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Key recommendations from 2020 Local Government Audits

HTW public sector property forum- 27 August 2021 David Adams, Director - Audit Practice





for Councils

- Improve financial reporting processes
- Improve valuation and asset management practices
- Strengthen security of information systems
- Improve risk management practices
- Enhance procurement and contract management practices

for the Department of Local Government, Racing and Multicultural Affairs

- Require all councils to establish audit committees
- Make changes to sustainability ratios
- Provide greater certainty over long term funding
- Provide training to councillors and senior leadership teams about financial governance

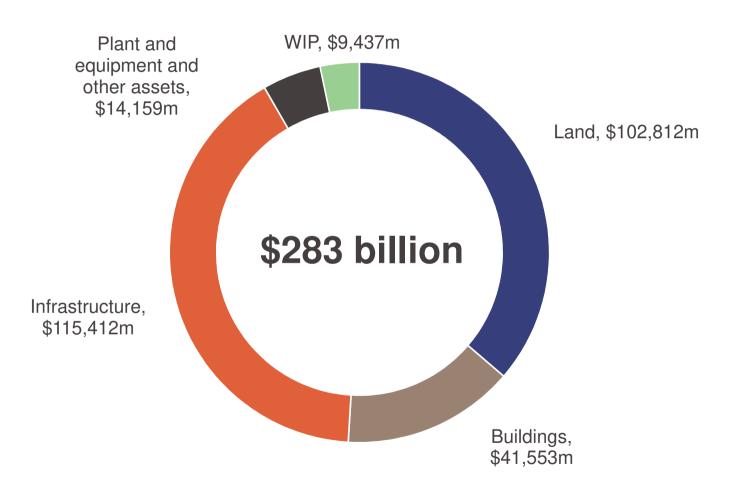
Assets in the Queensland public sector



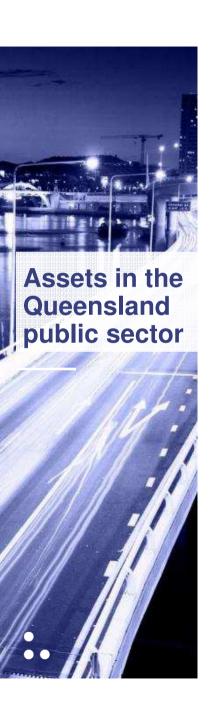
What is the appraximate value of assets in the Queensland public sector?

Assets in the Queensland public sector

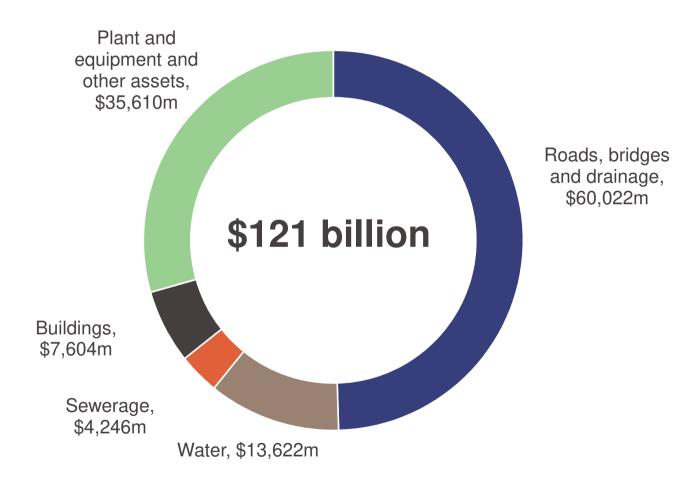
Total state sector assets—by type (2019–20)



Source: Report on State Finances 2019–20



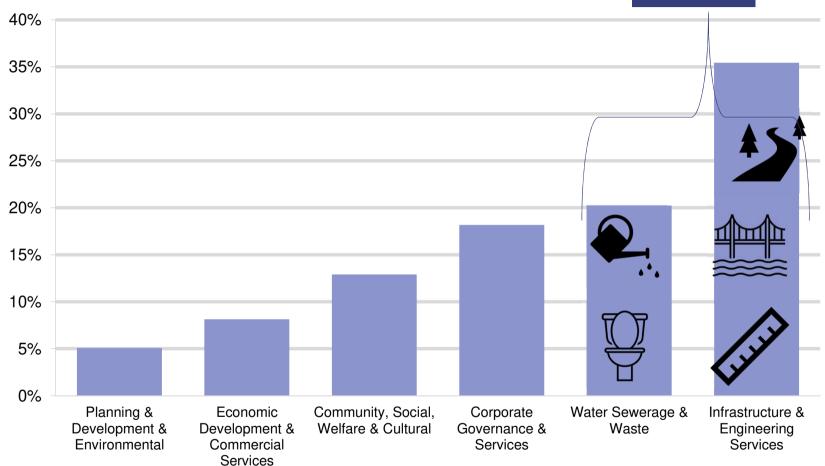
Local government assets—by type (2019–20)



Source: Council financial statements, 2019–20



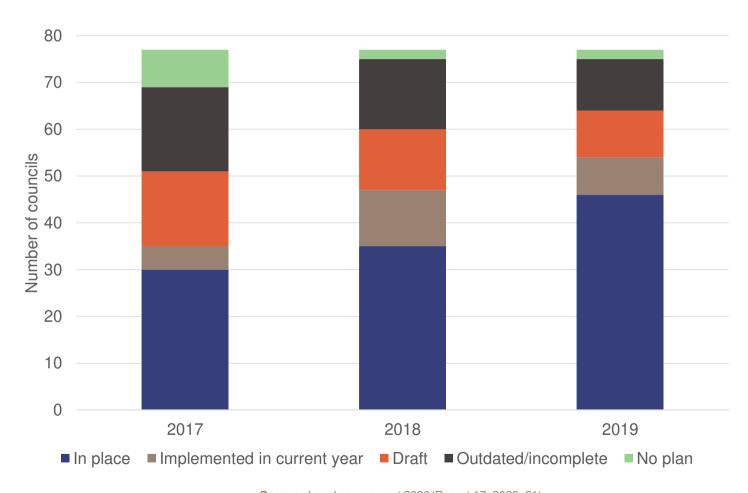








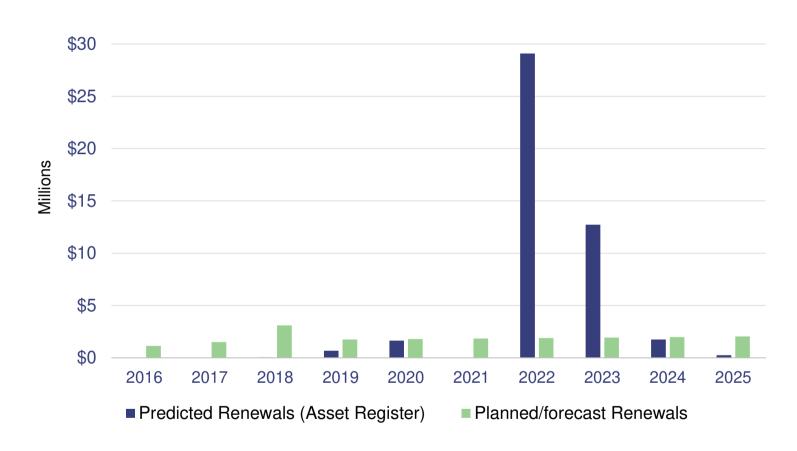
11 councils with outdated or incomplete asset management plans in 2020—but it is improving



Source: Local government 2020 (Report 17: 2020–21)



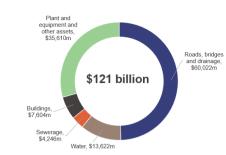
Single council example







LGs – maintain & renew >\$100b in infrastructure.

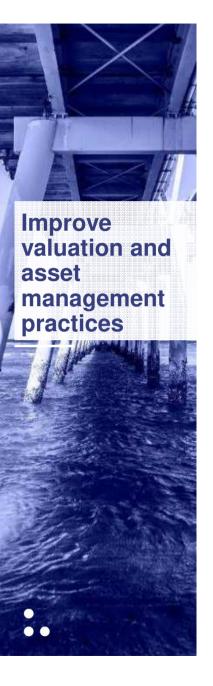


It is vital elected officials understand the community's longterm needs.

Effective asset management helps plan for future costs and to budget accordingly, so that future generations are not disadvantaged.

Asset management plans - range from concise documents by those with appropriate expertise, to the more complex prepared with assistance of external experts.

Strategic asset management is critical to supporting long-term operational and financial sustainability.





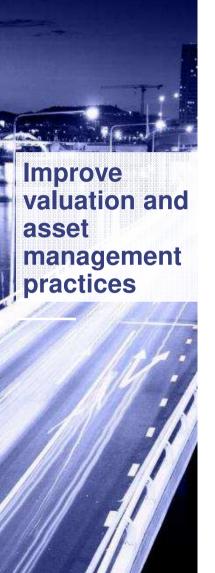
Improve valuation and asset management practices

Recommendation

 Councils need to regularly match the asset data in their financial records to the asset data in other operational information systems to ensure it is complete and reliable.

Why did we make this recommendation?

- In 2020, 9 councils reported assets worth \$230m for the first time ("found assets") in their financial statement
- These errors arise as a result of councils not performing periodic reconciliation between the GIS and financial records
- Good asset data is essential to ensure that the AMPs are effective





Improve valuation and asset management practices

Recommendation

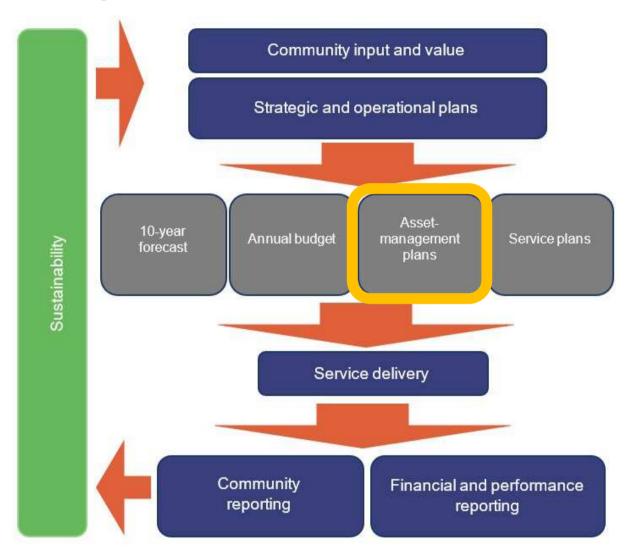
 Councils need to use accurate information in their long-term asset management strategies and budget decisions.

Why did we make this recommendation?

- 11 councils have either an outdated or incomplete AMPs
- AMPs are critical to planning long-term financial sustainability
- AMPs help councils understand performance, cost, and manage their assets
- If Councils do not budget appropriately for whole-of-life costs, they
 risk being unable to fund replacements or upgrades.



Local government context

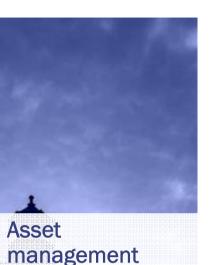




Importance of Asset management plans







plans - what is

needed

What do I have to gather?

What do I end up with?

INPUTS

- Current asset data
- Community satisfaction / service delivery data
- State/federal legislation
- Demand forecasts
- Risk management data
- Renewal priorities and standards
- Asset useful life estimates
- · Whole of an assets life
- New asset priorities
- Assets identified for disposal
- Asset management systems
- Asset replacement schedules and values
- · Capital renewal shortfall/surplus
- Capital program review





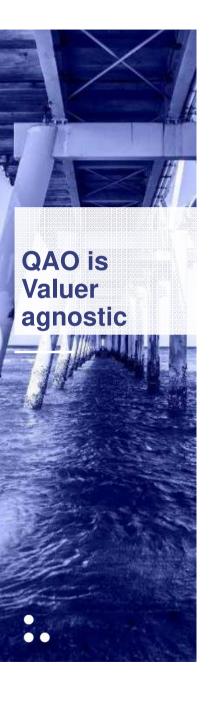




OUTPUTS

- Asset management plans for each major asset class that include:
- Links to an asset register
- Infrastructure risk management plan
- Alternative service delivery solutions
- Financial information (such as asset values, depreciation rates, depreciated value, capital expenditure projections for new assets as a result of growth, or to renew, upgrade and extend assets).
- Identified expenditure projections:
- Operations
- Depreciation
- Maintenance
- Capital renewal
- Capital upgrade

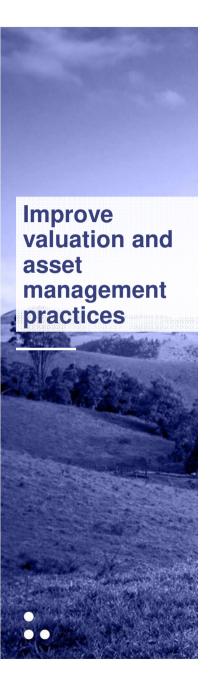
The inputs and outputs of developing Asset Management Plans are detailed above.



Important declarations about asset valuations

- We are agnostic when it comes to choice of valuers engaged by Councils
- However, we do expect these experts to have sound and demonstrated public sector experience
- It's not the Who, for us, it's all about the how & why

- HOW the valuation process is designed to meet financial reporting responsibilities and even better, how do valuation processes inform asset management practices and decisions and vice-versa
- Why did the inputs, estimates and assumptions change?





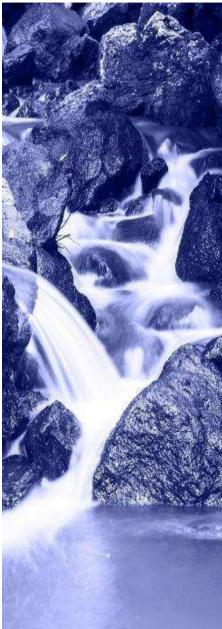
Improve valuation and asset management practices

Recommendation

 Councils need to engage with asset valuers early to complete the valuation of assets well before year end.

Why did we make this recommendation?

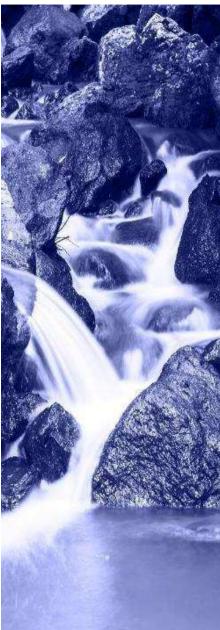
- Asset valuation is one of the key year end process that is not completed in a timely manner
- Many councils engage external valuers to have their assets valued –
 in a lot of instances, this doesn't happen early enough



Market Fair value Income Current replacement cost



Valuing assets



Fair value

Market

Income

Current replacement cost



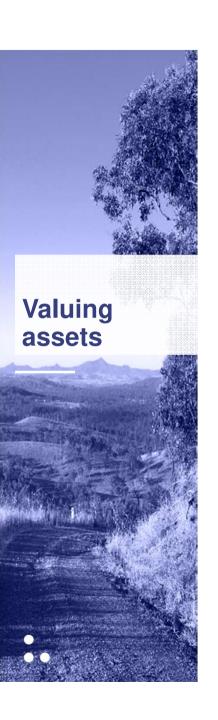
Valuing assets







Recommendation: Councils need to engage with asset valuers early to complete the valuation of assets well before year end.

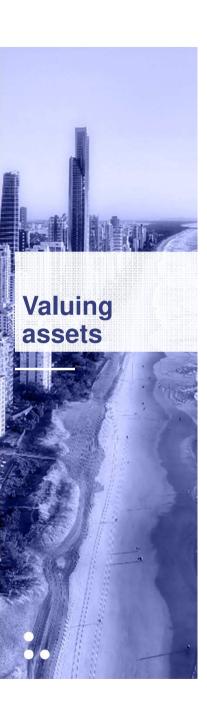


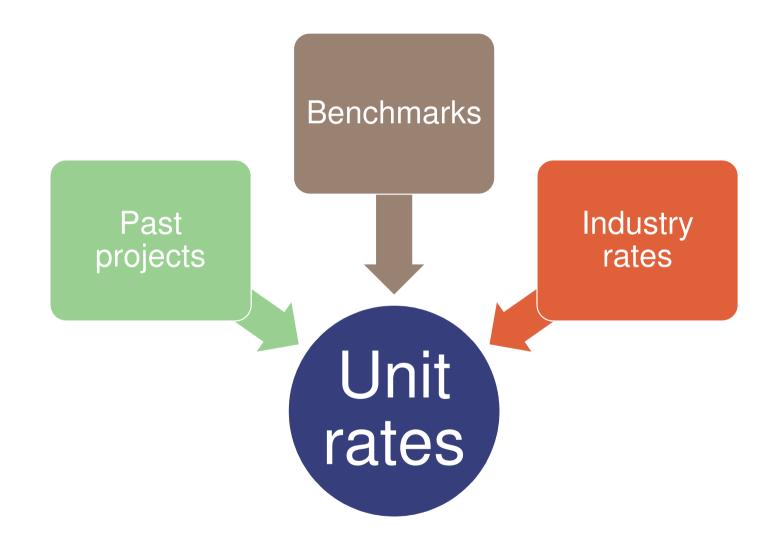
"Found" assets over the last five financial years—councils

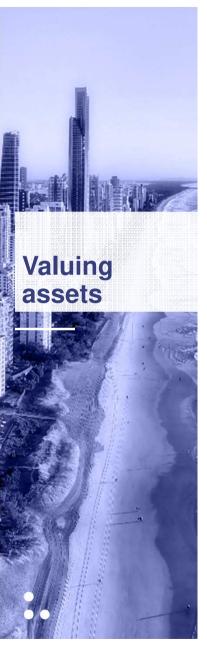
Recommendation: Councils need to regularly match the asset data in their financial records to the asset data in their engineering/geographic information systems to ensure it is complete and reliable.



Source: Local government results of financial audits: 2016–17 to 2019–20 (various reports)











Obsolescence

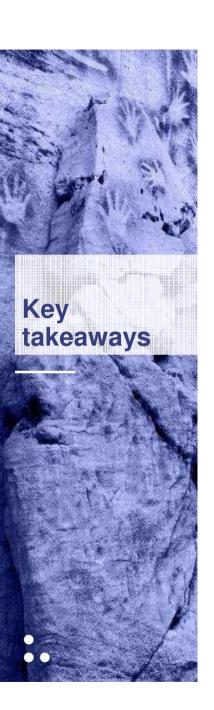
Levels of service

Remaining useful life











Know your assets

Remember whole-oflife costs

Help the accountants & auditors

Plan ahead





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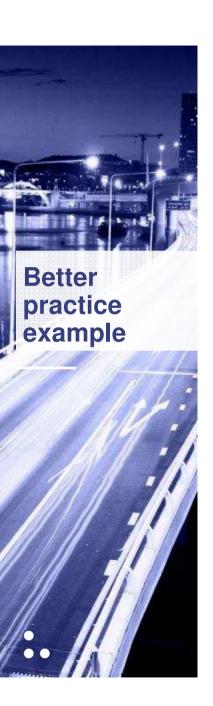
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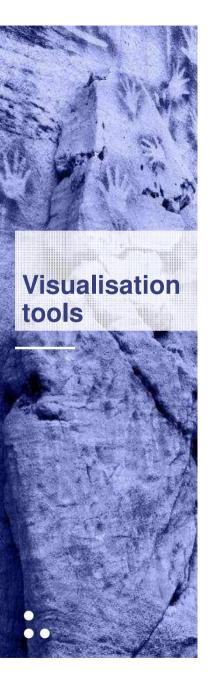
An example of working smarter





Increased capabilities enabled through dashboard

Road Asset Valuation 2020-2021 (updated - 09/03/2021) QLD State-Controlled Road Network Define a Road Valuation Stereotype * Road Categories Native/Derived WBS Schedule · Road Stereotype changes over years by length (km) * Road Stereotype changes over years by cost (\$) * Road Components by Gross Replacement Cost (\$) WBS (Work Breakdown Structure) Schedules (2020/2021) Percentage WBS items Movement (2020 vs 2021) WBS Resource (2020/2021) Percentage Resource Movement (2020 vs 2021) Top 20 WBS Schedules (2020/2021) Unit Rates Comparison (2020 vs 2021) Overheads used in WBS Schedules



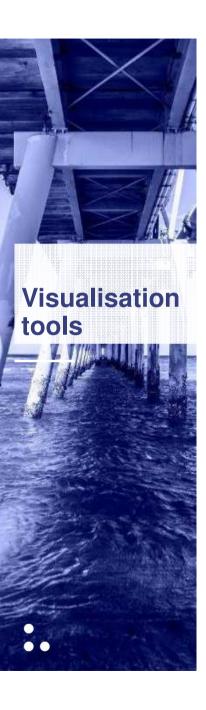


Use visualise large data sets

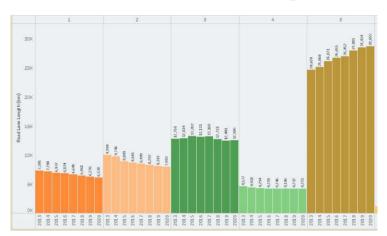
Target specific road segments

Profile data efficiently

Check key assumptions



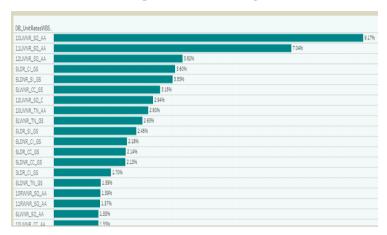
Trend of road lengths



Input quantity comparisons

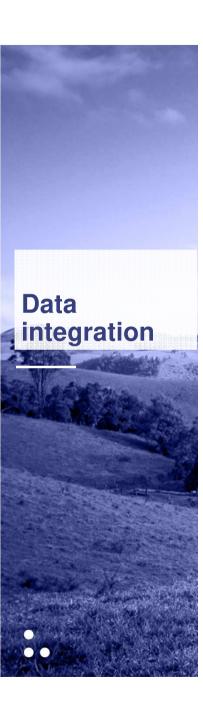
Item Description	Unit	Qty (2020)	Qty (2021)
Provision for traffic	LS	1	2
Removal or demolition of culverts, complete	lump	1	1
Supply and installation of concrete pipe culv	m	43	43
Supply and installation of concrete pipe culv	m	29	29
Precast concrete end structures to culverts,	each	6	6
Precast concrete end structures to culverts,	each	4	4
Rock protection	m³	15	15
Clearing and grubbing	m²	92,000	92,000
Stripping of topsoil (Provisional Quantity as	m³	2,700	2,700
Ground surface treatment under embankme	m²	27,000	27,000
Excavation and disposal of Unsuitable Mater	m³	900	900
Road excavation, all materials (Provisional	m³	3,750	3,750

Top 20 analysis

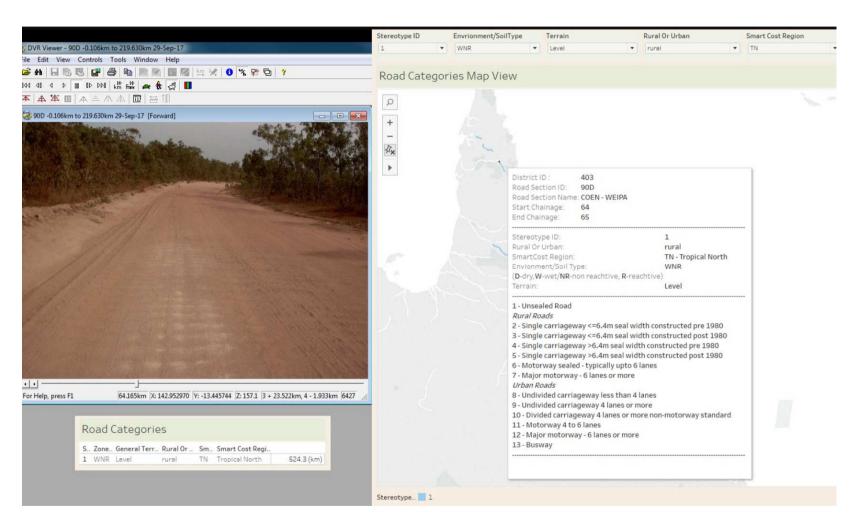


Back testing results

		DISTRICT:				PROJECT TYPE:		CONTRACT NUMBER:					
0 401	● 1 - Reseal (CR)	Darling Down	5			Chip Reseal (CR)		▼ CN-15229 •					
402	2 - Reseal (AR)	Road Section ID Project Length(km) 18C 6.30											
0 404	3 - Rehabilitation (GP)			WBS Schedule SLDNR_SI_CR		WBS Overhead Dis 15.23 Ka		Di-	Cost Varience (%)				
407	O 4 - Reconstruction (RF)							-439					
tem Description (District)						Item Description (AV)							
(AII) *													
Districts Actual Project Expenditure						Asset Valuation WBS Scedule							
Item (District)	Item Description (District)	Unit (District)	Quantity (District)	Unit Rate (\$) (District)	Amount (\$) (District)	Item (AV)	Item Description (AV)	Unit (AV)	Quantity (AV)	Unit Rate (\$) (AV)	Amount (\$) (AV)		
20001	Provision for Traffic, works include	lump sum	1.00	\$11,078.0	\$11,078	Null	Asset Valuation WBS Total Project Cost (S.	Null			\$80,254		
40723.01P	Spreading cover aggregate [7mm], [m3	303.00	\$22.6	\$6,839		Contractor's site facilities	LS	0.75	\$6,421.0	\$4,816		
40723.02P	Spreading cover aggregate [14mm],	m3	698.00	\$19.6	\$13,681	20102	Contractor's camp	LS	1.20	\$6,420.0	\$7,704		
40725.01P	Supply and addition of adhesion age	litre	628.00	\$6.8	\$4,296	20203	Implement Environmental Management PL.	LS	0.50	\$6,420.0	\$3,210		
40729.01P	Supply and addition of cutter oil	litre	3,767.00	\$1.1	\$3,993	40707P	Supply and addition of adhesion agent	litre	396.00	\$9.0	\$3,560		
41001.01P	Supply of cover aggregate [precoate.	m3	303.00	\$81.5	\$24,695	40711P	Supply and addition of cutter oil	litre	1,320.00	\$2.2	\$2,878		
41001.02P	Supply of cover aggregate [precoate.	m3	698.00	\$80.4	\$56,119	40721.1	Spraying bituminous material, treatment	litre	66,000.00	\$1.9	\$123,420		
96001.01P	Post-completion (but prior to	fixed rate	1.00	\$500.0	\$500		Spraying bituminous material, treatment	litre	88,000.00	\$2.2	\$190,080		
40721.01P	Spraying bituminous material, treat.	litre	125,550.00	\$1.3	\$165,726	40723.1	Spreading cover aggregate [10mm], [125	m³	440.00	\$64.5	\$28,358		
Project Total (\$)			131,949.00	\$11,791.3	\$286,926		Spreading cover aggregate [14mm], [110	m ^a	500.00	\$64.5	\$32,225		
						41001	Supply of cover aggregate precoated, 10m.	m ³	440.00	\$108.8	\$47,872		
						41001.1	Supply of cover aggregate precoated, 14m	m ^a	500.00	\$108.8	\$54,400		
						41005	Construction of stockpile site	lump	1.00	\$6,268.0	\$6,268		
						50001	Demolition of road furniture, as listed in C	lump	1.00	\$2,180.0	\$2,180		
						50051	Road edge guide posts	each	200.00	\$60.2	\$12,038		
						50052	Supply of regulatory, warning and hazard	lump	1.00	\$6,715.0	\$6,715		
						50054	Supply of direction and information sign f	lump	1.00	\$15,496.0	\$15,496		
						50056	Installation of regulatory, warning and ha	lump	1.00	\$4,420.0	\$4,420		



Streamlining data validation and assumptions







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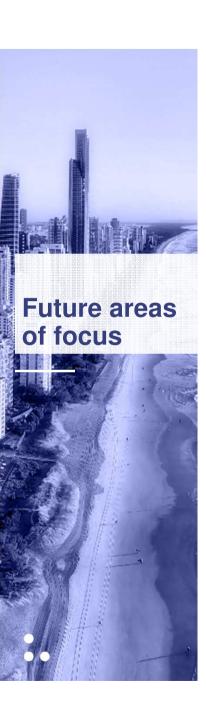
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What is on our radar?





2021

- Contract management for new infrastructure
- Improving asset management in local government

2022

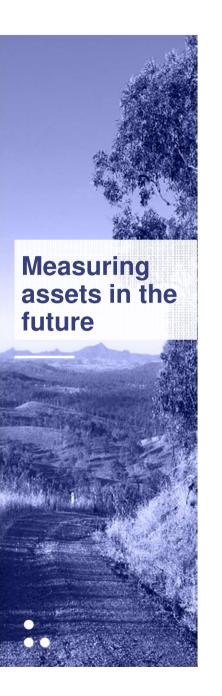
- Planning and delivering higher levels of state infrastructure
- Effectiveness of Queensland's long-term planning processes

2023

- Managing risk transfer in infrastructure
- Sustainability of local governments

Each year

Major projects



Is fair value appropriate for measuring operational assets of public sector entities?

-and just when you thought accountants and auditors had landed on a consistent set of techniques/ and to measure physical assets in the public sector... guess what?
- The AASB has issued an invitation to comment (<u>ITC45</u>) about IPSASB's proposal to introduce "current operational value - **COV**" measurement basis for non-cash generating assets in the public sector
- Why? is fair value appropriate for assets held for their operational capacity?
- Defining COV the value of an asset used to achieve the entity's service delivery objectives at the measurement date.





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Queensland Audit Office

