



Your ref:  
Our ref: 2016-4139  
Debra Stolz 3149 6058

27 October 2016

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

Dear Councillor Jaimeson

### **Final Management Report for Sunshine Coast Regional Council**

The 2015-16 audit for Sunshine Coast Regional Council is complete.

QAO issued an unmodified audit opinion on Council's consolidated financial statements. An unmodified audit opinion was also issued on the current year financial sustainability statement. However, an emphasis of matter paragraph was included in the Independent Auditor's Report to highlight the use of the special purpose basis of accounting. These financial reports were returned to you by letter dated 18 October 2016.

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

Our closing report was presented to the audit committee on 5 October 2016 and provided the status of the audit as at that date. Since the presentation of the closing report, there have been no significant matters that have come to our attention.

For your information, Appendix A provides you with details of all audit issues we have raised with management.

### **Report to parliament**

Each year we report the results of all financial audits and significant issues to parliament. In this report, we will comment on the results of the audit of your financial report, financial performance and position and sustainability matters, and any significant control issues we identified, together with our audit recommendations.

You and the chief executive officer will be given an opportunity to comment and those comments will be reflected in the report.

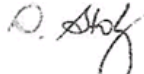
**Audit fees**

The final audit fee (council) for this year is \$220 000 (prior year \$257 500).

We would like to thank you and your staff for the assistance provided to us during the audit.

If you would like to discuss these issues or any matters regarding the audit process, please feel free to contact me on 3149 6058.

Yours sincerely



Debra Stolz  
Director

Enc.

cc : Mr M Whittaker, Chief Executive Officer, Sunshine Coast Regional Council

## Appendix A

### Issues formally reported to management

This table provides you with a summary of issues that we have formally reported to management related to internal control deficiencies and financial reporting issues we identified through our audit process.

#### Internal control deficiencies

Component	Issue	Rating	Our recommendation	Management Response
Information systems - Security	<p><b>Logging &amp; Monitoring Changes in the Database Environment</b></p> <p>Security related transactions and changes in the database environment e.g. direct data changes; changes to database configuration parameter settings; changes to executable code were not logged and independent monitored.</p> <p><i>Implication:</i> There is an increased risk that unauthorised activities and transactions to the database may not be timely detected.</p>	Deficiency	<p>We recommended that:</p> <ul style="list-style-type: none"> <li>Logging is switched on for changes to:                             <ul style="list-style-type: none"> <li>Data made at the database level; and</li> <li>Configuration files for the database instance</li> </ul> </li> <li>The changes are monitored to ensure they are authorised.</li> </ul>	<p><i>Agreed with QAO</i></p> <ul style="list-style-type: none"> <li>Relevant business areas have their own QA processes, including checks and balances, to ensure correctness of processes such as employee pay runs, council rate generation, and creditor payment runs etc. Therefore, with the history of audits and reviews of controls, we believe this risk is well managed.</li> <li>SCRC will action item 1 as requested above, and act on the findings of that analysis. It is noted that monitoring of direct data changes to the database is possible using T1 audit controls to add auditing to financial transactions (T1 Finance and T1 Property). This does, however, add a significant performance impact to the system, so the cost of implementation will need to be considered in this review.</li> <li>Critical security changes to the databases - The T1 Property and Finance databases - currently monitor for any database Add/Delete User operations which get alerted to our DBA.</li> </ul> <p>SCRC will undertake the recommendations.  <i>Status:</i> Work in progress  <i>Proposed action date:</i> 31 December 2016  <i>Responsible officer:</i> Chief Information Officer/Team Leader Corporate Systems.                      Issue remains <b>OPEN</b> – We will follow-up during the 2016-17 interim audit visit.</p>

Component	Issue	Rating	Our recommendation	Management Response
Information systems - Security	<p><b>Privileged user activities</b></p> <p>The council does not independently monitor and review key financial systems on security related transactions such as assignment of elevated privileges, changes to profile / role configurations, enabling and disabling user accounts with elevated privileges.</p> <p><i>Implication:</i></p> <p>There is an increased risk that unauthorised changes are made to the database that may not be detected in a timely manner.</p>	Deficiency	<p>We recommended that personnel, independent from system administration activities, monitor and review security related transactions for:</p> <ul style="list-style-type: none"> <li>• assigning of elevated privileges to users</li> <li>• changes to privileges allocated to a profile / role</li> <li>• enabling and disabling user accounts with elevated privileges.</li> </ul>	<p><i>Agreed with QAO</i></p> <p><i>Action plan:</i></p> <p>It has been the process that the appropriate business administrators maintain and monitor the users that have Application Admin privileges.</p> <p>It is understood that the Finance area perform periodical reviews of their administrators, however this will need to be reviewed for all of the T1 Property, and Payroll business areas. Reports are provided within each application which the business area could use to periodically review the admin users for each application. SCRC will undertake the recommendations.</p> <p><i>Status:</i> Work in progress</p> <p><i>Proposed action date:</i> 31 December 2016</p> <p><i>Responsible officer:</i> Business Application Custodians.</p> <p><b>Status Update</b> - Issue remains <b>Open</b> – We will follow-up during the 2016-17 interim audit visit.</p>
Information systems - Security	<p><b>Resetting passwords over the phone</b></p> <p>There are no processes in place to verify the users' identity when they request password reset over the phone.</p> <p><i>Implication:</i></p> <p>There is a risk that password reset is requested by unauthorised user who intends to breach system security.</p>	Deficiency	<p>We recommended that council implement processes and/or technology to verify users who request password reset over the phone</p>	<p><i>Agreed with QAO</i></p> <p><i>Action plan:</i></p> <p>Most telephone assists are for unlocking the computer, and therefore still needs person to know password. However there are some people that do seek password reset. For system administrator users we require more information, and know the individuals, so any risk is associated only with those having lower access privileges. We could look at seeking DOB or payroll number as part of verification.</p> <p>We are introducing a new identity management solution that will provide improved validation, and also allow self-management that support multi-factor verification, and therefore will continue with the implementation and ensure it addresses this recommendation.</p> <p><i>Status:</i> Work in progress</p> <p><i>Proposed action date:</i> 31 December 2016</p> <p><i>Responsible officer:</i> Coordinator ICT Services.</p> <p><b>Status Update</b> - Issue remains <b>Open</b> – We will follow-up during the 2016-17 interim audit visit.</p>

Component	Issue	Rating	Our recommendation	Management Response
Information systems - Security	<p><b>User access for TechnologyOne Property system</b></p> <p>There is no periodic review of user access to the system to ensure that access privileges are commensurate with users' roles and responsibilities and segregated from incompatible functions.</p> <p><i>Implication:</i> The council may not detect and correct unauthorised or incompatible access privileges and this may result in unauthorised or incorrect transactions being processed fraudulently or in error.</p>	Deficiency	We recommended that Council review user access on a regular basis (biannual or annually).	<p>Agreed with QAO</p> <p><i>Action plan:</i></p> <p>The business area Application Administrators allocate access privileges to the applications. It is understood verification has occurred on processes, however we acknowledge the need to check with key personnel, e.g. applications administrators in the Rates Team, Waste, Development Service, and Community response, to understand and clarify their processes.</p> <p>It is important to note the business Quality Assurance processes also validate appropriate transactions, and controls in key areas around access privileges have been previously reviewed through audit processes.</p> <p><i>Status:</i> Work in progress</p> <p><i>Proposed action date:</i> 31 October 2016</p> <p><i>Responsible officer:</i> Business Application Custodians</p> <p><b>Status Update</b> - Issue remains <b>Open</b> – We will follow-up during the 2016-17 planning audit visit</p>

Prior year internal control issues re-raised

Component	Issue	Rating	Our recommendation	Management Response
Information systems	<p><i>Date issued raised:</i> 27 June 2013</p> <p><b>Issue: User Profile Maintenance and Financial Delegations</b></p> <p>Finance One user profile management processes identified control weaknesses over user profile matrix, system logging, and review and monitoring of financial delegations.</p>	Deficiency	It was recommended that Council initiate action to address the control weaknesses identified.	<p><i>Agreed with QAO</i></p> <p>Council proposes to maintain the user profile matrix within Microsoft Excel.</p> <p><b>QAO update:</b></p> <p>Corrective action is still being undertaken to address the issue. FinanceOne was upgraded in July 2016. Council is currently still working on mapping Council's security matrix to compare the differences between user profiles in the old system against the new system. This should be completed in November/December 2016.</p> <p><b>Status Update</b> - Issue remains <b>Open</b> – We will follow-up during the 2016-17 planning audit visit.</p>

**Note:** Prior period deficiencies include all deficiencies unresolved or where management was undertaking corrective action as at 30 June 2015 and their status update as at 30 June 2016. Any significant deficiencies are taken into account when assessing the effectiveness of the internal control framework (traffic lights).

## Financial reporting issues

The following table summarises all financial reporting issues identified through our audit testing as at 30 September 2016

Financial statement component(s) affected	Issue	Risk rating	Recommendation	Management Response
Property, plant and equipment	<p><i>Date issued raised:</i> 9 June 2016 (interim management letter)</p> <p><b>Capitalised costs for Maroochydore City Centre Priority Development Area includes operational expenses</b></p> <p>In testing capitalised costs relating to the Maroochydore City Development Area, we noted the capitalisation of advertising and promotional activity, totaling approximately \$212 500.</p> <p>In our judgment, the nature of these expenses do not meet the criteria for recognition of assets as set out in AASB 116 <i>Property, Plant &amp; Equipment</i>.</p> <p>We will continue our review of capital works in progress during our year-end audit.</p> <p><i>Implication:</i>                      Costs that are not capital in nature are not being expensed in the period in which they are incurred and therefore operating expenditure may be understated and conversely Work-In-Progress overstated</p>	Low	We recommended that council undertake a review of capitalised costs assigned to the Maroochydore City Development jobs, to ensure they met the recognition criteria within AASB 16.	<p><i>Agreed with QAO</i></p> <p><i>Action plan:</i>                      Council accepts the recommendation provided by Queensland Audit Office. Council is aware that postings to capital jobs associated with MCC PDA require review with the expectation that some transfers to operating will be required.</p> <p>Comprehensive review and assessment of expenditure types for MCC PDA capital jobs will be conducted on a monthly basis by a key stakeholder review group. Key members:</p> <ul style="list-style-type: none"> <li>• Project Manager</li> <li>• Financial Accounting Coordinator</li> <li>• Project Administrator (Senior Management Accountant)</li> <li>• Senior Capital Accountant</li> <li>• Senior Asset Accountant.</li> </ul> <p>The monthly review group will ensure all costs posted to capital jobs satisfy recognition criteria and are directly attributable to assets being delivered. Where project costs are identified as not being capital in nature, such costs will be expensed in the period incurred. Comprehensive review will also ensure project costs are recorded in the appropriate capital job and project overhead costs are apportioned in the current period to the relevant stage or assets being delivered.</p>

Financial statement component(s) affected	Issue	Risk rating	Recommendation	Management Response
Property, plant and equipment	<p><i>Date issued raised:</i> 9 June 2016 (interim management letter)</p> <p><b>Asset Management Plans awaiting adoption by Council.</b></p> <p>Management has completed seven Asset Management Plans (AMPs) during the 2015-16 financial year that are awaiting formal adoption by Council.</p> <p>The AMPs awaiting adoption are</p> <ul style="list-style-type: none"> <li>• Buildings and Facilities;</li> <li>• Coastal &amp; Environment;</li> <li>• Holiday Parks;</li> <li>• Parks &amp; Gardens;</li> <li>• Stormwater;</li> <li>• Transportation; and</li> <li>• Waste and Resources Management.</li> </ul>	Other Matter	We recommended council's website reflect current Asset Management Plans.	<p><b>Status Update</b> – Issue has been <b>Resolved</b> - Accounting review process has been established to ensure that only those costs that satisfy the recognition criteria per AASB 116 Property, Plant &amp; Equipment are being posted to capital works in progress accounts and that costs that do not satisfy recognition criteria are expensed in the period in which they are incurred. Audit is satisfied that the processes adopted by Council is leading to the desired outcome that only those costs which are directly attributable to bringing the asset to the location and condition necessary for it to operate in the manner intended by management are being capitalised. Further, Council management have indicated their intention to apply this analysis to all other region making projects.</p> <p><i>Agreed with QAO</i></p> <p><i>Action plan:</i></p> <p>Council accepts the above recommendation and will commence tabling Annual Asset Management Plans at Council for endorsement.</p> <p><i>Status:</i> Work in progress</p> <p><i>Proposed action date:</i> 16 December 2016</p> <p><i>Responsible officer:</i> Coordinator Asset Management and Capital Planning</p> <p><b>Status Update</b> - Issue remains <b>Open</b> – We will follow-up during the 2016-17 interim audit visit.</p>