

7.7. 2026 QUEENSLAND AUDIT OFFICE INTERIM REPORT

REPORT AUTHOR	Manager Financial Services
EXECUTIVE	General Manager Corporate and Communities
DEPARTMENT	Corporate and Communities
TEAM	Financial Services
DATE	29 September 2026

RECOMMENDATION

That Council:

- 1. Note the findings and recommendations contained within the 2026 Douglas Shire Council Interim Report**
- 2. Note that the significant procurement deficiency reported in 2025 has been downgraded by the Queensland Audit Office.**
- 3. Note the status of all outstanding audit findings, management action plans, and due dates.**
- 4. Endorse the continued implementation of actions to address the remaining audit deficiencies.**

EXECUTIVE SUMMARY

The Queensland Audit Office (QAO) has completed its interim audit procedures for 2025/26 and issued its interim management report dated 27 August 2026.

The audit is progressing in accordance with the agreed audit plan, with no anticipated impact on the audit opinion, audit scope, timeline or audit costs.

The interim report identified five (5) new control deficiencies relating to procurement, payroll, governance and risk management. In addition, QAO reviewed prior year findings and confirmed that several matters have now been resolved, including a downgrading of the significant procurement deficiency raised in the 2025 audit.

Management has developed action plans for all outstanding matters and will continue working with responsible officers to implement improvements and strengthen Council's internal control environment.

PREVIOUS COUNCIL CONSIDERATIONS / RESOLUTIONS

The QAO Interim Management Report is required to be presented to Council in accordance with section 213 of the *Local Government Regulation 2012*.

REPORT/BACKGROUND

QAO identified five (5) new deficiencies during the 2026 interim audit and reported six (6) previously identified deficiencies that remain in progress. No significant deficiencies were reported in the current interim audit.

Importantly, the significant deficiency relating to weaknesses in procurement processes (25CR-1) reported in the 2025 Final Management Report has been sufficiently addressed to warrant a downgrade by QAO following material improvements in procurement governance and documentation.

QAO advised that the audit remains on schedule and no matters have arisen that are expected to impact the audit opinion or financial statements. The year-end audit visit is scheduled for 21 September 2026.

FINANCIAL AND RESOURCE IMPLICATIONS

The findings identified do not have any direct financial impact on the 2025/26 financial statements or Council's budget position.

Implementation of management actions will largely be undertaken using existing staff resources. Some recommendations, including enhancement of contract management systems, business continuity planning and project management frameworks, may result in future operational or system improvement costs that will be considered through normal budget processes.

No additional budget allocation is currently being sought.

RISK MANAGEMENT IMPLICATIONS

The audit findings primarily relate to:

- Governance and compliance risk.
- Procurement and contract management risk.
- Financial reporting risk.
- Business continuity and disaster recovery risk.
- Information technology governance risk.
- Project delivery risk.

While none of the findings have been assessed by QAO as significant deficiencies in 2026, failure to address them could result in increased compliance, financial, operational and reputational risks to Council

Management has agreed to all audit recommendations and action plans have been assigned to responsible officers with implementation timeframes. Ongoing monitoring will occur through management reporting, Audit and Risk Committee reporting and future QAO audits.

ENVIRONMENTAL IMPLICATIONS

There are no environmental implications associated with this report.

SOCIAL IMPLICATIONS

Implementation of the audit recommendations will strengthen Council's governance, accountability and stewardship of public resources, thereby supporting community confidence in Council's operations.

CORPORATE AND OPERATIONAL PLAN

This report has been prepared in accordance with the following:

Corporate Plan 2025-2030 Initiatives:

Theme 3 - Service Delivery

We deliver Council services effectively and efficiently to meet community expectations, focusing on the wellbeing of both the community and our employees.

3.1 - Deliver the Corporate Plan, Operational Plan and Budget.

Operational Plan 2026-2027 Actions:

Legislative requirement.

LEGISLATION AND POLICY

- *Local Government Act 2009*
- *Local Government Regulation 2012*
- Douglas Shire Council General Procurement Policy
- Relevant governance, risk management, payroll and information technology policies and procedures

CONSULTATION

Internal Consultation:

- Douglas Shire Council Management

External Consultation:

- Queensland Audit Office

CONCLUSION

The 2026 Interim Management Report represents a positive outcome for Council.

While QAO identified five (5) new deficiencies requiring management attention, no significant deficiencies were reported and the audit remains on track with no anticipated impact on the final audit opinion.

Most notably, the significant procurement deficiency reported in 2025 has been addressed, and will continue, demonstrating the effectiveness of the substantial governance and procurement improvements implemented by management over the past 12 months.

Council will continue progressing the remaining action plans to further strengthen its internal control environment and governance framework.

ATTACHMENTS

1. 2026 Douglas Shire Council Interim Report [7.7.1 - 20 pages]



2026 INTERIM REPORT

Douglas Shire Council

27 August 2026

Councillor L Scomazzon
Mayor
Douglas Shire Council

Dear Councillor Scomazzon

2026 Interim report for Douglas Shire Council

The purpose of this report is to update you on the progress of the Queensland Audit Office's (QAO) external audit on your financial statements for the financial year ending 30 June 2026.

We recently completed our first phase of testing, which focused on gaining assurance over your council's key financial processes up to May 2026. These procedures focused on confirming if key controls operate effectively, transactions are accurately recorded, and accounting estimates are appropriately supported. We also consulted management on significant or emerging matters affecting the financial statements.

The audit is progressing in line with the original external audit plan and timelines, with no delays or changes to the scope of our audit or cost.

Key observations arising from our audit

In this phase, we identified five new control deficiencies across payroll, procurement and governance and risk management. These issues did not require us to perform additional audit procedures and will not impact our timelines. While these issues do not currently affect our overall audit opinion, addressing them is important for strengthening your entity's financial management and for demonstrating good stewardship of public resources. Your management's responses and their proposed time frames for rectifying the issues are detailed in section 2 of this report.

Other emerging matters.

During this phase, no new matters or difficulties have arisen that require management's attention. The audit is progressing as planned, and there are currently no new issues that are expected to affect the financial statements or our overall audit approach.

Next steps

We have discussed this report with your Chief Financial Officer. We will also present this report to the Audit and Risk Committee on 17 September 2026, providing it with an overview of our findings, recommendations, and any emerging matters.

During our next phase of testing, in September 2026, we will follow up with your management on their corrective actions for the audit issues we identified. Our audit will focus on additional testing and year end reporting.

Please note, as per section 213 of the Local Government Regulation 2012, you must present a copy of this report at your council's next ordinary meeting.

I thank your team for their positive engagement over our interim testing. If you have any questions or would like to discuss this report, please contact me on 07 3149 6042 or Cynthia Jani, on 0436 603 167.

Yours sincerely

William Cunningham
Director

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cc. Mr S Osman, Chief Executive Officer, Douglas Shire Council
Dr M Fahey, Chair of the Audit and Risk Committee
Mr Tamas Maffey-Stumpe, Interim Chief Financial Officer

1. Areas of audit focus

In our external audit plan, we identified those items and areas with highest risk of material misstatement, based on both likelihood and financial impact. The table below outlines these areas of audit focus and our progress in addressing these risks.

Description	Inherent risk	Control reliance	Audit response
Expenditure, including procurement and contract management Council spend on materials and services is significant, with a large supplier base. There are several large capital projects to be undertaken during the 2025–26 financial year where legislative requirements guide tendering and probity processes. Significant projects included in the Council's budgeted capital works program of \$134m include: • \$94.3m REPA works, including landslip repairs of \$66.7m • \$19m Water supply, including Grant Funding – WISER Program – Mossman River Intake of \$10.3m. • \$7.6m Transport, including Daintree Ferry – Landside Infrastructure of \$2.6m. • \$7.5m Council and community facilities, including Grant Funding – Port Douglas Splash Park of \$2.3m. In the current environment, funding constraints and increasing cost pressures are increasing the importance of robust controls over procurement and contract management.	Significant	Y	During our interim audit visit, we performed the following procedures: • Assessed controls over procurement and contract management, including ensuring compliance with council's policies and legislative requirements. • Tested on a sample basis, new tender contracts, progress payments, contract variations and adherence to expenditure delegations. • Tested key controls over changes to vendor Masterfile records. • Reviewed the approval of procurement expenditure to ensure that it is in line with financial delegations. • Scrutinised the capital expense accounts and test a sample of capitalised costs to ensure they are correctly classified, or whether they should be expenses. • Scrutinised operation expense accounts for project costs that should be capitalised. We have identified a control deficiency regarding the absence of conflict of interest declarations within procurement processes. In addition, we observed that Council's contract register is not complete and accurate, and that contract information has not been fully published on Council's website in accordance with the regulations. Two control deficiencies have been raised in relation to these matters. Refer to Section 2 of this report.
Valuation of property, plant and equipment assets Property plant and equipment assets (\$572.6 million as at 30 June 2025) requires significant levels of management judgement in determining their fair values, being measured at gross replacement cost less accumulated depreciation. Valuation involves significant estimates and judgements particularly around useful lives, unit rates and indexation rates applied.	Significant	N	We performed the following procedures: • Reviewed management's assessment of the valuation outcome. • Assessed the competency, capability and objectivity of specialists engaged in the valuation process. • Assessed the appropriateness of valuation methodologies, techniques and the reasonableness of assumptions adopted in determining fair value, such as unit rates, and condition and useful life assessments. • Where indexation is applied, assessed the relevance and appropriateness applied to the relevant asset classes.

Description	Inherent risk	Control reliance	Audit response
There is limited market-based data to derive a fair value due to the specialised nature of the assets.			- Reviewed the appropriateness of useful life assumptions used in the calculation of depreciation. - Reviewed the key assumptions adopted in assessing the condition and remaining useful lives of assets. - Tested a sample of transactions to ensure they are capitalised or expensed appropriately. We have completed our review of the revaluations and have concluded they are reasonable, except for the water main pipe network assets. The rates for these assets were significantly lower than the actual recent costs incurred to construct them. The reason for the large difference in value is due to the recent capital projects being significantly more complex and costly than the unit rates derived from the valuer. Specifically, management advised that the cost differences are due to factors such as: - the method of pipe installation - project location (urban vs rural) - and contractor availability. We have requested management to review the units rates being applied to these recent capital projects. We will work with management to finalise this work prior to commencing our year end audit visit in September.
Related party disclosures Related party disclosures by their nature are generally material regardless of the value. There is a high level of public interest in related party transactions and disclosures.	Moderate	N	In our next visit in September, we will perform the following procedures: - Assess Council's processes for identifying related parties and collating related party transactions. - Independently verify the completeness of related party transactions. - Assess disclosures in compliance with the requirements of AASB 126 <i>Related Party Disclosures</i>.

Public sector audit objectives

The *Auditor-General Act 2009* and *Auditor-General Auditing Standards* provide the overarching public sector audit objectives we apply to our financial audits. While our audit focus may change year-to-year, we assess the broader public sector objectives of probity, propriety, and compliance, to give parliament assurance that there is appropriate stewardship over public sector entities.

The areas and results we have tested to date include:

- procurement – We have sample tested a selection of significant council contracts to ensure procurement activities are undertaken in compliance with council's procurement policy and sound contracting principles
- grants and funding – assessment, approval and monitoring against program guidelines.

2. Status of audit issues

Internal control issues

The following table identifies the number of deficiencies in internal controls, and other matters we have identified. 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.

Ratings	Significant deficiencies	Deficiencies	Other matters*
	S	D	O
Description	A serious internal control issue that requires immediate action by management due to risk of material misstatement, financial loss, or non-compliance.	An internal control weakness that management is expected to address in a timely manner to prevent misstatements or non-compliance.	A recommendation to improve internal control efficiency or effectiveness, with implementation at management's discretion.
New issues raised in this report		5	-
Matters previously reported – work in progress or resolved pending audit clearance		6	-
Matters previously reported – resolved in this report	-	5	-

Note: *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 to date. It includes a response from management.

D	Deficiency
	26IR-1 Lack of Conflict of Interest Declarations in Procurement Processes
Issue category	Procurement and contract management
Observation	During our interim visit testing we selected a sample of six procurement contracts. Of the six contracts tested, two lacked evidence demonstrating whether procurement staff, evaluators, and decision-makers had declared any actual, perceived, or potential conflicts of interest prior to participating in procurement activities. For the contracts listed below, no completed and signed COI declaration forms were available from staff involved in the procurement process. Management was also unable to provide alternative evidence, such as meeting minutes or other documented evidence, to demonstrate that conflict of interest declarations had been made and considered. As a result, we were unable to verify whether all relevant personnel had declared potential conflicts of interest and whether these declarations were appropriately assessed before procurement decisions were made. The contract values of the contract are as follows:



Deficiency

1. Professional services contract for Strategic Program Transport, Travel Superintendent services and Infrastructure Recovery valued at \$369,200.
2. Engineering and Environmental Consultancy Contract for Cyclone Jasper emergency work valued at \$166,600.

For example 2, we acknowledge that the contractor was initially engaged under emergency circumstances. We note that there were 2 contract variations for this contract each valued at \$30,000 for which evidence of conflict of interest declaration was not available on request.

We also note that, for Example 1, the contract had not been formally signed by the supplier.

Implication

Non declaration of conflict of interests in procurement can:

- increase the risk that actual, perceived, or potential conflicts of interest are not identified, disclosed, and appropriately managed throughout the procurement process thereby exposing the Council to reputational and compliance risks
- expose Council to procurement decisions that may be subject to bias, favouritism, or undue influence, compromising the fairness, integrity, and transparency of procurement procedures
- undermine the audit trail and accountability over procurement activities, making it difficult to demonstrate that procurement decisions were made objectively and in the best interests of the Council, and that goods and services were procured in a manner that achieves value for money
- the lack of a signed contract by the supplier can compromise the Council's ability to demonstrate that contractual terms and conditions were formally accepted, potentially weakening its position in the event of a dispute or non-performance.

QAO recommendation

We recommend that Council:

- ensure all personnel involved in procurement activities, including procurement staff, evaluators, and approvers, complete and sign conflict of interest declarations before participating in the procurement process and non-compliance should be addressed through appropriate accountability measures
- maintain evidence of conflict of interest declarations for all procurement activities and retain these records in a central repository to enable easy access, monitoring, and review
- ensure that all contracts are formally signed by both parties before the commencement of services or execution of contractual obligations
- for example 2 – Management should ensure that a retrospective conflict of interest assessment is undertaken and appropriately documented. This will provide assurance that any actual, perceived, or potential conflicts of interest have been identified, assessed, and managed appropriately.

Management response

Management agrees with this recommendation. Council recognises the importance of appropriately identifying, declaring and managing actual, perceived and potential conflicts of interest to maintain community confidence in the integrity, transparency and fairness of procurement processes.

During 2026/27, management will strengthen procurement controls by embedding conflict of interest declarations into the procurement workflow as a mandatory requirement for all relevant officers involved in procurement activities. Completed declarations will be retained within a central repository to support record keeping, compliance monitoring and auditability.



Deficiency

In addition, management will implement review controls to ensure declarations are completed, assessed and retained before key procurement decisions are made. Compliance with these requirements will be monitored through Council's existing periodic procurement compliance review processes, with any instances of non-compliance identified and addressed as appropriate.

These actions will strengthen Council's procurement governance framework and provide greater assurance that conflicts of interest are consistently identified, documented and managed throughout the procurement process.

Responsible officer: Manager of Financial Services

Status: Work in progress

Action date: 2 October 2026



Deficiency

26IR-2 Council's contract register is not complete and accurate & Incomplete publication of contracts on Council's website

Issue category **Procurement and contract management**

Observation

We identified weaknesses in the Council's contract register management processes, resulting in inaccuracies and inconsistencies within the contract register. Based on our review of the contract register, and a sample of six contracts selected for testing, we identified instances where details recorded in the register did not agree with the underlying executed contract.

In the prior year, we raised a control deficiency relating to the incomplete publication of contracts on Council's website – in breach of the Local Government Regulation 2012 section 237. We continue to identify discrepancies between what is published on Council's website and the contract register. We note that Council's website has not been updated with the new contracts above the legislative threshold for the months of May 2026 and June 2026. In addition, we noted a contract entered into in October 2025 that exceeded the threshold requiring disclosure on the Council's website was not published on the website due to an oversight.

For three out of six contracts included in our sample testing, we identified the following discrepancies:

Example 1

An approved contract variation was not accurately recorded in the contract register. The approved variation amount was \$263,035; however, the register recorded the variation as \$310,456.

Example 2

Two separate contracts were recorded as a single contract entry in the contract register, with a combined value of \$166,600 under one contract number. Furthermore, the variation amount of \$311,060 recorded in the register relates to the original value of these two contracts rather than contract variations.

Example 3

A contract was correctly disclosed on the Council's website at \$513,500; however, the contract value recorded in the contract register was \$1,587,177.



Deficiency

Discussions with management indicated that the Council does not currently utilise a centralised contract management system to maintain the contract register. Instead, contract information is manually compiled and updated from multiple sources into a manual spreadsheet. As a result, there is an increased risk that key contract information, including total contract values, approved variations, contract start and end dates, may not be accurately or complete.

This compromises the reliability of contract information used for monitoring, reporting, and compliance purposes.

Implication

An incomplete or inaccurate contract register can:

- undermine transparency, reporting and effective governance over the Council's contractual arrangements
- result in management being unable to adequately track important contract milestones and monitor contract performance, variations, expiry dates, and financial commitments.

QAO recommendation

We recommend that Council:

- strengthen controls over the contract register by implementing a centralised process for maintaining contract information and performing periodic reviews to ensure contract details, values, and variations are accurately and completely recorded
- ensures a dedicated staff member takes ownership of the contract register
- reviews whether the existing functionality within the Authority system can be used to centralise the contract register in the system, removing the need for manual spreadsheets.

Management response

Management agrees with this recommendation. Whilst Council has processes in place to maintain contract information and meet legislative disclosure requirements, management acknowledges that the current predominantly manual approach increases the risk of inconsistencies between contract records and public disclosures.

During 2026–27, management will strengthen controls over contract management and reporting by implementing an automated monthly contracts register generated from Council's ERP purchase order data, supported by management review and sign-off. This process will improve the accuracy, completeness and timeliness of contract information used for internal reporting and external disclosure.

In parallel, management will investigate and seek to implement a centralised contract register within Council's ERP system. The objective is to establish a single source of truth for contract information, including contract values, approved variations, commencement and expiry dates, and legislative publication requirements.

These initiatives will improve governance over contract management, support ongoing compliance with statutory disclosure obligations, and enhance Council's ability to effectively monitor and manage its contractual commitments.

Responsible officer: Manager of Financial Services

Status: Work in progress

Action date: 30 June 2027

D**Deficiency****26IR-3 Council not approving applications for higher duties in line with policy****Issue category Payroll controls and payroll management****Observation**

Council's policy '*Officers performing higher duties- All employees*' outlines the following higher duties approval requirements:

- Managers are to submit the higher duties form to payroll two weeks before the higher duties commences.
- Payroll is to enter the details from the approved form before the date that the higher duties are effective.

In our sample testing of 19 higher duties applications, we identified that the approvals for 13 samples were not aligned with the two-week timeframe specified in council's procedure.

Of these 13 samples, we identified two instances (11%) where a delegate approved an employee's higher duties form after the employee had commenced working in the higher role. Refer to our analysis below

Timing of manager approval	% of sample
Approved in line with policy – 14 days before higher duties started	32%
Approved not in line with policy – under 14 days before higher duties started	58%
Approved after higher duties role started	11%

We recognise for the two samples with a late approval that the payroll team received those approvals for higher duties before they processed the corresponding payment run.

Implication

Employees may be undertaking higher-duties work without first obtaining the required approval.

QAO recommendation

We recommend Council ensures all higher-duties are appropriately approved prior to employees commencing in their higher-duties role.

Management response

Management agrees with the intent of this recommendation and recognises the importance of ensuring higher duties arrangements are appropriately authorised and documented.

Management notes that the governing document referenced is an Administrative Instruction rather than a formal Council policy. Whilst the instruction requires Higher Duties Forms to be submitted to Payroll two weeks prior to commencement, operational requirements can occasionally necessitate higher duties appointments at short notice due to unplanned leave or emergent business needs.

Management also notes that only two instances were identified where approval was obtained after the employee commenced performing higher duties, with both approvals occurring one day after commencement. In both cases, the approved documentation was received prior to the relevant pay run being processed.

Management will review the existing Administrative Instruction to ensure its requirements remain practical and aligned with operational needs, whilst maintaining appropriate governance and approval controls. This review will consider whether alternative approval timeframes and escalation arrangements are appropriate for circumstances where higher duties appointments arise at short notice, whilst maintaining appropriate management oversight and governance controls.

Responsible officer: Manager People, Safety & Culture

Status: Work in progress

Action date: 30 June 2027

D

Deficiency

26IR-4 Lack of Business Continuity Plans (BCPs)

Issue category Governance and risk management

Observation

Currently, Council has some individual BCPs at the business unit level for certain key Council business areas. These areas are:

- Information and Communications Technology (last update in March 2024)
- Daintree Ferry Service (last updated in July 2026)
- Water and Waste Services (currently under review, last updated in January 2025 and December 2023 respectively).

Council does not currently have BCPs for the following key business areas:

- Corporate and Communities (other than Information and Communications Technology).
- Infrastructure (other than Water and Waste Services, and Daintree Ferry Service).

In addition to the lack of several key business area BCPs, there is also no overarching, whole of Council BCP. A whole of Council plan would assist with prevention, preparedness, response and recovery in the event of an emergency or disruptive event (natural disaster, cyber incident etc) at a whole of Council level.

Implication

Council is at greater risk of not effectively managing and responding to disruptive events such as natural disasters and cyber incidents. This might include:

- service disruption risk as Council may be unable to maintain or restore critical services in a timely manner during emergencies or major disruptions
- governance and compliance risk as critical compliance can be overlooked
- financial and reputational risk as prolonged disruptions can increase recovery costs, reduce operational efficiency, and damage community confidence in Council's ability to deliver essential services.

QAO recommendation

We recommend Council:

- ensures BCPs are up to date, regularly reviewed and periodically tested. This would include establishing a regular program of BCP testing, training, and review to ensure continuity arrangements remain effective, current, and aligned with Council's risk profile
- develops and implements a council-wide BCP that defines critical services, recovery priorities, roles, responsibilities, and escalation procedures for major disruptions. It would also help strategically bring together the individual business area BCPs
- develops individual business area BCPs are created and maintained for significant business areas.

Management response

Management agrees with this recommendation. Council recognises the importance of business continuity planning in maintaining critical service delivery and organisational resilience during disruptive events, including natural disasters, cyber incidents, and other operational emergencies.

Council has already established and maintains business continuity plans for several critical service areas, including Information and Communications Technology, Water and Waste Services, and the Daintree Ferry Service, including plans developed for individual business units during the COVID-19 pandemic. During 2026–27, management will undertake a review of existing business continuity arrangements and develop a structured framework to guide the preparation, maintenance, testing and review of business continuity plans across the organisation.

As part of this process, management will assess contemporary business continuity practices adopted by comparable councils and other local government entities to determine the most appropriate business continuity framework for Douglas Shire Council's operational environment, risk profile and service delivery requirements. This review will consider the extent to which individual business unit plans, a Council-wide plan, or a combination of both would provide the most effective and practical approach to business continuity management.

Following this assessment, management will implement a business continuity framework and establish a periodic review and testing program to ensure business continuity arrangements remain current, effective and aligned to Council's operational and risk management requirements.

Responsible officer: Manager Governance & Information and Communications Technology

Status: Work in progress

Action date: 30 June 2027

D

Deficiency

26IR-5 No Project Management Framework in place

Issue category Governance and risk management

Observation

We noted that Council does not have an overarching project management framework to provide a consistent and structured approach to the planning, delivery, governance, monitoring, and review of significant projects across the organisation.

As a result, project management practices may be applied independently within business units, leading to inconsistencies in project oversight, governance, and delivery across Council.

An overarching project management framework would support Council in assessing project risks and complexity, enabling governance arrangements to be tailored to the nature and significance of each project. This would help ensure that appropriate oversight and controls are in place to effectively manage financial, reputational, delivery, and construction-related risks, while promoting a consistent and risk-based approach to project management.

Implication

Without a framework:

- projects risks may not be appropriately governed, managed or reported consistently
 - there is an increased risk of project delays, cost overruns and non-compliance
 - project management might not be effective, impacting on intended project outcomes.
-

QAO recommendation

We recommend Council:

- develop and implement a project management framework which provides a consistent and risk-based approach to project planning, delivery, monitoring, and reporting to improve project outcomes and support effective oversight.

Management response

Management agrees with this recommendation. Council recognises the value of a consistent and structured approach to project planning, governance, delivery, monitoring and reporting, particularly given the scale and complexity of Council's capital works and grant-funded project portfolio.

During 2026–27, management will develop and implement a Project Management Framework that establishes a consistent, risk-based approach to managing projects across the organisation. The framework will define project governance arrangements, roles and responsibilities, risk management requirements, reporting protocols and project oversight mechanisms appropriate to the size and complexity of individual projects.

The framework will support improved project governance, greater consistency in project delivery and enhanced visibility of project performance across Council.

Responsible officer: Manager Infrastructure Project Delivery

Status: Work in progress

Action date: 30 June 2027

Matters previously reported

This section provides an update on the status of matters previously reported on internal controls and financial reporting issues.

Ref.	Rating	Issue	Status and comment
25CR-1	D	Weaknesses in procurement processes 2026 new observations We recognise management's efforts in addressing this prior year Significant Deficiency. During our testing at interim we did not identify any issues relating to evaluation panel assessment. Each sample had sufficient documentation to support Council's decision in electing the supplier. We did identify however, that for one sample (valued at \$369,200) the offer letter was not formally signed by the supplier – recurring for the same supplier tested in prior year and in the current year as well. For this reason, we have downgraded the audit issue to a Deficiency but the issue remains a work in progress. The lack of conflict of interest declarations continues to be observed in the current year, refer to 26IR-1 for the deficiency raised.	Resolved – finding now included in 26IR-1 where we highlighted the weaknesses in procurement processes observed from our sample testing. Management comment Management acknowledges the positive progress made in addressing this matter during 2025/26. Procurement documentation, evaluation processes and compliance oversight have improved, with no issues identified during interim testing relating to supplier evaluation and procurement decision-making. Management notes that the finding has been downgraded from a Significant Deficiency to a Deficiency, reflecting the effectiveness of actions implemented to date. However, further work is required to fully embed procurement controls across the organisation, particularly regarding the completion and retention of conflict of interest declarations. This matter has been separately addressed through finding 26IR-1. Management will continue to strengthen procurement governance by embedding conflict of interest declarations into procurement workflows as a mandatory requirement, supported by centralised record keeping and periodic compliance reviews. Responsible officer: Chief Financial Officer Manager of Financial Services Original action date: 30 September 2025 New action date: 2 October 2026

Ref.	Rating	Issue	Status and comment
25CR-3	D	Significant number of accounts created and in use 2026 observations We continue to observe a large number accounts in use.	Work in progress Management comment Management acknowledges that this matter remains in progress. The increase in general ledger accounts has largely been driven by organisational restructures, business unit realignments, and reporting requirements that support greater operational and financial transparency. Previous attempts to deactivate unused accounts created limitations in the accessibility of historical financial reporting information. Given the current focus on strengthening month-end close and reconciliation processes, this initiative remains a lower priority. During 2026–27, management will investigate opportunities to rationalise and deactivate redundant accounts while preserving the integrity of historical financial information. Responsible officer: Team Leader Financial Accounting Original action date: 31 March 2026 Action date: 30 June 2027
25CR-4	D	Project completion percentages are not adequately supported 2026 observations Formal meetings now in place where this is discussed and actioned. We sighted the DRFA Capital Works Tracking Committee minutes which support this.	Resolved
25IR-1	D	Incomplete publication of contracts Council's website did not include all contracts valued over \$200,000 as per the <i>Local Government Regulations 2012 s237</i> .	Issue re-raised as 26-IR2 in this report

Ref.	Rating	Issue	Status and comment
25IR-2	D	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. 2026 new observations We identified that the Council calculates and records capital contract liabilities only at year-end rather than on a monthly basis. As a result, capital contract liabilities are not included in monthly financial reports and the reported financial position may not accurately reflect unearned grant revenue throughout the year. Although project teams regularly assess the progress and percentage completion of significant capital grant-funded projects during the year, this information is not used to periodically update contract liability balances. Instead, capital contract liabilities are calculated annually based on project completion information provided at year-end. This process increases the risk that monthly financial reports do not accurately reflect the timing of revenue recognition and the Council's outstanding obligations associated with capital grant funding. In addition, we noted variances in the April 2026 bank reconciliation due to the ledger not being closed.	Work in progress Management comment Management acknowledges that this matter remains in progress. Following consultation with Council's ERP provider, management identified the need to implement a comprehensive month-end close timetable that aligns with the fortnightly payroll cycle and incorporates all key reconciliation and review activities. During 2026–27, management will trial and implement the revised month-end process, including the timely reconciliation of bank accounts, contract assets and contract liabilities. This will strengthen financial controls, improve the accuracy and completeness of monthly reporting. Responsible officer: Manager Financial Services Original action date: 31 October 2025 Action date: 31 March 2027

Ref.	Rating	Issue	Status and comment
25IR-3	D	Lack of segregation of duties in purchase requisition approval process	Resolved pending audit clearance Management comment 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. Segregation of duties in purchase requisition approval process is monitored through compliance reporting shared with management and presented at the Audit and Risk Committee. Of 206 PO's sampled to date, only one PO has failed this test due to an officer being incorrectly setup in P2P with both approval and requisitioner status. Management considers this item resolved. Responsible officer: Manager Financial Services Original action date: 16 August 2025 Action date: Resolved
25IR-4	D	Pay increases actioned prior to formal approval	Resolved
25IR-5	D	Infrastructure Charges Register not published on council's website	Resolved Council now publishes the Infrastructure Charges Register on their website.
25IR-6	D	Asset Management Plans not reviewed Council has not reviewed its asset management plans by their scheduled revision dates. 2026 new observations 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).	Work in progress Management comment Management acknowledges that this matter remains in progress and is continuing with the implementation of the Assetic Asset Management system to support the storage, administration and ongoing management of physical asset data, which will inform future revisions of Asset Management Plans (AMPs). Following implementation and maturation of the Assetic platform, management will progressively review and update AMPs to ensure they are supported by current asset information and aligned with Council's long-term asset management objectives. Responsible officer: Manager Infrastructure Planning and Delivery Original action date: 31 December 2026 Action date: June 2027

Ref.	Rating	Issue	Status and comment
25IR-7	D	Weaknesses in general IT controls 2026 new observations - IT change policy allows system access to be approved without manager approval – this policy is under review and yet to be finalised. - ICT governance framework policy was last updated in 2019 – at the time of writing this report, the policy is yet to be signed. - Periodic user access reviews not completed in a timely manner – This is currently in the implementation stage.	Work in progress Management comment Management continues to progress the actions associated with this finding. - Council has implemented a new ICT Change and Access Control Procedure, replacing the previous IT Change Policy. This includes a two-person review model, with no self-approval permitted except for CEO requests. The implementation of ManageEngine and Pulse HR workflows has further strengthened automated approval controls and reduced the opportunity for manual error. Management considers this action complete, subject to audit review. - Management has identified all required governance artefacts, comprising two policies and nine supporting procedures, guidelines and agreements. To date, four documents have progressed to review stage and one has been approved. - Management revised its original approach after determining it would not provide sufficient automation to sustain six-monthly reviews. A role-based access framework is being implemented, supported by automated comparison of user access against approved role templates, with exceptions flagged for review. Role templates have been developed for all positions and the approval workflow has been established. The project is approximately 75% complete, with manager approvals and automation scripting remaining. Responsible officer: Team Leader IT Original action date: 1 October 2025 1 July 2026 1 December 2025 Action date: - Complete subject to audit review 1 May 2027 1 February 2027

Ref.	Rating	Issue	Status and comment
23IR-1	D	Lack of council wide purchase order policy and procedures, and inconsistent use of purchase orders 2026 new observations 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. The Procurement Policy has recently been revised and management continues to monitor the use of purchase orders through compliance testing.	Resolved pending audit clearance Management comment Management acknowledges the significant progress made in strengthening Council's procurement control environment since this finding was originally raised. The implementation of the Procure-to-Pay (P2P) module has improved procurement governance by embedding key controls within Council's procurement processes and providing greater visibility and oversight of purchasing activity. Management continues to monitor procurement performance through periodic compliance testing, with results reported to management and the Audit and Risk Committee. These reviews have demonstrated a measurable improvement in compliance over time and have assisted in identifying areas requiring further attention. While acknowledging the positive progress achieved to date, management recognises that further improvement opportunities remain and will continue to refine procurement policies, procedures, training and monitoring activities to promote consistent application of procurement requirements across the organisation. Responsible officer: Manager Financial Services Original action date: 31 December 2025

3. Key financial audit milestones

The following table details the current status of milestones for key financial reporting and audit deliverables.

During the outlined audit visit dates below, we have agreed to work on-site (except for the planning visit, which we conducted from our Brisbane office). We enjoyed working on-site with your team during our interim visit. Working together in-person helps us ensure an efficient and timely audit process.

Planning	Agreed date	Completed date
QAO planning visit	23 March 2026– 27 March 2026	23 March 2026– 27 March 2026
QAO issues external audit plan to client	21 April 2026	21 April 2026
Interim and valuations		
QAO Interim testing visit	29 June 2026– 3 July 2026*	29 June 2026– 3 July 2026*
DSC issues proforma financial statements to audit	29 June 2026	2 July 2026
QAO issues feedback on proforma financial statements to client	10 July 2026	13 July 2026
DSC issues asset valuations to audit	29 June 2026	29 June 2026
QAO feedback on asset valuations due to client	10 July 2026	10 July 2026
DSC issues position papers on known accounting to audit	29 June 2026	N/A
QAO feedback on position papers to client	10 July 2026	N/A
QAO issues draft interim report to client	10 July 2026	21 July 2026
Final		
QAO year-end visit	21 September– 2 October 2026	
DSC complete draft financial statements to audit	21 September 2026	
QAO issues feedback on draft financial statements to client	25 September 2026	
QAO issues draft closing report summarising the audit findings to client	2 October 2026	
Audit committee clearance	12 October 2026	
DSC's management signs financial statements	15 October 2026	
QAO issues audit report including our audit opinion to client	16 October 2026	
QAO issues final management report outlining the final audit findings to client	16 October 2026	

Key: Deliverables prepared by Douglas Shire Council's management.

If there are any issues/concerns in meeting these time frames, which were agreed at the planning phase, please discuss this with me and engagement manager Cynthia Jani.



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