

Sunshine Coast Regional Council

**2021 Second interim report to
the Mayor**

25 June 2021

● *Queensland*
● ● Audit Office



Your ref:
Our ref: 2021-4133
Michael Keane 3149 6077

SENSITIVE

25 June 2021

Councillor M Jamieson
Mayor
Sunshine Coast Regional Council
Locked Bag 72
SUNSHINE COAST MAIL CENTRE QLD 4560

Dear Cr Jamieson

2021 Second interim report (June)

We present to you our second interim report for Sunshine Coast Regional Council for the financial year ending 30 June 2021. This report details the results of our interim work performed from 27 March 2021 to 31 May 2021. In this phase, we confirmed the operating effectiveness of your key financial internal controls and performed further substantive procedures.

This report also includes a summary of significant deficiencies, control deficiencies, financial reporting and other matters identified to date.

Please note that under section 213 of the Local Government Regulation 2012, you must present a copy of this report at your council's next ordinary meeting.

The *Auditor-General Act 2009* requires the Auditor-General to report to parliament on an issue raised during an audit if he considers it to be significant. The results of your entity's audit will be included in our report to parliament on results of local governments.

If you have any questions or would like to discuss the audit report, please contact me on 3149 6032 or have one of your officers contact Michael Keane, senior manager, on 3149 6077.

Yours sincerely

Charles Strickland
Senior Director

Enc.

cc. Ms E Thomas, Chief Executive Officer

Mitchell Petrie and Pat McCallum, Independent Audit Committee Members

1. Summary



This report details our audit findings from the work performed on the key controls over revenue, expenditure, and payroll that were identified during the audit planning phase.

Summary of findings – On track/Issue identified

One new deficiency has been raised in relation to a comprehensive revaluation not being performed for the Other Infrastructure class of assets within the past 5 years as per council policy.

Details of our audit findings are explained further in this report. Refer to the sections on *Internal control* and *Financial reporting issues and other matters*

Based on the results of our testing completed to date and the resolution of prior year issues, we have confirmed that your internal control environment is partially effective, meaning that while the outstanding matters are still being addressed, the environment supports an audit strategy that can rely on these controls.

Areas of audit focus - On track

In addition to the above, we have also performed work over the areas of audit focus that were identified in the external audit plan. Our progress against the areas of audit focus is on track.

Milestones - On track

Council has met all key milestones.

Audit fees - On track












The audit fee is on track as per the estimated fee.





2. Internal control deficiencies




The following table summarises our reporting on deficiencies in internal controls. Further in this section, you will find details of these deficiencies identified during our interim audit. Refer to [Section 4](#) for the status of matters previously raised.

Internal control issues by COSO element	Number of significant deficiencies		Number of deficiencies		Rating
	Current year issues	Prior year unresolved issues	Current year issues	Prior year unresolved issues	
 Control environment Structures, policies, attitudes and values that influence daily operations	-	-	-	-	
 Risk assessment Processes for identifying, assessing and managing risk	-	-	-	-	
 Control activities Implementation of policies and procedures to prevent or detect errors and safeguard assets	1	-	4	1	
 Information and communication Systems to capture and communicate information to achieve reliable financial reporting	-	-	-	-	
 Monitoring activities Oversight of internal controls for existence and effectiveness	-	-	-	-	
Total issues/Overall assessment	1	-	4	1	

 **Effective**
 No significant deficiencies identified

 **Partially effective**
 One significant deficiency identified

 **Ineffective**
 More than one significant deficiency identified



2. Internal control deficiencies (cont'd)

The following table details control deficiencies identified as at 31 May 2021. It includes responses from management.

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

Deficiency

21IR-8 Comprehensive valuation not performed for Other Infrastructure asset class at least every five years

Control Activities

Council's accounting policy for Property, Plant and Equipment assets measured at fair value is to perform comprehensive revaluations at regular intervals of not more than five years. In the 2020 financial year, Council was due to perform a comprehensive revaluation of the Other Infrastructure asset class as the last such revaluation was performed as at 30 June 2015. The written down value of this class of assets was \$392.26m as at 31 May 2021.

It is acknowledged that cost movement analyses have been provided by external valuers annually since 30 June 2015 to determine if there were indicators that a comprehensive revaluation was necessary.

Implication

By not completing comprehensive valuations for applicable classes within Property, Plant and Equipment, Council risks the carrying value of these assets differing materially from their fair value. This is of particular concern in years where significant asset classes are due for comprehensive revaluation.

QAO recommendation

That Council perform a comprehensive revaluation during the 2021-22 financial year for the Other Infrastructure asset class.

Management response

Council has experienced both system and data issues impacting the completion of the comprehensive revaluation of this asset class, and is currently recruiting to bring the infrastructure valuation function in house to manage this, and other infrastructure valuation functions. Council agrees with the recommendation and will implement for the 2021-22 financial year.

Responsible officer: Chief Financial Officer

Status: Not started

Action date: 30 June 2022

3. Financial reporting issues and other matters

This table summarises our financial reporting and business improvement opportunities (other matters) identified in the current year. Refer to [Section 4](#) for the status of prior year financial reporting and other matters.

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

 **High**
 **Medium**
 **Low**

	Financial reporting issues—risk ratings			Other matters*
	High	Moderate	Low	
Current year				
Unresolved	-	-	-	2
Resolved	-	-	-	-

*Queensland Audit Office only tracks resolution of other matters where management has committed to implementing action.



4. Matters previously raised

The following table summarises the status of deficiencies, financial reporting issues and other matters reported previously.

Reference	Issue	Status
Internal control deficiencies		
Significant deficiencies		
21IR-1	Insufficient segregation of duties between employee masterfile changes and payroll processing	Resolved
Deficiencies		
20IR-1	Delays in recording contributed assets (updated)	Work in progress— Council has implemented significant improvements in internal processes, however has already recognised a material prior period error for the 2020-21 financial year. Further system and process improvements are planned for 2021-22 however the risk of delays in receiving required information from external parties still remains. Action date: 30 June 2021
21IR-2	Establishing and documenting the procedures for user access and change management for the SAP payroll system	Work in progress— Policy and procedures will be documented. Action date: 31 July 2021
21IR-3	Review of privileged users and activities for the SAP payroll system	Work in progress— Process will be documented; monitoring and reporting will be implemented. Action date: 31 July 2021
21IR-4	Management of Domain Administrator service accounts	Work in progress— Monthly reviews are already in place. Targeted investigation is to be carried out to confirm if these service accounts still require the additional privileged access and where possible implement measures to prevent the usage of these accounts by individuals. The process for the password management of these service accounts is also under review to ensure their passwords are updated on a regular basis. Action date: 30 June 2021

4. Matters previously raised (cont'd)



Financial reporting issues		
No active financial reporting issues.		
Other matters		
21IR-5	Recording the results of TechOne user access review	Resolved pending QAO verification during the final audit visit – A time stamped, auditable notation has now been included on the relevant files following review. Original action date: 13 April 2021
21IR-6	Contracts over \$200,000 not published on Council's website	Resolved
21IR-7	Active Directory password setting	Resolved pending QAO verification during the final audit visit – An exemption for the duration for changing network passwords has been approved to remain in place until 30 June 2021. Original action date: 30 April 2021



Appendix A—Our rating definitions



Our rating definitions

	Definition	Prioritisation of remedial action
Significant deficiency 	<p>A significant deficiency is a deficiency, or combination of deficiencies, in internal control that requires immediate remedial action.</p> <p>Also, we increase the rating from a deficiency to a significant deficiency based on:</p> <ul style="list-style-type: none"> the risk of material misstatement in the financial statements the risk to reputation the significance of non-compliance with policies and applicable laws and regulations the potential to cause financial loss including fraud, or where management has not taken appropriate timely action to resolve the deficiency. 	<p>This requires immediate management action to resolve.</p>
Deficiency 	<p>A deficiency arises when internal controls are ineffective or missing, and are unable to prevent, or detect and correct, misstatements in the financial statements. A deficiency may also result in non-compliance with policies and applicable laws and regulations and/or inappropriate use of public resources.</p>	<p>We expect management action will be taken in a timely manner to resolve deficiencies.</p>
Other matter 	<p>An other matter is expected to improve the efficiency and/or effectiveness of internal controls, but does not constitute a deficiency in internal controls. If an other matter is not resolved, we do not consider that it will result in a misstatement in the financial statements or non-compliance with legislative requirements.</p>	<p>Our recommendation may be implemented at management's discretion.</p>

Financial reporting issues

	Potential effect on the financial statements	Prioritisation of remedial action
High 	<p>We assess that there is a high likelihood of this causing a material misstatement in one or more components (transactions, balances and disclosures) of the financial statements, or there is the potential for financial loss including fraud.</p>	<p>This requires immediate management action to resolve.</p>
Medium 	<p>We assess that there is a medium likelihood of this causing a material misstatement in one or more components of the financial statements.</p>	<p>We expect management action will be taken in a timely manner.</p>
Low 	<p>We assess that there is a low likelihood of this causing a material misstatement in one or more components of the financial statements.</p>	<p>We recommend management action to resolve; however, a decision on whether any action is taken is at management's discretion.</p>



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