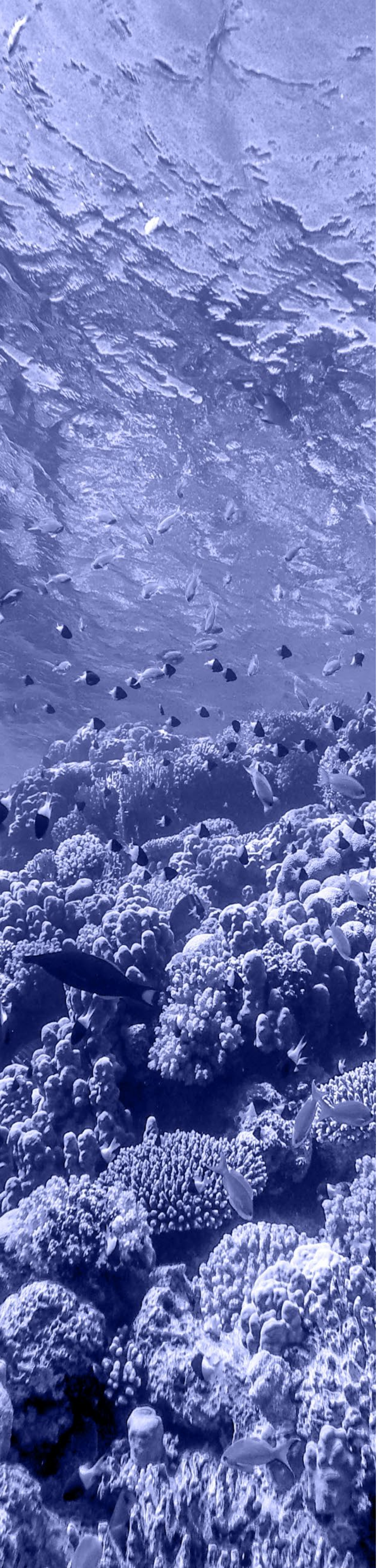


GLADSTONE REGIONAL COUNCIL

2021 Closing Report

13 October 2021

Queensland Audit Office
Better public services

SENSITIVE

13 October 2021

Ms Leisa Dowling
Chief Executive Officer
PO Box 29
GLADSTONE QLD 4680

Dear Ms Dowling

2021 Closing Report

We present to you our closing report for Gladstone Regional Council for the financial year ended 30 June 2021. It includes the results of our audit, identified audit misstatements, and other matters.

Our audit was conducted in accordance with our external audit plan issued 1 March 2021. We confirm that up to the date of this report we have maintained our independence obligations in relation to our conduct of this audit.

Based on the information that has been assessed as part of our audit, we expect to issue an unmodified audit opinion.

The results of our audit of Gladstone Regional Council's financial statements will be included in our report to parliament *Local Government 2021*. This report will also include comments on performance and sustainability matters, significant internal control issues, major transactions and events and the overall results of the local government sector. This report is prepared in accordance with the *Auditor-General Act 2009*.

We are keen to hear your views about the audit services we provide and will seek your feedback via an online survey. This survey will help us understand what is working well and where there are opportunities for us to improve our engagement with you.

If you have any questions or would like to discuss this report, please contact Steven Bosiljevac on 07 3257 8807 or Will Fellowes on 0422 441 750.

Yours sincerely

Steven Bosiljevac
Contract Audit Partner

Enc.

cc. Cr Matt Burnett, Mayor
Ms Kerry Phillips, Chair Audit, Risk and Improvement Committee

1. Summary

This closing report summarises the results our audit of Gladstone Regional Council's financial statements for the year ended 30 June 2021, including how we responded to significant financial reporting risks.

Our final audit opinion is subject to the completion of the financial statement audit process. Key aspects to be finalised are included below.

Highlights

Expected audit opinion

We expect to issue an unmodified opinion on the financial statements.

Financial statement preparation maturity

- Integrated

Refer to *Section 6 Financial statement maturity*

for further details.

Internal control environment

Control environment	Risk assessment	Control activities	Information and communication	Monitoring controls
Effective	Effective	Effective	Effective	Effective

Refer to *Section 5 Audit* issues for further details.

Materiality

Overall: $2.3m **Specific**: $117m

Increase of $0.3m and $12.6m respectively from planning materiality.

Estimated final fees

Fee per external audit plan—$157,200

Any change to this estimate will be communicated in our final management letter.

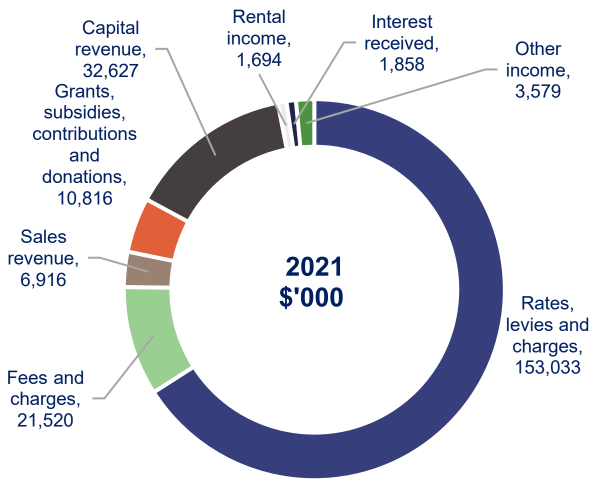
Outstanding audit matters

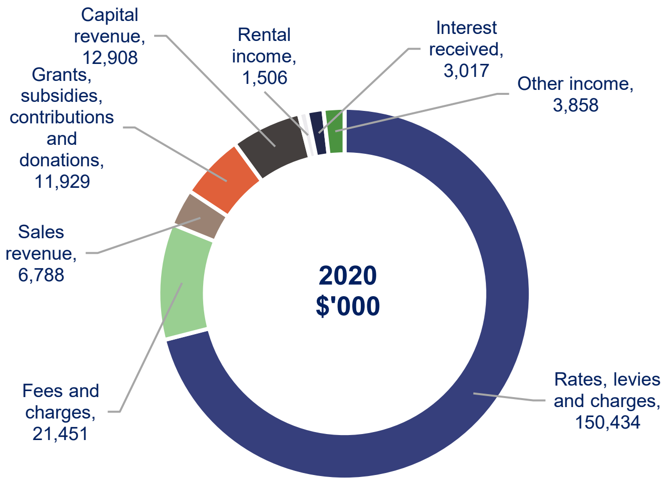
Item	Responsibility
Completion and review of final audit documentation	Audit
Financial statements review—quality check over final version	Audit
Subsequent events update—review of transactions to date of signing	Management and Audit
Management representation letter—to be signed by management with the financial statements	Management
Financial report certification—signing of the financial statements by the Mayor and Chief Executive Officer	Management and Audit

2. Key insights

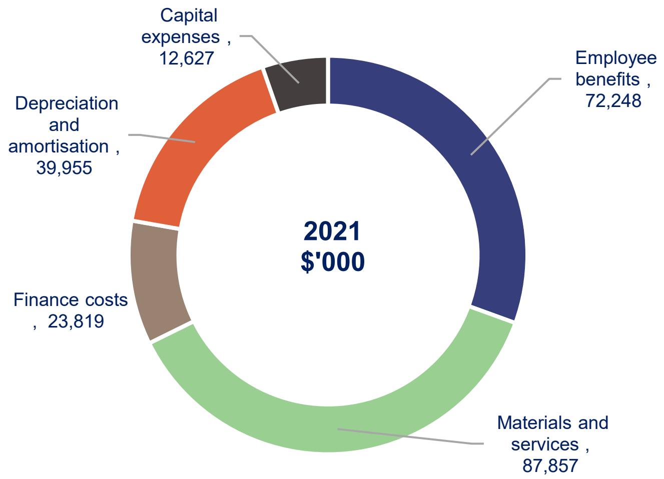
A comparison of Gladstone Regional Councils' financial results and balances are highlighted below. It can be seen that rates, levies and charges make up the majority of council's annual revenue (66%) which is largely consistent with the prior year (71%). Employee, materials and services related costs make up the majority of operating expenses in the current year, being largely consistent with prior year. Finance costs have increased significantly due to an early repayment adjustment as a result of loan refinancing activity with QTC.

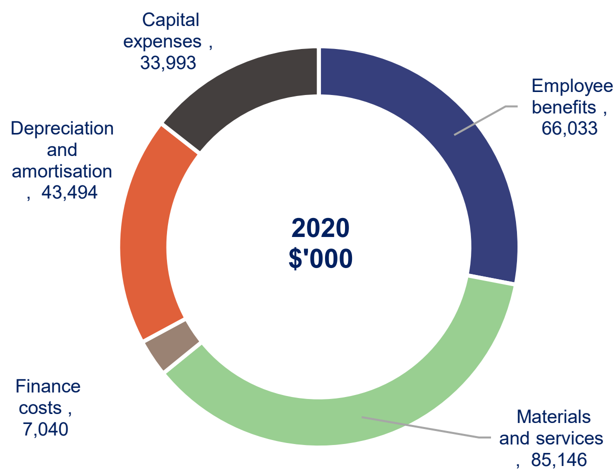
Revenue





Expenses



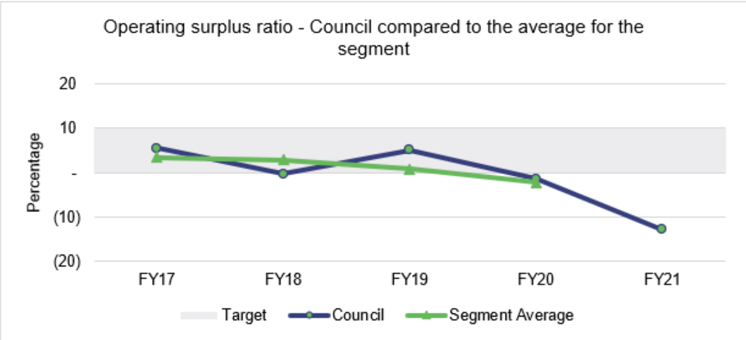


3. Financial sustainability assessment

The table below details our assessment of your financial sustainability and is based on the three ratios that council is required to report under the *Local Government Regulation 2012.* Our assessment of council's overall financial sustainability risk is **moderate risk.**

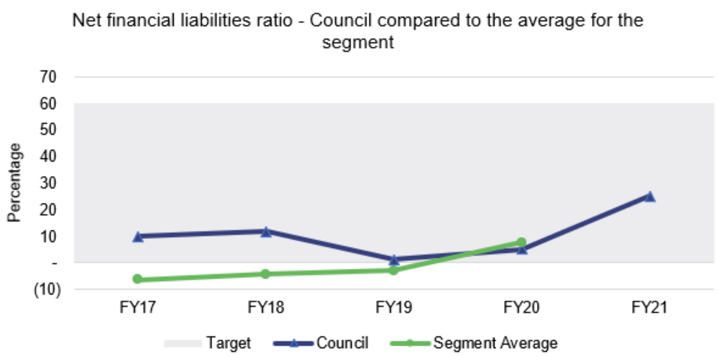
Refer to Appendix D for guidance on how these ratios are calculated and our financial sustainability risk rating definitions.

Operating surplus ratio	Commentary



Council's five-year **average** operating ratio is -3.92%. This is outside the target range. The negative operating surplus is predominantly driven by the significant increase in finance costs when compared to prior year due to the early repayment adjustment of $17m charged by the QTC. On 29 June 2021 all loans held with QTC were refinanced resulting in this adjustment. Excluding this adjustment, the operating surplus ratio is -3.91% for FY21 and an average of 1% over the past 5 years. The declining operating surplus ratio indicates that Council's operating revenues is unable to support its operating expenses.

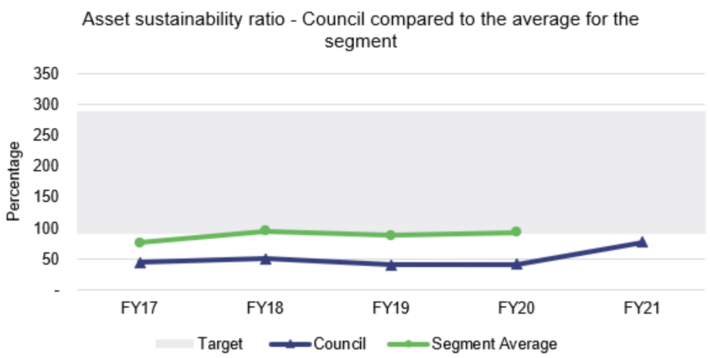
Net financial liabilities ratio	Commentary



Council's net financial liabilities ratio as at 30 June 2021 is 25%. This is within the target range.

The net financial liabilities ratio indicates that Council's capital structure is strong, allowing Council to service any borrowings that it may need for any future capital projects. However, the increasing trend in this ratio compared to prior years may indicate that this ability to finance debt could be declining.

Asset sustainability ratio	Commentary



Council's **average** asset sustainability ratio is 50.4%. This is outside the target range and has consistently been below the segment average.

The average asset sustainability ratio indicates that Council may not be in a position to replace its assets as they near the end of their useful life. As such, council may encounter a reduction in the asset's service levels and/or useful lives previously expected.

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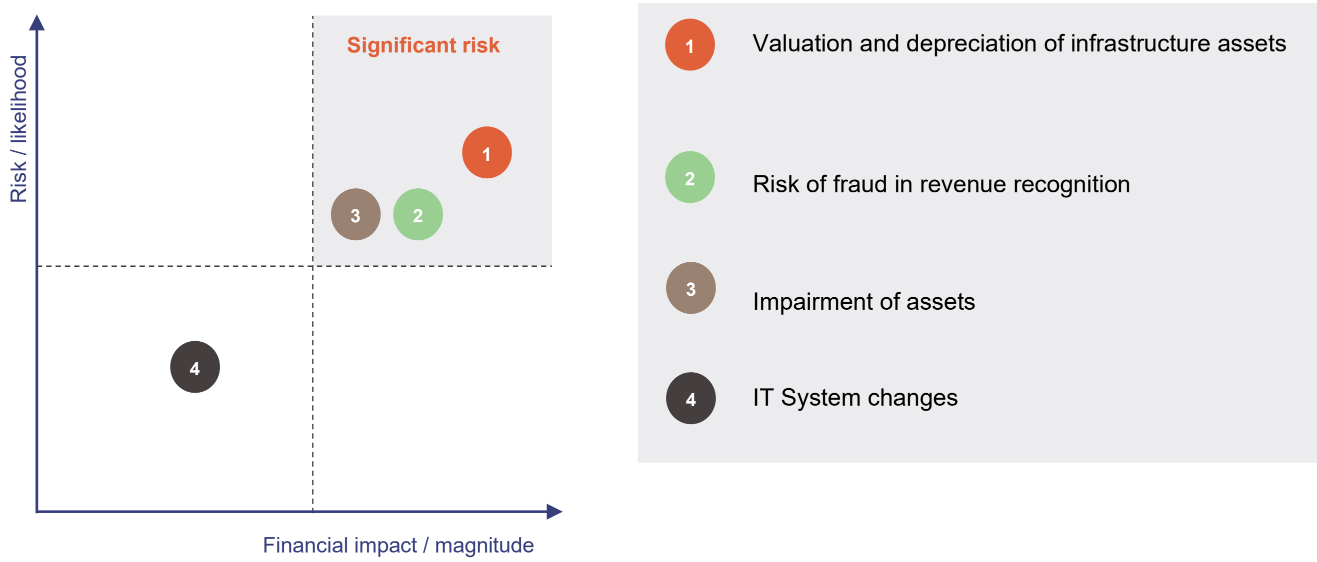
4. Audit conclusions

Areas of audit focus

Our external audit plan identified the areas of your financial report that we considered to be at greatest risk of material error. These areas of focus are reflected in the map below.



Our overall conclusions on these areas of audit focus are outlined in the table below.

Risk	Description	Audit conclusion
1.	**Valuation and depreciation of Infrastructure assets**	We performed comprehensive audit procedures over the valuations, which were detailed in our audit plan and have obtained sufficient appropriate audit evidence over the valuations to ensure material compliance with the requirements of AASB 16 *Property, Plant and Equipment,* AASB 13 *Fair Value Measurement* and AASB 136 *Impairment.* An unadjusted misstatement has been raised reflecting the annual indexation assessment that was not taken to account in FY21. This amounted to an unadjusted revaluation increment of $18.8m which reflects an estimate of changes in replacement costs of assets year on year using relevant and appropriate indices. Refer to the audit adjustments summarised in Appendix B for details of this adjustment. The valuation resulted in a net increment in fair value of $25.35m at the Council level and $24.95m at a consolidated level which has been fully adjusted through the asset revaluation surplus in equity. Significant valuation changes were identified across the sewerage and water infrastructure asset classes at the Council level. The revaluation movements for those asset classes are as follows:

Asset Class	Increase in Gross Replacement Cost ($‘000)	Increase in Accumulated Depreciation ($‘000)	Net Movement ($’000)
Water	91,709	(78,508)	13,201
Sewerage	236,555	(219,891)	16,664

4. Audit conclusions (cont.)

Areas of audit focus (cont.)

Risk	Description	Audit conclusion
1.	**Valuation and depreciation of Infrastructure assets (cont.)**	The key factors resulting in the significant increase in gross replacement cost of these asset classes include changes in the sewerage collection systems (approx. 75% increment) and water mains (approx. 55% increment) mainly due to factoring in latest greenfield cost estimates including materials and installation costs in addition to general unit rate uplifts determined by the external valuers. Accumulated depreciation has been largely impacted by condition assessments undertaken and a reassessment and recalibration of useful life ranges for short and long-life assets. Management and the external valuers undertook this assessment based on currently adopted useful lives, condition data, LG sector benchmarking and other relevant industry information. Analysis of key changes in useful lives are summarised below: Sewerage asset useful life ranges have increased an average of 7 years (38%) at the low end and decreased 57 years (26%) at the high end. Collection system useful lives, which comprise approximately 70% of the asset class, have increased 10 years (100%) at the low end and decreased 50 years (25%) at the high end. Water asset useful life ranges have increased an average of 3 years (32%) at the low end and decreased 130 years (65%) at the high end. Water main useful lives, which comprise approximately 75% of the asset class, have increased 67 years (515%) at the low end and reduced 70 years (41%) at the high end. We have undertaken review over a sample of asset useful lives and recalculation of depreciation expense based on materiality with no exceptions identified. In addition to the above matters, approximately $29m (written down value) of assets that were not previously recognised have been taken to account in 2020/21 through the valuation process across the water, sewerage and RDTI asset classes. These assets were identified through the ongoing asset data validation project and comprise approximately 3,600 assets represented largely by: • Water mains and nodes - (WDV: $5.58m / 1,074 assets) • Sewer mains and nodes - (WDV: $9.25m / 549 assets) • Road infill and kerbs - (WDV: $13.77m / 1,190 assets) We have undertaken a review over a sample of assets to/from the financial asset registers to underlying GIS mapping and other related systems or supporting documentation for completeness and existence with no significant exceptions identified. In addition, the external valuers performed physical inspections across the network as part of their valuation process. Based on the value of the assets not previously recognised, it was determined that these adjustments were not material for treatment as a prior period restatement based on materiality levels for property, plant and equipment adjustments through equity. We have raised an 'other matter' with respect of potential process improvement opportunities with respect to the asset management process in Appendix A2.
2.	**Risk of fraud in revenue recognition**	We have obtained sufficient appropriate audit evidence over material revenue streams through a combination of controls testing and substantive test of details. There were no audit adjustments, financial report or control matters relating to this risk.

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4. Audit conclusions (cont.)

Areas of audit focus (cont.)

Risk	Description	Audit conclusion
3.	**Impairment of assets**	We have performed the following procedures in relation to impairment of assets for the Investment in Gladstone Airport Corporation (GRC as a parent entity) and in relation to the consolidation: • Reviewed management's policies and procedures in relation to the monitoring and assessment of impairment. • Reviewed management's technical accounting papers in relation to impairment indicators, methodology, and conclusions reached. • Reviewed financial statement disclosures for appropriateness and completeness. In relation to the consolidation of Gladstone Airport Corporation (GAC) into the Gladstone Regional Council financial statements, we tested the GAC impairment model and performed additional procedures as follows: • Tested key assumptions used within the GAC impairment model, in particular the passenger numbers, growth rates and discount rates. • Determined key sensitivities with respect to key assumptions and whether this would lead to a reasonably possible impairment. We also considered whether any impairment that had previously been recognised would be reversed. We concur with the assessment that it is premature in the recovery of COVID-19 for any impairment to be reversed. Based on the results of the procedures performed, we obtained sufficient appropriate audit evidence to obtain reasonable assurance to conclude that the balance is not materially misstated.
4.	**IT system changes**	TechOne has been fully migrated to the cloud. We note this migration was for the back-end data to be moved into the Tech One Cloud as the existing Council infrastructure was approaching the end of its life. Management has performed extensive testing over the migration. We have checked balances have been carried forward correctly as a result of the migration. No issues were noted.

4. Audit conclusions (cont.)

Other audit opinions

In conjunction with our 2020/21 audit of the council's financial statements and current-year financial sustainability statement, we will issue audit opinions on special purpose financial reports prepared for the Roads to Recovery and the Local Roads and Community Infrastructure Program grant acquittals. These special purpose financial reports are being finalised at the date of this report and are due by 28 October 2021.

Materiality

Our audit materiality thresholds were reassessed based on your year-end financial statement balances and were changed since we communicated them in the external audit plan.

We used the following thresholds in assessing misstatements.

Overall materiality	Performance materiality	Clearly trivial threshold	Specific—property, plant & equipment
$2.3m	**$ 1.9m**	**$0.23m**	**$117m**
[per external audit plan $2.0m]	[per external audit plan $1.7m]	[per external audit plan $0.16m]	[per external audit plan $104.4m]

Evaluation of misstatements

At the date of this report, we have identified an adjustment of approximately $4.5m. This adjustment was a result of a reclassification of landfill provisions from property, plant and equipment to the asset revaluation surplus in equity and was corrected by management. This resulted in a change in an increase in net assets and no impact on net surplus.

At the date of this report, we have identified misstatements of $18.8m that remain uncorrected by management. If corrected these would result in an increase in net assets by $18.8m.

Details of these corrected and uncorrected misstatements are included in Appendix B to this closing report.

Evaluation of disclosure misstatements

At the date of this report, we have not identified any material misstatements in disclosures that required correction or remain uncorrected in the financial statements.

5. Audit issues

Internal controls

This table summarises our reporting on significant deficiencies/deficiencies in internal controls. See Appendix A1 for details.

	Number of significant deficiencies		Number of deficiencies		Rating
	Current year	Prior year unresolved	Current year	Prior year unresolved	
Control environment *Structures, policies, attitudes and values that influence daily operations*	-	-	-	-	●
Risk assessment *Processes for identifying, assessing and managing risk*	-	-	-	-	●
Control activities *Implementation of policies and procedures to prevent or detect errors and safeguard assets*	-	-	3	1	●
Information and communication *Systems to capture and communicate information to achieve reliable financial reporting*	-	-	1	-	●
Monitoring activities *Oversight of internal controls for existence and effectiveness*	-	-	-	-	●

● **Effective**
No significant deficiencies identified

● **Partially effective**
One significant deficiency

● **Ineffective**
More than one significant deficiency

Financial reporting issues and other matters

This table summarises our financial reporting and other issues raised in the current year and those carried forward from prior years. See Appendix A2 for details.

	Financial reporting issues—risk ratings			Other matters*
	High	Moderate	Low	
Current year				
Unresolved	-	-	1	**1**
Resolved	-	-	-	-
Prior year				
Unresolved	-	1	-	-
Resolved	-	-	-	-

** We only track resolution of other matters where management has committed to address the item raised.*

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6. Financial statement maturity

Financial statement preparation maturity assessment

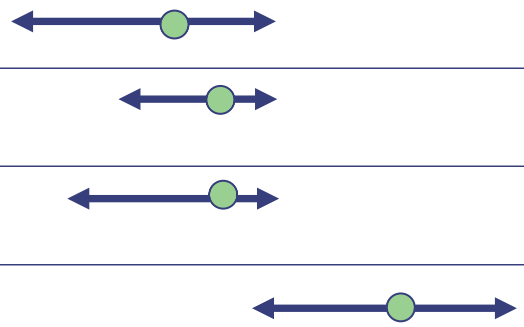
QAO has developed a financial statement preparation maturity model. This model replaces our previous assessment processes. The model brings scalability, responding to the client specific factors that influence reporting practices across the public sector. It aims to bring focus to areas of development to allow clients to reach their targeted positioning. The model also facilitates the sharing of better practices across the public sector. Further information about the model is contained in a Fact Sheet on our website.

The model outlines the key components that result in high-quality and timely financial reports, providing a maturity assessment for each of the components.

This year, we worked with management as they self-assessed their financial statement preparation processes. We acknowledge there was judgement involved in the principle-based assessments.

The following table sets out the range and average responses for Gladstone Regional Council's financial statement preparation process for each component.

Component	Developing	Established	Integrated	Optimised
Quality month end processes				
Early financial statement close process				
Skilled financial statement preparation and use of technology				
Resolution of financial reporting matters				



Gladstone Regional Council financial statement preparation processes range from established to optimised. From discussions with management, the ratings for these areas are considered appropriate based on the systems in place.

The ratings are driven by the following key strengths and improvement opportunities identified during management's self-assessment.

Key strengths	Improvement opportunities
• Development of a timetable for financial statement tasks • Preparation of high-quality pro-forma statements that are approved by the Audit, Risk and Improvement Committee • Preparation of position papers for areas requiring judgement and estimates • The Audit, Risk and Improvement Committee undertakes quality review of the draft financial statements and position papers	• Management reporting variance analysis that includes root cause and sensitivity analysis • Improving the early close process

In future years, we will continue to revisit the self-assessment with management and consider the results of our audit work in comparison to this assessment. Where relevant, we will identify further strengths and areas for improvement within these dimensions in our reporting.

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7. Other required information

We are required to report certain matters to those charged with governance. The table below provides a summary of the matters usually communicated at the end of our audit.

Matters for QAO to consider	How these were addressed
Disagreements with management	During our audit, we received full co-operation from management and had no unresolved disagreements over the application of accounting principles and the scope of our audit.
Significant difficulties	We did not encounter any significant difficulties during the audit.
Compliance with laws and regulations	We did not identify any instances of non-compliance with laws and regulations having a material effect on the financial report.
Matters significant to related parties	We did not identify any significant matters in relation to related parties during the audit.
Changes to accounting policies	We confirm there were no significant changes to accounting policies during the period.
Other matters significant to the oversight of the financial reporting process	We did not identify any significant matters in relation to the financial reporting process during the audit.
Fraud and illegal acts	We enquired of management regarding: • knowledge of any fraud or suspected or alleged fraud affecting the entity involving management, employees who have significant roles in internal control, or others where fraud could have a material effect on the financial report • knowledge of any allegations of fraud, or suspected fraud, affecting the financial information. We are not aware of any fraud or illegal acts during our audit.
Other information in the entity's annual report	We will perform audit procedures to verify the 'other information' in the entity's annual report as required by Australian Auditing Standard ASA 720 *The Auditor's Responsibilities Relating to Other Information*. Our review will examine whether the financial information and non-financial information of the annual report is consistent with the financial report.
Controlled entities/joint ventures	Our audit of Council's controlled entity Gladstone Airport Corporation is substantially complete with the financial statements due to be signed on 11 October 2021. We did not identify any significant issues that may impact on the audit of the Council.

Appendix A1—Internal control deficiencies

There were no new control deficiencies identified since our Interim Report dated 1 June 2021. Other matters are reported below. Refer to Appendix A2 for financial reporting issues identified and Appendix A3 for matters previously reported. Our risk ratings are as follows—refer to Internal controls rating definitions for more detail.

Significant deficiency	**Deficiency**	**Other matters**

Other matters

21CR-2 Mapping of GIS system to the MyData system

Observation

Audit procedures are undertaken between the financial asset registers and underlying and/or supporting systems, including GIS to test, on a sample basis, the completeness and existence of assets recorded in the financial asset registers that then flow into the financial statements. It should be noted that supporting information was provided to establish to an appropriate level the completeness and existence of assets selected in our sample.

The following observations were made as part of these procedures (from a sample of 30 items):

- 2 assets selected from the financial asset register were not mapped to the GIS system either due to the componentisation of the asset project or the size of the asset which requires ongoing monitoring.
- 3 assets within GIS were not clearly identifiable via the MyData asset ID field as a result of different layers of assets in use. We understand that the MyData asset ID field is not complete to enable labelling currently as this body of work is in progress.

We acknowledge that processing of assets into various asset management systems is a continuous and resource intensive process and a full reconciliation between these systems is challenging given the nature and quantum of the assets involved.

Implication

Asset management systems, including GIS, support the completeness and existence of recorded asset information in the financial asset register and statements. Whilst full reconciliations between systems are generally not possible, we do note however that timely and accurate data recording in supporting systems provides greater ability to interrogate and reconcile asset data sets as required by the various stakeholders.

QAO recommendation

We understand that management undertakes data validations during each year which reconciles data between the two systems. Phase 2 of the Asset Data Project should continue to progress as required to ensure validation processes are maintained. It is acknowledged that this area represents a significant volume of data and high level of complexity with various areas of Council.

Management response

In accord with Council's current Asset Information Strategy the GIS is a supporting system, not our primary system with respect to the storage of asset information therefore there will be at times some minor differences due to timing and also differences as to what assets are recorded in our GIS and what data is held in our GIS with respect to the various classes of Council assets. Further, it is noted that the GIS posting dates reflecting the maintenance date of that systems is not an asset register record and is not intended to be a representation of the date of asset capitalisation.

Responsible officer:	Tania Brown
Status:	Resolved
Action date:	No additional actions required as management have determined the current processes are adequate to address the above matter.

Appendix A2—Financial reporting issues

The following table outlines financial reporting issues and other matters identified through our audit since presenting our Interim Report dated 28 May 2021. It includes a response from management.

Our risk ratings are as follows—refer to Financial reporting issues rating definitions in Appendix A4 for more detail.

High | Medium | Low

Low risk financial reporting issues

21CR-2 Reserve Accounting

The practice of reserve accounting (i.e. transferring amounts of retained surplus to and from equity reserves based on internal cash budgeting decisions) is tied to cash accounting and, therefore inconsistent with Australian Accounting Standard requirements. As none of the equity balances referred to are specifically required by Australian Accounting standards, we can consider these to be "non-IFRS" disclosures.

Implication

Council is not reporting the equity components of the financial report in accordance with Australian Accounting Standards. Having numerous reserves makes the financial report unnecessarily complex and significantly longer than it needs to be without providing any added benefits to the users. Presenting non-IFRS financial information prominently in the financial statements, particularly where there is no consistent basis of measurement or presentation reduces the comparability of the financial information between entities.

QAO recommendation

We recommend that the Council dispense with the practice of reserve accounting and instead utilise the current disclosure within the cash and cash equivalents note identifying the total amount of cash that has been set aside for particular projects (i.e. cash funds for which there are internal restrictions). This approach also allows the council to continue to convey this budgetary information to users of the financial report in a more meaningful and more easily understood way. We do recommend considering the level of internal and external restrictions against the actual cash holdings at reporting date.

Management response

Council notes the recommendation, however, believes that the disclosure offered by Council provides users with a more appropriate identification of reserve funds. Council's cash and debt management policies aligned to best practice through Queensland Treasury Corporation does mean that at various times of the year, reserve balances exceed cash on hand, which may lead to unnecessary queries with an alternate disclosure through the cash equivalents note.

Responsible officer:	General Manager Finance Governance & Risk
Status:	Resolved
Action date:	31 October 2021

Appendix A3—Matters previously reported

The following table summarises previously reported control deficiencies, financial reporting issues and other matters that we reported this year in our interim management letter and unresolved issues raised in prior years.

Reference	Issue	Status/Comment action date
	Internal control issues	
	Deficiencies	
20CR-3	**Improvement of the three-way-match process required** (COSO component: Control activities)	**Work in progress** Action date: 30 June 2022 Management is currently working with TechOne to develop a new system process to enable invoices to be entered into the system upon receipt. Phase 1 development and testing is ongoing. Due to issues with obtaining skilled TechOne consultants, implementation and go-live phase is expected to be 30 June 2022.
21-IR-1	**Lack of formal review relation to IT system access changes** (COSO component: Information and communication)	**Resolved** Action date: September 2021 Management have undertaken a review of the system generated reports that can be generated in the system to be reviewed on a regular basis. It was found that most of the reports that could be generated did not provide the information in a format that was practical for a review to be performed. Management notes however that there are preventative controls in place when system access changes are requested and there exists adequate segregation of duties between the system owners and the IT department in providing this access.
21-IR-2	**Reconciliations for infrastructure assets are performed on an ad-hoc basis** (COSO component: Control activities)	**Work in progress** Action date: 31 March 2022 Management will ensure that quarterly fixed asset reconciliations are undertaken.
21-IR-3	**Delay in property unimproved capital value reconciliations** (COSO component: Control activities)	**Resolved** Action date: 30 June 2021 Management has devoted significant resources to implement a plan to reduce the time lag between receipt of valuation updates and their processing in the

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Reference	Issue	Status/Comment action date
		Pathway system. After re-allocation of duties, this has been worked on intensively by our two Debt Recovery – Rates Officers over recent months. As a result, the time lag has now reduced to under 2 months which has surpassed our initial processing expectations and ensures that rates levying in Pathway reasonably reflects current property valuations issued by the Department of Resources
21-IR-4	**Reconciliation between Pathways and TechOne** (COSO component: Control activities)	Management has implemented a process to reconcile rates revenue on a daily basis.
	Financial reporting issues	
	Medium risk	
20CR-4	**Asset valuations – RDTI assets not previously recognised**	**Work in progress** Action date: 30 June 2022 Management is undergoing its data cleansing and verification program and will continue the process throughout the FY22 financial year. In addition to the above, as we have noted in Section 2 of this report, $29m of not previously recognised assets across the RDTI, water and sewerage classes were identified in FY21. Whilst determined not to be material to the financial statements, this further supports this matter remaining as an open and ongoing project.

Internal controls rating definitions

	Definition	Prioritisation of remedial action
Significant deficiency	A significant deficiency is a deficiency, or combination of deficiencies, in internal control that requires immediate remedial action. Also, we increase the rating from a deficiency to a significant deficiency based on: • the risk of material misstatement in the financial statements • the risk to reputation • the significance of non-compliance with policies and applicable laws and regulations • the potential to cause financial loss including fraud, or • where management has not taken appropriate timely action to resolve the deficiency.	This requires immediate management action to resolve.
Deficiency	A deficiency arises when internal controls are ineffective or missing, and are unable to prevent, or detect and correct, misstatements in the financial statements. A deficiency may also result in non-compliance with policies and applicable laws and regulations and/or inappropriate use of public resources.	We expect management action will be taken in a timely manner to resolve deficiencies.
Other matter	An other matter is expected to improve the efficiency and/or effectiveness of internal controls, but does not constitute a deficiency in internal controls. If an other matter is not resolved, we do not consider that it will result in a misstatement in the financial statements or non-compliance with legislative requirements.	Our recommendation may be implemented at management's discretion.

Financial reporting issues rating definitions

	Potential effect on the financial statements	Prioritisation of remedial action
High	We assess that there is a high likelihood of this causing a material misstatement in one or more components (transactions, balances and disclosures) of the financial statements, or there is the potential for financial loss including fraud.	This requires immediate management action to resolve.
Medium	We assess that there is a medium likelihood of this causing a material misstatement in one or more components of the financial statements.	We expect management action will be taken in a timely manner.
Low	We assess that there is a low likelihood of this causing a material misstatement in one or more components of the financial statements.	We recommend management action to resolve; however, a decision on whether any action is taken is at management's discretion.

Appendix B—Misstatements

Summary of corrected misstatements

We identified the following misstatements during the audit. They were subsequently corrected by management in the financial statements.

#	Details	Profit or loss Dr/(Cr)	Asset Dr/(Cr)	Liabilities Dr/(Cr)	Equity Dr/(Cr)
		$m	$m	$m	$m
1	Land and improvements	-	4.5	-	-
	Asset revaluation reserve	-	-	-	(4.5)
	To correctly reflect the movement in the landfill restoration provision for existing restoration sites as an increase to asset revaluation surplus in equity.				
	Total	-	4.5	-	(4.5)

Summary of uncorrected misstatements

Our audit identified the following misstatements which we reported to management. These misstatements have been assessed by management as not material (either to the financial statements as a whole or to individual line-item presentations). We concur with management's assessment.

#	Details	Profit or loss Dr/(Cr)	Asset Dr/(Cr)	Liabilities Dr/(Cr)	Equity Dr/(Cr)
		$m	$m	$m	$m
1	Property, plant and equipment	-	18.8	-	-
	Asset revaluation surplus	-	-	-	(18.8)
	Application of unadjusted revaluation indices across asset classes not comprehensively valued based on materiality.				
	Total	-	18.8	-	(18.8)

Appendix C—Next year planning considerations

We identified the following financial reporting matters during the current year audit for consideration in planning next year's audit.

Next year audit planning considerations	Potential effect on financial statements	Potential effect on audit
Refinancing of debt between GRC and GAC The proposed refinancing of the shareholder loan between GRC and GAC will require assessing the relevant accounting implications such as the measurement and recognition of the loan receivable and assessment of loan recoverability based on the revised cash flows. This will be dependent on the particulars of the refinancing and will impact the way in which GRC considers the impairment of the investment in GAC.	Change in loan amount and assessment of impairment considerations for the refinanced loan.	The recognition, measurement, and recoverability of the refinanced loan would need to be assessed as part of audit procedures.
Consideration for impairment reversals Dependent on the business performance of GAC in FY22, management may begin to consider a reversal of previous impairment charges. Management should note the requirements of AASB136 with respect to impairment reversals and the criteria for when a reversal may be considered. It is also suggested that GAC considers further valuations being undertaken (dependent on indicators of a COVID-19 recovery and performance against budget) to support a reversal of impairment. This may require a comprehensive assessment at a point earlier than it may usually obtain one.	Potential increase in asset values and associated P&L impact as a result of the reversal of previously recognised impairments.	Any valuation work performed would need to be assessed as part of our audit procedures. This may include the use of auditors experts.

Appendix D—Assessment of financial sustainability

Assessment of financial sustainability

Section 169(5) of the *Local Government Regulation 2012* outlines the following relevant measures of financial sustainability for all Queensland local governments must report on:

Sustainability measure	Purpose	How is it measured?	Target
Operating surplus ratio	The Operating Surplus Ratio indicates the extent to which operating revenues raised cover operating expenses.	*Net operating result/Total operating revenue (excluding capital items)*	Between 0% and 10% per annum
Net financial liabilities ratio	The Net Financial Liabilities Ratio indicates the extent to which operating revenues (including grants and subsidies) can cover net financial liabilities (usually loans and leases).	*(Total Liabilities—current assets)/Total operating revenue*	< 60% per annum
Asset sustainability ratio	The Asset Sustainability Ratio indicates the extent to which assets are being replaced as they reach the end of their useful lives.	*Capital Expenditure on replacement of assets (renewals)/Depreciation*	> 90% per annum

We assigned a risk rating to each measure using the below criteria.

Risk rating measure for Individual Ratios	Operating surplus ratio	Net financial liabilities ratio	Asset sustainability ratio
Higher	Less than negative 10% (i.e. losses) Insufficient revenue is being generated to fund operations and asset renewal	More than 80% Potential long-term concern over ability to repay debt levels from operating revenue	Less than 50% Insufficient spending on asset replacement or renewal resulting in reduced service levels and increased burden on future ratepayers
Moderate	Negative 10% to zero A risk of long-term reduction in cash reserves and inability to fund asset renewals	60% to 80% Some concerns over the ability to repay debt from operating revenue	50% to 90% Irregular spending or insufficient asset management practices creating a backlog of maintenance/renewal work
Lower	More than zero (i.e. surpluses) Well positioned to fund operations and asset renewals	Less than 60% No concern over the ability to repay debt from operating revenue	More than 90% Likely to be sufficiently replacing or renewing assets as they reach the end of their useful lives

Appendix D—Assessment of financial sustainability (cont.)

Our assessment of financial sustainability risk factors does not take into account council's long-term forecasts or credit assessments undertaken by Queensland Treasury Corporation. We calculate the overall financial sustainability risk assessment using the ratings determined for each measure using the criteria in the table below.

Risk level	Detail of risk
Higher risk	Higher risk of sustainability issues arising in the short to medium term if current operating income and expenditure policies continue, as indicated by average operating deficits (losses) of more than 10 per cent of operating revenue.
Moderate risk	Moderate risk of sustainability issues over the longer term if current debt financing and capital investment policies continue, as indicated by: • current net financial liabilities more than 80 per cent of operating revenue or • average asset sustainability ratio over the last 5 years is less than 50 per cent or • average operating deficits (losses) over the last five years of between two and 10 per cent of operating revenue or • realising two or more of the individual ratios for moderate risk assessments (per the table opposite).
Lower risk	Lower risk of financial sustainability concerns based on current income, expenditure, asset investment and debt financing policies.

Corruption prevention—CCC case studies

The Crime and Corruption Commission is promoting its Prevention in focus: case studies series. The series draws on CCC investigations to highlight specific prevention lessons for public sector managers and staff.

Topic or publication	Key information
When conflicts of interest in procurement result in criminal convictions Crime and Corruption Commission Published: 10 September 2021 https://www.ccc.qld.gov.au/publications/when-conflicts-interest-procurement-result-criminal-convictions	Two criminal prosecutions following investigations by the CCC highlighted the importance of governance and transparency in the procurement processes for government contracts. This publication outlines the importance of implementing internal controls reporting processes to identify and prevent attempts to corrupt procurement processes. In the first case study, procurement fraud and misconduct by a former Racing Queensland employee relating to five contracts, resulted in a guilty plea and conviction. The employee disclosed confidential information about competitor's pricing and RQ's budget allocation for those works. In the second case study, a former Director of Engineering at Etheridge Shire Council was prosecuted for secret commission offices following another CCC investigation.

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