Queensland Audit Office
better public services

Local government entities: 2015–16 results of financial audits

Report 13: 2016–17

Queensland Audit Office

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QUEENSLAND

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QAO
Queensland Audit Office
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4 April 2017

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 *Local government entities: 2015–16 results of financial audits* (Report 13: 2016–17).

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

Yours sincerely

Anthony Close
Auditor-General (acting)

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The Queensland Audit Office

The Queensland Auditor-General, supported by the Queensland Audit Office, is the external auditor of the Queensland public sector. We provide independent audit opinions about the reliability of financial statements produced by state and local government entities.

We provide independent assurance directly to parliament about the state of public sector finances and performance. We also help the public sector meet its accountability obligations and improve its performance. This role is critical to the integrity of our system of government.

The auditor-general must prepare reports to parliament on each audit conducted. These reports must state whether the financial statements of a public sector entity have been audited. They may also draw attention to significant breakdowns in the financial management functions of a public sector entity.

This report satisfies these requirements.

The Queensland Audit Office has a unique view across the entire Queensland public sector of matters affecting financial and operating performance. We use this perspective to achieve our vision of better public services for all Queenslanders by sharing knowledge, providing comprehensive analysis, and making well-founded recommendations for improvement.

Contents

Summary

All local governments (councils) and most entities they control prepare annual financial statements. The Queensland Auditor-General provides parliament with independent assurance of the financial management of local government entities by auditing these financial statements.

This report summarises the results of our financial audits of the 77 Queensland councils and 81 of the related entities they control that produced financial statements for the financial year ending 30 June 2016. Another 35 related entities are controlled by councils but are classified as non-reporting under the accounting standards.

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*—as Coastal, Indigenous, Resources, Rural/Regional, Rural/Remote, and South East Queensland (SEQ) councils.

Results of audits

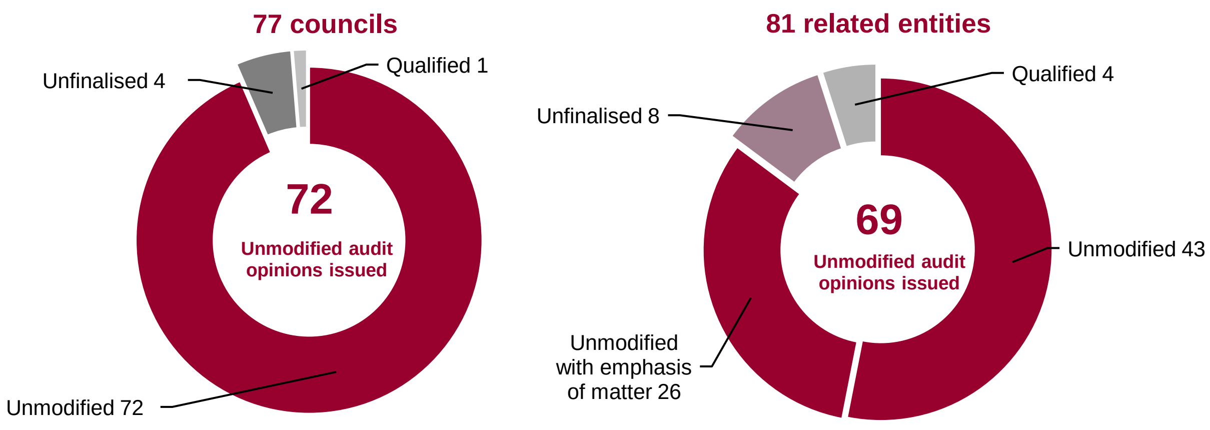
As at 24 February 2017, we issued audit opinions on 92 per cent of financial statements for the 2015–16 financial year (2014–15: 91 per cent). This year, we also provided audit opinions on five outstanding financial statements and four outstanding current year sustainability statements from the previous reporting period.

Quality and timeliness of reporting

The financial statements of most local government entities were timely and of good quality. We issued unmodified opinions on 97 per cent of financial statements completed for the 2015–16 financial year. This is an improvement on the completed 2014–15 audits, when we issued unmodified opinions on 92 per cent of financial statements.

We issue *unmodified* opinions when the financial statements have been prepared according to the requirements of legislation and relevant accounting standards. We issue *qualified* opinions when the financial statements generally comply with relevant standards and legislation, but with exceptions. We also issue *emphases of matter* (which do not affect our opinion) to highlight issues of which users of financial statements need to be aware.

Figure A
Independent audit reports issued for 2015–16 financial year



Source: Queensland Audit Office

This year we qualified four related entities (2014–15: six). These qualifications related to the lack of internal controls over the completeness of donation revenue or tender revenue. We also included emphases of matter in 26 of the 73 opinions we issued for related entities. Most often this was to draw the attention of readers to the fact that the statements have been prepared for a special purpose, rather than as general purpose financial statements. This is required by Australian auditing standards.

Our review of the tabling of prior year related entity financial statements identified that, while they are being tabled at council meetings, the financial statements themselves are not being made publicly available. If a council's public reporting is deficient or non-existent, then the communities they serve cannot assess their performance.

We have qualified one council to date this year (2014–15: six). Kowanyama Aboriginal Shire Council received a qualification for their financial statements and current year sustainability statement. While this is an overall better result than the prior year, four council audits remain unfinalised because of significant financial reporting issues, unavailability of critical staff, and deficiencies in newly implemented financial accounting systems. These are:

- Doomadgee Aboriginal Shire Council
- Northern Peninsula Area Regional Council
- Wujal Wujal Aboriginal Shire Council
- Woorabinda Aboriginal Shire Council.

Northern Peninsula Area Regional Council received a qualified audit opinion for their 2014–15 financial statements and 2014–15 current year sustainability statement.

This year, 67 out of the 77 councils (87 per cent) met their statutory deadline without the need for a ministerial extension of time. This is a slight improvement from the prior year (85.7 per cent), and the timeliest result in Queensland local government history.

We use 'traffic lights' to depict our assessment of councils' timeliness in reporting. The parameters for assessment are outlined in Appendix G. A green light is awarded where councils had their financial statement audits completed at least six days before the statutory deadline of 31 October 2016.

Figure B
Timeliness based on 2015–16 traffic light criteria

Timeliness milestone	2016	2015	2014
After 31 October ●	7	9	22
Between 25 and 31 October ● (or meeting ministerial extension)	14*	42	36
Before 25 October ●	56	26	19
Total	**77**	**77**	**77**

* Includes three councils that met ministerially-extended dates post 31 October.

Source: Queensland Audit Office

Fifty-six councils' statements were completed at least a week before their legislative time frame, compared to 26 councils for this same period in the prior year. Councils are generally improving the steps in their financial statement preparation process to enable earlier delivery of draft financial statements to audit.

Last year, we gave green lights to the 51 councils who finalised financial statements at least three days before the legislative time frame. This year, we increased our standard to six days before the legislative date and five additional councils achieved a green light, demonstrating continued improvement in timely reporting.

Five councils (2014–15: six) were able to have their financial statements signed within three months of their year end, which is the legislated time frame for Victorian and Tasmanian councils.

Last year, we reported that five councils had not met their legislative deadline (statutory deadline or ministerial extension date) for over three consecutive years. It is pleasing that two of these councils, Torres and Mornington shire councils, met their legislative deadline this year. The three remaining councils do not appear to prioritise financial reporting, and continue to limit their public accountability.

Prior period errors that were material to the financial statements were corrected in seven councils. Errors are material if the information is misstated or not disclosed, and that information could affect the decisions of users. Most of the prior period errors were in Indigenous councils' financial statements. These errors resulted from:

- asset valuation issues
- incorrect recognition of revenue or expenditure
- assets not being recognised in the financial year when they were purchased or donated to the council
- assets being de-recognised (removed from the asset register) because the council did not own them.

Incomplete asset registers is a systemic issue across many councils. In addition to three material prior period errors (out of seven), a further 25 councils corrected smaller errors for this same reason. The combined value of the errors totalled $254.8 million. While the correction of these errors indicates councils are taking action to improve the accuracy of their asset records, they need to put controls in place to ensure these errors do not occur year after year. Without complete and accurate asset information, councils cannot adequately plan and manage their activities.

Twenty-two councils made material adjustments to the draft financial statements they provided to audit. Most adjustments resulted from the late identification and review of transactions—including valuation of assets. Ideally, each council prepares and provides one set of financial statements for audit and these should not require amendment.

From 2016–17, amendments to the Australian Accounting Standards Board (AASB) standard 124 *Related Party Disclosures* mean it will apply, for the first time, to the not-for-profit entities. As of 1 July 2016, they will need to comply with the disclosure requirements of this standard.

The objective of the standard is to draw the attention of users of financial reports to the possibility that the financial results may have been affected by the existence of related parties (parties linked to the management of the not-for-profit entities). This will be a step forward in accountability and transparency in financial reporting for this sector, and requires councils to:

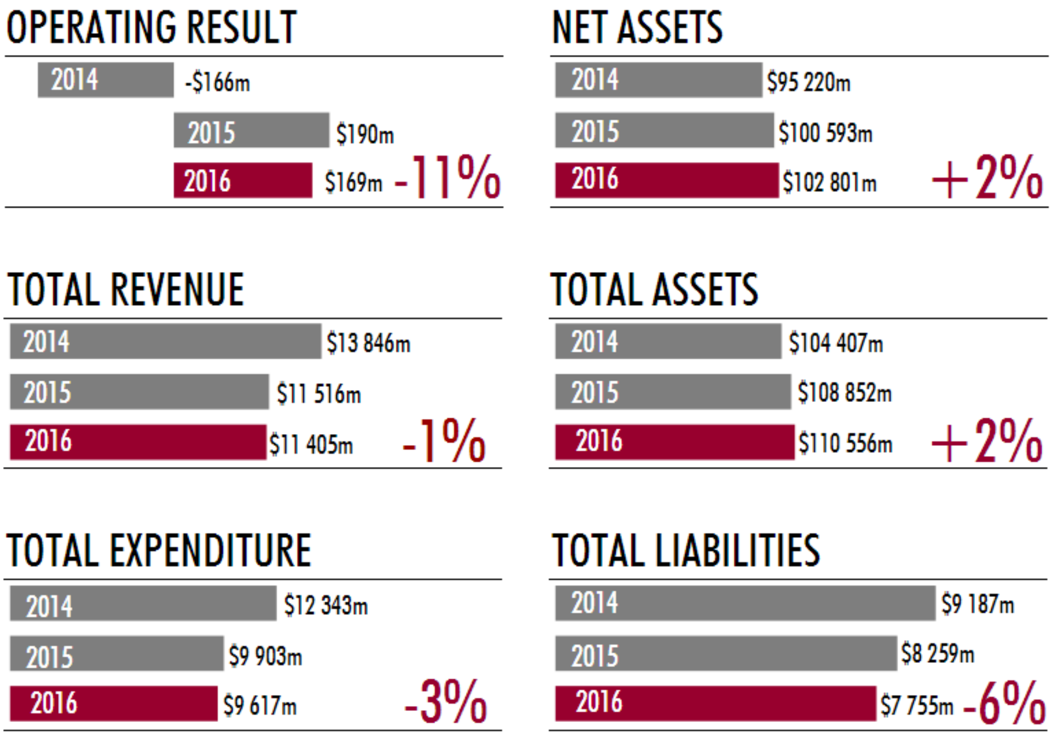
- compile a list of their related parties
- identify the common types of transactions they have with them
- identify the terms and conditions associated with those transactions.

Councils should not underestimate the effort required to implement this standard and should prioritise compiling this data.

Financial performance, position, and sustainability

Councils need to ensure they have enough funds to meet their costs. If their operating result is negative, it means they have spent more than they earned in that financial year.

Figure C
Council financial snapshot



Source: Queensland Audit Office

While the operating result was positive for the sector, Indigenous, Rural/Remote, and Resources councils made a combined loss totalling $99 million. For many of the councils in these segments, the lack of economic activity due to remoteness and low population affects their ability to generate revenue. They are highly reliant on government grants and contributions to fund their operations and construct assets. During 2015–16, operating grants and contributions decreased by 12 per cent from the prior year, primarily due to a reduction in natural disaster and recovery funding.

SEQ, Coastal, and Rural/Regional councils are achieving operating surpluses, mainly due to their ability to generate most of their operating income from rates, fees, services, and investments.

Total liabilities decreased by $504 million across the sector, largely due to reduced borrowings by Brisbane City Council.

Financial sustainability

We analysed three financial sustainability indicators (ratios) relating to councils' operating surpluses, net financial liabilities and asset sustainability:

- The operating surplus ratio indicates the extent to which operating revenues cover operating expenses.
- The net financial liabilities ratio indicates the extent to which a council's operating revenues can service its net liabilities while maintaining its assets and service levels.
- The asset sustainability ratio approximates the extent to which a council is replacing its assets as they reach the end of their useful lives.

Detailed criteria for our analysis is available in Figures F2 and F3 of Appendix F.

Figure D outlines the sector-wide average sustainability ratios and the target range expected by the Department of Infrastructure, Local Government and Planning (DILGP). For the asset sustainability ratio, comparative information is only available from 2012–13 (three years of data), as that was the first year councils’ renewals expenditure was audited.

Figure D
Sector sustainability ratios

Sustainability ratios	2016	2015	Target range
Five-year average sector operating surplus ratio	-3.76%	-3.45%	0 to 10%
Annual average sector net financial liabilities ratio	-32.75%	-29.88%	< 60%
Four-year average sector asset sustainability ratio	128.98%	138.46%	> 90%

Source: Queensland Audit Office

We have previously expressed concerns about councils' ability to generate sufficient revenues to fund services and maintain and develop their community facilities and infrastructure. This concern continues with the sector, on average over the past five years, still spending more than it earns. This result continues to be inconsistent across council segments, with SEQ and Coastal councils achieving positive five-year average operating ratios.

For the remaining council segments, this result indicates that they may be financially stressed and heavily reliant on government grants to continue their operations. These councils need to critically examine their service levels and costs for service delivery, and plan in the longer term to be able to earn enough to meet operational expenditure.

All councils can presently service their financial liabilities. Many councils are increasing their financial assets (that is, they have a negative financial liabilities ratio) in preference to using debt to replace or renew assets. However, four councils have average net financial liabilities ratios above the 60 per cent target set by DILGP. For these councils to fund infrastructure replacement and renewal and manage debt, they must plan to make regular operating surpluses.

While the sector results for asset sustainability are positive, they have been heavily influenced by the number and severity of natural disasters that have occurred over the last four years, which resulted in significant asset replacement.

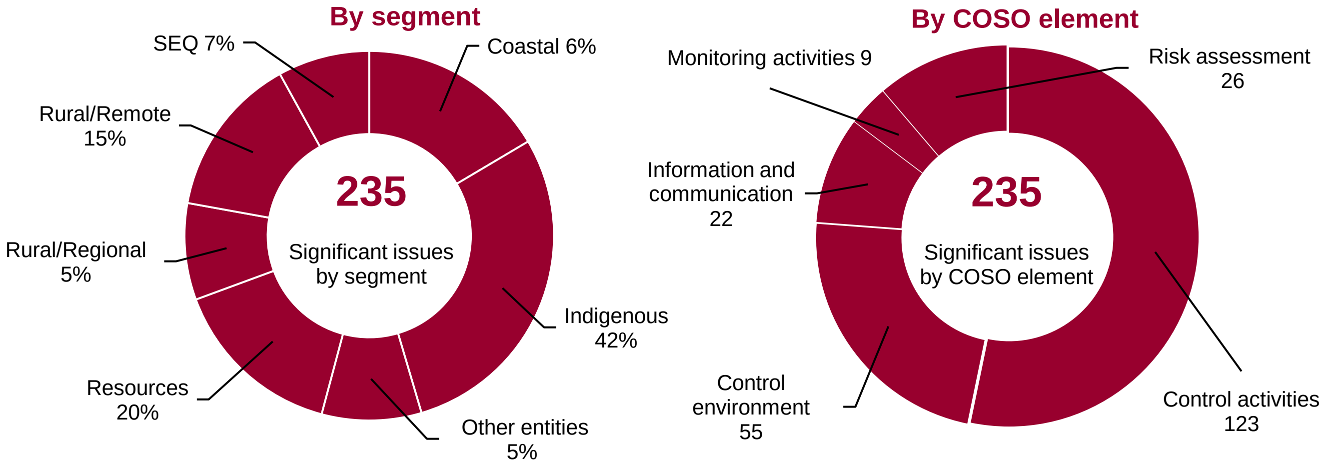
Internal controls

We assess financial controls using the Committee of the Sponsoring Organizations of the Treadway Commission (COSO) internal control framework, which is widely recognised as a benchmark for designing and evaluating internal controls using five key elements, which are:

- control environment—actions, attitudes, and values that influence daily operations
- risk assessment—processes for identifying, assessing, and managing risk
- monitoring activities—oversight of internal controls for existence and effectiveness
- control activities—policies, procedures, and actions taken to prevent or detect errors
- information and communication—systems to inform staff about control responsibilities and business processes relevant to financial reporting.

We identified 723 internal control deficiencies for the sector, of which we consider 235 to be significant. Over 75 per cent of significant issues raised were from Indigenous, Resources, and Rural/Remote councils.

Figure E
Significant control deficiencies for 2015–16



Source: Queensland Audit Office

As part of our audit, we provide information on internal control deficiencies to management for resolution. Of the 235 significant issues identified, 107 issues (45 per cent) were re-raised from the prior year's audit and remain unresolved at 30 June 2016. Of these, 57 issues were initially raised in 2013–14, and a further 27 were originally raised in 2012–13. These were mainly deficiencies in the control environment, risk assessment and control activities, such as:

- lack of maintenance of risk registers
- no asset management plans
- lack of review of journals and changes to masterfiles (which contain key data on unit rates, fees and charges, rates, and employee and supplier details).

This means councils in some instances are taking over three years to rectify their significant deficiencies. They need to promptly resolve these issues, as delays expose them to increased risk of fraud or error.

We reviewed the risk management processes of councils and identified that processes are basic or non-existent in at least 20 per cent of councils. These councils do not have complete or up-to-date risk registers, and no risk treatments are in place. These councils do not demonstrate a commitment to risk management and do not appear to see this activity as a key governance mechanism. Therefore, their risks may not be appropriately managed.

In addition, 16 councils do not have a business continuity plan or a disaster recovery plan. This means they may not be able to recover their systems or provide key business services in the event of a disaster or other unscheduled stoppage.

During the year, a malicious fraud scheme targeted public and private sector entities. Nine councils were impacted and losses of approximately $744 000 were incurred. We identified 27 control deficiencies across councils in relation to lack of segregation of duties in changing masterfile information or an absence of reviews of masterfile change reports in relation to expenditure. Four of these deficiencies were raised with management over 24 months ago and are still unresolved. Without appropriate controls, these councils are at higher risk of losses due to fraud.

Audit committees have a key role to play in the oversight of risk management and internal controls, and in ensuring management takes timely and effective action to address control deficiencies. The requirement to have an audit committee is linked to the categorisation of councils by the Remuneration and Discipline Tribunal.

Due to a change in categories, effective 1 July 2016, most councils are currently not required to have an audit committee. We know of five councils already who have disbanded their committees in the current year. We made a recommendation to DILGP in our report *Results of audit: Local government entities 2014–15* (Report 17: 2015–16) that audit committees be mandated for all councils. DILGP are currently liaising with stakeholders.

Recommendations

As part of each audit, we make recommendations to individual councils about how to improve their financial management.

In addition, we recommend that councils:

1. make the financial statements of their controlled entities publicly available (Chapter 2)
2. assess their processes for ensuring that their asset registers are complete and remain current over time (Chapter 2).

   This should include

   - performing physical stocktakes and updating asset registers
   - implementing control improvements over the recognition of contributed assets
3. identify their related parties and related party transactions including terms and conditions, and prepare a draft note with data for inclusion in their pro forma financial statements to be presented to their audit committees or council (Chapter 2)
4. critically examine their service levels and costs for service delivery and plan in the longer term to be able to earn enough operating revenue to meet operational expenditure (Chapter 3)
5. assess the maturity of their risk management practices, develop an action plan for improvements and track progress towards agreed targets (Chapter 4)
6. assess their business continuity and disaster recovery capabilities, identify areas for improvement, and establish or update their plans (Chapter 4)
7. retain or re-establish their audit committees to ensure there is effective oversight of their internal control frameworks, financial reporting and legislative compliance (Chapter 4).

Reference to comments

In accordance with section 64 of the *Auditor-General Act 2009*, we provided a copy of this report to the Minister for Local Government; the Director-General, Department of Infrastructure, Local Government and Planning; and the mayors and chief executive officers of councils for comment.

The responses received from the Department of Infrastructure, Local Government and Planning and councils are in Appendix A.

Report structure

Chapter	
Chapter 1	provides the background to the report and the context needed to understand the audit findings and conclusions.
Chapter 2	evaluates the audit opinion results, timeliness, and quality of reporting.
Chapter 3	analyses the financial performance, position, and sustainability of transactions and events during the year.
Chapter 4	assesses the strength of the internal controls designed, implemented, and maintained by councils.

Report cost

This audit report cost $255 000 to produce.

1. Context

Legislative framework

Under the *Constitution of Queensland 2001,* there must be a system of local government in Queensland that is made up of councils. A local government (council) is an elected body that has the power to make local laws suitable to the needs and resources of the area they represent.

Councils' legislative framework is the *Local Government Act 2009* (the Act) and the Local Government Regulation 2012.

The purpose of the Act is to specify the nature and extent of local government's responsibilities and powers. It requires the system of local government to be accountable, effective, efficient, and sustainable.

The regulation requires each council to prepare, by 31 October:

- a general purpose financial statement
- a current year financial sustainability statement
- a long-term financial sustainability statement.

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.

Each council must release its annual report within one month of the audit opinion date. The Minister for Local Government may grant an extension to the deadlines where extraordinary circumstances exist.

Only the general purpose financial statement and the current year financial sustainability statement are subject to audit.

Accountability requirements

The *Local Government Act 2009* requires councils 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.

Queensland local government financial statements

The local government sector comprises 193 entities: 77 councils and 116 entities that they control, either individually or jointly with other councils. As 35 of the controlled entities are classified as non-reporting under the accounting standards, only 158 entities prepare financial statements.

These financial statements are used by a broad range of parties, including parliamentarians, councillors, taxpayers, employees and users of local government services. For the statements to be useful, the information reported must be accurate and timely.

Figure 1A summarises the reporting entities for this year compared to the prior year. They are grouped into the local government categories used by the Local Government Association of Queensland in their 2013 report *Factors Impacting Local Government Financial Sustainability: A Council Segment Approach.*

Figure 1A
Local government reporting entities

Category	Type of entities	2016	2015
Coastal	Councils	15	15
	Entities they control	8	8
Indigenous	Councils	17	17
	Entities they control	3	2
Resources	Councils	15	15
	Entities they control	8	8
Rural/Regional	Councils	9	9
	Entities they control	2	2
Rural/Remote	Councils	13	13
	Entities they control	2	2
South East Queensland	Councils	8	8
	Entities they control	30	25
Other	Jointly-controlled entities	25	27
	Joint local government	0	1
	Audited by arrangement	3	3
Total		**158**	**155**

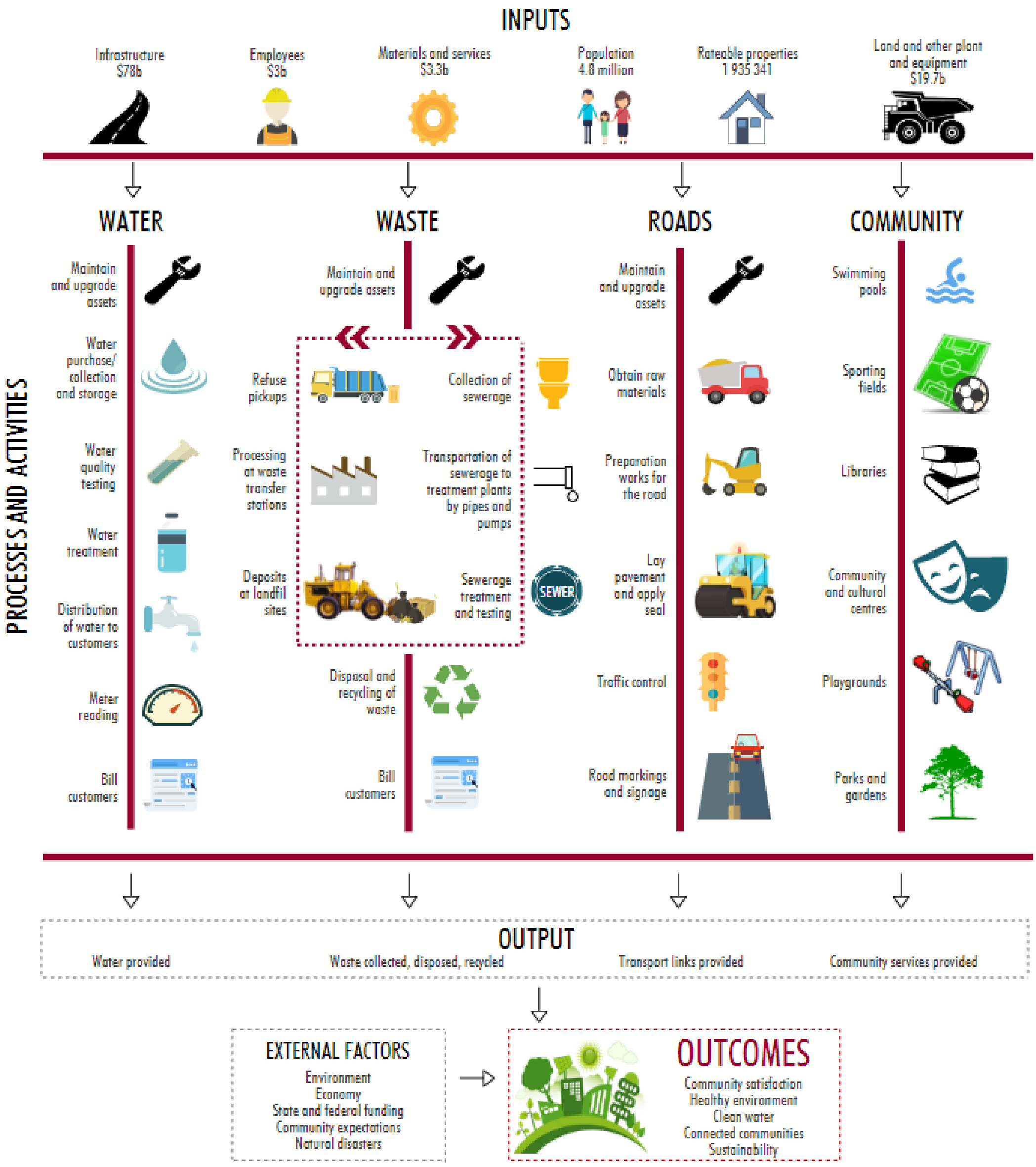
Note: Local government areas within each category are shown in Appendix H.

Source: Queensland Audit Office

Councils' roles

Councils are involved in a wide range of activities. Examples range from providing banking services, operating cafes, and delivering key community services such as roads, water, sewerage, and waste management, to providing recreation services to their communities. Figure 1B details the main inputs, activities, outputs and outcomes for key services provided by the sector.

Figure 1B
Function level inputs, processes and activities, outputs and outcomes



Source: Queensland Audit Office

2. Results of audit

Chapter in brief

We audit the financial statements of councils and their controlled entities, and provide assurance that the financial statements are reliable and comply with the Australian accounting standards.

Main findings

- Five qualified audit opinions were issued across the sector, which is an improvement on the prior year when 12 qualified opinions were issued. Four qualifications were issued for related entities and one issued for a council. Six councils were qualified in the prior year.
- Four councils and eight local government entities have not yet finalised their 2015–16 financial statements.
- Three councils have failed to meet the statutory reporting deadline for six consecutive years.
- Of the four councils whose 2014–15 financial statements were unfinished at this time last year, two received a qualified opinion.
- Seven councils corrected material errors in prior year balances that related to recognition of revenue and assets or asset valuations. Errors are material if the information is misstated or not disclosed, and that information could affect the decisions of users.
- Twenty-two out of 73 councils made adjustments of more than two per cent to key balances in their draft financial statements provided to audit.
- More than 48 per cent of councils have not prepared a listing of their related parties or determined the common related party transactions and their associated terms and conditions. They will need to do this to comply with Australian accounting standard AASB 124.

Conclusion

The local government sector recorded the timeliest result in Queensland history due to more councils focusing on completing key steps in their financial statement preparation process earlier.

Most councils prepared good quality draft financial statements that did not require material adjustment. Councils can further improve the quality of their financial reporting, and reduce the likelihood of errors and adjustments, by ensuring there are robust processes for reviewing asset valuations and making certain that their underlying asset records are complete and accurate.

Introduction

We audit the financial statements of local government entities to provide assurance on their reliability to their intended users. The Queensland Auditor-General also audits the current year sustainability statement of each council.

We express an *unmodified* opinion when the statements are prepared in accordance with the relevant legislative requirements and the Australian accounting standards. We *qualify* our audit opinion when the financial statements generally comply with relevant standards and legislation, but with exceptions.

Sometimes we include an *emphasis of matter* in our audit reports to highlight an issue that will help users better understand the financial statements. They do not change our audit opinion.

This year, we assessed the quality and timeliness of financial statements prepared by local governments (councils) by considering:

- timeliness—whether financial statements were finalised ahead of or after their legislative deadline
- quality—the extent of accounting adjustments made to total revenue, expenditure, and net assets during our audit.

Our assessment criteria and the results of our assessment for each council are included in Appendix G.

In future years, we will also assess whether the outcomes from the year end close processes were delivered by agreed dates. Our criteria for assessing timeliness and quality of financial statements may also be further refined in the future to drive continued improvement across the sector.

The usefulness of 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 assets, and the delivery of public accountability. Council financial statements should be made available as soon as possible after 30 June.

Conclusion

We issued unmodified audit opinions for most councils and related entities. This means that readers of their audited financial statements can, in most cases, rely on the figures.

The timeliness of council financial statements continued to improve this year, with councils bringing forward steps in the financial statement preparation process to enable earlier delivery of draft financial statements to audit.

Most councils produced quality financial reports; however, incomplete asset registers and the late identification and review of transactions (including valuation of assets) are areas for improvement. A lack of timely review of the assumptions and supporting documentation for asset valuations and other transactions resulted in significant adjustments to the draft financial statements and the correction of prior period errors. Several councils lack the necessary control processes to ensure asset registers are complete and accurate.

From 2016–17, not-for-profit public sector entities need to comply with the disclosure requirements of Australian accounting standard AASB 124 *Related Party Disclosures* for the first time. Many councils are not yet fully prepared to accurately capture the relevant information to comply with these requirements.

Audit opinion results

Figure 2A details the audit opinions we issued for local governments and their controlled entities for the 2015–16 financial year as at 24 February 2017.

Figure 2A
Number of audit opinions issued by entity type for the 2015–16 financial year

Entity type	Total	Unfinished audits	Unmodified opinions issued	Qualified opinions issued	Unmodified but with an emphasis of matter
Councils					
Coastal councils	15	0	15	0	0
Indigenous councils	17	4	12	1	0
Resources councils	15	0	15	0	0
Rural/Regional councils	9	0	9	0	0
Rural/Remote councils	13	0	13	0	0
South East Queensland (SEQ) councils	8	0	8	0	0
Local government related entities					
Controlled entities	53	4	33	3	13
Jointly-controlled entities	25	4	10	1	10
Audited by arrangement	3	0	0	0	3
Total	**158**	**12**	**115**	**5**	**26**

Source: Queensland Audit Office

Appendix B contains the list of entities and the opinions issued on their financial statements. It also identifies those entities for whom the audit was not complete as at 24 February 2017.

Unmodified opinions

For the 2015–16 financial year, we issued 141 (97 per cent) unmodified audit opinions. Included in these are 26 unmodified opinions with emphasis of matter paragraphs.

Qualified opinions

We have issued five qualified opinions so far this year (three per cent), which is a decrease from last year when we issued 12 qualified opinions (eight per cent).

A qualified opinion was issued on the general purpose financial statements of one council. They also received a qualified opinion on their current year financial sustainability statements. This is summarised in Figure 2B.

Figure 2B
Council qualified audit opinions 2015–16

Entity	Qualification	Previously qualified
Kowanyama Aboriginal Shire Council	Council was unable to provide sufficient and appropriate audit evidence to support recoverable works revenue, rates, levies and charges, contracts and recoverable works, and recreations services. Council was also unable to demonstrate that the underlying transactions of these revenue streams were complete and accurate. As it was not possible for audit procedures to extend beyond the amounts recorded by council, no opinion was expressed on the completeness or accuracy of revenue from those sources in 2015–16. Because of the limitation of scope on these revenue balances, no opinion was expressed on the completeness and accuracy of trade debtors and accrued revenue. The prior year qualification over revenue streams was still in effect. 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 2015–16 financial sustainability statement.	2010–11 2011–12 2012–13 2013–14 2014–15

Source: Queensland Audit Office

For related entities, we issued three 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 have determined that the establishment of controls is impractical:

- The Rockhampton Art Gallery Trust (previously qualified 2007–08 to 2014–15)
- Cairns Regional Gallery Arts Trust (previously qualified 2013–14 to 2014–15)
- Museum of Brisbane Trust received a qualification on prior year comparative figures only (previously qualified 2013–14 to 2014–15).

Figure 2C details the remaining qualified opinion issued this year and the underlying cause.

Figure 2C
Jointly-controlled entities qualified audit opinion 2015–16

Entity	Qualification	Previously qualified
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, which relies on the completeness and accuracy of statistical returns provided by suppliers. Management of the trust has determined that the cost of implementing effective internal controls would outweigh the benefits obtained.	2008–09 to 2014–15

Source: Queensland Audit Office

Emphases of matter

In 2015–16, we included emphases of matter in 26 of the 141 unmodified audit opinions we issued. Of the 26 issued emphases of matter, 20 drew attention to the special purpose nature of financial statements. Emphases of matter were also issued for the following three entities, to highlight uncertainty about the ability of the entities to continue as a going concern due to:

- Brisdev Trust and Mackay Regional Enterprises Pty Ltd—losses incurred as a result of joint venture activities.
- QPG Shared Services Support Centres Joint Venture—joint venture agreement expiring.

Brisdev Trust and QPG Shared Services Support Centres Joint Venture also received an emphasis of matter to draw attention to the basis of accounting used in the special purpose financial report.

A further two entities—Wide Bay Water Corporation and Outback @ Isa Pty Ltd—each received an emphasis of matter, highlighting decisions to transfer the operations of these entities within their respective council groups.

Warwick Tourism and Events Pty Ltd received an emphasis of matter highlighting the decision to wind up the entity and transfer its remaining assets to Southern Downs Regional Council.

Audits not finished

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

Figure 2D
Unfinished council audits for 2015–16

Council	Reason	Ministerial extension
Doomadgee Aboriginal Shire Council	Changes to key personnel and implementation of new finance system	31.05.2017
Northern Peninsula Area Regional Council	Staffing issues and late signing of 2014–15 financial statements (certified 19.10.2016)	31.05.2017
Wujal Wujal Aboriginal Shire Council	Late signing of 2014–15 financial statements (certified 04.07.2016)	31.12.2016
Woorabinda Aboriginal Shire Council	Changes to key personnel and financial reporting issues	30.04.2017

Source: Queensland Audit Office

Status of unfinished audits from prior year

Four councils and one controlled entity had not received audit opinions on their 2014–15 financial statements when *Results of audit: Local government entities 2014–15* (Report 17: 2015–16) was tabled in May 2016*.* Of the unfinished audits, we issued qualified opinions for two councils on their general purpose financial statements and on their current year financial sustainability statements. The qualified opinions are summarised in Figure 2E. The remainder of the entities received unmodified opinions. Details of all outstanding prior year opinions are included in Appendix E*.*

Figure 2E
Qualified audit opinions 2014–15

Entity	Reason	Previously qualified
	Councils	
Kowanyama Aboriginal Shire Council	Council was unable to provide sufficient and appropriate audit evidence over recoverable works performed by building and maintenance teams. Council was also unable to demonstrate that the underlying transactions of certain revenue streams were complete and accurate. As it was not possible for audit procedures to extend beyond the amounts recorded by council, no opinion was expressed on the completeness or accuracy of revenue from those sources in 2014–15. 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 2014–15 financial sustainability statement. While council established adequate internal controls over inventory management in 2014–15. A prior year qualification remained on comparative inventory balances for aviation fuel, plant and equipment stores and workshop inventories.	2010–11 2011–12 2012–13 2013–14
Northern Peninsula Area Regional Council	Council was unable to demonstrate that the written-down value of roads and bridges, buildings, infrastructure, sewerage, drainage, and community housing assets at 30 June 2015 equated to fair value. The prior year qualification over the written-down value of community housing assets was still in effect. 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. Council also had not established adequate internal controls over the recognition of rates, levies and charges, and rental income. As it was not possible for audit procedures to extend beyond the amounts recorded by council, no opinion was expressed on the completeness or accuracy of revenue from those sources in 2014–15. Sufficient and appropriate audit evidence to support grants by project, unspent government grants, and associated grant commitments could not be proved. We could, therefore, not confirm the completeness and/or accuracy of these balances and gave no opinion. Council was unable to support its allocations of revenues, expenses, and assets between its business functions.	2013–14

Source: Queensland Audit Office

Financial sustainability statements

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—which indicates the extent to which operating revenues cover operating expenses
- net financial liabilities ratio—which indicates the extent to which a council's operating revenues can service its net liabilities while maintaining its assets and service levels
- asset sustainability ratio—which approximates the extent to which a council is replacing its assets as they reach the end of their useful lives.

Audit opinions have been issued for 73 of the 77 councils (94 per cent) required to prepare current year financial sustainability statements. An opinion is provided on whether the statement has been calculated accurately. The audit did not extend to forming an opinion on the appropriateness or relevance of the reported ratios, nor on councils' future sustainability. As identified in Figure 2B, Kowanyama Aboriginal Shire Council received a qualified opinion.

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

Local government entities exempted from audit

The auditor-general may exempt a public sector entity from audit by the auditor-general for a financial year. An exemption can be provided for up to a maximum of three financial years.

Twelve local government entities were exempted from audit by the auditor-general in 2015–16 due to their small size and low risk.

The auditor-general can also exempt foreign-based controlled entities. One local government entity, Gold Coast City Council Insurance Company Limited, was exempted on this basis for 2015–16.

Exempted entities must appoint an appropriately qualified person to undertake the audit. The engaged auditor has the powers of an authorised auditor under the *Auditor-General Act 2009*. Appendix C provides details on the status of these audits.

Entities not preparing financial statements

Not all local government entities are required to prepare financial statements.

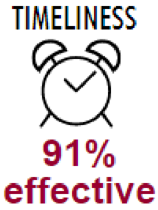
This year, 35 entities did not prepare financial statements. A full list of these entities is included in Appendix D.

Financial statement preparation

Councils that adopt effective financial reporting practices throughout the year should be able to produce a set of high quality financial statements in a timely manner.

The following sections of this report detail the improvements required in financial statement preparation. Our assessment criteria and our detailed assessment by entity is outlined in Appendix G.

Timeliness of financial statements



An entity's ability to prepare timely financial statements is an indicator of the strength of the entity's financial management processes. Financial statements are timely when they provide information to decision-makers in time to influence their decisions. As timeliness diminishes, the statements are less relevant to users.

It is important to note that legislative deadlines for audit certification should be considered as a minimum standard rather than as an ideal objective of timeliness for users of the financial statements.

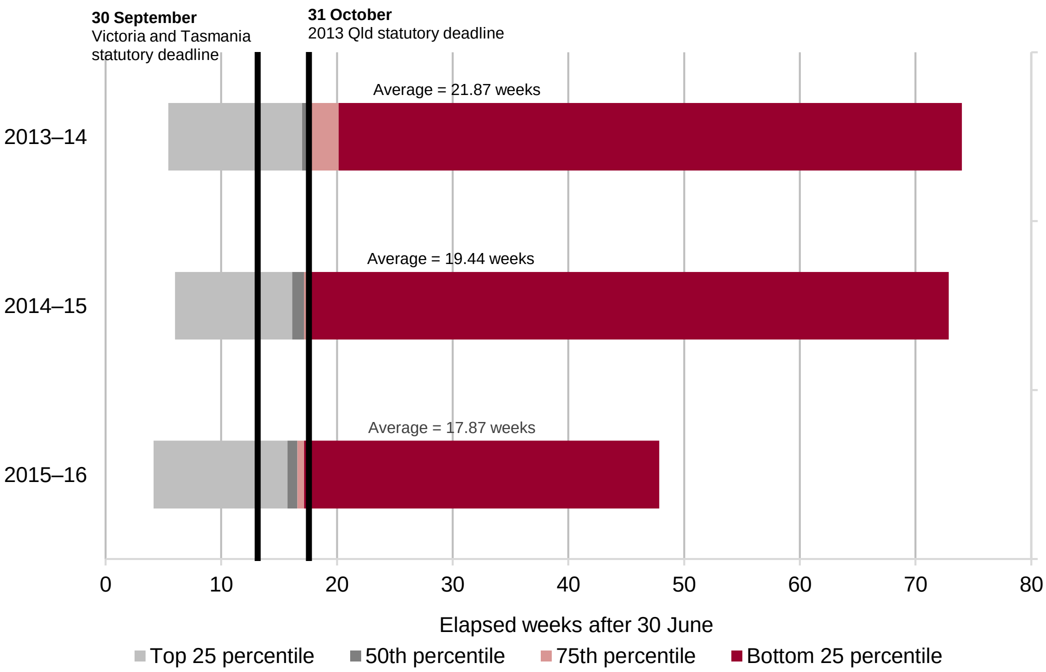
This year, 70 out of the 77 councils (90.9 per cent) met their legislative deadline. This was an improvement from the prior year (88.3 per cent). Sixty-seven councils met the statutory deadline and a further three (2014–15: three) had their opinions issued by the date agreed with the minister.

Fifty-six councils had their statements signed at least a week before their legislative time frame, compared to 26 for this same time period in the prior year. This is due to councils improving their financial statement preparation process to enable earlier delivery of key milestones, including asset valuations and draft financial statements.

Figure 2F shows the average time to finalise council financial statements over the past three years compared to other council jurisdictions audited by Australian auditors-general. Unfinalised councils have been included based on our best estimate for their completion.

This year, the average time has decreased by 1.57 weeks from 19.44 weeks in 2014–15 to 17.87 weeks. Over the last six years, councils have reduced the average time to finalise financial statements by 6.37 weeks from 24.24 weeks in 2010–11. Community members are now able to assess their councils' performance earlier than they could have six years ago.

Figure 2F
Average time to complete financial statements post 30 June



Source: Queensland Audit Office

This demonstrates that councils can produce more timely financial statements. Five councils were able to have their financial statements signed within three months of their year end. These councils prioritise their year end processes and associated resourcing to enable earlier reporting to their communities.

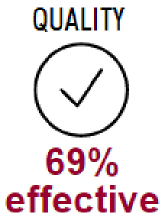
Last year, we reported that five councils had not met their legislative deadline (statutory deadline or ministerial extension date) for more than three consecutive years. It is pleasing that two of these councils, Torres and Mornington shire councils, met their legislative deadline this year.

The remaining three councils did not meet the legislative time frame for the sixth consecutive year. They are:

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

Figure 2D shows that all of these councils sought and were granted extensions by the minister. These councils' performance is not acceptable. The Department of Infrastructure, Local Government and Planning (DILGP) has committed to providing additional assistance to those councils that continually experience issues in meeting statutory timeframes to get them back on track.

Quality of draft financial statements



The extent of adjustments made to a draft financial statement indicates the effectiveness of each council's internal review processes in identifying and correcting errors before providing the financial statements to audit.

Overall, 41 out of 73 councils needed to adjust their draft financial statements provided to audit. This year, 22 councils (30.1 per cent) made material adjustments of more than two per cent, relating to:

- additional revenue not previously recorded by councils
- adjustments to share of profit in associates due to late arrival of information from associates
- adjustments to the classification of transactions between income and expense
- additional expenses not originally identified by council and adjustments to classification of expenses (between capital and operating)
- adjustments in the value of recognised/de-recognised assets
- asset valuation adjustments not processed correctly or revised when information became available after draft financial statements were prepared.

Of the councils with adjustments, 16 were Indigenous, Rural/Regional, and Resources councils. In comparison to the prior year, 56 out of 77 councils needed to adjust their financial statements and 16 councils (21 per cent) made material adjustments of more than five per cent. Ideally, each council prepares and provides one set of financial statements for audit and these should not require amendment.

When an entity is preparing financial statements, it may identify errors in the prior year accounts. These may also be detected by audit during the current year testing. If these errors are material, the accounting standards require correction of these figures in the current year statements.

If a material error was identified in the year it occurred, it would either have been corrected in that year or a qualified audit opinion would have been issued. Material prior period errors corrected in 2015–16 are detailed in Figure 2G.

Figure 2G
Material prior period errors in 2015–16

Entity	Details	Financial statement impact
Aurukun Shire Council	Restoration road works relating to flooding and associated rainfall from the Tropical Cyclone Oswald event in January 2013 were determined to be repairs and maintenance. They had previously been classified as capital works.	Expenses increased and property, plant and equipment decreased by $1 million in 2014–15.
Cherbourg Aboriginal Shire Council	On revaluation of council's assets, measurements of contributed road infrastructure had been incorrectly recognised.	Property, plant and equipment and retained surplus decreased by $1.4 million in 2014–15.
Moreton Bay Regional Council	A 2015–16 revaluation of stormwater assets identified an understatement of fair values for the 2014–15 period due to incorrect unit rates used. Council's share in Unitywater was affected by a prior period error recognised in Unitywater's accounts.	Property, plant and equipment and the asset revaluation surplus increased by $496.9 million during 2014–15. Share of profit in associate decreased by $6 million and investment in associate (asset) increased by $12.8 million. Retained surplus increased by $18.8 million in 2014–15.
Pormpuraaw Aboriginal Shire Council	A 2015–16 revaluation of council's assets identified an overstatement of fair values for road infrastructure for the 2014–15 period because of an incorrect unit rate. A 2015–16 revaluation of building assets identified assets that council did not own included in the asset register.	Property, plant and equipment and community equity decreased by $9.2 million in 2014–15.
Quilpie Shire Council	On revaluation for one asset class, assets not previously recognised were identified. An error was also noted due to the use of an incorrect gravel unit rate.	Property, plant and equipment and asset revaluation surplus increased by $8.2 million during 2014–15.
Tablelands Regional Council	A 2015–16 revaluation of council's assets identified assets not previously recognised.	Property, plant and equipment and retained surplus increased by $24.2 million in 2014–15.
Torres Strait Island Regional Council	There was incorrect recognition of grant funding.	Revenue and receivables decreased by $1.9 million in 2014–15.

Source: Queensland Audit Office

Incomplete asset registers is a systemic issue across many councils. In addition to three material prior period errors noted above (three out of seven), our audits also identified a further 25 councils that corrected smaller errors for this issue. The combined value of the assets recognised and de-recognised totalled $254.8 million.

Assets not previously recognised resulted from:

- data cleansing activities—process of cleaning up data that may be incorrect, incomplete or duplicated
- reconciliation of Geographical Information System (GIS—systems used by councils to record multiple sets of information about assets, for example location co-ordinates, photos, condition assessments) to the financial asset register
- assets identified by valuers during comprehensive revaluations that were not included in council records
- contributed assets not being recognised in a timely manner.

While this indicates councils are taking action to improve the accuracy of their asset records, this will be of little benefit if they do not put controls in place to ensure these errors do not occur year after year. Without complete and accurate asset information, councils cannot adequately plan and manage their activities.

Related party disclosures

Amendments to the Australian accounting standard (AASB) 124 *Related Party Disclosures* extend the scope of the standard to include not-for-profit public sector entities from 1 July 2016. The amended standard also provides additional guidance on applying the definition of key management personnel (KMP) to not-for-profit public sector entities.

The objective of this accounting standard is to draw the attention of users of financial reports to the possibility that the financial position and profit or loss may have been affected by the existence of related parties (and by transactions and outstanding balances with such parties). This standard is designed to increase transparency in financial reporting.

Who are related parties?

The definition of a *related party* covers persons and entities related to the reporting entity.

Related persons include the KMP of the entity and their close family members. Close family members are those people able to influence, or be influenced by, the KMP in their dealings with the entity. Related entities could include any subsidiary, joint venture, or associate of an entity. It could also include any entity controlled by the KMP or their close family members.

Attention is directed to the substance of the relationship rather than its legal form when identifying a related party relationship.

Who are key management personnel?

Key management personnel (KMP) are those persons with authority and responsibility for planning, directing, and controlling the activities of an entity, directly or indirectly.

The KMP of a council may include the mayor and councillors, the chief executive officer, and other senior executives.

Impact on councils' financial statement disclosures

In our last report, we identified that councils needed to develop policies, procedures, and systems to compile related party information in readiness for the standard's implementation.

Unfortunately, upon review of council's readiness leading up to 1 July 2016, we saw little improvement. We noted that:

- 52 per cent of councils were yet to develop a related party policy or procedure
- 48 per cent of councils were yet to identify all their related parties
- more than 65 per cent of councils had not yet determined their common related party transactions and the associated terms and conditions.

While councils may have taken action since 30 June 2016, this is still an area of concern. Councils should not underestimate the effort required to implement this standard and should prioritise the compiling this data.

Available guidance

From 1 July 2016, councils needed to have systems in place to identify, capture, and disclose related parties and associated transactions.

DILGP has issued guidance on related party disclosures for local governments in Queensland (Bulletin: *Related Party Disclosures*, February 2016). Included in the guidance are:

- example disclosures
- a checklist for related party disclosure policy
- example declarations for key management personnel
- an example of a related party register.

This bulletin is available on their website. The Queensland Audit Office has also provided guidance in its Insights newsletter (May, July, September and December 2016).

Tabling of controlled entity financial statements

In last year's report, we recommended that councils make the financial statements of controlled entities publicly available through tabling in council.

We identified that 86 per cent of prior year audited financial statements of controlled entities were tabled in council or a council sub-committee. However, we found that more than half of these councils did not make the audited financial statements of their controlled entities publicly available.

For those that did, the financial statements could be accessed easily via the websites of controlled entities of each council or the Australian Charities and Not-for-profit Commission's website. As at the date of this report, we found consistent results with more than half of councils not making the 2015–16 financial statements of their controlled entities publicly available.

When councils do not make the financial statements of controlled entities available for viewing, the communities they service cannot assess their performance in running all their activities.

3. Financial performance, position and sustainability

Chapter in brief

This chapter details the major transactions and events that affected the councils' 2015–16 financial statements. It includes future challenges, existing and emerging risks for the sector, and an analysis of councils' financial sustainability.

Main findings

- More than 50 per cent of councils are not generating enough revenue on average over five years to meet their operational expenditure.
- Councils collectively have made operating surpluses of $169 million in 2015–16, which is largely attributable to South East Queensland (SEQ) councils. However, this result is not consistent across the sector, with Indigenous, Resources, and Rural/Remote councils making collective operating losses of $99 million.
- Own-source revenue (revenue from rates, fees and services) has increased by two per cent since last year and now makes up 74 per cent of total revenue. SEQ, Coastal, and Rural/Regional councils have the highest proportions of own-source revenue. Other segments are more reliant on grant funding.
- Fourteen Indigenous, Rural/Regional, and Resources councils are showing signs of stress and have been assessed as having a higher risk of becoming financially unsustainable.

Conclusion

Overall, the combined financial performance of councils has declined in 2015–16, with operating profits falling across the sector by 11 per cent from the prior year. While councils are working hard to restrain expenditure, there is a continuing trend across the sector of councils spending more than they earn.

With the Queensland population expected to increase by 18 per cent in the next 10 years and community expectations for service delivery rising, councils need to critically review the services and the service levels they provide to their communities to remain financially sustainable.

Introduction

The information in the financial statements describes the main transactions and events for the year. Over time, financial statements also help users to understand the sustainability of councils, and metrics such as ratio analysis (see below) allow users to understand organisational performance.

The purpose of our analysis is to help users understand and use financial statements by clarifying the financial effects of key transactions and events in 2015–16.

Additionally, our analysis alerts users to future challenges, including existing and emerging risks that councils face.

Sustainability

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

- operating surplus ratio—which indicates the extent to which operating revenues cover operating expenses
- net financial liabilities ratio—which indicates the extent to which a council's operating revenues can service its net liabilities while maintaining its assets and service levels
- asset sustainability ratio—which approximates the extent to which a council is replacing its assets as they reach the end of their useful lives.

Comparative information for the asset sustainability ratio 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.

The regulation requires the auditor-general, as part of the annual financial audit, to assess and issue an independent audit opinion on the accurate calculation of these three financial sustainability measures for the current financial year.

Appendix F details the financial sustainability measures used and the 2015–16 results for each council. The councils are segmented into the classifications used by the Local Government Association of Queensland in their 2013 report *Factors impacting Local Government Financial Sustainability: A Council Segment Approach*.

Our assessments of the operating surplus ratio and net financial liabilities ratio were based on actual results for the last five years, while the asset sustainability ratio, as stated above, was based on the last four years only. We did not take into account councils' long-term forecasts or the credit assessments undertaken by the Queensland Treasury Corporation. Its assessments are forward looking and apply other credit measures, along with qualitative characteristics.

Performance and position

In this chapter, we assess the financial performance, position and sustainability of councils.

Our analysis uses the three financial sustainability measures from the 73 council financial statements (consolidated where applicable) completed to date.

Conclusion

The overall financial performance of councils deteriorated in 2015–16, with an 11 per cent reduction in operating profit for the sector and the sector five-year average operating surplus ratio remaining negative. However, all councils were able to meet their commitments.

Most councils are working to restrain expenditure and increase own-source revenue (revenue from rates, fees and services), but are affected by rising service demands, changes in economic activity, and volatile revenue sources (such as grants). Councils need to critically review the services and the service levels they provide to their communities to remain financially sustainable.

Reductions in government grants and the completion of Natural Disaster Relief and Recovery Arrangements (NDRRA) works has been a key factor in the reduction of the sector four-year average asset sustainability ratio. With reductions in grant funding likely to continue, councils will need to plan well and have asset management plans based on good quality and up-to-date data to ensure that community assets are maintained at the optimum level.

There is a continuing trend of councils amassing financial assets in preference to debt to fund infrastructure renewals and upgrades. Reluctance to borrow is due in part to economic circumstances in some segments, where operating surpluses are not achieved year on year and the ability to service debt is reduced.

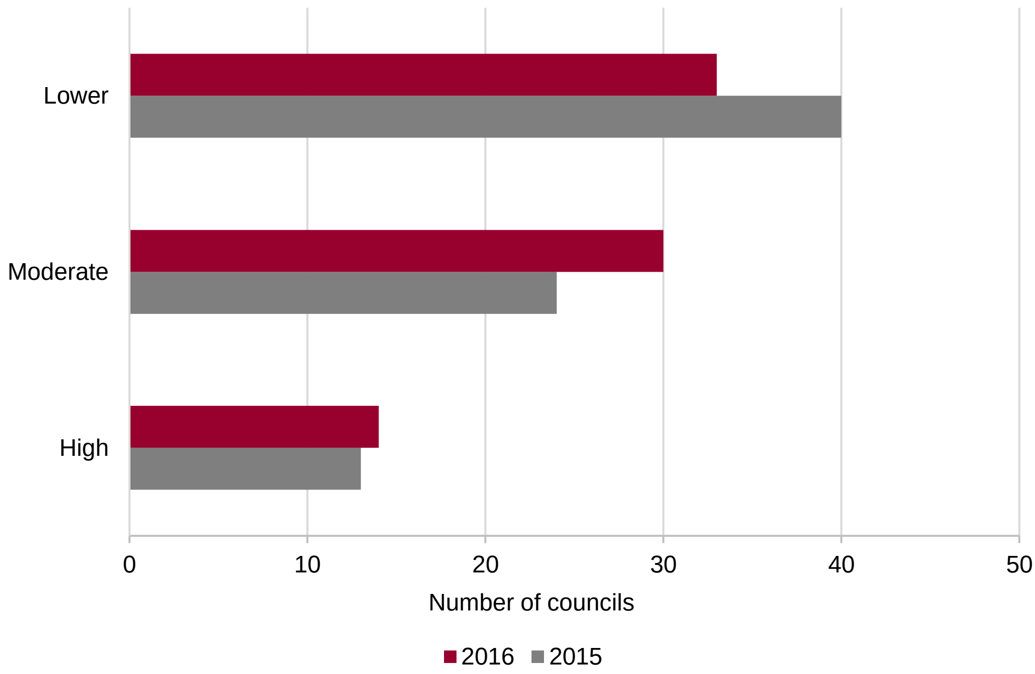
Councils' asset management plans need to consider available funding sources for asset replacement and assess the affordability of the different options in line with their long-term financial forecasts.

Financial sustainability

Financial sustainability risk assessments

Figure 3A summarises the risk assessments of 77 councils. Unfinalised audits have been included in 2015–16 at their previous year's assessment.

Figure 3A
Summary of financial sustainability risk assessment



Source: Queensland Audit Office

Our analysis indicates an overall increase in the risk of councils becoming unsustainable, with 44 councils with a high or moderate risk rating compared to 37 councils in 2014–15. Of these councils, 61 per cent are Rural/Regional, Rural/Remote, and Indigenous councils. Fourteen councils were assessed as being at higher risk, predominantly due to achieving five-year average negative operating surplus ratios ranging between -10 and -47 per cent.

Three councils improved their assessments from high in 2014–15 to moderate in 2015–16. Each of these councils has achieved an operating surplus in 2015–16, which resulted in a negative five-year average operating surplus ratio of between five and nine per cent.

The operating profits resulted from increased rates and levies charged, increases in operating grants in one council, and reductions in material and services in two councils. While this is a good result, these councils need to continue to manage their own-source revenues and operational expenditure so that they reach a surplus position.

Sector-wide average financial sustainability measures

Figure 3B
Sector-wide average financial sustainability measures

Source: Queensland Audit Office

Figure 3B outlines the sector-wide average sustainability ratios and the prior year comparative for the same period. For the asset sustainability ratio, comparative information is only available from 2012–13 (three years of data), as that was the first year councils' renewals expenditure was audited.

The average five-year operating surplus ratio at -3.76 per cent for the sector indicates that the revenues from operating activities over the longer term are not enough to meet councils' operational expenditure. There is very little improvement from the prior year.

The sector average net financial liabilities ratio remains within Department of Infrastructure, Local Government and Planning (DILGP) recommended levels, consistent with the prior year. The negative results indicate councils continue to accumulate financial assets and avoid debt for managing their businesses.

A four-year average sector asset sustainability ratio of 128.98 per cent indicates councils are maintaining, replacing and renewing assets as they reach the end of their useful lives. This average has been significantly influenced by the large and widespread NDRRA replacement work.

Understanding financial performance

Councils use the net operating result to measure financial performance. It shows the difference between operating revenue and operating expenses incurred from day-to-day operations.

Overall, the sector achieved an operating surplus of $169 million in 2015–16—a decrease of 11 per cent from the prior year. While the operating result was positive for the sector, Indigenous, Rural/Remote, and Resources councils made a combined loss of $99 million.

Operating surplus ratio

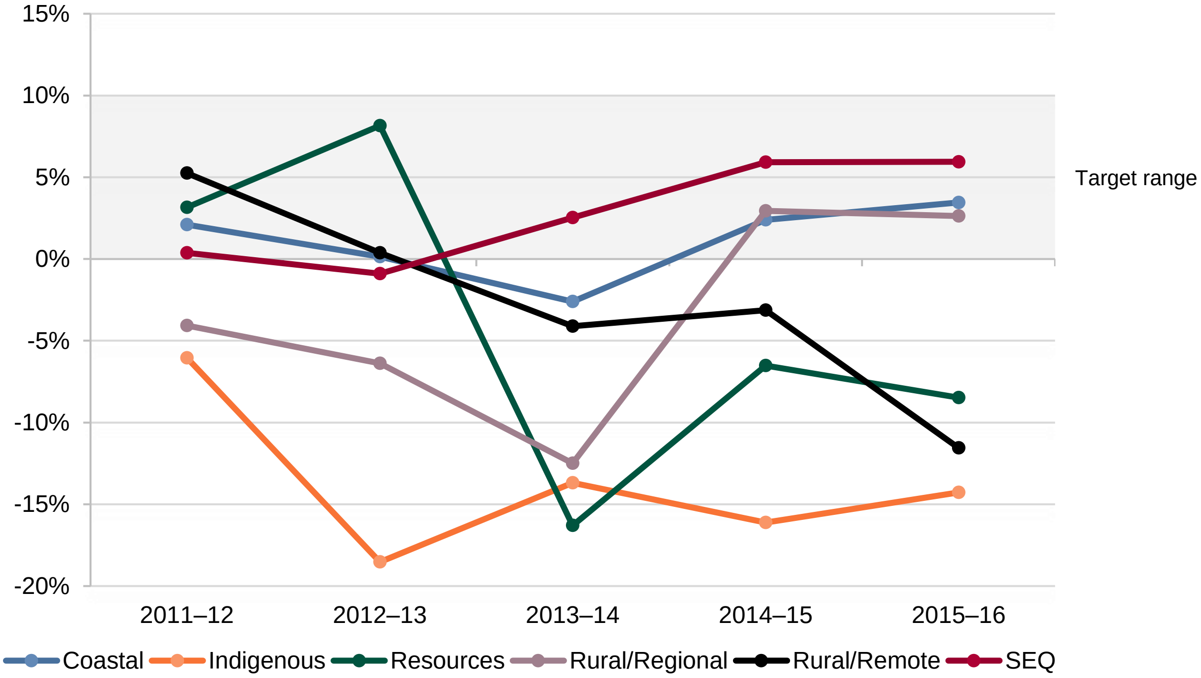
An operating deficit in any one year is not a cause for concern if, over the long-term, a council achieves a balanced result or small surplus. However, continuous deficits may indicate a council is not financially sustainable.

The operating surplus ratio indicates the extent to which operating revenues cover operating expenditures. The DILGP target range for councils is a ratio of between zero and 10 per cent.

Out of 73 councils, 33 councils (2014–15: 34 out of 77 councils) achieved an average five-year operating surplus ratio greater than zero. Of these, 51 per cent were Coastal and Resources councils.

Figure 3C compares, by council segment, the average operating surplus ratio each year for the past five financial years.

Figure 3C
Operating surplus ratio (average by council segment)



Source: Queensland Audit Office

Based on these results, South East Queensland (SEQ), Coastal, and Rural/Regional councils are, as a whole, operating within the target range.

The largest movement in operating surplus ratio from the prior year occurred in Rural/Remote councils, recording an operating surplus ratio of -11.55 per cent compared to -3.13 per cent in 2014–15. The operating surplus ratio for councils from the Resources segment also declined from the prior year, from -6.53 per cent in 2014–15 to -8.47 per cent in 2015–16.

The decline in these segments was due to large losses reported in a small number of councils. This was as a result of loss of revenue from decreasing sales and grant revenue due to completion of flood damage works in the prior year. The decrease in natural disasters has resulted in councils not being contracted to perform capital replacement works on state roads.

While Figure 3C shows an improvement in the annual average operating surplus ratio for Indigenous councils, four councils still remain to be finalised. However, if these councils' results are like the prior year, we would not expect this ratio to move significantly.

Revenue

Figure 3D
Total revenue for all councils audited to date by type in 2015–16

Source: Queensland Audit Office

In 2015–16, councils received revenue totalling $11.4 billion, which was a decrease of $111 million or one per cent from 2014–15. Consistent with the prior year, councils' main source of income is rates and levies revenue, making up 52 per cent of the total revenue.

The next highest source of income for councils is Queensland and Australian Government grant funding and contributions from developers. This makes up 25 per cent of total revenue. Grants are received for general operations and for capital works projects.

Contributions income is dependent on development demand and can vary from year to year. Contributions comprise of:

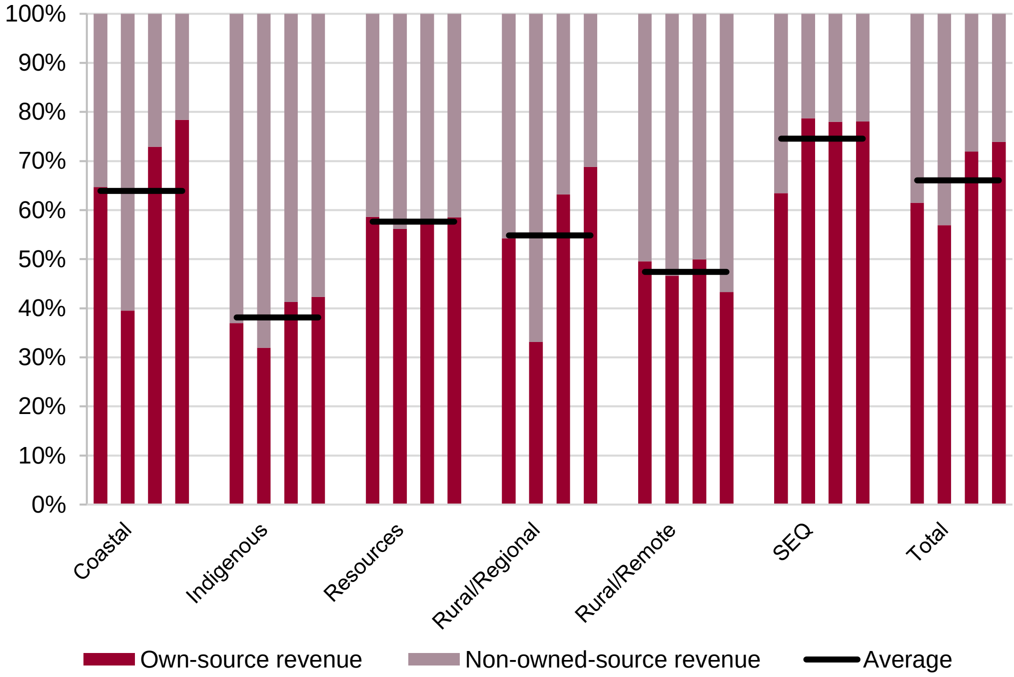
- infrastructure assets contributed by developers. Examples are roads, drains, sewerage mains, and water mains. This is non-cash revenue, which is not available for council operations or future expenditure
- developer cash contributions, which represent funds to use for the development of future infrastructure assets. Restrictions are placed on the use of these funds.

Fees and charges and other revenue make up 23 per cent of revenue. These primarily consist of building and development fees, fines, rental, sales, and investment revenue.

Own-source revenue versus other income

Own-source revenue comprises rates, fees, rental, sales, and other income, and constituted 74 per cent of total revenue for the sector in 2015–16. Figure 3E illustrates the own-source revenue against non-own-source revenue over a four-year period. Non-own-source revenue primarily relates to grants and contributions.

Figure 3E
Composition of total revenue 2012–13 to 2015–16



Source: Queensland Audit Office

The percentage of own-source revenue and non-own-source revenue is very much dependent on the population of the local government area, development activity, and remoteness. SEQ and Coastal councils are operating with over 70 per cent of their total revenue coming from own-source revenue, followed closely by Rural/Regional councils who, over the last two years, have increased their own-source revenue to above 60 per cent.

However, Indigenous and Rural/Remote councils are operating with over half of their total revenue being funded by grants and contributions. This is not surprising, as these councils, combined, make up only two per cent of the total local government area population. Due to their remote location, they have limited options for developing new revenue sources.

Events and transactions affecting revenue this year

Rates and levies

Rates and levies revenue increased by four per cent across the sector this year. This primarily came from an increase in rateable properties (due to development activity and population growth) as well as councils' approved fee increases. Rates and levies charges have a base charge and a usage element, linked to consumption. On average, councils increased general rate charges by three per cent across the sector. Most of this growth occurred in SEQ and Coastal councils, which is consistent with residential population growth.

Grants and contributions

Since 2014–15, grants and contributions have decreased by $216 million across the sector. This is predominantly due to:

- a reduction of $298 million in NDRRA grants for restoration works, which were mostly completed in 2014–15. This affected Coastal and Rural/Regional councils more than others.
- the ending of a Commonwealth grant which was paid to Brisbane City Council for the Legacy Way project. The last payment of $100 million was made in 2014–15.

The reduction in grants was offset by increases in development activity. This resulted in an increase in cash and non-cash contributions, particularly in the SEQ segment. It recorded a combined increase in total contributions of $174 million from 2014–15.

Future challenges and emerging risks

Volatility in revenue sources

Over time, reductions in government grants and instability in other revenue sources due to changes in economic activity and associated employment effects can have a major impact on councils' sustainability.

Councils should look to maximise revenue from sources other than grants where possible.

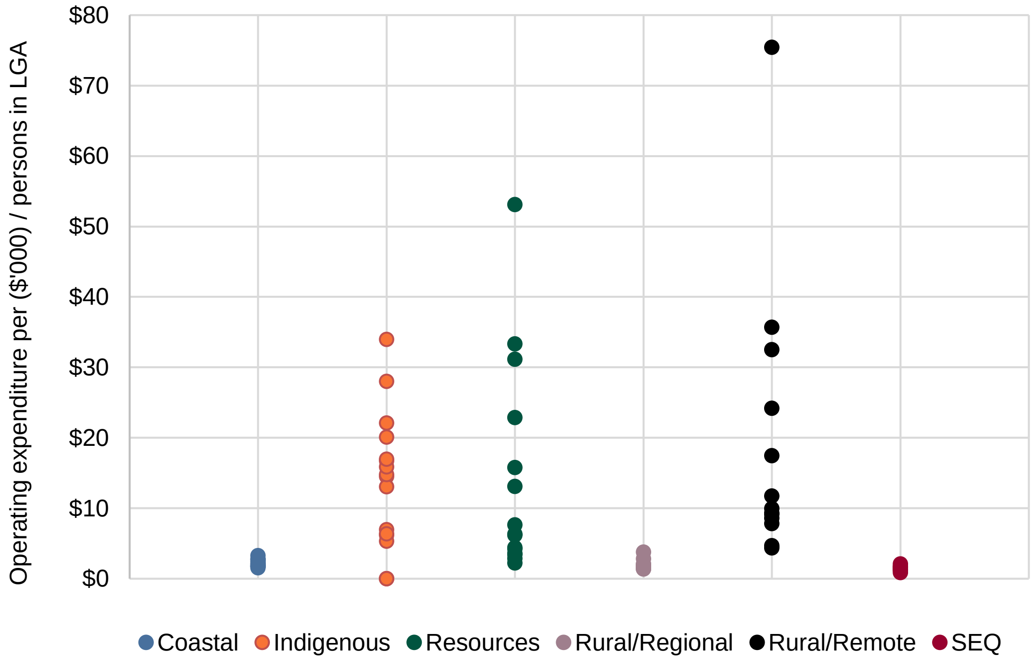
Expenditure

Figure 3F
Total expenditure for all councils audited to date in 2015–16

Source: Queensland Audit Office

Total expenditure was $9.6 billion in 2015–16, mainly made up of materials and services expenses (35 per cent), employee expenses (31 per cent), and depreciation charges (21 per cent). Combined, these three expense streams constituted 87 per cent of total expenditure.

Figure 3G
Operating expenditure per local government area (LGA) head of population by council segment



Source: Queensland Audit Office

Each council's expenditure depends on the variety, level and quality of the services it is delivering to its communities. SEQ and Coastal councils have less operating costs per person compared to other segments. This is due to their significantly larger populations and the generally smaller geographical areas over which they provide their services.

The following councils, the outliers in Figure 3G, had operating costs of more than $50 000 per person:

- Barcoo Shire Council
- Diamantina Shire Council.

These councils are among the five smallest populations in Queensland. They have populations of less than 500 people and they service geographical areas of between 60,000 and 95,000 square kilometres. These councils are heavily reliant on grant funding. They must seek to maximise their own-source revenue wherever possible and, after community consultation, restrict expenditure to essential services to be financially sustainable.

Events and transactions affecting expenditure this year

Compared to 2014–15, total expenditure decreased by three per cent or $285 million. The reduction was mainly due to revaluation decrement in one council in the prior year of $346 million. There were no losses of this magnitude in the current year.

Materials and services expenses also reduced from last year, largely due to the completion of natural disaster repair works in the prior year. This movement is consistent with the decrease in NDRRA grant funding.

Although materials and services expenses decreased, employee expenses remained relatively consistent with the prior year. Depreciation increased by three per cent from last year but has remained, on average, two per cent of total property, plant and equipment since 2012–13.

Future challenges and emerging risks

Growing demand for services and facilities

The Queensland population has grown by six per cent over the past four years and is projected to increase by a further 18 per cent by 2026. In addition, in some council regions there is a growing older population, which requires additional services to be provided.

While economies of scale can assist in reducing the costs of service delivery for some councils with larger populations, this is not a reality for all councils.

Councils need to understand the individual costs for services and how these costs are impacted by the level of services they provide. Armed with that understanding, they then can prioritise service delivery based on community consultation and what they can afford.

Understanding financial position

Financial position is measured by a council's net assets—the difference between total assets and total liabilities. Over time, the financial position can indicate whether the council's financial health is improving or deteriorating. A growing net asset position indicates that a council has greater capacity to meet an increase in future service demands. At 30 June 2016, the combined net asset position of councils totalled $102.8 billion, which is two per cent better than last year.

Councils' borrowings totalled $5.4 billion. Councils use debt funding to build their infrastructure and other assets that provide services to their communities over a long period.

Assets

Figure 3H
Written-down value property, plant, and equipment classes in 2015–16

Source: Queensland Audit Office

In 2015–16, councils reported total assets of $110.5 billion, of which 88 per cent relates to property, plant and equipment. Infrastructure is councils' largest investment.

Events and transactions affecting assets this year

Property, plant and equipment

Total property, plant and equipment values increased by $2 billion, which is a two per cent increase from last year. The material movements in asset values is largely attributable to new assets being built ($3.9 billion), offset by depreciation charges ($2 billion). Depreciation represents an allocation of the use or wear and tear over the expected life of the asset.

The sector spent $716 million (15 per cent) less than the prior year. Asset replacements and upgrades will vary year to year based on asset condition, community demand, natural disasters, and grants and subsidies received.

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 be indicative of a declining asset base and/or an inadequate asset management plan. However, a low percentage may also indicate the asset base is relatively new (for example, because of the rectification of extensive natural disaster damage) and does not yet require replacement or renewal.

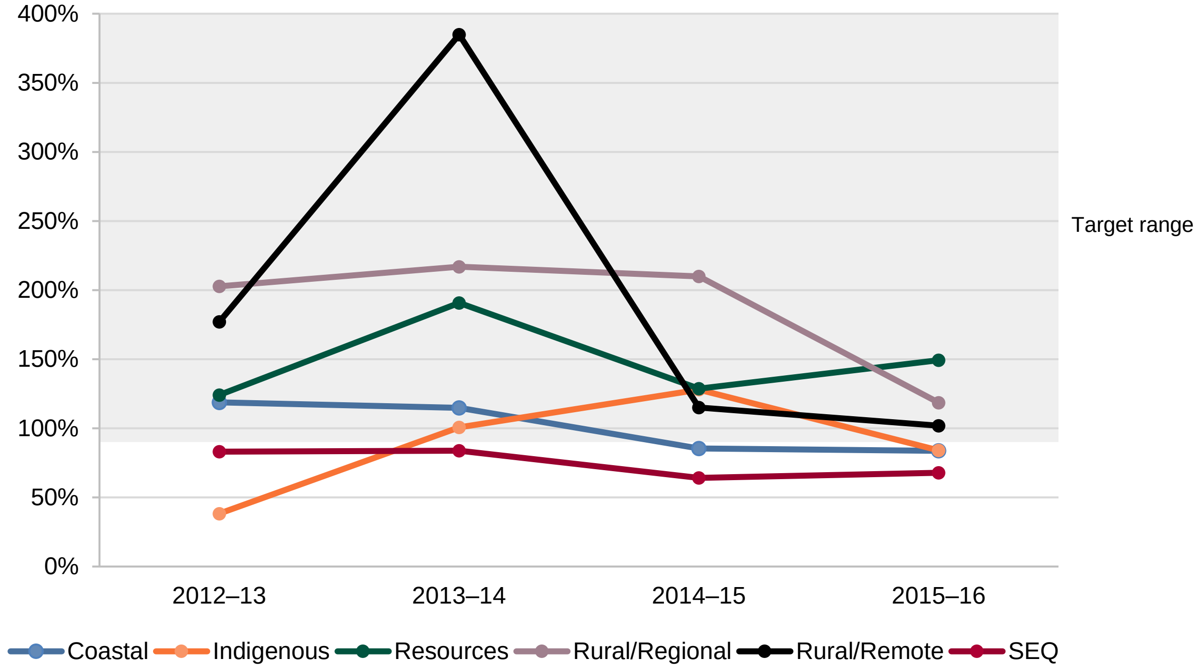
The DILGP *Financial Management (Sustainability) Guideline 2013* requires the calculation to be based on the portion of capital expenditure that relates to asset renewal expenditure on existing assets, excluding expenditure incurred on the construction or acquisition of new assets.

Comparative information is only available from 2012–13, as this was the first year councils' renewal 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.

Fifty-one councils (69.8 per cent) had a four-year average asset sustainability ratio above the 90 per cent target. The highest ratios were achieved in the Rural/Remote and Resources councils, with 96.4 per cent of the councils achieving the target.

Figure 3I depicts the average annual asset sustainability ratio over the past four years by council segment, based on the 73 councils audited to date.

Figure 3I
Asset sustainability ratio (average by year by council segment)



Source: Queensland Audit Office

The most significant decline in annual asset sustainability ratios was in the Rural/Regional councils. Somerset Regional Council, Scenic Rim Regional Council, and Lockyer Valley Regional Council experienced a huge reduction in their ratios of more than 200 per cent each in the current year. These neighbouring councils were severely affected by floods in 2011 and 2013 and the completion of flood damage recovery works in 2014–15 resulted in high ratios last year. Therefore, in the current year, the non-recurrence of events and a reduction in grant funding has led to lower ratios for 2015–16. These councils have a four-year average asset sustainability ratio above the 90 per cent target.

Indigenous council results also decreased in the current year due to the small amounts spent on asset renewals by most councils. Of the 13 councils audited to date, eight had annual asset sustainability ratios of 30 per cent or below. Two of these councils, Aurukun Shire Council and Cherbourg Aboriginal Shire Council, had nil asset sustainability ratios in the current year. While the ratio for 2015–16 has fallen below the target, it should be noted that the results of four unfinished council audits have not been included. All unfinalised councils, on average, have achieved below the target; therefore, the annual asset sustainability ratio is not expected to increase significantly.

Resources councils also had a notable increase in their average annual asset sustainability ratio for 2015–16. This was mainly attributable to two councils—Bulloo Shire Council and McKinlay Shire Council—who completed large capital works to renew road assets damaged by floods.

Asset sustainability ratios for SEQ and Coastal councils were consistent with the prior year and are on average below the target of 90 per cent. As mentioned in *Forecasting long-term sustainability of local government* (Report 2: 2016–17), while this ratio can indicate where not enough is being spent on renewals, it is important that councils also consider the relative age and renewal profile of its assets. Where a significant portion of assets are repaired (or replaced) due to natural disasters, a result under 90 per cent may be acceptable.

Future challenges and emerging risks

Long-term asset planning

A key risk to councils is maintaining and renewing their extensive infrastructure networks while operating at sustainable levels. If councils are not renewing their assets at optimal times, then future ratepayers may have to bear the cost rather than the ratepayers who are using the assets now.

Determining the right level of maintenance to achieve the best service potential and maximum life from an asset requires good asset data. Rigorous evaluations are required of asset condition. Councils' assets are widespread and sometimes it is impractical to cover them all on an annual basis. Some asset types, particularly underground assets, are difficult to assess.

Asset management plans are crucial in ensuring that community assets are maintained and continually renewed to provide the levels of service expected by communities. They are a key component in developing accurate long-term forecasts.

Liabilities

Figure 3J
Total liabilities for all councils audited to date in 2015–16

Source: Queensland Audit Office

In 2015–16, councils reported total liabilities of $7.7 billion. Borrowings make up 70 per cent of total liabilities. SEQ ($3.7 billion) and Coastal ($1.3 billion) councils hold the highest amounts of debt. Councils borrow to fund the development of infrastructure assets and for their other business enterprises. A total of 57 councils currently hold debt, with 31 councils holding debt greater than $10 million.

Provisions make up 14 per cent of total liabilities and include monies set aside for funds to rehabilitate landfill and quarry sites and resume land, as well as for employee leave entitlements. Councils' other liabilities are principally made up of amounts owed to suppliers.

Events and transactions affecting liabilities this year

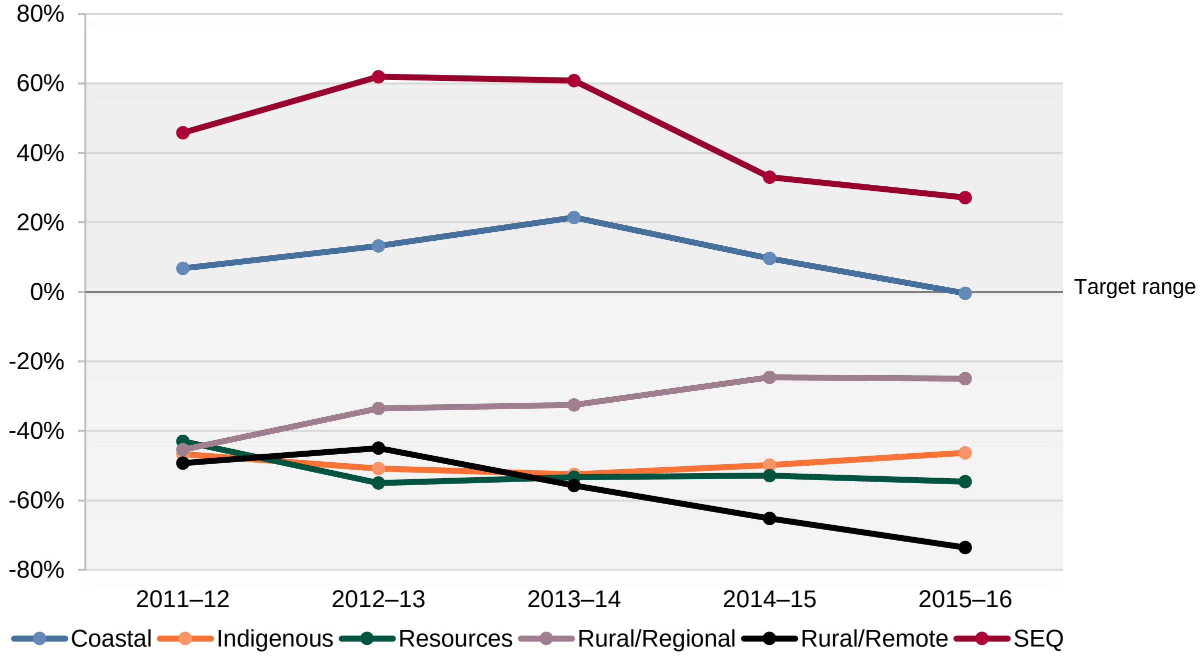
Total liabilities decreased by $504 million (six per cent), primarily due to a reduction in borrowings. Brisbane City Council repaid loans of $530 million during the current year using repayments made to it by Queensland Urban Utilities (of $471 million).

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.

The sector average net financial liabilities for the year is -32.75 per cent, which is within DILGP's recommended levels of sustainability. Figure 3K compares the movement in average net financial liabilities over the past five years by council segment, based on the 73 councils audited to date.

Figure 3K
Net financial liabilities ratio (average by council segment)



Source: Queensland Audit Office

While the average ratios across each segment are within the recommended target range, 56 councils (2014–15: 53) reported negative ratios in 2015–16. Indigenous, Rural/Remote, and Resources councils continue to have the most negative ratios. Coastal councils, on average, achieved a negative ratio for the first time in the current year. SEQ councils hold the highest debt, which explains why their ratio is higher than other segments.

Many councils are increasing their financial assets (that is, they have a negative financial liabilities ratio) to replace or renew assets rather than use debt. Fourteen councils have negative financial liability ratios and also have four-year average asset sustainability ratios lower than the 90 per cent target set by the DILGP. Six of these councils have four-year average asset sustainability ratios below 60 per cent.

These councils' asset management plans need to consider the available funding sources for asset replacement and assess the affordability of the different options in line with their long-term financial forecasts. This will enable their councils to make informed decisions on services to be provided and highlight the potential consequences should they decide to defer replacement until such time as they have grant funding or cash accumulated.

Four councils have average net financial liabilities ratios above the 60 per cent target set by DILGP. For these councils to fund infrastructure replacement and renewal and manage debt, they must plan to make regular operating surpluses.

Future challenges and emerging risks

Funding asset replacement and renewals

There are significant challenges for councils in making borrowing decisions.

They need to have a good understanding of their funding options and detailed capital works and asset acquisition programs for at least the next five years, together with a robust 10-year financial model. We noted in *Forecasting long-term sustainability of local government* (Report 2: 2016–17) that councils plan poorly and asset management plans lack substance and rigour. As a result, councils may not have the information they need to make the funding decisions that have significant long-term impacts.

In council segments where generating own-source revenue is difficult, they primarily save and put monies aside for future projects. They place less reliance on loan borrowings and actively seek and lobby for grant funding. Continued reductions in grants and subsidies will have a significant impact on these councils.

In council segments with greater own-source revenue, the focus is on minimising the costs of their financing activities and ensuring they maintain operating surpluses and liquidity to meet debt repayment. They are predominantly using surplus cash and investments to fund capital renewal projects and they try only to borrow for new or upgraded capital projects. The challenge for these councils is to balance the levels of service they provide through infrastructure that is affordable for their community and that does not threaten long-term council sustainability.

4. Internal controls

Chapter in brief

This chapter details our assessment of the strength of internal controls designed, implemented and maintained by councils and other local government entities to ensure reliable financial reporting.

We assess the financial controls using the Committee of the Sponsoring Organizations of the Treadway Commission (COSO) internal controls framework, which is widely recognised as a benchmark for designing and evaluating internal controls.

Main findings

- We identified control deficiencies at 74 of the 77 councils.
- We reported 235 significant internal control deficiencies across the sector in 2015–16. Of these, 45 per cent were unresolved from the prior year.
- Seventy-seven per cent of the significant deficiencies were from Indigenous, Resources, or Rural/Remote councils.
- The most common significant deficiencies related to changes to masterfiles (which contain key data on unit rates, fees and charges, rates, and employee and supplier details); information technology issues—user access and security; asset management; disaster recovery and business continuity planning; risk management; and procurement.
- Five councils' audit committees were disbanded after 1 July 2016 when they were no longer legislatively required to have one.

Conclusion

The risk of fraud and errors going undetected increases where effective internal control frameworks are not maintained. Many councils are not taking an active role in resolving significant deficiencies. This, coupled with a declining number of audit committees, is of significant concern.

Inadequate risk management, business continuity, disaster recovery, and asset management planning can result in a failure to deliver services. This can directly impact the communities, which councils are in place to serve.

Introduction

This chapter evaluates the strength of the internal controls designed, implemented and maintained by councils and other local government entities. The purpose of these controls is to mitigate risks that may prevent an entity from achieving reliable financial reporting, effective and efficient operations, and compliance with applicable laws and regulations.

As part of our audit, we assess the design and implementation of these controls. Where we identify controls that we intend to rely on to form our audit opinion, we test how effectively these controls are operating.

If we assess an entity's internal controls as not well designed, not operating as intended, or missing, we communicate these deficiencies to management.

By reporting our analysis, we promote a stronger control environment. By initiating effective responses to identified control weaknesses, financial losses and damage to public sector reputations can be mitigated.

Our assessment criteria and the results of our assessment for each council are in Appendix G.

We refine our assessment criteria from year to year to drive improvement and consistency in reporting across the public sector. Therefore, no comparison should be made of traffic light assessments from year to year.

Conclusion

Most councils need to place greater priority on rectifying weaknesses in their internal control elements. A high proportion of audit issues are being re-raised in subsequent years.

Our review of risk management processes identified that some councils are not identifying and mitigating key business, financial, and fraud risks. Councils may also not be able to recover systems within an acceptable time frame in the event of a disaster.

Accurate asset management planning is critical to financial sustainability, yet approximately a third of councils do not have up-to-date plans for their infrastructure assets.

The internal control framework

We assess the financial controls using the Committee of the Sponsoring Organizations of the Treadway Commission (COSO) internal controls framework, which is widely recognised as a benchmark for designing and evaluating internal controls.

The framework defines five key control components to a successful internal control system—the control environment, risk assessment, monitoring activities, control activities, and information and communication.

All the components need to be present and operating together as an integrated system of internal control. When this is not the case, entities increase the risk of not achieving their objectives.

Selecting internal controls to test

We assess the design and implementation of controls to assist us in determining the nature, timing and extent of testing to be performed.

Where we believe the design and implementation of controls is effective, we select the controls we intend to test further by considering factors including:

- the significance of the related risks
- characteristics of balances, transactions or disclosures (volume, value and complexity)
- the nature and complexity of the information systems
- whether the design of controls facilitates an efficient audit.

Our assessment of the effectiveness of each entity's controls relating to each COSO component is detailed in Appendix G.

Our rating of internal control deficiencies

> ***Deficiency:*** This is when internal controls are unable to prevent, detect, or correct errors in the financial statements or where internal controls are missing.
>
> ***Significant deficiency:*** This is a deficiency that, either alone or in combination with multiple deficiencies, may lead to a material misstatement. It requires immediate management action.

We assess all internal control deficiencies based on their potential to cause a material misstatement (one that has the potential to mislead users) in the financial statements.

Significant deficiencies have the potential to cause large financial losses or major business interruptions.

Our ratings allow management to gauge the relative importance and prioritise remedial actions.

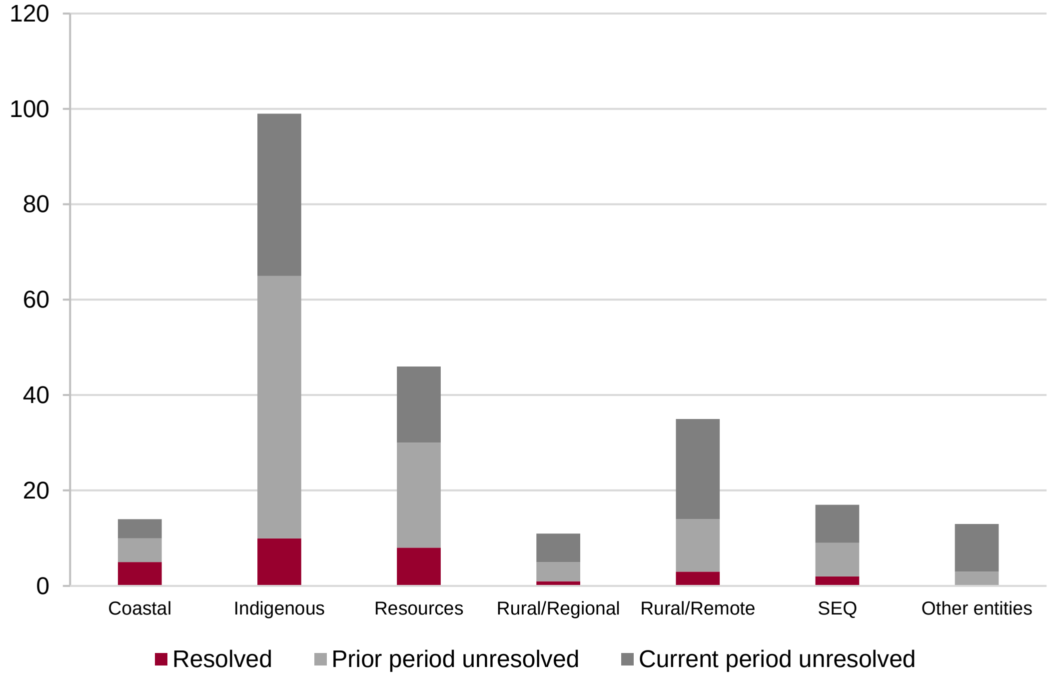
The following sections of this report detail the control deficiencies identified by COSO component.

Resolution of identified deficiencies

Timely resolution of identified control deficiencies can be an indicator of an effective control environment.

Figure 4A outlines the status of control issues identified by council segment for 2015–16.

Figure 4A
Status of significant deficiencies as at 30 June 2016



Source: Queensland Audit Office

During the 2015–16 financial year, we reported 723 issues across the sector, of which 235 were considered significant deficiencies. Of these issues, 107 (45 per cent) were also reported in the prior year and remain unresolved at 30 June 2016. In addition, 57 of the 107 significant deficiencies were brought to management attention in 2013–14. Of these, 27 were also raised in 2012–13. These were mainly deficiencies in the control environment, risk assessment and control activities, such as lack of maintenance of risk registers, no asset management plans, a lack of review of journals and changes to masterfiles (which contain key data on unit rates, fees and charges, rates, and employee and supplier details).

This means councils in some instances are taking over three years to rectify significant deficiencies. They need to promptly resolve these issues, as delays exposes them to increased risk of fraud or error.

Control environment

- Cultures & values
- Governance
- Organisational structure
- Policies
- Qualified & skilled people
- Management's integrity & operating style

The control environment is defined as management's actions, attitudes, policies and values that influence day-to-day operations. It links closely to an entity's overarching governance and culture and is fundamental in providing a strong foundation.

We identified significant deficiencies relating to:

- outdated, unfinalised or absent asset management plans—21 councils
- no business continuity plan and/or disaster recovery plan—16 councils
- no financial delegations registers—four councils.

A further 20 councils had a business continuity plan or disaster recovery plan that was outdated or had not been subject to regular testing.

These deficiencies mean that councils are not adequately planning or providing guidance. There is also an increased risk that councils may not be able to recover critical systems within an acceptable time frame in the event of a disaster. A failure to deliver services could have significant consequences for their communities.

Monitoring controls

- Management supervision
- Self-assessment
- Internal audit

Monitoring activities are the methods management uses to oversee and assess whether internal controls are present and operating effectively. They may include ongoing supervision, periodic self-assessments, and separate evaluations. They also concern the evaluation and communication of control deficiencies in a timely manner to effect corrective action.

Typically, the internal audit function and an independent audit and risk committee are charged with the responsibility of overseeing the implementation of controls and the resolution of control deficiencies. These two functions work together to ensure that internal control deficiencies are identified and then resolved in a timely manner. Every council was required to have an internal audit function and an audit committee in 2015–16.

Audit committees

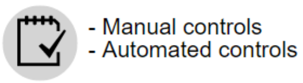
Given the high number of unresolved issues from the prior year, it appears that audit committees need to take a more active role in the monitoring and timely resolution of control deficiencies.

The requirement to have an audit committee is linked to the categorisation of councils by the Remuneration and Discipline Tribunal. Due to a change in categories effective 1 July 2016, 49 councils are currently not required to have an audit committee.

We note that since 1 July 2016, at least five councils have disbanded their audit committees. These councils are from the Indigenous, Coastal, and Rural/Remote segments. Given that Rural/Remote and Indigenous councils have the highest number of control deficiencies by segment, this is of serious concern. To provide adequate oversight, these councils will need to amend their current work calendars to incorporate appropriate monitoring controls.

We made a recommendation to the Department of Infrastructure, Local Government and Planning (DILGP) in *Results of audit: Local government entities 2014–15* (Report 17: 2015–16) that audit committees be mandated for all councils. DILGP are currently liaising with stakeholders.

Control activities



Control activities are the policies and procedures that help ensure management directives are carried out and that necessary actions are taken to address identified risks. These activities operate at all levels and in all functions, and can be designed to prevent or detect errors entering financial systems.

The mix of control activities can also be divided into manual control activities and information technology (IT) system controls.

This control element had the largest number of deficiencies identified. We reported 343 control activities issues across the sector.

Manual control activities

Manual controls contain a human element, which can provide an opportunity to assess the reasonableness and appropriateness of transactions. These controls may also be less reliable than automated elements because they can be more easily bypassed or overridden.

They include activities such as approvals, authorisations, verifications, reconciliations, reviews of operating performance, and segregation of incompatible duties. Manual controls may be performed with the aid of IT systems.

The significant deficiencies we identified included:

- payroll, revenue and creditor masterfile—change reports not reviewed; incompatible duties—24 councils
- procurement—purchase orders raised after invoices; inadequate and non-compliant purchasing, tendering and contracting processes—17 councils
- lack of review of general journals—11 councils
- lack of preparation or review of bank reconciliations—eight councils.

Without appropriate controls, these councils are at higher risk of losses due to fraud and not detecting a material misstatement resulting from an error.

Information technology (IT) system controls

IT system controls are the control activities that relate to the maintenance and operational capability of the entities' financial management information systems.

IT system controls can improve timeliness, availability and accuracy of information by consistently applying predefined business rules. They can enable the performance of complex calculations when processing large volumes of transactions, and improve the effectiveness of financial delegations and segregation of duties.

Effective controls over IT systems can reduce the risk that controls will be circumvented and maintain the integrity of information and security of data.

Conversely, poorly managed IT system controls can increase the risk of unauthorised access, which may result in the destruction of data or recording of non-existent transactions.

Most councils had effective IT system controls; however, there continues to be issues identified in relation to user access and IT security. We identified 29 significant deficiencies. These related to:

- general user access management—process of approval, establishment, monitoring of access and conflicting business roles, and termination of user access to computer systems and networks—ten councils
- privileged user access management—process for establishment, logging and monitoring of privileged user access—five councils
- change management controls—process for approval and incident management—three councils
- network and general system security—password and security management—four councils.

In the absence of effective IT controls there is an increased risk of inappropriate system access and of unauthorised changes being made to systems.

Risk assessment

- Strategic risk assessment
- Financial risk assessment
- Operational risk assessment

Risk assessment relates to management's processes for considering risks that may prevent an entity from achieving its objectives and forming a basis as to how risks should be identified, assessed and managed.

Appropriate management of business risks can be achieved either by management accepting the risk, if it is minor, or by mitigating the risk to an acceptable level through implementing appropriately designed controls. A council is required under Local Government Regulation 2012 to keep a written record of the risks the local government operations are exposed to and the control measures adopted to manage the risks.

During this current year, we conducted a high level review of risk management processes across councils. We identified 26 significant deficiencies and 18 deficiencies and reported them to management.

Risk appetite and tolerance levels

The amount and type of risk a council is prepared to accept at any point in time is known as its risk appetite. Risk tolerance is the variation from risk appetite that councils are willing to tolerate or accept without impacting on the achievement of their objectives.

Only 35 councils (45 per cent) had formally documented their risk appetite or risk tolerances. For the most part, they were included in a policy or procedure document rather than as a stand-alone statement. Where risk appetite or tolerance is documented, it is very rarely coupled with capacity for taking risk (allow risks to be taken). Therefore, 55 per cent of councils cannot adequately plan risk treatments as they do not know the level of risk the council is willing to expose itself to or what capacity the council has for risk taking. Risk taking may be appropriate where councils seek to innovate by delivering products or services in different ways. By managing these opportunities for risk, councils will maximise their chance of succeeding.

Risk management framework

Risk management policies and procedures should clearly define accountabilities and responsibilities for strategic and operational risk management. Seventeen councils (22 per cent) do not have a risk management policy or procedure. This highlights that these councils do not see risk management as a priority or as a key area of their governance responsibilities. It may also mean that they do not have the resources to perform these activities.

Periodic review of a risk management framework keeps it relevant to the changing needs of each council. More than half of councils with established risk management frameworks have reviewed them within the last two years. Reviews performed by independent experts may provide greater assurance that risk management activities represent better practice and are efficient and effective. Thirty-five councils have had independent assessments performed within the last two years.

Identifying, assessing and recording risks

Seventeen councils (22 per cent) across the sector have not identified or assessed their strategic and operational risks and recorded them in a risk register. We reviewed the risk registers of the remaining councils and identified that they are not identifying all the types of risks impacting on them. Figure 4B shows that the gap in risk identification across the sector.

Figure 4B
Risks identified in 77 councils

Source: Queensland Audit Office

The most common risk identified by councils is workplace, health and safety, and the least recorded risks were in relation to information technology. When councils do not identify all their risks, their management cannot focus on the key risks that threaten the achievement of their objectives. These councils have an increased risk of failing to deliver key services. This could have significant consequences for their communities.

To assess risks accurately, councils need to be clear about the difference between inherent and residual risks. Inherent risks are risks before controls have been applied whereas residual risks are the risks that remain after controls have been implemented. We found in our examination of risk registers that 25 councils (32 per cent) do not assess the key controls that mitigate risk for effectiveness and record those results in their risk register. In these councils, there is a higher likelihood that risks may not be appropriately mitigated.

A risk treatment plan is required when the level of risk is unacceptable and risk treatment is deemed necessary. The risk treatment can include the establishment of controls or specific corrective treatments. Our review of councils with risk registers identified that 35 (46 per cent) councils have not established risk treatment plans for risks outside of their risk tolerance.

Better practice suggests that risk treatment plans identify responsible owners, treatment actions and time frames. Regular reporting and monitoring of the status of approved risk treatments should be performed to ensure that risks are being managed appropriately.

Managing and monitoring risks

Across the sector, 64 councils have an established committee or use their council to monitor risk. In 37 councils, risks are monitored at least annually. Twenty-nine of these, however, do not evidence their monitoring of risk in their minutes.

Exception reporting to the council or committee responsible for monitoring risk is almost non-existent across the sector with only nine councils providing specialised reporting. The most common type of reporting to councils is to provide the risk register. Typically, exception reporting includes advising of new risks, reporting on the top 10 most significant risks, reporting on risks where treatment or controls will not bring the risk within councils' appetite, and other general status updates.

Risk maturity model

After extensive research into global developments in public and private sectors, we developed a maturity model for risk management.

The model is publicly available on our website. We encourage councils to conduct a self-assessment using the maturity model to enhance their risk management framework and implement a plan for continual improvement.

Fraud awareness

More than **8 000** supplier bank account changes made by councils since 1 July 2015	**9** entities specifically targeted by fraud in 2015–16	**$6.9b** payments made to suppliers for expenditure and property, plant and equipment in 2015–16	**27** supplier masterfile issues identified since 1 July 2015 for all councils

Management is responsible for the systems of internal control designed to prevent and detect fraud within entities.

Suppliers often change bank account details. The payments made to suppliers during the year are significant. Annually, we report weaknesses with the controls operating over the integrity of supplier data.

The scam

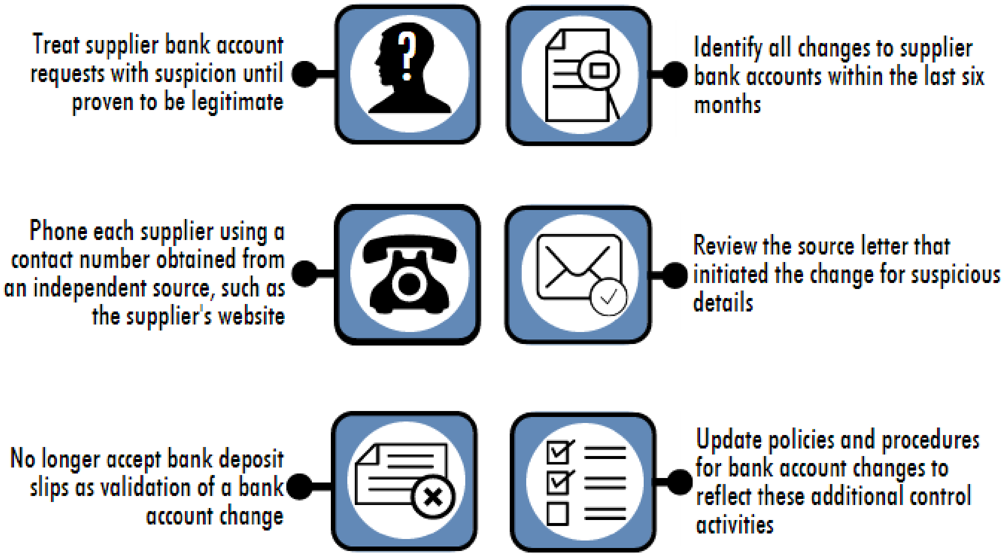
During the last financial year, a malicious fraud scheme targeted public and private sector entities. The scammers used fraudulent documents to change an existing supplier's bank account details and divert payments to illegitimate bank accounts.

Our responsibilities

During an audit, we assess the risk of material misstatement due to fraud and respond by developing specific audit procedures to address the risks identified.

Our response

In response to the identified fraud scheme this year, we asked each councils' chief financial officer to independently verify their supplier bank account details. We recommended entities exercise increased vigilance over new requests to change supplier bank account details.



Across councils, fraudulent payments of $744 000 were made. Further payments of approximately $3.2 million were prevented from being made as a result of:

- council staff performing appropriate checks
- monies paid being able to be recovered by councils' banks.

A total of nine councils were targeted in the scam.

Our testing of internal controls found that controls in this area require improvement. We identified 27 control deficiencies across 22 councils in relation to lack of segregation of duties in changing masterfile information or an absence of reviews of masterfile change reports in relation to expenditure. Without appropriate controls, these councils are at higher risk of losses due to fraud.

Entities need to remain on high alert for this and other fraudulent schemes and allocate sufficient resources to their support staff to ensure proper interrogation of documents requesting changes to bank account details.

Information and communication

- Non-financial systems
- Financial systems
- Reporting systems

Information and communication are the systems used to provide information to employees and the ways that control responsibilities are communicated.

This aspect of internal control also considers how management generates financial reports and how these reports are communicated to internal and external parties to support the functioning of internal controls.

Across the sector, we identified 59 deficiencies and 18 significant deficiencies in relation to the quality of financial reporting and the completeness and accuracy of asset information. As reported in Chapter 2, this is an area in which councils could improve.

Appendices

Appendix A—Full responses from entities

In accordance with section 64 of the *Auditor-General Act 2009*, we gave a copy of this report with a request for comments to all 77 councils and the Department of Infrastructure, Local Government and Planning.

The head of these organisations are responsible for the accuracy, fairness and balance of their comments.

This appendix contains their detailed responses.

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

Queensland Government

Department of Infrastructure, Local Government and Planning

Our ref: DGC17/255

Your ref: 11628

28 March 2017

Mr Anthony Close
Acting Auditor-General
PO Box 15396
CITY EAST QLD 4002

Dear Mr Close

Thank you for your letter of 2 March 2017 about your draft report to Parliament on the results of the 2015-16 local government audits. I apologise for the delay in my response.

I was particularly pleased to read about the continued improvement in the timeliness of local government financial statements. I have written to all councils that did not meet the 31 October deadline and the Department of Infrastructure, Local Government and Planning (the department) will continue to work with those councils to further improve quality, system efficiency and timeliness.

I support draft recommendations 1 to 7 and intend to write to each council to emphasise the importance of implementing these recommendations.

In regard to recommendation 3, I advise that the department continues to provide guidance and assistance to local governments to meet this new requirement. This includes an example draft note that can be used to guide the disclosure that councils make.

If you require further information, I encourage you to contact Ms Nicole Johnson, Acting Executive Director, Strategic Projects in the department on 3452 7272 or by email at nicole.johnson@dilgp.qld.gov.au.

Yours sincerely

Frankie Carroll
Director-General

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Comments received from Chief Executive Officer, Brisbane City Council

BRISBANE CITY

Dedicated to a better Brisbane

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27 March 2017

Mr Anthony Close
Acting Auditor-General
Queensland Audit Office
PO Box 15396
CITY EAST QLD 4002

Dear Mr Close

Results of audit: local government financial statements for 2015-16 draft report

I refer to the above correspondence (Report) provided to Brisbane City Council (Council) on 2 March 2017 with a request for comments.

Council acknowledges that there are no material changes required to what is proposed in the Report, but wishes to highlight the following clarification relevant to the findings.

The asset sustainability ratio continues to form part of Queensland Audit Office (QAO) financial sustainability assessment. However, it is noted the Auditor-General's report[1] recommended the Department of Infrastructure, Local Government and Planning (the Department) allow councils to set their own financial sustainability targets where the alternative can be justified as more appropriate for demonstrating long-term sustainability. The QAO approach is to audit according to the requirements set out in the Department's *Financial Management (Sustainability) Guideline 2013* and the scope of the audit does not extend to forming an opinion on the appropriateness or relevance of the reported ratios.

It is therefore relevant to note that while the asset sustainability ratio is an audited indicator it may not reflect an accurate representation of the long-term asset sustainability of councils, resulting in trend analysis and comparisons between councils on this measure being ineffectual.

Council appreciates the opportunity to review and comment on the Report. Please contact Mr Paul Oberle, Chief Financial Officer, on 3403 8888 if you have any queries in relation to the above.

Yours sincerely

Colin Jensen
CHIEF EXECUTIVE OFFICER

[1] Queensland Audit Office, *Forecasting long-term sustainability of local government*, Queensland Audit Office, Brisbane, 2016.

Appendix B—Audit opinion results on financial statements

Audit	Date financial statement opinion issued	Opinion	Ministerial extension issued to date ⊘	Date current year sustainability statements opinion issued △	Opinion
Councils and controlled entities					
Aurukun Shire Council	12.12.2016	U		12.12.2016	E*
Balonne Shire Council	17.10.2016	U		17.10.2016	E*
Banana Shire Council	24.10.2016	U		24.10.2016	E*
Barcaldine Regional Council	24.10.2016	U		24.10.2016	E*
Barcoo Shire Council	24.10.2016	U		24.10.2016	E*
Blackall-Tambo Regional Council	14.10.2016	U		14.10.2016	E*
Boulia Shire Council	05.11.2016	U	31.12.2016	05.11.2016	E*
Brisbane City Council	22.08.2016	U		22.08.2016	E*
▪ Brisbane Green Heart CitySmart Pty Ltd	23.09.2016	U			
▪ Brisbane Marketing Pty Ltd	29.09.2016	U			
▪ Brisbane Powerhouse Foundation	29.09.2016	U			
▪ Brisbane Powerhouse Pty Ltd	29.09.2016	U			
▪ Brisdev Trust	17.08.2016	E*			
▪ City of Brisbane Investment Corporation Pty Ltd	17.08.2016	U			
▪ City Parklands Transition Services Pty Ltd	29.08.2016	U			
▪ Museum of Brisbane Pty Ltd	23.09.2016	U			
▪ Museum of Brisbane Trust	23.09.2016	Q E*			
▪ TradeCoast Land Pty Ltd	06.09.2016	U			

Audit	Date financial statement opinion issued	Opinion	Ministerial extension issued to date ⊘	Date current year sustainability statements opinion issued △	Opinion
Bulloo Shire Council	31.10.2016	U		31.10.2016	E*
Bundaberg Regional Council	19.10.2016	U		19.10.2016	E*
Burdekin Shire Council	14.10.2016	U		14.10.2016	E*
Burke Shire Council	24.10.2016	U		24.10.2016	E*
Cairns Regional Council	12.10.2016	U		12.10.2016	E*
▪ Cairns Regional Gallery Arts Trust	23.11.2016	Q E*			
▪ Cairns Regional Gallery Limited	23.11.2016	U			
Carpentaria Shire Council	24.10.2016	U		24.10.2016	E*
Cassowary Coast Regional Council	19.10.2016	U		19.10.2016	E*
Central Highlands Regional Council	24.10.2016	U		24.10.2016	E*
▪ Central Highlands (Qld) Housing Company Limited	28.10.2016	E*			
▪ Central Highlands Development Corporation Ltd	08.11.2016	E*			
Charters Towers Regional Council	24.10.2016	U		24.10.2016	E*
Cherbourg Aboriginal Shire Council	31.10.2016	U		31.10.2016	E*
Cloncurry Shire Council	06.12.2016	U	30.11.2016	06.12.2016	E*
Cook Shire Council	24.10.2016	U		24.10.2016	E*
Council of the City of Gold Coast	24.10.2016	U		24.10.2016	E*
▪ Broadbeach Alliance Limited	30.09.2016	U			
▪ Connecting Southern Gold Coast Limited	29.09.2016	U			
▪ Gold Coast Arts Centre Pty Ltd	23.11.2016	U			

Audit	Date financial statement opinion issued	Opinion	Ministerial extension issued to date ⊘	Date current year sustainability statements opinion issued △	Opinion
▪ Surfers Paradise Alliance Limited	22.09.2016	U			
Croydon Shire Council	28.10.2016	U		28.10.2016	E*
Diamantina Shire Council	24.10.2016	U		24.10.2016	E*
Doomadgee Aboriginal Shire Council	Not complete		31.05.2017	Not complete	
Douglas Shire Council	17.10.2016	U		17.10.2016	E*
Etheridge Shire Council	14.10.2016	U		14.10.2016	E*
Flinders Shire Council	19.10.2016	U		19.10.2016	E*
Fraser Coast Regional Council	31.10.2016	U		31.10.2016	E*
▪ Fraser Coast Opportunities Ltd	08.12.2016	E*			
▪ Wide Bay Water Corporation	14.12.2016	E			
Gladstone Regional Council	28.10.2016	U		28.10.2016	E*
▪ Gladstone Airport Corporation	03.10.2016	U			
Goondiwindi Regional Council	31.08.2016	U		31.08.2016	E*
Gympie Regional Council	24.10.2016	U		24.10.2016	E*
Hinchinbrook Shire Council	19.10.2016	U		19.10.2016	E*
Hope Vale Aboriginal Shire Council	29.07.2016	U		29.07.2016	E*
Ipswich City Council	17.10.2016	U		17.10.2016	E*
▪ Ipswich Arts Foundation	29.09.2016	U			
▪ Ipswich Arts Foundation Trust	20.10.2016	U			
▪ Ipswich City Developments Pty Ltd	05.10.2016	U			
▪ Ipswich City Enterprises Investments Pty Ltd	17.10.2016	U			

Audit	Date financial statement opinion issued	Opinion	Ministerial extension issued to date ⊘	Date current year sustainability statements opinion issued △	Opinion
▪ Ipswich City Enterprises Pty Ltd	17.10.2016	U			
▪ Ipswich City Properties Pty Ltd	05.10.2016	U			
Isaac Regional Council	31.10.2016	U		31.10.2016	E*
▪ Isaac Affordable Housing Fund Pty Ltd	02.11.2016	E*			
▪ Isaac Affordable Housing Trust	01.12.2016	E*			
▪ Moranbah Early Learning Centre Pty Ltd	02.11.2016	E*			
Kowanyama Aboriginal Shire Council	24.02.2017	Q	31.01.2017	24.02.2017	QE*
Livingstone Shire Council	24.10.2016	U		24.10.2016	E*
Lockhart River Aboriginal Shire Council	31.10.2016	U		31.10.2016	E*
▪ Lockhart River Aerodrome Company Pty Ltd	31.10.2016	U			
Lockyer Valley Regional Council	06.10.2016	U		06.10.2016	E*
Logan City Council	07.10.2016	U		07.10.2016	E*
Longreach Regional Council	24.10.2016	U		24.10.2016	E*
Mackay Regional Council	24.10.2016	U		24.10.2016	E*
▪ Mackay Region Enterprises Pty Ltd	01.11.2016	E			

Audit	Date financial statement opinion issued	Opinion	Ministerial extension issued to date ⊘	Date current year sustainability statements opinion issued △	Opinion
Mapoon Aboriginal Shire Council	24.10.2016	U		24.10.2016	E*
Maranoa Regional Council	19.10.2016	U		19.10.2016	E*
Mareeba Shire Council	11.10.2016	U		11.10.2016	E*
McKinlay Shire Council	24.10.2016	U		24.10.2016	E*
Moreton Bay Regional Council	24.10.2016	U		24.10.2016	E*
Mornington Shire Council	30.11.2016	U	30.11.2016	30.11.2016	E*
Mount Isa City Council	24.10.2016	U		24.10.2016	E*
▪ Outback @ Isa Pty Ltd	25.10.2016	E			
▪ Mount Isa City Council Owned Enterprises Pty Ltd	25.10.2016	U			
Murweh Shire Council	24.10.2016	U		24.10.2016	E*
Napranum Aboriginal Shire Council	31.01.2017	U	31.01.2017	31.01.2017	E*
Noosa Shire Council	24.10.2016	U		24.10.2016	E*
North Burnett Regional Council	24.10.2016	U		24.10.2016	E*
Northern Peninsula Area Regional Council	Not complete		31.05.2017	Not complete	
Palm Island Aboriginal Shire Council	24.10.2016	U		24.10.2016	E*
Paroo Shire Council	31.10.2016	U		31.10.2016	E*
Pormpuraaw Aboriginal Shire Council	24.10.2016	U		24.10.2016	E*
Quilpie Shire Council	24.10.2016	U		24.10.2016	E*
Redland City Council	24.10.2016	U		24.10.2016	E*
▪ Redland Investment Corporation Pty Ltd	29.11.2016	U			

Audit	Date financial statement opinion issued	Opinion	Ministerial extension issued to date ⊘	Date current year sustainability statements opinion issued △	Opinion
Richmond Shire Council	17.10.2016	U		17.10.2016	E*
▪ The Kronosaurus Korner Board Inc.	07.11.2016	E*			
Rockhampton Regional Council	19.10.2016	U		19.10.2016	E*
▪ The Rockhampton Art Gallery Trust	07.11.2016	Q E*			
Scenic Rim Regional Council	24.10.2016	U		24.10.2016	E*
Somerset Regional Council	18.10.2016	U		18.10.2016	E*
South Burnett Regional Council	13.10.2016	U		13.10.2016	E*
▪ South Burnett Community Hospital Foundation Limited	25.10.2016	U			
Southern Downs Regional Council	31.10.2016	U		31.10.2016	E*
▪ Warwick Tourism and Events Pty Ltd	06.02.2017	E			
Sunshine Coast Regional Council	18.10.2016	U		18.10.2016	E*
▪ Suncentral Maroochydore Pty Ltd	27.09.2016	U			
Tablelands Regional Council	24.10.2016	U		27.10.2016	E*
Toowoomba Regional Council	06.10.2016	U		06.10.2016	E*
▪ Empire Theatres Foundation	31.08.2016	U			
▪ Empire Theatre Projects Pty Ltd	31.08.2016	U			
▪ Empire Theatres Pty Ltd	08.09.2016	U			
▪ Jondaryan Woolshed Pty Ltd	Not complete				

Audit	Date financial statement opinion issued	Opinion	Ministerial extension issued to date ⊘	Date current year sustainability statements opinion issued △	Opinion
▪ Toowoomba and Surat Basin Enterprise Pty Ltd	31.08.2016	U			
Torres Shire Council	31.10.2016	U		31.10.2016	E*
Torres Strait Island Regional Council	30.09.2016	U		30.09.2016	E*
Townsville City Council	24.10.2016	U		24.10.2016	E*
Western Downs Regional Council	24.10.2016	U		24.10.2016	E*
▪ Western Downs Housing Trust	24.11.2016	U			
Whitsunday Regional Council	30.09.2016	U		30.09.2016	E*
Winton Shire Council	13.10.2016	U		13.10.2016	E*
▪ Waltzing Matilda Centre Ltd	21.10.2016	U			
Woorabinda Aboriginal Shire Council	Not complete		30.04.2017	Not complete	
▪ Woorabinda Pastoral Company Pty Limited	Not complete				
Wujal Wujal Aboriginal Shire Council	Not complete		31.12.2016	Not complete	
Yarrabah Aboriginal Shire Council	31.10.2016	U		31.10.2016	E*
Jointly-controlled entities					
Council of Mayors (SEQ) Pty Ltd	19.10.2016	U			
Local Government Association of Queensland Ltd	05.10.2016	U			
▪ DDS Unit Trust	05.10.2016	U			
▪ Local Buy Trading Trust	23.09.2016	Q			
▪ Local Partnerships Services Pty Ltd	23.09.2016	E*			
▪ Prevwood Pty Ltd	05.10.2016	E*			

Audit	Date financial statement opinion issued	Opinion	Ministerial extension issued to date ⊘	Date current year sustainability statements opinion issued △	Opinion
▪ QPG Shared Services Support Centres Joint Venture	27.09.2016	E*			
▪ Local Government Infrastructure Services Pty Ltd	05.10.2016	U			
▪ Services Queensland	10.10.2016	E*			
▪ Northern Australia Services Unit Trust	23.09.2016	E*			
Queensland Local Government Mutual Liability Pool (LGM Queensland)	15.11.2016	U			
Queensland Local Government Workers Compensation Self-Insurance Scheme (trading as Local Government Workcare)	15.11.2016	U			
SEQ Regional Recreational Facilities Pty Ltd	06.10.2016	U			
South West Queensland Local Government Association #	01.12.2016	E*			
Townsville Breakwater Entertainment Centre Joint Venture	02.09.2016	E*			
Whitsunday ROC Limited	06.09.2016	U			
The Wide Bay Burnett Regional Organisation of Councils Inc.	17.10.2016	E*			
Western Queensland Local Government Association	16.11.2016	E*			

Audit	Date financial statement opinion issued	Opinion	Ministerial extension issued to date ⊘	Date current year sustainability statements opinion issued △	Opinion
Audits by arrangement					
Ipswich Mayor’s Carols by Candlelight Fund Inc.	17.10.2016	E*			
Ipswich Mayor's Community Fund Inc.	05.10.2016	E*			
City of Ipswich Community Fund Trust	17.10.2016	E*			

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

\# The financial year of South West Queensland Local Government Association was 1 April 2015 to 31 March 2016.

△ Only councils prepare sustainability statements (not local government related entities).

⊘ Ministerial extensions may only be obtained for councils (not local government related entities).

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

Source: Queensland Audit Office

Appendix C—Entities exempt from audit by the auditor-general

Audit	Audit firm	Date opinion issued	Opinion
Exempt local government entities—small in size and of low risk (s.30A of the *Auditor-General Act 2009)*			
Artspace Mackay Foundation	Bennett Partners	17.08.2016	E*
Central Western Queensland Remote Area Planning and Development Board (RAPAD)	Walsh Accounting	17.10.2016	U
Far North Queensland Regional Organisation of Councils	Halpin Partners Pty Ltd	25.10.2016	E*
Gulf Savannah Development Inc.	Rekenen Accountants	Not complete	
Leichhardt Highway Promotions Associations Inc.	VIDEN Group (formerly BB Whitehouse Group)	29.09.2016	U
Major Brisbane Festivals Pty Ltd+	BDO Audit Pty Ltd	Not complete	
▪ Brisbane Festival Limited+	BDO Audit Pty Ltd	Not complete	
North Queensland Local Government Association+	Crowe Horwath	Not complete	
North West Queensland Regional Organisation of Councils	Rekenen Accountants	Not complete	
Palm Island Community Company Limited	Moore Stephens (Queensland) Audit Pty Ltd	09.11.2016	U
South West Regional Development Authority	Condon Treasure	Not complete	
Exempt local government entities—foreign-based controlled entity (s.32 of the *Auditor-General Act 2009)*			
Gold Coast City Council Insurance Company Limited	Ernst & Young LLP	18.08.2016	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 2016 to 31 December 2016. All the remaining entities have 30 June 2016 year ends.

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

Source: Queensland Audit Office

Appendix D—Local government entities for which we will not issue opinions

Entity	Parent entity	Reason
	Controlled entities	
Artspace Mackay Foundation Ltd	Mackay Regional Council	Dormant
BCC Shelf One Pty Ltd	Brisbane City Council	Dormant
Brisbane Tolling Pty Ltd	Brisbane City Council	Dormant
City Super Pty Ltd	Brisbane City Council	Dormant
Riverfestival Brisbane Pty Ltd	Brisbane City Council	Dormant
The Burdekin Cultural Complex Board Inc.	Burdekin Shire Council	Wound up
Brisdev Pty Ltd	City of Brisbane Investment Corporation Pty Ltd	Dormant
Cook Shire Communities Renewables Ltd	Cook Shire 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	Dormant
Ipswich Motorsport Precinct Pty Ltd	Ipswich City Council	Non-reporting
Invest Logan Pty Ltd	Logan City Council	Dormant
Rodeo Capital Pty Ltd	Mount Isa City Council	Dormant
Napranum Foundation Limited	Napranum Aboriginal Shire 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	Wound up
Redheart Pty Ltd	Redland City Council	Dormant
RIC Toondah Pty Ltd	Redland City Council	Dormant

Entity	Parent entity	Reason
Central Queensland Performing Arts Foundation	Rockhampton Regional Council	Non-reporting
Castra Retirement Home Limited	South Burnett Regional Council	Wound up
Sunshine Coast Events Centre Pty Ltd	Sunshine Coast Regional Council	Non-reporting
Western Downs Disaster Relief Fund	Western Downs Regional Council	Wound up
Western Downs Housing Fund Pty Ltd	Western Downs Regional Council	Dormant
Whitsunday Coast Airport and Infrastructure Pty Ltd	Whitsunday Regional Council	Dormant
Winton Community Association Inc	Winton Shire Council	Dormant
Jointly-controlled entities		
LG Cloud Pty Ltd	Local Government Association of Queensland Ltd	Dormant
LG Disaster Recovery Services Pty Ltd	Local Government Association of Queensland Ltd	Dormant
Local Buy Pty Ltd	Local Government Association of Queensland Ltd	Dormant
Northern Australia Services Pty Ltd	Local Government Association of Queensland Ltd	Dormant
Queensland Partnerships Group (LG Shared Services) Pty Ltd	Local Government Association of Queensland Ltd	Dormant
Resolute Information Technology Pty Ltd	Local Government Association of Queensland Ltd	Dormant

Source: Queensland Audit Office

Appendix E—Audit opinions issued for prior financial years

Figure E1
Status of 2014–15 financial statement audits not previously reported

Entity	Date statements signed	Date opinion issued	Opinion
Councils			
Kowanyama Aboriginal Shire Council	01.11.2016	21.11.2016	Q
Mornington Shire Council	29.08.2016	08.09.2016	U
Northern Peninsula Area Regional Council	05.10.2016	19.10.2016	Q
Wujal Wujal Aboriginal Shire Council	30.06.2016	04.07.2016	U
Controlled entities			
Warwick Tourism and Events Pty Ltd	10.06.2016	17.06.2016	E#

Figure E2
Status of 2014–15 financial sustainability statement audits not previously reported

Entity	Date statements signed	Date opinion issued	Opinion
Councils			
Kowanyama Aboriginal Shire Council	01.11.2016	21.11.2016	Q E*
Mornington Shire Council	29.08.2016	08.09.2016	E*
Northern Peninsula Area Regional Council	05.10.2016	19.10.2016	Q E*
Wujal Wujal Aboriginal Shire Council	30.06.2016	04.07.2016	E*

An emphasis of matter paragraph was issued to alert users that the Southern Downs Regional Council has resolved to wind up the company.

* An emphasis of matter 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 = emphasis of matter; D = disclaimer.

Source: Queensland Audit Office

Appendix F—Financial sustainability measures

The ratios reflecting short-term and long-term sustainability are detailed in Figure F1.

Figure F1
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 zero 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 hold in reserve to offset past or expected future operating deficits. We consider 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, as 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

We detail our risk assessment criteria for financial sustainability measures in Figure F2.

Figure F2
Our 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

We calculate our overall financial sustainability risk assessment using the ratings determined for each measure, as shown in Figure F2, and the assignment of the criteria, as shown in Figure F3.

Figure F3
Our 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 two 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 consider councils' long-term forecasts or credit assessments undertaken by the Queensland Treasury Corporation.

Figure F4
Financial sustainability risk assessment by council category: Results at the end of 2015–16

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	4.47%	1.46%	–	-5.54%	↑	37.00%	81.66%	↓	Lower
Burdekin Shire Council	10.06%	7.84%	–	-35.39%	↑	67.50%	122.88%	↓	Lower
Cairns Regional Council	-5.47%	-1.03%	–	24.57%	↓	103.00%	109.20%	–	Lower
Cassowary Coast Regional Council	2.17%	2.54%	↑	-45.38%	↑	98.00%	166.21%	↓	Lower
Douglas Shire Council*	-4.22%	-7.68%	↑	-44.80%	↑	235.00%	110.02%	↑	Moderate
Fraser Coast Regional Council	8.58%	3.63%	↑	-29.93%	↑	73.37%	72.82%	–	Lower
Gladstone Regional Council	1.60%	4.31%	↓	20.14%	↑	67.00%	139.09%	↓	Lower
Gympie Regional Council	-6.48%	3.54%	↓	-42.44%	↓	107.19%	143.46%	↓	Lower
Hinchinbrook Shire Council	12.89%	-2.58%	↑	-53.46%	↑	59.00%	106.74%	↓	Moderate
Livingstone Shire Council*	7.44%	-7.02%	↑	50.06%	↑	36.80%	43.95%	–	Moderate
Mackay Regional Council	-0.88%	-2.55%	↓	27.88%	↑	54.00%	87.14%	↓	Moderate
Noosa Shire Council*	5.01%	2.15%	↑	-1.54%	↑	88.36%	61.77%	↑	Lower
Rockhampton Regional Council	10.77%	2.64%	↑	38.48%	↑	74.65%	73.74%	–	Lower
Townsville City Council	2.01%	1.09%	–	88.98%	↓	100.00%	91.62%	–	Moderate
Whitsunday Regional Council	3.94%	1.72%	↑	2.32%	↑	54.58%	64.57%	–	Lower
Coastal average**	3.46%	0.67%		-0.40%		83.70%	98.32%		
Coastal—combined risk assessment		**Lower**		**Lower**			**Lower**		**Lower**

* De-amalgamated council (established 1 January 2014) average ratios are based on 30 month actual financial results. Refer to Chapter 3 for further ratio analysis.

** Coastal average includes de-amalgamated council results.

^ Average ratio trend compares the average ratio from 2015–16 with the average ratio from 2014–15. Trends should be considered in conjunction with the Department of Infrastrucutre, Local Government and Planning's set benchmarks, and the analysis performed and explained in Chapter 3. Refer also Figure F1 and F2, which explain the financial sustainability measures and associated benchmarks.

Legend: ↑ An improving trend; – No substantial change; ↓ A deteriorating 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	-7.62%	1.01%	↑	-48.01%	↓	0.00%	151.56%	↓	Lower
Cherbourg Aboriginal Shire Council	-23.28%	-14.43%	↓	-60.51%	↑	0.00%	81.57%	↓	High
Doomadgee Aboriginal Shire Council	Financial statements not finalised								
Hope Vale Aboriginal Shire Council	19.00%	12.60%	–	-61.80%	–	97.00%	103.21%	–	Lower
Kowanyama Aboriginal Shire Council	-27.58%	-26.78%	↑	-7.57%	↓	242.00%	108.00%	↑	High
Lockhart River Aboriginal Shire Council	14.04%	-4.48%	↑	-44.82%	↑	158.00%	178.53%	↓	Moderate
Mapoon Aboriginal Shire Council	-11.20%	-15.78%	↑	-51.92%	↓	3.08%	39.66%	↓	High
Mornington Shire Council	-36.58%	-35.01%	↓	-73.07%	↑	13.00%	74.99%	↓	High
Napranum Aboriginal Shire Council	-16.33%	-10.57%	↓	-15.45%	↓	10.00%	61.66%	↓	High
Northern Peninsula Area Regional Council	Financial statements not finalised								
Palm Island Aboriginal Shire Council	9.30%	-2.02%	↑	-30.28%	↑	347.00%	227.88%	↑	Moderate
Pormpuraaw Aboriginal Shire Council	-0.30%	-11.25%	↑	-94.25%	↑	167.00%	106.14%	↑	High
Torres Shire Council	-27.49%	-8.33%	↓	-61.83%	–	7.02%	59.31%	↓	Moderate
Torres Strait Island Regional Council	-66.39%	-47.47%	↓	-23.38%	↓	18.00%	49.25%	↓	High
Woorabinda Aboriginal Shire Council	Financial statements not finalised								
Wujal Wujal Aboriginal Shire Council	Financial statements not finalised								
Yarrabah Aboriginal Shire Council	-11.14%	-21.86%	↑	-28.97%	↑	30.00%	59.18%	↓	High
Indigenous average	-14.27%	-14.18%		-46.30%		84.01%	84.93%		
Indigenous—combined risk assessment		**High**		**Lower**			**Lower**		**High**

^ Average ratio trend compares the average ratio from 2015–16 with the average ratio from 2014–15. Trends should be considered in conjunction with the Department of Infrastructure, Local Government and Planning's set benchmarks, and the analysis performed and explained in Chapter 3. Refer also Figure F1 and F2, which explain the financial sustainability measures and associated benchmarks.

This council's sustainability was qualified from 2010–11 to 2015–16. The qualification impacts the operating surplus ratio and the net financial liabilities ratio, both current and average.

Legend: ↑ An improving trend; – No substantial change; ↓ A deteriorating 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	-3.84%	1.01%	–	21.91%	↓	77.03%	114.14%	↓	Lower
Barcoo Shire Council	-16.04%	-4.14%	↓	-77.20%	↓	103.80%	104.05%	–	Moderate
Bulloo Shire Council	2.96%	-5.56%	↓	-36.90%	↑	250.07%	242.59%	–	Moderate
Burke Shire Council***	-42.51%	-20.88%	↓	-87.93%	↓	12.00%	103.00%	↓	High
Central Highlands Regional Council	10.59%	8.85%	↑	-51.78%	–	133.61%	93.68%	↑	Lower
Charters Towers Regional Council	-1.99%	-3.61%	↓	-83.87%	–	142.00%	110.35%	↑	Moderate
Cloncurry Shire Council	-4.93%	2.56%	↓	-51.82%	↓	122.00%	117.53%	–	Lower
Cook Shire Council	-50.73%	-37.14%	↓	-17.01%	↑	374.23%	287.61%	↑	High
Etheridge Shire Council	0.94%	-5.63%	↑	-109.10%	↑	178.00%	128.13%	↑	Moderate
Isaac Regional Council	7.23%	5.07%	↓	-58.36%	↓	204.62%	207.40%	–	Lower
Maranoa Regional Council	-18.30%	-5.52%	↓	-69.61%	↑	23.08%	72.16%	↓	Moderate
McKinlay Shire Council	-12.68%	-5.06%	↓	-95.28%	↑	263.60%	169.96%	↑	Moderate
Mount Isa City Council	3.26%	1.32%	–	-11.67%	↑	90.59%	136.06%	↓	Lower
Quilpie Shire Council	-1.12%	3.66%	↓	-54.83%	↑	181.00%	145.43%	↑	Lower
Western Downs Regional Council	0.08%	5.14%	↑	-35.29%	↑	83.96%	191.46%	↓	Lower
Resources average	-8.47%	-4.00%		-54.58%		149.31%	148.24%		
Resources—combined risk assessment		**Moderate**		**Lower**			**Lower**		**Moderate**

*** 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 the average ratio from 2015–16 with the average ratio from 2014–15. Trends should be considered in conjunction with the Department of Infrastructure, Local Government and Planning's set benchmarks, and the analysis performed and explained in Chapter 3. Refer also to Figure F1 and F2, which explain the financial sustainability measures and associated benchmarks.

Legend: ↑ An improving trend; – No substantial change; ↓ A deteriorating 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	2.15%	1.57%	🟢 –	-66.23%	🟢 ↓	120.09%	99.97%	🟢 ↑	Lower
Lockyer Valley Regional Council	-4.97%	-11.03%	🔴 ↓	64.07%	🟡 ↓	50.59%	105.10%	🟢 ↓	High
Mareeba Shire Council*	9.37%	2.61%	🟢 ↑	-46.56%	🟢 ↑	124.00%	112.00%	🟢 ↑	Lower
North Burnett Regional Council	-11.54%	-11.72%	🔴 ↓	-20.08%	🟢 ↓	170.14%	173.90%	🟢 –	High
Scenic Rim Regional Council	10.31%	3.99%	🟢 ↑	-3.52%	🟢 ↑	129.00%	376.36%	🟢 ↓	Lower
Somerset Regional Council	1.61%	2.69%	🟢 ↑	-182.66%	🟢 ↑	147.00%	406.28%	🟢 ↓	Lower
South Burnett Regional Council	3.67%	-4.19%	🟡 –	43.19%	🟢 ↓	161.30%	186.45%	🟢 ↓	Moderate
Southern Downs Regional Council	8.44%	-8.81%	🟡 ↑	19.06%	🟢 ↑	88.17%	98.60%	🟢 –	Moderate
Tablelands Regional Council	4.61%	-3.23%	🟡 ↓	-32.08%	🟢 ↑	76.63%	101.93%	🟢 ↓	Moderate
Rural/Regional average**	2.63%	-3.13%		-24.98%		118.55%	184.51%		
Rural/Regional—combined risk assessment		**Moderate**		**Lower**			**Lower**		**Moderate**

* De-amalgamated council (established 1 January 2014) average ratios are based on 30 month actual financial results. Refer to Chapter 3 for further ratio analysis.

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

^ Average ratio trend compares the average ratio from 2015–16 with the average ratio from 2014–15. Trends should be considered in conjunction with the Department of Infrastructure, Local Government and Planning's set benchmarks, and the analysis performed and explained in Chapter 3. Refer also to Figure F1 and F2, which explain the financial sustainability measures and associated benchmarks.

Legend: ↑ An improving trend; – No substantial change; ↓ A deteriorating 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	-13.42%	-3.48%	🟡 ↓	-66.99%	🟢 ↑	52.57%	196.64%	🟢 ↓	Moderate
Barcaldine Regional Council	-9.47%	-4.82%	🟡 −	-80.28%	🟢 ↑	104.31%	99.66%	🟢 −	Moderate
Blackall-Tambo Regional Council	-7.28%	-8.45%	🟡 ↓	-52.43%	🟢 ↑	95.00%	106.75%	🟢 −	Moderate
Boulia Shire Council	-12.82%	-2.90%	🟡 ↓	-78.95%	🟢 ↓	86.00%	105.43%	🟢 ↓	Moderate
Carpentaria Shire Council	-13.14%	0.03%	🟢 ↓	-24.93%	🟢 −	121.00%	103.88%	🟢 ↑	Lower
Croydon Shire Council	-6.48%	4.31%	🟢 ↓	-137.82%	🟢 ↑	143.00%	129.12%	🟢 −	Lower
Diamantina Shire Council	-11.49%	-1.81%	🟡 ↓	-98.44%	🟢 ↓	41.60%	223.48%	🟢 ↓	Lower
Flinders Shire Council	5.39%	7.80%	🟢 −	-84.10%	🟢 ↑	155.33%	166.76%	🟢 −	Lower
Longreach Regional Council	-14.18%	2.55%	🟢 ↓	-51.57%	🟢 ↓	143.57%	158.16%	🟢 −	Lower
Murweh Shire Council	-14.17%	-8.08%	🟡 ↓	3.33%	🟢 −	44.00%	509.21%	🟢 ↓	Moderate
Paroo Shire Council***	-28.25%	-15.76%	🔴 ↓	-26.10%	🟢 ↑	44.26%	365.10%	🟢 ↓	High
Richmond Shire Council	-32.78%	-8.22%	🟡 ↓	-64.06%	🟢 ↓	101.00%	165.75%	🟢 ↓	Moderate
Winton Shire Council	7.87%	4.59%	🟢 ↓	-194.15%	🟢 ↑	192.98%	201.15%	🟢 −	Lower
Rural/Remote average	-11.55%	-2.63%		-73.58%		101.89%	194.70%		
Rural/Remote—combined risk assessment		**Moderate**		**Lower**			**Lower**		**Moderate**

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

^ Average ratio trend compares the average ratio from 2015–16 with the average ratio from 2014–15. Trends should be considered in conjunction with the Department of Infrastructure, Local Government and Planning's set benchmarks, and the analysis performed and explained in Chapter 3. Refer also to Figure F1 and F2, which explain the financial sustainability measures and associated benchmarks.

Legend: ↑ An improving trend; − No substantial change; ↓ A deteriorating 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%	-0.74%	–	75.08%	↑	67.00%	71.68%	–	Moderate
Council of the City of Gold Coast	1.12%	-4.48%	↑	-3.61%	↑	46.00%	38.20%	–	Moderate
Ipswich City Council	3.25%	1.56%	↓	74.83%	↑	59.45%	83.58%	↓	Moderate
Logan City Council	6.65%	3.20%	↑	-1.34%	↑	86.40%	77.33%	–	Lower
Moreton Bay Regional Council	21.70%	13.09%	↑	43.18%	↓	77.90%	70.56%	–	Lower
Redland City Council	0.01%	-0.48%	↑	-32.30%	↑	35.87%	36.23%	–	Moderate
Sunshine Coast Regional Council	14.07%	8.99%	↑	8.61%	↑	88.00%	72.86%	↑	Lower
Toowoomba Regional Council	0.78%	1.07%	–	52.82%	↓	82.68%	147.41%	↓	Lower
SEQ average	5.95%	2.77%		27.16%		67.91%	74.73%		
SEQ—combined risk assessment		**Lower**		**Lower**			**Lower**		**Lower**

^ Average ratio trend compares the average ratio from 2015–16 with the average ratio from 2014–15. Trends should be considered in conjunction with the Department of Infrastructure, Local Government and Planning's set benchmarks, and the analysis performed and explained in Chapter 3. Refer also to Figure F1 and F2, which explain the financial sustainability measures and associated benchmarks.

Legend: ↑ An improving trend; – No substantial change; ↓ A deteriorating trend.

Source: Queensland Audit Office

Appendix G—Our assessment of financial governance

Auditing internal controls

In conducting an audit, we assess the design and implementation of internal controls to ensure they are suitably designed to prevent, detect, and correct material misstatements. Where the audit strategy requires it, we also test the operating effectiveness to ensure the internal controls are functioning as designed.

Internal controls

Our assessment of internal control effectiveness is based on the number of deficiencies and significant deficiencies identified during the audit.

We have categorised each deficiency against five elements of internal control under the internationally recognised Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework. These elements are:

- control environment—management's actions, attitudes, and values that influence day-to-day operations
- control activities—policies and procedures that help ensure management directives are carried out, and that necessary actions are taken to address identified risks
- risk assessment—management's processes for considering risks that may prevent an entity from achieving its objectives, and for forming a basis as to how the risks should be identified, assessed, and managed
- information and communication controls—the systems used to provide information to employees and the ways that control responsibilities are communicated
- monitoring activities—the methods management employs to oversee and assess whether internal controls are present and operating effectively.

A deficiency occurs when internal controls are unable to prevent, detect or correct errors in the financial statements or where internal controls are missing.

A significant deficiency (high risk matter) is a deficiency that either alone, or in combination with multiple deficiencies, may lead to a material misstatement in the financial statements. They require immediate management action and are reported to those charged with governance.

The following table outlines the ratings we use to assess internal controls:

Figure G1
Assessment criteria for control effectiveness

Assessment of control effectiveness	Significant audit issues reported to management
Generally effective ●	No significant deficiencies reported to management
Partially effective ●	One or two significant deficiencies reported to management
Ineffective ●	More than two significant deficiencies reported to management

Source: Queensland Audit Office

The deficiencies detailed in this report were identified during the audit and may have been subsequently resolved by the council. They are reported here because they impacted on the overall system of control during 2015–16.

Financial sustainability relative risk assessment

The detailed criteria for assessing a council's financial sustainability are explained in Appendix F—Figures F2 and F3. The assignment of the criteria is shown in Figure F4.

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

Financial statement preparation

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 G2
Assessment criteria for financial statement timeliness

Timeliness assessment	Audit opinions issued
Timely ●	Before 25 October
Marginal ●	Between 25 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 G3
Assessment criteria for financial statement quality

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

Source: Queensland Audit Office

Result summary

This table summarises the results of the 77 councils against our assessments of internal controls, financial sustainability, and financial statement preparation.

Figure G4
Overall assessment of financial governance by council category for 2015–16

Council	Internal controls[1]					Financial statement preparation[2]		Financial sustainability[3]
Coastal councils	CE	RA	CA	IC	MA	T	Q	FS
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	🟢	🟢	🟢	🟢	🟢	🟢	🟢	🟢

[1] CE—Control environment; RA—Risk assessment; CA—Controls activities; IC—Information and communication; MA—Monitoring activities.
[2] T—Timeliness; Q—Quality.
[3] FS—Financial sustainability—Relative risk assessment (refer also Figure F4).

Council	Internal controls[1]					Financial statement preparation[2]		Financial sustainability[3]
Indigenous councils	CE	RA	CA	IC	MA	T	Q	FS
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	🟡	🟡	🟡	🟢	🟢	🟡	🔴	🔴

1 CE—Control environment; RA—Risk assessment; CA—Controls activities; IC—Information and communication; MA—Monitoring activities.
2 T—Timeliness; Q—Quality.
3 FS—Financial sustainability—Relative risk assessment (refer Figure G4).
Audit for council is unfinished. Quality of financial statements has been assessed as below average. No final assessment has been made as to the effectiveness of internal controls or financial sustainability. For the purposes of this report, internal controls have been rated as ineffective. Final sustainability risk assessment is based on prior year ratios.

Council	Internal controls[1]					Financial statement preparation[2]		Financial sustainability[3]
Resources councils	CE	RA	CA	IC	MA	T	Q	FS
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	🟡	🟢	🟢	🟢	🟢	🟢	🟢	🟢

[1] CE—Control environment; RA—Risk assessment; CA—Controls activities; IC—Information and communication; MA—Monitoring activities.
[2] T—Timeliness; Q—Quality.
[3] FS—Financial sustainability—Relative risk assessment (refer Figure G4).

Council	Internal controls[1]					Financial statement preparation[2]		Financial sustainability[3]
Rural/Regional councils	CE	RA	CA	IC	MA	T	Q	FS
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	🟢	🟢	🟡	🟢	🟢	🟢	🟡	🟡

[1] CE—Control environment; RA—Risk assessment; CA—Controls activities; IC—Information and communication; MA—Monitoring activities.
[2] T—Timeliness; Q—Quality.
[3] FS—Financial sustainability—Relative risk assessment (refer Figure G4).

Council	Internal controls[1]					Financial statement preparation[2]		Financial sustainability[3]
Rural/Remote councils	CE	RA	CA	IC	MA	T	Q	FS
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	🟢	🟡	🟢	🟢	🟢	🟢	🟢	🟢

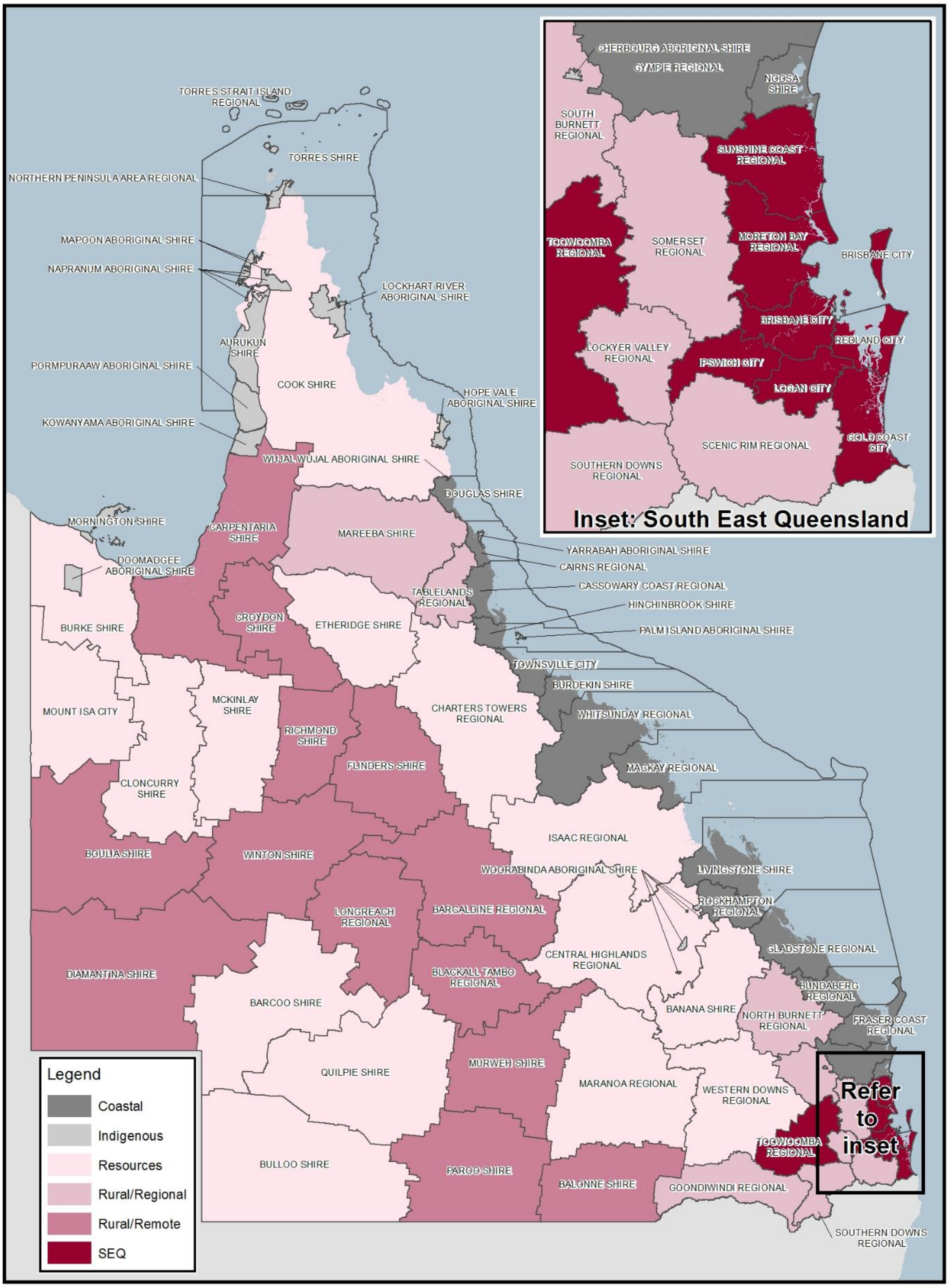
[1] CE—Control environment; RA—Risk assessment; CA—Controls activities; IC—Information and communication; MA—Monitoring activities.
[2] T—Timeliness; Q—Quality.
[3] FS—Financial sustainability—Relative risk assessment (refer Figure G4).

Council	Internal controls[1]					Financial statement preparation[2]		Financial sustainability[3]
South East Queensland (SEQ) councils	CE	RA	CA	IC	MA	T	Q	FS
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	🟡	🟢	🟢	🟢	🟢	🟢	🟢	🟢

[1] CE—Control environment; RA—Risk assessment; CA—Controls activities; IC—Information and communication; MA—Monitoring activities.
[2] T—Timeliness; Q—Quality.
[3] FS—Financial sustainability—Relative risk assessment (refer Figure G4).

Source: Queensland Audit Office

Appendix H—Queensland local government areas by category



Source: Spatial Services, Department of Infrastructure, Local Government and Planning

Appendix I—Glossary

Term	Definition
Accountability	Responsibility of public sector entities to achieve their objectives in reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws.
Auditor-General Act 2009	An Act of the State of Queensland that establishes the responsibilities of the auditor-general, the operation of the Queensland Audit Office, the nature and scope of audits to be conducted, and the relationship of the auditor-general with parliament.
Australian accounting standards	The rules by which financial statements are prepared in Australia. These standards ensure consistency in measuring and reporting on similar transactions.
Capital expenditure	Amount capitalised to the balance sheet for contributions by an entity to major assets owned by the entity, including expenditure on: ▪ capital renewal of existing assets that returns the service potential or the life of the asset to that which it had originally ▪ capital expansion, which extends an existing asset at the same standard to a new group of users.
Credit rating	An assessment of a borrower's credit worthiness, which considers their ability to repay a debt or their likelihood of defaulting. Independent bodies, called credit rating agencies, issue credit ratings. These include S&P Capital, Fitch, and Moody’s.
Depreciation	The systematic allocation of a fixed asset's capital value as an expense over its expected useful life to take account of normal usage, obsolescence, or the passage of time.
Financial sustainability	The ability to meet current and future expectations as they arise, and their capacity to absorb foreseeable changes and emerging risks.
Fraud	An intentional act by one or more individuals among management, those charged with governance, employees, or third parties, involving the use of deception to obtain an unjust or illegal advantage.
Going concern	The expectation that an entity can pay its debts as and when they fall due, and continue to operate without any intention or necessity to liquidate or wind up its operations.
Legislative deadline	In this context, the date prescribed by legislation or date granted by the minister for a council to finalise its financial statements.
Materiality	This relates to the size or nature of the item or error judged in the particular circumstances of its omission or misstatement. Information is material if its omission or misstatement could influence the economic decisions of users, taken on the basis of the financial statements.
Misstatement	A difference between the amount, classification, presentation, or disclosure of a reported financial report item and the amount, classification, presentation, or disclosure that is required for the item to comply with the applicable financial reporting framework. Misstatements can arise from error or fraud.

Term	Definition
Non-current assets	An entity's long-term investments, where the full value will not be realised within the financial year. These assets are capitalised rather than expensed. This means entities can allocate the cost of the asset over the number of years for which it will be in use, instead of allocating the entire cost to the financial year in which they purchased it.
Prior period error	Omissions from, and misstatements in, an entity's financial statements caused by not using or misusing information that was available, or could have been obtained and considered, in preparing the financial statements
Procurement	The acquisition of goods, services, or works from an external source.
Risk management	The systematic identification, analysis, treatment, and allocation of risks. The extent of risk management required will vary depending on the potential effect of the risks.

Auditor-General Reports to Parliament

Reports tabled in 2016–17

Number	Title	Date tabled in Legislative Assembly
1.	Strategic procurement	September 2016
2.	Forecasting long-term sustainability of local government	October 2016
3.	Follow-up: Monitoring and reporting performance	November 2016
4.	Criminal justice data—prison sentences	November 2016
5.	Energy: 2015–16 results of financial audits	November 2016
6.	Rail and ports: 2015–16 results of financial audits	November 2016
7.	Water: 2015–16 results of financial audits	December 2016
8.	Queensland state government: results of financial audits	December 2016
9.	Hospital and Health Services: 2015–16 results of financial audits	January 2017
10.	Efficient and effective use of high value medical equipment	February 2017
11.	Audit of Aurukun school partnership arrangement	February 2017
12.	Biosecurity Queensland's management of agricultural pests and diseases	March 2017
13.	Local government entities: 2015–16 results of financial audits	April 2017

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