

Auditor-General of Queensland

Report to Parliament No. 4 for 2010
Results of local government audits

Financial and Compliance audits



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QUEENSLAND

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Auditor-General Act 2009

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Auditor-General of Queensland

April 2010

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 3 Division 3 of the *Auditor-General Act 2009* and is titled Results of local government audits. It is number four in the series of Auditor-General Reports to Parliament for 2010.

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

Yours sincerely



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Auditor-General



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1 | Executive summary

1.1 Introduction

Local governments play an important role in improving the liveability and sustainability of Queensland's communities. They are a large employer and contribute significantly to the financial well-being of their communities in ensuring the delivery of services and facilities used every day. Good governance structures enable councils to pursue their visions and fulfil their purpose in operating in an efficient, effective, economic and ethical manner.

The financial reports produced by local governments are essential in assisting councils to be accountable about how ratepayers' funds are spent.

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 2008-09 financial statements for local governments, being 15 March 2008 to 30 June 2009 for regional councils and 1 July 2008 to 30 June 2009 for continuing councils.

This report deals specifically with the results of the audits of local governments, including Aboriginal Shire councils, for the 2008-09 financial year for which an auditor's opinion had been issued at 31 March 2010.

1.2 Significant issues

Following the local government reform, there were 156 local government entities which were required to produce 2008-09 financial statements for audit. Of these 156 entities, 11 modified and 132 unmodified auditors' opinions have been issued. Auditors' opinions are yet to be issued for 13 entities, including one local government (Torres Strait Island Regional Council) and three Aboriginal Shire Councils (Cherbourg, Napranum and Pormpuraaw Aboriginal Shire Councils). Information about the status of 2008-09 financial statements can be found in Section 7.1 of this report.

The uncertainty about the financial sustainability of some local governments was one of the catalysts for reform in the local government sector. As outlined in Section 3.4, the Department of Infrastructure and Planning has developed a number of strategies to help councils in addressing their financial sustainability. Audit results for 2008-09 indicated that there are six local governments which may be experiencing some financial difficulties.

This is the first report to Parliament in which the results of the audits of merged local governments have been reported. In conducting the audits of the regional councils, it was found that a concerted and resource intensive effort had been undertaken by local governments in the formulation and actioning of implementation plans covering the merger of accounting systems and records of former local government entities. Work is still continuing on this merger with eight regional councils yet to merge all financial systems into one system.

For some local governments, the poor quality of financial statements being provided to audit is an ongoing issue. Eleven per cent (or seven of the 60 councils where auditors' opinions have been issued) provided audit with a poor standard of financial statements, resulting in between four and eight versions of financial statements being provided to audit before the audit opinion could be issued. This extended process to finalise the financial statements results in inefficiencies and increased audit costs. For local governments that have an Audit Committee in place, part of the committee's responsibilities should be consideration of the quality and completeness of the financial statements prior to recommending management certification and subsequent forwarding of statements to audit. There were two councils with Audit Committees which produced a poor standard of financial statements for audit.

Of the 60 local governments where an auditor's opinion has been issued, 87 per cent were certified by management and audit within six months of the balance date of 30 June 2009. While this is a reasonable result, in 2009-10, my auditors will be working with councils to help improve the timeliness of financial reporting for the benefit of the community.

This year, I have seen a significant improvement in the timeliness of the financial statements of the Aboriginal Shire councils with the Department of Infrastructure and Planning taking an active role in monitoring the progress of financial statement production. The department and the councils are to be congratulated for their improvement efforts to date. However, there is still some way to go in terms of the quality of some of these councils' financial statements.

There is no doubt that inadequate financial management continued to be an issue in 2008-09 for these councils with Aboriginal Shire councils averaging 11 moderate to high risk audit issues per council while local government entities only averaged three moderate to high risk audit issues.

It is encouraging that the department has taken action to address financial management issues following my *Auditor-General Report to Parliament No. 1 for 2009 – Results of local government audits*. In that report, I discussed the significant ongoing problem of inadequate financial management at Aboriginal Shire councils and urged the government to increase the priority given to action designed to achieve immediate as well as long term improvements in financial management and reporting.

In response, the department organised a task force which provided a detailed report identifying a range of issues which require addressing in indigenous councils (that is, the 12 Aboriginal Shire councils as well as Aurukun Shire Council, Mornington Shire Council, Northern Peninsula Regional Council and Torres Strait Island Regional Council). The department has since developed the *2010 Capability Program Plan for Local Government* with eight key strategies including working with QAO to improve the financial management process.

The department anticipates that these improvements will be reflected in a decreased number of audit issues for these councils.

A significant challenge for local government in 2010 will be the implementation of the new *Local Government Act 2009*. The *Local Government Bill 2009* was introduced to Parliament on 22 April 2009 and will replace the *Local Government Act 1993*. The resulting new *Local Government Act 2009* (the Act) will become law when it is commenced by proclamation.

The Act will establish new principles based local government legislation in place of the current prescriptive framework for governance. The Act clarifies that the elected councillors are responsible for the strategic direction of local government while local government employees are responsible for implementing the policies and priorities of local government.

Several councils have adopted operational practices under which individual councillors have the discretion to allocate funding for specific projects or grants to community groups. This practice has the potential for conflicts of interest to emerge and for expenditures to be approved which are not within the overall priorities of the council. The governance framework within the new Local Government Regulation should be carefully developed to ensure that the exposure in this area is minimised.

As part of the 2009-10 audits, to ensure that strong governance and risk management practices continue, audit focus will be on the following areas:

- risk management practices undertaken including assessments of fraud risk
- processes and procedures in place to strategically manage assets
- for asset valuations using indices, addressing the better practice recommendations contained in *Auditor-General Report to Parliament No. 4 for 2009 – Results of Audits at 31 May 2009*
- transparency and accountability in council's decision making process over discretionary funds
- extent of Audit Committee involvement in the review of the annual financial statements prior to management certification
- reasons for receiving an excessive number of financial statement versions prior to audit certification.

In addition, the widespread and prolonged rainfall across Queensland during February and March 2010 resulted in extensive flood damage, particularly in south-west Queensland. The impact of Cyclone Ului also resulted in damage within central Queensland. With the recession of floodwaters and in the aftermath of Cyclone Ului, councils have noted extensive damage to infrastructure assets. As part of the 2009-10 audit, an area of additional audit focus will include assessing the extent of council action in determining impairment and the value as at 30 June 2010 and any applicable financial statement disclosure of the infrastructure assets impacted by the recent natural disasters.

1.3 Departmental response

The Deputy Director-General, Local Government and Planning Group, Department of Infrastructure and Planning provided the following response on 9 April 2010:

Thank you for your letter of 24 March 2010 to Mr Colin Jensen, Coordinator-General and Director-General, Department of Infrastructure and Planning, providing an opportunity to respond to your intended report to Parliament on significant matters in relation to Local Governments. The Director-General has asked me to respond on his behalf...

In relation to the relevant extracts from the Draft Report to Parliament No. 4 for 2010, Results of Local Government Audits, I have noted and confirmed the Department responses for sections 3.4 Initiatives of the Department of Infrastructure and Planning and 4.2.2 Aboriginal Shire Councils.

Additionally, I am encouraged by your acknowledgement of the work of the Department's Indigenous Council Taskforce initiative and the improvements they have gained in the timeliness of financial reporting for Indigenous Councils for 2008-09. The Department will continue to dedicate resources to ensure the ongoing success of the Indigenous Council Taskforce...

In relation to section 3.2 Measures of Financial Viability of Local Government the Local Government (Finance, Plans and Reporting) Regulation 2009, Division 4, Annual Report, requires that Local Governments must state sustainability ratios for the financial year of the report and projected for the next nine financial years. The required ratios are asset consumption, asset sustainability, interest coverage, net financial liabilities, operating surplus and working capital. It is expected that the regulation will come into effect on 1 July 2010. It is also intended that Local Governments report on sustainability in the annual budget.

Consistent with your comments for the continued support of Local Government in the areas of financial sustainability and governance, following the release to Local Government in September 2009 of the Financial Management (Sustainability) return, the fourth element of the Sustainability and Reporting process, the Department has now individually assessed the long-term financial sustainability of the respondent Councils. Those Councils which have not been able to demonstrate a clear and coherent financial management and sustainability strategy, linked with underpinning forecast data, will be supported by the Department through a specifically targeted program undertaken in consultation with Queensland Treasury Corporation. The progress of these Councils will be actively monitored through the annual sustainability returns.

To assist Local Governments in the implementation of the requirements of the Local Government Act 2009 in relation to community planning, a Community Planning Guide, a Community Engagement Guide and a Community Planning Template have been prepared by the Department for release by the Minister for Local Government. In addition, to ensure State-wide coherency in engagement with Local Government on Community Planning the Department is forming a Community Planning in Local Government Joint Agency Working Party. The working party will reflect the diversity of State interests in planning in Local Government areas and provide strategic advice about appropriate communication, support and change processes. The Department will also deliver five Financial Management and Sustainability workshops which will be held across the State during the 2010 calendar year and will focus on the role of Mayors, Councillors and Chief Executive Officers in key planning processes...

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 2008-09 financial statements for local governments, being 15 March 2008 to 30 June 2009 for regional councils and 1 July 2008 to 30 June 2009 for continuing councils. The audit results of the 156 local governments, Aboriginal Shire councils and other local government entities are included in this report.

When unfinalised financial statements were last reported in *Auditor-General Report to Parliament No. 8 for 2009 – Results of Audits at 31 October 2009*, auditors' opinions for 2007-08 financial statements had not yet been issued on 13 local government entities.

Key findings

- At 31 March 2010, auditors' opinions had been issued on 2008-09 financial statements for 143 of 156 local government entities (or 91 per cent).
- Eleven modified and 132 unmodified auditors' opinions have been issued for 2008-09 financial statements.
- Since reported as unfinalised in Auditor-General Report to Parliament No. 8 for 2009, auditors' opinions have been issued on the 2007-08 financial statements of all 13 of the previously outstanding local government entities. Of the 13 auditors' opinions issued, 10 were modified and three unmodified.

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 the Brisbane City Council were reviewed by the independent commission.

The Queensland Government accepted the independent commission's boundary recommendations which took effect at the local government elections on 15 March 2008. This resulted in 127 abolished local government entities being required to produce financial statements for the period 1 July 2007 to 14 March 2008.

The abolished councils were amalgamated into 31 regional councils with an initial financial statement reporting period of 15 March 2008 to 30 June 2009. The 30 continuing councils maintained a financial reporting period of 1 July to 30 June. Of the 73 councils post-amalgamation, 61 were local governments and 12 were Aboriginal Shire councils which were unaffected by the amalgamation.

2.2 Reporting framework

Local governments in Queensland are governed by the *Local Government Act 1993* (Local Government Act) 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 provided 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 provided 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 provided 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 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 2008-09 financial statements

The current status of 2008-09 local government audits is summarised in Figure 2A.

Figure 2A : Status of 2008-09 financial statements of local government entities

Entity type	Total	Modified auditor's opinion issued	Unmodified auditor's opinion issued	Auditor's opinion not yet issued
Local governments	61	3	57	1
Joint local governments	2	0	2	0
Aboriginal Shire councils	12	3	6	3
Controlled entities	52	2	44	6
Jointly controlled entities	24	2	19	3
Statutory body	1	1	0	0
Audited by arrangement	4	0	4	0
Total local government entities	156	11	132	13

Information about when the financial statements were signed by management and the auditor's opinion issued can be found in Section 7.1 of this report. Section 8.2 contains a glossary of the types of auditors' opinions issued during the year.

Details of the modified auditors' opinions issued for 2008-09 are as follows:

Figure 2B : Modified auditors' opinions issued for 2008-09

Entity name	Basis for auditors' opinions issued
Disclaimer of auditors' opinions	
Mapoon Aboriginal Shire Council	<p>An opinion was unable to be formed due to the inability to obtain all the information and explanations required in order to form an opinion. The more significant factors that contributed to a limitation on the scope of the audit were:</p> <ul style="list-style-type: none"> • insufficient evidence to support opening equity balances and equity transfers for the period, grants, subsidies, contributions and donations revenue, rental income, housing rental receivables and creditors and accruals • cash balances reported in the cash flow statement did not reconcile to the cash balances reported in the balance sheet or to the reported notes • Council was unable to demonstrate that reported values for infrastructure assets and buildings did not materially differ from their fair values. As a consequence, these balances, the associated depreciation expense and asset revaluation reserve balances were unable to be verified • cash balances were insufficient to cover amounts reported in the constrained contributions reserve, indicating that Council had utilised grant funding for purposes other than those approved by grant providers • robust procedures were absent to enable the analysis of operating results by function resulting in discrepancies between these disclosures and the income statement • 2008 comparative figures remained disclaimed.
Qualified auditors' opinions	
Aurukun Shire Council	<p>A qualified auditor's opinion was issued because:</p> <ul style="list-style-type: none"> • insufficient documentation was available to support employee costs and employee benefit liabilities • an opinion could not be expressed on the 2008 written down value of property plant and equipment and on the 2009 depreciation expense • an opinion could not be expressed on tavern sales revenue, general store sales and general store costs due to inadequate managerial control and ineffective systems of internal control and record keeping.
Doomadgee Aboriginal Shire Council	<p>A qualified auditor's opinion was issued because an opinion was unable to be expressed on the housing rental receivables balance due to the unavailability of adequate records.</p> <p>An emphasis of matter was also issued as the Council did not adopt the annual report by 31 November 2009 in accordance with the Local Government Act.</p>
Local Buy Trading Trust	<p>A qualified auditor's opinion was issued because the completeness of tender arrangements revenue and receivables was not able to be verified as an effective system of internal control was not maintained. The comparative 2008 figures were also qualified on this basis.</p>
McKinlay Shire Council	<p>A qualified auditor's opinion was issued because Council was unable to appropriately restate the comparative depreciation expense for 2008 and, as a result, this remained qualified.</p>
Mornington Shire Council	<p>A qualified auditor's opinion was issued because:</p> <ul style="list-style-type: none"> • Council did not assess the fair value of asset classes at 30 June 2009 as required by the Australian Accounting Standards • the reported cash at bank and on hand balance may be overstated • cash balances were insufficient to cover amounts reported in other reserves, indicating that Council had utilised grant funding for purposes other than those approved by grant providers • Council did not calculate the long service leave liability in accordance with the Australian accounting standard requirements • 2008 comparative figures remained disclaimed.

Entity name	Basis for auditors' opinions issued
The Rockhampton Art Gallery Trust	A qualified auditor's opinion was issued as an opinion could not be expressed on the completeness of donation revenue and whether all donations received by the trust had been brought to account and recorded in the financial report. This was also the basis of the qualified opinion in 2008.
Woorabinda Aboriginal Shire Council	A qualified auditor's opinion was issued because: <ul style="list-style-type: none"> Woorabinda Pastoral Company Pty Ltd, a controlled entity of the council, did not undertake a stock take of all biological assets for 2007-08, resulting in an inability to support existence of breeding cattle at 1 July 2008 and therefore the net market value increment for livestock for 2008-09 inconsistent accounting policies were applied between the council and the Woorabinda Pastoral Company Pty Ltd in the valuation of land, land improvements and buildings.
Woorabinda Pastoral Company Pty Ltd	A qualified auditor's opinion was issued as the company did not undertake a stock take of all biological assets for 2007-08, resulting in an inability to support existence of breeding cattle at 1 July 2008 and therefore the net market increment for livestock for 2008-09. This was also the basis of the qualified opinion in 2008.
Emphasis of matter references	
The Island Industries Board	An emphasis of matter was issued as the financial statements were not completed and audited within two months of the end of the financial year as required by s.46FA of the <i>Financial Administration and Audit Act 1977</i> due to a retrospective change being required to the made to the Board's enabling legislation.
Whitsunday, Hinterland and Mackay Bowen Regional Organisation of Councils Inc.	An emphasis of matter was issued as Whitsunday, Hinterland and Mackay Bowen Regional Organisation of Councils Inc. commenced winding up its operations from 1 July 2009. As a result, the financial report was not prepared on a going concern basis.

2.3.2 2007-08 financial statements

When unfinalised financial statements were last reported in *Auditor-General Report to Parliament No. 8 for 2009 for 2009 – Results of Audits at 31 October 2009*, auditors' opinions had not yet been issued on 13 entities.

Auditors' opinions for all these entities have now been issued. Three of these entities, Kingaroy Private Hospital Limited, Organics Reclaimed Pty Ltd and Western Queensland Local Government Association were issued with unmodified auditors' opinions.

The remaining 10 entities were issued with modified auditors' opinions as detailed in Figure 2C.

Figure 2C : Modified auditors' opinions issued for 2007-08

Entity name	Basis for auditors' opinions issued
Disclaimer of auditors' opinions	
Mapoon Aboriginal Shire Council (2008)	<p>An opinion was unable to be formed due to the inability to obtain all the information and explanations required in order to form an opinion. The more significant factors that contributed to a limitation on the scope of the audit were:</p> <ul style="list-style-type: none"> • Council used grant funding for purposes other than those approved by grant providers and had a shortfall in available cash to meet unexpended grants • events after the balance sheet date were not disclosed in accordance with Australian Accounting Standard requirements • inadequate documentation for the inventory balance, crabbing and fishing operations, capital works in progress balance, salaries and wages and employee benefit liabilities • absence of appropriate controls and maintenance of the Rental Management System • receivables in addition to those included in the provision for doubtful debts still had not been collected at least 14 months after 30 June 2008 • no evidence to support assets transferred from capital work in progress to buildings and infrastructure and associated depreciation expense • no evidence to support journal adjustments expensed as sundry items • 2007 comparative figures remain disclaimed.
Pormpuraaw Aboriginal Shire Council (2008)	<p>An opinion was unable to be formed due to the inability to obtain all the information and explanations required in order to form an opinion. The more significant factors that contributed to a limitation on the scope of the audit were:</p> <ul style="list-style-type: none"> • adequate documentation could not be provided to support amounts reported for total revenue, employee expenses, employee benefits liabilities, supplies and services, capital works in progress, accrued government operating grants and subsidies, other debtors, creditors, accruals, GST recoverable, GST Payable and unspent self generated revenue • the completeness, accuracy and existence of property, plant and equipment and associated depreciation expense could not be substantiated as the Council was unable to reconcile the asset register to the general ledger and did not complete a full stock take of property, plant and equipment assets • events after the balance sheet date were not disclosed in accordance with Australian accounting standard requirements • an effective system of control was not maintained over inventories • 2007 comparative figures remain disclaimed.
Qualified auditors' opinions	
Belyando Shire Council (2008)	<p>A qualified auditor's opinion was issued because:</p> <ul style="list-style-type: none"> • Council was unable to rectify some of the deficiencies that resulted in a disclaimer of opinion being issued in 2006-07. Accordingly, the comparative 2007 figures reported in 2007-08 for property, plant and equipment, depreciation expense, asset revaluation reserve, capital work in progress, financial assets past due or impaired, and the cash flow statement were unable to be substantiated and remained qualified • the reclassification of asset classes was not effected retrospectively in accordance with Australian Accounting Standard requirements. <p>An emphasis of matter was also issued as the Council was amalgamated into the new Isaac Regional Council effective from 15 March 2008.</p>
Cherbourg Aboriginal Shire Council (2008)	<p>A qualified auditor's opinion was issued because:</p> <ul style="list-style-type: none"> • events after the balance sheet date were not disclosed in accordance with Australian accounting standards • Council used grant funding for purposes other than those approved by grant providers and had a shortfall in available cash to meet unexpended grants. As a result there was significant uncertainty as to whether Council would be able to meet its obligations as and when they fell due • employee benefit liabilities were not calculated in accordance with Australian Accounting Standards • Council did not prepare a cash flow statement or a statement of budget and actual expenses in accordance with requirements of the prescribed form. <p>An emphasis of matter was also issued as the Council did not adopt the annual report by 31 November 2008 in accordance with the Local Government Act.</p>

Entity name	Basis for auditors' opinions issued
Doomadgee Aboriginal Shire Council (2008)	<p>A qualified auditor's opinion was issued because:</p> <ul style="list-style-type: none"> • inadequate documentation was available to support the housing rental receivables balance and the correction of an error that was adjusted directly against comparative equity • Council used grant funding for purposes other than those approved by grant providers and had a shortfall in available cash to meet unexpended grants • general grants and subsidies expenditure had not been appropriately classified by nature • the 2007-08 budget was not adopted by the Council in the required timeframe • an opinion was not able to be expressed on the 2007 comparatives figures for property, plant and equipment, depreciation expense, grants and other contributions, rentals and levies and other debtors and the reconciliation of net deficit to net cash used in operating activities and these remained qualified. <p>An emphasis of matter was also issued as the Council did not adopt the annual report by 31 November 2008 in accordance with the Local Government Act.</p>
Edward River Crocodile Farm Pty Ltd (2008)	<p>A qualified auditor's opinion was issued because:</p> <ul style="list-style-type: none"> • no stocktake of biological assets was undertaken and no documentation existed to support the monetary value of each breeder and live hatchling. Inadequacies in controls over inventory movements and subsequent billing processes also resulted in sales revenue, cost of sales and reported gross profit not being able to be substantiated • due to inadequate internal controls, insufficient documentation was available to support reported employee costs and employee benefits liabilities • the company did not assess the fair value of asset classes at 30 June 2008 as required by the Australian Accounting Standard requirements • there was significant uncertainty as to whether the company would be able to continue as a going concern and this fact was not disclosed by directors in the financial statements • 2007 comparatives figures remain qualified.
Umagico Aboriginal Shire Council (2008)	<p>A qualified opinion was issued because:</p> <ul style="list-style-type: none"> • stock takes were not performed as at 14 March 2008 for inventory held in Council's workshop, canteen or supermarket. As a result, no opinion was able to be expressed on the reported canteen operating loss or supermarket operating profit • Council was unable to provide supporting documentation for the reported creditors and accruals balance • a budget for 2007-08 was not adopted by the Council as required by the Local Government Act. <p>Two emphases of matter references were also issued because the Council was amalgamated into the new Northern Peninsula Area Regional Council effective from 15 March 2008 and there was significant uncertainty regarding the Council's ability to pay its debts as and when they fell due without the continued financial support of grantor or other bodies.</p>
Emphasis of matter references	
Eidsvold Shire Council (2008)	Two emphases of matter were issued as the Council was amalgamated into the new North Burnett Regional Council effective from 15 March 2008 and the Council did not adopt the annual report by 31 October 2008 in accordance with the Local Government Act and the extension provided by the Minister.
Munduberra Shire Council (2008)	Two emphases of matter were issued as the Council was amalgamated into the new North Burnett Regional Council effective from 15 March 2008 and the Council did not adopt the annual report by 31 October 2008 in accordance with the Local Government Act and the extension provided by the Minister.
Perry Shire Council (2008)	Two emphases of matter were issued as the Council was amalgamated into the new North Burnett Regional Council effective from 15 March 2008 and the Council did not adopt the annual report by 31 October 2008 in accordance with the Local Government Act and the extension of time provided by the Minister.

2.3.3 Outstanding financial statements from prior years

Bayan Mayi-Ji Ltd

Previous Auditor-General Reports to Parliament have reported that financial statements of Bayan Mayi-Ji Ltd from 2002-03 to 2006-07 had not been provided for audit. The principal activity of Bayan Mayi-Ji Ltd, a controlled entity of Wujal Wujal Aboriginal Shire Council, was the operation of a supermarket.

Financial statements for 2002-03 and 2003-04 were prepared and forwarded to QAO in April 2008. The audit of these financial statements had not been finalised prior to the company's application for deregistration on 23 June 2008 which was subsequently granted on 27 August 2008. The results of these audits would have been modified auditors' opinions for each year primarily on the basis that notes to the statements disclosed that there had been no material subsequent events requiring disclosure even though some four to five years had passed between the reporting period and the preparation and audit of the financial statements.

The company continued to operate until 30 June 2008 when its assets and liabilities were taken over by its parent, Wujal Wujal Aboriginal Shire Council, however no financial statements for the period from 1 July 2004 to 30 June 2008 were prepared.

An accountability audit was undertaken of the transactions of the company for this period to ensure that revenue and expenditure transactions recorded in the general ledger for the period were materially correct and adequately supported and to ascertain that there was no evidence of misappropriation. The results of the audit indicated that balances recorded in the general ledger were materially correct and no evidence of misappropriation was identified.

Darling Downs Regional Organisation of Councils Limited

By order of the Supreme Court of Queensland on 21 July 2008, Darling Downs Regional Organisation of Councils Limited was wound up and a liquidator appointed.

In a letter to creditors and members of the company, the liquidator stated that the 'company did not trade after about December 2007' and that it 'became superfluous after the amalgamation of Shire councils into Regional councils after the March 2008 Local Government elections'.

The liquidator advised that all directors resigned just prior to the local government elections in March 2008 and that the company secretary resigned on 11 July 2008. While the liquidator provided some financial information for a meeting of creditors on 15 December 2008, he was not able to provide source documentation to enable an audit to be performed.

Former staff of the entity, including the Company Secretary as well as finance and information technology staff of the Toowoomba Regional Council, have been contacted in an effort to locate the relevant financial information. A backup of information located did not contain sufficient records, and in the absence of relevant accounting records, an audit for the 2007-08 financial statements could not be performed.

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.

Key findings

- This year's audit process found that six of 69 councils, being the 60 local government and nine Aboriginal Shire councils where an auditor's opinion has been issued for 2008-09, have potential going concern issues.
- Following the release of Queensland Treasury Corporation sustainability reviews undertaken in late 2008, the Department of Infrastructure and Planning have implemented a number of initiatives to support the on-going sustainability of local government.

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 for local governments if they are to continue to 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.

It is anticipated that the subordinate legislation to the new local government legislation will require the inclusion of measures of financial sustainability projected over a number of future years within the local government annual report. These measures are not required to be disclosed under current legislation. A local government must apply financial sustainability criteria by prudently managing financial risks, formulating financial policies, and making available accurate and timely information about the local government's finances and infrastructure.

3.2 Measures of financial viability

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, significant and ongoing operating deficits the existence of significant deferred capital works projects and inadequate reserve funds and high debt levels.

It has been audit's practice to look for indicators of going concern in line with auditing and accounting standards. In the past, three indicators of ongoing financial viability have been examined as shown in Figure 3A.

Figure 3A : Financial ratios and potential indicators of ongoing viability concerns

Ratio	Comment on ratio	Data and calculation	Potential indicators of ongoing viability concerns
Working Capital	Measures the extent to which a council has liquid assets available to meet short term financial obligations	Current Assets (CA) divided by Current Liabilities (CL) Expressed as a X : 1 where X = CA / CL	Less than 1.5:1
Operating Surplus	An indicator of the extent to which revenues raised cover operational expenses only or are available for capital funding purposes	Net Operating Surplus or Deficit divided by Total Operating Revenue Expressed as a percentage	Material operating deficit (>20 per cent of operating revenue)
Net Financial Asset / Liability	An indicator of the extent to which the net financial liabilities of a council can be serviced by its operating revenues	(Current Assets less Total Liabilities) divided by Total Operating Revenue Expressed as a percentage	Significant borrowings (>20 % of operating revenue)

For 2008-09, of the 69 local government entities (that is, 60 local governments and nine Aboriginal Shire councils where an auditor's opinion had been issued) examined for potential going concern issues, there were none which fell into all three categories, although two of these criteria were present in six local governments.

It has been proposed that the new local government legislation (discussed further in Section 6.1.1) will require the disclosure of various sustainability ratios within the local government Annual Report.

The Department of Infrastructure and Planning has implemented a number of initiatives in 2009 aimed at supporting the ongoing financial sustainability of local government. These are discussed further in Section 3.4.

3.3 Queensland Treasury Corporation reviews

Prior to the local government reform discussed in Section 2.1, the Queensland Treasury Corporation (QTC) completed financial sustainability reviews for 109 of the then 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 *Financial Sustainability in Queensland Local Government – Findings and Recommendations* report was completed and released by the Minister for Local Government and Main Roads in early November 2008.

QTC made a number of recommendations for change to improve the overall financial sustainability of local governments. The Department of Infrastructure and Planning has provided comments at Section 3.4 outlining the action subsequently undertaken by the Department since these reviews to improve overall financial sustainability of local governments.

3.4 Initiatives of the Department of Infrastructure and Planning

The following comments on the extent of departmental action taken on recommendations contained in QTC's *Financial Sustainability in Queensland Local Government – Findings and Recommendations* report have been provided on 18 January 2010 from the Director Measurement and Reporting, Local Government Services, Department of Infrastructure and Planning:

The State Government, through the Department of Infrastructure and Planning, has implemented a number of initiatives in 2009 aimed at supporting the ongoing financial sustainability of local government.

The new Local Government Act 2009 emphasises the financial sustainability of local government and includes a definition of financial sustainability for the first time. The supporting regulations also emphasise and support local government sustainability.

The Department has implemented the Sustainability and Reporting process, to evaluate on an ongoing basis the sustainability of Queensland local governments. The Department evaluates local government in the key financial sustainability areas of Asset Management, Community Engagement, Governance and Financial Management (Sustainability).

As a result of the data and information collected from local government, the State has also developed and implemented a number of supporting work programs, in areas such as community planning and asset management planning. In conjunction with the Local Government Association of Queensland (LGAQ) and the Institute of Public Works Engineering Australia (IPWEA) the Department developed and implemented the Asset Management Advancement Program (A-MAP), a state-wide program to support councils in developing asset management plans by December 2010 for key infrastructure assets.

The Department also recognised the need to further engage with elected members on topics associated with financial management and sustainability to ensure that local governments fully appreciate the importance of this issue. The delivery of four Financial Management and Sustainability Workshops in 2009 formed part of a state-wide financial management and asset management improvement strategy.

Further support to local government was provided through the release of the Guide to Financial Management (Sustainability) which included the measures of sustainability to be used by local government in evaluating ongoing sustainability and in developing a long term sustainability strategy.

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 are raised with management.

Key findings

- As previously reported, a significant proportion of the issues raised on non-current physical assets related to shortcomings in the valuation of assets by local governments.
- The existence of excessive annual leave balances for employees is still an ongoing issue for both local governments and Aboriginal Shire councils.
- Expenditure and accounts payable system controls can be improved. There existed a number of instances of noncompliance with the local government procurement policy and lack of supporting documentation for credit card transactions increasing the risk of unauthorised or inappropriate transactions.
- There existed a number of instances of ineffective information systems security access controls increasing the risk of unauthorised or inappropriate access to core financial systems and data.
- Corporate governance can be enhanced, particularly the need to maintain up to date and adequate policies arising from the merging of former abolished councils.

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 generated in financial systems are materially correct. The level of detailed testing of transactions by audit and audit costs 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.

Findings considered to be high risk are those which posed a significant business or financial risk to the entity and must be urgently addressed. Moderate risk issues pose a lesser business or financial risk but should still be addressed as a high priority.

4.2.1 Local governments

At 31 March 2010, 420 moderate to high risk financial management issues had been reported to management from 2008-09 audits of 128 local government entities (being 60 local governments and 68 joint local governments, controlled entities and jointly controlled entities where an auditor's opinion had been issued). The key areas where issues were raised during the audits are:

- non-current physical assets (75 issues)
- expenditure and accounts payable (63 issues)
- employee expenses and benefits (55 issues)
- revenue and receivables (49 issues)
- information systems security (43 issues).

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*. A significant proportion of the issues raised on non-current physical assets related to shortcomings in the valuation of assets. This issue has been raised for many years but more recently in relation to 2007-08 audits in *Auditor-General Report to Parliament No. 1 for 2009 – Results of local government audits*.

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 through enabling appropriate 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.

Non-current asset valuations will continue to be an area of audit focus during 2009-10.

Other areas warranting further attention by local governments are:

- employee expenses and benefits, particularly employees' excessive annual leave balances. 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. This issue was also raised in relation to 2007-08 audits in Auditor-General Report to Parliament No. 1 for 2009
- expenditure and accounts payable, particularly non-compliance with the local government procurement policy and lack of supporting documentation for credit card transactions. Such weaknesses may result in unauthorised or inappropriate transactions
- revenue and receivables, particularly non-compliance with the local government rates recovery policy and the accounting treatment for grant funding. The non-adherence to the rates recovery policy may result in significant increases in rates debtors. Incorrect accounting treatment of grant revenue has the potential to materially misstate the financial statements and could result in a modified auditor's opinion
- information systems security, particularly ineffective system access controls which may increase the risk of unauthorised or inappropriate access to core financial systems and data
- corporate governance, particularly the need to maintain up to date and adequate policies arising from the merging of former abolished councils otherwise this may result in ineffective governance and risk management
- financial statements, particularly improving the quality and timeliness of the financial statements provided to audit. This issue is discussed further in Section 5.2.1.

4.2.2 Aboriginal Shire councils

At 31 March 2010, 115 moderate to high risk financial management issues had been reported to management from the finalised 2008-09 audits of the nine Aboriginal Shire councils and one controlled entity where an auditor's opinion has been issued.

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.

The key areas where issues were raised during the audits are:

- non-current physical assets (18 issues)
- expenditure and accounts payable (15 issues)
- cash and investments (15 issues)
- revenue and receivables (14 issues)
- employee expenses and benefits (12 issues).

The key issues arising from the audit and warranting attention were:

- non-current issues raised by audit include appropriate valuation of assets, non-compliance with applicable accounting standards such as Australian Accounting Standard AASB 116 *Property, Plant and Equipment*, reporting of asset losses and inadequate insurance coverage
- instances were found where council purchasing policies were not adhered to in awarding of contract and tenders. There was insufficient evidence of checking of invoices and purchase orders by staff and insufficient evidence to confirm that goods or services had been received by council
- bank agency reconciliations were not always completed, there was not always checking or review of bank reconciliations by a senior officer of the council, and cash on hand balances were found exceeding limits set by council
- outstanding accounts receivable balances and the completeness and accuracy of rental income could not be verified by audit due to inadequate documentation. Sufficient evidence was not always available to support grants, subsidies, contributions and donations revenue
- excessive leave balances were noted, employee records in some cases were incomplete, and there was insufficient documentation to support the completeness and accuracy of salaries and wages and the subsequent employee entitlements disclosed in financial statements.

These issues have been reported previously in Auditor-General Reports to Parliament.

Auditor-General Report to Parliament No. 1 for 2009, which was tabled in Parliament on 20 May 2009, discussed the significant ongoing problem of inadequate financial management at Aboriginal Shire councils and the government was urged to increase the priority given to action designed to achieve immediate as well as long term improvements in financial management.

The following comments on the extent of action undertaken to address governance and financial issues in relation to indigenous councils were provided on 2 March 2010 by the Deputy Director-General, Local Government and Planning Group, Department of Infrastructure and Planning:

In response to Auditor-General Report to Parliament No. 1 for 2009 the Department of Infrastructure and Planning initiated a targeted response strategy to address the audit results of Indigenous councils and achieve improvements in governance and financial management standards required to improve the audit results.

In July 2009, an Indigenous Council Taskforce consisting of 8 experienced local government professionals was established with the primary focus to assist the 16 Indigenous councils to achieve the statutory deadline of 15 September 2009 for completion of their draft financial statements. In addition the task force was required to identify short and long-term actions required to address critical and systemic governance and financial management issues within these councils.

Every Indigenous council was visited by a team from the task force and as a result of this work, 14 of the 16 Indigenous councils reported to the Department that they had prepared their 2008/09 financial statements by the statutory deadline of 15 September 2009. This represented a vast improvement on previous years.

The Department is continuing to work with the Indigenous councils to ensure that issues identified during the 2008-2009 audit are addressed and that planning is being progressed to ensure that the financial statements for the 2009-10 year are completed and lodged well within the prescribed timeframe.

This improvement in timeliness has allowed the Department to work with current data, as in the past, audits results were being received very late. In fact, in some cases a subsequent financial year had passed before the results of the earlier year were finalised making it very difficult to resolve any points of qualification. Using this current information the Department is progressively visiting each council and is working with the council to develop a comprehensive action plan, outlining the actions required to address points of qualification and other high risk audit matters raised.

Once the action plans are developed the Department is actively working with councils to monitor and provide assistance to ensure they remain focussed on addressing these issues.

In September 2009 the task force provided a detailed report which identified a range of issues which require addressing in Indigenous councils, not the least of which is the issue of basic governance standards.

In order to address issues raised by the Auditor-General and the recommendations of the task force the Department has developed the 2010 Capability Program Plan for Local Government, with 8 key strategies. These strategies include: Establish a Cairns-based finance officers network; Establish a document library for councils; Deliver a program of financial management and reporting training for councils; Work with Indigenous councils to establish asset management systems; Review corporate documents and systems within Indigenous and small mainstream councils and establish performance reporting processes; Establish a schedule of visits to all Indigenous and small councils in the first quarter of 2010 (continued engagement); Develop a mentoring program for councils; and Work with QAO to improve financial audit process.

In addition where councils have been identified as being high risk the members of the task force will continue to work with council to introduce new governance and financial systems to improve operations.

A Steering Committee is overseeing and monitoring the delivery of the Program Plan strategies and each strategy will be evaluated for its effectiveness and quarterly progress reports prepared.

As stated in Section 5.2.2 of the report, the improvement in the timeliness of financial reporting for indigenous councils that has been achieved for 2008-09 is encouraging. This overall improvement can in part be attributed to the Department's Indigenous Council Taskforce initiative. Based on the results of the 2008-09 audits, there is still significant improvement needed in relation to the quality of financial reporting. The Taskforce have also highlighted the need for improvements in relation to governance and financial management in these councils.

The strategies outlined in the Department's Capability Program Plan for Local Government 2010 are aimed at improving these key areas. A measure of the success of these initiatives will be seen in the results of audits for 2009-10.

5

Areas of audit focus

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 2008-09 financial statements.

In addition, status of internal audit functions and Audit Committees in local governments and the extent of councillor remuneration compliance with the Remuneration Tribunal prescribed requirements were considered as part of the audit of the 2008-09 financial statements.

Key findings

- The quality of management certified financial statements provided to audit by the legislative deadline of 15 September can be improved. Some local governments had an excessive number of financial statement versions provided to audit prior to achieving a quality suitable to issue the auditor's opinion.
- A concerted and resource intensive effort was evident by regional councils in merging the accounting systems and records of former local government entities. However, some regional councils have not finalised the consolidation of all financial systems into one system.
- Remuneration paid to Councillors including Mayors and Deputy Mayors of all local governments with completed audited financial statements were in accordance with the prescribed requirements of the Local Government Remuneration Tribunal.

5.1 Introduction

With the amalgamation of abolished councils into new regional councils and the potential impact of the proposed new local government legislation, the 2008-09 audits included a focus on a number of key areas. The results of this audit focus are provided below.

5.2 Quality and timeliness of financial reporting

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 as 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.

5.2.1 Local governments

Quality

Under s.48 of the *Local Government Finance Standard 2005*, a local government must provide management certified financial statements for a financial year to the Auditor-General for auditing as soon as practicable after the end of the financial year and no later than 15 September of the next financial year unless an extension of time has been approved by the Minister.

Section 531 of the Local Government Act requires the annual report that contains the Auditor-General certified financial statements to be adopted by council no later than 30 November unless an extension of time has been approved by the Minister.

Figure 5A shows the assessed quality of the management certified financial statements initially provided to audit for the 60 local governments where an auditor's opinion had been issued by 31 March 2010. The assessment was ranked on a scale from very good to poor and took into account a number of factors including completion and accuracy of information reported, relevance of financial statement disclosures and quality of supporting documentation.

Figure 5A : Assessed quality of management certified financial statements initially provided to audit

Quality of management certified financial statements initially received by audit	Total number of local government councils
Very good	10
Good	16
Satisfactory	27
Poor	7
Total	60

The financial statements assessed by audit as poor quality required additional time by the local government to finalise the financial statements prior to the issue of the auditor's opinion.

Reasons for assessing the quality of the financial statements provided to audit as poor included:

- incomplete disclosures and notes to the financial statements for significant balances and transactions. This was particularly evident for some new regional councils addressing a number of significant challenges including the merger of accounting systems and records of former local government entities
- delays experienced by regional councils in finalising significant balances such as non-current asset valuations
- the movement of key finance staff during the financial statement period, resulting in staff unfamiliarity with council systems and prescribed financial reporting requirements.

For local governments that have established an Audit Committee, it is expected that as part of its responsibilities the quality and completeness of the financial statements would be considered prior to recommending management certification and subsequent forwarding the statements to audit. Two councils with Audit Committees submitted poor quality financial statements for audit.

Figure 5B shows the number of financial statement versions prepared by councils prior to the issue of the auditor's opinion.

Figure 5B : Number of financial statement versions received prior to issue of auditor's opinion

Quality of management certified financial statements initially received by audit	Number
Average number of management certified financial statements received by audit prior to the issue of the auditor's opinion.	4
For financial statements initially received by audit and assessed as poor quality, the range in number of financial statements received prior to the issue of the auditor's opinion.	4 to 8

The number of financial statement versions received prior to the issue of the auditor's opinion results in additional audit time and cost to finalise the annual audit. It was disappointing to note that 14 local governments prepared more than five versions of the financial statements prior to providing a version suitable for audit certification, with two of these entities preparing ten versions and 15 versions respectively. The reasons for providing an excessive number of financial statement versions to audit prior to the issue of the auditor's opinion will be an area of audit focus for 2009-10.

Timeliness

Of the 61 local governments, 60 auditors' opinions have been issued. Only financial statements for six local governments (or ten per cent) were certified by management and an auditor's opinion issued within three months of the balance date of 30 June 2009. Forty-seven sets of financial statements (or 77 per cent) were certified by management and audit between three and six months after the balance date. Seven local governments took more than six months to have their financial statements certified by management and audited while an auditor's opinion is yet to be issued on the financial statements for one local government. Details of when management certificates were issued and auditors' opinions signed are provided in Section 7.1.

5.2.2 Aboriginal Shire councils

Quality and timeliness

At 31 March 2010, the financial statements of three of the 12 Aboriginal Shire councils had not yet been finalised and audit opinions issued. By this time, last year auditors' opinions had been issued for only two Aboriginal Shire councils. This is an encouraging result and one which it is expected will continue to the future encouraging good quality and timely financial reporting to communities. In part, this can be attributed to the work at the Department of Infrastructure and Planning's Indigenous Council Task Force established in mid 2009.

The Indigenous Council Task Force focused on assisting the 16 Indigenous councils (that is, the 12 Aboriginal Shire councils as well as Aurukun Shire Council, Mornington Shire Council, Northern Peninsula Area Regional Council, and Torres Strait Island Regional Council) to achieve the statutory deadline of 15 September 2009 for completion of their draft financial statements. In addition, the task force has also identified a range of other issues to be addressed by Indigenous councils particularly in relation to basic governance standards that require improvement at many indigenous councils and the conclusion drawn by the task force was that improvements in governance will ultimately lead to better financial management.

The Department of Infrastructure and Planning (as discussed in Section 4.2.2) reported that 14 of the 16 Indigenous councils reported to the Department that they had prepared their 2008-09 financial statements by the statutory deadline of 15 September 2009. While these financial statements were prepared and provided to the Department by that date, three councils did not provide their draft financial statements to audit, and a further two councils did not provide signed management certificates with their statements by that same date delaying the audit process. Also, some of these financial statements were provided without a management certificate or if a management certificate was provided, it had not been signed to indicate that the Mayor and the Chief Executive Officer were satisfied that the financial statements were an accurate representation of the council's financial position.

Although the overall quality of the financial statements provided by Aboriginal Shire councils subject to audit has improved from last year, this is an area where further improvements are required. Instances have been noted where statements have been prepared using an incorrect version of the pro-forma Tropical Statements. For example, financial statements provided to audit still had reference to Tropical Council instead of the actual council name. In one case the first draft of statements were produced from the council's computer system with limited and inaccurate accounting policies.

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.

Concern was expressed in *Auditor-General Report to Parliament No. 1 for 2009 – Results of local government audits* that the use of financial controllers by Aboriginal Shire councils was not building the capacity of staff in these councils. The use of financial controllers continued in 2008-09 when two Aboriginal Shire councils had financial controllers appointed. There has not been a significant short-term benefit generated from these appointments. Minimal improvement was observed in the quality of the financial management of these councils during the current audits. It is understood that the Department will be adopting alternative support mechanisms for these councils as part of the 2010 capability program outlined in Section 4.2.2.

Transition to general purpose financial reporting

Aboriginal Shire 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. Comments on the challenges faced by these councils transitioning to full general purpose financial reporting are included at Section 6.2.

5.3 Merger of abolished councils into regional councils

Auditor-General Report to Parliament No. 1 for 2009, highlighted the challenges facing the regional councils arising from the amalgamation of abolished councils. Such challenges included:

- the development of conversion plans for the merging and integration of financial systems
- the alignment of different accounting policies may have been in place at local governments which have now been merged into one regional council
- ascertaining the fair value and completeness of non-current assets now owned by the regional councils
- the loss of key staff to manage the change process.

For 30 regional councils where an auditor's opinion has been issued, it was noted that a concerted and resource intensive effort had been undertaken by local governments in the formulation and actioning of implementation plans covering the merger of accounting systems and records of former local government entities. Eight local governments had not yet merged all financial systems into one system.

5.4 Governance, internal audit and Audit Committees

Governance is the means by which an organisation holds itself accountable. In local government terms governance encompasses the accountability of staff to the elected council and the council members (including Mayors and councillors) and staff to the community. Good governance depends on transparency, accountability and equality in ways that are responsive to the present and future needs of the local government community. It also assures that opportunities for fraud, corruption and perceived conflicts of interest particularly in council's decision making process are minimised.

An effective local government relies on public confidence in the elected councillors and appointed officers. The new local government legislation clarifies that the elected councillors are responsible for the strategic direction of local government while local government employees are responsible for implementing the policies and priorities of local government.

To support councils to continually improve governance practices, the current local government legislation allows a local government the option of whether to establish or not to establish an internal audit function and or Audit Committee.

Figure 5C shows the numbers of local governments which currently have an internal audit function and or Audit Committee for the 60 local governments where an auditor’s opinion has been issued at 31 March 2010.

Figure 5C: Internal audit and Audit Committee functions in local governments

Internal audit function established	Audit committee function established
18	29

An Audit Committee as part of its responsibilities normally considers the quality of the financial statements prior to management certification and subsequent forwarding to audit. While eight local governments which had established an Audit Committee had the quality of council certified financial statements as included in Figure 5A assessed as good or very good, it was disappointing to note that an additional two local governments who had also established an Audit Committee had the quality of their management certified financial statements assessed as poor. The extent of Audit Committee involvement in the review of the financial statements prior to management certification will be an area of audit focus for 2009-10.

Under the proposed new local government legislation, all local governments will be required to establish an internal audit function and each large local government is to establish an Audit Committee.

5.5 Councillor remuneration

Under local government legislation, the Local Government Remuneration Tribunal (being an independent tribunal) determines by 1 December annually the remuneration to be paid to councillors including Mayors and Deputy Mayors. A report on the Tribunal’s determinations is made to the Minister, tabled in the Legislative Assembly and published in the Queensland Government Gazette.

For the 60 local governments where an auditor’s opinion has been issued by 31 March 2010, the remuneration paid to all councillors including Mayors and Deputy Mayors was in compliance with local government remuneration tribunal prescribed requirements.

6 | Emerging issues

Summary

Background

The Local Government Bill was passed by Parliament on 4 June 2009 and will replace the *Local Government Act 1993* when it is commenced by proclamation.

The *Local Government Act 2009* (the Act) will establish a principles based local government legislation in place of the current prescriptive framework for governance. The Act will be supported by appropriate subordinate legislation that will contain much of the operational and administrative detail currently contained in the *Local Government Act 1993*.

Observations

- Upon commencement of the new local government legislation, the Department of Infrastructure and Planning will be responsible for the active monitoring of compliance by local governments.
- The issue of councils determining budget expenditure through the allocation of amounts to be spent on facilities and services at the discretion of individual councillors raises several governance exposures.
- The widespread and prolonged rainfall across Queensland during February and March 2010 resulted in extensive flood damage, particularly in south-west Queensland. The impact of Cyclone Ului also resulted in damage within central Queensland. With the recession of floodwaters and in the aftermath of Cyclone Ului, councils have noted extensive damage to infrastructure assets. As part of the 2009-10 audit, an area of additional audit focus will include assessing the extent of council action in determining impairment and the value as at 30 June 2010 and any applicable financial statement disclosure of the infrastructure assets impacted by the recent natural disasters.

6.1 Issues for local government

6.1.1 New legislation

A new Local Government Bill was introduced to Parliament on 22 April 2009 and will replace the *Local Government Act 1993*. The Bill was debated and passed on 4 June 2009 and assented to on 12 June 2009. The resulting new *Local Government Act 2009* (the Act) will become law when it is commenced by proclamation.

Significant changes included in the Act are as follows:

- It will incorporate the governance framework for the 12 Aboriginal Shire councils and repeals the *Local Government (Community Government Areas) Act 2004*.
- It proposes new principles based local government legislation rather than a prescriptive framework for governance. The Act clarifies that the elected councillors are responsible for the strategic direction of local government while local government employees are responsible for implementing the policies and priorities of local government.
- It will require all local governments to establish an internal audit function and each large local government is to establish an Audit Committee. Section 5.4 of this report contains discussion on those councils which already have an internal audit function established as at 30 June 2009.
- It will be supported by appropriate subordinate legislation that will contain much of the operational and administrative detail currently contained in the *Local Government Act 1993*. It is anticipated that the subordinate legislation will require the inclusion within the local government annual report of disclosures not required by current legislation, including measures of financial sustainability projected over a number of future years. It is proposed that local governments will apply financial sustainability criteria by prudently managing financial risks, formulating financial policies, and making available accurate and timely information about the local government's finances and infrastructure.

The introduction of this new legislative framework for local government in Queensland is a significant and complex task for both the Department of Infrastructure and Planning and the individual local governments. Given the time constraints for its introduction, the local government sector will require extensive support and guidance during the implementation process.

6.1.2 Use of discretionary funds

The issue of councils determining budget expenditure through the allocation of amounts to be spent on facilities and services at the discretion of individual councillors raises a number of governance exposures. It appears to introduce opportunities for expenditures to be approved which are not in accordance with the overall priorities of the whole council, and for which whole of life cost considerations may not have been taken into account. It also raises questions about the potential for conflicts of interest to occur.

In light of the matters raised in regard to the councillors' discretionary funds at a large council, it may be an opportune time to consider the issues around the use and approval of discretionary funds with the view to eliminating the capacity for councils to approve discretionary funding arrangements, or to restricting their use to small, well controlled grant programs for the support of the activities of community groups.

6.1.3 Transfer of water assets from local governments

The *South-East Queensland Water (Distribution and Retail Restructuring) and Natural Resources Provisions Act 2009* came into effect from 3 November 2009 and established three new water entities to manage and operate the water retail and distribution activities previously undertaken by South-East Queensland (SEQ) local governments.

The entities created are:

- Northern SEQ Distributor-Retailer Authority with participating councils being Sunshine Coast Regional Council and Moreton Bay Regional Council
- Central SEQ Distributor-Retailer Authority with participating councils being Brisbane City Council, Ipswich City Council, Scenic Rim Regional Council, Lockyer Valley Regional Council and Somerset Regional Council
- Southern SEQ Distributor-Retailer Authority with participating councils being Gold Coast City Council, Redland City Council and Logan City Council.

On 1 July 2010, the participating councils will transfer their water and sewerage businesses including infrastructure assets and staff to these new organisations in accordance with respective transfer notices and participation agreements. The participating councils are still required to account for and value these assets in accordance with the Local Government Finance Standard for the year ended 30 June 2010. Detailed disclosure notes outlining the impact of the transfer will be required to be included in the certified 2009-2010 financial statements.

QAO is working closely with the new entities, affected local governments and Queensland Government central agencies to ensure that prescribed requirements are being adequately addressed.

6.2 Issues for Aboriginal Shire councils

As outlined in Section 2.2 of this report, Aboriginal Shire councils are governed by the *Local Government (Community Government Areas) Act 2004* and the related finance standard. Under s.37 of this Act, councils are to prepare financial statements in the form approved by the chief executive of the Department of Infrastructure and Planning. For several years the 'approved form' has required the preparation of special purpose financial statements which have been progressively adopting the requirements of the Australian Accounting Standards. *Auditor-General Report to Parliament No. 1 for 2009 – Results of local government audits* outlined the challenges faced by councils in identifying, valuing and recording all of their infrastructure assets required in compliance with AASB 116 *Property Plant and Equipment*.

In the same report it was also recommended that the water supply assets of the Northern Peninsula Area Regional Council which were still owned by the State be transferred to the council in a timely manner. The Department of Infrastructure and Planning has recently confirmed that the ownership of the water supply assets remains with the state and contractual arrangements are in place with Sunwater for ongoing operation and maintenance of these assets through to 30 June 2011. Negotiations with the Northern Peninsula Area Regional Council in relation to possible transfer of these assets are planned to be progressed in 2010.

Aboriginal Shire Councils that successfully revalued their infrastructure assets for 2008-09 will need to annually assess these assets (and others recorded at fair value) and adjust the carrying values of these assets in accordance with the requirements of AASB 116. Practically, this assessment for movements in fair values is often conducted by identifying a suitable index that reflects movements in the value of assets for each class of asset and applying the movement in the index to the class where this movement is materially different than the values reported at the beginning of the accounting period.

Aboriginal Shire councils that did not revalue their infrastructure assets in 2008-09 will need to do so in 2009-10 to avoid a qualification on their financial statements.

For 2009-10 the 'approved form' for Aboriginal Shire councils will afford councils the option to prepare special purpose financial statements or full general purpose financial reports. If councils elect to prepare special purpose statements, the 'approved form' will require compliance with all but two Australian Accounting Standards (AASB 1 *First time adoption of Australian Accounting Standards* and AASB 101 *Presentation of Financial Statements paragraph 10(f) and 39*). Upon commencement of the new local government legislation, which is anticipated to apply for 2010-11, all Aboriginal Shire councils will need to prepare general purpose financial reports in line with all other local governments in Queensland.

6.3 Areas of audit focus for 2010

A concerted and resource intensive effort had been undertaken by the majority of local governments in the formulation and actioning of implementation plans covering the merger of accounting systems and records of former local government entities. Continuing strong governance and risk management will be required to effectively manage the local government environment including the impact of new local government legislation and the changed financial reporting challenges that will arise.

To ensure that strong governance and risk management practices continue, as part of the 2009-10 audits, audit focus will be on the following areas:

- risk management practices undertaken including assessments of fraud risk
- processes and procedures in place to strategically manage assets
- for asset valuations using indices, addressing the better practice recommendations contained in *Auditor-General Report to Parliament No. 4 for 2009 – Results of Audits at 31 May 2009*
- transparency and accountability in council's decision making process over discretionary funds
- extent of Audit Committee involvement in the review of the annual financial statements prior to management certification
- reasons for audit receiving an excessive number of financial statement versions prior to audit certification.

In addition, the widespread and prolonged rainfall across Queensland during February and March 2010 resulted in extensive flood damage, particularly in south-west Queensland. The impact of Cyclone Ului also resulted in damage within central Queensland. With the recession of floodwaters and in the aftermath of Cyclone Ului, Councils have noted extensive damage to infrastructure assets. As part of the 2009-10 audit, an area of additional focus will include assessing the extent of council action in determining impairment and the value as at 30 June 2010 and any applicable financial statement disclosure of the infrastructure assets impacted by recent natural disasters.

7

Status of financial statements

Summary

Background

The *Auditor-General Act 2009* 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 my reports to Parliament.

Status

- The 2008-09 financial statements of 143 of 156 local governments, Aboriginal Shire councils and their respective controlled entities have been completed and an auditor's opinion issued.
- Eleven modified and 132 unmodified auditors' opinions have been issued.

7.1 Status of 2008-09 financial statements

One hundred and forty-three auditors' opinions have been issued for the 2008-09 financial year. Unless otherwise indicated, these entities had a financial year ending 30 June 2009.

Figure 7A : Auditors' opinions issued for the 2008-09 financial year

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

Entity name	Financial statements			Timeliness of completion		
	Financial statements signed	Auditor's opinion signed	Auditor's opinion	< 3 months	3 to 6 months	> 6 months
Local governments						
Aurukun Shire Council	13.11.2009	10.12.2009	Q		✓	
Balonne Shire Council	15.09.2009	14.10.2009	U		✓	
Banana Shire Council	25.11.2009	26.11.2009	U		✓	
Barcaldine Regional Council	26.11.2009	27.11.2009	U		✓	
Barcoo Shire Council	26.11.2009	26.11.2009	U		✓	
Blackall Tambo Regional Council	25.09.2009	05.11.2009	U		✓	
Boulia Shire Council	03.02.2010	10.02.2010	U			✓
Brisbane City Council	18.08.2009	28.08.2009	U	✓		
Bulloo Shire Council	03.09.2009	10.09.2009	U	✓		
Bundaberg Regional Council	12.11.2009	12.11.2009	U		✓	
Burdekin Shire Council	10.09.2009	25.09.2009	U	✓		
Burke Shire Council	02.10.2009	08.10.2009	U		✓	
Cairns Regional Council	21.09.2009	21.09.2009	U	✓		
Carpentaria Shire Council	11.11.2009	12.11.2009	U		✓	

Entity name	Financial statements			Timeliness of completion		
	Financial statements signed	Auditor's opinion signed	Auditor's opinion	< 3 months	3 to 6 months	> 6 months
Cassowary Coast Regional Council	14.12.2009	14.12.2009	U		✓	
Central Highlands Regional Council	29.01.2010	09.02.2010	U			✓
Charters Towers Regional Council	24.11.2009	30.11.2009	U		✓	
Cloncurry Shire Council	15.12.2009	06.01.2010	U			✓
Cook Shire Council	11.11.2009	11.11.2009	U		✓	
Croydon Shire Council	18.11.2009	18.11.2009	U		✓	
Diamantina Shire Council	30.11.2009	30.11.2009	U		✓	
Etheridge Shire Council	24.09.2009	05.10.2009	U		✓	
Flinders Shire Council	19.11.2009	30.11.2009	U		✓	
Fraser Coast Regional Council	16.11.2009	16.11.2009	U		✓	
Gladstone Regional Council	15.12.2009	13.01.2010	U			✓
Gold Coast City Council	31.08.2009	05.11.2009	U		✓	
Goondiwindi Regional Council	21.08.2009	31.08.2009	U	✓		
Gympie Regional Council	11.11.2009	13.11.2009	U		✓	
Hinchinbrook Shire Council	09.11.2009	10.11.2009	U		✓	
Ipswich City Council	27.08.2009	26.11.2009	U		✓	
Isaac Regional Council	22.02.2010	17.03.2010	U			✓
Lockyer Valley Regional Council	14.10.2009	29.10.2009	U		✓	
Logan City Council	27.08.2009	27.08.2009	U	✓		
Longreach Regional Council	05.10.2009	27.11.2009	U		✓	
Mackay Regional Council	25.11.2009	26.11.2009	U		✓	

Entity name	Financial statements			Timeliness of completion		
	Financial statements signed	Auditor's opinion signed	Auditor's opinion	< 3 months	3 to 6 months	> 6 months
Maranoa Regional Council	20.01.2010	20.01.2010	U			✓
McKinlay Shire Council	03.11.2009	26.11.2009	Q		✓	
Moreton Bay Regional Council	05.11.2009	05.11.2009	U		✓	
Mornington Shire Council	13.11.2009	30.11.2009	Q		✓	
Mount Isa City Council	02.11.2009	05.11.2009	U		✓	
Murweh Shire Council	02.11.2009	03.11.2009	U		✓	
North Burnett Regional Council	16.12.2009	21.12.2009	U		✓	
Northern Peninsula Area Regional Council	12.11.2009	22.01.2010	U			✓
Paroo Shire Council	27.11.2009	30.11.2009	U		✓	
Quilpie Shire Council	14.08.2009	14.10.2009	U		✓	
Redland City Council	19.10.2009	21.10.2009	U		✓	
Richmond Shire Council	22.10.2009	24.11.2009	U		✓	
Rockhampton Regional Council	09.11.2009	10.11.2009	U		✓	
Scenic Rim Regional Council	05.11.2009	06.11.2009	U		✓	
Somerset Regional Council	28.10.2009	02.11.2009	U		✓	
South Burnett Regional Council	30.11.2009	30.11.2009	U		✓	
Southern Downs Regional Council	04.11.2009	17.11.2009	U		✓	
Sunshine Coast Regional Council	16.11.2009	18.11.2009	U		✓	
Tablelands Regional Council	21.10.2009	04.11.2009	U		✓	
Toowoomba Regional Council	25.11.2009	27.11.2009	U		✓	
Torres Shire Council	27.11.2009	27.11.2009	U		✓	

Entity name	Financial statements			Timeliness of completion		
	Financial statements signed	Auditor's opinion signed	Auditor's opinion	< 3 months	3 to 6 months	> 6 months
Torres Strait Island Regional Council	Not completed	Not completed				
Townsville City Council	23.11.2009	24.11.2009	U		✓	
Western Downs Regional Council	30.11.2009	30.11.2009	U		✓	
Whitsunday Regional Council	24.11.2009	27.11.2009	U		✓	
Winton Shire Council	20.11.2009	24.11.2009	U		✓	
Joint local governments						
Esk, Gatton and Laidley Water Board	13.10.2009	20.10.2009	U		✓	
Nogoa River Flood Plain Board	16.10.2009	26.10.2009	U		✓	
Aboriginal Shire councils						
Cherbourg Aboriginal Shire Council	Not completed	Not completed				
Doomadgee Aboriginal Shire Council	28.01.2009	31.03.2010	Q E			✓
Hope Vale Aboriginal Shire Council	15.09.2009	19.11.2009	U		✓	
Kowanyama Aboriginal Shire Council	30.10.2009	23.11.2009	U		✓	
Lockhart River Aboriginal Shire Council	04.11.2009	26.11.2009	U		✓	
Mapoon Aboriginal Shire Council	15.09.2009	18.12.2009	D		✓	
Napranum Aboriginal Shire Council	Not completed	Not completed				
Palm Island Aboriginal Shire Council	15.09.2009	11.11.2009	U		✓	
Pormpuraaw Aboriginal Shire Council	Not completed	Not completed				
Woorabinda Aboriginal Shire Council	14.12.2009	22.12.2009	Q		✓	
Wujal Wujal Aboriginal Shire Council	14.09.2009	26.11.2009	U		✓	
Yarrabah Aboriginal Shire Council	12.11.2009	25.11.2009	U		✓	

Entity name	Financial statements			Timeliness of completion		
	Financial statements signed	Auditor's opinion signed	Auditor's opinion	< 3 months	3 to 6 months	> 6 months
Controlled entities						
Boonah and District Art Gallery and Library Trust	Not completed	Not completed				
Boonah and District Performing Arts Centre Trust	Not completed	Not completed				
Brisbane Arts Trust	29.09.2009	30.09.2009	U	✓		
Brisbane Environment Trust	29.09.2009	30.09.2009	U	✓		
Brisbane Marketing Pty Ltd	30.09.2009	01.10.2009	U		✓	
Brisbane Powerhouse Pty Ltd	24.09.2009	28.09.2009	U	✓		
Broadbeach Alliance Limited	28.09.2009	01.10.2009	U		✓	
Burdekin Cultural Complex Board Inc. ²	23.06.2009	24.06.2009	U	✓		
Cairns Regional Gallery Limited	06.10.2009	06.10.2009	U		✓	
Caloundra City Enterprises Pty Ltd	19.11.2009	23.11.2009	U		✓	
Castra Retirement Home Limited	01.12.2009	01.12.2009	U		✓	
City of Brisbane Arts and Environment Ltd	29.09.2009	30.09.2009	U	✓		
City of Brisbane Investment Corporation Pty Ltd	20.10.2009	23.10.2009	U		✓	
City Super Pty Ltd (As Trustee for BCC Superannuation Plan)	28.10.2009	30.10.2009	U		✓	
Connecting Southern Gold Coast Ltd	29.09.2009	02.10.2009	U		✓	
Edward River Crocodile Farm Pty Ltd	Not completed	Not completed				
Empire Theatres Foundation	12.08.2009	25.08.2009	U	✓		
Empire Theatres Pty Ltd	17.08.2009	25.08.2009	U	✓		
Gold Coast Arts Centre Pty Ltd	30.10.2009	30.11.2009	U		✓	
Hervey Bay (Community Fund) Limited	23.12.2009	23.12.2009	U		✓	

Entity name	Financial statements			Timeliness of completion		
	Financial statements signed	Auditor's opinion signed	Auditor's opinion	< 3 months	3 to 6 months	> 6 months
Hervey Bay (Cultural Fund) Limited	23.12.2009	23.12.2009	U		✓	
Hervey Bay Community Trust	Not completed	Not completed				
Hervey Bay Cultural Trust	22.12.2009	22.12.2009	U		✓	
Ipswich Arts Foundation	12.10.2009	15.10.2009	U		✓	
Ipswich Arts Foundation Trust	02.09.2009	18.09.2009	U	✓		
Ipswich City Enterprises Investments Pty Ltd	27.08.2009	26.11.2009	U		✓	
Ipswich City Enterprises Pty Ltd	27.08.2009	26.11.2009	U		✓	
Ipswich City Properties Pty Ltd	27.08.2009	26.11.2009	U		✓	
Kingaroy Private Hospital Limited	17.12.2009	17.12.2009	U		✓	
Kronosaurus Korner Board Inc.	13.10.2009	30.11.2009	U		✓	
Lockhart River Aerodrome Company Pty Ltd	25.11.2009	26.11.2009	U		✓	
Noosa Biosphere Ltd	03.12.2009	04.12.2009	U		✓	
Nuffield Pty Ltd	25.09.2009	30.09.2009	U	✓		
Organics Reclaimed Pty Ltd	10.12.2009	10.12.2009	U		✓	
Outback @ Isa Pty Ltd	09.10.2009	20.10.2009	U		✓	
Poruma Island Pty Ltd	Not completed	Not completed				
Quad Park Corporation Pty Ltd	26.11.2009	30.11.2009	U		✓	
Resolute I.T. Pty Ltd ³	10.08.2009	14.08.2009	U	✓		
Rodeo Capital Pty Ltd	13.10.2009	26.10.2009	U		✓	
Sunshine Coast Events Centre Pty Ltd	19.10.2009	25.10.2009	U		✓	
Surfers Paradise Alliance Limited	16.09.2009	18.09.2009	U	✓		

Entity name	Financial statements			Timeliness of completion		
	Financial statements signed	Auditor's opinion signed	Auditor's opinion	< 3 months	3 to 6 months	> 6 months
The Brolga Theatre Board Inc.	15.12.2009	15.12.2009	U		✓	
The Rockhampton Art Gallery Trust	24.09.2009	05.10.2009	Q		✓	
Townsville & Thuringowa Cemetery Trust ⁴	Not completed	Not completed				
Townsville Breakwater Entertainment Centre Joint Venture	31.10.2009	19.11.2009	U		✓	
TradeCoast Land Pty Ltd	13.10.2009	20.10.2009	U	✓		
Waltzing Matilda Centre Ltd	28.10.2009	30.10.2009	U		✓	
Warwick Tourism and Events Pty Ltd	27.10.2009	03.11.2009	U		✓	
WBBROC Project Management Pty Ltd	22.12.2009	22.12.2009	U		✓	
Wide Bay Water Corporation	30.11.2009	30.11.2009	U		✓	
Widelinx Pty Ltd	15.12.2009	15.12.2009	U		✓	
Woorabinda Pastoral Company Pty Ltd	11.11.2009	21.12.2009	Q		✓	
Jointly controlled entities						
Advance Cairns Limited	30.09.2009	07.10.2009	U		✓	
Central Queensland Local Government Association Inc.	22.09.2009	29.09.2009	U	✓		
Central Western Queensland Remote Area Planning and Development Board (Reporting) Ltd	01.11.2009	09.11.2009	U		✓	
Council of Mayors (South-East Queensland)	30.09.2009	30.09.2009	U	✓		
DDS Unit Trust ³	10.08.2009	17.08.2009	U	✓		
Far North Queensland Regional Organisation of Councils	08.12.2009	08.12.2009	U		✓	
Gulf Savannah Development Inc.	15.09.2009	25.09.2009	U	✓		

Entity name	Financial statements			Timeliness of completion		
	Financial statements signed	Auditor's opinion signed	Auditor's opinion	< 3 months	3 to 6 months	> 6 months
Local Buy Trading Trust ³	06.08.2009	18.08.2009	Q	✓		
Local Government Association of Queensland Inc. ³	20.08.2009	21.08.2009	U	✓		
Local Government Infrastructure Services Pty Ltd	01.09.2009	02.09.2009	U	✓		
North Queensland Local Government Association ⁴	Not completed	Not completed				
Palm Island Community Company Ltd	27.10.2009	28.10.2009	U		✓	
Prevwood Pty Ltd ³	20.08.2009	21.08.2009	U	✓		
Queensland Local Government Mutual Liability Pool (LGM Queensland)	02.11.2009	17.11.2009	U		✓	
Queensland Local Government Workers Compensation Self-Insurance Scheme (trading as Local Government Workcare)	10.11.2009	17.11.2009	U		✓	
SEQ Distribution Entity (Interim) Pty Ltd	Not completed	Not completed				
Services Queensland	20.08.2009	21.08.2009	U	✓		
South-East Queensland Healthy Waterways Partnership	05.10.2009	08.10.2009	U		✓	
South-West Queensland Local Government Association ¹	27.04.2009	01.06.2009	U	✓		
Urban Local Government Association of Queensland Inc. ²	18.11.2009	23.11.2009	U			✓
Western Queensland Local Government Association	18.09.2009	30.11.2009	U		✓	
Western Sub Regional Organisation of Councils	Not completed	Not completed				
Whitsunday Hinterland and Mackay Bowen Regional Organisation of Councils Inc.	25.02.2010	09.03.2010	E			✓
Wide Bay Burnett Regional Organisation of Councils Inc.	22.12.2009	22.12.2009	U		✓	

Entity name	Financial statements			Timeliness of completion		
	Financial statements signed	Auditor's opinion signed	Auditor's opinion	< 3 months	3 to 6 months	> 6 months
Statutory body						
The Island Industries Board ⁵	18.11.2009	19.11.2009	E			✓
Audited by arrangement						
Brisbane City Council Superannuation Plan	27.10.2009	28.10.2009	U		✓	
Brisbane Powerhouse Foundation	24.09.2009	28.09.2009	U	✓		
Queensland Local Government Superannuation Board	27.10.2009	28.10.2009	U		✓	
Local Government Superannuation Scheme	27.10.2009	28.10.2009	U		✓	

1 – This entity's financial year ended 31 March 2009

2 – This entity's financial year ended 30 April 2009

3 – This entity's financial year ended 31 May 2009

4 – This entity's financial year ended 31 December 2009

5 – This entity's financial year ended 31 January 2009.

8

Appendices

8.1 Acronyms

AAS	Australian Accounting Standard
AASB	Australian Accounting Standards Board
DIP	Department of Infrastructure and Planning
Finance Standard	<i>Local Government (Community Government Areas) Finance Standard 2004</i>
LGFS	<i>Local Government Finance Standard 2005</i>
QAO	Queensland Audit Office
QTC	Queensland Treasury Corporation

8.2 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 auditor's 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 entity

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

Disclaimer of auditor's 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 local governments

Entities jointly controlled by two or more local governments, that is, two or more local governments have equal shareholdings.

Local government entity

A local government, joint local government, 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 auditor's 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.

8.3 References

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

9

Auditor-General

Reports to Parliament

9.1 Tabled in 2010

Report No.	Subject	Date tabled in Legislative Assembly
1	<i>Auditor-General Report to Parliament No. 1 for 2010</i> <i>Audit of A1 Grand Prix Agreements</i> A Financial and Compliance audit	4 February 2010
2	<i>Auditor-General Report to Parliament No. 2 for 2010</i> <i>Follow-up of selected audits tabled in 2007</i> A Performance Management Systems audit	23 March 2010
3	<i>Auditor-General Report to Parliament No. 3 for 2010</i> <i>Administration of Magistrate Court Services in Queensland</i> A Performance Management Systems audit	13 April 2010
4	<i>Auditor-General Report to Parliament No. 4 for 2010</i> <i>Results of local government audits</i> Financial and Compliance audits	April 2010

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