

# Auditor-General of Queensland

Report to Parliament No. 8 for 2010

Results of audits at 31 May 2010

Financial and Compliance audits



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**QUEENSLAND**

Prepared under Part 3 Division 3 of the  
*Auditor-General Act 2009*

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# Auditor-General of Queensland

July 2010

The Honourable R J Mickel MP  
Speaker of the Legislative Assembly  
Parliament House  
BRISBANE QLD 4000

Dear Mr Speaker

This report is prepared under Part 3 Division 3 of the *Auditor-General Act 2009*, and is titled Results of Audits at 31 May 2010. It is number eight in the series of Auditor-General Reports to Parliament for 2010.

In accordance with s.67 of the Act, would you please arrange for the report to be tabled in the Legislative Assembly.

Yours sincerely



Glenn Poole  
Auditor-General



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# 1

## Executive summary

### 1.1 Introduction

Each financial year, it is usual for several Auditor-General Reports to Parliament to be tabled containing the results of financial and compliance audits completed during the year.

This report provides the results of the audits of public sector entities with financial statement balance dates other than 30 June 2009, and informs on audit issues that have been identified during the interim audits undertaken in relation to the 2009-10 financial year. The results for the 2008-09 audits were reported in:

- *Auditor-General Report to Parliament No. 8 for 2009 – Results of audits at 31 October 2009*
- *Auditor-General Report to Parliament No. 4 for 2010 – Results of local government audits.*

This report covers 123 public sector entities where an auditor's opinion has been issued since these previous reports were tabled or where an auditor's opinion has not yet been issued. Figure 1A shows the current status of the audits of the 2008-09 financial statements.

Figure 1A – Status of audits of the 2008-09 financial statements<sup>1</sup>

Financial reporting period	Total number of entities	Unmodified auditors' opinions issued	Modified auditors' opinions issued	Auditors' opinions not yet issued
01.07.2008 to 30.06.2009	503	443	53	7
01.01.2009 to 31.12.2009	83	64	14	5
Other reporting periods	29	15	14	0
<b>Total</b>	<b>615</b>	<b>522</b>	<b>81</b>	<b>12</b>

Auditors' opinions have not yet been issued for the 2008-09 financial statements of 12 public sector entities (refer Figure 6A). This represents approximately two per cent of all financial statements on which an opinion was to be issued. QAO is actively working with the public sector entities involved to ensure financial statements are finalised for audit and outstanding auditors' opinions are issued as soon as practicable.

This report includes the results of audits of universities and grammar schools which had a financial statement balance date of 31 December 2009. The audits of universities and grammar schools have been completed and unmodified auditors' opinions were issued on their financial statements. While modified opinions were issued for some controlled entities of universities, I am satisfied that appropriate governance regimes are in place to maintain their accountability.

<sup>1</sup> See Section 7.1 for an explanation of terms



This report also contains the results of audit activity related to the financial and compliance audits for 2009-10, including an examination of:

- audit committee guidance
- employment checking
- Shared Services
- payments processed through Electronic Funds Transfer (EFT) systems
- compliance with the *State Procurement Policy*
- follow-up of issues previously reported in relation to the management of public sector employee housing.

A large number of entities were examined through these audits. For all the entities audited, control breakdowns have been reported to management for relevant action with appropriate recommendations for improvement.

## 1.2 Summary of key audit findings

A summary of the key audit findings are provided below.

### Results of audits

Auditors' opinions have been issued for the 2008-09 financial statements of 110 public sector entities since *Auditor-General Report to Parliament No. 8 for 2009* and *Auditor-General Report to Parliament No. 4 for 2010* were tabled in Parliament. Unmodified auditors' opinions have been issued for 73 entities and 37 modified auditors' opinions have been issued.

Section 6.1 of this report contains details of the status of 2008-09 financial statements where an auditor's opinion has been issued since *Auditor-General Report to Parliament No. 8 for 2009* and *Auditor-General Report to Parliament No. 4 for 2010* were tabled.

Explanations of the types of auditors' opinions issued are included in Section 7.1.

### Infrastructure

The South East Queensland Infrastructure Plan and Program identifies \$124b in estimated infrastructure investment between 2009 and 2026. It is the largest infrastructure program of any State in Australia, and includes many large and complex construction projects in key areas of water, transport, and economic and social infrastructure. With individual project costs ranging into billions of dollars, it is important from a financial sustainability perspective that the State delivers public infrastructure whilst achieving value for money.

The Project Assurance Framework administered by the Department of Infrastructure and Planning sets the minimum standard for project management within the Queensland Public Sector to ensure infrastructure projects achieve value for money.

The focus of this report is on the results of follow up audits conducted over three distinct phases of the infrastructure project cycle: the investment decision, benefits realisation and the use of independent project verifiers.

The results of infrastructure audits have been included in Auditor-General Reports to Parliament since 2007. The audits undertaken this year have found that recommendations made in previous Auditor-General Reports to Parliament are progressively being implemented by responsible agencies, albeit at a slower pace than committed to originally. Policy guidance and procedures for the development and management of infrastructure projects has also improved significantly, particularly as a result of the introduction of the Project Assurance Framework in 2007.

While the quality of documentation to support business cases has improved, there is a need for lead agency monitoring and reporting on infrastructure business cases to ensure compliance with the Project Assurance Framework, and the provision of robust analysis and options comparison to facilitate informed decision making by government.

The up-front exclusion of some delivery options due to a rigid imposition of relatively tight timeframes for the delivery of infrastructure was identified as a key risk that may negatively impact the value for money consideration.

## Governance

The completion of audits of specific activities across a range of public sector entities provides the opportunity to take a whole of public sector view on particular issues and to provide recommendations for improvements at both a public sector and individual entity level. Two governance audits were conducted across a range of public sector entities:

- An audit of the adoption of the requirements of Treasury Department's *Audit Committee Guidelines – Improving Accountability and Performance*, found that all entities audited had established an audit committee and the level of implementation of the guidelines was satisfactory.
- An audit to determine whether appropriate policies and procedures to assess employee professional qualifications, criminal history and conflicts of interest existed, found that sound procedures were in place to ensure compliance with relevant legislation and established policies at the entities audited.

While the results of these audits were satisfactory, the audits highlighted some better practices that could be applied by other entities. There were also some instances identified where controls could be improved. Aspects where individual departments were not fully complying with these requirements were raised with management.

Section 4.3 discusses governance issues relating to shared services: the ongoing management of the whole of government finance and human resource systems through Shared Service providers CorpTech (application service provider) and CITEC (infrastructure service provider). I have been reporting on governance and control issues since the establishment of the Shared Services Initiative. While some high risk control issues have been addressed and improvements in controls have been made, these have been replaced by new equally high risk issues.

The segment reporting and Annual Leave Central Scheme issues discussed in Section 4.3 are serious financial issues and need to be addressed jointly by agencies, the Shared Service Agency and CorpTech to ensure 30 June financial statement figures are correct. Equally serious are the high risk issues identified in the areas of finance and human resource applications standardisation, general computer controls, system disaster recovery, and Electronic Funds Transfers. For example, the Shared Service Agency continues to operate and support a number of legacy systems. Some of these systems are no longer covered by vendor support agreements, and more systems will become unsupported from 2013.

The number of systems that need to be separately maintained increases the risk of security failures and data integrity issues. Such failures, if they materialise, could impact on the integrity of financial statements, or the correct processing of payroll for public servants.

The progress of the implementation of the recommendations made in the 2008 audit of the management of public sector employee housing, initially reported in *Auditor-General Report No. 4 for 2008 – Results of audits at 31 May 2008*, was followed up. Good progress has been made in improving systems for the management of public sector employee housing and the implementation of these systems is ongoing. The Department of Public Works, in conjunction with the other three departments with public sector employee housing, need to keep driving this project forward to finalisation.

## Financial management

Assessing the soundness of the financial management of public sector entities is a key audit role. Two areas of particular focus were chosen this year for detailed examination: how payments are processed through entities' Electronic Funds Transfers (EFT) systems, and the extent that entities are complying with the requirements of the *State Procurement Policy*.

The audit of EFT systems found that generally those entities that operated their own EFT systems had satisfactory controls over payments processed through them. However, there were instances where controls could be further strengthened by ensuring that changes to EFT processes are subject to appropriate change management practices.

The departments audited were found to be complying with the objectives and requirements of the *State Procurement Policy*. However, the Queensland Government Chief Procurement Office, which is responsible for the *State Procurement Policy*, undertakes a program of reviews over procurement capability and capacity of budget sector agencies but does not perform ongoing monitoring and follow up across government over key compliance requirements of the *State Procurement Policy*.

To improve accountability, I consider that the role of lead agencies is not just to identify emerging issues and develop whole of government policy but to monitor policy implementation across government to ensure a consistent approach. The establishment of policy should be accompanied by the governance mechanisms and coordination activity to ensure the policy outcomes are achieved.

# 2 | Results of audits

## Summary

### Background

Each year financial and compliance audits are conducted to enable the Auditor-General to express an opinion as to whether the financial statements of public sector entities present a true and fair position, and whether prescribed requirements included in legislation for the establishment and keeping of accounts have been complied with in all material respects.

The *Auditor-General Act 2009* requires the Auditor-General to report to Parliament on the results of all audits each year. This section contains the results of the 2008-09 audits completed to 31 May 2010, including the results of university and grammar school audits with a balance date of 31 December 2009.

### Key results

- At 31 May 2010, auditors' opinions had been issued on 2008-09 financial statements of 603 public sector entities (or 98 per cent of the entities on which an audit opinion was to be issued). Five hundred and twenty-two unmodified and 81 modified auditors' opinions have been issued.
- Thirty-seven modified and 73 unmodified auditors' opinions have been issued since *Auditor-General Report No. 8 for 2009* and *Auditor-General Report No. 4 for 2010* were tabled.
- The 2009 audits of universities and grammar schools have been completed and unqualified auditors' opinions issued for their financial statements. Modified audit opinions were issued for 14 companies which are controlled entities of universities.
- Auditors' opinions have not yet been issued for the 2008-09 financial statements for 12 entities.

## 2.1 Results of 2008-09 audits

### 2.1.1 Status of audits

For the 2008-09 financial year, the Auditor-General was required to audit the financial statements of 615 public sector entities.

The results of the 2008-09 audits of 156 local government entities were included in *Auditor-General Report to Parliament No. 4 for 2010 – Results of local government audits*. *Auditor-General Report to Parliament No. 8 for 2009 – Results of audits at 31 October 2009* included the results of audits of 380 financial statements prepared at 30 June 2009.

Since those two reports were tabled in Parliament, the financial statements of 110 entities have been audited and an auditor's opinion issued. Information about when the financial statements were signed by management and the auditor's opinion issued is provided in Section 6.1 of this report.

The status of the 2008-09 financial statements is summarised in Figure 2A.

Figure 2A – Status of 2008-09 financial statement certifications<sup>2</sup>

Entity Type	Total	Previously reported	Unmodified auditor's opinion issued	Modified auditor's opinion issued	Auditor's opinion not yet issued
Aboriginal Shire councils	12	9	6	5	1
Audited by arrangement	49	43	48	1	0
Audited by arrangement – under trust deed	52	48	51	0	1
Controlled entities	170	102	144	22	4
Departments	20	20	19	1	0
Departments – abolished	14	14	0	14	0
Departmental agencies	6	6	6	0	0
Government owned corporations	15	0	13	2	0
Jointly controlled entities	36	29	30	2	4
Joint local governments	2	2	2	0	0
Local governments	61	60	57	3	1
Statutory bodies	178	143	146	31	1
<b>Total</b>	<b>615</b>	<b>476</b>	<b>522</b>	<b>81</b>	<b>12</b>

<sup>2</sup> See Section 7.1 for an explanation of terms.

## 2.1.2 Auditors' opinions issued

The status of the financial statements for the 83 entities which were required to prepare financial statements for periods up to and including 31 December 2009, and the 39 entities previously reported as not having their 2008-09 financial statements finalised, is shown in Figure 2B.

Auditors' opinions have now been issued for 110 entities. Details of the 73 unmodified auditors' opinions issued can be found in Section 6.1 of this report.

**Figure 2B – Status of 2008-09 financial statements not previously reported<sup>3</sup>**

Entity Type	Total	Unmodified auditor's opinion issued	Modified auditor's opinion issued	Auditor's opinion not yet issued
Aboriginal Shire councils	3	0	2	1
Audited by arrangement	6	5	1	0
Audited by arrangement – under trust deed	4	3	0	1
Controlled entities	66	44	18	4
Jointly controlled entities	7	3	0	4
Local governments	1	0	0	1
Statutory bodies	35	18	16	1
<b>Total</b>	<b>122</b>	<b>73</b>	<b>37</b>	<b>12</b>

Modified auditors' opinions were issued for 37 entities.

These opinions are outlined in Figure 2C.

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<sup>3</sup> See Section 7.1 for an explanation of terms.

Figure 2C – Modified auditors' opinions issued

Entity Name	Basis for auditors' opinions issued
<b>Qualified auditors' opinions</b>	
Cherbourg Aboriginal Shire Council	<p>A qualified auditor's opinion was issued because:</p> <ul style="list-style-type: none"> <li>● Council used grant funding for purposes other than those approved by grant providers and had a shortfall in available cash to meet creditors and unexpended grants. As a result there was a significant uncertainty as to whether Council would be able to meet its obligations as and when they fall due.</li> <li>● An opinion was not able to be expressed on the statement of changes in equity as unexpended grants had not been recognised in the constrained contributions reserve in accordance with Council's policy and the reported balances for shire capital and retained deficiency did not agree to the balances reported in the balance sheet.</li> <li>● Council was not able to demonstrate that reported values for buildings, houses, land and infrastructure did not materially differ from their fair values. As a consequence, these values, the associated depreciation expense and asset revaluation reserve balances were unable to be verified.</li> <li>● Council has not assessed its non-current assets for indicators of impairment at 30 June 2009. Had impairment been assessed an impairment loss may have resulted, increasing the net loss attributable to Council.</li> <li>● Employee benefit liabilities were not calculated in accordance with Australian Accounting Standard requirements.</li> </ul> <p>An emphasis of matter was also issued as the Council did not adopt the Annual Report by 31 March 2010 in accordance with the extension approved by the Minister under the Local Government Act.</p>
Gold Coast Hospital Foundation	<p>The Foundation did not maintain an effective system of internal control over the collection of donations prior to entry in their financial records. Consequently, an opinion could not be expressed on the completeness of donation revenue.</p>
Napranum Aboriginal Shire Council	<p>A qualified auditor's opinion was issued because:</p> <ul style="list-style-type: none"> <li>● Financial records of the Napranum Preschool and Kindergarten were excluded from the Council's financial statements and not provided to audit.</li> <li>● Council was not able to demonstrate that reported values for infrastructure assets did not materially differ from their fair values. As a consequence, these values, the associated depreciation and asset revaluation reserve balances and associated residual values were unable to be verified.</li> <li>● Adjustments relating to the revaluation of buildings, houses and outstations were processed incorrectly.</li> <li>● Adjustments relating to the written down value of motor vehicles were processed incorrectly.</li> <li>● An error in the Council's calculation of depreciation resulted in the depreciation expense for buildings, houses, motor vehicles and outstations being materially misstated.</li> </ul>
North Burdekin Water Board	<ul style="list-style-type: none"> <li>● The Board did not assess the fair value of land, buildings and infrastructure at 30 June 2009, as required by the Australian Accounting Standards and the Treasurer's Non-Current Asset Policies. The Board established two reserves without prior Treasury approval, which does not comply with the Treasurer's Minimum Reporting Requirements.</li> <li>● An emphasis of matter was issued as the Board did not meet the requirement for completion and audit of the financial statements within two months of the end of the financial year.</li> </ul>

Entity Name	Basis for auditors' opinions issued
South Burdekin Water Board	<ul style="list-style-type: none"> <li>The Board did not assess the fair value of land, buildings and infrastructure at 30 June 2009, as required by the Australian Accounting Standards and the Treasurer's Non-Current Asset Policies. The Board established six reserves without prior Treasury approval, which does not comply with the Treasurer's Minimum Reporting Requirements.</li> <li>An emphasis of matter was issued as the Board did not meet the requirement for completion and audit of the financial statements within two months of the end of the financial year.</li> </ul>
<b>Adverse auditors' opinions</b>	
Activetorque Pty Ltd Ausonex Pty Ltd Dendrimed Pty Ltd Herdvac Pty Ltd Neurotide Pty Ltd Tenasitech Pty Ltd (all university controlled entities)	<ul style="list-style-type: none"> <li>Adverse auditors' opinions were issued for these entities because their special purpose financial statements had been prepared on a going concern basis. It is highly improbable these companies will be able to continue as going concerns. This is discussed further in Section 2.2.1.</li> </ul>
<b>Emphasis of matter references</b>	
Bilexys Pty Ltd Ceramipore Pty Ltd Corpison Pty Ltd LanguageMap Pty Ltd Lucia Publishing Systems Pty Ltd NuNerve Pty Ltd Pefactants Pty Ltd Progel Pty Ltd (all university controlled entities)	<ul style="list-style-type: none"> <li>An emphasis of matter was issued for these companies due to inherent uncertainty regarding their continuation as going concerns. This is discussed further in Section 2.2.1.</li> </ul>
Bollon South Water Authority Bollon West Water Authority Burdekin Shire River Improvement Trust Glamorgan Vale Water Board Merlwood Water Board Palmgrove Water Board Pioneer River Improvement Trust South Maroochy Drainage Board Stanthorpe Shire River Improvement Trust Wambo Shire River Improvement Trust Warwick Shire River Improvement Trust Weengallon Water Authority Whitsunday Rivers Improvement Trust	<ul style="list-style-type: none"> <li>An emphasis of matter was issued for these entities as the respective Boards did not meet the requirement for completion and audit of the financial statements within two months of the end of the financial year.</li> </ul>
Gold Coast Motor Events Co.	<ul style="list-style-type: none"> <li>An emphasis of matter was issued as the financial report was prepared on a basis consistent with that of a going concern although the Partnership ceased with effect from 3 February 2010.</li> </ul>
Hervey Bay Community Trust	<ul style="list-style-type: none"> <li>An emphasis of matter was issued as the financial report was not prepared on a going concern basis due to the Trust's impending dissolution.</li> </ul>



Entity Name	Basis for auditors' opinions issued
Industrial Supplies Office (Queensland) Limited	<ul style="list-style-type: none"> <li>Two matters of emphasis were issued because the company will be wound up in the near future, so is no longer a going concern, and because there is significant uncertainty in relation to the valuation of other financial assets.</li> </ul>
The Brolga Theatre Board Inc.	<ul style="list-style-type: none"> <li>An emphasis of matter was issued as the financial report which had been previously issued was revised. Adjusting entries had not been correctly presented in the financial statements certified by management on 15 December 2009. Consequently, the original financial statements and accompanying independent auditor's report signed on 15 December 2009 were superseded.</li> </ul>
Wollemi Australia Pty Ltd	<ul style="list-style-type: none"> <li>An emphasis of matter was issued as the financial report was prepared on a liquidation basis and not a going concern basis as the Director has declared his intention to sell the company's remaining plant inventory.</li> </ul>

### 2.1.3 Unfinalised financial statements

The audits of 2008-09 financial statements for 12 entities have not yet been completed and auditors' opinions issued. These entities are listed in Section 6.1.

## 2.2 Results of 2009 university and grammar school audits

### 2.2.1 Results of 2009 university audits

Seven universities are constituted in the Queensland public sector:

- Central Queensland University
- Griffith University
- James Cook University
- Queensland University of Technology
- The University of Queensland
- University of Southern Queensland
- University of the Sunshine Coast.

These universities are statutory bodies subject to the requirements of the *Financial Accountability Act 2009* (FA Act) and audited by the Auditor-General. They prepare general purpose financial statements in accordance with Australian Accounting Standards. Additional disclosure requirements are prescribed by the Commonwealth Department of Education, Employment and Workplace Relations.

The universities prepare Annual Reports that include a copy of their audited financial statements. The Annual Reports are tabled in Parliament by the Minister for Education and Training. The universities had a balance date of 31 December 2009 and their financial statements were required to be finalised and audited by 28 February 2010.

In this report, a reference to universities means Queensland public universities.

## Audit results

All university audits for 2009 have been completed and unqualified auditors' opinions were issued on their financial statements.

### Audit results for controlled entities of universities

Under their constituting legislation, universities are empowered to form or participate in ventures that may further their educational objectives. These include forming companies for fundraising and the commercialisation of technology. By their nature, these companies may generate losses for a period of time until the research and development activity results in commercial products that can be licensed or sold, or a decision is made to cease activities.

Where there is a going concern issue, the Australian Auditing Standards require the Auditor-General to provide a modified auditor's opinion or include an emphasis of matter relating to each company's ability to continue as a going concern. The type of auditor's opinion depends on the circumstances in each case. While a range of such opinions were issued for 14 companies, appropriate governance regimes are in place to maintain their accountability.

A list of the companies and the status of their audits is included in Section 6.1 of this report.

### 2.2.2 Results of 2009 grammar schools audits

Eight public grammar schools are established in Queensland located in Brisbane, Ipswich, Toowoomba, Rockhampton and Townsville. While associated with the public sector through the provisions of the *Grammar Schools Act 1975*, these schools operate on a fully commercial basis with limited financial benefit being derived from their being public sector entities.

Auditors' opinions on the financial statements of these grammar schools were unqualified and details are provided in Section 6.1 of this report. The schools prepare Annual Reports that include a copy of their audited financial statements. The Annual Reports are tabled in Parliament by the Minister for Education and Training.

## 2.3 Results of prior year audits

*Auditor-General Report to Parliament No. 8 for 2009 – Results of audits at 31 October 2009*, reported the 2007-08 financial statements for 16 public sector entities were unfinalised.

*Auditor-General Report to Parliament No. 4 for 2010 – Results of local government audits*, reported the results of 13 of these entities. This left the results of three audits still to be reported: Med-e-Serv Pty Ltd, Palmgrove Water Board and South Maroochy Drainage Board.

An unmodified auditor's opinion has now been issued for the financial statements of PrimEd Pty Ltd (formerly Med-e-Serv Pty Ltd). Modified auditors' opinions were issued for Palmgrove Water Board and South Maroochy Drainage Board with the auditors' opinions containing an emphasis of matter as the respective Boards did not meet the requirement for completion and audit of the financial statements within two months of the end of the financial year.



# 3 | Infrastructure

## Summary

### Background

Rising population and economic growth continues to drive a need for new infrastructure in Queensland, and related spending is increasing.

Audit focus has been maintained on a number of major factors influencing the successful completion of infrastructure projects. The areas of investment decisions, benefits realisation and the use of independent project verifiers have recently been audited.

### Key findings

- **Infrastructure audits:** The Queensland Government uses the Project Assurance Framework to ensure infrastructure projects achieve value for money. Infrastructure audits found clarification and training was required in relation to the Project Assurance Framework to ensure greater utilisation of its principles.
- **Investment decisions:** Governance arrangements over infrastructure projects established at the investment decision phase were found to be less than optimal in the projects audited. Accountability for project delivery issues were particularly unclear where the project was delivered by a third party on behalf of the project owner.
- **Benefits realisation:** All entities examined as part of the audit of benefits realisation have immature or inadequate benefits management systems in place. These entities have elements of a benefit realisation framework but not a complete benefits realisation management program as required by the Project Assurance Framework.
- **Use of independent project verifiers:** While entities audited incorporated the use of an independent verifier, or similar role as part of their project methodology, and had well documented project deeds and other agreements supporting their verification approach, there is no clear consistency of policy and its application in the use of independent verifiers on infrastructure projects.

## 3.1 Infrastructure audits

### 3.1.1 Background

The South East Queensland Infrastructure Plan and Program identifies \$124b in estimated infrastructure investment between 2009 and 2026. It is the largest State infrastructure program in Australia and includes many large and complex construction projects in key areas of water, transport, and economic and social infrastructure.

With individual project costs ranging into billions of dollars, it is important from a financial sustainability perspective that the State delivers public infrastructure whilst achieving value for money.

The Project Assurance Framework has been established to guide Queensland Government entities in assisting infrastructure projects to achieve value for money.

*Auditor-General Report to Parliament No. 5 for 2006 – Results of performance management systems audits of capital works at Departments of Corrective Services, Education, Health and Housing*, reported on a performance management systems audit conducted of the capital works infrastructure program of four departments. This audit was conducted to determine whether these departments had suitable frameworks and systems in place to support the effective management of their capital works building program.

*Auditor-General Report to Parliament No. 8 for 2009 – Results of audits at 31 October 2009*, focused on the procurement activities of three major infrastructure projects and was the first audit of projects implemented under the requirements of the Project Assurance Framework. This audit found that there needed to be further alignment between the Project Assurance Framework and other departmental project management frameworks, a consistent approach to probity planning was required and the Project Assurance Framework could be strengthened in the areas of procurement.

In this report, the focus is on the results of further audits of previously reported matters looking at evidence which supports investment decisions, benefits realisation and the use of independent project verifiers across a range of infrastructure projects at various stages of delivery.

Stakeholders' responses in relation to issues raised in this report are included in Section 7.2.1.

### 3.1.2 Overall audit opinion

Overall, the audits found:

- Policy guidance and procedures for the development and management of infrastructure projects has improved significantly, particularly as a result of the introduction of the Project Assurance Framework in 2007.
- Recommendations made in previous Auditor-General Reports to Parliament are progressively being implemented by responsible agencies albeit at a slower pace than committed to originally.
- While the quality of documentation to support business cases has improved, there is a need for lead agency monitoring and reporting on significant infrastructure business cases in the context of risk management and delivery strategies to ensure compliance and the provision of robust analysis and options comparison.
- The up-front exclusion of some delivery options, due to a rigid imposition of relatively tight timeframes for the delivery of infrastructure, was identified as a key risk which may negatively impact the value for money consideration.

- While few agencies examined had detailed policies on the appointment and role of independent project verifiers, the Department of Transport and Main Roads through the OnQ methodology and the Department of Public Works through the Capital Works Management Framework demonstrated that the verification of project delivery costs and quality were being actively managed.

## 3.2 Investment decisions

### 3.2.1 Audit overview

A key element of Queensland’s infrastructure program is the selection and justification of projects to meet community needs. This process includes a quantitative and qualitative comparison of the available delivery methods which results in a preferred option being recommended to government. The delivery model selected can have significant impacts on how value for money is achieved, especially in the area of appropriate risk management and risk-sharing.

An audit has been undertaken as a follow up of the 2009 audit to assess investment decisions currently being made with a specific focus on compliance with the Project Assurance Framework and other prescribed requirements.

### 3.2.2 Audit opinion

There was a lack of clarity over the roles and responsibilities of agencies involved at the business case/investment decision phase. Better documentation for the selection of delivery methods is required through more robust business cases and procurement strategies.

### 3.2.3 Audit scope

The purpose of the audit was to determine whether the investment decisions including procurement as documented in the detailed business case support the government’s outcomes by demonstrating robust consideration of project need, affordability and achievability. The audit assessed compliance with the requirements of the Project Assurance Framework or other relevant frameworks for business case development and delivery option assessment across five major projects, as shown in Figure 3A. The projects were selected based on their material nature and different delivery methods.

Figure 3A – Projects audited

Projects	Responsible entity
Brisbane City Hall restoration	Brisbane City Council
Gold Coast Stadium redevelopment – Carrara	Stadiums Queensland (post business case)
Gold Coast University Hospital	Queensland Health
South East Queensland schools public private partnership	Department of Education and Training
South Queensland Correctional Precinct, Gatton	Department of Community Safety

Lead agencies with whole of government responsibilities including the Department of Public Works and the Department of Infrastructure and Planning were also consulted during these audits to discuss the Project Assurance Framework and Capital Works Management Framework, or to obtain project documentation where partnering by other agencies with these lead agencies occurred.

The objectives of the audit were as follows:

- assess the final business case to ensure it was completed in accordance with whole of government requirements and/or better practice before any formal approaches were made to prospective suppliers or partners
- examine the procurement strategy and procurement process to ensure that it was developed in accordance with whole of government requirements and/or better practice
- assess whether adequate probity and propriety processes were in place during the procurement process, in accordance with requirements such as the *State Procurement Policy* and/or better practice
- assess whether expected benefits were appropriately documented to enable benefits realisation reviews to be undertaken
- assess whether appropriate risk management and governance arrangements were implemented.

All objectives were assessed for the projects selected, except for Gold Coast University Hospital, where the first four objectives were assessed as part of a previous review.

### 3.2.4 Audit findings

#### Key procurement decisions and delivery options

Audit's assessment is that project owners and partnering agencies should confirm their roles and responsibilities in relation to procurement activities to ensure clear accountabilities and governance practices are in place and that the requirements of the applicable frameworks are fulfilled. While decisions regarding the most appropriate value for money option are intended to be arrived at under the Project Assurance Framework, where owner entities engage the Department of Public Works as the procurement partner, delivery method decisions are made at the procurement stage.

In some cases an overarching preliminary business case may be formulated by one agency while delivery is assigned to another agency (owner) which may not have had input into those preliminary business decisions. For example, Stadiums Queensland was not involved in the decision to undertake the Gold Coast Stadium redevelopment or the development of the preliminary business case (Department of Infrastructure and Planning). Responsibility for construction was assigned to Stadiums Queensland who appointed the Department of Public Works as a construction partner.

Entities that bear the delivery responsibility for the project asset need to be responsible for ensuring that the rationale for the investment and procurement delivery decisions are appropriate and that outsourced functions or partnering agencies comply with relevant prescribed requirements such as the Project Assurance Framework and Capital Works Management Framework.

For example, the Project Assurance Framework requires that the business case includes '*detailed comparative analysis of the shortlisted project scope and delivery options*'... '*with the view to identifying the project scope and delivery option most likely to provide the best value for money outcome.*'

With some projects reviewed, insufficient evidence of analysis and comparison of delivery options was provided. It is acknowledged that in certain circumstances, tried and tested methods may be the most appropriate however, evidence supporting selection needs to be documented.

Audit's assessment is that in some instances the delivery method would appear to have been decided prior to undertaking the business case, resulting in limited effort being spent on this aspect of the business case.

In general, delivery options appeared to be eliminated due to a disproportionate emphasis on the timeframe for delivery of some projects. The exclusion of certain delivery options could add significantly to the cost and quality of the project outcome.

### Evidence of probity considerations

Audit's view is that tender panellists, whether public servants or external parties, should submit conflict of interest declarations. At the time of audit there was no departmental requirement for Department of Public Works employees to complete such declarations for the Gold Coast University Hospital managing contractor tender or the South Queensland Correctional Precinct, Gatton, building consultancy tender evaluation.

It is critical that there is absolute clarity with regard to probity through the use of independence declarations and evidence of conflict of interest management. Managing conflicts of interest is about more than just positive or negative assurance or declarations. It is important that all procurement officers have a shared understanding of what constitutes a conflict of interest and when this must be disclosed. In these particular infrastructure procurement situations, where relationships are built with contractors over significant periods of time, it is especially important that declarations of independence are evidenced.

### Compliance with the Project Assurance Framework

The *Financial and Performance Management Standard 2009* (FPMS) states that Accountable Officers (departments) and statutory bodies must have regard to the Project Assurance Framework.<sup>4</sup> While this captures departments and statutory bodies, the FPMS does not apply to all public sector entities, such as special purpose vehicle companies, trusts and joint ventures. The Project Assurance Framework itself does not include guidance on its application and this lack of clarity may contribute to the inconsistent or incomplete compliance with the Project Assurance Framework.

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<sup>4</sup> *Financial and Performance Management Standard 2009*, s.23(5)(a).



## 3.2.5 Conclusions

Conclusions from the audit are:

- Evidence of independence or conflict of interest declarations were not obtained by all officers (internal and external) for some entities involved in procurement activities to ensure probity considerations are addressed. Where working relationships exist with contractors over prolonged periods, it was noted that annual declarations of independence were not obtained from all project management and procurement officers.
- Clarity of responsibilities over documentation and compliance was not apparent in some projects. This responsibility would normally be aligned with the funding arrangements, and with the owner of the projects held responsible for this requirement.
- There was a lack of focus by owners of projects on the documentation of the justification for delivery method selection through rigorous comparative analysis.
- The use by departments of special purpose vehicles, such as companies, should not result in infrastructure delivery processes that do not comply with the Project Assurance Framework. The relevant agencies should ensure that the conditions of the framework clearly apply to all departmental infrastructure projects.

## 3.3 Benefits realisation

### 3.3.1 Audit overview

*'Good project management is essential to delivering high quality public services; to delivering value for money; and to delivering change, to meet new requirements and the increasingly high standards the public expect' ... Realisation of benefits is, of course, the ultimate goal.'*<sup>5</sup>

Benefits realisation aims to ensure that the desired business change or policy outcomes to be achieved in the implementation of a major project are clearly defined, are measurable and provide a compelling case for investment.

Benefits realisation focuses on ensuring that a project is delivering the benefits and value for money invested through the approved business case and benefits realisation plan. Benefits realisation is not just a post-implementation review.

Better practice principles set out in the *Managing Successful Programmes* document released by the United Kingdom Office of Government Commerce state that the purpose of the benefits realisation process is to manage the benefits from their initial identification to their successful realisation.

*Auditor-General Report to Parliament No. 4 for 2009 – Results of audits at 31 May 2009*, found that all entities selected for audit had immature or inadequate benefits management systems in place.<sup>6</sup> Given the results of that audit, there was a need for policies to be strengthened to ensure that the potential benefits identified at the commencement of a project which supported the investment decision are actually achieved.

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<sup>5</sup> Sally Collier, Foreword, *Managing Successful Programmes*, Office of Government Commerce, 2007.

<sup>6</sup> *Auditor-General Report to Parliament No. 4 for 2009*, June 2009, Section 2.2.

Accordingly, a follow up audit of the policies and practices associated with benefit realisation was undertaken. This audit focused on a selection of projects required to undertake a benefits realisation management process as part of either the Project Assurance Framework or other earlier policy guidance. These projects were different to those examined in 2009.

### 3.3.2 Audit opinion

Entities audited had immature or inadequate benefits management systems in place. These entities had elements of benefit realisation however, there was not a complete benefits realisation management program as required by the Project Assurance Framework.

### 3.3.3 Audit scope

The benefits realisation review process includes the post-implementation review as a major input into its investigation. A post-implementation review is an internal project assurance for the project owner to confirm that the investment in the business case was justified and lessons learned have been captured.

The objectives of the audit were to:

- Identify and evaluate the adequacy of the assessment of the anticipated benefits that are to be delivered and that there is an established process for ongoing contract management.
- Assess the post-evaluation process and associated management reporting of the evaluation results.
- Assess whether lessons learned from the post-evaluation process have been implemented across the entity or program.

The following projects were audited for benefits realisation:

Figure 3B – Projects audited

Project	Responsible entity
Centenary Highway Extension (Springfield to Yamanto)	Department of Transport and Main Roads
South Bank TAFE public private partnership	Department of Education and Training
Integrated Justice Information Strategy Project	Department of Justice and Attorney General
Gallery of Modern Art	Department of the Premier and Cabinet (Arts Queensland)

### 3.3.4 Audit findings

Infrastructure projects can only be considered successful if they deliver intended benefits at an acceptable cost. Therefore, within government, there needs to be a focus on benefits and the active monitoring and reporting of progress towards realising those benefits. An efficient benefits management process shows that the organisational change or policy outcome being pursued by the investment has been clearly defined, is measurable and ultimately is intended to ensure that the change or policy outcome is actually achieved.

For most of the projects examined, deficiencies in the documentation of benefits realisation plans and strategies at the time the business case was established were noted. While it is acknowledged that the Project Assurance Framework did not exist at the time of the initiation of the Gallery of Modern Art project, audit could not identify documentation of the consideration of whole of life funding in terms of asset management strategies that would maximise the benefits from the development.

In relation to the Integrated Justice Information Strategy project, inconsistencies were noted between the benefits ascribed to the project as part of the business case development and the benefits measured and reported as part of the 'benefits overview' report. It was also noted that no overall project evaluation assessment was carried out which addressed whole of government benefits.

Similarly, a strategy for capturing and disseminating the lessons learned from individual projects was not adequately documented in a number of the projects examined, including the Gallery of Modern Art and Centenary Highway Extension (Springfield to Yamanto) projects. Better practice would suggest that these learnings should not only be available to staff of the owner of the project but be shared more widely across the relevant infrastructure areas within government.

### 3.3.5 Conclusions

The conclusions are:

- **In a number of instances benefits realisation documents were not prepared at the same time as the benefits were determined, but were prepared after the project had commenced.**
- **It was not clear what inter-agency processes had been established to share project learnings to ensure that future projects would leverage off those learnings.**

## 3.4 Use of independent project verifiers

### 3.4.1 Audit overview

Project owners need to gain sufficient comfort that the project has been appropriately designed and constructed in accordance with the scope of works. This may be done by an independent verifier.

The independent verifier's role is to:

- verify that design is appropriate for construction and complies with the scope of works
- confirm that construction of the temporary works and project works complies with the scope of works
- ensure there is compliance with conditions of approval issued by relevant authorities.<sup>7</sup>

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<sup>7</sup> *The Role of the Independent Verifier in the Delivery of Motorway Projects in NSW* paper by B.D. Robertson and G. Humphry, presented to the IRF and ARF Asia Pacific Roads Conference, 1-5 September 2002, Sydney, Australia.

*Auditor-General Report to Parliament No. 5 for 2007 – Results of audits at 31 May 2007*<sup>8</sup> focused on governance, reporting and management of infrastructure projects in Queensland. This audit identified an inconsistent policy between various entities about the need to appoint an independent verifier. The Director-General, Department of Infrastructure<sup>9</sup> has confirmed that action had been started on every matter raised in that report.

This audit has been undertaken as a follow up to assess the consistency of policies and practices associated with the use of independent verifiers and to identify better practice.

### 3.4.2 Audit opinion

While entities in the audit sample incorporated the use of a verification role through the application of the methodologies, OnQ at the Department of Transport and Main Roads and the Capital Works Management Framework used by the Department of Public Works in respect of Government building projects, and had well documented project deeds and other agreements supporting their verification approach, there is a lack of consistency across the agencies regarding the use of verifiers who are independent on construction projects.

There is also limited guidance in the Project Assurance Framework in terms of design and construction verification of a project.

### 3.4.3 Audit scope

The purpose of the audit was to determine the consistency of use of independent verifiers on major projects. The audit assessed the policies and practices associated with the use of independent verifiers and elements of better practice in 11 public sector entities. Entities were selected based on their involvement in the delivery of key construction projects in Queensland.

### 3.4.4 Audit findings

Audit identified a lack of guidance about the use of independent project verifiers. Such guidance becomes more critical where entities embark on non-standard, complex construction projects, with commensurately increased design and construction risks.

Where the owner of the project does not ensure a robust verification process is in place, there is an increased risk of poorer quality, shorter useful life, higher maintenance and higher operating costs. For example, should the project not be developed according to design specifications or uses inferior materials, there can be a negative impact on the asset's overall useful life, which may limit the realisation of expected benefits. Similarly, without oversight of expenditure pertaining to the project, there may be cost overruns which may negate any perceived value for money outcomes identified at the business case stage. These issues may also lead to the asset being incorrectly accounted for in an entity's balance sheet through valuation impairment and inappropriate depreciation.

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<sup>8</sup> *Auditor-General Report to Parliament No. 5 for 2007*, June 2007, Section 2.3.

<sup>9</sup> Now the Department of Infrastructure and Planning.

### 3.4.5 Conclusions

Conclusions were that the Project Assurance Framework does not include:

- **extensive guidance on the role and importance of the independent verification function as it applies to infrastructure projects**
- **a requirement for entities to specifically consider and justify at the Project Assurance Framework 'Business Case Development' phase, the adequacy of their intended verification processes to be applied during the project**
- **development of a risk-based approach to ensure that the use of an independent verifier function does not become onerous on entities.**

### 3.4.6 Better practice

Better practice regarding the use of independent verifiers was identified from a number of projects examined during this audit. Better practice includes:

- the need for independent verifier engagement, or alternate verification approach/strategy, to be assessed and identified early in a project's life
- the use of a separate contract or deed to engage the independent verifier, clearly setting out:
  - their role, status, authority and responsibility on the project
  - the levels, qualifications and experience of independent verifier staff to be used on the project
  - reporting requirements
  - responsibility for remuneration of the independent verifier.
- independence requirements adequately considered and documented, generally in the project deed and the independent verifier deed/agreement
- a project governance structure that allows the independent verifier to report directly to the project board or owner without any 'filtering' by another party of the independent verifier reports, results and issues raised
- the independent verifier's creation, maintenance and reporting of an issues log to track the progress of remedial action taken on issues raised by the independent verifier
- the independent verifier being given access to all relevant project information and documents to conduct their work
- appropriate key result areas and associated key performance indicators set and adjusted where necessary during the project's life to assess the performance of the independent verifier
- careful consideration as to the nature and structure of any pain/gain share of an alliance project by the independent verifier or any other financial incentives.

# 4 | Governance

## Summary

### Background

Governance incorporates the processes by which public sector entities and their resources are controlled and regulated. Governance audits were completed on the adoption of the *Audit Committee Guidelines – Improving Accountability and Performance*; checking of employees' professional qualifications, criminal history and conflicts of interest, and compliance with the *State Procurement Policy*. A follow up audit was carried out at entities audited as part of the 2008 audit of the management of public sector employee housing.

### Key findings

- Audit committee guidance: All entities assessed had established an audit committee and overall, the level of implementation of the guidelines was found to be satisfactory.
- Employment checking: Sound procedures were in place in the entities audited to ensure compliance with relevant legislation and established policies with respect to qualification checks, criminal history checks and conflicts of interest.
- Shared Services: The ongoing audit of shared services found that while control environments are maturing, some internal controls spanning across agencies or business units within agencies are still not operating effectively.
- Management of public sector employee housing – implementation of the 2008 audit recommendations: Positive action had been taken to address the key findings in *Auditor-General Report to Parliament No. 4 for 2008 – Results of audits at 31 May 2008*, that related to the management of public sector employee housing.

## 4.1 Audit committee guidance

### 4.1.1 Audit overview

Treasury Department reviewed the former *Audit Committee Guidelines* and re-issued guidelines in November 2008 as *Audit Committee Guidelines – Improving Accountability and Performance* (the Guidelines). The Guidelines provide detailed assistance for audit committee members, Accountable Officers and other personnel.

The Guidelines are not mandatory however, if an entity establishes an audit committee the entity should 'have regard to' the Guidelines. In order to comply with the requirement to 'have regard to' the Guidelines the Accountable Officer or statutory body must consider the contents and decide if they apply to the entity's circumstances.

The *Financial Accountability Act 2009* requires each Accountable Officer of a department to establish an audit committee. Government owned corporations are also required to establish an audit committee under the *Corporations Act 2001*. Larger statutory bodies warrant the establishment and maintenance of an audit committee due to the level of complexity involved in their operations. For smaller entities, factors such as their complexity and size, the existence of an internal audit function and whether the Accountable Officer or statutory body have the capacity to consider audit issues adequately should be part of the evaluation process in deciding whether or not an audit committee is appropriate.

The audit assessed whether entities had adopted the principles and practices outlined in the Guidelines as well as specific requirements of the relevant legislation.

### 4.1.2 Audit opinion

All entities audited had established an audit committee and overall, the level of implementation of the Guidelines was found to be satisfactory. Although there are numerous areas in the Guidelines that all entities had adopted, there are also certain sections of the Guidelines where some entities had not adopted the better practice, including:

- The Chairs of the audit committee for nine of the 19 entities did not monitor the training and education needs of the audit committee members.
- Twelve of the 19 entities assessed did not periodically undergo an external peer review, and ten entities did not assess the need for an external peer review. For 12 entities, a formal performance assessment of individual members was not performed.
- Nine of 19 entities did not meet separately with external and internal audit without management present. Where the Chair considers it beneficial, the Guidelines encourage the audit committee to schedule an executive session with external and internal audit to ask questions and seek feedback without management present.
- Seven entities are paying external non-public service sector committee members at rates determined at the discretion of Accountable Officers, while others paid rates in accordance with the guidance issued by the Department of Justice and Attorney-General.

### 4.1.3 Audit scope

The audit reviewed the extent to which 19 public sector entities have adopted the better practice outlined in the Guidelines.

This was considered through audit procedures that included:

- determining if an audit committee is required for the entity and if there is no audit committee, assessing the alternative approach applied to address the benefits of having an audit committee
- assessing the effectiveness of the audit committee charter
- verifying the appointment process and composition of audit committee members
- assessing the roles of the audit committee
- assessing the conduct of the audit committee
- determining key relationships of the audit committee
- assessing audit committee performance.

### 4.1.4 Audit findings

#### Composition of audit committee

For five of the entities audited (26 per cent), the Chair of the audit committee was internal to the entities and was generally the Director-General. Section 3.3 of the Guidelines states that the Chair of the audit committee should be independent of the entity, i.e. an external person who, in the opinion of the Accountable Officer or statutory body, has sufficient independence and expertise to discharge responsibilities of the role. The Guidelines further recommend that if an internal Chair is appointed, they should be independent from areas within the audit committee's scope and line management.

#### Roles and conduct of the audit committee

Section 3.6 of the Guidelines state that the Chair of the audit committee should monitor the training or education needs of members and this should be documented within the audit committee charter. Of 19 entities audited, nine entities (47 per cent) had not documented the responsibility of the Chair of the audit committee to monitor the training or education needs of members in the audit committee charter, nor was any documentation available to support that any monitoring of these needs was performed.

It is acknowledged that audit committee members are highly skilled professionals in their respective fields however, the effectiveness of the audit committee could be enhanced if individuals were afforded the opportunity to attend training to update their existing knowledge or obtain new skills.

#### Performance management

Section 7.2 of the Guidelines recommends that the audit committee may, at the discretion of the accountable officer or statutory body, periodically undergo an external peer review. It is best practice for the external peer review to be coordinated and performed in conjunction with the Chair of the audit committee's term of office. These reviews should be in relation to the processes and procedures undertaken by the audit committee, not the appropriateness of decisions made by the audit committee. Of the 19 entities audited, 12 entities (63 per cent) did not periodically undergo an external peer review.



Formal evaluations of the performance of individual members were not undertaken for 12 of the entities (63 per cent) audited. Section 7.3 of the Guidelines encourages assessments of individual performance and recommend that an evaluation of an individual's performance be undertaken at least once during a members term of appointment on the committee and prior to any re-appointment. This process should facilitate the provision of feedback to individual members and identify any training needs.

### Relationship of the audit committee with internal and external audit

Sections 6.4 and 6.5 of the Guidelines recommends that, where considered beneficial by the Chair, the audit committee should schedule an executive session with external and internal audit to ask questions and seek feedback without management present. For nine of the 19 entities audited (47 per cent), no separate session was scheduled between the audit committee, external audit and internal audit to ask questions and seek feedback without management present.

To encourage greater interaction between the audit committee and internal/external audit, agencies should consider incorporating provisions for these executive sessions into their audit committee charters. This will enable the audit committee to discuss sensitive information and obtain feedback from external and internal audit.

### Remuneration of audit committee members

Section 3.3 of the Guidelines provides the Accountable Officer the discretion to determine the remuneration of external non-public sector audit committee members, but recommend the remuneration paid would reflect the prevailing rate for services as outlined in the document entitled *Remuneration of Part-time Chairs and Members of Government Boards, Committee and Statutory Authorities* (remuneration guidelines). The remuneration guidelines, issued by the Department of Justice and Attorney General establish the mandatory rates of pay for committees of statutory bodies, but are guidance only for departments.

For seven departments of the 19 entities audited (37 per cent), the remuneration paid to external non-public sector audit committee members was higher than the rates established under remuneration guidelines. These departments paid commercial rates to attract members with specific and relevant qualifications and experience. In such instances these higher rates of pay were approved by the Accountable Officer.

No statutory bodies paid remuneration rates for external non-public sector audit committee members above the rates established in the remuneration guidelines.

Although establishing rates of pay in accordance with the remuneration guidelines would provide clarity, equity, transparency and a standardised system of remuneration for part-time members of the audit committees across government, this may limit a department's ability to attract suitably qualified and experienced independent members and therefore diminish the effectiveness of this important governance mechanism.

## 4.2 Employment checking

### 4.2.1 Audit overview

An audit was performed to assess whether selected public sector entities had appropriate policies and procedures in place with respect to pre-employment checking of qualifications, criminal history and conflicts of interest and to assess each entity's compliance with relevant legislation and policies and procedures established. The audit covered the application of such policies and procedures over permanent employees, contractors and consultants.

### 4.2.2 Audit opinion

Overall, the entities audited had sound procedures in place to ensure compliance with relevant legislation and established policies with respect to pre-employment qualifications, criminal history and conflicts of interest checks. Generally, employees who were contracted into entities were either covered by the same policies applicable to permanent staff or covered by policies which specifically related to contracted employees.

Three departments included in the audit were new departments arising from the amalgamation of former departments, as per the March 2009 machinery of government changes. In some instances, these departments were in the process of developing new policies and procedures for the new amalgamated department.

Whilst an overall positive result was achieved, the issues identified during the audit were that:

- a number of entities had not considered undertaking criminal history checks of employees in key positions such as those responsible for approving substantial expenditure
- one entity did not have a process in place to ensure that staff contracted into the entity actually held the qualifications that they claimed to possess
- the processes used by different divisions within one entity to monitor employee qualifications and ongoing training requirements were not consistent.

### 4.2.3 Audit scope

The objectives of the audit were to:

- identify and assess the relevant legislation for each entity selected in terms of requirements with respect to qualifications, criminal history and conflicts of interest checks
- identify and assess the relevant policies and procedures within each entity audited with respect to qualifications, criminal history and conflicts of interest checks
- assess each entity's compliance with relevant legislation, policies and procedures.

The audit covered employees, contractors and consultants working under supervision of the entity. The audit did not include checks over contractors or consultants for work which had been contracted out, as this was considered to be a function of the entity's procurement processes. In addition, the audit excluded Councillors and Board or Commission members who were elected to their positions or appointed by the government. Seven public sector entities were chosen for audit.

The Public Service Commissioner recently issued the policy *Declaration of Interests – Senior Executives and Equivalent Employees (including Statutory Officer Holders)*, which requires Senior Executive Service and equivalent officers to provide a declaration of interests to their Chief Executive Officer on an annual basis. As this policy did not come into effect until 1 March 2010, it was outside the scope of this audit. It was noted that the departments included in this audit were in the process of implementing this new policy.

The *Criminal History Screening Legislation Amendment Bill 2010* (the Bill) was introduced in Parliament on 9 February 2010, with the *Criminal History Screening Legislation Amendment Act 2010* being assented to on 4 March 2010. The purpose of this Act is to amend a range of other Acts to effectively reduce duplication of criminal history screening checks and increase the consistency of the screening processes. The audit was completed prior to the Bill being introduced into Parliament however, the amended legislation would not have significantly impacted on the scope or outcome of this audit.

## 4.2.4 Audit findings

### Qualifications checks

All entities had generally established appropriate policies and procedures for the checking of employee qualification requirements and the management of ongoing training requirements to retain qualifications.

The audit identified an instance where there were adequate procedures to review and confirm qualifications of all staff who are directly employed by that entity but there was no formal process in place in relation to the confirmation of qualifications of contractors and consultants engaged through employment agencies.

While the entity assumed that contractors' qualifications were reviewed by the employment agency, this responsibility was not formally documented in the agreements between the entity and the various employment agencies. As a consequence, there is an increased risk that the entity may be provided with contractors who do not have the appropriate or necessary qualifications required which may leave the entity solely responsible should any legal or other liabilities arise. The entity has indicated that it will review its processes in this regard.

### Criminal history checks

Generally, all entities had appropriate policies and procedures in place in relation to the identification, management and monitoring of criminal history checks as required by the respective legislation associated with each agency.

While a number of entities had considered and addressed criminal history check requirements as outlined by their respective legislation, extending criminal history checks to cover employees in key positions such as those responsible for approving substantial expenditure (e.g. procurement officers, divisional or branch managers) had not been considered. Each of the respective entities have indicated that they have or will review the risks associated with employees in key positions with a view to undertaking criminal history checks where a potential risk exists and amending their policies and procedures if and as appropriate.

One particular entity addressed the issue of criminal history checks very well with a specific policy detailing all of the roles within the agency for which criminal history checks were required. Such roles included, among other positions, contact centre positions, officers involved in handling large quantities of money in the form of cash or credit cards and officers responsible for approving substantial expenditure.

### Conflict of interest checks

All entities had appropriate policies and procedures in place in relation to the identification, management and monitoring of conflicts of interest.

Potential, or perceived conflicts of interest, were generally resolved between the individual and their supervisor before becoming an actual conflict of interest. In circumstances where the two parties were unable to resolve the conflict of interest, the matter was either referred to senior management or the entity's ethical standards unit for resolution.

## 4.3 Shared Services

### 4.3.1 Audit overview

The aim of shared service arrangements in Queensland is to deliver cost-effective corporate services through standardising business processes, consolidating technology and pooling resources and expertise. Shared services comprise three shared service providers located within departments that provide a range of finance, procurement, human resource management, facilities management and mail support services to departments. These arrangements are supported by two units in the Department of Public Works: CorpTech – the application service provider, and CITEC – the infrastructure service provider.

Shared services arrangements were initiated in 2003 across all departments with a key objective to achieve savings by reducing the large number of finance and payroll systems to one standard offering, supported by standardised business processes. However, due to the size and complexity of the project and after changes to the departments and implementation strategy, it became clear that a single standard offering for the whole of government would not be achieved in the short to medium term. This has resulted in a change of focus to reduce the number of existing finance and human resource systems to a smaller number of preferred environments.

The whole of government information technology services provided by CorpTech and CITEC were amalgamated into one division under the Department of Public Works during this financial year. This has created further opportunities to build a shared view of the end to end processes and to realise efficiencies and improvements within the shared services control environment.

Interim audit work for the Queensland Health and Department of Education and Training shared services environment has not been finalised. Any findings resulting from this work will be included in a later report.

While this report covers operational matters of shared services, information system matters are covered in *Auditor-General Report to Parliament No. 7 for 2010 – Information systems governance and control including the results of an audit of Queensland Health's payroll and rostering system implementation*.

### 4.3.2 Audit opinion

While control environments are maturing at business unit levels, some of the internal controls that span across agencies or business units within agencies are not operating effectively. In particular, high risk issues were identified in the areas of finance and human resource applications standardisation, general computer controls, system disaster recovery, segment reporting, the Annual Leave Central Scheme and Electronic Funds Transfer.

In addition, audit identified two improvement opportunities around the certified operating level agreements and the *Management Assurance Framework*. The segment reporting and the Annual Leave Central Scheme issues may impact on departmental financial statements unless resolved by 30 June. A significant body of work is being undertaken by the Shared Service Agency and affected departments to ensure these issues are resolved.

Some of the findings above have resulted from the lack of clarity around the roles and responsibilities of the stakeholders within the shared services environment. Audit noted that approval processes in some instances have become blurred with a resulting lack of ownership over the various key controls. Project management and implementation of new systems without effective consultation with other affected shared service stakeholders has led to inefficiencies in the delivery of key government outputs as discussed in the following sections.

The Department of Public Works' response in relation to these issues is included in Section 7.2.2.

### 4.3.3 Audit findings

#### Finance and human resource applications standardisation

The renewed focus of reducing the number of finance and human resource systems for departments was progressed in 2009-10 with the completion of priority projects to migrate unsupported systems into preferred environments. However, there still remains a significant number of legacy systems with eight legacy SAP systems, four Aurion payroll systems, two LATTICE payroll systems, and one TSS payroll system. Section 7.6 contains a table of the different systems and departments where these systems are implemented.

Consolidation of the remaining legacy environments is critical due to the high risks associated with the continued operation and support of legacy systems. While CorpTech continues to actively manage the existing support arrangements some of these systems are no longer covered by vendor support agreements and, more systems will become unsupported from 2013.<sup>10</sup> The number of systems that need to be separately maintained by CorpTech increases the risk of security failures and data integrity issues. Such failures, if they materialise, could impact on the integrity of financial statements or the correct processing of payroll for public servants. In addition, the cost of auditing separate financial and human resource system environments continues to be high.

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<sup>10</sup> An unsupported system may arise due to software updates/patches no longer being available to fix, for example, security vulnerabilities, or to apply software enhancements to remedy defects or apply legislative changes.

## General computer controls

There continues to be serious security and change management issues at CorpTech and CITEC.

The results of the audits of SAP systems supported by CorpTech identified increased risks associated with user access security due to the lack of standard roles across different systems. In addition, there was a possibility of changes being made to user access levels without testing against potential conflicts. This was mainly due to the legacy environments not having a defined baseline against which further changes to access rights could be tested. In one case, changes to user access privileges resulted in excessive access granted to multiple users. Monitoring controls to identify such occurrences were not operating effectively.

The need for improvements in change control processes at CorpTech has been reported annually in Auditor-General Reports to Parliament since 2006-07. This continues to be a weakness in 2009-10 however, CorpTech is making progress towards implementing a new service management tool which is anticipated to address the identified weaknesses. The first stage of the solution is due for implementation in June 2010.

Financial systems server security audits were performed at CITEC in prior years when a significant number of issues were identified. While management has addressed several issues, minimal progress was made towards deploying technologies to assist in the detection of attempts to circumvent the technical controls that protect financial information and transaction processing. This issue will be further investigated with the ICT division of the Department of Public Works.

## System disaster recovery

The audit of disaster recovery for the three key information technology environments used by shared services identified that there was insufficient documentation of key processes including how services would be recovered, within what timeframes these services would be recovered and whether these timeframes are acceptable to client agencies. Consequently, there is a risk exposure to government that in the event of a disaster, unacceptable delays may be experienced in the processing of financial transactions, including processing the payroll for Queensland Government public servants. As roles and responsibilities for the disaster recovery process are dispersed across agencies (including CorpTech and CITEC), an end to end approach is required to ensure that this risk is clearly understood, and mitigating actions are undertaken.

## Segment reporting

The most recent version of the Queensland Government financial accounting software is SAP ECC5. Segment reporting in SAP ECC5 is used to account for transactions in each of the segments of controlled, administered and trust transactions. The transactions included in each segment in SAP ECC5 are derived from profit centre allocations.

The *Financial Accountability Act 2009* requires that public moneys be separately accounted for as administered and controlled transactions. Administered transactions are not controlled by a department and must be transferred to the Consolidated Fund at Treasury Department. Controlled transactions are those transactions that are able to be used by the agency to achieve its objectives. Trust moneys must be processed only for purposes for which they are held.

The audit found that, under certain circumstances, SAP ECC5 requires manual intervention to correctly account for controlled, administered and trust transactions. This is due to the way the system permits posting of transactions that do not balance at profit centre level. Where postings do not balance at profit centre level, SAP ECC5 processes transactions between segments through a suspense account. These postings can be automatically generated or user initiated.

It is necessary to scrutinise transactions in the suspense account to ensure the accuracy of the transactions. A standard system configuration is not used by all agencies on the SAP ECC5 system and the strategies required to scrutinise transactions and address items in the suspense account are different depending on the system configuration.

The management of the suspense account needs to be performed by the agency with assistance from the Shared Service Agency in order to ensure that the various transactions are correctly recorded. This requires clear roles and responsibilities to be understood by all stakeholders. The Shared Service Agency has established a project and board to collaborate with agencies to work through issues and solutions.

It should be noted that the total departmental cash amount is able to be reconciled but the split between administered, controlled and trust balances may be inaccurate. Each department is required to provide detailed financial statements for controlled transactions along with financial notes that summarise the administered and trust transactions.

### Annual Leave Central Scheme

The Annual Leave Central Scheme was implemented for the participating agencies on 1 July 2008. The annual leave levy is calculated by the payroll systems of the agencies which are administered by CorpTech and the Shared Service Agency. Some departments calculate the levy by alternate methods and do not utilise the Shared Service arrangement. Both CorpTech and the Shared Service Agency have identified errors associated with the management of the Annual Leave Central Scheme. The source of these errors has been a combination of configuration errors in the human resource systems, programming and manual processing errors. CorpTech and the Shared Service Agency have now completed a range of configuration and programming fixes that has led to a significant reduction in the level of these errors. However, to ensure the accuracy of the annual leave levy paid to Treasury Department imposes a significant cost overhead on the Shared Service Agency. The Shared Service Agency has advised that consultations will be undertaken with Treasury Department to seek a more simplified administrative process for the payment of the annual leave levy.

The complexity of the Annual Leave Central Scheme and the variety of payroll systems in use has meant that a simple system solution has not been possible. The Shared Service Agency and CorpTech are continuing to address manual process errors and system configuration issues relating to the administration of the Annual Leave Central Scheme levy.



## Electronic Funds Transfers

An audit was performed over the Electronic Funds Transfers (EFT) process across a number of government agencies, including the Shared Service Agency which is a key operative in this process. A number of high risk issues were identified including roles and responsibilities related to the creation/amendment of customer/vendor agency master data and inadequate SAP security access to the Shared Service Agency master data. Also the Shared Service Agency does not have a documented fraud control plan.

The high risk issues above have emanated from the introduction of a new work flow process, 'Eforms', by the Shared Service Agency in September 2009. The new process utilises SAP functionality to carry out various functions and impacts agencies, CorpTech and the Shared Service Agency. Through the implementation there appears to have been insufficient engagement with the relevant agency staff which has resulted in the need for further work to clarify roles and responsibilities.

The Shared Service Agency is approving customer and vendor master data creations on behalf of agencies – a role that should be the responsibility of agencies. Further work is also required to strengthen master data security access.

Given the high volume of transactions that the Shared Service Agency processes on behalf of other agencies with outflows through EFT systems (Diamond, Commbiz and ODX), it would be expected the risk of fraud associated with these functions would be assessed and documented as part of an overall fraud control plan.

It is acknowledged that processes are currently being reviewed by the Shared Service Agency as a matter of priority.

## Operating level agreements

In *Auditor-General Report to Parliament No. 8 for 2003-04 – Results of audits performed for 2002-03 as at 31 March 2004*, a number of recommendations were made to improve service and operating level agreements.

Prior to the March 2009 machinery of government changes, only 20 of the 29 agencies had finalised their operating level agreements for the 2008-09 audit year. Seven agencies had their operating level agreement signed prior to July 2008 and two departments had not signed any previous operating level agreement.

In recent years, issues raised by audit at the Shared Service Agency and various agencies in relation to the follow-up of bank reconciliation variances and long outstanding debtors have identified in some instances a lack of understanding by parties of their roles in addressing certain control breakdowns. In this regard the operating level agreements need to be clear and unambiguous and all parties should certify to that agreement.

Provisions exist within the operating level agreements for the resolution of issues. Given that these mechanisms exist, unresolved issues do not provide a basis for agencies to refuse signing these agreements.



There is a significant risk that if the scope of processing undertaken by the agencies and the Shared Service Agency is not clearly identified, gaps in the controls over processing will occur. Part 5 of the previous operating level agreements provided a high level basis for defining the responsibilities of the Shared Service Agency and the agencies. It should be a central objective of operating level agreements to define for each agency the scope of services undertaken by the Shared Service Agency. The identified key controls in the Shared Service Agency should be covered by the *Management Assurance Framework*.

Operating level agreements are put in place to protect both the Shared Service Agency and agencies, and impose deadlines and deliverables as well as setting performance and quality expectations in relation to the work conducted on behalf of the agencies. An annual review of operating level agreements will ensure currency of the agreement and allow for any adjustments to services as required.

A robust operating level agreement is a key control and no matter what agreement (if any) is in place between an agency and the Shared Service Agency under the current financial legislation it is the agency, not the Shared Service Agency that has ultimate responsibility for the overall control environment and the truth and fairness of its financial statements.

Agencies and the Shared Service Agency need to progress the completion and maintenance of sound operating level agreements as a matter of urgency.

### Management assurance framework

*Auditor-General Report to Parliament No. 9 for 2007 – Results of audits as at 31 October 2007*, recommended that a formal management assurance framework be implemented within shared services. This would provide for an assurance to user entities as to the existence and effective operation of suitable controls.

The implementation of this framework has evolved over the past two years however, the framework at CorpTech was not fully effective in identifying and alerting management to anomalies in user access privileges. CITEC had not developed and implemented a management assurance framework but did provide a controls assurance letter in the prior year. There was no evidence that the CITEC assurance letter was supported by management review of internal control activities. In addition, the CITEC assurance letter did not include references to any significant audit issues. It was recommended that CITEC implement a framework that would underpin the controls assurance provided within the shared services environment.

The first detailed Management Assurance Report was issued to agencies from the Shared Service Agency in July 2009 covering the 2008-09 financial year. It provided agencies with information about the Shared Service Agency and CorpTech control environment as well as identifying any high risk issues which may impact upon them. The work done by the Shared Service Agency and CorpTech is acknowledged and the current Management Assurance Report is an improvement on previous reports which were generic in scope and limited in detail. Further improvements can be made to the report including:

- the provision of a second report during the year which would enable the early identification of significant control breakdowns and thus allow timely action
- reporting any significant issues from audits of CITEC as it performs functions that have a whole of government impact
- giving consideration as to whether the reports can be more tailored to individual agency needs.

## 4.4 Management of public sector employee housing – implementation of 2008 audit recommendations

### 4.4.1 Audit overview

Employee housing is a valuable State asset, contributing to service delivery. In 2008, an audit was conducted to assess how effectively the Department of Education and Training, Queensland Health, Department of Police and Department of Public Works were managing the provision of government employee housing. The results of this audit were reported in *Auditor-General Report to Parliament No. 4 for 2008 – Results of audits at 31 May 2008*, which was tabled in Parliament on 8 July 2008.

Overall, the audit identified a need for improvement in the operation of the whole of government management framework and the departmental systems used to manage tenancy and maintenance information. Assessments by the departments of maintenance requirements were not comprehensive. Condition assessments were not timely and maintenance backlogs were not effectively managed. Departmental tenancy management systems were also found to be inadequate for three departments and strategic planning for procuring and maintaining employee housing was inadequate.

Whole of government management of the State employee housing assets were found to be ineffective with poor information available and appropriate management information systems not being in place. The implementation of the model for providing and maintaining employee housing needed to be reviewed to ensure adequate systems and processes were developed and utilised.

In Section 5.1.1 of *Auditor-General Report to Parliament No. 4 for 2008 – Results of audits at 31 May 2008*, the Director-General, Department of Public Works outlined the corrective action intended to be taken to address these issues. The status of corrective action has subsequently been followed up with the Director-General and updates on action taken were received from the Director-General on 3 April 2009, and most recently, on 22 March 2010 on behalf of the four departments.

### 4.4.2 Status of corrective action

Positive action has been taken to address the key findings in *Auditor-General Report to Parliament No. 4 for 2008 – Results of audits at 31 May 2008*, that related to the management of public sector employee housing. The Director-General has advised the following status on 22 March 2010 in relation to the findings of the 2008 audit:

- A new whole of government employee housing management framework has been implemented from December 2009. The framework is mandatory for all departments owning government employee housing and includes a requirement for an annual whole of government report to be presented to Cabinet, which will require departments to detail their compliance with each of the mandatory policy requirements in the framework. The Annual Report is to cover aspects such as procurement, maintenance, use, demand and security risks.
- Maintenance has been consolidated and will now be undertaken on a whole of government basis by the department. This will provide for efficiencies in undertaking state-wide maintenance.

- Departments are currently transitioning to centralised management of maintenance records through a centralised maintenance management information system at the Department of Public Works. This will facilitate improved management of maintenance assessments and management of the maintenance backlog.
- Mandatory whole of government benchmarking and reporting to the Housing Management Committee is being implemented. These benchmarks will include monitoring of the condition of housing portfolios, annual maintenance expenditure, deferred maintenance costs and utilisation/vacancy rates.
- All audited departments have committed to using upgraded Tenancy Management Information Systems. A new whole of government internet based web portal will facilitate improved utilisation of employee housing and management of vacancies.

Progress made in addressing the issues raised in *Auditor-General Report to Parliament No. 4 for 2008 – Results of audits at 31 May 2008*, is positive. All stakeholders are encouraged to continue to implement the processes and systems being put in place in a timely manner.

# 5 | Financial management

## Summary

### Background

Financial and compliance audits, apart from resulting in an opinion on whether the financial statements of public sector entities are true and fair, also identify where the functions relating to the financial management of public sector entities are not adequately and properly performed.

Audits were conducted of controls over payments processed through Electronic Funds Transfer (EFT) systems and in compliance with the *State Procurement Policy*.

### Key findings

- Payments processed through EFT systems: Generally those agencies that operated their own EFT systems had satisfactory controls over payments processed through them. However, there were instances where controls could be further strengthened by ensuring that changes to EFT processes are subject to appropriate change management practices.
- Compliance with the *State Procurement Policy*: The departments audited were found to be complying with the objectives and requirements of the *State Procurement Policy* however, there is no ongoing monitoring undertaken across government over key compliance requirements of the *State Procurement Policy*.

## 5.1 Payments processed through Electronic Funds Transfer systems

### 5.1.1 Audit overview

Electronic Funds Transfer (EFT) systems are used to authorise banks to withdraw funds from public sector bank accounts to pay creditors and employees. If appropriate controls are not established and maintained to both prevent and detect unauthorised transactions in a timely manner, the general functionality of these systems that allow the virtually instantaneous movement of funds anywhere within the banking system can make them vulnerable to fraudulent activity.

Given this risk, an audit was performed to follow-up on the findings of *Auditor-General Report to Parliament No. 4 for 2004-05 – Results of audits performed as at 31 August 2004*. The 2004 audit found that *'in general, there were varying standards of controls in place over EFT using desktop banking systems across the entities reviewed and there appeared to be a lack of understanding of the risks associated with EFT processes'*.

Since *Auditor-General Report to Parliament No. 4 for 2004-05 – Results of audits performed as at 31 August 2004*, three frauds resulting from weaknesses in preventative controls surrounding EFT systems have been reported to QAO.

Figure 5A – Circumstances of reported frauds

Method	Instances	Total amount	Detected through
Alteration of customer/vendor bank account details held by public sector entities.	2	\$83,296	Periodic analysis of changes in masterfile for unusual trends.
Alteration of a transfer file prior to providing it to a service provider for processing through its EFT system.	1	\$281,600	The agency undertaking normal monthly reconciliation of its grants system to general ledger.

While these amounts are relatively immaterial compared to the total value of transactions processed through EFT systems each year, they illustrate the potential for fraud and error. In recent years, outside the Queensland public sector, there have been instances of fraud and error involving millions of dollars arising from the exploitation of poor controls in these systems.

### 5.1.2 Audit opinion

The audit found that generally those agencies that operated their own EFT systems had satisfactory controls over payments processed through them. However, there were instances where controls could be further strengthened by ensuring that changes to EFT processes are subject to appropriate change management practices.

In regard to EFT processes within the shared services environment a number of significant matters were identified. These are outlined in Section 4.3 of this report.

Treasury Department's response in relation to the issues raised is included in Section 7.2.3.

### 5.1.3 Audit scope

This review used a sample of ten entities to obtain an indication of the effectiveness of controls over EFT systems. The audit also examined whether new developments and emerging risks were considered by public sector entities in designing and operating their EFT systems.

The term EFT encompasses a number of types of systems for collecting revenue and making payment to suppliers through a variety of information technology solutions including internet banking, Electronic Funds Transfer Point of Sale (EFTPOS) systems and desktop banking systems. This audit was limited to systems used to directly authorise the withdrawal of funds from public sector agencies' bank accounts.

### 5.1.4 Audit findings

#### Maintenance of bank account details

Bank account details of third parties such as creditors and employees are kept within financial systems to facilitate payment by EFT. When a transaction has been approved for payment within an accounts payable system, the approved transaction value is joined with the relevant bank account details held in that system. This information is then passed via the EFT software to the entity's bank, and based on these instructions, funds are transferred from the entity's bank account to the bank account specified. If bank account details are not correctly maintained and controlled there is potential for funds to be accidentally or fraudulently misdirected. Consequently, controls need to be in place to ensure the accuracy and validity of bank account details.

The audit found that:

- two entities needed to strengthen their controls to ensure the validity of changes made to creditor masterfiles
- the creditor masterfile maintained in the shared services financial system platform (SAP ECC5) is able to be maintained by two independent agencies. This has the potential for each agency to believe that it has maintained the creditor masterfile appropriately but process a payment to an incorrect bank account due a change being made by the other agency.

#### Change management controls

Entities need to ensure that changes to their internal control environment are subject to documented change management practices to appropriately manage risk. These processes may, for example, involve the examination of new systems by their internal audit function and/or the use of a project management methodology.

The audit found three instances where the current EFT processes were not fully reflected in the agencies' approved accounting policies and procedures framework.

#### Bank reconciliations

A fundamental detective control is the reconciliation of transactions between the entity and its bank's records. The bank reconciliation allows transactions that are different or unauthorised by one of the parties to be detected and if prepared regularly, enables entities to investigate discrepancies with the bank in a timely manner.

The audit found one entity had issues in relation to the performance and review of its bank reconciliations.

## File transfers from entities' financial systems to banking systems

Payment information from entities' financial systems must be written to a clear text file to enable information to be easily transferred. Clear text files are not encrypted and are able to be read and easily altered through the use of text editors that are now commonly available on most desktop computers. This file needs to be protected in the transfer process from the entities' financial systems to the banking system to prevent unauthorised changes.

Recommendations to further restrict access to the transfer file were made to three entities in the audit.

## Regular review of access

User accounts need to be periodically reviewed to ensure that the required level of control is maintained. In the case of desktop banking systems, for example, changes in staff or their responsibilities within the financial administration of an entity may result in individuals acquiring additional privileges that may not be compatible with a sound control environment.

The audit noted the following:

- four entities where user access had not been amended to reflect staff changes, such as terminated staff and staff with changed responsibilities
- a recommendation was made to one entity regarding the segregation of duties involving its EFT processes.

## 5.2 Compliance with the State Procurement Policy

### 5.2.1 Audit overview

The procurement of goods and services is a significant expenditure of the Queensland public sector. It accounts for between 20 to 80 per cent of a department's total expenditure, and approximately \$15b was spent across government in 2008-09. The procurement activities of the Queensland Government therefore have a significant impact upon the State economy and have significant implications for the State Budget.

The current *State Procurement Policy* became effective from 1 January 2008 and requires that departments continue to seek to advance government priorities through their spending while achieving value for money with probity and accountability for purchasing outcomes. Compliance with the *State Procurement Policy* is mandated by Cabinet and has full application to budget sector agencies and partial application to statutory bodies and government owned corporations. The audit assessed six departments for compliance with the objectives and requirements of the *State Procurement Policy*.

## 5.2.2 Audit opinion

The audit found that the departments reviewed were complying with the objectives and requirements of the *State Procurement Policy* however, there is no ongoing monitoring undertaken across government over key compliance requirements of the *State Procurement Policy*. The key findings for the audit are:

- Procurement processes within departments indicated an appropriate level of procurement planning was being performed. Annual procurement plans for 2009-10 were prepared by all departments however, these plans were not always signed off by the respective Director-General in a timely manner.
- Sustainable procurement objectives were incorporated in corporate procurement plans but in most cases, processes, measures and targets to support the objectives were still being developed.
- There was a lack of procedures and policies established by departments to clearly document and evidence appropriate departmental monitoring over collusive behaviours and practices on the part of suppliers.
- Agencies are primarily responsible for ensuring that their procurement activities are managed in accordance with the *State Procurement Policy*. While the Queensland Government Chief Procurement Office conducts reviews of procurement capability and capacity for budget sector agencies, there is no ongoing monitoring and follow-up undertaken across government by the Queensland Government Chief Procurement Office over key compliance requirements of the *State Procurement Policy*.

The Department of Public Works' response in relation to the issues raised is included in Section 7.2.4.

## 5.2.3 Audit scope

The objective of the audit was to assess compliance with the *State Procurement Policy* of six departments which collectively account for approximately 45 per cent of total government expenditure on supplies and services.

The audit focussed on the adequacy of procurement policies, systems and procedures put in place by the departments audited to ensure they comply with the objectives and requirements of the *State Procurement Policy*, as well as examining the centralised procurement leadership role undertaken by the Queensland Government Chief Procurement Office within the Department of Public Works.



## 5.2.4 Audit findings

### Corporate procurement planning

The *State Procurement Policy* requires every public sector agency to prepare an annual corporate procurement plan. Corporate procurement plans need to set out the objectives to be achieved through the agency's procurement activities, how the agency will meet its specified objectives and identify mechanisms through which the achievement of the agency's procurement objectives will be measured. All departments audited had prepared a corporate procurement plan in accordance with the methodology issued by the Queensland Government Chief Procurement Office.

As part of the annual planning process, all departments had documented an analysis of their purchasing patterns, suppliers and supply markets to determine their procurement profile. Generally, the departments had appropriate procurement policies and procedures in place to guide procurement staff in ensuring value for money was achieved and probity and accountability considerations were embedded within the decision making processes. The corporate procurement plan must be approved by the Accountable Officer and reviewed annually. At the date of audit, one department's plan for 2009-10 had not been approved by the Director-General. The Queensland Government Chief Procurement Office further advised that of the 13 departments, six had not had their plans approved by their respective Director-General as at 30 November 2009.

Departments and statutory bodies are required to provide the annual corporate procurement plan to the Queensland Government Chief Procurement Office by 30 June each year. For 2009-10, one department had provided an approved plan and four departments had provided draft plans by the due date. While all departments had provided their plans to the Queensland Government Chief Procurement Office by 30 November 2009, the plans for six departments were still in draft form.

### Procurement assessment

The *State Procurement Policy* requires that each budget sector agency must ensure an assessment of its procurement capability and performance is undertaken at least once every three years, commencing 1 January 2008, to facilitate improvements in procurement outcomes including recognition of potential savings. The *State Procurement Policy* requires that agencies must undertake their first review in cooperation with the Queensland Government Chief Procurement Office, and at the date of the audit, capability and performance assessments of 11 agencies had been completed. For two departments audited, improvement recommendations made by the Queensland Government Chief Procurement Office had not yet been implemented at the date of the audit.

### Agency procurement procedures

The *State Procurement Policy* requires that the Accountable Officer must issue agency procurement procedures consistent with the *State Procurement Policy* to provide guidance to officers about procurement systems and practices within the agency. All departments audited had formalised policies in place, although one department's policies were in draft form and were yet to be finalised.

The audit examined whether procedures existed to identify instances of collusive tendering behaviours or practices by suppliers when evaluating tenders. In general terms, collusive tendering occurs when suppliers communicate before lodging their bids and agree among themselves who will submit the lowest tender price. Five of the departments audited did not have policies and procedures in place to specifically check for possible collusive behaviours occurring between suppliers. One department had procurement processes in place to detect collusive practices however, there was little or no documentary evidence maintained to corroborate that active checking for collusive practices had been undertaken.

### Forward procurement schedules

One of the aims of the *State Procurement Policy* is to improve access to government procurement to ensure there is a full, fair and reasonable opportunity for firms to supply the Queensland Government. To achieve this, each year the *State Procurement Policy* requires every agency must publish and maintain a forward procurement schedule on the Queensland Government Chief Procurement Office website, outlining anticipated significant procurements. The Queensland Government Chief Procurement Office advised that only five departments had published their forward procurement schedules on the website by 10 December 2009 (date of the audit). No government owned corporations or statutory bodies had published their forward procurement schedules on the website. The Queensland Government Chief Procurement Office does not follow up with agencies to ensure that this occurs.

### Common use supply strategies

The *State Procurement Policy* requires that a significant procurement plan, endorsed by the Queensland Government Chief Procurement Office and approved by the Procurement Board of Management, be prepared for common use whole of government supply arrangements. All six departments audited were using common use supply arrangements for procurements such as the purchase of stationery, office equipment, printing, fuel and travel. The *State Procurement Policy* requires that budget sector agencies utilise common use supply arrangements put in place by either the Queensland Government Chief Procurement Office or a lead agency nominated by the Queensland Government Chief Procurement Office. However, while the Queensland Government Chief Procurement Office advised that procurement data is obtained from major suppliers regarding public sector usage of its common use supply contracts, the Queensland Government Chief Procurement Office does not monitor on an ongoing basis whether or not agencies use these arrangements.

### Sustainable procurement

The *State Procurement Policy* requires that agencies must integrate the practice of sustainability into the procurement of goods, services and construction and that budget sector agencies should seek to progressively increase the proportion of their procurement expenditure on sustainable goods and services from year to year. To this end, budget sector agencies must set and measure sustainable procurement targets, report annually on their sustainable procurement targets and include sustainable procurement strategies and targets in their corporate procurement plans.

The corporate procurement plans of all six departments audited incorporated sustainable procurement objectives and in general, processes, measures and targets are in place to varying degrees to support these sustainability objectives. While this is a new concept still being developed by the departments, agencies are encouraged to focus on establishing more robust sustainability targets and measures.

## Role of the Queensland Government Chief Procurement Office

The Queensland Government Chief Procurement Office is responsible for managing the Queensland Government's procurement framework. Its role, as outlined in the *State Procurement Policy*, includes responsibility for developing procurement policy and guidance, monitoring its application and evaluating the impact of the *State Procurement Policy*. While the Queensland Government Chief Procurement Office has undertaken a program of reviews over procurement capability and capacity of budget sector agencies, there is no ongoing monitoring and follow-up undertaken across government by the Queensland Government Chief Procurement Office over key compliance requirements of the *State Procurement Policy*, including:

- timely submission of approved annual corporate procurement plans by budget sector agencies to the Queensland Government Chief Procurement Office
- publication of forward procurement schedules on the Queensland Government Chief Procurement Office's website by all public sector agencies
- mandatory use by budget sector agencies of common supply arrangements established by the Queensland Government Chief Procurement Office.

Audit was advised that the Queensland Government Chief Procurement Office does not have a formal mandate conferring the required authority to audit or enforce compliance with the policy and is not resourced to carry out such a function comprehensively. Nevertheless, the Queensland Government Chief Procurement Office has strategies in place to influence the level of compliance, relying on the cooperation of agencies to increase awareness of and compliance with requirements.

# 6

## Status of financial statements

### Summary

#### Background

The *Auditor-General Act 2009* requires the outcome of all audits to be reported to Parliament. This is achieved by providing the status of financial statements at various points in time in Auditor-General Reports to Parliament. The status of 2008-09 audits for which auditors' opinions had not been issued when last reported to Parliament are included in Section 6.1 of this report.

#### Key activities

- Auditors' opinions for 110 public sector entities have been issued for the 2008-09 financial year since *Auditor-General Report to Parliament No. 8 for 2009 – Results of audits at 31 October 2009* and *Auditor-General Report to Parliament No. 4 for 2010 – Results of local government audits* were tabled.
- Auditors' opinions on the financial statements of 12 entities are yet to be issued.

## 6.1 Status of 2008-09 financial statements

Auditors' opinions for 110 public sector entities have been issued for the 2008-09 financial year since *Auditor-General Report to Parliament No. 8 for 2009 – Results of audits at 31 October 2009* and *Auditor-General Report to Parliament No. 4 for 2009 – Results of local government audits* were tabled.

**Figure 6A – Auditors' opinions issued for the 2008-09 financial statements**

**Auditor's opinion key:** U=Unmodified opinion E=Emphasis of matter Q=Qualified opinion A=Adverse opinion D=Disclaimer of opinion

Entity name	Balance date	Financial statements			Timeliness of completion		
		Financial statements signed	Auditor's report signed	Auditor's opinion	< 3 months	3 to 6 months	> 6 months
<b>Aboriginal councils</b>							
Cherbourg Aboriginal Shire Council	30.06.2009	11.02.2010	08.04.2010	<b>Q E</b>			✓
Napranum Aboriginal Shire Council	30.06.2009	17.05.2010	15.06.2010	<b>Q</b>			✓
Pompuraaw Aboriginal Shire Council	30.06.2009	Not completed	Not completed				
<b>Audited by arrangement</b>							
Gold Coast Motor Events Co.	31.12.2009	23.03.2010	25.03.2010	<b>E</b>	✓		
International WaterCentre Joint Venture	31.12.2009	26.02.2010	26.02.2010	<b>U</b>	✓		
International Riversymposium Joint Venture	31.12.2009	26.02.2010	26.02.2010	<b>U</b>	✓		
Queensland Manufacturing Institute Trust	30.06.2009	22.11.2009	22.11.2009	<b>U</b>		✓	
The Cyclone Larry Disaster Relief Appeal Trust	30.06.2009	10.11.2009	20.11.2009	<b>U</b>		✓	
Uninet Enclosure Systems Joint Venture	31.12.2009	01.02.2010	16.02.2010	<b>U</b>	✓		
<b>Audited by arrangement – under trust deed</b>							
Australian International Campuses Trust	31.12.2009	25.02.2010	25.02.2010	<b>U</b>	✓		
Premier's Disaster Relief Appeal Trust	30.06.2009	10.11.2009	17.11.2009	<b>U</b>		✓	

		Financial statements			Timeliness of completion		
Entity name	Balance date	Financial statements signed	Auditor's report signed	Auditor's opinion	< 3 months	3 to 6 months	> 6 months
Queensland Trust for Nature Fund	30.06.2009	12.11.2009	17.11.2009	U		✓	
Translational Research Institute Trust	31.12.2009	Not completed	Not completed				
<b>Controlled entities</b>							
Activetorque Pty Ltd	31.12.2009	16.02.2010	23.02.2010	A	✓		
Ausonex Pty Ltd	31.12.2009	15.02.2010	22.02.2010	A	✓		
Aussie Colours Pty Ltd	31.12.2009	17.02.2010	24.02.2010	U	✓		
Australian International Campuses Pty Ltd	31.12.2009	25.02.2010	25.02.2010	U	✓		
Bilexys Pty Ltd	31.12.2009	17.02.2010	23.02.2010	E	✓		
Board of Trustees of the Ipswich Boys' Grammar School Centenary Building Fund	31.12.2009	23.02.2010	25.02.2010	U	✓		
Boonah and District Art Gallery and Library Trust	30.06.2009	Not completed	Not completed				
Boonah and District Performing Arts Centre Trust Fund	30.06.2009	Not completed	Not completed				
Brisbane Festival Limited	31.12.2009	22.04.2010	22.04.2010	U		✓	
C Management Services Pty Ltd	31.12.2009	22.02.2010	22.02.2010	U	✓		
CCA Therapeutics Pty Ltd	31.12.2009	24.02.2010	26.02.2010	U	✓		
Ceramipore Pty Ltd	31.12.2009	16.02.2010	23.02.2010	E	✓		
CiTR Pty Ltd	31.12.2009	22.02.2010	26.02.2010	U	✓		
Corpison Pty Ltd	31.12.2009	15.02.2010	22.02.2010	E	✓		
CQU Travel Centre Pty Ltd	31.12.2009	22.02.2010	22.02.2010	U	✓		
Creative Industries Precinct Pty Ltd	31.12.2009	11.02.2010	18.02.2010	U	✓		
Dendrimed Pty Ltd	31.12.2009	16.02.2010	23.02.2010	A	✓		

		Financial statements			Timeliness of completion		
Entity name	Balance date	Financial statements signed	Auditor's report signed	Auditor's opinion	< 3 months	3 to 6 months	> 6 months
Edward River Crocodile Farm Pty Ltd	30.06.2009	Not completed	Not completed				
ElaCor Pty Ltd	31.12.2009	16.03.2010	17.03.2010	U	✓		
Gold Coast Innovation Centre Ltd	31.12.2009	26.02.2010	26.02.2010	U	✓		
Healthy Waterways Ltd	31.12.2009	26.02.2010	26.02.2010	U	✓		
Herdvac Pty Ltd	31.12.2009	15.02.2010	22.02.2010	A	✓		
Hervey Bay Community Trust	30.06.2009	22.12.2009	14.05.2010	E			✓
i.LAB Incubator Pty Ltd	31.12.2009	20.02.2010	24.02.2010	U	✓		
IMBcom Asset Trust	31.12.2009	25.02.2010	26.02.2010	U	✓		
IMBcom Pty Ltd	31.12.2009	25.02.2010	26.02.2010	U	✓		
Industrial Supplies Office (Queensland) Limited	30.06.2009	30.11.2009	07.12.2009	E		✓	
Innovation Centre Sunshine Coast Pty Ltd	31.12.2009	24.02.2010	26.02.2010	U	✓		
JCU Enterprises Pty Ltd	31.12.2009	12.02.2010	17.02.2010	U	✓		
JCU Uninet Pty Ltd	31.12.2009	16.02.2010	16.02.2010	U	✓		
JCU Univet Pty Ltd	31.12.2009	17.02.2010	26.02.2010	U	✓		
JKTech Pty Ltd	31.12.2009	15.02.2010	19.02.2010	U	✓		
LanguageMap Pty Ltd	31.12.2009	16.02.2010	23.02.2010	E	✓		
Lazy Acres Caravan Park	30.06.2009	22.12.2009	24.12.2009	U		✓	
Leximancer Pty Ltd	31.12.2009	18.02.2010	24.02.2010	U	✓		
Lightanate Pty Ltd	31.12.2009	04.03.2010	08.03.2010	U	✓		
Lucia Publishing Systems Pty Ltd	31.12.2009	15.02.2010	22.02.2010	E	✓		
Major Brisbane Festivals Pty Ltd	31.12.2009	24.03.2010	25.03.2010	U	✓		

		Financial statements			Timeliness of completion		
Entity name	Balance date	Financial statements signed	Auditor's report signed	Auditor's opinion	< 3 months	3 to 6 months	> 6 months
Neo-Rehab Pty Ltd	31.12.2009	15.02.2010	22.02.2010	U	✓		
Neurotide Pty Ltd	31.12.2009	15.02.2010	22.02.2010	A	✓		
NuNerve Pty Ltd	31.12.2009	18.02.2010	23.02.2010	E	✓		
Pepfactants Pty Ltd	31.12.2009	16.02.2010	23.02.2010	E	✓		
Polyvacc Pty Ltd	31.12.2009	18.02.2010	22.02.2010	U	✓		
Poruma Island Pty Ltd	30.06.2009	Not completed	Not completed				
Primed Pty Ltd	31.12.2009	24.02.2010	26.02.2010	U	✓		
Progel Pty Ltd	31.12.2009	15.02.2010	22.02.2010	E	✓		
Queensland Music Festival Pty Ltd	30.09.2009	17.12.2009	08.12.2009	U	✓		
QUT Enterprise Holdings Trust	31.12.2009	17.02.2010	18.02.2010	U	✓		
Qutbluebox Pty Ltd	31.12.2009	15.02.2010	18.02.2010	U	✓		
Sarv Pty Ltd	31.12.2009	24.02.2010	26.02.2010	U	✓		
Symbiosis Group Limited	31.12.2009	24.02.2010	24.02.2010	U	✓		
Tenasitech Pty Ltd	31.12.2009	22.02.2010	22.02.2010	A	✓		
The Brolga Theatre Board Inc.*	30.06.2009	02.06.2010	11.06.2010	E			✓
The Monte Carlo Caravan Park Trust	30.06.2009	12.11.2009	16.11.2009	U		✓	
Townsville & Thuringowa Cemetery Trust	31.12.2009	09.04.2010	12.04.2010	U		✓	
Unicare (NQ) Limited	31.12.2009	15.02.2010	15.02.2010	U	✓		
UniHealth (NQ) Limited	31.12.2009	15.02.2010	15.02.2010	U	✓		
UniQuest Asset Trust	31.12.2009	23.02.2010	24.02.2010	U	✓		
UniQuest Pty Limited	31.12.2009	23.02.2010	24.02.2010	U	✓		



		Financial statements			Timeliness of completion		
Entity name	Balance date	Financial statements signed	Auditor's report signed	Auditor's opinion	< 3 months	3 to 6 months	> 6 months
University of Queensland Foundation Trust	31.12.2009	22.02.2010	26.02.2010	U	✓		
UQ Holdings Pty Ltd	31.12.2009	22.02.2010	26.02.2010	U	✓		
UQ Investment Trust	31.12.2009	22.02.2010	26.02.2010	U	✓		
UQ Sport Ltd	31.12.2009	18.02.2010	24.02.2010	U	✓		
Wollemi Australia Pty Ltd	30.06.2009	26.02.2010	26.02.2010	E			✓
Woombye Gardens Caravan Park	30.06.2009	22.12.2009	24.12.2009	U		✓	
Xenimet Pty Ltd	31.12.2009	17.02.2010	24.02.2010	U	✓		
<b>Jointly controlled entities</b>							
International WaterCentre Pty Ltd	31.12.2009	26.02.2010	26.02.2010	U	✓		
North Queensland Local Government Association	31.12.2009	22.04.2010	22.04.2010	U		✓	
Queensland Cyber Infrastructure Foundation Ltd	31.12.2009	23.03.2010	25.03.2010	U	✓		
SEQ Distribution Entity (Interim) Pty Ltd	30.06.2009	Not completed	Not completed				
The Grammar Schools of Queensland Association Inc.	31.12.2009	Not completed	Not completed				
Translational Research Institute Pty Ltd	31.12.2009	Not completed	Not completed				
Western Sub Regional Organisation of Councils	30.06.2009	Not completed	Not completed				
<b>Local governments</b>							
Torres Strait Island Regional Council	30.06.2009	Not completed	Not completed				
<b>Statutory bodies</b>							
Board of Trustees of the Brisbane Girls' Grammar School	31.12.2009	23.02.2010	23.02.2010	U	✓		

Entity name	Balance date	Financial statements			Timeliness of completion		
		Financial statements signed	Auditor's report signed	Auditor's opinion	< 3 months	3 to 6 months	> 6 months
Board of Trustees of the Brisbane Grammar School	31.12.2009	12.02.2010	12.02.2010	U	✓		
Board of Trustees of the Ipswich Girls' Grammar School	31.12.2009	25.02.2010	28.02.2010	U	✓		
Board of Trustees of the Ipswich Grammar School	31.12.2009	23.02.2010	25.02.2010	U	✓		
Board of Trustees of the Rockhampton Girls' Grammar School	31.12.2009	26.02.2010	26.02.2010	U	✓		
Board of Trustees of the Rockhampton Grammar School	31.12.2009	26.02.2010	26.02.2010	U	✓		
Board of Trustees of the Toowoomba Grammar School	31.12.2009	24.02.2010	26.02.2010	U	✓		
Board of Trustees of the Townsville Grammar School	31.12.2009	15.02.2010	16.02.2010	U	✓		
Bollon South Water Authority	30.06.2009	26.10.2009	02.02.2010	E			✓
Bollon West Water Authority	30.06.2009	17.02.2010	09.03.2010	E			✓
Burdekin Shire Rivers Improvement Trust	30.06.2009	10.11.2009	21.12.2009	E		✓	
Central Queensland University	31.12.2009	25.02.2010	25.02.2010	U	✓		
Glamorgan Vale Water Board	30.06.2009	19.01.2010	16.02.2010	E			✓
Gold Coast Hospital Foundation	30.06.2009	15.12.2009	17.12.2009	Q		✓	
Griffith University	31.12.2009	26.02.2010	26.02.2010	U	✓		
James Cook University	31.12.2009	25.02.2010	26.02.2010	U	✓		
Jordaryan Shire River Improvement Trust	30.06.2009	20.08.2009	28.01.2009	U			✓
Mertwood Water Board	30.06.2009	15.09.2009	22.02.2010	E			✓
North Burdekin Water Board	30.06.2009	25.03.2010	20.05.2010	Q E			✓

		Financial statements			Timeliness of completion		
Entity name	Balance date	Financial statements signed	Auditor's report signed	Auditor's opinion	< 3 months	3 to 6 months	> 6 months
Palmgrove Water Board	30.06.2009	31.03.2010	31.03.2010	E			✓
Pioneer River Improvement Trust	30.06.2009	11.11.2009	01.12.2009	E		✓	
Queensland College of Teachers	31.12.2009	26.02.2010	26.02.2010	U	✓		
Queensland Theatre Company	31.12.2009	23.02.2010	26.02.2010	U	✓		
Queensland University of Technology	31.12.2009	24.02.2010	26.02.2010	U	✓		
South Burdekin Water Board	30.06.2009	15.03.2010	25.05.2010	Q E			✓
South Maroochy Drainage Board	30.06.2009	30.03.2010	22.04.2010	E			✓
Stanthorpe Shire River Improvement Trust	30.06.2009	11.11.2009	28.01.2010	E			✓
The University of Queensland	31.12.2009	24.02.2010	26.02.2010	U	✓		
Townsville District Hospital Foundation	30.06.2009	Not completed	Not completed				
University of Southern Queensland	31.12.2009	23.02.2010	26.02.2010	U	✓		
University of the Sunshine Coast	31.12.2009	25.02.2010	26.02.2010	U	✓		
Wambo Shire River Improvement Trust	30.06.2009	04.03.2010	25.03.2010	E			✓
Warwick Shire River Improvement Trust	30.06.2009	12.10.2009	21.12.2009	E		✓	
Weengallon Water Authority	30.06.2009	07.08.2009	30.11.2009	E		✓	
Whitsunday Rivers Improvement Trust	30.06.2009	25.08.2009	28.01.2010	E			✓

\* The independent auditor's report for The Brolga Theatre Board Inc. issued on 15 December 2009 and reported in *Auditor-General Report to Parliament No. 4 for 2010 Results of local government audits* has been superseded.

# 7 | Appendices

## 7.1 Types of auditors' opinions

As the independent external auditor for Queensland Parliament, the Auditor-General issues an independent auditor's report on the financial report of public sector entities. The independent auditor's report provides the people of Queensland, through Parliament, assurance as to the veracity of the financial reporting of public sector entities, including compliance with prescribed requirements. One of the following auditor's opinion types may be expressed when issuing independent auditors' reports in respect of the financial report of an entity. The types of auditor's opinion issued are in accordance with Australian Auditing Standard (ASA) ASA 700, *The Auditor's Report on a General Purpose Financial Report* and ASA 701 *Modifications to the Auditor's Report*.

### Unmodified auditor's opinion

An unmodified auditor's opinion is an auditor's opinion which has been issued without qualification and has not been modified by the inclusion of an emphasis of matter paragraph (see below). An unqualified auditor's opinion is issued on financial reports where:

- all of the information and explanations required have been received
- the financial report gives a true and fair view or is presented fairly in accordance with the requirements of the applicable financial reporting framework
- in the Auditor-General's opinion, the prescribed requirements of applicable legislation have been complied with in all material respects in relation to the establishment and keeping of accounts.

### Modified auditor's opinion

A modified auditor's opinion may be expressed either to highlight a matter affecting the financial report or where the auditor is unable to express an unqualified auditor's opinion on the financial report. A modified auditor's opinion is only issued after an auditor has, in a timely fashion, exhausted all reasonable steps to be able to express an unmodified opinion. There are four types of modified auditors' opinions:

- **Emphasis of matter** is included when the Auditor-General wishes to highlight disclosures made in the notes to the financial statements that more extensively discuss a particular matter impacting on the financial report. An emphasis of matter can accompany either an unqualified opinion, qualified opinion, disclaimer of opinion or adverse opinion. An emphasis of matter paragraph is expressly stated to be made 'without qualification' to the auditor's opinion.

The most common example of emphasis of matter paragraphs arise where the Auditor-General identifies the existence of significant uncertainty in relation to either an entity's ability to continue as a going concern or judgements used by management in the calculation of complex accounting estimates (e.g. asset fair values or liabilities provided for).

In determining whether an emphasis of matter paragraph will be sufficient without qualification of the auditor's opinion, the Auditor-General takes into account the degree of objective data to support the reasonableness of the accounting estimate and the extent and appropriateness of the disclosures included in the financial report.

- **Qualified opinion** is expressed when the Auditor-General concludes that, except for the effect of a disagreement with those charged with governance, a conflict between applicable financial reporting frameworks or a limitation on scope that is considered material to an element of the financial report, the remainder of the financial report can be relied upon.
- **Adverse opinion** is expressed when the effect of a disagreement between the Auditor-General and the management of an entity or there is a conflict between applicable financial reporting frameworks is so material and pervasive that the Auditor-General concludes that the financial report taken as a whole is misleading or of little use to the addressee of the audit report.
- **Disclaimer of opinion** is expressed when a limitation on the scope of the audit exists that is so material and pervasive that the Auditor-General is unable to express an opinion on the financial report.

## 7.2 Stakeholders' responses

### 7.2.1 Infrastructure (Section 3)

#### **Department of Infrastructure and Planning**

The Coordinator-General provided the following response.

*The Department is committed to ensuring effective delivery of the Government's infrastructure investment and is encouraged to note your ongoing support for the Department's role in leading whole of Government adoption of the Project Assurance Framework (PAF) as the minimum standard for project investment and management.*

*Consistent with the Department's discussions with Queensland Audit Office, we remain dedicated to the ongoing refinement and strengthening of the PAF guidance material for developing robust business cases for Government projects. The Department continues to work proactively with agencies with the goal of ensuring compliance with the PAF and its application across Government projects.*

*With regard to governance, probity and procurement, the Department will review the PAF and where appropriate, strengthen its requirement for recording and managing evidence of independence and/or conflict of interest. The Department is reviewing the benefits management and realisation guidance provided in PAF and it is anticipated that the updated guidance will be completed in consultation with the relevant Queensland Government agencies, including Queensland Treasury, the Department of Transport and Main Roads and the Department of Public Works.*

*With regard to the use of independent verifiers, the Department will review and develop additional guidance that addresses your recommendations in the Infrastructure — Independent Verifier Cross Sector Audit. This review will assess your recommendations against current guidance in the PAF as well as other whole of Government project governance policy frameworks for which the Department is responsible (including the Value for Money Framework and Gateway Reviews).*

## **Treasury Department**

The Under Treasurer provided the following response.

*Overall, I welcome the focus of this report, particularly as it relates to the Project Assurance Framework (PAF) which was introduced in 2007. It is pleasing that the draft report mentions policy guidelines and procedures for the development and management of infrastructure projects have improved significantly, and that recommendations made in previous Auditor-General reports are being progressively implemented (as in Section 3.1.2 - Overall Audit Opinion)...*

*...With respect to infrastructure, the development and introduction of the Project Assurance Framework (PAF) has provided the Queensland Government with a robust framework for assessing the most appropriate delivery mechanism for its infrastructure projects on a Value for Money basis. The PAF has established guidance for agencies in achieving Value for Money in their infrastructure projects and has underpinned the progression of the significant infrastructure investment outlined in the Government's South East Queensland Infrastructure Plan and Project, and State-wide.*

*On this basis, acknowledging the extensive work in the development of the PAF, it is timely to assess opportunities to improve its use. The report is particularly timely given the Government's recent commitment to the development of the Queensland Infrastructure Plan from 2011.*

*Consistent with aspects of your draft report, Treasury Department considers there are areas for improvement emerging across Government.*

- *There is a need for more consistent application of the PAF by agencies and a need for improved documentation of evidence of procurement selection with a focus of value for money, including where a procurement agency is used during the delivery process. The PAF should be considered the minimum standard for the determination of procurement methodology for all significant infrastructure projects.*
- *Procurement guidance could be improved in the PAF by being more explicit in stating what processes should be undertaken by agencies and when. For example, the PAF could specify when procurement workshops must be undertaken (before any detailed design work has been undertaken).*
- *Treasury would also support further focus on benefits realisation, through assessment of benefits achieved, compared with expected benefits, in the operational stage.*
- *Appropriate guidance in the PAF on the independent verification function as it relates to infrastructure projects would also be supported, particularly if a risk based approach is adopted as your report suggests.*

## **Department of Public Works**

The Director-General provided the following response.

### *Section 3.2 Investment Decisions*

*With respect to the audit opinion and conclusions, the Department of Public Work's comments are as follows:*

#### *Governance arrangements*

*DPW supports the establishment of optimal governance arrangements on projects including compliance with government policy. DPW recognises the complementary relationship between the Project Assurance Framework and the Capital Works Management Framework and the need for clarity of application. DPW undertakes to work with DIP to ensure the two frameworks are aligned and that their application is understood. As one of the partnering agencies of project owners, DPW also undertakes to assist project owners in fulfilling their requirements under the Capital Works Management Framework and ensuring that roles and responsibilities are clear.*

#### *Conflict of interest declarations*

*Public servants on those mentioned tender panels are obliged under legislation and codes of conduct to disclose conflicts of interest as they arise. It is DPW policy to obtain conflict of interest declarations from all external tender panellists and advisors however, without limiting employees' obligations, the DPW practice at the time of the audit was that public servants on the panels were not required to sign a declaration. In support of the QAO's recommendation at the time of audit, DPW has since reviewed the policy for public servants and will be implementing the practice that public servants on tender panels will complete conflict of interest declarations.*

## **Department of Community Safety**

The Director-General provided the following response.

*The Department of Community Safety will continue to work with the Department of Infrastructure and Planning to ensure ongoing improvement in the application, monitoring and compliance of the Project Assurance Framework...*

## **Department of Justice and Attorney-General**

The Acting Director-General provided the following response.

*The Department of Justice and Attorney-General's capacity in project, program, and benefits management processes are continually being enhanced. The Principal Business Project Consultant, Integrated Criminal Justice will monitor and drive benefits realisation for the program post the IJIS Project. Three Integrated Criminal Justice governance committees with specified responsibilities regarding benefits management are being implemented...*

## **Department of the Premier and Cabinet**

The Director-General provided the following response.

*I note the audit recommendations and continue to support management's response to your draft audit recommendations. I acknowledge that lessons can be learnt and assure you that where opportunities exist to improve delivery practices, these will be actively pursued.*

*Arts Queensland will work with the Department of Infrastructure and Planning to ensure that in the future, the Project Assurance Framework is correctly applied and that mechanisms are in place to ensure that the Framework is complied with.*

*More generally, I will be discussing with the Department of Infrastructure and Planning ways of improving understanding and compliance with the Project Assurance Framework across Queensland Government agencies...*

### **Department of Transport and Main Roads**

The Director-General provided the following response.

*The Department of Transport and Main Roads (TMR) acknowledges that infrastructure projects can only be successful if they deliver intended benefits to the community at an acceptable cost.*

*As previously advised, TMR has initiated the Investment Management Implementation Program (IMIP) to enhance its investment management capability. TMR will maintain a whole of investment view of proposed, active and realised project benefits through the implementation of the IMIP. The IMIP process aligns very closely to best practice models developed by the UK Office of Government Commerce.*

*This work will align functions from the previous two departments and create new investment management functions, processes and capability to support TMR's operating model. The vision is for TMR to use integrated portfolio, program and project management to make the right investments in transport infrastructure and get the best value possible...*

## **7.2.2 Shared Services (Section 4.3)**

### **Department of Public Works**

The Director-General provided the following response.

*The Shared Services environment has undergone significant changes over the past six years. The Department of Public Works is now responsible for three key agencies – CITEC, CorpTech and the Shared Service Agency – which provides significant opportunities to further synchronise and streamline the shared services environment.*

*The Departments of Health and Education and Training also have shared service arrangements in place. However this QAO report deals almost exclusively with the Public Works shared services environment. It is silent for example on the extent to which these other shared service environments have management assurance frameworks, operating level agreements, business continuity plans in place or whether the issues raised in this audit report apply to them.*

*Comments on specific audit findings contained in the report include:*

#### **General computer controls, segment reporting, annual leave central scheme, electronic funds transfer, operating level agreements**

*These matters are acknowledged and are being progressed as priority items by the nominated areas within the Department.*

#### **Finance and human resource applications standardisation**

*While it is acknowledged that there still remains a significant number of legacy systems in place across government, there is no compensating acknowledgement that prior to shared services each department maintained its own finance and HR applications in-house, to varying degrees of proficiency. The risks of security failures, data integrity issues, and high auditing costs have potentially been mitigated by the reduction of over forty separate applications to a more transparent legacy environment that is centrally supported by CorpTech.*



### **System disaster recovery**

*It is acknowledged that sufficient end-to-end documentation of key business continuity processes is essential. The report states that the roles and responsibilities for disaster recovery processes are dispersed across agencies (including CorpTech and CITEC). However it is noted that these entities are now in the Department of Public Works which provides a real opportunity for this end-to-end process mapping to be implemented expeditiously and for disaster recovery arrangements to be centrally coordinated and controlled.*

### **Management assurance framework**

*The department will review all aspects of its current management assurance arrangements across CITEC, Corptech and Shared Service Agency to ensure that these continue to mature in line with audit suggestions.*

## **7.2.3 Payments processed through Electronic Funds Transfer systems (Section 5.1)**

### **Treasury Department**

The Under Treasurer provided the following response:

*A letter was sent to the Directors-General/Chief Executive Officers of agencies in mid 2008, advising them that Treasury Department endorsed the migration from Diammond to CommBiz. However, this letter highlighted the importance of proper risk management strategies. As the letter noted (in part), 'It is strongly recommended that agencies implementing CommBiz ... adopt the following risk mitigation strategies —reviewing security and technical issues associated with Internet banking and other relevant areas and use of a third authoriser for CommBiz transactions exceeding \$5m to give a higher level of security.'*

*Meetings have also been conducted by Treasury with individual agencies to discuss their own specific EFT system risk mitigation requirements. As an example, four meetings have been held with the SSA (over the past 18 months) to discuss their migration plan for moving from Diammond to CommBiz and to determine what changes need to be made to their internal control processes (given the move to an online payment environment). Treasury will continue to monitor the EFT systems used by agencies and offer advice about minimising the risk associated with their use.*

*Treasury is currently assessing the use of Digital Certificates (that have been offered by the CBA) to prevent 'Man in the Middle' and 'Man in the Server' attacks by external parties and will also coordinate an assessment of an online EFT system (that is being introduced by the CBA in late 2010) known as CommBiz Bulk Channel. The assessment will be performed by a departmental working group with members to be drawn from the Queensland Audit Office, CorpTech, SSA, the Department of Health and the Department of Education and Training.*

## 7.2.4 Compliance with the State Procurement Policy (Section 5.2)

### **Department of Public Works**

The Director-General provided the following response:

*In this multiple agency audit, the Queensland Audit Office states on a number of occasions that there is no on-going monitoring and follow-up undertaken across government by the Queensland Government Chief Procurement Office (QGCPO) over key compliance requirements of the State Procurement Policy.*

*In concluding, audit states that it was advised that QGCPO does not have a formal mandate conferring the required authority to audit or enforce compliance with the policy and is not resourced to carry out such a function comprehensively. Nevertheless, the QGCPO has strategies in place to influence the level of compliance, relying on the cooperation of agencies to increase awareness of and compliance with requirements.*

*The Department of Public Works contends that QGCPO cannot deliver on a compliance monitoring role on all aspects of the State Procurement Policy for a number of fundamental reasons.*

*The success of procurement reforms across the Queensland Government will be achieved through agency ownership and take-up of these initiatives, not through compliance exercises. The strategies adopted by QGCPO to date have been directed at ensuring that this agency ownership is in place and is maturing.*

*The State Procurement Policy is unequivocal that responsibility for policy compliance, and implementing appropriate controls, monitoring and reporting frameworks, rests with agency accountable officers and not QGCPO. Sections 4.2.5 and 4.2.8 of the Policy sets out these responsibilities quite clearly.'*

*In terms of agency monitoring compliance with common use procurement arrangements, it should be noted that the existing account structure and supporting finance systems are not in a form which facilitate such monitoring. While QGCPO is progressively obtaining data from vendors as each new whole of government arrangement is established, this data will only provide information on expenditure under each arrangement and not agency expenditure outside of these arrangements (off-contract). To undertake monitoring of agency compliance with common use procurement arrangements, central agencies may need to review the sector's account structure and associated standards and investment in procurement intelligence, cataloguing and associated systems.'*

*The scope of the Policy to include budget funded agencies, Government Owned Corporations, and statutory authorities makes it impractical for QGCPO to perform active monitoring and compliance role for each of these entities. As stated in Section 4.2.5, the role of QGCPO is to manage the Queensland Government's procurement framework and to facilitate more efficient, effective and accountable procurement practices. Schedule D to the Policy provides a summary of key obligations conferred on agencies by this Policy.*

*The role performed by QGCPO in this context is similar to that performed by Queensland State Archives in relation to ensuring that good recordkeeping practices are in place across all public sector entities.*

*Nevertheless, the QGCPO within its existing resource limits, is introducing some basic compliance monitoring checks as to whether budget funded agencies have fulfilled the key requirements of the Policy. This process will rely on the cooperation of agencies.*

One of the key tools that QGCPO is employing to influence the level of compliance across agencies is through its annual reporting to Cabinet on agency procurement performance and progress with implementing procurement reforms. In the process of developing this report, QGCPO reviews agency Corporate Procurement Plans as well as the progress agencies are making with implementation of their Procurement Assessments. These are two of the key requirements of the State Procurement Policy. A Report for 2008-09 was submitted to Government recently and the content and usefulness of this report will continue to be strengthened. For example, individual agency assessments against implementing procurement reforms will be included in all subsequent reports.

## 7.3 Acronyms

AASB	Australian Accounting Standards Board
ASA	Australian Auditing Standard
EFT	Electronic Funds Transfer
EFTPOS	Electronic Funds Transfer Point of Sale
FA Act	<i>Financial Accountability Act 2009</i>
FPMS	<i>Financial and Performance Management Standard 2009</i>
QAO	Queensland Audit Office

## 7.4 Glossary

### Accountability

Responsibility on public sector entities to achieve their objectives, about the reliability of financial reporting, effectiveness and efficiency of operations, compliance with applicable laws, and reporting to interested parties.

### Controlled entities

Entities where another public sector entity has control or ownership because of its shareholding.

### Cost-benefit

Weighing the total expected costs against the total expected benefits of one or more actions in order to determine the best option.

### Effectiveness

The achievement of the objectives or other intended effects of activities at a program or entity level.

### Efficiency

The use of resources such that output is optimised for any given set of resource inputs, or input is minimised for any given quantity and quality of output.

## Fair value

The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

## Financial report

A structured representation of financial information. A financial report usually includes accompanying notes derived from accounting records and intended to communicate an entity's economic resources or obligations at a point in time or the changes therein for a period in accordance with a financial reporting framework.

## Going concern

Means an entity is expected to be able to pay its debts as and when they fall due, and continue to operate without any intention or necessity to liquidate or wind up its operations.

## Governance

The role of persons charged with the oversight, control and direction of an entity.

## Impairment

When an asset's carrying amount exceeds the amount that can be recovered through use or sale of the asset.

## Independent auditor's report

Issued as a result of an audit and contains a clear expression of the auditor's opinion on the entity's financial report.

## Materiality

Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements.

## Prescribed requirements

Requirements prescribed by an Act or a financial management standard, but do not include the requirements of a financial management practice manual.

## Probity

The standards of ethical behaviour (e.g. honesty, integrity) expected of public servants charged with the stewardship of public funds and the protection of assets.

## 7.5 References

B.D. Robertson and G. Humphry, *The Role of the Independent Verifier in the Delivery of Motorway Projects in NSW* paper presented to the IRF and ARF Asia Pacific Roads Conference 1-5 September 2002, Sydney, Australia.

Department of Infrastructure and Planning, *Project Assurance Framework*, 2010.

Department of Justice and Attorney General, *Remuneration of Part-time Chairs and Members of Government Boards, Committee and Statutory Authorities*, 2010.

Department of Public Works, *State Procurement Policy*, 2008.

Office of Government Commerce (UK), *Managing Successful Programmes*, 2007.

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## 7.6 Systems implemented by Shared Services

System instance	Communities	Community Safety	Education and Training	Employment, Economic Development and Innovation	Environment and Resource Management	Infrastructure and Planning	Justice and Attorney-General	Premier and Cabinet	Public Works	Transport and Main Roads	Health	Police	Treasury
ECC5	✓	✓	✓	✓		✓	✓	✓				✓	
ECC5 HR Health											✓		
SAP 3.1i PWP									✓				
SAP 4.6C CSA	✓												
SAP 4.6C HQP	✓												
SAP 4.6C CSP				✓	✓				✓				
SAP 4.6C TPP										✓			
SAP 4.6C CITEC									✓				
SAP 4.6B QTP				✓					✓				✓
SAP 4.6B Health											✓		
Aurion – ACE				✓	✓	✓	✓	✓					
Aurion – DPW									✓				
Aurion – DET				✓									
Aurion – QPS												✓	
Aurion – CITEC									✓				
TSS			✓										
Lattice – Corrective Services		✓											
Lattice – Emergency Services		✓											



# 8

## Auditor-General

### Reports to Parliament

#### 8.1 Tabled in 2010

Report No.	Subject	Date tabled in Legislative Assembly
1	<i>Auditor-General Report to Parliament No. 1 for 2010</i> <i>Audit of A1 Grand Prix Agreements</i> <b>A Financial and Compliance audit</b>	4 February 2010
2	<i>Auditor-General Report to Parliament No. 2 for 2010</i> <i>Follow-up of selected audits tabled in 2007</i> <b>A Performance Management Systems audit</b>	23 March 2010
3	<i>Auditor-General Report to Parliament No. 3 for 2010</i> <i>Administration of Magistrates Court Services in Queensland</i> <b>A Performance Management Systems audit</b>	23 March 2010
4	<i>Auditor-General Report to Parliament No. 4 for 2010</i> <i>Results of local government audits</i> <b>Financial and Compliance audits</b>	23 March 2010
5	<i>Auditor-General Report to Parliament No. 5 for 2010</i> <i>Operational performance review systems</i> <b>A Performance Management Systems audit</b>	18 May 2010
6	<i>Auditor-General Report to Parliament No. 6 for 2010</i> <i>Using student information to inform teaching and learning</i> <b>A Performance Management Systems audit</b>	20 May 2010
7	<i>Auditor-General Report to Parliament No. 7 for 2010</i> <i>Information systems governance and control, including the Queensland Health Implementation of Continuity Project</i> <b>Financial and Compliance audits</b>	29 June 2010
8	<i>Auditor-General Report to Parliament No. 8 for 2010</i> <i>Results of audits at 31 May 2010</i> <b>Financial and Compliance audits</b>	July 2010

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