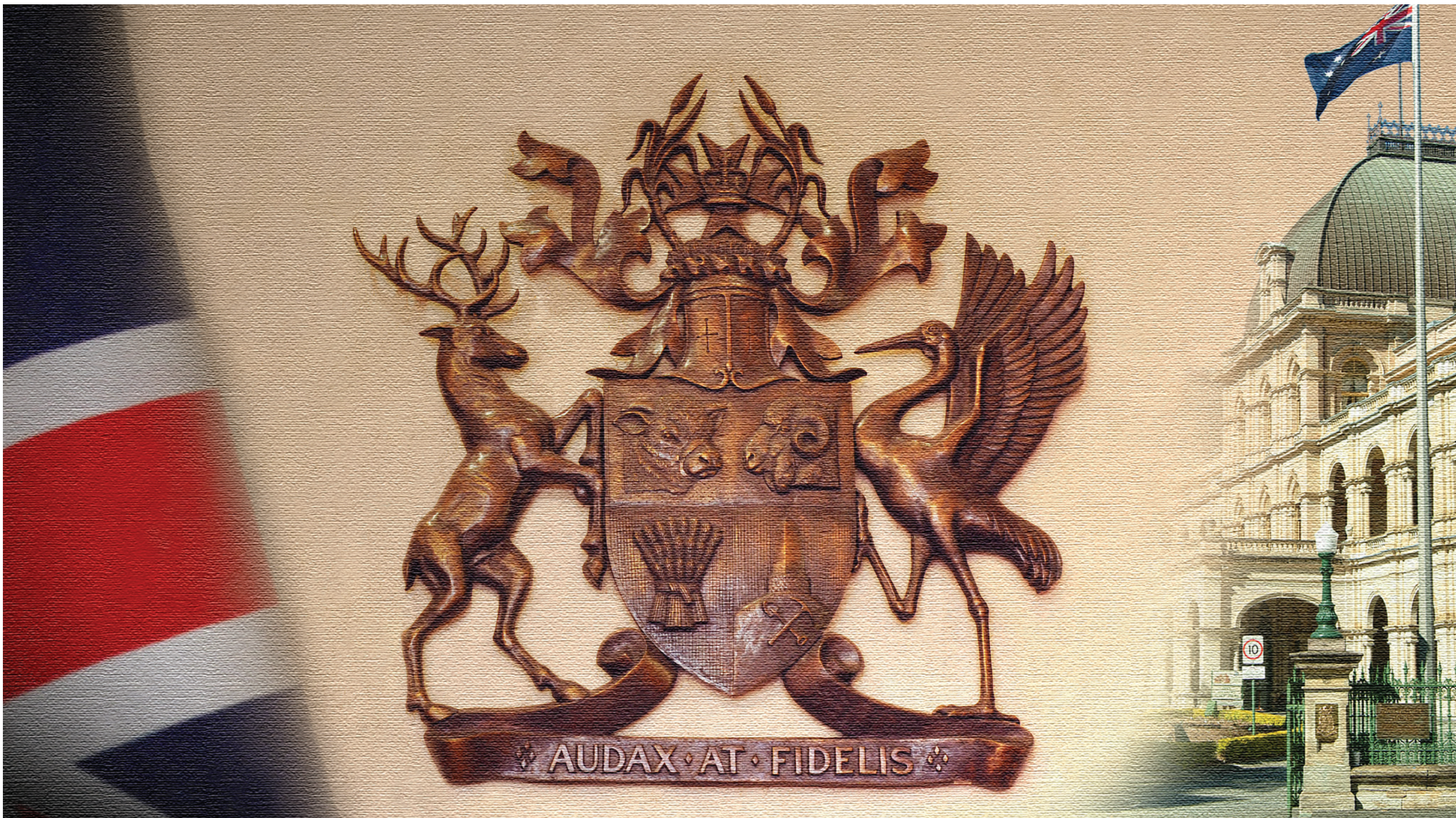
Auditor-General of Queensland



Financial and Assurance audit

Report to Parliament No. 5 for 2011

Results of audits at 31 May 2011

Auditor-General of Queensland

Financial and Assurance audit

Report to Parliament No. 5 for 2011

Results of audits at 31 May 2011

QUEENSLAND

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

Queensland Audit Office
Level 14, 53 Albert Street, Brisbane Qld 4000
PO Box 15396, City East Qld 4002
Phone 07 3149 6000
Fax 07 3149 6011
Email *enquiries@qao.qld.gov.au*
Web *www.qao.qld.gov.au*

This report has been produced using paper stock manufactured to ISO 14001 environmental standards. Hanno Art Silk is totally chlorine free, acid free, has pulp sourced from sustainably managed forests and meets ISO 9706 archival standards. It was proudly printed in Queensland by Goprint meeting ISO 14001 environmental and ISO 9001 quality standards.

ISSN 1834-1128

Publications are available at *www.qao.qld.gov.au* or by phone on 07 3149 6000.

Auditor-General of Queensland

June 2011

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

Dear Mr Speaker

This report is prepared under Part 3 Division 3 of the *Auditor-General Act 2009*, and is titled Results of audits at 31 May 2011. It is report number five in the series of Auditor-General Reports to Parliament for 2011.

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

Yours sincerely

Glenn Poole
Auditor-General

QUEENSLAND AUDIT OFFICE
Level 14, 53 Albert St, Brisbane Qld 4000
PO Box 15396, City East Qld 4002
Phone 07 3149 6000
Fax 07 3149 6011
Email enquiries@qao.qld.gov.au
Web www.qao.qld.gov.au

Contents

Executive summary

Introduction

It is usual for several Auditor-General Reports to Parliament to be tabled containing the results of Financial and Assurance audits completed throughout the year.

This report provides the results of the audits of public sector entities with financial statement balance dates other than 30 June 2010, and informs on audit issues identified during the interim audits undertaken in relation to the 2010-11 financial year. The results for the 2009-10 audits were reported in:

- *Auditor-General Report to Parliament No. 13 for 2010 – Results of audits at 31 October 2010.*
- *Auditor-General Report to Parliament No. 2 for 2011 – Results of local government audits*.

This report covers 122 public sector entities where an auditor's opinion has been issued since these previous reports were tabled, or where an auditor's opinion has not yet been issued.

The figure below shows the status of the audits of the 2009-10 financial statements.

Status of audits of the 2009-10 financial statements[1]

Financial reporting period	Total number of entities	Unmodified auditors' opinions issued	Modified auditors' opinions issued	Auditors' opinions not yet issued
01.07.2009 to 30.06.2010	**466**	**395**	**65**	**6**
01.01.2010 to 31.12.2010	**81**	**41**	**30**	**10**
Other reporting periods	**20**	**15**	**5**	**0**
Total	567	451	100	16

Results of 2009-10 audits

Auditors' opinions have not yet been issued for the 2009-10 financial statements of 16 public sector entities. This represents approximately three per cent of all financial statements on which an opinion was to be issued.

Audit is actively working with the public sector entities involved to ensure financial statements are finalised for audit, and outstanding auditors' opinions are issued as soon as practicable.

This report includes the results of audits of universities that had a financial statement balance date of 31 December 2010. The audits of universities have been completed and unmodified auditors' opinions were issued on their financial statements. While modified opinions were issued for some controlled entities of universities, I am satisfied that appropriate governance regimes are in place to maintain their accountability.

[1] See Section 5.1 for an explanation of terms

Auditors' opinions have been issued for the 2009-10 financial statements of 106 public sector entities since Auditor-General Report to Parliament No. 13 for 2010 and Auditor-General Report to Parliament No. 2 for 2011 were tabled in Parliament.

Unmodified auditors' opinions have been issued for 65 entities and 41 modified auditors' opinions. Refer to Section 5.1 for explanations of the types of auditors' opinions issued.

Section 4.1 of this report contains details of the status of 2009-10 financial statements where an auditor's opinion has been issued since Auditor-General Report to Parliament No. 13 for 2010 and Auditor-General Report to Parliament No. 2 for 2011 were tabled.

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

Financial management

As an extension of the annual Financial and Assurance audit, area of emphasis audits may be conducted for a more detailed examination of a specific component of the financial management or governance of a public sector entity.

Included in this report are the results of area of emphasis audits conducted in relation to:

- The appropriateness of controls and procedures in place over vendor information.
- The nature, extent, monitoring and reporting of salary overpayments.
- The management of employee leave entitlements.
- The progress of the implementation of system modifications following the machinery of government changes in 2009.

The first three area of emphasis audits focused specifically on basic financial management controls.

The audit of controls and procedures in place over vendor information found the management and monitoring of this activity in the departments audited requires significant improvement. None of the departments audited had implemented procedures to monitor or detect any issues with the creation of new vendors and changes to vendor information. The Shared Service Agency (SSA) had not been requested to undertake any processes for monitoring or detecting any issues with vendor information. Departments had not undertaken or requested the SSA to undertake a periodic and systematic review of duplicate and disused vendor information.

Departmental policies did not clearly identify the department as having the ultimate accountability for vendor creation and changes. The audit found that departments had a common view that the processes and controls over vendor information stored in the systems managed by the SSA were the SSA's responsibility. This has resulted in an ineffective controls environment over vendor information that had not been adequately assessed by departments.

Management and monitoring of salary overpayments across the Queensland Public Sector was poor. More than half of the entities audited did not have a policy outlining appropriate procedures and processes for salary overpayments. The 12 entities audited that utilise the SSA as their service provider did not have an appropriate level of detail in their operating level agreements with the SSA about the roles and responsibilities of the entity and the SSA's management of salary overpayments.

While the controls over employee leave management were considered to be adequate, there were still instances of inadequate monitoring of employee leave balances noted during the audit.

It is of concern that there are issues that need to be urgently addressed to ensure these fundamental controls are working as required.

Appropriate controls over vendor information, salary overpayments and employee leave entitlements are fundamental but essential areas of financial control. These areas do not necessarily represent high value transactions but they do represent areas of risk.

Poor controls over vendor information can potentially expose departments to significant losses if there is fraudulent manipulation of this information. Although no instances of fraud were identified during the audit, the poor vendor controls provide the potential for fraudulent activity to occur. Continued salary overpayments and poor governance of employee leave entitlements can not only have a financial impact but have a negative effect on the relationship between the employer and employee.

Within individual agencies these areas may only currently represent a moderate risk to their overall financial management. It is the collective exposure across government that is concerning. There appears to have been a loss of focus across the public sector on maintaining basic financial controls with the number of agencies failing to maintain these controls increasing. This trend has the potential to expose the public sector as a whole to significant risk.

The results of these audits identified confusion about the roles and responsibilities of entities and the SSA. The limitations of operating level agreements in relation to business continuity arrangements between the SSA and their clients were previously discussed in *Auditor-General Report to Parliament No. 4 for 2011 – Information systems governance and security*.

All audits identified that it was unclear what activities must be undertaken by the department, the SSA and those which are a joint responsibility.

Section 61 of *Financial Accountability Act 2009 (FAA)* states that Accountable Officers and statutory bodies are to ensure the operations of the department or statutory body are carried out efficiently, effectively and economically and are to establish and maintain appropriate systems of internal controls. The requirements place the responsibility for the maintenance of appropriate financial internal controls on the Chief Finance Officer and the Accountable Officer of the department, regardless of whether certain functions have been undertaken by an independent service provider.

It is essential that the roles and responsibilities to be undertaken by departments and the SSA are adequately documented in the operating level agreements to assist the Chief Finance Officer and Accountable Officer fulfil their obligations under the FAA. Where there is confusion over accountability and responsibility, it would be difficult for Chief Finance Officers to confidently make their annual control certification. There has not been sufficient effort to map the processes and controls over the various aspects of financial activities from initiation and approval to monitoring.

Governance

Another area of audit emphasis undertaken was on the progress of the implementation of systems modifications following machinery of government changes. While audit found that the departments made significant progress towards amalgamating the financial, payroll and key administrative systems, it seems incongruous that a machinery of government change announced in 2009 to improve the efficiency and effectiveness of public administration should take four to five years to implement.

In announcing the reform to the public sector on 26 March 2009, the Premier stated its purpose was 'simplifying government, reducing bureaucracy and cutting red tape.'[2] It is acknowledged that in implementing a machinery of government change, departments are required to deal with a number of issues, which can be complex and time-consuming. However, if the objective of rationalising departments is for more efficient and effective service delivery, five years to implement such changes does not seem to meet this objective. In early 2011, another machinery of government change occurred, changing already affected departments and adding more complexity in some areas.

Audit found that the departments had made some progress towards amalgamating the financial, payroll and key administrative systems with two departments having completed amalgamation and the others with completion dates ranging from May 2011 to July 2013. Progress was impacted by the number of business areas that were required to be consolidated and other factors including a whole of government freeze on system migration, availability of technical and business resources, a lack of prioritisation of internal funding and the impact of natural disasters in the summer of 2010-11.

Audit did not find evidence that the Executive Government set a definitive timetable for completion of the system amalgamations, although consultation was undertaken by the departments during the process. Departments reported on the impacts of the machinery of government changes in their annual reports, however, there did not appear to be any formal reporting on progress at a whole of government level. All departments recognised the importance of a robust project methodology and sound governance arrangements to successfully plan and implement significant system consolidation projects.

Machinery of government changes are often announced at short notice resulting in poor change management, leaving little time for planning or to establish a steering committee or change management team to coordinate its implementation. There is usually an expectation for these changes to be cost neutral so budgets allocated do not provide additional funding to cover the costs of changes. Without adequate prioritisation of funding, scheduling and monitoring of changes, there is no impetus for change.

The type and number of internal control issues being raised by audit within entities is a good indicator of the overall governance, which has been implemented. For 2010-11, 125 moderate to high risk financial management issues had been reported to management from the interim audits of departments, statutory bodies and government owned corporations. The most significant issues related to inadequate controls being maintained by these public sector entities over access to and the use of their financial and human resources systems. It is critical that users' security profiles are monitored by management and updated regularly to reduce the risk of unauthorised access leading to unauthorised payments and confidential information. I have reported on this issue many times in my reports and so far, there has been little if any improvement in this area.

[2] Ministerial Media Statement – *'Bligh Reforms Continue with Public Service Restructure,'* 26 March 2009.

Other issues

The recent Queensland natural disasters, late 2010 to early 2011, have led to an increase in community organisations being set up to collect donations and assist with the relief process. This has brought to my attention the community funds and bodies which operate under the banner of a local government or Mayor. I am reviewing the status of these bodies to establish whether they are controlled entities of local government and subject to audit by me with accountability to Parliament and the local government.

I have already identified some of these bodies, which while bearing the identity of the local government or Mayor, and thus giving the impression of a direct relationship and a degree of interdependence or support, are not considered by the connected local government to be a controlled entity. I will be reporting on this issue in a report to Parliament later in 2011.

Stakeholders' responses

Treasury Department

The Under Treasurer provided the following response:

Your Parliamentary report highlights issues in the relationship between agencies and the Shared Service Agency (SSA).

As you would be aware there have been no major exposures related to any of the issues raised above over the past several years. I believe that significant improvements have been made in process control between agencies and the SSA due to the maturing of understanding of the relative roles of these bodies.

The commencement of the Financial Accountability Act in 2009 also introduced a robust framework around accountability for departments, which is underpinned by the Chief Finance Officer (CFO) statement. The purpose of the statement is to provide a formal process for assessing controls and a mechanism for reporting on the state of a department's systems and processes.

It is only the second year of the CFO statement and, as a result, we would expect to see incremental improvements in departmental systems and processes. I do not agree with your statement that the issues you have raised would make it "difficult for the Chief Finance Officers to confidently make their annual control certification". The issues raised in your report do not inhibit the ability of the CFO to provide a statement to the accountable officer, but it is an opportunity to highlight where improvement opportunities may exist.

Treasury has advised the Department of Public Works, that we wish to work with the SSA to ensure there is a clear delineation of the roles and responsibilities undertaken by Treasury and the SSA. Plans for the transition by Treasury to new financial and human resource management systems are advancing and will be an integral part of this work.

It is understood that the SSA is currently developing a set of performance measures to monitor the effectiveness of its services as well as moving steadily towards the implementation of standardisation of services. This standardisation will be underpinned by the finalisation of systems implementation across all agencies.

This will similarly enhance the development of assurance frameworks associated with the shared services environment.

Department of Public Works

The Director-General provided the following response:

The department appreciates the opportunity to comment on the results of audits as at 31 May 2011 of a number of cross-sector reviews conducted by the Queensland Audit Office.

As an overview comment, the Department notes the departure from previous cross-sector audits where the particular issues of individual agencies audited are not specifically identified. In these current audits however the Shared Service Agency (SSA) is specifically referenced in some detail. While the role of the SSA in supplying financial and payroll services to eleven other departments makes it difficult to avoid referencing this role, it should not receive undue attention at the expense of details of audit findings in the other agencies under review.

Another issue of concern to this department is the lack of acknowledgment of effort that has gone into resolving a number of the audit issues raised previously notwithstanding the fact that final resolution has not been achieved. This effort will be specifically referenced in each of the sections below.

Finally, the Department has included a response to the repeated theme of the inadequacies of the current operating level agreement process within the shared services environment. This response sets out our understanding as to what properly constitutes an operating level agreement between the SSA and its eleven client departments.

Financial management controls

This section largely provides an overview and summary of the findings of the three areas of control that were audited – vendor information, salary overpayments, and leave management. This section also acknowledges that these control areas do not necessarily represent high value transactions but represent areas of risk.

The Department agrees that further improvement in each of these control environments is essential, particularly in the area of clarity of roles and responsibilities.

The Department disagrees however with the audit conclusion that on the basis of some deficiencies in these discrete environments, particularly as they typically don't involve high value transactions, Chief Finance Officers would have difficulty in making their annual control certification. These are only three controls within a comprehensive control framework that has to be assessed as part of the annual certification process. There is no compelling evidence provided in any of these sections that would support this contention.

Controls over vendor information

The Department acknowledges that adequate management oversight of vendor creation and amendment details is essential in a controlled financial processing environment to minimise risks such as fraud. The Department also notes that no actual instances of fraud are referenced by the Auditor-General in the report.

It is the Department's view that the SSA has invested significant time and effort in assessing a variety of options to resolve the issues raised in Auditor-General Report to Parliament No. 8 for 2010. This effort has had visibility with QAO as these topics have been regularly discussed in audit forums attended by QAO throughout 2010-11. For example, to give effect to the 2010 QAO recommendation that each agency must authorise all creations and changes to master data, SSA trialled this revised process in one client agency and both parties found the process to be unsustainable from a timeliness and efficiency of service delivery perspective.

SSA has since met with the Chief Finance Officers (CFOs) or their representatives from every client department to identify a workable solution. The CFOs have agreed to delegate the creation and amendment of master data to the SSA. The agencies will monitor vendor changes through the vendor and customer change reports. The responsibilities of both the SSA and the agencies have been identified in a delegations document which was prepared by the SSA. An outline of these proposed arrangements will be supplied to QAO.

The Department acknowledges however that periodic reviews of vendor information are important. A major cleanse of the ECC5 vendor database was performed by the SSA in 2010 and will be performed again in late 2011. This was not referenced or acknowledged in the audit report. A significant cleanse is underway for one of SSA's 4.6c clients and planning for the duplicate vendor review timetable of work across all SAP Finance systems for the 2011-2012 year is currently underway and will be provided to the QAO when finalised.

In relation to the issue of both the Department of Education and Training (DET) and SSA having the ability to create and amend vendor information in the SAP ECC5 environment, there is an agreement between the two parties that any changes received by DET which affect the whole-of-government account are to be sent to the SSA for processing. A copy of this agreement will be supplied to QAO.

Salary overpayments

The Department acknowledges that the management of salary overpayments is complex and there is a need to clarify and standardise roles and responsibilities between departments and the SSA as outlined in the report. The Department is also strongly of the view that the extent of salary overpayments needs to viewed in context of total salary payments made. As the review noted, the total original value of overpayments amount across 22 entities as at 31 October 2010 was $3.885 million which "may only represent a very small percentage of their total employee costs". Detailed salary figures that are compiled by the Shared Service Agency on a monthly basis indicate that salary overpayments represent significantly less than one percent of total salary payments made over the same period.

The review states that these overpayments occur mainly from the late notification of some form of leave or employee's termination. It also states that the extent of overpayments could be significantly reduced if appropriate processes and procedures are established for the timely notification of leave and other similar events. These are essential preventative strategies that need to be addressed but are not mentioned in the audit conclusion section of the review.

SSA has been actively reviewing its salary overpayment processes. As a result of an internal audit into overpayments conducted in 2010, the SSA has a project team working on identifying a standard process for overpayments to be implemented across the Department of Public Works and the SSA. The QAO is aware of this report and the timing of the implementation of its recommendations. This issue has also actively discussed by SSA audit forums attended by QAO. This work which is due to be completed by end of June 2011 will provide a suitable process template that can be made available to other client departments where there are current process deficiencies. This issue of overpayments will be given a high priority by the SSA for 2011-12.

Leave management

The department notes and accepts the audit conclusions in this review.

Response to issue: Operating Level Agreements (OLAs) and management assurance

Since the introduction of shared services, the form of operating level agreements established between client departments and providers has been progressively refined. Historically, the original OLA process was found to be time consuming, contentious and ineffective. The depth of detail which was formerly included in the document created conflicts which could not be readily resolved and served to undermine the goal of standardisation of services. This was reflected in the delays in signing of the agreements or, in some cases, no final signoff at all by the agencies. Last year, with the new versions of the OLAs for the first time every agreement was signed.

The OLA is now meant to be a head agreement between the client department and the SSA. It outlines the respective roles and responsibilities of both parties at a service item level only. The document is not meant to include detailed process maps for each service that minutely identify every point of engagement and control point. The inclusion of such detail would once again make the OLA unworkable in terms of both its size and ability to remain current. This is not to suggest that this detailed process mapping cannot be referenced in the head agreement, rather that the content cannot be incorporated.

The SSA has been working at this supporting layer of mapping detail for a considerable period of time. This process is made more difficult due to the lack of standardised systems within the SSA's service delivery environments. Within the finance area, for example, the Detailed Price Element Specifications documents are either completed or close to completion. The details in these documents identify the roles of the SSA for each activity performed.

However, the SSA acknowledges that there is a requirement to provide greater visibility of this process mapping layer to both clients and audit and this will be a priority for 2011-12.

With the current OLA format in place, a strong emphasis is placed in client relationship management. There are a number of formal and informal meetings held regularly which are used to manage issues and identify where roles and responsibilities lie. The Strategic Directions meetings are held quarterly between the SSA General Manager, Executive Directors and client relationship managers (CRMs) and their counterparts in the agencies. Executive Directors and their directors meet monthly or quarterly with client agencies. This arrangement flows down through managers to team leaders. There is constant communication to ensure that issues are identified and resolved.

Finally, the management assurance process is also referenced in a number of these audit reviews. The SSA management assurance process is based on the testing of all key processes which are performed within the Shared Service Agency. Any exceptions which are noted in the testing process have been reviewed in the management assurance report and comment made on how the exceptions are being managed. Also, any audit issues raised by internal audit are identified and the actions being taken to resolve them. Issues raised by the Queensland Audit Office are commented on in the covering letter to the report.

The SSA has met with the Chief Finance Officers (CFOs) or their representatives in the client agencies and discussed their requirements in relation to management assurance. The SSA has offered to provide additional information in the form of a full list of appraisals performed by each agency and a separate exceptions report which identifies any occasions where a negative response was recorded in an appraisal. The exceptions report will identify the issue, what is being done to remedy the issue and the due date of implementation. These revised arrangements will be in place for 2011-12.

Further comment

In this report, I state that ‘where there is confusion over accountability and responsibility, it would be difficult for Chief Finance Officers to confidently make their annual control certification.’ In the current environment, there will be a number of matters for Chief Finance Officers to consider when making their annual control certification to the Accountable Officer. As noted by the Under Treasurer, it will be an opportunity to highlight where improvement opportunities may exist.

Apart from the issues raised during the area of emphasis audits, this concern is based on the high and moderate risk areas reported in Section 3.2 as well as issues about basic financial controls raised in previous Reports to Parliament. In finalising the statements required under the *Financial Accountability Act 2009*, Chief Finance Officers should consider any impact on their department from these issues.

The operating level agreements issues raised by the Director-General of the Department of Public Works are acknowledged. I am a supporter of the concept of shared services but the shared service arrangements have now been in operation for over eight years. It would be expected that over this period of time, issues with operating level agreements would have been resolved so that the accountability and responsibilities of the Shared Service Agency and the client departments would be clearly documented and understood by all parties involved in processing the transactions.

1 | Results of audits

Summary

Background

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

The *Auditor-General Act 2009* requires the Auditor-General to report to Parliament on the results of all audits each year. This Section contains the results of the 2009-10 audits completed to 31 May 2010, including the results of university and grammar school audits with a balance date of 31 December 2010.

Key findings

- At 31 May 2011, auditors' opinions had been issued on 2009-10 financial statements of 551 public sector entities (or 97 per cent of the entities on which an audit opinion was to be issued). There have been 452 unmodified and 99 modified auditors' opinions issued.
- Since *Auditor-General Report No. 13 for 2010* and *Auditor-General Report No. 2 for 2011* were tabled, 41 modified and 65 unmodified auditors' opinions have been issued.
- The 2010 audits of universities and grammar schools have been completed and unqualified auditors' opinions issued for their financial statements.
- A disclaimer of opinion has been issued for the 2008-09 financial statements for the Torres Strait Island Regional Council.
- An extension of time was granted for the completion and audit of the 2010 financial statements of universities from 28 February to 31 March 2011. All seven universities met the revised deadline.

1.1 Results of 2009-10 audits

1.1.1 Status of audits

For the 2009-10 financial year, the Auditor-General was required to audit the financial statements of 567 public sector entities.

- The results of the 2009-10 audits of 136 local government entities were included in Auditor-General Report to Parliament No. 2 for 2011 – Results of local government audits.
- The results of audits of 309 financial statements prepared at 30 June 2010 were included in Auditor-General Report to Parliament No. 13 for 2010 – Results of audits at 31 October 2010.

Since those two reports were tabled in Parliament, the financial statements of 106 entities have been audited and an auditor's opinion issued.

Refer to Section 4.1 of this report for information regarding when the financial statements were signed by management and the auditor's opinion issued.

The status of the 2009-10 financial statements is summarised in Figure 1A.

Figure 1A – Status of 2009-10 financial statement certifications[3]

Entity Type	Total	Previously reported	Unmodified auditor's opinion issued	Modified auditor's opinion issued	Auditor's opinion not yet issued
Audited by arrangement	39	34	38	0	1
Audited by arrangement – under trust deed	41	35	40	1	0
Controlled entities	163	95	114	37	12
Departments	20	19	16	4	0
Departmental agencies	1	1	1	0	0
Government owned corporations	15	15	13	2	0
Jointly controlled entities	32	28	27	4	1
Joint local governments	2	2	1	1	0
Local governments	73	69	52	19	2
Statutory bodies	180	146	149	31	0
Under trust deed	1	1	1	0	0
Total	**567**	**445**	**452**	**99**	**16**

[3] See Section 5.1 for an explanation of terms.

1.1.2 Auditors' opinions issued

The status of the financial statements for the 80 entities that were required to prepare financial statements for periods up to and including 31 December 2010, and the 42 entities previously reported as not having their 2009-10 financial statements finalised, are shown in Figure 1B.

Auditors' opinions have now been issued for 106 entities. Details of the 65 unmodified auditors' opinions issued can be found in Section 4.1 of this report.

Figure 1B – Status of 2009-10 financial statements not previously reported[4]

Entity Type	Total	Unmodified auditor's opinion issued	Modified auditor's opinion issued	Auditor's opinion not yet issued
Audited by arrangement	5	4	0	1
Audited by arrangement – under trust deed	6	5	1	0
Controlled entities	68	27	29	12
Department	1	0	1	0
Jointly controlled entities	4	2	1	1
Local governments	4	1	1	2
Statutory bodies	34	26	8	0
Total	**122**	**65**	**41**	**16**

Modified auditors' opinions were issued for 41 entities. These opinions are outlined in Figure 1C.

[4] See Section 5.1 for an explanation of terms.

Figure 1C – Modified auditors' opinions issued

Entity Name	Basis for auditors' opinions issued
Qualified auditors' opinions	
Coridon Pty Ltd	A qualified auditor's opinion was issued because this is the first year that this entity has prepared a financial report and this report includes comparative information for the previous financial year that has not been subject to audit. As a result, an opinion could not be expressed on this comparative information.
Edward River Crocodile Farm Pty Ltd	A qualified auditor's opinion was issued because no stocktake of biological assets were undertaken and no documentation existed to support the monetary value of each breeder and live hatchling. Inadequacies in controls over inventory movements and subsequent billing processes resulted in sales revenue, cost of sales and the reported net loss not being able to be substantiated. Due to inadequate internal controls and record keeping, insufficient documentation was available to support reported employee costs and employee benefits liabilities. The company was unable to demonstrate that property, plant and equipment was reported at fair value as at 30 June 2009 as required by the Australian Accounting Standards. An emphasis of matter was issued as there was significant uncertainty as to whether the company would be able to continue as a going concern.
Pormpuraaw Aboriginal Shire Council	A qualified auditor's opinion was issued because: • Council was unable to provide adequate supporting documentation for kiosk and fuel revenues and failed to maintain an effective reconciliation between the kiosk and fuel movements and sales. • No stocktake of consolidated biological assets was undertaken and no documentation existed to support the monetary value of each breeder and live hatchling. Inadequacies in controls over inventory movements and subsequent billing processes resulted in the consolidated net change in fair value and the consolidated net result not being able to be substantiated. • Council was unable to demonstrate that consolidated property, plant and equipment was reported at fair value as at 30 June 2009 as required by the Australian Accounting Standards. In addition, the completeness, accuracy and existence of property, plant and equipment could not be substantiated as the Council had not completed a full stocktake of these assets. • Council was unable to provide adequate supporting documentation for the consolidated annual leave and long service leave liability balances. • Adequate documentation could not be provided to support several adjustments made to opening balances. • Council had not assessed the impairment of its roads, which were the subject of flood damage which contravenes Australian Accounting Standard requirements. • Council did not recognise amounts granted to reconstruct flood damaged roads as revenue as required by the Australian Accounting Standards. An emphasis of matter was issued as there was significant uncertainty as to whether Edward River Crocodile Farm Pty Ltd, a wholly controlled entity of the Council, would be able to continue as a going concern. An emphasis of matter was issued as the Council did not meet the requirement to adopt the Annual Report, which includes the audited financial statements by 30 November 2010 or an alternative date approved by the Minister, in this case, 31 March 2011.

Entity Name	Basis for auditors' opinions issued
Adverse auditors' opinions	
Activetorque Pty Ltd Corpison Pty Ltd LanguageMap Pty Ltd Lucia Publishing Systems Pty Ltd Neo-Rehab Pty Ltd (all university controlled entities)	Adverse auditors' opinions were issued for these entities because their special purpose financial statements had been prepared on a going concern basis. It is highly improbable these companies will be able to continue as going concerns. This is discussed further in Section 1.2.4.
Emphasis of matter references	
Ausonex Pty Ltd Bilexys Pty Ltd Dendrimed Pty Ltd Lightanate Pty Ltd Millipede Forming Pty Ltd Neurotide Pty Ltd Pepfactants Pty Ltd Progel Pty Ltd Tenasitech Pty Ltd (all university controlled entities)	An emphasis of matter was issued for these companies due to inherent uncertainty regarding their continuation as going concerns. This is discussed further in Section 1.2.4.
Bollon South Water Authority Merlwood Water Board Mount Isa Water Board Palmgrove Water Board	An emphasis of matter was issued for these entities as the respective Boards did not meet the requirement for completion and audit of the financial statements within two months of the end of the financial year.
Forestry Plantations Queensland Forestry Plantations Queensland Office	Emphasis of matter were issued for these entities as all remaining equity in these entities was withdrawn by the State Government through the return of all available funds to the State of Queensland Treasurer's Consolidated Fund Account. The equity withdrawal was affected by a project direction pursuant to the *Infrastructure Investment (Asset Restructuring and Disposal) Act 2009*. The abolition of these entities was effected on 30 November 2010. Accordingly the financial reports of these entities were not prepared on a going concern basis.
Industrial Supplies Office (Queensland) Limited	An emphasis of matter was issued as there was significant uncertainty in relation to the company continuing as a going concern. Due to the reassignment of its business, the company effectively became a division of QMI Solutions Limited from 1 April 2008.
Queensland Nursing Council	An emphasis of matter was issued for the board as the board was abolished on 1 July 2010 with the net assets transferred at nil consideration to the new Australia-wide board. The final financial statements of each of the abolished board recorded all asset and liability balances at nil to represent their value to the former board. These statements were not prepared on a going concern basis.
Royal Children's Hospital Foundation Townsville Hospital Foundation	An emphasis of matter was issued for the Foundations as these entities did not meet the requirement in relation to completion and audit of the financial statements within two months of the end of the financial year.

New requirements for special purpose financial statements

Many of the smaller companies prepare special purpose financial statements. The release of clarity auditing standards for reporting periods commencing on or after 1 January 2010 necessitated changes to the independent auditor's reports issued on all special purpose financial reports.

ASA 800 *Special Considerations – Audits of Financial Reports Prepared in Accordance with Special Purpose Frameworks* specifically addresses the auditor's obligations for auditing special purpose financial reports. Auditors are now required to:

1. Assess whether the financial reporting framework is acceptable given the information needs of the intended users. QAO's engagement letter now includes client acknowledgement of their responsibilities where special purpose financial statements are prepared.
2. Evaluate whether the financial report adequately refers to / describes the applicable financial reporting framework. A qualified or adverse opinion is required where the applicable financial reporting framework is not appropriately described in the financial report even if the auditor has determined that it is acceptable to use such a framework.
3. Alert users that the auditor's report and financial report is prepared in accordance with a special purpose framework and, as a result the financial report may not be suitable for another purpose.

Where the auditor determines that the financial reporting framework is appropriate for the information needs of the intended users and the framework is appropriately described in the financial report, the auditor is still required to include an emphasis of matter paragraph in the independent audit report to highlight the fact that it is a special purpose financial report.

For 25 entities, an emphasis of matter was issued to alert users that special purpose financial statements had been prepared. As these were prepared to fulfil the directors' financial reporting responsibilities under the *Corporations Act 2001*, the financial report may not be suitable for another purpose. The entities for which the emphasis of matter was issued are included in Figure 1D.

Figure 1D – Emphasis of matters issued

Entities	
Ausonex Pty Ltd*	Millipede Forming Pty Ltd*
Aussie Colours Pty Ltd*	Neurotide Pty Ltd*
Bilexys Pty Ltd*	North Queensland Local Government Association
BioHerbicides Australia Pty Ltd	Pepfactants Pty Ltd*
Ceramipore Pty Ltd	Primed Pty Ltd
Coridon Pty Ltd#	Progel Pty Ltd*
Dendrimed Pty Ltd*	Snoresounds Pty Ltd
Gold Coast Innovation Centre Ltd	Tenasitech Pty Ltd*
i.Lab Incubator Pty Ltd	Translational Research Institute Trust
IMBcom Asset Trust	Uniquest Asset Trust
Leximancer Pty Ltd	UQ College Limited
Lightanate Pty Ltd*	University of Queensland Foundation Trust
Metallotek Pty Ltd	

Also issued a qualified auditor's opinion.   * Also received an emphasis of matter due to going concern issues.

1.1.3 Auditor's opinion issued for the Consolidated Whole of government and General Government Sector Financial Statements

These financial statements prepared by Treasury Department, outline the operations of the Queensland Government on an accrual basis in accordance with Australian Accounting Standard AASB 1049 *Whole of government and General Government Sector Financial Reporting* and other applicable standards.

The purpose of this financial report is to provide users with information regarding:

- The stewardship by Government in relation to the General Government Sector and Whole of government (Total State Sector), and accountability for the resources entrusted to it.
- Information about the financial position, performance and cash flows of the General Government Sector and Total State Sector.
- Information that facilitates assessments of the macro-economic impact of the Government.

AASB 1049 *Whole of government and General Government Sector Financial Reporting* was released in October 2007. The standard aims to harmonise the Government Finance Statistics and Accounting Standard frameworks. The Government Finance Statistics reporting framework, developed by the Australian Bureau of Statistics, is based on international statistical standards and allows comprehensive assessments to be made of the economic impact of government.

A full set of financial statements is required for both the General Government Sector and Total State Sector. Comparison is with the prior year, though the General Government Sector financial statements also require analysis of variances between original published budget and actual figures.

The statements present the operating statement, balance sheet and cash flows of the Queensland Total State Sector on a consolidated basis and the General Government Sector on a partially consolidated basis.

The public sector entities consolidated were those controlled by the State and considered to be material. Public sector entities are generally considered material if they meet either of the following criteria:

- Net operating result in excess of $2m; or
- Net assets in excess of $25m.

However, in addition to material entities, the State consolidated some entities which were not material in terms of the operating position or net asset position criteria if they were either a department or funded for the delivery of services. Entities not considered to be directly controlled by the State were not consolidated and these include local governments, public universities and certain professional and occupational boards.

The independent auditor's report on the 2009-10 financial statements was issued without qualification on 1 December 2010, following its certification by management on 30 November 2010.

1.1.4 Unfinalised financial statements

The audits of 2009-10 financial statements for 16 entities have not yet been completed and auditors' opinions issued. These entities are listed in Section 4.1.

1.2 Results of 2010 university audits

1.2.1 Introduction

Seven universities are constituted within the Queensland Public Sector:

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

The universities are statutory bodies subject to the requirements of the *Financial Accountability Act 2009* and are audited by the Auditor-General. They prepare general purpose financial statements in accordance with the Australian Accounting Standards.

Additional disclosure requirements are prescribed by the Commonwealth Department of Education, Employment and Workplace Relations.

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

1.2.2 Results of 2010 audits

Audit results

All university audits for 2010 have been completed and unqualified independent auditors' reports issued on their financial statements, the same result as for 2009. Comments on the audit results of the universities' controlled entities are included in Section 1.2.4 of this report.

Performance information

The Commonwealth Department of Education, Employment and Workplace Relations monitors the financial and business performance of universities across Australia and requires universities to provide certain data to allow this monitoring activity to occur.

The Commonwealth Department of Education, Employment and Workplace Relations benchmarks include liquidity, diversity of revenue, employee benefits and on-costs, and operating result.

Liquidity

The current ratio also known as the working capital ratio is the relationship between current assets and current liabilities. It is a measure of general liquidity and is most widely used to analyse the short term financial position or liquidity of an organisation. It is calculated by dividing total current assets by the total current liabilities. A ratio of greater than 1.5 is considered as being favourable, but a ratio of more than one still indicates a low risk of not being able to fund current obligations. All Queensland universities are considered to have adequate liquidity, as shown in Figure 1E.

Figure 1E – Liquidity (Current ratio)

Universities	2010	2009
Central Queensland University	2.44	2.74
Griffith University	3.65	3.32
James Cook University	2.14	2.39
Queensland University of Technology	3.36	4.31
The University of Queensland	1.71	1.45
University of Southern Queensland	3.89	3.75
University of the Sunshine Coast	2.67	1.86

Source: Universities' audited financial statements included in their annual reports. Consolidated figures have been used for each university where applicable. Long service leave liabilities expected to be settled after 12 months of the reporting date have been eliminated from current liabilities.

Diversity of revenue

Universities can reduce financial risks by diversifying revenue sources. The majority of universities are dependent on Australian Government financial assistance as their principal funding source. Figure 1F shows the extent to which the universities have diversified their revenue sources in the 2010 and 2009 years.

Figure 1F – Diversity of revenue expressed as a percentage of total revenue

Revenue source	% of total revenue							
	Central Queensland University		Griffith University		James Cook University		Queensland University of Technology	
	2010	2009	2010	2009	2010	2009	2010	2009
Australian government financial assistance	42.4	45.3	56.2	56.8	60.6	58.3	60.3	60.1
Fees and charges	46.5	43.5	27.7	26.9	24.1	23.1	20.5	18.4
Investment revenue	3.5	3.8	2.2	1.6	2.1	2.4	2.9	2.3
Consultancies and contracts	2.9	2.3	4.3	4.1	8.1	7.9	5.0	7.5
State and local government financial assistance	0	0	1.8	3.0	0.5	0.6	1.3	1.5
Other revenue	4.8	5.1	7.7	7.6	4.6	7.8	10.0	10.2

Source: University's audited financial statements included in its annual report. Consolidated figures have been used for each university where applicable.

Revenue source	% of total revenue							
	The University of Queensland		University of Southern Queensland		University of the Sunshine Coast		Grand total	
	2010	2009	2010	2009	2010	2009	2010	2009
Australian government financial assistance	54.1	51.4	68.5	63.8	76.3	74.0	57.1	55.8
Fees and charges	19.3	17.6	22.2	26.2	14.5	16.4	23.2	22.2
Investment revenue	1.2	1.2	2.1	1.7	1.6	1.7	2.0	1.8
Consultancies and contracts	5.4	6.5	0.4	0.4	1.0	1.0	4.8	5.6
State and local government financial assistance	4.0	4.4	0.9	1.4	1.5	1.8	2.3	2.7
Other revenue	16.0	18.9	5.9	6.5	5.1	5.0	10.7	11.9

Source: University's audited financial statements included in its annual report. Consolidated figures have been used for each university where applicable.

Fees paid by overseas students

Figure 1G shows a comparison of fees paid by overseas students as a percentage of the total revenue of each university. While the trend for revenue from overseas students shows an increase for universities as a whole, this source of revenue is subject to a range of risks that are outside the control of an individual university.

Figure 1G – Revenue from overseas students

University	2010		2009		2008	
	Fees paid by overseas students $'000	% of total operating revenue	Fees paid by overseas students $'000	% of total operating revenue	Fees paid by overseas students $'000	% of total operating revenue
Central Queensland University	95,426	40.64	87,350	37.20	81,779	35.59
Griffith University	150,320	20.60	135,848	20.18	119,022	19.14
James Cook University	62,464	17.88	56,802	17.55	46,272	14.27
Queensland University of Technology	115,365	15.75	100,717	13.35	87,215	14.76
The University of Queensland	237,449	16.20	187,461	14.36	145,785	11.47
University of Southern Queensland	32,037	14.24	35,738	16.87	34,615	16.83
University of the Sunshine Coast	13,524	11.12	13,422	12.25	11,277	9.28
TOTAL	**706,585**	**18.31**	**617,338**	**17.09**	**525,965**	**15.63**

Source: Fees and charges were extracted from the universities' audited financial statements. Consolidated figures have been used for each university where applicable.

As competition among Australian and foreign providers of higher education grows, the financial risk to their business increases if this source of revenue is adversely affected.

Employee benefits and on-costs

The Commonwealth Department of Education, Employment and Workplace Relations monitors the universities' ability to meet employee expenses by measuring employee benefits and on-costs as a percentage of total revenue. Good practice is considered to be 50 to 70 per cent.

Figure 1H shows that all universities were at the lower end of the benchmark and would be considered as being in a favourable position.

Figure 1H – Employee benefits and on-costs as a percentage of total revenue

Universities	2010 %	2009 %
Central Queensland University	59.12	53.90
Griffith University	52.64	52.40
James Cook University	52.88	50.67
Queensland University of Technology	55.89	49.28
The University of Queensland	50.95	51.40
University of Southern Queensland	58.81	55.28
University of the Sunshine Coast	52.95	50.65

Source: Universities' audited financial statements included in their annual reports. Consolidated figures have been used for each university where applicable.

Operating result

Universities are not-for-profit organisations, however, the operating result is considered to be a useful measure of financial performance. On average universities should aim to achieve an operating surplus.

Figure 1I – Operating result

Universities	2010 $'000	2009 $'000
Central Queensland University	(4,925)	2,460
Griffith University	109,806	94,395
James Cook University	21,486	23,499
Queensland University of Technology	46,927	110,293
The University of Queensland	107,296	125,910
University of Southern Queensland	14,586	18,006
University of the Sunshine Coast	16,374	17,500

Source: Universities' audited financial statements included in their annual reports. Consolidated figures have been used for each university where applicable.

Figure 1I shows that while Central Queensland University made a small operating loss in 2010, it had made surpluses in the preceding two years. It has a strong net asset and cash position and has budgeted for future surpluses.

Effect of the global financial crisis

The business model of Queensland universities does not rely on investment revenue to fund operations. Therefore, the effect of the global financial crisis on investment returns and values has had minimal effect. Investment revenue (excluding unrealised gain/losses on financial assets) for each university for the last five years is shown in Figure 1J. While there have been fluctuations in this revenue stream, the results for 2010 show some recovery from the previous two years.

Figure 1J – Investment revenue

	2010 $'000	2009 $'000	2008 $'000	2007 $'000	2006 $'000
Central Queensland University	8,200	8,839	11,808	13,241	8.676
Griffith University	16,372	10,708	11,232	6,767	5,539
James Cook University	7,190	7,685	9,140	7,702	5,406
Queensland University of Technology	21,088	16,762	19,688	31,820	23,774
The University of Queensland	17,192	15,041	13,167	12,832	12,946
University of Southern Queensland	4,744	3,546	4,806	3,146	2,526
University of the Sunshine Coast	1,907	1,914	1,020	590	996
TOTAL	**76,693**	**64,495**	**70,861**	**76,098**	**59,863**

Source: Universities' audited financial statements included in their annual reports. Consolidated figures have been used for each university where applicable and unrealised gains/losses have been excluded.

Impact of the Queensland natural disasters

The natural disaster events that occurred across Queensland in early 2011 affected all of the Queensland universities to varying degrees. Issues experienced at the universities included damage to assets from high speed winds or flood water inundation, loss of power and short term closure of certain campuses.

Whilst the total financial impact is still to be ascertained, adequate insurance is reportedly held across the universities for the type of damage to assets and any business interruption that was experienced during these events. The immediate effect on the universities' academic programs was reported to be minimal with no material impact expected for future student numbers.

In response to these business interruptions, the statutory deadline for reporting by universities was extended to 31 March 2011.

1.2.3 Continuing reform of the university sector

In March 2008, the Commonwealth Government announced a major review to consider the issues and challenges facing the higher education sector. A final review report was presented to the Government in December 2008, in which 46 recommendations were made to reshape the sector. In response to these recommendations, the Government released *Transforming Australia's Higher Education System* in May 2009.

In addition, the Commonwealth Government commissioned a review of base funding levels and cluster funding relativities. Base funding comprises funding through the Commonwealth Grants Scheme (CGS) and student contribution amounts. The panel and terms of reference for the Higher Education Base Funding Review were announced by the Federal Minister for Tertiary Education on 26 October 2010. The review will establish the principles for public investment in higher education, the funding levels required for Australia to remain internationally competitive and the appropriate level of public and private contribution. The review is scheduled to provide a report to the Commonwealth Government by 31 October 2011.

Other issues that will affect funding include demand driven funding for teaching and learning will commence in 2012 and the Commonwealth Government has made a commitment to abolish full fee places for domestic undergraduate students at public universities.

Under the demand driven funding system, the Commonwealth Government will fund a Commonwealth supported place for every domestic student accepted into an undergraduate course of study at a public university. From 2012, universities will be responsible for determining the number of Commonwealth supported places and the discipline mix they offer and will be able to respond to overall student demand and demand for particular courses or disciplines.

1.2.4 Audit results for controlled entities of universities

Going concern issues

Under their constituting legislation, universities are empowered to form or participate in ventures that may further their educational objectives. These include forming companies for fundraising and the commercialisation of technology.

Refer to Section 4.1 of this report for a list of the companies and the status of their audits.

By their nature, these companies may generate losses for a period of time until the research and development activity results in commercial products that can be licensed or sold, or a decision is made to cease activities.

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

New requirements for special purpose financial statements

Where the auditor determines that the financial reporting framework is appropriate for the information needs of the intended users and the framework is appropriately described in the financial report, the auditor is still required to include an emphasis of matter paragraph in the independent auditor’s report to highlight the fact that the financial report is a special purpose financial report.

An emphasis of matter for this reason was included in the independent auditor’s reports for companies as shown in Figure 1D. Additionally, one of these companies received a qualified auditor’s opinion in relation to the comparative information disclosed within their special purpose financial statement.

1.3 Results of prior year audits

Auditor-General Report to Parliament No. 13 for 2010 – Results of audits at 31 October 2010, reported the 2008-09 financial statements for two public sector entities were unfinalised. The disclaimer of opinion issued for Torres Strait Island Regional Council was included in *Auditor-General Report to Parliament No. 2 for 2011 – Results of local government audits*. For the other entity, Poruma Island Pty Ltd, the company ceased to trade in 2009 and administrators were appointed on 3 January 2011. On 15 March 2011, a decision was taken to wind up the company. As there will be no financial statements for 2008-09, an auditor's opinion could not be issued.

1.4 Timeliness

This report provides the results of the 2009-10 audits of public sector entities with financial statement balance dates other than 30 June 2010, mainly universities, grammar schools and university-related public sector companies with a 31 December balance date.

For the 2009-10 financial year, financial reporting responsibilities for these entities are set out in key legislation such as the *Financial and Performance Management Standard 2009* and *Grammar School Act 1975*.

Universities are statutory bodies that observe the requirements of the *Financial and Performance Management Standard 2009* and are subject to audit by the Auditor-General. The Financial and Performance Management Standard sets timeframes for statutory bodies to prepare financial statements. Financial statements must be provided to the Auditor-General by an agreed date to enable the audit of the statements to be completed no later than two months after the end of the financial year the statements relate to. For entities with a 31 December year-end, that is by 28 February.

In recognition of the challenges posed by the recent floods and Cyclone Yasi in Queensland, the Treasurer in consultation with the Auditor-General approved an extension for the finalisation of the financial statements to 31 March 2011. Five of the seven universities met the original 28 February deadline while The University of Queensland and Queensland University of Technology financial statements were certified on 22 March 2011 and 28 March 2011 respectively.

The financial statement extension did not apply to the tabling of the universities' Annual Reports which have a legislated timeframe of within three months after the end of the financial year (31 March). Pursuant to s.49(3) of the *Financial and Performance Management Standard 2009*. The Minister for Education and Training may extend this time by notice given to the university.

The requirement for preparation of financial statements and audit of the eight grammar schools is established through the provisions of the *Grammar School Act 1975*. There are no timeframes set out in this Act for finalisation of the financial statements. Each grammar school prepares an annual report that includes a copy of its audited annual financial statements. The annual report is tabled in Parliament by the Minister for Education and Industrial Relations.

All grammar schools prepared their financial statements and an auditor's opinion was issued by 28 February 2011.

2 | Financial management

Summary

Background

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

Audits were conducted of the appropriateness of controls and procedures in place over vendor information, the nature, extent, monitoring and reporting of salary overpayments and the management of employee leave entitlements.

Key findings

- **Controls over vendor information:** Entities audited did not have adequate or effective controls over vendor information. The roles and responsibilities of entities and the Shared Service Agency (SSA) for the management of this information were only addressed at a high level in the operating level agreements between the parties.
- **Salary overpayments:** Management and monitoring of salary overpayments across the public sector were considered to be poor with a lack of policies and an absence of effective monitoring and reporting controls. Operating level agreements between entities and the SSA did not adequately outline the roles and responsibilities of each party for the management and monitoring of overpayments.
- **Leave management:** Generally, entities have appropriate systems and processes in place to manage employee leave. However, these mechanisms may not necessarily be effective in some cases as the audit found that the information used in monitoring leave was incomplete or leave systems were not able to generate the necessary reports to be able to monitor all leave balances.

2.1 Financial management controls

Section 61 of the *Financial Accountability Act 2009* (FAA) states that Accountable Officers and statutory bodies are to ensure the operations of the department or statutory body are carried out efficiently, effectively and economically and are to establish and maintain appropriate systems of internal controls.

These requirements of the FAA place the responsibility for the maintenance of appropriate financial internal controls on the Chief Finance Officer and the Accountable Officer of the department, regardless of whether certain functions have been undertaken by an independent service provider. Each year, under s.72 of the FAA, the Chief Finance Officer is required to provide to the Accountable Officer a statement of whether the financial internal controls of the department were operating efficiently, effectively and economically.

Three areas of control were audited through areas of emphasis audits as part of the Financial and Assurance audit program for 2010-11. The areas audited were:

- The appropriateness of controls and procedures in place over vendor information.
- The nature, extent, monitoring and reporting of salary overpayments.
- The management of employee leave entitlements.

These are fundamental but essential areas of financial control. They do not necessarily represent high value transactions but do represent areas of risk. Inadequate controls over vendor information can potentially expose departments to significant losses if there is fraudulent manipulation of this information. Continued salary overpayments and inadequate governance of leave management can not only have a financial impact but also have a negative effect on the relationship between the employer and employee.

It is of concern that there are aspects that need to be urgently addressed to ensure such fundamental controls are working as required.

The results of these audits indicate that the controls over vendor information and salary overpayments are poor with a lack of monitoring and reporting on the results of review activities. While the controls over leave management were considered to be adequate, there were still instances of inadequate monitoring of leave balances noted during the audit.

The results of these audits identified confusion about the roles and responsibilities of entities and the Shared Services Agency (SSA) in operating level agreements. The limitations of operating level agreements in relation to business continuity arrangements between the SSA and client departments were previously discussed in *Auditor-General Report to Parliament No. 4 for 2011*.

All of these audits identified that it was unclear what activities must be undertaken by the department, those that must be undertaken by the SSA and those that are a joint responsibility. Consequently, it is essential that the roles and responsibilities to be undertaken by departments and the SSA are adequately documented in the operating level agreements to assist the Chief Finance Officer and Accountable Officer fulfil their obligations under the FAA.

Where there is such confusion over accountability and responsibility, it would be difficult for Chief Finance Officers to confidently make their annual control certification. There has not been sufficient effort made to map the processes and controls over the various aspects of financial activities from initiation and approval to monitoring of the transactions.

Ultimately, responsibility for ensuring adequate financial controls are established and effectively maintained throughout the financial year rests with the Accountable Officer for each department.

2.2 Controls over vendor information

2.2.1 Audit overview

The development of the shared service concept within the Queensland Government has resulted in significant changes to departmental computerised financial systems and management controls. These changes have contributed to a lack of clarity over the ownership and responsibility for a number of key financial controls as exercised by the various departments and the SSA.

The vendor master file, which contains suppliers' details including addresses and bank account details to enable payments, is an integral part of the procurement and accounts payable control environments. Control over vendor information is a key financial control for which departments are responsible. A well-maintained vendor master file helps prevent failure of system controls, process inefficiencies and inaccurate reporting. Poor control of vendor information can result in duplicate and erroneous payments and significant losses and fraud where there has been manipulation of vendor information.

The issue of poor vendor controls for the latest version of the whole of government Systems Applications and Products (SAP) system (SAP ECC5) was previously raised in *Auditor-General Report to Parliament No. 8 for 2010*.

2.2.2 Audit conclusion

Overall, the management and monitoring of creation and changes to the vendor master file for the selected departments requires significant improvement.

The majority of the departments audited did not have documented controls in place for managing vendor information and responsibilities that were consistent with the current shared processing environment. Departmental policies did not clearly identify the ultimate departmental accountability for vendor creation and changes.

The audit found that departments had a common view that the processes and controls over vendor information stored in the systems managed by the SSA were the SSA's responsibility and the departments rely on the SSA to develop the required policies. This has resulted in an ineffective control environment over vendor information that departments had not adequately assessed.

None of the departments had implemented monitoring and detective controls for vendor creation or changes. Further, departments had not requested the SSA to undertake any monitoring or detective controls and consequently the SSA had not provided assurance over these controls.

The frequency of occurrence of duplicate and disused vendor information across all departments was identified as inadequate. None of the departments had undertaken or had requested the SSA to undertake a periodic and systematic review of duplicate and disused vendor information.

The operating level agreements between the departments and the SSA did not adequately address the roles and responsibilities of each party that has resulted in an unsatisfactory end-to-end control environment. There were no effective performance measures in the operating level agreements for vendor processing by the SSA. Additionally, the management assurance provided to departments by the SSA does not refer to any assurance over vendor controls at the SSA.

2.2.3 Audit scope

The objectives of the audit were to:

- Assess whether departments had the required policies in place that included key vendor controls applicable to the current shared service processing environment.
- Assess the action taken by departments to monitor and review vendor information, including the review of duplicate and disused vendors.
- Assess the operational effectiveness of the operating level agreement and the adequacy of the assurance of controls over vendor information provided to departments by the SSA.

The audit covered departments operating on the SAP legacy systems (SAP versions 3 and 4) and the whole of government SAP system (SAP ECC 5).

The following departments were selected for audit are shown in Figure 2A:

Figure 2A – Departments audited

Departments using SAP Legacy systems	Departments using SAP ECC5
Department of Communities	Department of Community Safety
Department of Employment, Economic Development and Innovation	Department of Justice and Attorney-General
Department of Environment and Resource Management	Department of Local Government and Planning [5]
Department of Public Works	Department of Police
Department of Transport and Main Roads	Department of the Premier and Cabinet
Treasury Department	

The six departments using the SAP Legacy systems operate on six separate SAP systems. The five departments using SAP ECC5 operate on a single SAP system. Figure 2B shows the number of vendors existing in each of these environments.

Figure 2B – Vendor statistics

SAP system	Number of departments	Total number of vendors
SAP ECC5	5	216,799
SAP Legacy	6	529,213

Transactions including those relating to vendor information are initiated by departments but are processed by the shared service provider. The department is responsible for ensuring that transactions have been processed correctly by the shared service provider. Controls over this process should be documented and well understood by the departments as these controls and all transactions are ultimately the responsibility of each department's Accountable Officer.

The volume of vendor processing at the SSA requires that internal control systems provide a comprehensive system of controls between the SSA and the departments. The audit focused on each department's understanding of these controls. Issues specific to SAP ECC5 have been addressed separately.

[5] The Department of Infrastructure and Planning at the date of the audit.

2.2.4 Audit findings

Policy

Legislative directions require that the internal control structure of a department must be included in the department's financial policies. The Chief Finance Officer is required to clearly define key responsibilities within the departmental internal control structure.

The audit found that key responsibilities for vendor processing were poorly documented in departmental financial policies. Only four of the 11 departments had policies which adequately documented these key responsibilities.

There appears to be a need for clarity around the authority to create and maintain vendors. There is a need for departments to authorise key vendor changes prior to processing by the SSA.

The SSA is a processing bureau and does not have delegated powers to independently create and maintain vendors. Departmental policy did not clearly identify the need for appropriate departmental accountability for vendors such as approving the creation of and changes to vendors.

Monitoring and review

Departmental monitoring and review of vendor creation and changes

While a strong internal control environment is the primary protection against fraud, processing within the shared service environment requires that effective monitoring controls need to be exercised by departmental management.

There is a range of sensitive data such as bank details involved in vendor processing that require effective monitoring of changes made. There are vendor types (such as one-time and employee vendors) that are vulnerable to exploitation and require effective monitoring by management.

The audit found that none of the 11 departments had effective detective or monitoring controls in place over vendor processing. Departments had not requested the SSA to undertake any monitoring or detective issues with vendors and consequently the SSA has not provided assurance over these controls. SSA reporting within the assurance framework has been based on exceptions that have been identified through the appraisal testing process.

Departments advised that they understood this to be a SSA responsibility. Detective checks such as a review of unusual changes to bank details and review of one-time vendor payments were not being undertaken by either the departments or the SSA.

Departments were not using standard SAP detective reports (e.g. reports that detect changes to bank accounts) and such procedures have not been included in departmental financial policies.

Departmental review of duplicate and redundant vendors

Inadequate review of duplicate and disused vendors raises the risk of duplicate and fraudulent payments. Duplicate and disused vendor records such as for vendors that have ceased business, were a one-off supplier or have outdated details, should be periodically reviewed and made inactive where necessary.

The audit found that in the older SAP legacy systems, there were significant numbers of duplicate vendors (up to 25 per cent in some cases) and vendors that had not been used in the past three years (up to 79 per cent in some cases). A similar trend was evident in the SAP ECC5 system.

The audit found departments had no program for the periodic removal of duplicate and disused vendors and relied on the review of vendor information undertaken when system upgrades or departmental restructures occurred. There had been no request from any department for the SSA to implement periodic vendor cleansing.

SAP ECC5 vendor processing

For SAP ECC5, the eForms system is used to update vendor information and does not require departmental approval for the creation and changes to departmental vendors.

As stated in Auditor-General Report to Parliament No. 8 for 2010, the approval for vendor creation and changes is clearly the responsibility of departments and should not be undertaken by the SSA. This process was reviewed by the SSA after the Auditor-General Report and alternative options are being considered. However, in the absence of an alternative agreed model, the SSA continues to authorise and change vendor information for departments to ensure that payments are made in a timely manner. Adequate controls over vendor processing should be implemented as a priority before systems, such as eForms, are implemented.

Another issue reported in Auditor-General Report to Parliament No. 8 for 2010 was that both an independent department and the SSA are able to create and amend vendors in SAP ECC5. This has the potential for each department to believe that it has changed the vendor information appropriately but a payment may be processed to an incorrect bank account due to a change being made by the other department. The SSA has worked with both CorpTech and the department concerned to attempt to resolve this issue but there is no system solution available at this time and the matter has not been resolved.

Operating level agreements

It is the responsibility of the department to ensure that its roles and responsibilities and those of the SSA for processes such as vendor creation and the retention of official authorised documentation are clearly outlined in the operating level agreement.

The level of detail in operating level agreements between relevant government departments and the SSA in relation to the roles and responsibilities over vendor creation and changes were considered inadequate.

The roles of each party for creating vendors are not clear. The SSA has implemented a standard form to be used for creating vendors for SAP legacy systems but this has not been effectively implemented by the departments.

The lack of clarity over roles and responsibilities for vendor creation and the retention of original authorised documentation resulted in poor audit trails. One department had advised that original vendor creation forms had been destroyed. The majority of departments relied on the scanned copy of the vendor creation form sent to the SSA and did not retain or file the original source documents.

The standard operating level agreement between government departments and the SSA identifies the performance measure for the SSA for the processing of accounts payable but there are no adequate performance measures for vendor processing.

Currently, the management assurance provided to departments by the SSA does not refer to the assessment of vendor controls or assurance over vendor controls at the SSA.

2.3 Salary overpayments

2.3.1 Audit overview

The recent audit of the Queensland Health payroll system included in *Auditor-General Report to Parliament No. 7 for 2010 – Information systems governance and control, including the Queensland Health Implementation of Continuity Project* identified that a number of salary overpayments had occurred in that entity.

Consequently, an audit has been conducted over a range of other public sector entities to determine the nature and extent of salary overpayments incurred across the public sector and the management and monitoring processes over such overpayments.

2.3.2 Audit conclusion

Overall, the management and monitoring of salary overpayments across the public sector requires considerable improvement.

Thirteen of the 22 entities audited did not have a policy outlining appropriate procedures and processes in relation to salary overpayments. Nine entities did not have appropriate reconciliation procedures between salary overpayments registers and the relevant accounts receivable account recorded in the general ledger.

All 12 entities that utilise the SSA as their service provider did not have an appropriate level of detail in their operating level agreements in relation to the roles and responsibilities of the entity and the SSA with regard to the management of salary overpayments.

A number of issues were noted within the processes undertaken at the SSA on behalf of the related entities as well as a range of monitoring and reporting issues identified across individual entities.

2.3.3 Audit scope

The objectives of the audit were to:

- Identify the extent of salary overpayments occurring in the public sector.
- Assess compliance with relevant legislation and policies for the recovery of such overpayments.
- Assess the level of monitoring and reporting of salary overpayments within entities.
- Assess the adequacy of the detail included in the operating level agreements between entities and the SSA for those entities using the SSA to process and manage their salary overpayments.

The audit did not cover overpayments that may have been made through the expenditure system (e.g. travel claim reimbursements).

The entities selected for audit are shown in Figure 2C.

Figure 2C – Entities audited

SSA related entities	Other entities
Department of Communities	Department of Education and Training
Department of Community Safety	CS Energy Limited
Department of Employment, Economic Development and Innovation	ENERGEX Limited
Department of Environment and Resource Management	Ergon Energy Corporation Limited
Department of Local Government and Planning [6]	The Public Trust Office of Queensland
Department of Justice and Attorney-General	QIC Limited
Department of Police	Queensland Rail Limited
Department of the Premier and Cabinet	Queensland Treasury Corporation
Department of Public Works	QSuper Limited
Department of Transport and Main Roads	WorkCover Queensland
Translink Transit Authority	
Treasury Department	

Queensland Health was not included as part of this audit as it was subject to a follow up audit of its payroll implementation processes which was reported to Parliament in *Auditor-General Report No 4 for 2011 – Information systems governance and security*.

Initially, the SSA was not included as part of this audit. However, as the SSA processes and manages salary overpayments on behalf of 12 of the entities noted in Figure 2C, an audit of its processes and procedures in relation to salary overpayments was undertaken.

For all of the above entities other than government owned corporations, the relevant legislation covering salary overpayments are included in Chapter 11, Part 2, Division 3 of the *Industrial Relations Act 1999* and s.17 of the *Industrial Relations Regulation 2000.* Industrial relations arrangements for government owned corporations are within the Commonwealth's jurisdiction under the *Fair Work Act 2009* that is essentially silent about salary overpayments.

2.3.4 Audit findings

Extent of salary overpayments

For the entities audited, the gross value of overpayments, where there was an amount outstanding at 31 October 2010, totalled $3,885,789 representing 2,232 instances of overpayments.

The audit sought specific details regarding the top ten overpayments as at 31 October 2010 for each entity. Of the 184 specific overpayments identified, 89 overpayments (or 48 per cent) resulted mainly from the late notification of some form of leave and in some instances, late notification of an employee's termination.

This would indicate that the extent of salary overpayments could be reduced if processes and procedures for the timely notification of leave and other similar events are improved.

[6] The Department of Infrastructure and Planning at the date of the audit.

While the levels of salary overpayments within entities may only represent a very small percentage of their total employee costs, it is still essential for entities to have appropriate controls and procedures in place over such overpayments.

Policy

Thirteen of the 22 entities did not have an established policy or procedure to deal with salary overpayments. A number of departments advised that they had adopted the whole of government Overpayment Standard Practice (*Standard Practice 1 – Wage Overpayments)*. However, this document, while useful, is not a whole of government policy but is a document utilised by the SSA solely as a reference document.

As entities have differing factors that may affect the amount spent on their salaries and wages (e.g. staffing levels, awards, tolerance for write offs), policies should be established for each entity and should incorporate details such as:

- Reference to the relevant legislation (where applicable).
- Any limits for write off/recovery of overpayments.
- Delegations to approve write offs above or below any limits set.
- Delegations to approve repayment/recovery arrangements.
- Monitoring and reporting of overpayments within the entity (e.g. reporting to Director-General or other responsible level).

While a number of the entities indicated that their existing employees were aware of procedures to be followed, unless these procedures are adequately documented, there is a risk that this knowledge could be lost when those employees vacate their current positions.

Monitoring and reporting

The level of monitoring and reporting of salary overpayments by the 12 entities linked to the SSA was considered inadequate.

Nine of these entities who have the SSA manage their salary overpayments were not performing appropriate reconciliation procedures between the salary overpayments register maintained by the SSA and the relevant general ledger receivable balance. Nor did these entities have the SSA perform this reconciliation on their behalf.

Issues were identified within the SSA's own salary overpayments processes and procedures on behalf of entities:

- Salary overpayments registers were not recorded in a standard format and did not always include information required to adequately monitor and manage overpayments.
- Salary overpayments registers were not reconciled on a periodic basis with the general ledger maintained by SSA and a number of deficiencies were found in those reconciliations that were performed.

Other monitoring and reporting issues were raised with individual entities. Two entities were not reporting salary overpayments to an appropriate senior level officer and two further entities did not identify who salary overpayments were to be reported to in their salary overpayments policy. Three entities were noted where insufficient action had been undertaken to recover salary overpayments in a timely manner. Three entities did not have delegations for approving repayment terms appropriately documented in their salary overpayments policies and three entities were not recording outstanding salary overpayments as a receivable in their general ledger.

Operating level agreements

The level of detail in operating level agreements between entities and the SSA in relation to the roles and responsibilities over salary overpayments was considered to be inadequate.

While the standard operating level agreement provides some context around roles and responsibilities, there is little detail in the operating level agreements regarding:

- Overpayments being processed by the SSA in accordance with the provisions of the agency's own salary overpayments policy.
- Reports to be provided by the SSA and the frequency of these reports.
- Whether reconciliations to the general ledger are to be performed by the SSA or by the agency.

The audit of the SSA found it was unclear which party was responsible for undertaking the ledgering of transactions, the recovery of overpayments and the reconciliation of the salary overpayments register to the general ledger and the roles and responsibilities for the management of terminated employees and employees refusing to pay.

Variations to operating level agreements are currently not being recorded. The audit noted instances where the entity had taken back the responsibility for reconciling to the general ledger or other ad hoc functions. While there was evidence that an entity had taken back functions, this had not been documented, resulting in these functions currently being incorrectly documented as the responsibility of the SSA.

The management assurance framework provided by SSA to entities does not currently provide any level of assurance over salary overpayment controls.

In any service provider arrangement, roles and responsibilities of both parties need to be clearly defined to ensure that an appropriate level of accountability exists. Such role clarity could have mitigated a number of the monitoring and reporting issues that have been identified.

2.4 Leave management

2.4.1 Audit overview

Section 366 of the *Industrial Relations Act 1999* requires adequate leave records to be maintained as part of the record of the employment conditions of each employee.

Poor leave management can lead to excessive leave entitlements being accumulated by employees which may affect the overall financial position of the organisation. If left unmonitored, the value of the leave liability will continue to grow due to the increasing employee leave entitlement hours and award rate variations. Inadequate time recording practices may result in leave being incorrectly recorded, inflating the leave liability or resulting in salary overpayments.

The objective of this audit was to determine the nature and extent of governance over leave management across the public sector.

2.4.2 Audit conclusion

The audit found that most entities audited had appropriate policies and monitoring mechanisms in place for managing leave balances.

However, these mechanisms may not necessarily be effective in some cases as the audit found that the information used in monitoring leave may not be complete. Seventeen per cent of entities audited did not have processes in place to reconcile timesheets and the relevant leave system to ensure that leave recorded in the timesheets had been correctly recorded in the leave system and leave balances appropriately adjusted.

Leave systems were not always able to generate the necessary reports to be able to monitor leave balances on a comparative basis.

2.4.3 Audit scope

The scope of the audit focussed on a review of governance over leave management across a selection of public sector entities. Key aspects of governance considered in the audit included policies in place for different types of leave, monitoring of leave levels and excessive leave and the reconciliation of timesheets with leave records.

The entities shown in Figure 2D were included in this audit.

Figure 2D – Entities audited

Departments	Other entities
Department of Communities	CS Energy Limited
Department of Community Safety	ENERGEX Limited
Department of Education and Training	Ergon Energy Corporation Limited
Department of Employment, Economic Development and Innovation	The Public Trust Office of Queensland
Department of Environment and Resource Management	QIC Limited
Department of Local Government and Planning[7]	Queensland Rail Limited
Department of Justice and Attorney-General	Queensland Treasury Corporation
Department of Police	QSuper Limited
Department of the Premier and Cabinet	Translink Transit Authority
Department of Public Works	WorkCover Queensland
Department of Transport and Main Roads	
Queensland Health	
Treasury Department	

[7] The Department of Infrastructure and Planning at the date of the audit.

2.4.4 Audit findings

Leave policies

All of the entities audited had policies in place in relation to sick leave, annual leave, long service leave, special leave types, and where applicable time off in lieu.

Eighty-seven per cent of the entities audited have policies in place to establish thresholds for excessive annual leave and time off in lieu and to deal with the utilisation of excessive leave.

Monitoring of leave balances

For the 13 departments audited, most used 290 hours (or 40 days) as the threshold for determining what was regarded as an excessive annual leave balance. The audit found that in May 2011, 5,685 employees from these departments had excessive annual leave hours totalling approximately 379,000 hours valued at $17.7m. On this basis, the average excess annual leave hours for each of these employees was 67 hours or 9 days more than the threshold. Given that the annual leave entitlement each year is, in most cases, 20 days, this would indicate that annual leave management still needs improvement.

One entity audited was unable to provide an excessive annual leave report for review by audit. Also, comparative reports for the prior year were unable to be obtained in most instances to enable leave trends to be identified as the leave systems being used were unable to generate these reports retrospectively. Without adequate information being available for monitoring leave balances and trends, leave balances may not be adequately controlled and strategies to address long term trends are not able to be put in place.

Seventy per cent of entities audited had a framework in place to report leave levels to the relevant governance committee for review. Ninety-six per cent of entities audited reported on specific individuals and the type of the leave involved where the leave balance was either approaching or had exceeded the maximum level permitted by the relevant award, agreement or policy. This reporting was mainly done on a monthly basis.

Seventy per cent of the entities audited used performance indicators or benchmarking activities to assess and monitor attendance levels and absence management.

Twelve departments audited use the SSA for processing their payroll and leave transactions. The current standard operating level agreement provides for leave audits to be undertaken by SSA. To date, no agency has requested such an audit to be conducted by the SSA for 2010-11.

Reconciliations of timesheets to leave records

Seventy-four per cent of entities audited do not have formal reconciliation processes in place to ensure that leave recorded and time off in lieu accumulated on timesheets is reconciled to the relevant leave system. Thirteen per cent of entities audited did not require timesheets to be prepared for permanent or contract staff, making it difficult to ascertain whether leave taken was correctly accounted for in the leave system.

The internal audit units of these entities could be used to provide additional assurance over the accuracy of leave taken and recorded. The audit found that in only 57 per cent of entities audited, the current annual internal audit plans included coverage of timesheets to ensure that leave taken as recorded on the timesheet had been recorded in the relevant leave system.

Excluding those entities where timesheets were not required to be submitted by permanent staff, 17 per cent of entities audited did not have either reconciliations in place or any internal audit activity in this area.

3 | Governance

Summary

Background

Governance incorporates the processes by which public sector entities and their resources are controlled and regulated.

Key activities

- **Machinery of government change progress:** Departments subject to the 2009 administrative rearrangements have made some progress towards amalgamating financial and payroll systems, however the absence of any formal timeframes will not see the amalgamation process completed for some departments until July 2013.
- **Effectiveness of internal controls:** At 31 May 2011, 125 moderate to high risk financial management issues had been reported to management from the interim audits of departments, statutory bodies and government owned corporations. Of the issues noted so far this year, 32 issues (approximately 26 per cent) were high risk issues requiring immediate corrective action and 93 issues (approximately 74 per cent) were moderate risk issues needing to be addressed as a matter of high priority.

3.1 Machinery of government change progress

3.1.1 Audit overview

Machinery of government changes are changes to agency administrative arrangements which involve the movement of activities from one department to another. The implementation of these changes requires consideration to be given to matters such as governance, financial and administrative systems, policies and procedures that can have a significant impact on the efficiency and effectiveness of agency operations.

Significant machinery of government changes were announced on 26 March 2009 resulting in the abolishment of 14 departments, the establishment of four new departments and the reorganisation of nine continuing departments.

The purpose of the audit was to assess progress with the rationalisation of key information systems in six of the departments significantly impacted by the machinery of government changes.

Guidance about the implementation of machinery of government changes is available from a number of sources including Treasury Department's Financial Management Practice Manual and the Australian Government, Public Service Commission – 'Implementing Machinery of Government Changes – A good practice guide.'

3.1.2 Audit conclusion

Overall, departments have made some progress towards amalgamating the financial, payroll and key administrative systems with two departments having completed amalgamation and the others with completion dates ranging from May 2011 to July 2013. Progress was impacted by the number of business areas that were required to be consolidated and other factors including a whole of government freeze on system migration for a period, availability of technical and business resources, a lack of prioritisation of internal funding and the impact on normal departmental services of the natural disasters in the summer period of 2010-11.

Five of the six departments materially complied with Agency Planning Requirements by preparing strategic plans, information and communication technology resources strategic plans and operational plans however, only three departments referred specifically to planning for the consolidation of systems as a result of machinery of government changes in these documents.

Although it was not evident that a definitive timetable for completion of the key systems amalgamations had been set by the Executive Government, consultation was undertaken by the departments during the process. Departments reported on the impacts of the machinery of government changes in their Annual Reports, however, there did not appear to be any formal reporting on progress at a whole of government level.

The importance of a robust project methodology and sound governance arrangements to successfully plan and implement significant system consolidation projects was recognised by all departments.

3.1.3 Audit scope

The audit examined progress with the rationalisation of key information systems and processes to date and considered the adequacy of plans in place to finalise this process, where rationalisation has not been achieved.

The entities shown in Figure 3A were selected for audit.

Figure 3A – Entities audited

Entities	
Department of Communities	Department of Environment and Resource Management
Department of Community Safety	Department of Local Government and Planning [8]
Department of Employment, Economic Development and Innovation	Department of Transport and Main Roads

3.1.4 Audit findings

Governance

A corporate governance framework supports the overall purpose and strategic direction and provides systems and processes for managing the resources, reviewing the operations and making sure the department meets the regulatory requirements. It is important for the departments to review their organisational structure and governance arrangements following a machinery of government change in order to provide more effective delivery of service and savings through reduced duplication.

The scope of the audit was limited to the governance framework for the key system amalgamation processes. All departments established implementation projects to consolidate key systems and processes with appropriate reporting to executive management and governance committees on a regular basis. Regular updates in relation to the status of the projects were published on the departments' intranets to provide information to all staff.

Planning

Departments are required to comply with Agency Planning Requirements in accordance with s.9 of the *Financial and Performance Management Standard 2009*. The purpose of agency planning is to focus on the achievement of desired outcomes and to assist in linking various services, activities and programs.

Five of the six departments materially complied with Agency Planning Requirements by preparing strategic plans, information and communication technology resources strategic plans and operational plans. However, only three departments referred specifically to planning for consolidation of systems as a result of machinery of government changes in these documents. The other departments had established appropriate project plans to address the consolidation process to bring the key financial systems to one platform.

---

[8] The Department of Infrastructure and Planning at the date of the audit.

Only one of the six departments had not set the proposed completion date for its financial system consolidation project as it was still in the process of finalising a business case for the consolidation of the remaining areas within the department.

Funding

Machinery of government changes generate transition costs for both the transferring and receiving departments. There was no specific whole of government funding for consolidation activities provided to any of the departments with these activities funded from internal savings as part of the prioritisation of the department's operational budgets.

Reporting

All six departments included brief statements on progress with activities related to the machinery of government changes in their Annual Reports. Progress against plans for the amalgamation of key systems has been regularly reported and reviewed by executive management within all the departments.

The audit revealed that there was no regular formal whole of government reporting on progress with implementation of machinery of government systems consolidation however, the Public Service Commission did conduct an assessment of the departments' progress on integration of former departments in May 2009. The assessment included departments' plans for achieving the significant organisation reforms and updates relating to the rationalisation of corporate function with specific emphasis being given to the human resource management, finance and information and communication technology functions. Subsequent to this assessment, the departments had been providing reports on system consolidation activities to the Department of Public Work's Information and Communication Technology Division through the annual Information and Communication Technology Baseline reporting.

Progress

All departments have made some progress with only two departments completing amalgamation (due to amalgamated entities being on the same versions of payroll and finance systems) and the others with completion dates ranging up to 2013. These delays in achieving consolidation have been due to a number of factors including a whole of government directive in 2010 to freeze system migrations due to the Queensland Health payroll issues, lack of the prioritisation of internal funding to complete the system amalgamation projects, issues with availability of technical and business resources to undertake project activities and the impact of the natural disasters in the summer of 2010-11.

The status of progress for the six departments as at 28 February 2011 is summarised in Figure 3B.

Figure 3B – Status overview as at 28 February 2011

Status	Financial systems	Payroll systems	Records management systems	Collaborative systems
Completed	2	2	3	3
In Progress	4	4	3	3

Four of the six departments are still in the progress of amalgamating their financial systems. These four departments had to merge a number of entities with many financial systems. One of the departments has reduced its financial systems down from ten to four and is still working to reduce the financial systems down to two systems. This department was significantly impacted by the recent machinery of government changes announced on 21 February 2011. One business area that had been integrated was required to be transferred to another department.

Four of the six departments have yet to complete payroll system amalgamation due to the directive in 2010 to freeze system migrations. These will now be completed between May 2011 and July 2013.

Another related issue encountered by a number of departments was leave recording where supervisors and employees were on different payroll systems and leave applications could not be directly approved by their assigned supervisors because the supervisors did not have direct access to the appropriate online leave recording systems. The departments established appropriate interim approval processes to address this situation.

Three of the six departments have central record management systems for managing departmental records with the remaining departments either in the process of implementing a single systems or developing the business case. It is important that sound recordkeeping practices are maintained during the transition period to meet a wide range of business continuity and accountability requirements.

Queensland State Archives has published guidance on recordkeeping responsibilities following a machinery of government change which includes addressing the impact of the transfer of functions between agencies and identifying and transferring appropriate records and documents.

Three of the six departments are still in the process of combining their collaborative systems. The proposed completion dates are within the range from June 2011 to December 2011. Collaborative systems facilitate and support communications among members of organisations and contribute to improved productivity and include electronic mail (email) and intranets.

3.2 Effectiveness of internal controls

3.2.1 Extent of control issues identified

Each public sector entity is responsible for developing and maintaining an adequate system of internal control to ensure that financial records and other information are complete and accurate, assets are adequately safeguarded, and errors and other irregularities are prevented or detected. Internal control procedures reduce variations in processes and procedures, leading to more predictable outcomes.

An integral part of the audit process is assessing the adequacy of an entity's internal control processes and identifying any weaknesses. In accordance with the Auditor-General of Queensland Auditing Standards, these weaknesses are brought to the attention of management.

The audits of public sector entities fall into two main phases: the interim audit phase, where the auditors test the controls implemented by management, and the final audit phase where detailed transaction testing and verification of financial statement figures is undertaken.

Issues and themes identified from the interim audit phase were referred to audit clients in April and May 2011, following the assessment of internal controls operating in larger audits. This timely reporting allows clients to address these matters and if possible have them remedied prior to the completion and audit of the annual financial statements in August 2011.

Public sector entities have not generally had sufficient opportunity to respond to specific matters referred to them, therefore individual findings and client responses are not reported. There are, however, a number of control issues which have been drawn to the attention of client management and which suggest the need for attention from a broader public sector perspective.

Weaknesses in internal controls identified during an audit will not necessarily result in a modified auditor's opinion. Often there are other control procedures in place that compensate for these weaknesses. Audit processes can be used to determine the level of risk of a material error occurring. A modified auditor's opinion may only be required where a lack of appropriate internal controls cause significant uncertainty about the financial information being reported.

At 31 May 2011, 125 moderate to high risk financial management issues had been reported to management from the interim audits of departments, statutory bodies and government owned corporations. Of the issues noted so far this year:

- Thirty-two issues (approximately 26 per cent) were high risk issues – findings that pose a significant business or financial risk to the entity requiring immediate corrective action.
- Ninety-three issues (approximately 74 per cent) were moderate risk issues – findings that pose a moderate business or financial risk if not addressed as a matter of high priority within the current financial year.

3.3.2 Common areas for improvement of internal controls

Overall, the internal controls of departments, statutory bodies and government owned corporations were generally adequate but opportunities to strengthen controls were identified and reported to management. The following are the key internal control weaknesses reported to date by audit for 2010-11.

All matters noted have been reported to the management of the relevant entities and specific responses in relation to each item have been sought. At the time of preparing this report, responses had not been received from all entities.

In accordance with normal audit practice, specific action taken by management in relation to interim audit matters noted will be assessed during the final phase of the current audits and significant matters will be included in future reports to Parliament.

Information technology security

Appropriate security controls are established to ensure that systems and information are safeguarded against unauthorised use, disclosure or modifications, damage or loss. These controls ensure that access to systems, data and programs is restricted to authorised users and that accompanying access levels are commensurate with the user's authority and responsibility. Without adequate controls, it is difficult to safeguard information against unauthorised use, disclosure or modification, damage or loss, and the integrity of the data cannot be guaranteed.

Six entities had issues identified to information technology security. The management of information technology security is critical to the confidentiality, integrity and availability of systems and the associated information. Of the issues raised, 14 were considered by audit to be of a high risk and 33 were moderate risk.

Many of these issues related to the level of access provided to users and the lack of monitoring of users' activity. Users' security profiles should be regularly monitored by management and updated to reduce the risk of unauthorised access that may lead to unauthorised payments, access to confidential information or changes to data.

Expenditure and accounts payable

Internal controls systems were assessed to ensure that expenses were managed efficiently and effectively. This assessment including auditing systems to identify:

- Sources of and reasons for incurring expenditure.
- Mechanisms for approving expenditures including appropriate approvals before incurring the commitment for an expenditure and incurring an expense only for an authorised purpose.
- Paying expenses including obtaining reasonable assurance that the amount of the expenditure is correct and that the goods or services have been received and paid for in a timely manner.

Five entities had issues relating to expenditure and accounts payable controls including procurement practices, inappropriate expenditure approval levels, inadequate checking of expenditure transactions processed and policies not being correctly followed. Fifteen of these issues were considered to be of a moderate risk. While management has since taken action to address the procedural deficiencies identified by audit, these deficiencies could have led to misappropriation of funds.

Employee expenses

Interim audit coverage of payroll operations focused on establishing whether public sector entities maintain cost effective internal control frameworks that ensure payroll related expenses are incurred in accordance with relevant terms and conditions of employment and are accurately recorded in agency payroll systems and financial systems.

Eight entities had weaknesses in processes used to make payments to employees, including no evidence of checking of payroll reports and deficiencies in payroll systems. Of the issues raised, ten issues were high risk while nine issues were considered to be moderate risk. These weaknesses could result in incorrect payments being made to employees. Management of the entities involved have taken positive action to address these issues.

4 | Status of financial statements

Summary

Background

The *Auditor-General Act 2009* requires the outcome of all audits to be reported to Parliament. This is achieved by providing the status of financial statements at various points in time in Auditor-General Reports to Parliament. The status of 2009-10 audits for which auditors' opinions had not been issued when last reported to Parliament are included in Section 4.1 of this report.

Key activities

- Auditors' opinions for 105 public sector entities have been issued for the 2009-10 financial year since *Auditor-General Report to Parliament No. 13 for 2010 – Results of audits at 31 October 2010* and *Auditor-General Report to Parliament No. 2 for 2011 – Results of local government audits* were tabled.
- Auditors' opinions on the financial statements of 17 entities are yet to be issued.

4.1 Status of 2009-10 financial statements

Auditors' opinions for 106 public sector entities have been issued for the 2009-10 financial year since *Auditor-General Report to Parliament No. 13 for 2010 – Results of audits at 31 October 2010* and *Auditor-General Report to Parliament No. 2 for 2010 – Results of local government audits* were tabled.

Figure 4A – Auditors' opinions issued for the 2009-10 financial statements

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

		Financial statements			Timeliness of completion		
Entity name	**Balance date**	**Financial statements signed**	**Auditor's report signed**	**Auditor's opinion**	**< 3 months**	**3 to 6 months**	**> 6 months**
Audited by arrangement							
International WaterCentre Joint Venture	31.12.2010	30.03.2011	30.03.2011	U		✓	
QMI Solutions Limited	30.06.2010	23.11.2010	30.11.2010	U		✓	
Queensland Manufacturing Institute Trust	30.06.2010	23.11.2010	30.11.2010	U		✓	
The Cyclone Larry Disaster Relief Appeal Trust	30.06.2010	08.06.2011	10.06.2011	U			✓
Uninet Enclosure Systems Joint Venture	31.12.2010	Not completed	Not completed				
Audited by arrangement – under trust deed							
Australian International Campuses Trust	31.12.2010	22.02.2011	28.02.2011	U	✓		
Premier's Disaster Relief Appeal Trust	30.06.2010	21.12.2010	10.02.2011	U		✓	
QIC GFI Alpha Fund	30.06.2010	27.09.2010	29.09.2010	U	✓		
QIC Hedged International Equities Fund	30.06.2010	27.09.2010	29.09.2010	U	✓		
Queensland Trust for Nature Fund	30.06.2010	24.11.2010	08.12.2010	U			✓
Translational Research Institute Trust	31.12.2010	25.03.2011	30.03.2011	**E**	✓		

Entity name	Balance date	Financial statements			Timeliness of completion		
		Financial statements signed	Auditor's report signed	Auditor's opinion	< 3 months	3 to 6 months	> 6 months
Controlled entities							
Aboriginal Centre for the Performing Arts Pty Ltd	30.06.2010	03.11.2010	03.11.2010	U		✓	
Activetorque Pty Ltd	31.12.2010	11.03.2011	15.03.2011	**A**	✓		
Applied Resource Economics Pty Ltd	31.12.2010	28.02.2011	07.03.2011	U	✓		
Ausonex Pty Ltd	31.12.2010	11.03.2011	15.03.2011	**E**	✓		
Aussie Colours Pty Ltd	31.12.2010	03.03.2011	14.03.2011	**E**	✓		
Australian International Campuses Pty Ltd	31.12.2010	22.02.2011	28.02.2011	U	✓		
Bilexys Pty Ltd	31.12.2010	04.03.2011	11.03.2011	**E**		✓	
Bioherbicides Australia Pty Ltd	31.12.2010	07.03.2011	14.03.2011	**E**		✓	
Board of Trustees of the Ipswich Boys' Grammar School Centenary Building Fund	31.12.2010	01.03.2011	10.03.2011	U		✓	
Brisbane Arts Trust	30.06.2010	Not completed	Not completed				
Brisbane Environment Trust	30.06.2010	Not completed	Not completed				
Brisbane Festivals Limited	31.12.2010	03.05.2011	09.05.2011	U		✓	
Bundaberg Port Corporation Pty Ltd	30.06.2010	20.08.2010	24.08.2010	U	✓		
C Management Services Pty Ltd	31.12.2010	18.02.2011	23.02.2011	U	✓		
Castra Retirement Home Limited	30.06.2010	04.03.2011	07.03.2011	U			✓
Ceramipore Pty Ltd	31.12.2010	25.02.2011	03.03.2011	**E**		✓	
City of Brisbane Arts and Environment Ltd	30.06.2010	Not completed	Not completed				
Coridon Pty Ltd	31.12.2010	07.03.2011	15.03.2011	**E**		✓	
Corpison Pty Ltd	31.12.2010	11.03.2011	15.03.2011	**A**		✓	

Entity name	Balance date	Financial statements			Timeliness of completion		
		Financial statements signed	Auditor's report signed	Auditor's opinion	< 3 months	3 to 6 months	> 6 months
CQU Travel Centre Pty Ltd	31.12.2010	22.02.2011	28.02.2011	U	✓		
Creative Industries Precinct Pty Ltd	31.12.2010	03.02.2011	07.02.2011	U	✓		
Dendrimed Pty Ltd	31.12.2010	03.03.2011	14.03.2011	**E**		✓	
Edward River Crocodile Farm Pty Ltd	30.06.2010	13.04.2011	05.05.2011	**Q E**			✓
Gold Coast Innovation Centre Ltd	31.12.2010	21.03.2011	28.03.2011	**E**		✓	
GRW Industries Pty Ltd	31.12.2010	Not completed	Not completed				
Healthy Waterways Ltd	31.12.2010	23.03.2011	23.03.2011	U		✓	
i.LAB Incubator Pty Ltd	31.12.2010	22.02.2011	02.03.2011	**E**		✓	
IMBcom Asset Trust	31.12.2010	08.03.2011	14.03.2011	**E**		✓	
IMBcom Pty Ltd	31.12.2010	08.03.2011	14.03.2011	U		✓	
Industrial Supplies Office (Queensland) Limited	30.06.2010	23.11.2010	09.12.2010	**E**		✓	
Innovation Centre Sunshine Coast Pty Ltd	31.12.2010	24.02.2011	24.02.2011	U	✓		
JCU Enterprises Pty Ltd	31.12.2010	Not completed	Not completed				
JCU Uninet Pty Ltd	31.12.2010	Not completed	Not completed				
JCU UniVet Pty Ltd	31.12.2010	Not completed	Not completed				
JKTech Pty Ltd	31.12.2010	28.02.2011	07.03.2011	U	✓		
Kingaroy Private Hospital Limited	30.06.2010	04.03.2011	04.03.2011	U			✓
LanguageMap Pty Ltd	31.12.2010	11.03.2011	15.03.2011	**A**	✓		
Leximancer Pty Ltd	31.12.2010	09.03.2011	15.03.2011	**E**	✓		
Lightanate Pty Ltd	31.12.2010	11.03.2011	15.03.2011	**E**	✓		
Lucia Publishing Systems Pty Ltd	31.12.2010	11.03.2011	15.03.2011	**A**	✓		

Entity name	Balance date	Financial statements			Timeliness of completion		
		Financial statements signed	Auditor's report signed	Auditor's opinion	< 3 months	3 to 6 months	> 6 months
Major Brisbane Festivals Pty Ltd	31.12.2010	22.03.2011	22.03.2011	U		✓	
Metallotek Pty Ltd[9]	31.12.2010	11.03.2011	15.03.2011	**E**	✓		
Millipede Forming Pty Ltd	31.12.2010	07.03.2011	14.03.2011	**E**	✓		
Neo-Rehab Pty Ltd	31.12.2010	10.03.2011	15.03.2011	**A**	✓		
Neurotide Pty Ltd	31.12.2010	08.03.2011	15.03.2011	**E**	✓		
Pepfactants Pty Ltd	31.12.2010	10.03.2011	15.03.2011	**E**	✓		
Polyvacc Pty Ltd	31.12.2010	18.02.2011	22.02.2011	U	✓		
Primed Pty Ltd	31.12.2010	24.03.2011	28.03.2011	**E**	✓		
Progel Pty Ltd	31.12.2010	07.03.2011	15.03.2011	**E**		✓	
Queensland Music Festival Pty Ltd	30.09.2010	12.11.2010	12.11.2010	U	✓		
QUT Enterprise Holdings Trust	31.12.2010	21.02.2011	21.02.2011	U	✓		
Qutbluebox Pty Ltd	31.12.2010	14.02.2011	15.02.2011	U	✓		
Qutbluebox Trust	31.12.2010	14.02.2011	15.02.2011	U	✓		
Sarv Pty Ltd	31.12.2010	04.05.2011	06.05.2011	U		✓	
Snoresounds Pty Ltd	31.12.2010	04.03.2011	10.03.2011	**E**		✓	
The JCU Asset Trust	31.12.2010	Not completed	Not completed				
Tenasitech Pty Ltd	31.12.2010	10.03.2011	15.03.2011	**E**		✓	
The Monte Carlo Caravan Park Trust	30.06.2010	Not completed	Not completed				
Unicare (NQ) Limited	31.12.2010	Not completed	Not completed				

[9] This entity's financial year was 16 November 2010 to 31 December 2010.

Entity name	Balance date	Financial statements			Timeliness of completion		
		Financial statements signed	Auditor's report signed	Auditor's opinion	< 3 months	3 to 6 months	> 6 months
UniHealth (NQ) Limited	31.12.2010	Not completed	Not completed				
UniQuest Asset Trust	31.12.2010	04.03.2011	10.03.2011	**E**		✓	
UniQuest Pty Limited	31.12.2010	04.03.2011	10.03.2011	U		✓	
University of Queensland Foundation Trust	31.12.2010	07.03.2011	14.03.2011	**E**		✓	
UQ College Ltd	31.12.2010	18.03.2011	22.03.2011	U		✓	
UQ Health Care Pty Ltd	31.12.2010	Not completed	Not completed				
UQ Holdings Pty Ltd	31.12.2010	07.03.2011	14.03.2011	U		✓	
UQ Investment Trust	31.12.2010	07.03.2011	14.03.2011	U		✓	
UQ Sport Ltd	31.12.2010	18.04.2011	21.04.2011	U		✓	
Department							
Forestry Plantations Queensland Office	30.06.2010	01.12.2010	01.12.2010	**E**			✓
Jointly controlled entities							
North Queensland Local Government Association	31.12.2010	05.04.2011	11.04.2011	**E**		✓	
Queensland Cyber Infrastructure Foundation Ltd	31.12.2010	22.03.2011	28.03.2011	U		✓	
The Grammar Schools of Queensland Association Inc.	31.12.2010	Not completed	Not completed				
Western Queensland Local Government Association	30.06.2010	26.11.2010	26.11.2010	U		✓	
Local governments							
Cherbourg Aboriginal Shire Council	30.06.2010	Not completed	Not completed				
Diamantina Shire Council	30.06.2010	18.03.2011	21.03.2011	U			✓

Entity name	Balance date	Financial statements			Timeliness of completion		
		Financial statements signed	Auditor's report signed	Auditor's opinion	< 3 months	3 to 6 months	> 6 months
Pormpuraaw Aboriginal Shire Council	30.06.2010	13.04.2011	05.05.2011	**Q E**			✓
Torres Strait Island Regional Council	30.06.2010	Not completed	Not completed				
Statutory bodies							
Benleith Water Board	30.06.2010	03.07.2010	04.11.2010	U		✓	
Board of Trustees of the Brisbane Girls' Grammar School	31.12.2010	07.03.2011	07.03.2011	U		✓	
Board of Trustees of the Brisbane Grammar School	31.12.2010	17.03.2011	17.03.2011	U		✓	
Board of Trustees of the Ipswich Girls' Grammar School	31.12.2010	28.02.2011	28.02.2011	U	✓		
Board of Trustees of the Ipswich Grammar School	31.12.2010	01.03.2011	10.03.2011	U		✓	
Board of Trustees of the Rockhampton Girls' Grammar School	31.12.2010	24.03.2011	24.03.2011	U		✓	
Board of Trustees of the Rockhampton Grammar School	31.12.2010	23.02.2011	23.02.2011	U	✓		
Board of Trustees of the Toowoomba Grammar School	31.12.2010	31.03.2011	31.03.2011	U		✓	
Board of Trustees of the Townsville Grammar School	31.12.2010	16.02.2011	21.02.2011	U	✓		
Bollon South Water Authority	30.06.2010	06.09.2010	05.01.2011	**E**			✓
Bollon West Water Authority	30.06.2010	28.07.2010	30.11.2010	U		✓	
Central Queensland University	31.12.2010	25.02.2011	28.02.2011	U		✓	
Fernlee Water Authority	30.06.2010	26.07.2010	16.11.2010	U		✓	

		Financial statements			Timeliness of completion		
Entity name	**Balance date**	**Financial statements signed**	**Auditor's report signed**	**Auditor's opinion**	**< 3 months**	**3 to 6 months**	**> 6 months**
Forestry Plantations Queensland	30.06.2010	01.12.2010	01.12.2010	**E**			✓
Glamorgan Vale Water Board	30.06.2010	30.07.2010	30.11.2010	U		✓	
Griffith University	31.12.2010	28.02.2011	28.02.2011	U		✓	
James Cook University	31.12.2010	24.02.2011	28.02.2011	U		✓	
Kaywanna Bore Water Board	30.06.2010	20.07.2010	05.11.2010	U		✓	
Kooingal Water Board	30.06.2010	21.07.2010	02.09.2010	U		✓	
Merlwood Water Board	30.06.2010	07.01.2011	01.03.2011	**E**			✓
Mount Isa Water Board	30.06.2010	10.11.2010	22.11.2010	**E**		✓	
Oaky Creek Water Board	30.06.2010	22.07.2010	04.11.2010	U		✓	
Palmgrove Water Board	30.06.2010	15.12.2010	07.03.2011	**E**			✓
Queensland College of Teachers	31.12.2010	18.02.2011	28.02.2011	U	✓		
Queensland Nursing Council[10]	30.06.2010	17.12.2010	02.02.2011	**E**			✓
Queensland Theatre Company	31.12.2010	22.03.2011	24.03.2011	U		✓	
Queensland University of Technology	31.12.2010	23.03.2011	28.03.2011	U		✓	
South Maroochy Drainage Board	30.06.2010	08.08.2010	05.11.2010	U		✓	
The Royal Children's Hospital Foundation	30.06.2010	29.11.2010	30.11.2010	**E**		✓	
The University of Queensland	31.12.2010	16.03.2011	22.03.2011	U		✓	
Townsville Hospital Foundation	30.06.2010	24.11.2010	18.12.2010	**E**			✓
University of Southern Queensland	31.12.2010	22.02.2011	22.02.2011	U	✓		

[10] This entity was abolished at 1 July 2010.

		Financial statements			Timeliness of completion		
Entity name	Balance date	Financial statements signed	Auditor's report signed	Auditor's opinion	< 3 months	3 to 6 months	> 6 months
University of the Sunshine Coast	31.12.2010	24.02.2011	24.02.2011	U	✓		
Yambocully Water Board	30.06.2010	30.07.2010	04.11.2010	U		✓	

5 | Appendices

5.1 Types of auditors' opinions

As the independent external auditor for Queensland Parliament, the Auditor-General issues an independent auditor's report on the financial report of public sector entities. The independent auditor's report provides the people of Queensland, through Parliament, assurance as to the veracity of the financial reporting of public sector entities, including compliance with prescribed requirements.

One or more of the following auditor's opinion types may be expressed when issuing independent auditors' reports in respect of the financial report of an entity. The types of auditor's opinion issued are in accordance with Australian Auditing Standard (ASA) ASA 700, *Forming an opinion and Reporting on Financial Report* and ASA 705, *Modifications to the Opinion in the Independent Auditor's Report.*

Unmodified auditor's opinion

These opinions are issued where the financial statements give a true and fair view and the entity has complied with all relevant prescribed requirements and there are no matters to which the readers of the financial statements should be drawn.

Emphasis of matter paragraphs and other matter paragraphs

Included in the Independent Auditor's Report to draw users' attention to a matter presented or disclosed in the financial report that is of such importance that it is fundamental to users' understanding of the financial report, The inclusion of an emphasis of matter paragraph or other matter paragraph does not modify the auditor's opinion.

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

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

Modified auditor's opinion

The auditor's opinion is modified when the auditor concludes that, based on the audit evidence obtained, the financial report as a whole is not free from material misstatement; or the auditor is unable to obtain sufficient appropriate audit evidence to conclude that the financial report as a whole is free from material misstatement.

There are three different types of modified auditor's opinions that can be issued:

- **Qualified opinion:** is expressed when the auditor concludes that misstatements, individually or in the aggregate, are material, but not pervasive, to the financial report. Or the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, but the auditor concludes that the possible effects on the financial report of undetected misstatements, if any, could be material but not pervasive.
- **Adverse opinion:** is expressed when the auditor concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial report.
- **Disclaimer of opinion:** is expressed when the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, and the auditor concludes that the possible effects on the financial report of undetected misstatements, if any, could be both material and pervasive. Or, in extremely rare circumstances involving multiple uncertainties, the auditor concludes that, notwithstanding having obtained sufficient appropriate audit evidence regarding each of the individual uncertainties, it is not possible to form an opinion on the financial report due to the potential interaction of the uncertainties and their possible cumulative effect on the financial report.

5.2 Acronyms

AASB	Australian Accounting Standards Board
ASA	Australian Auditing Standard
EFT	Electronic Funds Transfer
EFTPOS	Electronic Funds Transfer Point of Sale
FAA	*Financial Accountability Act 2009*
FPMS	*Financial and Performance Management Standard 2009*
QAO	Queensland Audit Office
SAP	Systems Applications and Products
SSA	Shared Service Agency

5.3 Glossary

Accountability

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

Controlled entities

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

Cost-benefit

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

Effectiveness

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

Efficiency

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

Fair value

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

Financial report

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

Going concern

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

Governance

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

Impairment

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

Independent auditor's report

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

Materiality

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

Prescribed requirements

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

Probity

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

5.4 References

AASB 1049 *Whole of Government and General Government Sector Financial Reporting*

ASA 700 *Forming an opinion and Reporting on a Financial Report*

ASA 705 *Modifications to the Opinion in the Independent Auditor's Report*

ASA 800 *Special Considerations – Audits of Financial Reports Prepared in Accordance with Special Purpose Frameworks*

Auditor-General Act 2009

Auditor-General of Queensland Auditing Standards, July 2010

Fair Work Act 2009

Financial Accountability Act 2009

Financial and Performance Management Standard 2009

Financial Management Practice Manual, March 2008, Treasury Department

Grammar School Act 1975

Implementing Machinery of Government Changes – A good practice guide, 2nd edition, October 2010, Australian Public Service Commission

Industrial Relations Act 1999

Industrial Relations Regulation 2000

Ministerial Media Statement – *'Bligh Reforms Continue with Public Service Restructure,'* 26 March 2009.

6 | Auditor-General Reports to Parliament

6.1 Tabled in 2011

Report No.	Subject	Date tabled in Legislative Assembly
1	*Auditor-General Report to Parliament No. 1 for 2011* *Management of offenders subject to supervision in the community* Performance Management Systems audit	25 February 2011
2	*Auditor-General Report to Parliament No. 2 for 2011* *Results of local government audits* Financial and Assurance audit	22 March 2011
3	*Auditor-General Report to Parliament No. 3 for 2011* *Follow up of 2008 audit on administration of grants and funding to community organisations by local government in Queensland* Performance Management Systems audit	9 June 2011
4	*Auditor-General Report to Parliament No. 4 for 2011* *Information systems governance and security* Financial and Assurance audit	21 June 2011
5	*Auditor-General Report to Parliament No. 5 for 2011* *Results of audits at 31 May 2011* Financial and Assurance audit	June 2011

Publications are available at *www.qao.qld.gov.au* or by phone on 07 3149 6000.