

ORDINARY MEETING 16 DECEMBER 2014	5.7
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FINAL AUDIT REPORT FROM QUEENSLAND AUDIT OFFICE

Darryl Crees: General Manager Corporate Services #435600

RECOMMENDATION:

That Council notes the observations contained within the Queensland Audit Office Final Audit Report for the 2013/14 financial year.

EXECUTIVE SUMMARY:

The Queensland Audit Office Final Audit Report is presented to Council for noting of the observations contained within the report and staff have provided an update on work undertaken to date in resolving these issues.

BACKGROUND:

Each financial year Council's financial statements must be audited and the audit for the 2013/14 financial year was undertaken by Queensland Audit Office (QAO). In accordance with section 54 of the *Auditor-General Act 2009*, the QAO have prepared and provided to the Mayor their Final Audit Report.

As per section 213(3) of the Local Government Regulation 2012 the Final Audit Report is presented to Council.

COMMENT:

The audit undertaken by the QAO was completed in October 2014 and Council was provided with an unmodified (unqualified) audit opinion at that time. The Final Audit Report contains all issues identified in the final stage of the audit and these issues have been assessed as high, moderate or low risk. There are no unresolved high risk issues.

Appendix C of the Final Audit Report contains the observation, implications, recommendations and management response to each of the nine (9) issues identified. These management responses were provided to the QAO in October 2014 and by way of update the following additional information is provided:

Item	Description	Comment
1.1.1	Contracts Register and Procurement Policy require update	Draft Policy being presented to Council meeting on 16/12/14
1.2.1	Fixed Asset Register maintained in a spreadsheet	Testing complete and data now migrated to Fixed Asset Register within the Civica Authority CAV module
1.3.1	Inaccurate employee leave balances	Process almost complete. Data required for final few employees received from CRC on 09/12/14

1.4.1	Confirming new asset data and follow up of work in progress balance could be improved	Draft capital / capitalisation report prepared and being reviewed and enhanced as required
1.4.2	Negative balances in Fixed Asset Register	Still under review
1.4.3	Accuracy and completeness of Fixed Asset Register should be confirmed	Revaluation of Non-Current Assets Policy partially drafted
1.4.4	Infrastructure Assets damaged by natural disaster	The portion of assets damaged has been written-off in the Asset Register
1.4.5	Recommend review of asset capitalisation thresholds	Asset Capitalisation Policy still being reviewed
1.5.1	No central grants register	Development of Register is now well progressed

These issues will now be recorded in Council's audit matrix which will be reported to the Audit Committee at their future meetings to be informed of the progress with resolving these matters.

PROPOSAL:

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

CORPORATE/OPERATIONAL PLAN, POLICY REFERENCE:

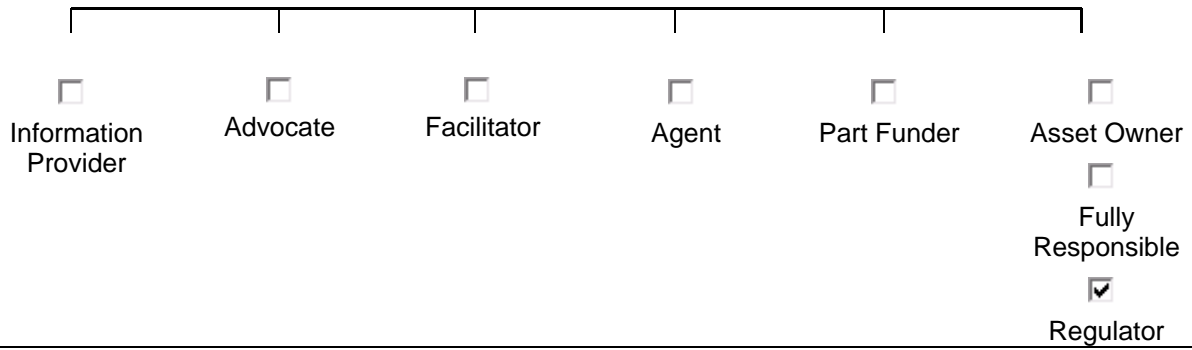
The report has been prepared in accordance with Theme 5 Governance of Council's Corporate Plan 2014 – 2019 which states:

"The new Douglas Shire provides an opportunity to build and deliver a solid platform for excellence and transparency in governance, service delivery, compliance and risk management. The organisational culture will be one of enthusiasm, collaboration and innovation to confidently and productively support Council's direction."

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:



Regulator:	Meeting the responsibilities associated with regulating activities through legislation or local law.
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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 financial or resource implications with the 2013/14 Final Audit Report.

RISK MANAGEMENT IMPLICATIONS:

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

SUSTAINABILITY IMPLICATIONS:

ECONOMIC: Nil

ENVIRONMENTAL: Nil

SOCIAL: Nil

INTERNAL/EXTERNAL CONSULTATION:

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

ATTACHMENTS:

Attachment A - Queensland Audit Office – Final Audit Report

Attachment A - Queensland Audit Office – Final Audit Report

Your ref:
Our ref: 2014-4039
Brendan Macrae (07) 3149 6118



24 November 2014

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

DOUGLAS SHIRE COUNCIL	
Received	
File Name	cm/Audit/Internal
Document No.	
27 NOV 2014	
Attention	LKC SVC
Information	

Dear Councillor Leu

Final Audit Report for Douglas Shire Council

The Douglas Shire Council audit for 2013-14 has been completed.

Details of issues identified during the interim audit were provided to you on 6 August 2014. Since then, all audit procedures have been completed, the financial statements have been audited and an audit opinion provided. The general purpose financial statements for 2013-14 were certified without and returned to the Chief Executive Officer.

The purpose of this letter is to provide you with details of new issues identified when completing the final stage of the audit, other information relating to the audited financial statements and the final audit fee.

Issues from the final stage of the audit

As at the date of certification of the Independent Auditor's Report there remained no unresolved high risk issues.

All issues identified in the final stage of the audit have been summarised in the Executive Summary (Appendix A). To indicate the significance of these issues to your organisation, each issue has been assessed as high, moderate or low risk. Definitions of these risk categories are included in Appendix B. Full details of all issues, together with management comments received, are included in Appendix C.

Reporting to Parliament

Each year we report the results of all financial audits to the Parliament. These sector-based reports include standing commentary on the suite of factors we take into consideration when forming an audit opinion, including:

- the timeliness and quality of the financial statements (including any significant adjustments to figures or disclosures)
- any significant events and transactions impacting on the financial statements and the audit considerations and judgements made about these
- future financial risks and sustainability.

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The *Auditor-General Act 2009* requires also that the Auditor-General report to Parliament on any significant issues raised during an audit. We assign 'High' and 'Moderate' risk ratings to matters raised in our management report, and use these ratings as a guide for determining if any significant issues need to be publicly reported. Whether issues with a moderate or high risk rating are reported to Parliament depends on a number of factors, including management action taken to resolve these issues prior to the completion of the audit.

If we intend to include any significant issues in a report to Parliament, you will be given an opportunity to comment and your comments will be reflected in the report.

Audited financial statements

Should you intend to electronically present the financial statements and our audit report on your website or distribute them via other electronic media, an additional paragraph must be included in the independent audit report. This paragraph highlights to the reader, the inherent risks associated with the electronic presentation of financial information and that audit has not provided assurance on the integrity of information presented electronically, nor on any information which may be hyperlinked to or from the financial statements. Responsibility for the electronic presentation of these reports on your website is that of management and or those charged with the governance of your entity.

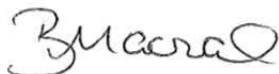
Audit Fees

The estimated 2013-14 audit fee for external audit services provided by QAO for Douglas Shire Council was \$85 000 (exclusive of GST).

The actual fee is \$81 000 and a final invoice will be forwarded in due course.

If you would like to discuss these issues or any issues regarding the audit process further, please feel free to contact me.

Yours sincerely



Brendan Macrae
Director

Enc.

c.c. Mrs L Cardew, Chief Executive Officer, Douglas Shire Council

Executive Summary

A summary of the issues raised by category is included below for your information:

Appendix C Ref No	Issue	Risk Rating	Management response/Status
1.1.1	Contracts Register and Procurement Policy require update	Moderate	Management undertaking for corrective action.
1.2.1	Fixed asset register maintained in a spreadsheet	Moderate	Management undertaking for corrective action.
1.3.1	Inaccurate employee leave balances	Moderate	Management undertaking for corrective action.
1.4.1	Confirming new asset data and follow up of work in progress balance could be improved	Moderate	Management undertaking for corrective action.
1.4.2	Negative balances in Fixed Asset Register	Moderate	Management undertaking for corrective action.
1.4.3	Accuracy and completeness of fixed asset register should be confirmed	Moderate	Management undertaking for corrective action.
1.4.4	Infrastructure assets damaged by natural disaster	Moderate	Management undertaking for corrective action.
1.4.5	Recommend review of asset capitalisation thresholds	Moderate	Management undertaking for corrective action.
1.5.1	No central grants register	Moderate	Management undertaking for corrective action.

Full details of these issues are provided in Appendix C.

Ratings definitions and remedial action plan

The rating of audit issues in this report reflects our assessment of both the likelihood and consequence of each identified issue in terms of its impact on:

- the effectiveness and efficiency of operations, including probity, propriety and compliance with applicable laws and prescribed requirements.
- the reliability, accuracy and timeliness of financial reporting

Without anticipating the Auditor-General's final decision on what may be referenced in an Auditor-General's Report to Parliament, each of the issues included in the Appendix has been assessed and categorised against the following risk categories:

Risk category	Client impact	Prioritisation of remedial action
High	Significant issues which give rise to a risk of material misstatement in the financial statements as a result of error or fraud.	Requires prompt management intervention with detailed corrective action prior to certification of the financial statements.
Moderate	Issues of a systemic nature, but which would not individually or collectively give rise to a risk of material misstatement in the financial statements as a result of error or fraud.	Requires management intervention with a detailed action plan to resolve the issue, to be implemented within 3 to 6 months.
Low	Issues that are isolated, non-systemic or procedural in nature which would not individually or collectively give rise to a risk of material misstatement in the financial statements as a result of error or fraud.	Requires management intervention with a detailed action plan to resolve the issue, to be implemented within 6 to 12 months.

Detailed findings (Refer Appendix C)

This attached Appendix outlines the observation, implication, recommendation, management comments and action plans for each audit finding.

CONTENTS

1.	Moderate risk issues	2
1.1	Expenditure/payables issues.....	2
1.1.1	Contracts Register and Procurement Policy require update	2
1.2	Financial reporting issues.....	3
1.2.1	Fixed asset register maintained in a spreadsheet.....	3
1.3	Payroll/employee entitlements issues.....	4
1.3.1	Inaccurate employee leave balances	4
1.4	Property plant and equipment issues	5
1.4.1	Confirming new asset data and follow up of work in progress balance could be improved	5
1.4.2	Negative balances in Fixed Asset Register	6
1.4.3	Accuracy and completeness of fixed asset register should be confirmed	7
1.4.4	Infrastructure assets damaged by natural disaster	9
1.4.5	Recommend review of asset capitalisation thresholds	11
1.5	Revenue/receivables issues.....	12
1.5.1	No central grants register	12

1. MODERATE RISK ISSUES

1.1 Expenditure/payables issues

1.1.1 Contracts Register and Procurement Policy require update

Observation

During our interim visit, we acknowledged that Council's contracts register was still being developed and the Cairns Regional Council procurement policy had been adopted for the interim. Our follow-up during the final audit visit noted the following:

- Council did not have copies of the contracts which originated from the Cairns Regional Council resulting in the contracts register not being up-to-date.
- The procurement policy had not been updated based on the Council's own policies and procedures.

Implications

- Council may not be complying with its contractual agreements.
- The procurement policy may not be appropriate for Council.

Recommendations

We recommended the following:

- Council obtains a copy of all current contracts and updates the register.
- The procurement policy be updated to reflect the Council's own policies and procedures.

Management response

Council has obtained copies of relevant contracts progressively as required and will make arrangements to obtain the remaining contracts as soon as possible.

Work has already commenced on a new procurement policy, to be presented to Council before the end of 2014. Council has also commenced its own tendering process and will be initiating new contractual arrangements as the need arises or as its existing contracts expire.

Responsible Officer

Manager Governance.

Implementation Date

31 December 2014.

Status

Management undertaking for corrective action.

1.2 Financial reporting issues

1.2.1 Fixed asset register maintained in a spreadsheet

Observation

The Council currently maintains its fixed asset data in an Excel spreadsheet. The Council's property, plant and equipment and intangible assets comprise 93 per cent of the Council's assets.

Implications

- There is a potential loss of essential asset data.
- Increased risk of miscalculation of depreciation expense and valuations.

Recommendations

We recommend that Council considers implementing the fixed asset module of its financial system.

Management response

Testing of the Civica asset register is currently underway and if it proves suitable for Council's requirements then the asset register data will be migrated from Excel.

It should be noted that Council's systems are backed-up daily and all excel data is part of this process.

Responsible Officer

Manager Finance & IT.

Implementation Date

Prior to 30 June 2015.

Status

Management undertaking for corrective action.

1.3 Payroll/employee entitlements issues

1.3.1 Inaccurate employee leave balances

Observation

Some employee leave balances as per the payroll system were not accurate. This was due mainly to issues encountered in the initial set-up of employee details in the payroll system on amalgamation. The Council is currently in the process of rectifying these issues.

Implications

- Inaccurate employee leave balances.

Recommendations

We recommend that Council continues to work towards rectifying issues relating to the accuracy of employee leave balances.

Management response

Council has always considered the accuracy of staff leave balances as a high priority and will continue to rectify the few remaining issues.

As noted in Council's memo to the QAO dated 30 September, the initial advice received from the Civica consultants when setting up Council's payroll records proved to be incorrect and by applying the correct treatment Council staff have rectified most of the issues. The few remaining issues relate to staff who had varying working arrangements during their employment with Cairns Regional Council (CRC) eg part-time to permanent, casual to part-time etc and CRC is assisting Douglas with the provision of the required detail so that the process can be finalised.

Responsible Officer

Manager Finance & IT.

Implementation Date

As soon as possible.

Status

Management undertaking for corrective action.

1.4 Property plant and equipment issues

1.4.1 Confirming new asset data and follow up of work in progress balance could be improved

Observation

There was no evidence of a formal review by the asset owners as to the accuracy of new asset details such as useful life and residual values.

Further, the status of works in progress was not being reviewed on a timely basis.

Implications

- Asset assumptions may not be accurate.
- Commissioning of finalised capital works in progress may not be timely impacting on the accuracy of depreciation expenses.

Recommendations

We recommend the following:

- Council to implement an asset capitalisation form, which is reviewed and approved by delegated Council Officer and provides documentation of the asset details such as useful life and residual value.
- Council regularly review the status of the capital work in progress balances to ensure timely recognition of completed projects.

Management response

Agreed – Council will implement an asset capitalisation authorisation process as recommended.

Council is also about to implement a more detailed regular reporting process to the management team for capital expenditure, which will include details of budget, funding source, expenditure to date and variance for each item in Council's capital works program. It's planned to also include any work in progress balances that remain un-capitalised from prior reporting periods. Once implemented it's envisaged that this process will serve as final confirmation by the management team prior to any capitalisation occurring.

Responsible Officer

Manager Finance & IT.

Implementation Date

31 December 2014.

Status

Management undertaking for corrective action.

1.4.2 Negative balances in Fixed Asset Register

Observation

The fixed asset register contained eight asset items with negative balances totalling \$643 272.

Implications

- Fixed asset register may not be accurate.

Recommendations

We recommend that Council follow up these negative balances.

Management response

Agreed – As noted above, these items were transferred from Cairns Regional Council and Douglas is attempting to offset them against parent assets as recommended.

Responsible Officer

Manager Finance & IT.

Implementation Date

Prior to 30 June 2015.

Status

Management undertaking for corrective action.

1.4.3 Accuracy and completeness of fixed asset register should be confirmed

Observation

With the re-establishment of the Council as at 1 January 2014, a fixed asset register was received from Cairns Regional Council identifying property, plant and equipment transferred to Council. We noted the following:

- Council did not perform a full physical stocktake of assets stated at cost (except for motor vehicles).
- Other than the assets comprehensively revalued during the year, asset details such as remaining useful life and residual values were not reviewed to ensure they were applicable to Douglas Shire Council.

Implications

- Fixed asset register may not be accurate and complete impacting on valuations and depreciation expense.

Recommendations

We recommend the following:

- Council to perform a physical stocktake of all asset classes stated at cost.
- Council to review asset assumptions such as useful life and residual values to ensure that these reflect the Council's own pattern of consumption.
- Condition assessments of all assets be performed and current condition ratings confirmed.
- Obsolete assets and assets no longer providing a service be identified and written-off.
- Assets with WDV of nil but still in use be identified.
- Council to confirm that assets are appropriately componentised and segmented.
- Ensure inputs and assumptions used to determine depreciation rates, remaining useful lives and residual values are consistent with Asset Management Plans.
- Council should determine an appropriate asset revaluation schedule and consider a comprehensive valuation of transport assets in 2014/15.

Management response

Council acknowledges the recommendations, however Council's asset register was only established a few months ago and Council has had insufficient resources to undertake all of this work within the timeframes available. Council will continue to refine its asset register and progress the recommendations as soon as possible.

The following should also be noted:

- *Whilst Council is currently operating under Cairns Regional Council's asset policies, Council is in the process of drafting its own asset policies (as discussed at the Audit exit meeting). As part of this process, it's likely that Council will continue to follow the CRC revaluation schedule until such time as it may be determined that our priorities need to change eg possible alignment with a regional asset valuation program. The current program has a comprehensive valuation of transport assets scheduled in 2014/15.*

- Council did review the remaining useful lives of assets impacted by Council's 2014/15 capital works program (detail for future years of the program is yet to be determined)
- A stocktake of Council's major plant was undertaken during the 2013/14 reporting period
- Council is a member of the Far North Queensland Regional Organisation of Councils (FNQROC) and participates in its technical committees and has obtained some initial data for benchmarking purposes.

Responsible Officer

Manager Finance & IT.

Implementation Date

Prior to 30 June 2015.

Status

Management undertaking for corrective action.

1.4.4 Infrastructure assets damaged by natural disaster

Observation

Council experienced heavy rain and flooding in February and April 2014 with Douglas Shire Council subsequently declared a disaster area. As at 30 June 2014, \$14m of Restoration of Essential Public Assets (REPA) works had been submitted to the Queensland Reconstruction Authority (QRA) for assessment. Based on the initial assessment by the Council, the corresponding loss on write-off of assets damaged by the natural disaster was \$8.4m. From our review of the Council's workings, we noted a material discrepancy between the values of the REPA submission compared to the asset balances in the fixed asset register as below:

ROAD NAME	COST	ACCUMULATED DEPRECIATION	WRITTEN DOWN VALUE (WDV)	REPA SUBMISSION VALUE	EXCESS OF SUBMISSION OVER WDV
Creb Track	\$3 126	\$10	\$3 116	\$1 844 816	\$1 841 700

Implications

Fixed asset register and/or the QRA REPA submission may not be accurate.

Recommendations

We recommend the following:

- Council review the accuracy of the value of the Creb Track in the fixed asset register and in the QRA REPA submission.
- On completion of REPA works, Council should ensure asset values are correctly reflected in the fixed assets register and ensure that the corresponding written down values of the restored assets are removed.

Management response

Agreed – As part of a comprehensive revaluation of transport assets in June 2011 Cairns Regional Council revalued the Creb Track down, on the basis that they were of the view that the Track was opened and maintained by Ergon Energy to service their transmission lines and therefore was not the responsibility of CRC.

Most of the transmission lines have now been removed by Ergon and Douglas is of the view that Council is responsible for the Creb track and that it is a Douglas asset. Only as recently as last week 2 representatives from the QRA, accompanied by Council staff, traversed a section of the Track to view first-hand the difficulties that will be faced by Council (and the associated additional costs) in undertaken the restoration works required as a result of the recent natural disasters.

In addition to reflecting the effect of the restoration of these assets in the fixed assets register and ensuring that corresponding written down values of the restored assets are removed, Council's proposed asset revaluation program has a comprehensive valuation of transport assets scheduled in 2014/15, which will address any remaining valuation issues.

Responsible Officer

Manager Finance & IT.

Implementation Date

Prior to 30 June 2015.

Status

Management undertaking for corrective action.

1.4.5 Recommend review of asset capitalisation thresholds

Observation

Council adopted the asset capitalisation thresholds of Cairns Regional Council, which are considered low in comparison to similar size councils.

All items of property, plant and equipment and intangible assets have a threshold of \$5,000 except for:

- Land which has a capitalisation threshold of \$1; and
- Computers, communications equipment, office furniture & fittings, meters & traffic equipment which have a capitalisation threshold of \$1,000.

Most similar size councils have a threshold of \$10 000. State government departments and statutory bodies have mandated thresholds of \$1 for land, \$5 000 for plant and equipment, \$10 000 for buildings and infrastructure and \$100 000 for intangible assets.

Implications

- Low thresholds may incur unnecessary costs.

Recommendations

We recommend Council assess the cost benefits in raising the thresholds.

Management response

Agreed – Council is in the process of drafting a new Asset Capitalisation policy, which will propose higher capitalisation thresholds and other possible changes such as the removal of the requirement to capitalise library books.

Responsible Officer

Manager Finance & IT.

Implementation Date

Prior to 30 June 2015.

Status

Management undertaking for corrective action.

1.5 Revenue/receivables issues

1.5.1 No central grants register

Observation

There was no central grants register in place to allow effective monitoring of funding and reporting requirements of grants received.

Implications

- Grant conditions and financial accountability requirements may not be complied with.

Recommendations

A central register of grants should be maintained.

Management response

Agreed – Council has already commenced the process of developing a central register.

Responsible Officer

Manager Finance & IT.

Implementation Date

31 December 2014.

Status

Management undertaking for corrective action.