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Sunshine Coast Regional Council

2020 Interim report

8 May 2020

Queensland
Audit Office
Better public services

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SENSITIVE

Your ref:
Our ref: 2020-4133
              Michael Keane 3149 6077

8 May 2020

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

Dear Cr Jamieson

2020 Interim report (May)

We present to you our first 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 July 2019 to 29 February 2020. In this phase we assessed the design and implementation of your internal controls, and whether they are operating effectively.

This report also includes our assessment of 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 any issues raised during an audit if they are significant.

I know that your focus is currently on responding to COVID-19 and that this may be a challenge over an extended period. As a result, if you find any of QAO's requests (or timeframes) difficult, we can work through revised response methods and dates.

At this stage, the Auditor-General intends to table most of the planned reports for this year but, given the current environment and associated community sensitivities, we will keep the tabling timeframe under continued review.

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
Sector Director

Enc.

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

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1.   Summary

Audit progress

Emerging risk—COVID-19	Issues identified / Action required

COVID-19 poses several risks and challenges to entities globally. The Queensland public sector and local governments are no different. It is hard to determine the longevity of this pandemic, or the financial impact this may have. In Section 2 Emerging risks we have provided a summary of what these challenges may be for your organisation and what this means for your financial statements and the statutory deadlines.

Internal control assessment and issues	On track

- We have completed testing the operating effectiveness of internal controls for revenue, payroll and expenditure systems for the period 1 July 2019 to 29 February 2020. We have identified three new significant deficiencies and three deficiencies from our review of the new SAP payroll system. Refer Section 4 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 6 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

No new financial reporting issues arising from Sunshine Coast Regional Council's transactions have raised. See Section 2 for emerging risks and financial reporting disclosures arising from COVID-19.

Areas of audit significance	On track

Valuation/depreciation of infrastructure assets – We will test the valuation and depreciation of infrastructure assets as part of our July and 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 July 2019 to 29 February 2020 with no deficiencies noted. We have planned further testing in this area to address the risk of completeness as part of our September 2020 visit.

Appropriateness of procurement policies and practices – We have tested the effectiveness of key controls for the period 1 July 2019 to 29 February 2020 for expenditure with no deficiencies noted. Substantive testing to date included transaction analytical procedures, further review of procurement processes for selection of awarded contracts and verification to supporting documentation. We have planned further testing, and evidence gathering, in this area for the intervening period as part of our June 2020 visit.

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

All agreed financial reporting and audit deliverable milestones have been met by Council. Refer Section 7 Milestones for a detailed summary of audit deliverables.

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2.   Emerging risks

COVID-19 is testing the resilience and agility of entities as they tackle multiple challenges, such as supporting their staff and the community, and managing sustainable operations. Management should continue to assess the impact of COVID-19 on their financial results and internal control environment.

The AASB and AuASB are continuing to issue in-depth guidance to chief financial officers, audit committee members, directors and auditors refer here.

We will continue to consider the implications of this pandemic and have identified the following key areas that may impact the Sunshine Coast Regional Council. Some of these risks also translate to a heightened risk of fraud that will require increased professional scepticism, both from management and auditors.

Area of concerns and associated risk	What to consider
Going concern Material uncertainties that cast significant doubt on the ability to continue as a going concern, such as the extent of the effect on future revenue and costs and the unknown duration of the event. Several revenue streams such as items of fees and charges and the sale of land may be reduced. Timing of cash inflows may also be impacted.	Consider future information for at least, but not limited to, the twelve months after reporting date, for example travel bans, community restrictions, government assistance, financial health of key suppliers and customers, existing financial resources and likely period of expiry if conditions continue or deteriorate. We will be releasing a blog shortly on how to manage your cash reserves in uncertain times. Please visit our website for further information.
'Everyday' internal controls Most entities have expanded to working from home to support social distancing. With any change in working arrangements comes an increased risk of controls failing, particularly manual controls and where controls previously operated with a high level of management oversight within an office environment.	Remain vigilant with your monitoring of internal controls during this time. This could mean your entity may need to implement new controls or revise current controls to accommodate the new work environment. We have recently issued a blog on impact of operational controls under new working arrangements on our website.
Information technology and cyber security Entities' exposure to cyber security risks increases in vulnerable and uncertain times as their resources are focused on being re-deployed to address critical matters. There is also a risk that identifying cyberattacks may be potentially delayed causing financial and/or reputational risks.	Entities will need to periodically remind everyone of the increased cyber security risks in these times so their staff remain vigilant. Multi-factor authentication, if not already in place, should be activated immediately. Information technology staff should maintain visibility across the network. This will allow them to proactively monitor the cyber environment and respond quickly if a potential attack is in progress.
Valuation of property, plant and equipment Economic uncertainty [and imposed community restrictions] may impact the ability of valuers to accurately perform comprehensive and/or desktop valuations and meet the fair value measurement requirements of AASB 13.	Entities, such as SCRC, may need to consider a number of factors where the fair value of property, plant and equipment classes are determined using current replacement cost. Refer to Appendix B—Valuation considerations for detailed guidance. We have also released a blog on this issue on our website.

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Area of concerns and associated risk	What to consider
Accounting for leases As a result of COVID-19, some entities (those accounting for payments as a lessee in a lease) may receive 'rent holidays' and other exemptions from their lessors. This could have an impact on the accounting of the right of use assets and the associated liabilities.	In assessing whether there has been a change in the scope of the lease, entities should consider whether there has been a change in the right of use conveyed to the lessee by the contract—examples of a change in the scope of a lease include adding or terminating the right to use one or more underlying assets, or extending or shortening the contractual lease term. Note that a rent holiday or rent reduction alone is not a change in the scope of a lease. Exposure Draft 300 on this topic was made available for comment on 27 April 2020, it is expected to be issued shortly. Speak to your QAO contact to understand how this may impact your situation.
Impairment of receivables There is an increased likelihood that debtors may take longer to pay and, in some instances, not be able to pay their obligations at all.	Based on reasonable and supportable information, reassess whether there has been a change in the risk of default by the debtor. If is deemed that the risk of default does exist, determine the probability of default and the loss that is likely to arise.
Fair value of financial assets and financial liabilities Financial assets and liabilities that are not quoted and/or highly illiquid assets are valued using a model that may use significant unobservable inputs. The current economic situation could negatively impact the assumptions and judgements used in these valuation models.	Consideration needs to be given to: • assumptions and judgements that are used in determining the input. • appropriateness of the classification of financial assets and liabilities under the fair value hierarchy. Where the entities liabilities are reliant on these financial assets, consideration needs to be given to the impact on the net assets of these entities and whether there are any going concern issues this may give rise to.
Financial statement disclosure Several disclosures in the financial statements will be impacted	• Revisit the going concern assessment disclosed in the financial statements • Consider the appropriateness of the classification of debts between current and non-current • Consider disclosing additional information about significant judgement and estimates

Some of these risks also heightens the risk of fraud. Management should enhance the controls in place to detect any fraudulent activities that entities may be exposed to. As auditors, we consider fraud risk to be pervasive to the financial statements and will increase our professional scepticism in carrying out the audit of the financial statements of Sunshine Coast Regional Council.

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3.   Internal control issues

The following table summarises our reporting on deficiencies in internal controls. Refer to Section 4 for new issues, and Section 6 for the status of prior year 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	-	🔴
Information and communication Systems to capture and communicate information to achieve reliable financial reporting	-	-	-	-	🟢
Monitoring activities Oversight of internal controls for existence and effectiveness	-	-	-	-	🟢

Our ratings

🟢 **Effective**
No significant deficiencies identified

🟠 **Partially effective**
One significant deficiency identified

🔴 **Ineffective**
More than one significant deficiency identified

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4.   Current internal control issues   ⌂

Significant Deficiencies

The following table details significant deficiencies identified from testing of controls as at 1 April 2020. It includes a response from management.

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

⚙ **Significant deficiencies**

[20-IR-2] Critical security settings are not enabled in the SAP Payroll system

[Control activities]

Council has not enabled the critical security settings in SAP Payroll system to:

- prevent accidental loss of data or SAP deletion programs from automatically resetting data in error

- protect the system against intentional or unintentional overwriting

There are no compensating controls to prevent this loss of data.

Implication

Council is exposed to the risk of accidental loss of data, data integrity issues or intentional/or unintentional overwriting of system information.

QAO recommendation
That Council enables security settings to prevent accidental loss of data and protect system information from being overwritten.

Management response
The critical security settings in SAP Payroll system have now been locked in addition to being migrated to the test environment to complete final validation.

It is important to note that payroll end users do not have access to this functionality.

I agree with the issue and associated recommendations.

Responsible Officer

Head of People & Culture

Implementation Date

22 May 2020

Status

Management undertaking corrective actions.

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4.   Current internal control issues (continued) ⌂

[20-IR-3] Insufficient segregation of duties in maintaining the SAP Payroll system

[Control activities]

Council has engaged a third-party service provider to assist with managing and maintaining its SAP payroll system. However, council cannot outsource their responsibility for designing and maintaining an appropriate and effective system of internal control with respect to financial reporting.

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.

Implication

Inadequate segregation of duties exposes Council to the risks of unauthorised:

- changes to the system.

- access to sensitive information.

- transactions being processed.

These unauthorised activities may not be detected.

QAO recommendation

That Council:

- develops a plan to implement segregation of duties between staff members that perform system maintenance and those that manage user access and security.

- defines and implements detective and monitoring controls while the segregation of duties issue is being addressed.

Management response

Council agrees in part with the issue and associated recommendations. The twenty-two user accounts with privileged access are all with the external vendor. The generic accounts are being revised to ensure segregation of duties between system maintenance and those that manage user access and security.

Responsible Officer

Head of People & Culture

Implementation Date

29 May 2020

Status

Management undertaking corrective actions.

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4.   Current internal control issues (continued) ⌂

[20-IR-4] Processes and oversight in managing the SAP payroll system

[Control environment]

Council has not defined or formalised with their third party-service provider the following processes for managing the SAP system:

- 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.

Implication

There is an increased risk of inconsistent practices that could lead to unauthorised access and changes to systems and information. This could result in security breach, unauthorised transactions in the systems or fraud.

QAO recommendation

That Council defines and implements processes for managing user access, system changes and oversight functions for system security.

Management response

Council to implement a process to more effectively manage and monitor SAP user accounts to ensure access is valid and appropriate. Security audit reports will be created to support this process.

Council follows an agreed change management approach to ensure all changes are approved and tested.

Responsible Officer

Head of People & Culture

Implementation Date

29 May 2020

Status

Management undertaking corrective actions.

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4.   Current internal control issues (continued) ⌂

Deficiencies

The following table details deficiencies identified from testing of controls as at 1 April 2020. It includes a response from management.

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

⚙ **Deficiencies**

[20-IR-5] Securing privileged SAP accounts in the SAP Payroll system

[Control activities]

SAP systems commonly have generic but privileged SAP accounts which perform specific system tasks. As these accounts have powerful access to ensure functionality, it's important that they are secured from accidental or intentional misuse.

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.

Implication

There is an increased risk of unauthorised changes or transactions being processed in the system.

QAO recommendation
That Council:

- review the requirements of the identified SAP generic accounts and terminate if appropriate.
- assign the accounts with a user type that removes the ability for an unauthorised user to log into these accounts.

Management response
Council is currently working to review the current privileged SAP account setup and subsequent assignment of this user type to Council staff. There was no visibility by Council of the how the user types were established as Council relied on the expert advice from the implementation partner. This has provided an opportunity to further educate Council's Business Systems and Payroll teams to ensure improved security.

I agree with the issue and associated recommendations.

Responsible Officer

Head of People & Culture

Implementation Date

29 May 2020

Status

Management undertaking corrective actions.

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4.   Current internal control issues (continued) ⌂

[20-IR-6] Access to SAP background administrator in the SAP Payroll system

[Control activities]

Background processing allows SAP users to execute and schedule tasks "in the background" which means handing the execution of the task over to a system process rather than being directly performed by the user themselves. This function is useful for any long running or regular tasks or processes that can be scheduled.

This access allows the user to use the privileges of another user (i.e. the 'step user') when running background jobs.

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.

Implication

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.

QAO recommendation
That Council:

- review the appropriateness of the existing background administration access

- review the requirements of the background administrator access and whether background jobs can be performed without providing users with access to background administration

- remove inappropriate access

Management response
The existing background administration access will be reviewed to ensure it is appropriate. In addition, an assessment will be completed as to whether background jobs can be performed without providing users with access to background administration.

As an alternate solution, Council will investigate if end users can be restricted to their own jobs and spool requests and whether or not this is too restrictive for payroll processing.

Responsible Officer

Head of People & Culture

Implementation Date

29 May 2020

Status

Management undertaking corrective actions.

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4.   Current internal control issues (continued) 🏠

[20-IR-7] Unintended user maintenance access within the SAP Payroll system.

[Control activities]

SAP user maintenance can be controlled with various SAP authorisation objects to suit the business requirements. One of the authorisation objects allows the administrator to provide access to users to perform user maintenance on specific "groups" of SAP accounts and any other SAP accounts that do not have a specified user group.

We noted that:

- 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.

Implication

There is an increased risk that privileged accounts can be maintained by non-authorised users.

QAO recommendation

That Council assigns an appropriate user group to all SAP accounts and determines an appropriate person/position to manage user maintenance for this group.

Management response

Council will work with the consultant to assign the appropriate user group to all SAP accounts to ensure the functionality of authorisation object S_USER_GRP and S_USER_SAS restricts as intended.

In addition, a new role is to be created for user administration and access to these functions which will be removed from the role Z_CUST_HR_SYSTEM_ADMIN.

I agree with the issue and associated recommendations.

Responsible Officer

Head of People & Culture

Implementation Date

29 May 2020

Status

Management undertaking corrective actions.

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5.   Financial reporting issues and other matters ⌂

The following table summarises the status of financial reporting issues identified through our audit as at 1 April 2020.

Financial reporting issues and other matters						
Prior year			**Current year**			
Unresolved	Resolved— current year	Re-raised— current year	Not yet due	Unresolved	Resolved pending QAO verification	Resolved
High risk	-	-	-	-	-	-	-
Medium risk	-	-	-	-	-	-	-
Low risk	-	-	-	-	-	-	-
*Other matters	-	-	-	6	-	-	-

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

The following table details matters identified from testing of controls as at 1 April 2020. It includes a response from management.

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

Other matters

[20-IR-8] Setting the time zone to AUSQLD within the SAP Payroll system.

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.

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.

QAO recommendation

That Council sets the system time zone to Australian (Queensland) time.

Management response

Council will further investigate the implications of setting the system time zone to AUSQLD including the downstream impacts to any scheduled processes and procedures.

Responsible Officer

Head of People & Culture

Implementation Date

29 May 2020

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Management undertaking corrective actions.

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5.   Financial reporting issues and other matters ⌂

[20-IR-9] Establishing user licensing processes within the SAP Payroll system.

Council does not have a SAP account offboarding process for terminated accounts to ensure that they are:

1. Clearly identified
2. Not included in a SAP user licensing review.

QAO recommendation

That Council establishes a SAP account offboarding process to ensure terminated accounts are clearly identifiable and will not be included in any user licensing review.

Management response

Council is seeking guidance on the process in SAP Payroll to fully terminate an employee and then release a SAP licence. It was assumed that once an employee terminates from the system that their associated user licence is also terminated.

I agree with the issue and associated recommendations.

Responsible Officer

Head of People & Culture

Implementation Date

29 May 2020

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Management undertaking corrective actions.

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5.   Financial reporting issues and other matters ⌂

[20-IR-10] Clear identification of all support accounts within the SAP Payroll system.

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.

QAO recommendation

That Council implements a standard naming convention for all support accounts. This includes maintaining full user account details such as user group(s) and complete names.

Management response

It is important to note that this only relates to the external consultant accounts created by SAP. A standard naming convention will be implemented for all support accounts. This includes maintaining full user account details such as user group(s) and complete names.

All existing accounts will be reviewed and updated including deactivating stale accounts (Dev/Tst/Prd).

I agree with the issue and associated recommendations.

Responsible Officer

Head of People & Culture

Implementation Date

29 May 2020

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Management undertaking corrective actions.

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5.   Financial reporting issues and other matters⌂

[20-IR-11] Cleaning up of support accounts no longer in use within the SAP Payroll system.

There are privileged support accounts which have been locked and are no longer required for use but have not yet been terminated.

QAO recommendation

That Council properly terminates all support accounts that are no longer required by removing all access and adding the accounts to a user group to clearly identify the accounts that have been terminated.

Management response

This relates to **20-IR-10**. Council will work to fully terminate support accounts that are no longer required by removing all access and adding the accounts to a user group to clearly identify that the accounts have been terminated and not required.

I agree with the issue and associated recommendations.

Responsible Officer

Head of People & Culture

Implementation Date

28 May 2020

Status

Management undertaking corrective actions.

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5. Financial reporting issues and other matters ⌂

[20-IR-12] Standard housekeeping background jobs that fail within the SAP payroll system

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.

QAO recommendation

That Council unlocks the appropriate step user accounts to ensure that all required background jobs can successfully run. A generic system account (not a dialog or a service account) for background jobs would ensure that a similar issue does not occur again in the future.

Management response

Council will update the step user for jobs that are currently failing due to locked accounts to ensure all required background jobs can successfully run. Creating a generic existing system account SAP_SYSTEM (not a dialog or a service account) specifically for background jobs would ensure that a similar issue does not occur again in the future.

Council has raised a Service Request with SAP directly to investigate the nature of these two jobs and confirm if required prior to initiating any activity.

I agree with the issue and associated recommendations.

Responsible Officer

Head of People & Culture

Implementation Date

29 May 2020

Status

Management undertaking corrective actions.

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5.   Financial reporting issues and other matters ⌂

[20-IR-13] Contracts over $200,000 not published on Council's website

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*.

Implications

Council is in breach of the *Local Government Regulation 2012*. Apart from non-compliance with legislation, there exists a potential for diminished confidence in Council's commitment to open and transparent governance.

QAO recommendation

That Council publish these contracts on their website to ensure that the regulation is complied with.

Management responses

The following response was provided by the Business and Innovation Branch on 28 April 2020.

I agree with the issue and associated recommendations.

The Business and Innovation Branch lead and administer Council's Procurement and Contracting Framework. This sees the vast majority of significant procurement activities (those worth $200,000 or more) being undertaken by that branch. However, a business unit may, under certain circumstances, undertake procurement activities over the value of $200,000.

Processes are in place to capture information relating to all procurement activities, including contract values. These processes are presently proving to be effective for the majority of procurement activities but has failed to capture some activities undertaken by individual business units.

The Business and Innovation Branch is undertaking a review of current processes for capturing and reporting procurement activities to ensure details of all contracts above the $200,000 threshold are identified and published.

The Procurement and Contracting Framework documentation, including the Contract Manual, will be updated to ensure the obligations and responsibilities of those undertaking procurement activities are clear.

It is believed these actions will be sufficient to close to small window that has resulted in the identified failings.

Responsible Officer

Manager Business and Innovation Branch

Implementation Date

31 December 2020

Status

Management undertaking corrective actions.

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6.   Prior year internal control issues   ⌂

Status

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

Component	Issue	Status update
⚙ **Significant deficiencies**		
Control activity	19-IR2-1: Payroll process deficiency for changes to employee bank account details Sunshine Coast Regional Council processed a fraudulent payroll bank account changes email, resulting in the fraud being successful.	Resolved
Monitoring activity	19-IR-1: Monitoring the activities of users with privileged access Digital Information Services (DIS) has now set up a charter for application support group to define roles and responsibilities to review who have privileged accesses in the systems. However, DIS has not implemented a process to review the activities of the users with these privileged accesses.	Resolved
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
⚙ **Deficiencies**		
Information and Communication	19-IR-2: Deficiency in monthly financial reporting There is no formalised framework for monthly financial reporting. Whilst the applicable staff are aware of the roles and responsibilities relating to monthly financial reporting, it is not centrally documented.	Resolved
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.

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6.   Prior year internal control issues (continued)

Component	Issue	Status update
Control activities	**19-IR-4: Managing password for privileged accounts** DIS does not have a process in place to change the passwords of default and/or generic system accounts when system administrators or support staff leave Council.	Resolved
Control environment	**19-IR-5: IT security policy and procedures** As at March 2019, DIS has updated draft Information Security policy and is currently consulting the business on this draft policy. The draft policy requires DIS to establish several information security guidelines to implement the policy. While some of these guidelines exist as part of fact sheets or other IT operational documents, DIS has not reviewed the currency of these documents and determines which documents will form the IT security guidelines to support the implementation of IT security policy.	Resolved

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7.   Milestones

Financial reporting and audit deliveries

The following table details the current status of key financial reporting and audit deliverables milestones as at 8 May 2020. It includes commentary where necessary.

⬤ Planning	Agreed date	Completed date	Comments
Planning visit	26 Nov - 5 Dec 2019	5 Dec 2019	
External audit plan	20 Dec 2019	20 Dec 2019	

⬤ Interim			
Interim testing visit	16 - 27 Mar 2020	27 Mar 2020	
Interim report	10 Apr 2020	8 May 2020	The interim report was issued after the agreed date to ensure that management responses were included in the report for the significant deficiencies raised on payroll system controls.
Draft proforma financial statements*	30 Apr 2020	30 Apr 2020	
Feedback on proforma financial statements	14 May 2020		
Accounting papers on known accounting issues	29 May 2020		
Feedback on accounting papers*	12 Jun 2020		
Second interim testing visit	8 - 11 Jun 2020		
Second interim report	26 Jun 2020		
Asset valuations completed*	30 Jun 2020		
Valuation visit*	20 - 31 Jul 2020		
Asset valuations reviewed by audit	14 Aug 2020		

⬤ Final			
Year end visit	7 - 18 Sep 2020		
Final workpapers available*	7 Sep 2020		
Complete draft financial statements to audit*	9 Sep 2020		
QAO closing report	1 Oct 2020		
Audit committee clearance	6 Oct 2020		
Management signs financial statements	8 Oct 2020		
QAO signs financial statements	13 Oct 2020		
Final report	20 Oct 2020		
Audit review of Annual Report	10 Nov 2020		
Report to parliament	Feb 2021		

* Year end process milestones used for reporting to parliament.

Note: Audit visit   Council deadline   QAO deadline

While these milestones had been agreed at the planning phase of the audit, we understand that COVID-19 may impact your entity in achieving some of these milestones. The health and wellbeing of our clients, the community and our people is our number one priority during these difficult times. We are working with our clients and partners on how we can best tackle these challenges together over the coming months. We will continue to work with the Coordinator (Financial Accounting) on how to progress the audit of your financial statements during this time.

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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: • 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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Appendix B—Valuation considerations

Public sector entities in Queensland comprehensively fair value their property, plant and equipment on a regular basis. However, valuation policies of entities also require that specific appraisals be undertaken where an asset class has experienced significant and volatile changes in value.

The current economic downturn may impact the fair value of the assets. Each entity's situation needs to be considered individually.

Valuation basis	Our assessment
Current replacement cost	• Given the nature of these assets are long term, our experience tells us that the key drivers for the valuation inputs for these asset classes are rarely volatile. • Condition and useful lives of these long-term assets are also unlikely to be impacted as a result of COVID-19.

In addition to the economic downturn, entities will have to consider the impact of restrictions that have been posed that prevent site visits by external valuers. Where such restrictions have been placed, entities will need to consider suitable alternatives such as those below.

Valuation factors	Consideration points

Gross replacement cost	• Using internal models (for internally constructed assets) or recent purchase price (assets acquired externally) to support unit rates.
	• Where internal models are not workable. indexation is often enough for gross replacement cost. However, before relying on an index, consider whether:
	  – there have been any significant changes in unit rate categories since acquisition or the last detailed revaluation
	  – there has been a notable change in the modern substitute asset since the last detailed revaluation
	  – your engineering and finance staff have sufficient information to cost the modern substitute and make adjustments for the differences in service levels between the modern substitute and the existing asset.

Useful lives	• Review the standard useful lives for each component and document the reasonableness of these useful lives. • Review for individual assets whose useful lives are deviating from the standard life and adjust, as necessary.

We understand that the valuations for the year ended 30 June 2020 of land, buildings and other infrastructure classes have been affected by the COVID-19 but should still be completed in time for the statutory financial statements. Please notify us if you have any further concerns about the completion of these valuations.

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