

Late Item 8.4

Ordinary Meeting

Thursday, 28 April 2022

commencing at 9:00am

Council Chambers, 1 Omrah Avenue, Caloundra

TABLE OF CONTENTS

ITEM	SUBJECT	PAGE NO
8	REPORTS DIRECT TO COUNCIL	5
8.4	QUEENSLAND AUDIT OFFICE - FIRST INTERIM MANAGEMENT REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2022	5

8 REPORTS DIRECT TO COUNCIL**8.4 QUEENSLAND AUDIT OFFICE - FIRST INTERIM MANAGEMENT REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2022****File No:** Council Meetings**Author:** Coordinator Financial Accounting
Business Performance Group**Attachments:** Att 1 - Queensland Audit Office First Interim Report 2022 ...9  

PURPOSE

This report provides for the information of Councillors, the results of the first interim audit by the Queensland Audit Office (AQO), which was conducted in March this year.

Section 213(3) of the *Local Government Regulation 2012* requires that the report be presented at the next Ordinary Meeting of Council.

EXECUTIVE SUMMARY

Council has a statutory obligation to prepare “General Purpose” Financial Statements on an annual basis, culminating in audit certification in October, before publication in Council’s Annual Report.

The QAO audits Council’s annual financial statements to ensure the statements give a true and fair view of Council’s financial position, financial performance and cash flows for the relevant year, and that they comply with the *Local Government Act 2009*, the *Local Government Regulation 2012* and Australian Accounting Standards.

The annual audit process for the 2021/22 financial year consists of 5 parts as follows:-

- Planning (December 2021)
 - Confirmation of deliverables and timelines for the audit process
- 1st Interim Audit (March 2022) – which is the subject of this report
 - Includes an assessment of the control environment to determine whether it supports an audit strategy that can rely on these controls
 - Covers the period 1 July 2021 to 28 February 2022
- 2nd Interim Audit (June 2022)
 - Covers the period 1 March 2022 to 31 May 2022
- Audit of Asset Valuations to ensure they reflect fair value (July 2022)
- Final audit of financial statements (September 2022)

Following the final audit, QAO provides its Closing Report, Certification and Final Management Report in October 2022 which includes their audit opinion as well as a summary and status of any issues identified during the course of the audit.

Council has consistently received an unmodified audit opinion meaning the annual financial statements, in all material aspects, give a true and fair view of Council’s financial position, financial performance and cash flows for the relevant year, and that they comply with the applicable legislation and Australian Accounting Standards.

The results of all Queensland local government audits are included in the Auditor General’s annual report to Parliament on the results of local government audits.

1st Interim Audit

The QAO performed an interim audit of Council's financial systems and processes during March 2022.

The First Interim Audit considers the period July 2021 to February 2022, along with an assessment of the design and implementation of Council's key controls and whether they are operating effectively and can be relied upon in auditing the financial statements.

Based on the results of testing completed to date and the resolution of prior year issues, QAO have determined that Council's internal control environment supports an audit strategy that can rely upon these controls, except for the areas where significant deficiencies and deficiencies have been observed. QAO have altered their audit approach to undertake additional substantive testing in these areas.

A summary of findings is below.

Item	Status
Internal Controls	2 significant deficiencies raised in the current year 2 deficiencies raised in the current year 3 deficiencies from prior years in progress and not yet due
Areas of audit focus	On track
Milestones	On track

OFFICER RECOMMENDATION

That Council receive and note the report titled "Queensland Audit Office - First Interim Management Report for the financial year ended 30 June 2022".

FINANCE AND RESOURCING

The estimated audit fee for the financial year is \$250,000 and this is provided for in Council's budget.

CORPORATE PLAN

Corporate Plan Goal: *Our outstanding organisation*

Outcome: 5.1 - Maintain a financially sustainable organisation that balances the needs of our growing region.

Operational Activity: NIL

CONSULTATION**Portfolio Councillor Consultation**

The Portfolio Councillors have received advice of this report.

Internal Consultation

Internal consultation was held with the following areas:

- People and Culture
- Business and Innovation
- Internal Audit

External Consultation

External consultation has been held with Queensland Audit Office.

The External Audit Committee members have received advice of this report.

Proposal

This report details the outcome of the First Interim Audit for the 2021/22 financial year.

The First Interim Audit considers the period July 2021 to February 2022, along with an assessment of the design and implementation of Council's key controls and whether they are operating effectively and can be relied upon in auditing the financial statements.

A summary of findings is below.

a) Internal Controls

QAO categorise internal control issues as either Significant Deficiencies (requiring immediate action to resolve) or Deficiencies (requiring resolution in a timely manner).

QAO identified 2 Significant Deficiencies and 2 Deficiencies for the current year as follows.

Significant Deficiencies:

- 22IR-1 Weaknesses in security settings, user access privileges, and checking of a key control report (payroll system)
 - Status: Resolved pending audit clearance
- 22IR-2 Weaknesses in security over EFT payment data, user access privileges, and checking of key control reports (payroll & accounts payable systems)
 - Status: In progress (system control required to be built)

Deficiencies:

- 22IR-3 Untimely review of the fixed asset register reconciliation to the general ledger
 - Status: Resolved pending audit clearance
- 22IR-4 Inconsistency of contract details between contract register and Council's website
 - Status: Resolved pending audit clearance

In addition, there were 3 prior year Deficiencies due for resolution by 30 June 2022. These are all in progress.

Based on the results of testing completed to date and the resolution of prior year issues, QAO have determined that Council's internal control environment supports an audit strategy that can rely upon these controls, except for the areas where significant deficiencies and deficiencies have been observed. QAO have altered their audit approach to undertake additional substantive testing in these areas.

b) Areas of Audit Focus

QAO has identified items that they consider to be significant risks to the financial statements, due to their size or complexity, and as such will undertake specific targeted testing of these items which are as follows:

- 1) Valuation of infrastructure assets
- 2) Revenue recognition of infrastructure charges and contributed assets
- 3) Occurrence and appropriateness of procurement
- 4) Valuation of investment in associate)
- 5) Accounting for major projects and transactions.

Progress against these areas is on track.

c) Milestones

The QAO external audit plan contains a series of measurable milestones in terms of Council's financial reporting and audit deliverable deadlines.

All agreed key financial reporting and audit deliverable milestones have been met to date.

If issues are identified as the audit progresses, they will be included in Queensland Audit Office's future reports.

Legal

Section 213(3) of the *Local Government Regulation 2012* requires this QAO Interim Report to be presented at the next Ordinary Meeting of Council.

Policy

There are no internal policy documents relating to this report. It is a legislative requirement – refer Sections 212 and 213 of the *Local Government Regulation 2012*.

Risk

Council has a statutory obligation to prepare general purpose financial statements that are subject to audit by the Auditor-General or their contracted representative.

Previous Council Resolution

Audit Committee Meeting 24 January 2022 (AC22/5)

That the Audit Committee receive and note the report titled “Planning for the 2021/22 Financial Statement Audit Process.”

Critical Dates

The QAO will return to Council in June 2022 to conduct a second interim audit, July 2022 to complete the audit of valuation of Council's infrastructure assets, and again in September 2022 to complete the final audit of the 2021/22 financial statements.

Council certification of the 2021/22 financial statements and current year financial sustainability statement is due by 7 October 2022.

Implementation

All identified issues will be stored in Council's corporate reporting system with implementation to be monitored by the Audit Committee.



2022 INTERIM REPORT

Sunshine Coast Regional Council

22 April 2022





Your ref:
Our ref: 2022-4139
Michael Keane 3149 6077

SENSITIVE

22 April 2022

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

Dear Mr Jamieson

2022 Interim report

We present to you our interim report for Sunshine Coast Regional Council for the financial year ending 30 June 2022.

This report details the results of our interim work performed to 28 February 2022. In this phase we assessed the design and implementation of your internal controls, and whether they are operating effectively. The internal controls that we assessed are those key controls we intend to rely on in auditing your financial statements. Our audit does not assess all controls that council have implemented across the organisation.

Under the Australian Auditing Standards, we are required to communicate to you any significant deficiencies in your control environment and internal controls identified from our audit process. Refer to [section 1](#) for the summary of the findings and [section 3](#) for the details relating each significant deficiency identified.

Please note that under s. 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 they consider it to be significant. The results of our audit will be included in our report to parliament *Local Government 2022*.

If you have any questions or would like to discuss the audit report, please contact me on 3149 6211 or have one of your officer's contact Michael Keane on 3149 6077.

Yours sincerely

David Adams
Senior Director

Enc.

cc. Ms E Thomas, Chief Executive Officer
Mr M Petrie, Chair Audit Committee

Queensland Audit Office
Level 13, 53 Albert Street, Brisbane Qld 4000
PO Box 15396, City East Qld 4002

Phone 07 3149 6000
Email gao@gao.qld.gov.au
Web www.qao.qld.gov.au
 Queensland Audit Office (QAO)

2022 Interim report

1. Summary

We completed our audit planning phase and issued an external audit plan on 17 December 2021.

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

Summary of findings—issues identified

Internal controls

Significant deficiencies:

- 2 raised in the current year

Deficiencies:

- 2 raised in the current year; 3 in progress from prior years not yet due

Details of our audit findings are explained further in this report. Refer to [section 3](#) below on [status of issues](#) and [section 4](#) for the [prior year issues](#).

Revised audit approach

Based on the results of our testing completed to date and having considered progress on resolving prior year issues, we have determined that your internal control environment supports an audit strategy that can rely upon these controls, except for the control deficiencies reported below.

We have now altered our original audit strategy (refer to [Appendix 1](#) for details) to obtain reasonable assurance over the areas where significant deficiencies and deficiencies in internal controls have been observed. The weaknesses in internal controls involve payrate bulk upload processing, payment processing, EFT folder security, payroll and expenditure system configurations and expenditure approvals.

Areas of audit focus

We have also performed work over the areas of audit focus identified in our external audit plan. Our progress against the areas of audit focus is on track.

Audit Team

Our Team leader, Mr Michael Keane has recently accepted a senior finance position in a government department and his role will now be undertaken by Mr Tony Guerrero, Senior Manager. We will ensure appropriate hand over procedures are undertaken including scheduling a visit to Council offices to introduce Mr. Guerrero. Tony is also currently performing the team leader role at QIC, Department of Transport and Main Roads and has cross sector audit responsibilities for audits on Grants and Major Projects.

Milestones—On track/Action required

All financial reporting and audit deliverables milestones have been met except for the first interim management report. The first interim management report was due on 8 April 2022. This milestone has since been revised to 22 April 2022 which afforded both Council and QAO with time to review, comment and agree on the new internal control issues that have been raised.

Audit fees—On track

Invoiced to date: \$116,000 (46%): Remaining fee: \$134,000 (54%): Total fees: \$250,000.

Should we not identify and achieve additional audit effort savings through to completion of the audit, the costs to perform the revised audit strategy may need to be passed on. We will continue to keep management informed on this matter.

SENSITIVE

1

2022 Interim report

2. Areas of audit focus

In our external audit plan, we identified those classes of transactions, accounts, and balances that we considered to present the greatest risk of material misstatement to the financial statements. The following table sets out our identified areas of audit focus, including any new areas, and progress on the audit procedures conducted to address the risk.

Risk	Description of risk	Key audit matter	Audit response / updates
1	Valuation of infrastructure assets <ul style="list-style-type: none"> Valuation involves significant estimates and judgements. There is no market-based evidence of fair value due to the specialised nature of the assets. Infrastructure assets generally have long lives which require significant estimation. 	Y	<p>Our audit procedures over asset valuations will be performed during our July and Year-end visits.</p> <p>Comprehensive valuation of other infrastructure assets (\$414.3m as at 30 June 2021) will be performed in 2021–22). Transportation Network (\$1,879m as at 30 June 2021) and Stormwater Network (\$1,090m as at 30 June 2021) will be indexed in 2021–22, given that they were last comprehensively revalued in 2018–19 and 2017–18 respectively.</p> <p><i>Update: The impacts from COVID and floods in SEQ is being seen in the price of some key cost drivers like materials and supplies. This impact will likely flow through to unit rates that affect the current replacement cost (valuation) of buildings and infrastructure assets in 2021–22 and in 2022–23. It will be important that Council engages as early as is possible with its internal and external valuation experts to understand these impacts and provide appropriate updates to the Audit Committee and QAO.</i></p>
2	Revenue recognition of infrastructure charges and contributed assets <ul style="list-style-type: none"> Developer cash and non-cash contributions are a material revenue stream for Council. Significant delays have occurred between development approval and finalisation which have resulted in prior period errors on contributed assets 	N	<p>We have performed testing to verify the accuracy of infrastructure charges, discounts and refunds to 28 February 2022 with satisfactory results.</p> <p><i>The revenue relating to contributed assets will be tested during our year end visit.</i></p>
3	Occurrence and appropriateness of procurement <ul style="list-style-type: none"> Large supplier base with decentralised purchasing. Undertaking large projects where legislative requirements guide tendering and probity processes. 	N	<p>We are currently performing an extended assessment of council's procure to pay internal controls. We have not finalised our testing audit activity and will be reporting the results in our next report.</p> <p><i>We have reviewed the Council's contract register reporting obligations and identified one deficiency, which is raised in this report. Refer to 22IR-4 in section 3 below.</i></p>
4	Valuation of investment in associate	N	<p>Our audit procedures over investment in associate valuations will be performed during our year-end visit.</p>

SENSITIVE

2

2022 Interim report

5	Accounting for major projects and transactions	N	We are not aware of any major projects and transactions which will have a material impact on the 2021–22 financial statements.
---	---	---	--

3. Status of issues

Internal control issues

The following table identifies the number of deficiencies in internal controls and other matters and their respective COSO reporting classification. Refer to [section 4](#) for the status of prior year issues.

Internal control issues— classified by COSO reporting element	Number of significant deficiencies		Number of deficiencies		Rating
	Current year issues	Prior year unresolved issues	Current year issues	Prior year unresolved issues	
Control activities <i>Implementation of policies and procedures to prevent or detect errors and safeguard assets</i>	2	-	1	3	●
Information and communication <i>Systems to capture and communicate information to achieve reliable financial reporting</i>	-	-	1	-	●
TOTAL	2	-	2	3	

The following section details control deficiencies and other matters identified as at 28 February 2022 and includes responses from management.

Our ratings are as follows. For more information and detail on our rating definitions, please see the webpage here: www.qao.qld.gov.au/information-internal-controls or scan the QR code.



Internal control issues



Significant deficiency



Deficiency



Other matter

SENSITIVE

2022 Interim report



Significant deficiency

22IR-1 Weaknesses in security settings, user access privileges, and checking of a key control report

COSO classification: Control activities

Observation

The following weaknesses were observed

1. EC system privileges currently allow for changes to be made to pay rate tables without detection. There is no pre and /post check of changes by an independent officer.
2. HR maintenance access is enabled together with payroll processing access for the senior payroll officers. Access also includes the ability to change employee details, such as basic pay, recurring payments and deductions, except for bank account details. While acknowledging that payroll team members require privileges to input superannuation and tax information in ECP, other privileges as described above are not required and should be disabled
3. SAP security configurations weaknesses included:
 - SAP Application security control is not set to prevent direct changes to the production client. This setting change occurred during an approved change management request and appears the security setting was not restored on completion
 - New privileged generic account 'PAY_AUTO' is not configured to prevent interactive logon. The SAP role with privileged access has been assigned to payroll staff providing unnecessary privileged authorisation within the ECP system.
4. We raised an observation in our 2020–21 (ref 21IR-1), where senior payroll officers have access to make Masterfile changes in the EC system (PeopleHub) and to process pay runs in SAP Payroll system (ECP). These activities are incompatible from a segregation of duties point of view as the data from PeopleHub flows into ECP. While Council implemented a manual control (in the form of a report) that the Masterfile changes made by senior payroll officers with both EC and ECP access be reviewed by an independent officer as part of the fortnightly payrun checks, we observed 5 instances of untimely review of these reports. The review by the independent officer occurred between one week to over 4 weeks after the pay run had been processed.
5. Council performs a monthly review of SAP SuccessFactors (HR) and ECP (payroll) to confirm that system users are valid users and activities of users with privileged access are appropriate. To complete this process, the Business Systems Analysts team generate system reports for review of users and role assignments as well as logon activity of Deloitte accounts who is the application management service (AMS) provider. While Council was able to provide the reports generated from the system, however, we noted that Council does not require the reviewer to acknowledge, confirm or comment on the results of the review.

Implications

Increased risk:

- that payrates uploaded are inconsistent with the awards, resulting in overpayment or underpayment of wages
- of unauthorised changes to employee master data prior to uploading to CommBiz
- of unauthorised access and changes when system security settings are not configured to implemented correctly
- of errors not being detected where segregation of duties between payroll processing and employee master file maintenance activities are ineffective

SENSITIVE

4

2022 Interim report

- that reviews without a recorded conclusion or results weakens the process in terms of accountability and completeness

Ineffective mitigation of these risks increases council's exposure to errors, fraud or financial loss.

QAO recommendations

1. Implement a control to ensure segregation of duties for payrate changes upload, e.g.:
 - payrate change upload file is validated to the appropriate award by an independent officer prior to upload
 - a post-upload verification check is performed, including a reconciliation between the validated payrate upload file and the uploaded payrates in the system. This reconciliation should then be reviewed by an independent officer.
2. Implement system restrictions such that the HR maintenance access in ECP is limited to superannuation and tax information only. Consideration should also be given to assessing and matching job responsibilities to specific system privileges and amending privileges as appropriate.
3. Reinstate the application security configuration to prevent direct changes, update new generic account 'PAY_AUTO' as a 'SYSTEM' user type to prevent interactive logon and remove all SAP standard assigned roles from users.
4. Remind relevant staff of the importance of reviewing the masterfile changes report on a timely basis as part of the fortnightly payrun checks.
5. Add a requirement to the user access review process to formally record the conclusion of the review, including who performed the review and what actions were undertaken

Management response

1. A process to validate payrate changes has been implemented, including preparing and uploading changes with an independent officer reviewing them.

Responsible Officer: Head of People and Culture
 Status: Resolved pending audit clearance
 Action Date: 8/4/2022

2. System restrictions implemented.

Responsible Officer: Head of People and Culture
 Status: Resolved pending audit clearance
 Action Date: 12/4/2022

3. Complete

Responsible Officer: Head of People and Culture
 Status: Resolved pending audit clearance
 Action Date: 8/4/2022

4. Manual process re-established and added to the Payroll Procedure

Responsible Officer: Head of People and Culture
 Status: Resolved pending audit clearance
 Action Date: 8/4/2022

5. Complete

Responsible Officer: Head of People and Culture
 Status: Resolved pending audit clearance
 Action Date: 8/4/2022

Overall Status of Issue 22IR-1

Responsible Officer: Head of People and Culture
 Status: Resolved pending audit clearance
 Action Date: 12/4/2022

SENSITIVE

2022 Interim report

Significant deficiency

22IR-2 Weaknesses in security over EFT payment data, user access privileges, and checking of key control reports

COSO classification: Control activities

Observation

The following weaknesses were observed –

1. The payroll EFT secure folder is accessible at all times by the senior payroll officers and the system administrators. This folder is the destination for the payroll EFT payment file after it is generated from the SAP Payroll system (ECP), and before the payroll EFT payment file is processed in CommBiz. The payroll EFT payment file is not secure in that it is in an editable form. The transport of the payroll EFT payment file from the SAP Payroll system (ECP) is not via a set and secure transport channel, i.e. the payroll EFT payment file can be generated and transported to other areas of the Council's network drive that may have lower access security in place.
2. System generated EFT vendor payment files are stored in a server folder in an unencrypted and editable format. Forty staff have access to this server folder, including staff that have no authority to perform accounts payable functions. It is however acknowledged that EFT vendor payment files are moved to a secure network folder prior to processing for payment in CommBiz.
3. A number of staff members have system privileges to generate EFT payment files from the accounts payable and payroll systems, upload these files onto the CommBiz (EFT payment) system, and be one of the authorising officers for the approval of payments from the CommBiz system. The routine described above places significant responsibility on the second authoriser to check the EFT payment files are for bonafide purposes. To mitigate this risk and strengthen controls over the EFT payment process, Council could consider revising roles such that CommBiz authorisers do not perform EFT payment file generation and upload responsibilities.
4. There was no evidence to confirm that key accounts payable exception reports were being reviewed prior to the payrun. These exception reports highlight unusual transactions including changes to sundry EFT details, large payments and corrections to transactions. The review of changes to large payment bank details (a report that can only be generated after payrun) was typically reviewed more than a week after the payrun had occurred. The objective of designing exception reports is to ensure that errors are identified and corrected prior to vendors being paid. Any review of the weekly exception reports would need to be performed by an independent officer who does not also have access to making bank account changes and processing payments.
5. Accounts payable officers have TechOne access privileges that include modification of direct invoice amounts (e.g. electricity, water and telecommunications expenses) after the delegated officer has approved the payment request workflow. For these types of corporate direct invoices, accounts payable officers can also nominate any existing vendor in the system as the payee. The accounts payable officers can also make changes independently prior to the payrun. We also observed that there is no system enforced approval for these corporate direct invoices, i.e. the "SCRC Invoice" template can be populated and processed for payment without approval.
6. TechOne system privileges allow the 3-way match control for suspended invoices to be circumvented. The system automatically suspends invoices for payment when they are not matched to a valid purchase order. Accounts payable officers can change the invoice amount for a suspended invoice; and can nominate any existing vendor in the system as the payee without manually matching the suspended invoice to a purchase order in the system. These changes can be made prior to the payrun.

Implications

Increase risk of unauthorised changes to the payroll and / or vendor EFT payment files prior to uploading to CommBiz, resulting in errors or fraud not being detected and financial loss to council.

SENSITIVE

6

2022 Interim report

Inadequately designed controls (e.g. 3-way match control for suspended invoices) increases the risk of errors, fraud and financial loss to the Council.

QAO recommendations

1. Implement a set default and secure transport path from the SAP Payroll system (ECP) to the secure folder, remove edit access to the payroll EFT secured folder, reduce the number of users with view access and implement a process to review the user access to that secure folder.
2. Restrict access to the TechOne server folder to authorised accounts payable team members.
3. Reassess the duties of CommBiz authorisers and take appropriate action to ensure those duties are independent of roles responsible for generating and uploading the EFT files for payment.
4. An independent officer should check and certify the sundry EFT details, large payments and transaction corrections reports prior to payroll.
5. Examine the design of processing and system controls for direct invoices. Suitably designed controls should then be implemented. (e.g. system enforced controls on direct invoices and changes to corporate account direct invoices details cannot be made post approval).
6. Redesign the 3-way match system control, including for suspended purchase order invoices.

Management response

1. All complete apart from removing edit access to the payroll EFT secured folder. This is currently not achievable as Payroll could not perform associated EFT activities when edit access was removed. As a compensating control, investigations into the ability to produce activity logs for the folder are underway.

Responsible Officer: Head of People and Culture

Status: In progress

Action Date: 30/4/2022

2. An Automated Bank File Transfer project is planned for 2022/23 which aims to eliminate the use of server folders that are accessible by others. Council is currently working on the encrypted file transit system with TechOne and CBA for Purchase Cards, which is good preparation for this project. In the meantime, Council will build an extract transform load (ETL) to reliably move the file from the server folder to a more secure location only accessible by authorised Accounts Payable team members.

Responsible Officer: Chief Financial Officer

Status: In progress

Action Date: 30/4/2022

3. The recommendation will be implemented where possible depending on availability of appropriately authorised staff at each time. For instances where appropriate staff are not available, a compensating control will be undertaken in the form of an independent post-payment check that the file has not been changed in CommBiz.

Responsible Officer: Chief Financial Officer/Head of People & Culture

Status: Resolved pending audit clearance

Action Date: 12/4/2022

4. Changes to EFT details is logged as an alert within the finance system that is checked by Senior Accounts Payable Officers. To provide a recorded review of this check, the alert will be exported, saved and date stamped.

Council has implemented a timely review of the account payable exception report by an independent officer.

Responsible Officer: Chief Financial Officer

Status: Resolved pending audit clearance

Action Date: 30/4/2022

SENSITIVE

2022 Interim report

5. Council will build and implement a system control. This will take some time as indicated by the action date. There is no evidence of any breaches as a result of this issue.

Responsible Officer: Chief Financial Officer

Status: Work in progress

Action Date: 30/11/2022

6. This type of access has been used to correct invoice details such as invoice number when an invoice is incorrectly captured by the invoice scanning software.

When Council transition to Procure to Pay (P2P), a system control exists requiring mandatory invoice matching to a purchase order. P2P is scheduled to go live on 3 May 2022. If this is unsuccessful, the next opportunity is August 2022.

Responsible Officer: Chief Financial Officer

Status: Work in progress

Action Date: 30/9/2022

Overall Status of Issue 22IR-2

Responsible Officers: Chief Financial Officer/Head of People and Culture

Status: Work in progress

Action Date: 30/11/2022



Deficiency

22IR-3 Untimely review of the fixed asset register reconciliation to the general ledger

COSO classification: Control Activities

Observation

While the fixed asset register is reconciled to the general ledger monthly, there was no evidence that the review was independently checked or timely for the periods September to October 2021, and December 2021 to February 2022.

Implication

The lack of timely and independent reconciliations increases the risk that errors may go undetected.

QAO recommendation

We recommend that the appropriate staff be reminded of the importance of performing and recording the fixed asset register to general ledger reconciliation on a timely basis. This control could be further strengthened if the reconciliation is reviewed by an independent officer.

Management response

Future reconciliation approvals (commencing with March 2022 reconciliations) will be documented using a system workflow process which is date stamped and auditable.

Responsible officer: Chief Financial Officer

Status: Resolved pending audit clearance

Action date: 30 April 2022

SENSITIVE

2022 Interim report

 **Deficiency**

22IR-4 Inconsistency of contract details between contract register and Council’s website

COSO classification—Information and Communication

Observation

Four contracts recorded in the contract register over \$200,000 had not been published on the Council’s website in accordance with s237 of the *Local Government Regulation 2012*.

Implication

Non-compliance with the *Local Government Regulation 2012*.

QAO recommendation

We recommend that Council consider implementing a review process to ensure that required contract data is correctly published on the Council’s website.

Management response

A process will be implemented whereby Council Officers review the data published on the website to ensure consistency with the data in the Contract Register.

Responsible officer: Manager, Business and Innovation

Status: Resolved pending audit clearance

Action date: 8 April 2022

Financial reporting issues

There are no active financial reporting issues.

4. Prior year issues

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

Ref.	Rating	Issue	Status
21-CR1		Grant revenue register is not updated and reviewed regularly Grant revenue register does not reflect the status of SCRC’s grant funding	Work in progress Responsible officer: Executive Manager, Office of the CEO Action date: 30 June 2022
21-IR-2		SAP payroll system—user access and change management Establish policies and procedures on user access and change management relating to SAP payroll system	Resolved
21-IR-3		SAP payroll system—privileged users Review of privileged users and activities	Resolved

SENSITIVE

2022 Interim report

Ref.	Rating	Issue	Status
21-IR-8		Other infrastructure asset class— comprehensive revaluation Comprehensive revaluation not performed for other infrastructure asset class at the 5 years interval	Work in progress Responsible officer: CFO Action date: 30 June 2022
20-IR1		Contributed Assets Delay in recording contributed assets	Work in progress Responsible officer: CFO Action date: 30 June 2022

5. Milestones

The following table details the current status of milestones for key financial reporting and audit deliverables as at 22 April 2022.

Planning	Agreed date	Completed date	
Planning visit	6–17 December 2021	6–17 December 2021	
External audit plan	17 December 2021	17 December 2021	
Interim			
First Interim testing visit	14–25 March 2022	14–25 March 2022	
First Interim report	8 April 2022	22 April 2022	
Position papers on known accounting issues due	15 April 2022	14 April 2022 (draft)	
Feedback on position papers	29 April 2022		
Proforma financial statements due	29 April 2022		
Feedback on proforma financial statements	13 May 2022		
Second Interim testing visit	6–10 June 2022		
Second Interim report	24 June 2022		
Asset valuations due	15 July 2022		
Asset valuations reviewed by audit	29 July 2022		
Final			
Year-end visit	5–16 September 2022		
Working draft financial statements to audit	5 September 2022		
Complete draft financial statements to audit	7 September 2022		
Feedback on draft financial statements	16 September 2022		
QAO closing report issued to client	28 September 2022		
Audit committee clearance	6 October 2022		
Financial statements signed by management	7 October 2022		
Audit report issued	10 October 2022		
Final management report	10 October 2022		

Note: Audit visit | SCRC deadline | QAO deadline

 Completed |  On track |  Not met

SENSITIVE

2022 Interim report

If there are any issues/concerns in meeting these time frames, which were agreed at the planning phase, please discuss with your engagement leader, David Adams.

6. Financial statement preparation maturity assessment

QAO's financial statement preparation maturity model (the model) outlines the key components that result in high-quality and timely financial reports, providing a maturity assessment for each of the 4 components. The aim of the model was to highlight strengths and bring focus to areas of development so entities could reach their desired maturity.

In the 2021 financial year, management had self-assessed its financial statement process using the maturity model. During our interim audit, we assessed the entity's financial statement preparation maturity model using a combination of inquiry, observation, and review of the internal processes. We acknowledge there was judgement involved in the principle-based assessments.

The following table sets out the range and average responses for the Council's financial statement preparation process for each component for the 2022 financial year. It also provides a comparison to the 2021 assessment.

Component	Financial year	Developing	Established	Integrated	Optimised
Quality month-end processes	2021			← ● →	
	2022			← ● →	
Early financial statement close process	2021		← ● →		
	2022	← ● →			
Skilled financial statement preparation and use of technology	2021		← ● →		
	2022		← ● →		
Resolution of financial reporting matters	2021				●
	2022				●

The Council's financial statement preparation processes mostly rate between established and optimised. This is consistent with prior year. From discussions with management, the ratings for these areas are considered appropriate based on the systems in place. The ratings are driven by the following key strengths and improvement opportunities based on the 2022 assessment:

Key strengths	Improvement opportunities
<ul style="list-style-type: none"> Position papers, external audit engagement and financial statement disclosure associated with new accounting standards and major transactions and events Quality and timely preparation of proforma financial statement Detailed financial statement process timetables with regular review and adjustments 	<ul style="list-style-type: none"> Completion of early close processes, particularly in relation to asset valuations enabling these to be reviewed by audit prior to 30 June Regularly updated and well understood month end policies and procedures

SENSITIVE

2022 Interim report

Appendix 1: Revised audit strategy

We have revised our audit strategy to obtain reasonable assurance over 2 key areas, being employee benefits expense and materials and supplies expenses due to the control deficiencies raised in [section 3](#) above.

We will undertake the following additional substantive test of details (on a sample basis):

- verify employee paypoint in the payroll system to the current published certified agreements or awards, and to any supporting documentation such as appointment letter, and/or employment contract where applicable
- verify employee salary agrees to payroll report and EFT payment release report
- test the validity of fortnightly EFT payment files
- test materials and service expenses incurred by Council to supporting documentation, including tracing the transaction to CommBiz; and agree CommBiz total to the EFT payment release report
- test corporate direct invoices to source documents

With Council transitioning its purchase order system processes and approval workflows to the cloud (CIA) in May 2022, we will also be assessing the solution configurations, processes and workflows during our second interim visit in June.

We will discuss with management if this work results in a variation to our original audit fee.

SENSITIVE

12

2022 Interim report

Appendix 2: Update on new reports and resources

Forward work plan

Each year, we publish a 3-year plan that sets out the audits that we plan to undertake over the next 3 years. It is important that our forward work plan covers the matters of most importance across Queensland's public sector entities and local governments. We must conduct the right audits at the right time to ensure we add value for the entities we engage with, and ensure our work drives positive change.

In March 2022, we circulated an overview of the draft *Forward work plan 2022–25* to our clients and stakeholders for comment.

The overview of our draft forward work plan sets out the audit topics that we intend to examine between 2022–25 and shares the focus areas that will guide our financial audits, performance audits and other assurance activities.

Per the *Auditor-General Act 2009*, we will give stakeholders 42 days to provide comment. We value the feedback from our stakeholders, and will consider it, as we prepare our final plan.

We intend publishing our final *Forward work plan 2022–25* in May 2022.

Other relevant reports in progress

The below reports to parliament are currently underway and may be of further interest to you.

Title	Audit status
Appointing and renewing government boards	Audit in reporting stage. Likely tabling: May 2022
Contract management for new infrastructure	Audit in reporting stage. Likely tabling: May 2022
Managing Queensland's COVID-19 economic response and recovery	Audit in reporting stage. Likely tabling: May 2022
Improving asset management in local government	Audit in conduct stage.
Managing workforce agility	Audit in conduct stage. Likely tabling: September 2022
Managing ecotourism in Queensland	Audit in conduct stage. Likely tabling: September 2022

New QAO Queensland dashboard

This new [interactive dashboard](#) helps you understand more about the area or region you live in and the public services you receive. You can search your address to view important financial information about public sector and local government entities, and interesting demographical information. You can also compare your region.

SENSITIVE

13

2022 Interim report

Recent blog articles of interest

QAO's blog, available at www.qao.qld.gov.au/blog, provides updates on topical issues, insights from our work, and general news from QAO. Here are the latest posts you may be interested in.

Top 4 most read blog posts published in the past 6 months

- 1 [*Configuration or customisation costs in a cloud computing arrangement*](#)
- 2 [*Increasing concerns around cyber security risks*](#)
- 3 [*Our new annual assessment tool for internal controls is now available*](#)
- 4 [*What governance committees need to ask about capitalising cloud computing arrangements*](#)

Published	About
Advice on ransomware prevention and recovery 7 April 2022	Ransomware attacks are among today's most significant operational threats, aiming to lock organisations out of their own systems and files. They're designed to cause so much chaos that for most organisations paying the ransom appears to be their only feasible way to recover. This blog provides advice on the steps your entity should take in advance to plan for and facilitate recovery of such attacks. Read it here: www.qao.qld.gov.au/blog/advice-ransomware-prevention-recovery
What we covered at our 2022 client technical update event 24 March 2022	Each year, we hold a technical audit update alongside Queensland Treasury for public sector and local government finance professionals, to help ensure they stay up-to-date with standards, emerging issues and opportunities. This blog the main takeaways from our 2022 event, including changes to accounting standards, key findings and insights from our 2020–21 audits, our new internal controls assessment model and our dashboards. Read it here: www.qao.qld.gov.au/blog/what-we-covered-our-2022-client-technical-update-event
Assessing the impact of natural disasters on your financial statements 16 March 2022	Flooding and cyclones in early 2022 and late 2021 have seen disasters declared across more than half of Queensland's local government areas. The disasters may affect the condition of entities' assets and their ability to collect revenue, increase expenditure, and result in expanded or new grant programs to help the community recover. This blog provides an overview of what Queensland public sector entities, including local governments, should consider when assessing the impact of these events on their financial statements. Read it here: www.qao.qld.gov.au/blog/assessing-impact-natural-disasters-your-financial-statements
Tips on implementing a new ICT system 11 March 2022	Implementing a new information and communication technology (ICT) system can be challenging. This blog provides questions and insights on common issues and risks that entity management may consider during the various stages of implementing an ICT project. Read it here: www.qao.qld.gov.au/blog/tips-implementing-new-ict-system

SENSITIVE

2022 Interim report

Published	About
<p>How to enhance your regular management reporting</p> <p>25 February 2022</p>	<p>Effective management reporting gives your entity's leaders the information they need to make important decisions and understand what is happening. Therefore, it's crucial to present the right information in the right way at the right time.</p> <p>This blog provides an overview of what you should consider when preparing effective management report to help your entity achieve its goals and objectives.</p> <p>Read it here: www.qao.qld.gov.au/blog/how-enhance-your-regular-management-reporting</p>
<p>Increasing concerns around cyber security risks</p> <p>20 January 2022</p>	<p>We regard cyber security as the biggest threat to state and local government public sector entities. Protecting important information assets with secure systems is critical to Queensland's economic and security interests. We encourage all organisations to revisit our reports and resources, consider the recommendations, and act immediately to proactively mitigate this considerable and concerning risk.</p> <p>This blog summarises our advice and links to useful blog articles and reports to parliament.</p> <p>Read it here: www.qao.qld.gov.au/blog/increasing-concerns-around-cyber-security-risks</p>
<p>New report on status of Auditor-General recommendations</p> <p>15 December 2021</p>	<p>Knowing how public sector and local government entities are progressing in implementing audit recommendations gives us, parliament, audit clients, and the wider community important information on the improvement of public service delivery.</p> <p>This blog discusses our new online self-assessment system and our report to parliament and interactive data visualisation on entities' self-assessment results and insights around our recommendations.</p> <p>Read it here: www.qao.qld.gov.au/blog/new-report-status-auditor-general-recommendations</p>
<p>Insights on good regulatory practices</p> <p>9 December 2021</p>	<p>Good regulatory practices that promote compliance, minimise failures and enable opportunities for improvement are indispensable to the operations of government.</p> <p>This blog highlights our principles-based model, which guides entities to plan to be intelligence-led, act to ensure compliance, report transparently for accountability, and learn through continuous improvement.</p> <p>Read it here: www.qao.qld.gov.au/blog/insights-good-regulatory-practices</p>
<p>What governance committees need to ask about capitalising cloud computing arrangements</p> <p>6 December 2021</p>	<p>While some entities adopted the changes from IFRIC's agenda decision <i>Configuration or Customisation Costs in a Cloud Computing Arrangement</i> for 30 June 2021, many did not and now need to assess whether it has a material impact on them and adopt it this financial year.</p> <p>This blog provides questions that entities and governance committees can consider when trying to understand the impact on their financial statements.</p> <p>Read it here: www.qao.qld.gov.au/blog/what-governance-committees-need-ask-about-capitalising-cloud-computing-arrangements</p>
<p>Our new annual assessment tool for internal controls is now available</p> <p>11 November 2021</p>	<p>During our audits, we assess whether entities have effective internal controls. We have developed a new assessment tool for internal controls which will help us better communicate with our clients about the strength of their controls and areas they need to improve on. As we roll out our assessment tools across government, we will start phasing out our previous traffic light processes.</p> <p>This blog outlines how we assess and report on internal controls, what has changed, and our maturity scale.</p> <p>Read it here: www.qao.qld.gov.au/blog/our-new-annual-assessment-tool-internal-controls-now-available</p>

SENSITIVE

2022 Interim report

Upcoming QAO events

Briefing for audit committee chairs

QAO briefs the chairs of public sector and local government audit committees twice each year. The next briefing will be held on 5 May 2022. If your chair's contact details have changed, or you have any queries, please contact your QAO contract manager.

Copies of event presentations

You can see the presentation packs from our events at: www.gao.qld.gov.au/reports-resources/events

Matters of special interest

The below information or publications are also pertinent to you and/or your committee.

Topic or publication	Key information
<p>Managing gifts and benefits for Hospital and Health Service employees</p> <p>Crime and Corruption Commission (CCC) Published: 16 November</p> <p>www.ccc.qld.gov.au/publications/managing-gifts-and-benefits-hospital-and-health-service-employees</p>	<p>The CCC completed an audit evaluating the effectiveness of management controls and transparency in relation to reporting of gifts and benefits made by pharmaceutical companies to Queensland Government healthcare professionals in selected hospital and health services (HHS).</p> <p>The Audit Summary is for the advice of chief financial officers (CFOs), staff involved in organisational compliance functions, and line managers, to help them better understand corruption risks and improve their prevention capabilities.</p> <p>The related Prevention Guide for HHS employees, which includes FAQs and a decision tree, aims to address common scenarios and dilemmas in decision-making associated with any potential offer or acceptance of a gift or benefit.</p>
<p>When conflicts of interest in procurement result in criminal convictions</p> <p>Crime and Corruption Commission (CCC) Published: September 2021</p> <p>www.ccc.qld.gov.au/publications/when-conflicts-interest-procurement-result-criminal-convictions</p>	<p>The CCC recently published a Prevention in focus newsletter highlighting the importance of governance and transparency in the procurement processes for government contracts.</p> <p>This publication outlines the importance of implementing internal controls and reporting processes to identify and prevent attempts to corrupt procurement processes.</p> <p>It identifies key components of effective procurement frameworks and includes 2 case studies where the lack of declaration of conflicts of interest in procurement processes lead to prison sentences at 2 public sector agencies.</p>

SENSITIVE

16



qao.qld.gov.au/reports-resources/reports-parliament

David Adams
Queensland Audit Office
T: (07) 3149 6211
E: David.Adams@qao.qld.gov.au



Suggest an audit topic

Contribute to an audit in progress

Subscribe to news and our blog

Connect with QAO on LinkedIn