



2023 FINAL MANAGEMENT LETTER

Sunshine Coast Regional Council

18 October 2023

Your ref:
Our ref: 2023-4139
David Adams 3149 6211

18 October 2023

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

Dear Councillor Jamieson

Final management report for Sunshine Coast Regional Council

We have completed our 2023 financial audit for Sunshine Coast Regional Council. I have issued an unmodified audit opinion on your financial statements.

The purpose of this letter is to update you on any matters that have arisen since we presented our closing report to the audit committee on 4 October 2023.

Reporting on issues identified after the closing report

I can confirm that we have not identified significant issues since the presentation of our closing report. The issues and other matters we have formally reported to management and an update on management's actions taken to resolve these issues is included as Appendix A.

Please note that under section 213 of the Local Government Regulation 2012, you must present a copy of this report at your council's next ordinary meeting.

Report to parliament

Each year we report the results of all financial audits and significant issues to parliament.

We intend to include the results of our audit of Sunshine Coast Regional Council in our report to parliament *Local Government 2023*. We will comment on the results of our audit of your financial report, any significant internal control issues we identified, and the overall results of the sector, including major transactions and events. We will discuss the proposed content of our report with your Chief Financial Officer and continue to consult as we draft our report. Formally, you will have an opportunity to comment on our report, and for these comments to be included in the final version tabled in parliament.

Audit fee

The final audit fee for this year is \$311,480 exclusive of GST (2022: 282,000). This fee is higher than the \$291,500 estimated in our external audit plan. We have discussed the key factors contributing to the fee variation with your Chief Financial Officer. Unplanned costs included changes to the asset revaluation approach by council \$15,346; validating prior period errors \$4,201 and additional payroll testing \$3,630. We have passed on travel cost savings of \$3,197.

We would like to thank you and your staff for their engagement in the audit this year and look forward to working with your team again next year.

If you have any questions about this letter or would like to discuss any matters regarding our services and engagement, please do not hesitate to contact me on 07 3149 6211.

Yours sincerely



David Adams
Senior Director

Appendix A1 – Status of issues

This section provides an update on the significant control deficiencies and control deficiencies we have identified since our closing report. It includes a response from management.

Our risk 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.



S Significant Deficiency

23CR-1 – Comprehensive valuation process

Observation

Council opted to comprehensively revalue the Stormwater and Other Infrastructure asset classes in-house for FY2023. The last comprehensive valuation performed on Stormwater assets was in 2018 (5 years) and Other Infrastructure assets in 2015 (8 years).

We agreed with management to complete the audit work over valuation of the Other Infrastructure and Land asset classes in May 2023. However, management were unable to provide these to us at the agreed dates, and audit work was re-scheduled to the final visit.

Valuation workpapers (a draft management position paper and methodology) for Stormwater assets were received on 15 September 2023.

On 19 September the reconciliation of Other Infrastructure assets (fixed asset register to CONFIRM asset management system) was approximately 50 per cent complete, data capture had been performed but no unit rates were computed, and key attributes were missing in the CONFIRM database against which to apply the unit rates. Given these challenges, the completion of a comprehensive revaluation of other infrastructure assets within the statutory reporting deadline for FY2023 was determined by management to be not attainable. Management and QAO agreed to apply an indexation to the Other Infrastructure asset class for FY2023. This is the 9th year in a row that the other infrastructure asset class has not been comprehensively valued.

For stormwater assets, SCRC has is developing a methodology that is consistent with the principles of the “Cost Approach” described in AASB 13 Fair Value Measurement which maximises the use of observable inputs. However, the outcome of the unit rate compilation for 2023 was:

- inconsistent with the annual movement of unit rates at other Councils
- based on a 3-year average which included an unreasonable decline in unit rates in the third year compared to years 1 and 2; and
- conflicted with the general trend of costs in the infrastructure construction industry which has seen rapid price increases in many key inputs including materials, plant and labour.

While the revaluation exercise should represent management’s best estimate, management should be comfortable with the reasonableness of such estimates. In our view, management’s comprehensive revaluation did not adequately demonstrate:

- a decrement of \$230 million (or 19.7%) in the value of the Stormwater assets class
- a decrement of \$140 (or 30%) in the unit rate for 375mm pipes from the 2018 valuation
- that the unit rates for all asset types for FY2023 included recent and relevant FY2023 project costs
- that the valuation results were reasonably congruous with other councils in the region.

On this basis, sufficient comfort over the comprehensive revaluation of Stormwater assets could not be achieved. Management has opted to adjust the fair value of this asset class by applying a suitable index to the Stormwater asset class for FY2023. This means, that the Stormwater asset class has not been comprehensively valued for 6 years at 30 June 2023.

Implication

As the planned comprehensive valuations could not be achieved in FY2023, the duration between comprehensive valuations for Stormwater and Other Infrastructure assets classes is now 5 and 8 years respectively. By not periodically completing comprehensive valuations (recommended every 3 years, 5 years maximum), there is a risk that the carrying value of assets is materially different from their fair value.

QAO recommendation

We recommend that Council:

1. continue with its plan to finalise all relevant aspects of its revaluation process for stormwater and other infrastructure assets in FY2024.
2. apply more effective project management disciplines (including governance and communication attributes) to the comprehensive revaluation process to ensure outcomes are achieved, including within agreed timeframes and to a quality standard (e.g. revaluation results are peer reviewed, approved and reported to executive management and the audit committee).
3. consider using other sources including internal audit or other LG networks to benchmark unit rate processes and results.

Management response

Council accepts the recommendation.

1. Council will implement a project to complete the reconciliation of the Other Infrastructure asset class between Confirm & FAR in partnership with Council's internal stakeholders to enable completion of the comprehensive asset revaluation.
2. Council will consult with QAO as part of planning for 2023/24 and to formulate a plan involving further investigation of the 2018 unit rates provided by Stantec for the last comprehensive revaluation, compared to Council's rates derived as part of the 2023 comprehensive revaluation, including consideration of any differing assumptions between the valuation methodologies. Note there is the potential for a future valuation decrement.

Responsible officer: Chief Financial Officer

Status: Work in progress

Action date: 30 June 2024

D Deficiency

23CR-2 Delays on recognising contributed assets

Observation

Delays in recording contributed assets have been a reoccurring issue raised by QAO. Management established a working group to review the end-to-end process for contributed assets and improve the flow of data and communication between management, developers and in some cases, external agencies where relevant.

Action was taken to strengthen internal controls processes in asset recognition. One of these controls is the monthly reconciliation of accounts historically affected by prior period errors including contributed assets, property, plant and equipment, and intangible asset movements.

Finance Branch now reviews the dataset for any development applications that are not supported by an 'on-maintenance' confirmation. As a result of this better monitoring, management identified contributed assets totalling to \$40.6 million relating to FY2022 and prior years that should have been recorded in those prior years.

There is still however a need to address the following matters:

- the 'on-maintenance' (OM) letter of confirmation provides all the relevant information required to automatically drive the contributed asset to be recorded in the fixed asset register (FAR) and the general ledger (GL). If an asset is not supported by an attached OM letter, the asset will not be recorded in either the FAR or the GL.
- There can be mismatches between development applications and the associated OM letters due to :
 - inconsistencies between development applications and subdivision naming and numbering.
 - a single OM letter covering multiple subdivisions under the same development application name.
 - internal staff incorrectly issuing OM letters prior to "as-designed-as-constructed (ADAC) letter being received and accepted. In instances where an external agency (e.g. EDQ) manages the asset development, internal staff have no visibility over when the OM letter will be received. Internal staff can only follow up from an EDQ liaison officer. QAO acknowledges that this issue is externally driven.

Implication

Delays in processing contributed asset information into Council's systems increases the risk that revenue, assets and depreciation expense will be materially understated in the financial report and cause prior period errors.

Where material prior period errors occur in the financial report, the users of the report may be misled which can impact the decisions they make regarding this information.

QAO recommendation

We recommend that Council:

- revisit its current reconciliation process between the development application numbering and the on-maintenance letters and aim to develop processes and measures to better ensure that the on-maintenance letters are reconciled to the appropriate development applications.
- ensures the timely recording of contributed asset information into council's systems to ensure revenue, assets and depreciation expense are not materially misstated in the financial report.
- consider year-end adjusting entries to avoid prior period error.

Management response

Council accepts the recommendations and will liaise with QAO during the 2023/24 audit noting reliance upon external agencies affects timeliness.

Responsible officer: Chief Financial Officer

Status: Work in progress

Action date: 30 June 2024

D Deficiency

23CR-3 Assets not previously recognised

Observation

In FY2019, management began the process of implementing a new asset management system (CONFIRM). A significant focus was to cleanse the fixed asset register to ensure it was accurate before the change of system. Management undertook a data reconciliation process between Council's financial assets register and the Geospatial Information system (GIS). As a result, there were various amendments required to be actioned in both systems.

In the last three financial years, management identified prior period errors that relate to asset records which have not previously been recognised in the primary financial system, along with some erroneous records that have been removed from the financial register. In FY2022, Council understated its plant and equipment and associated depreciation balances by \$7.15 million.

We have enquired with the Finance Branch regarding the causes of the asset discoveries and disposals and confirmed that this is due to:

- lack of system information on assets pre-CONFIRM transition, and
- spatial capture inconsistencies.

Implication

Lack of accurate data and spatial capture inconsistencies causing erroneous records in the Council's systems increases the risk that non-current assets and depreciation expense will be materially misstated in the financial report.

Where material prior period errors occur in the financial report, the users of the report may be misled which can impact the decisions they make regarding this information.

QAO recommendation

We recommend that Council:

- continue with its existing improvement plans to progress the quality of its asset information in the system
- ensure that the capitalisation process for assets is performed regularly throughout the financial year; and
- ensure that cost effective stocktakes are performed to verify the completeness and existence of assets.

Management response

Council accepts the recommendation.

Responsible officer: Chief Financial Officer

Status: Work in progress

Action date: 30 June 2024

D Deficiency

23CR-4 Delays in classifying project costs to operating expense

Observation

Council performs its capitalisation analysis process each month. This process looks at costs assigned to projects and analyses the operating costs that should be transferred to operating expenses (i.e. costs that do not have the criteria for recognition as an asset). This process focuses on the review of projects in the CAPWIP ledger on a project-by-project basis.

In FY2023, this process identified operating expenses from FY2022 that should have been written-off in the prior year totalling to \$4.25 million.

QAO understands that the process of analysing, recording projects' operational and capital expenses and confirmation thereof is not clear and the classification of projects' operational and capital expenses is not always timely.

Reliance on spot-checks, project-by-project basis capitalisation process is insufficient to ensure that Council is accurately recording expenses or capitalised components of its projects.

Implication

Delays in recording the operating expense component of projects increases the risk that the operating expense will be materially understated and the noncurrent asset, particularly the work in progress (WIP) balance will be materially overstated.

Where material prior period errors occur in the financial report, the users of the report may be misled which can impact the decisions they make regarding this information.

QAO recommendation

We recommend that Council:

- consider revising its approach (including developing a cost-effective internal control) to analyse WIP projects to identify operational expense components of each project in a more regular manner.

Management response

Council accepts the recommendations and will liaise with QAO during the 2023/24 audit noting reliance upon external agencies affects timeliness.

Responsible officer: Chief Financial Officer

Status: Work in progress

Action date: 30 June 2024

Appendix A2 – Matters previously reported

The following table summarises all control deficiencies, financial reporting issues and other matters that have previously been raised but are not yet resolved. The listing includes issues from our reports this year and those issues raised in prior years.

Internal control issues

Ref.	Rating	Issue	Status
22IR-2	S	<p>Weaknesses in security over EFT payment data, user access privileges, and checking of key control reports</p> <p>1. The payroll EFT file is not in a secure drive or format before it is processed into CommBiz. The EFT file can be generated into any Council's network drive which is accessed by other users in the Council.</p>	<p>Resolved pending audit verification</p> <p>Software is being implemented to automate the upload and processing to CommBiz. In the interim, this folder has been restricted to the relevant staff and audit logging functions are being improved to identify user movements in the secured drive.</p> <p>Responsible officer: Head of People and Culture Initial action date: 30 April 2022 Revised action date: 30 September 2023 Revised action date: 31 October 2023</p>
23IR-1	D	<p>Weaknesses in payroll controls</p> <p>1. Untimely review of masterfile changes 2. Lack of review in fortnightly payroll processing 3. Weaknesses in segregation of duties of CommBiz authorisers and the EFT preparer</p>	<p>Resolved pending audit verification</p> <p>Responsible officer: Head of People and Culture Action date: 18 September 2023</p>
22IR-8	D	<p>Other infrastructure asset class – comprehensive revaluation</p> <p>Comprehensive revaluation is not performed for the other infrastructure asset class at the 5 years interval.</p>	<p>Work in progress</p> <p>Management have prepared a proposed revaluation methodology that will be applied by year end. QAO has assessed the proposal and provided feedback to management in April.</p> <p>Responsible officer: Chief Financial Officer Initial action date: 30 June 2022 Revised action date: 30 June 2023 Revised action date: 30 June 2024</p>
23IR-2	O	<p>Improvements to revenue recognition and cut-off practices</p> <p>One exception (\$25,000) noted for revenue recognised in the incorrect financial year.</p>	<p>Resolved</p>
22FR-1	M	<p>Formal review of remaining useful lives for assets is required</p> <p>No formal review of assets' remaining useful lives and, no formal assessment of assets' impairment indicators.</p>	<p>Partially resolved pending audit verification</p> <p>Management performed a review of useful lives in the current year for fleet, general plant and equipment and intangibles.</p> <p>Management facilitated a useful life review process for the remaining asset classes in coordination with the business units. A project is currently underway to create an asset condition assessment framework to formalise the process.</p> <p>Responsible officer: Chief Financial Officer Action date: 30 June 2024</p>



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