

# Late Item 8.4

## **Ordinary Meeting**

**Thursday, 28 April 2022**

**commencing at 9:00am**

**Council Chambers, 1 Omrah Avenue, Caloundra**



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# TABLE OF CONTENTS

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ITEM	SUBJECT	PAGE NO
8	REPORTS DIRECT TO COUNCIL .....	5
8.4	QUEENSLAND AUDIT OFFICE - FIRST INTERIM MANAGEMENT REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2022 .....	5



**8 REPORTS DIRECT TO COUNCIL****8.4 QUEENSLAND AUDIT OFFICE - FIRST INTERIM MANAGEMENT REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2022****File No:** Council Meetings**Author:** Coordinator Financial Accounting  
Business Performance Group**Attachments:** Att 1 - Queensland Audit Office First Interim Report 2022 ...9  

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**PURPOSE**

This report provides for the information of Councillors, the results of the first interim audit by the Queensland Audit Office (AQO), which was conducted in March this year.

Section 213(3) of the *Local Government Regulation 2012* requires that the report be presented at the next Ordinary Meeting of Council.

**EXECUTIVE SUMMARY**

Council has a statutory obligation to prepare “General Purpose” Financial Statements on an annual basis, culminating in audit certification in October, before publication in Council’s Annual Report.

The QAO audits Council’s annual financial statements to ensure the statements give a true and fair view of Council’s financial position, financial performance and cash flows for the relevant year, and that they comply with the *Local Government Act 2009*, the *Local Government Regulation 2012* and Australian Accounting Standards.

The annual audit process for the 2021/22 financial year consists of 5 parts as follows:-

- Planning (December 2021)
  - Confirmation of deliverables and timelines for the audit process
- 1<sup>st</sup> Interim Audit (March 2022) – which is the subject of this report
  - Includes an assessment of the control environment to determine whether it supports an audit strategy that can rely on these controls
  - Covers the period 1 July 2021 to 28 February 2022
- 2<sup>nd</sup> Interim Audit (June 2022)
  - Covers the period 1 March 2022 to 31 May 2022
- Audit of Asset Valuations to ensure they reflect fair value (July 2022)
- Final audit of financial statements (September 2022)

Following the final audit, QAO provides its Closing Report, Certification and Final Management Report in October 2022 which includes their audit opinion as well as a summary and status of any issues identified during the course of the audit.

Council has consistently received an unmodified audit opinion meaning the annual financial statements, in all material aspects, give a true and fair view of Council’s financial position, financial performance and cash flows for the relevant year, and that they comply with the applicable legislation and Australian Accounting Standards.

The results of all Queensland local government audits are included in the Auditor General’s annual report to Parliament on the results of local government audits.

1<sup>st</sup> Interim Audit

The QAO performed an interim audit of Council's financial systems and processes during March 2022.

The First Interim Audit considers the period July 2021 to February 2022, along with an assessment of the design and implementation of Council's key controls and whether they are operating effectively and can be relied upon in auditing the financial statements.

Based on the results of testing completed to date and the resolution of prior year issues, QAO have determined that Council's internal control environment supports an audit strategy that can rely upon these controls, except for the areas where significant deficiencies and deficiencies have been observed. QAO have altered their audit approach to undertake additional substantive testing in these areas.

A summary of findings is below.

Item	Status
<b>Internal Controls</b>	2 significant deficiencies raised in the current year 2 deficiencies raised in the current year 3 deficiencies from prior years in progress and not yet due
<b>Areas of audit focus</b>	On track
<b>Milestones</b>	On track

**OFFICER RECOMMENDATION**

**That Council receive and note the report titled "Queensland Audit Office - First Interim Management Report for the financial year ended 30 June 2022".**

**FINANCE AND RESOURCING**

The estimated audit fee for the financial year is \$250,000 and this is provided for in Council's budget.

**CORPORATE PLAN**

**Corporate Plan Goal:** *Our outstanding organisation*

**Outcome:** 5.1 - Maintain a financially sustainable organisation that balances the needs of our growing region.

**Operational Activity:** NIL

**CONSULTATION****Portfolio Councillor Consultation**

The Portfolio Councillors have received advice of this report.

**Internal Consultation**

Internal consultation was held with the following areas:

- People and Culture
- Business and Innovation
- Internal Audit

### External Consultation

External consultation has been held with Queensland Audit Office.

The External Audit Committee members have received advice of this report.

### Proposal

This report details the outcome of the First Interim Audit for the 2021/22 financial year.

The First Interim Audit considers the period July 2021 to February 2022, along with an assessment of the design and implementation of Council's key controls and whether they are operating effectively and can be relied upon in auditing the financial statements.

A summary of findings is below.

#### a) Internal Controls

QAO categorise internal control issues as either Significant Deficiencies (requiring immediate action to resolve) or Deficiencies (requiring resolution in a timely manner).

QAO identified 2 Significant Deficiencies and 2 Deficiencies for the current year as follows.

Significant Deficiencies:

- 22IR-1 Weaknesses in security settings, user access privileges, and checking of a key control report (payroll system)
  - Status: Resolved pending audit clearance
- 22IR-2 Weaknesses in security over EFT payment data, user access privileges, and checking of key control reports (payroll & accounts payable systems)
  - Status: In progress (system control required to be built)

Deficiencies:

- 22IR-3 Untimely review of the fixed asset register reconciliation to the general ledger
  - Status: Resolved pending audit clearance
- 22IR-4 Inconsistency of contract details between contract register and Council's website
  - Status: Resolved pending audit clearance

In addition, there were 3 prior year Deficiencies due for resolution by 30 June 2022. These are all in progress.

Based on the results of testing completed to date and the resolution of prior year issues, QAO have determined that Council's internal control environment supports an audit strategy that can rely upon these controls, except for the areas where significant deficiencies and deficiencies have been observed. QAO have altered their audit approach to undertake additional substantive testing in these areas.

#### b) Areas of Audit Focus

QAO has identified items that they consider to be significant risks to the financial statements, due to their size or complexity, and as such will undertake specific targeted testing of these items which are as follows:

- 1) Valuation of infrastructure assets
- 2) Revenue recognition of infrastructure charges and contributed assets
- 3) Occurrence and appropriateness of procurement
- 4) Valuation of investment in associate)
- 5) Accounting for major projects and transactions.

Progress against these areas is on track.

c) Milestones

The QAO external audit plan contains a series of measurable milestones in terms of Council's financial reporting and audit deliverable deadlines.

All agreed key financial reporting and audit deliverable milestones have been met to date.

If issues are identified as the audit progresses, they will be included in Queensland Audit Office's future reports.

### **Legal**

Section 213(3) of the *Local Government Regulation 2012* requires this QAO Interim Report to be presented at the next Ordinary Meeting of Council.

### **Policy**

There are no internal policy documents relating to this report. It is a legislative requirement – refer Sections 212 and 213 of the *Local Government Regulation 2012*.

### **Risk**

Council has a statutory obligation to prepare general purpose financial statements that are subject to audit by the Auditor-General or their contracted representative.

### **Previous Council Resolution**

#### **Audit Committee Meeting 24 January 2022 (AC22/5)**

*That the Audit Committee receive and note the report titled “Planning for the 2021/22 Financial Statement Audit Process.”*

### **Critical Dates**

The QAO will return to Council in June 2022 to conduct a second interim audit, July 2022 to complete the audit of valuation of Council's infrastructure assets, and again in September 2022 to complete the final audit of the 2021/22 financial statements.

Council certification of the 2021/22 financial statements and current year financial sustainability statement is due by 7 October 2022.

### **Implementation**

All identified issues will be stored in Council's corporate reporting system with implementation to be monitored by the Audit Committee.





2022 INTERIM REPORT

## Sunshine Coast Regional Council

22 April 2022





Your ref:  
Our ref: 2022-4139  
Michael Keane 3149 6077

## SENSITIVE

22 April 2022

Councillor M Jamieson  
Mayor  
Sunshine Coast Regional Council  
Locked Bag 72  
SUNSHINE COAST MAIL CENTRE QLD 4560

Dear Mr Jamieson

### 2022 Interim report

We present to you our interim report for Sunshine Coast Regional Council for the financial year ending 30 June 2022.

This report details the results of our interim work performed to 28 February 2022. In this phase we assessed the design and implementation of your internal controls, and whether they are operating effectively. The internal controls that we assessed are those key controls we intend to rely on in auditing your financial statements. Our audit does not assess all controls that council have implemented across the organisation.

Under the Australian Auditing Standards, we are required to communicate to you any significant deficiencies in your control environment and internal controls identified from our audit process. Refer to [section 1](#) for the summary of the findings and [section 3](#) for the details relating each significant deficiency identified.

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

The *Auditor General Act 2009* requires the Auditor-General to report to parliament on an issue raised during an audit if they consider it to be significant. The results of our audit will be included in our report to parliament *Local Government 2022*.

If you have any questions or would like to discuss the audit report, please contact me on 3149 6211 or have one of your officer's contact Michael Keane on 3149 6077.

Yours sincerely

David Adams  
Senior Director

Enc.

cc. Ms E Thomas, Chief Executive Officer  
Mr M Petrie, Chair Audit Committee

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 Queensland Audit Office (QAO)

2022 Interim report

## 1. Summary

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We completed our audit planning phase and issued an external audit plan on 17 December 2021.

This report details our audit findings from the work we performed on the key controls identified during the audit planning phase over revenue, expenditure, payroll and information technology systems.

### Summary of findings—issues identified

#### Internal controls

Significant deficiencies:

- 2 raised in the current year

Deficiencies:

- 2 raised in the current year; 3 in progress from prior years not yet due

Details of our audit findings are explained further in this report. Refer to [section 3](#) below on [status of issues](#) and [section 4](#) for the [prior year issues](#).

### Revised audit approach

Based on the results of our testing completed to date and having considered progress on resolving prior year issues, we have determined that your internal control environment supports an audit strategy that can rely upon these controls, except for the control deficiencies reported below.

We have now altered our original audit strategy (refer to [Appendix 1](#) for details) to obtain reasonable assurance over the areas where significant deficiencies and deficiencies in internal controls have been observed. The weaknesses in internal controls involve payrate bulk upload processing, payment processing, EFT folder security, payroll and expenditure system configurations and expenditure approvals.

### Areas of audit focus

We have also performed work over the areas of audit focus identified in our external audit plan. Our progress against the areas of audit focus is on track.

### Audit Team

Our Team leader, Mr Michael Keane has recently accepted a senior finance position in a government department and his role will now be undertaken by Mr Tony Guerrero, Senior Manager. We will ensure appropriate hand over procedures are undertaken including scheduling a visit to Council offices to introduce Mr. Guerrero. Tony is also currently performing the team leader role at QIC, Department of Transport and Main Roads and has cross sector audit responsibilities for audits on Grants and Major Projects.

### Milestones—On track/Action required

All financial reporting and audit deliverables milestones have been met except for the first interim management report. The first interim management report was due on 8 April 2022. This milestone has since been revised to 22 April 2022 which afforded both Council and QAO with time to review, comment and agree on the new internal control issues that have been raised.

### Audit fees—On track

Invoiced to date: \$116,000 (46%): Remaining fee: \$134,000 (54%): Total fees: \$250,000.

Should we not identify and achieve additional audit effort savings through to completion of the audit, the costs to perform the revised audit strategy may need to be passed on. We will continue to keep management informed on this matter.

**SENSITIVE**

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