

## ITEM 6.2 AUDITOR-GENERAL OBSERVATION REPORT 2019/20 - A20690347 (Cont.)

### #1 Auditor-General's observation report



Our ref: 2020-4133  
Charles Strickland, 3149 6032

13 October 2020

Councillor P Flannery  
Mayor  
Moreton Bay Regional Council  
PO Box 159  
CABOOLTURE QLD 4510

Dear Councillor Flannery

#### Final Management Report for Moreton Bay Regional Council

We have completed our 2020 financial audit for Moreton Bay Regional Council. I issued an unmodified audit opinion on your financial statements.

The purpose of this letter is to update you on any matters that have arisen since we presented our closing report to the audit committee on 8 October 2020.

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

I can confirm that we have not identified significant issues since the presentation of our closing report. 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.

#### Report to parliament

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

Consistent to prior years we intend to include the results of our audit of Moreton Bay Regional Council in our report to Parliament on the results of the Local Government sector. In this report we will comment on the results of our audit of your financial report, any significant internal control issues we identified, and the overall results of the sector, including, major transactions and events. We will discuss 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 comment on our report and for these comments to be included in the final report.

#### Audit fee

The final audit fee for this year is \$240,000 exclusive of GST (2019: \$280,000). This fee is in line with the estimated fee in our external audit plan.

**Financial reporting maturity level**

QAO are in the process of finalising a new financial statement preparation reporting tool, called the financial reporting maturity model. This model allows for scalable assessment of financial reporting preparation processes which aims to better reflect the differences in size and maturity of public sector entities. For future years, we are planning to move to assessing the process according to the new maturity model. In the interim we will commence working with management to understand their expected / desired positioning of maturity.

We would like to thank you and your staff for their engagement in the audit this year and look forward to working with your team again next year.

If you have any questions about this letter or would like to discuss any matters regarding our audit service, please contact me on 3149 6032.

Yours sincerely



Charles Strickland  
Sector Director

## Appendix A1—Internal control issues



### Significant deficiencies, deficiencies and other matters

The following table details control deficiencies and other matters reported to management during the course of our 30 June 2020 financial audit, and also management responses.

Our risk ratings are as follows—refer to [Our rating definitions](#) for more detail.



### Significant deficiencies

#### 20CR-1 Delays in recording contributed assets (re-raised from 2018-19: refer 19FR-1) [Control Activity]

##### Observation

As a result of delays in processing contributed asset information through Councils Asset Capture Workflow process, there are 1,242 assets (2019: 1,007) with a net value of \$11,668,751 (2019: \$12,303,607) that were under control of Council in previous financial years that have been brought to account during the 2019-20 financial year.

Financial Year	Net value of Assets	Number of Assets
2018/19	\$ 3,281,445.72	354
2017/18	\$ 2,410,750.17	232
Pre 2017/18	\$ 5,976,555.13	656

This represents a misstatement to revenue disclosed in Councils 2019–20 financial report.

Delays in processing contributed asset information into Councils systems increases the risk that revenue, non-current assets and depreciation expense will be materially understated in the financial report.

Where material prior period errors occur in the financial report, the users of the report may be misled which can impact the decisions they make regarding this information.

##### QAO recommendation

That Council continue to improve processes to ensure the timely recording of contributed asset information into Councils systems to ensure revenue, non-current assets and depreciation expense are not materially misstated in the financial report

##### Management response

Management notes the recommendation and will continue to work at improving the timeliness of contributed asset recognition. It should be acknowledged that this is particularly challenging due to consistently high growth experienced in the region and the quantum of contributed assets acquired annually. The improvements to date show the value of contributed assets being identified as a prior period adjustment has been declining over the past three years as process improvements are implemented.

Responsible officer:	Accounting Service Manager, Denis Crowe
Status:	Work in progress
Action date:	30 June 2021

## Appendix A1—Internal control issues



### Deficiencies

#### 20CR-2 Incomplete Key Management Personnel Declarations of Related Party Information [Control Activity]

Councils related party disclosure policy requires KMP declarations to be obtained from Councillors and executive managers at the end of each financial year. During the 2019–20 financial year, Council did not obtain KMP declarations for all Councillors in the lead up to the local government election in March 2020 meaning that the four Councillors who were not re-elected did not provide these declarations for the period 1 July 2019 to 28 March 2020. There were also four executive managers that were part of the KMP group who left the organisation during the 2019–20 financial year but did not provide KMP declarations upon leaving.

We acknowledge that Council has processes and procedures in place to identify related party transactions, however failure to obtain these declarations may lead to new related party relationships and transactions going undetected and therefore not being assessed for disclosure in the financial report

#### QAO recommendation

That Council amend the related party disclosure policy to ensure:

1. KMP declarations for all Councillors are obtained in the lead up to future local government elections; and
2. KMP declarations are obtained from any Councillors or executive managers who cease to become part of the KMP group during future reporting periods.

#### Management response

Management note QAO's recommendation and will amend its related party disclosure policy and processes accordingly.

Responsible officer:	Accounting Service Manager, Denis Crowe
Status:	Work in progress
Action date:	31 December 2020



### Deficiencies

#### 20CR-3 Contracts over \$200,000 not published on Councils website (re-raised from 20 March 2020 interim report: refer 20IR1-2)

#### [Control Activity]

During our audit visit in February 2020, we identified two current contractual arrangements over \$200,000 that were not published on Councils website as per the requirements of section 237 of the Local Government Regulation 2012. This matter was reported in our first interim management report dated 20 March 2020 as an "other matter" and Council resolved this by publishing the details of those two contracts on Councils website. However, during our August 2020 visit, we identified two more contracts over \$200,000 not published on Councils website. We also note that the details of these contracts were not included in the contract register.

Council is not complying with the requirements of the Local Government Regulation 2012.

#### QAO recommendation

That Council implements processes to ensure that the details of all contractual arrangements over \$200,000 are identified and published on Councils website, and also recorded in Councils contract register.

#### Management response

Management note QAO's recommendation and will review its current processes to ensure all contractual arrangements over \$200,000 are identified and published on Councils website and recorded in the contracts register.

Responsible officer:	Financial Operations Manager, Jason Linsdell
Status:	Work in progress
Action date:	31 October 2020

## Appendix A1—Internal control issues



### Deficiencies

#### 20CR-4 Various non-compliance with Local Government Regulation 2012

##### [Control Activity]

The Local Government Regulation 2012 requires Councils to:

1. review its procurement policy annually (section 198).
2. record all administrative action complaints (section 306).
3. ensure internal reports are provided to senior management about the operation of the complaint's management process (section 306);
4. ensure mechanisms are in place to identify, analyse, monitor and respond to complaint trends (section 306); and
5. record and notify losses of local government assets (section 307A).

Council has not been performing these activities as required by the Local Government Regulation 2012.

##### QAO recommendation

That Council implement processes and procedures to ensure compliance with the requirements of the Local Government Regulation 2012.

##### Management response

Management note QAO's recommendation and will implement processes to ensure compliance with the relevant sections of the Local Government Regulation 2012. Recognition of losses is now up to date and is in the process of being notified for the time period that has lapsed.

Responsible officer:	Manager Executive Services, Darren Dallinger
Status:	Work in progress
Action date:	31 December 2020

## Appendix A2—Matters previously reported



### Status

The following table summarises the status of all control deficiencies, financial reporting issues and other matters that have previously been raised but are not yet resolved, or resolved pending QAO verification. The listing may include issues from our reports earlier this year and issues raised in prior years.

Our risk ratings are as follows—refer to [Our rating definitions](#) for more detail.

#### Internal control issues

#### Financial reporting issues

Significant deficiency	Deficiency	Other matters	High	Medium	Low

Reference	Rating	Issue	Status / Comment Action Date
<b>Internal control issues</b>			
19FR-1		Lack of supporting documentation for recruitment and selection of employees	Resolved, pending QAO verification A new suite of policies and procedures to guide the recruitment and selection process was approved by the CEO on 31 August 2020. We will test compliance with these policies and procedures during the 2020–21 financial audit.
19FR-2		Lack of formal recruitment and selection policy	Resolved, pending QAO verification A new suite of policies and procedures to guide the recruitment and selection process was approved by the CEO on 31 August 2020. We will review these policies and procedures during planning for the 2020–21 financial audit
<b>Other matters</b>			
20IR1-1		Out of date risk management and fraud and corruption prevention policies	Work in progress Management has committed to strategic reviews of the Enterprise Risk Management Framework and the Fraud and Corruption Control Framework. These policies have been drafted but are yet to be approved by management. Action date: 30 November 2020
19OM-1		Audit committee chairperson not independent of Council	Work in progress As per the updated General, Standing & Advisory Committee meetings membership and meeting frequency guidance, the chair of the Audit Committee will be appointed by Council from one of the independent external members. Action date: November 2020 audit committee meeting
19OM-2		Internal audit function not reporting directly to the Chief Executive Officer	Resolved. At the Audit and Risk Management Committee held on 15 June 2020 it was resolved that the Internal Audit function would report to the Chief Executive Officer. The new internal auditor has now been appointed and reports directly to the CEO.

## Appendix B—Our rating definitions



### Internal rating definitions

	Definition	Prioritisation of remedial action
<b>Significant deficiency</b> 	<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"> <li>the risk of material misstatement in the financial statements</li> <li>the risk to reputation</li> <li>the significance of non-compliance with policies and applicable laws and regulations</li> <li>the potential to cause financial loss including fraud, or</li> <li>where management has not taken appropriate timely action to resolve the deficiency.</li> </ul>	<p>This requires immediate management action to resolve.</p>
<b>Deficiency</b> 	<p>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.</p>	<p>We expect management action will be taken in a timely manner to resolve deficiencies.</p>
<b>Other matter</b> 	<p>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.</p>	<p>Our recommendation may be implemented at management's discretion.</p>

### Financial reporting issues

	Potential effect on the financial statements	Prioritisation of remedial action
<b>High</b> 	<p>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.</p>	<p>This requires immediate management action to resolve.</p>
<b>Medium</b> 	<p>We assess that there is a medium likelihood of this causing a material misstatement in one or more components of the financial statements.</p>	<p>We expect management action will be taken in a timely manner.</p>
<b>Low</b> 	<p>We assess that there is a low likelihood of this causing a material misstatement in one or more components of the financial statements.</p>	<p>We recommend management action to resolve; however, a decision on whether any action is taken is at management's discretion.</p>

# Moreton Bay Regional Council

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28 October 2020

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Supporting Information

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