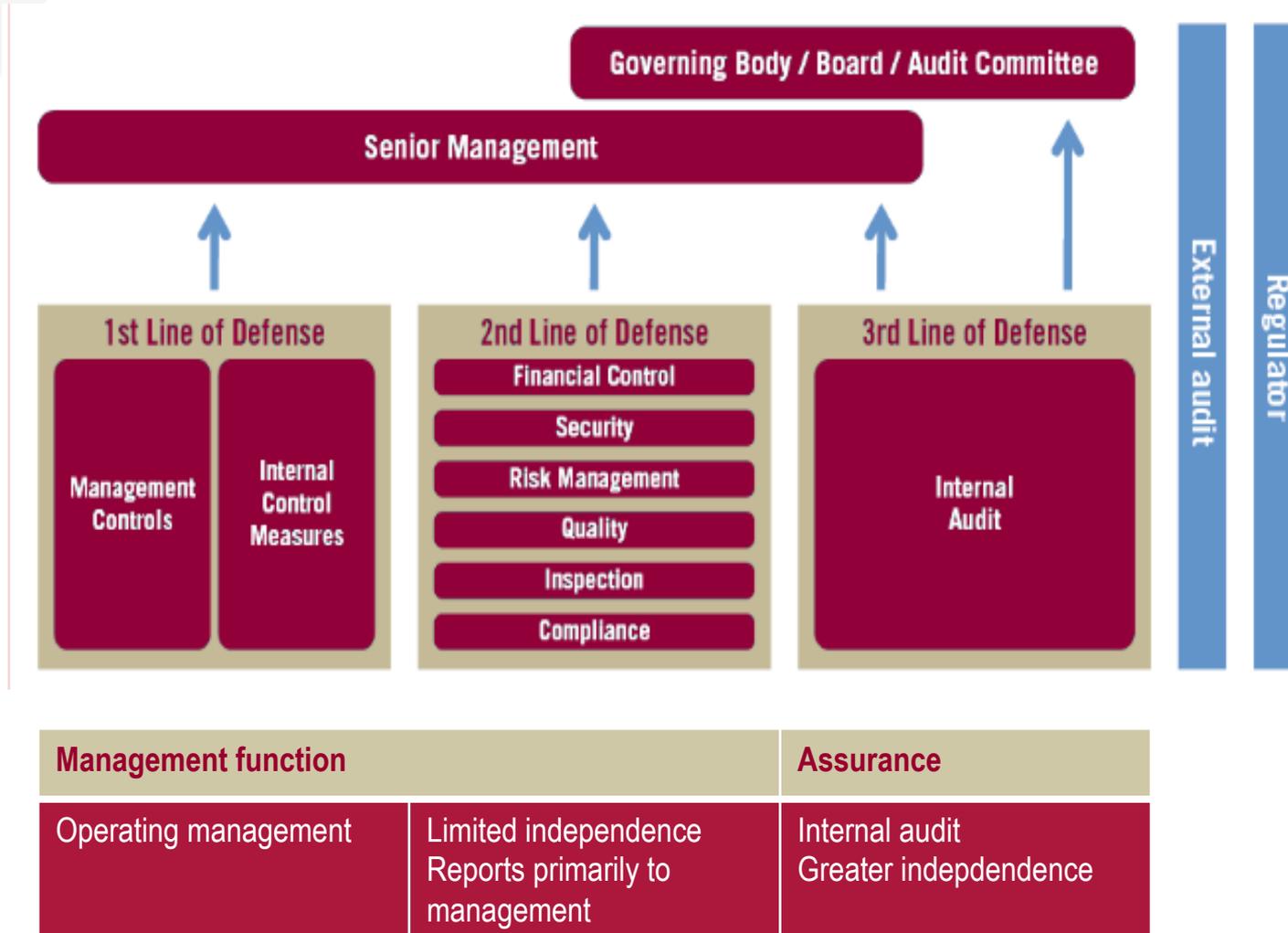


QAO - Internal Controls

Rachel Vagg
Sector Director
24 November 2017



Your internal control structure



The audit process

Three interrelated elements:

Risk assessment

Our understanding of material misstatement
Develop a strategy for an efficient and effective audit

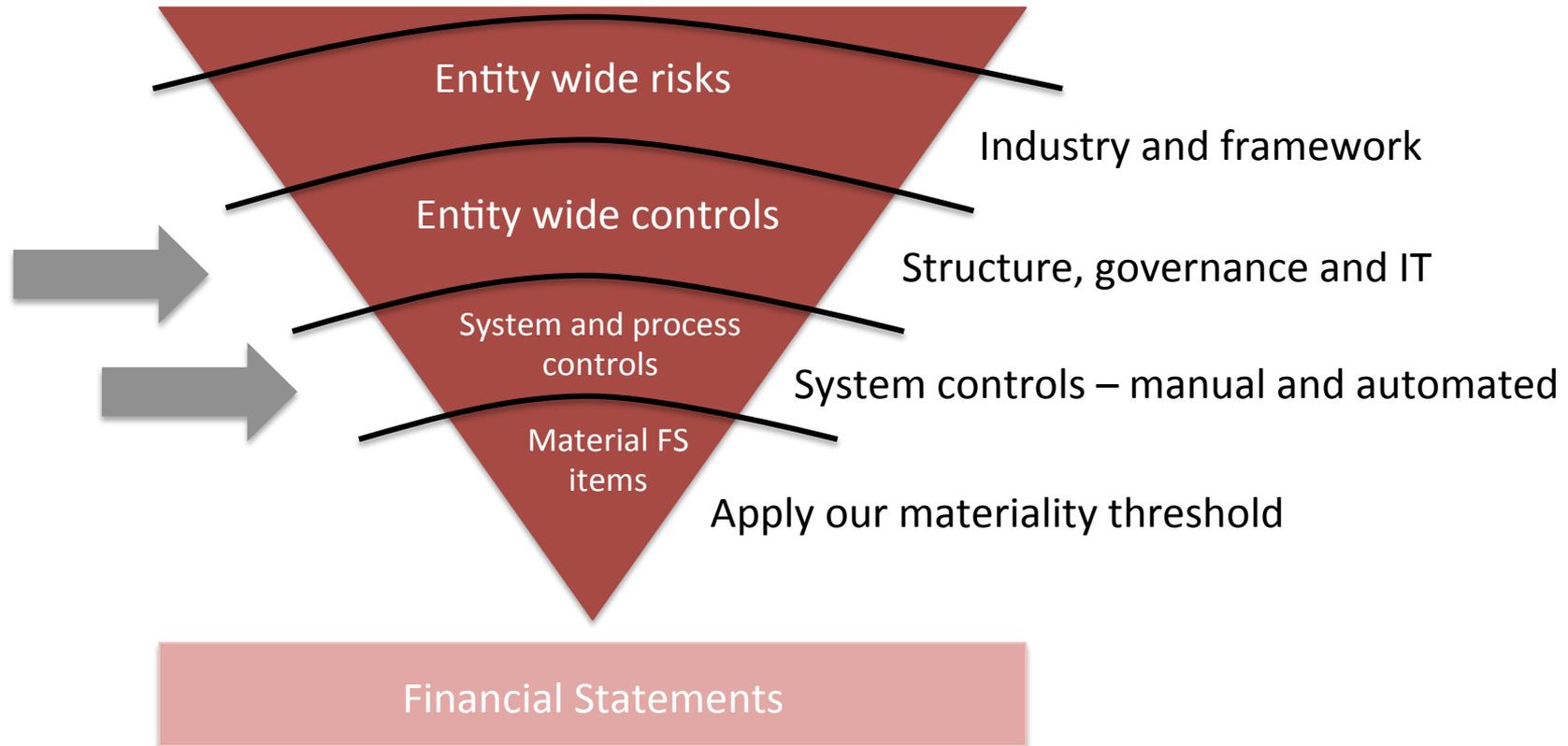
Controls and balances

Focus our attention on those elements we perceive
have a higher risk
May validate the effectiveness of internal controls

Forming an opinion

If we cannot be satisfied the statements are free from
material misstatement, we consider if we need to
modify our independent audit report

The audit process



Assessment of controls

Compiled Auditing Standard

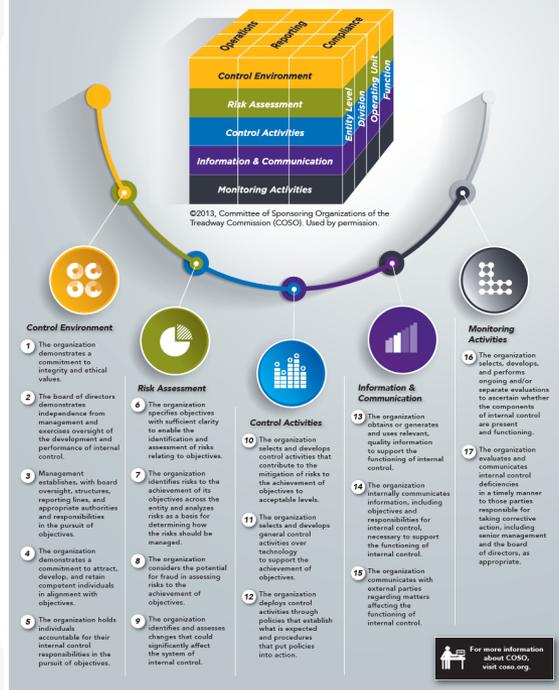
ASA 330
(December 2015)

Auditing Standard ASA 330 *The Auditor's Responses to Assessed Risks*

This compilation was prepared on 1 December 2015 taking into account amendments made by ASA 2015-1

Prepared by the Auditing and Assurance Standards Board

COSO Internal Control — Integrated Framework Principles



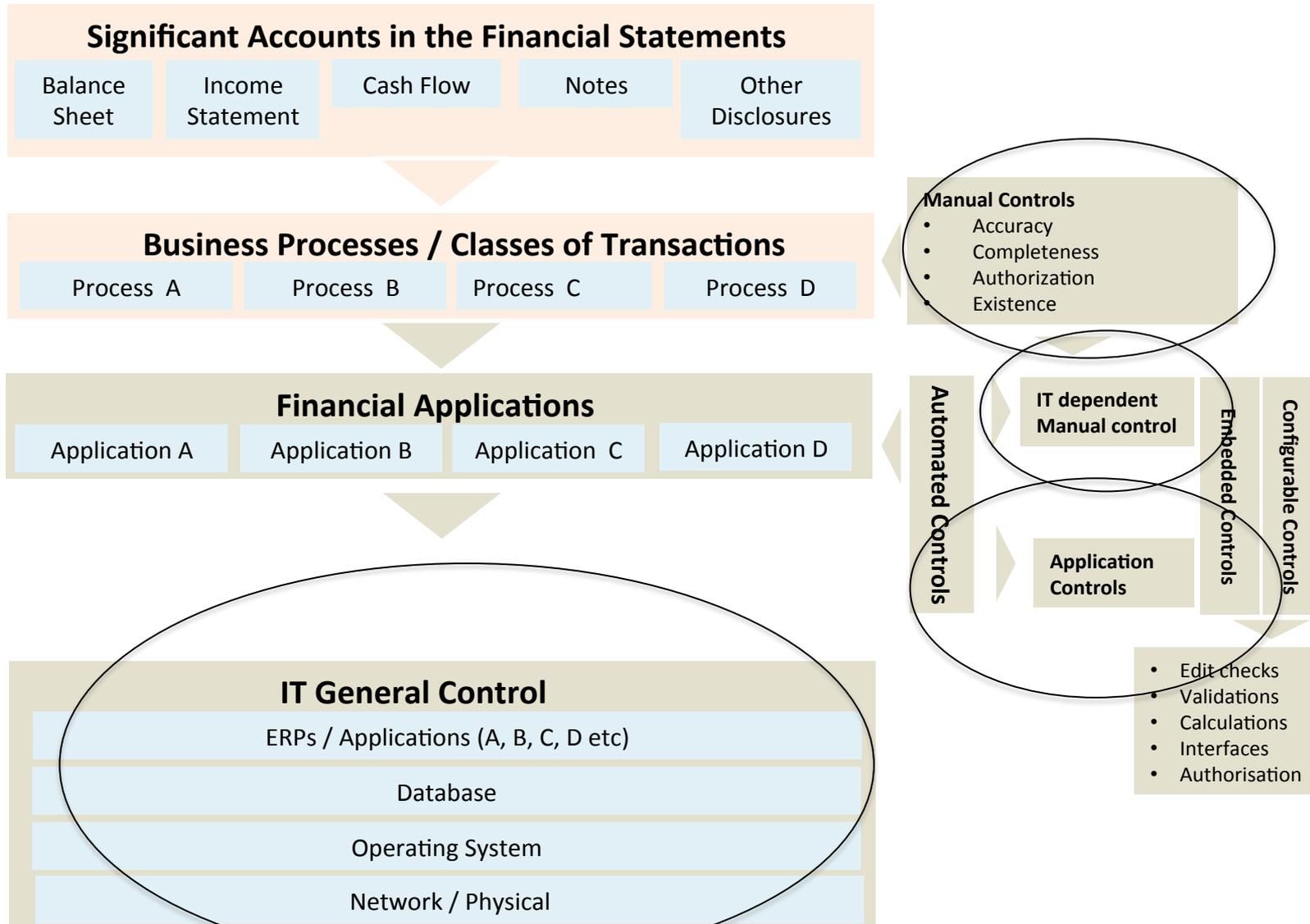
Design and implementation

- enquiry
- observation
- inspection
- tracing transactions

Operating effectiveness

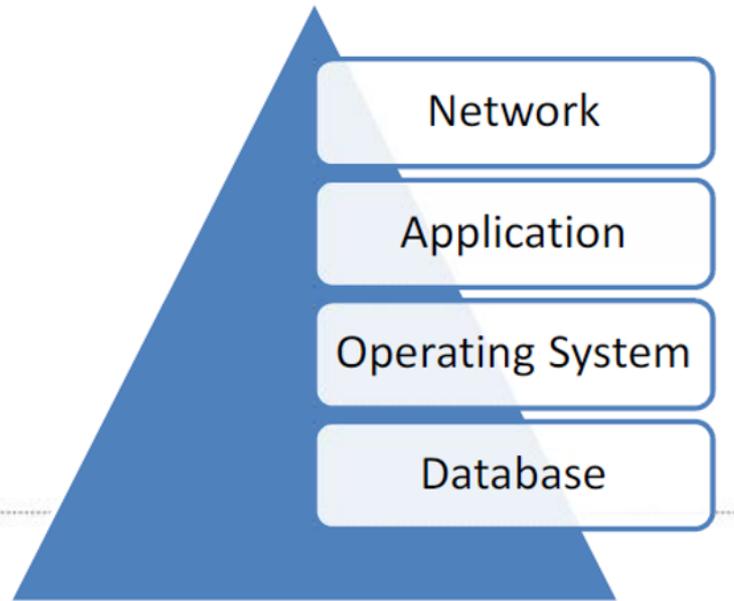
- how the controls were applied
- the consistency with which they were applied
- by whom or by what means they were applied

Types of controls



1. Entity wide controls

IT control environment



Issues identified



Entity control environment



Issues identified



Issue 1: Password Parameters

Parameters	Description	Recommended Setting
Length	Minimum Password Length	6-8 characters
Complexity	Mix of Lower Case, Upper Case, Numbers and/or Special Characters	Enforced
Expiry	Maximum Password Age	<= 90 days
History	How Many Previous Passwords Stored	5 passwords
Minimum Age	Minimum Password Age, Prevent Recycling	1 day
Lockout Attempts	How Many Attempts Before Locked Out	5 attempts
Lockout Duration	How Long Locked Out For	30 minutes

Department of Local Government and Communities



GOVERNMENT OF
WESTERN AUSTRALIA

OAG

Office of the Auditor General
Serving the Public Interest

**“accounts of six terminated employees
...were used to access the agency’s
systems after their termination date
...10 to 516 days after”**



Issue 3: Change Control

“reprogrammed ...cash register - causing it to ring up each \$2.99 item internally as a 1-cent item, so that he could pocket \$2.98 each time.”

2 & 3 Manual and automated controls

Risk	Manual Control	Automated control
Invalid purchase order is processed	A purchase order is approved by an appropriate person.	A purchase order in the system is submitted for approval – the system automatically routes the PO to the appropriate person based on an in-built matrix of authorisation.
Invoice value incorrectly calculated	Employee calculates the value of an invoice used to bill a contract based on variables. Manager reviews to agree calculation is accurate	System calculates automatically the value of invoice

4. Key application controls

Automated functions

- Hard-coded workflows
- Input validation
- Matching with the database eg, duplicate check
- Mathematical accuracy

Application Configuration

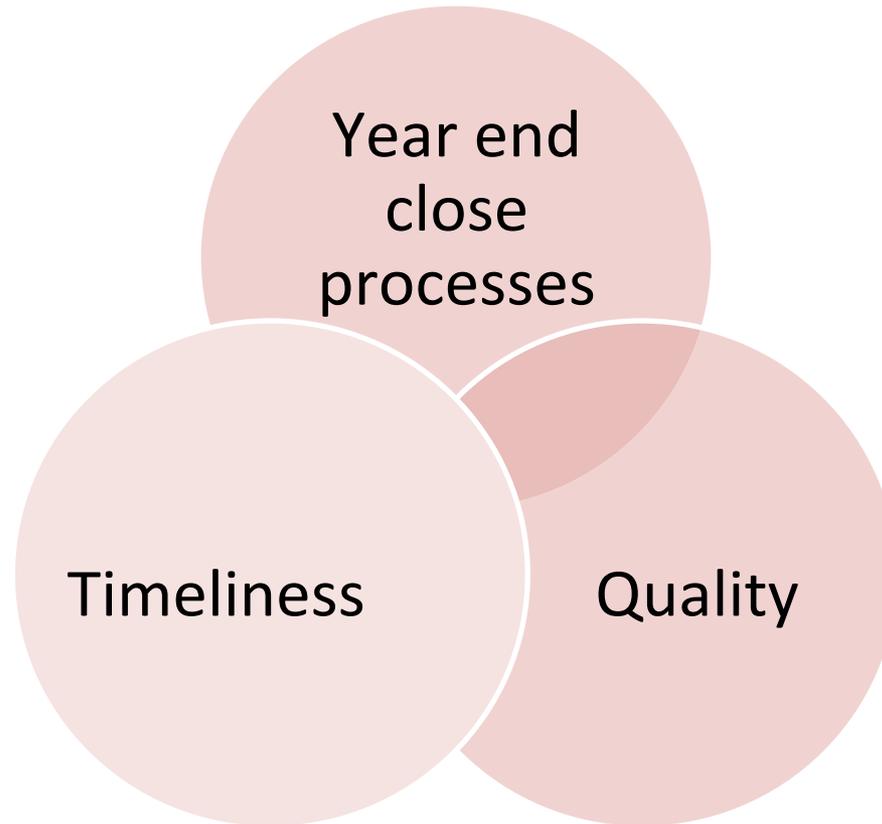
- System settings
- User access restrictions /
- Reference tables (pay rates / delegations)
- Override thresholds

Interfaces

- Data transfer between systems
- On-line, batch or via database connectivity
- Automated reconciliation
- Error handling

Reports

- Generated from the system
- Analysis
- Variance
- Auditor can evaluate the logic to ensure report is correct



Our rating of internal controls

Rating	Internal controls assessment
● Effective	No deficiencies identified in internal controls
● Generally effective	Deficiencies identified in internal controls
● Ineffective	Significant deficiencies identified in internal controls

Deficiency

- internal controls are ineffective or missing,
- internal controls are unable to prevent, or detect and correct, misstatements in the financial statements.



Risk of
misstatement,
reputation, fraud,
correction action

Significant deficiency (high risk matters)

a deficiency, or combination of deficiencies, in internal control that requires immediate remedial action.

Our reporting of internal controls

Previous reports to Parliament

Departments	Internal controls				
	CE	RA	MA	CA	IC
Department of Aboriginal and Torres Strait Islander Partnerships	●	●	●	●	●
Department of Agriculture and Fisheries	●	●	●	●	●
Department of Communities, Child Safety and Disability Services	●	●	●	●	●
Department of Education and Training	●	●	●	●	●
Department of Energy and Water Supply	●	●	●	●	●
Department of Environment and Heritage Protection	●	●	●	●	●
Department of Health	●	●	●	●	●
Department of Housing and Public Works	●	●	●	●	●
Department of Infrastructure, Local Government and Planning	●	●	●	●	●
Department of Justice and Attorney-General	●	●	●	●	●
Department of National Parks, Sport and Racing	●	●	●	●	●
Department of Natural Resources and Mines	●	●	●	●	●
Department of Science, Information Technology and Innovation	●	●	●	●	●
Department of State Development	●	●	●	●	●
Department of the Premier and Cabinet	●	●	●	●	●
Department of Tourism, Major Events, Small Business and the Commonwealth Games	●	●	●	●	●
Department of Transport and Main Roads	●	●	●	●	●
Public Safety Business Agency	●	●	●	●	●
Queensland Fire and Emergency Services	●	●	●	●	●
Queensland Police Service	●	●	●	●	●
Queensland Treasury	●	●	●	●	●

Note: CE = Control environment, RA = Risk assessment, CA = Control activities, IC = Inf communication, MA = Monitoring activities, YE = Year end close processes, T= Timeline

This year

Parliament	Management
Significant deficiencies – red lights (by agency)	Your traffic lights <ul style="list-style-type: none"> • Significant deficiencies • Deficiencies • Effective
Themes from deficiencies	Management responses
Corrective action	Corrective action

How do we classify the issues

Control environment	Risk assessment	Control activities	Information & communication	Monitoring activities
Structures, policies, attitudes and values that influence daily operations	Processes for identifying, assessing and managing risk	Implementation of policies and procedures to prevent or detect errors and safeguard assets	Systems to capture and communicate information to achieve reliable financial reporting	Oversight of internal controls for existence and effectiveness



Most of our audit issues

We assessed that the control environment for each entity was ***suitably designed*** to prevent, or detect and correct material misstatements in their financial statements and non-compliance with legislative requirements.

We identified control deficiencies at 17 of the 21 departments. Departments have improved in the areas of business planning, IT systems, expenditure, payroll and asset related control activities.

We are satisfied with the departments' responses to implement corrective action to rectify these deficiencies. Our testing of the controls at the departments ***did not identify any systemic issues.***

Year end close process

- Non-current asset valuations by 31 May
- Pro forma financial statements by 30 April
- Resolving accounting issues by 30 April
- Completing hard or soft close processes
- Concluding all asset stocktakes by 30 June

Our rating	Year end close process assessment
● Effective	All five key processes were completed by the planned date
● Generally effective	Three of the five key processes were completed within two weeks of the planned date
● Ineffective	Less than three of the five key processes were completed within two weeks of the planned date

Our rating	Timeliness of draft financial statements assessment
● Effective	Acceptable draft financial statements were received on or prior to the planned date
● Generally effective	Acceptable draft financial statements were received within two days after the planned date
● Ineffective	Acceptable draft financial statements were received greater than two days after the planned date

- Total revenue
- Total expenditure
- Net assets

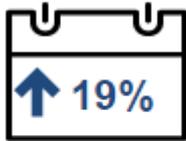
Our Rating	Quality of draft financial statements assessment
● Effective	No adjustments were required
● Generally effective	Adjustments for any of the three key financial statement components were less than 5 per cent
● Ineffective	Adjustments for any of the three key financial statement components were greater than 5 per cent

How do we report?

To Parliament
and management

Entity	Financial statement preparation		
	Year end close process	Timeliness of draft financial statements	Quality of draft financial statements
Department of Aboriginal and Torres Strait Islander Partnerships	●	●	●
Department of Agriculture and Fisheries	●	●	●
Department of Communities, Child Safety and Disability Services	●	●	●
Department of Education and Training	●	●	●
Department of Energy and Water Supply	●	●	●
Department of Environment and Heritage Protection	●	●	●
Department of Health	●	●	●
Department of Housing and Public Works	●	●	●
Department of Infrastructure, Local Government and Planning	●	●	●
Department of Justice and Attorney-General	●	●	●
Department of National Parks, Sports and Racing	●	●	●
Department of Natural Resources and Mines	●	●	●
Department of Science, Information Technology and Innovation	●	●	●
Department of State Development	●	●	●
Department of the Premier and Cabinet	●	●	●
Department of Tourism, Major Events, Small Business and the Commonwealth Games	●	●	●
Department of Transport and Main Roads	●	●	●
Public Safety Business Agency	●	●	●
Queensland Fire and Emergency Services	●	●	●
Queensland Police Service	●	●	●
Queensland Treasury	●	●	●

YEAR END



**71%
effective**

TIMELINESS



**100%
effective**

QUALITY



**76%
effective**

This year we have seen ***improvements*** in year end close processes and the timeliness and quality of financial statements.

It is essential that departments continue their efforts in ***bringing forward key processes*** and increasing the quality of financial statements .

Q&A

Any questions please contact the Queensland Audit Office:

Phone: (07) 3149 6000

Email: qao@qao.qld.gov.au

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