

Your ref:  
Our ref: 2019-4167  
Patrick Flemming 3149 6041

30 October 2019

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

Dear Mr Chemello

### **Final Management Report for Ipswich City Council**

We have completed our 2019 financial audit for Ipswich City Council (ICC). I have issued an unmodified audit opinion on your financial statements.

The purpose of this letter is to provide the council with details on audit matters and other important information related to the audited financial statements.

### **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. A status update on previously reported issues is included as Appendix B. Our rating definitions for internal control deficiencies is shown in Appendix C.

This letter is required under section 213 of the Local Government Regulation to be presented at the next ordinary meeting of the council.

### **Report to parliament**

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

This year we intend to include the results of our audit of Ipswich City Council in a report to parliament. In this report, we will comment on the results of our audit of your financial report, financial position, performance and sustainability matters, and any significant internal control issues we identified. This report is prepared in accordance with the *Auditor-General Act 2009*.

### **Audit fee**

The final audit fee for this year is \$323,500 exclusive of GST (2018: \$475,500). As communicated to the Audit and Risk Committee on 19 June, this fee includes an increase of \$25,000 to the original audit fee estimate stated in our external audit plan. This increase reflects the additional substantive procedures required over the payroll system due to the weaknesses identified in payroll internal controls.

We would like to thank you and your staff for their engagement in the audit.

If you have any questions about this letter or would like to discuss any matters regarding our audit service, please contact me on 3149 6041 or Lisa Fraser, Engagement Manager on 3149 6132.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'P. Flemming', with a stylized flourish at the end.

Patrick Flemming  
Sector Director

cc: Mr D Farmer, Chief Executive Officer, Ipswich City Council  
Mr G Stratford, Chair of the Audit and Risk Committee

## Appendix A

### New issues identified since our interim management letter dated 28 June 2019

This table provides you with a summary of issues that we have formally reported to management.

#### Internal control issues - Significant Deficiencies

Ref	Issue	Our recommendation	Status
19CR-1	<p><b>Guarantees provided by ICC – approval and monitoring of financial arrangement</b></p> <p><i>(Information and Communication)</i></p> <p>Type 1 and Type 2 financial arrangements entered into by Ipswich City Council (ICC) require prior approval by the Treasurer under section 60A of the Statutory Bodies Financial Arrangements Act 1982 (SBFA). A type 1 financial arrangement includes "entering into an .....guarantee.....to meet liabilities or obligations" (paragraph (e) in the schedule dictionary).</p> <p>From 2018, Cherish the Environment Foundation Limited (CTEF) is a controlled entity of ICC. Organisations with environmental offset obligations can engage CTEF to undertake environmental offset projects on their behalf to meet those obligations. CTEF entered into contractual arrangements with three external organisations for which ICC was required to act as guarantor. These agreements totalled \$4,098,845 and ICC as guarantor would be required to discharge these obligations in the event that CTEF is unable to.</p> <p>ICC has not obtained the Treasurer's approval to enter into this Type 1 financial arrangement. Council has not formally monitored the discharge of the CTEF obligations for the purpose of minimising the risk that it would be required to meet CTEF's obligations.</p> <p>The risks to ICC is that:</p> <ul style="list-style-type: none"> <li>• ICC has breached the requirements of the SBFA 1982 by not obtaining the Treasurer's approval to enter into the Type 1 financial arrangement; and</li> <li>• ICC is not aware of its current exposure concerning the guarantees provided.</li> </ul>	<p>We understand that retrospective Treasurer's approval cannot be obtained for these financial arrangements however, the Treasurer should be notified of these arrangements. It is also recommended that council:</p> <ul style="list-style-type: none"> <li>• assess its current exposure in terms of these, and any other, guarantees it has provided.</li> <li>• establish and monitor a Register of Guarantees provided by ICC.</li> </ul>	<p><b>Management Comment:</b></p> <p>Council agrees with the observation and recommendations and notes that the guarantees were signed by the former CEO in 2015.</p> <p><b>Responsible Officer:</b> Treasury Accounting Manager</p> <p><b>Status:</b> Work in Progress</p> <p><b>Due date:</b> 31 December 2019</p>

## Internal control issues - Deficiencies

Ref	Issue	Our recommendation	Status
19CR-2	<p><b>Exceptions identified during contributed assets testing</b> (Control activities)</p> <p>During testing over developer contributions of physical assets, audit identified the following exceptions:</p> <ul style="list-style-type: none"> <li>Two grouping of additions (valued at \$2.2m and \$1.1m) were incorrectly processed twice, materially overstating revenue and property plant and equipment.</li> <li>Three individual assets have been recorded at incorrect values due to typographical errors <ul style="list-style-type: none"> <li>Asset 1 - Recorded at \$170,070.00 as opposed to \$174,070.00</li> <li>Asset 2 - Recorded at \$344,115.60 as opposed to \$34,115.60</li> <li>Asset 3 - Recorded at \$304,694.60 as opposed to \$323,594.60</li> </ul> </li> <li>One individual asset (valued at \$84,150) was recorded in the Financial Apportionment Form (FAF) as a contributed asset but not recorded as an addition.</li> <li>One grouping of additions (valued at \$1,362,040) were capitalised based on the FAF which could not be produced/provided.</li> <li>One FAF was not signed by the Developer engaged engineer. This was accepted by council as the FAF was provided as part of a submission package which was authorised.</li> </ul> <p>With ineffective controls around the entering and processing of the contributed assets, the fixed asset register may not be accurate and complete. This could lead to misstatement in revenue, depreciation and property plant and equipment.</p>	<p>It is recommended that Council:</p> <ul style="list-style-type: none"> <li>Implement a more stringent review process over the entering and processing of contributed assets.</li> <li>Ensure all supporting documentation is provided and appropriately authorised.</li> </ul>	<p><b>Management Comment:</b></p> <p>Council acknowledges the duplication and errors. Council will enforce accuracy of data entry and has improved the donated asset reconciliation and tracking process in relation to notifications received from Planning and Regulatory Services Department for assets “on and off” maintenance and capitalisation of the assets to avoid duplication.</p> <p>Finance contacted Planning and Regulatory Services Department in July 2019 about the completeness of notifications being emailed to Asset Accounting. Finance now returns incomplete documentation to PD compliance officers for rectification and resubmission.</p> <p><b>Responsible Officer:</b> Business Accounting Manager</p> <p><b>Status:</b> Work in Progress</p> <p><b>Due date:</b> 31 October 2019</p>

Ref	Issue	Our recommendation	Status
19CR-3	<p><b>Valuation of Contributed Assets</b> (Control activities)</p> <p>Developers are required to engage a register professional engineer to certify and oversee all stages of delivery of the development. The engaged engineer is responsible for completing the council Financial Apportionment Form (FAF). The FAF includes the quantity and assessed value of all physical assets which are being contributed by the developers to council. Council does not perform a detailed review or reasonableness check over the unit rates and valuations provided by the developer engaged engineer. Council use these values as the fair value of the contributed assets at the time of donation (acquisition).</p> <p>By relying on the engaged engineer for the value there is a risk that the contributed assets are not accurately recorded at fair value. This could lead to a material misstatement of revenue and property plant and equipment.</p>	<p>It is recommended that Council apply their own unit rates against the physical assets contributed by developers to determine a fair value at time of acquisition for recognising revenue (in settlement of infrastructure charges) and recording in the fixed asset register.</p>	<p><b>Management Comment:</b> Council acknowledges QAO's recommendation.</p> <p>Council's planning, asset management and finance teams will review and consider QAO's recommendation to fully understand the recommended process and the implications.</p> <p><b>Responsible Officer:</b> Manager, Engineering, Health and Environment</p> <p><b>Status:</b> Not Started</p> <p><b>Due date:</b> 31 March 2020</p>
19CR-4A	<p><b>Accuracy, completeness and understandability of PPE reconciliation</b> (Control activities)</p> <p>The reconciliation between the fixed asset register (FAR) and the general ledger (GL) is confusing. All adjustments / reconciling items to the GL are collated with the FAR balances and subsequently are lost amongst the detail. It was noted that for two of the asset classes the balances did not equal the sum of the line items. Audit has consistently encountered issues with the PPE reconciliation, with similar difficulties noted during prior year testing.</p> <p>There is an increased risk that errors in the PPE reconciliation may not be detected in a timely manner.</p>	<p>It is recommended the template utilised for the FAR to GL reconciliation is adjusted to clearly identify the balance:</p> <ul style="list-style-type: none"> <li>• per the general ledger</li> <li>• per the fixed asset register</li> <li>• of individual reconciling items.</li> </ul> <p>It is recommended that the support (e.g. journal entries and supporting narratives) for each of the reconciling items are also attached to the reconciliation.</p>	<p><b>Management Comment:</b> Council will review the PPE reconciliation and implement changes to clearly identify the balance for the general ledger, fixed asset register and individual reconciling items. Supporting documentation like journals will also be attached to the reconciliation.</p> <p><b>Responsible Officer:</b> Business Accounting Manager</p> <p><b>Status:</b> Work in Progress</p> <p><b>Due date:</b> 31 October 2019</p>

Ref	Issue	Our recommendation	Status
19CR-4B	<p><b>Improvements required to the stocktake process for plant and equipment</b>  <i>(Control activities)</i></p> <p>During review of the stocktake results over plant and equipment it was noted that:</p> <ul style="list-style-type: none"> <li>there were 70 items that had been marked as not found (net book value \$216,000) but as at 30 June 2019 these assets were still recorded in the fixed asset register. Audit was advised that these items will be followed up during the next stocktake.</li> <li>The stocktake memorandum (or other documentation) did not identify the number of assets that were unable to be located or specific details in relation to the individual assets or their value.</li> </ul> <p>In the absence of sufficient controls and procedures over the stocktake process;</p> <ul style="list-style-type: none"> <li>Plant and equipment and depreciation may be misstated</li> <li>misappropriation may not be identified</li> <li>the results of the stocktake being reported to management is not clear to allow the above to be assessed.</li> </ul>	<p>It is recommended that improvements to the stocktake process are implemented including:</p> <ul style="list-style-type: none"> <li>thorough follow up processes for assets that are not located. If the assets are still not located, corrective action undertaken in the current financial year (e.g. write off/disposal)</li> <li>a summary of the stocktake results be provided to the General Manager, Corporate Services including details of assets not found and the total impact of the write off/disposal</li> <li>an assessment of whether missing assets have been misappropriated and consideration given to appropriate reporting requirements.</li> </ul>	<p><b>Management Comment:</b></p> <p>Council agrees with the need to follow up items “not found” on a more timely basis.</p> <p>Council will implement changes in the stocktakes process as Finance will escalate outstanding items of assets that are not located to department management for corrective action. If stocktake items are still outstanding by end of financial year, Finance will recognise those outstanding stocktake items as either impaired or written off.</p> <p>The report to the General Manager, Corporate Services will also be updated.</p> <p><b>Responsible Officer:</b> Business Accounting Manager</p> <p><b>Status:</b> Not Started</p> <p><b>Due date:</b> 31 December 2019</p>

Ref	Issue	Our recommendation	Status
19CR-5	<p><b>Exceptions identified in SAP Payroll Payments</b> (Control activities)</p> <p>When performing payroll testing for the six month period post the implementation of SAP on 13 November 2018, audit identified the following exceptions. For each pay period:</p> <ul style="list-style-type: none"> <li>16 employees have been underpaid as a result of incorrect salary tables held within SAP. Total underpayments are approx. \$225.</li> <li>Five employees have been underpaid due to an error when migrating their payscale into SAP from Oracle. This included the CIVIC1 and CIVIC2 payscales which were not in-line with EBA scales. Total underpayments are approx. \$1,715.</li> <li>Absence of superannuation data within the SAP system led to council not contributing superannuation to an employee for the duration of their employment (20 November 2018 to 10 January 2019) totalling \$953.</li> </ul> <p>One employee's substantive annual salary has not been updated to reflect EBA changes from Oct 2018. This has not led to an underpayment as the employee is currently performing higher duties where their rate has been confirmed as accurate.</p> <p>Due to a system error, one employee received a duplicate termination payment of \$105,000. It is acknowledged that council are aware of this discrepancy and this duplicate payment has since been refunded to council.</p> <p>There is an increased risk of employee benefits not being calculated correctly resulting in under/over payments.</p>	<p>It is recommended that robust processes be implemented when verifying data migration during system implementations. In our interim report, we raised an issue regarding the absence of system generated reports within SAP. Some of the discrepancies noted above may have been identified if exception reporting was implemented.</p>	<p><b>Management Comment:</b> Management agrees to implement exception reporting or other measures to identify discrepancies. All exceptions noted by QAO have been corrected. As part of implementing any reporting or additional measures, management will confirm with QAO whether the exceptions in relation to salary tables were as a result of the implementation / transition to the new system or on-going payroll operations. This will determine if the response will be learnings and changes in relation to systems upgrades or changes required to regular payroll control measures and reporting.</p> <p><b>Responsible Officer:</b> Manager ICT &amp; Manager People and Culture <b>Status:</b> Work in Progress <b>Due date:</b> 31 December 2019</p>
19CR-6	<p><b>Reconciliation between SAP HR and Oracle</b> (Control activities)</p> <p>We raised a significant deficiency in our interim report in relation to the absence of system generated payroll reports. During our final visit we identified that there is no reporting function available to facilitate the reconciliation of SAP HR data to the Oracle general ledger.</p> <p>As such, there is currently no reconciliation completed between SAP HR data and Oracle.</p> <p>If reconciliations are not performed, there is an increased risk of undetected inaccurate and incomplete payroll postings to the general ledger.</p>	<p>Timely performance of payroll reconciliations is a key control to ensure payroll payments are complete and accurate. We recommend that council introduce reporting functionalities that allow the performance of payroll reconciliations on a monthly basis.</p>	<p><b>Management Comment:</b> Agreed, reconciliations are an important control and have only stopped as a result of the reporting from SAP not being available, as outlined in the observation. ICT has implemented Spinifex to enhance reporting and is currently working on reports to enable the reconciliation to be undertaken.</p> <p><b>Responsible Officer:</b> Manager ICT <b>Status:</b> Work in Progress <b>Due date:</b> 30 November 2019</p>

## Other matters

Ref	Matter	Our recommendation	Status
19CR-7	<p><b>Restructure of Ipswich Arts bodies</b></p> <p>The processes and entity structures used by council to manage art acquisitions and donations is unnecessarily complex.</p> <p>Ipswich Arts Foundation (Foundation) and Ipswich Arts Foundation Trust (Trust) are controlled entities of the council. The Foundation, an unincorporated association, performs administrative and managerial services for the Trust but is not the trustee of the Trust. The Trust has two community members as trustees (previously the former Mayor and three community members). The Foundation has its own directors (four different community members) and executive members (currently only the art gallery director, who is an employee of council, but a former councillor and former mayor were also executive members until February 2019). The Ipswich Art Gallery, its staff and the artworks it displays are part of council.</p> <p>Annually, the Foundation processes agency transactions on behalf of the Trust, including receiving community donations of approximately \$25,000 and operating funds from council of \$12,000. In respect of the council funds, the Trust then pays \$1,000 per month back to the Foundation for administrative and managerial services.</p> <p>Cash donations are raised by the Foundation and given to the Trust to acquire artworks. The Trust, which also receives its own donations of cash and artworks, purchases art and transfers this to the council for inclusion in the council collection.</p> <p>On 8 November 2017, the Arts and Social Development Committee recommended to council to proceed with winding up the Foundation and to endorse the creation of a new company to act as sole trustee of the Trust. The Trust will continue to operate with a new company IA Foundation Limited as sole trustee.</p> <p>IA Foundation Limited was registered with ASIC on 12 February 2018, with eight directors which includes the former Mayor and a former councillor. As far as we are aware all these directors are still current.</p> <p>We understand that it was council's intention to transfer the assets and liabilities of the Foundation to the Trust and that IA Foundation Limited would act as the dormant trustee of the Trust. However, to date, this transition has not progressed.</p> <p>During the current and previous financial year, we have raised a number of governance issues with both the Foundation and the Trust. These issues are likely to be resolved when the new structure takes effect, the constitution is finalised, policies and procedures are established, and clear roles and responsibilities of the new entity and the Trust are defined.</p>	<p>We recommend that council, as the parent of each of these entities:</p> <ul style="list-style-type: none"> <li>establishes a clear pathway with a defined timeframe to transition to the new structure and wind up the Foundation</li> <li>assists with finalising the constitution and governance arrangements</li> <li>provides guidance to help develop policies and procedures and establish clear roles and responsibilities for these entities, in line with council's expectations for controlled entities.</li> </ul>	<p><b>Management Comment:</b></p> <p>Council agrees to consider providing support to Ipswich Arts Foundation and Trust</p> <p><b>Responsible Officer:</b> Director Art Gallery and Manager Finance</p> <p><b>Status:</b> Not Started</p> <p><b>Due date:</b> 30 June 2020</p>



Ref	Matter	Our recommendation	Status									
19CR-8	<p><b>IMP bank accounts still open</b></p> <p>Ipswich Motorsport Park Pty Ltd (IMP), a former controlled entity of council was deregistered on 3 September 2018 following a council resolution on 23 April 2018 to wind-up the company. IMP operated the following two bank accounts which continue to remain open:</p> <table><tr><th>IMP Account</th><th>\$ balance as at 30 June 2018</th><th>\$ balance as at 23 September 2019</th></tr><tr><td>Transaction Account</td><td>100</td><td>133.54</td></tr><tr><td>Debit Card Account</td><td>0</td><td>0.14</td></tr></table> <p>As per section 601AD of the Corporations Act 2001 and the ASIC website, once a company is deregistered it ceases to exist as a legal entity and can no longer do anything in its own right, and the former officeholders no longer have the right to deal with property registered in the company's name.</p> <p>For deregistered company bank accounts, the ASIC website states that 'it is inappropriate for a bank account to remain open in the name of a deregistered company. Any funds in a deregistered company's bank account will ordinarily vest in ASIC. If an account registered in the name of a deregistered company is identified it should be immediately frozen'.</p> <p>On 6 November 2018, council emailed the relevant bank advising the circumstances and seeking advice in terms of actions to be taken. At present, these two bank accounts in the name of Ipswich Motorsport Park Pty Ltd remain open and council staff can still access these accounts. We note however that the only transactions for the financial year are interest.</p>	IMP Account	\$ balance as at 30 June 2018	\$ balance as at 23 September 2019	Transaction Account	100	133.54	Debit Card Account	0	0.14	<p>It is recommended that Council continue to liaise with the relevant bank to determine the required actions to be taken and advise ASIC of the circumstances.</p>	<p><b>Management Comment:</b></p> <p>Council agrees with the recommendation and has again recently followed up with the bank to have the accounts frozen and funds transferred to ASIC, and also provided a copy of the ASIC Information Bulletin.</p> <p>Per the ASIC information Bulletin, Banks are required to immediately freeze an account when they are aware that it has been deregistered, close it and transfer the funds to ASIC. The bank was emailed on 6 November 2018 saying that IMP had been deregistered. The Directors and company no longer exist after deregistration so have no ability to sign or action any closure.</p> <p>When lodging for deregistration, having reduced the balance sheet down to \$100 cash and paid up capital, we were aware that the \$100 would vest to ASIC on deregistration.</p> <p><b>Responsible Officer:</b> Treasury Accounting Manager</p> <p><b>Status:</b> Work in Progress</p> <p><b>Due date:</b> 30 November 2019</p>
IMP Account	\$ balance as at 30 June 2018	\$ balance as at 23 September 2019										
Transaction Account	100	133.54										
Debit Card Account	0	0.14										

## Financial reporting issues

Ref	Issue	Our recommendation	Status
19CR-9	<p><b>Inadequate year-end accrual process</b> (Low Risk)</p> <p>We have identified through a sample of subsequent payments that in six of 11 instances no accrual was raised for services performed in financial year 2019. This has resulted in an understatement of the payables balance by \$1.662m (with \$680k relating to expenditure and \$982k relating to work in progress).</p> <p>Where the accruals process is not sufficiently robust there is an increased risk that material transactions may not be recognised in the correct accounting period.</p>	<p>We recommend that management review its current accruals process to ensure it is accurately capturing all accruals.</p>	<p><b>Management Comment:</b> Management will review current accrual and receipting processes to ensure material accruals are captured.</p> <p>Approximately \$1m of the above understatement of payables tested was in relation to two (2) invoices. One related to the CBD construction and Council accepts was not captured through normal processes. The second was in relation to ICT managed services which is consumption based and the branch decided not to accrue the cost as there were 12 months invoices already captured in the financial year.</p> <p><b>Responsible Officer:</b> Manager Finance <b>Status:</b> Work in Progress <b>Due date:</b> 31 October 2019</p>

Ref	Issue	Our recommendation	Status
19CR-10	<p><b>Insufficient evidence supporting a formal impairment assessment (re-raised)</b> (Low Risk)</p> <p>As per accounting standard AASB 136 <i>Impairment of assets</i>, assets must be assessed for indications of impairment annually. Council request asset custodians to assess impairment of assets as part of the annual stocktake. This assessment is not documented in the stocktake results spreadsheet or signed off as part of the stocktake completion form.</p> <p>Email confirmations are also obtained from financial officers in Infrastructure and Environment, Community, Cultural and Economic Development and Planning and Regulatory Services Department. These emails are high level and would benefit from including specific examples of possible impairment relevant to those classes of assets.</p> <p>There is an increased risk that:</p> <ul style="list-style-type: none"> <li>the net book value of assets on the asset register may be inaccurate, resulting in an overstatement of property, plant and equipment</li> <li>incorrect net book values of assets may result in incorrect future investment decisions by management.</li> </ul>	<p>It is recommended that:</p> <ul style="list-style-type: none"> <li>stocktake count sheets include an additional column for impairment assessment for individual assets</li> <li>stocktake completion forms provide an overall confirmation that impairment has been considered and results are documented in the results spreadsheet</li> <li>emails to departmental finance officers include a checklist which includes specific examples for each asset class for possible indicators of impairment.</li> </ul>	<p><b>Management Comment:</b></p> <p>Council will review its process and include checklists as part of identifying impaired assets. Council, as part of the stocktake process, does state impairment needs to be considered when performing a stocktake over assets, but will now include an impairment column in the stocktake count sheets for the custodian to indicate impairment or not for individual assets.</p> <p>Council in assessing impaired assets at end of financial year did email each department requesting the department to assess their assets for impairment, and included in the email was reference to the requirements in AASB 116 Property, Plant and Equipment. Finance then met with the asset management staff from the Infrastructure and Environment Department to clarify what was considered impairment of assets and provided examples from the Non-Current Asset Policies for the Queensland Public Sector, Queensland Treasury and Trade.</p> <p>Council's end of financial year email for assessing impairment will now include a checklist which includes specific examples for each asset class for possible indicators of impairment. In addition to this Council will continue to meet with departments to clarify any question about impairment of assets.</p> <p><b>Responsible Officer:</b> Business Accounting Manager</p> <p><b>Status:</b> Work in Progress</p> <p><b>Due date:</b> 31 March 2020</p>

## Appendix B

### Previously reported internal control deficiencies

#### Significant Deficiencies

Ref	Issue	Status
18IR-4	<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.	<b>Work in progress</b> Being considered as part of Transformational Project Implementation date – 31 December 2019
18FR-4	<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.	<b>Work in progress</b> Being considered as part of Transformational Project Implementation date – 31 December 2019
19IR-1	<b>Insufficient segregation of duties between the HR and payroll functions</b> <i>(Control activities)</i> Payroll staff are currently responsible for maintaining employee masterfiles, processing and uploading weekly payruns and processing EBA adjustments.	<b>Work in progress</b> Implementation date – 30 November 2019
19IR-2	<b>Absence of system generated payroll reports</b> <i>(Control activities)</i> The reporting functionality within SAP was not established as part of system implementation. Reports requested for audit testing purposes could not be produced.	<b>Work in progress</b> Implementation date – 30 November 2019
19IR-3	<b>Insufficient segregation of duties in maintaining the SAP system</b> <i>(Control activities)</i> Twenty-six user accounts have privileged access within the SAP system, resulting in access to all functions.	<b>Work in progress</b> Implementation date – SAP support personnel segregation of duties - 30 November 2019 System access monitoring controls – 30 November 2019
19IR-4	<b>Critical security settings are not enabled in SAP system</b> <i>(Control activities)</i> Critical security settings are absent in SAP, which are required to protect the system against overwriting and to prevent accidental loss of data.	<b>Work in progress</b> Amended implementation date – 30 November 2019

Ref	Issue	Status
19IR-5	<p><b>Processes and oversight in managing SAP system</b> (Control activities)</p> <p>Council have not defined or formalised processes for managing the SAP system, including, user access management, change management and security oversight.</p>	<p><b>Work in progress</b></p> <p>Amended implementation date – 30 November 2019</p>
19IR-6	<p><b>Privileged user activities not monitored for Pathway and Oracle eBusiness systems</b> (Monitoring)</p> <p>Council does not monitor the activities of users with high privileges or system administration access.</p>	<p><b>Work in progress</b></p> <p>Implementation date – 30 November 2019</p>
18FR-2	<p><b>Reconciliation of ICN Register to Pathway for outstanding developer infrastructure contributions</b> (Control activities)</p> <p>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.</p>	<p><b>Work in progress</b></p> <p>Amended implementation date – 31 December 2019</p>
18FR-1	<p><b>No policies or procedures in relation to developer infrastructure contributions</b> (Control environment)</p> <p>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 Planning Act 2016, Ipswich Planning Scheme and the Adopted Infrastructure Charges Resolution.</p>	<b>Resolved</b>
18FR-3	<p><b>Lack of transparency in calculation of fee variations</b> (Control activities)</p> <p>Limited documentation was available to support the calculation, determination, and justification of fee variations for Development Application fees.</p> <p>We recommended that a procedure be prepared to support the Fees and Charges Register in the determination of fee variations.</p>	<b>Resolved</b>
18FR-5	<p><b>Monitoring of arrangements with beneficial enterprises and other entities</b> (Monitoring)</p> <p>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.</p> <p>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.</p>	<b>Resolved</b>

## Deficiencies

Ref	Issue	Status
19IR-9	<b>Lack of effective controls when changing employee bank account</b> <i>(Control activities)</i> Insufficient procedures and controls in place to verify the authenticity of employee bank account changes received through email.	<b>Work in progress</b> Amended implementation date – 30 November 2019
18FR-11	<b>Non-compliance with Councillor Expenses Reimbursement and Administrative Support Procedures</b> <i>(Control activities)</i> QANTAS club memberships have been provided to councillors. The memberships are not included as an allowable expense per procedures.	<b>Work in progress</b> Being considered as part of Transformational Project Implementation date – 31 December 2019
19IR-10	<b>Managing access to Pathway and SAP systems</b> <i>(Control activities)</i> Requests for access to the systems are generic and not privilege specific.	<b>Work in progress</b> Amended implementation date – SAP - 30 November 2019 Pathway - 31 December 2019
18FR-6	<b>Payments made to a community organisation</b> <i>(Control environment)</i> Council is providing financial support to a community organisation for the funding of their annual budget deficit.	<b>Work in progress</b> Implementation date – 31 March 2020
18IR-11	<b>Internal audit plan requires updating</b> <i>(Monitoring)</i> The internal audit plan should be driven by risk and link to the strategic and operational plan of council. Council needs a robust risk management plan in place and is currently implementing an Enterprise Risk Management framework	<b>Work in progress</b> Implementation date – 30 June 2020
19IR-8	<b>Independent verification of vendor bank details not documented</b> <i>(Control activities)</i> There was no supporting documentation to indicate the details of the independent confirmation of the vendor's bank details for twelve instances.	Resolved pending audit verification
19IR-7	<b>Incorrect coding of expenses – corporate credit cards</b> <i>(Control activities)</i> Corporate credit card expenditure totalling \$14 450 had been incorrectly capitalised.	Resolved pending audit verification
18FR-9	<b>Untimely processing of disposals when renewing an asset</b> <i>(Control activities)</i> Delays identified in the decommissioning process of assets associated with a renewal.	Resolved pending audit verification

Ref	Issue	Status
18FR-12	<b>Assessment over current legal claims</b> <i>(Monitoring)</i> No formal review was initially completed and documented over all current legal claims to assess whether any disclosure was required in the financial statements.	Resolved
18FR-10	<b>Insufficient action taken for long outstanding WIP projects</b> <i>(Monitoring)</i> A large number of projects which had not occurred expenditure for substantial amount of time remain in work-in-progress.	Resolved
19IR-11	<b>Security configuration for the information technology network</b> <i>(Control activities)</i> Inconsistencies identified between council's ICT password management directive and the security setting of the network. The passwords for twenty network user accounts do not expire.	Resolved
18FR-7	<b>Completeness and existence exceptions in relation to artwork</b> <i>(Control activities)</i> A sample of artwork assets transferred from IAFT or sighted on council premises were not included in the fixed asset register. The portable and attractive register does not include artworks.	Resolved

## Other Matters

Reference	Issue	Status
18IR-15	<b>Current contract management reporting may not readily assist in analysing and reporting over procurement</b> Collation of documentation and reports is labour intensive. There is also no defined quality review process.	<b>Work in progress</b> Being considered as part of Transformational Project Implementation date – 31 December 2019
18IR-16	<b>Procurement planning and risk treatment could be improved</b> To further strengthen the procurement process a council-wide strategic procurement approach is recommended, with an alignment of council resources.	<b>Work in progress</b> Being considered as part of Transformational Project Implementation date – 31 December 2019
18FR-13	<b>Valuation of Artwork</b> Fluctuations in artwork valuation to be thorough investigated following comprehensive valuation in 2018-19.	<b>Resolved</b>

## Financial reporting issues

Reference	Issue	Status
18FR-14	<b>No formal impairment assessment undertaken by Council</b> <i>(Low risk)</i> There is no evidence that considerations of impairment has occurred as part of the annual stocktake.	<b>Re-raised</b> Refer to financial reporting issue 19CR-11



## Appendix C

### Our rating definitions for internal control deficiencies

We assess internal control deficiencies on their potential to cause a material misstatement in the financial statements as follows:

Assessed category	Definition/Criteria	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>

## Our risk rating definitions for financial reporting issues

We assess financial reporting issues on their potential to cause a material misstatement in the financial statements as follows:

Assessed category	Definition/Criteria	Prioritisation of remedial action
High	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.	This requires immediate management action to resolve.
Medium	We assess that there is a medium likelihood of this causing a material misstatement in one or more components of the financial statements	We expect management action will be taken in a timely manner to resolve deficiencies.
Low	We assess that there is a low likelihood of this causing a material misstatement in one or more components of the financial statements.	Our recommendation may be implemented at management's discretion.