for their asset replacement and renewals rather than leverage debt. Debt may be a viable option for financing infrastructure renewals for these councils.

Asset sustainability ratio

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

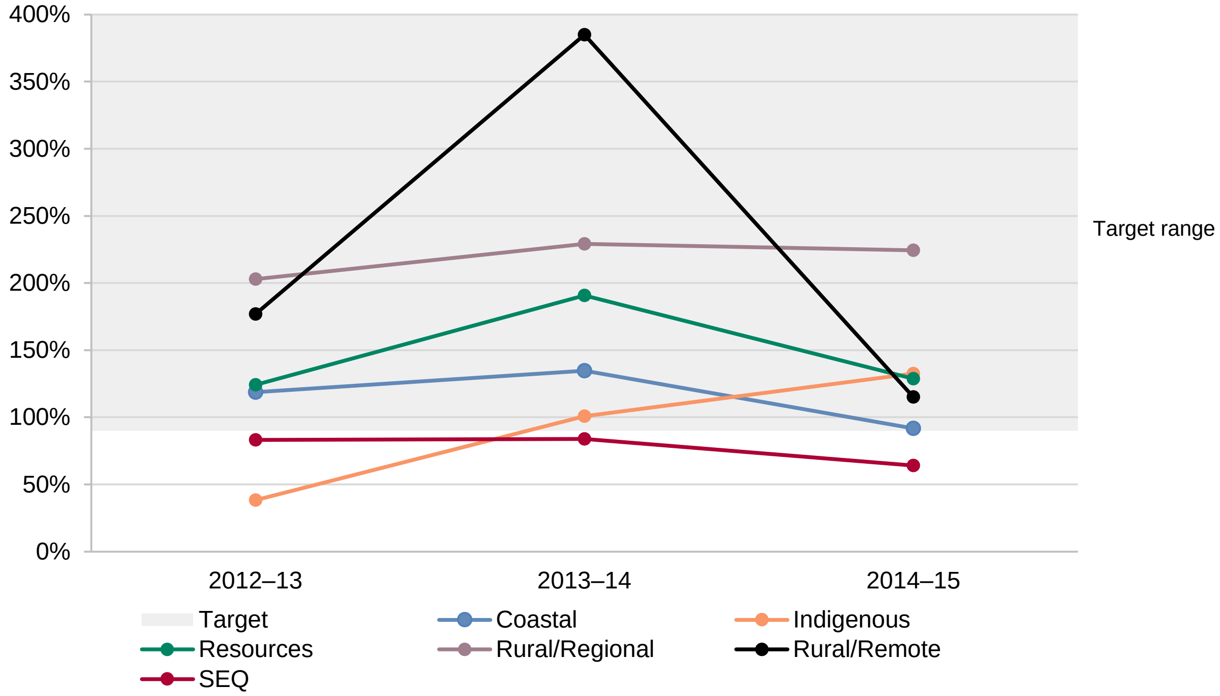
DILGP's target range for councils is a ratio greater than 90 per cent. A value less than 90 per cent may indicate a declining asset base and/or inadequate asset management plan. However, a low percentage may also indicate the asset base is relatively new (as a result of rectifying extensive natural disaster damage) and does not yet require replacement or renewal.

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

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

Figure 6F depicts the asset sustainability ratio over the past three years by council segment, based on the 69 (of 73) continuing councils audited to date.

Figure 6F
Asset sustainability ratio (average by year by council segment)



Source: Queensland Audit Office

For the 69 continuing councils, comparative information is only available from 2012–13, as that was the first year councils' renewals expenditure was audited. As this is a long-term indicator, at least five years of baseline data is required to make an informed assessment of a council's performance using this ratio.

Forty-nine councils (72 per cent) had three year average asset sustainability ratios above the 90 per cent target. The highest ratios were achieved in the rural/remote and resource councils, with 93 per cent of the councils achieving the target.

For rural/remote councils and resource councils this reflected the significant infrastructure renewal due to flood events over the period for which these councils received Natural Disaster Relief and Recovery Arrangements funding. On average, the grant funding these councils receive represents a larger proportion of their asset base.

SEQ and Indigenous councils made up the majority of the 20 councils that were below the target asset sustainability ratio. Six councils in SEQ are experiencing higher growth and need to manage the renewal of existing infrastructure to meet departmental targets, while adequately balancing their investment in new assets.

For the seven Indigenous councils below the target there remains a heavy reliance on government funding for asset replacement. This exposes them to higher risk of having renewal backlogs which may result in a reduction in service delivery. Three of these councils have not yet established asset management plans.

Newly de-amalgamated councils

The following councils commenced operation on 1 January 2014:

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

Financial sustainability of new councils

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

As mentioned earlier, five years of baseline data is required to draw any meaningful analysis from long-term sustainability indicators. As the four new de-amalgamated councils have only operated for eighteen months from 1 January 2014, we have assessed these councils' financial sustainability using their actual results for 2014–15 as well as data from their unaudited long-term financial sustainability statements.

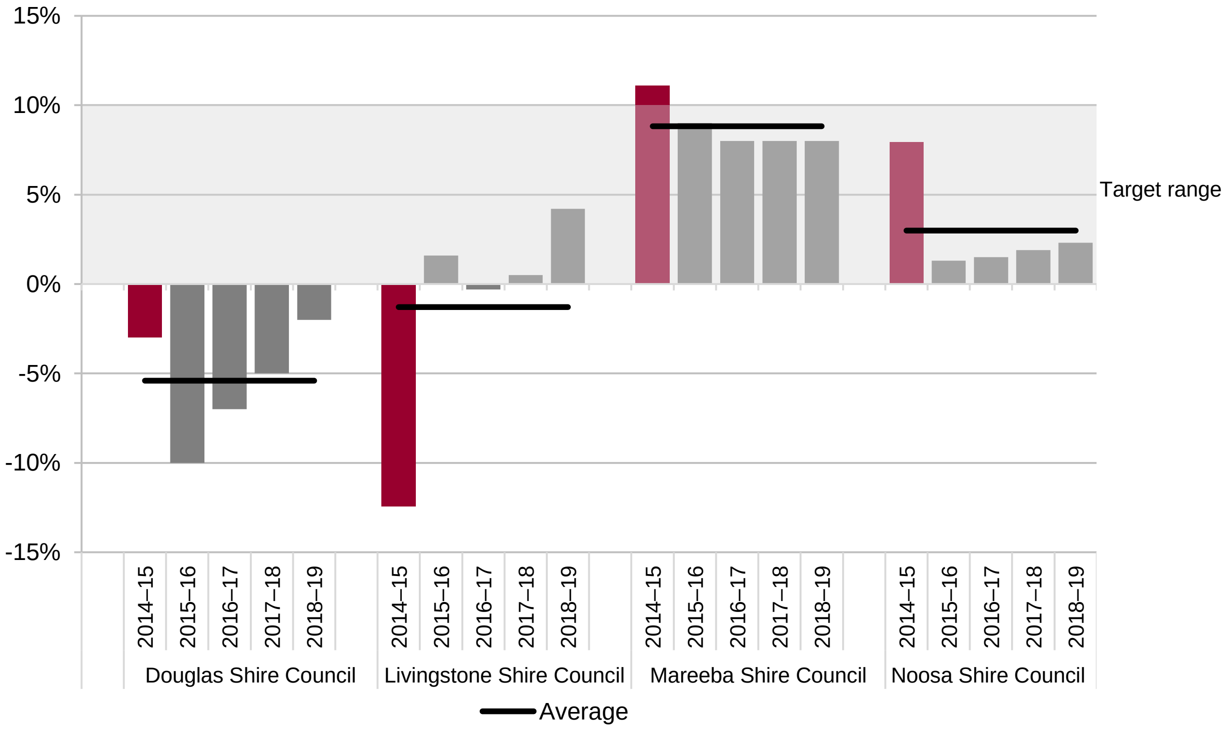
Appendix G (Figure G4) details councils' individual and average financial sustainability ratios. The average ratios have been calculated on the same basis as other councils.

Operating surplus ratio

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

Figure 6G shows the annual operating surplus ratios for the four new councils over the full year to 30 June 2015 and their projections to 30 June 2019.

Figure 6G
Council forecast — operating surplus ratio from 2014–15 to 2018–19



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

Each new council has improved its ratio from the prior year’s negative operating surplus ratio result. This is unsurprising given the one-off costs incurred last year. While improvements were noted, the councils' actual results varied considerably from their published expected forecast positions. Douglas and Livingstone shire councils' annual operating surplus ratio for 2015 was negative and therefore outside the target range.

Douglas Shire Council had previously forecast a -15 per cent operating surplus ratio by 30 June 2015 but achieved a ratio of -2.98 per cent. This primarily resulted from greater than budgeted revenue from rates and fees and charges and lower expenditure than planned for salaries and wages and materials and services.

However, the council is forecasting a deficit for several years. This is a significant risk, as councils which are not seeking to at least achieve a break-even position on an ongoing basis are not generating sufficient funds to continue to provide services and renew assets at their current levels.

Livingstone Shire Council had forecast to achieve a deficit of -6 per cent; however, achieved a -12.42 per cent ratio. This was primarily due to clean-up of debris and waste following Cyclone Marcia. All costs incurred were expensed as they were considered to be repairs and maintenance in nature. Subsequent to year end, the council has lodged a claim of approximately $8 million for Natural Disaster Relief and Recovery funding. Livingstone Shire Council is projecting positive or close to positive ratios starting in 2016.

Mareeba Shire Council had forecast to achieve a surplus of 12 per cent and Noosa Shire Council had projected to break even in 2014–15; however, they achieved positive ratios of 11.09 per cent and 7.92 per cent respectively.

Noosa Shire Council's positive ratio was achieved through expense savings in employee related costs and materials and services and higher than expected increases in revenue from sales of recyclables and fees and charges.

Mareeba Shire Council is forecasting to remain at the higher end of DILGP's target levels for the next five years while Noosa Shire Council is forecasting a ratio at the lower end of the target range for the next five years.

Net financial liabilities ratio

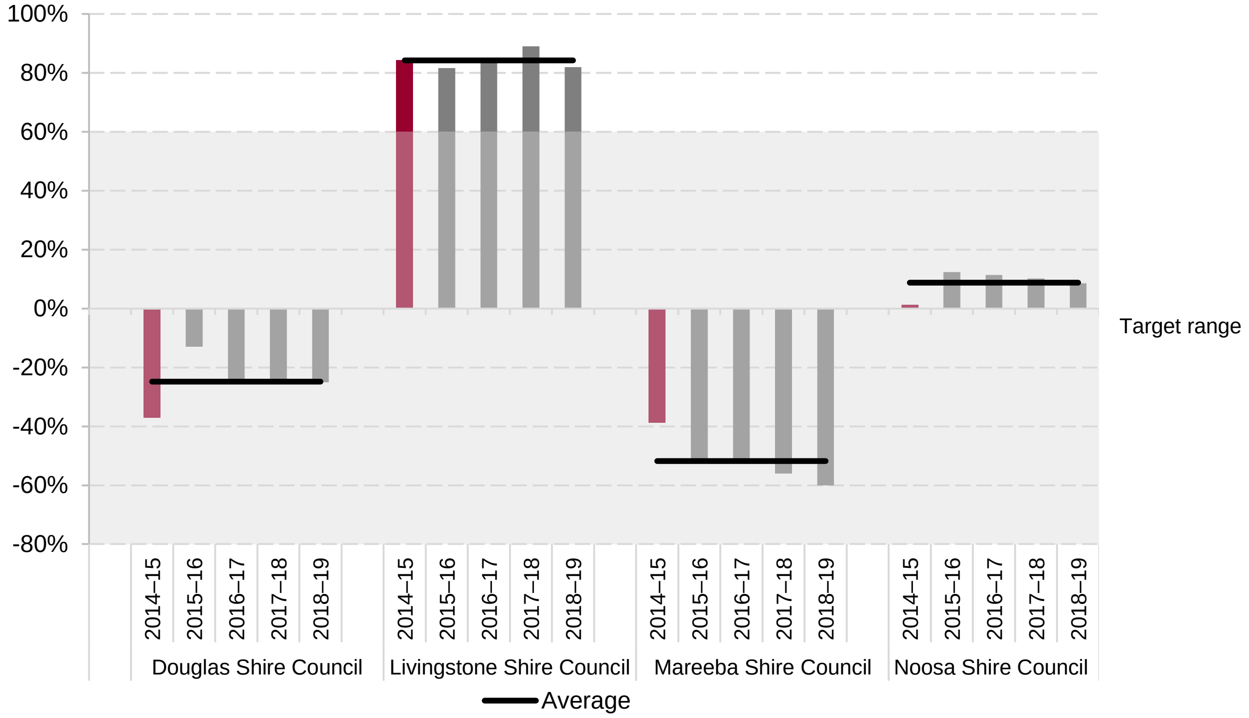
The net financial liabilities ratio indicates the extent to which a council's operating revenues can service its net liabilities (usually loans and leases) while maintaining its assets and level of community services. DILGP's target range for councils is a net financial liabilities ratio of not greater than 60 per cent.

If net financial liabilities are greater than 60 per cent of operating revenue, councils have limited capacity to increase loan borrowings and may experience stress in servicing their debt. If the net financial liability ratio is negative, this may indicate that the council has placed a higher priority on accumulating financial assets rather than using the funds for the provision of services or renewing assets.

Noosa, Livingstone and Mareeba shire councils had established a working capital facility with Queensland Treasury Corporation (QTC) for paying de-amalgamation costs. At 30 June 2015, all working capital loans for these councils had been repaid.

Figure 6H compares the net financial liabilities ratios for the four new councils as at 30 June 2015 and their projected ratios to 30 June 2019.

Figure 6H
Council forecast — net financial liabilities ratio from 2014–15 to 2018–19



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

Douglas, Mareeba and Noosa shire councils had projected to stay within the target range in 2014–15 and all achieved that result. Douglas and Mareeba shire councils achieved negative ratios of -37.04 per cent and -38.69 per cent respectively. This was due to large amounts of cash and investments held by each entity. A significant amount of these funds are restricted for future capital works and recurrent expenditure.

Noosa Shire Council achieved a ratio of 1.16 per cent, which was consistent with their target forecast of 1.40 per cent and an improvement on last year's 32.43 per cent. While not negative, this ratio has been influenced by increases in cash and investment held ($28 million in 2014 to $50 million in 2015). Less than half of the 2015 balance is restricted for capital and recurrent expenditure.

Livingstone Shire Council continues to be above the target range and does not estimate being within the target range until 2023. Its annual ratio of 84.28 per cent was an improvement on the 86 per cent forecasted and the 170 per cent ratio achieved in 2014. The council has reduced its borrowings from $77 million to $72 million during the current year.

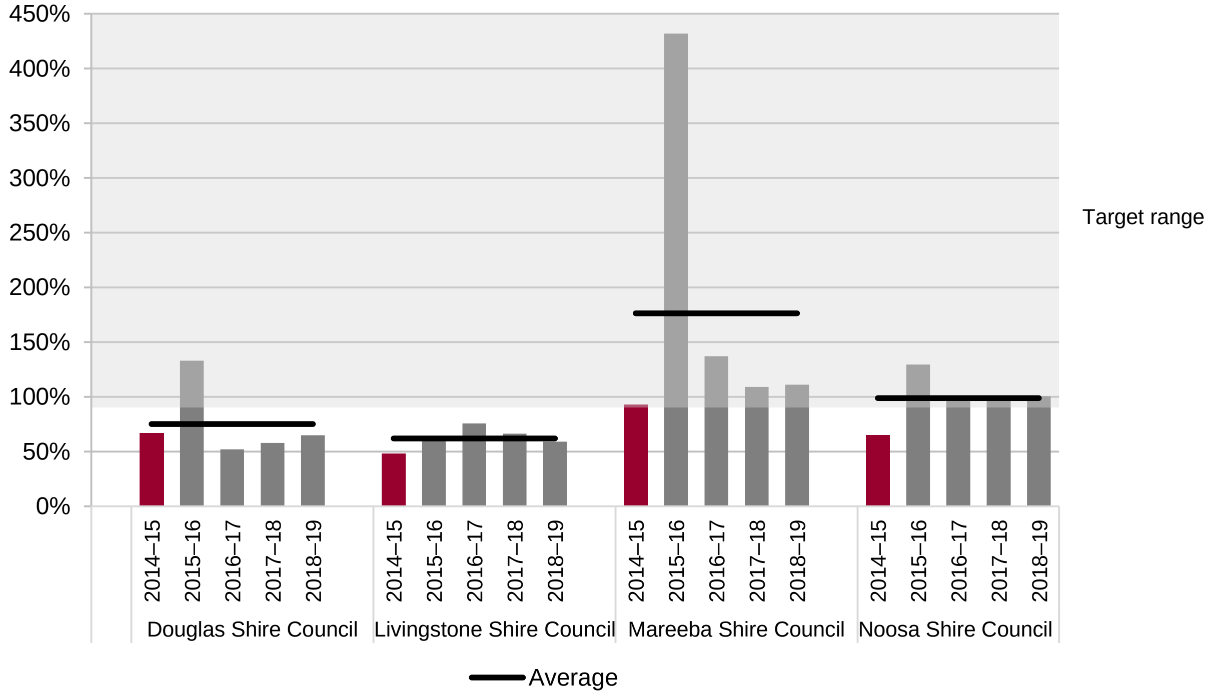
Asset sustainability ratio

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

DILGP's target range for councils is a ratio greater than 90 per cent. A value less than 90 per cent may indicate a declining asset base and/or inadequate asset management plan. A low percentage may also indicate the asset base is relatively new (as a result of rectifying extensive natural disaster damage) and does not currently require replacement or renewal.

Figure 6I shows the asset sustainability ratios for the four new councils over the full year to 30 June 2015 and their projections to 30 June 2019.

Figure 6I
Council forecast — asset sustainability ratio from 2014–15 to 2018–19



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

Mareeba and Noosa shire councils forecast they will achieve the target in the short term. Mareeba is forecasting a major spend on capital renewal projects in 2015–16, which they estimate will result in an asset sustainability ratio of 432 per cent.

Douglas and Livingstone shire councils are not forecasting on average to achieve asset sustainability targets and are at greater risk of having significant renewals backlog. This means they may need to borrow substantial amounts to renew declining infrastructure assets or wait to renew assets until funding may be available from either state or federal governments.

Appendices

Appendix A—Comments

In accordance with s.64 of the *Auditor-General Act 2009*, a copy of this report was provided to the Director-General, Department of Infrastructure, Local Government and Planning and all councils. All parties had an opportunity to comment on the proposed report.

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

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

RECEIVED
12 MAY 2016
QUEENSLAND AUDIT OFFICE

Queensland Government

Department of Infrastructure, Local Government and Planning

Our ref: MC16/2114

Your ref: 11476
Mr P Brahman 3149 6020

12 MAY 2016

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

Dear ~~Mr Greaves~~ Andrew

Thank you for your letter of 21 April 2016 to the Honourable Jackie Trad MP, Deputy Premier, Minister for Infrastructure, Local Government and Planning and Minister for Trade and Investment about your draft report to Parliament on the results of the 2014-15 local government audits. The Deputy Premier has asked that I respond on her behalf.

I was particularly pleased to read about the significant improvement that has occurred in the timeliness of local government financial statements.

I support recommendations 1 to 3 and intend to write to each council to emphasise the importance of implementing these recommendations.

However, in regard to recommendation 4, I propose to give this further consideration including ascertaining the views of the Local Government Association of Queensland. It should be noted, if there were to be changes as you propose, amendments to the *Local Government Act 2009* would be required.

If you require further information, I encourage you to contact Mr Bill Gilmore, Director in the Department on 3452 6748 or by email at bill.gilmore@dilgp.qld.gov.au.

Yours sincerely

Frankie Carroll
Director-General

Level 12, Executive Building
100 George Street Brisbane
PO Box 15009 City East
Queensland 4002 Australia
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Website www.dilgp.qld.gov.au
ABN 251 66 523 889

Appendix B—Status of financial statements

Figure B1
Status of 2014–15 financial statement audits

Audit	Date statements signed	Date opinion issued	Opinion	Ministerial extension issued to date	Timeliness		
					< 3 mths	3–4 mths	> 4 mths
Councils and controlled entities							
Aurukun Shire Council	02.11.2015	04.11.2015	U	No			✓
Balonne Shire Council	08.10.2015	13.10.2015	U	No		✓	
Banana Shire Council	27.10.2015	28.10.2015	U	No		✓	
Barcaldine Regional Council	27.10.2015	28.10.2015	U	No		✓	
Barcoo Shire Council	23.10.2015	28.10.2015	U	No		✓	
Blackall-Tambo Regional Council	30.10.2015	30.10.2015	U	No		✓	
Boulia Shire Council	06.11.2015	30.11.2015	Q	30.11.2015			✓
Brisbane City Council	20.08.2015	21.08.2015	U	No	✓		
▪ Brisbane Green Heart CitySmart Pty Ltd	17.09.2015	18.09.2015	U	N/A	✓		
▪ Brisbane Marketing Pty Ltd	30.09.2015	01.10.2015	U	N/A		✓	
▪ Brisbane Powerhouse Foundation	01.10.2015	07.10.2015	U	N/A		✓	
▪ Brisbane Powerhouse Pty Ltd	01.10.2015	07.10.2015	U	N/A		✓	
▪ City of Brisbane Investment Corporation Pty Ltd	13.08.2015	13.08.2015	U	N/A	✓		
▪ City Parklands Transition Services Pty Ltd	17.09.2015	22.09.2015	U	N/A	✓		
▪ Museum of Brisbane Pty Ltd	25.09.2015	01.10.2015	U	N/A		✓	
▪ Museum of Brisbane Trust	25.09.2015	09.10.2015	Q E*	N/A		✓	

Audit	Date statements signed	Date opinion issued	Opinion	Ministerial extension issued to date	Timeliness		
					< 3 mths	3–4 mths	> 4 mths
▪ TradeCoast Land Pty Ltd	25.08.2015	26.08.2015	U	N/A	✓		
Bulloo Shire Council	16.10.2015	28.10.2015	U	No		✓	
Bundaberg Regional Council	08.09.2015	26.10.2015	U	No		✓	
Burdekin Shire Council	14.10.2015	22.10.2015	U	No		✓	
▪ Burdekin Cultural Complex Board Inc.^	11.06.2015	25.06.2015	E*	N/A	✓		
Burke Shire Council	30.10.2015	30.10.2015	U	No		✓	
Cairns Regional Council	14.10.2015	20.10.2015	U	No		✓	
▪ Cairns Regional Gallery Limited	29.03.2016	30.03.2016	U	N/A			✓
▪ Cairns Regional Gallery Arts Trust	12.02.2016	17.03.2016	QE*	N/A			✓
Carpentaria Shire Council	29.10.2015	30.10.2015	U	No		✓	
Cassowary Coast Regional Council	20.10.2015	23.10.2015	U	No		✓	
Central Highlands Regional Council	28.10.2015	28.10.2015	U	No		✓	
▪ Central Highlands (Qld) Housing Company Limited	28.10.2015	30.10.2015	E*	N/A		✓	
▪ Central Highlands Development Corporation Ltd	16.11.2015	14.12.2015	E*	N/A			✓
Charters Towers Regional Council	29.10.2015	30.10.2015	U	No		✓	
Cherbourg Aboriginal Shire Council	19.10.2015	21.10.2015	U	No		✓	
Cloncurry Shire Council	30.10.2015	30.10.2015	U	30.11.2015		✓	
Cook Shire Council	16.10.2015	29.10.2015	U	No		✓	

Audit	Date statements signed	Date opinion issued	Opinion	Ministerial extension issued to date	Timeliness		
					< 3 mths	3–4 mths	> 4 mths
Council of the City of Gold Coast	30.10.2015	30.10.2015	U	No		✓	
▪ Broadbeach Alliance Limited	20.08.2015	24.08.2015	U	N/A	✓		
▪ Connecting Southern Gold Coast Limited	21.09.2015	23.09.2015	U	N/A	✓		
▪ Gold Coast Arts Centre Pty Ltd	02.10.2015	07.10.2015	U	N/A	✓		
▪ Surfers Paradise Alliance Limited	06.10.2015	07.10.2015	U	N/A		✓	
Croydon Shire Council	15.10.2015	20.10.2015	U	No		✓	
Diamantina Shire Council	21.10.2015	28.10.2015	U	No		✓	
Doomadgee Aboriginal Shire Council	26.10.2015	28.10.2015	U	No		✓	
Douglas Shire Council	24.09.2015	28.09.2015	U	No	✓		
Etheridge Shire Council	02.09.2015	24.09.2015	U	No	✓		
Flinders Shire Council	30.10.2015	30.10.2015	U	No		✓	
Fraser Coast Regional Council	15.10.2015	23.10.2015	U	No		✓	
▪ Fraser Coast Opportunities Ltd	24.11.2015	26.11.2015	E*	N/A			✓
▪ Wide Bay Water Corporation	15.10.2015	23.10.2015	E	N/A		✓	
Gladstone Regional Council	27.10.2015	28.10.2015	U	No		✓	
▪ Gladstone Airport Corporation	27.10.2015	28.10.2015	U	N/A		✓	
Goondiwindi Regional Council	25.08.2015	28.08.2015	U	No	✓		
Gympie Regional Council	24.09.2015	13.10.2015	U	No		✓	
Hinchinbrook Shire Council	22.10.2015	27.10.2015	U	No		✓	
Hope Vale Aboriginal Shire Council	23.07.2015	11.08.2015	U	No	✓		

Audit	Date statements signed	Date opinion issued	Opinion	Ministerial extension issued to date	Timeliness		
					< 3 mths	3–4 mths	> 4 mths
Ipswich City Council	23.10.2015	26.10.2015	U	No		✓	
▪ Ipswich Arts Foundation	09.09.2015	17.09.2015	U	N/A	✓		
▪ Ipswich Arts Foundation Trust	30.09.2015	01.10.2015	U	N/A		✓	
▪ Ipswich City Developments Enterprises Pty Ltd	15.09.2015	17.09.2015	U	N/A	✓		
▪ Ipswich City Enterprises Investments Pty Ltd	08.09.2015	17.09.2015	U	N/A	✓		
▪ Ipswich City Enterprises Pty Ltd	08.09.2015	17.09.2015	U	N/A	✓		
▪ Ipswich City Properties Pty Ltd	15.09.2015	17.09.2015	U	N/A	✓		
Isaac Regional Council	19.10.2015	28.10.2015	U	No		✓	
▪ Isaac Affordable Housing Fund Pty Ltd	12.11.2015	30.11.2015	E*	N/A			✓
▪ Isaac Affordable Housing Trust	12.11.2015	30.11.2015	E*	N/A			✓
▪ Moranbah Early Learning Centre Pty Ltd	12.11.2015	30.11.2015	E*	N/A			✓
Kowanyama Aboriginal Shire Council	Not complete	Not complete		28.02.2016			
Livingstone Shire Council	22.10.2015	26.10.2015	U	No		✓	
Lockhart River Aboriginal Shire Council	30.10.2015	30.10.2015	U	No		✓	
▪ Lockhart River Aerodrome Company Pty Ltd	30.10.2015	30.10.2015	U	N/A		✓	
Lockyer Valley Regional Council	08.10.2015	20.10.2015	U	No		✓	
Logan City Council	18.09.2015	23.09.2015	U	No	✓		

Audit	Date statements signed	Date opinion issued	Opinion	Ministerial extension issued to date	Timeliness		
					< 3 mths	3–4 mths	> 4 mths
Longreach Regional Council	28.10.2015	30.10.2015	U	No		✓	
Mackay Regional Council	06.10.2015	21.10.2015	U	No		✓	
▪ Mackay Regional Enterprises Pty Ltd	15.12.2015	18.12.2015	U	N/A			✓
Mapoon Aboriginal Shire Council	15.10.2015	30.10.2015	U	No		✓	
Maranoa Regional Council	29.09.2015	14.10.2015	U	No		✓	
Mareeba Shire Council	28.09.2015	08.10.2015	U	No		✓	
McKinlay Shire Council	06.10.2015	20.10.2015	U	No		✓	
Moreton Bay Regional Council	15.10.2015	21.10.2015	U	No		✓	
Mornington Shire Council	Not complete	Not complete		14.12.2015			
Mount Isa City Council	23.10.2015	30.10.2015	Q	No		✓	
▪ Outback @ Isa Pty Ltd	18.12.2015	15.01.2016	E	N/A			✓
▪ Mount Isa City Council Owned Enterprises Pty Ltd	18.12.2015	12.01.2016	U	N/A			✓
Murweh Shire Council	30.09.2015	08.10.2015	U	No		✓	
Napranum Aboriginal Shire Council	23.10.2015	27.10.2015	U	No		✓	
Noosa Shire Council	23.10.2015	27.10.2015	U	No		✓	
North Burnett Regional Council	13.10.2015	27.10.2015	U	No		✓	
Northern Peninsula Area Regional Council	Not complete	Not complete		31.03.2016			
Palm Island Aboriginal Shire Council	17.09.2015	26.10.2015	U	No		✓	
Paroo Shire Council	26.10.2015	30.10.2015	Q	No		✓	
Pormpuraaw Aboriginal Shire Council	28.10.2015	28.10.2015	U	No		✓	

Audit	Date statements signed	Date opinion issued	Opinion	Ministerial extension issued to date	Timeliness		
					< 3 mths	3–4 mths	> 4 mths
Quilpie Shire Council	28.01.2016	08.02.2016	U	30.01.2016			✓
Redland City Council	15.10.2015	26.10.2015	U	No		✓	
▪ Redland Investment Corporation Pty Ltd	28.10.2015	04.11.2015	U	N/A			✓
Richmond Shire Council	17.11.2015	16.12.2015	U	No			✓
▪ The Kronosaurus Korner Board Inc.	09.12.2015	16.12.2015	E*	N/A			✓
Rockhampton Regional Council	25.11.2015	27.11.2015	U	30.11.2015			✓
▪ The Rockhampton Art Gallery Trust	29.10.2015	30.10.2015	Q E*	N/A		✓	
Scenic Rim Regional Council	14.10.2015	27.10.2015	U	No		✓	
Somerset Regional Council	06.10.2015	14.10.2015	U	No		✓	
South Burnett Regional Council	22.10.2015	30.10.2015	Q	No		✓	
▪ South Burnett Community Hospital Foundation Limited	21.10.2015	30.10.2015	E	N/A		✓	
Southern Downs Regional Council	22.10.2015	28.10.2015	U	No		✓	
▪ Warwick Tourism and Events Pty Ltd	Not complete	Not complete		N/A			
Sunshine Coast Regional Council	27.10.2015	28.10.2015	U	No		✓	
Tablelands Regional Council	28.09.2015	14.10.2015	U	No		✓	
Toowoomba Regional Council	06.10.2015	12.10.2015	U	No		✓	
▪ Empire Theatres Foundation	01.09.2015	08.09.2015	U	N/A	✓		

Audit	Date statements signed	Date opinion issued	Opinion	Ministerial extension issued to date	Timeliness		
					< 3 mths	3–4 mths	> 4 mths
▪ Empire Theatre Projects Pty Ltd	24.08.2015	28.08.2015	U	N/A	✓		
▪ Empire Theatres Pty Ltd	24.08.2015	28.08.2015	U	N/A	✓		
▪ Jondaryan Woolshed Pty Ltd	30.11.2015	22.01.2016	U	N/A			✓
▪ Toowoomba and Surat Basin Enterprise Pty Ltd	22.10.2015	30.10.2015	U	N/A		✓	
Torres Shire Council	13.04.2016	19.04.2016	U	15.03.2016			✓
Torres Strait Island Regional Council	23.10.2015	27.10.2015	U	No		✓	
Townsville City Council	22.10.2015	26.10.2015	U	No		✓	
Western Downs Regional Council	13.10.2015	21.10.2015	U	No		✓	
▪ Western Downs Housing Trust	18.12.2015	01.02.2016	E*	N/A			✓
Whitsunday Regional Council	06.10.2015	09.10.2015	U	No		✓	
Winton Shire Council	28.10.2015	29.10.2015	U	No		✓	
▪ Waltzing Matilda Centre Ltd	27.10.2015	29.10.2015	U	N/A		✓	
Woorabinda Aboriginal Shire Council	25.11.2015	14.12.2015	U	No			✓
▪ Woorabinda Pastoral Company Pty Limited	08.12.2015	16.12.2015	Q	N/A			✓
Wujal Wujal Aboriginal Shire Council	Not complete	Not complete		31.03.2016			
Yarrabah Aboriginal Shire Council	27.10.2015	28.10.2015	U	No		✓	
Joint local government							
Nogoa River Flood Plain Board	01.12.2015	16.12.2015	E*	No			✓

Audit	Date statements signed	Date opinion issued	Opinion	Ministerial extension issued to date	Timeliness		
					< 3 mths	3–4 mths	> 4 mths
Jointly-controlled entities							
Council of Mayors (SEQ) Pty Ltd	25.09.2015	29.09.2015	U	N/A	✓		
Local Government Association of Queensland Ltd	14.10.2015	15.10.2015	U	N/A		✓	
▪ DDS Unit Trust	08.10.2015	13.10.2015	U	N/A		✓	
▪ Local Buy Trading Trust	24.09.2015	28.09.2015	Q	N/A	✓		
▪ Local Partnerships Services Pty Ltd	23.09.2015	28.09.2015	E*	N/A	✓		
▪ Prevwood Pty Ltd	13.10.2015	14.10.2015	E*	N/A		✓	
▪ QPG Shared Services Support Centres Joint Venture	12.10.2015	14.10.2015	E*	N/A		✓	
▪ Local Government Infrastructure Services Pty Ltd	28.09.2015	02.10.2015	U	N/A		✓	
▪ Services Queensland	23.09.2015	28.09.2015	E*	N/A	✓		
▪ Northern Australia Services	07.10.2015	13.10.2015	E*	N/A		✓	
North West Queensland Regional Organisation of Councils	06.01.2016	21.01.2016	U	N/A			✓
Queensland Local Government Mutual Liability Pool (LGM Queensland)	09.11.2015	12.11.2015	U	N/A			✓
Queensland Local Government Workers' Compensation Self-Insurance Scheme (trading as Local Government Workcare)	09.11.2015	12.11.2015	U	N/A			✓

Audit	Date statements signed	Date opinion issued	Opinion	Ministerial extension issued to date	Timeliness		
					< 3 mths	3–4 mths	> 4 mths
SEQ Regional Recreational Facilities Pty Ltd	17.09.2015	18.09.2015	U	N/A	✓		
South West Queensland Local Government Association #	16.10.2015	28.10.2015	E*	N/A		✓	
Townsville Breakwater Entertainment Centre Joint Venture	11.04.2016	14.04.2016	E*	N/A			✓
Whitsunday ROC Limited	17.09.2015	22.09.2015	U	N/A	✓		
The Wide Bay Burnett Regional Organisation of Councils Inc.	28.09.2015	15.10.2015	E*	N/A		✓	
Western Queensland Local Government Association	07.04.2016	10.05.2016	E*	N/A			✓
Audits by arrangement							
Ipswich Mayor's Carols by Candlelight Fund Inc.	28.09.2015	29.09.2015	E*	N/A	✓		
Ipswich Mayor's Community Fund Inc.	28.09.2015	22.10.2015	Q E*	N/A		✓	
City of Ipswich Community Fund Trust	28.09.2015	29.09.2015	E*	N/A	✓		

* An emphasis of matter paragraph was issued to alert users of the financial statements to the fact that special purpose financial statements had been prepared.

^ The financial year of Burdekin Cultural Complex Board Inc. was 1 May 2014 to 30 April 2015.

\# The financial year of South West Queensland Local Government Association was 1 April 2014 to 31 March 2015.

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

Source: Queensland Audit Office

Appendix C—Status of current year financial sustainability statements

Figure C1
Status of 2014–15 financial sustainability statement audits

Audit	Date statements signed	Date opinion issued	Opinion	Timeliness (since 30 June)		
				< 3 mths	3 – 4 mths	> 4 mths
Councils						
Aurukun Shire Council	02.11.2015	04.11.2015	E*			✓
Balonne Shire Council	08.10.2015	13.10.2015	E*		✓	
Banana Shire Council	27.10.2015	28.10.2015	E*		✓	
Barcaldine Regional Council	27.10.2015	28.10.2015	E*		✓	
Barcoo Shire Council	23.10.2015	28.10.2015	E*		✓	
Blackall-Tambo Regional Council	30.10.2015	30.10.2015	E*		✓	
Boulia Shire Council	06.11.2015	30.11.2015	E*			✓
Brisbane City Council	20.08.2015	21.08.2015	E*	✓		
Bulloo Shire Council	16.10.2015	28.10.2015	E*		✓	
Bundaberg Regional Council	08.09.2015	26.10.2015	E*		✓	
Burdekin Shire Council	14.10.2015	22.10.2015	E*		✓	
Burke Shire Council	30.10.2015	30.10.2015	E*		✓	
Cairns Regional Council	14.10.2015	20.10.2015	E*		✓	
Carpentaria Shire Council	29.10.2015	30.10.2015	E*		✓	
Cassowary Coast Regional Council	20.10.2015	23.10.2015	E*		✓	
Central Highlands Regional Council	28.10.2015	28.10.2015	E*		✓	
Charters Towers Regional Council	29.10.2015	30.10.2015	E*		✓	
Cherbourg Aboriginal Shire Council	19.10.2015	21.10.2015	E*		✓	
Cloncurry Shire Council	30.10.2015	30.10.2015	E*		✓	
Cook Shire Council	16.10.2015	29.10.2015	E*		✓	
Council of the City of Gold Coast	30.10.2015	30.10.2015	E*		✓	

Audit	Date statements signed	Date opinion issued	Opinion	Timeliness (since 30 June) < 3 mths	3 – 4 mths	> 4 mths
Croydon Shire Council	15.10.2015	20.10.2015	E*		✓	
Diamantina Shire Council	21.10.2015	28.10.2015	E*		✓	
Doomadgee Aboriginal Shire Council	26.10.2015	28.10.2015	E*		✓	
Douglas Shire Council	24.09.2015	28.09.2015	E*	✓		
Etheridge Shire Council	02.09.2015	24.09.2015	E*	✓		
Flinders Shire Council	30.10.2015	30.10.2015	E*		✓	
Fraser Coast Regional Council	15.10.2015	23.10.2015	E*		✓	
Gladstone Regional Council	27.10.2015	28.10.2015	E*		✓	
Goondiwindi Regional Council	25.08.2015	28.08.2015	E*	✓		
Gympie Regional Council	24.09.2015	13.10.2015	E*		✓	
Hinchinbrook Shire Council	22.10.2015	27.10.2015	E*		✓	
Hope Vale Aboriginal Shire Council	23.07.2015	11.08.2015	E*	✓		
Ipswich City Council	23.10.2015	26.10.2015	E*		✓	
Isaac Regional Council	19.10.2015	28.10.2015	E*		✓	
Kowanyama Aboriginal Shire Council	Not complete	Not complete				
Livingstone Shire Council	22.10.2015	26.10.2015	E*		✓	
Lockhart River Aboriginal Shire Council	30.10.2015	30.10.2015	E*		✓	
Lockyer Valley Regional Council	08.10.2015	20.10.2015	E*		✓	
Logan City Council	18.09.2015	23.09.2015	E*	✓		
Longreach Regional Council	28.10.2015	30.10.2015	E*		✓	
Mackay Regional Council	06.10.2015	21.10.2015	E*		✓	
Mapoon Aboriginal Shire Council	15.10.2015	30.10.2015	E*		✓	
Maranoa Regional Council	29.09.2015	14.10.2015	E*		✓	
Mareeba Shire Council	28.09.2015	08.10.2015	E*		✓	
McKinlay Shire Council	06.10.2015	20.10.2015	E*		✓	
Moreton Bay Regional Council	15.10.2015	21.10.2015	E*		✓	

Audit	Date statements signed	Date opinion issued	Opinion	Timeliness (since 30 June)		
				< 3 mths	3 – 4 mths	> 4 mths
Mornington Shire Council	Not complete	Not complete				
Mt Isa City Council	23.10.2015	30.10.2015	E*		✓	
Murweh Shire Council	30.09.2015	08.10.2015	E*		✓	
Napranum Aboriginal Shire Council	23.10.2015	27.10.2015	E*		✓	
Noosa Shire Council	23.10.2015	2710.2015	E*		✓	
North Burnett Regional Council	13.10.2015	27.10.2015	E*		✓	
Northern Peninsula Area Regional Council	Not complete	Not complete				
Palm Island Aboriginal Shire Council	17.09.2015	26.10.2015	E*		✓	
Paroo Shire Council	26.10.2015	30.10.2015	Q E*		✓	
Pormpuraaw Aboriginal Shire Council	28.10.2015	28.10.2015	E*		✓	
Quilpie Shire Council	28.01.2016	08.02.2016	E*			✓
Redland City Council	15.10.2015	26.10.2015	E*		✓	
Richmond Shire Council	17.11.2015	16.12.2015	E*			✓
Rockhampton Regional Council	25.11.2015	27.11.2015	E*			✓
Scenic Rim Regional Council	14.10.2015	27.10.2015	E*		✓	
Somerset Regional Council	06.10.2015	14.10.2015	E*		✓	
South Burnett Regional Council	22.10.2015	30.10.2015	E*		✓	
Southern Downs Regional Council	22.10.2015	28.10.2015	E*		✓	
Sunshine Coast Regional Council	27.10.2015	28.10.2015	E*		✓	
Tablelands Regional Council	28.09.2015	14.10.2015	E*		✓	
Toowoomba Regional Council	06.10.2015	12.10.2015	E*		✓	

Audit	Date statements signed	Date opinion issued	Opinion	Timeliness (since 30 June)		
				< 3 mths	3 – 4 mths	> 4 mths
Torres Shire Council	13.04.2016	19.04.2016	E*			✓
Torres Strait Island Regional Council	23.10.2015	27.10.2015	E*		✓	
Townsville City Council	22.10.2015	26.10.2015	E*		✓	
Western Downs Regional Council	13.10.2015	21.10.2015	E*		✓	
Whitsunday Regional Council	06.10.2015	09.10.2015	E*		✓	
Winton Shire Council	28.10.2015	29.10.2015	E*		✓	
Woorabinda Aboriginal Shire Council	25.11.2015	14.12.2015	E*			✓
Wujal Wujal Aboriginal Shire Council	Not complete	Not complete				
Yarrabah Aboriginal Shire Council	27.10.2015	28.10.2015	E*		✓	

* An emphasis of matter paragraph was issued to highlight to users of these statements that they were prepared on a special purpose basis.

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

Source: Queensland Audit Office

Appendix D—Status of financial statements of exempt entities

Figure D1
Status of 2014–15 financial statement audits

Audit	Audit firm	Date statements signed	Date opinion issued	Opinion	Timeliness		
					< 3 mths	3–4 mths	> 4 mths
Exempt local government entities (s.30A of the *Auditor-General Act 2009* — small in size and of low risk)							
Brisbane Festival Limited+	BDO Audit Pty Ltd	21.04.2016	21.04.2016	U		✓	
Central Western Queensland Remote Area Planning and Development Board (RAPAD)	Walsh Accounting	15.10.2015	15.10.2015	U		✓	
Far North Queensland Regional Organisation of Councils	Halpin Partners	14.10.2015	14.10.2015	E*		✓	
Gulf Savannah Development Inc.	Crowe Horwath	24.08.2015	27.08.2015	E*	✓		
Major Brisbane Festivals Pty Ltd+	BDO Audit Pty Ltd	20.04.2015	20.04.2015	U		✓	
North Queensland Local Government Association+	Crowe Horwath	27.04.2016	28.04.2016	E*		✓	
Palm Island Community Company Limited	Moore Stephens (Queensland) Audit Pty Ltd	12.11.2015	12.11.2015	U			✓
Exempt local government entities (s.32 of the *Auditor-General Act 2009* — foreign-based controlled entity)							
Gold Coast City Council Insurance Company Limited	Ernst & Young LLP	14.08.2015	19.08.2015	U	✓		

* An emphasis of matter was issued to alert users of the financial statements to the fact that special purpose financial statements had been prepared.

\+ The financial year of Brisbane Festival Limited, Major Brisbane Festival Pty Ltd and North Queensland Local Government Association was 1 January 2015 to 31 December 2015.

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

Source: Queensland Audit Office

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

Figure E1
Local government entities for which audit opinions will not be issued for 2014–15

Entity	Parent entity	Reason
	Controlled entities	
BCC Shelf One Pty Ltd (formerly City of Brisbane Arts and Environment Limited)	Brisbane City Council	Dormant
Brisdev Pty Ltd	City of Brisbane Investment Corporation Pty Ltd	Dormant
Brisbane Tolling Pty Ltd	Brisbane City Council	Dormant
Brisdev Trust	City of Brisbane Investment Corporation Pty Ltd	Dormant
City Super Pty Ltd	Brisbane City Council	Dormant
Riverfestival Brisbane Pty Ltd	Brisbane City Council	Dormant
Citipac International Pty Ltd	Council of the City of Gold Coast	Dormant
The Brolga Theatre Board Inc.	Fraser Coast Regional Council	Dormant
Widelinx Pty Ltd	Fraser Coast Regional Council	Non-reporting
Mary Valley Rattler Community Holdings Ltd	Gympie Regional Council	Non-reporting
Rattler Railway Company Ltd	Gympie Regional Council	Non-reporting
Thonorr Than Ltd	Kowanyama Aboriginal Shire Council	Wound up
Invest Logan Pty Ltd	Logan City Council	Dormant
Rodeo Capital Pty Ltd	Mount Isa City Council	Dormant
Noosa Biosphere Limited	Noosa Shire Council	Non-reporting
Palm Island Economic Development Corporation	Palm Island Aboriginal Council	Dormant
Edward River Crocodile Farm Pty Ltd	Pormpuraaw Aboriginal Shire Council	Under administration
Redheart Pty Ltd	Redland City Council	Dormant
Castra Retirement Home Limited	South Burnett Regional Council	Wound up
Suncentral Maroochydore Pty Ltd	Sunshine Coast Regional Council	Non-reporting

Entity	Parent entity	Reason
Sunshine Coast Events Centre Pty Ltd	Sunshine Coast Regional Council	Non-reporting
Western Downs Disaster Relief Fund	Western Downs Regional Council	Dormant
Western Downs Housing Fund Pty Ltd	Western Downs Regional Council	Dormant
Winton Community Association	Winton Shire Council	Dormant
Jointly-controlled entities		
GovCloud Joint Venture	Local Government Association of Queensland Ltd	Wound up
Local Buy Pty Ltd	Local Government Association of Queensland Ltd	Dormant
Resolute Information Technology Pty Ltd	Local Government Association of Queensland Ltd	Dormant
Queensland Partnerships Group (LG Shared Services) Pty Ltd	Local Government Association of Queensland Ltd	Dormant
LG Disaster Recovery Services Pty Ltd	Local Government Association of Queensland Ltd	Dormant
GovCloud Pty Ltd	Local Government Association of Queensland Ltd	Wound Up
LG Cloud Pty Ltd	Local Government Association of Queensland Ltd	Dormant
Northern Australia Services Pty Ltd	Local Government Association of Queensland Ltd	Dormant

Source: Queensland Audit Office

Appendix F—Status of 2013–14 financial statements

Figure F1
Status of 2013–14 financial statement audits not previously reported

Entity	Date statements signed	Date opinion issued	Opinion
Councils			
Carpentaria Shire Council	29.05.2015	30.06.2015	U
Kowanyama Aboriginal Shire Council	29.10.2015	30.11.2015	Q
Mareeba Shire Council	27.05.2015	28.05.2015	U
Northern Peninsula Area Regional Council	20.05.2015	22.06.2015	Q
Richmond Shire Council	17.06.2015	08.07.2015	U
South Burnett Regional Council	03.06.2015	16.07.2015	Q
Torres Shire Council	21.04.2015	28.04.2015	U
Wujal Wujal Aboriginal Shire Council	29.04.2015	11.06.2015	U
Controlled entities			
Townsville Breakwater Entertainment Centre Joint Venture	20.05.2015	26.05.2015	E*

Figure F2
Status of 2013–14 financial sustainability statement audits not previously reported

Entity	Date statements signed	Date opinion issued	Opinion
Councils			
Carpentaria Shire Council	29.05.2015	30.06.2015	E*
Kowanyama Aboriginal Shire Council	29.10.2015	30.11.2015	Q E*
Mareeba Shire Council	27.05.2015	28.05.2015	E*
Northern Peninsula Area Regional Council	20.05.2015	22.06.2015	Q E*
Richmond Shire Council	17.06.2015	08.07.2015	E*
South Burnett Regional Council	03.06.2015	16.07.2015	Q E*
Torres Shire Council	21.04.2015	28.04.2015	E*
Wujal Wujal Aboriginal Shire Council	09.06.2015	11.06.2015	E*

* An emphasis of matter paragraph was issued to alert users of these statements that they have been prepared on a special purpose basis.

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

Source: Queensland Audit Office

Appendix G—Financial sustainability measures

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

Figure G1
Financial sustainability measures for councils

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

Source: Queensland Audit Office

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

Figure G2
Risk assessment criteria for financial sustainability measures

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

Source: Queensland Audit Office

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

Figure G3
Overall financial sustainability relative risk assessment

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

Source: Queensland Audit Office

Our assessment of financial sustainability risk factors does not take into account councils' long-term forecasts or credit assessments undertaken by the Queensland Treasury Corporation.

Figure G4
Financial sustainability risk assessment by council category: Results at the end of 2014–15

Council	Current operating surplus ratio %	Avg. operating surplus ratio %	Avg. operating surplus ratio trend^	Net financial liabilities ratio %	Net financial liabilities ratio trend	Asset sustainability ratio %	Avg. asset sustainability ratio %	Avg. asset sustainability ratio trend^	Relative risk assessment
Coastal councils									
Bundaberg Regional Council	3.03	0.88	↑	11.58	↑	97.00	96.54	–	Lower
Burdekin Shire Council	9.50	7.15	↑	-16.64	↓	72.53	141.34	↓	Lower
Cairns Regional Council	3.04	-0.72	–	3.91	↑	89.25	111.26	↓	Lower
Cassowary Coast Regional Council	1.96	-0.56	–	-36.03	↑	91.00	188.95	↓	Lower
Douglas Shire Council*	-2.98	-9.40	↑	-37.04	↓	67.00	47.53	↑	Moderate
Fraser Coast Regional Council	7.39	1.26	↑	-15.80	↑	72.52	72.63	–	Lower
Gladstone Regional Council	2.12	6.34	↑	32.88	↑	126.00	163.12	↓	Lower
Gympie Regional Council	4.63	5.26	–	-51.78	↓	170.15	155.55	↑	Lower
Hinchinbrook Shire Council	2.57	-4.34	↑	-21.07	↑	121.00	122.65	–	Moderate
Livingstone Shire Council*	-12.42	-14.24	↑	84.28	↑	48.10	47.53	–	High
Mackay Regional Council	1.26	-1.49	↑	35.09	↑	69.00	98.18	↓	Lower
Noosa Shire Council*	7.92	0.72	↑	1.16	↑	65.10	48.48	↑	Moderate
Rockhampton Regional Council	-5.53	-0.85	–	59.36	↓	76.40	73.43	–	Moderate
Townsville City Council	2.01	0.11	↑	77.41	↑	88.00	88.83	–	Moderate
Whitsunday Regional Council	11.45	0.24	–	17.08	↑	27.91	67.90	↓	Lower
Coastal average**	2.40	-0.64		9.63		85.40	101.60		
Coastal — combined risk assessment		**Lower**		**Lower**			**Lower**		**Lower**

* De-amalgamated council (established 1 January 2014) average ratios are based on 18 month actual financial results. Refer Chapter 6 for further ratio analysis.

** Coastal average includes de-amalgamated council results.

^ Average ratio trend compares average ratio from 2014–15 with average ratio from 2013–14. Trends should be considered in conjunction with DILGP set benchmarks and the analysis performed and explained in Chapter 6. Refer also Figure G1 which explains the financial sustainability measures and associated benchmarks.

Legend: ↑ An increasing trend – No substantial change ↓ A decreasing trend.

Council	Current operating surplus ratio %	Avg. operating surplus ratio %	Avg. operating surplus ratio trend^	Net financial liabilities ratio %	Net financial liabilities ratio trend	Asset sustainability ratio %	Avg. asset sustainability ratio %	Avg. asset sustainability ratio trend^	Relative risk assessment
Indigenous councils									
Aurukun Shire Council	-16.66	-4.19	↓	-66.61	↓	212.00	202.08	–	Moderate
Cherbourg Aboriginal Shire Council	5.62	-11.00	↑	-48.29	↑	176.00	108.76	↑	High
Doomadgee Aboriginal Shire Council	-8.39	-8.20	↑	-115.92	↑	48.00	37.63	↑	Moderate
Hope Vale Aboriginal Shire Council	5.61	12.86	↑	-62.07	↑	97.00	105.28	–	Lower
Kowanyama Aboriginal Shire Council	Financial statements not finalised								
Lockhart River Aboriginal Shire Council	20.88	-9.95	↑	-40.06	↑	346.00	185.37	↑	Moderate
Mapoon Aboriginal Shire Council	-19.31	-17.12	–	-62.76	–	100.11	51.86	↑	High
Mornington Shire Council	Financial statements not finalised								
Napranum Aboriginal Shire Council	-51.18	-6.35	–	-25.26	↓	215.00	78.88	↑	Moderate
Northern Peninsula Area Regional Council	Financial statements not finalised								
Palm Island Aboriginal Shire Council	-3.52	-6.52	↑	-22.73	↑	74.00	188.17	↓	Moderate
Pormpuraaw Aboriginal Shire Council	-12.82	-14.57	↑	-76.23	↑	121.00	85.85	↑	High
Torres Shire Council	-23.16	-3.07	↓	-61.87	↓	109.23	76.74	↑	Moderate
Torres Strait Island Regional Council	-45.71	-40.99	–	-35.41	↑	28.00	59.67	↓	High
Woorabinda Aboriginal Shire Council	19.01	-0.65	↑	-67.37	↓	27.81	16.86	↑	Moderate
Wujal Wujal Aboriginal Shire Council	Financial statements not finalised								
Yarrabah Aboriginal Shire Council	-14.17	-31.12	↑	-10.86	↓	170.00	68.91	↑	High
Indigenous average	-11.06	-10.84		-53.50		132.63	97.39		
Indigenous — combined risk assessment		**Higher**		**Lower**			**Lower**		**Higher**

^ Average ratio trend compares average ratio from 2014–15 with average ratio from 2013–14. Trends should be considered in conjunction with DILGP set benchmarks and the analysis performed and explained in Chapter 6. Refer also Figure G1 which explains the financial sustainability measures and associated benchmarks.

Legend: ↑ An increasing trend – No substantial change ↓ A decreasing trend.

Council	Current operating surplus ratio %	Avg. operating surplus ratio %	Avg. operating surplus ratio trend^	Net financial liabilities ratio %	Net financial liabilities ratio trend	Asset sustainability ratio %	Avg. asset sustainability ratio %	Avg. asset sustainability ratio trend^	Relative risk assessment
Resources councils									
Banana Shire Council	-3.70	1.97	↓	15.93	↓	166.88	126.51	↑	Lower
Barcoo Shire Council	-6.39	4.25	↓	-114.32	↑	172.90	104.14	↑	Lower
Bulloo Shire Council	-25.91	-3.62	↓	-27.26	–	104.00	240.10	↓	Moderate
Burke Shire Council***	-12.28	-2.36	↑	-152.97	↓	28.00	133.33	↓	Moderate
Central Highlands Regional Council	11.82	7.07	↑	-52.58	↓	93.48	80.37	↑	Lower
Charters Towers Regional Council	-18.84	0.54	↑	-82.99	↑	57.00	99.80	↓	Lower
Cloncurry Shire Council	0.55	9.37	↓	-53.70	↓	63.00	116.04	↓	Lower
Cook Shire Council	-43.83	-27.87	↓	24.00	↓	428.80	258.74	↑	High
Etheridge Shire Council	-6.97	-17.67	↓	-69.61	↓	123.50	111.51	↑	High
Isaac Regional Council	-13.70	8.31	↓	-75.55	↓	136.10	208.32	↓	Lower
Maranoa Regional Council	-5.20	3.44	–	-45.50	↑	19.11	88.52	↓	Lower
McKinlay Shire Council	-6.14	-1.95	↓	-80.07	↑	120.50	138.74	↓	Lower
Mount Isa City Council	0.89	1.04	↑	0.39	↑	156.41	151.22	–	Lower
Quilpie Shire Council	25.84	7.69	↑	-51.38	↑	151.00	133.57	↑	Lower
Western Downs Regional Council	5.94	-1.79	↑	-27.27	↓	110.81	227.30	↓	Lower
Resources average	-6.53	-0.77		-52.86		128.77	147.88		
Resources — combined risk assessment		**Lower**		**Lower**			**Lower**		**Lower**

*** This council's 2012–13 sustainability statement was qualified in relation to the calculation of the asset sustainability ratio. This will impact the average ratio calculations.

^ Average ratio trend compares average ratio from 2014–15 with average ratio from 2013–14. Trends should be considered in conjunction with DILGP set benchmarks and the analysis performed and explained in Chapter 6. Refer also Figure G1 which explains the financial sustainability measures and associated benchmarks.

Legend: ↑ An increasing trend – No substantial change ↓ A decreasing trend.

Council	Current operating surplus ratio %	Avg. operating surplus ratio %	Avg. operating surplus ratio trend^	Net financial liabilities ratio %	Net financial liabilities ratio trend	Asset sustainability ratio %	Avg. asset sustainability ratio %	Avg. asset sustainability ratio trend^	Relative risk assessment
Rural/Regional councils									
Goondiwindi Regional Council	-4.12	1.24	–	-70.15	–	116.32	93.27	↑	Lower
Lockyer Valley Regional Council	-14.98	-8.46	↓	60.15	↓	255.23	123.27	↑	Moderate
Mareeba Shire Council*	11.09	-0.77	↑	-38.69	↓	93.00	106.00	↓	Lower
North Burnett Regional Council	-1.37	-8.03	↑	-26.08	↓	261.56	175.15	↑	Moderate
Scenic Rim Regional Council	10.24	2.56	↑	2.90	↑	367.00	458.81	↓	Lower
Somerset Regional Council	9.72	1.52	↓	-154.06	↓	455.00	492.71	↓	Lower
South Burnett Regional Council	15.15	-4.56	↑	13.78	↓	173.50	194.83	↓	Moderate
Southern Downs Regional Council	-3.70	-10.45	–	39.86	↑	85.93	102.08	↓	High
Tablelands Regional Council	3.23	-0.29	–	-21.63	↓	81.10	110.37	↓	Lower
Rural/Regional average**	2.81	-3.03		-21.55		209.85	206.28		
Rural/Regional — combined risk assessment		**Moderate**		**Lower**			**Lower**		**Moderate**

* De-amalgamated council (established 1 January 2014) average ratios are based on 18 month actual financial results. Refer Chapter 6 for further ratio analysis.

** Rural/Regional average includes de-amalgamated council results.

^ Average ratio trend compares average ratio from 2014–15 with average ratio from 2013–14. Trends should be considered in conjunction with DILGP set benchmarks and the analysis performed and explained in Chapter 6. Refer also Figure G1 which explains the financial sustainability measures and associated benchmarks.

Legend: ↑ An increasing trend – No substantial change ↓ A decreasing trend.

Council	Current operating surplus ratio %	Avg. operating surplus ratio %	Avg. operating surplus ratio trend^	Net financial liabilities ratio %	Net financial liabilities ratio trend	Asset sustainability ratio %	Avg. asset sustainability ratio %	Avg. asset sustainability ratio trend^	Relative risk assessment
Rural/Remote councils									
Balonne Shire Council	-2.28	7.86	↓	-58.45	↑	97.71	244.67	↓	Lower
Barcaldine Regional Council	-6.33	-5.44	↑	-68.80	↑	118.51	98.10	↑	Moderate
Blackall–Tambo Regional Council	12.27	-4.54	↑	-26.42	↑	84.00	110.66	↓	Moderate
Boulia Shire Council	-3.56	-1.34	↓	-118.26	↓	218.00	111.91	↑	Lower
Carpentaria Shire Council	8.20	5.29	–	-24.76	↓	57.50	98.17	↓	Lower
Croydon Shire Council	12.59	9.44	↑	-109.64	↑	109.00	124.49	↓	Lower
Diamantina Shire Council	-29.44	0.75	↓	-128.04	↑	66.09	284.10	↓	Lower
Flinders Shire Council	5.50	7.09	↑	-66.10	↑	82.60	170.57	↓	Lower
Longreach Regional Council	11.62	6.33	↑	-60.23	↑	113.54	163.02	↓	Lower
Murweh Shire Council	-17.20	-0.04	↓	3.46	↓	41.56	664.28	↓	Lower
Paroo Shire Council***	-16.12	-13.24	↑	-19.82	↑	72.93	472.05	↓	High
Richmond Shire Council	-32.08	0.65	↓	-69.17	↑	162.00	187.33	↓	Lower
Winton Shire Council	16.16	8.98	–	-101.93	↑	272.47	203.88	↑	Lower
Rural/Remote average	-3.13	1.68		-65.24		115.07	225.63		
Rural/Remote — combined risk assessment		**Lower**		**Lower**			**Lower**		**Lower**

*** This council's sustainability statements were qualified from 2012–13 to 2014–15. The qualification impacts the calculation of the operating surplus ratio and the asset sustainability ratio, both current and average.

^ Average ratio trend compares average ratio from 2014–15 with average ratio from 2013–14. Trends should be considered in conjunction with DILGP set benchmarks and the analysis performed and explained in Chapter 6. Refer also Figure G1 which explains the financial sustainability measures and associated benchmarks.

Legend: ↑ An increasing trend – No substantial change ↓ A decreasing trend.

Council	Current operating surplus ratio %	Avg. operating surplus ratio %	Avg. operating surplus ratio trend^	Net financial liabilities ratio %	Net financial liabilities ratio trend	Asset sustainability ratio %	Avg. asset sustainability ratio %	Avg. asset sustainability ratio trend^	Relative risk assessment
South East Queensland (SEQ) councils									
Brisbane City Council	0.00	-0.92	↑	90.58	↑	77.00	73.24	–	Moderate
Council of the City of Gold Coast	-1.60	-6.8	↑	15.81	↑	34.80	35.60	–	Moderate
Ipswich City Council	4.73	2.84	↑	80.46	↑	27.35	91.63	↓	Moderate
Logan City Council	6.90	1.36	↑	6.94	↑	69.40	74.30	–	Lower
Moreton Bay Regional Council	20.39	9.82	↑	38.78	↑	65.20	68.11	–	Lower
Redland City Council	2.61	-4.00	↑	-22.96	↑	36.44	36.35	–	Moderate
Sunshine Coast Regional Council	14.88	5.87	↑	10.71	↑	70.40	67.81	–	Lower
Toowoomba Regional Council	1.10	0.30	–	44.59	↑	132.50	168.99	↓	Lower
SEQ average	6.13	1.06		33.11		64.14	77.00		
SEQ — combined risk assessment		**Lower**		**Lower**			**Lower**		**Lower**

^ Average ratio trend compares average ratio from 2014–15 with average ratio from 2013–14. Trends should be considered in conjunction with DILGP set benchmarks and the analysis performed and explained in Chapter 6. Refer also Figure G1 which explains the financial sustainability measures and associated benchmarks.

Legend: ↑ An increasing trend – No substantial change ↓ A decreasing trend.

Source: Queensland Audit Office

Appendix H—Overall assessment of council financial governance

Timeliness of financial statements

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

Figure H1
Assessment criteria for financial statement timeliness

Timeliness assessment	Audit opinions issued
Timely ●	Before 29 October
Marginal ●	Between 29 October and 31 October
Untimely ●	After 31 October

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

Source: Queensland Audit Office

Quality of financial statements

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

Figure H2
Assessment criteria for financial statement quality

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

Source: Queensland Audit Office

Effectiveness of internal controls

We aggregated the significant audit issues reported to management (that is, those classified as material and significant deficiencies) for each council across the five elements of internal control. Material deficiencies require immediate management action, while significant deficiencies require an action plan to be implemented within two months.

While these issues may have been subsequently addressed, they are reported here as they impacted on the internal control framework during our audit. Figure H3 outlines the categories for audit issues and their client impact.

Figure H3
Issue categories

Category	Client impact
Material deficiency	This is a significant deficiency that will lead to a material misstatement of the financial report and will result in qualification if not corrected.
Significant deficiency	This is a deficiency or combination of deficiencies that may lead to a material misstatement of the financial report.
Deficiency	A control is not working or non-existent and, therefore, will not prevent, detect or correct misstatements in the financial report.

Source: Queensland Audit Office

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

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

Risk assessment — management's processes for the consideration of risks to the achievement of their organisation's objectives, forming a basis for how the risks should be managed

Control activities — the policies and procedures implemented that help ensure management directives are carried out and that necessary actions are taken to address identified risks

Information and communication — the systems and related business processes relevant to financial reporting used to provide information in a form and time frame that allows employees to discharge their responsibilities; and the way that control responsibilities are communicated throughout the entity.

Monitoring of controls — the methods management employs to oversee and assess the operating effectiveness of control activities in practice.

Figure H4
Assessment criteria for effectiveness of internal controls

Assessment of control effectiveness	Significant audit issues reported to management
Generally effective ●	No more than one significant deficiency and no material deficiencies reported to management
Significant deficiencies ●	Between two and five significant deficiencies and no material deficiencies reported to management
Ineffective ●	Greater than five significant deficiencies or at least one material deficiency reported to management

Source: Queensland Audit Office

Our assessments of control effectiveness are defined below:

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

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

Ineffective — this is a significant ineffective control or combination of significant deficiencies in controls that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected.

Financial sustainability relative risk assessment

The detailed criteria for assessing a council's financial sustainability are explained in Appendix G Figures G2 and G3. The assignment of the criteria is shown in Figure G4.

Colours used for the overall relative risk levels are lower risk (green), moderate risk (amber) and higher risk (red).

Figure H5
Overall assessment of financial governance by council category for 2014–15

Council	Timeliness	Quality	Elements of internal control frameworks					Financial sustainability
			Control environment	Risk assessment	Control activities	Information and communication	Monitoring of controls	Relative risk assessment (refer Figure G4)
Coastal councils								
Bundaberg Regional Council	🟢	🟢	🟢	🟢	🟢	🟢	🟢	🟢
Burdekin Shire Council	🟢	🟢	🟢	🟢	🟢	🟢	🟢	🟢
Cairns Regional Council	🟢	🟢	🟢	🟢	🟢	🟢	🟢	🟢
Cassowary Coast Regional Council	🟢	🟢	🟢	🟢	🟡	🟢	🟢	🟢
Douglas Shire Council	🟢	🟢	🟢	🟢	🟢	🟢	🟢	🟡
Fraser Coast Regional Council	🟢	🟢	🟢	🟢	🟢	🟢	🟢	🟢
Gladstone Regional Council	🟢	🟢	🟢	🟢	🟡	🟢	🟢	🟢
Gympie Regional Council	🟢	🟢	🟢	🟢	🟢	🟢	🟢	🟢
Hinchinbrook Shire Council	🟢	🟢	🟢	🟢	🟡	🟢	🟢	🟡
Livingstone Shire Council	🟢	🟢	🟢	🟢	🟢	🟢	🟢	🔴
Mackay Regional Council	🟢	🟢	🟢	🟢	🟢	🟢	🟢	🟢
Noosa Shire Council	🟢	🟢	🟢	🟢	🟢	🟢	🟢	🟡
Rockhampton Regional Council	🟡	🔴	🟢	🟢	🟢	🟢	🟢	🟡
Townsville City Council	🟢	🟢	🟢	🟢	🟢	🟢	🟢	🟡
Whitsunday Regional Council	🟢	🟢	🟢	🟢	🟢	🟢	🟢	🟢

Council	Timeliness	Quality	Elements of internal control frameworks					Financial sustainability
			Control environment	Risk assessment	Control activities	Information and communication	Monitoring of controls	Relative risk assessment (refer Figure G4)
Indigenous councils								
Aurukun Shire Council	🔴	🟢	🟢	🟢	🟡	🟢	🟢	🟡
Cherbourg Aboriginal Shire Council	🟢	🔴	🟢	🟢	🟢	🟢	🟢	🔴
Doomadgee Aboriginal Shire Council	🟢	🔴	🟢	🟢	🟡	🟡	🟢	🟡
Hope Vale Aboriginal Shire Council	🟢	🟢	🟢	🟢	🟢	🟢	🟢	🟢
Kowanyama Aboriginal Shire Council #	🔴	🔴	🔴	🔴	🔴	🔴	🔴	🔴
Lockhart River Aboriginal Shire Council	🟡	🟡	🟢	🟢	🟢	🟢	🟢	🟡
Mapoon Aboriginal Shire Council	🟡	🟢	🟢	🟢	🟢	🟢	🟢	🔴
Mornington Shire Council #	🔴	🟡	🟢	🟢	🔴	🟢	🟢	🔴
Napranum Aboriginal Shire Council	🟢	🟢	🟢	🟢	🟢	🟢	🟢	🟡
Northern Peninsula Area Regional Council #	🔴	🔴	🔴	🔴	🔴	🔴	🔴	🔴
Palm Island Aboriginal Shire Council	🟢	🔴	🟢	🟢	🟡	🟢	🟢	🟡
Pormpuraaw Aboriginal Shire Council	🟢	🟢	🟢	🟢	🟢	🟢	🟢	🔴
Torres Shire Council	🔴	🟢	🟡	🟢	🔴	🟢	🟡	🟡
Torres Strait Island Regional Council	🟢	🟢	🟢	🟢	🟢	🟢	🟢	🔴
Woorabinda Aboriginal Shire Council	🔴	🟢	🟡	🟢	🔴	🟢	🟡	🟡
Wujal Wujal Aboriginal Shire Council #	🔴	🔴	🟢	🟢	🟢	🟡	🟢	🟡
Yarrabah Aboriginal Shire Council	🟢	🟢	🟢	🟢	🟡	🟡	🟢	🔴

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

Council	Timeliness	Quality	Elements of internal control frameworks					Financial sustainability
			Control environment	Risk assessment	Control activities	Information and communication	Monitoring of controls	Relative risk assessment (refer Figure G4)
Resources councils								
Banana Shire Council	🟢	🟢	🟢	🟢	🟢	🟢	🟢	🟢
Barcoo Shire Council	🟢	🟢	🟢	🟢	🟢	🟢	🟢	🟢
Bulloo Shire Council	🟢	🟢	🟢	🟢	🟢	🟢	🟢	🟡
Burke Shire Council	🟡	🟢	🟢	🟢	🟢	🟡	🟢	🟡
Central Highlands Regional Council	🟢	🟢	🟢	🟢	🟢	🟢	🟢	🟢
Charters Towers Regional Council	🟡	🟢	🟢	🟢	🟢	🟢	🟢	🟢
Cloncurry Shire Council	🟡	🟢	🟢	🟢	🟡	🟢	🟢	🟢
Cook Shire Council	🟡	🟢	🟢	🟢	🟡	🟢	🟢	🔴
Etheridge Shire Council	🟢	🟢	🟢	🟢	🟢	🟢	🟢	🔴
Isaac Regional Council	🟢	🟢	🟢	🟢	🟢	🟢	🟢	🟢
Maranoa Regional Council	🟢	🟢	🟢	🟢	🟢	🟢	🟢	🟢
McKinlay Shire Council	🟢	🟢	🟢	🟢	🟢	🟢	🟢	🟢
Mount Isa City Council	🟡	🟢	🟡	🟢	🟡	🔴	🟢	🟢
Quilpie Shire Council	🔴	🔴	🟢	🟢	🟡	🟢	🟢	🟢
Western Downs Regional Council	🟢	🟢	🟢	🟢	🟢	🟢	🟢	🟢

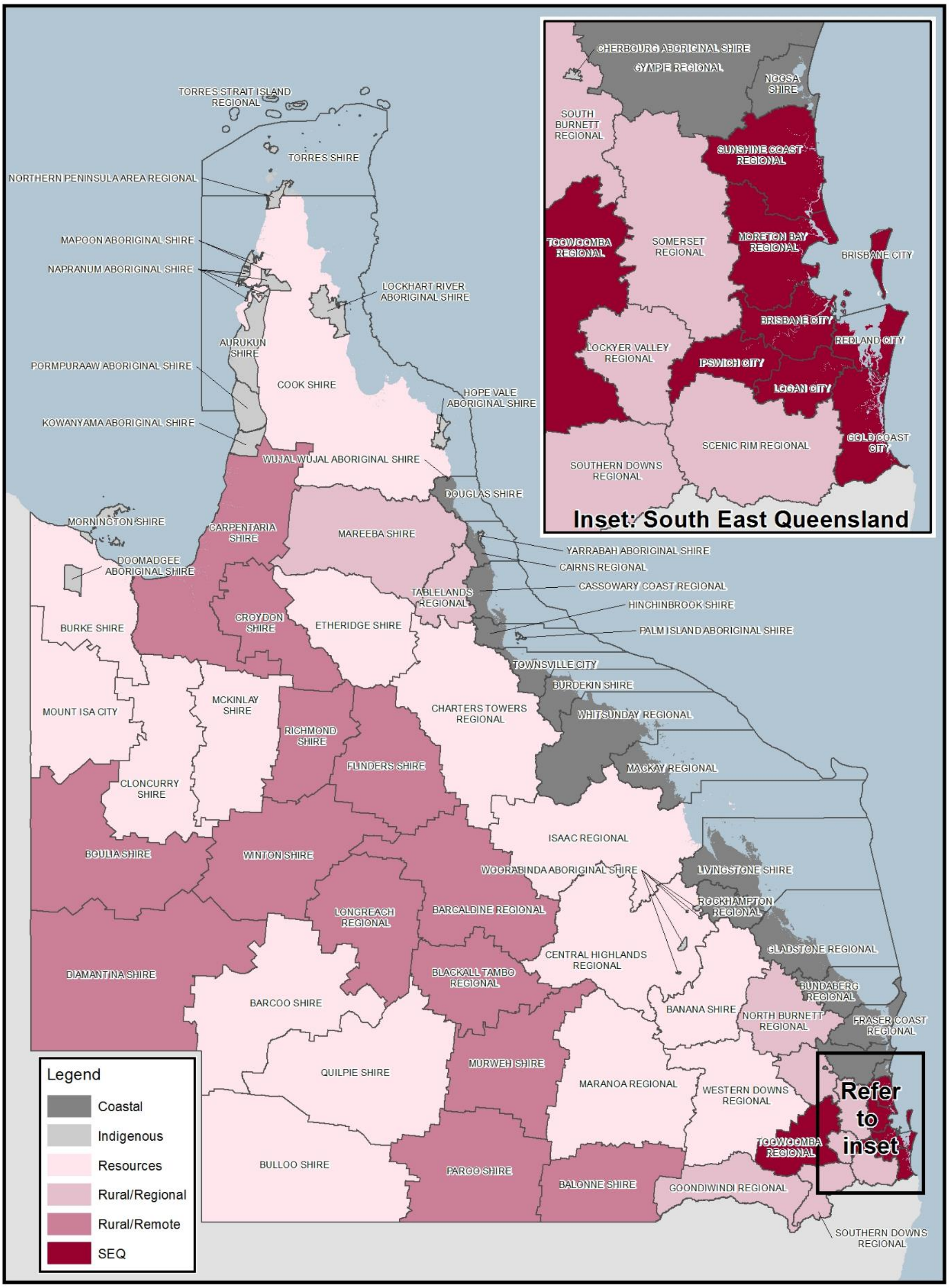
Council	Timeliness	Quality	Elements of internal control frameworks					Financial sustainability
			Control environment	Risk assessment	Control activities	Information and communication	Monitoring of controls	Relative risk assessment (refer Figure G4)
Rural/Regional councils								
Goondiwindi Regional Council	🟢	🟢	🟢	🟢	🟢	🟡	🟢	🟢
Lockyer Valley Regional Council	🟢	🟢	🟢	🟢	🟢	🟢	🟢	🟡
Mareeba Shire Council	🟢	🟢	🟢	🟢	🟢	🟢	🟢	🟢
North Burnett Regional Council	🟢	🟡	🟢	🟢	🟢	🟢	🟢	🟡
Scenic Rim Regional Council	🟢	🟢	🟢	🟢	🟢	🟢	🟢	🟢
Somerset Regional Council	🟢	🟢	🟢	🟢	🟢	🟢	🟢	🟢
South Burnett Regional Council	🟡	🟡	🟢	🟢	🟢	🟢	🟢	🟡
Southern Downs Regional Council	🟢	🟢	🟢	🟢	🟢	🟢	🟢	🔴
Tablelands Regional Council	🟢	🟢	🟢	🟢	🟡	🟢	🟢	🟢

Council	Timeliness	Quality	Elements of internal control frameworks: Control environment	Risk assessment	Control activities	Information and communication	Monitoring of controls	Financial sustainability: Relative risk assessment (refer Figure G4)
Rural/Remote councils								
Balonne Shire Council	🟢	🟢	🟢	🟢	🟢	🟢	🟢	🟢
Barcaldine Regional Council	🟢	🔴	🟢	🟢	🟢	🟢	🟢	🟡
Blackall-Tambo Regional Council	🟡	🟢	🟢	🟢	🟡	🟢	🟢	🟡
Boulia Shire Council	🟡	🔴	🔴	🟢	🟢	🟢	🟢	🟢
Carpentaria Shire Council	🟡	🟡	🟢	🟢	🟢	🟢	🟢	🟢
Croydon Shire Council	🟢	🟢	🟢	🟢	🟢	🟢	🟢	🟢
Diamantina Shire Council	🟢	🟢	🟢	🟢	🟢	🟢	🟢	🟢
Flinders Shire Council	🟡	🟢	🟢	🟢	🟡	🟢	🟢	🟢
Longreach Regional Council	🟡	🟢	🟢	🟢	🟡	🟢	🟢	🟢
Murweh Shire Council	🟢	🟢	🟢	🟢	🟡	🟢	🟢	🟢
Paroo Shire Council	🟡	🟢	🟢	🟢	🟢	🟢	🟢	🔴
Richmond Shire Council	🔴	🟢	🟢	🟢	🟢	🟢	🟢	🟢
Winton Shire Council	🟡	🟡	🟢	🟢	🟡	🟢	🟢	🟢

Council	Timeliness	Quality	Elements of internal control frameworks					Financial sustainability
			Control environment	Risk assessment	Control activities	Information and communication	Monitoring of controls	Relative risk assessment (refer Figure G4)
South East Queensland (SEQ) councils								
Brisbane City Council	🟢	🟢	🟢	🟢	🟡	🟢	🟢	🟡
Council of the City of Gold Coast	🟡	🟢	🟢	🟢	🟢	🟢	🟢	🟡
Ipswich City Council	🟢	🟢	🟢	🟢	🟢	🟢	🟢	🟡
Logan City Council	🟢	🟢	🟢	🟢	🟢	🟢	🟢	🟢
Moreton Bay Regional Council	🟢	🟢	🟢	🟢	🟡	🟢	🟢	🟢
Redland City Council	🟢	🟢	🟢	🟢	🟢	🟢	🟢	🟡
Sunshine Coast Regional Council	🟢	🟢	🟢	🟢	🟢	🟢	🟢	🟢
Toowoomba Regional Council	🟢	🟢	🟢	🟢	🟢	🟢	🟢	🟢

Source: Queensland Audit Office

Appendix I—Queensland local government areas by category



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

Appendix J—Better practice guide audit committee 12 month work plan

Guidance that may assist the audit committee — 12 month forward rolling work plan and standing agenda items

Key responsibilities	Considerations	Meeting 1 (February)	Meeting 2 (April/May)	Meeting 3 (August/ September)	Meeting 4 (September/October)
Financial reporting (including annual financial statements)	Review of financial reports	✓	✓	✓	
	Review annual financial statements for compliance with prescribed accounting and other requirements		✓ Shell financial statements prepared for audit committee consideration/feedback prior to providing to audit *(guidance provided by Department of Infrastructure, Local Government and Planning-issued Tropical council financial statements)*	✓ Draft financial statements (including current year financial sustainability statement) for audit committee clearance prior to providing to audit	✓ Final financial statements (including current year financial sustainability statement) Management provides: ▪ marked-up changes to financial statements from earlier draft approved in September meeting ▪ analytical review, e.g. actual vs prior year actual (also consider actual vs budget) ▪ assurances for certification of management representation letter to auditor-general External auditor provides closing report and audit clearance Audit committee recommends clearance for mayor/CEO certification of financial statements.
	Review financial reporting timetable/ plan		✓		✓ Review management report on achievement of milestones in accordance with the financial reporting timetable and areas identified for improvement.
	Review significant accounting and reporting issues.	✓ *e.g. discussion and clearance on proposed annual infrastructure valuation methodology*	✓ *e.g. clearance on draft infrastructure valuation report*		✓ Marked-up changes to financial statements from earlier draft considered in September 2015 Accounting and reporting issues included in QAO closing report
	Review management assurances			✓	

Key responsibilities	Considerations	Meeting 1 (February)	Meeting 2 (April/May)	Meeting 3 (August/ September)	Meeting 4 (September/October)
	and compliance representations.				
External audit (EA)	Request briefing from QAO on emerging issues, results of audits and follow-up with management.	✓	✓	✓	✓
	Review QAO audit reports for council.	✓	✓	✓	✓
	Review QAO external audit plan including audit timetable, staffing and audit fee.		✓		
	Consider need for a closed session briefing with QAO excluding management and internal audit.	✓	✓	✓	✓
Internal audit (IA)	Review performance and resourcing of IA.	✓	✓	✓	✓
	Review status of annual internal audit plan, including resourcing and budget.	✓	✓	✓	✓
	Review IA reports for council (including extent of internal control reviews).	✓	✓	✓	✓
	Review and endorse proposed IA strategic plan (proposed for next three years) and annual audit plan (for next 12 months); ensure there is no material overlap between internal and external audit functions.		✓		
	Review/confirm IA charter.	✓			
Audit recommendations	Review responses provided by management to ensure they are in line with council's risk management framework.	✓	✓	✓	✓
	Monitor implementation of EA/IA recommendations.	✓	✓	✓	✓

Key responsibilities	Considerations	Meeting 1 (February)	Meeting 2 (April/May)	Meeting 3 (August/ September)	Meeting 4 (September/October)
Risk management	Review risk management framework.	✓			
	Consider report on risk management, including review of risk registers.	✓	✓	✓	✓
	Review fraud and corruption control prevention plan.		✓		
Performance management	Review council's compliance with the Local Government Act and Regulations, and performance management systems/reporting requirements.				✓
	Review council's annual report.			✓ Draft version	✓ Final version
Effectiveness of audit committee	Review committee and member performance.	✓			
	Review/confirm audit committee charter.	✓			
Reporting	Provide council with a written report about matters reviewed and recommendations made.	✓			

Auditor-General Reports to Parliament

Reports tabled in 2015–16

Number	Title	Date tabled in Legislative Assembly
1	Results of audit: Internal control systems 2014–15	July 2015
2	Road safety – traffic cameras	October 2015
3	Agricultural research, development and extension programs and projects	November 2015
4	Royalties for the regions	December 2015
5	Hospital and Health Services: 2014–15 financial statements	December 2015
6	State public sector entities: 2014–15 financial statements	December 2015
7	Public non-financial corporations: 2014–15 financial statements	December 2015
8	Transport infrastructure projects	December 2015
9	Provision of court recording and transcription services	December 2015
10	Queensland state government: 2014–15 financial statements	December 2015
11	Management of privately operated prisons	February 2016
12	Follow up Report 12: 2012–13 Community Benefits Funds: Grant Management	February 2016
13	Cloud computing	February 2016
14	Financial risk management practices at Energex	April 2016
15	Queensland public hospital operating theatre efficiency	April 2016
16	Flood resilience of river catchments	April 2016
17	Results of audit: Local government entities 2014–15	May 2016

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