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Client technical audit update

17 February 2021

● *Queensland*
● ● **Audit Office**
Better public services

Hilton guest Wi-Fi:
TAOU1702

Agenda

9.00 am–9.30 am: Arrival tea and coffee

9.30 am–9.40 am: Reflections on last year
P. Brahman, Assistant Auditor-General

9.40 am–10.40 am: Technical update
Greg Hall, Principal Accountant & Jing Lu, Senior Accountant, Queensland Treasury
David Hardidge, Director QAO

10.40 am–10.55 am: MOG changes and controls maturity model
Michelle Reardon, Senior Director QAO

10.55 am–11.10 am: Update on audit planning and public reporting
Rachel Vagg, Assistant Auditor-General

11.10 am–11.30 am: Closing and Q&A
Brendan Worrall, Auditor-General

11.30 am–12.00 pm: Refreshments and networking





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Reflections on last year and our engagement with you

P. Brahman, Assistant Auditor-General

Reflections on last year

State and local government entities:

Tackled the challenges of service delivery during rapid change, emerging risk.



More complex community service needs, continued pressure on efficient use of resources.



Modified business processes to transition to working from home.



Internal controls for most continued to be effective.



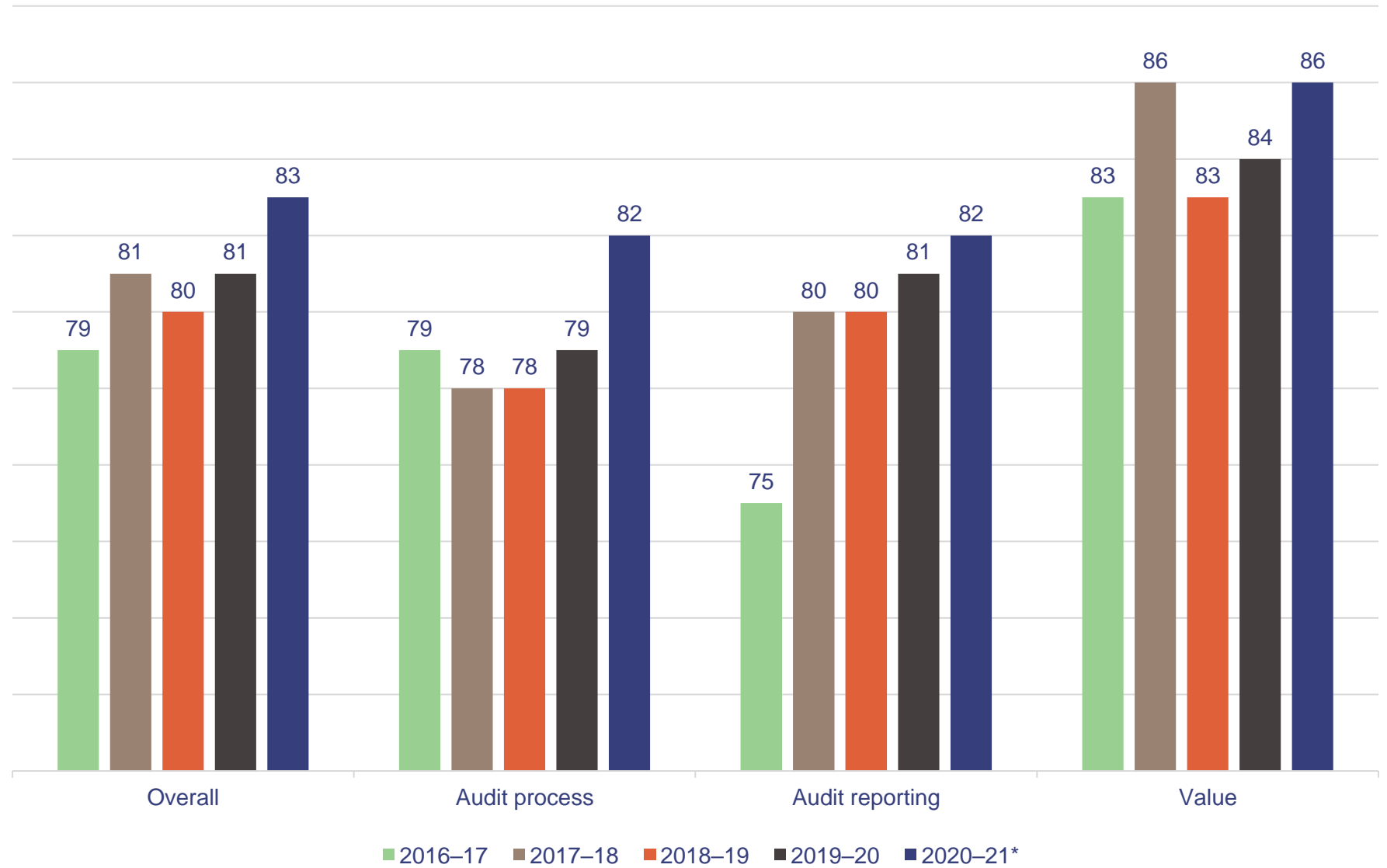
Given the uncertainties of 2021, QAO will continue to work with entities to further refine our respective processes based on this year's learnings.



I anticipate a demanding year ahead for many; we will be here to support.



Overall performance



* 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



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Technical update

Greg Hall, Principal Accountant & Jing Lu, Senior Accountant, Queensland Treasury

David Hardidge, Director QAO

2020/21 QAO Technical Update

2020/21 Financial Reporting Update

Common ongoing lease accounting issues under AASB 16

17 February 2021

2020/21 Financial Reporting Update

Greg Hall
Queensland Treasury

- Anticipated release within the next fortnight
- 2020/21 update is relatively minor compared to previous years
- Major impact: New FRR 5D for Service Concession Arrangements / PPPs
- AASB 1059 – minimal “policy” – more guidance

AASB 1059 – Service Concessions

QAO Technical Update Illustration (not official draft release)
 Sunshine Department and Controlled Entities
 Statement of Financial Position
 as at 30 June 2021

	Note	CONSOLIDATED		DEPARTMENT			2020 Actual \$'000
		2021 Actual \$'000	2020 Actual \$'000	2021 Actual	2021 Original budget \$'000	Budget variance* \$'000	
Current assets							
AASB 101.10(c) AASB 1055.6, FRR 5C.4 FRR 4A.1 AASB 101.60 & 66							
AASB 101.54(i)	C1	X	X	X	X	X	X
AASB 101.54(h)	C2	X	X	X	X	X	X
AASB 101.54(d)	C3	X	X	X	X	X	X
AASB 101.54(g)	C4	X	X	X	X	X	X
AASB 101.55	C5	X	X	X	X	X	X
		X	X	X	X	X	X
AASB 101.54(j), AASB 5.38 & 40	C6	X	X	X	X	X	X
		X	X	X	X	X	X
Total current assets		X	X	X	X	X	X
Non-current assets							
AASB 101.60							
AASB 101.54(h)	C2	X	X	X	X	X	X
AASB 101.54(d)	C3	X	X	X	X	X	X
AASB 101.54(a)	C7-1	X	X	X	X	X	X
AASB 16.47(a)	C10	X	-	X	-	-	-
AASB 101.54(b)	C8	X	X	X	X	X	X
FRR 5D	C11	X	X	X	X	X	X
AASB 101.54(c)	C9-1	X	X	X	X	X	X
AASB 101.55	C5	X	X	X	X	X	X
		X	X	X	X	X	X
Total non-current assets		X	X	X	X	X	X
Total assets		X	X	X	X	X	X

- PPP arrangements OUTSIDE AASB 1059?
- Other Standards to be considered:
 - AASB 116 - PPE
 - AASB 16 – Leases
 - AASB 9 – Financial Instruments
- FRR 5D guidance – but each case assessed on individual merits

- Similar disclosures for **all PPPs irrespective** of which Standard applies.
- Disclosures by individual PPP grouped into:
 - a. narrative information,
 - b. outstanding balances,
 - c. amounts reported in operating statement;
 - d. estimated future cash flows
- Prior year disclosures – much of the information already available.

- From 1 July 2021 the Tier 2 *Reduced Disclosure Reporting framework* (RDR) will be **withdrawn** and **replaced by** **Tier 2 GPFS - Simplified Disclosures**.
- Entities preparing GPFS for Tier 2 entities will have to apply Simplified Disclosures from 2022.
- 2021 Future Bay – last year under Tier 2 RDR regime.

On the Horizon...Goodbye RDR

- Recognition and measurement requirements unchanged for Tier 2 entities.
- Disclosure requirements in each Australian Accounting Standard replaced by **AASB 1060 - a separate disclosure standard** containing simplified disclosures based on *IFRS for SMEs*
- *Illustrative Statements applying AASB 1060 available before 30 June 2021 – 12 months advance notice*

On the Horizon...

- Fit out assets held on agency balance sheets under QGAO arrangements – consultation survey to be issued in coming days.
- AASB 1055 – operating statement only for 2020/21
- Company Financial Reporting Policy Update
- Future of Public Sector Financial Reporting project

Common ongoing lease accounting issues under AASB 16 for lessees

Jing Lu
Queensland Treasury

Common ongoing lease accounting issues

Reassessments

Modifications

Other issues

Common ongoing lease accounting issues

Reassessments

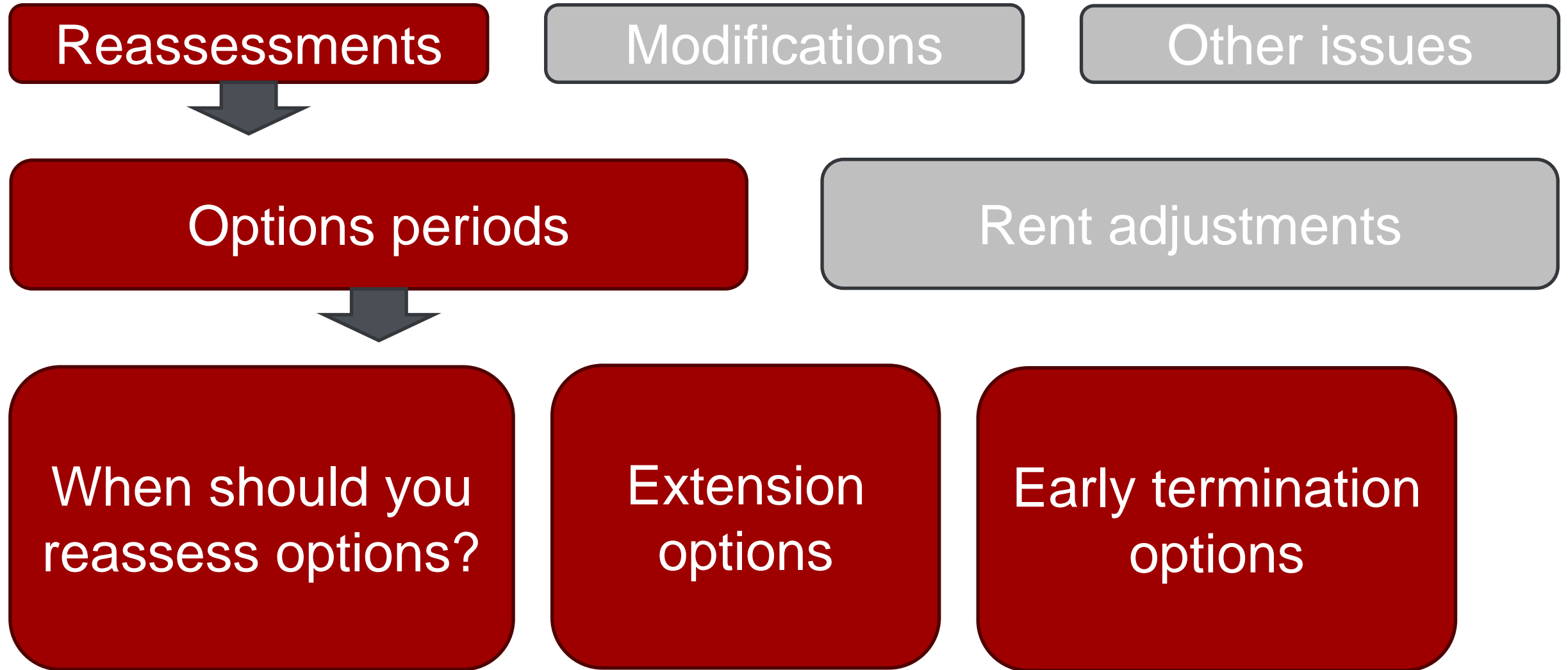
Modifications

Other issues

Options periods

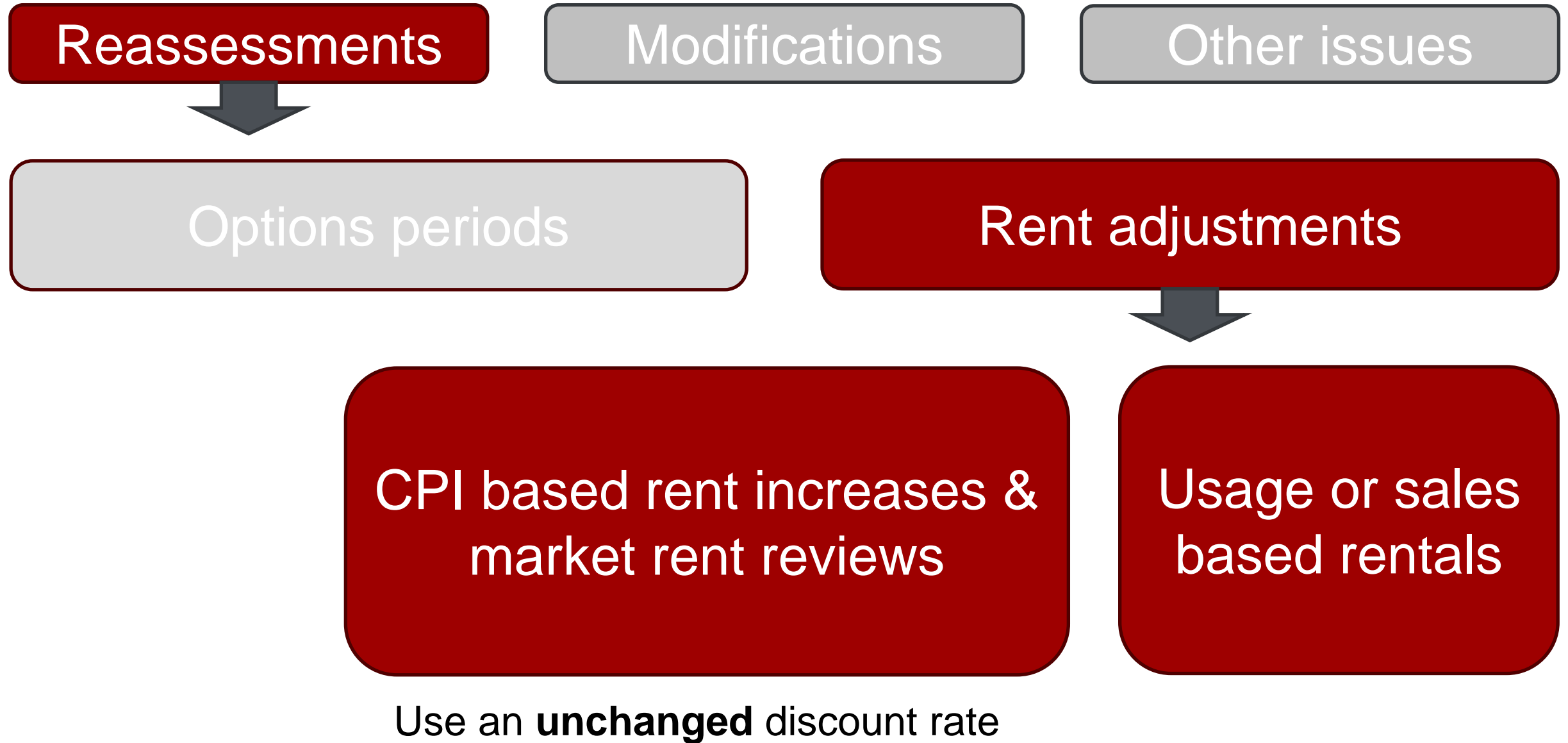
Rent adjustments

Common ongoing lease accounting issues



When the lease term changes, use a **revised** discount rate

Common ongoing lease accounting issues



Common ongoing lease accounting issues

Reassessments

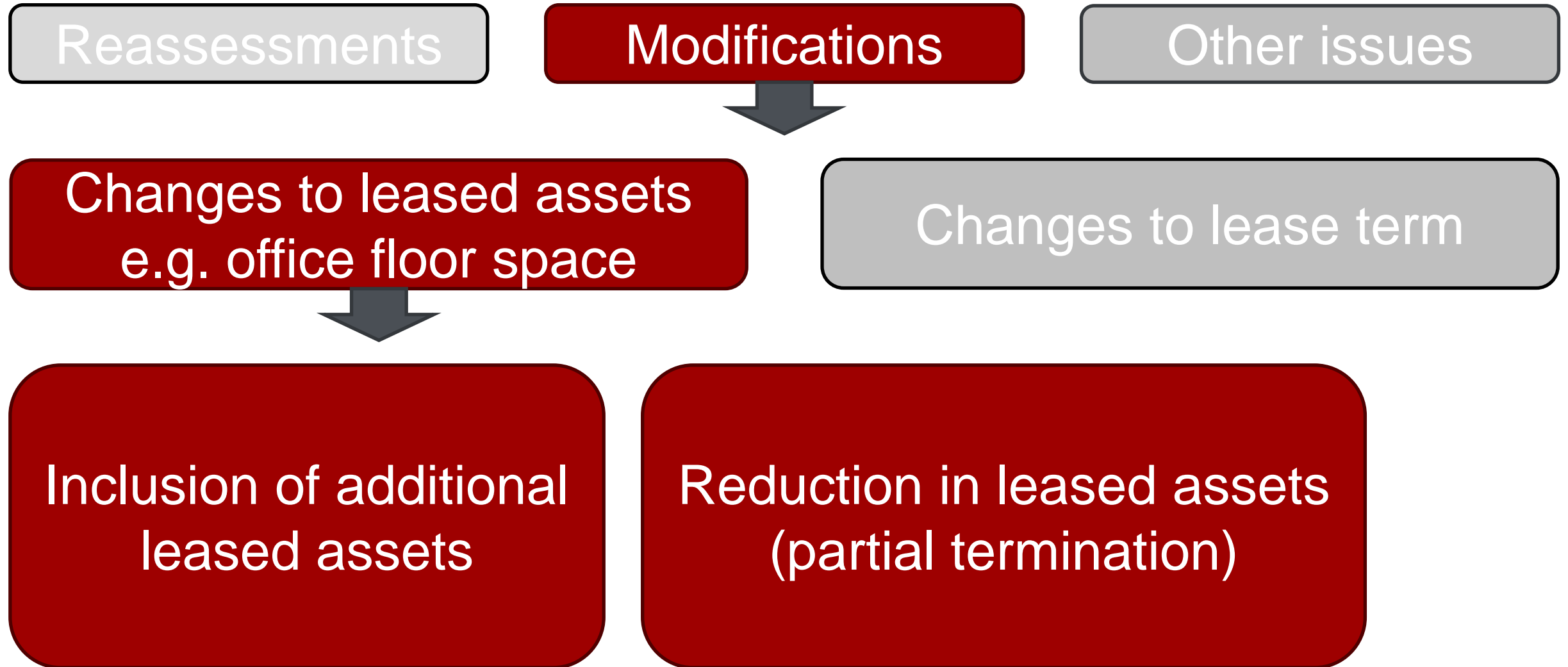
Modifications

Other issues

Changes to leased assets
e.g. office floor space

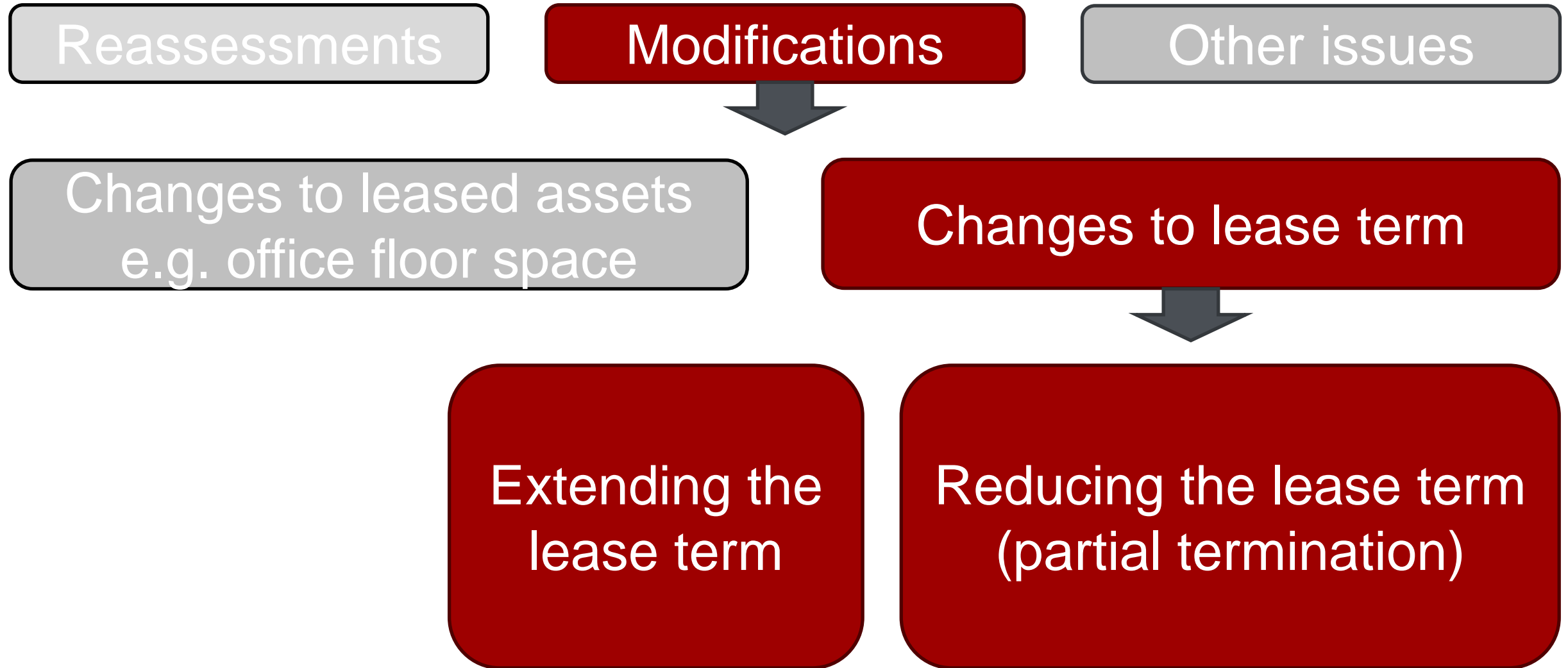
Changes to lease term

Common ongoing lease accounting issues



Use a **revised** discount rate for lease modifications

Common ongoing lease accounting issues



Use a **revised** discount rate for lease modifications

Common ongoing lease accounting issues

Reassessments

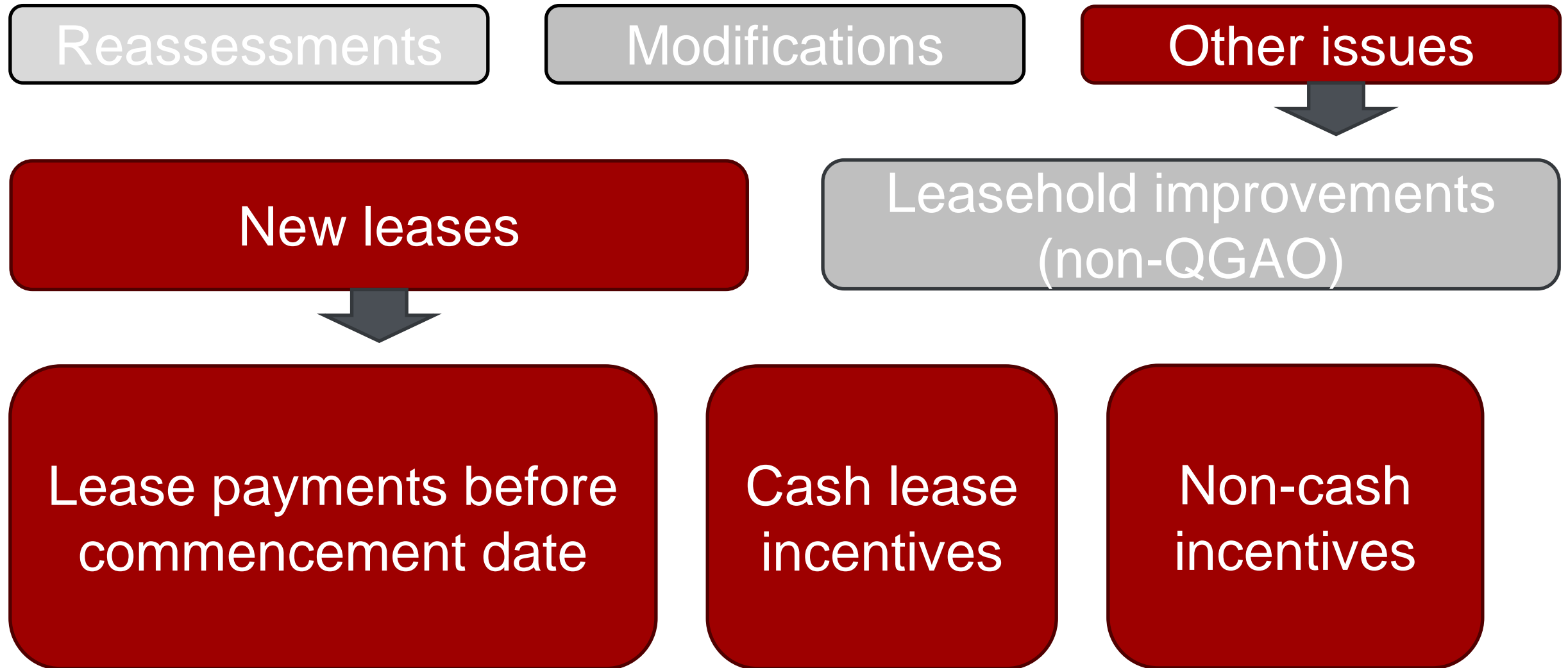
Modifications

Other issues

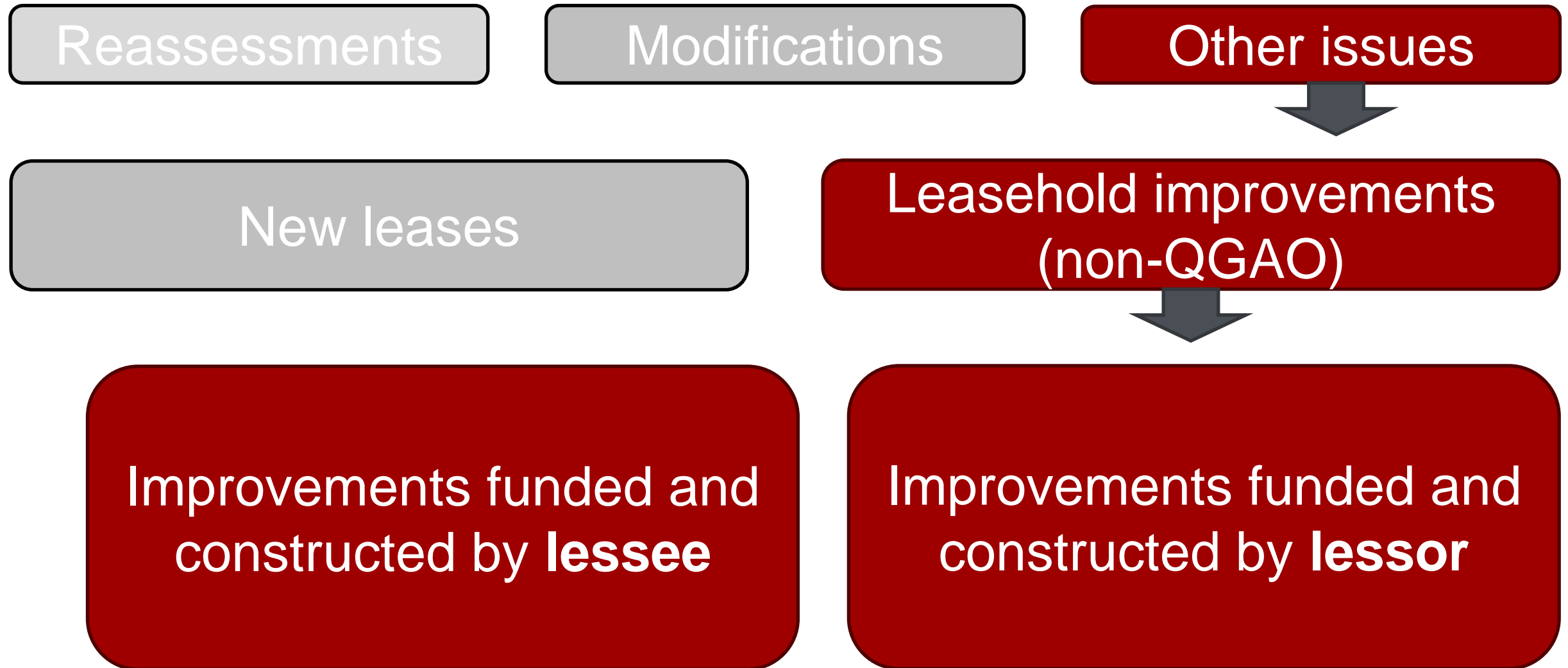
New leases

Leasehold improvements
(non-QGAO)

Common ongoing lease accounting issues



Common ongoing lease accounting issues



ADDITIONAL INFORMATION

(For post-presentation reading)

- Reassess when there is a significant event or significant change in circumstances
- When lease term is changed → must remeasure lease liability with a **revised** discount rate
- Leases with indefinite lease terms
 - refer IFRIC agenda decision
 - consider broader economics of the contract
- Revised lease term may impact on sub-lease classification

Early termination options

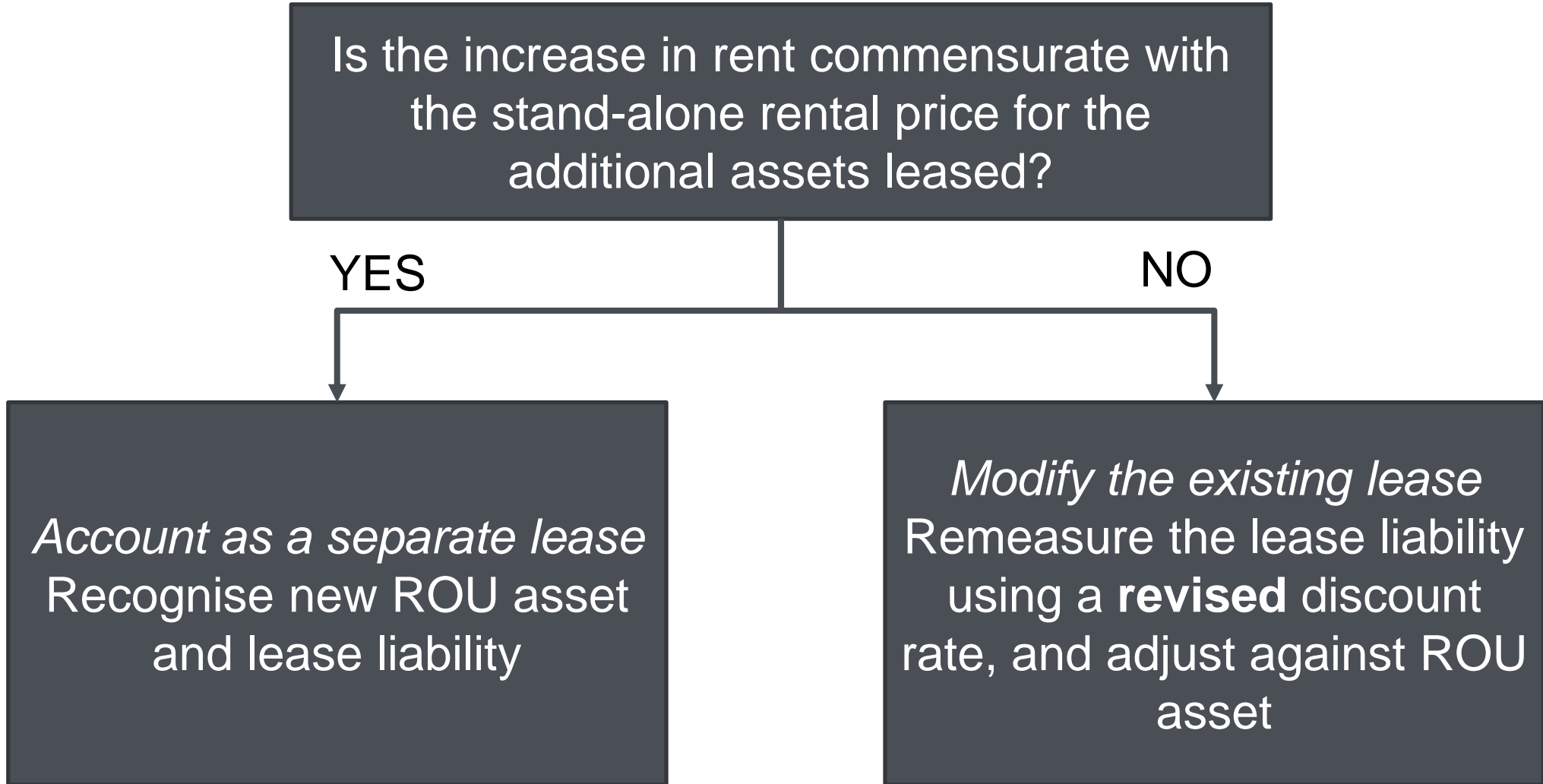
- Assess whether you're no longer reasonably certain not exercise the termination option
- Timely revision of lease term is important, don't leave it to the last day!
- Use a **revised** discount rate, however discounting may not be needed if remaining term <12 months
- If reduction in liability exceeds carrying amount of ROU asset, record a gain for the excess

Rent adjustments

- CPI based increases and market rent reviews
 - remeasure lease liability only when the change to rent payments take effect
 - use an **unchanged*** discount rate
- Usage or sales based rent
 - recognise variable lease payment expense as incurred
 - separately disclose if material

*Except as described in AASB 16.43 (rentals based on floating interest rates)

Lease of additional assets (e.g. office space)



See IFRS 16 Illustrative Example 15

See IFRS 16 Illustrative Example 18

- Partial termination under AASB 16.46(a)

Step 1

- Reduce ROU asset and lease liability proportionately (e.g. based on original floor space vs reduced floor space)
- Recognise gain or loss in P&L

Step 2

- Recalculate lease liability using a **revised** discount rate
- Bring lease liability to the new amount, adjusting against ROU asset

See IFRS 16 Illustrative Example 17

Modification to extend the lease term

- At the date of the modification: Remeasure lease liability using a **revised** discount rate, adjust against ROU asset
- What if instead of modifying the existing agreement, you enter into a new agreement with the lessor for the same asset, starting after the current lease ends?
 - If it is in substance the same as a re-negotiated lease term extension, account for it as a lease modification
 - Brings forward recognition of asset & liability to date the new lease agreement is signed

See IFRS 16 Illustrative Example 16

- Partial termination under AASB 16.46(a)

Step 1

- Recalculate lease liability using **original** discount rate, reduce lease liability to this new amount
- Reduce ROU asset proportionately (e.g. based on original remaining lease term vs reduced remaining lease term)
- Recognise gain or loss in P&L

Step 2

- Recalculate lease liability using a **revised** discount rate
- Bring lease liability to the new amount, adjusting against ROU asset

See IFRS 16 Illustrative Example 18

- Lease payments made before commencement
 - Recognise a prepayment first, move to ROU asset on commencement
- Cash lease incentives, including reimbursements
 - Received on or before commencement → reduce ROU asset
 - Receivable after commencement → factor into lease liability calculation, which in turn reduces ROU asset
- Non-cash incentives – Is it a “lease incentive”?
 - Improvements to the leased asset → may just be a part/feature of the asset leased, no separate accounting required
 - Not related to the leased asset → non-lease component

- Improvements funded and constructed by lessee
 - Capitalise eligible costs as PP&E
 - Determine useful life – Can the improvements can be physically and economically removed?
 - Review useful life if lease term changes
- Improvements funded and constructed by lessor
 - No accounting required if you're not required to pay extra for it and the ROU asset is measured at cost

What discount rate to use when remeasuring the lease liability

Revised discount rate	Unchanged discount rate
Reassessment of options that changes the lease term	CPI rent adjustment or market rent review
Change in assessment of a purchase option	Change in estimate of amount payable under residual value guarantee
All lease modifications not accounted for as separate leases	

Treasury accounting advice?

Email: fmhelpdesk@treasury.qld.gov.au



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Accounting standards update

David Hardidge, Director

Upcoming changes

2020–21

AASB 1059 Service concessions

Conceptual framework
(FP private sector)

2021–22

RDR/SDS (Tier 2)

Reporting entities/
SPFRs
(FP private sector)

Beyond

AASB 17 Insurance contracts

Conceptual framework
(NFPs)

General
Presentation and
Disclosures

NFP + Public
Sector Financial
Reporting
Framework

Current issues

1

Government grants and termination for convenience clauses

- Different views amongst accounting firms

2

Did AASB 15 and AASB 1058 fix the 'matching issue' for not-for-profits?

- How can it be improved?



Peppercorn leases

What is a peppercorn lease?

- Concessionary leases

Originally—Mandated fair value

- How do you work out fair value?
- ‘Temporary’ deferral (use cost)—class-by-class
- For how long in the public sector?

What is fair value of an operating lease?

- No observable market
- Restrictions for not-for-profit
- Termination clauses—e.g. 99 year lease and two year termination notice by lessor
- Contingent rentals, for example, 10 per cent of revenue

AASB Fair Value Measurement project

- Project advisory panel
- Public sector focus
- Restrictions and conditions from 'equivalent unrestricted land'
 - Do you apply any? E.g. land under buildings
 - What is the justification for the discount?
 - What is the market or other evidence?
- Greenfield versus brownfield
 - Day one gain?
- Borrowing costs
- Peppercorn/concessionary leases

COVID-19 issues?

Impairment—expected credit losses

COVID-19 effects disclosures

COVID-19 lease rent concessions

- Originally restricted to payments due before 30 June 2021



Do you have a PPP (public–private partnership)?

- Is it currently off-balance sheet?
- How will you account for it?
 - As a service concession or another method?



On-balance sheet liability transition changes



Life cycle payments (capital expenditure replacements)

- Identifying from the quarterly service payment
- Diversity in approaches
- What has been included in the replacement cost valuation?



**Criteria
AASB 1059**

2 This Standard shall be applied to service concession arrangements, which involve an *operator*.

- (a) **providing public services ...; and**
- (b) **managing at least some of those services under its own discretion...**

5 The grantor shall recognise an asset provided by the operator and an upgrade ... if the grantor controls the asset. The grantor controls the asset if, and only if:

- (a) **the grantor controls or regulates what services the operator must provide with the asset, to whom it must provide them, and at what price; and**
- (b) the grantor controls ... **any significant residual interest** in the asset at the end of the term of the arrangement.

B7 If an arrangement provides public services principally through a primary asset, and a secondary asset is used or is mainly used to complement the primary asset, such as student accommodation for a public university, the secondary asset would be regarded as providing public services as well.

As another example, a hospital car park constructed by an operator as part of the arrangement to construct a hospital that largely provides public services would be considered part of the hospital service concession arrangement.

...



IFRIC Agenda Decisions

IFRS Interpretations Committee (IFRIC)

- Interpretations
- Agenda Decisions (formerly Rejection Notices)
- Making them mandatory internationally (IFRS compliance)
 - IFRS Trustees Due Process Oversight Committee
 - *Due Process Handbook* review
 - All 200+ of them?
- Australian NFP and public sector compliance?
- Timing of changes
 - IASB—companies to be entitled to sufficient time to implement changes
 - Months, not years
 - As soon as possible, as soon as practicable?
 - <https://www.ifrs.org/news-and-events/2019/03/time-is-of-the-essence/>



Revenue recognition in a real estate contract (IFRS 15)

- Determining control (and when revenue is recognised)



Revenue recognition in a real estate contract that includes the transfer of land (IFRS 15)

- Might be separate performance obligations



Right to payment for performance completed to date (IFRS 15)

- Right to recovery of loss on cancellation not enough



Assessment of Promised Goods or Services (IFRS 15)

- Separate activities and charges versus performance obligations



Costs to Fulfil a Contract (IFRS 15)


- Percentage of completion—no smoothing of profit margin over contract



Compensation for Delays or Cancellations (IFRS 15)



Training Costs to Fulfil a Contract (IFRS 15)



**IFRS 16
IFRIC Agenda
Decisions**



Subsurface Rights (IFRS 16)

- Defining the asset



Lessee's Incremental Borrowing Rate (IFRS 16)

- Adjusting your current borrowing rate



Lease term and useful life of leasehold improvements (IFRS 16)

- Options—especially for cancellable and renewable leases



Definition of a Lease—Decision-making Rights (IFRS 16)



Sale and Leaseback with Variable Payments (IFRS 16)



Cloud computing/SaaS (software-as-a-service) configuration and customisation costs

- Can these be capitalised?



Classification of debt—current or non-current

- Implications of recent amendments effective 1 Jan 2023



Interest Rate Benchmark (IBOR) Reform

- LIBOR is going
- What about BBSW?
- What happens if your interest rate reference changes?
 - Interest rate hedge accounting?
 - Loan—effective interest rate?



Debt restructure

Debt restructure QTC

- Refinance fixed interest debt
- Possible extension of term
- Government owned corporations
- Local government



Example (substantive modification)

- \$100 million carrying value
- \$14 million Early Repayment Adjustment
- Expense Early Repayment Adjustment—even if capitalised into borrowing



**New
standards
1 Jan 2020**

- ✓ *Service Concession Arrangements: Grantors (AASB 1059) + Amendments*
- ✓ *Definition of a Business (Amendments to AASB 3)*
- ✓ *Definition of Material (Amendments to AASB 101 and AASB 108)*
- ✓ *Conceptual Framework (For-Profit private sector)—includes amendments to AASB 108 relating to selection of accounting policies in the absence of a standard*
- ✓ *Interest Rate Benchmark Reform (IBOR Phase 1)*
- ✓ *Disclosure of the Effect of new IFRS Standards Not Yet Issued in Australia*
- ✓ *Disclosure of GFS Measures of Key Fiscal Aggregates and GAAP/GFS Reconciliations*



**Tier 2, SPFRs
and the
public sector**

- Tier 2—Reduced Disclosure Regime (RDR) to be replaced by Simplified Disclosures (SDS) next financial year
 - Starting 1 July 2021
- SDS is a different system to RDR

Private sector		Public sector
For-profit	Not-for-profit	Not-for-profit and for-profit
AASB is 'removing' Special Purpose Financial Reports (SPFRs) for many uses	AASB is requiring extra disclosures in SPFRs	AASB has deferred changes

73

The financial statements shall disclose, for each class of property, plant and equipment:

- (a) the measurement bases used for determining the gross carrying amount;**
- (b) the depreciation methods used;**
- (c) the useful lives or the depreciation rates used;**
- (d) the gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period; and**
- (e) a reconciliation of the carrying amount at the beginning and end of the period showing:**
 - (i) additions;**
 - (ii) assets classified as held for sale or included in a disposal group classified as held for sale in accordance with AASB 5 and other disposals;**
 - (iii) acquisitions through business combinations;**
 - (iv) increases or decreases resulting from revaluations under paragraphs 31, 39, Aus39.1, 40, Aus40.1 and Aus40.2 and from impairment losses recognised or reversed in other comprehensive income in accordance with AASB 136;**
 - (v) impairment losses recognised in profit or loss in accordance with AASB 136;**
 - (vi) impairment losses reversed in profit or loss in accordance with AASB 136;**
 - (vii) depreciation;**
 - (viii) the net exchange differences arising on the translation of the financial statements from the functional currency into a different presentation currency, including the translation of a foreign operation into the presentation currency of the reporting entity; and**
 - (ix) other changes.**

Property, Plant and Equipment and Investment Property at Cost¹⁶

134 An entity shall disclose the following for each class of property, plant and equipment determined in accordance with paragraph 44(a) and separately for investment property carried at cost less accumulated depreciation and impairment:

- (a) the measurement bases used for determining the gross carrying amount;
- (b) the depreciation methods used;
- (c) the useful lives or the depreciation rates used;
- (d) the gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the reporting period; and
- (e) a reconciliation of the carrying amount at the beginning and end of the reporting period, showing separately:
 - (i) additions;
 - (ii) assets classified as held for sale or included in a disposal group classified as held for sale in accordance with AASB 5 and other disposals;
 - (iii) acquisitions through business combinations;
 - (iv) increases or decreases resulting from revaluations under AASB 116 and from impairment losses recognised or reversed in other comprehensive income in accordance with AASB 136 *Impairment of Assets*;
 - (v) transfers to and from investment property carried at fair value through profit or loss (see paragraph 57 of AASB 140);
 - (vi) impairment losses recognised or reversed in profit or loss in accordance with AASB 136;
 - (vii) depreciation; and
 - (viii) other changes.

This reconciliation need not be presented for prior periods.

[Based on *IFRS for SMEs* Standard paragraph 17.31]

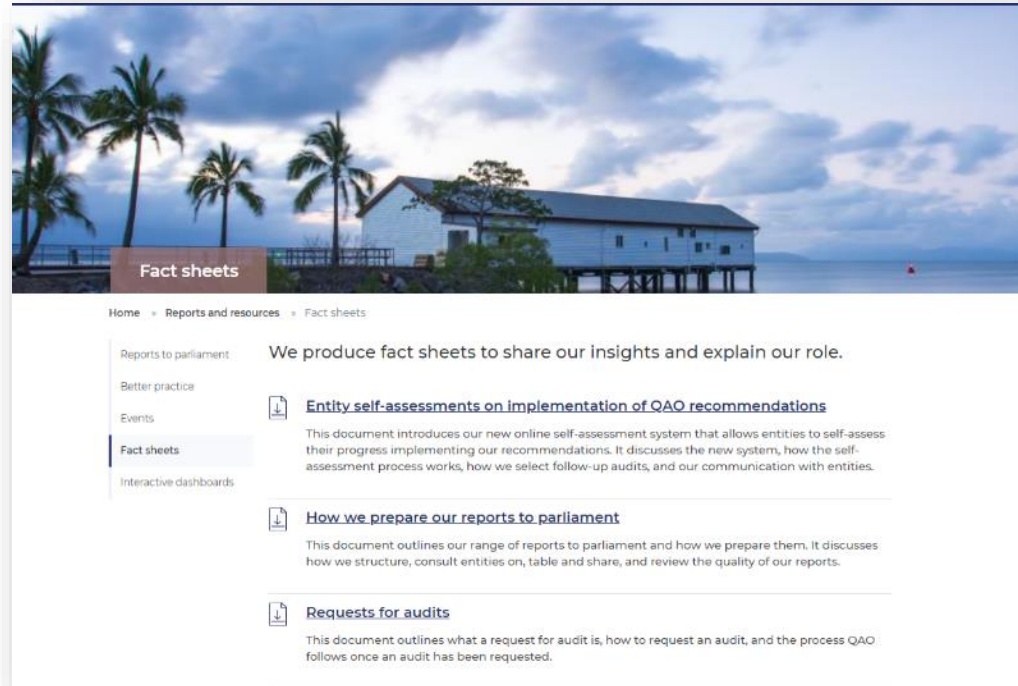


**SDS extract
more
disclosures**

AASB Standard	Paragraphs superseded by this Standard	Paragraphs that have not been superseded by this Standard and represent presentation requirements or associated guidance
<i>AASB 5 Non-current Assets Held for Sale and Discontinued Operations</i>	Paragraphs 30, 33, 35, 36A, 41 and 42	Paragraphs 31, 32, 33A, 34, 36, and 37–40
<i>AASB 15 Revenue from Contracts with Customers</i>	Paragraphs 110–129 and B87–B89	Paragraphs 105–109
<i>AASB 16 Leases</i>	Paragraphs 51–60, 89–92 and B48–B52	Paragraphs 47–50, 88

Preparing position papers for accounting matters and valuation

QAO fact sheets



The screenshot shows the 'Fact sheets' page on the Queensland Audit Office website. The page features a navigation menu on the left with options: Reports to parliament, Better practice, Events, Fact sheets (selected), and Interactive dashboards. The main content area is titled 'We produce fact sheets to share our insights and explain our role.' and lists three fact sheets with download icons:

- Entity self-assessments on implementation of QAO recommendations**
This document introduces our new online self-assessment system that allows entities to self-assess their progress implementing our recommendations. It discusses the new system, how the self-assessment process works, how we select follow-up audits, and our communication with entities.
- How we prepare our reports to parliament**
This document outlines our range of reports to parliament and how we prepare them. It discusses how we structure, consult entities on, table and share, and review the quality of our reports.
- Requests for audits**
This document outlines what a request for audit is, how to request an audit, and the process QAO follows once an audit has been requested.



The cover of the fact sheet features a background image of a pier over water. The title is 'Preparing position papers for accounting matters and valuation'. Below the title, it states: 'Position papers are a key record of decisions for accounting matters and the outcomes of valuations. This fact sheet provides guidance on identifying topics and the type of information to include. Helping to inform key decision makers in a timely way will support earlier delivery of financial statements and improve the quality of oversight.'

Identifying areas for analysis

Entities can identify areas for analysis by undertaking a risk assessment of transactions and balances in the financial statements. This will help to identify complex areas where there is a greater risk of error. These areas will often require regular assessment, position papers and reporting to senior management and audit committees. There are usually two key areas requiring papers—accounting matters, and valuation processes and outcomes.

Accounting matters could include:

- material, complex or significant one-off transactions
- new accounting standards or changes in accounting policies
- past issues identified, including material misstatements and disclosure deficiencies.

Valuation processes and outcomes could include:

- confirmation of asset valuation methodology and model
- confirmation of the depreciation or amortisation methodology (including componentisation), annual assessment of useful lives, and residual values
- key assumptions used to perform the asset valuation and changes from prior valuations
- outcome analysis to understand why, or why not, the valuation has changed, and whether the changes align with valuation assumption and business changes.

Prepare position papers if you consider any of the above accounting matters or valuation processes material for your financial statements.

Early consideration

Engaging with auditors early in the process provides a common understanding of any accounting matters and valuation outcomes. It also allows time to work through complexities and alternate views. Earlier resolution allows audit committees and those charged with governance time to consider the accounting position papers and valuation analyses before 30 June.

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Better public services



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

Q&A





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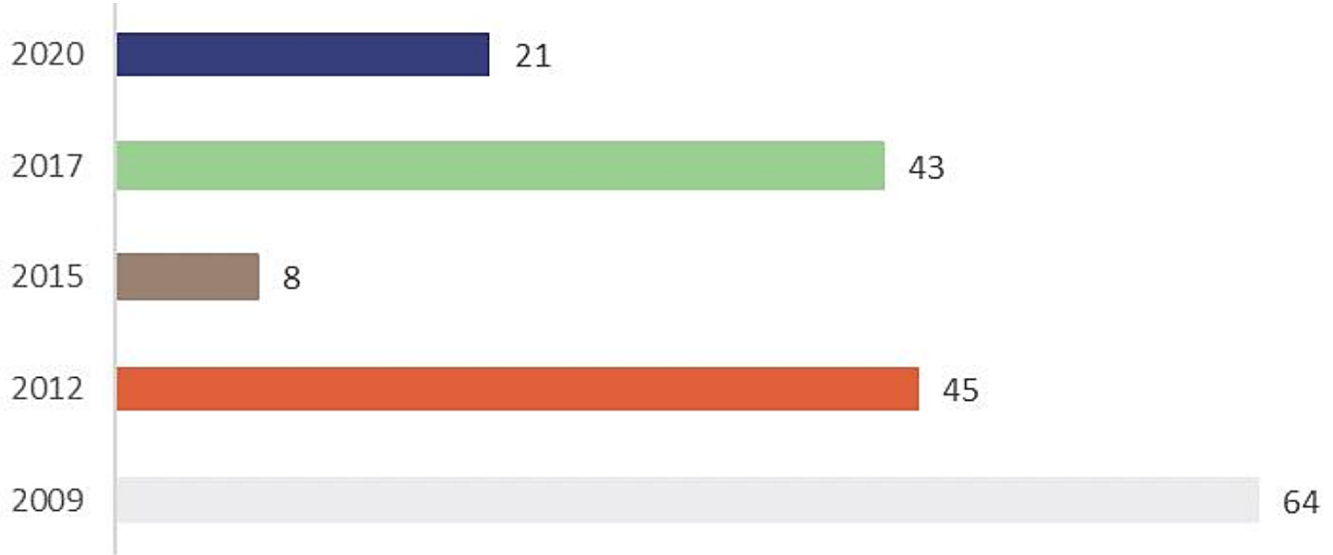
Machinery of government changes and controls maturity model

Michelle Reardon, Senior Director



Services transferred in last 12 years

Number of services transferred as a result of machinery of government changes following state elections



www.qao.qld.gov.au/blog/are-you-prepared-your-machinery-government-changes

Better practice guide

Checklist for managing machinery of government (MoG) changes

Introduction to checklist

Machinery of government (MoG) changes occur when the Premier alters the government's administrative arrangements. This is achieved through an Administrative Arrangements Order, which is made by Governor-in-Council.

An Administrative Arrangements Order identifies the responsibilities of ministers and their portfolios, including the Acts they administer and the departments, agencies and office holders responsible for them.

MoG changes usually result in the transfer of specific functions and legislative responsibilities from one department to another. This also involves the transfer of assets and liabilities between departments. MoG changes may include:

- the abolition of existing departments with all responsibilities transferred to other departments
- the creation of new departments
- changes to the functions, outputs or resources within existing departments.

As the process can also affect other government entities, for example, statutory bodies and controlled entities, the generic term 'agencies' will be used throughout the remainder of this document.

Given the wide ranging impact of MoG changes, affected agencies should consider all aspects of change including governance, delegation, financial systems and corporate policies and conduct a formal, planned approach. This will help them to identify, manage and monitor the associated risks at both an operational and strategic level.

The Queensland Audit Office (QAO) developed the following Checklist for managing machinery of government changes to provide an overview of the main areas of change faced by agencies in implementing MoG changes.

This checklist provides guidance on some of the most common and important issues that arise during MoG changes. It is a guide only and does not address every possible issue resulting from MoG changes. They will be different in every agency.

This is a starting point. How you apply the checklist will depend on the particular circumstances of the MoG changes affecting your agency.

Queensland Audit Office
Better public service



Financial statements

- ✓ **Effective date if announced on 12 November**
 - Abolished departments—12 Nov
 - Functions transferring from abolished departments—13 Nov
 - Functions transferring between continuing departments—1 Dec
- ✓ **Accounting for transfers of assets, equity and appropriations**
- ✓ **Who are your key management personnel and related parties?**
- ✓ **Agency transactions are in a note—not the statements**
- ✓ **Budget is based on what is published**



Culture





Risk



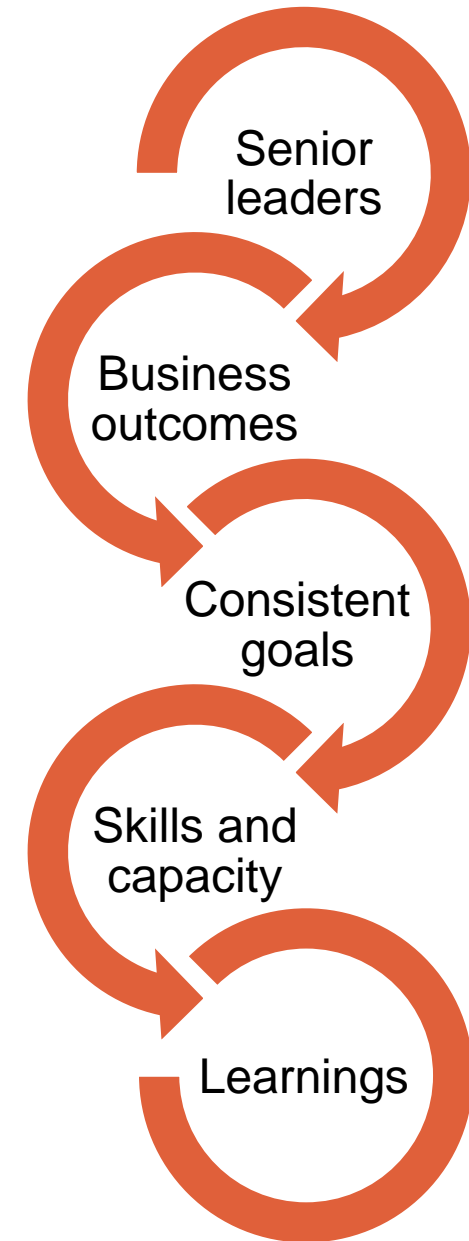


Systems

Finance and payroll systems– Queensland Shared Services

Other systems that may be impacted:

- networks
- subsidiary systems for revenue or expenses like corporate card
- timesheets
- contract management
- record keeping.



Self-assessments against the financial statement preparation maturity model for 22 departments

Financial statements

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				



**Our new
controls
assessment**

Changing the way we assess controls:

- Moving to a maturity assessment (rather than traffic light)
- Consult during 2020–2021; roll out 2021–22

Controls maturity model has two parts:

Annual assessment

- 10 focus areas
- Aid assessment of processes, highlight areas for improvement and risk, support our assessment of compliance
- Four maturity ratings

Deep dives (one or two per year) across the 10 focus areas

- Starting with procurement and grants management
- Form basis of reports to agencies and themes for parliament

**Internal
controls
maturity
model**



Design of the questionnaire based controls maturity model

10 focus areas

Questions per focus area

Qualitative factors and additional support



Control element	Key maturity consideration	Assessment rating*				Additional considerations
		1	2	3	4	
Entity wide governance	There is an overarching strategic plan	✓				Strategic plan should be reviewed annually and comply with DPC's Agency Planning requirements.
	There is a documented organisational structure which is published for staff		✓			Organisational structure should be up to date and reflect current positions. The structure aligns to the entity's strategic and operational objectives. There are clear lines of responsibility, <u>accountability</u> and role definition.
	There is a code of conduct for the entity			✓		Code of conduct is easily accessible and understood by staff. Staff are trained on the code of conduct, and there are appropriate processes in place that allow for anonymous reporting and investigations into breaches.
	HR policies and related procedures exist			✓		Policies and procedures are regularly reviewed and kept <u>up-to-</u>



Four ratings:

1. Does not exist or is limited
2. Has been established but requires development
3. Fundamentally sound with some elements of improvement
4. Best practices

Design of maturity model



Ten focus areas

Risk management



Information systems



Governance



Procurement



Change management



Records management



Asset management



Culture



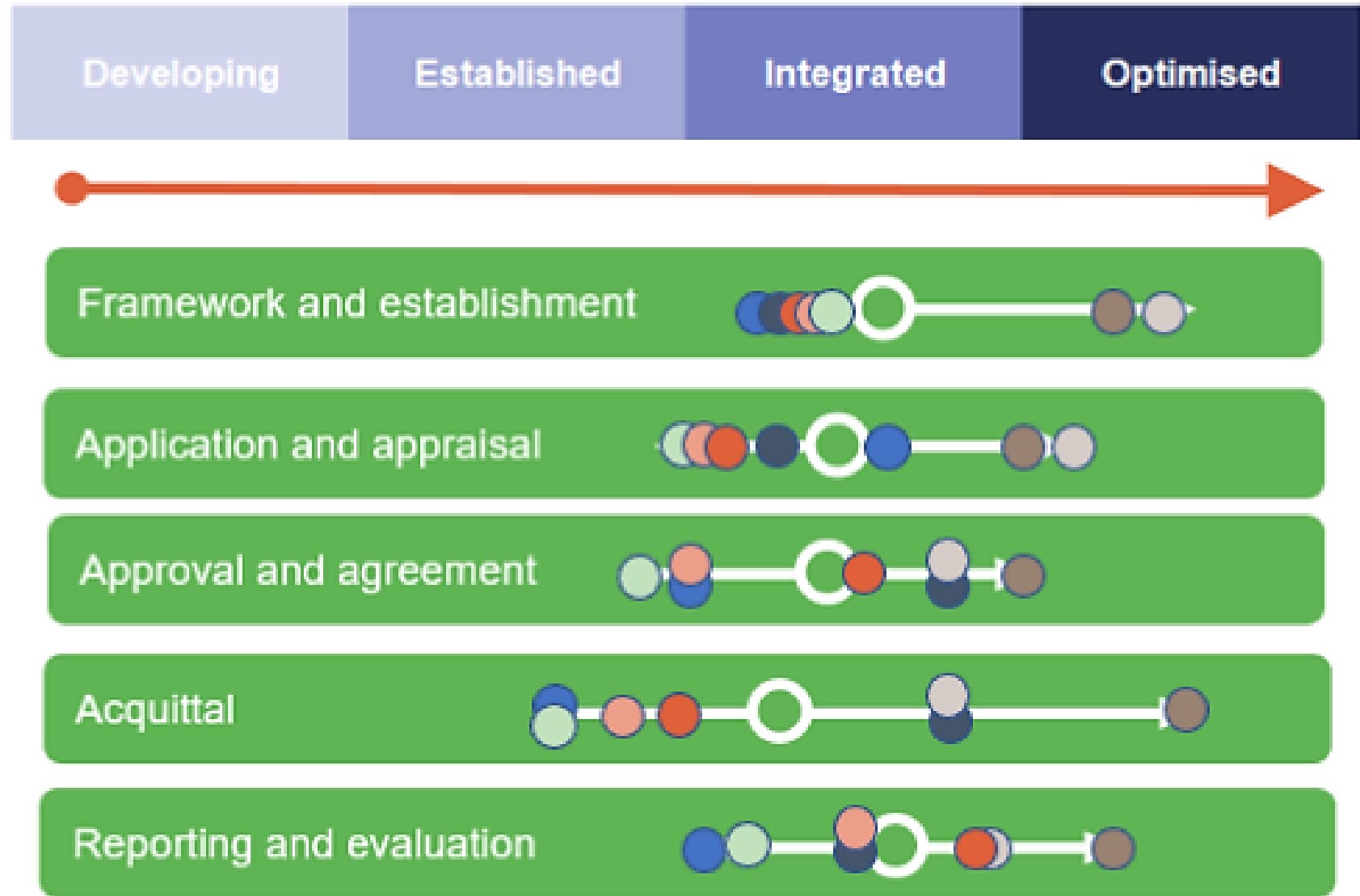
Monitoring



Grants management



Grants management maturity model





Engage



Respect



Inspire



Deliver

Update on audit planning and public reporting

Rachel Vagg, Assistant Auditor-General



Preparation for this year's audits

Planning

Planning for as much financial statement work to be done before 30 June as possible:

- ✓ Machinery of government changes
- ✓ Asset valuations
- ✓ Technical issues identification and resolution
- ✓ Liability assessments

Delivery

Reflection on methods that worked well this year, including:

- ✓ sharing of data and working papers
- ✓ team communication
- ✓ timing of on-site visits.



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).



We produce a range of materials to share our advice and insights

Did you see our fact sheets last year, such as:

- *Financial reporting considerations in uncertain times*
- *Financial statement preparation maturity model*
- *Measuring service performance*
- *Preparing position papers for accounting matters and valuation*
- *Working with electronically signed financial statements—User guide*

Sharing our insights



Reports to parliament



Interactive dashboards



Blog



Fact sheets



Better practice guides



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

Assurance reports

Assurance reports released this financial year

- Regulating firearms
- ★ • Delivering successful technology projects
- ★ • Awarding of sports grants
- Responding to complaints from people with impaired capacity—Part 1: The Public Trustee of Queensland
- ★ • Queensland Health's new finance and supply chain management system
- Queensland Government response to COVID-19
- Effectiveness of audit committees in state government entities
- Family support and child protection system
- Responding to complaints from people with impaired capacity—Part 2: The Office of the Public Guardian



Latest reports

[See all >](#)



Key report themes

Key report themes

- ❖ Financial statements are reliable
- ❖ Some health systems and processes have been ineffective
- ❖ Impact of COVID-19—additional health funding, changed expense profile, public transport services maintained
- ❖ Financial sustainability of hospital and health services (HHSs), energy sector profitability decline, water profits have declined





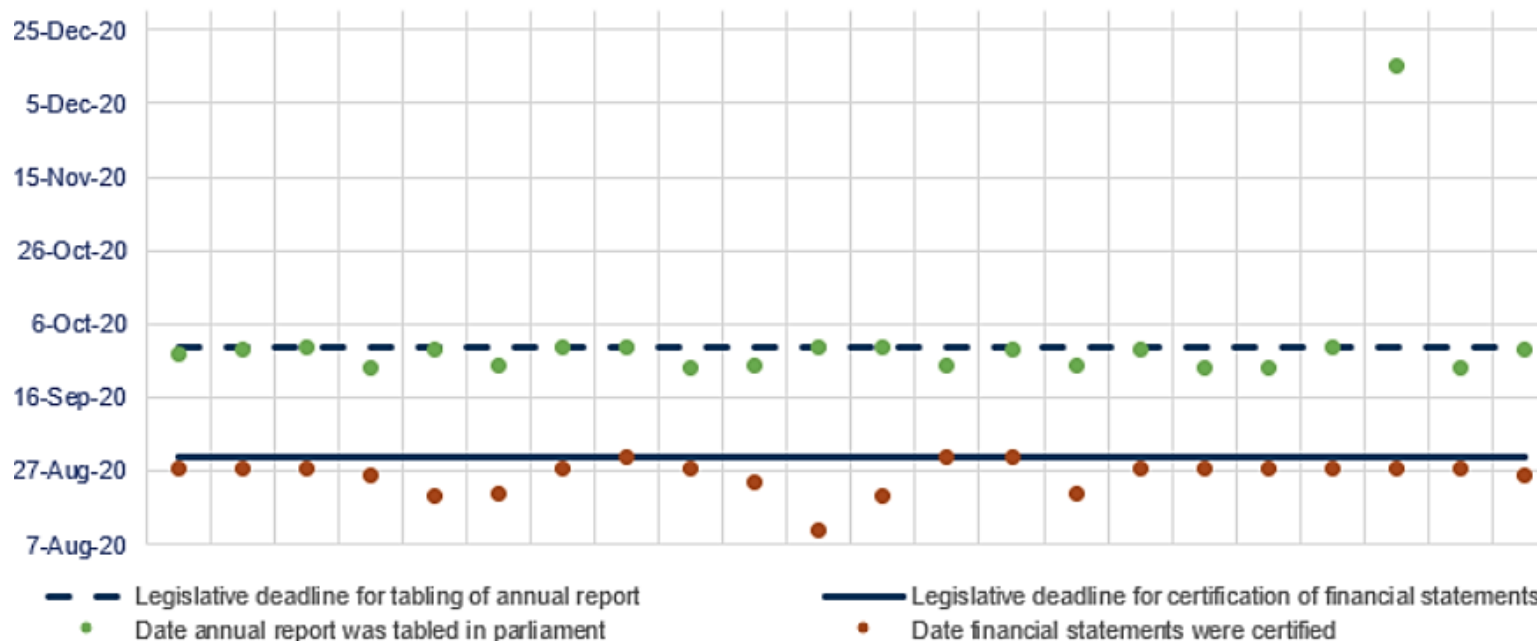
Most financial statements signed on time
Rapid response to COVID-19 brought risk
Cyber attacks have doubled this year

Recommendations:

- Seven recommendations across financial statements preparation, information systems controls, masterfile updates and governance
- One recommendation relating to the timeliness of release of information

Report on state entities

Dates for certification and publication of financial statements for 22 departments





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

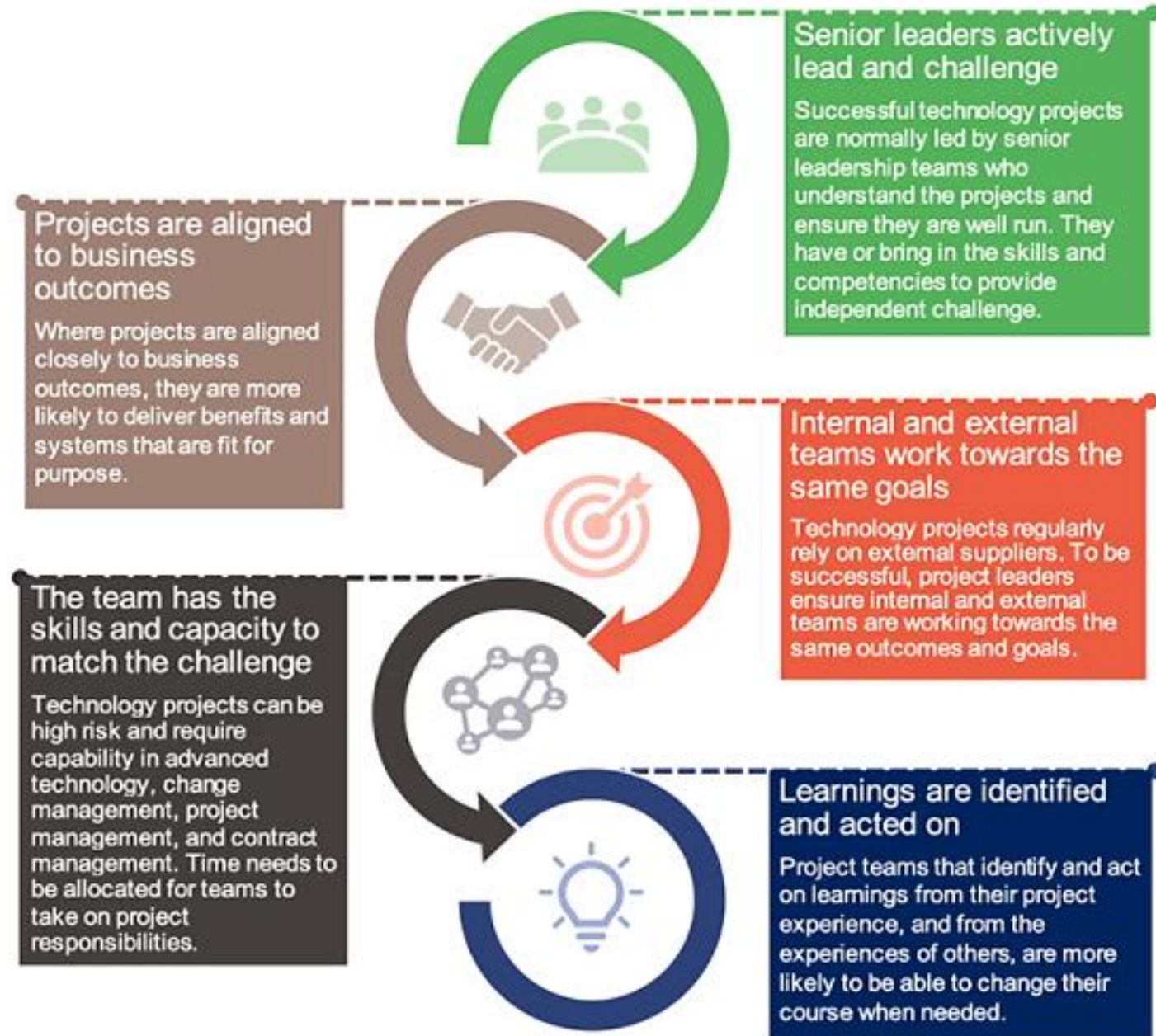
- Must articulate responsibility for outcomes
- Any interactions between entity and member, particularly on feedback which results in changes to outcomes



ICT projects



FIGURE 1 FACTORS THAT CONTRIBUTE TO SUCCESSFUL TECHNOLOGY PROJECTS



Report style and data presentations

Education financial information for 2019	+
Local government financial information for 2019 and 2018	+
Hospital and health service financial information for 2019	+

Search the map

Search by address

Universities

- > 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

Grammar Schools

- > Brisbane Girl's Grammar School
- > Brisbane Grammar School
- > Ipswich Girl's Grammar School
- > Ipswich Grammar School
- > Rockhampton Girl's Grammar School
- > Rockhampton Grammar School
- > Toowoomba Grammar School
- > Townsville Grammar School

Organisations

- > Department of Education
- > Department of Employment, Small Business and Training
- > TAFE Queensland

Select education regions from list

Central Queensland	Metropolitan	North Queensland
Darling Downs South West	North Coast	South East
Far North Queensland		



Central Queensland

321K PEOPLE 46.7K AVERAGE INCOME 38.9 AVERAGE AGE

This demographic data was sourced from the [Australian Bureau of Statistics](#) and represents the average of median statistics for the local government areas that make up this region

In this region

Click on an organisation for more details about its finances

		6 CAMPUSES**	190 SCHOOLS	54.6K STUDENTS	7.2K STAFF (FTE)
Universities	Central Queensland University	5		5,348.5	1,186.3
	James Cook University	1		78	35
Schools	Rockhampton Grammar School		1	1,336	277.4
	Rockhampton Girl's Grammar School		1	286	54.1
Other Institutions	Department of Education		188	47,554.1	5,659.1
	Department of Employment, Small Business and Training	0		-	-
	TAFE Queensland	0		0	0

** Includes locations where education is delivered by third party providers





Annual work plan (replaces strategic audit plan) currently being updated

Underway

March 2021:

- Follow on—Emergency department performance reporting
- Planning for sustainable health services in Queensland

June 2021:

- Educating for the digital future
- Regulating dam safety

Post June 2021:

- Appointing and renewing government boards
- Strategies for delivering efficient services
- Health pathways (waitlist management)
- Domestic and family violence initiatives
- Managing our transition to renewable
- Contract management of new infrastructure

**Forward
program**





Engage



Respect



Inspire



Deliver

Closing remarks and Q&A

Brendan Worrall, Auditor-General



**New
deliverables
from QAO**

We constantly evolve our operations and engagement to better meet our clients' and stakeholders' needs

Entity self assessments on implementation of our recommendations

- New online system—gives entities a record of QAO recommendations, clarity over previously reported status, and identifies recommendations across government.
- Report to parliament on the progress entities report to us—3rd quarter 2021.

Engagement with your DGs, CEOs, and parliament

- Meeting with our clients and ministers—gives us valuable feedback on our services, and we provide updates on or share the insights from our reports.



**Q&A with today's
presenters**





Any further questions, please contact us or your QAO engagement leader

T: (07) 3149 6000

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 [Queensland Audit Office](#)

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