

## 5.9. QAO FINAL MANAGEMENT REPORT 2020-2021

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<b>MANAGER</b>	Juanita Holden, Acting Chief Executive Officer
<b>DEPARTMENT</b>	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 2020-2021 financial year.**

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### EXECUTIVE SUMMARY

The Queensland Audit Office (QAO) Final Management Report for Douglas Shire Council 2020-2021 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 2021 compared to 30 June 2020.

### BACKGROUND

Each financial year Council's financial statements must be audited and for the 2020-2021 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 in October 2021 and Council was provided with an unmodified (unqualified) audit opinion (Independent Auditor's Report) on 14 October 2021. The QAO Closing Report was presented to the Councillors and the Audit Committee on 12 October 2021 by Sri Narasimhan, Director 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 A of the Final Management Report contains details of previously reported issues during the audit year. There were two matters, both of which were resolved at 30 June 2021. The following table provides a summary of the number and type of QAO audit issues outstanding as at 30 June 2021 compared to 30 June 2020.

Table 1.

Category	QAO Audit Issues Outstanding				Comment
	Jun-20	Added	Resolved	Jun-21	
<b>Other</b>					
<b>IC</b> Significant Deficiency		1	1		<b>Security of Payment Files</b> <b>Conflict of Interest Policy</b> <b>Timing of Related Party Declarations</b>
<b>IC</b> Deficiency	1		1		
<b>IC</b> Other matter	1		1		
<b>FR</b> High					<b>Risk Register to Council</b>
<b>FR</b> Medium					
<b>FR</b> Low					
<b>FR</b> Other matter		1	1		
	<b>2</b>	<b>2</b>	<b>4</b>	<b>0</b>	

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

There were no outstanding issues at 30 June 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 2020-21 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' by 2028-2029.

**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. 2021 Douglas Shire Council - Final Management Letter - Final - signed [5.9.1 - 3 pages]

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

## SENSITIVE

5 November 2021

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 2021 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 the audit committee on 12 October 2021.

### 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 A](#) 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 for this year is \$117,700 exclusive of GST (2020: \$102,000). This is slightly higher than the fees agreed in our external audit plan as a result of additional travel costs and three grant acquittals that were not initially planned to have been undertaken.

We would like to thank you and your staff for their engagement in the audit this 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 Martin Luwanga on 3149 6184.

Yours sincerely



Sri Narasimhan  
Director

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## Appendix A—Matters previously reported

### Status



The following table summarises all control deficiencies, financial reporting issues and other matters raised during the year and those that have been raised in previous years but are 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 [Appendix B](#) for more detail.

#### Internal control issues

#### Financial reporting issues

					
Significant deficiency	Deficiency	Other matters	High	Medium	Low

Reference	Rating	Issue	Status / Comment Action Date
<b>Internal control issues</b>			
21EAP-1		Payment file security and access to secure drives	Resolved
<b>Financial reporting issues</b>			
<b>Other matters</b>			
21EAP-2		Risk register not presented to councillors since June 2019	Resolved

## Appendix B—Our rating definitions



### Internal rating definitions

	Definition	Prioritisation of remedial action
<b>Significant deficiency</b> 	<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"> <li>the risk of material misstatement in the financial statements</li> <li>the risk to reputation</li> <li>the significance of non-compliance with policies and applicable laws and regulations</li> <li>the potential to cause financial loss including fraud, or</li> <li>where management has not taken appropriate timely action to resolve the deficiency.</li> </ul>	This requires immediate management action to resolve.
<b>Deficiency</b> 	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.	We expect management action will be taken in a timely manner to resolve deficiencies.
<b>Other matter</b> 	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.	Our recommendation may be implemented at management's discretion.

### Financial reporting issues

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