



# **Ipswich City Council**

## **2019 Interim report**

**28 June 2019**

Your ref:

Our ref: 2019-4167  
Patrick Flemming 3149 6041

28 June 2019

Mr G Chemello  
Interim Administrator  
Ipswich City Council  
PO Box 191  
IPSWICH QLD 4305

Dear Mr Chemello

**2019 Interim report**

We present to you our interim report for Ipswich City Council for the financial year ending 30 June 2019. This report details the results of our interim work performed to 28 February 2019, including a review of relevant Information Systems controls. In this phase we assessed the design and implementation of your internal controls, and whether they are operating effectively.

To date our work has identified six significant deficiencies in your internal controls. These are:

- Insufficient segregation of duties between the HR and Payroll Functions
- Absence of System Generated SAP Payroll Reports.
- Insufficient segregation of duties in maintaining SAP system
- Critical security settings are not enabled in SAP system
- Processes and oversight in managing SAP system
- Privileged user activities not monitored for Pathway and Oracle eBusiness systems

This report also includes our assessment of your internal control framework; and a summary of significant deficiencies and control deficiencies identified to date.

The *Auditor-General Act 2009* requires the auditor-general to report to parliament on any issue raised during an audit if he considers it to be significant.

If you have any questions or would like to discuss the audit report, please contact me on 3149 6041 or Lisa Fraser on 3149 6132.

Yours sincerely



Patrick Flemming  
Sector Director

Enc.

cc. Mr David Farmer, Chief Executive Officer, Ipswich City Council  
Mr Graeme Stratford, Chair of the Audit and Risk Committee

# 1. Summary



## Audit progress

Internal control assessment and issues	Action required
<p>We have tested the operating effectiveness of controls for the period 1 July 2018 to 28 February 2019 for revenue, expenditure and payroll.</p> <p>We reviewed your general IT controls for Oracle eBusiness, Pathway, SAP and Success Factors, and performed data migration and user acceptance testing over the implementation of the new SAP payroll system.</p> <p>To date our work has identified 11 internal control deficiencies (six of these significant). Further details in relation to these deficiencies are included in section 2.</p> <p>There are also six significant deficiencies and six deficiencies raised in prior years which are in the process of being resolved by management. Further details in relation to these are included in section 3.</p> <p>We will continue our controls testing for the intervening period until the year end as part of our June 2019 visit and provide you further updates in our closing report at the conclusion of the final audit testing.</p>	

Areas of audit significance	On track
<p>Areas of audit significance detailed in the external audit plan dated 18 February 2019 and our progress are outlined below:</p> <ul style="list-style-type: none"><li><b>Payroll transactions and system implementation</b> – We have commenced our interim testing over payroll and termination payments. We have finalised our testing over payments made using the Oracle payroll system up until mid November 2018. However, at the time of our April visit, we were unable to access data for payments made post mid November using the new SAP payroll system. We are in the process of obtaining access to this data and we expect to complete our testing during our June visit.</li></ul> <p>We have completed our review over the implementation of SAP and the data migration from Oracle to SAP.</p> <p>From our review of the SAP payroll system implementation, it appears that council underestimated the complexity of the system, and the time and resources required for its implementation. Council had originally planned for the SAP system to 'go live' in July 2018, seven months after the system design had been completed. The combination of the short time frame, availability of resources and complexity of the system put additional pressure on the team to go live as planned while still managing the risks associated with the implementation. Council extended the implementation time and went live with the new payroll system in November 2018 following three successful parallel pay runs and user acceptance tests. However, in order to meet this timeframe, council needed to descope the reporting functionality in the system. Council also did not get the chance to finalise the operating model, processes and controls which are required to be in place within Council and for Council's SAP service providers.</p> <p>We have raised five significant deficiencies and two deficiencies in relation to payroll.</p> <p>As a result of data access issues and the significant deficiencies identified over the payroll system, additional audit effort will be required to ensure that payroll is not materially misstated in the financial statements. It is estimated that this will increase our original audit fee by between \$25,000 and \$28,000.</p> <ul style="list-style-type: none"><li><b>Valuation of property, plant and equipment</b> – We have commenced our audit of non-current assets. The majority of our review over valuation and depreciation is planned as part of our second interim visit in June and our year end visit in September.</li><li><b>Revenue recognition of infrastructure charges/development application fees</b> – We have completed our interim testing over developer cash contributions and development application fees. We have not completed our testing over developer contributions of physical assets or fee variations processed on development applications. We will finalise our review over this area during our June visit.</li><li><b>Expenditure, including major contracts and projects</b> – We have commenced our audit over expenditure and the procurement and contract management area. We have raised two deficiencies in this area. We will finalise our review during June.</li><li><b>Restructure of controlled entities and consolidation</b> – We have commenced our planning and obtained information from council in relation to the status of the winding up of controlled entities. We will prepare draft External Audit Plans for relevant controlled entities prior to our second interim visit.</li></ul> <p>We have liaised with management of Cherish the Environment Foundation Ltd to discuss the process for our appointment as external auditor for 2018-19. We have scheduled a meeting with management in June to determine the requirements for the audit.</p> <ul style="list-style-type: none"><li><b>Financial sustainability</b> – We will assess this area during our year end visit in September.</li></ul>	











Milestones—financial reporting and audit deliverables	On track
<p>All milestones have been met to date.</p>	




## 2. Internal control issues




The following table summarises our reporting on deficiencies in internal controls.

	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	-	1	-	1	
 <b>Risk assessment</b> Processes for identifying, assessing and managing risk	-	1	-	-	
 <b>Control activities</b> Implementation of policies and procedures to prevent or detect errors and safeguard assets	5	3	5	2	
 <b>Information and communication</b> Systems to capture and communicate information to achieve reliable financial reporting	-	-	-	-	
 <b>Monitoring activities</b> Oversight of internal controls for existence and effectiveness	1	1	-	3	

### Our ratings

 **Effective**  
No significant deficiencies identified.

 **Generally effective**  
One significant deficiency identified.

 **Ineffective**  
More than one significant deficiency identified.



## 2. Internal control issues cont'd



### Significant deficiencies and deficiencies

The following table details significant deficiencies and deficiencies identified from testing of controls as at 5 April 2019. It includes a response from management.

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



**Significant deficiency**



**Deficiency**



**Other matters**



**Significant deficiency**

### 19IR-1 Insufficient segregation of duties between the HR and Payroll Functions

#### Control Activities

We identified that there is no segregation of duties between the HR and Payroll functions. Payroll staff are currently responsible for:

- maintaining employee masterfiles (including new starters, terminations and changes to bank account details);
- processing and uploading the weekly payruns; and
- processing EBA adjustments.

This risk is significantly increased due to the absence of system generated reports from the new Payroll system (SAP) which could provide compensating controls (refer to issue 19IR-2).

#### Implication

The lack of effective segregation of duties between payroll processing and employee master file maintenance activities increases the risk of erroneous or fraudulent transactions going undetected.

#### QAO recommendation

We recommend that council review the current control environment for HR and payroll processing and ensure effective segregation of duties is implemented between payroll processing and employee masterfile maintenance.

#### Management response

Agreed: The functions and activities aligned to the different sections of the HR branch are currently being reviewed, with changes being finalised by end June 2019.

As part of this review there will be a segregation between HR and payroll functions. HR will be responsible for employee master file maintenance. This will be a gradual process as we realign the branch, change processes and up skill employees.

Responsible officer: Manager, People and Culture

Status: Work in progress

Action date: 30 September 2019





## 2. Internal control issues cont'd



### Significant deficiency

#### 19IR-2 Absence of System Generated Payroll Reports

##### *Control activities*

In November 2018 council moved from its previous Oracle based payroll system to a SAP system. Due to time limitations and competing priorities (including a new Enterprise Bargaining Agreement), the reporting functionality within the system was not set up as part of the system implementation.

At the time of the interim audit the following reports could not be produced for audit testing purposes:

- audit report - listing of all masterfile changes
- listing of employees and their associated pay rates.

The key control of verifying masterfile amendments to supporting documentation cannot be performed with the inability to run the audit report.

The lack of reporting increases the risk of errors and possible system implementation or data migration issues remaining undetected. It also creates an opportunity for fraud to occur.

##### **Implication**

The absence of an independent review process over all payroll masterfile changes detracts from the accountability of those processing changes, decreases the likelihood of errors being detected and increases the risk of unauthorised or fraudulent transactions being processed without detection.

##### **QAO recommendation**

We recommend that as a matter of priority, council implement effective reporting from the new payroll system and ensure controls are implemented to provide sufficient review over key reports.

##### **Management response**

Agreed: Management is working through a prioritised list of reports with some reports (eg WH&S) completed.

Work on the overall suite of reports required for the E-Hub solution (SAP HR, Payroll, Recruitment, On-Boarding and Learning Management) with progress impeded by the resources also required to work on the implementation, defects resolution, system support, system update and back pay activities required by the new EBA signed off in January 2019.

Progress on the reports has been further slowed by the following.

- Limitations of the SuccessFactors and Employee Central Payroll reporting facilities resulting in extracts having to be taken from these systems and loaded into an Oracle Discoverer Plus reporting area to allow creation of the reports, and publishing to the Business Area staff that run them.
- Research required to identify the data available through the SuccessFactors and Employee Central Payroll reporting facilities, and data set joins

Council is investigating a SAP approved third party reporting solution offered by Spinifex to address the reporting difficulties outlined above.

Responsible officer: Business Systems Coordinator

Status: Work in progress

Action date: 28 June 2019



## 2. Internal control issues cont'd



### Significant deficiency

#### 19IR-3 Insufficient segregation of duties in maintaining SAP system

##### *Control activities*

Twenty-six user accounts have privileged access within the SAP system. These users have access to all functions, including maintaining the system, managing user access, changing system security and changing data. This has resulted in a lack of segregation of duties.

Management advised that SAP support staff use this access to resolve unexpected issues. We acknowledge that SAP support staff have limited time to resolve any issues that may arise because of the weekly payroll cycles.

##### **Implication**

Inadequate segregation of duties exposes council to the risks of unauthorised:

- changes to the system
- access to sensitive information
- transactions being processed.

These unauthorised activities may not be detected.

##### **QAO recommendation**

We recommend that council:

- develops a plan to implement segregation of duties between staff members that perform system maintenance and those that manage user access and security
- defines and implements detective and monitoring controls while the segregation of duties is not implemented through system access restriction.

##### **Management response**

SAP support personnel segregation of duties – We will inform SAP Support Vendor of the segregation of duties requirement and agree a plan for their implementation of them.

System access monitoring controls – We will identify the system access reporting available and implement a weekly run and review of it for follow up on unauthorised or suspicious activity.

Responsible officer: Business Systems Coordinator

Status: Not started

Action date: SAP support personnel segregation of duties - 30 November 2019

Implement system access monitoring controls - 30 September 2019



## 2. Internal control issues cont'd



### Significant deficiency

#### 19IR-4 Critical security settings are not enabled in SAP system

##### *Control activities*

Council has not enabled the critical security settings in the SAP system to:

- protect the system against intentional or unintentional overwriting
- prevent accidental loss of data or SAP deletion programs from automatically resetting data in error.

In addition, the password settings are weaker than council's directive and the SAP system is not configured to prevent users from setting commonly used words as their passwords.

##### **Implication**

Council is exposed to the risk of intentional or unintentional overwriting of the system, accidental loss of data and data integrity issues. In addition, weak password controls increase the risk of unauthorised access to the system.

##### **QAO recommendation**

We recommend that council:

- enables security settings to protect the system from being overwritten and to prevent accidental loss of data
- updates SAP password settings in accordance with council's directive on ICT password management
- defines restrictions on commonly used words for passwords.

##### **Management response**

System overwrite and deletion protection settings: We will work with Councils SAP Support Vendor to configure the controls identified in this recommendation.

SAP password settings: Council's ICT Branch Security Officer will work with Council's SAP Support Vendor to achieve update of the SAP password settings.

Responsible officer: Business Systems Coordinator

Status: Not started

Action date: 31 August 2019







### Significant deficiency

#### 19IR-5 Processes and oversight in managing SAP system

##### *Control activities*

Council has not defined or formalised the following processes for managing the SAP system:

- User access management:
  - external service organisation notifying council when they add new users to the system
  - external service organisation promptly removing access when support staff no longer work for them
  - approving the creation of new roles and profiles or update of existing roles and profiles in the system
  - regularly reviewing user accounts not used for an extended period.
- Change management:
  - for SAP support personnel to register, document and obtain council's approval to implement changes
  - to monitor that system changes are tested and approved.
- Security oversight process to:
  - define critical and high-risk system and user administration functions requiring logging and monitoring
  - ensure that access to SAP sensitive functions are restricted and monitored.

##### **Implication**

There is an increased risk of inconsistent practices that could lead to unauthorised access and changes to systems and information. This could result in security breach, unauthorised transactions in the systems or fraud.

##### **QAO recommendation**

We recommend that council defines and implements processes for managing user access, system changes and oversight functions for system security.

##### **Management response**

User access and change management – We will document and obtain formal agreement with Council's SAP Support Vendor for the user access and change management procedures that are in place.

Security - Access to administration functions is restricted to the HR, Payroll and ICT staff that require them to perform their role. We will investigate and implement the logging and monitoring available.

Responsible officer: Business Systems Coordinator

Status: Not started

Action date: 31 August 2019

## 2. Internal control issues cont'd



### Significant deficiency

#### 19IR-6 Privileged user activities not monitored for Pathway and Oracle eBusiness systems

##### *Monitoring*

Council does not monitor the activities of users with high privileges or system administration access to Pathway and Oracle e-Business applications.

##### **Implication**

There is an increased risk of Council not detecting unauthorised activities and transactions in a timely manner.

##### **QAO recommendation**

We recommend that Council defines and implements processes to identify, log and review high risk activities of privileged users.

##### **Management response**

Agreed – We will investigate and implement the logging and monitoring available.

Changes in these systems are noticed by users and reported to the service desk for investigation, which along with the purchasing separation of duties, daily revenue and general ledger reconciliations make it difficult for unexpected changes to go unnoticed.

Responsible officer: Business Systems Coordinator

Status: Not started

Action date: 30 November 2019



## 2. Internal control issues cont'd



### Deficiencies

#### 19IR-7 Incorrect coding of expenses - Corporate credit cards (re-raised)

##### *Control Activities*

We identified instances where corporate credit card expenditure totalling \$14 450 had been incorrectly capitalised. This issue was also reported in 2017 and 2018.

##### **Implication**

Through inappropriate capitalisation, the values of projects will be overstated.

##### **QAO recommendation**

We recommend that:

- council review transactions coded against WIP to assess appropriateness of the coding. All inaccurate coding should be transferred from WIP to operating expenses
- a training information session is provided to key personnel within the business regarding the criteria to determine if expenses are recurrent or capital in nature.

##### **Management response**

Agreed that costs should be reviewed prior to capitalisation to ensure correct costs are capitalised. Following previous recommendations, operating expense codes have been set up for specific projects and project costs are reviewed before capitalisation to ensure expenses capitalised are only of a capital nature.

We will review the specific expenses identified by QAO to confirm if they have been capitalised to an asset or still in WIP yet to be capitalised which would be expected to be identified as part of the costs review before capitalisation.

Where incorrect coding has occurred, it is agreed that further training is to be provided.

Responsible officer: Finance Manager

Status: Work in progress

Action date: 30 September 2019



## 2. Internal control issues cont'd



### Deficiencies

#### 19IR-8 Independent verification of vendor bank details not documented (part re-raised)

##### *Control Activities*

We reviewed 22 vendor bank account changes and identified 12 instances where there was no supporting documentation to indicate the details of the independent call being made to confirm the vendor's bank account details (eg date and name of person contacted).

We raised this as part of a wider issue during our 2018 interim audit. A new form was implemented in January 2019. The instances identified relate to the old form.

##### **Implication**

Increased risk of unauthorised or inappropriate changes being made to vendor masterfile records, which may result in duplicate payments, payments being made to incorrect bank accounts or fraud.

##### **QAO recommendation**

We recommend the continued use of the new supplier setup/final checks form in all cases of vendor bank changes to ensure the necessary details have been recorded.

##### **Management response**

As noted in the issue raised; a new form has been implemented in January 2019 to ensure recording of the name and date of the person contacted.

Prior to this, whilst the process outlined that calls would be made and staff as part of the approval emailed that "details checked and are correct"; management accepts that it did not provide evidence of the verification as there was no record on the approval of the person spoken with.

Responsible officer: Finance Manager

Status: Work in progress

Action date: 30 June 2019



## 2. Internal control issues cont'd



### Deficiencies

#### 19IR-9 Lack of effective control when changing employee bank account

##### *Control Activities*

Through discussions with payroll staff, we identified that there are insufficient procedures and controls in place to verify the authenticity of employee bank account changes received through email. Given the recent fraudulent activity in the Queensland public sector in relation to malicious emails requesting changes to payroll bank accounts, it is timely that council reviews its controls and processes in this area.

##### **Implication**

Increased risk of unauthorised or inappropriate changes being made to employee masterfile records which may result in payments made to incorrect bank accounts and increases the risk of fraud.

##### **QAO recommendation**

It is recommended that:

- ICC employees are encouraged to amend their bank details through employee self-service or through a signed change of personal details form;
- any requests for changes received through email are authenticated directly with the employee and not by return email. Caution should be taken when the email is from a private email address;
- changes to bank details are processed in the system by an officer who does not have payroll privileges; and
- the employee is informed when the requested change has been completed through the use of the employee's registered business email address.

##### **Management response**

Agreed – Management will review the process for payroll bank account changes. The new E-hub System provides easier capability for employee self-service to change accounts. Management will as part of the review outlined in 19IR-1 assess the segregation of HR and payroll functions and the process for field-based staff.

Responsible officer: Manager, People and Culture

Status: Work in progress

Action date: 31 August 2019





### Deficiencies

#### 19IR-10 Managing access to Pathway and SAP systems

##### *Control Activities*

We noted that:

- Users asked for 'same as access provided to another user' when requesting additional access to Pathway application. These users did not specify the level of access privileges (roles/profiles) that they need. This is due to the complexity of Pathway access privileges and the design of the profiles. As a result, council relies on the diligence and in-depth knowledge of the system administrators to review and ensure that they assign access that the users need.
- There were nine generic accounts, six of these were service accounts, and 21 potential duplicate user accounts in the SAP system.

##### **Implication**

There is a risk that a user can inherit additional access that they do not need, from the existing user in the Pathway system. In addition, if key personnel are not available, council will not have maintained the knowledge of security design within Pathway system.

The use of generic accounts, including service accounts, and duplicate accounts in the SAP system reduces accountability as it is difficult to trace activities of these accounts to specific users.

##### **QAO recommendation**

We recommend that council:

- considers the design of roles and profiles that they can apply consistently across users when implementing any new systems in the future
- reviews the appropriateness and use of generic accounts and assign owners if generic accounts are needed
- considers modifying the generic accounts to be set as system accounts
- reviews the identified potential duplicate user accounts and removes them if they are not appropriate.

##### **Management response**

'Same as access' for Pathway system:

Roles are currently under review and update by the team in People and Culture working on implementation of the Performance and Goals module within the E-Hub solution.

We will look again at the Pathway access instructions to see if they can be simplified for use by a larger number of support personnel.

We will also look at what can be performed from a profile perspective.

Generic accounts in SAP system:

Council will investigate and resolve as generic users is against our practice, and duplicate users should not exist.

Responsible officer: Business Systems Coordinator

Status: Work in progress

Action date: Pathway system – 31 December 2019

SAP system – 31 July 2019



## 2. Internal control issues cont'd



### Deficiencies

#### 19IR-11 Security configuration for the information technology network (re-raised)

##### *Control Activities*

Users access council's network to log into Pathway and Oracle e-Business applications.

We noted there are:

- inconsistencies between council's ICT password management directive to the password security settings of the network. The existing security settings are weaker than those defined in the directive.
- twenty network user accounts that do not require users to change their password regularly (i.e. passwords set to never expire).

##### **Implication**

Unauthorised access can be gained into the system and this increases the risk of unauthorised activities and transactions.

##### **QAO recommendation**

We recommend that council:

- updates password security settings for the network to be in line with the directive
- reviews the appropriateness of user accounts, for which passwords do not expire and update the expiry settings as appropriate.

##### **Management response**

Password security settings - Council's ICT Security Officer raised this issue at a meeting earlier this month, at which it was agreed for work to begin on identifying and addressing the factors required to allow strengthening of password settings, and conformance with the directive.

Passwords set to never expire - An ongoing activity is in place to move all user accounts to be subject to the standard password expiry / reset timeframe. We will follow this up as while there are a number of system service accounts required to be set to password never expires, last advice was there were no longer any user accounts with never to expire.

Responsible officer: Business Systems Coordinator

Status: Work in progress

Action date: Password security settings - 30 September 2019

Passwords set to never expire - 31 July 2019




### 3. Prior year issues



#### Status

The following table summarises the status of issues and other matters reported by audit in prior years.



Reference	Issue	Status
 <b>Internal control issues – Significant Deficiencies</b>		
18IR	<b>Financial Delegation Deficiencies</b> <i>Control Environment</i> Council's Instruments of Sub-Delegation for Contracts and Purchasing were not signed as approved by the Chief Executive Officer and not recently reviewed by council and therefore out of date.	Resolved
18IR	<b>Employees receiving termination payments through deed of release</b> <i>Control Activities</i> Four employees were terminated through a 'Deed of Release'. There is no policy or guidance on the scenarios where a Deed of Release is appropriate, nor the level of supporting documentation required. There is also no framework for establishing a reasonable payout amount.	Resolved
18IR	<b>Lack of detailed evidence to support action taken to verify vendor Masterfile changes/additions</b> <i>Control Activities</i> There was a lack of detailed evidence to support action taken to verify vendor Masterfile additions/changes in 15 vendor Masterfile changes audit reviewed.	Resolved. Re-raised in part– refer to deficiency 19IR-8
18IR	<b>Lack of automated controls surrounding financial delegations for purchase orders raised</b> <i>Control Activities</i> Current system design and workflow practices allow for a combination of previously authorised purchase requisitions to form a single purchase order to a vendor, where the combined value exceeds the delegation level of the highest approving officer.	Work in progress Being considered as part of Transformational Project
18FR	<b>No policies or procedures in relation to developer infrastructure contributions</b> <i>Control Environment</i> There are no documented policies or procedures to reflect the processes for assessing, levying, monitoring, collecting, reporting and reconciling developer contributions revenue to supplement the requirements as set out in the <i>Planning Act 2016</i> , Ipswich Planning Scheme and the Adopted Infrastructure Charges Resolution.	Work in progress Implementation date – 30 June 2019
18FR	<b>Reconciliation of ICN Register to Pathway for outstanding developer infrastructure contributions</b> <i>Control Activities</i> Numerous applications were included in both Pathway and the ICN register that had lapsed or had lapsed and been replaced with a new application and hence included twice. These applications are still reported in the contributions report. There were also numerous differences between the ICN register and Pathway.	Work in progress Implementation date – 30 September 2019
18FR	<b>Lack of transparency in calculation of fee variations</b> <i>Control Activities</i> Limited documentation was available to support the calculation, determination, and justification of fee variations for Development Application fees. We recommended that a procedure be prepared to support the Fees and Charges Register in the determination of fee variations.	Work in progress Implementation date – 30 June 2019

Reference	Issue	Status
18FR	<b>Enterprise Risk Management</b> <i>Risk Assessment</i> Council's overall Enterprise Risk Management should be finalised, approved and implemented as a matter of priority.	Work in progress Being considered as part of Transformational Project Implementation date – 31 December 2019
18FR	<b>Monitoring of arrangements with beneficial enterprises and other entities</b> <i>Monitoring</i> We identified a relationship with Cherish the Environment Foundation Limited (Cherish). We requested council to assess whether the council had control or significant influence over the entity. This resulted in Cherish being assessed as a controlled entity of council. We recommended that Council review and understand its relationship with all organisations that it has an interest in, and actively monitor the activities of all these organisations	Work in progress Implementation date – 30 June 2019



#### Internal control issues – Deficiencies

18IR	Payroll Masterfile changes	Resolved Control no longer in place. Refer to 2019 significant deficiency 19IR-2
18IR	Capitalisation date of assets	Resolved
18IR	Accuracy and completeness of PPE reconciliation	Resolved
18IR	Non-compliance with community and citywide donations policy	Resolved
18FR	Bank reconciliation deficiencies	Resolved
18FR	Untimely processing of disposals when renewing an asset	Resolved pending audit verification
18FR	Insufficient action taken for long outstanding WIP projects ( <i>Monitoring</i> )	Work in progress Implementation date – 30 June 2019
18FR	Redundant purchase order data in Oracle	Resolved
18FR	Completeness and existence exceptions in relation to artwork ( <i>Control Activities</i> )	Work in progress Implementation date – 31 March 2019
18FR	Payments made to a community organisation ( <i>Control Environment</i> )	Work in progress Implementation date – 30 June 2019
18FR	Assessment over current legal claims ( <i>Monitoring</i> )	Work in progress Implementation date – 30 June 2019

Reference	Issue	Status
18FR	Non-compliance with Councillor Expenses Reimbursement and Administrative Support Procedures (Control Activities)	Work in progress Being considered as part of Transformational Project Implementation date – 31 December 2019
18IR	Internal audit plan requires updating (Monitoring)	Work in progress Implementation date – 31 December 2019
18IR	Security configuration for Active Directory (Control Activities)	Re-raised Refer to deficiency number 19IR-11
18IR	System access for users who changed their roles and responsibilities in Council (Control Activities)	Resolved
18IR	Managing access to council's network (Active Directory) (Control Activities)	Re-raised Refer to deficiency number 19IR-11.
17IR	Incorrect coding of expenses – corporate credit cards (Control Activities)	Re-raised Refer to deficiency number 19IR-3.
 <b>Financial reporting issues</b>		
18FR	No formal impairment assessment undertaken by Council	Work in progress Implementation date – 30 June 2019
 <b>Other matters</b>		
18IR	Current contract management reporting may not readily assist in analysing and reporting over procurement	Work in progress Being considered as part of Transformational Project
18IR	Procurement planning and risk treatment could be improved	Work in progress Being considered as part of Transformational Project
18IR	Vendors with an ABN Status of cancelled	Resolved
18FR	Valuation of Artwork	Resolved – pending audit confirmation

## 4. Appendix A—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. 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>

## 5. Appendix B—Information on internal controls



### 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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