2023 CLOSING REPORT

Hope Vale Aboriginal Shire Council

27 July 2023

Queensland Audit Office

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Mr Stephen Linnane
Chief Executive Officer
Hope Vale Aboriginal Shire Council
CAIRNS QLD 4870

Dear Mr Linnane

2023 Closing Report

We present our Closing Report for Hope Vale Aboriginal Shire Council for the financial year ended 30 June 2023. 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. We confirm that up to the date of this report, we have maintained our independence obligations in relation to our conduct of this audit.

Expected opinion

We expect to issue an unmodified opinion on the financial statements. Our audit opinion is subject to completion of our audit. We have included the key outstanding matters to be finalised below and will provide an update on these matters at the audit committee meeting.

Control environment

In our interim report, we assessed that your internal control environment does support an audit strategy where we can rely upon your entity's controls. We have confirmed that there has been no change to our initial assessment. Please refer to section 3 *Status of issues* for further details.

Materiality $490,000

Increase of $73,000 to planning materiality.

Estimated final fees

$67,900

Outstanding matters

Item	Responsibility
Financial statements review – quality check over final version	Audit
Subsequent events update – review of transactions and events to date of signing	Management and Audit
Management representation letter – to be signed with the financial statements	Management
Financial report certification – signing of the financial statements by management	Management and Audit

QAO is 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.

Thank you for your time this year, it has been a pleasure to work with you. If you have any questions or would like to discuss this report, please contact me on 07 4046 0044.

Yours sincerely

G Mitchell

Greg Mitchell

Partner
BDO Audit (NTH QLD) Pty Ltd

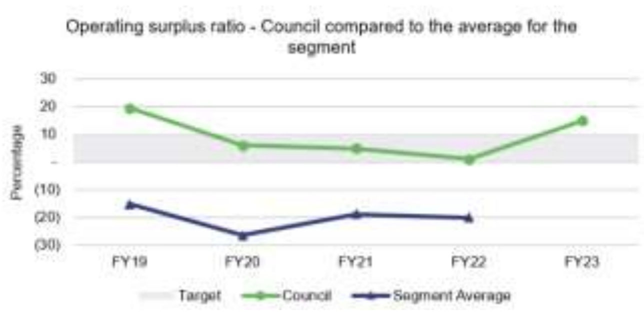
cc. Cr Jason Woibo, Mayor
Mr C Charlton, Chair of the Audit Committee

1. Financial sustainability assessment

Below we detail our assessment of your financial sustainability, based on the three ratios that Councils are required to report under the local government regulation. Our assessment of your Council's overall financial sustainability risk is **lower risk**.

Refer to section 8 *Assessment of financial sustainability* for guidance on how we calculate these ratios and our financial sustainability risk rating definitions.

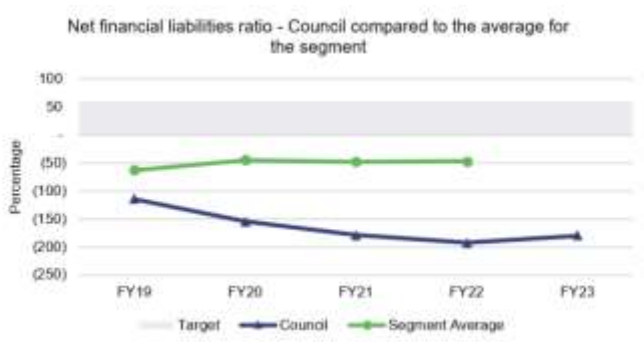
Operating surplus ratio



Hope Vale Aboriginal Shire Council's 5-year average operating ratio is 9%. This is within the target range.

The average operating surplus ratio indicates that Council generates higher than required levels of funding from its own source revenue - it can fund ongoing operations as well as capital projects with minimal level of debt funding.

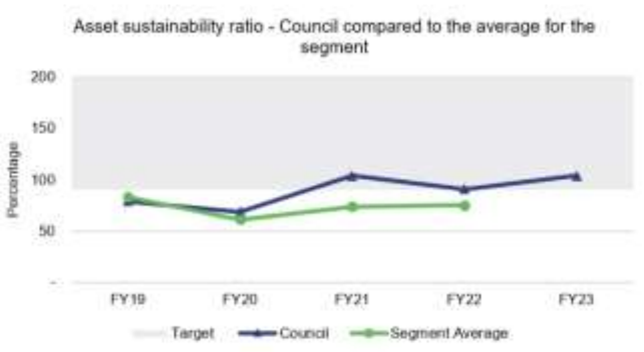
Net financial liabilities ratio



Hope Vale Aboriginal Shire Council's net financial liabilities ratio as at 30 June 2022 is -180%. This is within the target range.

The net financial liabilities ratio indicates that Council's capital structure is very strong. This, combined with an operating surplus ratio of 9% allows Council to service any borrowings that it may need for any future capital projects.

Asset sustainability ratio



Hope Vale Aboriginal Shire Council's 5-year average asset sustainability ratio is 89%. This is just outside the target range.

The average asset sustainability ratio indicates that Council has monitored its assets in line with its asset management plan. The ratio has been consistent with the target in FY21, FY22 and FY23, however declined in FY19 and FY20 predominantly due to COVID and has impacted the 5-year average.

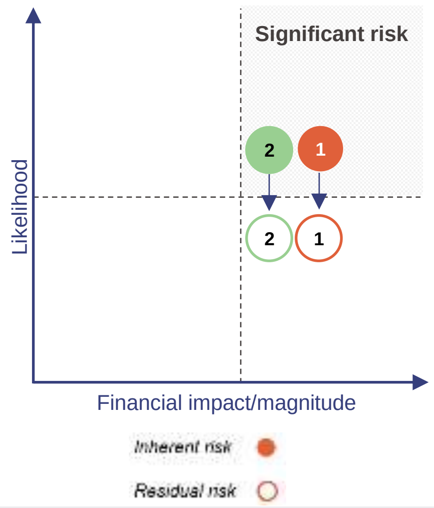
2. Audit conclusions

Areas of audit focus

Our external audit plan identified items that present the greatest risk of material error to the financial statements.

This chart displays the inherent risk for the identified areas of audit focus, together with considering the effectiveness of your internal controls (residual risk), and the financial impact (magnitude).

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



Risk	Description of risk	Audit conclusion
1	**Valuation of Property, Plant & Equipment** Valuations contain significant judgements and assumptions. A comprehensive valuation on the desktop and water and sewerage assets is due to be performed this year.	**Testing performed:** We have obtained the comprehensive and desktop valuations and: • Assessed whether the selection of indices is appropriate for the class of assets and have been applied to all assets in each class • Assessed the competency of businesses and people involved with performing and reviewing the revaluations • Reviewed managements own assessment of the assumptions used • Ensured that critical assumptions within the valuation methodology can be supported with the sufficient appropriate evidence • Considered accuracy of data provided to valuators • Checked arithmetical accuracy of calculations • Assessed whether a significant movement from the previous valuation is an indicator either of impairment of that asset values were materially misstated. **Results and conclusion** Based on the results of the procedures performed, we have obtained sufficient appropriate evidence that the balance is not materially misstated.
2	**Completeness of Contract Liabilities** There are significant grant funded projects that may not be completed by the end of the financial year, and there is a risk that the calculation of any deferred or accrued portion of grant revenue is not calculated in accordance with the standards.	**Testing performed:** We have: • Reviewed grant agreements to determine recognition in accordance with AASB 15 or AASB 1058 • Reviewed client grants register and agreed revenue, contract assets and contract liabilities to the general ledger • Tested a sample of capital grants and reviewed supporting documentation to ensure amounts are appropriately recorded in accordance with AASB 1058 • Performed a reconciliation of capital grants, contract liabilities and work in progress additions. **Results and conclusion** Based on the results of the procedures performed, we have obtained sufficient appropriate evidence that the balance is not materially misstated.

Other audit opinions

Each year, we are required under the relevant act and Commonwealth Government funding arrangement to provide an audit opinion on the following grants:

Grant Acquittal	Audit Performed
Roads to Recovery	Part 8 *National Land Transport Act 2014* Sub section 6.2(b) *Roads to Recovery Funding Conditions 2019 Agreement*
Local Roads and Community Infrastructure Program Extension Phase 2	Section 4 *National Land Transport Act 2014* Clause 11.3 *COVID-19 Local Roads and Community Infrastructure Program Guideline – Phase 2*

Audits of the above grant acquittals are yet to be finalised at the date of this report.

Materiality

We reassessed our audit materiality thresholds based on your year-end financial statement balances, and these have changed since we communicated them in the external audit plan. We used these thresholds in finalising our audit and assessing misstatements.

Overall materiality	**$490,000** (per external audit plan $417,000)
Performance materiality	**$367,500** (per external audit plan $312,750)
Clearly trivial threshold	**$24,500** (per external audit plan $20,850)
Specific – property, plant and equipment[1]	**$5,000,000** (per external audit plan $4,450,000)
Specific clearly trivial threshold[1]	**$250,000** (per external audit plan $222,500)

Note: [1] Specific materiality is only applicable to the valuation assertion of property, plant and equipment and to the associated asset revaluation surplus balances.

Evaluation of quantitative misstatements

At the date of this report, we have not identified any quantitative misstatements.

Evaluation of disclosure misstatements

At the date of this report, we have not identified any misstatements.

3. Status of issues

Internal control issues

No internal control issues identified from work performed throughout the audit.

4. Financial statement maturity

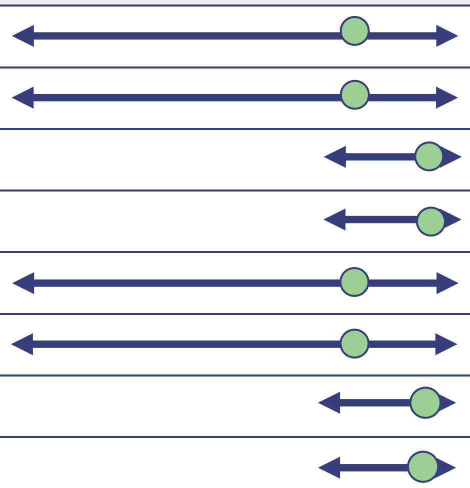
Financial statement preparation maturity assessment

In the 2021 financial year, management had self-assessed its financial statement process using the maturity model. Council had self-assessed its processes to be optimised.

This year, we have reviewed the entity's assessment using a combination of inquiry, observation, and review of the internal processes. Our review identified that Council's self-assessed scores and level of maturity were appropriate. Council's maturity level based on our review is optimised.

The following table sets out the range and average responses for Hope Vale Aboriginal Shire Council's financial statement preparation process for each component for the 2023 financial year. It also provides a comparison to the 2021 assessment.

Component	Financial year	Developing	Established	Integrated	Optimised
Quality month-end processes	2021				
	2023				
Early financial statement close process	2021				
	2023				
Skilled financial statement preparation and use of technology	2021				
	2023				
Resolution of financial reporting matters	2021				
	2023				



We identified the following key strengths and opportunities to improve based on the 2023 assessment:

Key strengths	Improvement opportunities
• High quality proforma financial statements are prepared and approved by the Audit Committee. • Financial statements are prepared in a timely manner with minimal changes required.	• Limited integration of data between financial statements and management reporting.

5. Other required information

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

Matters for QAO to consider	How these were addressed
Disagreements with management	During our audit, we received full cooperation 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.

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Matters for QAO to consider	How these were addressed
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 relating 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 relating 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. In addition to the above enquiries, we have also undertaken certain testing that we had detailed in our external audit plan, and we are not aware of any fraud or illegal acts during our audit.
Other information in the entity's annual report	We have not yet performed 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 financial and non-financial information in the annual report is consistent with the financial report.

6. Matters previously reported

There are no control deficiencies, financial reporting issues or other matters from previous audits to report.

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

Our assessment of financial sustainability risk factors does not take into account a 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 5 years of between 2 and 10 per cent of operating revenue or • realising 2 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.

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