

### 6.3. QAO INTERIM AUDIT MANAGEMENT LETTER 2023

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

**MANAGER** Rachel Brophy, 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 2022-2023 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. Given the complexity of Council's operations, it is very pleasing to see that internal controls are working and the Queensland Audit Office (QAO) have determined that Council has no significant deficiencies.

Current year issues - there was one 'deficiency' identified which related to the inconsistent procedure for raising of purchase orders.

Prior year issues – There were two prior year unresolved deficiencies and one unresolved 'other matter'. The two prior year deficiencies have since been completed by Council and the 'other matter' item is scheduled for completion by 31 August 2023. It is anticipated these prior year issues will receive audit clearance in the final audit.

Internal controls - based on the results of the testing completed to date and resolution of prior year issues, Queensland Audit Office (QAO) have determined that the internal control environment does support an audit strategy that can rely upon these controls. Internal control ratings were all deemed 'Effective' with no significant deficiencies identified.

#### BACKGROUND

Each financial year Council's financial statements must be audited and for the 2022-2023 financial year the audit is being undertaken by the Queensland Audit Office (QAO). S 54 of the *Auditor-General Act 2009* enables the QAO to prepare an Interim Management Report containing observations and suggestions regarding 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 s 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 s 182 of the *Local Government Regulation 2012* 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.

## COMMENTS

The External Audit for Douglas Shire Council was commenced by the QAO on the 13 March 2023. The QAO audit team conducted audit planning in the week beginning 13 March 2023 and interim audit testing from 12 June 2023.

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’).

There were no financial reporting issues.

### Section 1 Status of issues.

There was one new deficiency identified during the audit in relation to inconsistent procedure in raising purchase orders. Management is addressing this deficiency and provided a response to QAO in the report.

### Section 2 Matters previously reported.

There were two prior year unresolved deficiencies and one unresolved ‘other matter’. The two prior year deficiencies have since been completed and the ‘other matter’ item is scheduled for completion by 31 August 2023. It is anticipated these prior year issues will receive audit clearance in the final audit.

## PROPOSAL

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 2022-2023 financial year.

## FINANCIAL/RESOURCE IMPLICATIONS

There are no financial or resourcing implications arising from the QAO Interim Management Report as the recommendations will be addressed by Council’s Finance and Corporate Services Team.

## RISK MANAGEMENT IMPLICATIONS

Having issues identified by Council’s external auditors and reporting on and resolving these issues will mitigate risks.

The QAO Interim Management Report will be tabled at the next Audit Committee meeting for review and has already been discussed with the Committee Chair.

## 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.*

### Operational Plan 2023-2024 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:

<b>Custodian</b>	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.
<b>Regulator</b>	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 and Corporate Services Team, Chief Executive Officer, Council Workshop 22 August 2023

**External:** Queensland Audit Office, Douglas Shire Council Audit Committee

## COMMUNITY ENGAGEMENT

Nil

## ATTACHMENTS

1. 2023 Douglas Shire Council Interim Report with signed letter [6.3.1 - 7 pages]



## 2023 INTERIM REPORT

# Douglas Shire Council

31 July 2023

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

Dear Councillor Kerr

## 2023 Interim report

We present our interim report for Douglas Shire Council for the financial year ending 30 June 2023. This report details the results of our interim work performed to 30 April 2023. Under s. 213 of the Local Government Regulation 2012, you must present a copy of this report at your council's next ordinary meeting.

### Results of our interim audit

In this phase, we assessed the design and implementation of your internal controls relevant to the financial report, and whether they are operating effectively. We assessed the key controls we intend to rely on in auditing your financial statements. Our audit does not assess all controls that management has implemented across the organisation.

#### Deficiencies:

- One raised in the current year, relating to the lack of a council policy for purchase orders resulting in inconsistent practices.
- Two unresolved from prior years.

#### Other matters:

- One unresolved from prior years.

Based on the results of our testing completed to date and the resolution of prior year issues, we have determined your internal control environment does support an audit strategy where we can rely upon your entity's controls.

Refer to [section 1](#) for further details.

### Areas of audit focus

We have also performed work over the areas of audit focus we identified in our external audit plan. Our progress against the areas of audit focus is on track.

### Milestones – On track

### Audit fees – On track

If you have any questions or would like to discuss the audit report, please contact me on 3149 6132 or Gabrielle O'Sullivan, Manager on 3149 6092.

Yours sincerely



Lisa Fraser  
Engagement Leader

Enc.

cc. Dr M Fahy, Chair of the Audit Committee  
Ms R Brophy, Chief Executive Officer  
Mrs T Killeen, Chief Financial Officer

# 1. Status of issues

## Internal control issues

The following table identifies the number of deficiencies in internal controls and other matters we have identified. Details of the issues we identified during our interim audit are outlined further in this section. Refer to [section 2 Matters previously reported](#) for the status of previously raised issues.

Issues	Significant deficiencies	Deficiencies	Other matters*
Current year issues	-	1	-
Prior year issues – unresolved	-	2	1
<b>Total issues</b>	<b>-</b>	<b>3</b>	<b>1</b>

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

The following section details control deficiencies and other matters identified as at 31 July 2023. It includes a response from management.

Our 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](http://www.qao.qld.gov.au/information-internal-controls) or scan the QR code.



## **D** Deficiency

### 23IR-1 Lack of purchase order policy and procedures and inconsistent use of purchase orders

#### Observation

During our interim audit we performed testing over council's purchase order controls.

We identified the following areas that require improvement:

1. Council does not have a policy or procedure document that is used consistently across the council for processing purchase orders. Different departments in the council provide requests and approvals for purchase orders in different ways. For instance, some departments will provide a request and an approval via email, others use a Purchase Order Request form and some can access the system directly to enter and approve purchase orders.

There is a purchase order procedure document specific to the Integrated Services team however some council departments do not follow the procedure.

We note however that all purchase order requests and approvals were made by individuals with the right delegations.

2. In our testing we observed 9 purchase orders that were raised after an invoice was received. These exceptions related to instances where costs could not be estimated, such as labour hire, equipment hire and smaller projects. Council utilise the purchase order process because it provides better automated controls in the finance system. Some of these expenses may be better suited to go through a direct invoice process where a purchase order is not required.

**SENSITIVE**



3. The Integrated Services team has a process document entitled "Processing an invoice for payment against an existing purchase order". The process document states that invoices received relating to an approved purchase order should be approved by the purchase order requestor. Audit identified 5 instances where invoices were not approved by the purchase order requestor. In each of these instances, another person from the relevant team was approving the invoice.

#### Implication

In the absence of a policy or procedure for purchase orders that is used consistently across council there is an increased risk of error or fraud.

#### QAO recommendation

We recommend council review its purchase order process and implement a policy along with relevant procedures that are consistently applied. Council should also consider its use of direct invoices as part of this review.

Council should consider alternative processes for approving direct invoices so that purchase orders are appropriately used per the policy.

#### Management response

1. Council Management are aware we have been operating under a hybrid system – some centralised and some decentralised. This is due to the different nature of our businesses conducted by Council and the varying levels of administrative support/skills in each team. In saying that, we have identified that we are not fully utilising the system controls that the finance system has in place. We have many other controls in place, which are effective, but the process is clunky and non-productive. We have commenced a project to implement an accounts payable workflow within the finance system, which has now evolved into a full procure to pay business process alignment to adopt best practice. This will be a long-term project with a great deal of change management involved.

The steps taken so far include mapping all the current processes, creation of a Gap Analysis Report and Project Action Plan. The first step in the plan is to review the setup of 'roles' and 'positions' in the finance system as this is paramount in the success of the AP workflow process.

Once the business process alignment is completed, an Administrative Instruction will be created to direct staff on the procedure to be followed for raising purchase orders.

2. In relation to the raising of purchase orders after an invoice is received - we have been working with the teams throughout Council to prepare purchase orders in advance of invoices, with an estimated cost (except in the case of emergency works). The percentage of PO entries post invoice received is declining. We are also now investigating the possible use of 'Standing orders' in the finance system as part of our business process alignment outlined above in point 1. We would not want to process such invoices as Direct Invoices as it would compromise the data integrity in the finance system procurement module for reporting purposes; as well as create an inefficient means of processing an invoice in having to complete a Payment Request form and obtain 2 signatories outside of the finance system. Creating a PO upon approval of an invoice creates an audit trail within the finance system rather than outside of it. PO requisition approvals, quotations, council resolutions, etc. can all be attached to the PO raised within the system rather than just being attached to the Invoice entry within the corresponding Supplier Account, providing more information and transparency to the relative council officers/teams.



3. The process step on page 2 states 'Email the order to the PO **requester** for approval to pay'. The requester will usually be the person carrying out the works or ordering the goods. The requester is not always the approver, often the requester will have the PO approved and then submit to request the PO, based on hierarchy and financial delegations held in the finance system. Process documentation is still a work in progress as noted in item 1 and needs improvement to meet the unique needs of each department. The invoices received should be approved by the Council officer who has managed and/or signed off on completed works as they will have the knowledge required as to whether the work has been completed as requested and/or goods received as specified in the PO request. This process is also addressed in the business process alignment discussed in item 1.





Responsible officer: Chief Financial Officers

Status: Work in progress

Action date: 30 June 2025

## 2. Matters previously reported

The following table summarises the status of deficiencies, financial reporting issues, and other matters previously reported to you.

Ref.	Rating	Issue	Status
22IR-1		<b>Probity plans and conflict of interest checks not completed for large procurement</b>	<p><b>Resolved pending audit clearance</b></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> <p>Audit is in the process of finalising testing over procurement. This issue is considered resolved pending the finalisation of our testing during our final visit.</p>
22IR-2		<b>Procurement policy recommendations</b>	<p><b>Work in progress</b></p> <p>Council updated their definition of a contract in the revised procurement policy which was adopted at the December 2022 council meeting. A further revision of the policy is required to include the steps to follow once a tender process is entered into and reference will be made to the requirements in s. 228 of the Local Government Regulations 2012.</p> <p><b>Responsible officer:</b> Chief Financial Officer/Senior Procurement Officer</p> <p><b>Action date:</b> 31 August 2023</p>
22IR-3		<b>Accuracy and completeness of contracts register</b>	<p><b>Resolved</b></p> <p>We have confirmed that the contracts register has been reviewed and updated.</p>
22CR-4		<b>No evidence of approval for user access granted to the F-drive</b>	<p><b>Resolved</b></p> <p>We have completed testing over user access to the F-drive. We did not identify any issues.</p>

**SENSITIVE**

Ref.	Rating	Issue	Status
22CR-5	<b>D</b>	Review over long outstanding work in progress	<b>Resolved</b> We have confirmed that a review process was undertaken in April 2023 over long outstanding work in progress.
22CR-6	<b>D</b>	Lack of follow up action taken upon receipt of the annual plant and equipment stocktake results	<b>Work in progress</b> Annual plant and equipment stocktake is currently underway. Review will be performed upon completion. <b>Responsible officer:</b> Team Leader Asset Management <b>Action date:</b> 31 July 2023
22CR-7	<b>D</b>	Assets controlled by Council not recognised in the asset register at 30 June 2022	<b>Work in progress</b> Council received the Infrastructure agreement in late June 2023. Council will ensure the contributed asset procedure and timely recognition of contributed assets will be completed by the end of July 2023 for the 2022–23 financial year. <b>Responsible officer:</b> Team Leader Asset Management, Manager Infrastructure and Manager Water and Wastewater <b>Action date:</b> 31 July 2023



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