Sunshine Coast Regional Council

2021 Interim report to the Mayor

27 April 2021
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SENSITIVE

27 April 2021

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

Dear Cr Jamieson

2021 Interim report

We present to you our 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 to 26 March 2021. In this phase we assessed the design and implementation of your internal controls, and whether they were operating effectively. We have also undertaken work over the areas of audit significance that was communicated in our external audit plan. This report includes our assessment of your internal control framework, and a summary of control deficiencies 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 officer's contact Michael Keane on 3149 6077.

Yours sincerely

C G Strickland
Senior Director

Enc.

cc. Ms E Thomas, Chief Executive Officer

Mr Peter Dowling, Chair Audit Committee

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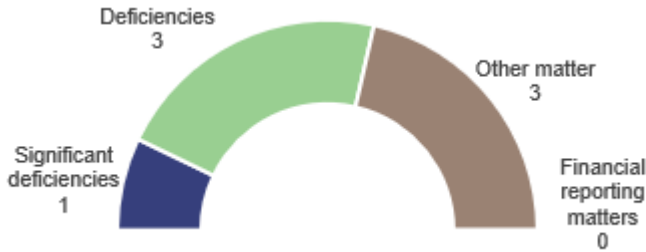
1. Summary

We have completed our audit planning phase and an external audit plan was issued on 11 January 2021.

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

Summary of findings—On track/Issues identified

One significant deficiency was identified in relation to segregation of duties within the payroll software.

Details of our audit findings are explained further in this report. Refer to section 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 assessed your internal control environment as <u>partially effective,</u> 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

All agreed key financial reporting and audit deliverables milestones have been met.

Audit fees—On track

Invoiced to date

$102,873

Remaining fee

$147,128

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 prior year deficiencies.

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		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	-	-	-	-	🟢
Total issues/Overall assessment	1	-	3	1	🟠

🟢 **Effective**

No significant deficiencies identified

🟠 **Partially effective**

One significant deficiency identified

🔴 **Ineffective**

More than one significant deficiency identified

The following table details control deficiencies identified as at 26 March 2021. It includes responses from management.

Our risk ratings are as follows—refer to Our rating definitions for more detail.

⚙ **Significant deficiency**	⚙ **Deficiency**

⚙ **Significant deficiency**

21IR-1 Insufficient segregation of duties between employee masterfile changes and payroll processing
Control Activities

We identified that individual members of the payroll team have access in PeopleHub to make masterfile changes and also process pay runs in the EC Payroll system. These activities are incompatible from a segregation of duties point of view as the data from PeopleHub flows into EC Payroll.

Implication

The lack of effective segregation of duties between payroll processing and employee master file maintenance activities increases the risk of erroneous or fraudulent transactions going undetected by the control environment.

We note that management has controls restricting junior staff from access to pay run processing in EC Payroll.

QAO recommendation

That Council review the current payroll control environment and make the necessary changes to ensure effective segregation of duties is implemented for payroll processing and employee masterfile maintenance.

Management response

Council agrees with the recommendation to improve the controls associated with the segregation of Senior Payroll Officer duties. A fortnightly end of pay control report based on the PeopleHub Employee Central Job Information and Compensation Information masterfile changes by Senior Payroll Officers will be created to improve the internal controls. Based on the existing end of pay control reports which are reviewed independently of Senior Payroll Officers, no breaches have been identified.

> Responsible officer: Payroll Manager
>
> Status: Work in progress
>
> Action date: 30 April 2021

Deficiency

21IR-2 Establishing and documenting the procedures for user access and change management for the SAP payroll system
Control Activities

There is a process in place to manage user access management and change management requests for the SAP system. However, Council does not have documented procedures and requirements for user access and change management processes for its SAP system that define:

- how Council and its service provider raise requests for access or system changes

- who approves those requests

- what key information needs to be documented in the requests—for example key information on a request for:

    o user access—including usernames, role assignments, access approver and date

    o system changes—including the date, transport number, change request number and the name of the officer actioning the request.

Implication

Without clear policies and procedures for these processes, there is a risk that user access management and change management for the SAP system will not be consistently managed and that unauthorised access or changes to the system may occur as a result.

QAO recommendation

That Council establish policies and procedures that clearly define:

- the roles and responsibilities for user access management and change management processes for the SAP system

- the key information that needs to be documented in the requests for user access and system changes, including:

    o user access—usernames, role assignments, access approver and date

    o system changes—including the date, transport number, change request number and the name of the officer actioning the request.

Management response

Council agrees with the recommendation to establish policy and procedures that clearly defines the roles and responsibilities within the process of user access management and change management. Based on the observations and the QAO recommendation above, Council will commence the drafting of policy and procedures to ensure that user access management and change management is accurately recorded, approved and validated.

Responsible officer: Team Leader HR Business Systems

Status: Work in progress

Action date: 31 July 2021

	Deficiency

21IR-3 Review of privileged users and activities for the SAP payroll system
Control Activities

Council has engaged an external service provider (ESP) to provide support and maintenance for the SAP system. Whilst it is expected that certain ESP personnel will need privileged user access within the SAP system to perform this role, we note that Council has not established processes to review whether:

- ESP personnel with privileged user access have a valid requirement for this access

- the activities of ESP privileged users within the SAP system are expected, approved and appropriate.

Implication

Without monitoring and review of privileged user access and activities, Council is at increased risk of unauthorised access or system changes occurring within the SAP payroll system.

QAO recommendation

That Council establish processes to:

- regularly review all active ESP privileged user access accounts in the SAP payroll system to ensure that they are required

- monitor and review the activities of ESP privileged users to ensure that they are expected, approved and appropriate.

Management response

Council agrees with the recommendation to establish a process to ensure that all support accounts that remain active within the payroll system are required and appropriate. Based on the observations and the QAO recommendation above, Council will commence drafting a process, implement monitoring and reporting of support accounts to ensure that logon and activity is accurately recorded, approved and validated.

Responsible officer: Team Leader HR Business Systems

Status: Work in progress

Action date: 31 July 2021

Deficiency

21IR-4 Management of Domain Administrator service accounts

Control activities

Observation

Council has fourteen generic service accounts with domain administrator privileged access which have full access to the network. We found that these accounts have not had their passwords changed regularly in line with the Council Information Communication Technology Services Fact Sheet and better practices. Twelve of these accounts have not had a password reset within the last five years.

Implication

Not securing accounts with domain administrator privileged access increases the risk of the privileged access being misused, intentionally or unintentionally, and could result in unauthorised access to the system and data.

QAO recommendation

That Council:

- determine whether the generic service accounts still require domain administrator privileged access and remove this assignment from the domain administrator group where appropriate

- removes local logon of appropriate generic service accounts performing system processes to align with non-domain admin service accounts

- implement a control process to regularly change passwords for domain administrator accounts that cannot have local logon access removed.

Management response

Council currently undertakes monthly reviews of all accounts, including service accounts, with domain administrator access. Council has commenced a targeted investigation of all service accounts with such permissions to, where possible, remove this access and/or implement measures to prevent local logon using these accounts.

The process for the password management of service accounts is also under review to ensure those accounts that cannot have logon restrictions applied have their passwords updated on a regular basis.

Responsible officer: Head of Information Technology

Status**:** Management undertaking corrective actions

Action date: 30 June 2021

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	-	-	-	3
Resolved	-	-	-	-
Prior year				
Unresolved	-	-	-	-
Resolved	-	-	-	1

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

⚙ **Other matter**

21IR-5 Recording the results of TechOne user access review

Observation

Council performs a monthly TechOne application user access review. This process consists of a system generated audit report that is sent to the Coordinator Financial Accounting for review. It was noted that there is currently no requirement to acknowledge, confirm or comment on the results of the review. The conclusion of the process is when the report is stored within the document management system by the Coordinator Financial Accounting.

A review without a recorded conclusion or results weakens the process in terms of accountability and completeness.

QAO recommendation

That Council record the results of the review over user access before storing the report within the document management system.

Management response

Council agrees with the issue and associated recommendations and has immediately implemented a change to the current process. A notation will be recorded on the record in the document management system at the time of saving the document. The notation will provide confirmation that a review has been performed and details of any investigation or action undertaken as part of the review. Sample screen below.
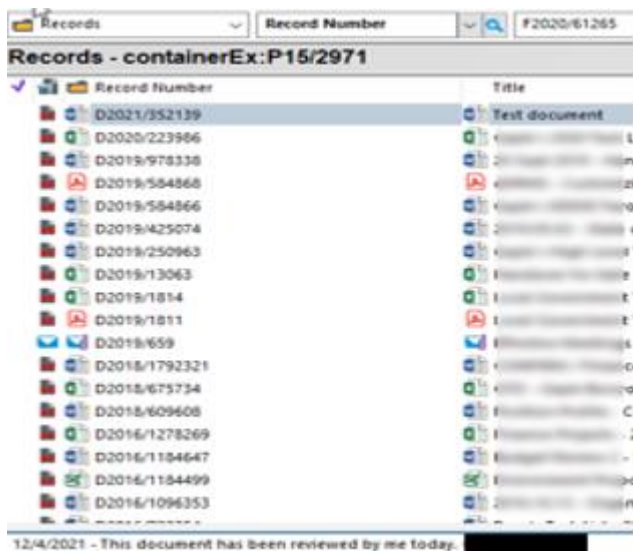
Responsible officer: Coordinator Financial Accounting

Status: Resolved pending QAO verification

Action date: 13 April 2021

⚙ **Other matter**

21IR-6 Contracts over $200,000 not published on Council's website

Observation

During the 2019–20 financial year, we raised an audit matter where six contractual arrangements worth more than $200,000 were not published on Council's website in accordance with the Local Government Regulation 2012. New monitoring reports were established by Council to ensure that all contracts over $200,000 are identified and published on Council's website in a timely manner.

This year, we have identified one current contractual arrangement worth more than $200,000 that was not published on Council's website as per the requirements of the Local Government Regulation 2012.

QAO recommendation

That Council publish this contract on their website to ensure compliance with the Local Government Regulation 2012 and remind staff of the correct operation of the monitoring control.

Management response

Council agrees with the recommendation and will action.

Responsible officer: Manager Business and Innovation

Status: Work in progress

Action date: 30 April 2021

3. Financial reporting issues and other matters (continued) ⌂

21IR-7 Active Directory password setting

Observation

Council has updated the password configuration for access to its network (Active Directory) by increasing the maximum password age from 90 days to 180 days. The change was implemented as an approved exception during the COVID restrictions to ensure a smoother transition for staff working from home.

The current Council Information Communication Technology Services Fact Sheet document still mentions 90 days as the maximum password age. At the time of our review, Council had not defined the exception period for the maximum password age configuration within the default domain policy.

Note that our review confirmed that all remote access to Council's network prompts the user for two-factor authentication via the users registered mobile device.

Implication

Unintentional changes of application of default domain policy due to lack of definition of exception period.

QAO recommendation

That Council implement a review process for the network password configuration exception.

Management response

Council is reviewing the need for the exemption currently in place and will apply for a further extension or alternate exemption as required.

Responsible officer: Head of Information Technology

Status: Management undertaking corrective actions

Action date: 30 April 2021

4. Prior year issues

The following table summarises the status of deficiencies and other matters reported in prior years.

Reference	Issue	Status
	Internal control deficiencies	
	Significant deficiencies	
20-IR-4	Processes and oversight in managing the SAP payroll system	Resolved
	Deficiencies	
20-IR-1	Delays in recording contributed assets (updated)	Work in progress— The Sunshine Coast region has experienced increased property growth this financial year, largely due to the Homebuilder Grant, but this is not yet reflected in Council's finances due to early plan sealing and some delays in receiving asset information from developers. Council staff are monitoring the situation closely and have followed up with the relevant external parties (e.g. Economic Development Queensland). It is highly likely that the value of contributed assets will substantially increase for the remainder of the financial year. Action date: 30 June 2021
20-FML-1	Incomplete key management personnel declarations of related party information	Resolved
19-IR-3	Disabled system access for terminated users	Resolved
	Financial reporting issues	
No active financial reporting issues.		
	Other matters	
20-IR-9	Establishing user licensing processes within the SAP Payroll system	Resolved

Appendix A—Our rating definitions

Our 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: • 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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