

### 5.13. QAO INTERIM AUDIT MANAGEMENT LETTER 2021

**REPORT AUTHOR** Tara Killeen, Chief Financial Officer

**MANAGER** Mark Stoermer, Chief Executive Officer

**DEPARTMENT** Finance and Corporate Services

#### RECOMMENDATION

**That Council notes the observations contained within the Douglas Shire Council Interim Management Report to the Mayor (Observation Report) from the Queensland Audit Office for the 2020/21 financial year.**

---

#### EXECUTIVE SUMMARY

The Interim Management Report is presented to Council for noting. The report contains the current status of any audit issues outstanding.

#### BACKGROUND

Each financial year Council's financial statements must be audited and for the 2019/20 financial year the audit is being undertaken by the Queensland Audit Office (QAO). *Section 54 of the Auditor-General Act 2009* enables the QAO to prepare an Interim Management Report containing observations and suggestions about anything arising out of the audit during the interim 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 an 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).

A Final Management report will be provided by the QAO upon the completion of the annual Audit.

#### COMMENT

The External Audit for Douglas Shire Council was commenced by the QAO on the 15 March 2021. The QAO audit team conducted on-site planning in the week beginning 15 March 2021 and remote interim audit testing from 17 May 2021. The Interim Management Report contains any issues identified during this interim 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').

**Section 1** summarises the audit findings and areas of focus.

**Section 2** of the report outlines Internal control deficiencies. Council received an overall rating of 'Effective' internal controls (green traffic light). There was one significant deficiency identified during the audit in relation to payment file security. Appropriate and timely action was taken by management to resolve this issue.

**Section 3** contains Financial reporting issues and other matters. There were no Financial reporting issues identified. There was one unresolved current year 'other matter' marked 'work in progress' whereby the risk register had not yet been presented to Council. The register is scheduled for presentation to Council on 29 June 2021.

**Section 4** summarises prior year issues. There were two prior year issues which were both resolved in the current year.

## PROPOSAL

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

## FINANCIAL/RESOURCE IMPLICATIONS

There are no financial or resourcing implications arising from the QAO Interim Management Report.

## RISK MANAGEMENT IMPLICATIONS

Having the issues identified by Council's external auditors and reporting on and resolving these issues will mitigate risks. In particular, the recent introduction of an Audit Committee with an expert independent Chair will likely reduce the ongoing risks for Council. The QAO Interim Management Report has been tabled at the Audit Committee meeting for review.

## SUSTAINABILITY IMPLICATIONS

**Economic:** The Queensland Audit Office assess internal controls, performance against sustainability ratios and emerging risks, including going concern and liquidity. Monitoring these measures will ensure Council can stay on track to achieve long term economic sustainability.

**Environmental:** Nil

**Social:** Nil

## CORPORATE/OPERATIONAL PLAN, POLICY REFERENCE

This report has been prepared in accordance with the following:

### Corporate Plan 2019-2024 Initiatives:

#### Theme 5 - Robust Governance and Efficient Service Delivery

Strong governance and financial management are the foundations of the way in which Council will conduct its business and implement the initiatives of the Corporate Plan.

**Goal 1** - We will conduct Council business in an open and transparent manner with strong oversight and open reporting.

**Goal 3** - We will make sound financial decisions by ensuring robust strategic planning, financial management and reporting.

## **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:

**Custodian** Council owns and manages infrastructure, facilities, reserves, resources and natural areas. In fulfilling its role as custodian, Council will be mindful of the community, the economy, the environment, and good governance.

**Regulator** Council has a number of statutory obligations detailed in numerous regulations and legislative Acts. Council also makes local laws to ensure that the Shire is well governed. In fulfilling its role as regulator, Council will utilise an outcomes-based approach that balances the needs of the community with social and natural justice.

## **CONSULTATION**

**Internal:** Finance & Corporate Services Team, Chief Executive Officer

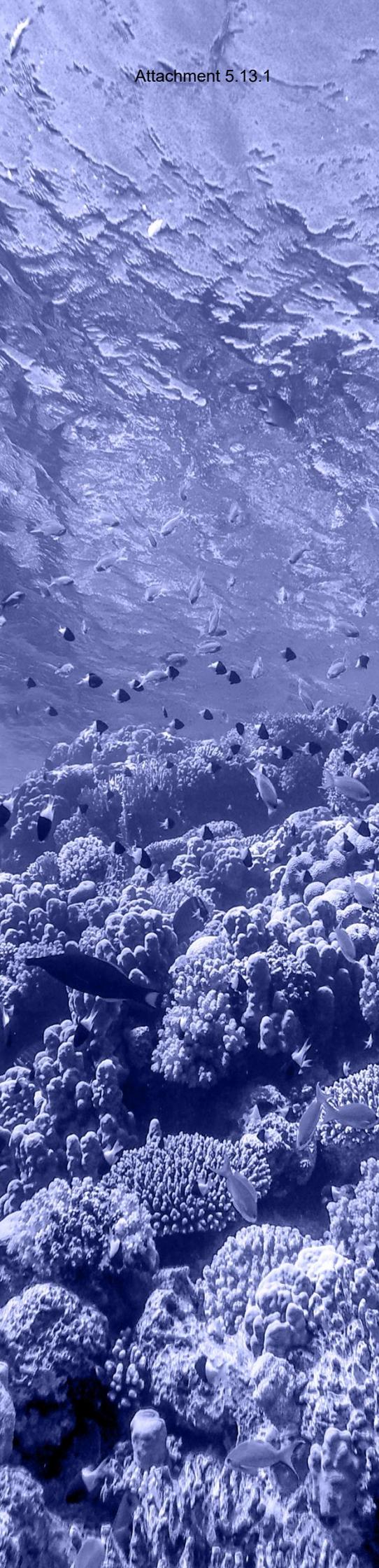
**External:** Audit Committee, Queensland Audit Office

## **COMMUNITY ENGAGEMENT**

Nil

## **ATTACHMENTS**

1. 2021 Douglas Shire Council - Interim management report\_ [5.13.1 - 10 pages]



# Douglas Shire Council

## 2021 Interim report to the Mayor

09 June 2021

---

Your ref:  
Our ref: 2021-4139  
Sri Narasimhan 3149 6208

09 June 2021

Councillor M Kerr  
Mayor  
Douglas Shire Council  
PO Box 723  
MOSSMAN QLD 4873

Dear Councillor Kerr

**2021 Interim report**

We present to you our interim report for Douglas Shire Council for the financial year ending 30 June 2020. This report details the results of our interim work performed to 30 April 2021. In this phase we assess the design and implementation of your internal controls, and whether they are operating effectively. We have also undertaken work over the areas of audit significance that was communicated in our external audit plan. To date our work has identified one significant deficiency in your internal controls. Details of this deficiency were reported in our external audit plan.

Please note that under section 213 of the Local Government Regulation 2012, you must present a copy of this report at your council's next ordinary meeting.

The *Auditor-General Act 2009* requires the Auditor-General to report to parliament on an issue raised during an audit if he considers it to be significant. The results of your entity's audit will be included in our report to parliament on results of Local Government Entities.

If you have any questions or would like to discuss the audit report, please contact me on 3149 6208 or Noreen Romero on 3149 6076.

Yours sincerely



Sri Narasimhan  
Director

Enc.

cc. Mr M Stoermer, Chief Executive Officer  
Mrs T Killeen, Chief Financial Officer

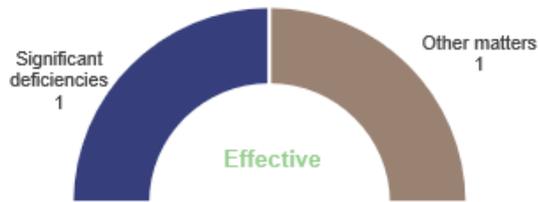
# 1. Summary



We have completed our audit planning phase and an external audit plan was issued on 22 April 2021.

This report details our audit findings from the work performed on the key controls over revenue, expenditure, and payroll that were identified during the audit planning phase.

## Summary of findings – Action required



A significant deficiency was identified in relation to payment file security. Appropriate and timely action has been taken by management to resolve this issue.

Details of our audit findings are explained further in this report. Refer to the sections on *Internal control* and *Financial reporting issues and other matters*

Based on the results of our testing completed to date and the resolution of prior year issues, we have determined your internal control environment supports an audit strategy that can rely upon these controls.

## Areas of audit focus - On track

In addition to the above, we have also performed work over the areas of audit focus that were identified in the external audit plan.

Our progress against the areas of audit focus is on track.





## 2. Internal control deficiencies

The following table summarises our reporting on deficiencies in internal controls. Refer to *Section 4* for the status of prior year deficiencies.

Internal control issues by COSO element	Number of significant deficiencies		Number of deficiencies		Rating
	Current year issues	Prior year unresolved issues	Current year issues	Prior year unresolved issues	
 <b>Control environment</b> Structures, policies, attitudes and values that influence daily operations					●
 <b>Risk assessment</b> Processes for identifying, assessing and managing risk					●
 <b>Control activities</b> Implementation of policies and procedures to prevent or detect errors and safeguard assets					●
 <b>Information and communication</b> Systems to capture and communicate information to achieve reliable financial reporting					●
 <b>Monitoring activities</b> Oversight of internal controls for existence and effectiveness					●

**● Effective**  
 No significant deficiencies identified

**● Partially effective**  
 One significant deficiency identified

**● Ineffective**  
 More than one significant deficiency identified



## 2. Internal control deficiencies (cont.)



### Significant deficiency

#### 21EAP-1 Payment file security and access to secure drives

When EFT payments are made to suppliers and employees, an Accounts Payable (AP) officer or payroll officer creates a payment file (\*.ABA) from Authority and saves this to their personal drive (Q drive). The payment file is subsequently transferred to a secure network drive (F drive). Another officer performs a check to ensure the total of the payment file in the F drive agrees to the total in Authority prior to upload into Commbiz. This officer then manually uploads the file into the Commbiz portal.

We have identified the following deficiencies within this process:

1. The payment file is editable throughout the entire process.
2. All Council employees can access other employees' Q drives. This only occurred when platforms were changed in November 2020. Once discovered in March 2021, Q drives for relevant officers were locked down.
3. Eight officers from the finance team (for supplier payments) and 13 officers from the HR team (for payroll payments) have edit access to the F drive. In addition, two user groups also have this access. The first group consists of 21 admin users who are Council IT staff and external IT service providers - 14 of the 21 users were active. The second group consists of 26 Council employees of which 10 were active. We noted that management removed access for the second group.

#### Implication

The large number of users with access to the payment file creates a heightened risk of unauthorised changes to bank account and payment details occurring whilst the payment file is in transit to the Commbiz portal. As only the total of the file is checked to Authority, these changes will not easily be detected.

#### QAO recommendation

We recommend the following:

1. Investigate whether the payment file can be encrypted to ensure it cannot be edited once it is created from Authority.
2. Save the payment file directly to the secure network drive (F Drive).
3. Reduce the number of users with edit access to the payment file.
4. Review the list of 21 admin users and reduce to only those who specifically need access.

#### Management response

Agree with QAO recommendations.

Council have lodged a request with Civica requesting Authority create the bank file directly into a folder (which we can secure with file server permissions to prevent editing)—from which it can be directly uploaded to Commbiz. This improvement is the topic of Civica ticket #662604.

We wish to note, under the existing process, the (\*.ABA) file is uplifted expediently to Commbiz, once created.

Prior to 20 Nov 2020 when the servers were cloud hosted, employees could not access each other's Q Drives. The issue was created by the Authority vendor, when they built our on-premise Authority instance. This had not been identified as a security risk by the IT or Finance teams, prior to the audit. This issue was rectified for relevant officers on the date the issue and its consequence were brought to our attention by QAO staff.

For the user groups that have edit access to the F drive, the first group consists of Domain Admins where 14 of the 21 users were active. The remainder were expired or disabled. For the second group of 26 Council employees, this was not an issue prior to 20 Nov 2020 when the servers were cloud hosted. The issue was created by our Infrastructure Service provider, when they were building our on-premise server environment. This was a design flaw introduced without Council's knowledge.



## 2. Internal control deficiencies (cont.)



### 21EAP-1 Payment file security and access to secure drives

#### Management response

This issue was rectified on the date the issue was brought to our attention by QAO staff by removing this group from the file in question. Note only 10 of the 26 users were active.

We believe it is common / legitimate for system administrators to have access to the systems that they administer, i.e. Surebridge administer our file servers and therefore they have a legitimate reason to have access to this serve / file system.

The opportunity for improvement here is to reconfigure the access for other service providers, such that they only have access to the systems they administer. This improvement is the topic of Spiceworks ticket #31219. This will see the membership of "Domain Admins" fall dramatically.

Also note that the number of active Surebridge accounts is also controlled by a secondary process. This limits the active accounts to only those Surebridge staff members who are legitimately working on our account at any given time.

Responsible officer:	Chief Financial Officer
Status:	Resolved pending QAO verification

#### QAO Update

Access to drives has been restricted and a support call was lodged with the service provider to further enhance the controls within the system.



### 3. Financial reporting issues and other matters

This table summarises our financial reporting and business improvement opportunities (other matters) identified in the current year. Refer to [Section 4](#) for the status of prior year financial reporting and other matters.

Our risk ratings are as follows—refer to [Our rating definitions](#) for more detail.

 **High**
 **Medium**
 **Low**

	Financial reporting issues—risk ratings			Other matters*
	High	Moderate	Low	
<b>Current year</b>				
Unresolved				1
Resolved				
<b>Prior year</b>				
Unresolved				
Resolved				2

\*Queensland Audit Office only tracks resolution of other matters where management has committed to implementing action.



## 3. Financial reporting issues and other matters (cont.)



### Other matters

#### 21EAP-2 Risk register not presented to councillors since June 2019

During the planning phase of the 2020–21 audit engagement, we identified that the corporate risk register had not been presented at either a councillors workshop or Council meeting since June 2019.

In the absence of presenting key risks to those charged with governance, Council will not be aware of the risks, including external factors, that may impede its ability to deliver on objectives. Council will also not be aware of how management plan to manage these risks.

#### QAO recommendation

We recommend that key risk registers be presented and discussed at Council workshops or Council meetings and Audit Committee meetings at least annually.

#### Management response

Although not presented to Council for review, The Risk Management Policy and Register was presented to the Audit Committee on Saturday 26 February 2021. This was a workshop with the full committee (Chair, external member, Mayor and Deputy Mayor). This was presented in hard copy. At this workshop the Risk Register was discussed with the main emphasis being the Daintree Ferry. The audit Committee also have a risk management checklist that was tabled at the first Audit Committee Meeting

Responsible officer:	Manager, Governance
Status:	Work in progress
Revised action date:	29 June 2021

#### QAO Update

The Risk Policy is on the June Ordinary Council Meeting agenda. The policy and risk register are currently being reviewed and updated.



## 4. Prior year issues



The following table summarises the status of deficiencies and other matters reported in prior years.

Reference	Issue	Status
	<b>Internal control deficiencies</b>	
	Deficiencies	
20CR-1	<p>No conflicts of interest policy in place</p> <p>We identified that Council did not have a policy in place that governs the conflicts of interest registers.</p>	<p>Resolved</p> <p>The Council adopted the Conflicts of Interest Policy on 25 May 2021.</p>
	<b>Other matters</b>	
20CR-2	<p>Related party declarations – timing of completion</p> <p>We made a recommendation to bring forward the completion of key management personnel related party declarations, so that they align with preparation of the financial statements.</p>	<p>Resolved</p> <p>Related party declarations are completed before the preparation of the financial statements.</p>



[qao.qld.gov.au](http://qao.qld.gov.au)

---



[Suggest a performance audit topic](#)

[Contribute to a performance audit in progress](#)

[Subscribe to news](#)

[Connect with QAO on LinkedIn](#)

Sri Narasimhan  
T: 07 3149 6208  
M: [sri.narasimhan@qao.qld.gov.au](mailto:sri.narasimhan@qao.qld.gov.au)

T: 07 3149 6000  
M: [qao@qao.qld.gov.au](mailto:qao@qao.qld.gov.au)  
W: [qao.qld.gov.au](http://qao.qld.gov.au)  
53 Albert Street, Brisbane Qld 4000  
PO Box 15396, City East Qld 4002

