

# GLADSTONE REGIONAL COUNCIL

## 2021 INTERIM REPORT TO THE MAYOR

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1 June 2021

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Councillor Matt Burnett  
Mayor  
PO Box 29  
GLADSTONE QLD 4680

Dear Councillor Burnett

### 2021 Interim report

We present to you our interim report for Gladstone Regional Council (Council) for the financial year 30 June 2021. This report details the results of our interim work performed to 30 April 2021 and includes our assessment of the design and implementation, and operating effectiveness of controls up to this date. This report also includes an assessment of the internal control environment; status of the audit; and a summary of control deficiencies, financial reporting and other matters identified to date.

To date our work has not identified any significant deficiencies in your internal controls.

Please note that under section 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 he considers it to be significant. The results of your entity's audit will be included in our report to parliament on results of the local government sector.

If you have any questions or would like to discuss the audit report, please contact me on 07 3257 8568 or Will Fellowes on 07 3257 8309.

Yours sincerely



Steven Bosiljevac  
Contract Audit Partner



Will Fellowes  
Contract Audit Director

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cc. Ms Kerry Phillips, Chair Audit Risk and Improvement Committee  
Ms Leisa Dowling, Chief Executive Officer

We have completed our audit planning phase and an external audit plan was issued on 1 March 2021.

This report details our audit findings from the work performed on the key controls over the council's business processes that were identified during the audit planning phase.

## Summary of findings – Issues identified

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Deficiencies were identified in relation to:

- IT systems
- Property, plant, and equipment, and
- Revenue



Details of our audit findings are explained further in this report. Refer to section on [Internal control](#) and [Financial reporting issues and other matters](#)

Based on the results of our testing completed to date and the resolution of prior year issues, we have assessed your internal control environment as generally effective, meaning while prior year matters are still being addressed, the environment supports an audit strategy that can rely upon these controls.

## Areas of audit focus - On track











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We have commenced our procedures on the areas of audit focus that were identified in the external audit plan. Our progress against these areas of audit focus remains on track.

## 2. Internal control findings



The following table summarises our reporting on deficiencies in internal controls. Further in this section, you will find details of these deficiencies identified during our interim audit. Refer to [Section 4](#) for the status of prior year deficiencies.

Internal control issues by COSO element	Number of significant deficiencies		Number of deficiencies		Rating
	Current year issues	Prior year unresolved issues	Current year issues	Prior year unresolved issues	
 <b>Control environment</b> Structures, policies, attitudes and values that influence daily operations	-	-	-	-	
 <b>Risk assessment</b> Processes for identifying, assessing and managing risk	-	-	-	-	
 <b>Control activities</b> Implementation of policies and procedures to prevent or detect errors and safeguard assets	-	-	3	1	
 <b>Information and communication</b> Systems to capture and communicate information to achieve reliable financial reporting	-	-	1	-	
 <b>Monitoring activities</b> Oversight of internal controls for existence and effectiveness	-	-	-	-	



### Effective

No significant deficiencies identified



### Partially effective

One significant deficiency identified



### Ineffective



More than one significant deficiency identified



## 2. Internal control findings (cont.)



This section details the internal control findings identified to date and includes responses from management. Our rating of internal control deficiencies allows management to gauge relative importance and prioritise remedial actions—refer to [Our rating definitions](#) for more detail.

ID	Issue name	Rating	Internal control component
21-IR-1	Lack of formal review in relation to IT system changes	 Deficiency	 Information and communication

### Observation

Our interim procedures found that there was a lack of periodic review that takes place for system changes such as review of changes in user access of key IT systems that relate to financial reporting.

### Implication

Although these systems have activity logs, a lack of regular monitoring of system changes can lead to undesired outcomes such as material misstatements in financial reporting and increased risk of cybersecurity breaches.



### QAO recommendation

It is recommended that management introduce regular review for system changes such as changes in user access. The nature and extent of review will need to be tailored on a system-by-system basis.

### Management response

Agreed. Management will implement a process where six monthly reviews are undertaken.

Responsible officer: Sarah Skinner  
Status: Work in progress  
Action date: 01 June 2021

ID	Issue name	Rating	Internal control component
21-IR-2	Reconciliations for infrastructure assets are performed on an ad—hoc basis	 Deficiency	 Control activities

### Observation

It is noted that reconciliations between the general ledger and supporting schedules such as the fixed assets register for infrastructure assets are performed on an ad-hoc basis, usually in the latter months of the year. As efforts to perform these reconciliations are concentrated during the end of the year, there is an increased risk of errors and having less time to address any issues that might have come as a result of the reconciliations performed.

### Implication

As efforts to perform these reconciliations are concentrated during the end of the year, there is an increased risk of errors and having less time to address any issues that might have come as a result of the reconciliations performed.





### QAO recommendation

It is recommended that management complete fixed asset reconciliations on a more regular basis (e.g. quarterly).

### Management response

Agreed. Management will ensure that quarterly fixed asset reconciliations are undertaken.

Responsible officer: Tania Brown  
Status: Work in progress  
Action date: 31 May 2021

ID	Issue name	Rating	Internal control component
21-IR-3	Delay in property unimproved capital value reconciliations	 Deficiency	 Control activities

### Observation

The Department of Resources (DOR) sends property valuation updates to the Council on a fortnightly basis. These are required to be reconciled in the Pathways system to enable correct invoicing for Rates. It was noted that the Pathway reconciliation had a time lag of more than 7 months in May 2021. The last update was done in the Pathway system for the property valuation report received in September 2020.

### Implication

The delay in reconciling Pathways to the Property valuation updates from DOR can lead to delay in processing and invoicing rates which may lead to the incorrect rates revenue being recorded.

### QAO recommendation



It is recommended that management designs a plan to decrease this time lag between the receipt of DOR property valuation updates to the Pathway system.

### Management response

Agreed. Management has devoted additional human resources to reduce the time lag between receipt of valuation updates and their processing in the Pathway system. Our plan has been effective to date, resulting in the time lag being reduced from over 12 months at this time last year to seven months currently. It is our plan to continue our efforts and ensure that the processing time lag is reduced to three months by May 2022. This is being facilitated by re-allocating duties between team members to enable our Senior Rates Officer to devote two uninterrupted days per week exclusively to valuation processing. We have already built up substantial momentum clearing the backlog, and we are confident of our ability to meet our three-month goal by May 2022.

Responsible officer: James Bentley  
Status: Work in progress  
Action date: 31 May 2021



ID	Issue name	Rating	Internal control component
21-IR-4	Reconciliation between Pathways and TechOne	 Deficiency	 Control activities

### Observation

It was noted that the Rates revenue per Pathways system based on the rates notices generated by the Council did not reconcile to the Rates revenue per TechOne system for the month of February 2021. The main reason anticipated for this difference was the discounts on Rates Revenue. The reconciliation currently only happens at year-end.

### Implication

The Council's general ledger (TechOne system) should reflect the correct amount of rates revenue actually generated and as shown in the Pathway system.

### QAO recommendation

It is recommended to reconcile the Rates revenue on a monthly basis. This will also ensure minimum adjustments at year end.

### Management response

Rates revenue posted in TechOne has now been reconciled with Pathway up to and including the month of February. March through to May will be reconciled at the end of May. Management has implemented a process to reconcile rates revenue on a monthly basis.

Responsible officer: Nerrilyne Taylor

Status: Work in progress

Action date: 31 May 2021



### 3. Financial reporting issues and other matters

This table summarises our financial reporting and business improvement opportunities (other matters) identified in the current year. Refer to [Section 4](#) for the status of prior year financial reporting and other matters.

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

 **High**       **Medium**       **Low**

	Financial reporting issues—risk ratings			Other matters*
	High	Medium	Low	
<b>Current year</b>				
Unresolved	-	1	-	
Resolved	-	-	-	
<b>Prior year</b>				
Unresolved	-	1	-	
Resolved	-	-	-	

\*Queensland Audit Office only tracks resolution of other matters where management has committed to implementing action.

#### **Medium risk issues**

##### **1 - Depreciation for certain infrastructure assets being calculated on a condition based depreciation method instead of a straight-line basis**

###### **Observation**

It was noted that some of the asset categories, including Water and Sewerage infrastructure, have depreciation being calculated on a condition-based method of depreciation, instead of straight-line as disclosed on the financial statements.

###### **Implication**

This method is not a systematic approach and does not comply with the requirements of AASB 116 *Property, Plant and Equipment* and therefore should not be adopted. AASB 116 requires the depreciable amount of an asset to be allocated over the asset's useful life on a systematic basis that reflects the consumption of the asset's future economic benefits.

###### **QAO recommendation**

It is recommended that management assess the impact of changing the depreciation basis for these assets to a straight-line method for the 2020-2021 financial year. Going forward, it is recommended that management ensure that the depreciation methodology complies with AASB 116 and is consistent with the depreciation accounting policy disclosed in the financial statements.

###### **Management response**

At the date of this report, management is working together with the independent valuer to determine what the impact would be if the assets were changed to a straight-line basis. We will review this assessment and perform procedures to determine what the accounting and disclosure considerations are.

Responsible officer: Tania Brown  
 Status: Work in progress  
 Action date: 31 August 2021







## 4. Prior year issues



The following table summarises the status of all control findings, financial reporting and other matters reported in prior years.

Reference	Issue	Status
	<b>Internal control findings</b>  Significant deficiencies	
<b>20CR-1</b>	Monitoring and assessment of indicators of impairment (COSO component – information and communication)	<b>Resolved</b>  Management in FY21 have established a formalised process to monitor and assess whether there are any indicators of impairment. We will work closely with management in the lead up to year-end in reviewing their position paper and supporting calculations.
	<b>Deficiencies</b>	
<b>20CR-2</b>	QAO interim and final reports not tabled at ordinary Council meetings (COSO component: Information and communication)	<b>Resolved</b>  The interim and final management letters are planned to be tabled at ordinary Council meetings this year.
<b>20CR-3</b>	Improvement of the three-way-match process required (COSO component: Control activities)	<b>Work in progress</b>  Action date: October 2021  Management is currently working with TechOne to develop a new system process to enable invoices to be entered into the system upon receipt. Phase 1 development and testing is ongoing. Implementation and go-live phase expected to be October 2021.
	<b>Financial reporting issues</b>	
<b>20CR-4</b>	Asset valuations – RDTI assets not previously recognised	<b>Work in progress</b>  Action date: 30 July 2021  Management is undergoing its data cleansing and verification program and will continue the process throughout the financial year.





## Our 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>





## What is internal control?

'Internal control' is the processes, systems, records and activities that your entity designs, implements and maintains to provide you with reasonable assurance about the achievement of organisational objectives regarding:

- reliability of financial reporting
- effectiveness and efficiency of operations
- compliance with applicable laws and regulations.

Your governing body and executive management collectively are responsible for preparing reliable financial statements in accordance with generally accepted accounting principles. They are similarly responsible for maintaining effective internal control over financial reporting.

## Our assessments of your internal control framework

The auditing standards that we must comply with require us to understand and assess those aspects of your internal control that relate to our financial statement audit objectives. In the planning phase of our audit, we sought to understand and evaluate how controls are designed and implemented. We communicated to you the results of our analysis in our external audit plan.

If we decide that we can rely on your controls, we must then test them to confirm they operated effectively. The results of our testing may highlight deficiencies in your internal controls. We assess whether any identified deficiencies in internal control constitute, individually or in combination, a significant deficiency in internal control.

## Limitations of our reporting on internal control deficiencies

No system of internal control can provide absolute assurance about the absence of error or compliance. Even in the absence of identified control weaknesses, inherent limitations in your internal controls over financial reporting may not prevent or detect material misstatements.



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