

5.8. FINAL AUDIT 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 Audit Report (Observation Report) from the Queensland Audit Office for the 2014/15 financial year.

EXECUTIVE SUMMARY

The Final Audit Report is presented to Council for noting and staff have also provided an update on work undertaken to date or planned to be undertaken to address the issues raised.

BACKGROUND

Each financial year Council's financial statements must be audited and for the 2014/15 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 audit 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 in September 2015 and Council was provided with an unmodified (unqualified) audit opinion (Independent Auditor's Report) on 29 September 2015. The Final Audit Report contains all issues identified in the final stage of the audit and these issues have been assessed as 'material deficiency', 'significant deficiency', 'deficiency' or 'other matter' as explained in appendix A of the report. There are no issues in the first category, one in the second, seven in the third and one in the last.

Appendix A of the Final Audit Report contains the observation, implications, recommendations and management response to each of the nine issues identified. These management responses were provided to the QAO in late September 2015 and by way of update the following additional information is provided:

Item	Description	Comment
1.1.1	Development of asset management strategy and asset management plans	To be addressed by Council's Asset Management Committee
2.1.1	Ability for transactions to be back-dated after close of year end	Corrective action has been put in place to address this issue
2.2.1	Pavement components not to be shown separately in the fixed asset register	Subject to future discussions with the QAO during the 2015/16 financial year
2.2.2	Annual review of property, plant and equipment useful lives	Framework has been established to address this issue
2.3.1	Asset records that couldn't be identified in the fixed asset register	Being addressed progressively as asset register data is updated
2.3.2	Improvement on revaluation process	Framework being established to address this issue
2.3.3	Relevance of indices used for land assets	Review to be undertaken by 30 June 2016
2.3.4	Inconsistency in accounting policies for the treatment of demolition and removal of debris used in the valuation methodology	Framework being established to address this issue
3.1.1	Long outstanding items held in trust	Review of trust balances has commenced and will be ongoing

These issues will now be recorded in Council's audit matrix and progress on addressing each issue will be reported to the Audit Committee at its future meetings.

PROPOSAL

The QAO's Final Audit 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 financial or resource implications with the 2014/15 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.

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

Attachment 1 - QAO Final Audit Report



New issues	3
1. Significant Deficiency issues.....	3
1.1 Non-current physical assets issues	3
1.1.1 Development of asset management strategy and asset management plans	3
2. Deficiency issues	4
2.1 Financial reporting issues	4
2.1.1 Ability for transactions to be back-dated after close of year end	4
2.2 Non-current physical assets issues	5
2.2.1 Pavement components not to be shown separately in the fixed asset register	5
2.2.2 Annual review of property, plant and equipment useful lives (re-issued).....	7
2.3 Property plant and equipment issues	8
2.3.1 Asset records that couldn't be identified in the fixed asset register	8
2.3.2 Improvement on Revaluation Process.....	10
2.3.3 Relevance of indices used for land assets	11
2.3.4 Inconsistency in asset accounting policies for the treatment of demolition and removal of debris used in the valuation methodology	12
3. Other Matter issues.....	13
3.1 Financial reporting issues	13
3.1.1 Long outstanding items held on trust.....	13

New issues

1. Significant Deficiency issues

1.1 Non-current physical assets issues

1.1.1 Development of asset management strategy and asset management plans

(Risk rating - Significant deficiency)

Observation

Council does not have its own asset management strategy and asset management plans which reflects the Council's current direction and methodologies in asset management.

Local Government Regulation 2012 section 167 (1) requires that a local government must prepare and adopt a long-term asset management plan.

Implications

Council is not complying with prescribed requirements under the Local Government Regulation 2012. Without a clearly defined long-term asset management plan, Council is unable to demonstrate how it manages Council's assets including necessary planned capital expenditure for the renewal, upgrading and/or extension of existing assets.

Recommendations

We recommend that Council develop a robust asset management strategy and asset management plans linked to its long term financial projections.

Management response

Agreed. Council has formed an Asset Management Committee, comprised of senior management staff and other key personnel to progress this matter.

Responsible Officer

Manager Infrastructure and Manager Water & Wastewater

Implementation Date

Ongoing

Status

Management undertaking for corrective action.

Management response noted.

It may be difficult to quantify the actual amounts relating to each component the way it is currently presented. This is because each component maybe renewed at different intervals and the allocation of these costs may not be easily identifiable.

Componentizing will also assist management in establishing whether works are capital or repairs and maintenance in nature as well as identifying what components have been disposed and renewed.

QAO will continue discussions on this matter in 2015-16.

Unresolved.

Responsible Officer

Manager Finance & IT

Implementation Date

- Adjustments to the asset register as agreed by email on 16 September 2015 – during 2015-16 financial year.
- Improvements to the quality/accuracy of asset data in the asset register – Ongoing.

Status

Management undertaking for corrective action.

2.3.3 Relevance of indices used for land assets

(Risk rating - Deficiency)

Observation

Our review of the indexation used for intervening fair value assessment for land assets showed that Council used non-residential building construction index. As land assets fair values are mainly based on market movements, the use of non-residential building construction index may not be the most relevant for this asset class.

Implications

The indexation adopted by the Council at 30 June 2015 may potentially not provide the most reliable or relevant measure of the fair value movement in Council's land assets.

Recommendations

We recommend Council explore potential alternate indexation options or at a minimum verify that the current indexation provides the most relevant and reliable estimation of fair value for land assets.

Management response

Agreed

Responsible Officer

Manager Finance & IT

Implementation Date

30/06/2016

Status

Management undertaking for corrective action.

5.9. DAINTREE FORUM #2

REPORT AUTHOR(S): Nevinia Davenport, Executive Assistant
Linda Cardew, Chief Executive Officer
DEPARTMENT: Office of the Chief Executive Officer

RECOMMENDATION

That Council receive and note the report.

EXECUTIVE SUMMARY

This report details the issues raised by the local community at the second Daintree Forum held at Diwan on 23 July 2015, and Council's actions to date in response.

BACKGROUND

On 3 June 2014 the following Notice of Motion was carried unanimously:

1. *That the Council undertake no less than three (3) community Forums engaging with the communities north of the Daintree River within the term of the current Council;*
2. *The first Forum to be conducted early in the 2014/15 financial year and the second and third Forums to be conducted during the 2015 calendar year; and*
3. *That the Forums either be general or specific in terms of the issues the Council may seek to canvass.*

Councillors were in agreement that there are many unique issues affecting the communities living north of the Daintree River, and that there is an opportunity for the new Council to demonstrate that it has a serious intention to respond to and rectify any perception that the community has been somewhat ignored and underserved by the former Douglas Shire and Cairns Regional Councils, and other service providers.

While not all issues are the responsibility of Council to resolve, Council considered that providing a Forum as an opportunity for the communities north of the River to have direct contact with Council would be beneficial, particularly if the new Douglas is to stay true to its objective of providing open, transparent and inclusive government.

The second forum attended by approximately 35 local residents and business operators was convened in Diwan on 23 July 2015 from 10.00am to 2.00pm with discussion generally under the following five sessions:

1. Capital Works and Operational Initiatives completed in 2014-2015 and planned for 2015-2016;
2. Mayoral advocacy;
3. NDDRA update;
4. Coconut Management Plan; and
5. Waste collection