

5.5. QAO FINAL MANAGEMENT REPORT 2019-2020

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MANAGER Mark Stoermer, 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 2019-2020 financial year.

EXECUTIVE SUMMARY

The QAO Final Management Report 2019-2020 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 2020 compared to 30 June 2019.

BACKGROUND

Each financial year Council's financial statements must be audited and for the 2019-20 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 this month and Council was provided with an unmodified (unqualified) audit opinion (Independent Auditor's Report) on 9 October 2020. The QAO Closing Report was presented to the Council workshop 9 October 2020 by Sri Narasimhan, Director QAO.

The Final Management Report (Attachment 5.5.2) 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 matter') or "Financial Reporting" issues (assessed as 'high', 'medium' or 'low').

There were no additional issues identified since the QAO closing report was issued. The issues identified were workshopped with Council on 9 October 2020 as part of the QAO's presentation of the audit closing report.

Appendix A of the Final Management Report contains details of the component, issue (and rating), QAO recommendation and management response (including a status update) for each issue identified.

There were no issues in the "Financial Reporting" category. There was one internal control 'deficiency' and one 'other matter' identified for the year ended 30 June 2020.

The following table provides a summary of the number and type of QAO audit issues outstanding as at 30 June 2020 compared to 30 June 2019.

Table 1.

Category	QAO Audit Issues Outstanding				Comment
	Jun-19	Added	Resolved	Jun-20	
Other					
<i>IC</i> Significant Deficiency	1		1		Conflict of Interest Policy Timing of Related Party Declarations (resolved pending QAO testing)
<i>IC</i> Deficiency	2		2	1	
<i>IC</i> Other matter	1		1	1	
<i>FR</i> High					
<i>FR</i> Medium					
<i>FR</i> Low					
<i>FR</i> Other matter					
	4		4	2	

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

It is anticipated that both outstanding issues will be resolved by 31 March 2021.

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 2019-20 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.

SUSTAINABILITY IMPLICATIONS

Economic: QAO External Audits ensure scrutiny of the Economic sustainability of Council. Particular focus is directed towards sustainability ratios. The Covid-19 pandemic will have a negative impact on the economic sustainability of Douglas Shire Council and may impact sustainability ratios. This will be closely managed by Council and mitigated where possible. The aim of the long-term financial plan is to meet all three of the 'measures of financial sustainability' within a ten-year time frame.

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.

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.

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. QAO Final Management Letter DSC 2020 [**5.5.1** - 5 pages]

Your ref:

Our ref: 2020-4039

Sri Narasimhan 3149 6208

SENSITIVE

16 October 2020

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 2020 financial audit for Douglas Shire Council. I 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 management on 2 October 2020.

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. Issues and other matters formally reported to management and an update on actions taken by management to resolve these issues is included as Appendix A1 and A2 to this letter.

Report to parliament

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

This year we intend to include the results of our audit of Douglas Shire Council in our report to Parliament on the results of the Local Government sector. In this report 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 will 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 report.

Audit fee

The final audit fee is \$102,000 exclusive of GST (2019: \$106,500). This fee is in line with the fee estimated in our external audit plan.

Financial reporting maturity level

QAO are in the process of finalising a new financial statement preparation reporting tool, called the financial reporting maturity model. This model allows for scalable assessment of financial reporting preparation processes which aims to better reflect the differences in size and maturity of public sector entities. For future years, we are planning to move to assessing the process according to the new maturity model. In the interim we will commence working with management to understand their expected / desired positioning of maturity.

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 audit service, please contact me on 3149 6208 or Julie O'Brien, Senior Manager on 3149 6160.

Yours sincerely



Sri Narasimhan
Director

Appendix A1—Internal control deficiencies

The following table details control deficiencies and other matters identified since our last report dated 9 July 2020. It includes a response from management.

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



Deficiencies

20CR-1 No conflicts of interest policy in place

We note that Council does not currently have a conflicts of interest policy in place.

Implication

In the absence of a policy that governs conflicts of interest registers, there is an increased risk that:

- employees do not have a shared understanding of what classifies as a conflict of interest
- conflict of interest registers may be incomplete
- related party transactions may go undetected and may result in incomplete disclosures in the financials.

QAO recommendation

We recommend that Council develop and implement a conflicts of interest policy.

Management response

Council will prepare a conflicts of interest policy.

Responsible officer:	Manager Governance
Status:	Work in progress
Action date:	31 March 2021



Other matters

20CR-2 Related party declarations – timing of completion

Annual related party declarations are completed by key management personnel (KMP) in October each year. These declarations are key documents that inform what should be disclosed in the related party note disclosure of the financial statements as at 30 June.

Implication

As these declarations are currently sought annually, the length of time since the last declarations (9 months) increases the risk that not all related parties will be identified, and transactions may not be appropriately disclosed in the financial statements.

QAO recommendation

We recommend that related party declarations are completed and reviewed before the financial statements are prepared. The declarations should be for the year ended 30 June.

Management response

Council Officers will ensure related party declarations are prepared by key management personnel in October 2020 and then thereafter annually from June 2021 onwards.

Responsible officer:	Team Leader Management Accounting
Status:	Resolved – pending QAO verification
Action date:	2 October 2020


Appendix A2—Matters previously reported



Status

The following table summarises all control deficiencies, financial reporting issues and other matters that have previously been reported as not yet resolved. The listing includes issues from our reports this year and those issues raised in prior years.

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

Reference	Rating	Issue	Status
Internal control issues			
19IR-6		No audit committee in place	Resolved

Appendix B—Our rating definitions



Internal rating definitions

	Definition	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.

Financial reporting issues

	Potential effect on the financial statements	Prioritisation of remedial action
High 	<p>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.</p>	This requires immediate management action to resolve.
Medium 	<p>We assess that there is a medium likelihood of this causing a material misstatement in one or more components of the financial statements.</p>	We expect management action will be taken in a timely manner.
Low 	<p>We assess that there is a low likelihood of this causing a material misstatement in one or more components of the financial statements.</p>	We recommend management action to resolve; however, a decision on whether any action is taken is at management's discretion.