



Sunshine Coast Regional Council

2020 Second interim report

25 June 2020



Your ref:
Our ref: 2020-4139

25 June 2020

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

Dear Councillor Jamieson

2020 Second interim report (June)

We present to you our second interim report for Sunshine Coast Regional Council for the financial year ending 30 June 2020. This report details the results of our interim work performed from 1 March 2020 to 31 May 2020. In this phase, we confirmed the operating effectiveness of your internal controls and performed further substantive procedures. No deficiencies have been identified in our work performed since the issuance of our first interim report.

This report also includes our confirmation of your internal control framework; and a summary of significant deficiencies, 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.

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

Yours sincerely

Charles Strickland
Director

Enc.

cc. Mr Warren Bunker, Acting Chief Executive Officer
Mr Peter Dowling, Chair Audit Committee

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1. Summary



Audit progress

Internal control assessment and issues	No further issues identified
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- We have completed testing the operating effectiveness of internal controls for revenue, payroll and expenditure systems for the period 1 March 2020 to 31 May 2020.
- In our first interim visit we identified 3 new significant deficiencies and three deficiencies with the new SAP payroll system. This was reported to you in our first interim report issued on 8 May 2020. Refer [Section 3](#) below for details.
- We have also assessed the progress made towards resolving prior year issues. Further details on the status of these issues are detailed in [Section 3](#) of this report.

Based on the results of our testing completed to date, we have assessed your overall internal control environment as generally effective, meaning the environment supports an audit strategy which relies upon key controls.

Financial reporting issues and other matters	On track
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There are no active financial reporting matters for council. Five other matters raised in our first interim report have been resolved subject to audit verification.

Areas of audit significance	On track
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Valuation/depreciation of infrastructure assets – We will test this area of audit significance as part of our July/September 2020 visits.

Revenue recognition of infrastructure charges and contributed assets – We have completed substantive testing through verification to supporting documentation for the period 1 March 2020 to 31 May 2020 with no deficiencies noted.

Appropriateness of procurement policies and practices – We have tested the effectiveness of key controls for the period 1 March 2020 to 31 May 2020 for expenditure with no deficiencies noted.

Financial sustainability – We will test this area of audit significance as part of our September 2020 visit.

Valuation of investment in associate – We will test this area of audit significance as part of our September 2020 visit.

Major projects and application of accounting standards - We will test this area of audit significance as part of our September 2020 visit.

Milestones—financial reporting and audit deliverables	On track
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All agreed financial reporting and audit deliverable milestones have been met by Council.



2. Internal control issues






The following table summarises our reporting on deficiencies in internal controls to 31 May 2020. Refer to [Section 3](#) for the status of previously raised issues.

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	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	2	1*	3	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	-	-	-	-	

* These issues are now resolved, subject to QAO verification.

Our ratings

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

Other matters

The following table summarises the status of other matters identified to date. Refer [Section 4](#) for more details.

	Prior year			Current year			
	Unresolved	Resolved - current year	Resolved pending QAO verification	Not yet due	Unresolved	Resolved pending QAO verification	Resolved
*Other matters	-	-	-	-	-	5	1

* QAO only tracks resolution of Other matters where management has committed to implementing action.



3. Previously raised issues



Status

The following table summarises the status of issues and other matters reported by audit in prior years.

Component	Issue	Status
Significant Deficiencies		
Control activity	20-IR-1: Delays in recording contributed assets As a result of delays in processing contributed asset information, there are 2706 assets (2018: 4,333) with a net value of \$29.258m (2018: \$38.404m) that were under control of council in previous financial years that have been brought to account during the 2018–19 financial year. Council is to improve process for recognising contributed assets in the correct financial year.	Work in progress Council are working with appropriate internal and external stakeholders to improve the timeliness of receipt of information necessary to enable recognition of contributed assets in the appropriate financial year. Due date: 30 June 2020
Control activity	20-IR-2: Critical security settings are not enabled in the SAP Payroll system Council has not enabled the critical security settings in SAP Payroll system to: <ul style="list-style-type: none"> prevent accidental loss of data or SAP deletion programs from automatically resetting data in error protect the system against intentional or unintentional overwriting. 	Resolved, subject to QAO verification Due date: 22 May 2020
Control activity	20-IR-3: Insufficient segregation of duties in maintaining the SAP Payroll system Twenty-two user accounts have a high level of privileged access within the SAP system to provide technical support and system maintenance. These users have access to all functions, including maintaining the system, managing user access, changing system security and changing data. This has resulted in a lack of segregation of duties between privileged users.	Resolved, subject to QAO verification Due date: 29 May 2020
Control environment	20-IR-4: Processes and oversight in managing the SAP payroll system Council has not defined or formalised with their third party-service provider the following processes for managing the SAP system: <ul style="list-style-type: none"> User access management to ensure access to SAP is valid and appropriate Change management to ensure all changes are approved and tested Security oversight process to monitor and review critical and high-risk system and user administration activities. 	Resolved, subject to QAO verification Due date: 29 May 2020




3. Previously raised issues (cont'd)



Component	Issue	Status
Deficiencies		
Control activity	19-IR-3: Disabling system access for terminated users Council does not have a process to review and disable user accounts that have an expire password or have not been used for an extended period.	Resolved, subject to QAO verification QAO testing on the effectiveness of the process has been delayed due to the impacts on Council of Covid-19.
Control activity	20-IR-5: Securing privileged SAP accounts in the SAP Payroll system We noted that four SAP accounts were set with a user type that provides the ability for unauthorised users to log in into the SAP system and gain privilege access.	Resolved, subject to QAO verification Due date: 29 May 2020
Control activity	20-IR-6: Access to SAP background administrator in the SAP Payroll system We noted that there are 6 SCRC employees and 22 support accounts that have access to SAP background administrator to schedule background jobs or review jobs. This access could be used as means to elevate a user's privileges. Users can potentially misuse the elevated privilege to make changes to existing scheduled background jobs. This may result in intentional or unintentional changes to data and the system.	Resolved, subject to QAO verification Due date: 29 May 2020
Control activity	20-IR-7: Unintended user maintenance access within the SAP Payroll system We noted that: <ul style="list-style-type: none"> The People and Culture team have access to perform user maintenance for 'customer' user groups. There are 24 privileged SAP accounts that are currently not assigned to any user groups. This means that the HR team can perform user maintenance activities over the 24 privileged SAP accounts that are not assigned to any user groups.	Resolved, subject to QAO verification Due date: 29 May 2020



4. Previously raised other matters

	Issue	Status
	Other matters	
	<p>20-IR-8: Setting the time zone to AUSQLD within the SAP Payroll system</p> <p>The time zone for the SAP Payroll system has not been set to Australian (Queensland) time. The system currently uses the installation default of Central European time.</p> <p>While an incorrect time zone does not necessarily have a negative impact on the system or its operation, it provides the opportunity for misinterpretation of any system logs or document time stamps.</p>	<p>Resolved, subject to QAO verification</p> <p>Due date: 29 May 2020</p>
	<p>20-IR-9: Establishing user licensing processes within the SAP Payroll system</p> <p>Council does not have a SAP account offboarding process for terminated accounts to ensure that they are:</p> <ol style="list-style-type: none"> Clearly identified Not included in a SAP user licensing review. 	<p>Resolved, subject to QAO verification</p> <p>Due date: 29 May 2020</p>
	<p>20-IR-10: Clear identification of all support accounts within the SAP Payroll system</p> <p>Not all support accounts within the SAP system are clearly identifiable by the name of the account. This is important as it assists SCRC to confirm support account usage and activity. It also helps to identify which support personnel are using the accounts.</p>	<p>Resolved, subject to QAO verification</p> <p>Due date: 29 May 2020</p>
	<p>20-IR-11: Cleaning up of support accounts no longer in use within the SAP Payroll system</p> <p>There are privileged support accounts which have been locked and are no longer required for use but have not yet been terminated.</p>	<p>Resolved, subject to QAO verification</p> <p>Due date: 28 May 2020</p>
	<p>20-IR-12: Standard housekeeping background jobs that fail within the SAP payroll system</p> <p>Standard SAP housekeeping background jobs are currently failing due to the 'step user' account being locked for use. These jobs require a 'step user' to action the scheduled task. When the step user account is locked, the background job is unable to execute and cancels with an error.</p>	<p>Resolved, subject to QAO verification</p> <p>Due date: 29 May 2020</p>
	<p>20-IR-13: Contracts over \$200,000 not published on Council's website</p> <p>Six current contractual arrangements worth more than \$200,000 were not published on Council's website as per the requirements of the Local Government Regulation 2012.</p>	<p>Resolved</p>



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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