



Engage



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# Briefing for audit committee chairs

8 May 2018, Sebel Hotel

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

## Welcome and agenda

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**10.30–10.45 am: QAO update**

Brendan Worrall, Auditor-General

**10.45–11.10 am: Technical update**

Karen Johnson, Assistant Auditor-General

**11.10–11.25 am: Performance audit update**

Daniele Bird, Deputy Auditor-General

**11.25–11.45 am: Fraud risk assessment**

David Toma, Director

**11.45 am–12.00 pm: Closing, final Q&A**

Brendan Worrall, Auditor-General



## QAO update

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### **New QAO brand**

Reflects our strategic intent; the professionalism of our people

More contemporary and brings together all the products and services we provide

### **Client feedback**

Overall results were positive—to date approx. 82 per cent of our clients are satisfied with our services



## Queensland Audit Office Sector Directors



**Education and Housing**  
Michelle Reardon  
from May 2018



**Energy and  
Natural Resources**  
Damon Olive



**Health**  
Charles Strickland



**Central Agencies  
and Financial Services**  
Paul Christensen



**Water and Infrastructure**  
Vaughan Stemmett



**Community Services**  
John Welsh  
from May 2018



**Local Government**  
Pat Flemming

**Staff update**

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## Recently tabled reports

### Financial audit

- Local government entities: 2016–17 results of financial audits (22 Mar)
- Queensland state government: 2016–17 results of financial audits (22 Feb)
- Energy: 2016–17 results of financial audits (20 Feb)
- Health: 2016–17 results of financial audits (15 Feb)
- Water: 2016–17 results of financial audits (14 Dec)



**Latest reports  
to parliament**

## Recently tabled reports

### Performance audit

- The National Insurance Disability Scheme ( 3 May)
- Investing for success (20 Mar)
- Finalising unpaid fines (22 Feb)
- Confidentiality and disclosure of government contracts (20 Feb)
- Fraud risk management (15 Feb)
- Integrated transport planning (12 Dec)

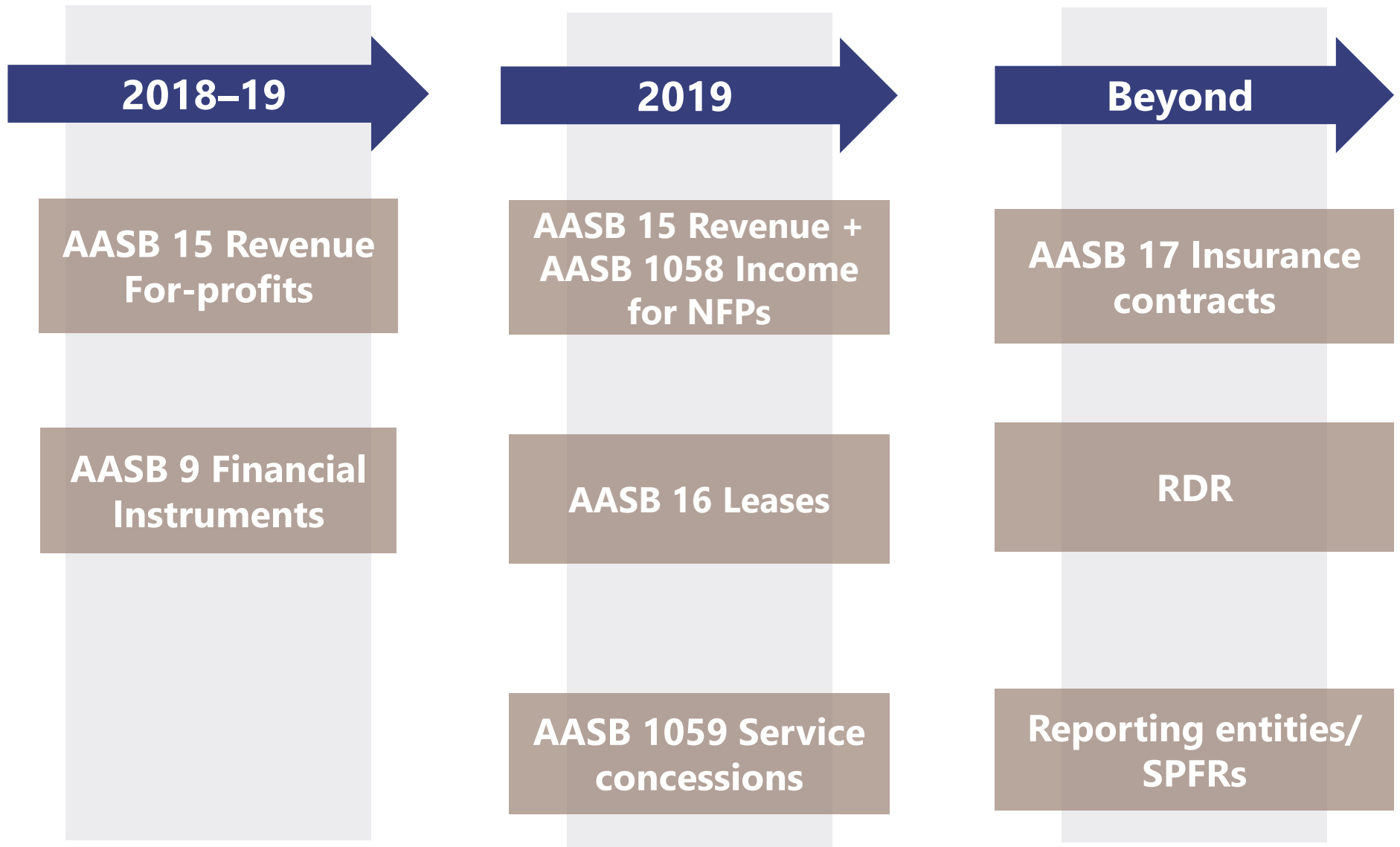
# Q&A

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**Technical  
update**





## **Readiness assessment**

Do you understand what the new standards require?

Have you allowed sufficient time to discuss and resolve matters requiring significant judgement?

What are the implications of the proposed Treasury (FRR) transition policies?

Will your accounting systems need to be changed?

What are the implications of the expanded disclosures?

Will you be ready for service delivery statements?

## Financial instruments

Did you know this standard starts 1 July 2018 for June year ends—and has already started for Dec year ends?

Do you have any available-for-sale financial instruments or investments?

Do you have any non-current receivables or loans?

Do you use hedge accounting?

What are the implications of the proposed Treasury (FRR) transition policies?



## Public sector issues

### Revenue and income

Will upfront revenue recognition continue?

Which revenue sources meet the criteria for deferral?

Which revenue sources will change accounting?

What implications are there in applying the private sector based standard?

What are the implications of the proposed Treasury (FRR) transition policies?



## Enhancing financial reporting

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Insights—September 2017

[www.qao.qld.gov.au/reports-resources](http://www.qao.qld.gov.au/reports-resources)

Communicated in your 2017–18 audit plan

### Traffic lights to simplify reporting for:



Timeliness



Quality



Year end processes



**Draft financial statements** = the statements that management is prepared to sign and does not expect any material errors or adjustments

## Timely

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### Timeliness

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Timely:

Acceptable draft financial statements received on or prior to the planned date

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Generally timely:

Acceptable draft financial statements received within two days after planned date

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Not timely: Acceptable draft financial statements received greater than two days after the planned date

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**Green** light = no adjustments made to final draft

Tip—do not adjust for immaterial items!

## Quality

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Quality	
	No adjustments: No adjustments required
	No significant adjustments: Immaterial adjustments to financial statements
	Significant adjustments: Material adjustment to financial statements






## Year end close processes

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### State entities

- Completing early close processes
- Non-current asset valuations by 31 May
- Pro forma financial statements by 30 April
- Resolving known accounting issues by 30 April
- Concluding all asset stocktakes by 30 June
- Endorsed by Treasury

Our rating	<u>Year end close process assessment</u>
	All key processes were completed by the target date
	Three key processes were completed within two weeks of the target date
	Less than two key processes were completed within two weeks of the target date



Internal control deficiencies increase the risk of fraud and errors going undetected and losses being incurred

## Internal controls

### QAO observations

Lack of fraud control plans

Lack of review of journals and changes to masterfiles

Poor management of user access for IT systems

Continuing push-back on related party disclosure

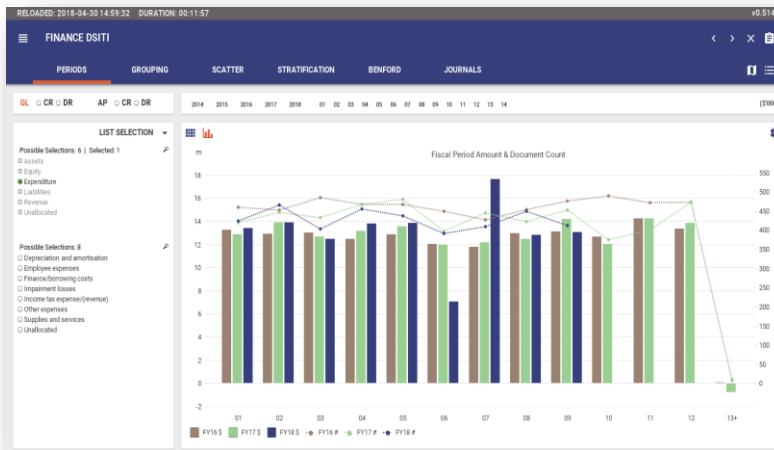




# Audit analytics

## FAS dashboard

- Finance & payroll
- 90+ entities
- Client profiling & understanding

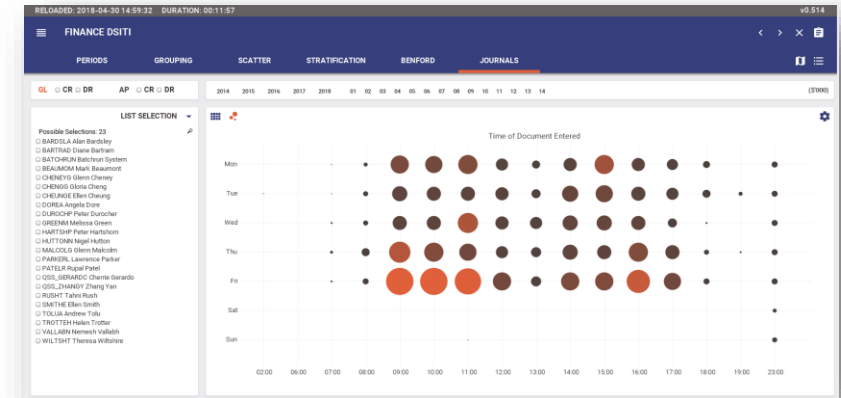


## Interface with audit software

- Lead sheets

## Focused audit perspectives

- Visuals
- Rules based results



## Leveraging data set

- Fraudulent bank account search
- Performance audit
- Employee matching to ASIC data using enhanced name matching



ASIC



## Electronic signatures

### **Financial statements prepared for 2017–18 will be signed electronically**

Expect further communications from your engagement leader.

#### **Positives**

- ✓ Reduction in time delays
- ✓ Limit paper consumption
- ✓ Improve reproduction quality

## Q&A

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## **Strategic Audit Plan 2018–21**

- Lists the audits we propose for next three years
- Brings together systemic challenges, risks and opportunities
- Consulted public sector entities and Economics and Governance Committee
- Aiming to table 12 reports each year, two of which are follow ups
- 14 new topics on the plan

**<https://www.qao.qld.gov.au/audits/program>**

## 2018–19 topics

- Managing the cost of local government services
- Regulating food safety
- Investing in vocational education and training
- Planning for sustainable health services in Queensland
- Conserving threatened wildlife
- Queensland child Protection Commission of Inquiry
- Managing cyber security risks
- Delivering forensic services
- Delivering coronial services
- Managing market-led proposals



## Strategic audit plan

### Potential 2019–20 topics

- School program for students with disability
- Educating for the digital future
- Establishing effective audit committees
- Asset management in local government
- Maintaining ecologically sustainable communities
- Healthcare pathways (waitlist management)
- Integrated care approach to chronic disease
- Preventing and responding to domestic and family violence
- Delivering guardianship services
- Delivering social housing and housing services
- Regulating builder registration
- Diverting young offenders from crime
- Managing electronic and digital evidence
- Monitoring and managing dam safety
- Evaluating coal seam gas activities
- Addressing coal workers' pneumoconiosis



## Potential 2020–21 topics

- Monitoring environmental conditions for mining activities
- Managing oil and chemical spills
- Managing tourism and sustainability of Queensland's world heritage sites
- Commonwealth Games legacy
- Collecting state revenue
- Open data
- Development applications and approvals
- Managing conflicts of interest
- Preventing childhood obesity
- Mental health service delivery
- Health outcomes for Aboriginal and Torres Strait Islander people
- Transport service contracts
- One-Stop Shop plan
- Open data
- Deploying police resources
- Managing demand across the criminal justice system
- Capital asset management and planning

## Q&A

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## **Fraud risk management (Report 6: 2017–18)**

Tabled 15 February 2018

### **Fraud risk assessments**

**We assessed whether agencies appropriately identify and assess fraud risks, and apply appropriate risk treatments and control activities to adequately manage their exposure.**



## Fraud risk assessments

# Recent fraud attempts in the Queensland public sector highlight the need for agencies to implement effective fraud control measures

In 2015–16:

- the Crime and Corruption Commission laid charges in 16 cases
- nine local governments were targeted in a fraud scheme.

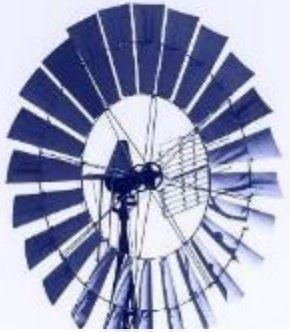
## **Key learnings**

### **Leading a fraud risk management culture**

- senior management commitment needs to be evident in practice

### **Establishing the framework**

- agencies should outline their approach for conducting fraud risk assessments
- fraud control plans need to include current or planned anti-fraud or anti-corruption activities



## Fraud risk assessments

### Key learnings

#### Identifying and responding to fraud risks

Fraud and corruption control plans should be targeted to:

- emerging risks, or
- to areas of an agencies' operations with the greatest exposure.

Fraud risks management needs to be integrated with enterprise risk management

#### Monitoring and reporting fraud risks

Senior management need visibility of:

- an agency's exposure to fraud risk and
- how well their controls and risk treatments mitigate fraud risks.



## Fraud and corruption control plans

### Questions audit committees can ask:

- What methodology was used to identify risks?
- Does the plan identify specific actions including **what** the agency will do, **who** will do it, and by **when** it will do it?
- Does the plan identify business areas or functions more susceptible to fraud and corruption risk?
- Does the plan consider internal and external fraud risks, and risks across functional areas?
- Do the risk descriptions clearly describe the fraud and corruption risk exposure?



**Fraud risk  
assessments**

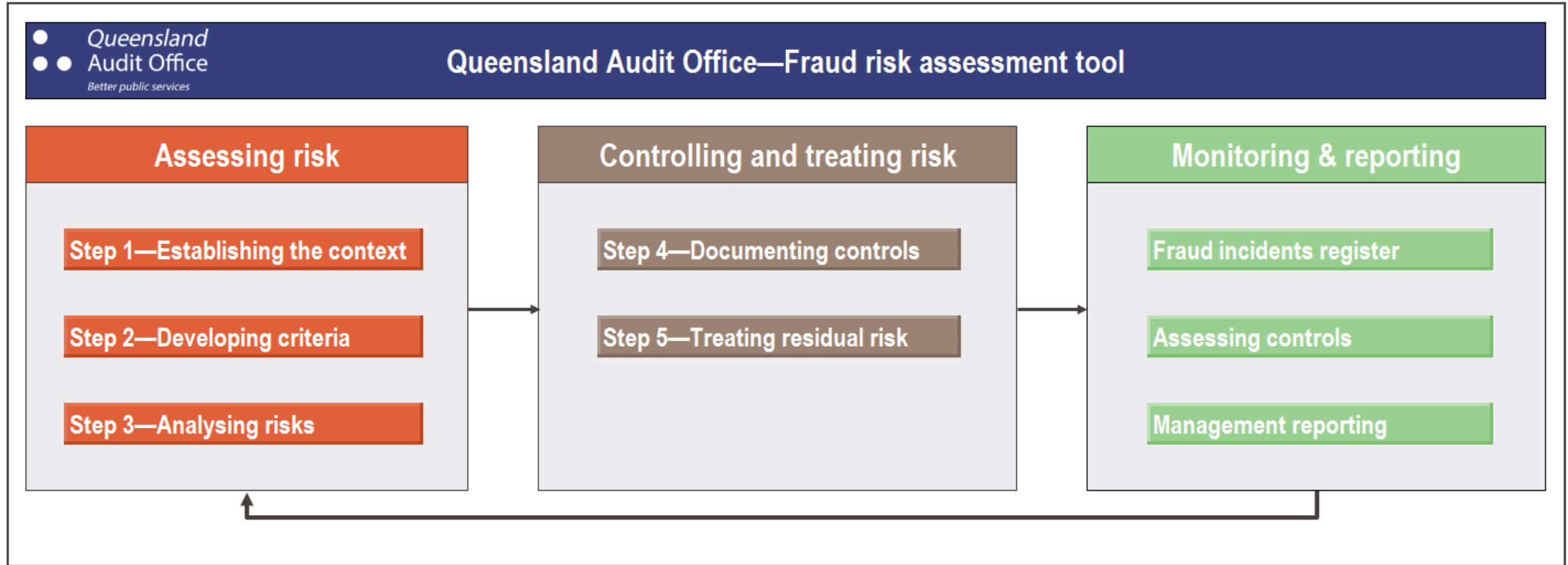
**Key governance committees, including boards and audit committees should:**

- review whether the agency has a comprehensive enterprise risk management framework in place, to effectively identify and manage risks, including fraud risks
- ensure the agency has appropriate processes or systems to capture and assess fraud risks
- review reports on fraud risks, and fraud incidents, considering how reported allegations and confirmed incidents may change identified fraud risks.



# Fraud risk assessment tool

## Fraud risk assessments



# Fraud risk assessment tool

## Fraud risk assessments

Agency function, program or activity	Potential fraud risks
Procurement	<ul style="list-style-type: none"><li>• Fraudulent procurement by employee/contractor</li><li>• Fraudulent procurement practices by vendors</li><li>• Fraudulent influence by employee on panel arrangements/preferred supplier lists</li><li>• Fraudulent contract management by employee</li><li>• Deliberately over-ordering resources to use the surplus for personal gain.</li></ul>
Finance	<ul style="list-style-type: none"><li>• Fraudulent use of corporate card</li><li>• Fraudulent invoice requesting payment to false bank details</li><li>• Misappropriation of cash</li><li>• Misusing Cabcharge vouchers for personal use or profit</li><li>• Seeking to award a grant outside the terms of the agreement and conditions for personal benefit</li><li>• Claims for reimbursement for non work-related expenses</li></ul>
Human Resources	<ul style="list-style-type: none"><li>• Nepotism in recruitment and selection processes</li><li>• Corruption in promotion process</li><li>• Bias against an applicant in recruitment and selection processes</li><li>• Deliberate manipulation of recruitment selection panels</li><li>• Fraudulent deception by applicant in recruitment and selection processes</li><li>• Management knowingly concealing the corrupt conduct of subordinate employees</li></ul>
Payroll	<ul style="list-style-type: none"><li>• Fraudulent recording of overtime, allowances, penalties, leave taken</li><li>• Fraudulent manipulation of the rostering process</li><li>• Inappropriate changes to master files</li><li>• Claims for study assistance</li></ul>
Misappropriation	<ul style="list-style-type: none"><li>• Misappropriation of materials for private use or sale</li><li>• Misappropriation of motor vehicles for private use or sale</li><li>• Manipulation of public auction or public tender process for disposal of assets</li></ul>
Reporting	<ul style="list-style-type: none"><li>• Fraudulent operational reporting by management</li><li>• Fraudulent reporting to meet KPIs</li><li>• Fraudulent reporting to meet government imposed FTE limits</li><li>• Manipulation of financial results (e.g. non accrual of expenses at year end to improve performance or over accrual to spend budget)</li><li>• Manipulation of financial results to spend the allocated budget</li></ul>
Information	<ul style="list-style-type: none"><li>• Fraudulent disclosure of confidential information by an active or terminated employee for personal gain</li><li>• Fraudulent disclosure of politically sensitive information</li><li>• Fraudulent disposal of information to enable a cover up</li></ul>





## Q&A

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## Closing

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## Any questions please contact us

T: (07) 3149 6000

M: [qao@qao.qld.gov.au](mailto:qao@qao.qld.gov.au)

W: [qao.qld.gov.au](http://qao.qld.gov.au)

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