

## 5.13. FINAL MANAGEMENT REPORT FROM QUEENSLAND AUDIT OFFICE

**REPORT AUTHOR:** John Rehn, Manager Finance & IT  
**GENERAL MANAGER:** Darryl Crees, General Manager Corporate Services  
**DEPARTMENT:** Corporate Services

### RECOMMENDATION

**That Council notes the observations contained within the Final Management Report (Observation Report) from the Queensland Audit Office for the 2016/17 financial year.**

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### EXECUTIVE SUMMARY

The Final Management Report is presented to Council for noting and staff have also provided a summary of the number and type of QAO audit issues outstanding as at June 2017 compared to June 2016.

### BACKGROUND

Each financial year Council's financial statements must be audited and for the 2016/17 financial year the audit was undertaken by the Queensland Audit Office (QAO). Section 54 of the *Auditor-General Act 2009* enables the QAO to prepare a final management report containing observations and suggestions about anything arising out of the audit. Where those observations or suggestions require further attention the QAO is required to provide a copy of the report to the Mayor.

Under the provisions of Section 213 of the *Local Government Regulation 2012* (the Regulation) this report is known as the **auditor-general's observation report** and it must be presented to the next ordinary meeting of Council.

It is important to note that the observation report is additional to the Independent Auditor's Report that is provided with Council's certified set of financial statements (with the latter being included in Council's Annual Report and referenced in Section 182 of the Regulation in relation to the timing of the adoption of Council's Annual Report).

### COMMENT

The audit undertaken by the QAO was completed earlier this month and Council was provided with an unmodified (unqualified) audit opinion (Independent Auditor's Report) on 12 October 2017. The Final Management Report contains any issues identified in the final stage of the audit and categorises these issues into either "Internal Control Deficiency" issues (assessed as 'significant deficiency' or 'deficiency') or "Financial Reporting" issues (assessed as 'high', 'medium' or 'low').

Appendix A of the report shows that only one new issue was identified (in the "Financial Reporting" category) and assessed as 'low'. The appendix contains details of the component (and rating), issue, QAO recommendation, management response and status for the issue identified. This issue and an issue raised during Council's interim audit (relating to the completion of testing of Council's IT recovery plan) were workshopped with Council on 10 October 2017 as part of the QAO's presentation of the audit closing report.

The following table provides a summary of the number and type of QAO audit issues outstanding as at June 2017 compared to June 2016.

Table 1.

Category	QAO Audit Issues Outstanding				Comment
	Jun-16	Added	Resolved	Jun-17	
<b>Information Technology</b>					
Significant Deficiency					
Deficiency	8		7	1	IT governance and security issues
High					
Medium					
Low					
<b>Property, Plant &amp; Equipment</b>					
Significant Deficiency					
Deficiency		1	1		Capitalisation authorisation
High					
Medium	1	1	2		Various asset related matters
Low	3	1	3	1	Asset register. revaluations updating
	<b>12</b>	<b>3</b>	<b>13</b>	<b>2</b>	

It is anticipated that both of the outstanding issues will be resolved by December 2017.

## PROPOSAL

The QAO's Final Management Report is presented to Council for noting of their observations.

## FINANCIAL/RESOURCE IMPLICATIONS

Preparing financial statements for audit and addressing issues identified during the audit form part of staff core duties and currently there are no new financial or resource implications with the 2016/17 Final Management Report.

## RISK MANAGEMENT IMPLICATIONS

Having the issues identified by Council's external auditors and reporting the progress on resolving these issues will mitigate any risks.

## CORPORATE/OPERATIONAL PLAN, POLICY REFERENCE

This report has been prepared in accordance with the following:

### Corporate Plan 2014-2019 Initiatives:

#### Theme 5 - Governance

*5.2.1 - Provide Councillors and community with accurate, unbiased and factual reporting to enable accountable and transparent decision-making.*

## 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:

**Fully-Responsible** Delivering a program or activity for another organisation (usually another level of government).

## CONSULTATION

**Internal:** When preparing management responses to the issues identified by the QAO internal consultation was undertaken with relevant staff.

## ATTACHMENTS

1. 2016-17 QAO Final Management Letter - October 2017 **[5.13.1]**



Your ref:  
Our ref: 2017-4039  
Debra Stolz 3149 6058

20 October 2017

Councillor J Leu  
Mayor  
Douglas Shire Council  
PO Box 723  
MOSSMAN QLD 4873

Dear Councillor Leu

### **Final Management Report for Douglas Shire Council**

The current year audit for Douglas Shire Council has now been completed, other than our review of your final version of the annual report prior to publication.

QAO has issued an unmodified audit opinion on your financial statements.

The purpose of this letter is to provide you with updates post the issuance of our closing report dated 3 October 2017 related to the financial statements audit.

### **Reporting on issues identified after the closing report**

Our closing report was presented to the Council at the workshop held on 10 October 2017. This workshop was held to review the financial statements prior to their adoption at a Special meeting of Council following the workshop. I believe this process benefited the Councillors to understand the audit process and demonstrates the positive working relationship the Council has developed with QAO.

Since the presentation of our closing report there has been no significant issues that have come to our attention that we wish to communicate to you.

For your information, appendix A provides you with details of all audit issues we have raised with management since our interim management letter dated 7 July 2017.

### **Report to parliament**

Each year we report the results of all financial audits and significant issues to Parliament. We confirm that at this stage we do not intend to include any significant matters for Douglas Shire Council in a report to Parliament. If this changes we will update you as soon as possible.

We would like to thank you and your staff for the assistance provided to us during the audit.

If you would like to discuss these issues or any matters regarding the audit process, please feel free to contact me or Lisa Fraser, Audit Manager on 3149 6132.

Yours sincerely



Debra Stolz  
Director

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cc Mrs L Cardew, Chief Executive Officer, Douglas Shire Council

## Appendix A

### Issues formally reported to management post the interim management letter dated 7 July 2017

There was only one low risk financial reporting issue raised with management post the interim management letter.

#### Financial reporting issues

Financial statement component(s) affected	Issue	Our recommendation	Management response	Status as at 3/10/17
Property, plant & equipment (Low risk)	<p><b>Financial reporting issue</b></p> <p>We observed that due to a limited availability of internal resources, the Council's 30 June 2017 fixed asset register has not yet been updated with the revaluation results for the current year's revaluation.</p> <p>We acknowledge that while the fixed asset register has not yet been updated, Council has provided us with appropriate reconciling spreadsheets and revaluation reports which ensure that the financial statements, general ledger and revaluation results reconcile.</p>	<p>We recommend Council updates their fixed asset register with all of the revaluation results. This will not only ensure that the asset register agrees to the financial statements, but it will also ensure that our previously reported asset register issues will also be resolved.</p> <p>These previously reported issues are:</p> <ol style="list-style-type: none"> <li>1. Inaccurate total lives of some assets.</li> <li>2. Large number of assets with a written down value of zero.</li> </ol>	<p>Agreed.</p> <p>Unfortunately Council's Asset Accountant had an extended period of illness during the critical stages of the end-of-financial-year process and then unexpectedly decided to retire. Council is currently undergoing the process of recruiting a replacement officer and as soon as this position is filled priority will be given to updating the fixed asset register with the required information.</p> <p>John Rehn, Manager Finance &amp; IT</p>	<p>Work in progress.</p> <p><i>Implementation date</i></p> <p>December 2017</p>

