

5.5. FINAL MANAGEMENT REPORT FROM QUEENSLAND AUDIT OFFICE

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DEPARTMENT: Corporate Services

RECOMMENDATION

That Council notes the observations contained within the Final Management Report (Observation Report) from the Queensland Audit Office for the 2017/18 financial year.

EXECUTIVE SUMMARY

The Final Management Report is presented to Council for noting and staff have also provided a summary of the number and type of QAO audit issues outstanding as at June 2018 compared to June 2017.

BACKGROUND

Each financial year Council's financial statements must be audited and for the 2017/18 financial year the audit was undertaken by the Queensland Audit Office (QAO). Section 54 of the *Auditor-General Act 2009* enables the QAO to prepare a final management report containing observations and suggestions about anything arising out of the audit. Where those observations or suggestions require further attention the QAO is required to provide a copy of the report to the Mayor.

Under the provisions of Section 213 of the *Local Government Regulation 2012* (the Regulation) this report is known as the **auditor-general's observation report** and it must be presented to the next ordinary meeting of Council.

It is important to note that the observation report is additional to the Independent Auditor's Report that is provided with Council's certified set of financial statements (with the latter being included in Council's Annual Report and referenced in Section 182 of the Regulation in relation to the timing of the adoption of Council's Annual Report).

COMMENT

The audit undertaken by the QAO was completed last month and Council was provided with an unmodified (unqualified) audit opinion (Independent Auditor's Report) on 16 October 2018. The Final Management Report contains any issues identified in the final stage of the audit and categorises these issues into either "Internal Control Deficiency" issues (assessed as 'significant deficiency', 'deficiency' or 'other matter') or "Financial Reporting" issues (assessed as 'high', 'medium' or 'low').

Appendix A of the report shows that only one new issue was identified in the "Internal Control Deficiency" category and assessed as a 'deficiency' and two new issues were identified in the "Financial Reporting" category with one being assessed as 'high' and the other assessed as 'low'. The appendix contains details of the component, issue (and rating), QAO recommendation and management response (including a status update) for each issue identified. The issues identified were workshopped with Council on 11 October 2018 as part of the QAO's presentation of the audit closing report.

The following table provides a summary of the number and type of QAO audit issues outstanding as at June 2018 compared to June 2017.

Table 1.

Category	QAO Audit Issues Outstanding				Comment
	Jun-17	Added	Resolved	Jun-18	
Information Technology					
IC Significant Deficiency					
IC Deficiency	1		1		
FR High					
FR Medium					
FR Low					
Property, Plant & Equipment					
IC Significant Deficiency					
IC Deficiency					
FR High		1		1	<i>Bloomfield Bridge</i>
FR Medium					
FR Low	1		1		
Other					
IC Significant Deficiency					
IC Deficiency		1		1	<i>Donations Policy / Register</i>
IC Other matter					
FR High					
FR Medium					
FR Low		1		1	<i>Annual Leave Entitlements</i>
	2	3	2	3	

IC = Internal control issues FR = Financial reporting issues

It is anticipated that all of the outstanding issues will be resolved by June 2019.

PROPOSAL

The QAO's Final Management Report is presented to Council for noting of their observations.

FINANCIAL/RESOURCE IMPLICATIONS

Preparing financial statements for audit and addressing issues identified during the audit form part of staff core duties. However, sometimes there are new financial or resource implications arising from issues raised in the Final Management Report. If Council is required to take ownership of and ongoing operational responsibility for the Bloomfield River Bridge then there will be financial and resource implications for Council.

RISK MANAGEMENT IMPLICATIONS

Having the issues identified by Council's external auditors and reporting the progress on resolving these issues will mitigate any risks.

CORPORATE/OPERATIONAL PLAN, POLICY REFERENCE

This report has been prepared in accordance with the following:

Corporate Plan 2014-2019 Initiatives:

Theme 5 - Governance

5.2.1 - Provide Councillors and community with accurate, unbiased and factual reporting to enable accountable and transparent decision-making.

COUNCIL'S ROLE

Council can play a number of different roles in certain circumstances and it is important to be clear about which role is appropriate for a specific purpose or circumstance. The implementation of actions will be a collective effort and Council's involvement will vary from information only through to full responsibility for delivery.

The following areas outline where Council has a clear responsibility to act:

Fully-Responsible Delivering a program or activity for another organisation (usually another level of government).

CONSULTATION

Internal: When preparing management responses to the issues identified by the QAO internal consultation was undertaken with relevant staff.

ATTACHMENTS

1. 2018 Douglas Shire Council - Final Management Report **[5.5.1]**

Your ref:
Our ref: 2018 4039
Lisa Fraser 3149 6132

23 October 2018

Councillor J Leu
Mayor
Douglas Shire Council
PO Box 723
MOSSMAN QLD 4873

Dear Councillor Leu

Final Management Report for Douglas Shire Council

We have completed our 2018 financial audit for Douglas Shire Council. I issued an unmodified audit opinion on your financial statements.

The purpose of this letter is to provide the council with details on audit matters and other important information related to the audited financial statements.

Reporting on issues

Issues and other matters formally reported to management and an update on actions taken by management to resolve these issues is included as Appendix A to this letter. Our rating definitions for internal control deficiencies and financial reporting issues is shown in Appendix B.

Report to parliament

Each year we report the results of all financial audits and significant issues to Parliament.

We confirm that at this stage we do not intend to include any significant matters for Douglas Shire Council in a report to Parliament. If this changes, we will update you as soon as possible.

Audit fee

The final audit fee for this year is \$93 000 exclusive of GST and travel expenses (2017: \$101 500 including travel expenses). This fee is in line with the estimate provided in our external audit plan.

We would like to thank you and your staff for their engagement in the audit.

If you have any questions about this letter or would like to discuss any matters regarding our audit service, please contact me on 3149 6208, or Lisa Fraser, Senior Manager, on 3149 6132.

Yours sincerely



Sri Narasimhan
Director

cc: Mr M Stoermer, Chief Executive Officer, Douglas Shire Council

Appendix A

Issues formally reported to management

This table provides you with a summary of issues that we have formally reported to management. There were no additional issues noted since our closing report dated 3 October 2018.

Internal control issues

Area	Issue	Our recommendation	Status update from management
Control Environment	<p>No formal donations policy and no donations register</p> <p>Rating - deficiency</p> <p>Observation</p> <p>We observed that Council has no formal community donations policy and also has no community donations register.</p> <p>Implication</p> <p>Without a formal donations policy and register, there is less transparency as to how community donations are awarded and to whom within the community they are awarded to. In addition, there are no clear policy guidelines which outline the process to be undertaken by Council in approving and awarding community donations.</p>	<p>QAO recommendation</p> <p>We recommend Council implements a community donations policy and also creates a community donations register.</p>	<p>Management response</p> <p>Agreed. Council will action the recommendation. However, we would like to advise that any community donations cannot exceed the approved budget allocation and the current allocation of \$2,250 represents 0.005% of forecast operating expenditure for the 2018/19 financial year.</p> <p>Responsible Officer</p> <p>Executive Officer CEO Unit</p> <p>Implementation Date</p> <p>June 2019</p>

Financial reporting issues

Component	Issue	Our recommendation	Status update from management
Information and communication	<p>Bloomfield Bridge ownership</p> <p>Risk Rating – High</p> <p>Observation</p> <p>In 2014 the Department of Transport and Main Roads (the Department) completed construction of the Bloomfield River Bridge which is located within Council's local government area. The bridge was commenced prior to Council's de-amalgamation from Cairns Regional Council. The Department was expecting Council to take ownership of the bridge at the end of the twelve month defects liability period. However, in December 2015 Council passed a resolution to not take ownership of, and ongoing operational responsibility for, the bridge. Council outlined its reasons to the Department for making this decision. There has subsequently been further correspondence between Council and various agencies of the State Government regarding this matter.</p> <p>At the date of this report, Council is still in dispute with the Department over the ownership of and operational responsibility for the bridge. Therefore, the bridge has not been recognised in the Council's 2018 financial statements. The estimated value of the bridge is \$12 million with an expected useful life of 100 years.</p> <p>Implication</p> <ul style="list-style-type: none"> • Potential understatement of property, plant and equipment. • If the bridge is not maintained, or becomes damaged, and the community is impacted, Council may be liable for damages. 	<p>QAO recommendation</p> <p>We recommend Council resolves the ownership issue of the bridge with the Department prior to 30 June 2019. Failure to do so may have an impact on the Council's audit opinion for 30 June 2019.</p>	<p>Management response</p> <p>Agreed that the ownership issue needs to be resolved.</p> <p>Council has resolved not to take ownership of and ongoing operational responsibility for the bridge. This resolution was based on the fact that the bridge represents a donated asset and the decision to construct the bridge did not involve this Council. Therefore Council's present position on the matter is clear. In an attempt to resolve this issue Council will continue dialogue with the State Government, with the view that the State Government (who constructed the bridge) retains ownership.</p> <p>Any implications of liability will be resolved as part of the ownership issue.</p> <p>Responsible Officer</p> <p>Executive Leadership Team</p> <p>Implementation Date</p> <p>June 2019</p>

Component	Issue	Our recommendation	Status update from management
Monitoring	<p>Excessive annual leave balances</p> <p>Risk Rating – Low</p> <p>Observation</p> <p>We observed that there are 21 employees with annual leave balances of more than 50 days (10 weeks). Accrual of up to 50 days is allowable under Council's Certified Agreement.</p> <p>Our analysis of these 21 employees has identified:</p> <ul style="list-style-type: none"> • 13 employees have annual leave balances between 10 and 14 weeks (additional cost to Council of \$29 639). • 8 employees have annual leave balances of more than 14 weeks (additional cost to Council of \$99 273). <p>Implication</p> <p>Due to internal promotions and Certified Agreement increases, Council may have to pay annual leave at a rate higher than when the leave was accrued by the employee. In addition, regularly taking of annual leave improves the health and well-being of staff.</p>	<p>QAO recommendation</p> <p>Council should consider encouraging employees to utilise their excessive annual leave.</p>	<p>Management response</p> <p>Agreed, based upon the provisions of Council's Certified Agreement.</p> <p>Under the provisions of Council's Certified Agreement all employees are encouraged to use all annual leave in the year it is accrued. Council's general policy is that employees should accumulate annual leave of no more than 50 days. Where an employee accrues in excess of 50 days the employee and their manager must clearly outline, in a mutually developed plan, a program to reduce the accumulation to below 50 days within the next 12 months. Where non compliance occurs or mutual agreement cannot be achieved, as a last resort, an employee may be directed, upon giving one months notice, to take annual leave accrued in excess of 50 days.</p>

Component	Issue	Our recommendation	Status update from management
			<p>Council has already commenced a review process regarding excessive annual leave and will be taking positive action to address this issue. It should be noted that 19 of the 21 employees identified as having annual leave in excess of 50 days have taken a reasonable amount of leave in the last 12 months. A number of these employees also have further leave planned in the coming months.</p> <p>It should also be noted that Council's annual leave liability only increased by \$17 839 over the last 12 months, whereas the movement in the liability due to the annual salary increase for employees component was \$30 740. Therefore, in real terms, this represents a relatively static overall balance of untaken leave during this period. In other words, the amount of leave taken during the period virtually equates to the amount of leave accrued.</p> <p>Responsible Officer Executive Leadership Team</p> <p>Implementation Date Ongoing</p>

Appendix B

Our rating definitions for internal control deficiencies

We assess internal control deficiencies on their potential to cause a material misstatement in the financial statements as follows:

Assessed category	Definition/Criteria	Prioritisation of remedial action
Significant deficiency	<p>A significant deficiency is a deficiency, or combination of deficiencies, in internal control that requires immediate remedial action.</p> <p>Also, we increase the rating from a deficiency to a significant deficiency based on:</p> <ul style="list-style-type: none"> • 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	<p>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.</p>	We expect management action will be taken in a timely manner to resolve deficiencies.
Other matter	<p>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.</p>	Our recommendation may be implemented at management's discretion.

Our risk rating definitions for financial reporting issues

We assess financial reporting issues on their potential to cause a material misstatement in the financial statements as follows:

Assessed category	Definition/Criteria	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 to resolve deficiencies.
Low	We assess that there is a low likelihood of this causing a material misstatement in one or more components of the financial statements.	Our recommendation may be implemented at management's discretion.