

7.5. QAO FINAL MANAGEMENT REPORT 2024/25

REPORT AUTHOR	Interim Chief Financial Officer
MANAGER	General Manager TC Jasper Corporate and Communities
DEPARTMENT	Corporate and Communities

RECOMMENDATION

That Council notes the observations contained within the 2025 Final Management Report from the Queensland Audit Office for the 2024-2025 financial year.

EXECUTIVE SUMMARY

The Queensland Audit Office (QAO) 2025 Final Management Report for Douglas Shire Council is presented to Council for noting.

The QAO closing report was discussed with Council's Audit and Risk Committee on 14 October 2025. It should be noted that no additional issues have been found by the QAO since the closing report was published.

BACKGROUND

Each year Council's financial statements are audited 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 recommendations regarding matters arising from the audit. Where those observations or recommendations require further attention, the QAO is required to provide a copy of the report to the Mayor.

Under 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 available 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 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).

COMMENTS

The audit undertaken by the QAO was completed in October 2025 and Council provided with an unmodified (unqualified) audit opinion (Independent Auditor's Report) on 15 October 2025.

The QAO Closing Report was presented to Council's Audit and Risk Committee on 14 October 2025.

Appendix A1 of the Final Management Report (attached) – contains any issues identified in the final stage of the audit and categorises all identified audit issues into 'significant deficiency', 'deficiency' or 'other matters'. There was one internal control 'significant deficiency' and three internal control 'deficiencies'.

Appendix A2 of the Final Management Report contains details of previously reported issues during the audit year and previous years. There were eight internal control deficiencies identified during the year ended 30 June 2025 with three resolved pending audit clearance and the remainders are a work in progress.

PROPOSAL

The QAO's 2025 Final Management Report is presented to Council for noting.

FINANCIAL/RESOURCE IMPLICATIONS

Preparing financial statements for audit and addressing issues identified during the audit form part of staff core duties.

There were no issues arising in 2024-2025 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.

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 2025-2030 Initiatives:

Theme 1 - Liveability

To deliver community activities to promote safe, healthy, inclusive and socially engaged communities with an environmental conscious.

1.5 - Keep the community informed.

Operational Plan 2025-2026 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 Executive Leadership Team.
Council Audit Committee held 14 October 2025.

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. 2025 Final Management Report [7.5.1 - 11 pages]



2025 FINAL MANAGEMENT REPORT

Douglas Shire Council

29 October 2025

Councillor L Scomazzon
Mayor
Douglas Shire Council

Dear Councillor Scomazzon

Final management report for Douglas Shire Council

We have completed our 2025 financial audit for Douglas Shire Council. I have issued an unmodified audit opinion on your financial statements.

The purpose of this report is to update you on any matters that have arisen since we presented our interim report to the Audit Committee on 15 September 2025.

Reporting on issues identified after the closing report

I can confirm that we have not identified significant issues since the presentation of our interim report to the Audit Committee. 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 2025*. We will comment on the results of our audit, any significant internal control issues, and the overall results for the sector, including major transactions and events. We will discuss the proposed report content with your entity contact and continue to consult as we draft it. Formally, entities 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 \$180,000 exclusive of GST. This fee is higher than the \$150,000 estimated in our external audit plan. We have discussed the key factors contributing to the fee variation with your interim Chief Financial Officer. In summary, these matters related to the additional audit effort required to work through the significant control deficiency and ten control deficiencies identified during the year.

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

If you have any questions about this report or would like to discuss any matters regarding our services and engagement, please do not hesitate to contact me on 3149 6042 or Jessica Rossouw, Senior Manager, on 0402 035 251.

Yours sincerely



William Cunningham
Director

Enc.

cc. Mr S Osman, Chief Executive Officer, Douglas Shire Council
Dr M Fahy, Chair of the Audit Committee

Appendix A1 – Status of issues

Internal control issues

This section provides details of the significant control deficiency and other control deficiencies we have identified since our interim report. 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.gao.qld.gov.au/information-internal-controls or scan the QR code.



S Significant Deficiency

25CR-1 Weaknesses in procurement processes

Observation

We selected 8 contracts to test whether the procurement process complied with Council's procurement policy and relevant regulations. For 3 of our sample items selected, Council could not provide evidence to demonstrate adherence to key contracting principles such as value for money and effective competition.

Details of observed non-compliance with the *Local Government Regulation 2012*

• Example 1

Council could not provide documentation supporting the initial engagement of a contractor.

Initial engagement was for 12 weeks at \$12,400 per week, totalling \$148,800. Four contract extensions were approved without formal variation proposals or submissions:

- Extension 1 was for 12 weeks and was approved by the Chief Executive Officer (CEO) via email.
- Extension 2 was for 18 weeks (approximately 25–35 hours per week), to January 2025 and was approved by the Acting CEO via email in October 2024.
- Extension 3 to February 2025 was approved by the CEO via email in November 2025.
- Extension 4 was for 12–20 hours per week at \$310 per hour on an as needed basis until June 2025. This was approved in mid-March by the Chief Engineer via email.

The total spend to date exceeds \$500,000 however no details have been published on Council's website, as required under the *Local Government Regulation 2012* (see deficiency 25-IR2 in the report below).

Council could not provide the employment contract, nor evidence that the performance of the contractor was assessed prior to the extensions being approved. There is a lack of documentation demonstrating how Council achieved value for money with this arrangement.

• Example 2

Council awarded a contract to a former employee's company through Local Buy to cover arrangements while an existing employee was on annual leave. The former employee's company was the only supplier that was notified of the tender within the Local Buy portal, and the tender was open for just four days. Council could not provide the signed contract, nor documentation to support how it assessed or approved this supplier. In addition, the conflicts of interest forms were not signed.

Under the contract, the employee earned approximately three times more than their rate when they were employed by Council. The contract was for five weeks, with an end date of 9 March 2025.

Further investigation identified two additional engagements with this supplier:

1. The initial engagement (prior to the engagement referred to above) had no supporting documentation apart from an email from the supplier requesting a purchase order, with a proposal attached.
2. No documentation was available to support a contract extension covering 1 April 2025 to 31 May 2025.

• Example 3

Council awarded a contract of \$2,828,100 through Local Buy. The tender was advertised with an estimated value of \$500k–\$1mil. We observed:

- no evaluation panel assessment and no recommendation was documented to support Council's decision in electing the supplier
- there was no documentation supporting or assessing the cost increase from the estimated value of \$500k–\$1mil
- a signed contract could not be provided.

A contract variation of \$476,761 was approved in November 2024 by the CEO via email:

- There was no evidence available to demonstrate that the extension followed the appropriate procurement processes.
- The initial contract and the subsequent extension were not published on Council's website, as required by the *Local Government Regulation 2012*.

Implication

Council is exposed to risk of not being able to demonstrate compliance with sound contracting principles including how value for money is achieved.

In addition, Council has not complied with its own policies or the *Local Government Regulation 2012*, which means that sound contracting principles have not always been documented. This could result in contracts being entered into that do not provide the highest quality goods or services or best value for money.

When perceived or actual conflicts of interest are not obtained and effectively managed this increases the risk of fraudulent procurement activities.

QAO recommendation

We recommend that Council:

- strengthen procurement documentation to clearly demonstrate compliance with sound contracting principles and Local Government Regulations. Documentation should include:
 - the rationale for sole supplier arrangements, detailing any suppliers approached, timing, responses, formal evaluation, and approval decisions
 - comprehensive records of tender processes, contract variations, and performance management
 - evidence supporting competitive procurement and value for money assessments
- ensure that all contracts and extensions over \$200,000 are accurately recorded and published on Council's website in accordance with statutory requirements
- review contract variations, especially those exceeding \$200,000, to confirm they undergo appropriate tender processes or approvals in line with Council policy and regulations
- provide training or update procurement procedures to reinforce adherence to procurement rules, transparency, and accountability
- ensure conflict of interest declarations are obtained for all perceived potential conflicts.

Management response

Management agrees with this recommendation.

As Audit is aware, management had previously identified the matters raised in Audit's observations as unsatisfactory and in May this year commenced several actions including the following:

- Sole and Specialised Register reviewed by management, including the Executive Leadership Team (ELT), subsequently reducing the supplier count from 70 to 26. The revised Register was submitted and adopted by Council at its July meeting.
- CEO initiated an independent review into current procurement processes and practices used in high-value contracts with a view to compare against legislative and policy requirements as well as better-practice guidelines. The objective of the review is to identify opportunities for improvement and subsequently develop an implementation plan with responsible officer/s and delivery timelines.
- General Manager Corporate & Communities and Interim CFO commenced a review into specific procurement activities where departures from Policy and legislative requirements were suspected.
- Commenced a second revision of Council's Procurement Policy and associated procedures to provide greater clarity of interpretation and application of sound contracting principles, specifically the use of Vendor Panel, Local Buy arrangements quotations and request for tender processes.
- Completed a review of all contracts and extensions and updated Council's website ensuring that all those exceeding \$200,000 are published in accordance with statutory requirements.
- Commenced transition of previously decentralized procurement staff into a single team within Financial Services Branch to promote consistent application of procurement policy and procedures throughout the organisation.
- Completed the implementation of 'Procure-to-Pay' module within Council's ERP which systemizes greater policy and legislative compliance outcomes.

Responsible Officer: Chief Financial Officer

Status: Resolved Pending Audit Clearance

Action date: 30 September 2025

D Deficiency

25CR-2 30 June 2025 bank reconciliation did not agree with the draft financial statements, due to ledger not being closed

Observation

Council does not close the general ledger on a monthly basis, including at year end prior to preparing the financial statements. The 30 June 2025 bank reconciliation, prepared on 1 July 2025, recorded a general ledger bank balance of \$62,302,628.52. However, the financial statements provided for audit in September 2025 reported a general ledger cash balance of \$62,398,563.72. This variance occurred because the general ledger remained open, and transactions were backdated into FY25 after reconciliations had already been prepared.

Implication

Failure to close the general ledger in a timely manner increases the risk of inaccurate or misstated financial information. In particular, reconciliations may no longer agree to the financial statements, reducing the reliability of financial reporting and weakening Council's internal control environment. This practice may also delay the audit process and affect confidence in the accuracy of reported balances.

QAO recommendation

Transactions relating to prior periods should not be posted once reconciliations and financial statements have been prepared. Where adjustments are required after year end, these should be processed through journal entries after obtaining CFO approval.

Management response

Management will trial Audit's recommendation for the month ending 31st October 2025. This trial will determine the required work effort needed and the extent to which this adds further value to the current Year-to-Date Monthly Financial Performance report and/or the extent to which risks are mitigated.

Responsible officer: Team Leader Financial Accounting

Status: Work in progress

Action date: 31 October 2025

D Deficiency

25CR-3 Significant number of accounts created and in use**Observation**

Council currently has 1,644 general ledger (GL) accounts, of which 201 were inactive at year-end:

- During FY24, Council created 61 new accounts.
- During FY25, Council created 225 new accounts.

By comparison, similar sized councils in the same segment maintain the following:

- Council 1: 380 accounts with ~20 new accounts in the current year.
- Council 2: 324 accounts with 2 new accounts in the current year.

Based on enquiry, we understand that there is no formal process in place to review, rationalise or control the creation of GL accounts.

Implication

The large number of GL accounts and high rate of new account creation increases the risk of misclassification, errors in financial reporting, and inefficiencies in account management. Without effective control, redundant or unnecessary accounts may remain active, making reporting more complex.

QAO recommendation

Council should implement a formal GL account management framework. This should include regular review of active accounts, approval and justification procedures for creating new accounts, and benchmarking against similar councils to maintain a manageable and efficient GL structure.

Management response

Management agrees to undertake a GL account review in the 2025/26 financial year to consolidate GL account numbers where possible.

During 2024/25 management was required to create new GL accounts for new departments established resulting from an organisational realignment. These new departments were a mix of operational units and disaster recovery and resilience units. New GLs were created in order to accurately reflect income and expenditure relating specifically to these units. If these GLs were not created then unit costs would not be captured accurately which would impact budget vs actual reviews and grant funding tracking. Management will review the active GL accounts and implement a framework and checklist for creating new GL accounts.

Responsible officer: Team Leader Financial Accounting

Status: Work in progress

Action date: 31 March 2026

D Deficiency

25CR-4 Project completion percentages are not adequately supported

Observation

During the 2024–25 financial year, council undertook a significant capital works program, primarily due to the ongoing repair works associated with Cyclone Jasper. Council recognised \$47.2 million in capital grant revenue and recorded \$35.5 million in capital contract liabilities (for money received but not yet earned as revenue).

During the year council staff met and discussed the progress of each significant capital project. These discussions determined each project's percent completion, which is a key input into determining how much capital grant revenue council can recognise.

We observed that no meeting minutes were taken and there was insufficient communication following the meeting to verify the accuracy of these discussions with project managers.

Implication

Poor tracking and documentation of the project completion process can impact the revenue recognition of the council and also limits the overall project management and governance of significant projects.

QAO recommendation

We recommend that Council:

- maintain formal meeting minutes for key capital project meetings
- consider establishing a formal disaster recovery sub-committee, to strengthen the governance and monitoring of significant disaster capital projects.

Management response

Management agrees with this recommendation.

Whilst a governance structure currently exists for the DRFA program consisting of the executive leadership team and relevant council officers, management will consider the application of alternative best practise governance arrangements to ensure the DRFA program is delivered effectively and efficiently.

Responsible officer: Construction and Commercial Manager

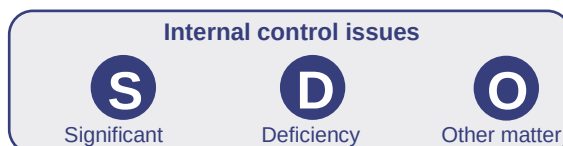
Status: Work in progress

Action date: 31 March 2026

Appendix A2 – Matters previously reported

The following table summarises all control deficiencies that have previously been raised this year in our interim report and unresolved issues we raised in prior years.

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.



Internal control issues

Ref.	Rating	Issue	Status and comment
25IR-1		Incomplete publication of contracts Council website did not include all contracts valued over \$200,000 as per the <i>Local Government Regulations 2012</i> s237.	Resolved pending audit clearance Responsible officer: Chief Financial Officer Action date: 15 August 2025 We will verify the resolution of this finding as part of the FY26 audit.
25IR-2		Weaknesses in month-end close processes Monthly trial balances are not locked down after reconciliations and reporting are completed, allowing users to backdate transactions to prior months. Reconciliation also not obtaining the correct review and approval sign offs.	Work in progress Management will trial Audit's recommendation commencing 1st October 2025. This trial will determine the required work effort needed and the extent to which this adds further value to the current Year-to-Date Monthly Financial Performance report and/or the extent to which risks are mitigated. Responsible officer: Chief Financial Officer Action date: 31 October 2025
25IR-3		Lack of segregation of duties in purchase requisition approval process Instances where the same officer who raised a purchase requisition also approved the corresponding purchase order	Resolved pending audit clearance Management has completed the implementation of 'Procure-to-Pay' (P2P) module within Council's ERP which systemizes greater policy and legislative compliance outcomes. P2P has been configured to ensure that there is a systemized separation between 'Requisition' officers and 'Approval' officers. The new module also provides a host of new capability across Council's performance aided by increased real-time dashboard visibility of all procurement activity. Responsible officer: Chief Financial Officer Action date: 16 August 2025 We will verify the resolution of this finding as part of our FY26 planning visit.

Ref.	Rating	Issue	Status and comment
25IR-4	D	Pay increases actioned prior to formal approval	Resolved pending audit clearance The CEO has implemented a signature/approval process which aligns to the organisational structure. Responsible officer: Chief Financial Officer Action date: 1 July 2025 We will verify the resolution of this finding as part of our FY26 planning visit.
25IR-5	D	Infrastructure Charges Register not published on council's website Council currently does not publish an infrastructure charges register on their website, as per the requirements under s. 70 of the <i>Planning Act 2016 (Qld)</i> .	Work in progress Council will develop a public facing infrastructure charges register. This register will contain historical infrastructure charges and also be updated monthly to include newly levied infrastructure charges as required by the legislation. Responsible officer: Chief Financial Officer Action date: 1 July 2026
25IR-6	D	Asset Management Plans not reviewed Council has not reviewed its asset management plans by their scheduled revision dates	Work in progress Management is continuing with the implementation of Assetic Asset Management software to support the storage and administration of physical asset data which will inform future revisions of asset management plans (AMPs). Responsible officer: Chief Financial Officer Action date: 31 December 2026
25IR-7	D	Weaknesses in general IT controls 1. IT change policy allows system access to be approved without manager approval. 2. ICT governance framework policy was last updated in 2019. 3. Periodic user access reviews not completed in a timely manner.	Work in progress Responsible officer: Team Leader IT Action date: 1. 1 October 2025 2. 1 July 2026 3. 1 December 2025
23IR-1	D	Lack of council wide purchase order policy and procedures, and inconsistent use of purchase orders Council does not have a policy or procedure document that is used consistently across council. We identified instances where purchase orders were raised after an invoice was received. Our testing in 2024–25 identified further instances where purchase orders were raised after the receipt of relevant invoices. Management is progressing their work on the project to implement an AP workflow; however, this is a long-term project.	Work in progress This matter remains in progress as at the date of this report. Council continues to build a more robust internal control environment with respect to procurement which includes a revised procurement policy, procedures and ongoing training and development. Responsible officer: Chief Financial Officer Action date: 31 December 2025

Appendix A3 – Climate-related financial disclosures

Next year's planning considerations	Potential effect on your reporting obligations	Potential effect on your audit
As a non-mandatory reporting entity, your entity does not need to prepare climate-related financial disclosures in compliance with AASB S2 Climate-related Disclosures and have this audited under the ASSA 5010 timetable. Queensland Treasury has communicated to us that it does not intend to include your entity within its whole-of-government reporting framework. The department of local government is considering a sector-wide response. We encourage local governments to engage with the department prior to devoting time and resources to determining their approach to reporting.	At this point there is no effect on your reporting obligations for 2026 or future years. Your entity may choose to voluntarily report against AASB S2. As part of your decision making, you should also consider who your report users are, and what their information needs are. We strongly encourage you to engage with us prior to making this decision. Planning to develop a valuable report is a significant commitment.	We have commenced our engagements for clients who are preparing mandatory reports now. Our experience is that engagement at least 18 months out from the first reporting date allows us to develop a shared understanding of the roles and responsibilities and assess your readiness for reporting. If you chose to prepare a voluntary S2 compliant report, we would recommend that you allow a similar amount of time.



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