

Auditor-General of Queensland

Report to Parliament No. 1 for 2009
Results of local government audits

Financial and Compliance Audits



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Auditor-General of Queensland

May 2009

The Honourable R J Mickel MP
Speaker of the Legislative Assembly
Parliament House
BRISBANE QLD 4000

Dear Mr Speaker

This report is prepared under Part 6 Division 3 of the *Financial Administration and Audit Act 1977*, and is on the results of local government audits. It is the first in the series of Auditor-General's Reports to Parliament for 2009.

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

Yours sincerely



Glenn Poole
Auditor-General



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Executive summary

1.1 Introduction

Local governments play an important role in improving the liveability and sustainability of Queensland's communities by providing many of the services and facilities used every day. The financial reports produced by local governments are essential in assisting councils to be accountable about how ratepayers' funds are spent.

Since the local government reform process in March 2008, financial reporting by local governments has been staggered. Local governments which were abolished at 14 March 2008 were required to report on the period 1 July 2007 to 14 March 2008. The local governments not abolished at that time produced financial statements for the period 1 July 2007 to 30 June 2008. The reporting period of the regional councils created as a result of the reform will be from 15 March 2008 to 30 June 2009. It will not be until the 2009-10 financial year that all local governments will be reporting once more on the same financial period.

This environment has created difficulties in reporting on the state of the audits of the local government sector as a whole. This report provides the status of all local government entity audits completed at 30 April 2009 and not previously reported, including abolished and continuing local government entities. This report also includes a summary of the preliminary audit results for the new regional councils.

The responsibility for local government policy has also changed following the March 2009 state election, with the merger of the Department of Local Government, Sport and Recreation into the Department of Infrastructure and Planning.

Figure 1A shows the current status of financial reports for local government entities.

Figure 1A : Status of financial statements for local government entities

Entity type	Financial reporting period	Total number of entities	Previously reported	Unmodified auditor's opinion issued	Modified auditor's opinion issued	Auditor's opinion not yet issued
Continuing local government entities (2007-08)	01.07.2007 to 30.06.2008	118	0	83	7	28
Abolished local government entities (2007-08)	01.07.2007 to 14.03.2008	127	82	0	31*	14
Local government entities (2006-07)	01.07.2006 to 30.06.2007	253	246	0	5	2

* All abolished local governments were issued with an emphasis of matter in relation to going concern.

While overall, the audits of the majority of local governments included in this report had no major findings, some significant issues have been raised in relation to inadequate financial management at certain Aboriginal Shire councils and the timeliness and quality of financial reports.

1.2 Significant issues

Timeliness and quality of information

The usefulness of financial reports to the community is affected by the quality of the information contained in them and the time it takes to produce the reports.

It is not acceptable that financial statements for 14 councils which were abolished on 14 March 2008 still do not have auditors' opinions issued some 12 months later because the statements have not been made available for audit. The lack of timeliness compromises the value of these reports to the community to which the local government was accountable.

Only two auditors' opinions have been issued for the 2007-08 financial statements for 12 Aboriginal Shire councils. This in itself indicates that there is still considerable work to be done by the government and these councils to improve the timeliness and quality of their financial reporting.

In addition to the ongoing challenge of improving the timeliness and quality of financial statements, implementing the requirements for accounting for infrastructure assets will also test Aboriginal Shire councils in 2009. These councils will need to identify, value and record their infrastructure assets for the first time in their 2008-09 financial statements. This will be a substantial task. Based on the current state of asset registers in these councils, the Department of Infrastructure and Planning as the responsible agency will need to provide assistance for councils to be able to achieve this new requirement.

Inadequate financial management at Aboriginal Shire councils

Inadequate financial management is a significant ongoing problem at Aboriginal Shire councils.

As outlined in Section 7.1 of this report, Report to Parliament No. 3 for 2006 recommended that urgent action be taken to achieve improvement to financial management of these councils. Since 2006, the former Department of Local Government, Sport and Recreation responded on these recommendations with various improvement strategies to address these issues. There is little evidence of success of these strategies.

By this time last year, auditors' opinions had been issued for at least six Aboriginal Shire councils. This year, auditors' opinions for only two Aboriginal Shire councils have been issued. This indicates there is a continuing and seemingly worsening pattern of untimely and often poor quality financial reporting.

The poor financial management performance of many of these councils has been a matter of audit concern for many years. The fact that the Crime and Misconduct Commission (CMC) has advised that it is unable to undertake investigative action in relation to two councils where misconduct was suspected highlights the extent of the poor financial management. The CMC decision was based on the lack of adequate records held by the councils. This absence of financial records also seriously impacted on the audit activity.

I urge the government to increase the priority given to action designed to achieve immediate as well as long term improvements in financial management for those Aboriginal Shire councils which continue to receive a modified auditor's opinion.

2 Results of audits

Summary

Background

The local government sector in Queensland was reformed in 2008 with 157 councils being reduced to 73 through the amalgamation of a number of councils. In total 127 local government entities were abolished. The reform resulted in two different financial periods for the 2007-08 financial statements for local governments.

The 30 local governments, 12 Aboriginal Shire councils and 76 other local government entities not affected by the reform were required to prepare annual financial statements at 30 June 2008 for the full financial year.

Of the 127 local government entities abolished as part of the reform, there were 45 reported as not having finalised the preparation of their financial statements for audit for the period to 14 March 2008 when the status of these entities was last reported in Report to Parliament No. 9 for 2008. The status of these 45 local government entities is included in this report.

In addition, the 2006-07 financial statements for seven local government entities had previously been reported to parliament as unfinalised as an auditor's opinion had not been issued.

Key findings

- The financial statements of 90 of the 118 local government entities not affected by the reform have been audited and an auditors' opinion issued. Seven of the 90 have been issued with modified auditor's opinions.
- Financial statements for the period to 14 March 2008 for 14 of the 127 local government entities abolished as part of the reform are still not available for audit. Of the 14 councils, six have been merged into the North Burnett Regional Council and three into the Torres Strait Island Regional Council.
- Modified auditors' opinions have been issued on the 2006-07 financial statements of five of the seven local government entities previously reported as outstanding.

2.1 Introduction

In 2007, the Queensland Government established an independent Local Government Reform Commission to make recommendations on the most appropriate structure and boundaries for local government in Queensland. All local governments excluding Brisbane City Council were reviewed by the independent commission.

On 27 July 2007, the commission provided its recommendations to the Queensland Government on the name, class, boundary and electoral arrangements for the new local government areas in Queensland.

The commission recommended:

- consolidation of Queensland councils through amalgamation from 157 to 73
- South East Queensland councils be consolidated from 17 to ten councils
- no boundary change to 37 council areas
- no amalgamation of large western councils
- formation of the Torres Strait Island Regional Council and the Northern Peninsula Area Regional Council involving Aboriginal Shire and Torres Strait Island councils
- no change to the remaining Aboriginal Shire councils.

The Queensland Government accepted the independent commission's boundary recommendations which took effect at the local government elections on 15 March 2008.

The 127 local government entities abolished because of the reform were required to produce financial statements for the period 1 July 2007 to 14 March 2008. Report to Parliament No. 9 for 2008 reported on the completed and audited financial statements of 82 of these entities which had been finalised. The status of the remaining 45 financial statements is discussed in Section 2.3.2 of this report. All Torres Strait Island councils were abolished in the reform.

There were 30 local governments, 12 Aboriginal Shire councils and 76 joint local governments, joint public sector entities and controlled entities not affected by the reform process which were required to produce 2007-08 financial statements for audit. The results of the audits of these financial statements are included in Section 2.3.1 of this report.

Report to Parliament No. 9 for 2008 reported that an auditor's opinion had not yet been issued on the 2006-07 financial statements for seven local government entities including Aboriginal Shire councils and Torres Strait Island councils. The status of these financial statements is discussed in Section 2.3.3 of this report.

2.2 Reporting framework

Local governments in Queensland are governed by the *Local Government Act 1993* apart from the Brisbane City Council which is governed by the *City of Brisbane Act 1924*. The legislation requires the Auditor-General to prepare a report on any audit of a local government. Copies of that audit report are to be given to the Mayor who must table a copy of the report at the next ordinary meeting of the local government. These acts require that copies of the audit report must also be given to the chief executive officer of the local government as well as the Minister.

The legislation requires the Auditor-General, as part of the annual audit, to examine each local government's annual financial statements and provide an independent audit report on those financial statements. The audited financial statements, with the independent audit report, must be included in the local government's annual report. The annual report is to be presented to the local government for adoption before 30 November unless an extension is granted by the Minister.

Aboriginal Shire councils are local governments as defined by the Local Government Act and are governed by the *Local Government (Community Government Areas) Act 2004*, and the *Local Government (Community Government Areas) Finance Standard 2004*. The provisions of the Local Government Act apply except where stated in the Local Government (Community Government Areas) Act. This legislation requires the Auditor-General to prepare a report on any audit of an Aboriginal Shire council. A copy of that audit report is to be given to the Mayor who must table the report at the next ordinary meeting of the council.

2.3 Auditors' opinions issued

For all local government audits where an auditor's opinion has been issued, a report has been issued and forwarded to the respective Mayor or Chairperson in terms of s.530 of the Local Government Act and s.126 of the City of Brisbane Act.

2.3.1 2007-08 financial statements for entities with 30 June 2008 year end

One hundred and eighteen local government entities were not abolished by the 2007 reform process. The status of audit certification of these financial statements is shown in the figure below.

Figure 2A : 2007-08 financial statement certification

Entity Type	Total	Unmodified auditor's opinion issued	Modified auditor's opinion issued	Auditor's opinion not yet issued
Local governments	30	25	1	4
Joint local governments	2	2	0	0
Aboriginal Shire councils	12	1	1	10
Controlled entities	49	37	4	8
Joint controlled entities	23	16	1	6
Audited by arrangement	2	2	0	0
Total local government entities	118	83	7	28

Information about when the financial statements were signed by management and the auditor's opinion issued can be found in Section 8.1 of this report.

Of the 90 entities where the financial statements had been audited and an auditor's opinion issued at 30 April 2009, all but seven as outlined below were issued with unmodified auditors' opinions.

A qualified auditor's opinion was issued for Woorabinda Pastoral Company Pty Ltd. The company did not undertake a stocktake of its breeding cattle, and therefore the value of stock reported in the financial statements could not be supported.

A qualified auditor's opinion was issued for Warwick Tourism and Events Pty Ltd due to a qualification in the prior year on the completeness of certain closing balances. A qualified auditor's opinion was also issued for Local Buy Trading Trust, a controlled entity of the Local Government Association of Queensland, due to a technical issue associated with revenue recognition.

A qualified auditor's opinion was issued for the Palm Island Aboriginal Shire Council due to a qualification in the prior year on the completeness of canteen sales revenue. An emphasis of matter was also issued because the council did not adopt their annual report by 30 November 2008, as required by the Local Government Act.

While the auditor's opinion for Banana Shire Council was issued as unqualified, an emphasis of matter was included in the audit report because the council did not adopt their annual report by 30 November 2008 as required by the Local Government Act. An emphasis of matter was also issued for Poruma Island Pty Ltd and Widelinx Pty Ltd because significant uncertainty existed as to these entities' ability to continue as going concerns.

2.3.2 Financial statements of abolished local governments

The status of the financial statements of abolished local government entities with a financial period ended 14 March 2008 was last reported in Report to Parliament No. 9 for 2008. The current position is summarised in Figure 2B.

Figure 2B : Status of financial statements of abolished local government entities

Entity Type	Total	Previously reported	Opinions issued since Report No. 9 for 2008			
			Disclaimer of auditor's opinion	Qualified auditor's opinion	Unqualified auditor's opinion*	Auditor's opinion not yet issued
Local governments	95	64	0	1	21	9
Joint local governments	11	9	0	0	2	0
Aboriginal Shire councils	3	1	0	0	1	1
Torres Strait Island councils	18	8	2	1	3	4
Total local government entities	127	82	2	2	27	14

* Included an emphasis of matter in relation to going concern which was issued for all abolished local governments.

Of the 45 local government entities reported as unfinalised in Report to Parliament No. 9 for 2008, an auditor's opinion on the financial statements of 14 councils had still not been issued by 30 April 2009. Although more than 12 months has passed since these local governments were abolished, financial statements have not been made available for audit by all councils. Any extensions of time granted by the Minister for these local governments have now been exceeded. As Figure 2C shows, of the 14 councils, six have been amalgamated into the North Burnett Regional Council and three have been amalgamated into the Torres Strait Island Regional Council.

Figure 2C : 14 March 2008 financial statements outstanding

Abolished council	New Regional council
Belyando Shire Council	Isaac Regional Council
Crows Nest Shire Council	Toowoomba Regional Council
Pittsworth Shire Council	
Biggenden Shire Council	North Burnett Regional Council
Eidsvold Shire Council	
Gayndah Shire Council	
Monto Shire Council	
Mundubbera Shire Council	
Perry Shire Council	
Bamaga Island Council	Northern Peninsula Area Regional Council
Umagico Aboriginal Shire Council	
Badu Island Council	Torres Strait Island Regional Council
Saibai Island Council	
Ugar Island Council	

Although the abolished local governments ceased as entities on 14 March 2008, their financial statements for 2007-08 were prepared on a basis consistent with a going concern basis. This allowed the transfer of assets and liabilities to the regional councils at the values reported in their balance sheets. As a consequence, all auditors' opinions issued for abolished local governments include an emphasis of matter paragraph.

The auditor's opinion for Johnstone Shire Council was qualified as the reported written down values of infrastructure assets relating to bridges, stormwater pipes, water and sewerage were based on valuations that could not be supported by sufficient or appropriate evidence.

A disclaimer of auditor's opinion was issued for Erub Island Council because not all the information and explanations required to form an opinion were able to be obtained. Some of the more significant factors that resulted in limitations on the scope of the audit were that:

- the value of grants received in advance could not be verified
- bank reconciliations were not being performed throughout the year
- there were inadequate records to support the office safe cash float balance
- the receivables balance and aged debtor balances disclosed could not be confirmed due to a lack of adequate supporting documentation and inadequate processes and controls.

A disclaimer of auditor's opinion was also issued for Mer Island Council. Some significant factors contributing to this opinion were that:

- there were insufficient records and documents available to support Council's revenues
- no adequate monitoring and management control over canteen and freezer enterprises
- no adequate processes or internal controls over its payroll function.

A qualified auditor's opinion was issued for Dauan Island Council because the council did not comply with its own policy on loans to community members and 24 community residents' loan balances had exceeded the respective loan limits. While the balance of all outstanding loans decreased during the year, there has been no tangible improvement in the rate of collection of these debts for a number of years.

Details of finalised financial statements and issued auditors' opinions are included in Section 8.2 of this report.

Suspected misconduct at two Torres Strait Island councils has been reported to the CMC. The CMC has indicated their inability to investigate the matters referred to them due to poor record keeping at these councils.

2.3.3 2006-2007 financial statements

The current status of 2006-07 local government audits is summarised in Figure 2D.

Figure 2D : Status of 2006-07 financial statements of local government entities

Entity Type	Total	Previously reported	Opinions issued since Report No. 9 for 2008		
			Modified auditor's opinion issued	Unmodified auditor's opinion issued	Auditor's opinion not yet issued
Local governments	125	124	1	0	0
Joint local governments	13	13	0	0	0
Aboriginal Shire councils	15	14	0	0	1
Torres Strait Island councils	17	14	3	0	0
Controlled entities	53	51	1	0	1
Joint controlled entities	30	30	0	0	0
Total local government entities	253	246	5	0	2

The 2006-07 financial statements of seven entities were reported as unfinalised when the results of local government audits were last reported in Report to Parliament No. 9 for 2008.

Local governments

Auditors' opinions have now been issued for the 2006-07 financial statements of two local government entities which were reported previously as unfinalised.

The auditor's opinion issued on the financial statements of Perry Shire Council was qualified due to issues with the valuation of the council's non-current assets.

A qualified auditor's opinion was issued for Warwick Tourism and Events Pty Ltd because of a qualification in the prior year on the completeness of certain closing balances.

Aboriginal Shire and Torres Strait Island councils

In Report No. 9 for 2008, it was reported that the 2006-07 financial statements of one Aboriginal Shire council (Mapoon Aboriginal Shire Council), three Torres Strait Island councils (Bamaga, Erub and Ugar Island Councils) and one controlled entity (Bayan Mayi-Ji Ltd) had not yet been finalised and provided to audit.

Since then, modified auditors' opinions have been issued for Bamaga, Ugar and Erub Island Councils.

Certain comparative balances in the financial statements of Bamaga Island Council were qualified on the basis that those balances had been qualified in the prior year as they could not be substantiated. The auditor's opinion was also qualified due to inadequate disclosures regarding material subsequent events.

The auditor's opinion on the financial statements for Ugar Island Council was qualified on the basis that the cash flow statement did not include comparative information for the prior year.

The auditor's opinion on the financial statements for Erub Island Council was disclaimed because not all the information and explanations required to form an opinion was able to be obtained. Among the more significant factors that resulted in this opinion was that:

- balances relating to freezer sales and stock could not be substantiated as there were no effective systems of control over the purchases, sales and recording of fish freezer inventory
- there was insufficient documentary evidence to support the completeness of rental income
- total receipts from the former Department of Housing disclosed in the financial statements did not agree with advice from the department.

An auditor's opinion has not yet been issued for the 2006-07 financial statements of Mapoon Aboriginal Shire Council.

Five years of financial statements (from 2002-03 to 2006-07) for Bayan Mayi-Ji Ltd, a controlled entity of Wujal Wujal Aboriginal Shire Council have not been provided for audit. QAO has been advised that the council is to take over the financial arrangements for this company.

3 Financial sustainability

Summary

Background

To be sustainable, local governments must be able to manage future financial risks without having to significantly adjust their current revenue or expenditure policies.

The revenue base for local governments is not tied to the value of their asset base and most assets cannot be sold to obtain ongoing funding. A key objective should therefore be to maintain their infrastructure assets, while managing debt to ensure that it can be serviced from future operating revenue.

The audit process includes an assessment of a local government's ability to continue as a going concern for the next 12 months. Prior to the reform occurring, concerns about financial sustainability had been highlighted in a series of Auditor-General reports to parliament.

Also prior to the reform, the Queensland Treasury Corporation (QTC) completed financial sustainability reviews for 109 local governments, raising further issues. QTC's final report on *Financial Sustainability in Queensland Local Government - Findings and Recommendations* was released in late 2008.

Key findings

- This year's audit process found that three of the 26 councils with audited financial statements for 2007-08 have potential going concern issues.
- QTC noted in their final report on local government financial sustainability that while the consolidated financial position of the 109 local governments showed a strong balance sheet with low debt levels, of most concern was the large number of local governments that routinely recorded operating deficits.
- The QTC report found that:
 - most local governments rarely extended their financial forecasting beyond three to five years
 - asset management plans were not being used as an important financial management tool
 - asset valuation and the estimated useful life of assets were inconsistently applied across local governments.

3.1 Why is financial sustainability important?

Financial sustainability is achieved when service and infrastructure levels and standards are delivered according to a long-term plan without the need to significantly increase rates or reduce services.

Long-term financial sustainability is important if local governments are to continually deliver the services and programs expected by the community. It is also important that community assets are maintained so the continuing operating and replacement cost does not become a burden for future ratepayers.

Effective financial management is essential for financial sustainability. Sound financial management reflects a responsible and sustainable local government with an astute management team exercising good financial practices based on quality information providing a foundation for effective decision-making.

3.2 Queensland Treasury Corporation reviews

Before the local government reform (discussed in Section 2), the Queensland Treasury Corporation (QTC) completed financial sustainability reviews for 109 local governments. In conducting these financial sustainability reviews, QTC assessed a local government's capacity to meet its commitments in the short, medium and long term; manage unforeseen financial shocks and adverse changes in local government business and general economic conditions; and to manage core business risks.

QTC's final report on *Financial Sustainability in Queensland Local Government - Findings and Recommendations* was released in late 2008. The report noted that of the 109 local governments reviewed, 67 (or 61.5 per cent) were rated moderate or above, with the remaining 42 (or 38.5 per cent) rated weak, very weak or distressed.

QTC found that the consolidated financial position of the 109 local governments showed a strong balance sheet with low debt levels. Overall, liquidity (or cash holdings) was sound, with only a very small percentage experiencing or forecasting liquidity issues. Many local governments were found to be under-utilising debt funding for capital projects, leading to an over-reliance on rates revenue.

QTC noted that of most concern was the large number of local governments that routinely recorded operating deficits. The report found that:

- most local governments rarely extended their financial forecasting beyond three to five years
- asset management plans were not being used as an important financial management tool
- asset valuation and the estimated useful life of assets were inconsistently applied across local governments.

QTC made 17 recommendations for change to improve the overall financial sustainability of local governments.

3.3 Assessing sustainability

The audit process includes an assessment of a local government's ability to continue as a going concern, that is, the ability of the local government to pay its debts as and when they fall due within the next 12 months. Indicators of a local government's inability to continue as a going concern are cash flow difficulties between rate billings, high levels of unfunded depreciation, the existence of significant deferred capital works projects and inadequate reserve funds.

Local governments which exhibited the following indicators of ongoing viability problems have been reported to parliament:

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

For 2007-08, of the 26 local governments examined for potential going concern issues, there were none which fell into all three categories, although two of these criteria were present in three local governments.

The position of all new regional councils will be examined on a similar basis as part of the 2008-09 audits.

The Department of Infrastructure and Planning needs to actively monitor local government performance in order to provide early assistance to local governments which continually demonstrate poor financial indicators and governance.

4 Effectiveness of management controls

Summary

Background

Management control encompasses the systems, policies and behaviours established by local governments to reliably and cost effectively meet their business objectives.

When undertaking a financial audit, an assessment of the effectiveness of controls established by management is conducted and any control weaknesses or breakdowns identified and raised with management.

Key findings

- Accounting for non-current physical assets by the majority of local governments remains an issue. Good quality and up to date record keeping is required so councils can make informed and timely decisions on asset renewal and replacement.
- Another area of concern at local governments is the existence of excessive annual leave balances for employees. While the growing cost can be a financial burden for councils, there are also workplace health and safety issues associated with employees unable to take leave. There may be an increased risk of fraud and the leave liability continues to grow if left unchecked.
- Poor planning for the introduction of new systems has been observed during the course of the audits of local governments. As a result, a case study (Figure 4B) has been provided outlining the potential consequences of poor planning.
- Due to the small number of Aboriginal Shire council audits finalised (2 of 12), no conclusions can be drawn about the nature of audit issues raised. However, the inability of these entities to complete their financial statements in a timely manner is a matter of significant concern and reflects a state of poor governance and financial management.

4.1 Why are effective management controls necessary?

Management controls are procedures set up to protect assets, ensure reliable accounting reports, promote efficiency and encourage adherence to the organisation's policies.

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

Management is responsible for developing and maintaining sound internal control frameworks. A good system of control substantially reduces the risk of fraud and error. It provides assurance to management and audit that the amounts included in financial systems are materially correct. The level of detailed testing of transactions by audit may be reduced if effective controls are maintained throughout the whole financial period.

4.2 Control weaknesses identified

The number and nature of audit issues being raised gives an indication of the strength of governance within a local government. Corporate objectives are achieved through using risk management and good control practices to mitigate against the identified risks.

4.2.1 Local governments

At 31 March 2009, 96 moderate to high risk financial management issues had been reported to management from the finalised 2007-08 audits of 26 local governments. Findings considered to be high risk are those which posed a significant business or financial risk to the entity and must be addressed urgently. Moderate risk issues pose a slightly lesser business or financial risk but should still be addressed as a high priority.

Key areas where issues were raised during the local government audits are:

1. non-current physical assets (41 issues)
2. employee expenses and benefits (15 issues)
3. expenditure and accounts payable (19 issues)
4. information systems security (9 issues)
5. revenue and receivables (12 issues).

There remains considerable work to be done in the area of non-current physical assets by the majority of local governments. Non-current physical assets are normally a significant proportion of the total assets of a local government. Local governments are required to record their assets in the balance sheet at fair value in accordance with s.45 of the *Local Government Finance Standard 2005*. All the issues raised on non-current physical assets related to shortcomings in the valuation of assets.

Apart from the legislative requirement to disclose these assets using fair value principles, the need for correct asset accounting is linked to the sustainability of local governments by making proper provision in the accounts for asset renewal and replacement.

Non-current asset accounting continues to provide challenges to local governments which need to adequately resource this area to ensure that:

- quality asset records are kept to deliver information for financial reporting both internally and externally
- adequate competent staff are employed to address this key financial accounting risk area
- valuation methodologies used by registered valuers are tested for rationale and appropriateness to the nature and use of the local government's assets.

Comprehensive revaluations of assets are now occurring more often at councils. The following figure shows the regularity of these revaluations.

Figure 4A : Regularity of revaluations

Asset class	Average years since last comprehensive revaluation
Land and improvements	1.80
Buildings	1.76
Major plant	1.23
Road, drainage and bridges	2.21
Water	1.92
Sewerage	1.92
Other infrastructure assets	1.95

Another area warranting further attention by local governments is employee expenses and benefits, particularly employees' excessive annual leave balances. The levels of accrued leave may be the result of staff not being able to take annual leave because a suitable replacement is not able to be found. Apart from the increasing liability of a local government to fund this commitment, there are workplace health and safety issues associated with employees unable to take leave and the possibility of an increased risk of fraud.

4.2.2 Aboriginal Shire councils

By 30 April 2009, the financial statements of only two of 12 Aboriginal Shire councils and three controlled entities have been finalised by management and auditors' opinions issued. Due to the small number completed, no conclusions can be drawn about the nature of audit issues raised. However the inability of these entities to complete their financial statements in a timely manner is a matter of significant concern and reflects a state of poor governance and financial management.

4.3 System control weaknesses identified

A range of accounting and payroll software packages are currently being used by local governments to assist in their financial management and reporting processes.

From time to time, local governments change their software packages for various reasons, generally with the intention to improve financial management and reporting. However, there have been instances where changes to software packages have had a detrimental effect on the local government's financial management and reporting processes, particularly when the following factors have not been adequately considered or addressed:

- the complexity or user friendliness of the software package
- the availability and quality of ongoing support and training from the software provider
- timing of the transition period.

The following case study outlines the problems that can face a local government when the above factors are not addressed adequately. This case study is based on a situation which occurred at a Torres Strait Island council.

Figure 4B : Effect of poor planning for system changes

Case study
<p>A council changed its accounting and payroll software package, three months before 30 June year end. During the transition period, with the exception of the chief executive officer (CEO), staff had not been fully trained and supported in the proficient use of the package. Reliance was placed on the CEO to assist other staff to keep up to speed with the functionality of the package. However, the CEO ceased employment with the local government not long after the implementation of the package.</p> <p>As a consequence, the local government relied on consultants travelling to the council to resolve their queries with the system. This was not only an expensive exercise, but council staff did not gain any proficiency in using the system.</p> <p>The lack of knowledge of the system and unavailability of local expertise resulted in staff posting financial transactions incorrectly in the general ledger. Some outcomes of these incorrect postings were:</p> <ul style="list-style-type: none">• recording negative cash on hand balances• trade debtors and creditors balances not agreeing to subsidiary ledger balances• the emergence of a large number of suspense and clearing accounts with large balances that could not be identified• movements of certain income statement account balances which could not be explained when compared to prior year balances. <p>As a consequence of the extent of imbalance issues identified in the general ledger together with the continued lack of staff with a proficient knowledge of the system to correct issues identified, modified auditors' opinions were issued on the financial statements for the year and the subsequent two years.</p>

To avoid similar scenarios from re-occurring when local governments decide to upgrade accounting packages, effective planning should be implemented to ensure that the local government:

- adopts systems that are appropriate to its needs
- have appropriate training requirements and ongoing support to ensure that the systems adopted are used proficiently and cost effectively
- considers the timing of any system changes and adequately provides for the transition between existing and proposed systems.

5

Timeliness and quality of reporting

Summary

Background

The time taken to finalise financial reports is directly affected by the quality of the draft statements provided for audit. The quality and timeliness of reporting were considered as part of the audit of the 2007-08 financial statements.

Key findings

- The timeliness of financial statements continues to be a significant issue for local governments. Thirteen of the 30 non-abolished local governments and all 12 Aboriginal Shire councils did not meet the legislative financial reporting timeframes for the 2007-08 financial statements.
- The quality of the financial statements was satisfactory in all but one of the 26 continuing local governments. As only two auditors' opinions had been issued for the 2007-08 financial statements of 12 Aboriginal Shire councils, the majority of these councils are clearly experiencing difficulties in producing quality financial reports in a timely manner.
- Some local governments have been relying on non-council staff to prepare financial statements. This reflects the lack of expertise available within these councils and poses a continuing risk. Alternatives should be considered such as shared service arrangements between councils or a corporate service provider.

5.1 Why should financial reports be timely and of a high quality?

Quality financial reporting is integral to sound management decision-making. The regular production and monitoring of relevant, reliable and timely information on a local government's operating result and financial position is an important element of sound financial management and governance.

While preparing annual financial statements is a statutory requirement, their importance is in the information they provide to stakeholders and are an indication of organisational performance and stewardship. The timely completion of financial statements enables problem areas to be identified and addressed and informed strategic decisions made by the local government on its operations.

The following are observations on the quality and timeliness of the 2007-08 financial statements of local government entities which were not abolished.

5.1.1 Timeliness of financial statements

The timeliness of financial statements continues to be a significant problem for local governments. Thirteen of the 30 non-abolished local governments and all 12 Aboriginal Shire councils did not meet the legislative financial reporting timeframes for the 2007-08 financial statements.

The ability of the local community and other stakeholders to assess the financial performance of local governments is reduced when statutory deadlines are not met. Financial viability, the financial stewardship of the local government and other areas of stakeholder interest are not able to be judged at an early stage. Early intervention by local governments to address unsatisfactory trends or early warning signs is not possible unless a regular monthly reporting regime is established by management. Ideally, the statutory end of year financial statements should be based on a relatively seamless progression of a rigorous monthly reporting framework.

Preparation of financial statements and annual reporting

Section 530 of the *Local Government Finance Standard 1994* (LGFS) requires a local government to prepare and certify proposed financial statements by 15 September each year and present them to the Auditor-General. As soon as practicable after the proposed financial statements are provided to audit, the proposed financial statements must be presented to a meeting of the local government. Section 531 requires each local government to prepare an annual report which includes the audited financial statements and this report must be presented to the local government for adoption before 30 November.

Of the 30 non-abolished local governments required to meet the 30 November 2008 deadline, only 17 were able to achieve this timeframe.

Financial reporting requirements for the Brisbane City Council are set out in the *City of Brisbane Act 1924*. This Act requires the Brisbane City Council to prepare financial statements by 31 August. These statements must be audited and included in the annual report which must be completed by 31 October. The 2007-08 financial statements for Brisbane City Council were completed and the unmodified auditor's opinion issued within these timeframes.

Aboriginal Shire councils are required by s.40 of the *Local Government (Community Government Areas) Act 2004* to give the proposed financial statements to the Auditor-General as soon as practicable after the close of each financial year but, no later than 15 September. The Act allows the time period to be extended by the Minister. Aboriginal Shire councils are also required by the *Local Government Act 1993* (Local Government Act) to prepare an annual report including the audited financial statements which must be presented to the council for adoption before 30 November.

So far, only two auditors' opinions for the 2007-08 financial statements for the 12 Aboriginal Shire councils have been issued however these were not within the legislated timeframes for preparation of financial statements or annual reporting. This means that neither of these timeframes were met by any of these 12 councils.

5.1.2 Quality of draft financial statements

Councillors and senior management of local governments are responsible for the quality of their financial reports. This concept is no different to private sector entities such as companies where the board and senior management have responsibility for the preparation and presentation of financial reports. The number of draft versions produced; the types, value and number of corrections which must be made; or additional disclosures required may indicate that the financial statement process has not been given appropriate priority within the organisation. Staff preparing financial statements may also not have been adequately trained and made accountable for the accuracy and completeness of the information they provide for financial statement purposes.

Ordinarily the draft financial statements provided for audit should be complete and of a quality that management would be prepared to sign and should be subject to only minimal adjustments following audit review. These financial statements should be formally provided to audit under cover of advice from the officer responsible for financial administration or from the chief executive officer.

The quality of the financial statements was at least satisfactory in 25 of 26 local governments where their financial year ended on 30 June 2008 and the auditor's opinion has been issued. Auditors were provided with no more than three versions of the statements before audit sign-off.

It is not yet possible to comment on the overall quality of information contained in the 2007-08 financial statements of the 12 Aboriginal Shire councils as only two auditors' opinions have been issued on these councils' financial statements. However the fact that only two audit opinions had been issued and all councils are not able to produce timely financial statements is indicative of the poor quality of financial management information currently available within these councils.

5.1.3 Continuing reliance on non-council employees to prepare financial statements

Use of consultants

The continuing use of consultants to carry out accounting functions and prepare financial statements in local governments has been an issue discussed in several previous reports to parliament. Qualified and experienced accounting staff are difficult to attract and retain, particularly in regional and remote areas. Local governments need to have strategies in place to ensure that capacity is being built within or is readily available to meet financial reporting needs.

Of the 30 non-abolished local governments and 12 Aboriginal Shire councils which were required to prepare financial statements for 30 June 2008, at least five local governments and six Aboriginal Shire councils used or are using consultants for this preparation. The risks associated with the continuing use of consultants include:

- no transference of the consultant's skills to staff, creating ongoing dependency by the local government on these services
- a reduced capacity for management to adequately challenge the accuracy and completeness of data used and the accounting principles applied in producing financial reports
- the consultant may apply accounting policies which are inconsistent with those approved by the local government.

Use of financial controllers

The Local Government (Community Government Areas) Act includes provisions for appointing financial controllers to Aboriginal Shire councils. Under this Act, financial controllers can be appointed by the Minister to ensure councils adhere to their budgets. Financial controllers may also give advice about financial management and undertake tasks such as preparing financial statements as requested by the Minister and the local government. Financial controllers are currently in place at two Aboriginal Shire councils, with financial controllers being provided at another three councils up to 31 December 2008. While these financial controllers have been offering invaluable assistance, capacity building and succession plans still need to be put in place to ensure the staff with the skills to carry out these functions are available in future.

Given the continued use of the consultants and financial controllers to fill skills gaps and the failure to address these expertise shortages in their organisational structure, local governments may need to consider alternatives such as shared service arrangements between several councils or a corporate service provider.

6

Emerging audit issues for 2008-09

Summary

Background

Local governments which have been amalgamated because of the reform are required to produce their first set of financial statements at 30 June 2009 for a 15½ month period. Interim audit visits to these local governments have raised issues which should be considered for immediate action.

Aboriginal Shire councils unaffected by the reform have issues affecting accounting systems and financial reports which need to be addressed in 2009.

The proposed introduction of a new Local Government Act will have implications for the financial reporting undertaken by all councils. Changes to Australian Accounting Standards will also affect financial reporting in the coming year.

Key findings

- Local governments merging their financial and management systems, the accuracy of opening balances, valuation of non-current assets and uniformity of accounting policies across the local government region are areas of audit concern as these are providing significant challenges to regional councils.
- Audit focus for local governments in 2009 will be directed at strong governance.
- Aboriginal Shire councils need to consider action to be taken to address issues with accounting for infrastructure assets.
- The *Local Government Bill 2009* introduced to parliament on 22 April 2009 proposes that extensions of time by the Minister for preparing financial statements and the annual report will no longer be provided. The implications of the changes needs to be properly addressed by all local governments.
- All local governments will need to consider the effect of changes to the Australian Accounting Standards on their financial reports in 2009.
- Information recently supplied from interim audit activity indicates that some 60 per cent of the new regional councils now had one corporate accounting system in place for all accounting cycles. This is a good result given the nature of the tasks involved.

6.1 Issues for regional councils

Following the formation of the regional councils, some issues have become apparent as these councils have been merging their accounting systems and policies. These issues include the accuracy of opening balances, the valuation of non-current assets, the uniformity of accounting policies across the local government region, and integration of financial systems.

These areas have been identified for audit focus in 2009.

6.1.1 Opening balances

All regional councils need to establish opening asset and liability balances that conform with Australian Accounting Standards. Councils will need to approve the establishment of any reserves.

Because of the delay by some regional councils in finalising the abolished local governments' financial statements, the creation of opening balances and comprehensive reporting on the merged entity may not be completed within a reasonable timeframe thereby limiting the usefulness of management information.

6.1.2 Valuation of non-current assets

The fair value and completeness of non-current assets now owned by the regional councils need to be established. These assets should be completely and accurately transferred from the abolished local governments into the accounts of the regional councils. This should include any assets which may not have been fully accounted for by the abolished local government. Changes to asset recognition thresholds may also mean some addition or deletion of assets from the asset system to bring the underlying accounting records in to line with the newly approved policy of the regional council.

Regional councils should determine if a full revaluation of their assets needs to be undertaken. Accounting standards do not permit differing valuation dates and methodologies within the one class of asset on the balance sheet. Prior to being amalgamated, the councils may have had different asset accounting policies. Consolidation into a regional council has resulted in different valuation dates for revaluations in different classes of non-current assets and values based on the differing asset accounting policies.

There may also be assets which are no longer required or redundant, for example, council buildings. Regional councils should develop a strategy for disposing of any surplus assets.

6.1.3 Accounting policies

Different accounting policies may have been in place at local governments which have now been merged into one regional council. There may be significant differences between these accounting policies which need to be aligned into one new policy for the regional council. This new policy should be formally adopted and endorsed by the regional council and accurately reflected in the financial statements. Where the accounting policies of the merging councils were not uniform, appropriate adjustments may need to be made in the financial records of the regional council.

6.1.4 Financial systems

One of the significant challenges facing regional councils is the need to integrate accounting systems. For some regional councils, this might involve a move to one accounting system while others might utilise the existing systems of each of the abolished local governments with a consolidation at year end. Internal and external reporting at a consolidated level is more difficult when using multiple systems and potentially less accurate where information needs to be manually aggregated to arrive at a regional total. The most efficient position is to have one corporate system.

Information recently supplied from interim audit activity indicates that some 60 per cent of the regional councils had one corporate accounting system in place by 31 March 2009 for all accounting cycles. A further 10 per cent are intending to have this process completed by 30 June 2009. This is an impressive result given the nature of the tasks involved.

Projects to convert from multiple accounting systems to one corporate system should be well documented. This documentation should include an assessment of the risks involved and mitigating strategies, and an outline of the data cleansing and quality assurance processes being used. A clear audit trail should exist of the accuracy and completeness of data being transferred from the abolished local governments' systems into the new corporate system. The overall process should be appropriately signed off to provide evidence of who has been accountable for the accuracy and completeness of the data transfer.

6.1.5 Areas of audit focus for 2009

More than twelve months have passed since the reform occurred and the regional councils were created. During this time, regional councils have been attempting to seamlessly provide for their communities while consolidating divergent systems and processes inherited from abolished local governments. Strong governance and risk management are required to effectively manage in this environment.

To ensure that strong governance and risk management practices have been put in place, as part of the 2008-09 audits, audit focus will be on the following areas:

- quality and timeliness of preparing financial statements
- asset policy application, revaluations and impairment testing
- organisation's governance structure, including appointment of the audit committee and internal audit
- qualifications and experience of staff within finance sections
- merging of financial systems and conversion plans
- councillor remuneration and compliance with Local Government Remuneration Tribunal prescribed requirements.

6.2 Issues for Aboriginal Shire councils

In addition to the ongoing challenge of improving the timeliness and quality of financial statements discussed in Section 5, another key challenge for Aboriginal Shire councils in 2009 will be dealing with requirements for accounting for infrastructure assets.

6.2.1 Accounting for infrastructure assets

The recognition and accounting treatment of non-current assets including infrastructure assets for Aboriginal Shire councils is governed by s.35 and s.36 of the *Local Government (Community Government Areas) Finance Standard 2004* (the Finance Standard).

Under s.36 of the Finance Standard, Aboriginal Shire councils were required to have freehold land and buildings revalued by an independent valuer at least once every five years. The Finance Standard is silent on the revaluation of infrastructure assets.

The example policy note on revaluation of non-current physical assets in the proforma financial statements prescribed by the Director-General of the former responsible department supported the requirements of the Finance Standard by stating:

'Land and Buildings are revalued by a registered valuer at least once every five years... Non-current physical assets measured at fair value be comprehensively valued at least once every five years with interim valuations, using appropriate indices, being otherwise performed on an annual basis where there has been a material variation in the index.'

As infrastructure assets were not required to be revalued under the Finance Standard, the prescribed pro-forma financial statements dating back several years have included an accounting policy note which allowed councils to exclude infrastructure assets from their financial statements. As an example, the prescribed financial statements for Aboriginal Shire councils for the year ended 30 June 2008 included the following accounting policy note:

'Council has reported in these financial statements all assets and liabilities with the exception of infrastructure assets. These assets include such items as water supply, sewerage, dams, roads and bridges, stormwater drainage, etc. They have not been valued and cannot be reported in these annual financial statements.'

Over the years, various infrastructure projects have been implemented including the construction of roads, bridges, airstrips, drainages, water supply, sewerage and dams.

During the 1990s, the majority of councils had their infrastructure assets recognised and valued as part of a Total Management Plan, with the results recorded as non-current assets in the financial statements.

Since that Total Management Plan was undertaken, any subsequent infrastructure projects completed have been recorded at cost. As a consequence, many of these councils have had infrastructure assets recognised at both the Total Management Plan fair value and at cost in their financial statements.

While independent valuations have been performed on freehold land and buildings, the majority of councils have not undertaken any independent valuations of their infrastructure assets.

Consequently, over the years, the value of infrastructure assets recorded in councils' financial statements, based on the original Total Management Plan revaluation and original cost of infrastructure constructed since the 1990s, no longer represents the fair value of those assets.

In recent years, the fact that the value of infrastructure assets reported in the financial statements did not represent fair value was brought to the attention of respective councils. Councils had the option to either obtain independent valuations of these infrastructure assets or de-recognise the assets.

Most councils elected to de-recognise these assets. Qualified auditors' opinions have been issued for those councils which did not de-recognise or revalue these assets on the basis that the value of infrastructure assets disclosed in the financial statements did not represent fair value.

In 2008-09, Aboriginal Shire councils will be required to fully comply with the requirements of *AASB 116 Property, Plant and Equipment* for the first time. Also, these councils are progressively transitioning from special purpose financial reporting to full general purpose financial reporting in line with reporting adopted by other local governments in Queensland. As a consequence, these councils will need to identify, value and record their infrastructure assets in their financial statements for the year ending 30 June 2009. The Torres Strait Island Regional Council and the Northern Peninsula Area Regional Council must also comply with this requirement.

There may be some uncertainty about the actual ownership of certain infrastructure assets. For example, the water supply assets in the recently amalgamated Northern Peninsula Area Regional Council are currently owned by the state through the Department of Infrastructure and Planning. If these assets are to be controlled by the regional council, the transfer of these assets needs to occur in a timely manner. The Department of Infrastructure and Planning, as the responsible department, should review all other potential assets that may be controlled by either the two regional councils or the Aboriginal Shire councils. This should include any assets that may have been controlled by former departments such as the Department of Aboriginal and Torres Strait Islander Policy.

The Department of Infrastructure and Planning should also assess the capacity for the respective councils to identify, value and record their infrastructure assets given the limited time remaining until 30 June 2009, and consider providing appropriate assistance to the councils.

Auditors' opinions to be issued on the 2008-09 financial statements of councils which have been unable to identify, value and record their assets are likely to be qualified on this basis.

6.3 Emerging reporting issues

In 2008-09, several issues will affect local government financial reporting. A new *Local Government Bill 2009* was introduced to parliament on 22 April 2009 which will have implications for future reporting by local governments.

Under the Local Government Finance Standard, a local government must prepare financial reports to comply with standards set by the Australian Accounting Standards Board (AASB). It is important for local governments to keep abreast of emerging accounting issues and to analyse the impact of pending and amended accounting standards on their external reporting requirements.

An AASB standard that may affect financial reporting by local government entities in the next financial year is *AASB 1051 Land Under Roads*. The implications of the Local Government Bill and the changes to AASB 1051 are discussed in the following sections.

The Department of Infrastructure and Planning, as the responsible department, also needs to keep abreast of these changes and provide timely and authoritative advice of the application of the standards to local governments. QAO officers continue to provide technical expertise through the review of certain bulletins produced by the department and the annual release of the model Tropical Financial Statements which provide guidance for local governments on financial statement presentation and disclosure.

6.3.1 *Local Government Bill 2009*

A new Local Government Bill was introduced to parliament on 22 April 2009, but has not been debated by parliament. The Bill proposes new principles-based local government legislation. The principal Act is to be supported with appropriate subordinate legislation to be introduced at a later date.

The current local government legislation allows local governments to apply for extensions of time from the responsible Minister to finalise their financial statements and annual reports. The proposed legislation no longer provides for these extensions of time. As a result, local governments which do not complete their financial statements within the statutory timeframe will attract a modified auditor's opinion due to non-compliance with legislated timeframes.

The Department of Infrastructure and Planning will need to take a greater role in assisting local governments to comply with the provisions of the new Act and subordinate legislation.

6.3.2 Changes to accounting standards

AASB 1051 Land Under Roads

AASB 1051 Land Under Roads will apply to local governments with annual reporting periods beginning on or after 1 July 2008. A final election has to be made on the first day of that reporting period to recognise, subject to the satisfaction of the asset recognition criteria, or not to recognise land under roads as an asset. Any adjustments from full adoption of the Standard will be made against the opening balance of accumulated surplus (deficit) as at 1 July 2008.

Early indications from discussions with Treasury Department are that this Standard will only apply to local governments which have freehold title over land under roads. The majority of the land under roads controlled and maintained by local governments is reserve land and likely to be recognised in the financial statements of the Department of Environment and Resource Management.

Where a local government elects to recognise land under roads on those roads it owns and controls, transactions need to be accounted for in accordance with *AASB 116 Property, Plant and Equipment*, using fair value. A suitable valuation methodology may emanate from the Australian Valuation and Property Standards Board.

Local governments should research their asset data to determine the extent of any freehold land under roads. This research should be documented and submitted to council for approval as to whether or not the standard applies to the council to any material extent.

7

Status of previously reported issues

Summary

Background

Recommendations were made in previous Auditor-General's reports to parliament to improve sound financial management practices in indigenous councils. At that time, the responsible Minister indicated that the Community Governance Improvement Strategy (CGIS) would contribute to addressing these issues. An update on the status of this initiative was received from the Director-General of the former responsible department, DLGSR.

Key findings

- Despite the many actions advised by government for addressing the issues raised in previous reports to parliament, there is little evidence of success in improving the financial management capability of many Aboriginal Shire councils and former Torres Strait Island councils.

7.1 Status of previously reported issues

Report to Parliament No. 3 for 2006 on the results of 2004-05 Aboriginal Shire council and Torres Strait Island council audits highlighted issues where improvement was necessary to ensure sound financial management practices across the sector. The following recommendations were made:

1. (a) *The Government and Councils undertake an analysis of the strengths and deficiencies in governance of each Aboriginal Shire Council and Torres Strait Island Council to assist in identifying the specific issues impacting on individual communities which shape either a successful or unsuccessful financial management regime. This could be undertaken within the framework of the Community Governance Improvement Strategy and the principles outlined in the discussion paper Size, Shape and Sustainability of Queensland Local Government published by the Local Government Association of Queensland Incorporated.*
 - (b) *The Government and Councils negotiate individual action plans for each Council with the aim of achieving satisfactory and sustainable governance arrangements. These plans should include actions which address the critical governance and accountability factors outlined in this report.*
 - (c) *The Government and Councils strongly consider supporting the implementation of the agreed action plans through the use of appropriate skills transfer and a tailored process of intensive and frequent review to assist Councillors and Chief Executive Officers in the early identification and resolution of issues which could prevent the introduction of sustained good financial management.*
2. *In the absence of clearly demonstrated improvement by 30 June 2007 in the financial management standards of the Councils which have received a qualified audit opinion for 2004-05, it is recommended that the Government consider the continued suitability of the current grant funding process used to deliver the services for each of these Councils.*

As a result of these recommendations, the Minister provided an initial response, included in Report to Parliament No. 7 for 2006. An update on action taken on the recommendations, the development of the 'new blueprint' for the Community Governance Improvement Strategy (CGIS) and the newly proposed CGIS business model was included in Report to Parliament No. 3 for 2007.

On 26 February 2009, the then Director-General provided a further update on the current status of these recommendations:

'Structural Reform

Structural reform of Aboriginal and Torres Strait Island local governments, as recommended by the Local Government Reform Commission, was largely completed with the local government elections in March 2008 which resulted in the establishment of the Torres Strait Island (TSIRC) and Northern Peninsular Area (NPARC) Regional Councils.

To assist with amalgamation costs the Government provided funding of \$995,000 for NPARC and \$1,395,000 for TSIRC under its Local Government Reform Funding Package.

The TSIRC was provided with additional funding of \$400,000 for establishment of a new integrated financial management system and \$100,000 to enable employment of specialist consultants in the areas of finance and human resources to commence work on the integration of the finance and human resource systems of the former Island Councils.

The NPARC was provided with additional funding of \$200,000 for upgrade of its Practical Computer Systems financial management system and \$35,000 to undertake a review of the enterprise activities of the former Councils.

A number of minor boundary change issues between the NPARC, Cook and Torres Shires are currently being progressed. The relevant Councils have been asked to forward a submission to the Minister on the proposed boundary changes.

I note your comment in relation to Aboriginal Shire councils remaining largely unaffected by Local Government Reform. This issue was addressed extensively in the Local Government Reform Commission Report, which included a specific recommendation in relation to Aboriginal Shire councils, namely Recommendation 16 which provides:

The State Government direct a review on the implications of land tenure arrangements for Aboriginal and Torres Strait Island Councils within the context of any potential future structural reform involving Deed of Grant in Trust (DOGIT) and non-DOGIT communities. Following the completion of the land tenure review consideration should be given to the applicability of the models proposed for the TSIRC and NPA Regional Councils for other Aboriginal local governments (in particular western Cape York).

The land tenure arrangements for the Aboriginal Shire councils will potentially take some time to finalise for each DOGIT. This process is being led by the Department of Natural Resources and Water (DNRW). The DNRW is continuing with transfers of the DOGIT (transferable land) under the Aboriginal Land Act 1991. This will result in land controlled by Indigenous Councils being transferred to independent Land Trusts and is a prerequisite to further structural reform involving DOGIT and non-DOGIT communities.

Legislative Reform

The legislative reform process commenced with the introduction of the Local Government Bill 2008 at the Cairns Regional Parliament in October 2008. It is anticipated that following the current state election the supporting local government regulations will be developed and released for consultation. It is currently anticipated that the new legislation would commence in December 2009.

With implementation of this new legislation and repeal of the Local Government (Community Government Areas) Act 2004, all Queensland councils will be subject to the one governance structure.

Performance Evaluation

The Government intends to monitor the ongoing sustainability of all councils in Queensland and is committed to build a strong and resilient local government system that has the capacity to deliver essential services for current and future generations of Queenslanders.

The process will commence in 2009 with introduction of a new performance evaluation and reporting framework for all councils. This framework includes the implementation of the National Frameworks for Sustainability, a national initiative to improve the ongoing sustainability of local governments throughout Australia. The Department is incorporating the national frameworks within an evaluation process that will focus on sustainable councils, sustainable communities and good governance thus increasing the accountability and transparency of local governments.

While the approach to performance evaluation in Indigenous councils is broadly consistent with the approach being formulated for mainstream councils, the performance management systems framework and reporting process for Indigenous councils has been specifically designed for them and focuses broadly on governance, planning and service delivery.

The key element of this framework is a new tool titled A guide and self assessment tool to assist Indigenous Councils in Performance Management (the guide). The guide will enable a council to undertake an assessment of the effectiveness of its operations with the areas of Financial Management; Asset Planning and Management; Planning and Reporting; Governance; Leadership; and Capacity. Once a council has undertaken the self assessment it will be able to identify the elements of performance management that are in place and the effectiveness of these elements.

Following self assessment the Department's regional staff will work collaboratively with council senior staff to establish a comprehensive action plan aimed at addressing shortfalls identified, on a priority basis. This action plan will replace the previously used Performance Development Plans which the Department negotiated with each Indigenous council. The Department will also be seeking to incorporate the current Audit Action Plans into this process.

Self assessment will be undertaken on a six monthly basis in March and September with the first assessment due on 31 March 2009.

The Department will also be analysing the results to identify, plan and deliver capacity building activities at local, regional and state levels.

Capacity Building

The Department has implemented a regional service delivery model that has resulted in the transfer of local government resources into five regions across the state.

Indigenous councils will be directly supported by staff located in Cairns, Townsville, Mt Isa, Rockhampton and Bundaberg and will directly assist councils build their capacity, with direct support under the Departments Community Governance Improvement Strategy (CGIS) as well as areas such as long-term asset management and financial sustainability.

Through CGIS, \$9.5 million has been committed over the next three years for significant capacity building activities in support of indigenous councils.

The lack of qualified and trained staff together with poor business systems remain the predominant causes of poor governance in indigenous councils.

In response to this issue the primary focus for CGIS throughout 2008-09 will be on building the skills of council staff. This is occurring through the provision of programs and activities such as the Skills Bank, capacity building programs, community engagement activities as well as the previously mentioned performance management framework.

The primary function of the Skills Bank, established in partnership with Local Government Managers Australia (Queensland Division), will be to address the gap in human resources in Indigenous councils by maintaining a pool of skilled staff available to meet councils' urgent operational needs, undertake skills transfer to local staff and develop the systems and capacity of the host councils. Skills Bank will provide an innovative future service delivery model for the CGIS and a long-term targeted strategy to build the governance capacity of indigenous councils.

Capacity building programs provided through the CGIS during 2008-09 include:

- *Council Employee Accredited Training (CEAT) provides training in the Certificate IV in Local Government Administration, conducted in partnership with the Wal-Meta Unit of the Department of Employment and Industrial Relations for approximately 12 council staff;*
- *Ten scholarships for the Diploma in Local Government (Administration) and Diploma in Local Government (Financial Management) are being offered to Indigenous councils;*
- *Council Training Programs (CTP) provides Councillors and staff six modules of targeted training from the Certificate IV in Local Government Administration; and*
- *Funding for improvements to business systems and assistance to explore and implement alternative service delivery models including regional or shared services.*

The Department also continues to implement targeted intervention strategies such as the appointment of financial controllers to provide financial management advice and perform statutory and administrative functions. Financial controllers are currently appointed to the Mapoon and Pormpuraaw Aboriginal Shire councils until 30 June 2009. The appointment of financial controllers to Doomadgee, Lockhart River and Napranum Aboriginal Shire councils concluded on 31 December 2008. However, the Department continues to monitor the performance of these Councils through its Far North Queensland Regional Office.

The Department also continues to prepare and provide reference manuals and prescribed and illustrative financial statements to assist both Indigenous and non-Indigenous local governments in preparing their annual financial statements. Workshops were also delivered to assist with this process, with the next workshop on financial statements, specifically for Indigenous council finance staff, to be held in Cairns in May 2009.

The Department is also undertaking a review of officer reporting, agendas and minutes in Indigenous councils. This review will be based on the Best Practice Guidelines, Agenda Management and Minute Recording first published by the Department in 2003. This review also incorporates a review of the financial reporting standards of each council. Councils will be provided with individual feedback and recommendations on improvements required to meet best practice standards and later in 2009 the Department will be publishing new guidelines which include recommendations in relation to financial reporting.'

Additional audit comment

Inadequate financial management is a significant ongoing problem at Aboriginal Shire councils.

Since Report to Parliament No. 3 for 2006 recommended that urgent action be taken to achieve improvement to financial management of these councils, the former department responded to these recommendations on several occasions with various improvement strategies to address these issues. There is little evidence of success from these proposed actions.

For 2008-09, an auditor's opinion for only two Aboriginal Shire councils have been issued. By this time last year, auditors' opinions had been issued for six Aboriginal Shire councils. This indicates there is a continuing and seemingly worsening pattern of untimely and often poor quality financial reporting.

The poor financial management performance of many of these councils has been a matter of audit concern for many years. The fact that the CMC has advised that it is unable to undertake investigative action in relation to two councils where misconduct was suspected highlights the extent of the poor financial management. The CMC decision was based on the lack of adequate records held by the councils. This absence of financial records also seriously impacted on the audit activity.

While I support the actions being taken to move these councils to within the same governance arrangements which apply for all other local governments (as outlined in Section 6.2), the increased level of complexity for their financial reporting will only exacerbate the difficulties that many of these councils have with the maintenance of sound financial management processes.

I urge the government to increase the priority given to action designed to achieve immediate as well as long term improvements in financial management for those councils which continue to receive a modified audit opinion.

8

Status of financial statements

Summary

Background

The FA&A Act requires the outcome of all audits to be reported to parliament. This is achieved by providing the status of financial statements at various points in time in Auditor-General's reports to parliament.

The status of the financial statements of local governments not abolished by reform is included in Section 8.1. The status of local governments which were abolished as part of the reform and for which an auditor's opinion had not been issued when last reported in Report to Parliament No. 9 for 2008 is included in Section 8.2 of this report.

Key findings

- The 2007-08 financial statements of 90 of 118 local governments have been completed and an auditor's opinion issued.
- Of the 127 local governments abolished because of the reform, the financial statements for 14 local governments are still outstanding, well over 12 months since the reform occurred.

8.1 Status of 2007-08 financial statements

Ninety auditors' opinions have been issued for entities that were not abolished during the 2007-08 financial year. Unless otherwise indicated, these entities had a financial year ending 30 June 2008.

Figure 8A : Auditors' opinions issued for the 2007-08 financial year

Auditors' opinion key: U=Unmodified opinion E=Emphasis of matter Q=Qualified opinion A=Adverse opinion D=Disclaimer of opinion

Entity name	Financial statements			Timeliness of completion		
	Financial statements signed	Auditor's report signed	Auditor's opinion	< 3 months	3 to 6 months	> 6 months
Local government						
Aurukun Shire Council	Not completed	Not completed	-			
Balonne Shire Council	15.09.2008	11.11.2008	U		✓	
Banana Shire Council	05.02.2009	20.02.2009	E			✓
Barcoo Shire Council	08.09.2008	02.11.2008	U		✓	
Boulia Shire Council	22.01.2009	28.01.2009	U			✓
Brisbane City Council	19.08.2008	29.08.2008	U	✓		
Bulloo Shire Council	24.10.2008	10.12.2008	U		✓	
Burdekin Shire Council	09.09.2008	26.09.2008	U	✓		
Burke Shire Council	19.02.2009	23.02.2009	U			✓
Carpentaria Shire Council	19.11.2008	19.11.2008	U		✓	
Cloncurry Shire Council	27.02.2009	27.02.2009	U			✓
Cook Shire Council	28.11.2008	28.11.2008	U		✓	
Croydon Shire Council	01.12.2008	01.12.2008	U		✓	
Diamantina Shire Council	Not completed	Not completed	-			
Etheridge Shire Council	12.09.2008	12.09.2008	U	✓		
Flinders Shire Council	21.10.2008	20.11.2008	U		✓	
Gold Coast City Council	13.11.2008	13.11.2008	U		✓	
Hinchinbrook Shire Council	27.01.2009	27.01.2009	U			✓
Ipswich City Council	13.10.2008	13.10.2008	U		✓	

Entity name	Financial statements			Timeliness of completion		
	Financial statements signed	Auditor's report signed	Auditor's opinion	< 3 months	3 to 6 months	> 6 months
Logan City Council	12.09.2008	12.09.2008	U	✓		
McKinlay Shire Council	02.04.2009	Not completed	-			
Mornington Shire Council	03.04.2009	Not completed	-			
Mount Isa City Council	24.11.2008	25.11.2008	U		✓	
Murweh Shire Council	12.09.2008	01.10.2008	U		✓	
Paroo Shire Council	18.12.2008	18.12.2008	U		✓	
Quilpie Shire Council	26.08.2008	03.10.2008	U		✓	
Redland City Council	28.10.2008	28.10.2008	U		✓	
Richmond Shire Council	21.10.2008	14.11.2008	U		✓	
Torres Shire Council	18.12.2008	18.12.2008	U		✓	
Winton Shire Council	14.11.2008	20.11.2008	U		✓	
Joint local government						
Esk-Gatton-Laidley Water Board	06.10.2008	20.10.2008	U		✓	
Nogoa River Flood Plain Board	26.11.2008	26.11.2008	U		✓	
Aboriginal Shire council						
Cherbourg Aboriginal Shire Council	Not completed	Not completed	-			
Doomadgee Aboriginal Shire Council	Not completed	Not completed	-			
Hope Vale Aboriginal Shire Council	Not completed	Not completed	-			
Kowanyama Aboriginal Shire Council	Not completed	Not completed	-			
Lockhart River Aboriginal Shire Council	Not completed	Not completed	-			
Mapoon Aboriginal Shire Council	Not completed	Not completed	-			
Napranum Aboriginal Shire Council	Not completed	Not completed	-			
Palm Island Aboriginal Shire Council	27.11.2008	28.04.2009	Q E			✓
Pormpuraaw Aboriginal Shire Council	Not completed	Not completed	-			
Woorabinda Aboriginal Shire Council	13.01.2009	18.03.2009	U			✓
Wujal Wujal Aboriginal Shire Council	Not completed	Not completed	-			
Yarrabah Aboriginal Shire Council	Not completed	Not completed	-			

Entity name	Financial statements			Timeliness of completion		
	Financial statements signed	Auditor's report signed	Auditor's opinion	< 3 months	3 to 6 months	> 6 months
Controlled entities						
Barambah Community Services Limited	Not completed	Not completed	-			
Biggenden Medical Centre Pty Ltd	12.12.2008	19.12.2008	U		✓	
Biggenden Medical Trust	12.12.2008	19.12.2008	U		✓	
Boonah and District Art Gallery and Library Trust	Not completed	Not completed	-			
Boonah and District Performing Arts Centre Trust Fund	Not completed	Not completed	-			
Brisbane Arts Trust	10.10.2008	21.10.2008	U		✓	
Brisbane Environment Trust	10.10.2008	21.10.2008	U		✓	
Brisbane Marketing Pty Ltd	24.09.2008	26.09.2008	U	✓		
Brisbane Powerhouse Pty Ltd	25.09.2008	30.09.2008	U	✓		
Burdekin Cultural Complex Board Inc. ²	23.06.2008	23.06.2008	U	✓		
Cairns Regional Gallery Limited	08.10.2008	08.10.2008	U		✓	
Caloundra City Enterprises Pty Ltd	20.11.2008	20.11.2008	U		✓	
Castra Retirement Home Limited	Not completed	Not completed	-			
City of Brisbane Arts and Environment Ltd	10.10.2008	21.10.2008	U		✓	
City of Brisbane Investment Corporation Pty Ltd	31.10.2008	07.11.2008	U		✓	
Edward River Crocodile Farm Pty Ltd	Not completed	Not completed	-			
Empire Theatres Foundation	05.08.2008	25.08.2008	U	✓		
Empire Theatres Pty Ltd	11.08.2008	25.08.2008	U	✓		
Gold Coast Arts Centre Pty Ltd	04.12.2008	09.12.2008	U		✓	
Hervey Bay (Community Fund) Limited	17.12.2008	17.12.2008	U		✓	
Hervey Bay Community Trust	17.12.2008	17.12.2008	U		✓	
Hervey Bay (Cultural Fund) Limited	15.12.2008	15.12.2008	U		✓	
Hervey Bay Cultural Trust	17.12.2008	17.12.2008	U		✓	
Ipswich Arts Foundation	26.09.2008	26.09.2008	U	✓		
Ipswich Arts Foundation Trust	20.10.2008	20.10.2008	U		✓	
Kingaroy Private Hospital Limited	Not completed	Not completed	-			
Kronosaurus Korner Board Inc.	25.11.2008	25.11.2008	U		✓	

Entity name	Financial statements			Timeliness of completion		
	Financial statements signed	Auditor's report signed	Auditor's opinion	< 3 months	3 to 6 months	> 6 months
Lockhart River Aerodrome Company Pty Ltd	01.12.2008	02.12.2008	U		✓	
Nuffield Pty Ltd	29.09.2008	29.09.2008	U	✓		
Organics Reclaimed Pty Ltd	Not completed	Not completed	-			
Outback @ Isa Pty Ltd	24.10.2008	24.10.2008	U		✓	
Palm Island Community Company Ltd	29.10.2008	31.10.2008	U		✓	
Poruma Island Pty Ltd	04.08.2008	03.09.2008	E	✓		
Quad Park Corporation Pty Ltd	05.12.2008	16.12.2008	U		✓	
Resolute I.T. Pty Ltd ³	14.08.2008	20.08.2008	U	✓		
Rodeo Capital Pty Ltd	17.11.2008	17.11.2008	U		✓	
Sunshine Coast Events Centre Pty Ltd	13.10.2008	13.10.2008	U		✓	
Surfers Paradise Alliance Limited	07.10.2008	13.10.2008	U		✓	
The Brolga Theatre Board Inc.	16.12.2008	15.12.2008	U		✓	
Townsville & Thuringowa Cemetery Trust ⁴	30.03.2009	31.03.2009	U			✓
Townsville Breakwater Entertainment Centre Joint Venture	06.11.2008	06.11.2008	U		✓	
TradeCoast Land Pty Ltd	07.11.2008	21.11.2008	U		✓	
Turany Pty Ltd	07.10.2008	07.10.2008	U		✓	
Waltzing Matilda Centre Ltd	20.10.2008	28.10.2008	U		✓	
Warwick Tourism and Events Pty Ltd	30.01.2009	05.02.2009	Q			✓
WBBROC Project Management Pty Ltd	Not completed	Not completed	-			
Wide Bay Water Corporation	28.11.2008	28.11.2008	U		✓	
Widelinx Pty Ltd	11.03.2009	28.04.2009	E			✓
Woorabinda Pastoral Company Pty Ltd	23.03.2009	26.03.2009	Q			✓
Joint controlled entity						
Central Queensland Local Government Association Inc.	15.09.2008	19.09.2008	U	✓		
Central Western Queensland Remote Area Planning and Development Board	31.10.2008	31.10.2008	U			✓
Council of Mayors (South East Queensland)	27.11.2008	28.11.2008	U		✓	
Darling Downs Regional Organisation of Councils Limited	Not completed	Not completed	-			
DDS Unit Trust ³	14.08.2008	20.08.2008	U	✓		

Entity name	Financial statements			Timeliness of completion		
	Financial statements signed	Auditor's report signed	Auditor's opinion	< 3 months	3 to 6 months	> 6 months
Far North Queensland Regional Organisation of Councils	09.03.2009	09.03.2009	U			✓
Gulf Savannah Development Inc.	15.10.2008	15.10.2008	U		✓	
Local Buy Trading Trust ³	16.12.2008	17.12.2008	Q		✓	
Local Government Association of Queensland Inc. ³	19.12.2008	19.12.2008	U		✓	
Maranoa and District Regional Organisation of Councils Inc.	17.10.2008	17.10.2008	U		✓	
North Queensland Local Government Association ⁴	Not completed	Not completed	-			
Prevwood Pty Ltd ³	21.08.2008	28.08.2008	U	✓		
Queensland Local Government Mutual Liability Pool (LGM Queensland)	23.10.2008	31.10.2008	U		✓	
Queensland Local Government Workers Compensation Self-Insurance Scheme (trading as Local Government Workcare)	23.10.2008	31.10.2008	U		✓	
Services Queensland	20.08.2008	27.08.2008	U	✓		
South East Queensland Healthy Waterways Partnership	07.10.2008	10.10.2008	U		✓	
South West Queensland Local Government Association ¹	08.09.2008	09.09.2008	U		✓	
Urban Local Government Association of Queensland Inc. ²	19.06.2008	01.07.2008	U	✓		
Western Downs Regional Organisation of Councils	Not completed	Not completed	-			
Western Queensland Local Government Association	Not completed	Not completed	-			
Western Sub Regional Organisation of Councils	Not completed	Not completed	-			
Whitsunday Hinterland and Mackay Bowen Regional Organisation of Councils Inc.	Not completed	Not completed	-			
Wide Bay Burnett Regional Organisation of Councils Inc.	22.01.2009	22.01.2009	U			✓
By arrangement - Under trust deed						
Brisbane City Council Superannuation Plan	23.10.2008	28.10.2008	U		✓	
Local Government Superannuation Scheme	15.10.2008	28.10.2008	U		✓	

1 – This entity's financial year ended 31 March 2008.

2 – This entity's financial year ended 30 April 2008.

3 – This entity's financial year ended 31 May 2008.

4 – This entity's financial year ended 31 December 2008.

8.2 Status of 1 July 2007 to 14 March 2008 financial statements

The status of the financial statements of 127 abolished local government entities with a financial period ended 14 March 2008 was last reported in Report to Parliament No. 9 for 2008. Forty-five local government entities were reported as unfinalised in Report to Parliament No. 9 for 2008. The current status of these 45 entities is shown in Figure 8B.

Figure 8B : Auditors' opinions issued for 01.07.2007-14.03.2008

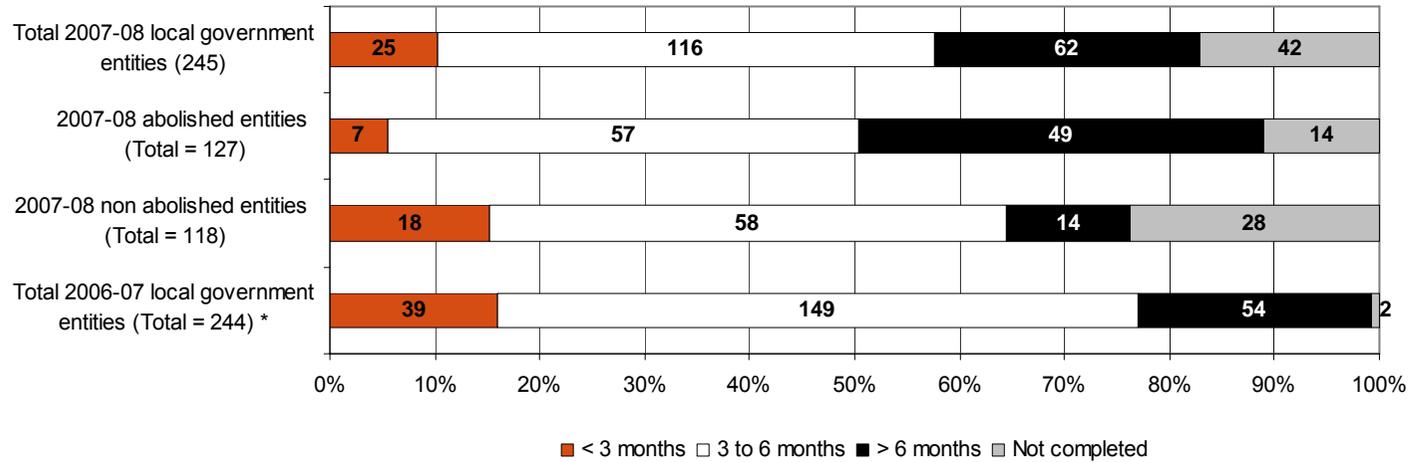
Auditors' opinion key: U=Unmodified opinion E=Emphasis of matter Q=Qualified opinion A=Adverse opinion D=Disclaimer of opinion

Entity name	Financial statements signed	Auditor's report signed	Auditor's opinion
Local governments			
Atherton Shire Council	23.09.2008	23.09.2008	E
Beaudesert Shire Council	14.11.2008	14.11.2008	E
Belyando Shire Council	Not completed	Not completed	-
Biggenden Shire Council	Not completed	Not completed	-
Boonah Shire Council	14.11.2008	14.11.2008	E
Bowen Shire Council	03.07.2008	21.10.2008	E
Bundaberg City Council	26.06.2008	06.11.2008	E
Burnett Shire Council	30.06.2008	06.11.2008	E
Caboolture Shire Council	19.09.2008	19.09.2008	E
Crows Nest Shire Council	Not completed	Not completed	-
Eacham Shire Council	23.09.2008	23.09.2008	E
Eidsvold Shire Council	Not completed	Not completed	-
Gayndah Shire Council	Not completed	Not completed	-
Gladstone City Council	17.11.2008	24.11.2008	E
Herberton Shire Council	23.09.2008	23.09.2008	E
Isis Shire Council	03.11.2008	14.11.2008	E
Johnstone Shire Council	05.02.2009	25.02.2009	Q E
Kingaroy Shire Council	27.11.2008	11.12.2008	E
Kolan Shire Council	05.11.2008	06.11.2008	E
Mareeba Shire Council	23.09.2008	23.09.2008	E

Entity name	Financial statements signed	Auditor's report signed	Auditor's opinion
	Miriam Vale Shire Council	20.10.2008	28.10.2008
Monto Shire Council	Not completed	Not completed	-
Mundubbera Shire Council	Not completed	Not completed	-
Murgon Shire Council	27.11.2008	09.12.2008	E
Nanango Shire Council	30.10.2008	11.12.2008	E
Perry Shire Council	Not completed	Not completed	-
Pine Rivers Shire Council	19.09.2008	19.09.2008	E
Pittsworth Shire Council	Not completed	Not completed	-
Redcliffe City Council	19.09.2008	19.09.2008	E
Whitsunday Shire Council	14.10.2008	20.11.2008	E
Wondai Shire Council	28.11.2008	09.12.2008	E
Joint local governments			
Emerald-Peak Downs Saleyards Board	23.09.2008	30.10.2008	E
Gladstone-Calliope Aerodrome Board	19.01.2009	30.01.2009	E
Aboriginal Shire councils			
Injinoo Aboriginal Shire Council	09.03.2009	30.03.2009	E
Umagico Aboriginal Shire Council	Not completed	Not completed	-
Torres Strait Island councils			
Badu Island Council	Not completed	Not completed	-
Bamaga Island Council	Not completed	Not completed	-
Boigu Island Council	16.01.2009	23.02.2009	E
Dauan Island Council	16.01.2009	06.04.2009	Q E
Erub Island Council	17.11.2008	07.04.2009	D
Mer Island Council	17.11.2008	05.12.2008	D
Saibai Island Council	Not completed	Not completed	-
Seisia Island Council	16.02.2009	16.02.2009	E
Ugar Island Council	Not completed	Not completed	-
Island Coordinating Council	23.06.2008	24.11.2008	E

8.3 Timeliness of completion of audits

Figure 8C : Timeliness of completion of audits



* Excludes nine dormant non-reporting entities for which auditors' opinions were not issued.

9 Acronyms, glossary and references

9.1 Acronyms

AAS	Australian Accounting Standard
AASB	Australian Accounting Standards Board
CGIS	Community Governance Improvement Strategy
CMC	Crime and Misconduct Commission
DIP	Department of Infrastructure and Planning (responsible department subsequent to 26 March 2009)
DLGSR	Department of Local Government, Sport and Recreation (responsible department prior to 26 March 2009)
DOGIT	Deed of Grant in Trust
DNRW	Department of Natural Resources and Water
FA&A Act	<i>Financial Administration and Audit Act 1977</i>
Finance Standard	<i>Local Government (Community Government Areas) Finance Standard 2004</i>
Local Government Act	<i>Local Government Act 1993</i>
LGFS	<i>Local Government Finance Standard 2005</i>
QAO	Queensland Audit Office
NPARC	Northern Peninsular Area Regional Council
QTC	Queensland Treasury Corporation
TSIRC	Torres Strait Island Regional Council

9.2 Glossary

Accountability

Responsibility on public sector entities to achieve their objectives, about the reliability of financial reporting, effectiveness and efficiency of operations, compliance with applicable laws, and reporting to interested parties.

Adverse opinion

Type of modified auditor's opinion expressed when the effect of a disagreement with those charged with governance or there is a conflict between applicable financial reporting frameworks so material and pervasive that the financial report taken as a whole is misleading or of little use to the addressee of the auditor's report.

Auditor's opinion

Positive written expression within a specified framework indicating the auditor's overall conclusion on the financial report based on audit evidence obtained.

Controlled entities

Entities where another public sector entity has control or ownership because of its shareholding.

Responsible department

Department responsible for local government policy and oversight. The responsible department is now the Department of Infrastructure and Planning. Prior to the 26 March 2009 machinery of government changes, the responsible department was the Department of Local Government, Sport and Recreation.

Disclaimer of opinion

Type of modified auditor's opinion expressed when a limitation on the scope of the audit exists that is so material and pervasive that an opinion on the financial report is unable to be expressed.

Emphasis of matter

Included in the independent audit report to highlight disclosures made in the notes to the financial statements that more extensively discuss a particular matter impacting on the financial report. An emphasis of matter paragraph is expressly stated to be made 'without qualification' to the auditor's opinion.

Financial report

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

Going concern

Means an entity is expected to be able to pay its debts as and when they fall due, and continue to operate without any intention or necessity to liquidate or wind up its operations.

Independent auditor's report

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

Joint public sector entities

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

Local government entity

A local government, joint local government, joint public sector entity, Aboriginal Shire council or an entity controlled by an entity that is a local government.

Minister

Refers to the Minister who is responsible for local government.

Modified auditor's opinion

Expressed either to highlight a matter affecting the financial report or where the auditor is unable to express an unmodified auditor's opinion on the financial report.

Prescribed requirements

Requirements prescribed by an Act or a financial management standard, but do not include the requirements of a financial management practice manual.

Qualified opinion

Type of modified auditor's opinion expressed when, except for the effect of a disagreement with those charged with governance, a conflict between applicable financial reporting frameworks or a limitation on scope that is considered material to an element of the financial report, the rest of the financial report can be relied upon.

Unmodified auditor's opinion

An auditor's opinion which has been issued without qualification and has not been modified by including an emphasis of matter paragraph.

9.3 References

Queensland Treasury Corporation, *Financial Sustainability in Queensland Local Government – Findings and Recommendations*, 2008.

10 Auditor-General's reports

10.1 Tabled in 2009

Report No.	Subject	Date tabled in Legislative Assembly
1	Auditor-General's Report No. 1 for 2009 Results of local government audits Financial and Compliance Audits	May 2009

Publications are available at www.qao.qld.gov.au or by telephone on (07) 3405 1100

