

# Auditor-General of Queensland



Financial and Assurance audit

Report to Parliament No. 2 for 2011  
Results of local government audits

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# Auditor-General of Queensland

March 2011

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 two in the series of Auditor-General Reports to Parliament for 2011.

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

Yours sincerely



Glenn Poole  
Auditor-General



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# Executive summary

## Introduction

Local government has a critical role in community governance as a democratic, accountable and efficient forum for local decision making. As the provider of many essential services used by members of the community each day, it is important that each local government is able to clearly account for the revenue that is raised and expended in providing community services.

This report deals specifically with the results of the audits of local governments, including Aboriginal Shire councils for the 2009-10 financial year for which an auditor's opinion had been issued at 28 February 2011. On 21 February 2011, the Department of Infrastructure and Planning which was responsible for local government policy was renamed the Department of Local Government and Planning.

This year, I have seen a continued improvement in the timeliness and quality of the financial statements of the Aboriginal Shire councils and I wish to acknowledge the increased level of quality review undertaken by these local governments over their financial statements. The actions by the responsible department in issuing proforma financial statements and holding supporting workshops across Queensland assisted in the achievement of improved reporting outcomes. Ten Aboriginal Shire councils were successful in finalising their 2009-10 financial statements by the statutory deadline of 30 November 2010. This represented an improvement from 2009 where only seven councils obtained audit certification of their financial statements within the statutory timeframe.

## Results of 2009-10 audits

Of the 73 local governments, auditors' opinions on 2009-10 financial statements have been issued for 69 local governments (or 94 per cent). Auditors' opinions have also been issued for 67 of the 76 local government related entities (or 88 per cent). Of the 136 auditors' opinions issued for 2009-10 financial statements, 26 modified and 110 unmodified opinions have been issued.

Of the 69 local governments where an auditor's opinion had been issued at 28 February 2011, the financial statements of all but four local governments were certified by management and audit within the statutory deadline of 30 November 2010. These four local governments had been given an extension of time by the Minister to provide their financial statements for audit.

At 28 February 2011, 516 moderate to high risk financial management issues had been reported to management from 2009-10 audits of local government entities (being local governments, joint local governments, controlled entities and jointly controlled entities) where an auditor's opinion had been issued.

A significant improvement occurred in the financial statements of a number of local governments, which had established audit committees. Audit assessed the quality of management certified statements in these local governments as good or very good. This rose from eight in 2009 to 23 in 2010. Under the *Local Government Act 2009*, which became effective from 1 July 2010, for local governments which have an Audit Committee, the draft financial statements are to be reviewed by the Audit Committee prior to management certification.

## Impacts of the natural disasters in Queensland

Recent flooding and cyclones have devastated many communities across Queensland. The human cost and affect upon livelihoods and communities is hard to comprehend and my staff and I extend our sincere sympathies to all who have been affected by these drastic events.

Damages to local infrastructure from flooding and cyclones are estimated by media reports to exceed \$2.5b, with 72 of the 73 local governments having suffered enough damage to qualify for funding under the Natural Disaster Relief and Recovery Arrangements.

### Local government

While this report deals with the results of the audits of local governments for the 2009-10 financial year, given its timing, I have included information to assist local governments in accounting for the impact of recent events, particularly in the areas of non-current physical assets, government grants and other financial assistance that may be received.

Since these events have occurred, local governments have been working with the community and other stakeholders to prioritise service delivery and determine appropriate and sustainable service levels. The impact of the natural disasters may have resulted in local governments identifying the need to expend considerably more on future asset maintenance, renewal and replacement than current income streams allow. While State and Federal Government assistance will be provided, local governments may still be required to find levels of funding considerably in excess of that previously available to repair infrastructure.

I understand the many difficulties faced by the local governments impacted. However, my role requires that I must ultimately form an opinion as to whether the 2010-11 financial statements of affected local governments are free from material misstatement and are in compliance with prescribed accounting standards and legislation.

Due to the extensive damage, I accept that many local governments will be prioritising resources to restore some normality within their communities. In these circumstances, there may not be sufficient resources to ensure compliance with all of the accounting standards and legislative provisions. This is likely to result in an increase in the number of modified auditors' opinions issued on 2010-11 financial statements.

I urge local governments to consider the issues identified in Section 2 of this report. I will be encouraging local governments to make their own disclosures in financial statements about the extent to which they have been affected by the extreme weather events affecting Queensland and the action they have taken or are planning to take. These disclosures, may not in themselves be sufficient to remove the limitation on my ability to form an auditor's opinion on the 2010-11 financial statements. Detailed note disclosure in the financial statements will provide users with relevant information in relation to the impact of the disasters.

Given the level of destruction associated with the recent weather events, the most likely impact to be recorded in local governments' financial statements will be the recording and valuation of non-current physical assets. Major damage has occurred to a range of asset types including roads, bridges, water and sewerage infrastructure and buildings. Damage may also have occurred to land and items of plant and equipment. Local governments need to consider a number of issues in accounting for lost or damaged assets including:

- the effect of damage on asset values
- how impairment of assets will be assessed

- how to account for repairs and insurance recoveries
- the changes needed to asset management plans.

Guidance on these issues is provided in Section 2.1 of this report.

Many local governments will be entitled to additional grant funding from the State and/or Federal Governments to assist with funding reconstruction activity. Careful consideration will be required of the exact terms of the funding agreements to ensure that any amounts received or receivable are appropriately accounted for under the relevant accounting standards. This is discussed further in Section 2.2. The revenue of local governments from rates and other council services may also be affected due to destruction of, or damage to, properties within their areas as well as through waiving certain fees and penalties and providing extensions of time for payment of rates, user charges and other fees.

Previously, where public sector entities have been affected by natural disasters, modified auditor's opinions have been issued on those financial statements where reported asset values do not reflect their current condition. It is important for management to disclose in the financial statements the nature of the assets affected, the relevant circumstances relating to the damage of the assets and whether the reported values of the assets reflect the condition of the assets at reporting date.

Some local governments may also wish to include a disclosure where they were within an affected area but there was no impact or the impact is believed to have been minimal.

These disclosures are considered important as they allow management to provide an explanation of what the impact has been and action taken or planned in relation to damaged assets. These disclosures may not remove the need for a modified auditor's opinion to be issued but will more easily identify that the modification relates to the circumstances which have arisen and not to normal management activity.

## Premier's Disaster Relief Appeals Trust

The recent Queensland disasters have had devastating impacts at all levels of government and industry, community groups and individuals. One of the key sources of financial support for individuals will be the assistance offered through the Premier's Disaster Relief Appeals Trust.

The Premier's Appeal was originally established in 2000 to help relieve the suffering and distress caused by natural disasters in Queensland, across Australia and in developing countries in the Pacific region. A number of specific appeals have been launched for various natural disaster events since that time. On 29 December 2010, the Premier again launched an appeal in response to the extensive flooding across Queensland. The appeal was subsequently extended to assist those suffering from the effects of Tropical Cyclone Yasi. As the magnitude of these natural disasters has been more significant than in previous years, so too has been the public support of the Premier's Appeal with reported collections in excess of \$229m (at 1 March 2011).

As the appointed auditor of the Premier's Appeal, I will review the adequacy of the internal controls aimed at ensuring the completeness and accuracy of the donations received. I will also audit the validity of payments made in accordance with the eligibility criteria established by the Distribution Committee. My audit will encompass the controls in operation at the various agencies involved in distributing these publicly donated funds.

The results of my 2010-11 audit of the Premier's Appeal will be included in a future report to Parliament.

## Queensland Reconstruction Authority

The Queensland Reconstruction Authority (QRA) was established on 21 February 2011 under the *Queensland Reconstruction Authority Act 2011*. The principal objective of the authority is to provide appropriate measures to ensure Queensland and its communities effectively and efficiently recover from the impacts of specific disaster events. The QRA will oversee Queensland natural disaster relief arrangement claims made on the Commonwealth for Cyclone Yasi and the 2010-11 Queensland flooding.

A comprehensive audit program is currently being developed to provide audit coverage of all aspects of the expenditure on disaster recovery and reconstruction activities by departments, statutory bodies and local government in Queensland.

This audit program will enable the necessary audit certification to be provided for claims by the State under the Natural Disaster Relief and Recovery Arrangements.

Recently approved arrangements have been put in place between the State of Queensland and the Commonwealth through the National Partnership Arrangement for Natural Disaster Reconstruction and Recovery Agreement. Under the Agreement there is a focus on ensuring that value for money is obtained during the reconstruction of Queensland communities.

The audit approach will draw on the appropriate audit powers available under the *Auditor-General Act 2009*. By using a combination of the audit powers available, I will be in a position to provide assurance that the systems put in place by the QRA to ensure achievement of value for money, are robust and operating as designed. Through such an approach I will be able to provide audit coverage and assurance for Parliament in relation to the expenditure of funds made available by the State and Commonwealth Governments for the various State entities and individual local governments.

## Other issues

An additional challenge for local government in 2011 will be the implementation of the *Local Government Act 2009*, which became effective from 1 July 2010. This Act establishes new principles based legislation to replace the prescriptive framework for governance contained in the *Local Government Act 1993*. The *Local Government Act 2009* clarifies a councillor's role as one to ensure that the policies, strategies and objectives of the local government are formulated to best serve the public interest of the area generally while the local government's Chief Executive Officer and employees are responsible for implementing the policies and priorities of the local government.

In light of the recent extreme weather events, as part of the 2010-11 audits, areas of audit focus will include:

- the extent of local government action in revisiting asset management plans and risk management strategies
- assistance provided under the Natural Disaster Relief and Recovery Arrangements
- action in determining impairment of assets and their value as at 30 June 2011
- the ability of local governments to meet their future financial obligations as and when they arise
- any applicable financial statement disclosure of the infrastructure assets which may have been impaired.

A performance management system audit has recently been completed on the implementation and enforcement of local laws. The objective of this audit was to determine if local governments have documented systems in place to enable them to effectively and efficiently implement and enforce their local laws and manage real or perceived conflicts of interest where they are both operators and regulators. While most local governments responded that they have systems in place to implement and enforce their local laws, an analysis of the documentation identified significant gaps in the training, guidance and support for local government officers implementing and enforcing local laws.

The results of this audit are contained in *Auditor-General Report to Parliament No. 11 for 2010 – Implementation and enforcement of local laws*, tabled in Parliament in November 2010. The report provides a number of specific actions most local governments should consider to improve their administration of local laws. This report provides council officers clearer guidance on how to implement and enforce the local laws consistently and fairly. Access to this report is available at [www.qao.qld.gov.au](http://www.qao.qld.gov.au)



# 1

## Results of 2009-10 audits

### Summary

#### Background

The *Auditor-General Act 2009* requires the Auditor-General to report to Parliament on the results of all audits each year. This section contains the results of the 2009-10 audits completed to 28 February 2011 for 149 local government entities. The 2009-10 audits included a focus on a number of key areas, including the quality and timeliness of financial statements, internal audit and Audit Committees. The results of this audit focus are provided in this section.

#### Key findings

- At 28 February 2011, auditors' opinions had been issued on 2009-10 financial statements for 69 of 73 local governments (or 94 per cent) and 67 of 76 local government related entities (or 88 per cent).
- Modified auditors' opinions have been issued on the 2009-10 financial statements for 18 local governments and seven local government related entities. Unmodified auditors' opinions have been issued for 51 local governments and 60 local government related entities. A modified auditor's opinion has been issued on the 2008-09 financial statements of Torres Strait Island Regional Council. The 2008-09 financial statements of Poruma Island Pty Ltd have not yet been finalised and audited.
- There has been a continued improvement in the timeliness and quality of financial statements.
- At 28 February 2011, 516 moderate to high risk financial management issues had been reported to management from 2009-10 audits of local government entities.
- Between 2009 and 2010 there was an increase from eight to 23 local governments with an Audit Committee where the quality of local government certified financial statements was assessed as good or very good.
- Three regional councils are yet to consolidate the accounting systems and records of former local government entities.
- For local governments where a discretionary fund was available during the 2009-10 financial year, all were considered to have an appropriate system in place to manage and minimise potential conflicts of interest.
- For the local governments where an auditor's opinion was issued by 28 February 2011, the remuneration paid to councillors including Mayors and Deputy Mayors was in compliance with local government remuneration tribunal prescribed requirements in all but one local government where an administrative oversight caused a minor overpayment.

## 1.1 Auditors' opinions issued

### 1.1.1 Reporting framework

This report deals specifically with the results of the audits of local governments for the 2009-10 financial year for which an auditor's opinion had been issued at 28 February 2011 under the *Local Government Act 1993*, and the *Local Government (Community Government Areas) Act 2004*. Future local government reports will be issued under the *Local Government Act 2009*, apart from the Brisbane City Council which is governed by the *City of Brisbane Act 2010*. For the first time this report does not separately report the results of Aboriginal Shire Councils as these entities are now local governments under the *Local Government Act 2009*.

For the 2009-10 financial year, local governments in Queensland were governed by the *Local Government Act 1993*, the *Local Government (Community Government Areas) Act 2004* and subordinate legislation, apart from the Brisbane City Council which was governed by the *City of Brisbane Act 1924*. The legislation required the Auditor-General to prepare a report on any audit of a local government. Copies of the report on the audit performed were to be provided to the Mayor who was required to table a copy of the report at the next ordinary meeting of the local government. These Acts required copies of the audit report to also be provided to the Chief Executive Officer of the local government as well as to the Minister.

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

For all local government audits where an auditor's opinion has been issued, a report on the audit performed has been forwarded to the respective Mayor and Chief Executive Officer in terms of s.530 of the *Local Government Act 1993* and s.126 of the *City of Brisbane Act 1924*.

## 1.1.2 2009-10 financial statements

The current status of 2009-10 local government audits is summarised in Figure 1A.

**Figure 1A – Status of 2009-10 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	73	18	51	4
Joint local government entities	2	1	1	0
Controlled entities	50	5	38	7
Jointly controlled entities	20	2	16	2
Statutory body	1	0	1	0
Audited by arrangement	3	0	3	0
<b>Total local government entities</b>	<b>149</b>	<b>26</b>	<b>110</b>	<b>13</b>

Information about when the financial statements were signed by management and the auditor's opinion issued can be found in Section 4.1 of this report. Section 5.1 defines the types of auditors' opinions issued during the year.

Details of the modified auditors' opinions issued for 2009-10 are as follows:

**Figure 1B – Modified auditors' opinions issued for 2009-10**

Entity name	Basis for auditors' opinions issued
<b>Qualified auditors' opinions</b>	
Aurukun Shire Council	A qualified auditor's opinion was issued because: <ul style="list-style-type: none"> <li>An opinion could not be expressed on employee costs and employee benefit liabilities in 2009 and these comparative amounts remained qualified in 2010.</li> <li>An opinion could not be expressed on the 2009 depreciation expense and this comparative amount remained qualified in 2010.</li> </ul>
Boonah and District Art Gallery and Library Trust	A qualified auditor's opinion was issued as the trust has determined it is impractical to establish effective control over the collection of donations prior to entry in their financial records. Consequently, an opinion could not be expressed on the completeness of fundraising and donation revenue.
Boonah and District Performing Arts Centre Trust	A qualified auditor's opinion was issued as the trust has determined it is impractical to establish effective control over the collection of donations prior to entry in their financial records. Consequently, an opinion could not be expressed on the completeness of fundraising and donation revenue.
Cook Shire Council	A qualified auditor's opinion was issued because an opinion could not be expressed on the written down value of road infrastructure and the associated depreciation expense and asset revaluation surplus balance. Council's documentation of the review of independent valuations undertaken was inadequate and data used as the basis of the independent valuations did not agree with council records. Also the council was unable to demonstrate that the written down value for property, plant and equipment as at 1 July 2008 (the beginning of the comparative period) did not materially differ from fair value at that date. As a consequence, an opinion was not able to be expressed on this balance nor on the associated depreciation expense for 2009 and the asset revaluation surplus movement for 2008-09.
Doomadgee Aboriginal Shire Council	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.

Entity name	Basis for auditors' opinions issued
Local Buy Trading Trust	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 2009 figures were also qualified on this basis.
Lockyer Valley Regional Council	<p>A qualified auditor's opinion was issued because consistent accounting policies were not used throughout the comparative period in relation to the measurement of land, buildings and infrastructure classes, contravening Australian Accounting Standards. As a result:</p> <ul style="list-style-type: none"> <li>• An opinion was not able to be expressed on the opening 2009 values of land, buildings, road and drainage networks, water and wastewater and the associated 2009 depreciation expense for these asset classes.</li> <li>• An opinion could not be expressed on the asset revaluation surplus, net gain on restructure related to property, plant and equipment, and the reported council capital.</li> </ul> <p>An emphasis of matter was also issued due to the significant uncertainty in relation to a financial asset received in exchange for the transfer of its water and wastewater assets to a distributor-retailer authority on 1 July 2010.</p>
Mapoon Aboriginal Shire Council	<p>A qualified auditor's opinion was issued because:</p> <ul style="list-style-type: none"> <li>• An opinion could not be expressed on the value of work in progress, capitalised employee expenses, employee benefits and material and service expense as the council did not have appropriate systems to reliably allocate the cost of purchased services, materials, direct labour and labour overheads to capital work in progress.</li> <li>• A number of prior period errors were not corrected retrospectively in accordance with Australian Accounting Standard requirements.</li> <li>• An opinion could not be expressed on the 2009 opening balances and comparatives which were disclaimed in 2008-09.</li> <li>• The council was unable to demonstrate that reported comparative values for infrastructure assets and buildings did not materially differ from their fair values. As a consequence, these 2009 balances and the associated comparative depreciation expense and asset revaluation surplus balances were unable to be verified.</li> </ul> <p>An emphasis of matter was also issued as the council utilised available grant monies to meet operational needs rather than for the purposes approved by the grant provider. Consequently there was significant uncertainty as to whether the council would be able to pay its debts as and when they fell due without additional financial support being provided by grantors or other bodies.</p>
Mornington Shire Council	A qualified auditor's opinion was issued because an opinion was not able to be expressed on the 2009 comparatives figures for buildings; road, drainage, and bridge network; water and sewerage assets; cash at bank and on hand; and long service leave provision and these remained qualified in 2010.
Napranum Aboriginal Shire Council	<p>A qualified auditor's opinion was issued because:</p> <ul style="list-style-type: none"> <li>• The council was unable to demonstrate that the written down value for property, plant and equipment as at 1 July 2008 (the beginning of the comparative period) did not materially differ from fair value at that date. As a consequence, an opinion was not able to be expressed on these values, the associated depreciation expense for 2009 and the asset revaluation surplus movement for 2008-09. The comparative residual values for road, drainage and bridge network, water and sewerage assets were also unable to be verified.</li> <li>• A prior period error in respect of the financial information of the Napranum Preschool and Kindergarten was not corrected retrospectively in accordance with Australian Accounting Standard requirements.</li> </ul>
Woorabinda Aboriginal Shire Council	<p>A qualified auditor's opinion was issued because:</p> <ul style="list-style-type: none"> <li>• 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 the existence of breeding cattle at 1 July 2008 and therefore the comparative net market value increment for livestock for 2008-09. These figures remained qualified for 2010.</li> <li>• Inconsistent accounting policies were applied by the council and its controlled entity in the comparative year in respect of the valuation of land, land improvements and buildings.</li> <li>• Insufficient evidence was provided to support a prior period adjustment to the number of cattle existing at 30 June 2009, resulting in an opinion not being able to be expressed on the consolidated net quantity adjustment and the 2010 consolidated net market value increment of livestock.</li> </ul>

Entity name	Basis for auditors' opinions issued
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 the existence of breeding cattle at 1 July 2008 and therefore the comparative net market increment for livestock for 2008-09. This was also the basis of the qualified opinion in 2009. In addition, insufficient evidence was provided to support a prior period adjustment to the number of cattle existing at 30 June 2009. As a result, an opinion was not able to be expressed on the net quantity adjustment and the 2010 net market value increment of livestock.
<b>Emphasis of matter references</b>	
Council of Mayors (South East Queensland) Pty Ltd	An emphasis of matter was issued to alert users to the fact that special purpose financial statements had been prepared. As these were prepared for the purpose of fulfilling the directors' financial reporting responsibilities under the <i>Corporations Act 2001</i> , the financial report may not be suitable for another purpose.
Esk, Gatton and Laidley Water Board	An emphasis of matter was issued as there was material uncertainty as to whether the board would be able to continue as a going concern as it ceased to generate income from 1 July 2010.  An additional emphasis of matter paragraph was included as the board failed to adopt its annual report, including the audited financial statements, by the statutory deadline imposed under the Local Government Act.
Gold Coast City Council Ipswich City Council Lockyer Valley Regional Council Logan City Council Moreton Bay Regional Council Redland City Council Scenic Rim Regional Council Somerset Regional Council Sunshine Coast Regional Council	An emphasis of matter was issued as these councils entered into agreements to transfer all their remaining water and wastewater assets to a distributor-retailer authority on 1 July 2010. In exchange these councils received a financial asset in the form of a right to receive a percentage of the relevant authority's future profits. While the calculation of this financial asset is underpinned by a financial model, given that these authorities had not yet traded at 30 June 2010 and the regulator had not set the authorities' future pricing structure, there was significant uncertainty regarding some of the key assumptions used in the financial model. Consequently as the value of this financial asset equated to the consideration the councils would receive for their water and wastewater assets on 1 July 2010, significant uncertainty existed in relation to the valuation of these assets at 30 June 2010.
Moreton Bay Regional Council	In addition to the emphasis of matter issued above, an emphasis of matter was also issued on the basis that significant uncertainty existed in relation to the completeness of contributed assets recognised in the 2009-10 and the associated depreciation expense.
Northern Peninsula Area Regional Council	An emphasis of matter was issued as the council utilised available grant monies to meet operational needs rather than for the purposes approved by the grant provider. Consequently there was significant uncertainty as to whether the council would be able to pay its debts as and when they fell due without additional financial support being provided by grantors or other bodies.
Whitsunday, Hinterland and Mackay Bowen Regional Organisation of Councils Inc.	An emphasis of matter was issued to draw attention to the members' intention to cease operations and voluntarily wind up the entity. Accordingly, the financial report was not prepared on a going concern basis.

Brisbane City Council and the Rockhampton Art Gallery Trust were also issued with modified auditors' opinions. Details of the auditors' opinions for these entities are included in *Auditor-General Report No. 13 for 2010 – Results of audits at 31 October 2010* (Section 2.3).

At 28 February 2011, auditors' opinions had not yet been issued for four local governments and nine local government entities. QAO is actively working with these entities to ensure financial statements are finalised for audit and outstanding auditors' opinions are issued as soon as practicable.

### 1.1.3 2008-09 financial statements

When unfinalised financial statements were last reported in *Auditor-General Report to Parliament No. 13 for 2010 – Results of Audits at 31 October 2010*, auditors' opinions had not been issued for two entities.

A modified auditor's opinion has now been issued for Torres Strait Island Regional Council as detailed in Figure 1C. The financial statements of Poruma Island Pty Ltd for 2008-09 have not yet been finalised.

**Figure 1C – Modified auditors' opinions issued for 2008-09**

Entity name	Basis for auditors' opinions issued
<b>Disclaimer of auditor's opinion</b>	
Torres Strait Island Regional 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"> <li>• Cash reported as existing at 30 June 2009 was identical to the balance reported at 15 March 2008 and was not able to be verified as physical cash counts were not completed by the council.</li> <li>• The council has a significant number of accounts in the general ledger classified as either suspense, clearing or cash in safe, which could not be substantiated.</li> <li>• Housing rental debtors were not raised for the majority of 2008-09. A bulk debtor raising was performed. Despite this, many individual debtors continued to pay their weekly housing rentals resulting in unallocated receipts which were not posted to individual debtor accounts.</li> <li>• The net balance of trade and other receivables could not be reconciled to individual debtor records, the completeness and accuracy of non-grant revenue could not be verified and an opinion could not be formed on the statement of cash flows.</li> <li>• Employee (including Community Development Employment Projects (CDEP) participants) pay rates could not be verified as employee personnel files and CDEP records were incomplete and inconsistent with payroll records. Consequently, the completeness, accuracy and validity of the employee benefits expense could not be substantiated.</li> <li>• Opening balances for annual leave and long service leave liabilities were not supported by appropriate documentation and significant estimation was required by the council to calculate the opening balances for employee benefits. In addition, there was a lack of adequate leave records and uncertainty of pay rates used in the employee benefit liability calculations. As a result, the completeness, accuracy, validity and valuation of the annual leave and long service leave liabilities could not be verified.</li> </ul> <p>Further, the council did not maintain adequate systems to enable it to determine its statutory obligations to the Commonwealth Government, in that:</p> <ul style="list-style-type: none"> <li>• The council failed to remit unpaid pay as you go (PAYG) instalments on behalf of council employees between 28 November 2008 and 1 June 2009 and between 23 June 2009 and 30 November 2009. The council also failed to remit long overdue superannuation contributions during 2008-09.</li> <li>• From the council's commencement on 15 March 2008 to the end of the first financial reporting period at 30 June 2009, only two monthly Business Activity Statement returns were lodged by the council in respect of its goods and services tax (GST) obligations. No GST related payments were made during the period 23 July 2008 to 30 June 2009.</li> </ul> <p>In addition to the above matters, an opinion was not able to be formed on the final financial reports of four of the former island councils from which assets and liabilities were transferred to the council on 15 March 2008. As a result, an opinion was not able to be formed on the completeness, accuracy and valuation of gains arising from these transfers.</p>

## 1.2 Quality and timeliness of financial reporting

### 1.2.1 Quality

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

Figure 1D shows the assessed quality of the management certified financial statements initially provided to audit for the local governments where an auditor's opinion had been issued by 28 February 2011.

**Figure 1D – 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 governments	
	2010	2009
Very good	8	10
Good	30	16
Satisfactory	21	27
Poor	10	7
Total	69	60

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. The analysis shows an improvement over that contained in the previous Auditor-General report on 2008-09 audits in *Auditor-General Report to Parliament No 4 for 2010 – Results of local government audits*.

This could be attributed to the increased level of quality review of the financial statements undertaken by the local government, and the assistance provided by the responsible department in issuing proforma financial statements and holding supporting workshops across Queensland.

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.

### 1.2.2 Timeliness

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.

Under the *Local Government Finance Standard 2005*, a local government must provide the 2009-10 management certified financial statements to the Auditor-General for auditing as soon as practicable after the end of the financial year and no later than 15 September, unless an extension of time was approved by the Minister. The *Local Government Act 1993* required 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 had been approved by the Minister. Similar provisions apply to Aboriginal Shire Councils by the *Local Government (Community Government Areas) Act 2004* and the *Local Government (Community Government Areas) Finance Standard 2004*.

Of the 73 local governments, 69 auditors' opinions have been issued. Financial statements for two local governments (or three per cent) were certified by management and an auditor's opinion issued within two months of the balance date of 30 June 2010. Sixty-three sets of financial statements (or 86 per cent) were certified by management and audit between three months and five months after the balance date (or 30 November), which is the statutory timeframe for certification of the financial statements. Four auditors' opinions were issued after the statutory deadline. These local governments had been granted an extension of time by the Minister to provide their financial statements for audit. Auditors' opinions are yet to be issued on the financial statements for four local governments. Details of when management certificates were issued and auditors' opinions signed are provided in Section 4.1.

Twelve of the 73 local governments are Aboriginal Shire councils. With respect to these 12 councils, ten were successful in finalising their 2009-10 financial statements by the statutory deadline of 30 November 2010. This represents an improvement from the prior year, where only seven obtained audit certification of their financial statements within five months of the end of the financial year. This result was achieved due to Doomadgee, Napranum and Mapoon Aboriginal Shire Councils improving their timeliness compared to the previous year. These local governments are commended for implementing appropriate actions to facilitate finalisation of their external reporting process within the five month timeframe.

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.

### 1.3 Control weaknesses identified

Management controls are procedures set up to protect assets, ensure reliable accounting records, 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. The number and nature of audit issues raised gives an indication of the strength of governance within a local government.

Findings considered to be high risk are those which pose 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.

At 28 February 2011, 516 moderate to high risk financial management issues had been reported to management from 2009-10 audits of 136 local government entities (being 69 local governments and 67 local government entities where an auditor's opinion had been issued).

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

- non-current physical assets (104 issues)
- employee expenses and benefits (85 issues)
- expenditure and accounts payable (83 issues)
- revenue and receivables (55 issues)
- corporate governance (47 issues)
- information systems security (29 issues)
- cash and investments (25 issues)
- financial statement related (17 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. 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 2008-09 audits in *Auditor-General Report to Parliament No 4 for 2010 – 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.

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 2008-09 audits in *Auditor-General Report to Parliament No 4 for 2010 – Results of local government audits*.
- expenditure and accounts payable, particularly instances of purchase orders raised after receipt of invoices, insufficient support documentation held, non-compliance with procurement policies, and lack of review of credit card transactions. Such weaknesses may result in unauthorised or inappropriate transactions.
- revenue and receivables, particularly the lack of review over key reports, billing of rates and poor debt control. This may result in incorrect rates being charged and high debtor balances and has the potential to materially misstate the financial statements.
- corporate governance, particularly policies and procedures not being up to date, lack of risk management plans, non-compliance with prescribed requirements, policies and procedures, audit committee charters not updated to reflect new local government legislation and an absence of risk management policies and registers.
- information systems security, particularly ineffective system access controls which may increase the risk of unauthorised or inappropriate access to core financial systems and data.
- cash not reconciled to receipts in a timely manner, no documentation to support cash counts and bank reconciliations not always completed. Such weaknesses may prevent timely identification of errors such as misplaced or stolen cash.
- financial statements, particularly improving the quality and timeliness of the financial statements provided to audit.

Management is responsible for developing and maintaining sound internal control frameworks. A good system of control safeguards assets and 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.

## 1.4 Governance issues

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 decision making processes, are minimised.

An effective local government relies on public confidence in the elected councillors and appointed officers. The *Local Government Act 2009* clarifies a councillor's role as one to ensure that the policies, strategies and objectives of the local government are formulated to best serve the public interest of the area generally while the local government's Chief Executive Officer and employees are responsible for implementing the policies and priorities of the local government.

### 1.4.1 Internal audit and audit committees

To support local governments to continually improve governance practices, the *Local Government Act 2009* which became effective from 1 July 2010 requires a local government to establish an internal audit function and for large local governments, to establish an Audit Committee. Figure 1E shows the numbers of local governments which currently have an internal audit function and/or Audit Committee for the 69 local governments where an auditor's opinion had been issued at 28 February 2011.

Figure 1E – Internal audit and Audit Committee functions in local governments

Year	Internal audit function established	Audit committee function established
2010	30	34
2009	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. Twenty-three local governments which had established an Audit Committee had the quality of management certified financial statements assessed as good or very good, compared to eight local governments in 2009.

Under the *Local Government (Finance, Plans and Reporting) Regulation 2010* which became effective from 1 July 2010, for local governments which have an Audit Committee, the draft financial statements are to be reviewed by the Audit Committee prior to management certification.

## 1.4.2 Amalgamation of financial systems

The previous Auditor-General Report on 2008-09 audits in *Auditor-General Report to Parliament No 4 for 2010 – Results of local government audits*, highlighted the challenges for 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 which may have been in place at local governments now merged into one regional council
- ascertaining the fair value and completeness of non-current physical assets now owned by the regional councils
- the loss of key staff to manage the change process.

That report noted the concerted and resource intensive effort that 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.

During the 2009-10 audits of the 40 regional councils where an auditor's opinion had been issued at 28 February 2011, it was found that three local governments have not yet consolidated all financial systems. These local governments are encouraged to continue working toward merging all systems as soon as possible.

## 1.4.3 Use of discretionary funds

Auditor-General Report to Parliament No. 4 for 2010 commented on the issue of local governments determining budget expenditure through the allocation of amounts to be spent on facilities and services at the discretion of individual councillors. The issue raised a number of potential governance exposures including:

- opportunities for expenditures to be approved which are not in accordance with the overall priorities of the whole local government.
- whole of life cost considerations may not have been taken into account in the approval process.
- potential for conflicts of interest to occur.

In light of the matters previously raised in regard to the application of councillors' discretionary funds, it was considered an opportune time during the 2009-10 audits to ascertain whether local governments had in place a system to manage and minimise potential conflicts of interest that may occur.

For local governments where a discretionary fund was available during the 2009-10 financial year, all were considered to have an appropriate system in place to manage and minimise potential conflicts of interest.

Under the *Local Government Act 2009*, which became effective from 1 July 2010, accountability provisions apply to the use of discretionary funding by councillors. Key elements of the provisions require the local government to inform the public of the amount of money in the local government's discretionary funds budgeted for use by each Councillor for a financial year and that the actual allocation of councillors' discretionary funds must comply with a local government's already adopted community grants policy.

#### 1.4.4 Councillor remuneration

The Local Government Remuneration Tribunal (being an independent tribunal) determines annually by 1 December 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 69 local governments where an auditor's opinion had been issued by 28 February 2011, the remuneration paid to councillors, including Mayors and Deputy Mayors, was in compliance with Local Government Remuneration Tribunal prescribed requirements in all but one local government, where an administrative oversight caused a minor overpayment. The local government has initiated action to recover the overpayment.

### 1.5 Transfer of water assets from local government

The *South-East Queensland Water (Distribution and Retail Restructuring) 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 local governments.

The entities created are:

- Northern SEQ Distributor-Retailer Authority (trading as Unitywater) with participating local governments being Sunshine Coast Regional Council and Moreton Bay Regional Council.
- Central SEQ Distributor-Retailer Authority (trading as Queensland Urban Utilities) with participating local governments being Brisbane City Council, Ipswich City Council, Scenic Rim Regional Council, Lockyer Valley Regional Council and Somerset Regional Council.
- Southern SEQ Distributor-Retailer Authority (trading as Allconnex Water) with participating local governments being Gold Coast City Council, Redland City Council and Logan City Council.

On 1 July 2010, the participating local governments transferred their water and wastewater businesses including infrastructure assets and staff to these new organisations in accordance with respective transfer notices and participation agreements. The participating local governments are still required to account for and value these assets in accordance with the *Local Government Finance Standard 2005* for the year ended 30 June 2010. Detailed disclosure notes outlining the impact of the transfer were included in the financial statements for the 2009-10 financial year for each affected local government. Auditors' opinions containing an emphasis of matter were issued for the financial statements of the affected councils as significant uncertainty existed in relation to the valuation of these water and wastewater assets at 30 June 2010. This is discussed further in Figure 1B in Section 1.1.2.

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

# 2 | Impacts of the natural disasters in Queensland

## Summary

### Background

The extreme weather events of early 2011 will have a significant impact on the 2010-11 financial statements of many local governments and their related entities, particularly in terms of accounting for non-current physical assets, and grants and other monies received.

The following section provides an outline of some of the areas that will need to be considered in assessing these issues. This is not intended to be an exhaustive list of all issues and the exact nature and extent of any impact should be considered based on individual circumstances.

### Key areas

- *Accounting for non-current physical assets* – Local governments need to consider a number of issues in accounting for lost or damaged assets including the effect of damages on asset values, how impairment of assets will be assessed, how repairs and insurance recoveries will be accounted for, and the effects on asset management plans.
- *Accounting for grants and assistance* – Many local governments will be entitled to additional grant funding to repair damage to infrastructure, requiring careful consideration of the exact terms of the funding agreements to ensure that any amounts received or receivable are appropriately accounted for under the relevant Australian Accounting Standards.
- *Other operational matters* – Other matters to be considered by local governments include the effects on key systems and financial records, operational priorities, procurement practices and payroll and employee related issues.
- *Additional disclosures* – Financial statements for 2010-11 will require additional disclosures where there has been a financial impact from the natural disasters.

## 2.1 Accounting for non-current physical assets

Given the level of destruction which has occurred, the area of the financial statements most likely to be impacted is the recording and valuation of non-current physical assets. A range of asset types have sustained major damage including roads, bridges, water and sewerage infrastructure and buildings. Damage may also have occurred to other asset types including land and items of plant and equipment.

### 2.1.1 Effect of damages on asset values at reporting date under AASB 116 Property, Plant and Equipment

AASB 116.31 specifically states that in determining "fair value" of an asset:

*"After recognition as an asset, an item of property, plant and equipment whose fair value can be measured reliably shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period."*

Accordingly, where assets are recorded at fair value, AASB 116 requires entities to ensure that the last valuations obtained and reported are not materially different from those that would have been reported had a comprehensive valuation been undertaken as at the reporting date.

In this regard, the reported fair value of an asset needs to reflect the actual condition of the asset at the reporting date. For this reason, condition assessments are commonly used as a key component of many approaches for determining the fair value of public sector infrastructure assets. Given that the physical condition of many assets is likely to have been significantly impacted by the recent natural disasters, careful consideration needs to be given to any changes which have occurred since the last comprehensive asset valuation process was undertaken.

If the fair value of an asset prior to being damaged is likely to be materially different from the fair value of the asset in its damaged condition, the asset would need to be revalued for financial reporting purposes to take into account the change in condition of the asset. Further, under AASB 116, there would not only be a need to revalue the individual asset, but also a requirement to revalue the entire class of assets to which it belongs.

In addition, any damage caused to the assets would also be relevant factors in reassessing the remaining useful lives and residual values of the assets as required by AASB 116.

### 2.1.2 Assessment of impairment of assets under AASB 136 Impairment of Assets

Under AASB 136.12 (e), any damage caused to an asset may also represent an indication that the assets may be impaired (*"evidence is available of obsolescence or physical damage of an asset"*). Appendix 7.2 of Treasury Department's *Non-Current Asset Policies for the Queensland Public Sector*, while not mandatory for application by local governments provides some useful guidance in considering the requirements of AASB 136.12(e):

*"(d) Evidence is available of physical damage of an asset*

*Physical damage would likely result in the asset being unable to provide the level of service that it once was able to provide.*

*Examples:*

- *A building damaged by fire or flood or other factors.*
- *A building closed due to identification of structural deficiencies.*
- *Sections of an elevated roadway that have sagged, indicating that that segment of roadway will need to be replaced in 15 years rather than the original design life of 30 years.*
- *A dam whose spillway has been reduced as a result of a structural assessment.*
- *A water treatment plant whose capacity has been reduced by intake blockage and the removal of the blockage is not economical.*
- *A bridge is weight restricted due to identification of structural deficiencies.*
- *Equipment is damaged and can no longer be repaired or for which repairs are not economically feasible."*

When local governments are assessing whether their assets are likely to be impaired, consideration needs to be given to the extent of the damage that has occurred to the assets, that is, would the asset value be impaired to a material extent. The actual impact of any damage to the assets on the recoverable amount or impaired value of the assets is likely to arise through the following:

- If assets are recorded at fair value, then this should account for the damaged condition of the asset and there should be no difference between this value and the recoverable amount allowed for under AASB 136 (for example, based on depreciated current replacement cost).
- If the assets are recorded at cost, then there may be an issue for impairment as "value in use" would be based on depreciated replacement cost. In these circumstances taking into account the damaged condition of the asset, this may be less than the carrying amount recorded using historical cost (depending on any adjustments for depreciation).

In assessing whether the asset should be revalued or impaired, it would also be relevant to assess whether the damage caused is temporary or permanent in nature. For example, where assets are damaged, this would normally be reflected in a devaluation of the assets rather than recognising an impairment. If however, the extent of the damage is considered relatively minor and can be repaired in a relatively short period of time, it may be considered reasonable to record this as an impairment in the financial statements.

### 2.1.3 Treatment of repairs

The actual treatment of amounts spent on repairs will require the use of judgement and an assessment of the damage to the asset. For example, if the damage is minor and does not really impact on the service potential or future economic benefits that can be provided by the asset, the cost of repairs would need to be expensed. If however, there was significant damage that caused a write down in the value of the asset, the repairs would need to be assessed to determine if they represent a capital enhancement to the condition of the asset requiring them to be recorded as an asset (assuming that a write down had occurred in the first place to adjust for the damaged condition of the asset).

## 2.1.4 Treatment of insurance recoveries

AASB 116.65 specifically states that:

*"Compensation from third parties for items of property, plant and equipment that were impaired, lost or given up shall be included in profit or loss when the compensation becomes receivable."*

In accordance with this requirement of AASB 116, it is not possible to value a damaged asset at the value of its original condition simply because it is covered by an insurance policy. Compensation received is treated separately and recognised as profit or loss.

## 2.1.5 Asset retirement

Where no future use of an asset is expected, its carrying amount shall be derecognised in accordance with AASB 116. In particular AASB 116.68 requires:

*"The gain or loss arising from the derecognition of an item of property, plant and equipment shall be included in profit or loss when the item is derecognised (unless AASB 117 requires otherwise on a sale and leaseback). Gains shall not be classified as revenue."*

The gain or loss is the difference between the net proceeds, if any, and the carrying amount of the asset. Assuming no proceeds are expected, the amount to be included in the profit or loss shall simply be the carrying amount. Any demolition costs associated with the removal of the asset would also be included in the loss calculation. This means that the value of assets written off need to be recognised through the Statement of Comprehensive Income and cannot be adjusted against any asset revaluation surplus. For this reason it will be important to ensure the local government can clearly distinguish between assets written off and any assets written down through revaluation processes.

If there are parts of an asset damaged, an assessment should be made whether the asset needs to have its value reassessed to accommodate the partial damage. If the damage relates to a significant component, this may require a specific adjustment for that component. In regard to replacing parts of an asset, AASB 116.70 states that:

*"If, under the recognition principle in paragraph 7, an entity recognises in the carrying amount of an item of property, plant and equipment the cost of a replacement for part of the item, then it derecognises the carrying amount of the replaced part regardless of whether the replaced part had been depreciated separately. If it is not practicable for an entity to determine the carrying amount of the replaced part, it may use the cost of the replacement as an indication of what the cost of the replaced part was at the time it was acquired or constructed."*

While it is more likely that assets within certain classes will need to be derecognised (for example, items of plant and equipment), some large infrastructure assets may also need to be written off where the damage caused is so extensive that the work required to repair the asset will effectively result in the creation of a new asset or where it is determined that the asset will not be replaced.

## 2.1.6 Asset management plans

An asset management framework would generally include the development and implementation of plans and programs for asset creation, operation, maintenance, rehabilitation or replacement, disposal and performance monitoring. The incorporation of risk management strategies that address the possibility of extreme weather events occurring and their impact may not have been adequately considered in the formulation of the asset management framework by some local governments. In light of the extensive damaged assets requiring repair, a review of the comprehensive nature of the asset management plan should be an area of focus.

A need may also be identified to expend considerably more on future asset maintenance, renewal and replacement than current income streams allow in order to restore the previous service levels of the infrastructure. This shortfall is often referred to as a service funding gap. Identifying and quantifying any service funding gap is an essential part of asset management and long term financial planning. Asset managers should engage with the community and other stakeholders to prioritise service delivery and determine appropriate and sustainable service levels. The service funding gap may result in assets not being able to be repaired for some time or be identified for non-replacement unless additional funding options become available.

The Queensland Reconstruction Authority was established on 21 February 2011, to coordinate and manage the rebuilding and recovery of affected communities, including the repair and rebuilding of community infrastructure and other property. Decisions made by this Authority may impact on asset management plans developed by individual entities.

## 2.1.7 Practical issues associated with accounting for and auditing asset values

The need to have detailed condition assessments and revaluations performed for non-current physical assets to be reported in the 2010-11 financial statements may provide a significant challenge this financial year. In particular, practical difficulties that may be encountered could include:

- insufficient time for such assessments to be undertaken, particularly where a detailed valuation process was not scheduled for the 2010-11 financial year.
- significant cost of undertaking such assessment, particularly where such costs were not included in the budget for the present financial year.
- the need to address other issues arising from recent weather events identified as being of higher priority.

From an accounting perspective, local governments' financial statements must comply with the Australian Accounting Standards and failure to comply with prescribed accounting standards could result in the issue of a modified auditor's opinion.

The Department of Local Government and Planning has advised that it intends to issue a bulletin to provide further details on the requirements in the Australian Accounting Standards to local governments as well as consequences of non-compliance with these standards. QAO will consult with the Department of Local Government and Planning and relevant stakeholders to determine practical options for dealing with these issues.

## 2.2 Accounting for grants and assistance

### 2.2.1 Government grants received

Local governments may be entitled to additional grant funding from the State and/or Federal governments to repair damage to infrastructure. Careful consideration will need to be given to the exact terms of the funding agreements to ensure that any amounts received or receivable are appropriately accounted for under the relevant accounting standards.

Specific considerations include:

- the need to account for any grants received or receivable in accordance with *AASB 1004 Contributions*.
- in applying AASB 1004, consideration should be given to whether the grants are reciprocal or non-reciprocal in nature.
- the fact grants are provided for a specific purpose such as repairing damaged assets does not in itself make the grants reciprocal.

In some instances, grant funding may be provided as reimbursement for amounts spent. In these circumstances, an assessment will need to be made as to whether all relevant eligibility criteria have been met before any potential grant funding can be recorded as a receivable.

### 2.2.2 Provision of assistance

Due to hardships being faced, a range of assistance packages may be offered to both individuals and business by local governments. This assistance is likely to include, but is not limited to:

- provision of financial assistance.
- provision of additional services.
- waiving of certain fees and penalties.
- extensions of time for payment of rates, user charges and other fees.

In relation to the provision of additional financial assistance, due to the urgent need for this financial assistance, the level of control over the assessment and payment of claims may not be implemented to the same extent that would normally be associated with such payments. This, along with the potential for fraudulent claims, represents an increased risk of fraud. Consideration should be given to implementing processes which allow for the timely processing of the claims while still reducing the risk of potential fraud or error to an acceptable level given the particular circumstances.

The provision of this assistance will impact on the overall revenue to be received by local governments. Revenue from rates and other council services for some local governments may also be impacted by destruction of or damage to properties within their area.

## 2.3 Other operational impacts

### 2.3.1 Key systems and financial records

Where operations have been significantly impacted, local governments may be implementing appropriate business continuity plans or procedures to enable them to re-establish key systems and processes. It may take many months before some local governments are operating as usual. This could mean that only limited internal control processes are implemented initially compared to the situation prior to the weather event occurring.

Issues may be encountered in relation to financial systems and an assessment required as to the extent to which these systems can be re-established and made operational, including a potential need to rely on any backups of systems and data made prior to the events occurring. Also physical records may have been lost or badly damaged. While it may be possible in some instances to produce electronic version of the records, the impact of not having available any original copies of key documents should be assessed. Local governments may also have difficulties in dealing with customers and suppliers who may have encountered similar issues.

### 2.3.2 Changes in operational priorities

The operational priorities of a large number of local governments are likely to have changed as a result of the natural disasters. This will most likely be where available funding needs to be diverted to emergent projects associated with reconstruction efforts and provision of government assistance to those impacted. Local governments may have to assess the overall effect of these changes in operational priorities.

### 2.3.3 Procurement practices

The need for certain expenditure to be incurred on an urgent basis may also require a reassessment of procurement practices. The level of control implemented over procurement should represent an appropriate balance between meeting the needs of the local government in the present and maintaining a minimum level of internal control that is considered appropriate in the circumstances. This is particularly important where the procurement relates to contracts associated with the repair or construction of major infrastructure assets.

### 2.3.4 Payroll and employee related issues

Employees of local governments may have been impacted in a number of ways, including:

- payroll processing – in addition to financial statement issues, there could be financial hardship for some employees which may require the introduction of alternate processes on a temporary basis.
- unavailability of key staff – staff either being unavailable for work or key staff being reallocated to new roles within the organisation.
- human resources policies – where staff are absent for an extended period of time as a result of these events, local governments will need to ensure they have well defined policies in terms of leave and other entitlements for staff in these circumstances.

## 2.4 Additional disclosures

While auditors understand the impact of a natural disaster on the financial operations of an entity, an auditor's opinion must ultimately be formed as to whether the financial statements are free of material misstatement and are in compliance with prescribed accounting standards and legislation.

Accordingly, where local governments have not, or are unable to, make the necessary assessment of the asset conditions or values reported in their 2010-11 financial statements, auditors will need to assess whether there is sufficient appropriate evidence on which to base their opinion on the financial statements. The failure or inability of management to reassess the condition and value of their assets may represent a limitation on the auditor's ability to form an opinion on this aspect of the financial statements.

Previous experience has identified a number of instances whereby the auditor's opinion issued on the financial statements of public sector entities impacted by natural disasters has included a qualification identifying that the reported asset values did not reflect their present condition.

In these circumstances, it was also considered appropriate for management to disclose in the financial statements the nature of the assets affected, the relevant circumstances relating to the damage of the assets and the fact that the reported values of the assets do not reflect the condition of the assets at reporting date. These disclosures are considered important as they allow management to explain the impact and describe the action taken or planned in relation to damaged assets.

These disclosures are also important as they provide context in which readers of the financial report can consider any modified auditor's opinion issued on the financial report. In particular it can be more easily identified that the modification, where appropriate, relates to the circumstances which have arisen and not purely as result of action taken or not taken by management.

These additional disclosures however, are not in themselves sufficient to remove the limitation on the auditor's ability to form an opinion on the asset values and replace the qualified auditor's opinion with an appropriately worded emphasis of matter paragraph.

# 3 | Other issues

## Summary

### Background

The *Local Government Act 2009* replaced the *Local Government Act 1993* and *Local Government (Community Government Areas) Act 2004* from 1 July 2010.

The *Local Government Act 2009* establishes principles based legislation in place of the previous prescriptive framework for governance. It is supported by subordinate legislation that covers much of the operational and administrative detail that was previously included in the *Local Government Act 1993*. In addition, the *Local Government Act 2009* incorporates the governance framework for the 12 Aboriginal Shire councils and repealed the *Local Government (Community Government Areas) Act 2004*.

### Key issues

- Since the commencement of the *Local Government Act 2009*, the Department of Local Government and Planning is responsible for the active monitoring of compliance with the Act by local governments.
- In the light of the recent extreme weather events, areas of audit focus during the 2010-11 audits will include the extent of local government action in revisiting asset management plans and risk management strategies, assistance provided under the Natural Disaster Relief and Recovery Arrangements, action in determining impairment of assets and the asset value as at 30 June 2011, the ability of local governments to meet their financial obligations without assistance as and when they arise and any applicable financial statement disclosure of the financial impacts of the disasters.
- A performance management system audit has recently been completed on the implementation and enforcement of local laws. The objective of this audit was to determine if local governments have documented systems in place to enable them to effectively and efficiently implement and enforce their local laws and manage real or perceived conflicts of interest where they are both operators and regulators.

## 3.1 Local government readiness to comply with new legislative requirements

The *Local Government Act 2009* which replaced the *Local Government Act 1993* and the *Local Government (Community Government Areas) Act 2004* became law when it was proclaimed with an effective date of 1 July 2010.

Significant changes included in the *Local Government Act 2009* are as follows:

- It incorporates the governance framework for the 12 Aboriginal Shire councils and repeals the *Local Government (Community Government Areas) Act 2004*.
- It is principles based local government legislation rather than a prescriptive framework for governance. The *Local Government Act 2009* 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 requires all local governments to establish an internal audit function and each large local government is to establish an Audit Committee. Section 1.4.1 of this report contains discussion on those local governments which already have an internal audit function established as at 30 June 2010.
- It is supported by appropriate subordinate legislation that contains much of the operational and administrative detail previously included in the primary legislation.
- It requires the inclusion within the local government annual report of disclosures not previously required by the *Local Government Act 1993*, including unaudited measures of financial sustainability projected over the next nine financial years and executive remuneration of senior contract employees which includes by definition the Chief Executive Officer and other employees who directly report to the Chief Executive Officer.

The introduction of this new legislative framework for local government in Queensland is a significant task for both the Department of Local Government and Planning and the individual local governments. Given the extent of changes from the previous legislation, the local government sector will require extensive support and guidance during the implementation process.

## 3.2 Specific issues impacting the transition to the *Local Government Act 2009* by Aboriginal Shire councils

### 3.2.1 New requirements

From 1 July 2010 the *Local Government (Community Government Areas) Act 2004* and subordinate legislation was repealed and the *Local Government Act 2009* came into force. The introduction of the *Local Government Act 2009* changes the governance framework for Aboriginal Shire councils, including in respect of the following:

- Internal audit – It will now be mandatory for local governments to establish an internal audit function. The majority of Aboriginal Shire councils did not have an internal audit function in 2009-10.

- Long term financial and strategic planning – To assist local governments in ensuring their financial sustainability, the *Local Government Act 2009* requires them to produce long term plans, such as a community plan, financial plan and asset management plan that cover at least ten years, a long term financial forecast, and a five year corporate plan. While virtually all local governments have made progress in establishing these plans, the vast majority had not developed all of the plans by 30 November 2010.
- General purpose financial reports – General purpose financial statements which comply with all Australian Accounting Standards will be required in 2010-11. While all Aboriginal Shire councils prepared special purpose financial reports in 2009-10, the differences between these reports and general purpose financial statements are considered to be minimal.

The Department of Local Government and Planning is working with local governments on the transition to complying with the *Local Government Act 2009* and subordinate legislation. QAO will consider the legislative requirements and financial reporting implications during the 2010-11 audits.

### 3.2.2 Long term leasing of social housing assets by local governments to the State

In December 2008, the National Partnership Agreement on Remote Indigenous Housing was entered into between the Commonwealth of Australia and the States and Territories. As an outcome of this agreement, many local governments have agreed in principle to lease their housing assets to the State for 40 years. Under these leases, the Department of Communities will make lease payments to the local governments, be responsible for maintaining and repairing the houses, and earn the rental income. The removal of bad debts expense and maintenance costs in respect of leased houses will reduce local governments' exposure to financial risks. The accounting treatment of the leases is currently being considered by local governments, the Department of Communities and QAO.

## 3.3 Review of local government statutes

On 1 July 2010, the State Government commenced a review aimed at simplifying State legislation applying to local governments. This review is in response to the views of local governments about working across the many pieces of legislation that relate to their business. The review aims to reduce and rationalise the legislative burden to:

- enable improved interpretation and understanding of the law by making local government legislation easier to use.
- eliminate unnecessary and excessive regulatory requirements.
- rationalise legislation governing issues where there are important inconsistencies or duplication across statutes.
- streamline administrative processes.

It is anticipated that the outcomes of this review will mean significant savings to business, the community and both State and local governments. The review is expected to take 18 months and will include a comprehensive review of over 200 statutes applicable to local government.

Some of the specific areas mentioned in the discussion paper released for public comment included inconsistencies and issues surrounding the term "authorised persons", local law making and enforcement, compliance regulation, plans, reports and procurement.

With respect to local laws, a performance management system audit was recently completed on the implementation and enforcement of local laws. Additional information on this audit is provided in Section 3.5.

## 3.4 Areas of audit focus for 2011

Continuing strong governance and risk management will be required to effectively manage the local government environment including the impact of the *Local Government Act 2009* and subordinate legislation which became effective on 1 July 2010 and the financial reporting challenges that will arise from this legislation.

In the light of the recent natural disasters, as part of the 2010-11 audit, areas of audit focus will include the extent of local governments' action in revisiting asset management plans and risk management strategies, assistance provided under the Natural Disaster Relief and Recovery Arrangements, action in determining impairment of assets and the recorded asset values as at 30 June 2011, the ability of local governments to meet their financial obligations without assistance as and when they arise, and any applicable financial statement disclosure of the infrastructure assets impacted by the disasters.

I understand the many difficulties faced by the local governments impacted by the natural disasters and I accept that because of the extensive damage, many local governments will be prioritising resources to restore some normality within their communities. In these circumstances, there may not be sufficient resources to ensure compliance with all of the accounting standards and legislative provisions.

My role requires that I must ultimately form an opinion as to whether the 2010-11 financial statements of affected local governments are free from material misstatement and are in compliance with prescribed accounting standards and legislation. This is likely to result in an increase in the number of modified auditors' opinions issued on 2010-11 financial statements.

QAO will consult with the Department of Local Government and Planning and relevant stakeholders about Australian Accounting Standards requirements as well as consequences of non-compliance with these standards to determine practical options for dealing with these issues.

## 3.5 Performance management systems audit

### 3.5.1 Auditor-General's role

The local government sector is no doubt very familiar with the Auditor-General's mandate in the area of financial and assurance audits. However, the public sector audit function is wider than the audit of financial statements. The Auditor-General's mandate also includes the audit of performance management systems.

A performance management systems audit is an independent examination of whether an entity has systems in place to enable its management to assess whether its objectives are being achieved economically, efficiently and effectively. The legislative basis for this audit is the *Auditor-General Act 2009*.

### 3.5.2 Implementation and enforcement of local laws

A performance management system audit was completed late in 2010 on the implementation and enforcement of local laws. The objective of this audit was to determine if local governments have documented systems in place to enable them to effectively and efficiently implement and enforce their local laws in Queensland and manage real or perceived conflicts of interest where they are both operators and regulators.

A self assessment questionnaire was distributed to a sample of 25 local governments across Queensland. Local governments were also requested to provide examples of their training and guidance materials. While most local governments responded that they have systems in place to implement and enforce their local laws, an analysis of the documentation identified significant gaps in the training, guidance and support for officers implementing and enforcing local laws.

The results of this audit are contained in *Auditor-General Report to Parliament No. 11 for 2010 – Implementation and enforcement of local laws*, which was tabled in Parliament in November 2010. Auditor-General Report to Parliament No. 11 for 2010 provides a number of specific actions most local governments should consider to improve their administration of local laws. This would provide council officers clearer guidance on how to implement and enforce local laws consistently and fairly. Access to this report is available at [www.qao.qld.gov.au](http://www.qao.qld.gov.au)



# 4

## 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 reports to Parliament.

#### Key findings

- The 2009-10 financial statements of 136 of 149 local governments and their respective controlled entities have been completed and an auditor's opinion issued.
- Twenty-six modified and 110 unmodified auditors' opinions have been issued in relation to local government entities.

## 4.1 Status of 2009-10 financial statements

One hundred and thirty-six auditors' opinions have been issued for the 2009-10 financial year. Unless otherwise indicated, these entities had a financial year ending 30 June 2010.

**Figure 4A – Auditors' opinions issued for the 2009-10 financial year**

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

Entity name	Financial statements			Timeliness of completion		
	Financial statements signed	Auditor's report signed	Auditor's opinion	< 3 months	3 to 5 months	> 5 months
<b>Local governments</b>						
Aurukun Shire Council	01.11.2010	30.11.2010	<b>Q</b>		✓	
Balonne Shire Council	15.09.2010	17.11.2010	U		✓	
Banana Shire Council	08.11.2010	15.11.2010	U		✓	
Barcaldine Regional Council	16.11.2010	16.11.2010	U		✓	
Barcoo Shire Council	29.11.2010	29.11.2010	U		✓	
Blackall Tambo Regional Council	21.02.2011	21.02.2011	U			✓
Boulia Shire Council	26.11.2010	26.11.2010	U		✓	
Brisbane City Council	26.08.2010	31.08.2010	<b>E<sup>1</sup></b>	✓		
Bulloo Shire Council	18.10.2010	29.10.2010	U		✓	
Bundaberg Regional Council	28.10.2010	28.10.2010	U		✓	
Burdekin Shire Council	10.09.2010	02.11.2010	U		✓	
Burke Shire Council	20.10.2010	01.11.2010	U		✓	

<sup>1</sup> Modified auditor's opinion reported in *Auditor-General Report No. 13 for 2010 – Results of audits at 31 October 2010*, Section 2.3.

Entity name	Financial statements			Timeliness of completion		
	Financial statements signed	Auditor's report signed	Auditor's opinion	< 3 months	3 to 5 months	> 5 months
Cairns Regional Council	06.09.2010	06.09.2010	U		✓	
Carpentaria Shire Council	12.11.2010	12.11.2010	U		✓	
Cassowary Coast Regional Council	15.11.2010	15.11.2010	U		✓	
Central Highlands Regional Council	10.11.2010	17.11.2010	U		✓	
Charters Towers Regional Council	12.11.2010	20.11.2010	U		✓	
Cherbourg Aboriginal Shire Council	Not completed	Not completed				
Cloncurry Shire Council	16.11.2010	16.11.2010	U		✓	
Cook Shire Council	11.02.2011	11.02.2011	Q			✓
Croydon Shire Council	15.11.2010	15.11.2010	U		✓	
Diamantina Shire Council	Not completed	Not completed				
Doomadgee Aboriginal Shire Council	08.11.2010	22.11.2010	Q		✓	
Etheridge Shire Council	20.10.2010	04.11.2010	U		✓	
Flinders Shire Council	23.11.2010	23.11.2010	U		✓	
Fraser Coast Regional Council	15.11.2010	15.11.2010	U		✓	
Gladstone Regional Council	18.10.2010	08.11.2010	U		✓	
Gold Coast City Council	22.11.2010	24.11.2010	E		✓	
Goondiwindi Regional Council	04.08.2010	27.08.2010	U	✓		
Gympie Regional Council	10.09.2010	11.11.2010	U		✓	
Hinchinbrook Shire Council	26.10.2010	05.11.2010	U		✓	
Hope Vale Aboriginal Shire Council	27.10.2010	03.11.2010	U		✓	
Ipswich City Council	17.11.2010	23.11.2010	E		✓	

Entity name	Financial statements			Timeliness of completion		
	Financial statements signed	Auditor's report signed	Auditor's opinion	< 3 months	3 to 5 months	> 5 months
Isaac Regional Council	15.09.2010	14.10.2010	U		✓	
Kowanyama Aboriginal Shire Council	19.11.2010	30.11.2010	U		✓	
Lockhart River Aboriginal Shire Council	15.09.2010	19.11.2010	U		✓	
Lockyer Valley Regional Council	02.12.2010	17.12.2010	<b>Q E</b>			✓
Logan City Council	16.11.2010	19.11.2010	<b>E</b>		✓	
Longreach Regional Council	23.08.2010	29.10.2010	U		✓	
Mackay Regional Council	23.11.2010	24.11.2010	U		✓	
Mapoon Aboriginal Shire Council	22.11.2010	25.11.2010	<b>Q E</b>		✓	
Maranoa Regional Council	12.11.2010	19.11.2010	U		✓	
McKinlay Shire Council	08.11.2010	16.11.2010	U		✓	
Moreton Bay Regional Council	23.11.2010	29.11.2010	<b>E</b>		✓	
Mornington Shire Council	02.09.2010	25.11.2010	<b>Q</b>		✓	
Mount Isa City Council	11.10.2010	22.10.2010	U		✓	
Murweh Shire Council	11.11.2010	11.11.2010	U		✓	
Napranum Aboriginal Shire Council	29.11.2010	30.11.2010	<b>Q</b>		✓	
North Burnett Regional Council	09.11.2010	09.11.2010	U		✓	
Northern Peninsula Area Regional Council	02.11.2010	26.11.2010	<b>E</b>		✓	
Palm Island Aboriginal Shire Council	09.09.2010	25.10.2010	U		✓	
Paroo Shire Council	12.11.2010	19.11.2010	U		✓	
Pormpuraaw Aboriginal Shire Council	Not completed	Not completed				
Quilpie Shire Council	14.09.2010	20.10.2010	U		✓	

Entity name	Financial statements			Timeliness of completion		
	Financial statements signed	Auditor's report signed	Auditor's opinion	< 3 months	3 to 5 months	> 5 months
Redland City Council	23.11.2010	24.11.2010	<b>E</b>		✓	
Richmond Shire Council	16.11.2010	20.11.2010	<b>U</b>		✓	
Rockhampton Regional Council	27.10.2010	29.10.2010	<b>U</b>		✓	
Scenic Rim Regional Council	16.11.2010	19.11.2010	<b>E</b>		✓	
Somerset Regional Council	22.11.2010	23.11.2010	<b>E</b>		✓	
South Burnett Regional Council	16.11.2010	16.11.2010	<b>U</b>		✓	
Southern Downs Regional Council	28.10.2010	03.11.2010	<b>U</b>		✓	
Sunshine Coast Regional Council	05.11.2010	30.11.2010	<b>E</b>		✓	
Tablelands Regional Council	06.10.2010	06.10.2010	<b>U</b>		✓	
Toowoomba Regional Council	15.11.2010	15.11.2010	<b>U</b>		✓	
Torres Shire Council	15.09.2010	12.11.2010	<b>U</b>		✓	
Torres Strait Island Regional Council	Not completed	Not completed				
Townsville City Council	20.10.2010	22.10.2010	<b>U</b>		✓	
Western Downs Regional Council	15.02.2011	15.02.2011	<b>U</b>			✓
Whitsunday Regional Council	18.11.2010	19.11.2010	<b>U</b>		✓	
Winton Shire Council	29.10.2010	18.11.2010	<b>U</b>		✓	
Woorabinda Aboriginal Shire Council	24.11.2010	26.11.2010	<b>Q</b>		✓	
Wujal Wujal Aboriginal Shire Council	12.11.2010	29.11.2010	<b>U</b>		✓	
Yarrabah Aboriginal Shire Council	15.09.2010	19.11.2010	<b>U</b>		✓	
<b>Joint local government entities</b>						
Esk, Gatton and Laidley Water Board	01.12.2010	23.12.2010	<b>E</b>			✓

Entity name	Financial statements			Timeliness of completion		
	Financial statements signed	Auditor's report signed	Auditor's opinion	< 3 months	3 to 5 months	> 5 months
Nogoa River Flood Plain Board	11.11.2010	16.11.2010	U		✓	
<b>Controlled entities</b>						
Boonah and District Art Gallery and Library Trust	15.10.2010	06.12.2010	Q			✓
Boonah and District Performing Arts Centre Trust	15.10.2010	06.12.2010	Q			✓
Brisbane Arts Trust	Not completed	Not completed				
Brisbane Environment Trust	Not completed	Not completed				
Brisbane Green Heart CitySmart Pty Ltd	23.09.2010	23.09.2010	U		✓	
Brisbane Marketing Pty Ltd	30.09.2010	30.09.2010	U		✓	
Brisbane Powerhouse Pty Ltd	30.09.2010	31.10.2010	U		✓	
Broadbeach Alliance Limited	14.10.2010	20.10.2010	U		✓	
Burdekin Cultural Complex Board Inc. <sup>2</sup>	11.06.2010	21.06.2010	U	✓		
Cairns Regional Gallery Limited	20.09.2010	20.09.2010	U		✓	
Castra Retirement Home Limited	Not completed	Not completed				
City of Brisbane Arts and Environment Ltd	Not completed	Not completed				
City of Brisbane Investment Corporation Pty Ltd	19.10.2010	19.10.2010	U		✓	
City Super Pty Ltd (As Trustee for BCC Superannuation Plan)	21.10.2010	25.10.2010	U		✓	
Connecting Southern Gold Coast Ltd	19.08.2010	26.08.2010	U	✓		
Council of Mayors (South-East Queensland) <sup>3</sup>	20.09.2010	21.09.2010	U			✓

<sup>2</sup> This entity's financial year was 1 May 2009 to 30 April 2010.

<sup>3</sup> This entity's financial year was 1 July 2009 to 3 January 2010.

Entity name	Financial statements			Timeliness of completion		
	Financial statements signed	Auditor's report signed	Auditor's opinion	< 3 months	3 to 5 months	> 5 months
Council of Mayors (South East Queensland) Pty Ltd <sup>4</sup>	29.09.2010	01.10.2010	E		✓	
Edward River Crocodile Farm Pty Ltd	Not completed	Not completed				
Empire Theatres Foundation	12.08.2010	23.08.2010	U	✓		
Empire Theatres Pty Ltd	16.08.2010	23.08.2010	U	✓		
Empire Theatres Projects Pty Ltd	16.08.2010	23.08.2010	U	✓		
Gold Coast Arts Centre Pty Ltd	29.10.2010	05.11.2010	U		✓	
Ipswich Arts Foundation	15.09.2010	20.09.2010	U		✓	
Ipswich Arts Foundation Trust	29.09.2010	30.09.2010	U		✓	
Ipswich City Enterprises Investments Pty Ltd	05.12.2010	10.12.2010	U			✓
Ipswich City Enterprises Pty Ltd	05.12.2010	10.12.2010	U			✓
Ipswich City Properties Pty Ltd	20.12.2010	21.12.2010	U			✓
Kingaroy Private Hospital Ltd	Note completed	Note completed				
Kronosaurus Korner Board Inc.	26.10.2010	20.11.2010	U		✓	
Lockhart River Aerodrome Company Pty Ltd	02.11.2010	02.11.2010	U		✓	
Mayoress Regional Charity Foundation Ltd <sup>5</sup>	27.10.2010	29.10.2010	U		✓	
Noosa Biosphere Ltd	01.12.2010	01.12.2010	U			✓
Nuffield Pty Ltd	24.09.2010	24.09.2010	U		✓	
Outback @ Isa Pty Ltd	04.10.2010	15.10.2010	U		✓	

<sup>4</sup> This entity's financial year was 4 January 2010 to 30 June 2010.

<sup>5</sup> This entity's financial year was 21 May 2009 to 30 June 2010.

Entity name	Financial statements			Timeliness of completion		
	Financial statements signed	Auditor's report signed	Auditor's opinion	< 3 months	3 to 5 months	> 5 months
Poruma Island Pty Ltd	Not completed	Not completed				
Quad Park Corporation Pty Ltd	18.11.2010	18.11.2010	U		✓	
Resolute I.T. Pty Ltd <sup>6</sup>	13.10.2010	13.10.2010	U		✓	
Rodeo Capital Pty Ltd	06.10.2010	07.10.2010	U		✓	
Sunshine Coast Enterprises Pty Ltd	18.11.2010	18.11.2010	U		✓	
Sunshine Coast Events Centre Pty Ltd	21.10.2010	27.10.2010	U		✓	
Surfers Paradise Alliance Limited	18.08.2010	25.08.2010	U	✓		
The Brolga Theatre Board Inc.	15.11.2010	15.11.2010	U		✓	
The Rockhampton Art Gallery Trust	22.09.2010	24.09.2010	Q <sup>7</sup>		✓	
Townsville Breakwater Entertainment Centre Joint Venture	05.10.2010	18.10.2010	U		✓	
TradeCoast Land Pty Ltd	05.11.2010	05.11.2010	U		✓	
Waltzing Matilda Centre Ltd	27.10.2010	27.10.2010	U		✓	
Warwick Tourism and Events Pty Ltd	28.10.2010	03.11.2010	U		✓	
Wide Bay Water Corporation	27.10.2010	27.10.2010	U		✓	
Widelinx Pty Ltd	15.11.2010	15.11.2010	U		✓	
Woorabinda Pastoral Company Pty Ltd	17.11.2010	26.11.2010	Q		✓	
<b>Jointly controlled entities</b>						
Advance Cairns Limited	14.10.2010	15.10.2010	U		✓	

<sup>6</sup> This entity's financial year was 1 June 2009 to 31 May 2010.

<sup>7</sup> Modified auditor's opinion reported in *Auditor-General Report No. 13 for 2010 – Results of audits at 31 October 2010*, Section 2.3.

Entity name	Financial statements			Timeliness of completion		
	Financial statements signed	Auditor's report signed	Auditor's opinion	< 3 months	3 to 5 months	> 5 months
Central Queensland Local Government Association Inc.	30.09.2010	13.10.2010	U		✓	
Central Western Queensland Remote Area Planning and Development Board (Reporting) Ltd	19.10.2010	31.10.2010	U		✓	
DDS Unit Trust <sup>8</sup>	13.10.2010	13.10.2010	U		✓	
Far North Queensland Regional Organisation of Councils	17.12.2010	17.12.2010	U			✓
Gulf Savannah Development Inc.	30.09.2010	06.10.2010	U		✓	
Local Buy Trading Trust <sup>9</sup>	13.10.2010	25.10.2010	Q		✓	
Local Government Association of Queensland Inc. <sup>10</sup>	26.10.2010	26.10.2010	U		✓	
North Queensland Local Government Association <sup>11</sup>	Not completed	Not completed				
Palm Island Community Company Ltd	13.10.2010	20.10.2010	U		✓	
Prevwood Pty Ltd <sup>12</sup>	20.10.2010	20.10.2010	U		✓	
Queensland Local Government Mutual Liability Pool (LGM Queensland)	24.11.2010	30.11.2010	U		✓	
Queensland Local Government Workers Compensation Self-Insurance Scheme (trading as Local Government Workcare)	24.11.2010	30.11.2010	U		✓	

<sup>8</sup> This entity's financial year was 1 June 2009 to 31 May 2010.

<sup>9</sup> This entity's financial year was 1 June 2009 to 31 May 2010.

<sup>10</sup> This entity's financial year was 1 June 2009 to 31 May 2010.

<sup>11</sup> This entity's financial year was 1 January 2010 to 31 December 2010.

<sup>12</sup> This entity's financial year was 1 June 2009 to 31 May 2010.

Entity name	Financial statements			Timeliness of completion		
	Financial statements signed	Auditor's report signed	Auditor's opinion	< 3 months	3 to 5 months	> 5 months
Services Queensland	19.10.2010	20.10.2010	U		✓	
South West Queensland Local Government Association Inc. <sup>13</sup>	14.10.2010	29.10.2010	U		✓	
Urban Local Government Association of Queensland Inc. <sup>14</sup>	23.12.2010	23.12.2010	U			✓
Western Queensland Local Government Association	Not completed	Not completed				
Western Sub Regional Organisation of Councils	15.12.2010	22.12.2010	U			✓
Whitsunday Hinterland and Mackay Bowen Regional Organisation of Councils Inc.	09.12.2010	05.01.2011	E			✓
Wide Bay Burnett Regional Organisation of Councils Inc.	11.02.2011	11.02.2011	U			✓
<b>Statutory body</b>						
The Island Industries Board <sup>15</sup>	11.03.2010	12.03.2010	U	✓		
<b>Audited by arrangement</b>						
Brisbane City Council Superannuation Plan	21.10.2010	25.10.2010	U		✓	
Brisbane Powerhouse Foundation	01.10.2010	01.10.2010	U		✓	
Queensland Local Government Superannuation Board	26.10.2010	27.10.2010	U		✓	

<sup>13</sup> This entity's financial year was 1 April 2009 to 31 March 2010.

<sup>14</sup> This entity's financial year was 1 May 2009 to 30 April 2010.

<sup>15</sup> This entity's financial year was 1 February 2009 to 31 January 2010.

# 5 | Appendices

## 5.1 Types of auditors' opinions

As the independent external auditor for the Queensland Parliament, the Auditor-General issues an independent auditor's report on the financial report of public sector entities. The independent auditor's report provides the people of Queensland, through Parliament, assurance as to the veracity of the financial reporting of public sector entities, including compliance with prescribed requirements. One or more of the following auditor's opinion types may be expressed when issuing independent auditors' reports in respect of the financial report of an entity. The types of auditor's opinion issued are in accordance with Australian Auditing Standard (ASA) ASA 700 *The Auditor's Report on a General Purpose Financial Report* and ASA 701 *Modifications to the Auditor's Report*.

### Unmodified auditor's opinion

An unmodified auditor's opinion is an auditor's opinion which has been issued without qualification and has not been modified by the inclusion of an emphasis of matter paragraph (see below).

An unqualified auditor's opinion is issued on financial reports where:

- all of the information and explanations required have been received.
- the financial report gives a true and fair view or is presented fairly in accordance with the requirements of the applicable financial reporting framework.
- in the Auditor-General's opinion, the prescribed requirements of applicable legislation have been complied with in all material respects in relation to the establishment and keeping of accounts.

### Modified auditor's opinion

A modified auditor's opinion may be issued either to highlight a matter affecting the financial report or where the auditor is unable to express an unqualified auditor's opinion on the financial report.

A modified auditor's opinion is only issued after an auditor has, in a timely fashion, exhausted all reasonable steps to be able to express an unmodified report. There are four types of modified auditors' opinions:

- **Emphasis of matter** is included when the Auditor-General wishes 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 can accompany either an unqualified opinion or a qualified opinion and is expressly stated to be made 'without qualification' to the auditor's opinion or 'without further qualification' to the auditor's opinion in the case of a qualified opinion.

The most common example of emphasis of matter paragraphs arise where the Auditor-General identifies the existence of significant uncertainty in relation to either an entity's ability to continue as a going concern or judgements used by management in the calculation of complex accounting estimates (for example, asset fair values or liabilities provided for).

In determining whether an emphasis of matter paragraph will be sufficient without qualification of the auditor's opinion, the Auditor-General takes into account the degree of objective data to support the reasonableness of the accounting estimate and the extent and appropriateness of the disclosures included in the financial report.

- **Qualified opinion** is expressed when the Auditor-General concludes that, 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 remainder of the financial report can be relied upon.
- **Adverse opinion** is expressed when the effect of a disagreement between the Auditor-General and the management of an entity or conflict between applicable financial reporting frameworks is so material and pervasive that the Auditor-General concludes that the financial report taken as a whole is misleading or of little use to the addressee of the report on the audit.
- **Disclaimer of opinion** is expressed when a limitation on the scope of the audit exists that is so material and pervasive that the Auditor-General is unable to express an opinion on the financial report.

## 5.2 Acronyms

AASB	Australian Accounting Standards Board
CDEP	Community Development Employment Projects
GST	Goods and Services Tax
PAYG	Pay as you go
QAO	Queensland Audit Office.

## 5.3 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.

### Contract auditor

An appropriately qualified individual, who is not a staff member of QAO, appointed by the Auditor-General to undertake audits of public sector entities on his behalf.

### Controlled entity

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

## 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.

## Governance

The role of persons charged with the oversight, control and direction of an entity.

## High risk issues

Audit findings that pose a significant business or financial risk to the entity and must be addressed as a matter of urgency.

## Impairment

When an asset's carrying amount exceeds the amount that can be recovered through use or sale of the asset.

## 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.

## Moderate risk issues

Audit findings that pose a moderate business or financial risk and should be addressed as a matter of high priority.

## Prescribed requirements

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

## Public sector entity

A department, local government, statutory body, government owned entity, or an entity controlled by one, or more of these types.

## 5.4 References

Treasury Department, *Non-Current Asset Policies for the Queensland Public Sector*, January 2010.

# 6

## Auditor-General

## Reports to Parliament

### 6.1 Tabled in 2011

Report No.	Subject	Date tabled in Legislative Assembly
1	<i>Auditor-General Report to Parliament No. 1 for 2011</i> <i>Management of offenders subject to supervision in the community</i> Performance Management Systems audit	25 February 2011
2	<i>Auditor-General Report to Parliament No. 2 for 2011</i> <i>Results of local government audits</i> Financial and Assurance audit	March 2011

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