Briefing for audit committee chairs

1 December 2020

Engage

Respect

Inspire

Deliver

Queensland
Audit Office
Better public services

Agenda

10.00 am – 10.30 am Morning tea

10.30 am – 10.55 am: Services update. Insights from *Effectiveness of audit committees in state government entities.* Audit program update
Brendan Worrall, Auditor-General

10.55 am – 11.25 am: Areas of focus
Rachel Vagg, Assistant Auditor-General

11.25 am – 11.45 am: Insights on reports: ICT projects, awarding of sports grants. New approach to following up report recommendations.
Pat Flemming, Assistant Auditor-General

11.45 am – 12.00 pm: Q&A and closing
Brendan Worrall, Auditor-General

Thank you

Appreciate the efforts of your committees and this year's reporting for state and local government entities

Next year

- Hope for the best but be prepared

- Continue to monitor any new risks related to your entity, and stay on top of enduring COVID-19 risks

- Governance risks associated with 14/20 departments impacted

Regional visits

Effectiveness of audit committees— state entities
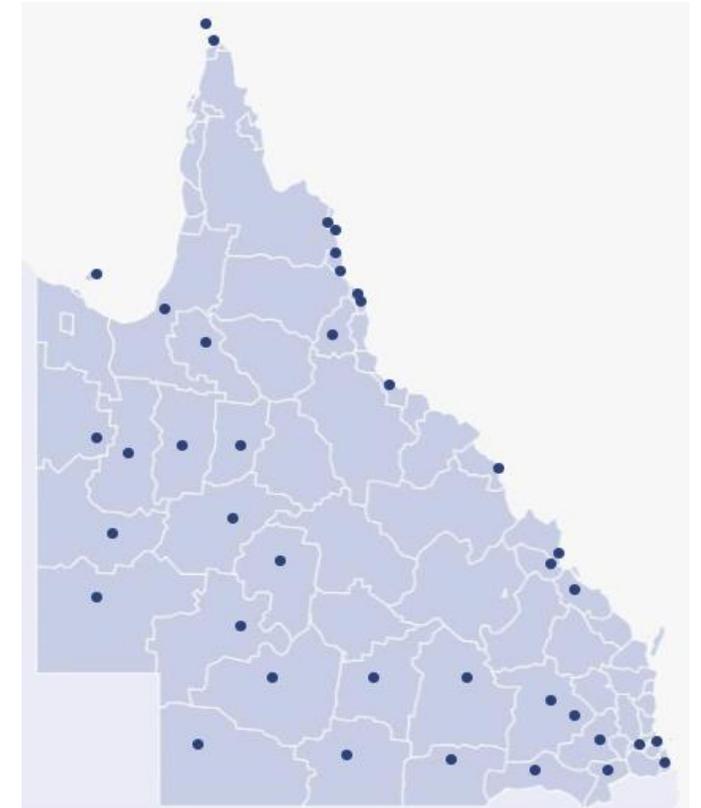
We shared insights on the current profile and practices of audit committees in the public sector

❖ surveyed 73 members that serve as chair to all 92 committees for departments and statutory bodies:

- one in four believe members face barriers to making effective contributions

- 31 per cent did not receive induction training

- more than half composed of internal members

- one in five have not had performance a self-assessment in the last 12 months.

11 actions for audit committees, CEOs and Queensland Treasury.

In brief

Effective audit committees can catalyse better governance in an entity. They provide insight from their experience and promote accountability, integrity, and transparency. Audit committees need to continually reassess and refine what value they provide and how they provide it.

Engaged leaders

Engaged leaders enable an audit committee to effectively perform its role.

- Support
- Influence
- Priorities

The right members

One in four committee chairs believe members face barriers to making effective contributions:

'High volume of information'

'Large complex entities'

'Conflict with internal roles'

'Limited financial experience'

Audit committee members should be independent and external to the management of the entity.

More than half of the departmental audit committees we reviewed are mostly composed of internal members (people employed by the entity they oversee).

A focused role

An entity's risks should inform an audit committee's focus and membership.

Continuous improvement

Entities are not consistently investing in training to better equip their members.

31 per cent of committee chairs **did not** receive induction training.

One in five audit committees have not performed a self-assessment in the last 12 months.

Valuable meetings

Audit committee members can receive up to 500 pages of information before one meeting.

Entities should limit the volume of information they present to audit committees, and instead target it to meet the committee's needs.

Audit committees in the Queensland public sector could benefit from increased support and guidance from Queensland Treasury. Improved guidance on key considerations when selecting committee members, and advice on how to effectively conduct a meaningful performance assessment, would assist audit committees to better understand and execute their role.

Effectiveness of audit committees—state entities

Summary of actions

› review responsibilities in the charter to clearly define role—meaningful and relevant oversight and advice

› right members—independent, and external to management

› remain informed of the entity's core functions and systems and risks

› review the committee's performance annually

› CEOs should demonstrate commitment, and all parties should communicate regularly

› regional committees should consider how they can bet use technology

› continually reassess and refine what value they provide and how they provide it.

Leadership

Focused role

Effective audit committees

The right members

Valuable meetings

Continuous improvement
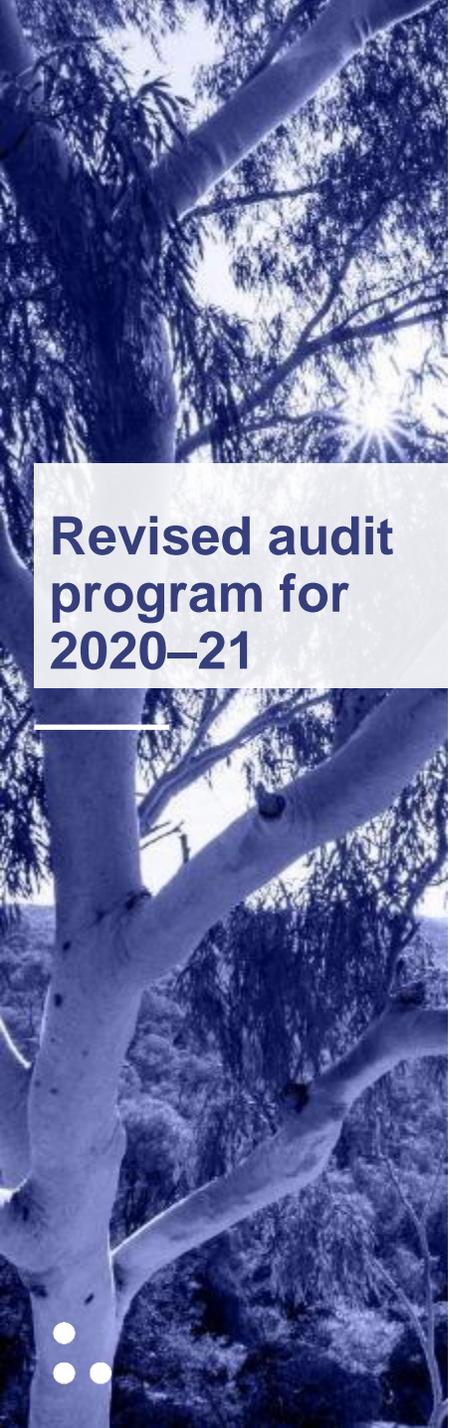
Revised audit program for 2020–21

Eight new topics—four to be tabled

- Managing our transition to renewables
- Contract management of new infrastructure
- Appointing and renewing government boards
- Strategies for delivering efficient services.

Three topics brought forward to this FY

- Educating for the digital future
- Domestic and family violence initiatives
- Managing healthcare pathways (waitlist management).

Most 2020 financial audit reports for this year will table in late Jan/early Feb 2021

(Water, Energy, Transport, Health, State entities, and State finances).

Tabled this FY so far:

- Regulating firearms (27 Nov)
- *Delivering successful technology projects (30 Sep)
- *Awarding of sports grants (29 Sep)
- Responding to complaints from people with impaired capacity: Public Trustee (24 Sep)
- *Queensland Health's new finance and inventory management system (23 Sep)
- *Queensland Government's response to COVID-19 (22 Sep)
- Effectiveness in audit committees in state government entities (8 Sep)
- Family support and child protection system (4 Aug)

* New topics for 2020-21.

www.qao.qld.gov.au/audit-program

New ways of reporting to parliament

New ways of reporting to parliament

- Evolving our operations to focus more on meting clients and stakeholders' needs

- Reporting our insights more quickly

- Varying depth and levels of evaluation and assurance based on scope, results of our audit work, and data quality and availability.

Audit Insights

Effectiveness of audit committees in state government entities
Report 2: 2020–21

Delivering successful technology projects
Report 7: 2020–21

Audit Briefs

Queensland Health's new finance and supply chain management system
Report 4: 2020–21

Awarding of sports grants
Report 6: 2020–21

Audit overview

Queensland Government response to COVID-19
Report 3: 2020–21

Q&A

Our areas of focus for this year

Rachel Vagg, Assistant Auditor-General

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Overall performance

	Overall	Audit process	Audit reporting	Value
2016–17	79	79	75	83
2017–18	81	78	80	86
2018–19	80	78	80	83
2019–20	81	79	81	84
2020–21*	83	82	82	86

■ 2016–17 ■ 2017–18 ■ 2018–19 ■ 2019–20 ■ 2020–21*
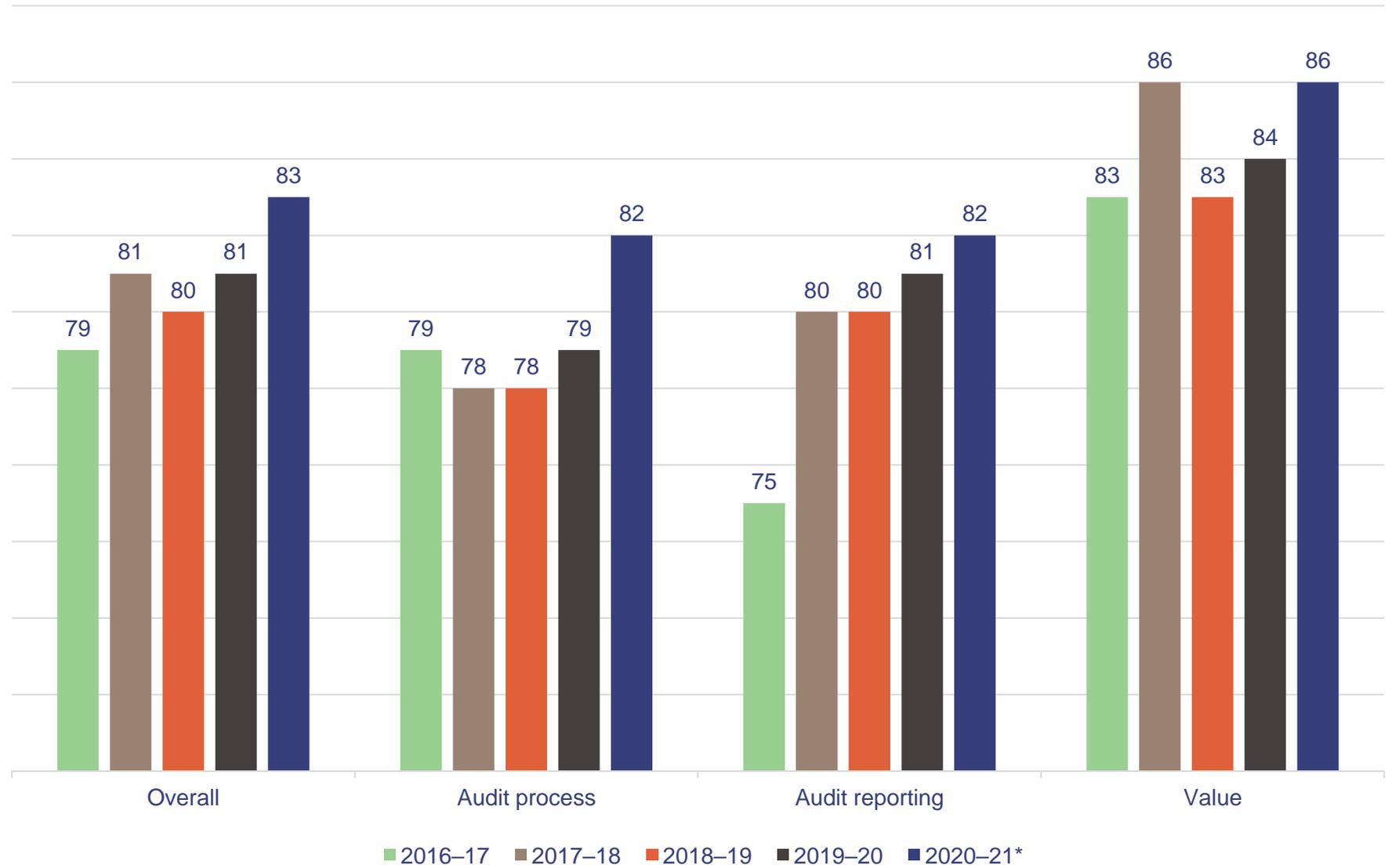
* 2020–21 results are only based on round 1

Feedback

Areas of positive feedback:

- Professionalism and responsiveness of staff

- Skills and knowledge, and understanding of clients

- Timeliness of audit opinions

- Balanced and fair reports

- Valued recommendations and assurance

Areas for continued improvement:

- Timeliness of management letters

- Clear communication

- Opportunity to comment

Areas of focus

Increasing risk

Rapid response programs of government:

- reduced level of documentation and assessment
- refocused business during those times may mean key controls have not been effective
- credit loss exposure of loans to be reassessed.

Fiscal response and going concern assessments:

Fiscal response change may result in changed materiality levels and areas of focus.

Increased scepticism required over forecasts and going concern assessments

Critical assessments of restricted cash and changes in investment valuations.

We have noted:

- deferred or cancelled capital expenditure programs
- focused operating expenditure reduction
- redundancy programs (provisions).

Fiscal response of government

Over **$7 bil.**
Cost of Queensland Government's COVID-19 response

Over **15** government agencies involved in delivering response measures

Over **80** response measures announced by the Queensland Government between 1 February and 21 August

Over **580** government announcements were made between 1 February and 21 Augu relating to COVID-19

Support for individuals
Over **$1.1 bil.** value of response measures
Over **10** response measures

Support for businesses
Over **$4.6 bil.** value of response measures
Over **10** response measures

Health response
Over **$1.2 bil.** value of response measures

Public safety response
Over **$75 mil.** value of response measures

Sources of funding for government's response

Over **$4.4 bil.** new funding including new appropriations

Over **$1.9 bil.** government revenue forgone

Over **$0.7 bil.** internally funded by government agencies

The government's response also includes existing programs that total over $51 billion.

Job support loan scheme

Overview of COVID-19 Jobs Support Loan Scheme

$982.4 mil. of $1 bil.
funding approved as at 30 June 2020
($995.9 mil. as at 31 October 2020)

6,825 loans approved
as at 30 June 2020
(6,928 loans approved as at 31 October 2020)

Loans made available:
- up to 50 per cent of an eligible entity's annual wage expense
- maximum of $250,000
- 1 year no repayments or interest
- 10-year loan terms
- 2 years interest-only payments
- 2.5% fixed interest rate
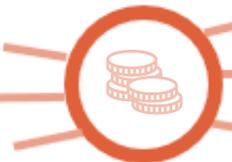
Industries that received over half of the loans

Construction
$140.6 mil (15.2%)

Professional, scientific and technical services
$113.1 mil. (12.2%)

Accommodation and hospitality services
$110.2 mil. (11.9%)

Manufacturing
$88.4 mil. (9.5%)

Retail trade
$82.5 mil. (8.9%)

Loans by locality:

Approved Applications (no.)
182
1

QUEENSLAND
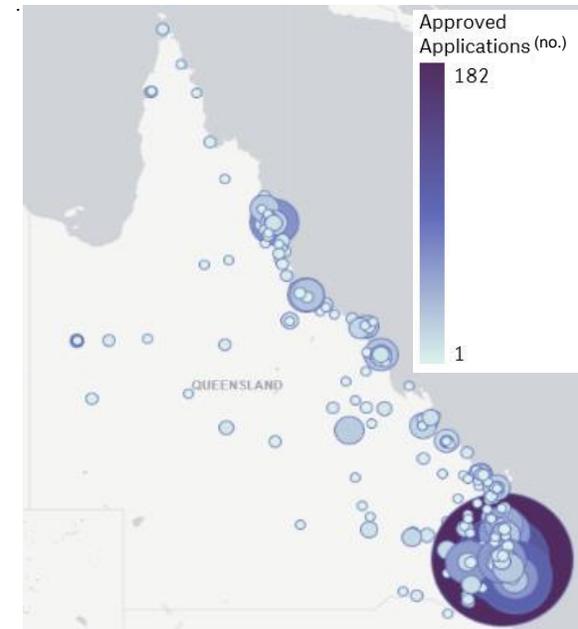
Small business adaptation grants
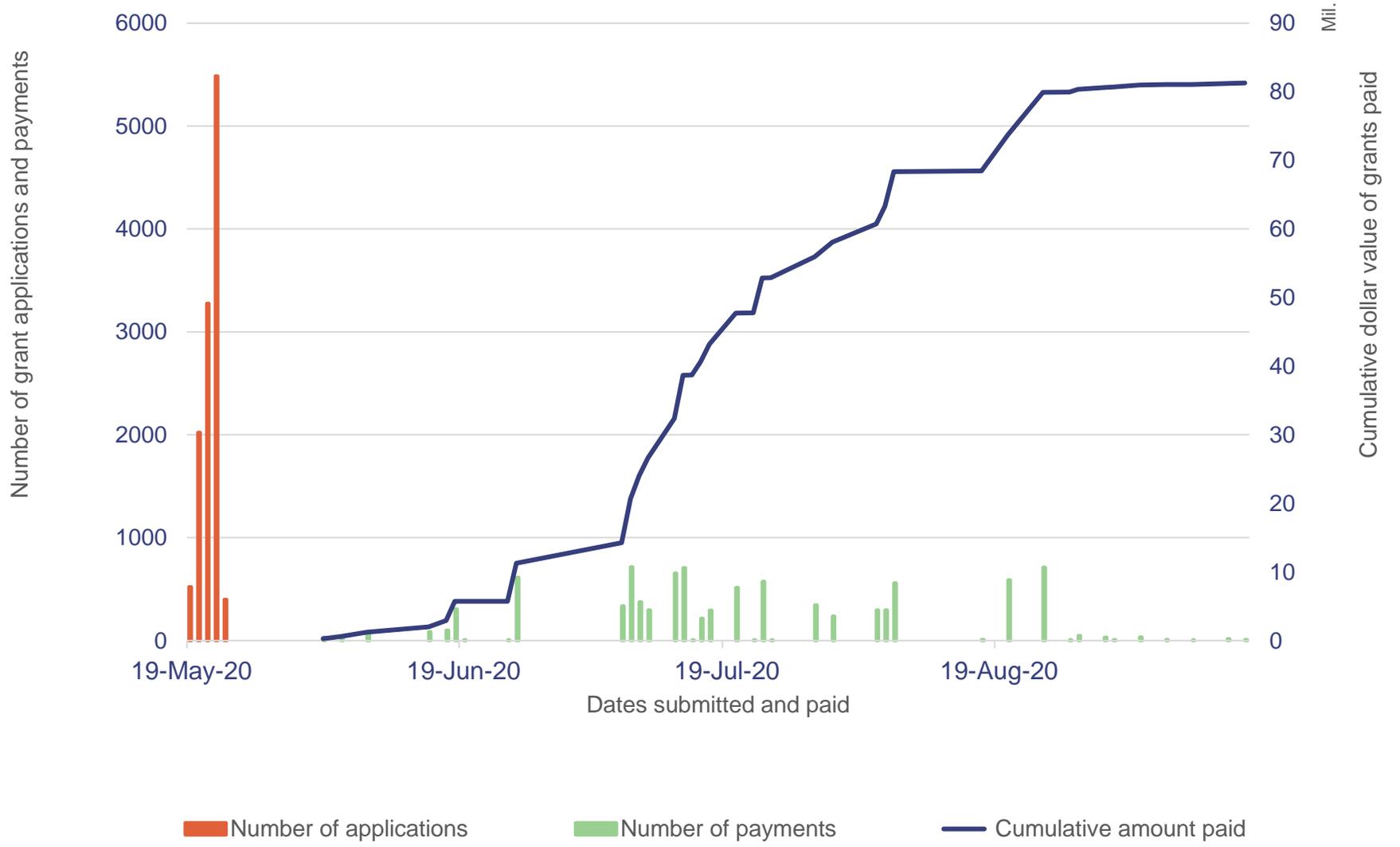
Health

1.1 million
COVID-19 tests
performed by the end of Sep 2020

$345 million
Commonwealth funding
for COVID-19

328
COVID-19 patients admitted
as of Jun 2020

7%
decrease in overall hospital admissions
for the period Mar–Jun

Decrease in hospital admissions due to COVID-19

On 25 March, non-urgent elective surgeries temporarily suspended

On 27 April, some non-urgent elective surgeries recommenced

Hospital admissions: 160,000 / 140,000 / 120,000 / 100,000 / 80,000 / 60,000

July, August, September, October, November, December, January, February, March, April, May, June

2019-20   2018-19

Source: Queensland Audit Office from the HHS's hospital admissions data

Seven per cent fewer patients

Guaranteed funding based on previous year's targets

Faster payment of invoices
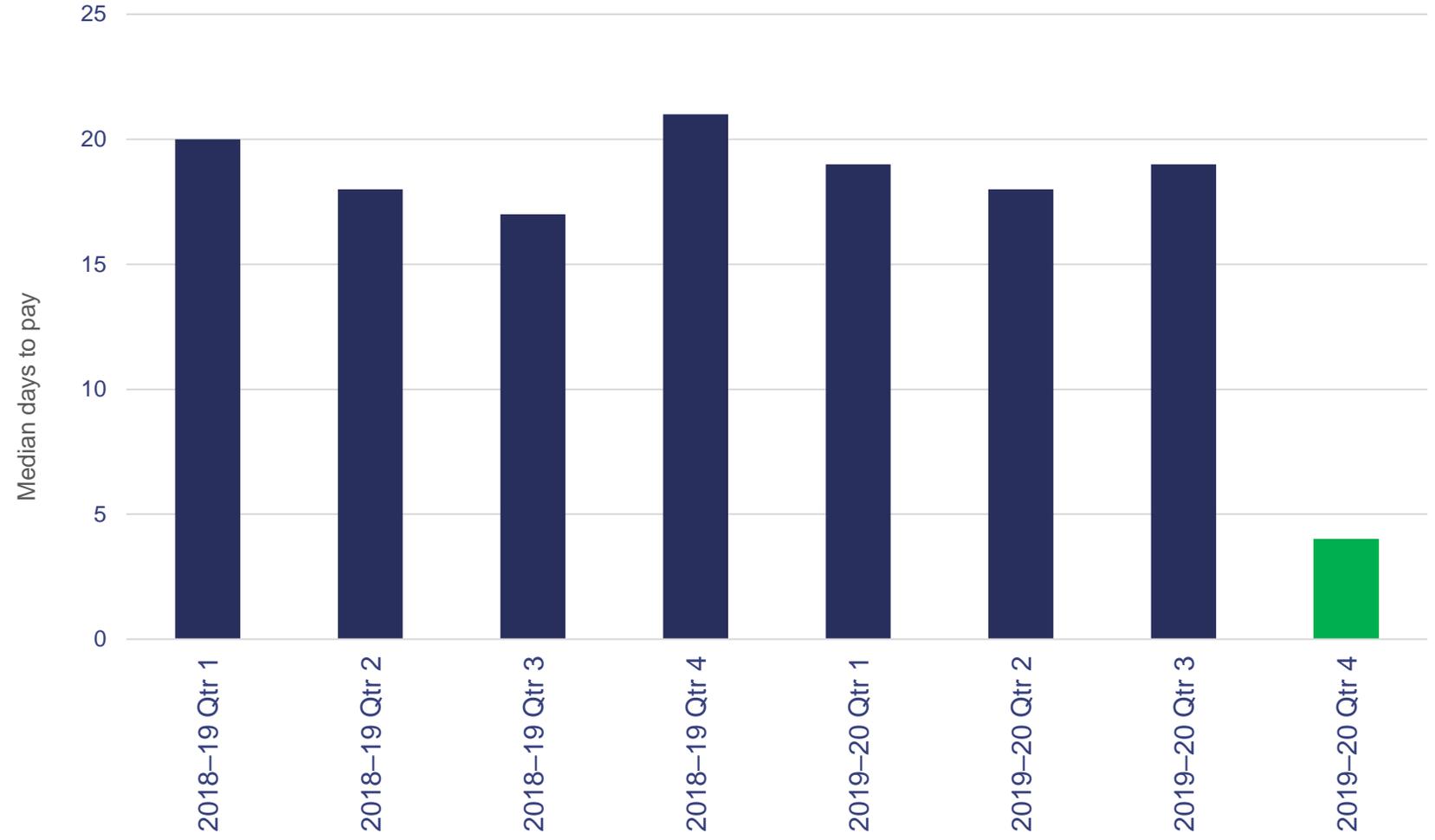
Areas of focus

Increasing risk

Cyber security:

- Increase of up to 67 per cent in cyberattacks since the start of the pandemic.

- Vulnerability increased as entities focus resources on responding to emerging and critical matters

- Delayed identification of cyberattacks, with financial and/or reputational consequences.

Asset programs and valuation:

- Major infrastructure programs are a continued area of focus

- May require the resetting of the expected risks and benefits of the investments in a post-COVID world

- Potential longer-term valuation volatility and risk for investments and real assets, particularly retail space and real estate if office work practices change permanently.
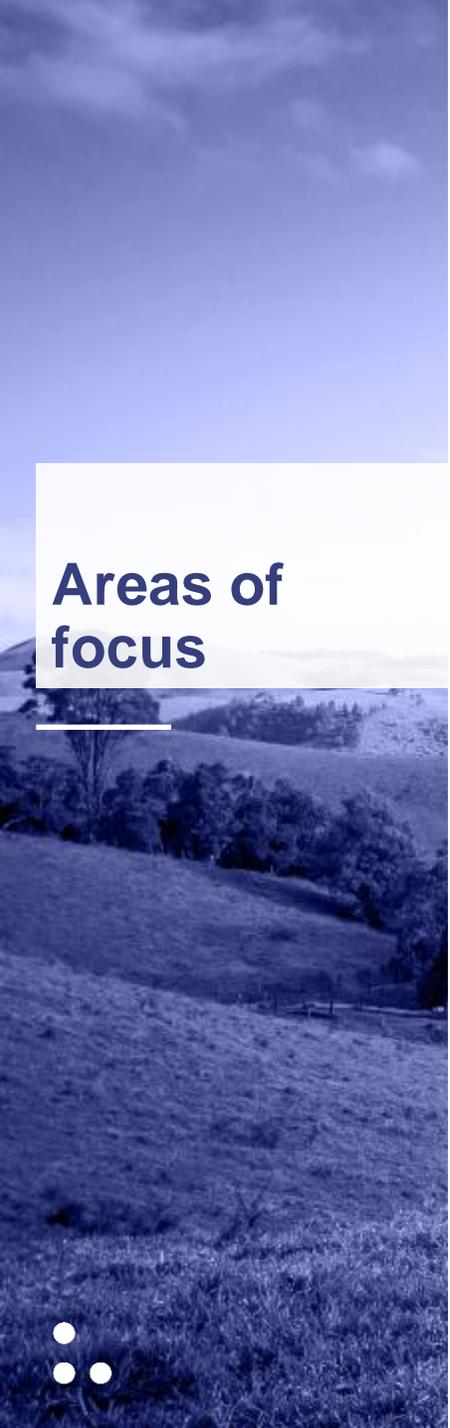
Areas of focus

Machinery of government changes:

- Establish an implementation plan, with oversight by its audit committee.

- Where a machinery-of-government change has resulted in functions moving between departments, departments should conduct a review to align their financial statement preparation processes within the new department and reassess the maturity of those processes.

Major issues

Increase in issues identified this year

9 **significant deficiencies**
(high-risk matters that require immediate action)
raised with departments during the year
(4 in 2018–19)

79 **deficiencies**
(low-risk matters that can be corrected over time) raised with departments during the year
(77 in 2018–19)

Most prior year issues have been resolved

The same common weaknesses as last year

Weaknesses in **information systems**, increasing the risk of successful cyberattacks

A lack of independent checking of **changes to supplier and employee details**

A lack of review of **payroll monitoring reports**

Weaknesses in **supplier payment processes**

System replacement

Status of internal control deficiencies at the department and HHSs

	Resolved–deficiency	Resolved–significant deficiency	Unresolved–deficiency	Unresolved–significant deficiency
Raised in 2019–20	13	5	30	3
Raised in 2018–19	13		6	
Raised in 2017–18	15	5	5	

■ Resolved–deficiency   ■ Resolved–significant deficiency
■ Unresolved–deficiency   ■ Unresolved–significant deficiency
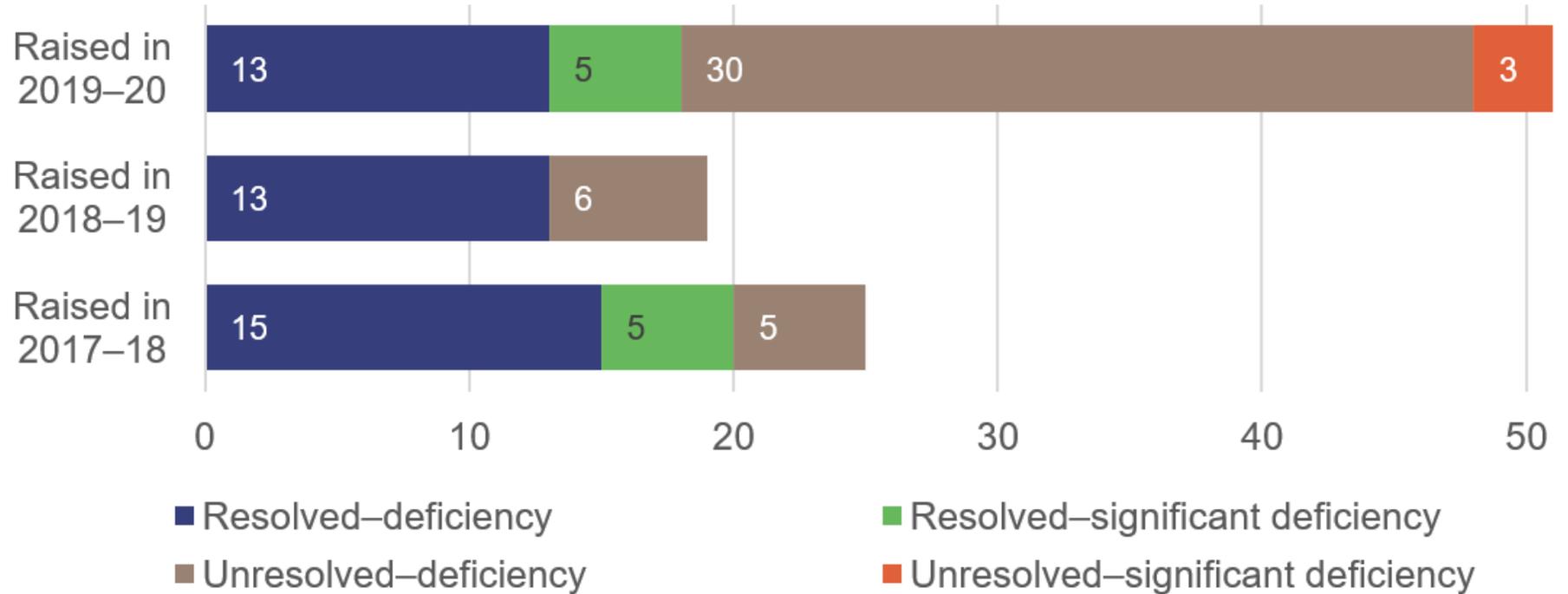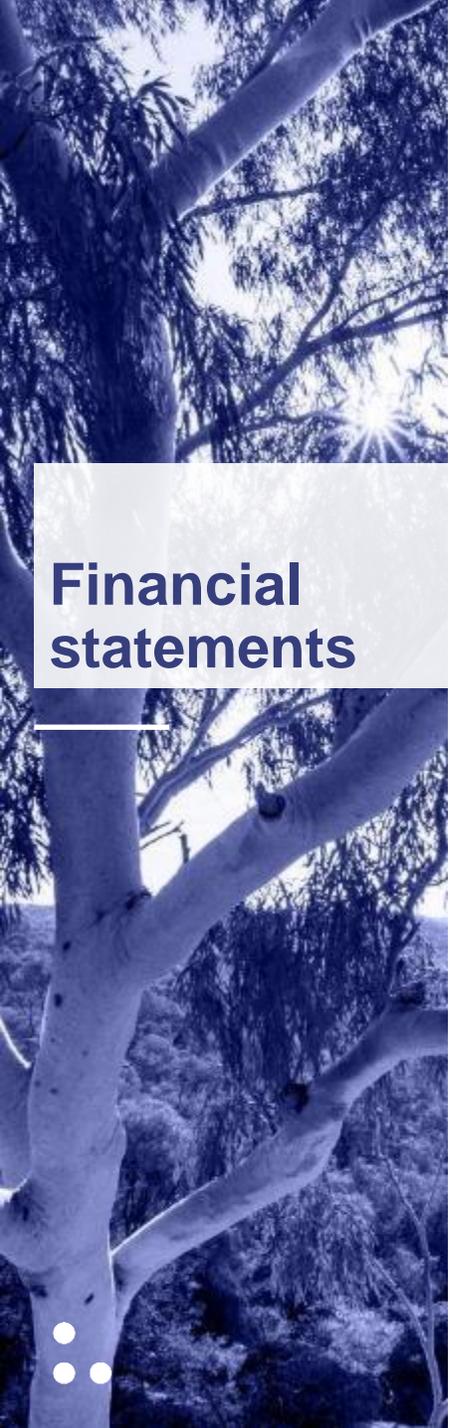
Financial statements

The outcomes for 22 departments:

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

Controls maturity

Controls maturity model

New assessment product

Consultation and trialling this year for state govt

Issues reporting

Identified areas:

› governance

› risk management

› information systems

› asset management

› procurement

› grants management

› change management

› records management

› monitoring

› culture

Annual maturity assessment:

1. Developing
2. Established
3. Integrated
4. Optimised

Deep dives:

One each year or as risk arise
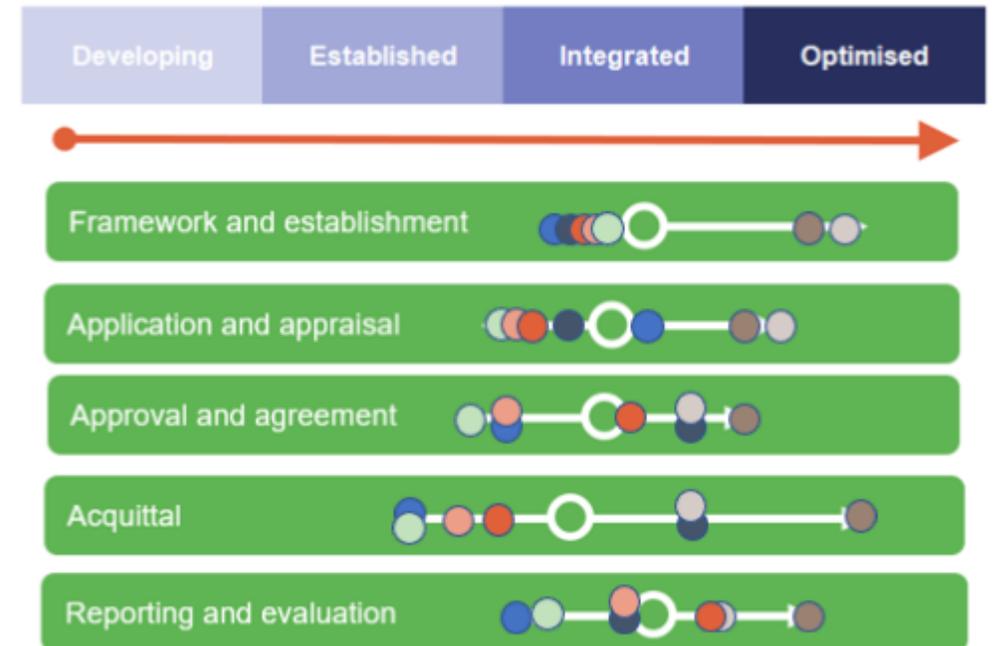
Grants management

Data visualisations:

Helping connect
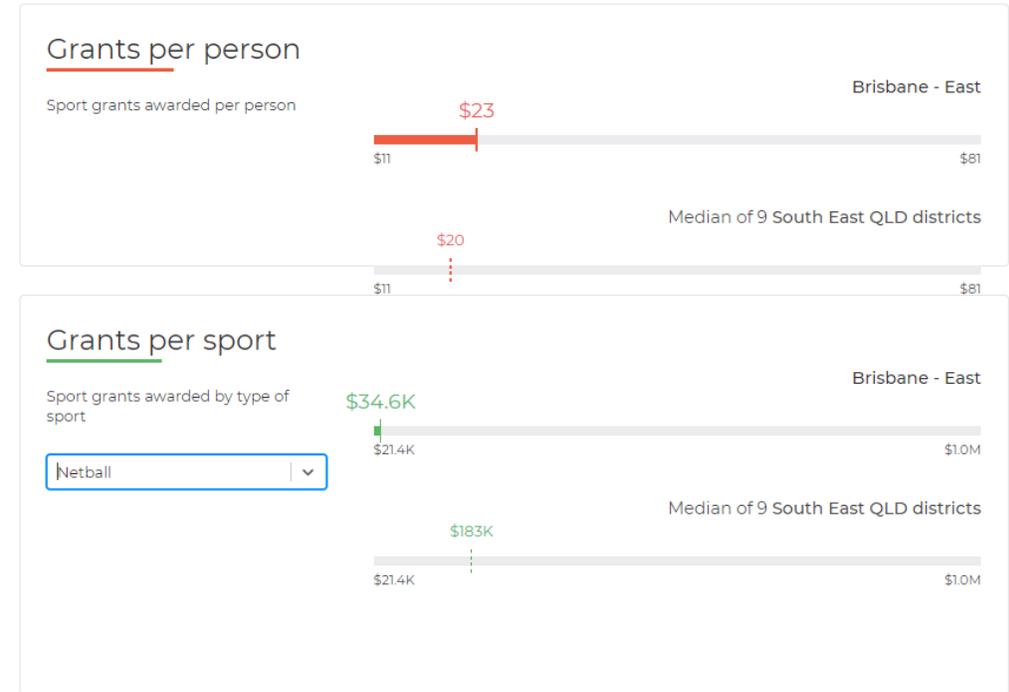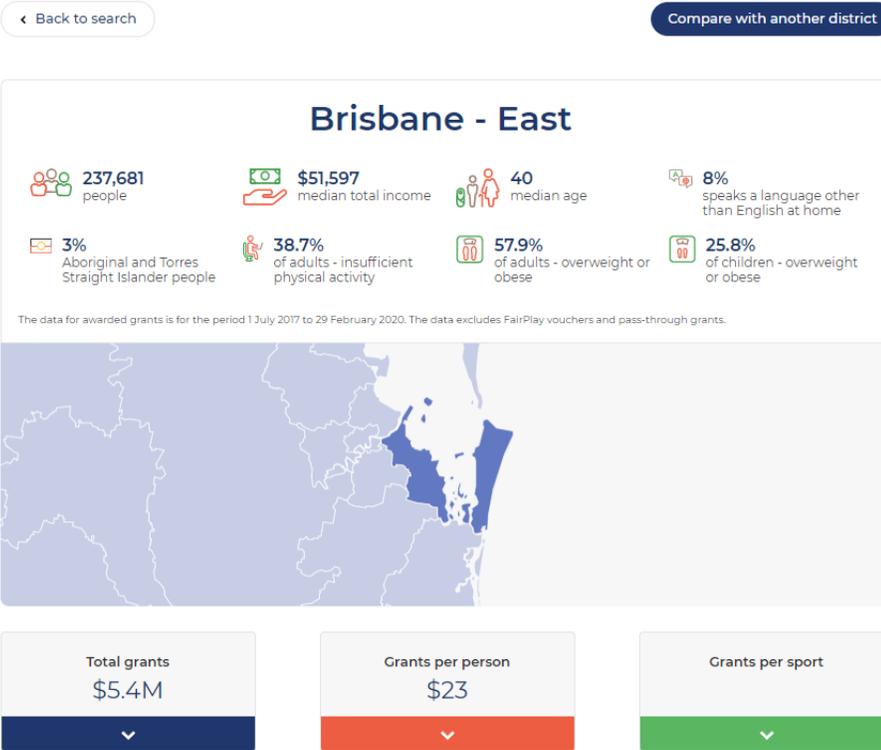
New approach to following up reports

Patrick Flemming, Assistant Auditor-General

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New system for following up audits

Follow-up of audit recommendations

Many entities have limited tracking or monitoring of recommendations, and/or are unaware of recommendations to broader public sector

We have had a manual process, limited to selected audits.

New secure web-based system for entities to self-assess implementation

➢ enables QAO to track all recommendations that we have made to entities and to monitor and analyse the progress they report to us

➢ gives entities clarity over their own status and better visibility of government-wide recs

➢ efficient and consistent approach.

New system for following up audits

There is also appetite from parliament for greater visibility

— for the first time we intend on reporting to parliament the progress entities have made in implementing our recommendations (self-reported progress).

- provides parliament with more visibility

- likely to include some categorisation and statistics

- draft report will be provided for 21-day comment period per our normal protocols and under the *Auditor-General Auditing Standards*

- does not provide assurance.

Role for audit and risk committees

— use the system to help committees fulfil their role to monitor and question the progress of their entity in implementing our recommendations.

Timing

- Aiming to launch the system early 2021

- Writing to all entities in December 2020 to inform them of the new approach, and preparing a suite of supporting materials

- Report to parliament on entities 'self-reported' progress by September 2021.

Milestones			
Oct – Dec 2020	**Jan 2021**	**Feb - Mar 2021**	**Apr - Jun 2021**
2: Client testing	**3: System launch**	**4: Responses due**	**5: Reporting**
• Test system with pilot entities • Refine system based on feedback	• Issue self-assessments to entities authorised representatives	• Entity self-assessments due • Follow up with entities	• Analyse entity responses • Identify trends & insights • Table report to parliament

Insights on ICT projects

Pat Flemming, Assistant Auditor-General

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Cyber security reminder

Targeted cyber attacks are increasing

aiming to compromise Australia's economic interests and national security

data fraud or threat and cyber attacks—top five mostly likely global risks.

Increasing pressure on all organisations to understand their risks.

In **Managing cyber security risks** we examined whether entities effectively manage their cyber security risks

= 17 recommendations ranging from cyber security frameworks to identifying assets.

Continued alertness needed as organisations work remotely:

- Multifactor authentication
- Password practices
- Unusual emails— phishing, links.

Governance and accountability

- business cases om cost and benefits
- framework is clear on ownership
- unequivocal accountability
- clear governance-leadership roles

Contracts

- define deliverables and don't over commit long-term
- due diligence for software-as-service
- avoid over relying on consultants

Resourcing

- capacity of internal staff
- big bang projects—risk doing everything at once

Culture

- operating in silos or hiding bad news can inhibit governance

At least 12 councils implement new finance systems each year —failures and wasted $ is high relative to project size

We need to add value prior to, and during, implementation

Queensland Health's new finance and supply chain management system
Report 4: 2020–21

Effectiveness of the State Penalties Enforcement Registry ICT reform
Report 10: 2019–20

ICT projects— five factors for success

Senior leaders actively lead and challenge

Projects are aligned to business outcomes

Internal and external teams work towards the same goals

The team has the skills and capacity to match the challenge

Learnings are identified and acted on

Delivering successful technology projects

Report 7: 2020–21

Sports grants

Clear accountability for all parties—respective roles of elected members and entity

Merit based process—elected members should rely on the entity's process:

- may provide approval to commence a grant program, and feedback on design
- may be advised of, and can provide feedback, on the outcome of assessment

⚠️ **Documentation**

- Must articulate responsibility for outcomes
- Any interactions between entity and member, particularly on feedback which results in changes to outcomes

Awarding of sports grants

Report 6: 2020–21

QAO's reports and resources

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

Interactive dashboards
qao.qld.gov.au/reports-resources/interactive-dashboards

QAO blog
qao.qld.gov.au/blog

Fact sheets
qao.qld.gov.au/reports-resources/fact-sheets

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Q&A

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