

Sunshine Coast Regional Council

2019 Interim report (June)

28 June 2019



Your ref:
Our ref: 2019-4139

IN-CONFIDENCE

28 June 2019

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

Dear Councillor Jamieson

2019 Interim report (June)

We present to Council our second interim report for Sunshine Coast Regional Council for the financial year ending 30 June 2019. This report, provided subsequent to our first interim report dated 15 April 2019, details the results of our interim work performed from 1 March 2019 up to 31 May 2019. In this phase we confirmed the design and implementation of your internal controls, and whether they are operating effectively.

This report also includes our assessment your internal control framework; and a summary of control deficiencies, financial reporting and other matters identified to date.

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. To date our work has identified two significant deficiencies in your control activities:

- Payroll process deficiency for changes to employee bank account details
- Monitoring the activities of users with privileged access (raised in our letter dated 15 April 2019).

If you have any questions or would like to discuss the audit report, please contact me on 3149 6129 or Michael Keane on 3149 6077.

Yours sincerely

Carolyn Dougherty
Director

Enc.

cc. Mr Michael Whittaker, Chief Executive Officer

Mr Peter Dowling, Chair of the Audit Committee, Sunshine Coast Regional Council

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1. Summary











Audit progress

Internal control assessment and issues	On track
<ul style="list-style-type: none"> In this visit we completed internal control and substantive testing for revenue, payroll and expenditure for the period 1 March 2019 to 31 May 2019. Overall, in our two interim audit visits, we have covered 1 July 2018 to 31 May 2019. We have identified a significant deficiency relating to payroll masterfile changes (details provided in section 2 of this report). Additional testing over payroll employee masterfile changes was conducted and no further incidents were identified. In our management report dated 15 April 2019, we escalated the deficiency, monitoring the activities of users with privileged access, to a significant deficiency as this matter has remained unresolved since our 2017 audit. Management has advised this matter has been addressed. Resolution of this matter is subject to audit verification. <p>Based on the results of our testing completed for the period 1 July 2018 to 31 May 2019, our audit strategy remains unchanged, except for the two areas where we have raised significant deficiencies in Council's control activities. We conducted additional substantive testing to address the identified deficiencies.</p>	
Financial reporting issues and other matters	On track
<p>We note progress has been made on the prior year financial reporting issue regarding delays in recording contributed assets. However, this issue is not yet due and will be assessed during our final visit. No new financial reporting issues have been raised.</p>	
Areas of audit significance	On track
<p><u>Valuation/depreciation of infrastructure assets</u> – We will test this area of audit significance as part of our July and September 2019 visits.</p> <p><u>Revenue recognition of infrastructure charges and contributed assets</u> – We have completed substantive testing through verification to supporting documentation for the period 1 July 2018 to 31 May 2019 with no deficiencies noted. We have planned further testing in this area to address the risk of completeness as part of our September 2019 visit.</p> <p><u>Appropriateness of procurement policies and practices</u> – We have tested the effectiveness of key controls for the period 1 July 2018 to 31 May 2019 for expenditure with no deficiencies noted. Substantive testing to date included transactional analytical procedures, review of procurement processes for selection of awarded contracts and verification to supporting documentation. We have planned further testing in this area for the intervening period as part of our September 2019 visit.</p> <p><u>Financial sustainability</u> – We will test this area of audit significance as part of our September 2019 visit.</p> <p><u>Valuation of investment in associate</u> – We will test this area of audit significance as part of our September 2019 visit.</p> <p><u>Major projects and application of accounting standards</u> – We completed our audit of the accounting papers covering your entities major projects. We will continue to consider transactions and events relating to these projects up to the signing of the financial statements to ensure appropriate disclosure is recorded.</p>	
Milestones—financial reporting and audit deliverables	On track
<p>Feedback on the Maroochydore City Centre, Sunshine Coast International Broadband Network and Sunshine Coast Airport Expansion Project were provided after the agreed upon date. This was due to additional complexities within these projects that required further discussions with Council. All other agreed financial reporting and audit deliverable milestones have been met.</p>	






2. Internal control issues

The following table summarises our reporting on deficiencies in internal controls.

	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	-	-	-	1	
 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	-	-	2	
 Information and communication Systems to capture and communicate information to achieve reliable financial reporting	-	-	1	-	
 Monitoring activities Oversight of internal controls for existence and effectiveness	-	1*	-	-	

*This issue was elevated this year from a deficiency to a significant deficiency as detailed in our first interim report dated 15 April 2019. The classification of this issue within the COSO elements has also been reassessed and determined to be more aligned to monitoring activities.

Our ratings

-  **Effective**
No significant deficiencies identified.
-  **Generally effective**
One significant deficiency identified.
-  **Ineffective**
More than one significant deficiency identified.



2. Internal control issues (continued)



Significant deficiencies and deficiencies

The following details a significant deficiency identified since our last report dated 15 April 2019. It includes managements actions to prevent this issue from re-occurring in the future.

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



Significant deficiency

1. Payroll process deficiency for changes to employee bank account details (New issue) COSO Component – Control Activities

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 also addressed directly to a payroll officer. Sunshine Coast Regional Council processed one of these changes which resulted in the fraud being successful.

The council's procedures in place at the time of this incident allowed for bank accounts to be changed by the following three methods:

- by email
- through the Employee Self Service system, or
- a physically signed form

Changes made through an email request required no further enquiry or information before actioning. We note that since this incident, payroll changes requested by email now require a follow up phone call from the payroll team to confirm any bank account changes.

QAO recommendation

As these fraud attempts are becoming more common and sophisticated:

- (a) Council should review practices relating to any bank account changes to ensure controls are in place to prevent future incidents occurring.
- (b) Furthermore, fraud awareness training should be extended to all staff.

Management response

- (a) Management agrees with the recommendation and completed a review of the current procedure which resulted in the implementation of additional control measures to prevent future security incidents. The review process was completed in consultation with the Payroll Team. These control measures include additional identity checks, system generated emails to the employee confirming when a primary bank account changes, and updated forms and factsheets.

Responsible Officer: Head of People & Culture
Status: Resolved
Action Date: 13 March 2019

- (b) The Corporate Governance Branch has recently reviewed the Fraud and Control documentation and will be rolling out specific Fraud Awareness Training as part of the Governance Awareness Program, commencing in July 2019. The branch currently provides Risk Management Training to employees and this training does include a short element on Fraud Risk. The specific Fraud Awareness Training will consist of both face-to-face sessions as well as an online module that will be rolled out later in the year (pending external development timelines). The training will initially be tailored to high risk areas.








Responsible Officer: Manager Corporate Governance
Status: In Progress
Action Date: 30 September 2019



3. Previously reported issues

Status




The following table summarises the status of issues and other matters reported by audit in the first interim management letter dated 15 April 2019.

Reference/ COSO element	Rating	Issue	Status
Internal control issues			
1.1 Monitoring activities		Monitoring the activities of users with privileged access	Matter re-raised as a significant deficiency – see details in interim management letter dated 15 April 2019 at Section 2 – Issue #1. Resolved subject to audit verification.
1.2 Information and Communication		Deficiency in monthly financial reporting	Matter raised in interim management letter dated 15 April 2019 at Section 2 – Issue #2.
1.3 Control Activities		Disabling system access for terminated users	Partially resolved – see details in interim management letter dated 15 April 2019 at Section 2 – Issue #3.
1.4 Control Activities		Managing password for privileged accounts	Matter re-raised – see details in interim management letter dated 15 April 2019 at Section 2 – Issue #4.
1.5 Control Environment		IT security policy and procedures	Matter re-raised as a deficiency – see details in interim management letter dated 15 April 2019 at Section 2 – Issue #5.
Financial reporting issues			
PY 2.1		Delays in recording contributed assets	Work in progress
PY 2.2		EDQ interest free loan not accounted for at fair value	Resolved subject to audit verification






4. Appendix A—Our rating definitions

Internal rating definitions

	Definition	Prioritisation of remedial action
Significant deficiency 	A significant deficiency is a deficiency, or combination of deficiencies, in internal control that requires immediate remedial action. Also, we increase the rating from a deficiency to a significant deficiency based on: <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.

Financial reporting issues

	Potential effect on the financial statements	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.
Low 	We assess that there is a low likelihood of this causing a material misstatement in one or more components of the financial statements.	We recommend management action to resolve; however, a decision on whether any action is taken is at management's discretion.

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