INFRASTRUCTURE, PLANNING AND NATURAL RESOURCES COMMITTEE

Members present:

Mr J Pearce MP (Chair)
Mr CD Crawford MP
Mrs AM Leahy MP
Mr S Knuth MP
Mrs BL Lauga MP
Dr MA Robinson MP

Staff present:

Dr J Dewar (Research Director)
Ms M Telford (Principal Research Officer)
Ms M Westcott (Principal Research Officer)

PUBLIC BRIEFING—QUEENSLAND AUDIT OFFICE'S REPORT NO. 17 FOR 2015-16: *RESULTS OF AUDIT: LOCAL GOVERNMENT ENTITIES 2014-15*

TRANSCRIPT OF PROCEEDINGS

WEDNESDAY, 31 AUGUST 2016

Brisbane

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Committee met at 9.17 am

CHAIR: I declare open the public briefing on the Queensland Audit Office's Report No. 17 for 2015-16: *Results of audit: Local government entities 2014-15*. Thank you for your attendance here today. I think we are getting to know one another and the process pretty well, but I am Jim Pearce, member for Mirani and chair of the committee. The other committee members here today are: Dr Mark Robinson, deputy chair and member for Cleveland; Mr Shane Knuth, member for Dalrymple; Mrs Brittany Lauga, member for Keppel, who will be here shortly; Mr Craig Crawford, member for Barron River; and Ms Ann Leahy, member for Warrego. Welcome, Ann. It is Ann's first appearance with the committee today and we are thankful to have her here with us.

Today's public briefing will form part of the committee's consideration of the report. Before we commence, may I ask that mobile devices be switched off or put on silent mode. Those here today should note that these proceedings are being broadcast to the web and the media may also be present so it is possible that you might be filmed or photographed. The briefing is also being transcribed by Hansard. This briefing is a formal committee proceeding and as such you should be guided by schedules 3, 8 and 9 of the standing orders. I now welcome the assistant auditor-general, financial audit services, and the director, local government.

BRAHMAN, Mr Poopalasingam, Assistant Auditor-General, Financial Audit Services, Queensland Audit Office

FLEMMING, Mr Patrick, Director, Local Government, Queensland Audit Office

CHAIR: Do you have a small opening statement?

Mr Brahman: Yes, I do. I welcome the opportunity to brief the committee on report No. 17 for 2015-16. This report summarises the results of our audits of the 2014-15 financial statements of local governments and the entities they control. We are required under the Auditor-General Act to report at least once each year on the results of financial audits. Due to the importance of this sector to the Queensland community, we prepare a separate report on local government. The annual report of each local government is its primary accountability document reporting to its ratepayers and residents. It sets out its operational and financial performance and position. We aim to issue an unmodified audit opinion. We work closely with each entity each year so it can submit high-quality and timely draft statements for our audit.

Our audit approach includes examining internal controls each entity has implemented to reduce its risk of error and fraud and to produce accurate and reliable financial information. Whether we qualify or otherwise modify our audit opinion depends on each entity's compliance with its financial reporting requirements. We also have regard to its future financial state, as the financial statements are prepared assuming it will remain a going concern. Issues of medium to longer term financial sustainability are therefore important audit considerations.

For the second year our report includes an assessment of each council's financial governance. This is in the form of a traffic light report which allows a comparison to be made against like councils. The assessment covers the timeliness of financial statements, the quality of statements provided to audit, an assessment of financial sustainability and an assessment of internal controls. Thank you. We are happy to take any questions,

CHAIR: I go to page 11 of your report, 'Local government entities exempted from audit', where it states, 'Exemptions are granted only where there are no public interest reasons for us to undertake the audit and we consider the entity to be small and of low risk.' Can you make that a bit clearer for us, please?

Mr Flemming: Certainly, Chair. We actually have a table in the back of the report, appendix D on page 79, where we do report the results of those exempt audits, but we do not physically do the audit ourselves. They are generally very small organisations. As you can see from the ones listed, they are little associations where there might be multiple councils that have banded together to contribute some money to a little organisation or an association. We look at the money that is going through those organisations, we look at the risk associated with those organisations and that is how we come up with that small and low-risk exemption category. The way the legislation works is that the Auditor-General approves it. They request an exemption, we then assess the small low risk of the organisation and then they nominate an auditor, we approve that auditor to say, yes, you have actually got a qualified auditor to do the audit. They still have an audit, it is just not done by us and so that reduces some costs for some of these very small organisations.

CHAIR: The point that caught my attention was where you said that there are no public interest reasons. There would be public money involved. You have explained it.

Mr Flemming: In all of these cases it is very small amounts of public money. I do not have the details, it is probably a few thousand dollars as opposed to millions of dollars.

CHAIR: The second last paragraph on page 11 states. 'One local government entity, Gold Coast City Council Insurance Company Limited, was exempted from audit by the auditor-general on this basis for 2014-15.' Can you explain that a little bit better?

Mr Flemming: The Auditor-General's mandate is obviously for all organisations or bodies established within Queensland or within Australia. This Gold Coast insurance company is actually established in a foreign country which means they have different laws about being a registered company auditor and the Auditor-General of Queensland does not qualify as a registered company auditor in that jurisdiction so they then appoint an appropriate auditor that does have those necessary local qualifications to comply with their laws and in this case it is Ernst & Young that does the audit of that company. They then report back to the council on those and we see those financial statements. We do report the results here, but we do not physically do the audit.

Dr ROBINSON: In terms of results of financial audits on page 14, four councils and six local government entities received qualified audit opinions for their 2014-15 statements. How concerning is it for entities to receive a qualified opinion? What are the implications of that?

Mr Flemming: Obviously one of the implications is that they get reported to parliament in this sort of report and it is highlighted. As we point out in the report, a number of the councils that received these qualifications, they relate to asset related issues, so they are property, plant and equipment, they are roads, they are water, they are sewerage, whatever it is, and generally around the valuation of those assets. Sometimes the way it works, because you have two years in your financial statements, you have this year and a comparative year, sometimes it takes a number of years for a problem to wash through the financial statements. Some of these qualifications this year you will note are related to the comparative figures. All things going to plan, most of those qualifications will drop off this year for three of those four councils, I think. It is concerning that problems develop in those sorts of areas, but it does take a number of years to resolve sometimes. With these particular ones, I think they relate to the comparative figures. The 2014-15 financial statements were okay.

Dr ROBINSON: As a follow-up to that, and you may well have covered this next question in that answer, but I will still put it to you. You have advised that in the 2014-15 financial year the office issued 27 emphasis of matter paragraphs. Were any of these for the same reasons or the same things compared to the previous financial year?

Mr Flemming: Of that 27 I think about 22 of those related to just highlighting that they were special purpose reports. Under the accounting standards there are two different sorts of reports you can do, one is for a special purpose which are basically saying there are not very many interested people so the ones who are interested have a bit of knowledge of the organisation. They call them special purpose. They comply with some accounting standards. Whereas general purpose are for a broader audience and they comply with all of the accounting standards. Twenty-two of these merely highlighted that the accounts were of a special purpose, so that is more of a technical requirement just to highlight that anyone who is reading it who does not have that knowledge should be aware of it. The other ones, most of those related to what we call going concern. With some of these small organisations they have some uncertainty around their future funding or, indeed, some of them might be winding up and they may have made a conscious decision that they were not going to operate. Either council made that decision or the board of these companies made that decision to wind up in the future. We highlight that in the emphasis of matter. We say there is nothing wrong with the financial figures as they stand, but it is just really to highlight that this organisation is either definitely not going to continue in the future or there might be some uncertainty around whether it continues for the next 12 months or couple of years.

Ms LEAHY: There is a comment here that the Auditor-General identified significant internal control weaknesses to the accuracy and reliability of financial reporting in 60 councils. Could you perhaps give me some examples of internal control weaknesses and also what recommendations there are to enhance those internal control weaknesses—without naming too many specific councils.

Mr Flemming: No, that is fine. I will speak in broad terms. Over a number of years we have raised a lot of issues around the internal control frameworks of councils and it does go to the heart of how councils manage their business, that governance aspect. Controls protect you against fraud, they protect you against error, and it is just good governance to have a strong internal control framework. In the report—I will just find the graphic for you—a lot of the issues we identify in terms of internal control again relate to assets, so property, plant and equipment, and they also relate to expenditure.

On page 42 there is a little graphic that identifies where the weaknesses come from. Primarily they are, as I said, in the property, plant and equipment space, so it is how well you are managing your assets. It might be the controls you have around your asset registers or your asset management plans, so how well the data is protected. In expenditure it is some of the controls around maybe how your computer systems are maintained or your records or your checks and balances across particular documentation matching various aspects through the organisation.

The concerning point for us—and we point that out in the report—is that 31 per cent of the issues we raised in the previous year we have had to raise again in this year, and that is a trend that we have seen continue over a number of years. Whilst we are making recommendations to various councils, 31 per cent of the time councils have either not taken effective action or potentially have not taken any action at all to address some of these shortcomings. The ones we have in the report are what we call significant deficiencies, so it is not just the minor sort of things; they are controls of a bigger nature that we think can have a big impact on the organisation. By not having these particular aspects of the business controlled you will leave yourself exposed to problems of any nature.

CHAIR: Are these the same councils?

Mr Flemming: Yes.

CHAIR: Ongoing for years?

Mr Flemming: Several of them are. You will see that, if you go back over a number of our reports, the same councils have a high volume of issues. It is no surprise that some of the ones that are very late in completing their financial reports also have a significant volume of these internal control weaknesses. The ability to complete your financial reports on time is probably an indicator of that whole governance framework that sits underneath those financials.

CHAIR: You cannot let that continue, can you? How do you fix that? Does the Treasurer have to step in, or is it up to you to sort it out?

Mr Flemming: We obviously make our recommendations, and we put those to the individual councils and also include the significant ones in our reports to parliament as well. One of the things that we believe can help to focus councils on addressing these issues is an audit committee. You will see in the report we made a recommendation that audit committees be mandated for all councils. Due to a quirk of the legislation they were required for a period of about two years. All councils had to have them. During that period I think 75 of 77 councils did put them in. Of course they were in various stages of maturity; that is acknowledged. Again due to a quirk of the legislation as of 1 July this year there are roughly 40-odd councils that now have an option as to whether they continue with the audit committee process.

One of the reasons we think an audit committee is important is because it is about holding the organisation to account around some of these things like internal controls. Where the audit has raised the issue it is up to the management of the organisation—the council itself—to do something about that, and an audit committee is potentially a way to hold the individuals or the organisations to account or keep focus on those areas throughout the year. Even if they only meet a couple of them two or four times a year, depending on the council it is enough to keep them focused on these issues and keeps management addressing the issues to get a satisfactory outcome. We felt that is one mechanism to do that.

The other way that we are trying to do that—and Brahman mentioned this in his opening remarks—is the traffic lights that we have started to introduce in this report. That is the second time we have done that. We focus on not just the timeliness and quality of the financial statements but also the various elements of the internal control framework. We break internal control into five different areas, which is commonly used across the world. It looks at the activities that you are doing in terms of control, monitoring, risk is another category and the control environment, which is sort of the tone at the top, the whole fabric of your control environment. We break all of those down across the various councils, and as you will see we have started reporting on how many councils have significant issues in each one of those. Our aim over time is to tighten the criteria that we use in terms of our red, amber and green traffic lights to keep focusing and keep driving improvements from the various councils in those areas.

In this report on page 92 we identify the criteria for controls. We gave a red traffic light if you had greater than five significant deficiencies or at least one of the really highest deficiencies, which we called a material deficiency. That seems like a fairly lenient aspect if you need five things to get a red light. This year we have set up with our councils that we will be bringing that in to two or three to get that red traffic light, and over time we will keep trying to improve public sector performance through tightening those and at least getting councils to stretch their performance in that area. We think in combination with the traffic lights and also a good audit committee it can be very effective in trying to change that dynamic of inaction.

Ms LEAHY: I notice that you have recommended audit committees, and I do know some of the audit committee members around the state, but I notice you did not recommend any qualifications for those members of the audit committee. Can I ask what you would see as an appropriate qualification? Then I am going to ask you a really tricky question about how you would find those qualifications in, for instance, a community like Boulia or Bulloo council where your population is about 250 people. Then you are in a situation where you are forced to get an audit committee in who do not really know that area. You sort of have to make sure they are not related to everybody on the council. You might shed some light on what may be envisaged and whether it would be appropriate to have a sliding scale? Obviously whatever the qualifications are, an auditor for Brisbane City Council would be very different to Bulloo Shire Council.

Mr Flemming: Yes, absolutely. There are different skill sets and it really depends on what the council needs or wants or what they are striving to achieve over the long-term as to the skill set that they need. You might have a council that is very skilled in financial knowledge, but they might think that they need some assistance with some legal capacity on their audit committee to supplement their own skills. We have not suggested what qualifications you need because I think it is horses for courses really. There are some great audit committee members out there, I am sure, who have probably very few qualifications who come from business or from the local community. There are also audit committees out there with a lot of high-profile people, either former auditors-general, former partners in the 'big four' accounting firms or smaller tier firms, solicitors, as I said, businesspeople—all sorts of things. Engineers might be another example. Councils look after $77 billion worth of infrastructure assets, so maybe having an independent person with some skill sets in that area might be advantageous to the council. It is really about having an independent sounding-board for the councillors and for management to say, 'This is what our strategies are and this is where we are going.' Having spoken to a number of councillors privately, they have said that they learned so much more about their organisation by being on the audit committee, and from that aspect they found it very rewarding. From their perspective they felt it gave them greater insight and helped them do their job.

I know that in regional areas it is difficult to get people to small communities and people from within those communities. Some councils have decided to share across boundaries, so maybe take a chief financial officer from one council and put them on the audit committee of another council and they have some knowledge transfer. It is about getting different ideas as well to try and open minds to better ways of doing things. I know, for example—and I think we made the point in the report—of one large council that invited a smaller council to come and sit there and see how their audit committee operated so they could come and just be an observer and then take that back to their community and try and roll out something better for their size, but with an understanding of how the mechanism of an audit committee was supposed to work.

In the back of our report we included a work plan for what audit committees might want to focus on. I think we all recognise that it is a maturing process and I guess it is trying to take the initial short-term upfront compliance cost thinking to understand over the long-term what is the value for the organisation in having that effective monitoring of the internal control framework, that extra sounding-board, that extra person or people who might be able to help. I know the Local Government Association of Queensland has a panel of people that can be tapped into if councils thought that was appropriate. I believe they have also offered their facilities to dial in if that was an appropriate mechanism to get the right people to join the committee rather than just a person to join the committee. We have seen in some of the Indigenous councils and some of the ones up north they have tapped into quite a range of different skill sets that you can see are gradually improving those organisations and just providing a bit more comfort to the councillors to be able to be happy with some of the decisions they are making or that extra person.

Ms LEAHY: You mentioned engineers. There is sometimes one engineering firm that tenders for jobs from all of those councils and it would not really be appropriate that they be on a particular council's audit committee. I just wonder whether the LGAQ might be a better system, because not only then can they provide the audit advice but they may be able to provide strategies to assist with dealing with any weakness as well. I think we have to be really careful here. We have identified the problem, but we also have to identify the solution.

Mr Flemming: Absolutely. I think it is important to get the right people on the committee; I completely agree with you. As the process matures, if given that opportunity we will work with councils to make sure that they are thinking about who the right people are for their circumstances and that they try and tap into those skill sets wherever they are. There are councils that use people from interstate and there are councils that use people from the local area. As long as it is the right person, it does not matter.

Mr KNUTH: I am curious: what happens when a council gets a red light?

Mr Flemming: At the moment it is purely just included in our report, so it becomes public through our reporting process to parliament. There is no other consequence than that, but we have seen that councils genuinely do not want that outcome. Whether it is competition against your peers—because we classify councils within their peer groups in the back of the report, so South-East Queensland councils are grouped together, Indigenous councils, the coastal councils, councils—we call them resource councils—in mining communities. There is probably some competition there about what you want to achieve against your peer group, but it is also just primarily not having a red mark against your name in an auditor-general's report.

Mr KNUTH: Do they get the red light over and over?

Mr Flemming: This is only the second year that we have gone through this process. Over time we would hope that councils are trying not to do that and the ones that are continually getting those will bubble to the surface. Then maybe a different course of action may be appropriate for them.

Mr KNUTH: Does the audit or the audit committee help change that problem?

Mr Flemming: Yes, they absolutely can. It is about prioritisation and focus on the key areas. I guess we are trying to highlight where we think there are problems that the council should focus on, and potentially the audit committee can help oversight them and direct their energy to addressing some of those problems, which then should ultimately be able to save money down the track. If you fix one problem and get it bedded down, then it should make everything a little bit easier to move on to some of the other problems facing the community.

Ms LEAHY: I have a question in relation to those councils that actually struggle. I see there is a note that there are a couple of councils that, for a couple of consecutive years, have struggled to meet the audit requirements. I have noticed that some of those councils come up year after year. I suppose I would look at the question: is the audit requirement too high for what they have to operate? Is there a better way? Without those councils, those communities would really suffer. I look at the South Australian model where the majority of the land mass actually does not have a local government. If you talk to the people there, they would say that they wish they did have a local government. These are very important councils to Queenslanders and to various places, particularly regional places. Is there some way that we can actually help them, or is the standard that we are asking them to meet too high? What are your thoughts on that?

Mr Flemming: I do not believe the standard is too high primarily because if you look across you will see a couple of the ones that have kept turning up in more recent years as having missed deadlines are some of the Indigenous councils, yet the council that has had their financial statements signed first and generally has very few problems is an Indigenous council. They have been the first signed for four years. I guess it comes back to leadership and governance within those organisations and prioritisation set by those councils. I mentioned the controll environment before and called it the tone from the top. It is really what you find as important and what you drive through that organisation. Obviously, one particular council has focused on the internal controls and the governance and the outcome of that is that they have a very efficient and well run financial reporting process. I do not think that you could bandage them up and say that all of them fit into that category. I think it does come back to some of that drive within the organisation and the prioritisation.

I know sometimes it comes back to—and we do have a graphic in the report here—the distance from a major centre. That can have an impact on, for example, the attraction and retention of senior executives or senior management. That is a real issue for councils. How they change that, because others are in similar positions that manage to do things differently—I do not know that there is a 'one size fits all' answer. There are ones that are working. If the others can tap into that and try to deploy some of those tactics within their own organisation they will find that they can improve. In relation to the ones we have highlighted here that have been late in terms of financial reporting for the last four or five years, if you go back four or five years some of these actually had been delivering reports on time for a number of years. It does shift and move depending on the organisation and the prioritisations at the time.

Mr CRAWFORD: I refer you to page 4, asset management planning. I note the reduction from 60 per cent to 37 per cent of councils that have had them up to date. Firstly, do you have any idea why the numbers are so low this time around? Can you talk about your recommendations in the report about greater prioritisation given to the preparation and update of those plans?

Mr Flemming: I think the numbers are sliding primarily because a number of councils see asset management plans as a compliance cost rather than some sort of value to their organisation, a business benefit, if you like, down the track. It is that short-term versus long-term view. As councils are looking after $77 billion worth of infrastructure that is going to last a long time, asset management is the cornerstone of that long-term sustainability piece. How are you going to best position yourself for the future? There is always going to be a multitude of maintenance that you could do at various stages. What is the one that gets you the best value for money for the community over the long term? Do I go and rip up my road every 12 months and lay a new one, or do I do it every five years or 10 years or whatever? What is best? There are different mechanisms and there are different answers. The community will have a certain level of service that they expect. One of the key things that seems to be missing from most of the asset management plans is around that community engagement. What level of service is the community willing to accept? Do they understand or are you engaging with them to know what is the difference between the types of levels? What does a road that is six years old look like as opposed to one that is seven years old? Does that make a difference? It may well make a significant difference in how much money you have to invest in maintenance each year or when you have to rehabilitate your roads or when you replace them.

Asset management plans—I think it is a mindset to change it from a document that is prepared because the legislation tells you to do it to a mindset of what this means for my ability to provide value to the community over the long term. The value in an asset management plan is not actually having a document; the value is being able to sit there opposite the mayor or the CEO, look them in the eye and say, 'How does this actually improve your community?' The payoff is when they can actually sit back and say, 'By doing this plan we actually worked out we were replacing our roads too regularly and we actually saved a lot of money from this and we were able to invest that into different aspects that the community was after.'

The plan is the first point and it is about understanding what the long-term gain is and the optimal either replacement or renewal strategies for your assets. It is intimately connected with that, financial sustainability piece. At the moment we are actually doing a performance audit on long-term sustainability in local government. That performance audit is in train at the moment. We plan to table that in the next few months. That may give a bit more information around the sustainability and the asset management aspects.

Mr CRAWFORD: Was there any pattern between councils that did or did not have effective asset management plans such as large councils, small councils? Was there any kind of pattern as to the ones that were not doing it right?

Mr Flemming: Certainly. On page 23 of our report there is a bit of a graphic based on percentages of the councils we have in our various categories. How many roughly of that category have an up-to-date plan? You see in South-East Queensland a lot more of those have an up-to-date plan whereas the others—maybe not so much. The up-to-date plan is the first indicator of how well you are going in managing your assets and getting that optimal value for the community. I do not have comparisons other than that.

CHAIR: I want to go to page 26. From your review of 63 government and annual reports available you determined that 47 local governments—that is 75 per cent—did not provide a clear list of all the business activities they conduct. You also identified that some councils stated within their annual report that they had conducted no business activities yet reported fees from business activities in their financial statements. Can you give us some more details on that, please?

Mr Flemming: One of the points we make here is that the legislation is a bit misunderstood or a bit confused by councils. That seems to be leading to a mismatch of what is reported. We audit the annual financial statements, not the annual report, and there are some things around reporting in annual reports. What represents a significant business activity is rather complex, what is just a general activity and then what should be disclosed. We found a lot of confusion with councils around what they should be doing and how they should be doing it. There are so many business activities that they run—the theatres, road contracting businesses, water services, recycling, sporting complexes, gymnasiums, shops, cafes, whatever it is. There are a lot of different businesses, and how they are disclosed and the information around that is not flowing through to the annual report. More importantly, it is probably not flowing through—and we make the point here—in terms of the quality of the internal management reporting that is coming through to the councils themselves.

The first step is that the councils are actually getting quality internal management reports around the operation of these businesses so they can make informed decisions about whether to continue with that business, to discontinue it, to look at outsourcing it—whatever it happens to be. Do they want to be involved in child care or aged care? Is there a better provider to do that in their area? I am not saying they should not be, but at least having the information, they can make an informed decision about which ones they are involved in. If these businesses are continually making losses, are they willing to accept that as it is part of the community or there might be a better way to run that internally within council and get a different outcome. There is a difference between the business activities that are run within the council and the business activities for which councils establish a controlled entity like a company to run them. They are both equally valid. In some cases there are more reported in the financials around the business activities within council than there are around the controlled entities. We did make a recommendation in the report that councils actually table the financial statements of their controlled entities in council.

In most cases, councils are the sole shareholder of these controlled entities and, therefore, they should have some oversight of their operations. We feel it is appropriate that the financial statements of those controlled entities—which we do audit, and we do report the ultimate outcome in here but not the financial balances or the transactions—be tabled in council and ultimately be made publicly available either through that process or on the entity's or the council's website. That sort of brings the local government realm in line with what the state does around controlled entities. For example, if a department established a company to do some aspect of their business, they would have to table that in parliament. This is kind of the same. This is tabled in council.

CHAIR: I have a couple more questions, but I am aware of time. Yes or no, is there a need to change legislation or amend legislation?

Mr Flemming: At this point we are hoping that councils will self-regulate and table. From the anecdotal conversations I have had so far, I think most are—

CHAIR: We do not need to worry about that at this stage?

Mr Flemming: I think we will just wait and see on that.

Mrs LAUGA: On page 27 it talks about entity types making losses, including airports and housing and property services entities. Why is it that these sorts of things are making losses? I would have thought that airports in particular would be quite good income-generating assets? What is going wrong there?

Mr Flemming: It depends on the community, where these things are, how useful they are and what costs are flowing through them. It would be hard for me to say what is driving the losses in individual cases. When the statements are not publicly available it is even less transparent for the councils themselves to understand. I think that level of internal reporting so that they can understand what is driving these losses and then take action to affect it is really important. At the moment we do see that as a gap—that knowledge of what is driving the losses and whether they are short term and deliberate knowing that there is a long-term strategy; it is an investment now for a long-term strategy of growth or whatever it is. It is hard to gauge without that.

CHAIR: Do you have a strategy to find out why?

Mr Flemming: Hopefully councils themselves will get that information.

Mr Brahman: Sometimes councils get into certain businesses because they are the only party in the community that can provide that service. Even with the airport, while it is important to promote tourism or economic development, that business by itself may not be profitable, but it might have other impacts in terms of the overall community.

Ms LEAHY: On page 4 at paragraph 3, it states that two of the newly deamalgamated councils, Noosa and Mareeba, achieved an operating surplus. The other two, Douglas and Livingstone, had operating deficits. Then there are further comments about Douglas, but there are no further comments about Livingstone. I am wondering what the situation is with Livingstone? It talks about Douglas forecasting operating deficits till June 2019.

Mr Flemming: On page 58 of the report we have a little bit more detail; there is a little graphic there. That graphic is on operating surpluses. What we were highlighting was that Livingstone and Douglas have both achieved an operating deficit for the current year. Livingstone is projecting to break even or make a small surplus in the next three years whereas Douglas is not projecting to do that. Based on their unaudited, long-term indicators that go in their annual report, they are not projecting to break even or make a surplus. Operating deficits, particularly of some magnitude, are an indicator of sustainability issues over the long term because you at least have to break even over the long term to be sustainable. You cannot always make losses. That is why we focused on Douglas rather than Livingstone, because they are projecting to at least make some small surpluses.

CHAIR: Thanks very much. Mr Brahman, we would have loved to have you answer more questions.

Mr Brahman: Pat was doing so well.

CHAIR: All the knowledge is sitting there. The time allocated for this briefing has now expired. Thank you for your attendance at today's briefing. I believe that the committee has gathered valuable evidence. You have presented us with some good material that will assist in our examination of the QAO's report No. 17 entitled *Results of audit: local government entities*. I declare the briefing closed. I again thank you very much for your beautiful responses. I was going to say magic, but I did not think that would be right.

Committee adjourned at 10.01 am