

## Cairns Regional Council/Douglas Shire De - amalgamation Joint Financial Due Diligence Working Group (FDDWG)

### Role, Principles, High-level Methodology and Deliverables

#### FDDWG Role

1. Prepare financial statements showing the financial position of the “continuing” CRC and the new Douglas Shire at 30 June 2013 and 30 June 2012 and reconcile with the QTC prepared financial positions for the same years.
2. Provide the detailed financial information required by the CRC to ensure the 2013 Financial Statements comply with AASB5.
3. Prepare financial statements showing the financial position of the “continuing” CRC and the new Douglas Shire at 31 December 2013. The form and content of the statements should be acceptable to the QAO.
4. Provide the financial information required by Douglas management to brief the new Douglas Council and the community

#### Principles

5. The attribution of the revenues, expenditures, assets and liabilities of the Cairns Regional Council the “continuing” Council and the new Douglas Shire must be fair, equitable and transparent to all parties.
6. The FDDWG will use the outcomes of the Queensland Treasury Corporation (QTC) work as the baseline and will enhance the QTC process and methodology as considered necessary.
7. The Transfer Committee and/or the De Amalgamation Committee must approve all FDDWG methodology, activities and outcomes, as appropriate.
8. The FDDWG outcomes have the potential to have a significant impact on both the Cairns and Douglas communities and will be subject to intense external scrutiny. Accordingly, the FDDWG must set a high standard of probity and its work will be subject to independent external review.
9. The FDDWG scope of work encompasses:
  - (a) Review the QTC methodology and assumptions. Revise as necessary and prepare financial statements for each entity at 30 June 2013, together with comparatives for 2011/12. Outcomes must provide the level of detail required by CRC 2013 financial statements to comply with AASB5.
  - (b) Apply the revised approach to the CRC actual results for the 3 financial years (2008/09 to 2010/11) covered by the QTC model Update the financial statements for each entity at 30 June 2013 as necessary.
  - (c) Prepare financial statements for each entity at 31 December 2013.
10. Revenues and expenditures will be attributed *directly*, at the function level, wherever possible. Where this is not practical, an appropriate revenue or cost *driver* will be applied.

11. The work of the FDDWG will be subject to independent external review, given the sensitivity of the outcomes and the likely public scrutiny. Accordingly the FDDWG work must be underpinned by good practice work papers with an emphasis on sound documentation, together with independent verification and certification. All data used will be referenced back to the CRC financial information data base for the year in question.
12. CRC business units and some corporate functions recover costs either partially or fully through the CRC overhead allocation model. To avoid duplication, the net financial position only, of these entities will be accounted for in the attribution process.
13. Infrastructure assets will be attributed on a physical location basis. Plant, vehicles, inventory and IT equipment will most likely be allocated on a “final resting place” basis as agreed by the Transfer Committee case by case. .
14. The FDDWG will follow standard risk management practices as set out in the CRC Risk Management policy

### **High-level Methodology**

15. Review QTC methodology and outcomes and identify potential improvements.
16. Develop FDDWG methodology and work program and obtain approval of the Transfer Committee. Internal Audit to review prior to presentation to the Transfer Committee.
17. Identify the framework necessary to support separate financial reporting for CRC and Douglas for the 6 months to 31 December 2013. Develop the necessary financial models and determine the supporting attribution approach.
18. Modify the framework and models identified in paragraph 3 above for use with 2012/13 data structures. Update drivers and populate with 2012/13 data. Update operating, investing and financing flows and balance sheet items. Repeat using CRC 2011/12 financial year data.
19. Apply the approach set out in paragraph 17 above to the CRC actual results for the 3 financial years (2008/09 to 2010/11) comprising the QTC model.
20. Split CRC Balance Sheet and Cash Flow Statements to determine closing balances as at 30 June 2012 and 30 June 2013 for Douglas and the “continuing” Cairns, using direct attribution where possible and applying data generated ex paragraphs 13 and 14 above.
21. Prepare *financial statements* showing the closing financial position for both CRC and Douglas at 30 June 13. Quality assure the outcomes against QTC results where practical and present to Transfer Committee.
22. Prepare notes and detail required for CRC 2013 financial statements. This should include comparatives and AASB5 compliance detail.
23. Quality assure outcomes against QTC results where practical and present to Transfer Committee for approval. .
24. Apply the approach set out in paragraph 3 above to the CRC actual results for the six months to 31 December 2013. Prepare *financial statements* showing the closing financial position for both the “continuing” council and Douglas at 31 December 13.
25. Quality assure the outcomes and present to Transfer Committee.

26. The outcomes of step 21 and step 24 will be subject to independent external review prior to presentation to the Transfer Committee for approval.

## **Deliverables**

27. Financial statements, based on the CRC 2013 financial statements, showing separate results for Douglas, “continuing” Cairns and combined, as at 30 June 2012, 30 June 2013 and 31 December 2013,
28. The financial statements will comprise a Statement of Comprehensive Income, a Statement of Financial Position and a Statement of Cash Flow
29. The June 2013 Statements and the December 2013 Statements will be subject to independent external review.
30. The Statements at 30 June 2013 will be prepared using two separate formats, (a) showing results for Douglas, “Continuing” Cairns and Combined and (b) comparing FDDWG results with QTC results for Douglas, “Continuing” Cairns and Combined
31. The Statements at 30 June 2012 will be prepared in the two separate formats as per paragraph 28 above.
32. Reports comparing FDDWG results with QTC results for both the 2012 and 2013 financial years will be supported by analysis of key variances
33. It is anticipated that the information provided in the above reports will provide a firm base to support development of the Douglas budget for the 6 months to 30 June 2014 and reduce risk to 2014 year end audit.

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