

5.3. QAO FINAL MANAGEMENT REPORT 2021-22

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MANAGER Rachel Brophy, Chief Executive Officer

DEPARTMENT Finance and Corporate Services

RECOMMENDATION

That Council notes the observations contained within the Final Management Report (Observation Report) from the Queensland Audit Office for the 2021-2022 financial year.

EXECUTIVE SUMMARY

The Queensland Audit Office (QAO) Final Management Report for Douglas Shire Council 2021-2022 is presented to Council for noting. Management has provided a summary of the number and type of QAO audit issues outstanding as at 30 June 2022 compared to 30 June 2021.

BACKGROUND

Each financial year Council's financial statements must be audited and for the 2021-2022 financial year the audit was undertaken by the Queensland Audit Office (QAO). s 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 s 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 s 182 of the Regulation in relation to the timing of the adoption of Council's Annual Report).

COMMENTS

The audit undertaken by the QAO was completed in October 2022 and Council was provided with an unmodified (unqualified) audit opinion (Independent Auditor's Report) on 12 October 2022. The QAO Closing Report was presented to the Councillors and the Audit Committee on 11 October 2022 by the QAO.

The Final Management Report (refer attached) contains any issues identified in the final stage of the audit and categorises all identified audit issues into either "Internal Control Deficiency" issues (assessed as 'significant deficiency', 'deficiency' or 'other matters') or "Financial Reporting" issues (assessed as 'high', 'medium' or 'low').

There were no additional issues identified since the QAO closing report was issued.

Appendix A2 of the Final Management Report contains details of previously reported issues during the audit year. There were three matters, two of which were resolved at 30 June 2022. The following table provides a summary of the number and type of QAO audit issues outstanding as at 30 June 2022 compared to 30 June 2021.

Table 1.

Category	QAO Audit Issues Outstanding				Comment
	Jun-21	Added	Resolved	Jun-22	
Other					
IC Significant Deficiency					
IC Deficiency		5	2	3	User access documentation; Review of long outstanding Work in Progress; Stocktake process; Capitalisation of Assets; Procurement documentation
IC Other matter		2	1	1	Procurement Policy, Contract Register
FR High					
FR Medium					
FR Low					
FR Other matter					
	0	7	2	5	

Legend: *IC* = Internal control issues *FR* = Financial reporting issues

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.

There were no issues arising in 2021-2022 that will give rise to significant financial/resource implications.

RISK MANAGEMENT IMPLICATIONS

Having the issues identified by Council's external auditors and reporting the progress on resolving these issues will mitigate any risks. It is pleasing to note that the QAO has issued an unqualified report, which reflects that Council is a well governed organisation, with strong controls in place to plan and monitor Council's work and processes.

SUSTAINABILITY IMPLICATIONS

Economic: QAO External Audits ensure scrutiny of the Economic sustainability of Council. Particular focus is directed towards the sustainability ratios.

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.*

Operational Plan 2022-2023 Actions:

Legislative requirement.

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.

CONSULTATION

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

Council Audit Committee held 11 October 2022

Discussed with Councillors at a briefing on 11 October 2022

External: Queensland Audit Office

COMMUNITY ENGAGEMENT

The acceptance of the QAO Final Management Report will fall within the “inform” category of Council’s Community Engagement Framework.

ATTACHMENTS

1. 2022 Douglas Shire Council final management letter - signed [5.3.1 - 8 pages]



2022 FINAL MANAGEMENT REPORT

Douglas Shire Council

12 October 2022

Your ref:
Our ref: 2022-4139
Lisa Fraser 07 3149 6132

12 October 2022

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

Dear Councillor Kerr

Final management report for Douglas Shire Council

We have completed our 2022 financial audit for Douglas Shire Council. I have issued an unmodified audit opinion on your financial statements.

The purpose of this letter is to update you on any matters that have arisen since we presented our closing report to the council workshop on 11 October 2022.

Reporting on issues identified after the closing report

I can confirm that we have not identified significant issues since the presentation of our closing report. The issues and other matters we have formally reported to management and an update on management's actions taken to resolve these issues is included as Appendix A.

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.

Report to parliament

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

We intend to include the results of our audit of Douglas Shire Council in our report to parliament *Local Government 2022*. We will comment on the results of our audit of your financial report, any significant internal control issues we identified, and the overall results of the sector, including major transactions and events. We will discuss the proposed content of our report with your Chief Financial Officer and continue to consult as we draft our report. Formally, you will have an opportunity to comment on our report, and for these comments to be included in the final version tabled in parliament.

Audit fee

The final audit fee for this year is \$110,700 exclusive of GST (2021: \$117,700). This fee is in line with the fee estimated in our external audit plan.

We would like to thank you and your staff for their engagement in the audit this year and look forward to working with your team again next year.

If you have any questions about this letter or would like to discuss any matters regarding our services and engagement, please do not hesitate to contact me on 3149 6132.

Yours sincerely



Lisa Fraser
Director

Appendix A1 – Status of issues

This section provides an update on the control deficiencies and other matters we have identified. It includes a response from management.

Our risk ratings are as follows. For more information and detail on our rating definitions, please see the webpage here: www.qao.qld.gov.au/information-internal-controls or scan the QR code.



<p>Internal control issues</p> <div style="display: flex; justify-content: space-around;"> <div style="text-align: center;">  Significant deficiency </div> <div style="text-align: center;">  Deficiency </div> <div style="text-align: center;">  Other matter </div> </div>	<p>Financial reporting issues</p> <div style="display: flex; justify-content: space-around;"> <div style="text-align: center;">  High </div> <div style="text-align: center;">  Medium </div> <div style="text-align: center;">  Low </div> </div>
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Deficiency

22CR-4 No evidence of approval for user access granted to the F-drive

Control activities

Observation

We tested whether user access granted to the F-drive was supported by appropriate approvals.

As per Council's *Change Control Policy – ICT*, an ICT officer is required to seek approval from the affected user's direct line manager or above, if the approval is not contained in the original request. Evidence of this approval is required to be documented in the form of screenshots, pdf of email trails or written notes.

For 2 of 4 sample items tested, evidence of approvals could not be provided.

Implication

In the absence of user access approvals not being obtained before access is granted, there is an increased risk that inappropriate access will be granted to unauthorised users.

QAO recommendation

We recommend that evidence supporting the addition, modification or revocation of F drive user access be documented within the Spiceworks ticketing system. This should include evidence of approval and the name of the authorising officer.

Management response

The ICT team leader had already noted this issue with the particular staff member and has provided further training to ensure there is clarity on the required procedure for the whole team.

The exposure /risk to the organisation for this request was negligible—as the exposure did not extend to sensitive areas.

Responsible officer: Garry Mason – Team Leader IT

Status: Resolved pending audit clearance

Action date: 30 September 2022



Deficiency

22CR-5 Review over long outstanding work in progress

Control activities

Observation

We identified a number of long outstanding projects in the work in progress account as at 30 June 2022.

Based on discussions with management, we understand these balances relate to projects where only the design portion had been completed. Council is waiting on funding opportunities to arise to be able to proceed with these projects.

The table below shows the years in which the design works were completed. The total of these items within the work in progress account as at 30 June 2022 is \$3.3 million.

Time bracket	Financial year	Total	Cumulative Total
< 1 year	FY 2022	\$594,711	\$594,711
1–2 years	FY 2021	\$1,604,267	\$2,198,979
2–3 years	FY 2020	\$744,747	\$2,943,727
3+ years	FY 2019	\$328,969	\$3,272,697

There is currently no process in place to assess whether these projects are still a priority to Council and are likely to proceed.

Implication

Without a process in place that requires these projects to be reviewed on a periodic basis, the balance of the work in progress account may not represent true ongoing projects. This may result in an overstatement of assets and an understatement of expenses in the financial statements.

QAO recommendation

We recommend that Council develop and implement a process that assesses on a periodic basis whether each of these projects should remain in the work in progress account. The review process should consider whether the project needs to be expensed or impaired.

Management response

A work in progress review process will be developed and will be undertaken in April annually to ensure any required adjustments can be approved prior to June financial year end.

Responsible officer: Colin Chalmers—Team Leader Asset Management

Status: Work in progress

Action date: 30 April 2023



Deficiency

22CR-6 Lack of follow up action taken upon receipt of the annual plant and equipment stocktake results

Control activities

Observation

Under AASB 136 *Impairment of Assets*, Council is required to assess at the end of each reporting period whether there is any indication that an asset may be impaired.

Council's annual plant and equipment stocktake has been designed in a way to verify the existence of the assets as well as identify whether impairment indicators are present.

Upon review of the annual stocktake we noted that 71% of council's \$3.9 million plant and equipment assets related to fleet. We identified the following through our review of the fleet stocktake results:

The column 'Damage identified to require impairment adjustment? (Y/N)' column had not been completed.

- Four assets with a total value of \$77,927 had been marked as 'location unknown', including an outdoor screen sign trailer with a current value of \$70,827. There was no evidence accompanying the stock take results that indicated follow up action had been taken by finance to determine whether these assets should be written off.
- We target tested a further 2 sample items—a tractor with a current value of \$14,126 that had been marked as 'traded in' and a truck with a current value of \$84,893 that was marked 'sold'. Upon further investigation it was found that the tractor had not been traded in at 30 June 2022 and the truck had not been sold. Neither of these items were followed up to assess whether a disposal/trade-in should be processed in the system.

The findings above have not materially impacted the financial statements in 2021–22.

Implication

In the absence of finance reviewing the annual stocktake results, Council may recognise assets in the financial statements that should have been written off as at 30 June 2022. The absence of a review may also continue to result in insufficient evidence being available to support the impairment assessment of plant and equipment.

QAO recommendation

We recommend that finance review the results of the annual plant and equipment stocktake process to ensure appropriate follow up action is taken where assets have been marked as sold, traded-in or location unknown. The review should also ensure impairment considerations are appropriately documented.

Management response

Council experienced staffing issues during 2021–22 financial year. The annual stocktake was undertaken by staff who had not previously performed this process. Time limitations resulted in the process not being completed and followed through as it normally would have been.

Responsible officer: Colin Chalmers—Team Leader Asset Management

Status: Work in progress

Action date: 31 July 2023



Deficiency

22CR-7 Assets controlled by Council not recognised in the asset register at 30 June 2022

Control activities

Observation

Our testing included a review over contributed assets transferred to Council during 2021–22, to ensure that the assets were appropriately recorded in the asset register at 30 June 2022. Ownership of contributed assets transfers to Council when a work acceptance letter is issued to the developer, indicating that the assets have been taken 'on-maintenance'.

We identified that trunk infrastructure with an estimated value of \$1.6m, relating to the Craiglie development, was taken 'on-maintenance' on 25 October 2021. These assets were not recorded in the asset register by 30 June 2022 as the cost was being disputed by the developer. We further identified that the Infrastructure Agreement had not been signed by both parties as a result of these disputes.

Implication

Without a signed Infrastructure Agreement in place before the commencement of the construction works, Council exposes itself to the risk of disputes and potential legal action. Where these disagreements prevent the timely recognition of assets controlled by Council, there is a risk that property, plant and equipment and depreciation expense may also be misstated.

QAO recommendation

We recommend Council develop a contributed assets policy and implement procedures around construction works associated with developments where infrastructure will be transferred to Council. The FNQROC Development Manual - Operational Works CP1 provides guidance on the process to be followed including documentation requirements to adhere to.

The review should include Council's processes for the timely recognition of developer contributed assets, and the accuracy and completeness of year-end accruals.

Management response

Council will develop and implement a contributed assets procedure, including capitalisation of development infrastructure, to ensure future timely recognition of developer contributed assets and the accuracy and completeness of year-end accruals.

The FNQROC Development manual – Operational Works CP1 will be used to guide this procedure.

Responsible officer: Team Leader Asset Management, Manager Infrastructure and Manager Water and Wastewater

Status: Work in progress

Action date: 30 April 2023

Appendix A2 – Matters previously reported

The following table summarises all control deficiencies, financial reporting issues and other matters that have previously been raised but are not yet resolved. Each of these matters was reported in our interim management letter.

Internal control issues			Financial reporting issues		
					
Significant deficiency	Deficiency	Other matter	High	Medium	Low

Internal control issues

Ref.	Rating	Issue	Status
22IR-1		Probity plans and conflict of interest checks not completed for large procurement	<p>Resolved pending audit clearance</p> <p>A review was completed of all ongoing contracts greater than \$200,000 and the relevant team prepared the Probity documentation and conflict of interest forms for all of these. Council's Probity documents have been finalised with the FNQROC documentation to be used for all future contracts over \$200,000.</p>
22IR-2		Procurement policy recommendations	<p>Work in progress</p> <p>The Procurement Policy is currently being reviewed and updated by the Procurement team. The revised policy is scheduled to be workshopped with Councillors on 15/11/2022 and Council meeting for adoption on 29/11/2022. The trigger point for reporting contracts over \$200,000 has also been amended to ensure that contracts will be reported in the month corresponding to their formal execution by both parties.</p> <p>Responsible officer: Chief Financial Officer/Senior Procurement Officer</p> <p>Action date: 30 November 2022</p>
22IR-3		Accuracy and completeness of contracts register	<p>Resolved pending audit clearance</p> <p>The contracts register has been reviewed and updated by the Procurement team. The procurement team are committed to further reviewing the contracts register throughout the year to identify any additional process improvements or updates that can be made.</p>



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