Queensland Audit Office
better public services

Local government entities: 2016–17 results of financial audits

Report 13: 2017–18

Contact details

The Financial Audit Division of the Queensland Audit Office is the custodian of this report. All comments and enquiries should be directed to:

Location	Level 14, 53 Albert Street, Brisbane Qld 4000
PO Box	15396, City East Qld 4002
Telephone	(07) 3149 6000
Email	qao@qao.qld.gov.au
Online	www.qao.qld.gov.au

Copyright

Front cover image is an edited photograph of Queensland Parliament, taken by QAO.

ISSN 1834-1128

Reference to comments

In accordance with section 64 of the *Auditor-General Act 2009,* we provided a copy of this report to all 77 councils and the Department of Local Government, Racing and Multicultural Affairs. In reaching our audit conclusions, we have considered their views and represented them to the extent we deemed relevant and warranted in preparing this report.

Responses were received from the Department of Local Government, Racing and Multicultural Affairs. The responses are in Appendix A.

Report cost

This audit report cost $235,000 to produce.

Your ref:
Our ref: 11800

22 March 2018

The Honourable C Pitt 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: 2016–17 results of financial audits* (Report 13: 2017–18).

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

Yours sincerely

Brendan Worrall
Auditor-General

Queensland Audit Office
Level 14, 53 Albert Street, Brisbane Qld 4000
PO Box 15396, City East Qld 4002

Phone 07 3149 6000
Email qao@qao.qld.gov.au
Web www.qao.qld.gov.au

Report structure

CHAPTER 1

Provides a sector overview to assist readers in understanding the audit findings and conclusions.

CHAPTER 2

Delivers the audit opinion results and evaluates the timeliness and quality of reporting.

CHAPTER 3

Analyses the financial performance, position, and sustainability of Queensland councils.

CHAPTER 4

Assesses the strength of the internal controls designed, implemented and maintained by councils.

Contents

Summary

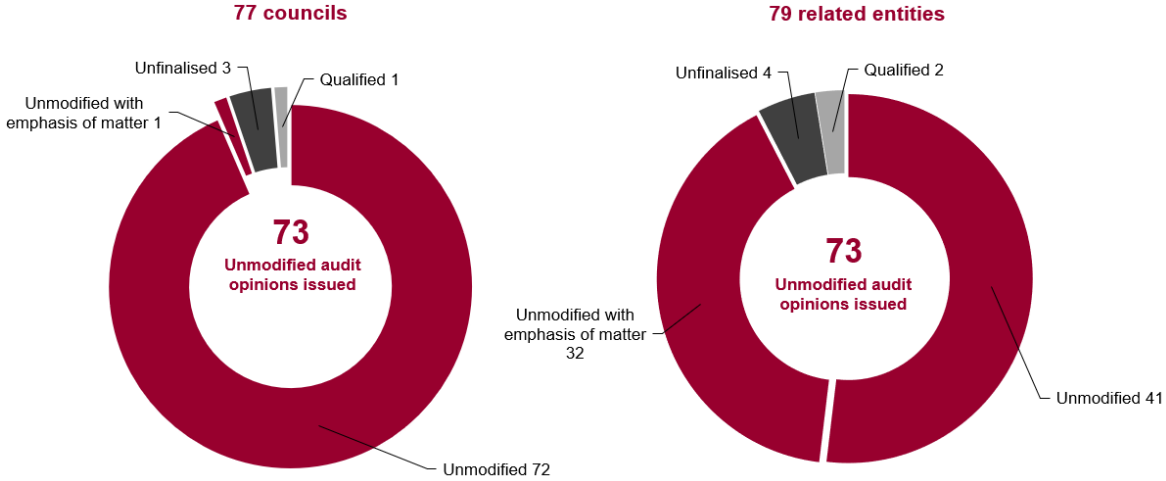
This report summarises the financial audit results of the 77 Queensland local governments (councils). It also summarises the financial audit results of the 79 entities they control that produced financial statements for the financial year ending 30 June 2017.

Councils vary widely in their size and location and in the broad range of community services they provide. To enable 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 our audits

As at 19 February 2018, we had issued audit opinions on the 2016–17 financial statements of 95.5 per cent of local government entities. This is slight improvement from last year.

Figure A
Independent audit reports issued for 2016–17 financial year



Source: Queensland Audit Office.

We issued unmodified opinions on 98 per cent of audited financial statements completed for the 2016–17 financial year. This is a slight improvement on 2015–16 when 97 per cent were unmodified.

We issued one qualified opinion for councils and two for related entities this year (2015–16: two and five). Kowanyama Aboriginal Shire Council was qualified due to its inability to provide sufficient and appropriate audit evidence over certain comparative revenue balances. However, this council has made improvements in its financial reporting this year. It met the statutory reporting deadline of 31 October for the first time in seven years. It achieved this by prioritising financial reporting and actively resolving internal control weaknesses. Its current year figures are also unqualified for the first time in seven years.

An *unmodified opinion* is expressed when the financial statements are prepared in accordance with the relevant legislative requirements and Australian accounting standards.

A *qualified opinion* is expressed when financial statements generally comply with the relevant legislative requirements or Australian accounting standards, but with exceptions. This means that parts of the financial statements are not accurate or reliable.

Three councils are yet to finalise their 2016–17 financial statements. They are Northern Peninsula Area Regional Council, Doomadgee Aboriginal Shire Council, and Wujal Wujal Aboriginal Shire Council. All three of these councils' 2015–16 financial statements were also unfinished at this time last year.

This year, we also issued audit opinions on 11 of the 12 outstanding financial statements from previous reporting periods. All received unmodified opinions except for Northern Peninsula Area Regional Council and Woorabinda Pastoral Company Pty Ltd.

This council received a qualified opinion for its 2015–16 financial statements and 2015–16 current year financial sustainability statement. It has now received a qualified opinion for the last three consecutive years due to significant financial reporting issues. Northern Peninsula Area Regional Council has not completed its 2016–17 audit, which means it has missed its legislative deadline for the seventh consecutive year.

Woorabinda Pastoral Company Pty Ltd received a qualified opinion for prior year comparatives in relation to existence and completeness of cattle and associated market value adjustments.

Quality and timeliness of reporting

Of the 77 councils, 73 met their statutory deadline or their ministerially approved extended deadline (2015–16: 70 councils). This year, councils decreased the average time taken to finalise their financial statements by 1.78 weeks from the prior year. This indicates a substantial improvement in financial statement preparation processes.

While we noted improvements in the timeliness of council financial statements provided to audit, some councils still need to significantly improve the quality of financial statements and the ways in which they manage year end processes.

The valuation of infrastructure assets continues to have the greatest impact on whether councils meet agreed timeframes for the delivery of financial statements to audit. When councils don't manage the asset valuation processes well, it often affects the quality of their financial statements.

Twenty-nine councils made material adjustments to their draft financial statements after they were provided to audit. Seven councils corrected prior period errors that were material to the financial statements. Primarily, these adjustments resulted from infrastructure asset valuations and the incorrect or untimely recognition of assets. This affected depreciation expense. These errors and adjustments indicate that councils' internal review of financial statements and asset valuations needs to be improved.

> Errors or adjustments are material if the information is misstated or not disclosed, and if that information could affect the decisions of users.

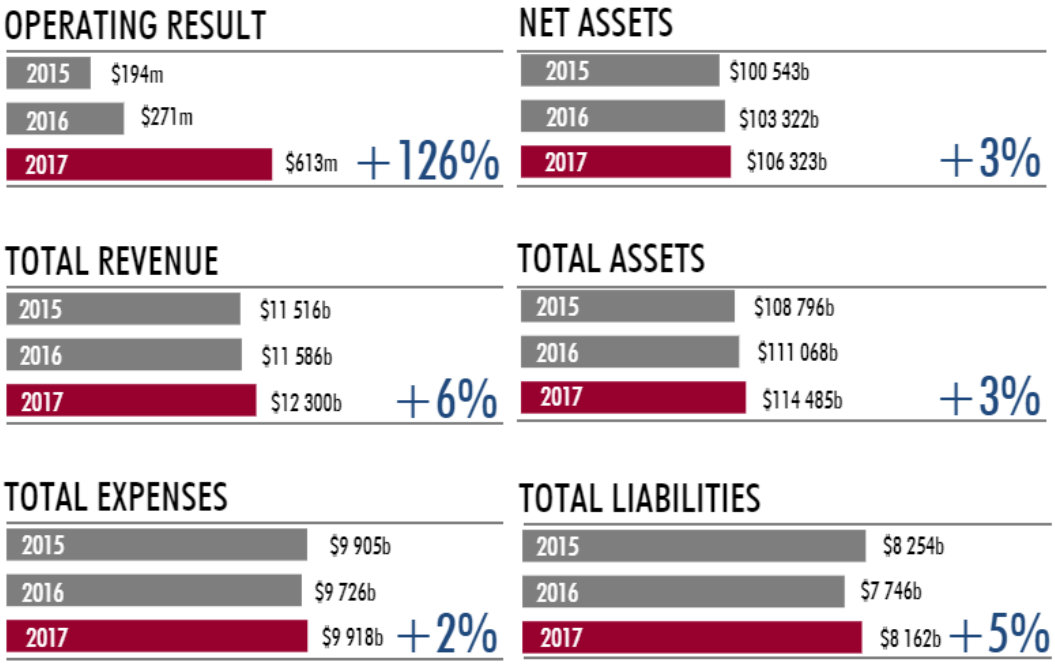
Incomplete asset registers remain an issue for the sector with 17 councils making adjustments for assets in each of the last two years. Without complete and accurate asset information councils cannot adequately plan and manage their activities.

Councils can reduce the likelihood of errors or adjustments in their financial statements by ensuring they have robust consistent month and year end processes and effective review. Many councils still don't prepare monthly accrual-based statements or provide good analysis that enable councillors and senior executives to better understand their council's financial performance and outlook. Year end reporting becomes simpler when standardised monthly accrual accounting processes are implemented.

Our review of controlled entity financial statements identified that only 51 per cent (2015–16: 38 per cent) are made publicly available. While this is an improvement in transparency and accountability, nearly half of the sector's controlled entities' audited financial statements are still unavailable to their communities.

Financial performance, position, and sustainability

Figure B
Councils financial snapshot 2016–17



Source: Queensland Audit Office.

Understanding financial performance

At face value, the performance of the local government sector has improved over the last year. However, this has largely been driven by advance payments to councils of the 2017–18 Financial Assistance Grants to Local Government (2017–18 FAG advance) from the Australian Government. (The Australian Government has been providing these grants to local government since 1974–75.) If this advance were excluded, the overall operating result would have been $384 million instead of $613 million.

While the sector operating result is positive, 26 councils had operating losses, and if the 2017–18 FAG advance were excluded, 54 per cent of councils would have had operating losses. While financial assistance grants allow councils to spend monies as they choose, continued advance payment is not guaranteed by the Australian Government.

Councils need to continue their focus on long-term planning and on managing the costs for delivery of services. While councils continue to have operating losses, they will be dependent on grant funding to maintain service delivery to their communities.

Understanding financial position

The net position of councils has increased by $3 billion to $106 billion. Property, plant and equipment increased by $2.2 billion. This was mainly as a result of acquisitions and constructions, contributions of assets by developers, and increases to asset values from revaluations, offset by depreciation charges.

The total cash held increased by 19 per cent ($932 million). This was largely due to the 2017–18 FAG advance received in June 2017 and increases in cash holdings by Brisbane City Council due to better than planned cash from operations and changes in the timing of capital projects. Brisbane City Council took out a $500 million loan during the year, which contributed to the five per cent increase in liabilities.

This year, we reported on issues we identified in relation to the non-recognition or calculation of the landfill provisions of 12 councils. The future costs of managing the landfill during operation and after closure are known as 'rehabilitation liabilities'. The rehabilitation liabilities for landfills recognised in 2016–17 statements totalled $506 million (2016: $458 million).

Of the 72 councils who operate a Department of Environment and Science authorised landfill, only 42 have recognised in their 2016–17 statements the need to provide for landfills in future. As licence holders, councils have an obligation to incur future expenditure to rehabilitate the land. When that future expenditure can be reliably estimated and is material, a provision should be recognised.

Accounting for landfills is complex and their valuation involves significant judgement and estimates. Landfill accounting will be a continued focus of our audits in 2017–18.

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.

Figure C outlines the sector-wide average sustainability ratios and the target range expected by the Department of Local Government, Racing and Multicultural Affairs (DLGRMA). For the asset sustainability ratio, comparative information is only available from 2012–13 (four years of data), as that was the first year councils' renewals expenditure was audited.

Figure C
Sector sustainability ratios

Sustainability ratios	2017	2016	Target range
Five-year average sector operating surplus ratio	-4.13%	-4.06%	0 to 10%
Annual average sector net financial liabilities ratio	-38.78%	-33.58%	Less than 60%
Five-year average sector asset sustainability ratio	126.36%	129.16%	Greater than 90%

Source: Queensland Audit Office.

Long-term financial sustainability remains a major risk for many councils. While our analysis shows that the five-year average operating surplus ratio is consistent with the prior year, the sector is still spending more than it earns. This concerns us, because breaking even or making a small surplus over the long term is an important part of being financially sustainable.

Indigenous councils have a higher risk of becoming unsustainable compared to the other council segments. This is due to their inability to raise their own revenue and their reliance on grant funding. Costs of living in these council areas are also higher due to the remoteness of their locations.

Forty-five councils have a negative five-year average operating surplus ratio. Of these councils, 11 have incurred negative operating surplus ratios in each of the last five years. They are listed in Figure D.

Figure D
Councils with five consecutive years of negative operating surplus ratios

Indigenous	Rural/Remote	Resources
Kowanyama Aboriginal Shire Council	Balonne Shire Council	Cook Shire Council
Mapoon Aboriginal Shire Council	Barcaldine Regional Council	Maranoa Regional Council
Mornington Shire Council	Paroo Shire Council	
Torres Shire Council		
Torres Strait Island Regional Council		
Yarrabah Aboriginal Shire Council		

Source: Queensland Audit Office.

Councils with persistent operating losses are not charging ratepayers for a portion of the services that have been provided to them during the year. This can result in burdens being placed on future generations to fund the renewal of infrastructure assets.

All councils can presently service their liabilities. Consistent with the prior year, councils continue to increase their financial assets to replace or renew assets rather than use debt. Local governments with negative ratios and adequate levels of rates revenue may have the capacity to increase debt for asset renewal projects.

Councils' five-year average sector asset sustainability ratio indicates that, as a sector, councils are likely to be sufficiently maintaining, replacing and renewing infrastructure assets as they reach the end of their useful life. Coastal and SEQ segments continue to be below the DLGRMA's target. In growing regions with significant new capital works, a ratio below target is not an area of concern where robust asset management planning is in place.

The long-term results of all these measures should be used as planning tools to reassess a council's long-term sustainability strategy.

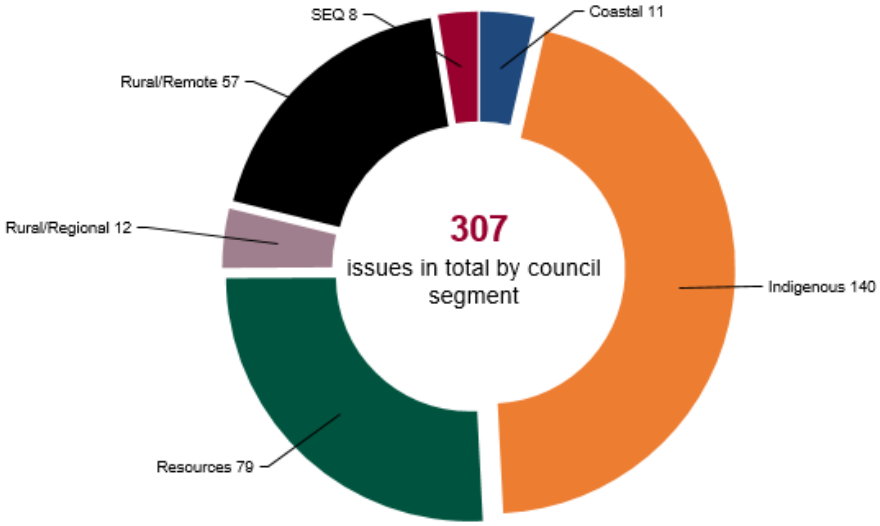
Internal controls

Good internal controls provide reasonable assurance that an entity is achieving its operational, reporting, and compliance objectives.

This year, we identified 307 significant deficiencies at 59 of the 77 councils (2016: 262 at 58 councils). Of the significant issues we identified, 159 (51.8 per cent) were also raised in the prior year's audit. Twenty of these issues were initially raised in 2012–13 and are still unresolved. This means councils, in some instances, are taking over four years to rectify significant internal control weaknesses. This leaves them unnecessarily exposed to fraud and error.

As with last year, the majority of the significant deficiencies are within the Indigenous, Resources and Rural/Remote segments. They account for 90 per cent of total significant issues identified.

Figure E
Analysis of significant deficiencies by council segment



Source: Queensland Audit Office.

The most common weaknesses identified include:

- incomplete or non-existent asset management plans, risk registers, and business continuity and disaster recovery plans
- lack of identification or assessment of fraud risks and lack of fraud control plans
- lack of review of journals and changes to masterfiles (which contain key data on unit rates, fees and charges, and employee and supplier details)
- poor management of user access for information technology systems.

Inadequate internal controls increase the risk of fraud and errors going undetected and losses being incurred. Last year, we reported on a malicious fraud scheme that targeted councils and recommended specific actions for councils to take. Despite this, we identified significant deficiencies for similar issues in 20 councils this year. These related to the lack of appropriate controls over masterfile data changes in relation to expenditure.

Councils will remain vulnerable if they do not mitigate their risks, secure their systems, improve their controls and put plans in place to recover from business disruptions, natural disasters, and cyber attacks.

Audit committees

Audit committees have a key role in ensuring management takes timely and effective action to address control deficiencies. However, audit committees are no longer mandated for all councils.

At the time of preparing this report, 12 councils had disbanded their audit committee, or their audit committee had not met during 2016–17. These 12 councils had a total of 114 significant deficiencies reported in 2016–17 (37 per cent of total significant deficiencies) with 64 of these audit issues remaining unresolved for at least 12 months.

In our *Results of audit: Local government entities 2014–15* (Report 17: 2015–16) we recommended to the then Department of Infrastructure, Local Government and Planning that audit committees be mandated for all councils. The department is still currently consulting with stakeholders on this.

Controlled entities

We identified 12 councils with controlled entities who have not yet established policies for the review of their controlled entities' activities.

As councils often appoint councillors or senior executives to their companies' boards they need to have appropriate mechanisms for effective oversight and to manage the inherent conflicts of interest between the council's own activities and those of its controlled entities.

Recommendations

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

We recommend that councils take prompt action to address individual recommendations and resolve internal control deficiencies, with a focus on those outstanding since prior years. This is to help mitigate the risk of fraud or error.

In addition, we recommend the DLGRMA mandate:

1. financial statements of controlled entities be made publicly available.
2. audit committees for all councils.

We also recommend that councils:

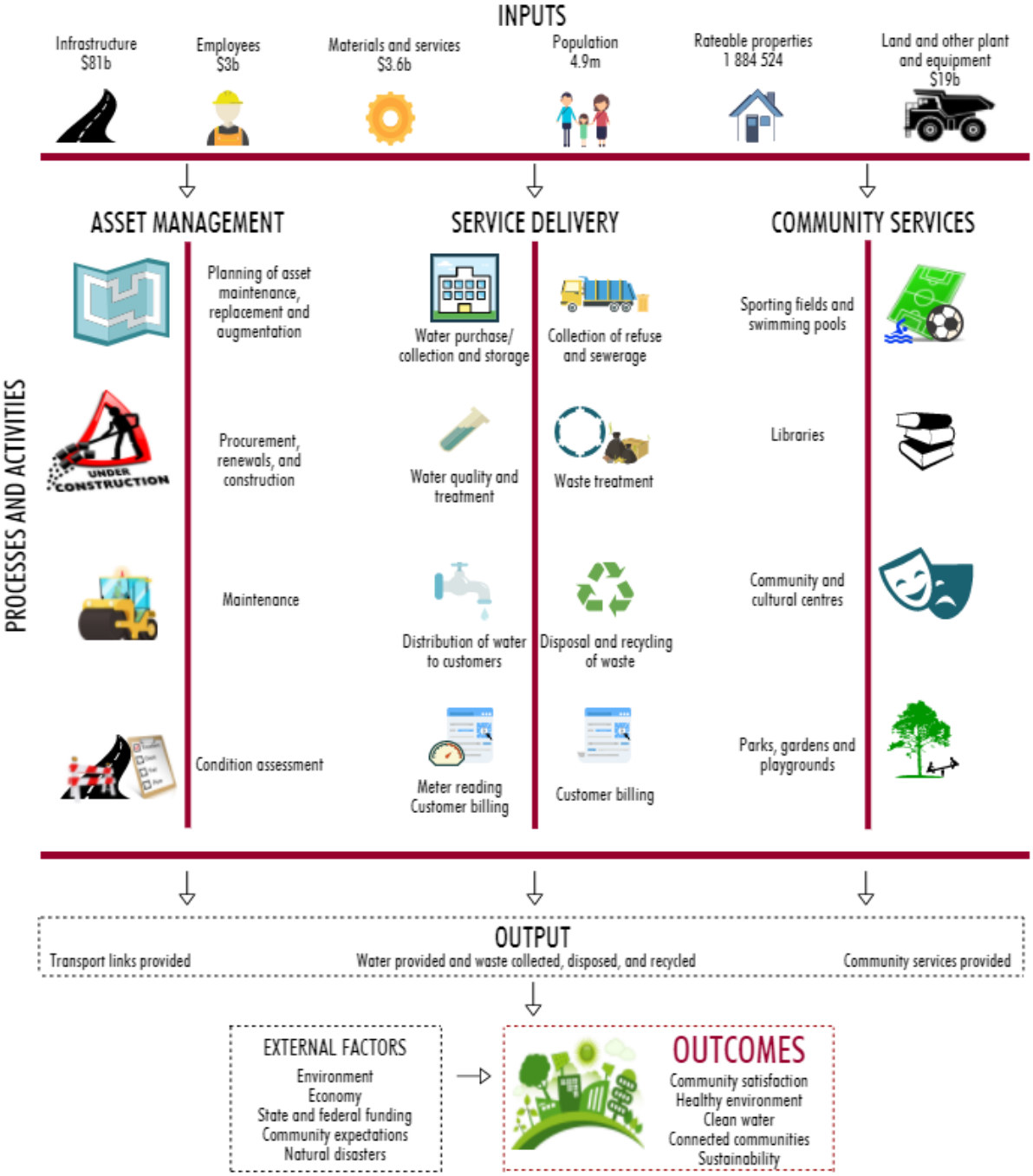
3. continue to assess their processes for ensuring that asset registers are complete and remain current over time.
4. review and update their month end close processes to include:
   - monthly accrual statements of comprehensive income and financial position and cash flow information
   - variance analysis, key ratios, trends and other non-financial information that will enable the councillors and council executives to better understand the council's financial performance and outlook.
5. review their accounting for rehabilitation of landfills. This should include:
   - assessing open and closed landfill sites and whether a liability has been recognised
   - ensuring all future costs associated with their obligations under their environmental authority are included in the provision.
6. review their monitoring controls and memberships of their controlled entities' boards and:
   - appoint independent directors to provide specialist skills, experience and diversity
   - establish appropriate mechanisms for oversight and to manage conflicts of interest.

1. Sector overview

Councils' roles

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

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



Source: Queensland Audit Office.

2. Results of our audits

Introduction

This chapter examines the reliability of information reported by the councils and related entities that were subject to audit. We also analyse the quality and timeliness of financial reporting.

We do so because 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 effective decision-making, managing 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 on the financial statements of most councils and related entities. Readers can rely on the results in these financial statements.

The quality and timeliness of councils' financial statements improved again this year.

The local government sector achieved its timeliest financial reporting result in Queensland's history. Councils' commitment to exceeding the minimum expectations set by the legislative reporting deadline allows their communities earlier access to important information about the performance of their councils.

While most councils prepared good quality financial statements, there is still significant room for improvement. Councils can reduce the likelihood of errors and adjustments in their financial statements by ensuring they have robust, consistent month and year end processes and effective review. Year end reporting becomes simpler when standardised monthly accrual accounting processes are implemented.

The valuation of infrastructure assets continues to be the area that has the greatest impact on the quality of financial statements and the ability of councils to meet agreed financial statement deadlines.

Audit opinion results

Figure 2A details the audit opinions we issued for local governments and their related entities for the 2016–17 financial year as at 19 February 2018.

Figure 2A
Number of audit opinions issued by entity type for the 2016–17 financial year

Entity type	Total	Unmodified opinions issued	Unmodified but with an emphasis of matter	Qualified opinions issued	Unfinished audits
Councils	77	72	1	1	3
Local government related entities					
Controlled entities	51	32	15	1	3
Jointly-controlled entities	25	9	14	1	1
Audited by arrangement	3	0	3	0	0
Total	**156**	**113**	**33**	**3**	**7**

Source: Queensland Audit Office.

Appendices E and F contain the list of entities and the opinions issued on their financial statements. They also identify the seven entities whose audits were not complete as at 19 February 2018.

Unmodified opinions

By 19 February 2018, we had issued unmodified opinions on 98 per cent of the audited financial statements completed for the 2016–17 financial year. This is a slight improvement from the same time last year when we had issued 97.3 per cent unmodified audit opinions.

Qualified opinions

We issue a qualified opinion when financial statements generally comply with the relevant legislative requirements or Australian accounting standards, but with exceptions. This means that parts of the financial statements are not accurate or reliable.

Across the sector, we have issued three qualified opinions so far this year (two per cent), which is an improvement from last year, when we issued seven qualified opinions (four per cent).

A qualified opinion was issued on the general purpose financial statements of one council. This is summarised in Figure 2B.

Figure 2B
Council qualified audit opinion 2016–17

Entity	Qualification	Previously qualified
Kowanyama Aboriginal Shire Council	In 2016–17, we were not able to form an opinion on the comparative balances for contracts and recoverable works revenue; rates, levies and charges; and recreations services revenue. This was due to a lack of sufficient and appropriate audit evidence. The 2015–16 report was similarly qualified. The council was 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. The limitation of scope on these revenue balances meant no opinion was expressed on the completeness and accuracy of trade debtors and accrued revenue.	2010–11 to 2015–16

Source: Queensland Audit Office.

Figure 2C details the qualified opinions issued this year for controlled entities and the underlying causes.

Figure 2C
Other entities qualified audit opinions 2016–17

Entity	Qualification	Previously qualified
Cairns Regional Gallery Arts Trust	The trust could not demonstrate it had identified and recorded all donation revenue. This qualification applies to prior year comparative figures only.*	2013–14 to 2015–16
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. The management of the trust has determined that the cost of implementing effective internal controls would outweigh the benefits obtained.	2008–09 to 2015–16

* This qualification is common amongst those entities who undertake fundraising activities that are a significant source of revenue. In these entities, the cost of implementing effective internal controls often exceeds the benefits obtained from the activity.

Source: Queensland Audit Office.

Emphasis of matter

This year we issued 32 (2015–16: 29) unmodified audit opinions with emphasis of matter paragraphs. The most common types of paragraphs included in independent auditor's reports highlighted:

- the special purpose nature of financial statements that were prepared using a framework that did not require full compliance with all elements of the Australian accounting standards
- disclosures in the financial statements identifying that entities were wound up (or may soon cease to exist) or had issues relating to their ability to operate as a going concern. (An entity is a going concern if it is expected to be able to pay its debts as and when they fall due.)

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

One emphasis of matter was issued to draw attention to the Crime and Corruption Commission charges made against the former mayor and three former senior executives of Ipswich City Council.

Audits not complete at publishing

Audit opinions have yet to be issued for three councils and four related local government entities. Figure 2D shows the reasons for the delays with the councils.

Figure 2D
Unfinished council audits for 2016–17

Council	Reason	Ministerial extension
Doomadgee Aboriginal Shire Council	Changes to key personnel and ongoing implementation of new finance system.	Extension requested to 29.06.2018
Northern Peninsula Area Regional Council	Poor governance and financial reporting processes.	Approved to 31.01.2018
Wujal Wujal Aboriginal Shire Council	Poor governance and financial reporting processes.	Extension requested to 30.04.2018

Source: Queensland Audit Office.

Status of unfinished audits from prior year

Four councils and nine controlled entities had not received audit opinions on their 2015–16 financial statements when *Results of audit: Local government entities 2015–16* (Report 13: 2016–17) was tabled in April 2017. We subsequently issued a qualified opinion for Northern Peninsula Area Regional Council on both its general purpose financial statements and its current year financial sustainability statement and Woorabinda Pastoral Company Pty Ltd for its special purpose financial statements. The qualifications are summarised in Figure 2E.

The remainder of the entities received unmodified opinions. The audit of the Jondaryan Woolshed Pty Ltd, a controlled entity of Toowoomba Regional Council, remains unfinalised as at the date of publishing this report. The financial statements for 2016–17 have not been prepared. Toowoomba Regional Council has removed the board of this company and is finalising both the 2015–16 and 2016–17 financial statements. Details of all outstanding prior year opinions are included in Appendix H.

Figure 2E
Qualified audit opinions 2015–16

Entity	Reason	Previously qualified
Northern Peninsula Area Regional Council	The 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 and 30 June 2016 equated to fair value. As a result, we were unable to quantify the depreciation expense and revaluation adjustments posted in both years. The council was unable to demonstrate its underlying property records and rental agreements were complete. As it was not possible for audit procedures to extend beyond the amounts recorded by council, no opinion was expressed on the completeness of revenue or receivables from those sources for the years ending 30 June 2015 and 30 June 2016. The council was unable to support its allocations of revenues, expenses, and assets between its business functions in both years. It could not provide sufficient and appropriate audit evidence to support mapping of expenses to grant projects, unspent grants, and grant commitments for the years ending 30 June 2015 and 30 June 2016. We were unable to conclude on the completeness or accuracy of these balances and gave no opinion. As revenue and depreciation expense is used in the calculation of the operating surplus ratio, net financial liabilities ratio, and the asset sustainability ratio, we could not confirm the accuracy of these ratios reported in the 2015–16 financial sustainability statement.	2013–14 2014–15
Woorabinda Pastoral Company Pty Ltd	In 2016–17, we were not able to form an opinion on the comparative balances of cattle and related net market value increments. In 2015–16 there was no reliable data to support the existence and completeness of the cattle on hand and the associated market value adjustments. The company resolved the issue from 30 June 2016 by performing a full stock count and valuing all cattle.	2010–11 to 2014–15

Source: Queensland Audit Office.

Financial sustainability statements

Under local government legislation, councils are required to prepare a current year financial sustainability statement, which is to be audited by the auditor-general.

We have issued audit opinions for 74 of the 77 councils (96 per cent). Our opinion is based on whether the statement has been calculated accurately. Our audit does not extend to forming an opinion on the appropriateness or relevance of the reported ratios, or on councils' future sustainability.

As these statements are special purpose financial statements, all opinions were issued with an emphasis of matter paragraph drawing attention to this fact. These results are further detailed in Appendix E.

Local government entities exempt from audit by the auditor-general

The auditor-general may exempt a public sector entity from audit by the auditor-general for a financial year. Exempted entities are still required to engage a qualified person to conduct an audit of their financial statements.

Twelve local government entities were exempted from audit by the auditor-general in 2016–17 due to their small size and low risk. One additional foreign-based controlled entity was also exempted. Appendix F provides details on the status of these audits.

Entities not preparing financial statements

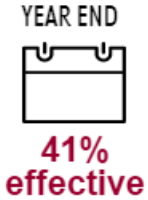
Not all local government entities are required to prepare financial statements. This year, 39 entities were not required to prepare financial statements either by legislation or by the accounting standards. A full list of these entities is included in Appendix G.

Financial statement preparation

Councils prepared timelier financial statements than in previous years. This is because councils are bringing forward steps in their financial statement preparation processes. However, the quality of financial statements and year end processes still needs significant improvement. Twenty-nine councils made material adjustments to the numbers included in their draft financial statements provided to audit and 59 per cent of councils did not meet agreed deadlines to deliver key documents to audit.

Our assessment criteria and the results of our assessment (highlighted with traffic light colours) for each council are included in Appendix J. We refine our assessment criteria each 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.

Year end close process



This year, we assessed councils for the first time on their year end processes and their delivery of key documentation to audit by agreed-upon dates. Thirty out of 74 audited councils completed their important year end close processes by agreed dates.

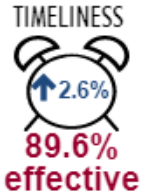
Of the 74 audited council financial statements, 40 (54 per cent) did not meet their agreed milestone for the provision of asset valuation data. When councils don't manage the asset valuation processes well, errors are often identified in the draft financial statements provided to audit. Over half of the councils that did not meet the agreed date had to make adjustments to their financial reports.

Infrastructure is councils' largest investment. Valuations require significant judgement and estimation. When councils complete valuations early, they allow more time for internal and external review of valuation results. This reduces the potential for errors or adjustments to draft financial statements or delays to the completion of the audit. Appendix K outlines some key questions for council management in reviewing asset valuations.

Councils can also reduce the likelihood of errors and adjustments in their financial statements by ensuring they have robust, consistent month and year end processes and effective review. Year end reporting becomes simpler when standardised monthly accrual accounting processes are implemented. Month end close processes should include the provision of the following reports to enable appropriate council oversight and review:

- monthly statement of comprehensive income, financial position and cash flows
- the provision of variance analysis that will enable the reader to understand the cause of the variance and the action required to remediate and the impact on future results
- reports should include key financial ratios, trends and non-financial information to aid understanding
- reports on major projects and significant contracts
- report against key performance indicators as stated in corporate plans and annual reports.

Timeliness of draft financial statements

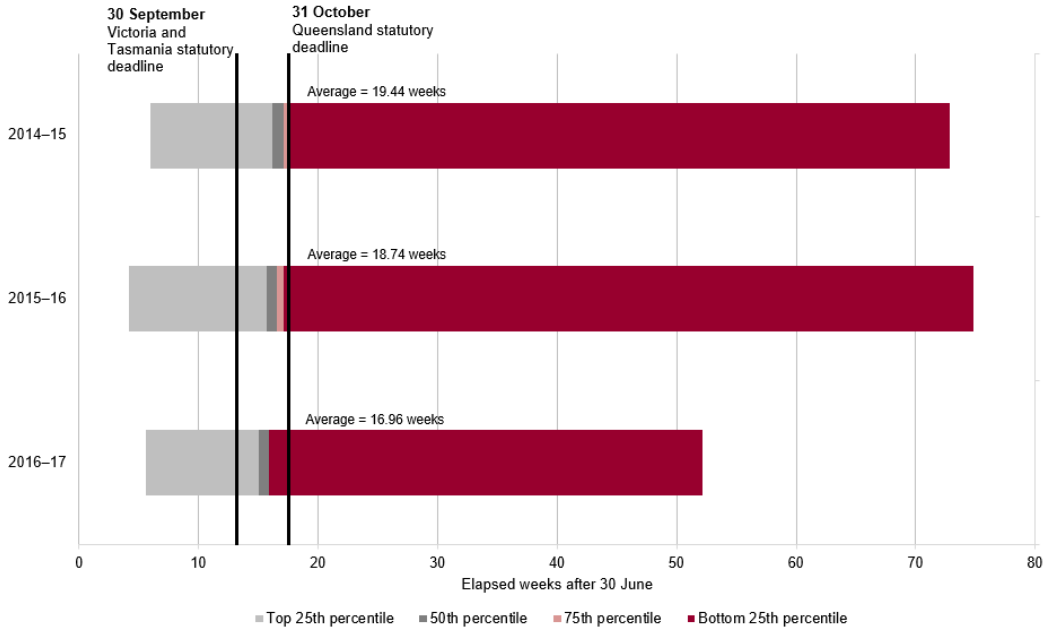


This year, 69 out of the 77 councils (89.6 per cent) met their statutory deadline. This was an improvement from the prior year (87 per cent). A further four councils (2015–16: three) had their opinions issued by the date agreed with the Minister for Local Government.

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 1.78 weeks from 18.74 weeks in 2015–16. Over the last seven years, councils have reduced the average time to finalise financial statements by 7.28 weeks from 24.24 weeks in 2010–11. This is a substantial achievement.

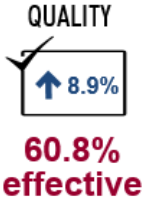
Figure 2F
Average time to complete financial statements post 30 June



Source: Queensland Audit Office.

Last year, we reported that three councils had not met their legislative deadline (statutory deadline or ministerial extension date) for more than six consecutive years. It is pleasing that two of these councils—Kowanyama Aboriginal Shire Council and Woorabinda Aboriginal Shire Council—met their legislative deadline this year. Northern Peninsula Area Regional Council did not meet the legislative time frame for the seventh consecutive year.

Quality of draft financial statements



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

Twenty-nine of 74 councils needed to make material adjustments to their draft financial statements (37 in 2015–16). While this is a decrease from last year, improvements to quality review of the financial statements is still required.

Most adjustments resulted from the late identification and review of transactions including:

- incorrect recognition of depreciation expense
- flood-damaged assets not written off
- incorrect/outdated discount rates when accounting for leased assets
- incorrect accounting treatment for the 2017–18 Financial Assistance Grants to Local Government (2017–18 FAG advance)—as unearned revenue instead of revenue
- additional expenses not originally identified by council
- adjustments to classification of expense (between operating and capital)
- incomplete/incorrect consolidation in draft financial statements.

Prior period errors

When an entity prepares its financial statements, the council or audit may identify material errors (which are errors likely to affect the judgment of readers) in its prior year statements.

Figure 2G details the material prior period errors identified this year and corrected in the 2016–17 financial statements by restating comparative (prior year) figures.

Figure 2G
Prior period errors

Entity	Details
Brisbane City Council	An incorrect equity accounting method was adopted for investment in an associate (Queensland Urban Utilities). The correction of the error resulted in an increase to net result of $101.887 million and an increase to net assets of $307.511 million.
Hinchinbrook Shire Council	Assets were incorrectly derecognised in the prior year. The correction of the error resulted in a decrease to net result of $0.178 million, and an increase to net assets of $23.183 million.
Maranoa Regional Council	On revaluation of the road, bridge and drainage network, an error was identified in the 2015–16 value and condition assessments of road assets. This resulted in fair values of unpaved road formation and capitalised assets being materially overstated by $53.541 million. In addition, state-owned assets with a value of $1.453 million were incorrectly included in the council's work in progress account as at 30 June 2015 and accrued income of $0.592 million was incorrectly recognised. The correction of the error resulted in a decrease to net assets of $55.586 million.

Entity	Details
Moreton Bay Regional Council	Contributed assets were not previously recognised and there was untimely capitalisation of work in progress. There was an overstatement of infrastructure offset credits and provision. The correction of the error resulted in an increase in net result of $18.747 million and an increase to net assets of $19.608 million.
Mornington Shire Council	There was incorrect classification of revenues and capital income. The correction of the error resulted in a decrease to net result and net assets of $17.347 million.
Noosa Shire Council	Contributed assets were not previously recognised and provision for landfill included incorrect assumptions. The correction of the error resulted in an increase to net result of $2.022 million and an increase to net assets of $3.476 million.
Toowoomba Regional Council	Site improvement asset values were overstated and all assets were not included in depreciation calculations. The error correction resulted in a decrease in net result of $9.685 million and a decrease in net assets of $72.717 million.

Source: Queensland Audit Office.

We noted a further 10 councils adjusted their prior year financial statements for immaterial amounts after they had been provided to audit. These changes are not required under the accounting standards. In future, prior period adjustments made to comparatives will be included in the assessment of quality for financial statements. An amber traffic light will be awarded, as making these changes after the statements have been provided to audit is unnecessary and requires additional work to be performed by both council and audit staff.

Recognition of assets

In previous reports, we identified incomplete asset registers as a systemic issue across many councils. We recommended that councils assess their processes for ensuring their asset registers are complete and remain current over time. Twenty councils (including two with material prior period errors noted above) reported assets not previously recognised in 2016–17 (2016: 29). Of these, 17 reported adjustments of this nature for at least the last two consecutive years. The combined value of these errors totalled $256.2 million ($191.3 in 2015–16).

Councils should continue to strive for complete and accurate asset registers, as these are the foundation for making informed planning and investment decisions. Councils identifying consistent errors need to improve their control processes for asset stocktakes and recognition of contributed assets.

Public availability of financial statements and governance of controlled entities

In prior reports, we have recommended that councils make the financial statements of controlled entities publicly available. Of the 51 controlled entities that prepare financial statements, 26 (51 per cent) (2016: 38 per cent) published their financial statements either through council committee agendas, directly on each entity's website, or through the Australian Charities and Not-for-profit Commission's website.

While this is an improvement in transparency and accountability, nearly half of the sector's controlled entities audited financial statements are still unavailable to their communities.

3. Financial position, performance, and sustainability

Introduction

In this chapter, we assess the position, performance, and sustainability of Queensland local governments.

The information in an entity's financial statements describes its main transactions and events for the year. Over time, financial statements also help users to understand the sustainability of the entity and the sector.

Our analysis helps users understand and use the financial statements by clarifying the financial effects of significant transactions and events in 2016–17. We also use metrics such as ratio analysis to highlight organisational performance issues.

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

Appendix I details the financial sustainability measures used and the 2016–17 results for each council. These measures remain unchanged from those used last year.

Conclusion

Overall, the local government sector continues to spend more than it earns with the five-year average operating surplus ratio for the sector at -4.13 per cent.

While the sector has achieved an overall operating surplus of $613 million, this is largely driven by an advance payment of the 2017–18 Financial Assistance Grant (FAG) by the Australian Government in June 2017. This amounted to $230 million.

Despite receiving the 2017–18 FAG advance, 26 councils still reported operating losses in 2016–17. If we exclude the advance payment from our analysis, 54 per cent of councils would have reported operating losses, which is consistent with the average over the prior four years.

Councils need to continue their focus on long-term planning and on managing the costs for delivery of services. While they continue to make operating losses, councils will be dependent on grant funding to maintain service delivery to their communities.

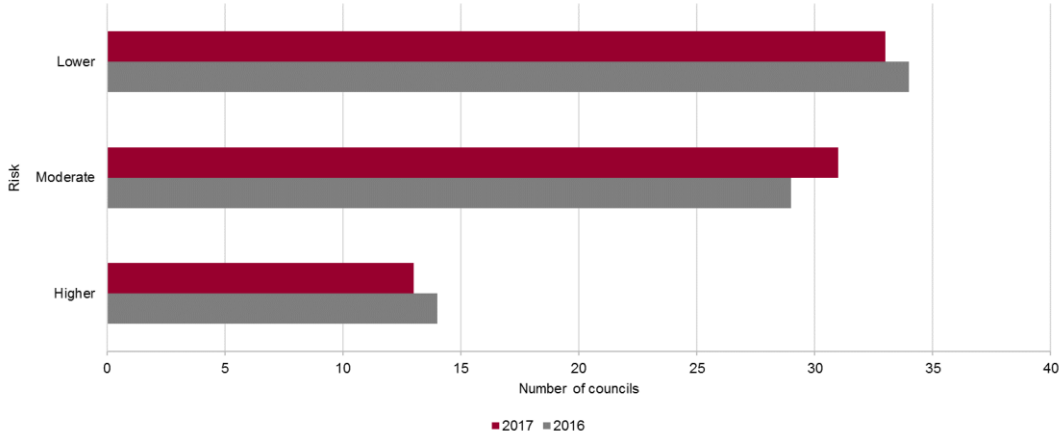
Another issue councils need to address is how they recognise and account for the rehabilitation of landfill sites. The inconsistent approaches have the potential to cause problems in the future. Councils may not be correctly or adequately accounting or budgeting for the long-term costs of providing this service.

Financial sustainability

Financial sustainability risk assessments

Figure 3A summarises the risk assessments of the 77 councils. Our risk assessment criteria is included in Appendix I, Figure I3. Unfinalised audits for 2016–17 have been included at their previous year's assessment.

Figure 3A
Summary of financial sustainability risk assessment



Source: Queensland Audit Office.

Our analysis indicates that overall, the risk of councils becoming unsustainable is consistent with last year. Forty-four councils have a high or moderate risk rating (43 in 2015–16). Thirteen councils were assessed as being at higher risk because, on average over the last five years, they have each made large operating losses of between 10 to 49 per cent.

If the 2017–18 Australian Government Financial Assistance Grants (FAG) advance had not been received in June 2017, a further six councils would have been assessed as higher risk.

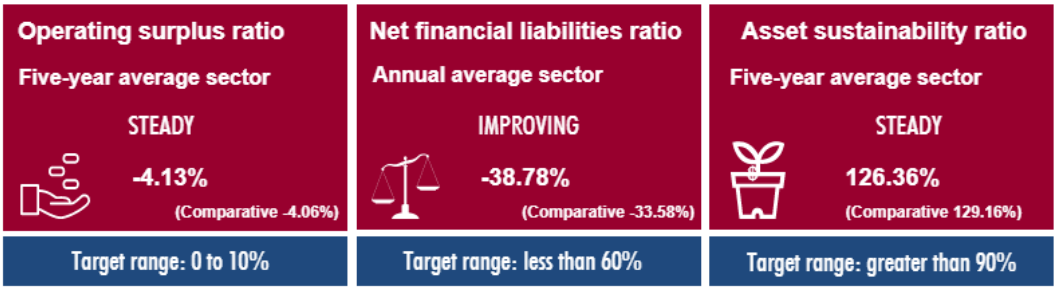
Sector-wide average financial sustainability measures

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

While the ratios are explained in more detail over the following pages, in brief:

- 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.

Figure 3B
Sector-wide average financial sustainability measures



Source: Queensland Audit Office.

The average five-year operating surplus ratio at -4.1 per cent for the sector indicates that revenue from operating activities over the long term is not enough to meet operating expenditure.

The sector annual average net financial liabilities ratio remains within the Department of Local Government, Racing and Multicultural Affairs' (DLGRMA) recommended levels at -38.8 per cent. The negative results indicate that many councils continue to accumulate financial assets and avoid debt for managing their businesses.

A five-year average sector asset sustainability ratio of 126.4 per cent is consistent with the prior year. It indicates that on average, councils are maintaining, replacing, and renewing their assets as they reach the end of their useful lives.

Understanding financial performance

Operating surplus ratio

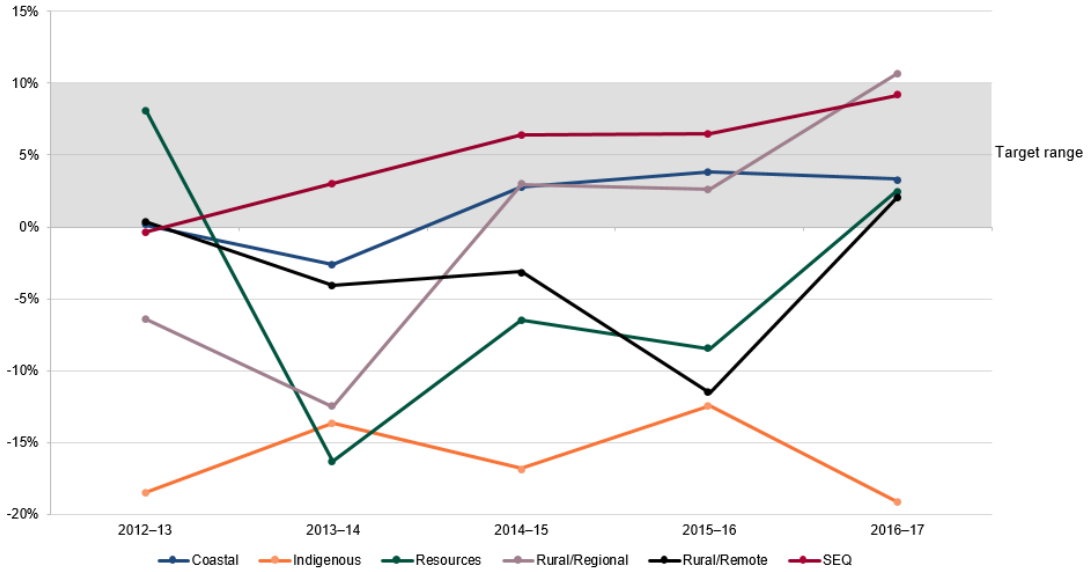
As mentioned earlier, the operating surplus ratio indicates the extent to which operating revenues cover operating expenditures. The DLGRMA target range for councils is a ratio of between zero and 10 per cent.

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.

In 2016–17, the annual average operating surplus ratio for the local government sector was 0.2 per cent (2016: -4.6 per cent). This is based on reported results, which includes the 2017–18 FAG advance. Only Indigenous councils fell below the target range.

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)

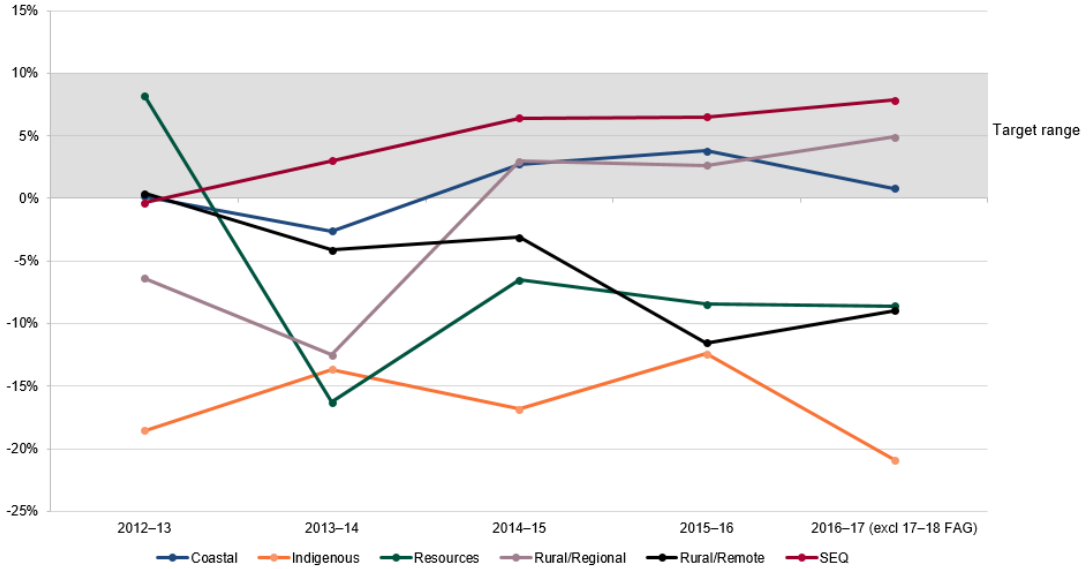


Source: Queensland Audit Office.

While councils can spend financial assistance grants as they choose, continued advance payment is not guaranteed by the Australian Government. If councils had not received the 2017–18 FAG advance, the sector would have an average operating loss for the year of -6.8 per cent. This is a significant difference from a 0.2 per cent surplus and a deterioration of 2.2 per cent on last year.

Figure 3D compares, by council segment, the average operating surplus ratio each year for the past five financial years, excluding the 2017–18 FAG advance from the 2016–17 financial year.

Figure 3D
Operating surplus ratio (average by council segment—excluding 2017–18 FAG)



Source: Queensland Audit Office.

Overall, 26 councils reported a negative annual operating surplus ratio despite receiving the 2017–18 FAG advance. Eleven of these 26 councils have had negative operating surplus ratios for the last five years. These councils are reliant on government grant funding, as they are unable to generate enough revenue on their own to fund their operations. Forty-three councils would have reported negative operating surplus ratios if they had not received the advance payment.

Figure 3D shows that coastal, rural/regional and SEQ councils (that is, those with higher populations) are not significantly affected by the 2017–18 FAG advance. On average, these council segments are consistently within the target range. This demonstrates that they set and achieve budgets aiming to break even or make a small surplus over the long term. Out of 74 councils, only 29 (2015–16: 34 out of 77 councils) achieved an average five-year operating surplus ratio greater than zero.

Revenue

Figure 3E
Major revenue for all councils audited to date in 2016–17

Source: Queensland Audit Office.

In 2016–17, councils reported total revenue of $12.3 billion. Councils have a number of revenue sources, with rates and levies, grant funding, and contributions from developers making up 77 per cent of total revenue. Other revenue sources are building and development fees, fines, rentals, sales, and investments. A number of council revenue sources can be affected by government policy and changes in economic activity.

Events and transactions affecting revenue this year

Rates and levies

Each council segment had increases in rates and levies revenue, with a total increase across the sector of $236 million. Most council segments increased their rates and levies revenue by between three and six per cent. Coastal and Indigenous councils' rates and levies revenue increased the least.

Two coastal councils—Mackay Regional Council and Townsville City Council—had an overall three per cent decrease in total rates and levies revenue of $17 million between them. This was primarily due to water restrictions in place in these communities during the year. This reduced the councils' revenue from water charges.

Grants and contributions

Grants and contributions revenue increased by $349 million since last year. This was predominantly due to:

- the advance payment of the 2017–18 FAG of approximately $230 million
- an increase in contributed assets of $58 million recognised by the Council of the City of Gold Coast for the Gold Coast 2018 Commonwealth Games
- $19.7 million in grant payments to councils from the Queensland Reconstruction Authority for Severe Tropical Cyclone Debbie. Given the severity and timing of this event (in late March 2017) it is likely payments for this event will continue into 2017–18 and potentially 2018–19.

Future challenges and emerging risks

Annual grant funding can fluctuate. This makes short-term and long-term planning difficult for councils. As noted earlier, over half of the councils would have recorded operating deficits if the 2017–18 FAG advance were excluded.

For councils dependent on grants, planning will be critical to their future. They will need to manage community expectations regarding the delivery of services within the bounds of the revenue sources they have available.

Councils will be affected by the new Australian accounting standard (AASB) 15 *Revenue from Contracts with Customers* from 1 July 2019. As mentioned earlier, councils have various sources of revenue such as fees and charges, grants and subsidies, interest revenue, and sales income. Each of these sources will need to be analysed to determine what changes may be required.

Given the variety of sources and the complexity of the new standard, councils should not underestimate the effort required to prepare themselves. It may result in changes to systems, processes, accounting policies and in some instances, contracts.

Expenses

Figure 3F
Major expenses for all councils audited to date in 2016–17

Source: Queensland Audit Office.

Total expenses increased by two per cent to $9.9 billion from 2015–16. The local government sector spent $6.7 billion on employing staff and purchasing materials, goods, and services.

Events and transactions affecting expenses this year

Materials and services

The largest movement this year occurred in materials and services, which increased by $233 million from 2015–16. The increase was predominantly due to:

- SEQ councils increasing materials and services expenses by $166 million in line with increases in their rates revenue
- flood damage and restoration works at councils affected by Severe Tropical Cyclone Debbie. In particular, Whitsunday Regional Council increased its expenses by $9.6 million
- Scenic Rim Regional Council obtaining $9.3 million in National Stronger Regions funding that was expensed during the period (2015–16: $0).

Other expenses

Restructuring and early settlement of loans in three councils contributed to an overall decrease in finance costs included under ‘other expenses’.

Future challenges and emerging risks

With the state subject to natural disasters on a regular basis, councils need to have good project management, record keeping, procurement, and budgeting skills. Managing a program of works and associated procurement arrangements can have impacts on staff, other council projects, and workloads. Councils need to have strategic short-term financial planning to assist councillors and mayors in making decisions about the timing and affordability of repairs.

While advances are paid for emergent works to essential assets, other funding is subject to processes managed by the Queensland Reconstruction Authority (QRA). This process requires councils to maintain detailed records of their assets and their condition before and after events, as well as detailed records of the procurement and costs for repairs and restoration.

Potential changes to the Australian Government National Disaster Relief and Recovery Arrangements (NDRRA) framework will increase the focus on councils’ financial and procurement systems as well as on their asset registers and maintenance records.

Through our audits in 2016–17, we identified 26 deficiencies, eight of which were significant, in councils' quotes and tendering processes. We also identified numerous issues in relation to the completeness of asset registers (as discussed in Chapter Two).

If councils don't comply with their procurement policies and don't maintain adequate records, there is a risk that costs may be deemed ineligible by the QRA and not reimbursed.

Understanding financial position

Financial position is measured by a council's net assets—the difference between total assets and total liabilities. A growing net asset position indicates that a council has greater capacity to meet an increase in future service demands. At 30 June 2017, the net asset position of councils totalled $106 billion, which is a three per cent improvement from last year.

Councils' borrowings totalled $5.6 billion (2015–16: $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 3G
Total council assets

Source: Queensland Audit Office.

In 2016–17, councils reported total assets of $114.5 billion, of which 87 per cent was property, plant and equipment (PP&E). Infrastructure assets such as roads, bridges, water, sewerage and waste facilities are the largest components of property, plant and equipment and are council's largest investment. Significant funds are spent on its renewal and maintenance.

Events and transactions affecting assets this year

Property, plant and equipment

Total property, plant and equipment values increased by $2.2 billion (two per cent). The material movements in asset values were largely attributed to asset additions of $4.4 billion (assets constructed, purchased, or donated) and increases to asset values from revaluations amounting to $557 million. Councils also incurred depreciation charges of $2.1 billion and disposed of assets valued at $625 million. (Depreciation systematically allocates an asset's value as an expense over its useful life to the council.)

The sector spent $141 million (4 per cent) less on asset additions 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.

Cash and term deposits

Cash and term deposits increased by $932 million (19 per cent). The 2017–18 FAG advance of $230 million contributed to this increase as the monies were received in June 2017. Brisbane City Council also increased cash holdings by $469.8 million due to better than planned cash from operations and changes in the timing of capital projects.

Asset sustainability ratio

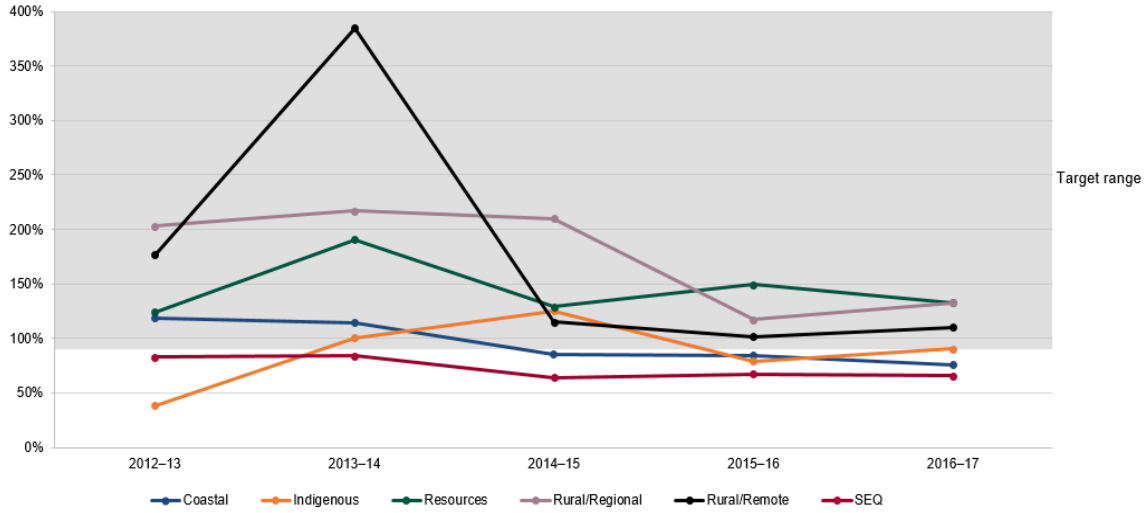
Asset sustainability approximates the extent to which a council is replacing its assets as these assets reach the end of their useful lives. The ratio indicates the extent of spending on existing assets through renewal, restoration, and replacement compared with depreciation expense. Results higher than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

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

The DLGRMA *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.

Figure 3H shows the average annual asset sustainability ratio over the past five years by council segment, based on the 74 councils audited to date. 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.

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



Source: Queensland Audit Office.

Asset sustainability ratios for SEQ councils were consistent with the prior year and are, on average, always below the target of 90 per cent. While this ratio can indicate that not enough is being spent on renewals, it could also indicate a growing region, and/or a council involved in significant new capital works projects. SEQ councils spent around a third of their total asset investment on asset renewal projects—indicating a significant amount of new assets compared to renewed assets.

In comparison, other council segments spent between 40 to 66 per cent on asset renewal projects. SEQ councils also received 89 per cent of the total contributed assets for councils, highlighting the significant development occurring in the SEQ council areas.

Rural/regional councils had a notable increase in their average annual asset sustainability ratio of 15.5 per cent. This was mainly attributable to Mareeba Shire Council, which completed significant renewals work on bridges, wastewater treatment plants, and other roads and drainage infrastructure.

Indigenous councils had an 11 per cent increase in their average annual asset sustainability ratio and are now within the target range. Of the 14 councils audited to date, five had a significant movement in their annual asset sustainability ratio. Indigenous councils' annual asset sustainability ratios fluctuate depending on whether they have received capital grant funding for the renewal of their assets. The three councils whose audits are yet to be finalised have historically, on average, not met the target. If their ratios are similar to the prior year, the average annual asset sustainability ratio for the segment will likely be consistent with prior year and below target.

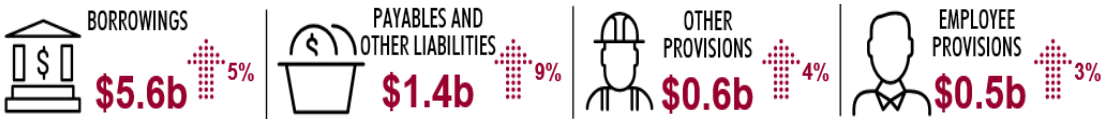
Future challenges and emerging risks

A decreasing operating surplus of councils with growing asset bases may result in limited ability for them to replace assets as they reach the end of their useful lives, or to fund their ongoing maintenance.

With more than 55 per cent of councils continuing to have outdated or no asset management plans, long-term asset management planning remains a key future challenge and risk for councils. Asset management planning should drive councils' sustainable level of service to their communities and determine how and when they will maintain and renew those assets to meet that level of service.

Liabilities

Figure 3I
Total liabilities for all councils audited to date for 2016–17



Source: Queensland Audit Office.

In 2016–17, councils reported total liabilities of $8.2 billion. Borrowings make up 69 per cent of total liabilities. Councils' payables and other liabilities are principally made up of amounts owed to suppliers. Provisions include monies set aside for funds to rehabilitate landfills and quarries, as well as employee leave entitlements.

Events and transactions affecting debt this year

Borrowings

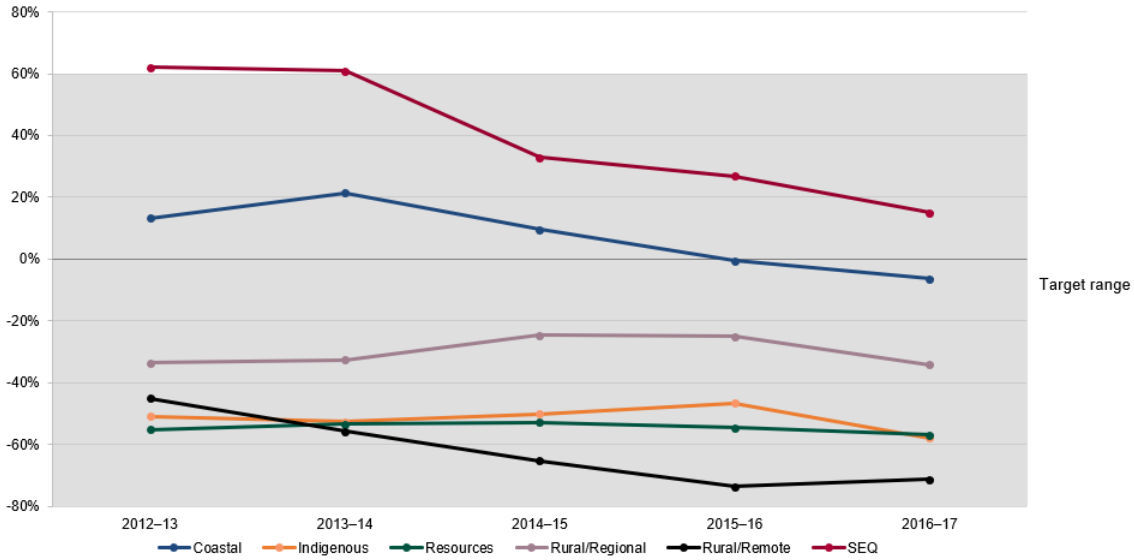
Consistent with the prior year, SEQ and coastal councils hold the highest amount of debt ($5.2 billion). A total of 57 councils currently hold debt, with 31 councils having greater than $10 million in debt. Borrowings increased by $267 million (five per cent), primarily due to an increase in borrowings by Brisbane City Council and Townsville City Council. Overall, 13 councils increased their borrowings.

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. DLGRMA's target range for councils is a net financial liabilities ratio of not greater than 60 per cent. If the net financial liabilities ratio is 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 ratio for the year is -38.8 per cent, which is within DLGRMA's recommended levels of sustainability. Figure 3J compares the movement in average net financial liabilities over the past five years by council segment, based on the 74 councils audited to date.

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



Source: Queensland Audit Office.

Consistent with the prior year, councils continue to increase their financial assets to replace or renew assets rather than use debt. The overall ratio for the sector has improved by over 12 per cent since 2012–13. Fifty-three councils (2016: 52) have cash balances greater than total liabilities, hence their negative ratios in Figure 3J. This scenario is not unique to Queensland. The Victorian Auditor-General's report on *Results of 2016–17 Audits: Local Government 2017–18:8* concluded that Victorian councils were accumulating cash in preference to acquiring debt.

Four Queensland councils have net financial liabilities ratios above 60 per cent. Two of these councils increased their debt this year. The Queensland Treasury Corporation and DLGRMA conduct annual assessments to ensure that councils have demonstrated capacity to manage large infrastructure projects while maintaining adequate capacity to service existing debt and any new debt requested.

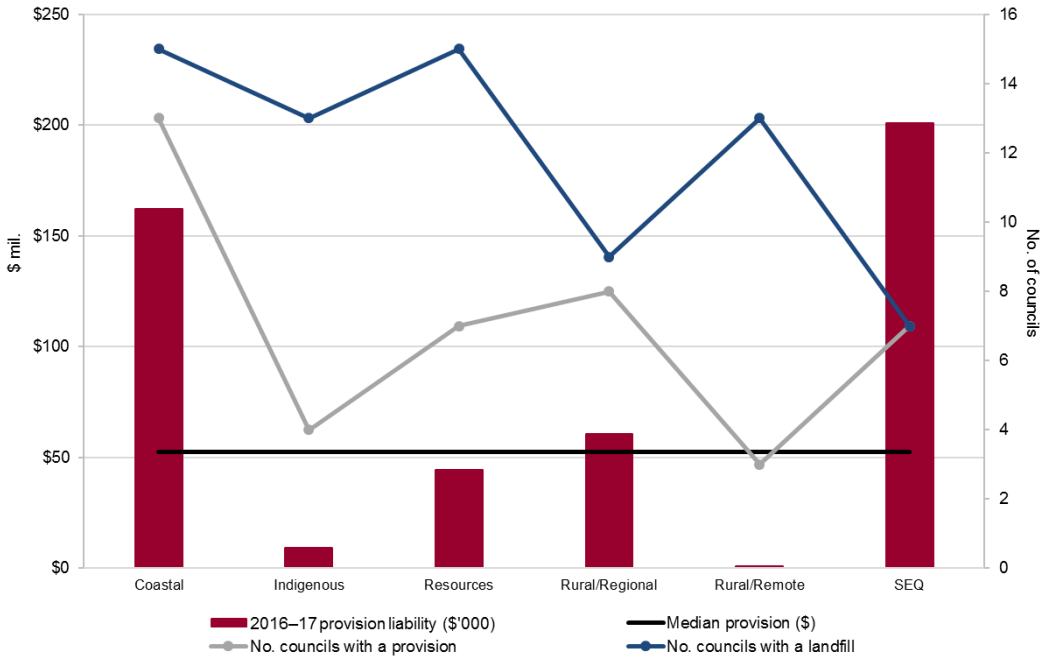
Landfill provisions

Seventy-two of 77 councils operate Department of Environment and Science (DES) authorised landfills (per the DES website). The environmental authority issued by DES for councils undertaking landfill activities contains the conditions with which councils must comply.

Only 42 councils have recognised a provision for rehabilitation for landfills. A small number of councils recognise a contingent liability (something that may occur, depending on the outcome of an uncertain future event), as they believe the cost to rehabilitate the landfill cannot be reliably measured. Other councils do not recognise a liability at all. This is either because they believe the costs are immaterial, or because they progressively rehabilitate and pay the costs as they are incurred.

Figure 3K shows the total landfill provision liability recognised by segment in audited 2016–17 financial statements. It also shows the number of councils with a provision compared to the number of councils with a landfill.

Figure 3K
Council segments with a landfill rehabilitation provision for 2016–17



Source: Queensland Audit Office.

Rehabilitation, post closure monitoring, and aftercare (for example, maintaining the landfill cap to prevent/control erosion and environmentally monitoring of landfill gas, groundwater or other liquids that drain from a landfill) are obligations of each DES licence holder. Therefore, each council licence holder has an obligation to incur future expenditure to rehabilitate the landfill. When that expenditure can be reliably estimated and is material (likely to affect the judgement of readers), a provision should be recognised. Even if councils progressively rehabilitate landfill sites, they will still have an obligation for future costs in relation to the post closure monitoring and aftercare.

Where the landfill is not on council owned land, there will be no land asset on the council's asset register. However, the landfill itself may satisfy asset recognition criteria under accounting standards, for example, in terms of money expended by council to construct the landfill site. Any rehabilitation costs that satisfy the definition of a liability under accounting standards should then also be incorporated in the value of the landfill asset. The value of the landfill asset would then be depreciated over the useful life of the landfill.

The Local Government Victoria issued *Accounting for Landfills* issued in 2016–17 and includes guidance on the accounting requirements for a landfill. Figure 3L includes some important points adapted from this guide to consider when accounting for landfill rehabilitation provisions.

Figure 3L
Important points in accounting for landfill rehabilitation provision

Key points
Asset:
1. Site improvements (for example, site huts/sheds and weighbridges) capitalised as part of the establishment of a landfill should not be given a life greater than that of the overall landfill site.
2. Costs incurred in the construction of the landfill cell (a space that is occupied daily by the compacted waste) should be capitalised as a tangible asset and depreciated over the life of the cell.
3. Rehabilitation costs should be incorporated into the value of the landfill asset.
Provision:
4. Costs associated with post closure monitoring and after care should be included in the calculation of the provision for the duration of any requirements under the issued environmental authority.
5. Annual measurement of the provision requires:
a. determination of best estimate (based on existing licence conditions including post closure costs and taking into account technological advancements)
b. indexing of that amount to its future value based on a reasonable estimate of likely cost increases
c. using a discount rate to convert the future value to today's dollars (that is, a Net Present Value or NPV).

Source: Local Government - Accounting for Landfills, Local Government Victoria, FG2 - 2017, Victoria State Government, adapted by Queensland Audit Office.

Future challenges and emerging risks

Managing landfill sites requires councils to mitigate environmental and compliance risks. To set accurate rates, fees, and levies for landfills, councils need to have a good understanding of their waste needs and the full life cycle costs for rehabilitation, closure, and monitoring. Where these are not well understood, councils will not be able to provide accurate information to decision-makers for the determination of fees and charges that will recover their costs.

In addition, when council landfills are not maintained and monitored in accordance with DES requirements, the safety of their communities could be at risk.

4. Internal controls

Introduction

This chapter evaluates the effectiveness of internal controls maintained by the 77 councils as they relate to our audit.

Through our analysis, we aim to promote stronger internal control frameworks. We also aim to mitigate financial losses and damage to public sector reputation by initiating effective responses to identified control weaknesses.

Our assessment criteria and the results of our assessment for each council are in Appendix J. We refine our assessment criteria each 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

Councils' internal control effectiveness varies across the sector. This means we often have to undertake more detailed testing of transactions to confirm the reliability of their financial reporting.

We reported 759 deficiencies across the sector, of which 307 were considered significant deficiencies (2015–16: 262 of 756). A high proportion of audit issues continue to be re-raised from prior years, indicating councils are not taking an active role in resolving them.

By not addressing internal control deficiencies, councils are unnecessarily exposing themselves to a higher risk of fraud and errors going undetected. They will continue to be vulnerable if they do not mitigate their risks, take action to secure their systems, and put plans in place to restore their operations in the event of a business disruption, natural disaster, or cyber attack.

Audit committees play a key role in ensuring management takes timely and effective action to address control deficiencies. But these are no longer mandated in this sector. Combined, the 12 councils that have disbanded their audit committees have over a third of all significant deficiencies raised this year. To provide effective independent oversight, these councils need to reinstate their audit committees.

Our audit of internal controls

We assess internal controls to ensure they are suitably designed to prevent, or detect and correct, material misstatements in the financial report. We also assess whether they achieve compliance with legislative requirements and make appropriate use of public resources. Where we identify controls that we plan to rely on, we test how effectively these controls are operating to ensure they are functioning as intended.

We communicate deficiencies in internal controls to management.

Our rating of internal control deficiencies

A *deficiency:* arises when internal controls are ineffective or missing, and are unable to prevent, or detect and correct, misstatements in the financial statements. A deficiency may also result in non-compliance with policies and applicable laws and regulations and/or inappropriate use of public resources.

A *significant deficiency (high risk matter):* is a deficiency, or combination of deficiencies, in internal controls that requires immediate remedial action.

Our rating of internal control deficiencies allows management to gauge relative importance and prioritise remedial actions.

We increase the rating from a deficiency to a significant deficiency when:

- we consider immediate remedial action is required
- there is a risk of material misstatement in the financial statements
- there is a risk to reputation
- the non-compliance with policies and applicable laws and regulations is significant
- there is potential to cause financial loss including fraud.

Where management has not taken appropriate timely action to resolve a deficiency we may increase the rating to a significant deficiency.

Control deficiencies categorised by COSO component

We categorise internal 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 identifies five components that need to be present and operating together for a successful internal control system—monitoring activities, control environment, risk assessment, control activities, and information and communication. These components are explained in more detail in Appendix J.

During the 2016–17 financial year, we identified 759 deficiencies, 307 of which were significant deficiencies across the sector. The control activities element had the largest percentage (42 per cent) of these. Eighty-nine per cent of significant deficiencies were from Indigenous, resources and rural/remote councils.

Monitoring activities

While audit committees may not be legislatively required for all councils, we consider that they assist those charged with governance to obtain assurance over their internal control systems. Audit committees also assist councils in ensuring appropriate and timely action is taken with regards to issues raised by internal and external audit.

Last year, we identified that five councils had disbanded their audit committees. Of these, one council has re-established their audit committee. At the time of preparing this report, a further eight councils did not have an audit committee, or their audit committee had not met during 2016–17.

For the 12 councils that do not have an audit committee, a total of 114 significant deficiencies have been raised in 2016–17 (37 per cent of total significant deficiencies), 64 of which have been re-raised from prior years. These results demonstrate the direct link between the lack of an effective audit committee and the prevalence of audit issues.

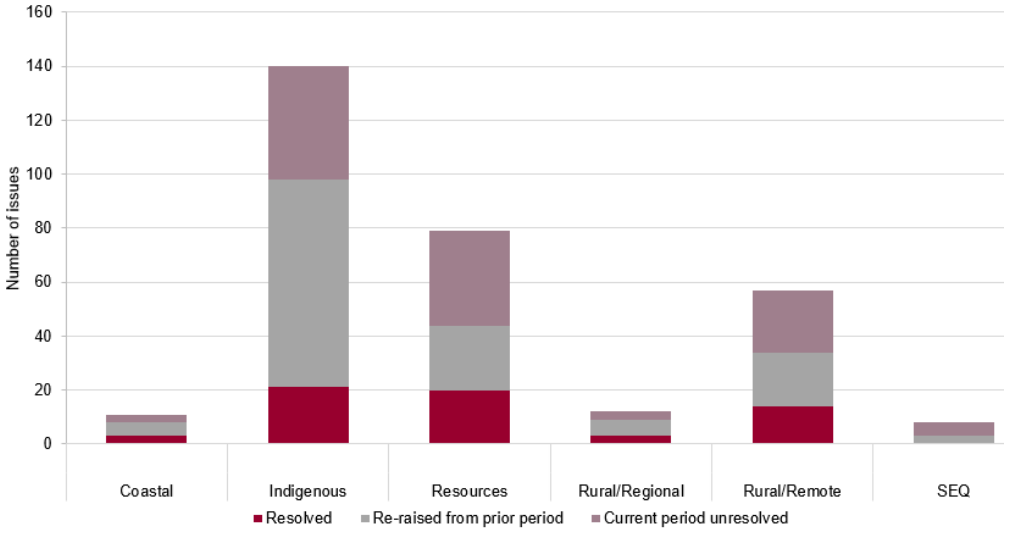
We also identified eight significant deficiencies in relation to the internal audit function at councils. Internal audit is required by the *Local Government Act 2009* for all councils and assists management in ensuring that their internal control processes are operating effectively. The issues we identified included: no internal audit activity undertaken; internal audit plans not in place; or no review of the issues raised by internal audit.

Status of internal control deficiencies

Management and those charged with governance are responsible for the efficient and effective operation of internal controls. When internal control deficiencies are not appropriately actioned in a timely manner, it may indicate deficiencies in an entity's control environment.

We have analysed the appropriateness and timeliness of remedial action undertaken to resolve any audit matters we have identified. Figure 4A outlines the status of internal control deficiencies reported to management as at 30 June 2017.

Figure 4A
Status of control issues reported to management at 30 June 2017



Source: Queensland Audit Office.

Of the 307 significant deficiencies we reported to councils this year, 159 (51.8 per cent) were re-raised from last year's audit. Of the 307 significant deficiencies, 61 were resolved by the time the auditors issued their final management report to the council. Of these, 39 per cent related to prior year issues.

Long-outstanding weaknesses in the local government sector include:

- incomplete or absent asset management plans, risk registers, and business continuity and disaster recovery 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)
- poor management of user access for information technology systems.

We noted that nine councils have 20 of the unresolved re-raised significant deficiencies that have been reported to management since 2012–13. Northern Peninsula Aboriginal Shire Council does not have an audit committee and has 50 per cent of these issues.

Audit committees, or other committees charged with monitoring the progress of audit recommendations, are encouraged to query with management the status of remedial actions and the time frame for completion. If the expected time frame is longer than the agreed milestone date for action, an assessment should be made by management as to whether intervening processes are required to ensure an effective control environment is maintained.

During the year we looked at councils' processes for monitoring their controlled entities. We found that 12 councils with controlled entities do not have formal established policies for the review of controlled entity activities. In three out of these 12 councils, management reporting is not provided to council. Oversight is provided in these instances through a business unit, ad hoc meetings, or through councillor or senior executive representation on the board. As councils often appoint councillors or senior executives to their companies' boards they need to have appropriate mechanisms to manage the inherent conflicts of interest between the council's own activities and those of its controlled entities. We further consider conflicts of interest and board composition under control environment.

Control environment

In the absence of key operational policies and plans, there is an increased risk that council officers will not manage their operations in line with management's expectations, and fraud may occur.

We found that 30 councils (2016: 23 councils) have significantly outdated, unfinalised or absent asset management plans. Asset management plans are required for all councils to assist in planning for the future maintenance costs of their current asset base, as well as for any future expansions. Without appropriate planning in place, councils may be unable to provide infrastructure services to the required level for the community.

We have also identified that 13 councils (2016: 16 councils) do not have a current business continuity plan and/or disaster recovery plan. These plans are important, as they allow councils to continue to deliver core services during technological, natural, or other disaster events.

We reported a further 38 significant deficiencies regarding inadequate or insufficient policies and procedures. The primary areas of concern are:

- a lack of policies and procedures for accounting and review of property, plant and equipment transactions and the capture of related party information
- non-existent fraud control plans
- outdated financial delegations.

These documents provide all staff with an understanding of management's expectations for financial processing and conduct.

As a part of our audits we also consider governance of council controlled entities. In particular, we consider the application of key principles of the *Corporations Act 2001*, dealing with how directors must exercise their powers and discharge their duties. A fundamental element of exercising their powers is acting in the best interest of the company.

The Queensland Government *Guidelines for the formation, acquisition and post approval monitoring of companies* issued in August 2015 discusses the need for the collective background of directors to include both public and private sector experience. The guidelines also provide examples of actions directors must take if conflicts of interest are identified. While these guidelines are not mandatory for local government, they do discuss better practice principles that are relevant to all controlled entity boards.

Risk assessment

Risk assessment
Processes for identifying, assessing and managing risk

32 significant deficiencies identified

Managing risk is fundamental to councils' ability to ensure they will meet their key business objectives. Last year, we conducted a high-level review of risk management processes across councils. While a small number of the significant deficiencies we identified were addressed by management, we found that 25 councils (2016: 30 councils) still do not have appropriate risk management processes in place. In some cases, they have not identified core business risks, not completed risk treatment plans, and not developed risk policies or procedures.

The minister wrote to all councils in June 2015 requesting that they update their fraud control plans because of the frauds perpetrated last year. Seven councils do not currently have fraud control plans. A further seven councils have not completed fraud risk assessments, indicating that they have not taken appropriate steps to understand and mitigate the risks of fraud. Fraud and corruption prevention and control are integral to good governance and risk management.

Control activities

Control activities
Implementation of policies and procedures to prevent or detect errors and safeguard assets

132 significant deficiencies identified

Last year, we reported on a malicious fraud scheme targeting public and private sector entities. The scammers used fraudulent documents to change an existing supplier's bank account details and divert payments to illegitimate accounts. We advised entities to remain on high alert for this and other fraudulent schemes and to allocate sufficient resources to their support staff to ensure the proper interrogation and review of changes to bank account details.

We have identified that 20 councils this year did not review changes to the vendor information or review vendor masterfile change reports. A further seven significant deficiencies were identified in councils where employee and rates masterfile changes were also not reviewed. Without appropriate controls, these councils are at higher risk of losses due to fraud.

Councils' review of transactions also provides them with an opportunity to assess the reasonableness and appropriateness of transactions. We reported 29 significant deficiencies due to lack of review of reconciliations, journals, and payroll transactions. Key checks of data reduce the likelihood of errors and fraudulent transactions occurring.

We reported thirteen significant deficiencies to management on procurement processes. These issues cover a variety of problems with the procurement practices including:

- incorrect numbers of quotes being sought for contract works
- tender processes not being completed for works worth more than $200 000
- orders being approved by officers without appropriate authorisation.

Without appropriate procurement processes in place, value for money may not be achieved.

General information technology controls

Councils have made little progress in improving their information technology (IT) controls, leaving them vulnerable to cyber attacks and fraud. Last year, we reported that 22 councils have ineffective controls over user access and IT security.

This year, we identified 24 significant deficiencies for councils not reviewing user access or privileged user activities and a further nine significant deficiencies relating to insufficient security for electronic fund transfer files and general security. Inappropriate access within finance systems may allow officers to perpetrate fraud by making inappropriate changes to payment details within the system.

Information and communication

Across the sector, we identified 22 significant deficiencies in relation to the quality of financial statements and the completeness and accuracy of supporting information.

This is an increase from last year, when 17 significant deficiencies were identified. This indicates that while statements are increasingly being signed by the statutory deadline, the review processes over the quality of the statements and collation of information need improvement.

We also identified that 10 councils did not appropriately review their asset valuations and assess the condition and impairment of their assets during the year. Property, plant and equipment remains the most significant balance for all councils and valuations of these assets need to be assessed by councils to confirm that the underlying assumptions driving the valuations are appropriate.

As reported in Chapter Two, when there is a lack of review of financial statements and underlying key information, errors occur, and material adjustments need to be made to draft financial statements.

Appendices

Appendix A—Full responses from entities

As mandated in section 64 of the *Auditor-General Act 2009*, the Queensland Audit Office gave a copy of this report with a request for comments to all 77 councils and the Department of Local Government, Racing and Multicultural Affairs.

The heads of these entities are responsible for the accuracy, fairness, and balance of their comments.

This appendix contains their detailed responses to our audit recommendations.

Comments received from Acting Director-General, Department of Local Government, Racing and Multicultural Affairs

Queensland Government

Department of Local Government, Racing and Multicultural Affairs

Our ref: MC18/1251

Your ref: 11800

14 MAR 2018

Mr Brendan Worrall
Auditor-General
Queensland Audit Office
PO Box 15396
CITY EAST QLD 4002

Dear Mr Worrall

Thank you for your letter of 22 February 2018 to the Honourable Stirling Hinchliffe, Minister for Local Government, Minister for Racing and Minister for Multicultural Affairs about your Draft Report to Parliament titled '*Local government entities:2016-17 results of financial audits*'.

I was particularly pleased to read about the continued improvement in the timeliness of Local Government financial statements.

Regarding your recommendations for the Department of Local Government, Racing and Multicultural Affairs, the Department will give them further comprehensive consideration. It should be noted, if there were to be changes as you propose, amendments to legislation would be required.

I support the four draft recommendations for Councils, and intend to write to each Council to emphasise the importance of implementing these recommendations.

If you require further information, I encourage you to contact Ms Kim Mahoney, Acting Director, Finance Funding in the Department on or by email at

Yours sincerely

Greg Chemello
Acting Director-General

1 William Street Brisbane
PO Box 15009 City East
Queensland 4002 Australia
Telephone +617 3452 7009
ABN 251 66 523 889

Appendix B—The Queensland Audit Office

The auditor-general, supported by the Queensland Audit Office, is the external auditor of the state's public sector. Each year, through our financial audit program, we form independent audit opinions about the reliability of financial statements produced by state and local government entities.

We provide independent assurance directly to parliament about public sector finances. We also help the public sector meet its accountability obligations. Our role and the work we do 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. This report satisfies these requirements.

Appendix C—Queensland local government by category

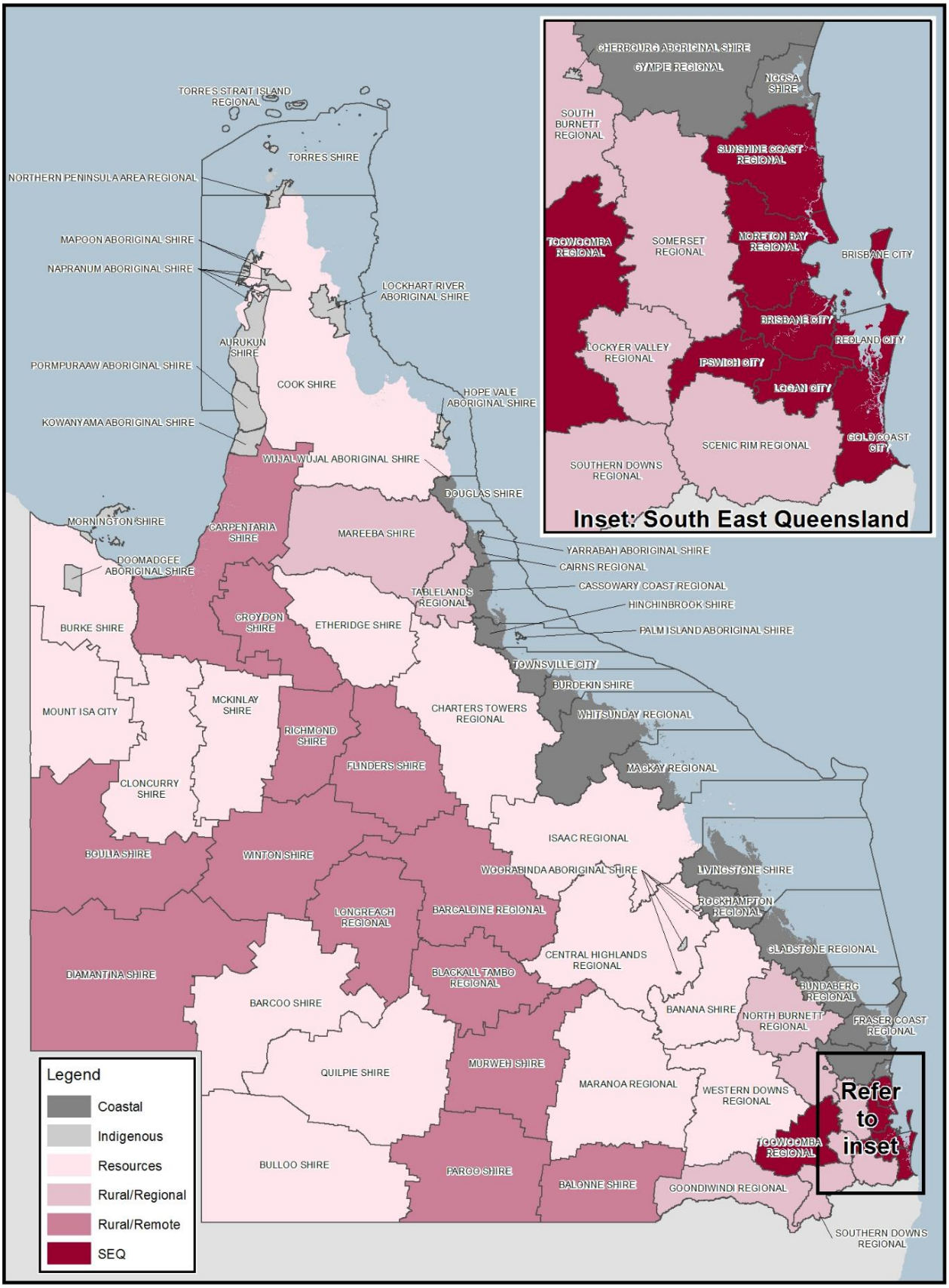
Councils vary widely in their size and location and in the range of community services they provide. To enable better comparison, we group them in the same way the Local Government Association of Queensland did in its 2013 report *Factors Impacting Local Government Financial Sustainability: A Council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

This table summarises the reporting entities for this year compared to last year by category.

Category	Type of entities	2017	2016
Coastal	Councils	15	15
	Entities they control	7	8
Indigenous	Councils	17	17
	Entities they control	3	3
Resources	Councils	15	15
	Entities they control	6	8
Rural/Regional	Councils	9	9
	Entities they control	1	2
Rural/Remote	Councils	13	13
	Entities they control	2	2
South East Queensland	Councils	8	8
	Entities they control	32	30
Other	Jointly-controlled entities	25	25
	Audited by arrangement	3	3
Total	Councils	**77**	**77**
	Entities they control	**51**	**53**
	Jointly-controlled entities	**25**	**25**
	Audited by arrangement	**3**	**3**
Total		**156**	**158**

Source: Queensland Audit Office.

A further 39 controlled or jointly controlled entities are classified as non-reporting under the accounting standards and do not prepare financial statements. (Refer to Appendix G for more details.)



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

Appendix D—Legislative context

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, Racing and Multicultural Affairs 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.

The current year financial sustainability 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.

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

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

The auditor-general's audit opinion on these entities' financial statements assures users that the statements are accurate and in accordance with relevant legislative requirements.

We express an *unmodified opinion* when the financial statements are prepared in accordance with the relevant legislative requirements and Australian accounting standards. We *qualify* our audit opinion where financial statements do not comply with the relevant legislative requirements and Australian accounting standards and are not accurate and reliable.

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

Appendix E—Audit opinion results

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	31.10.2017	U		31.10.2017	E*
Balonne Shire Council	19.10.2017	U		19.10.2017	E*
Banana Shire Council	11.10.2017	U		11.10.2017	E*
Barcaldine Regional Council	19.10.2017	U		19.10.2017	E*
Barcoo Shire Council	19.10.2017	U		19.10.2017	E*
Blackall-Tambo Regional Council	19.10.2017	U		19.10.2017	E*
Boulia Shire Council	19.10.2017	U		19.10.2017	E*
Brisbane City Council	17.08.2017	U		17.08.2017	E*
▪ Brisbane Green Heart CitySmart Pty Ltd	14.11.2017	U			
▪ Brisbane Marketing Pty Ltd	29.09.2017	U			
▪ Brisbane Powerhouse Foundation	04.10.2017	U			
▪ Brisbane Powerhouse Pty Ltd	04.10.2017	U			
▪ Brisdev Trust	01.08.2017	E*			
▪ City of Brisbane Investment Corporation Pty Ltd	01.08.2017	U			
▪ CBIC Investments Pty Ltd	01.08.2017	E*			
▪ City Parklands Services Pty Ltd	13.09.2017	U			
▪ Museum of Brisbane Pty Ltd	19.09.2017	U			
▪ Museum of Brisbane Trust	19.09.2017	E*			
▪ TradeCoast Land Pty Ltd	06.12.2017	U			
Bulloo Shire Council	27.10.2017	U		27.10.2017	E*
Bundaberg Regional Council	19.10.2017	U		19.10.2017	E*
Burdekin Shire Council	11.10.2017	U		11.10.2017	E*
Burke Shire Council	19.10.2017	U		19.10.2017	E*
Cairns Regional Council	11.10.2017	U		11.10.2017	E*

Audit	Date financial statement opinion issued	Opinion	Ministerial extension issued to date⊘	Date current year sustainability statements opinion issued▵	Opinion
▪ Cairns Regional Gallery Arts Trust	08.11.2017	Q E*			
▪ Cairns Regional Gallery Limited	08.11.2017	U			
Carpentaria Shire Council	30.11.2017	U	30.11.2017∞	30.11.2017	E*
Cassowary Coast Regional Council	17.10.2017	U		17.10.2017	E*
Central Highlands Regional Council	19.10.2017	U		19.10.2017	E*
▪ Central Highlands (Qld) Housing Company Limited	19.10.2017	E*			
▪ Central Highlands Development Corporation Ltd	06.11.2017	E*			
Charters Towers Regional Council	31.10.2017	U		31.10.2017	E*
Cherbourg Aboriginal Shire Council	19.10.2017	U		19.10.2017	E*
Cloncurry Shire Council	19.10.2017	U		19.10.2017	E*
Cook Shire Council	18.10.2017	U		18.10.2017	E*
Council of the City of Gold Coast	17.10.2017	U		17.10.2017	E*
▪ Broadbeach Alliance Limited	29.09.2017	U			
▪ Connecting Southern Gold Coast Limited	17.10.2017	U			
▪ Gold Coast Arts Centre Pty Ltd	06.10.2017	U			
▪ Surfers Paradise Alliance Limited	30.10.2017	U			
Croydon Shire Council	16.10.2017	U		16.10.2017	E*
Diamantina Shire Council	19.10.2017	U		19.10.2017	E*
Doomadgee Aboriginal Shire Council	Not complete			Not complete	
Douglas Shire Council	12.10.2017	U		12.10.2017	E*
Etheridge Shire Council	28.09.2017	U		28.09.2017	E*
Flinders Shire Council	19.10.2017	U		19.10.2017	E*

Audit	Date financial statement opinion issued	Opinion	Ministerial extension issued to date⊘	Date current year sustainability statements opinion issued▵	Opinion
Fraser Coast Regional Council	19.10.2017	U		19.10.2017	E*
▪ Fraser Coast Tourism & Events Ltd	16.11.2017	E*			
Gladstone Regional Council	30.10.2017	U		30.10.2017	E*
▪ Gladstone Airport Corporation	17.10.2017	U			
Goondiwindi Regional Council	31.08.2017	U		31.08.2017	E*
Gympie Regional Council	25.10.2017	U		25.10.2017	E*
▪ Rattler Railway Company Ltd	19.02.2018	E*			
Hinchinbrook Shire Council	16.10.2017	U		16.10.2017	E*
Hope Vale Aboriginal Shire Council	08.08.2017	U		08.08.2017	E*
Ipswich City Council	30.11.2017	E	30.11.2017∞	30.11.2017	E*
▪ Ipswich Arts Foundation	30.10.2017	U			
▪ Ipswich Arts Foundation Trust	30.10.2017	U			
▪ Ipswich City Developments Pty Ltd	30.11.2017	U			
▪ Ipswich City Enterprises Investments Pty Ltd	01.12.2017	U			
▪ Ipswich City Enterprises Pty Ltd	01.12.2017	U			
▪ Ipswich City Properties Pty Ltd	30.11.2017	U			
▪ Ipswich Motorsport Precinct Pty Ltd	01.12.2017	U			
Isaac Regional Council	18.10.2017	U		18.10.2017	E*
▪ Isaac Affordable Housing Fund Pty Ltd	15.12.2017	E*			
▪ Isaac Affordable Housing Trust	15.12.2017	E*			
▪ Moranbah Early Learning Centre Pty Ltd	14.12.2017	E*			
Kowanyama Aboriginal Shire Council	19.10.2017	Q		19.10.2017	E*
Livingstone Shire Council	19.10.2017	U		19.10.2017	E*

Audit	Date financial statement opinion issued	Opinion	Ministerial extension issued to date⊘	Date current year sustainability statements opinion issued▵	Opinion
Lockhart River Aboriginal Shire Council	19.10.2017	U		19.10.2017	E*
▪ Lockhart River Aerodrome Company Pty Ltd	19.10.2017	U			
Lockyer Valley Regional Council	06.10.2017	U		06.10.2017	E*
Logan City Council	26.09.2017	U		26.09.2017	E*
Longreach Regional Council	13.11.2017	U		13.11.2017	E*
Mackay Regional Council	13.10.2017	U		13.10.2017	E*
▪ Mackay Region Enterprises Pty Ltd	18.10.2017	E			
Mapoon Aboriginal Shire Council	19.10.2017	U		19.10.2017	E*
Maranoa Regional Council	19.10.2017	U		19.10.2017	E*
Mareeba Shire Council	12.10.2017	U		12.10.2017	E*
McKinlay Shire Council	17.10.2017	U		17.10.2017	E*
Moreton Bay Regional Council	11.10.2017	U		11.10.2017	E*
Mornington Shire Council	27.10.2017	U		27.10.2017	E*
Mount Isa City Council	31.10.2017	U		31.10.2017	E*
▪ Mount Isa City Council Owned Enterprises Pty Ltd	02.11.2017	U			
Murweh Shire Council	19.10.2017	U		19.10.2017	E*
Napranum Aboriginal Shire Council	31.10.2017	U		31.10.2017	E*
Noosa Shire Council	19.10.2017	U		19.10.2017	E*
North Burnett Regional Council	19.10.2017	U		19.10.2017	E*
Northern Peninsula Area Regional Council	Not complete		31.01.18∞	Not complete	
Palm Island Aboriginal Shire Council	31.10.2017	U		31.10.2017	E*
Paroo Shire Council	19.10.2017	U		19.10.2017	E*
Pormpuraaw Aboriginal Shire Council	27.09.2017	U		27.09.2017	E*
Quilpie Shire Council	19.10.2017	U		19.10.2017	E*

Audit	Date financial statement opinion issued	Opinion	Ministerial extension issued to date⊘	Date current year sustainability statements opinion issued▵	Opinion
Redland City Council	19.10.2017	U		19.10.2017	E*
▪ Redland Investment Corporation Pty Ltd	31.10.2017	U			
Richmond Shire Council	20.12.2017	U	20.12.2017∞	20.12.2017	E*
▪ The Kronosaurus Korner Board Inc.	31.10.2017	E*			
Rockhampton Regional Council	12.10.2017	U		12.10.2017	E*
Scenic Rim Regional Council	19.10.2017	U		19.10.2017	E*
Somerset Regional Council	13.10.2017	U		13.10.2017	E*
South Burnett Regional Council	13.10.2017	U		13.10.2017	E*
▪ South Burnett Community Hospital Foundation Limited	13.10.2017	U			
Southern Downs Regional Council	19.10.2017	U		19.10.2017	E*
Sunshine Coast Regional Council	16.10.2017	U		16.10.2017	E*
▪ SunCentral Maroochydore Pty Ltd	25.09.2017	U			
Tablelands Regional Council	26.09.2017	U		26.09.2017	E*
Toowoomba Regional Council	12.10.2017	U		12.10.2017	E*
▪ Empire Theatres Foundation	27.09.2017	U			
▪ Empire Theatre Projects Pty Ltd	27.09.2017	U			
▪ Empire Theatres Pty Ltd	27.09.2017	U			
▪ Jondaryan Woolshed Pty Ltd	Not complete				
▪ Toowoomba and Surat Basin Enterprise Pty Ltd	10.10.2017	U			
Torres Shire Council	31.10.2017	U		31.10.2017	E*
Torres Strait Island Regional Council	12.12.2017	U	31.12.17∞	12.12.2017	E*
Townsville City Council	13.10.2017	U		13.10.2017	E*
Western Downs Regional Council	19.10.2017	U		19.10.2017	E*
Whitsunday Regional Council	22.09.2017	U		22.09.2017	E*

Audit	Date financial statement opinion issued	Opinion	Ministerial extension issued to date⊘	Date current year sustainability statements opinion issued▵	Opinion
Winton Shire Council	17.10.2017	U		17.10.2017	E*
▪ Waltzing Matilda Centre Ltd	18.10.2017	U			
Woorabinda Aboriginal Shire Council	31.10.2017	U		31.10.2017	E*
▪ Woorabinda Pastoral Company Pty Limited	31.10.2017	E*			
Wujal Wujal Aboriginal Shire Council	Not complete			Not complete	
Yarrabah Aboriginal Shire Council	16.10.2017	U		16.10.2017	E*
Jointly-controlled entities					
Council of Mayors (SEQ) Pty Ltd	30.10.2017	U			
Local Government Association of Queensland Ltd	05.10.2017	U			
▪ DDS Unit Trust	05.10.2017	E			
▪ Local Buy Trading Trust	05.10.2017	Q			
▪ Local Partnerships Services Pty Ltd	05.10.2017	E			
▪ Prevwood Pty Ltd	05.10.2017	E*			
▪ QPG Shared Services Support Centres Joint Venture	05.10.2017	E*			
▪ LGE Operating Company Pty Ltd	05.10.2017	U			
▪ Services Queensland	05.10.2017	E			
▪ Northern Australia Services Unit Trust	05.10.2017	E*			
Queensland Local Government Mutual Liability Pool (LGM Queensland)	05.12.2017	U			
Queensland Local Government Workers Compensation Self-Insurance Scheme (trading as Local Government Workcare)	05.12.2017	U			
SEQ Regional Recreational Facilities Pty Ltd	10.10.2017	U			

Audit	Date financial statement opinion issued	Opinion	Ministerial extension issued to date⊘	Date current year sustainability statements opinion issued∆	Opinion
South West Queensland Local Government Association#	01.09.2017	E*			
Townsville Breakwater Entertainment Centre Joint Venture	18.09.2017	E*			
Western Queensland Local Government Association	12.12.2017	E*			
Whitsunday ROC Limited	08.09.2017	U			
Audits by arrangement					
City of Ipswich Community Fund Trust	05.02.2018	E*			
Ipswich Carols by Candlelight Fund Inc.	05.02.2018	E*			
Ipswich Community Charity Fund Inc.	05.02.2018	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 the South West Queensland Local Government Association was 1 April 2016 to 31 March 2017.

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

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

∞ Ministerial approval was provided retrospectively.

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

Source: Queensland Audit Office.

Appendix F—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	16.08.2017	E*
Central Western Queensland Remote Area Planning and Development Board (RAPAD)	Walsh Accounting	16.10.2017	U
Far North Queensland Regional Organisation of Councils	Halpin Partners Pty Ltd	17.10.2017	E*
Gulf Savannah Development Inc.	Rekenen Accountants	07.12.2017	E*
Leichhardt Highway Promotions Association Inc.	VIDEN Group	14.09.2017	E*
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	13.09.2017	U
Palm Island Community Company Limited	Crowe Horwath	30.10.2017	E*
South West Regional Economic Development Association	Condon Treasure	11.12.2017	E*
Wide Bay Burnett Regional Organisation of Councils Inc	All Income Tax	17.11.2017	E*
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	30.08.2017	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 the North Queensland Local Government Association was 1 January 2017 to 31 December 2017. All the remaining entities have 30 June 2017 year ends.

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

Source: Queensland Audit Office

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

Entity	Parent entity	Reason
	Controlled entities	
Aurukun Community Foundation Ltd	Aurukun Shire Council	Dormant
Brisbane Tolling Pty Ltd	Brisbane City Council	Dormant
City Super Pty Ltd	Brisbane City Council	Dormant
Oxley Creek Transformation Pty Ltd	Brisbane City Council	Dormant
Riverfestival Brisbane Pty Ltd	Brisbane City Council	Dormant
Brisdev Pty Ltd	City of Brisbane Investment Corporation Pty Ltd	Dormant
CBIC Valley Heart 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	Wound up
Wide Bay Water Corporation	Fraser Coast Regional Council	Wound up
Widelinx Pty Ltd	Fraser Coast Regional Council	Non-reporting
Mary Valley Rattler Community Holdings Ltd	Gympie Regional Council	Non-reporting
Invest Logan Pty Ltd	Logan City Council	Dormant
Artspace Mackay Foundation Ltd	Mackay Regional Council	Dormant
Outback @ Isa Pty Ltd	Mount Isa 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	Wound up
Palm Island Economic Development Corporation	Palm Island Aboriginal Council	Dormant
Redheart Pty Ltd	Redland City Council	Dormant
Ava Terraces Pty Ltd	Redland Investment Corporation Pty Ltd	Dormant

Entity	Parent entity	Reason
RIC Toondah Pty Ltd	Redland Investment Corporation Pty Ltd	Non-reporting
Central Queensland Performing Arts Foundation	Rockhampton Regional Council	Wound up
The Rockhampton Art Gallery Trust	Rockhampton Regional Council	Wound up
Warwick Tourism and Events Pty Ltd	Southern Downs Regional Council	Wound up
Sunshine Coast Airport Pty Ltd	Sunshine Coast Regional Council	Dormant
Sunshine Coast Airport Trust	Sunshine Coast Regional Council	Dormant
Sunshine Coast Events Centre Pty Ltd	Sunshine Coast Regional Council	Non-reporting
Western Downs Housing Fund Pty Ltd	Western Downs Regional Council	Wound Up
Collinsville Independent Living Company Pty Ltd	Whitsunday 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
LGE Holding Company 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 H—Audit opinions issued for prior financial years

Entity	Audit certification date	Opinion
Financial statements from 2015–16 financial year—Councils		
Doomadgee Aboriginal Shire Council	19.07.2017	U
Northern Peninsula Area Regional Council	06.12.2017	Q
Woorabinda Aboriginal Shire Council	06.10.2017	U
Wujal Wujal Aboriginal Shire Council	05.04.2017	U
Financial statements from 2015–16 financial year—Controlled entities		
Jondaryan Woolshed Pty Ltd	Not complete	
Woorabinda Pastoral Company Pty Ltd	19.09.2017	Q E*
Gulf Savannah Development Inc.	22.05.2017	E*
Major Brisbane Festivals Pty Ltd+	31.05.2017	U
Brisbane Festival Ltd+	12.07.2017	U
North Queensland Local Government Association+	19.05.2017	E*
North West Queensland Regional Organisation of Councils	09.03.2017	U
South West Regional Economic Development Association	27.07.2017	E*

Entity	Date opinion issued	Opinion
Financial sustainability statements from 2015–16 financial year		
Doomadgee Aboriginal Shire Council	19.07.2017	U E*
Northern Peninsula Area Regional Council	06.12.2017	Q E*
Wujal Wujal Aboriginal Shire Council	06.10.2017	U E*
Woorabinda Aboriginal Shire Council	05.04.2017	U E*

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

\+ The financial year of Brisbane Festival Limited, Major Brisbane Festival Pty Ltd, and the North Queensland Local Government Association was 1 January 2016 to 31 December 2016.

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

Source: Queensland Audit Office.

Appendix I—Financial sustainability measures

Figure I1 details the ratios reflecting short-term and long-term sustainability.

Figure I1
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-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.		

* Department of Local Government, Racing and Multicultural Affairs (DLGRMA).

Source: Queensland Audit Office.

Figure I2 details our risk assessment criteria for financial sustainability measures.

Figure I2
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 I2, and the assignment of the criteria, as shown in Figure I3.

Figure I3
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 of more than 80 per cent of operating revenue, or ▪ an average asset sustainability ratio of less than 50 per cent, or ▪ average operating deficits (losses) of between two per cent and 10 per cent of operating revenue, or ▪ realising two or more of the ratios per the moderate risk assessment (Figure I2).
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 I4
Financial sustainability risk assessment by council category: Results at the end of 2016–17

Coastal councils	Current operating surplus ratio %	Avg. operating surplus ratio %	Avg. operating surplus ratio trend^		Net financial liabilities ratio %	Net financial liabilities ratio trend		Current asset sustainability ratio %	Avg. asset sustainability ratio %	Avg. asset sustainability ratio trend^		Relative risk assessment
Coastal councils												
Bundaberg Regional Council	10.06%	2.68%	●	↑	-8.87%	●	↑	82.00%	81.72%	●	–	Lower
Burdekin Shire Council	13.77%	9.41%	●	↑	-56.99%	●	↑	68.90%	112.09%	●	↓	Lower
Cairns Regional Council	2.21%	-0.18%	●	–	38.85%	●	↓	101.00%	107.56%	●	↓	Lower
Cassowary Coast Regional Council	-3.76%	0.21%	●	↓	-46.07%	●	–	61.00%	145.17%	●	↓	Lower
Douglas Shire Council*	-4.56%	-6.90%	●	–	-65.46%	●	↑	59.00%	97.26%	●	↓	Moderate
Fraser Coast Regional Council	12.69%	6.25%	●	↑	-44.88%	●	↑	73.68%	72.99%	●	–	Lower
Gladstone Regional Council	5.51%	2.97%	●	↓	9.98%	●	↑	44.00%	120.07%	●	↓	Lower
Gympie Regional Council	0.38%	2.40%	●	↓	-25.61%	●	↓	144.23%	143.61%	●	–	Lower
Hinchinbrook Shire Council	1.76%	-1.91%	●	–	-79.52%	●	↑	61.00%	97.59%	●	↓	Lower
Livingstone Shire Council*	2.51%	-4.63%	●	↑	58.35%	●	↓	48.00%	44.96%	●	↑	Moderate
Mackay Regional Council	-0.75%	-1.08%	●	↑	17.30%	●	↑	49.30%	79.57%	●	↓	Moderate
Noosa Shire Council*	9.16%	6.74%	●	–	-11.60%	●	↑	81.94%	66.81%	●	↑	Lower
Rockhampton Regional Council	4.37%	3.78%	●	↑	34.77%	●	↑	86.50%	76.29%	●	↑	Lower
Townsville City Council	-4.48%	0.31%	●	–	86.20%	●	↑	92.00%	91.70%	●	–	Moderate
Whitsunday Regional Council	0.94%	1.19%	●	–	-0.72%	●	↑	78.77%	67.41%	●	↑	Lower
Coastal average**	3.32%	1.42%			-6.28%			75.42%	93.65%			
Coastal—combined risk assessment		**Lower**			**Lower**				**Lower**			**Lower**

* De-amalgamated council (established 1 January 2014) average ratios are based on 42-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 2016–17 with the average ratio from 2015–16. Trends should be considered in conjunction with the Department of Local Government, Racing and Multicultural Affairs' set benchmarks, and the analysis performed and explained in Chapter 3.

Refer also to Figures I1, I2, and I3, which explain the financial sustainability measures and associated benchmarks.

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

Indigenous councils	Current operating surplus ratio %	Avg. operating surplus ratio %	Avg. operating surplus ratio trend^		Net financial liabilities ratio %	Net financial liabilities ratio trend		Current asset sustainability ratio %	Avg. asset sustainability ratio %	Avg. asset sustainability ratio trend^		Relative risk assessment
Indigenous councils												
Aurukun Shire Council	-19.39%	-8.95%	●	↓	-52.58%	●	↑	0.00%	114.01%	●	↓	Moderate
Cherbourg Aboriginal Shire Council	-31.08%	-18.62%	●	↓	-68.22%	●	↑	53.00%	75.85%	●	↓	Higher
Doomadgee Aboriginal Shire Council#	-13.64%	-7.18%	●	↑	-62.06%	●	↓	76.44%	45.25%	●	↑	Moderate
Hope Vale Aboriginal Shire Council	7.64%	9.65%	●	↓	-76.65%	●	↑	140.00%	110.57%	●	↑	Lower
Kowanyama Aboriginal Shire Council*	-36.68%	-30.66%	●	↓	-26.91%	●	↑	13.00%	89.00%	●	↓	Higher
Lockhart River Aboriginal Shire Council	-21.01%	-5.66%	●	↓	-56.68%	●	↑	355.00%	213.82%	●	↑	Moderate
Mapoon Aboriginal Shire Council	-7.33%	-13.16%	●	↑	-66.39%	●	↑	26.11%	36.95%	●	↓	Higher
Mornington Shire Council	-15.76%	-35.54%	●	↓	-64.44%	●	↓	272.00%	114.39%	●	↑	Higher
Napranum Aboriginal Shire Council	-10.46%	-16.61%	●	↓	-47.71%	●	↑	103.00%	69.93%	●	↑	Higher
Northern Peninsula Area Regional Council∞#	-5.00%	-31.18%	●	↑	-26.89%	●	↑	120.00%	35.25%	●	↑	Higher
Palm Island Aboriginal Shire Council	-44.24%	-8.56%	●	↓	-41.18%	●	↑	110.00%	204.30%	●	↓	Moderate
Pormpuraaw Aboriginal Shire Council	10.64%	-7.57%	●	↑	-122.96%	●	↑	100.00%	104.91%	●	↓	Moderate
Torres Shire Council	-2.65%	-13.79%	●	↓	-73.36%	●	↑	17.94%	51.04%	●	↓	Higher
Torres Strait Island Regional Council	-38.66%	-48.20%	●	–	-33.39%	●	↑	27.70%	44.94%	●	↓	Higher
Woorabinda Aboriginal Shire Council	-38.89%	-3.54%	●	↓	-48.57%	●	↓	8.16%	15.12%	●	↓	Moderate
Wujal Wujal Aboriginal Shire Council#	-15.00%.	-8.75%	●	↓	-36.61%	●	↓	42.00%	71.50%	●	↓	Moderate
Yarrabah Aboriginal Shire Council	-19.65%	-21.22%	●	–	-31.76%	●	↑	36.00%	54.55%	●	↓	Higher
Indigenous average**	-19.11%	-16.03%			-57.91%			90.14%	92.81%			
Indigenous—combined risk assessment		**Higher**			**Lower**				**Lower**			**Higher**

* This council's sustainability statement was qualified from 2010–11 to 2015–16. The qualification impacts the average operating surplus ratio.
∞ This council's sustainability statement was qualified from 2013–14 to 2015–16. The qualification impacts all three ratios, both current and average.
2016–17 audit for council is unfinished. The sustainability measures reported are based on audited financial statements up to 2015–16.
** Indigenous council average includes 2015–16 results for unfinished councils.
^ Average ratio trend compares the average ratio from 2016–17 with the average ratio from 2015–16. Trends should be considered in conjunction with the Department of Local Government, Racing and Multicultural Affairs' set benchmarks, and the analysis performed and explained in Chapter 3.
Refer also to Figures I1, I2, and I3, which explain the financial sustainability measures and associated benchmarks.
Legend: ↑ An improving trend; – No substantial change; ↓ A deteriorating trend.

Resources councils	Current operating surplus ratio %	Avg. operating surplus ratio %	Avg. operating surplus ratio trend^		Net financial liabilities ratio %	Net financial liabilities ratio trend		Current asset sustainability ratio %	Avg. asset sustainability ratio %	Avg. asset sustainability ratio trend^		Relative risk assessment
Resources councils												
Banana Shire Council	3.56%	1.24%	●	–	6.74%	●	↑	84.28%	108.17%	●	↓	Lower
Barcoo Shire Council	-10.95%	-5.71%	●	↓	-51.51%	●	↓	124.26%	108.09%	●	↑	Moderate
Bulloo Shire Council	17.88%	-5.74%	●	–	-80.40%	●	↑	94.00%	212.88%	●	↓	Moderate
Burke Shire Council***	11.04%	-10.63%	●	↑	-81.15%	●	↓	90.00%	100.40%	●	↓	Higher
Central Highlands Regional Council	4.54%	10.62%	●	↑	-45.02%	●	↓	92.56%	93.46%	●	–	Lower
Charters Towers Regional Council	1.85%	-5.96%	●	↓	-83.05%	●	–	112.00%	110.68%	●	–	Moderate
Cloncurry Shire Council	2.61%	2.79%	●	–	-41.87%	●	↓	283.00%	150.62%	●	↑	Lower
Cook Shire Council	-27.64%	-41.88%	●	↓	-15.51%	●	↓	376.75%	305.44%	●	↑	Higher
Etheridge Shire Council	-21.16%	-9.40%	●	↓	-91.57%	●	↓	16.10%	105.73%	●	↓	Moderate
Isaac Regional Council	4.23%	-0.06%	●	↓	-60.61%	●	↑	151.71%	196.26%	●	↓	Lower
Maranoa Regional Council	-3.23%	-7.20%	●	↓	-63.30%	●	↓	39.32%	65.59%	●	↓	Moderate
McKinlay Shire Council	18.06%	-3.60%	●	↑	-68.01%	●	↓	324.80%	200.93%	●	↑	Moderate
Mount Isa City Council	12.78%	3.66%	●	↑	-32.54%	●	↑	34.31%	115.71%	●	↓	Lower
Quilpie Shire Council	13.38%	5.23%	●	↑	-92.85%	●	↑	71.00%	130.54%	●	↓	Lower
Western Downs Regional Council	10.94%	4.80%	●	–	-51.84%	●	↑	98.18%	172.81%	●	↓	Lower
Resources average	2.53%	-4.12%			-56.83%			132.82%	145.15%			
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 impacts the average ratio calculation for this measure.

^ Average ratio trend compares the average ratio from 2016–17 with the average ratio from 2015–16. Trends should be considered in conjunction with the Department of Local Government, Racing and Multicultural Affairs' set benchmarks, and the analysis performed and explained in Chapter 3.

Refer also to Figures I1, I2, and I3, which explain the financial sustainability measures and associated benchmarks.

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

Rural/Regional councils	Current operating surplus ratio %	Avg. operating surplus ratio %	Avg. operating surplus ratio trend^		Net financial liabilities ratio %	Net financial liabilities ratio trend		Current asset sustainability ratio %	Avg. asset sustainability ratio %	Avg. asset sustainability ratio trend^		Relative risk assessment
Rural/Regional councils												
Goondiwindi Regional Council	9.78%	2.24%	●	–	-72.81%	●	↑	90.80%	98.14%	●	↓	Lower
Lockyer Valley Regional Council	8.79%	-6.12%	●	↑	60.15%	●	↑	89.49%	101.98%	●	↓	Moderate
Mareeba Shire Council*	20.97%	7.20%	●	↑	-56.90%	●	↑	291.00%	156.75%	●	↑	Lower
North Burnett Regional Council	7.15%	-9.08%	●	↑	-44.21%	●	↑	126.81%	164.48%	●	↓	Moderate
Scenic Rim Regional Council	11.48%	6.51%	●	↑	-6.84%	●	↑	159.00%	332.89%	●	↓	Lower
Somerset Regional Council	5.40%	3.86%	●	↑	-172.68%	●	↓	130.00%	348.81%	●	↓	Lower
South Burnett Regional Council∞	4.62%	-2.33%	●	↑	32.73%	●	↑	88.70%	166.90%	●	↓	Moderate
Southern Downs Regional Council	16.70%	-1.49%	●	↑	-6.03%	●	↑	105.40%	99.96%	●	↑	Lower
Tablelands Regional Council	10.91%	-2.84%	●	–	-40.79%	●	↑	114.42%	104.43%	●	↑	Moderate
Rural/Regional average**	10.64%	-0.23%			-34.15%			132.85%	174.93%			
Rural/Regional—combined risk assessment		**Moderate**			**Lower**				**Lower**			**Lower**

* De-amalgamated council (established 1 January 2014) average ratios are based on 42-month actual financial results. Refer to Chapter 3 for further ratio analysis.

∞ This council's sustainability statement was qualified in 2013–14. The qualification impacts the average operating surplus ratio and average asset sustainability ratio.

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

^ Average ratio trend compares the average ratio from 2016–17 with the average ratio from 2015–16. Trends should be considered in conjunction with the Department of Local Government, Racing and Multicultural Affairs' set benchmarks, and the analysis performed and explained in Chapter 3.

Refer also to Figures I1, I2, and I3, which explain the financial sustainability measures and associated benchmarks.

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

Rural/Remote councils	Current operating surplus ratio %	Avg. operating surplus ratio %	Avg. operating surplus ratio trend^		Net financial liabilities ratio %	Net financial liabilities ratio trend		Current asset sustainability ratio %	Avg. asset sustainability ratio %	Avg. asset sustainability ratio trend^		Relative risk assessment
Rural/Remote councils												
Balonne Shire Council	-1.09%	-9.37%	●	↓	-84.12%	●	↑	31.68%	163.65%	●	↓	Moderate
Barcaldine Regional Council	-8.61%	-7.81%	●	↓	-79.89%	●	–	142.98%	108.32%	●	↑	Moderate
Blackall-Tambo Regional Council	2.06%	-7.48%	●	–	-57.04%	●	↑	84.00%	102.20%	●	↓	Moderate
Boulia Shire Council	2.85%	-6.28%	●	↓	-80.05%	●	↑	10.82%	86.51%	●	↓	Moderate
Carpentaria Shire Council	1.94%	0.23%	●	–	-27.78%	●	↑	88.20%	100.74%	●	↓	Lower
Croydon Shire Council	9.13%	5.27%	●	–	-122.58%	●	↓	89.00%	121.09%	●	↓	Lower
Diamantina Shire Council	-21.37%	-4.44%	●	↓	-78.02%	●	↓	156.81%	210.14%	●	↓	Moderate
Flinders Shire Council	23.24%	8.53%	●	–	-78.98%	●	↓	143.97%	162.20%	●	↓	Lower
Longreach Regional Council	19.01%	4.16%	●	↑	-50.02%	●	↓	160.92%	158.71%	●	–	Lower
Murweh Shire Council	7.76%	-6.33%	●	↑	-13.56%	●	↑	151.00%	437.57%	●	↓	Moderate
Paroo Shire Council***	-8.71%	-18.21%	●	↓	-31.96%	●	↑	55.13%	303.11%	●	↓	Higher
Richmond Shire Council	-10.13%	-10.55%	●	↓	-36.83%	●	↓	194.93%	171.59%	●	↑	Higher
Winton Shire Council	10.30%	9.69%	●	↑	-184.37%	●	↓	126.21%	186.16%	●	↓	Lower
Rural/Remote average	2.03%	-3.28%			-71.17%			110.43%	177.85%			
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 2016–17 with the average ratio from 2015–16. Trends should be considered in conjunction with the Department of Local Government, Racing and Multicultural Affairs' set benchmarks, and the analysis performed and explained in Chapter 3.

Refer also to Figures I1, I2, and I3, which explain the financial sustainability measures and associated benchmarks.

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

South East Queensland councils	Current operating surplus ratio %	Avg. operating surplus ratio %	Avg. operating surplus ratio trend^		Net financial liabilities ratio %	Net financial liabilities ratio trend		Current asset sustainability ratio %	Avg. asset sustainability ratio %	Avg. asset sustainability ratio trend^		Relative risk assessment
South East Queensland (SEQ) councils												
Brisbane City Council	10.09%	1.08%	●	↑	66.55%	●	↑	82.50%	73.85%	●	↑	Moderate
Council of the City of Gold Coast	1.58%	-3.02%	●	↑	-15.36%	●	↑	49.60%	40.48%	●	↑	Moderate
Ipswich City Council	18.20%	6.53%	●	↑	62.59%	●	↑	67.74%	80.41%	●	↓	Moderate
Logan City Council	6.48%	4.02%	●	–	-13.24%	●	↑	86.40%	79.14%	●	↑	Lower
Moreton Bay Regional Council	25.98%	16.96%	●	↑	3.87%	●	↑	59.90%	68.39%	●	↓	Lower
Redland City Council	-4.25%	-0.35%	●	–	-33.12%	●	–	53.22%	39.63%	●	↑	Moderate
Sunshine Coast Regional Council	12.99%	11.06%	●	↑	-0.49%	●	↑	83.00%	74.89%	●	↑	Lower
Toowoomba Regional Council	2.35%	0.39%	●	–	49.26%	●	↑	44.27%	126.32%	●	↓	Lower
SEQ average	9.18%	4.59%			15.01%			65.83%	72.89%			
SEQ—combined risk assessment		**Lower**			**Lower**				**Moderate**			**Lower**

^ Average ratio trend compares the average ratio from 2016–17 with the average ratio from 2015–16. Trends should be considered in conjunction with the Department of Local Government, Racing and Multicultural Affairs' set benchmarks, and the analysis performed and explained in Chapter 3.

Refer also to Figures I1, I2, and I3, which explain the financial sustainability measures and associated benchmarks.

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

Source: Queensland Audit Office

Appendix J—Our assessment of financial governance

Auditing internal controls

Internal controls are designed, implemented, and maintained by entities to mitigate risks that may prevent them from achieving reliable financial reporting, effective and efficient operations, and compliance with applicable laws and regulations.

In undertaking our audit, we are required under the Australian auditing standards to obtain an understanding of an entity's internal controls relevant to the preparation of the financial report.

We assess internal controls to ensure they are suitably designed to prevent, or detect and correct, material misstatements in the financial report, and achieve compliance with legislative requirements and appropriate use of public resources.

Our assessment determines the nature, timing, and extent of testing we perform to address the management assertions at risk of material misstatement in the financial statements.

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

- significance of the related risks
- characteristics of balances, transactions, or disclosures (volume, value, and complexity)
- nature and complexity of the entity's information systems
- whether the design of the controls addresses the management assertions at risk and facilitates an efficient audit.

Where we identify deficiencies in internal controls, we determine the impact on our audit approach, considering whether additional audit procedures are necessary to address the risk of material misstatement in the financial statements.

Our audit procedures are designed to address the risk of material misstatement, so we can express an opinion on the financial report. We do not express an opinion on the effectiveness of internal controls.

Internal controls framework

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

The framework identifies five components for a successful internal control system. These components are explained in the following paragraphs.

Control environment

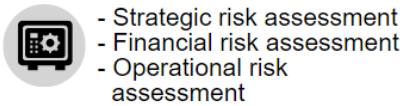
- Cultures & values
- Governance
- Organisational structure
- Policies
- Qualified & skilled people
- Management's integrity & operating style

The control environment is defined as the structures, policies, attitudes, and values that influence day-to-day operations. As the control environment is closely linked to an entity's overarching governance and culture, it is important that the control environment provides a strong foundation for the other components of internal control.

In assessing the design and implementation of the control environment we consider whether:

- those charged with governance are independent, appropriately qualified, experienced, and active in challenging management, ensuring they receive the right information at the right time to enable informed decision-making
- policies and procedures are established and communicated so people with the right qualifications and experiences are recruited, they understand their role in the organisation, and they also understand management's expectations towards internal controls, financial reporting, and misconduct, including fraud.

Risk assessment



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

To achieve appropriate management of business risks, management can either accept the risk, if it is minor, or mitigate the risk to an acceptable level by implementing appropriately designed controls. Risks can also be eliminated entirely by choosing to exit from a risky business venture.

Control activities

Control activities are the actions taken to implement policies and procedures in accordance with management directives and ensure identified risks are addressed. 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 be categorised into general information technology controls, automated controls and manual controls.

General information technology controls

General information technology controls form the basis of the automated systems control environment. They include controls over information systems security, user access, and system changes. These controls address the risk of unauthorised access and changes to systems and data.

Automated control activities

Automated controls are embedded within information technology systems. These controls can improve timeliness, availability, and accuracy of information by consistently applying predefined business rules. They enable entities to perform complex calculations in processing large volumes of transactions and improve the effectiveness of financial delegations and segregation of duties.

Manual control activities

Manual controls contain a human element, which can provide the opportunity to assess the reasonableness and appropriateness of transactions. However, these controls may be less reliable than automated elements as 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 information technology systems.

Information and communication

- Non-financial systems
- Financial systems
- Reporting systems

Information and communication controls are the systems used to provide information to employees, and the ways that control how 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.

Monitoring activities

- 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. This may be achieved through 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 responsible for implementing controls and resolving control deficiencies. These two functions work together to ensure that internal control deficiencies are identified and then resolved in a timely manner.

Assessment of internal controls

Our assessment of internal control effectiveness is based on the number of deficiencies and significant deficiencies identified during our audit. We assess each of the five components of a successful internal control system separately.

Rating scale	Assessment criteria—Internal controls
Effective	No significant deficiencies identified in internal controls, so we can rely on internal controls to prevent, or detect and correct, material misstatements in the financial statements
Partially effective	One significant deficiency identified in internal controls such that we are not able to rely on that internal control to prevent, or detect and correct, material misstatements in the financial statements
Ineffective	Where more than one significant deficiency is identified in internal controls we are not able to rely on internal controls to prevent, or detect and correct, material misstatements in the financial statements.

The deficiencies detailed in this report were identified during our audit and may have been subsequently resolved by the entity. They are reported here because they impacted the overall system of control during 2016–17.

Financial statement preparation

Our assessment of the effectiveness of financial statement preparation processes involved considering three components—the year end close process, and the timeliness, and quality of financial statements.

We assess financial statement preparation processes under the following criteria.

Year end close process

Local government entities should have a robust year end close process to enhance the quality and timeliness of the financial reporting processes. We identified five outcomes for entities to achieve. Early completion of these items means an entity has less risk that a financial report is not cleared in time for council signature, and certification by audit is achieved within statutory or agreed milestones. This year we assessed the following processes for year end financial statement preparation against agreed dates:

- preparation of pro-forma financial statements
- resolution of known accounting issues
- completion of non-current asset valuations
- final draft financial statements completed and reviewed
- final financial statement workpapers completed and reviewed.

Rating scale	Assessment criteria—Year end close process
● Effective	All key processes completed by the agreed date
● Generally effective	Three to four key processes completed by the agreed date
● Ineffective	Less than three key processes completed by the agreed date

Timeliness of financial statements

We assessed the timeliness of financial statements by comparing the date the independent auditors' report was issued against the legislative deadline of 31 October.

Rating scale	Assessment criteria—Timeliness of financial statements
● Timely	On or before 19 October
● Legally compliant	Between 20 October and 31 October
● Not timely	After 31 October

Note: Where the Minister for Local Government, Racing and Multicultural Affairs granted an extension of time to complete the financial statements and the council met this revised date, we assessed this as legally compliant, 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 not timely.

Quality of draft financial statements

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

Rating scale	Assessment criteria—Quality of draft financial statements
● Good	Adjustments across each of the three components were less than one per cent
● Average	Adjustments for at least one of the three components of total revenue, total expenses, and net assets were between one 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 of total revenue, total expenses, and net assets were greater than five per cent

Financial sustainability relative risk assessment

The detailed criteria for assessing a council's financial sustainability are explained in Appendix I—Figures I1 and I2. The overall assessment criteria is shown in Figure I3. Colours used for the overall risk levels are lower risk (green), moderate risk (amber), and higher risk (red).

Result summary

The following tables summarise the results of our assessment of the 77 councils' internal controls by council segment.

Council	Internal controls[1]					Financial statement preparation[2]			Financial sustainability[3]
Coastal councils	CE	RA	CA	IC	MA	T	Q	EOFY	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—Control activities; IC—Information and communication; MA—Monitoring activities.
2 T—Timeliness; Q—Quality; EOFY—Year end processes.
3 FS—Financial sustainability—relative risk assessment (refer Figure I4).

Council	Internal controls[1]					Financial statement preparation[2]			Financial sustainability[3]
Indigenous councils	CE	RA	CA	IC	MA	T	Q	EOFY	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—Control activities; IC—Information and communication; MA—Monitoring activities.
2 T—Timeliness; Q—Quality; EOFY—Year end processes.
3 FS—Financial sustainability—relative risk assessment (refer Figure I4).
2016—17 audit for these councils is unfinished.

Council	Internal controls[1]					Financial statement preparation[2]			Financial sustainability[3]
Resources councils	CE	RA	CA	IC	MA	T	Q	EOFY	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—Control activities; IC—Information and communication; MA—Monitoring activities.
[2] T—Timeliness; Q—Quality; EOFY—Year end processes.
[3] FS—Financial sustainability—relative risk assessment (refer Figure I4).

Council	Internal controls[1]					Financial statement preparation[2]			Financial sustainability[3]
Rural/Regional councils	CE	RA	CA	IC	MA	T	Q	EOFY	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—Control activities; IC—Information and communication; MA—Monitoring activities.
2 T—Timeliness; Q—Quality; EOFY—Year end processes.
3 FS—Financial sustainability—relative risk assessment (refer Figure I4).

Council	Internal controls[1]					Financial statement preparation[2]			Financial sustainability[3]
Rural/Remote councils	CE	RA	CA	IC	MA	T	Q	EOFY	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—Control activities; IC—Information and communication; MA—Monitoring activities.
2 T—Timeliness; Q—Quality; EOFY—Year end processes.
3 FS—Financial sustainability—relative risk assessment (refer Figure I4).

Council	Internal controls[1]					Financial statement preparation[2]			Financial sustainability[3]
South East Queensland (SEQ) councils	CE	RA	CA	IC	MA	T	Q	EOFY	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—Control activities; IC—Information and communication; MA—Monitoring activities.
2 T—Timeliness; Q—Quality; EOFY—Year end processes.
3 FS—Financial sustainability—relative risk assessment (refer Figure I4).

Source: Queensland Audit Office.

Appendix K—Questions for management in reviewing asset valuations

Infrastructure assets are essential to the delivery of local government services, and are highly material. The correct valuation of these assets will allow councils to use this information to support decision making on their future management. The accounting standards require that infrastructure assets are reported at fair value. Councils most often employ valuers to perform the assessment of fair value for them. The following questions will aid management in their review and understanding of comprehensive and indexation valuations.

Questions for Management
Where a comprehensive revaluation has been performed: Have you engaged directly with the valuer to understand the valuation report and key movements in asset values? For example: ▪ Has the valuer performed the work in accordance with agreed terms? ▪ Was a physical inspection of assets undertaken that amended their condition assessment? Is this consistent with your knowledge of your assets? ▪ Has there been a change in the asset useful lives applied by the valuer? Is this consistent with your historic use of these assets? ▪ Did the assumptions, valuation technique, or inputs change from prior valuations? Is this reasonable? ▪ Is there benchmark data to support the assumptions the valuers have adopted? ▪ Do the unit rates applied in the revaluation fall within a range of prices from recent projects? ▪ Where a material difference is noted to asset values following the revaluation exercise, has this been assessed for potential prior period errors? Are the explanations obtained reasonable given your knowledge of your assets? Where indexation is used: ▪ Can you explain why the index developed or used is appropriate? Do you know the inputs used in creating the index? ▪ Can you explain the reason for the movement in the index? ▪ If your policy is to only adjust when there is a material movement, does it meet your expectations that there has or has not been a material movement? ▪ If you have indexed over the last few years, has the movement cumulatively been material? ▪ Have you compared the index movement to projects undertaken over the period of the index?

Appendix L—Glossary

Term	Definition
Accountability	Responsibility of public sector entities to achieve their objectives of reliable financial reporting, effective and efficient operations, compliance with applicable laws, and reporting to interested parties.
Acquisition	Establishing control of an asset, undertaking the risks and receiving the rights to future benefits as would be conferred with ownership, in exchange for the cost of procurement.
Asset valuation	The process of determining the fair value of an asset.
Audit by-arrangement	An audit by the auditor-general of an entity that is not a public sector entity, conducted at the request of a minister or a public sector entity and with the consent of the entity.
Audit committee	A committee intended to assist the council or board in discharging their obligations. Duties and responsibilities can involve oversight of all or a combination of the following: ▪ effectiveness and reliability of internal controls ▪ quality and integrity of accounting and reporting practices ▪ effectiveness of performance management ▪ legal and regulatory compliance ▪ auditor's qualifications and independence ▪ performance of the internal audit function and of external auditors.
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.
Auditor's opinion	A written expression of the auditor's overall conclusion on the financial report based on audit evidence obtained.
Australian accounting standards	The rules by which financial statements are prepared in Australia. These standards ensure consistency in measuring and reporting on similar transactions.
Australian Accounting Standards Board (AASB)	An Australian Government agency that develops and maintains accounting standards applicable to entities in the private and public sectors of the Australian economy.
Capital expenditure	Expenditure to acquire assets or improve the service potential of existing assets. It is reported in an entity's balance sheet.
Contingent liability	A potential liability that may occur, depending on the outcome of an uncertain future event.
Controlled entity	Entity owned by one or more public sector entities.
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.

Term	Definition
Discount rate	Interest rate used to translate a future value into today's dollars (that is, a present-day value).
Emphasis of matter	A paragraph included with an audit opinion to highlight an issue of which the auditor believes the users of the financial statements need to be aware. The inclusion of an emphasis of matter paragraph does not modify the audit opinion.
Fair value	The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.
Financial statement	Report on an entity's financial performance over a period of time, and financial position at a point in time, prepared in accordance with a financial reporting framework. This includes a profit and loss statement, balance sheet, cash flow statement, a statement of changes in equity, and accompanying notes disclosing how amounts have been recognised and measured.
Financial sustainability	The ability to meet current and future expenditures as they arise and capacity to absorb foreseeable changes and emerging risks.
Fraud	Any act or omission, including a misrepresentation, that knowingly or recklessly misleads, or attempts to mislead, a party to obtain a financial or other benefit or to avoid an obligation.
Going concern	An entity is expected to be able to pay its debts as and when they fall due, and to continue to operate without any intention or necessity to liquidate or wind up its operations.
Governance	The arrangements in place at an entity to plan, direct, and control its activities to achieve its strategic and operational goals.
Internal audit	An appraisal activity established or provided as a service to an entity. Its functions include examining, evaluating, and monitoring the adequacy and effectiveness of internal control, and reporting deficiencies to management.
Legislative time frame	The date that is prescribed by legislation or date granted by the Minister for Local Government, Racing and Multicultural Affairs for a council to finalise its financial statements or annual report.
Management	Those with the executive responsibility for conducting an entity's operations.
Material misstatement	An error or omission from an entity's financial statements that has the potential to influence the decisions made by users 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 be in accordance with the applicable financial reporting framework. Misstatements can arise from error or fraud.

Term	Definition
Modified audit opinion	A modified opinion is expressed when financial statements do not comply with the relevant legislative requirements and Australian accounting standards, and are not accurate and reliable. There are three types of modified audit opinions—qualified, adverse, and disclaimer—and their use depends on circumstances and the severity of non-compliance.
Net assets	Total assets less total liabilities.
Net result	Calculated by subtracting an entity's total expenses from its total revenue. The net result is designed to show what the entity has earned or lost in a given period of time.
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, meaning that the cost of the asset can be allocated over the number of years for which the asset will be in use, instead of allocating the entire cost to the financial year in which the asset was purchased.
Operating result	Calculated by subtracting continuing operations expenses from continuing operations revenue to show what the entity has earned or lost in a given period of time.
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 taken into account in preparing the financial statements.
Procurement	The acquisition of goods, services, or works from an external source.
Public sector entity	A department, statutory body, government owned entity, local government, or a controlled entity.
Qualified audit opinion	Opinion issued when financial statements as a whole comply with relevant accounting standards and legislative requirements, with the exceptions noted in the opinion. These exceptions could be the effect of a disagreement with those charged with governance, a conflict between applicable financial reporting frameworks, or a limitation on scope that is considered material to an element of the financial report.
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.
Significant deficiency	A deficiency, or combination of deficiencies, in internal control that requires immediate remedial action.
Special purpose financial statements	Financial statements that are designed to meet the financial information needs of a specific group of users.
Unmodified audit opinion	An unmodified opinion is expressed when financial statements are prepared in accordance with the relevant legislative requirements and Australian accounting standards.
Useful life	The number of years an entity expects to use an asset (not the maximum period possible for the asset to exist).

Auditor-General reports to parliament

Reports tabled in 2017–18

Number	Title	Date tabled in Legislative Assembly
1.	Follow-up of Report 15: 2013–14 Environmental regulation of the resources and waste industries	September 2017
2.	Managing the mental health of Queensland Police employees	October 2017
3.	Rail and ports: 2016–17 results of financial audits	December 2017
4.	Integrated transport planning	December 2017
5.	Water: 2016–17 results of financial audits	December 2017
6.	Fraud risk management	February 2018
7.	Health: 2016–17 results of financial audits	February 2018
8.	Confidentiality and disclosure of government contracts	February 2018
9.	Energy: 2016–17 results of financial audits	February 2018
10.	Finalising unpaid fines	February 2018
11.	Queensland state government: 2016–17 results of financial audits	February 2018
12.	Investing for success	March 2018
13.	Local government entities: 2016–17 results of financial audits	March 2018

Contact the Queensland Audit Office