



Redland
CITY COUNCIL

AGENDA

LATE REPORT GENERAL MEETING

**Wednesday, 24 October 2018
commencing at 9.30am**

The Council Chambers
91 - 93 Bloomfield Street
CLEVELAND QLD

Order Of Business

12 Reports from Organisational Services 1
 12.2 Queensland Audit Office Final Management Report 2017/18 1

12 REPORTS FROM ORGANISATIONAL SERVICES

12.2 QUEENSLAND AUDIT OFFICE FINAL MANAGEMENT REPORT 2017/18

Objective Reference:

Authorising Officer: Deborah Corbett-Hall, Chief Financial Officer

Responsible Officer: Deborah Corbett-Hall, Chief Financial Officer

Report Author: Joy Manalo, Service Manager Corporate Finance

Attachments: 1. [Queensland Audit Office Financial Management Letter 2017/18](#) ↓

PURPOSE

The purpose of this report is to present the Queensland Audit Office (QAO) final management report for 2017/18 to Council. Section 213 of the *Local Government Regulation 2012* requires the Mayor to present a copy of the auditor-general's observation report at the next ordinary meeting of Local Government following receipt of the auditor-general's report.

As defined in the *Local Government Regulation 2012*:

“An **auditor-general's observation report**, about an audit of a local government's financial statements, is a report about the audit prepared under *section 54* of the *Auditor-General Act 2009* that includes observations and suggestions made by the auditor-general about anything arising out of the audit.”

The audit referred to in the extract above is the independent financial statement audit conducted by the QAO.

BACKGROUND

Council's 2017/18 general purpose financial statements were certified by QAO and a copy of the certified statements was electronically transmitted to Council on 15 October 2018. The corresponding auditor-general's observation report was issued by QAO on 16 October 2018.

Actions and implementation dates included in the auditor-general's report were agreed to by the respective business areas thus the corrective actions were acknowledged prior to receipt of the final report.

The audit observations and corresponding recommendations indicated in the report were presented to the Audit Committee on 4 October 2018.

ISSUES

There are no new audit issues for 2017/18. A significant improvement in the implementation of prior year audit recommendations was noted. Of the ten (10) prior year issues, only three (3) issues require further resolution. The remaining unresolved audit issues mainly focus on assets particularly the timely asset capitalisation and adequate responses to work in progress confirmations. The Capital and Asset Accounting Team will continue to collaborate with the identified business areas to ensure effective implementation of the audit recommendation. Internal Audit will monitor and update the Audit Committee on the status of the recommended actions.

STRATEGIC IMPLICATIONS

Legislative Requirements

Section 213 of the *Local Government Regulation 2012* requires the Mayor to present a copy of the auditor-general's observation report at the next ordinary meeting of Local Government following receipt of the auditor-general's report.

Financial Services tabled the report to ensure compliance with legislation, noting coordination of the corrective actions and improvements will be undertaken by Council's Internal Audit Team.

Risk Management

Risk management is undertaken during the year through monthly financial reporting and review of actual performance against budget. At the conclusion of the financial statement audit, QAO provided feedback to Council on the general appropriateness of key internal controls to ensure financial information is reasonably complete and accurate. Implementation of QAO recommendations are monitored by Internal Audit on a monthly basis and status of implementation is reported to the Executive Leadership Team.

Financial

There are no additional financial implications arising from the 2017/18 auditor-general's report.

People

No impact as the purpose of the report is to present the 2017/18 auditor-general's report.

Environmental

No impact as the purpose of the report is to present the 2017/18 auditor-general's report.

Social

No impact as the purpose of the report is to present the 2017/18 auditor-general's report.

Alignment with Council's Policy and Plans

This report has a relationship with the following items of the Corporate Plan:

8. Inclusive and ethical governance

Deep engagement, quality leadership at all levels, transparent and accountable democratic processes and a spirit of partnership between the community and Council will enrich residents' participation in local decision making to achieve the community's Redlands 2030 vision and goals.

- 8.3 Implementation of the Corporate Plan is well coordinated across Council and through a delivery mechanism that provides clear line of sight, accountability and performance measurement for all employees; and
- 8.5 Council uses meaningful tools to engage with the community on diverse issues so that the community is well informed and can contribute to decision making.

CONSULTATION

Council's Audit Committee received a presentation from the external auditors on 4 October 2018 which outlined the key points for inclusion in the auditor-general's report. The management responses from the responsible business areas were coordinated by the Financial Services Group during the development of the auditor-general's report.

The Service Manager Corporate Finance and Capital Asset Accounting Team Manager discussed with Project Managers in the Water and Waste Operations Group and Water and Waste Infrastructure Group the relevant audit observation, the corresponding implication and proposed action to resolve the identified issue.

Internal Audit will coordinate the action items agreed to in the observation report and provide a progress report to the Executive Leadership Team on a monthly basis.

OPTIONS

Option One

That Council resolves to note the findings from the auditor-general's observation report for 2017/18.

Option Two

That Council requests further information.

OFFICER'S RECOMMENDATION

That Council resolves to note the findings from the auditor-general's observation report for 2017/18.



Our ref: 5-213

16 October 2018

Ms Karen Williams
Mayor
Redland City Council
PO Box 21
Cleveland QLD 4163

Dear Councillor Williams

Final Management Report for Redland City Council

We have completed our 2018 financial audit for Redland City Council. The Auditor-General issued an unmodified audit opinion on your financial statements.

The purpose of this letter is to provide the council with details on audit matters and other important information related to the audited financial statements.

Reporting on issues

Issues and other matters formally reported to management and an update on actions taken by management to resolve these issues is included as Appendix A to this letter. Our rating definitions for internal control deficiencies is shown in Appendix B.

Report to parliament

Each year we report the results of all financial audits and significant issues to Parliament.

This year we intend to include the results of our audit of Redland City Council in a report to Parliament. We have discussed the proposed content of our report with your Chief Financial Officer and will continue to consult as we draft our report. Formally, you will have an opportunity to provide comments to be reflected in our report.

Audit fee

The final audit fee for this year is \$136,500 exclusive of GST (2017: \$136,500). This fee has not changed from estimated fee in our external audit plan.

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 Queensland Audit Office (QAO)

We would like to thank you and your staff for their engagement in the audit.

If you have any questions about this letter or would like to discuss any matters regarding our audit service, please contact me on (07) 3222 9787.

Yours sincerely



Ashley Carle
As delegate of the Auditor-General of Queensland

Appendix A

Issues formally reported to management

This table provides you with a summary of issues that we have formally reported to management.

Previously reported internal control deficiencies – interim management letter issued 30 April 2018

Area	Issue	Our recommendation	Status update from management
Property, Plant and Equipment	<p><i>Date issue raised:</i> 24 October 2017</p> <p><i>Control Type:</i> Control Environment</p> <p><i>Rating:</i> Deficiency - Medium</p> <p><i>Issue: Inadequate Finalisation of Capital Work in Progress Projects</i></p> <p>There were projects that have been completed more than 12 months before year end, but the technical data had not been provided for these assets to be capitalised in the fixed asset register.</p>	<p>We recommend that Project Managers finalise capital works in progress in a timely manner following completion of the project.</p>	<p>Unresolved</p> <p>There has been significant improvement across the business in this area. However further improvement is required by Project Managers in the Water and Waste Operations Group and Water and Waste Infrastructure Group.</p> <p><u>Management Response:</u></p> <p>The Capital Asset and Accounting Team, throughout the financial year, collaborated with the Project Managers and the respective General Managers to ensure the timely provision of technical data for the finalisation of Work In Progress (WIP). The external audit recommendation was widely accepted by majority of the Project Managers who took ownership of the WIP monitoring. Thus resulting to a significant improvement in the reporting and capitalisation process.</p> <p>Corporate Finance and the Business Partnering Unit will continue the collaboration efforts and liaise specifically with the Water and Waste Operations Group Manager and Water and Waste Infrastructure Group Manager to determine an agreed action for the implementation of the audit recommendation.</p>

Area	Issue	Our recommendation	Status update from management
<p>Property, Plant and Equipment</p>	<p><i>Date issue raised:</i> 24 October 2017</p> <p><i>Control Type:</i> Control Environment</p> <p><i>Rating:</i> Deficiency - Medium</p> <p><i>Issue: Insufficient Responses to Capital Works Confirmations Provided by Project Managers</i></p> <p>We noted that "Work in Progress Audit Confirmations" were incomplete and in some instances the response provided was inadequate. For many of the projects we noted that should have been capitalised, the comments on this "Work in Progress Audit Confirmation" for these projects stated the project was 'on-going', or no comment had been provided for that project.</p>	<p>We recommend that all Responsible Project Managers are reminded of the importance of the completion of this confirmation, and any other internal confirmations requested. It is recommended that Council considers implementing a process to ensure greater accountability for their responses.</p>	<p>Unresolved</p> <p>There has been significant improvement across the business in this area. However further improvement is required by Project Managers in the Water and Waste Operations Group and Water and Waste Infrastructure Group.</p> <p>Through conversations held with the Group Manager of Water and Waste Operations and the Group Manager of Water and Waste Infrastructure, it was expressed that Project Managers have found it beneficial in the past meeting with the Capital Asset Accounting Team to verbally discuss the status of WIP, to understand the gaps in their responses provided. We recommend that Project Managers in the Water and Waste Operations Group and Water and Waste Infrastructure Group meet with the Capital Asset Accounting Team on a quarterly basis to further enhance the quality of responses required on the WIP confirmations.</p> <p><u>Management Response:</u></p> <p>The Capital Asset and Accounting Team conducted meetings and WIP sessions to provide the Project Managers and respective General Managers with the guidelines on standard and sufficient confirmations required. Positive feedback from the Project Managers resulted to a significant improvement in the responses provided.</p> <p>Corporate Finance and the Business Partnering Unit will continue the collaboration efforts and liaise specifically with the Water and Waste Operations Group Manager and Water and Waste Infrastructure Group Manager to determine an agreed action for the implementation of the audit recommendation.</p>

Area	Issue	Our recommendation	Status update from management
Property, Plant and Equipment	<p><i>Date issue raised:</i> 24 October 2017</p> <p><i>Control Type:</i> Control Activities</p> <p><i>Rating:</i> Deficiency - Medium</p> <p><i>Issue: Completeness of Developer Contributed Assets</i></p> <p>Our work noted there were assets contributed by developers to Council during FY17, which failed to be recognised and recorded.</p> <p>From further investigation, it was identified that this error resulted from a breakdown in the communication and reporting from Engineering Environment to Finance. Engineering and Environment are required to communicate to Finance when a decision is made to put contributed assets "on-maintenance". It is this point in time that developer assets are capitalised by Council.</p>	<p>We recommend that Engineering and Environment put appropriate systems and processes in place that ensures Finance is made aware on a timely basis of all developer assets that go "on-maintenance".</p>	<p>Resolved</p> <p><u>Management Response:</u></p> <p>Engineering and Environment implemented a process to ensure the complete and timely reporting of developer contributed assets. Communication between Finance and Engineering Environment has significantly improved resulting to the acknowledgement of the relevance of providing complete and accurate asset data. This resulted to the timely asset capture of developer contributed assets.</p>

Area	Issue	Our recommendation	Status update from management
Property, Plant and Equipment	<p><i>Date issue raised:</i> 24 October 2017</p> <p><i>Control Type:</i> Information and Communication</p> <p><i>Rating:</i> Deficiency - Low</p> <p><i>Issue: Backdating "On-Maintenance" Dates of Developer Contributed Assets</i></p> <p>Instances were identified where significant time lags exist between the time Engineering and Environment perform the final inspection of developer contributed assets, to the time Engineering and Environment record the "on-maintenance" of such assets within the Property & Rating System. In these cases, the "on-maintenance" event was back dated to the time of the final inspection, which was prior to financial year end.</p>	<p>We recommend that Engineering and Environment record the "on-maintenance" status of contributed assets on a timely basis following the completion of the final inspection.</p>	<p>Resolved</p> <p><u>Management Response:</u></p> <p>No backdating on maintenance dates of developer contributed assets is consistently implemented by Engineering and Environment in compliance with the audit recommendation.</p>

New internal control deficiencies reported since our interim management letter dated 30 April 2018

Area	Issue	Our recommendation	Status update from management
Property, Plant and Equipment	<p><i>Control Type:</i> Control Environment</p> <p><i>Rating:</i> Deficiency - Low</p> <p><i>Issue: The Decision to No Longer Backdate "On-Maintenance" Dates of Developer Contributed Assets to Be Documented within Policy</i></p> <p>In the prior year, we raised an issue surrounding "On-Maintenance" dates of Developer Contributed Assets being backdated to the date that Engineering and Environment performed the final inspections of these assets (see above). We are pleased to note that on 16 March 2018, the Service Manager Engineering and Environmental Assessment sent an email to the Engineering Assessment Team, instructing that this practice ceases, and our testing indicated that this process had ceased. This instruction is not formalised in Council Policy.</p>	<p>We recommend that Council's Policies be updated to include the requirement that "On-Maintenance" dates of Developer Contributed Assets are not to be backdated to the date the final inspection of these assets was conducted.</p>	<p>Not Commenced</p> <p><u>Management Response:</u> The Planning Scheme Policy (PSP) 2 that will be rolled out in October 2018 includes an On-Maintenance Checklist and Certification to ensure that the required documents such as certified as-constructed drawings, inspection and testing documentation are complied with to support accurate and timely asset capture. An internal guideline will be developed to document the current practice to no longer back date on-maintenance developer contributed assets.</p>

Prior year financial reporting issues

Component	Issue	Our recommendation	Status update from management
<p>Financial Sustainability</p>	<p><i>Date issue raised:</i> 24 October 2017</p> <p><i>Control Type:</i> Other Matter</p> <p><i>Risk Rating:</i> Medium</p> <p><i>Issue: Asset Sustainability Ratio Calculation</i></p> <p>The asset sustainability ratio is an approximation of the extent to which the infrastructure assets managed by Council are being replaced as they reach the end of their useful lives. It is calculated by taking Capital Expenditure on Replacement of Assets (Renewals), and dividing this by Depreciation Expenditure.</p> <p>Council are currently calculating the Asset Sustainability Ratio using the total capital expenditure incurred during the financial year on replacement of <u>all asset</u> types, divided by the total depreciation expenditure on <u>all assets</u> for the financial year.</p>	<p>We recommended that going forward, Council calculate the Asset Sustainability Ratio using only infrastructure asset renewals and infrastructure depreciation during the period.</p>	<p>Resolved</p> <p><u>Management Response:</u></p> <p>Monthly financial reporting to Council for the Asset Sustainability Ratio is now being calculated based on infrastructure asset renewals only. The Asset Sustainability Ratio presented with the General Purpose Financial Statements for FY 2017-2018 will be calculated based only on infrastructure asset renewals. Similar basis of calculation will be used for the Asset Sustainability Ratio presented alongside the 2018-2019 Operating Budget and 2019-2028 Ten Year Long Term Forecast.</p>

Other Matters

Area	Matter	Our recommendation	Status update from management
Property, Plant and Equipment	<p><i>Date issue raised:</i> 24 October 2017</p> <p><i>Control Type:</i> Other Matter</p> <p><i>Matter: Revaluation of Parks and Waste Asset Classes</i></p> <p>Parks and Waste asset classes have immaterial balances, yet are recorded at fair value and subject to regular revaluation.</p>	<p>We recommend that Council discontinue revaluing the parks and waste asset classes, and instead record these classes at cost going forward.</p>	<p>Resolved</p> <p><u>Management Response:</u></p> <p>From FY 2017-2018, Parks and Waste Asset Classes are valued at cost. The change from fair value to cost valuation is implemented in accordance with AASB 116 Property Plant and Equipment and AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors.</p> <p>The shift to cost valuation for parks and waste assets provides cost savings on revaluation fees for these low value and relatively short life assets. Apart from direct cost savings, work efficiency is also achieved with the avoidance of asset inspections and validations required to be conducted by Council officers as part of the revaluation process.</p>
Governance	<p><i>Date issue raised:</i> 24 October 2017</p> <p><i>Control Type:</i> Other Matter</p> <p><i>Matter: Timing of Audit Committee Meeting Schedule</i></p> <p>It is the expectation of the Queensland Audit Office that Councils continue to improve on the timely preparation and communication of financial reporting to users. The usefulness of the financial report is increased if it is delivered in a timely manner.</p>	<p>We recommended that the Audit Committee meeting schedule be revisited to accommodate earlier preparation and communication of the financial report, and spreading the content over the year.</p> <p>Council may like to consider whether there are other operational matters that need to be considered in reviewing the timing of the meetings.</p>	<p>Resolved</p> <p><u>Management Response:</u></p> <p>The Corporate Finance Unit (CFU) redesigned the end of year processes and resources to bring work forward in line with the earlier timeline for the 2017-2018 preparation of financial statements.</p> <p>CFU also coordinated with Internal Audit to ensure that the timing of the Audit Committee meetings coincide with the required QAO timeframe.</p>

Area	Matter	Our recommendation	Status update from management
Property, Plant and Equipment	<p><i>Date issue raised:</i> 24 October 2017</p> <p><i>Control Type:</i> Other Matter</p> <p><i>Matter:</i> Capitalisation of Bulk Assets</p> <p>Our work noted that identical individual assets below the capitalisation threshold were grouped and capitalised as bulk assets.</p>	<p>We recommended that if individual assets are below the capitalisation threshold, they should be expensed unless they meet the definition of a network asset. Principally, this is the preferred treatment for kerbside bins, library books and some IT equipment.</p> <p>Whilst the current treatment is in line with accounting standards, our recommendation provides for ease of administration and is also standard practise at other councils. Whilst not mandatory to Councils, this treatment is also in line with Queensland Treasury Corporation Guidelines.</p>	<p>Resolved</p> <p>Council have determined that it is more cost effective to continue their current practice. We therefore deem this matter to be closed.</p> <p><u>Management Response:</u></p> <p>It was determined that the current practice of capitalising bulk assets is administratively more cost effective and therefore this practice will continue to be implemented..</p>
Property, Plant and Equipment	<p><i>Date issue raised:</i> 24 October 2017</p> <p><i>Control Type:</i> Other Matter</p> <p><i>Matter:</i> Low Capitalisation Threshold in Comparison to Other Councils and Operations</p> <p>We noted that Council has capitalisation thresholds set for each asset class, which are low in comparison to other Councils and relative to the size of Council's operations.</p>	<p>We recommended that management review the current capitalisation thresholds. Many Councils use the Queensland Treasury Non-Current Asset Policies as a guide in determining the capitalisation thresholds.</p> <p>Where capitalisation thresholds are higher, Council should consider whether it is necessary to maintain separate registers internally for asset management purposes without these being included in the financial records. In particular, we recommend that all portable and attractive items are tracked, even if they are not capitalised, to minimise any fraud risk.</p>	<p>Resolved</p> <p><u>Management Response:</u></p> <p>From 1 February 2018, asset capitalisation threshold for all asset classes except land and buildings and networked assets was increased to \$5,000.</p> <p>Information Management (IM) continues to maintain a register for portable and attractive assets for Information Technology (IT) equipment (e.g. mobile phones and tablets) that are below the \$5,000 asset threshold.</p> <p>Managers continue to be responsible for monitoring portable and attractive assets within their respective business units.</p>

Appendix B

Our rating definitions for internal control deficiencies

We assess internal control deficiencies on their potential to cause a material misstatement in the financial statements as follows:

Assessed category	Definition/Criteria	Prioritisation of remedial action
Significant deficiency	<p>A significant deficiency is a deficiency, or combination of deficiencies, in internal control that requires immediate remedial action.</p> <p>Also, we increase the rating from a deficiency to a significant deficiency based on:</p> <ul style="list-style-type: none"> • the risk of material misstatement in the financial statements • the risk to reputation • the significance of non-compliance with policies and applicable laws and regulations • the potential to cause financial loss including fraud, or • where management has not taken appropriate timely action to resolve the deficiency. 	This requires immediate management action to resolve.
Deficiency	A deficiency arises when internal controls are ineffective or missing, and are unable to prevent, or detect and correct, misstatements in the financial statements. A deficiency may also result in non-compliance with policies and applicable laws and regulations and/or inappropriate use of public resources.	We expect management action will be taken in a timely manner to resolve deficiencies.
Other matter	An other matter is expected to improve the efficiency and/or effectiveness of internal controls, but does not constitute a deficiency in internal controls. If an other matter is not resolved, we do not consider that it will result in a misstatement in the financial statements or non-compliance with legislative requirements.	Our recommendation may be implemented at management's discretion.

Our risk rating definitions for financial reporting issues

We assess financial reporting issues on their potential to cause a material misstatement in the financial statements as follows:

Assessed category	Definition/Criteria	Prioritisation of remedial action
High	We assess that there is a high likelihood of this causing a material misstatement in one or more components (transactions, balances and disclosures) of the financial statements, or there is the potential for financial loss including fraud.	This requires immediate management action to resolve.
Medium	We assess that there is a medium likelihood of this causing a material misstatement in one or more components of the financial statements	We expect management action will be taken in a timely manner to resolve deficiencies.
Low	We assess that there is a low likelihood of this causing a material misstatement in one or more components of the financial statements.	Our recommendation may be implemented at management's discretion.