

Your ref:
Our ref: 2021-4167
Lisa Fraser 3149 6132

9 November 2021

Councillor T Harding
Mayor
Ipswich City Council
PO Box 191
IPSWICH QLD 4305

Dear Councillor Harding

Final Management Report for Ipswich City Council

We have completed our 2021 financial audit for Ipswich City Council and issued an unmodified audit opinion on your financial statements.

This letter provides you with details on audit matters and other important information related to the audited financial statements.

Please note that under section 213 of the *Local Government Regulation 2012*, you must present a copy of this letter at the next ordinary meeting of the Council.

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.

Consistent with prior years we intend to include the results of our audit of Ipswich City Council and its controlled entities 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 \$293,500 exclusive of GST (2020: \$275,000). This fee is higher than our original estimate of \$275,000. We have discussed the key factors contributing to the fee variation with your Chief Financial Officer. The main contributing factor was the additional substantive audit testing procedures that were required due to deficiencies identified in internal controls. An additional fee of \$3,500 will also be charged for a new grant acquittal required this year.

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 6132.

Yours sincerely

A handwritten signature in blue ink that reads "Lisa Fraser". The signature is written in a cursive style with a large, flowing 'L' and 'F'.

Lisa Fraser
Director

Enc.

cc. Ms S Cooper, Acting Chief Executive Officer, Ipswich City Council
Mr R Jones, Chair of the Audit and Risk Committee

Appendix A1—Internal control issues



Significant deficiencies, deficiencies and other matters

The following table details control deficiencies and other matters identified since our last report dated 22 April 2021. 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
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Deficiencies

CR21-1 Incomplete publication of contracts awarded greater than \$200,000 {Information and Communication}

Observation

The *Local Government Regulation 2012* requires that councils, as soon as practicable after entering into a contractual arrangement worth \$200,000 or more, publish the relevant details on the council's website. We identified eleven contracts awarded over \$200,000 where details had not been published on the council's website.

We were advised that the exceptions were primarily due to timing issues associated with the signing of contracts and the dates of reports run to identify contracts requiring publication on the council website. Details of these awarded contracts have subsequently been added to the council website.

Implication

Non-compliance with the publication requirements of the Local Government Regulation reduces transparency of council's procurement related activities.

QAO recommendation

We recommend that Council review its processes for publication of details of material contracts awarded, including retrospective review controls, to ensure the timeliness and completeness of the information included on the council's website.

Management response

We agree with QAO's recommendation. Council has updated the date parameters of the report used to publish data on the Transparency Hub to ensure that contracts are published in a timely and complete manner. The audit identified that any contract signed during the current month but with a contract effective date in the previous month, was missed on the Transparency Hub over \$200,000 report

Status: Resolved


Action date: 15 April 2021

Appendix A2—Matters previously reported



Status

The following table summarises all control deficiencies, financial reporting issues and other matters that have previously been raised but are not yet resolved. The listing includes issues from our Interim Report and unresolved issues raised in prior years.

Reference	Issue	Status/Comment action date
Internal control issues		
 Significant deficiencies		
21IR-1	Access configuration for the database of Oracle E-Business (EBS) application (Control Activities)	Resolved pending audit verification Council advised that the access configuration for the Oracle eBusiness application has been reviewed and strengthened with password settings and logging of high privileged users updated as recommended.
21IR-3	Segregation of duties between HR and Payroll functions in the SAP Payroll application (re-raised) (Control Activities)	Resolved pending audit verification
21IR-4	Automated controls over purchase processes in Oracle EBS application (re-raised) (Control Activities)	Resolved pending audit verification QAO's recommendation in relation to the development and regular reporting of "Purchase Orders Exceeding Delegation Authority" has been resolved with the report distributed on a quarterly basis. QAO's recommendation to develop an automated report to capture instances of supplier invoices with differences from the approved purchase order has been actioned. The report has been written and tested and deployed to production on 16 September 2021. The report will be reviewed monthly. QAO's third recommendation to update the Oracle EBS application to ensure that any invoices that do not match the approved purchase order will require further approval in line with Council delegations has been investigated, with Council advised it would require significant customisation. As Council's iVolve project will result in upgrade or replacement of Oracle eBusiness the recommendation will inform the development of iVolve business requirements.

Appendix A2—Matters previously reported (cont.)



Reference	Issue	Status/Comment action date
Internal control issues		
Deficiencies		
21IR-2	Management of access and changes for the SAP payroll application (Control Activities) Note—this item was previously classified as a significant deficiency and has been reclassified as a deficiency based on progress made to address the audit recommendations.	Work in progress One remaining QAO recommendation to action is to configure SAP payroll to prevent users from using commonly used words or phrases in their passwords. Council advised that it has implemented relevant processes and controls for the remaining recommendations. We will test the operating effectiveness of the implemented processes in our next interim visit. Action date: 31 October 2021
20FR-1	Untimely reconciliation between physical asset register and fixed asset register (Control activities) Council maintains a physical asset register (PAR) containing physical attributes of assets (but no financial data) and a separate Fixed Asset Register (FAR) that includes only financial data (but no physical attributes) in relation to the assets. Due to data limitations in each register, frequent reconciliations are not able to be performed between the FAR and PAR to confirm the completeness of these registers for all asset classes. Furthermore, the reconciliation performed of asset additions, since the date of the prior comprehensive revaluation has limitations and does not result in confirmation of asset attributes.	Work in progress Council has performed a high level reconciliation of roads, bridges and footpaths asset additions since the last comprehensive revaluation. Council will continue its current processes of reconciling the PAR and FAR for the specific class of asset being comprehensively revalued in that financial year. The full implementation of the recommendation will be addressed through the implementation of a new Asset Management System and Finance System through the iVolve project. Action date: A strategic project—Effective Asset Management has commenced.
21IR-7	Management of access for the Oracle E-Business Suite (EBS) application (Control activities)	Work in progress Council advised that it has created the script to generate the reports for performing user access review and prepared the 'how to' document. The review of user access will commence end of October 2021. Action date: 31 October 2021

Appendix A2—Matters previously reported (cont.)



Reference	Issue	Status/Comment action date
Internal control issues		
Deficiencies		
19CR-3	Valuation of contributed assets (Control activities) In our 2019 final report we noted that developers engage engineers to advise quantities and values of assets contributed to Council and that Council does not perform detailed checks or reasonableness checks over unit rates and valuations provided.	Work in progress A high level assessment is performed over the valuation of donated assets by council engineers and asset management. Finance and Asset Management have documented the current processes in Promapp (“Capitalise Donated and Contributed Assets” and “Validate Physical Assets from Development Donation for Financial Capitalisation”) Now that Council has introduced the Asset Design As Constructed (ADAC) methodology from 1 July 2021, Finance and Asset Management will be able to perform a more detailed analysis of unit rates for contributed assets with development applications submitted after 1 July 2021. Action date: 30 June 2022
21IR-5	Maintenance of supplier master data in Oracle EBS application (Control activities)	Resolved pending audit verification
21IR-6	Management of access to the network (Control Activities)	Resolved pending audit verification
20FR-2	Capitalisation date of contributed assets (Control activities) In our 2020 final report we noted that Council used inconsistent ‘on maintenance’ dates for contributed assets and that dates for asset capitalisation were sometimes different to the date that revenue is recognised.	Resolved
18FR-9	Untimely processing of disposals when renewing an asset (Control activities) In our 2018 report we noted delays in disposing of assets (where new assets had been constructed, warranting disposal of the replaced assets).	Resolved

Appendix A2—Matters previously reported (cont.)



Financial reporting and other issues

Other matters

21IR-8	<p>Vendor support for the Oracle EBS application</p> <p>Vendor support for both the Oracle EBS application and its underlying database will expire within the next 18 months.</p>	<p>Work in progress</p> <p>This will be guided by Council's iVolve Project.</p> <p>Once the Council's version of the Oracle EBS application moves beyond the support timeframe it is anticipated that Council will still be able to acquire support until such time as an upgrade to the application or move to another solution occurs.</p>
18IR-15	<p>Current contract management reporting may not readily assist in analysing and reporting over procurement</p> <p>In our 2018 report we noted that production of management reports was not timely and required substantial resources to prepare. Furthermore, there was no defined and documented quality review process.</p> <p>To achieve an integrated level of procurement reporting, reporting should include high risk contracts, analysis of procurement strategies, vendor trends and monitoring of vendor performance. Optimised reporting would include reporting in real time through dashboards.</p>	<p>Work in progress</p> <p>The Procurement Branch has published a weekly Contract Management Report since January 2021. The branch continues to develop its procurement reporting framework, with some regular reporting in place.</p> <p>Action date: 30 March 2022</p>

Appendix B—Our rating definitions



Internal rating definitions

	Definition	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. 	<p>This requires immediate management action to resolve.</p>
Deficiency 	<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>
Other matter 	<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
High 	<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>
Medium 	<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>
Low 	<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>