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Briefing for audit committee chairs

7 December 2021

Queensland
Audit Office
Better public services

Agenda

10.00 am – 10.25 am morning tea

10.25 – 10.50 am
Welcome, some insights from recent reports to parliament
Patrick Flemming, Assistant Auditor-General

10.50 – 11.05 am
Your feedback, our areas of audit focus for 2020–21
Rachel Vagg, Assistant Auditor-General

11.05 am – 11.20 am
New internal controls assessment tool
Michelle Reardon, Senior Director

11.20 am – 11.45 am
Reflections on this year, forward work planning
Brendan Worrall, Auditor-General

11.45 am – 12.00 pm
Discussion and questions
All presenters

Welcome, insights from some recent reports to parliament, new report on the status of recommendations

Patrick Flemming, Assistant Auditor-General

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Improving regulator performance

We recommend public sector regulators and oversight bodies self-assess against the below good practices.

! Effectively implementing processes for enforcing legislation has been a common failing in all regulatory audits we have undertaken.

Summary of regulatory better practices

LEARN

Regulators should regularly review and update their processes for improvement, provide learning for staff, and adapt planning based on the learnings.

PLAN

Regulators should implement an intelligence-led, risk-based approach to planning their compliance program, design key performance measures, and implement the program control environment.

REPORT

Regulators should provide internal and external performance monitoring and reporting of the regulated industry and its compliance levels, including of regulators and those administering legislation.
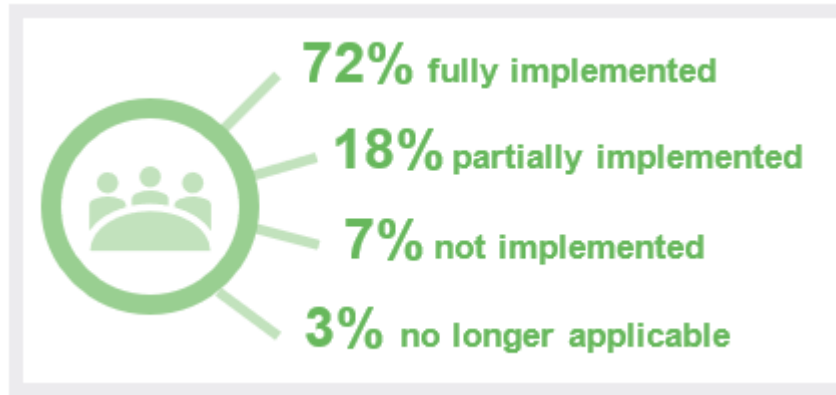
ACT

Regulators should execute the plan to improve compliance amongst regulated entities and provide them clear, consistent and timely guidance. The regulator must act where it identifies non compliance and escalate the actions are needed.

PLAN

LEARN   ACT

REPORT

New report to parliament

2021 status of Auditor-General's recommendations

Helps entities track and monitor their progress, indicates areas of government service delivery they are finding challenging, and informs our future recommendations.

72% fully implemented

18% partially implemented

7% not implemented

3% no longer applicable

Four most common categories of outstanding recommendations

Performance monitoring and reporting

Governance

Strategic planning

Interagency coordination and information sharing

Entities should evaluate the outcome of their actions to determine what has worked and what can improve.

Establish systems and processes that assign appropriate accountability for recording, monitoring, and reporting progress.

Overtime, these reports will provide insights on trends, challenges and shared learnings.

Tabled 17 Nov 2021

Allows our users to explore entities' self-reported progress in implementing the recommendations we make in our reports to parliament.
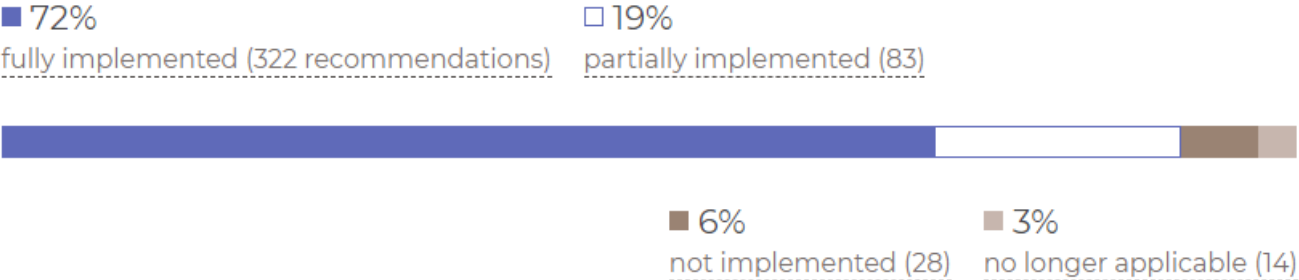
Search by year, report, entity, parliamentary committee, and implementation status. It reflects responses for the period in which entities completed their self-assessments.

Summary of recommendations

447 RECOMMENDATIONS

IMPLEMENTATION STATUS

■ **72%** fully implemented (322 recommendations)

□ **19%** partially implemented (83)

■ **6%** not implemented (28)

■ **3%** no longer applicable (14)

32 reports

ENTITIES AND COMMITTEES

Parliamentary committees	Departments	Hospital and health services	Other state entities	Councils
7	19	12	6	13

www.qao.qld.gov.au/status-auditor-generals-recommendations-dashboard

Next year's self assessments

2018–19 reports

- Monitoring and managing ICT projects
- Access to the NDIS for people with impaired decision-making capacity
- Delivering shared corporate services in Queensland
- Managing transfers in pharmacy ownership
- Follow-up of Bushfire prevention and preparedness
- Delivering coronial services
- Conserving threatened species
- Digitising public hospitals
- Market-led proposals
- Follow-up of Oversight of recurrent grants to non-state schools
- Follow-up of Maintenance of public schools
- Managing consumer food safety in Queensland
- Follow-up of Managing child safety information
- Delivering forensic services

2019–20 reports

- Investing in vocational education and training
- Managing the sustainability of local government services
- Managing cyber security risks
- Addressing mine dust lung disease
- Effectiveness of the SPER ICT reform
- Managing coal seam gas activities
- Evaluating major infrastructure projects
- Licensing builders and building trades

Plus any recommendations from this year's assessment (2015–16 to 2017–18) that were partially or not implemented

Submitted self-assessments

Self-reported status

Reports relevant to your entity
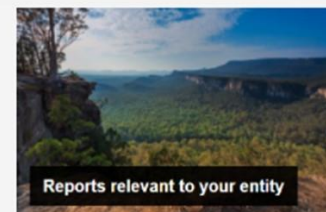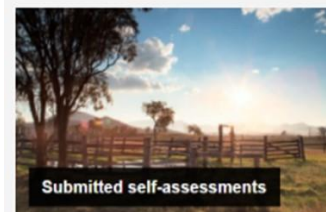
QAO's Queensland dashboard demonstration

Helps our users understand more about the region they live in and the public services they receive.

Search by address, postcode or region to explore how entities are performing.

Search by address

Try 53 Albert St, Brisbane City QLD 4000 or Townsville or 4730

Regions

Based on your address, you belong to:

Central West	Outback - South	Longreach
Hospital and health service area	ABS Queensland regions	Council/local government area

About Longreach Regional Council

3.7K PEOPLE[1]	40.0 AVERAGE AGE[2]	27.6% PERCENTAGE POPULATION 65+ IN 2041[3]	-28.0% POPULATION GROWTH TO 2041[3]

6.4% FIRST NATIONS AUSTRALIANS[4]	$46.0K MEDIAN INCOME[5]	3.6% UNEMPLOYMENT[6]

AGRICULTURE, FORESTRY AND FISHING; CONSTRUCTION; RENTAL, HIRING AND REAL ESTATE SERVICES PRIMARY INDUSTRIES[7]

This demographic data was sourced from the [1]ABS ERP by LGA (ASGS 2020), 2001 to 2020 [2]QGSO Projected population, by five-year age group and sex 2016 to 2041 [3]QGSO Projected population 2016 to 2041 [4]ABS Estimates of Aboriginal and Torres Strait Islander Australians 2016 Census [5]ABS Census 2016, Total Personal Income [6]ABS LGA (UR) by LFSP Labour Force Status 2016 Census [7]Data by region, Australian Bureau of Statistics

Health	Education	Councils	Energy	Water	Sports
∨	∨	∨	∨	∨	∨

www.qao.qld.gov.au/reports-resources/qao-queensland-dashboard
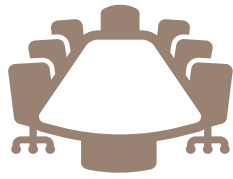
Questions and discussion

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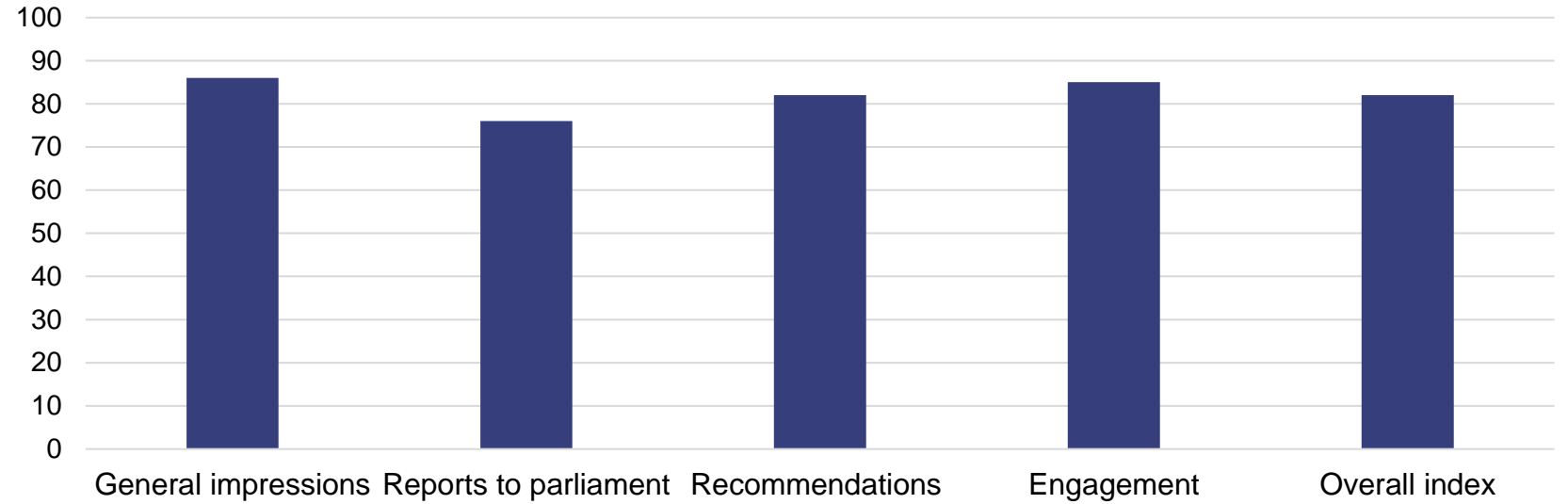**Your feedback, our areas of audit focus for 2020–21 including internal controls**

Rachel Vagg, Assistant Auditor-General

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Your feedback

66%
response rate

How satisfied Audit Committee Chairs were

Bar chart with y-axis from 0 to 100 (increments of 10):
- General impressions: ~86
- Reports to parliament: ~76
- Recommendations: ~82
- Engagement: ~85
- Overall index: ~82

What you told us:

95%
Improve accountability

88%
Found our reports easy to understand

70%
Value our insights and recommendations

95%
Valuable assurance on reliability of public sector

87%
Have visibility of audit recommendations

90%
Felt QAO's committee attendance provides value

76%
Feel informed about the self-assessment tool

61%
Our reports addressed key areas of interest

Overall performance

Client survey results

Legend: 2017–18 · 2018–19 · 2019–20 · 2020–21 · 2021–22*

Categories: Overall, Audit process, Reporting, Value

Overall: 81, 81, 81, 81, 84
Audit process: 78, 78, 79, 79, 83
Reporting: 79, 80, 81, 80, 83
Value: 85, 83, 84, 85, 85
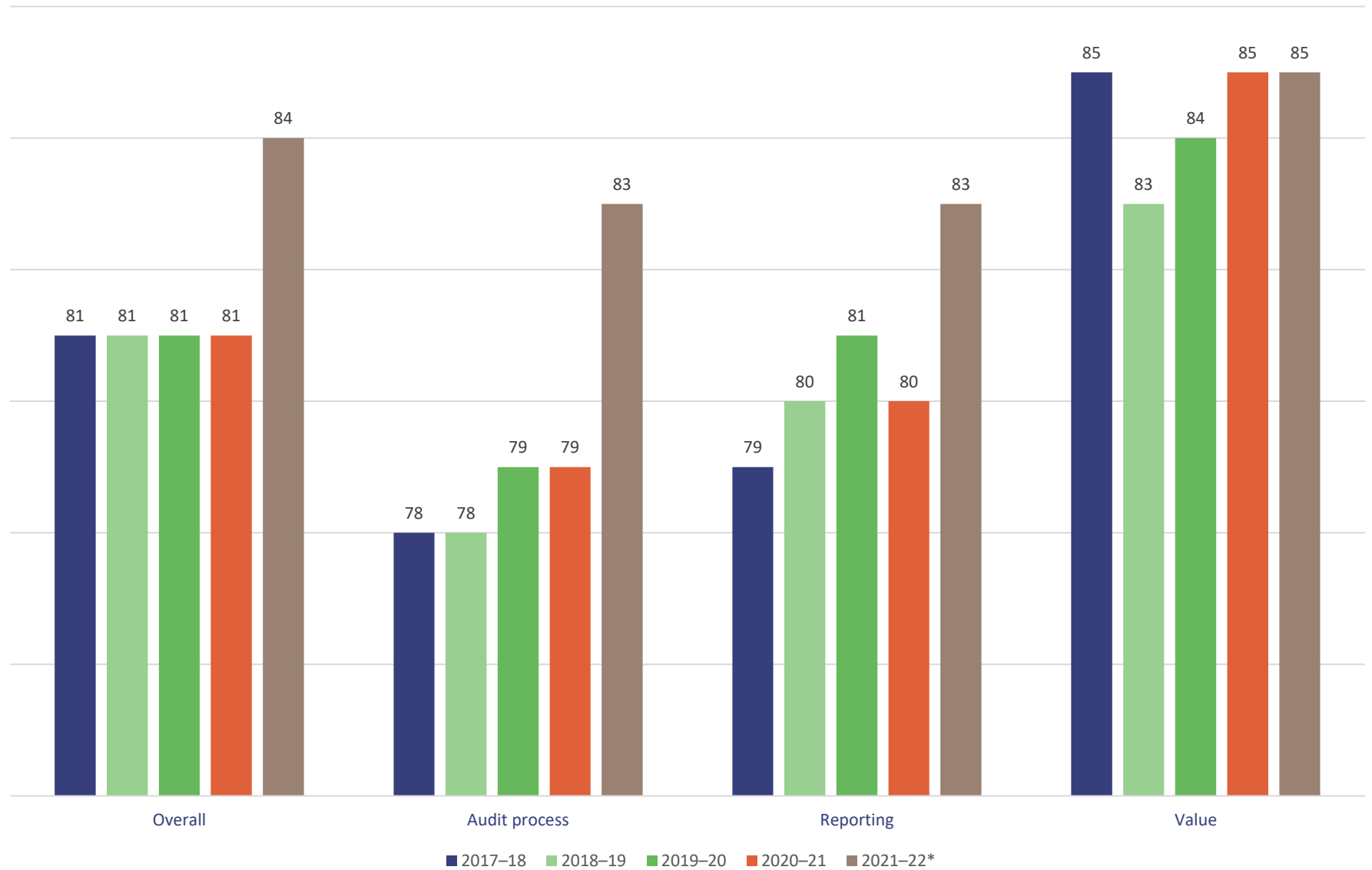
* 2021–22 results only based on round 1—financial statements certified by 2 September 2021

Overall

All departments, government owned corporations, most statutory bodies, are all reliable and compliant

Local governments have been delayed

Ongoing delays in tabling annual reports means the financial statements are less relevant by the time they are released to the public

Key internal control findings

Internal controls are generally effective <u>but</u> the same, common weaknesses in internal controls have arisen over last two years.

These include entities not:

- securing their information systems

- making independent checks to confirm changes to supplier details

- reviewing payroll reports

Challenges

Current and future challenges:

- Sustainability—increasing demand, fiscal constraint, and new technology

- Environmental impact—prolonged drought impacting water quality and quantity

- Major projects on time and within budget

- Continued impact of COVID-19

- Machinery of government

Areas for focus:

⚠ Changes to software accounting

⚠ Cyber security

⚠ Climate reporting/ESG

⚠ Rapid response lessons learned

Financial reporting maturity model:

Replaced traffic light assessments for state entities from 2020 and councils from 2021

Government 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			●	

Rating by council segments

Segment	Developing	Established	Integrated	Optimised
Coastal				
Indigenous				
Resources				
Rural Regional				
Rural/remote				
SEQ				

Financial reporting

Cloud computing/SaaS (software-as-a-service) configuration and customisation costs—can these be capitalised?

Issues to consider

- Are the projects perpetual licence or SaaS/cloud computing?

- What were internal costs, and what were provided by outside parties?

- Who provided the services— SaaS/cloud computing co, third party, internal costs?

- When are services received by applying AASB 15?
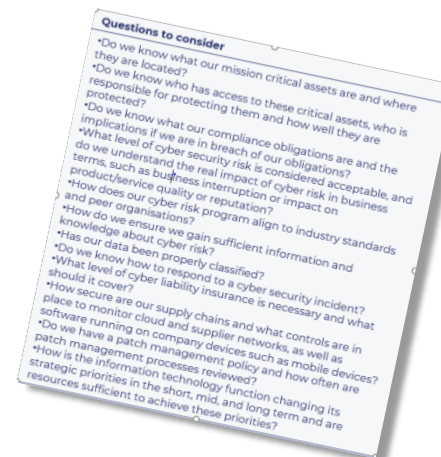
Cyber security—are you aware and managing risks?

Most common

- 'malicious email'/phishing as a means of obtaining initial access into a network

- 'compromised systems', where unauthorised access had been gained to a network, account and database.

Advice

www.qao.qld.gov.au/blog/role-governance-committees-managing-cyber-security-risks

Check your ISMS assurance processes.

Questions and discussion

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New internal controls assessment tool

Michelle Reardon, Senior Director

Queensland Audit Office

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Controls maturity model

- **Annual assessment tool** developed—consultation and trialling this year for 33 entities

- Developing **deep dives** into key elements of internal control—three planned for this year

Key elements of effective internal control

Asset management	Change management	Culture	Governance	Grants management
Information systems	Monitoring	Procure-to-pay	Records management	Risk management

Four levels of maturity used across QAO tools

Developing	Established	Integrated	Optimised

Design of the questionnaire-based annual assessment tool

Annual internal control assessment tool

10 control areas

Description of key elements and controls within each area

Assessment tool	Prescribed req	Element	Key controls	Our understanding and assessment of controls
Governance	FPMS s8-10 Agency planning requirements prepared by the Department of the Premier and Cabinet	Strategic planning is an ongoing organisational process that helps agencies identify their **objectives**, the **strategies** they can implement to achieve them and the **performance indicators** to **measure** how well their **outcomes achieved** their objectives	**Is there an overarching strategic plan for the entity?** Strategic plan should be reviewed annually and comply with DPC's Agency Planning requirements. The strategic plan should clearly articulate an agency's direction to staff, customers and other stakeholders and set the parameters for operational plans.	3 (Integrated) Plan exists and is refreshed annually. It has been communicated to staff, and is generally understood and followed.

Prescribed requirements

Four defined maturities

New maturity reporting

	Developing	Established	Integrated	Optimised
Governance			← 🟢⭐ →	

Legend

⭐ Average desired state

🟢 Average current assessment

↔ Range of current assessments

How do we see this working?

✓ Management can **choose** to perform a self-assessment

✓ May be driven by chief financial officer (CFO) assurance process—or internal audit unit

✓ Does not replace the need for management to assure themselves that controls are **operating effectively** to address risk

Results of the annual assessment may also be used to inform our **forward work plan**—either deep dive programs or assurance engagements

Internal control maturity model

Deep dives planned for 2021–22

Local government

- Procure-to-pay at 20 councils

Departments

- Grants management
- Change management focusing on machinery-of-government changes at departments

Questions and discussion

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Reflections on this year, forward work planning

Brendan Worrall, Auditor-General

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Recent client engagement

Seeing our clients in person continues to give us invaluable understanding of their local context and provide a more informal or comfortable forum for them to ask questions and give feedback.
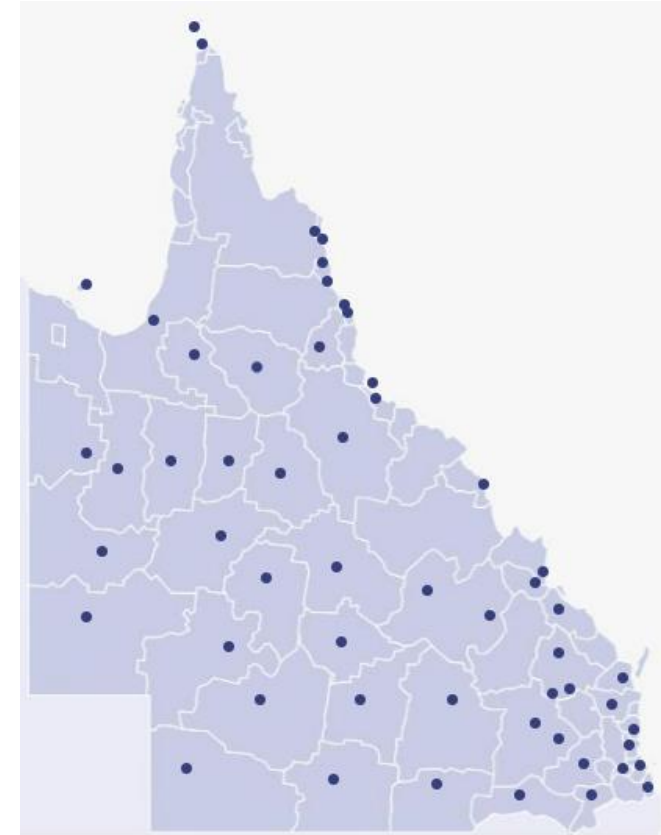
Common themes include continuing impacts of COVID-19 in communities and on council finances, limited access to resources, cost of access to supplies, management of waste, and of course financial sustainability.

With Cherbourg Aboriginal Shire Council, Oct 2021

With Torres Shire Mayor, Vonda Malone, Sep 2021

Client visits at Oct 2021

Forward work planning

Our **audit focus areas**—responding to the most important risks at the right time

Forward work plan 2021–24

COVID-19 support and stimulus

Support and stimulus measures, incl additional grants, support, new loans for public and private sectors. Impact on regional economies.

State savings and debt

Savings and efficiency measures, significant expenses. Establishment of Queensland Future Fund. Impacts on sustainability.

Infrastructure investment

Capital programs led by the private sector, oversight, risk. Updates on significant projects. Planning for programs and overall progress against planned expenditure.

Healthy and safe communities

Strategies to improve outcomes, care coordination, access, support for those vulnerable, support by police, emergency services and other specialists.

Sustainable communities

Programs for regional Queensland— effectiveness for economic growth, employment, industry and tourism, asset management. Education services and infrastructure. Environment protection.

Governance of government

Internal controls. Governance and board structures. IT developments including monitoring projects and cyber security. Financial; reporting improvements.

Planning is underway for 2022–25, we welcome your input

Discussion and questions