



LATE ITEMS ORDINARY MEETING

AGENDA

5 NOVEMBER 2019

Your attendance is required at an Ordinary meeting of Council to be held in the Council Chambers, 4 Lagoon Place, Yeppoon on 5 November 2019 commencing at 9.00am for transaction of the enclosed business.

CHIEF EXECUTIVE OFFICER
1 November 2019

Next Meeting Date: 19.11.19

Please note:

In accordance with the *Local Government Regulation 2012*, please be advised that all discussion held during the meeting is recorded for the purpose of verifying the minutes. This will include any discussion involving a Councillor, staff member or a member of the public.

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12 REPORTS

12.6 EXTERNAL AUDIT FINAL MANAGEMENT REPORT 2018-19

File No: GV13.4.2

Attachments: 1. 2018-19 Financial Management Letter [↓](#)

Responsible Officer: Andrea Ellis - Chief Financial Officer

Author: Damien Cross - Coordinator - Accounting Services

SUMMARY

The Final Management Report is presented to Council.

OFFICER'S RECOMMENDATION

THAT Council notes the observations contained within the Final Management Report (Observation Report) from the Queensland Audit Office for the 2018-19 financial year.

BACKGROUND

Each financial year Council's financial statements must be audited and for the 2018-19 financial year Council's external audit was undertaken by Deloitte Touche Tohamatsu as the contract auditors on behalf of the Queensland Audit Office. Section 54 of the *Auditor-General Act 2009* enables the Queensland Audit Office to prepare a final management report containing observations and suggestions about anything arising out of the audit. Where those observations or suggestions require further attention, the Queensland Audit Office is required to provide a copy of the report to the Mayor.

Under the provisions of Section 213 of the *Local Government Regulation 2012* (the Regulation) this report is known as the Auditor-General's Observation Report and it must be presented to the next ordinary meeting of Council. It is important to note that the Observation Report is additional to the Independent Auditor's Report that is provided with Council's certified set of general purpose financial statements (with the latter being included in Council's Annual Report and referenced in Section 182 of the Regulation in relation to the timing of the adoption of Council's Annual Report).

COMMENTARY

The audit undertaken by the Queensland Audit Office was completed in October and Council was provided with an unmodified (unqualified) audit opinion (Independent Auditor's Report) on 14 October 2019. The Final Management Report contains any issues identified in the final stage of the audit and categorises these issues into either "Internal Control Deficiency" issues (assessed as 'significant deficiency', 'deficiency', 'other matter') or "Financial Reporting" issues (assessed as 'high', 'medium' or 'low').

Appendix A of the report (Attachment One) contains details of the component (and rating), issue, Queensland Audit Office recommendation, management response and status for the issue identified. These issues were discussed in detail with the Audit, Risk and Business Improvement Committee on 10 October 2019 as part of the Queensland Audit Office's presentation of the 2018-19 Audit Closing Report.

The number of open issues at the end of the audit has reduced from 8 (2019) to 5 in 2019.

The Report to Parliament on the Results of Local Government Audits for 2018-19 will use a traffic light system to summarise their assessment of the seventy-seven (77) Queensland Local Governments. Based on the closing report presented to the Audit, Risk and Business Improvement Committee meeting on 10 October 2019 Livingstone Shire Council is expected to receive the following assessment:

Financial Statement preparation assessments			
	2018-19 Result	2018-19 year comments	2017-18 Result
Timeliness	●	QAO certified statements received 14 October 2019.	●
Quality	●		●
Year End Processes	●	All agreed milestone dates per 2018-19 external audit plan met	●
Effectiveness of internal controls			
Control Environment	●		●
Risk Assessment	●		●
Control Activities	●	1 significant deficiency: changes to employee bank account details	●
Information & Communication	●		●
Monitoring of Controls	●		●
Assessment of Financial Sustainability			
Overall Financial Sustainability	●	Asset sustainability ratio 45.4% (2018: 54.5%) - Target > 90%	●

PREVIOUS DECISIONS

No previous decisions have been made in regards to this report.

BUDGET IMPLICATIONS

The total external audit fees were \$186,000 (Net of GST) which was accommodated within the approved 2018-19 budget.

LEGISLATIVE CONTEXT

Section 213 of the *Local Government Regulation 2012* requires the Auditor-General's observation report to be tabled at the next Council meeting.

Section 182 of the *Local Government Regulation 2012* requires Council to adopt the Annual Report (which includes the audited financial statements) within one month after the day the Auditor General provides the report to Council. Therefore, Council will need to adopt the Annual Report by 14 November 2019.

LEGAL IMPLICATIONS

There are no legal implications.

STAFFING IMPLICATIONS

There are no staffing issues from this report.

RISK ASSESSMENT

The external audit of the annual general purpose financial statements focuses on key financial risks for the organisation and key internal controls around the financial operations and management of Council's operations. This report completes a legislative requirement for the final management report to be provided to Council.

CORPORATE/OPERATIONAL PLAN

Strategy GO3 of Council's Corporate Plan states: '*Pursue financial sustainability through effective use of the Council's resources and assets and prudent management of risk.*'

LOCAL GOVERNMENT PRINCIPLES

The Local Government principles are –

- (a) *Transparent and effective processes, and decision-making in the public interest; and*
- (b) *Sustainable development and management of assets and infrastructure, and delivery of effective services; and*
- (c) *Democratic representation, social inclusion and meaningful community engagement; and*
- (d) *Good governance of, and by, Local Government; and*
- (e) *Ethical and legal behaviour of Councillors and Local Government employees.*

CONCLUSION

Council has received an unqualified opinion for its 2018-19 general purpose financial statements. Council has focused on improving internal controls in relation to all issues identified in the attached.

12.6 - EXTERNAL AUDIT FINAL MANAGEMENT REPORT 2018-19

2018-19 Financial Management Letter

Meeting Date: 5 November 2019

Attachment No: 1



Our ref: TMK/MR/TM

25 October 2019

Councillor W.F. Ludwig
Mayor
Livingstone Shire Council
PO Box 2292
Yeppoon QLD 4703

Dear Councillor Ludwig

Final Management Report for Livingstone Shire Council

We have completed our 2019 financial audit for Livingstone Shire Council ("the Council" or "Council"). The Auditor-General has 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.

Please note that under section 213 of the *Local Government Regulation 2012*, you must present a copy of this report 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. The Queensland Audit Office (QAO)'s rating definitions for internal control deficiencies are shown in Appendix B.

Report to parliament

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

This year they intend to include the results of the audit of Livingstone Shire Council in their report to Parliament on the results of the Local Government sector. They will discuss the proposed content of their report with your Chief Financial Officer and will continue to consult as they draft their report.

Formally, you and the Chief Executive Officer will have an opportunity to provide comments to be reflected their final report

Audit fee

The final audit fee for this year is \$186,000 exclusive of GST (2018: \$187,500). This fee is in line with the fee estimated in our external audit plan.

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 3308 7235 or Mayuri Rajdev on 3308 7529.

Yours sincerely

Tendai Mkwananzi
Partner, Deloitte Touche Tohmatsu

cc. Chris Murdoch, Chief Executive Officer
Councillor Nigel Hutton, Audit, Risk and Business Improvement Committee Chair

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Appendix A

Issues formally reported to management

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

Previously reported internal control deficiencies – Interim management letter issued 30 April 2019

Area	Issue	Our recommendation	Status update from management
Control Activities	<p>IT - User Access Management (initially raised in Interim report 2018, re-raised at Interim 2019)</p> <p>Rating: Deficiency</p> <p>Observation</p> <p>The Information Security (IS) Directive requires that access is removed upon termination of an employee/vendor based on the termination date that is submitted to the IS Service Desk, which is to be actioned promptly. The IS Directive also requires that all end-user network accounts must adhere to the network password policies, which defines that passwords must be reset every 90 days. Administrative accounts are to be held by authorised personnel for the purposes of performing administration tasks within the IT environment.</p> <p>The below observations were identified during the testing of user access management:</p> <ul style="list-style-type: none"> 1 terminated employee had an account that had not been disabled on the network (Windows AD) past their last working date (12 July 2018). However, the risk of unauthorised access was mitigated as the terminated employee did not access the network or FinanceOne system past their termination date. 1 user (contractor), who is no longer employed by the Council, had access to local security policy objects. However, the risk of unauthorised access had been eliminated as the user was disabled in the Windows AD server and has not accessed the network during the audit period. 3 users with accounts that had their passwords set to never expire. The risk of unauthorised access has been eliminated as the user had limited/no access to FinanceOne. The risk of weak passwords is also mitigated as other password parameter requirements e.g. password complexity and minimum password length are compliant against the Information Security Directive. The deviation noted does not significantly alter the effectiveness of the password control. <p>Implications</p> <p>Deficiencies in user administration controls increase the likelihood of redundant accounts (or those with excessive privileges) being compromised to gain unauthorised access to systems and data (either by that staff member or someone else who may have access to their login and password details). There is an increased risk when accounts have elevated privileges and access to powerful or sensitive functionality. The risk of weak passwords is mitigated as other password parameter requirements e.g. password complexity and minimum password length are compliant against the Information Security Directive. The deviation noted does not significantly alter the effectiveness of the password control.</p>	<p>Although we note that the user accounts noted in the observation were subsequently removed/disabled in response to our finding, we recommend that the user access review process should be enhanced to ensure that users who do not require access to the systems are detected.</p> <p>IT management should provide manager level staff members with a refresher on the Council's termination policies and procedures to ensure that user access removal requests are raised in a timely manner. This will allow the IT Support Officers to action the removal of access accordingly in line with a user's last working day.</p> <p>The accounts of users with passwords set to never expire be regularly reviewed and should be reconfigured accordingly. Any end user accounts which are used for running services (i.e. batch jobs) should be recreated under a service account (i.e. accounts which do not belong to a user but are used for running services). The password for the service accounts should be stored in KeePass (password vault tool) and the end user account should be removed.</p>	<p>A new coordinator position has been created and filled, with that person starting on 23 September 2019. One of their priorities will be progressing updates on the ICT Security Directive.</p> <p>Management remains confident that the underlying security controls and monitoring are effective.</p> <p>Responsible Officer - Chief Technology Officer</p> <p>Status - Work in progress</p> <p>Due date - 30 June 2020</p>

Previously reported internal control deficiencies – Interim management letter issued 30 April 2019 (continued)

Area	Issue	Our recommendation	Status update from management
Control Activities	<p>IT - Access security – Audit Logs review (Initially raised in interim report 2018)</p> <p>Rating: Deficiency</p> <p>Observation</p> <p>We noted that security event audit logging is enabled on the network and Finance One system. However, periodic reviews of audit logs to track user activities and threats within the system were not being performed. That is not in line with the Council's Information Security Directive.</p> <p>Implications</p> <p>In the absence of a periodic review process, there is an increased risk of users possessing unauthorised access which may result in a compromise to the confidentiality, integrity and availability of key systems and data. The risk of unauthorised or fraudulent access to systems and data is increased when accounts have elevated privileges and access to additional functionality.</p>	<p>We recommend that Council implement a periodic review of audit logs on the network, database and application system.</p> <p>The process may incorporate the following:</p> <ul style="list-style-type: none"> • Inspection of supporting documentation for critical changes made. • Maintaining the list of logs that are reviewed and implementing a formal process to remediate inappropriate activities identified during reviews. <p>Management may take a risk-based approach to identify what key data should be logged, the impact on system resources as well as the people to review when determining the implementation of this recommendation.</p>	<p>Council has proposed to close this action at this time as no interim improvements are practical with the available resources and with consideration to the current risk level.</p> <p>Requirements for security and transaction audit logging have been defined for the ensuing new IT system project. Council accept the risk associated with this deficiency.</p> <p>Responsible officer - Chief Technology Officer</p> <p>Status – Closed. We accept this issue as closed and will review when the new IT system project is finalised.</p>

Previously reported internal control deficiencies – Interim management letter issued 30 April 2019 (continued)

Area	Issue	Our recommendation	Status update from management
Control Activities	<p>3 way matching (initially raised in interim report 2019)</p> <p>Rating: Deficiency*</p> <p>Observation</p> <p>The invoice matching process requires that an invoice must be matched against an approved purchase order before it can be receipted and processed within FinanceOne. We note that the configuration settings are set to a tolerance variation of 10% of the total value or a variance of \$50. If a variance exceeds this limit, the FinanceOne system prompts an error and warning message based on the tolerance limits configured. However, the user is able to click 'Save' and proceed with the invoice matching and posting process. This allows users the ability to override the errors prompted by the system and process invoices which exceed the accepted tolerance. We understand that management have contacted TechOne in relation to this system configuration and have requested for the system to be configured as intended.</p> <p>Implications</p> <p>The ability for users to process invoices which exceed Council's approved delegation of authority could result in a risk to Council's reputation, potential to cause financial loss to Council as a result of fraud and is not in compliance with Council's policies.</p> <p>* Rating revised from Significant deficiency to Deficiency after taking into account the immaterial variances (individually and in aggregate) that should have been subjected to the matching process.</p>	<p>We recommend that the system setting be changed so that users cannot override the 3 way match errors prompted by the system.</p> <p>Until Council undertake an assessment of the exposure caused by the system configuration, it is unknown if this has resulted in a material loss to Council.</p> <p>We therefore recommend that management undertake an assessment to identify the total amount (if any) of invoices processed which exceeded the tolerance limit, investigate the nature of these variances and seek to recover any lost funds, if any.</p>	<p>Council undertook an assessment following the conclusion of the 2019 interim audit visit. This assessment demonstrated that there were no supplier invoices processed for payment which exceeded the tolerance limit of 10% of the total purchase order value up to a maximum of \$50 in either the current reporting period or the prior reporting period. Council engaged with Technology One to reconfigure the configuration settings so that users cannot manually override the 3 way match errors prompted by the Technology One system.</p> <p>Status - Resolved</p>

Previously reported internal control deficiencies – Interim management letter issued 30 April 2019 (continued)

Area	Issue	Our recommendation	Status update from management
Control Activities	<p>User access to payroll masterfile (initially raised in interim report 2019)</p> <p>Rating: Deficiency</p> <p>Observation</p> <p>Based on inquiry with HR, we noted that users from the ICT Services team and appropriate users from the HR and Payroll team are provided with access to the Payroll Masterfile. We noted 3 users who had inappropriate access to make changes to the payroll masterfile in the Aurion system:</p> <ul style="list-style-type: none"> • Co-ordinator Human Resources, Training & Payroll • Chief Human Resource Officer • Safety Advisor <p>We understand that a review is undertaken of changes to the payroll masterfile to ensure that any changes made are appropriate and a periodic review is performed to monitor the access rights and segregation of duties of users in the Aurion system however these users were not identified as part of the current review process.</p> <p>Implications</p> <p>There is an increased risk of users possessing unauthorised access which may result in a compromise to the confidentiality, integrity and availability of key systems and data if a robust review process is not adhered to. The risk of unauthorised or fraudulent access to systems and data is increased when accounts have elevated privileges and access to additional functionality.</p>	<p>The monthly user access review process of Aurion should be enhanced with additional rigour to ensure that users who do not require access to sensitive records within the systems are identified and their access subsequently removed.</p> <p>Access to make changes within Aurion should be restricted to only those users who require such access in their roles.</p>	Status - Resolved

Previously reported internal control deficiencies – Interim management letter issued 30 April 2019 (continued)

Area	Issue	Our recommendation	Status update from management
Control Activities	<p>IT - Access security – Periodic review (initially raised in final management letter 2017)</p> <p>Rating: Deficiency</p> <p>Observation</p> <p>We noted that user access reviews are currently performed periodically but are designed to only ensure that terminated users are removed from system and to ensure users who have financial delegation on Finance One are appropriate.</p> <p>A periodic review is not performed to monitor the access rights and segregation of duties of users in the Finance One and Pathway applications as well as the network to ensure that inappropriate and conflicting access is either removed or mapped to mitigating manual controls.</p> <p>Implications</p> <p>In the absence of a periodic review process, there is an increased risk of users possessing unauthorised access which may result in a compromise to the confidentiality, integrity and availability of key systems and data. The risk of unauthorised or fraudulent access to systems and data is increased when accounts have elevated privileges and access to additional functionality.</p>	<p>We recommend that an access security and segregation of duties review relating to positions and roles be undertaken at least annually to ensure that no conflicting and inappropriate access is assigned to users.</p> <p>Mitigating controls should be documented and mapped to conflicting access that cannot be corrected in the application due to operational requirements or system limitations.</p>	Status - Resolved

Previously reported internal control deficiencies – Interim management letter issued 30 April 2019 (continued)

Area	Issue	Our recommendation	Status update from management
Monitoring Activities	<p>Review of supporting documents for expenditure on corporate cards (initially raised in interim report 2018)</p> <p>Rating: Deficiency</p> <p>Observation</p> <p>We noted an instance where supporting documents attached to a corporate card transaction did not match the transaction and ledger details. The mismatch between the transaction and the attached supporting documents was not detected in the review process.</p> <p>Implications</p> <p>Council's corporate card policy requires all transactions to be supported by an appropriate invoice as this makes up part of the review process. Inadequate review processes leave the Council susceptible to misappropriation of resources occurring and going undetected.</p>	<p>We recommend the following:</p> <ul style="list-style-type: none"> • Management to reinforce the importance of the consistent application of the review processes currently in place by providing employees with on-going training on Council's procurement policies and review requirements. • Management and/or internal audit to perform spot checks to ensure consistent implementation of relevant reviews. 	Status - Resolved
Monitoring Activities	<p>Masterfile changes – Periodic review (initially raised in interim report 2018)</p> <p>Rating: Deficiency</p> <p>Observation</p> <p>We noted that Council has implemented a control where the Coordinator of Accounting Services performs a weekly detailed review of changes made to the Payroll and Vendor masterfiles.</p> <p>We note that whilst there is a review control in place, this review is performed by an individual involved in the day to day operations of the finance function. This creates a risk that any potentially inappropriate changes would not be identified by this review, as this individual is not independent from the underlying processes.</p> <p>Implications</p> <p>Such a periodic review also precludes management from identifying irregular changes or trends that may not be notable in a detailed weekly review but may be notable in an overarching review of several weeks' activities (i.e. monthly/quarterly).</p>	<p>We recommend that Council implement a risk based review of changes to payroll and vendor masterfiles that is performed by a senior member of staff and/or internal audit that is independent of the processing of such changes.</p> <p>The review should complement the one currently in place but should be less frequent and focused on risky areas such as changes to bank account details, employee to vendor relationships and vendor ratings among other items deemed appropriate by Council.</p>	Status - Resolved

New internal control deficiencies reported since our interim management letter dated 30 April 2019

Area	Issue	Our recommendation	Status update from management
Control activities	<p>Payroll process deficiency for changes to employee bank account details</p> <p>Rating: Significant deficiency</p> <p>Observation and implication</p> <p>Recently, the Queensland public sector entities were targeted by scammers through the use of fraudulent emails. These emails had the appearance of being from the employee and requesting their payroll bank account be changed for the next pay run. These emails were addressed directly to a payroll officer. Livingstone Shire Council processed one of such changes though no financial loss was incurred.</p> <p>Council's procedure in place at the time of this incident allowed for bank accounts to be changed based on a physically signed form however this specific request was via email. This required no further enquiry or information before actioning. We note that since this incident, payroll change requests now require a follow up phone call from the payroll team to confirm any bank account changes</p>	<p>As these fraud attempts are becoming more common and sophisticated:</p> <p>(a) Council should review practices relating to any bank account changes to ensure controls are in place to prevent future incidents occurring.</p> <p>(b) Fraud awareness training should be extended to all council staff.</p>	<p>Council management agrees that it is important to maintain effective controls to mitigate the risk of fraud and to update these when risks change. Council reported the matter to the Audit, Risk and Business Improvement Committee on 13 May 2019. The Committee were satisfied with the response taken by management including the range of measures that were implemented at the request of Council's Chief Executive Officer to address all recommendations made by the QAO in their related fraud alert.</p> <p>The following should also be noted in Council's attempts to address fraud risk:</p> <p>Phishing training has commenced with Council's workforce through an external service provider. An initial stage has been completed with follow on stages to occur over the next 12 months;</p> <p>Council's corporate induction process includes written materials on fraud and corruption awareness;</p> <p>During 2016 mandatory fraud and corruption training was delivered to Council officers at supervisor level and above along with other selected staff; and</p> <p>Council officers will give consideration to the need and availability of funds to conduct further fraud and corruption training with Council's workforce.</p> <p>Responsible officer – Chief Human Resources Officer Status - Resolved</p>

Previously reported other matters – Interim management letter issued 30 April 2019

Area	Matter	Our recommendation	Status update from management
Other matter	<p>Internal rate of return capitalised to the cost of assets (initially raised in final management letter 2017)</p> <p>It is usual practice for Councils to include the cost of "internal plant hire" within the capitalised cost of constructed asset. The internal plant hire cost represents a standard unit price (usually per hour) of operating plant using internally constructed assets such as road infrastructure.</p> <p>Council's current internal plant hire rates include an internal rate of return of approximately 8%. We understand that there is an elimination process within the profit and loss statement for such internal plant hire costs, however, it appears that these are not eliminated from the capitalised costs.</p> <p>The inclusion of the internal rate of return for internal plant hire will result in property plant and equipment being overstated. It may also result in un-eliminated internal plant hire profits within the statement of profit and loss.</p>	<p>We recommend that management review the current rates used for internal plant hire to ensure that they do not include any internal margin. These rates should be reviewed regularly to ensure that they are still reflective of the cost of operating the plant.</p> <p>Further, management should review the process for ensuring that any internal revenue and expenses are eliminated to ensure that there is no internal profit remaining within the statement of profit and loss.</p>	<p>Investigating options for a new internal plant hire rate model through IPWEA and AEC, once a decision is made on a new model, a plant hire rate review will commence.</p> <p>Responsible officer – Manager Assets and GIS</p> <p>Status - Work in progress</p> <p>Action Date - 30 June 2020</p>

Previously reported other matters – Interim management letter issued 30 April 2019 (continued)

Area	Matter	Our recommendation	Status update from management
Other matter	<p>Conflict of interests framework (initially raised in interim report 2018)</p> <p>We noted that Council has a process in place where records are maintained of Councillors and members of the Executive Leadership Team's declaration of interests. However, we noted that there is no formal process in place for Council to continuously check these records against suppliers at the point of effecting transactions. Such a process would enable Council to identify and appropriately treat related party transactions.</p> <p>Having adequate processes around identification and tracking of related party transactions would assist Council in managing its risk and reputation should transactions be questioned or be subject to scrutiny.</p>	<p>We recommend Council to maintain a complete list of related parties and any new or existing suppliers should be compared to this list to ensure that any transactions entered into are at arm's length with appropriate documentation retained to support decisions made.</p> <p>We note that Council was not one of the thirteen Councils selected for audit resulting in the Crime and Corruption Commission audit report released in October 2017. The report's recommendations are not mandatory for the Council but represent opportunities for continued improvement.</p> <p>We recommend that Council consider performing some of the following recommendations in order to further improve its governance processes:</p> <ul style="list-style-type: none"> • Create and maintain an overarching conflict of interest framework. • Provide ongoing training and awareness about the key areas of the Council's framework. • Identify, record, manage and monitor conflicts of interest. • Have conflict of interest identified as a key risk factor in their fraud and corruption risk assessment • Identify conflicts of interest risks via fraud and corruption assessment processes. • Regularly audit conflict of interest processes for effectiveness and adequacy. • Create and maintain formal processes to review councillors' and employees' interests during the procurement processes 	<p>Council will consider the recommendations of the Crime and Corruption Commission audit report from October 2017 as a broader approach to managing conflict of interest.</p> <p>Work has already progressed on creating and maintaining a policy position and process to assist Council employees, contractors, and consultants to effectively identify, disclose, and manage any actual, potential, or perceived conflicts of interest through the procurement process to manage risk and ensure the integrity of Livingstone Shire Council.</p> <p>Responsible officer – Chief Financial Officer</p> <p>Status - Work in progress</p> <p>Action Date - 30 June 2021</p>

Previously reported other matters – Interim management letter issued 30 April 2019 (continued)

Area	Matter	Our recommendation	Status update from management
Other matter	<p>Sole supplier register (Initially raised in interim report 2018)</p> <p>We noted instances where Council sourced services from vendors classified as 'sole suppliers'. Suppliers that are deemed to possess the sole ability and capacity to supply goods and services are classified as sole suppliers.</p> <p>We acknowledge the use of sole suppliers is common within the Local Government sector and certain regions, we however noted that Council did not maintain a register of sole suppliers nor did it maintain documentation on the determination of sole suppliers. This precluded Council from being able to scrutinise and assess the appropriateness of sole suppliers.</p> <p>The absence of such a register and the appropriate documentation to support decisions made could expose Council to risk should these decisions or transactions be questioned or be subject to scrutiny.</p>	<p>We recommend Council create a sole supplier register which will also be reviewed on a periodic basis to ensure that it is consistently updated and appropriate documentation retained to support inclusion on the list.</p>	<p>Status - Resolved</p>

New other matters reported since our interim management letter dated 30 April 2019

Area	Matter	Our recommendation	Status update from management
Governance	<p>Audit Committee Chairperson not independent of Council</p> <p>The Department of Local Government, Racing and Multicultural Affairs - Bulletin 08/15 refers to the Queensland Treasury's Audit Committee Guidelines (the guidelines) to assist councils in implementing and maintaining efficient and effective audit committees.</p> <p>One of the guidelines indicators for better practice was that the audit committee chairperson should be independent of the entity. The benefits to Council from an independent audit committee chairperson are as follows:</p> <ul style="list-style-type: none"> the provision of advice and assurance to the Chief Executive Officer from an objective and independent perspective. addressing issues without preconceived ideas and assisting in objective debate on issues. providing insights into best practice procedures adopted in other entities. <p>An independent chairperson can perform their role unencumbered by any management responsibilities and can provide an opportunity for the Chief Executive Officer to receive advice and assurance from an independent perspective.</p> <p>We note that Council does not have an independent Audit, Risk and Business Improvement Committee chair.</p>	<p>We recommend that Council considers whether the current audit committee chair appointment meets better practice in terms of an efficient and effective audit committee.</p>	<p>Council is aware of the benefits of an independent chairperson for the Audit, Risk and Business Improvement Committee. Management had already planned to address this following the March 2020 Local government elections. Although this is a decision for the elected members, a commitment can be made to raise this with Council and recommend that an independent chairperson be appointed.</p> <p>Responsible officer - Chief Financial Officer</p> <p>Status - Work in progress</p> <p>Action Date - 30 June 2020</p>

New other matters reported since our interim management letter dated 30 April 2019 (continued)

Area	Matter	Our recommendation	Status update from management																					
Property, plant and equipment	Comprehensive asset valuation triggers Council measures its property, plant and equipment (PP&E) annually by either performing a comprehensive / desktop revaluation or consideration of indexation for each class of assets. During the current year the site improvements asset class was subject to a comprehensive revaluation, with all other classes were tested against an appropriate index. While not binding on Council, the Queensland Treasury Non-Current Asset Policies for the Queensland Public Sector (NCAP) requires comprehensive revaluations to be performed at least every five years with interim revaluations using appropriate indices being applied annually where a cumulative change of 5% or more exists. AASB 116 Property, Plant and Equipment paragraph 34 suggests that comprehensive revaluations every three or five years may be sufficient for non-current assets that experience only insignificant changes in fair value. Council's current policy is consistent with the requirements of both the NCAP and the accounting standards.	<p>Council should consider implementing the following:</p> <ul style="list-style-type: none">performing the indexation assessments earlier than the third quarter of each financial year; andformalising the process in relation to the quarterly review of the ABS index movements for any potentially material movements.	<p>Council is currently developing the terms of reference for an Asset Management Steering Committee which is to be responsible for the oversight of Council asset management related activities and for the currency of asset management related policies and strategies to ensure best practice asset management.</p> <p>Council management agree with formalising the assessment of ABS indices, and that as a part of this formalisation, significant movements to indices (which would indicate a movement >5%) should trigger the requirement to undertake a first principles assessment. Given that significant movement would generally generate an interim indexation revaluation (rather than a comprehensive revaluation) and that the index rate to be applied would need to be calculated close to 30 June in order to reflect the correct value at the end of the reporting period, Council believe it is reasonable to calculate the movement on a first principles basis during the third quarter of the financial year for presentation to Council's ARABIC around March. This will allow three months to process any indexations which is adequate given that one third of the non-current asset classes will have been revalued comprehensively in any given year.</p>																					
	<table><tr><th></th><th>Last Desktop / full revaluation</th><th>Index/internal costing change since revaluation</th></tr><tr><td>Land</td><td>31/03/2018</td><td>0%</td></tr><tr><td>Site improvements</td><td>30/06/2016</td><td>0.17%</td></tr><tr><td>Buildings</td><td>31/12/2016</td><td>2.4 – 3.63%</td></tr><tr><td>Road and drainage network</td><td>01/07/2017</td><td>1.18-3.67%</td></tr><tr><td>Bridge network</td><td>01/07/2017</td><td>1.18%</td></tr><tr><td>Water and sewerage asset classes</td><td>31/12/2016</td><td>2.36-3.67%</td></tr></table>		Last Desktop / full revaluation	Index/internal costing change since revaluation	Land	31/03/2018	0%	Site improvements	30/06/2016	0.17%	Buildings	31/12/2016	2.4 – 3.63%	Road and drainage network	01/07/2017	1.18-3.67%	Bridge network	01/07/2017	1.18%	Water and sewerage asset classes	31/12/2016	2.36-3.67%		
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	<p>We noted that the current review process for a comprehensive revaluation of Council assets may not flag a requirement for a comprehensive revaluation with sufficient time for the valuation exercise to be completed. Although there is no formal process currently in place, Council continually review ABS index movements (released quarterly) since the date of the last comprehensive valuation for relevant asset classes, looking for any material or potentially material movements. A more detailed and formal review of movements based on a first principles calculation generally occurs in the third quarter each year.</p> <p>Assessing the movement in indices and internal costings in the third quarter of each financial year, may not give Council sufficient lead time to adequately perform a comprehensive valuation by year end should a material movement be noted.</p>		<p>Responsible officer - Manager Assets and GIS</p> <p>Status - Not Started</p> <p>Action Date - 30 June 2020</p>																					

Appendix B

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
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. 	This requires immediate management action to resolve.
Deficiency	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.	We expect management action will be taken in a timely manner to resolve deficiencies.
Other matter	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.	Our recommendation may be implemented at management's discretion.

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.

15 CONFIDENTIAL REPORTS

15.3 ACQUISITION OF LAND

File No: 8.5.12

Attachments: 1. Proposed Boundary re-alignment

Responsible Officer: Brett Bacon - Executive Director Liveability and Wellbeing
Chris Murdoch - Chief Executive Officer

Author: Jan Anfruns - Manager Economy and Places

This report is considered confidential in accordance with section 275(1)(c), of the *Local Government Regulation 2012*, as it contains information relating to the Council's budget.

SUMMARY

This report considers the matter of terms associated with the acquisition of land.