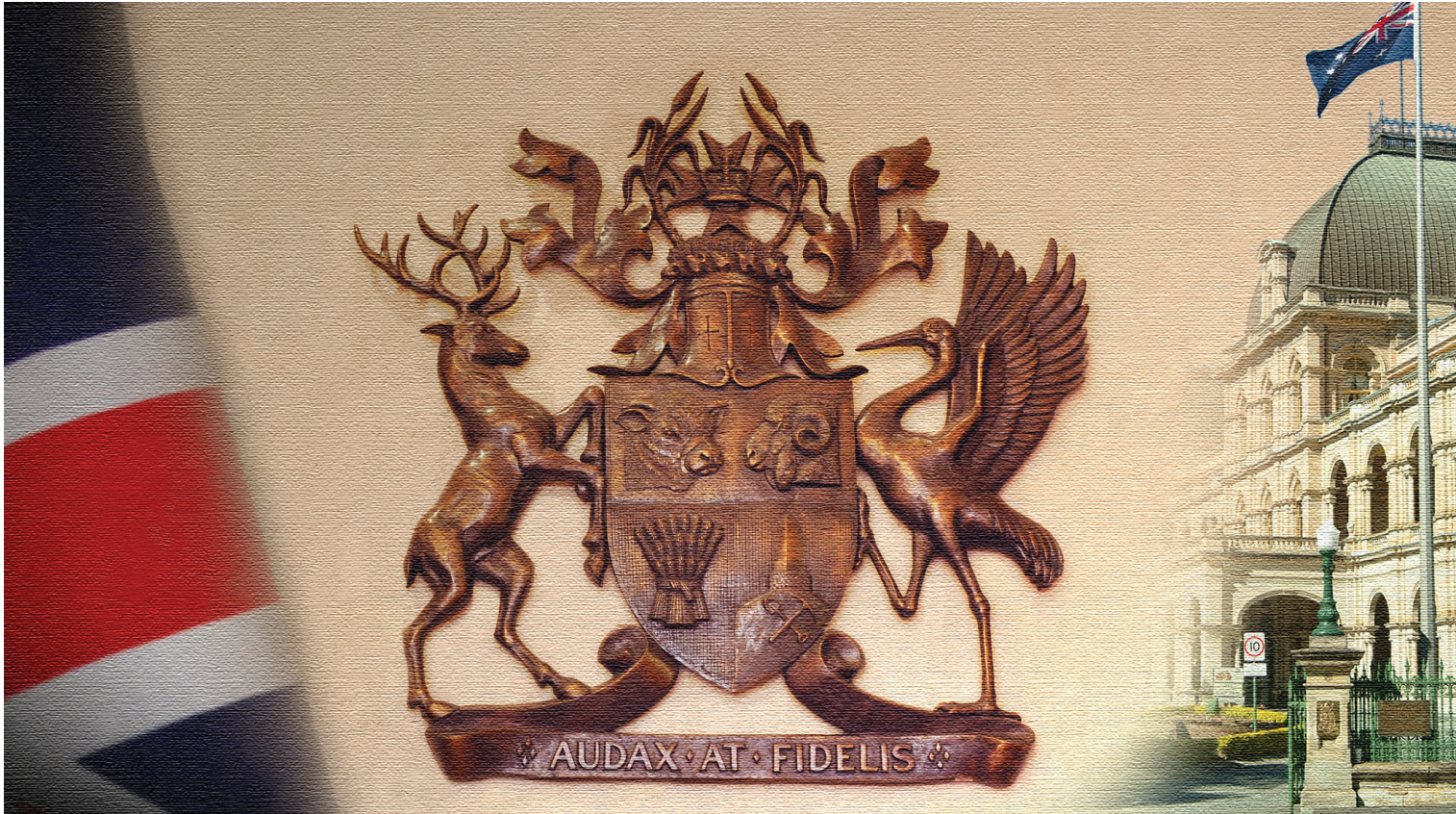


Auditor-General of Queensland



Financial and Assurance audit

Report to Parliament No. 11 for 2011

Results of audits at 31 October 2011

Additional:

Auditor-General retrospective 2004-11

Auditor-General of Queensland

Financial and Assurance audit

Report to Parliament No. 11 for 2011
Results of audits at 31 October 2011

Additional:
Auditor-General retrospective 2004-11



QUEENSLAND

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

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Auditor-General of Queensland

November 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 October 2011. It is number 11 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



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Executive summary

Introduction

Each financial year, a number of reports are presented to Parliament containing the results of Financial and Assurance audits completed during the year. This report is the first containing the results of Financial and Assurance audits of the Consolidated Whole of Government Financial Statements, Consolidated Fund Financial Report and public sector entities with a 30 June 2011 balance date.

The report includes the results of audits of departments, statutory bodies, government owned corporations, local governments and their controlled entities, completed as at 31 October 2011.

In March 2009, machinery of government changes created 13 departments responsible to 18 Ministers grouped under six policy clusters:

1. Policy and Fiscal Coordination.
2. Social Development.
3. Environment and Sustainable Resource Management.
4. Employment and Economic Development.
5. Law, Justice and Safety.
6. Government Services.

Some Ministers have responsibilities spanning policy clusters. This report has been structured with audits listed by cluster to enable easier identification of policy responsibility. Policy cluster responsibilities are shown in Section 9.3.

Auditor-General retrospective 2004-11

As this report is the final report that I will present to Parliament before the conclusion of my term as Auditor-General of Queensland, I have included a reflection on the strengths and weaknesses of public sector financial management during the period 2004-11.

Our audit activity has identified several challenges for the public sector. These areas for continued focus are:

- Increasing the attention given to planning and informed decision-making for major projects and expenditure programs.
- Giving greater attention to basic financial management principles.
- Improving the management of the services delivered to departments by third party providers.

If not attended to, these three areas have the potential to derail the hard-won achievements of the past seven years. Planning, attention to basic financial management principles and effective management of third party service providers will become increasingly important as pressures increase on government entities to find further savings and efficiencies.

We could not have successfully completed our comprehensive audit program of the last seven years without the dedicated actions of the staff of the Queensland Audit Office and the private sector audit contractors who assist us. I acknowledge their professionalism and commitment to the task of public sector auditing and thank them for their support, encouragement and service to the Queensland community.

I also acknowledge the exceptional support and cooperation we have received from the staff of the departments and agencies across the public sector. Successful auditing depends on the open communication and understanding of auditors and those being audited.

The combined effort of these groups will ensure that the people of Queensland continue to have a strong and responsive public sector.

I extend my congratulations to Mr Andrew Greaves on his appointment as the 22nd Auditor-General of Queensland. I am confident that the Parliament and the Queensland community will receive high quality audit assurance under his leadership.

Finally, I extend my thanks and appreciation to the many members of Parliament who have served on the Parliamentary committees that have reviewed my reports. It has been a privilege to undertake this important role.

Summary of audit results and related issues

Under the *Auditor-General Act 2009*, an opinion is issued on the Consolidated Whole of Government Financial Statements and on the Consolidated Fund Financial Report. Unmodified auditors' opinions were issued for these financial statements for 2010-11.

An explanation of the terms, unmodified and modified auditors' opinions is outlined in Section 9.2.

The status of 493 audits required to be completed under the audit mandate for the 2010-11 financial year is shown in Figure A below.

Figure A – Status of 2010-11 financial statements at 31 October 2011

Audit type	Total	Unmodified opinions issued	Modified opinions issued	Opinions not yet issued
Departments and controlled entities	48	36	6	6
Government owned corporations and controlled entities	24	16	5	3
Joint controlled entities	34	7	10	17
Local governments and controlled entities	123	19	3	101
Statutory bodies and controlled entities	167	80	79	8
Audited by arrangement	96	29	51	16
Whole of government	1	1	0	0
Total	493	188	154	151

Auditors' opinions have been issued for 342 financial statements for 2010-11. Of these, 188 unmodified opinions and 154 modified opinions have been issued. A modified opinion is expressed either to highlight a matter affecting the financial report or where the auditor is unable to express an unmodified opinion on the financial report. Details of the audits completed at 31 October 2011 by each policy cluster are listed in Sections 3 to 8 of this report.

A large number of entities were examined through these audits. Control breakdowns identified during the audits have been reported to management for relevant action with appropriate recommendations for improvement.

In terms of meeting statutory timeframes, 70 per cent of departments, government owned corporations, and statutory bodies required to have their financial statements completed and certified by audit by 31 August 2011 were able to achieve the statutory deadline. Sixty per cent of public sector companies required to have their financial statements completed and certified by audit by 31 October 2011 were able to achieve the statutory deadline.

This report also covers the status of 16 financial statements for 2009-10, where an opinion has been issued since previous reports were tabled or where an opinion has not yet been issued. Details of the status of these financial statements are included in Section 1.2.3. We are actively working with the entities involved to ensure financial statements are finalised for audit and outstanding opinions are issued as soon as practicable.

Cross cluster issues

While this report has been structured by policy cluster to enable easier identification of responsibilities, some issues involve multiple entities across clusters. Issues identified as cross cluster issues for the purposes of this report are:

1. Sale of Queensland Government infrastructure assets.
2. Follow-up of Auditor-General's Reports to Parliament on infrastructure.
3. Status of the *Nation Building – Economic Stimulus Plan* at 30 June 2011.
4. Shared services.
5. Management of public sector employee housing – implementation of 2008 recommendations.

Sale of Queensland Government infrastructure assets

Section 2.1 provides an update on the actions taken under the Queensland Government's asset sale program on the licence for Queensland forestry plantation assets, the listing of QR National Limited, the lease of Port of Brisbane, the lease of Abbot Point Coal Terminal and the transfer of Queensland Motorways Limited to QIC Limited, all of which have now been completed. A number of challenges and matters for future consideration identified during the process by audit are discussed including improvements to the sale summary reports.

The Queensland Audit Office's *Best Practice Guidelines for the Sale of Material Public Sector Assets* recommends that at the completion of the sale process a sale summary report should be prepared and tabled in Parliament in order to promote accountability and probity over the sale process. The final Sales Summary Reports were tabled in Parliament by the Treasurer and Minister for State Development and Trade as part of the documents tabled at the estimates hearing of the Parliamentary Finance and Administration Committee on 12 July 2011.

While these reports were reviewed by QAO and comments provided, a formal audit opinion was not issued for inclusion with the final reports tabled by the Treasurer and Minister for State Development and Trade. This was due to significant limitations identified in the ability to provide an auditor's opinion on these reports. The most significant limitation identified was the absence of a formal framework for the preparation of the reports. A formal framework is important to ensure that requirements relating to the responsibility for the preparation, the required content and the tabling of the reports in Parliament are clearly identified and understood.

Accordingly, it is recommended that a process and framework for the preparation and tabling of Sales Summary Reports be formally developed by Treasury Department and adopted for future sales of major Queensland Government infrastructure assets.

Follow-up of Auditor-General's Reports to Parliament on infrastructure

Over recent years, specific comment on a number of infrastructure audits was included in *Auditor-General Report No 4 for 2009 – Results of Audits at 31 May 2009* tabled in Parliament on 30 June 2009, *Auditor-General Report No 8 for 2009 – Results of Audits at 31 October 2009* tabled in Parliament on 12 November 2009 and *Auditor-General Report No 8 for 2010 – Results of Audits at 31 May 2010* tabled in Parliament on 6 July 2010.

The status of corrective action on these issues was followed up and a response was received from the Acting Under Treasurer on 29 September 2011 on action currently being taken in relation to the Project Assurance Framework which is detailed in Section 2.2. The action being taken by Treasury Department is encouraged.

Status of the *Nation Building – Economic Stimulus Plan* at 30 June 2011

The Commonwealth Government's *Nation Building – Economic Stimulus Plan* was released on 3 February 2009 to support jobs and invest in future long term economic growth. The plan included \$4.392 billion for Queensland to build school halls, resource centres, classrooms, new public housing and road and rail projects under three major programs: Building the Education Revolution, Social Housing Initiative and Roads and Safety Initiative.

The progress of the Queensland Government in delivering the Plan's infrastructure projects was last reported in *Auditor-General Report to Parliament No. 10 for 2010 – Expenditure under the Nation Building – Economic Stimulus Plan at 31 August 2010*.

Queensland's progress was assessed in delivering the infrastructure projects under the two largest programs, Building the Education Revolution and the Social Housing Initiative at 30 June 2011. This is discussed in more detail in Section 2.3.

Overall the audit found that the Department of Education and Training and the Department of Communities, in conjunction with the Department of Public Works, had designed and implemented appropriate processes to address the requirements of the Building the Education Revolution and the Social Housing Initiative. The Roads and Safety Initiative was appropriately completed by 30 June 2011 in relation to both elements of the Initiative, being new construction (black spot safety projects and boom gates for rail crossings) and repairs and maintenance (regional road maintenance).

Shared services

In December 2002 the Shared Service Initiative was implemented with the prime objective to deliver cost effective corporate services through standardising business processes, consolidating technology and pooling resources and expertise. This initiative encompassed all the Queensland Government departments as well as some other government agencies.

As of 1 July 2011, apart from the Corporate Administration Agency, there are three main shared service providers operating across the Queensland Government. These are the Queensland Health Shared Service Provider, the Department of Education and Training and Queensland Shared Services. The current status of shared services and key issues are detailed in Section 2.4.

In relation to Queensland Shared Services, a number of control weaknesses were identified across all systems. Management are currently addressing these issues and a number have been resolved during the year. Some common themes related to a lack of supporting documentation, lack of evidence of various review processes, lack of approval or authorisation on certain reports and source documents, division of duty breakdowns and inappropriate access and security over certain data.

While the number of issues raised is still of concern, it is acknowledged that the amount, including high risk issues has reduced significantly over the past three years. The number of systems being audited along with staff turnover contribute in some way to the number of audit issues raised. As the number of systems reduces and the business processes are standardised and documented, it is anticipated that a further reduction will occur in the number of audit findings identified.

No significant audit issues were raised at Queensland Health Shared Service Provider and the Department of Education and Training.

Management of public sector employee housing – implementation of 2008 recommendations

In 2008, an audit was conducted to assess how effectively the Department of Education and Training, Department of Health, Department of Police and Department of Public Works were managing the provision of Queensland Government employee housing. The results of this audit were reported in *Auditor-General Report to Parliament No. 4 for 2008 – Results of audits at 31 May 2008*, which was tabled in Parliament on 8 July 2008.

Overall, the audit identified a need for improvement in the operation of the whole of government management framework and the departmental systems used to manage tenancy and maintenance information. The status of corrective action has subsequently been followed up with the Director-General, Department of Public Works and the most recent update on action taken is included in Section 2.5.

There have been improvements in the role being performed by the Housing Management Committee as well as an improved Government Employee Housing policy framework. Positive outcomes have occurred relating to the monitoring of conditions of employee housing as well as improved standards for new housing.

There are still some areas where further action is required:

- Improvements are still needed to accurately report the level of deferred maintenance for each department.
- Apart from the Department of Public Works, the other departments with public sector employee housing have not yet implemented effective tenancy management systems.

All departments responsible for public sector employee housing are encouraged to increase the rate of implementation of the required processes and systems such as an effective tenancy management system and participation in the whole of government vacant housing portal.

Results of Financial and Assurance audits by policy cluster

Policy and Fiscal Coordination

The auditors' opinions issued for the financial statements of the Department of the Premier and Cabinet and South Bank Corporation contained an emphasis of matter paragraph due to issues with asset valuations following the January 2011 floods. The auditors' opinions for Gold Coast 2018 Commonwealth Games Bid Ltd and the Brisbane Market Corporation Limited contained an emphasis of matter paragraph as the financial statements were not prepared on a going concern basis. Details of these opinions are provided at Section 1.2.3.

Auditors' opinions issued for the financial statements of 49 audits contained an emphasis of matter paragraph due to the requirements of Australian Auditing Standard ASA 800 *Special Considerations - Audits of Financial Reports Prepared in Accordance with Special Purpose Frameworks*. Unmodified opinions were issued for the financial statements of all other entities within this policy cluster.

Social Development

A qualified opinion was issued for Queensland Health's financial statements. There was insufficient evidence to assess the amount recognised as payroll receivables for salary overpayments and associated allowance for impairment. An opinion could not be expressed on these balances. This was attributable to the lack of agreements with affected employees to acknowledge the individual values of a substantial part of the amounts assessed by the department to be overpayments and the continuing issues associated with the implementation of the payroll system. The department's commitment to recover salary overpayments is evident however, the department will need to take action to have those amounts considered to be overpayments made since March 2010 acknowledged by individual employees. Issues with the payroll system are discussed further in Section 4.2.1.

The National Health Reform Agreement will require the creation of 17 new statutory bodies called local health and hospitals networks. Current financial systems at Queensland Health are not capable of enabling these local health and hospital networks to budget, monitor and manage their cash position. The local health and hospital networks will be unable to meet Commonwealth and Queensland Government's financial management and accountability requirements without additional action by the department to address the limitations of the current financial management system. This matter needs to be resolved prior to the 1 July 2012 deadline for the commencement of these bodies' operations. Further details are contained in Section 4.2.2.

Auditor-General Report to Parliament No. 13 for 2010 – Results of audits at 31 October 2010, reported that since the establishment of Southbank Institute of Technology as a separate statutory TAFE institute on 1 April 2008, a formal rental lease agreement to sublease the premises from the Department of Education and Training had not been formalised. As discussed in Section 4.2.3, the agreement between Southbank Institute of Technology and the department has now been formalised.

Qualified auditors' opinions were issued for the Bundaberg Health Services Foundation, Gold Coast Hospital Foundation, PA Research Foundation, and Townsville Hospital Foundation due to uncertainty about the completeness of donation revenue. A qualified opinion was also issued for Redcliffe Hospital Foundation due to non-compliance with prescribed requirements and an emphasis of matter was included in the opinion for the Foundation due to going concern issues. An emphasis of matter paragraph was included in the opinion of the Family Responsibilities Commission and the Queensland Institute of Medical Research Trust due to going concern issues. Details of these opinions are provided at Section 1.2.3.

The opinion issued for the financial statements of one audit contained an emphasis of matter paragraph due to the requirements of ASA 800.

Unmodified auditors' opinions were issued for the financial statements of all other entities within this policy cluster.

Environment and Sustainable Resource Management

Qualified auditors' opinions were issued for North Burdekin Water Board and South Burdekin Water Board because, as in 2009-10, an opinion was unable to be expressed on the reported depreciation expense.

Opinions' issued for the financial statements of 62 audits contained an emphasis of matter paragraph due to the requirements of ASA 800. All other entities were issued with unmodified opinions.

Employment and Economic Development

The state owned electricity generators, CS Energy Limited, Stanwell Corporation Limited and Tarong Energy Corporation Limited were restructured into two entities from 1 July 2011. This resulted in a significant impact on the audit of each of the entities for the 2010-11 financial year. The audit results are discussed further in Section 6.2.1. An emphasis of matter paragraph was included in the auditors' opinions of these entities due to the significant uncertainty regarding the impact of the Commonwealth Government's announced policies to introduce a price on carbon.

Due to the uncertainty surrounding the proposed carbon price mechanism and the associated impairment modelling, an emphasis of matter paragraph was included in the opinion of CS Energy Limited, Stanwell Corporation Limited and Tarong Energy Corporation Limited.

The reform of the South East Queensland's water sector continued during 2010-11 with a reduction in the number of organisations involved in managing and distributing water supplies. A number of significant accounting issues arose for entities in this sector for the 2010-11 financial year. As a result:

- An emphasis of matter paragraph was included in the auditors' opinions of Queensland Bulk Water Transport Authority (trading as Linkwater), Queensland Bulk Water Supply Authority (trading as Seqwater), Queensland Manufactured Water Authority (trading as WaterSecure), Central SEQ Distributor-Retailer Authority (trading as Queensland Urban Utilities), Southern SEQ Distributor-Retailer Authority (trading as Allconnex Water) and Northern SEQ Distributor-Retailer Authority (trading as Unitywater) due to significant uncertainty regarding the water pricing and the potential impact on asset values.
- An emphasis of matter paragraph was included in the opinion of Southern SEQ Distributor-Retailer Authority (trading as Allconnex Water) and the Queensland Manufactured Water Authority (trading as WaterSecure) to draw attention to going concern issues.
- Qualified auditors' opinions were issued for the Queensland Bulk Water Transport Authority (trading as Linkwater) and Queensland Manufactured Water Authority (trading as WaterSecure) as the requirements of Australian Accounting Standard AASB 112 *Income Taxes* were not met.

These issues are discussed further in Section 6.2.2.

The Queensland natural disasters in late 2010 and early 2011 have led to an increase in community organisations being set up to collect donations to provide assistance to local residents impacted by the disasters. A review was conducted over information provided by the local governments to assess whether these entities should be considered to be controlled by the relevant local governments. This is discussed further in Section 6.2.3.

A qualified opinion was issued for Local Buy Trading Trust because the completeness of tender arrangements for revenue and receivables was not able to be verified. A qualified opinion was issued for The Rockhampton Art Gallery Trust as the completeness of donation revenue could not be verified.

An emphasis of matter paragraph was included in the auditors' opinions of Queensland Water Infrastructure Pty Ltd and ZeroGen Pty Ltd due to going concern issues, Logan City Council due to significant uncertainty of the value of the council's investment in the Southern SEQ Distributor-Retailer Authority (trading as Allconnex Water), and Sunwater Ltd due to significant uncertainty regarding the future price mechanism for irrigation water post 30 June 2011. The opinions issued for the financial statements of ten audits contained an emphasis of matter paragraph due to the requirements of ASA 800. All other entities in the policy cluster were issued with unmodified opinions.

Law, Justice and Safety

The opinion issued for the financial statements of Building and Construction Industry (Portable Long Service Leave) Authority (trading as QLeave) contained an emphasis of matter paragraph due to going concern issues. Further details are provided at Section 1.2.3. Unmodified opinions were issued for all other entities in the policy cluster.

Government Services

QBuild, a business unit of the Department of Public Works implemented the Ellipse financial management system in November 2009. Significant issues which arose after the system was implemented were reported in *Auditor-General Report to Parliament No. 13 for 2010 – Results of audits at 31 October 2010*. These issues have been resolved however, audit has identified further payroll issues during 2010-11 which have been referred to the department for resolution. This is discussed further in Section 8.2.1.

The auditor's opinion issued for the financial statements of CSI Holdings Pty Ltd contained an emphasis of matter paragraph due to going concern issues. Further details are provided at Section 1.2.3. Two opinions issued contained an emphasis of matter paragraph due to the requirements of ASA 800.

Unmodified opinions were issued for all other entities in the policy cluster.

Stakeholders' response

Sale of Queensland Government infrastructure assets (Section 2.1)

The UnderTreasurer provided the following response on 1 November 2011.

Challenges and matters for future consideration

Complex accounting issues

Treasury acknowledges that the accounting issues raised by the transactions were complex. Expert advice as to the accounting and tax implications of the transactions was sought throughout the processes. In recognition of the need for this expert advice Treasury Department embedded a Treasury financial specialist within the Commercial Transactions Team engaging with Queensland Audit Office both on a regular formal and informal basis.

The overall objective was to optimise transaction structures for value for money outcomes, rather than achieving a specific accounting outcome. Acknowledging the importance of accounting considerations, in a transaction of this nature they must be considered in the broader context of government policy, commercial and bidder considerations as well as deal closure.

Impact on Queensland Treasury Holdings Pty Ltd

QTH was involved in the transactions related to QML, Port of Brisbane and QRN. Where that involvement was as a facilitator of the sale process or as the long-term lessor of land or infrastructure, QTH did not borrow any funds. Where QTH was not being provided with any continuing commercial interest and QTH's involvement was to be primarily administrative with no consideration attributed to the transfer, those assets were transferred to QTH pursuant to transfer notices, with adjustments made against equity. Where QTH's involvement did involve a commercial interest with economic value, it entered into commercial agreements and borrowed in order to pay to the State the current value of that commercial interest.

In relation to the land valuation in the Brisbane Port Holdings Pty Ltd accounts (for the land it holds as lessor), we note that the value of the Port of Brisbane land would need to take account of the deferred revenue (which is classified as a liability). Termination of the lease prior to expiry would place an obligation on QTH to refund the lease premium to which it is not entitled, making the true value of Brisbane Port Holdings equate to the value of the land net of the deferred lease revenue.

QTH Governance Arrangements

Treasury agrees that with the recent asset sales increasing the size and nature of assets and liabilities held by Queensland Treasury Holdings Pty Ltd (QTH) the governance arrangements for QTH required amendment. In response to this, a new board for QTH and its subsidiaries has been established comprised of Treasury and QTC officials with a knowledge of these assets and liabilities and with a senior officer dedicated full-time to provide company secretarial services for the QTH group.

Preparation of sales summary reports for tabling in Parliament

Treasury acknowledges the QAO suggestion that a process and framework be developed for preparation of Sales Summary Reports in the future. Treasury will welcome the opportunity to discuss this matter further with QAO, with a view to developing future sales summaries that provide a transparent overview of the sales process.

Status of the Nation Building – Economic Stimulus Plan at 30 June 2011 (Section 2.3)

The Director-General, Department of Communities provided the following response on 28 October 2011.

The department continues to give high priority to monitoring the timely completion of the Social Housing Initiative program consistent with the targets set by the Commonwealth Government. As you are aware, the Department of Communities, the Department of Public Works and the respective grant recipients are committed to delivering positive social housing outcomes, while providing the required economic stimulus to Queensland. Internal control mechanisms and robust analysis continues to be implemented at the highest levels to monitor our performance so as to best ensure delivery of the program by 30 June 2012.

Shared services (Section 2.4)

The Director-General, Department of Public Works provided the following response on 28 October 2011.

Queensland Shared Services (QSS) notes the content of the proposed inclusion. The department and QSS have a focus in ensuring that control weaknesses identified are progressed through a coordinated approach, which includes advice to client agencies, where required.

QSS has a commitment to continuously improving its general computer controls and this has been reflected in enhanced controls evident in recent external audits.

In relation to human resource master data, QSS consider that appropriate controls exist to ensure that there are no unauthorised changes made. The level of access referred to in the proposed report is required by QSS support staff to assist processing staff when issues are encountered and to diagnose any complex payroll issues in a timely manner.

The Director-General, Department of Health provided the following response on 28 October 2011.

The Department is undertaking a range of improvement and remedial actions to improve the control over the payroll system. Many of these actions involve the Queensland Health Shared Services Partner and will lead to improved payroll outcomes. These actions are progressively being implemented.

It is noted that you have raised no issues around the processing controls over the accounts payable, assets and general ledger systems (i.e. FAMMIS). This would appear to be indicative of a system that is stable and well controlled.

A review was conducted by PricewaterhouseCoopers of the Queensland Government shared service model and the Department supports the recommendation that the Department should take over responsibility for the management of its finance and human resource/payroll applications from the Government's shared service provider (Queensland Shared Services (QSS)). However the Department has to ensure that this transition proceeds in a manner that maintains business continuity and appropriately addressed any risks that may arise. It is the Department's intention to continue this cautious approach.

With respect to the finance application (FAMMIS), it is proposed that this application remains with and is maintained by CorpTech QSS until such time as the implementation of the replacement system (ECC6) is complete and fully operational in 2014.

Queensland Health payroll (Section 4.2.1)

The Director-General, Department of Health provided the following response on 28 October 2011.

As you are aware, Queensland Health acknowledges implementation of the SAP HR payroll system has experienced significant issues. Nonetheless, the Department is committed to improving the payroll system through implementing recommendations raised by the Queensland Audit Office (QAO) and other external advisors such as Ernst & Young and KPMG. Queensland Health has and will continue to maintain a collaborative dialogue with the QAO to progress issue resolution and provide insight into the basis of introducing new processes and system changes.

Queensland Health remains committed to improving the payroll environment and implementing rostering solutions which ensure employees receive their correct pay and entitlements in a timely manner.

Internal controls and improvements

Queensland Health has improved and will continue its commitment to improving the internal control environment to reduce the likelihood of payroll errors. In this regard, the Department either already has undertaken, or is in the process of undertaking, a range of improvement and remedial actions including:

- *reviewing the forms (Attendance Variation and Allowance Claim (AVAC)) used to input variations to employees' fortnightly pays to reduce the likelihood of errors;*
- *reviewing the data input screens to make them easier to use and less complex thereby reducing the likelihood of errors;*
- *implementing a training program for line managers so that they better understand their role in the pay process;*
- *implementing processes to ensure changes made to AVAC forms are clearly documented and appropriately authorised;*
- *considering the controls that need to be implemented around significant variations including the use of exception reports which highlight variations;*
- *improving the training of payroll staff; and*
- *implementing improved processes around the maintenance and control of documentation to support each fortnightly pay run.*

These improvements and remedial actions are being undertaken through a number of payroll improvement initiatives including:

- *Focus on underpayment claims*
Trials are being undertaken in The Prince Charles Hospital and Princess Alexandra Hospital prior to a state-wide program being launched in November 2011. This initiative will inform the timing of lifting the current moratorium on the recovery of overpayments.
- *Changes to the pay day*
Currently, the fortnightly pay run is processed and staff are paid three days after the closure of the pay cycle. As has been previously acknowledged, the period between closure of the pay cycle and the processing period prevents the full processing of forms in any one fortnight. Queensland Health is considering options to extend the period of time between the closure of the pay cycle and the day that processing commences, effectively shifting the day that employees receive their pay. Such an approach would create increased time for additional AVAC forms to be processed, and as a result adjustments would be able to be processed in the same pay period in which they occurred. This will improve the accuracy of an employee's fortnightly pay thereby significantly reducing the number of overpayments and underpayments generated.
- *Historical overpayments recovery*
The Queensland Government announced a moratorium on the recovery of historical overpayments in July 2011. Processing of bank cheques and money orders voluntarily submitted during June 2011, prior to the announcement of the moratorium, is continuing and the Department is confirming the repayment intentions of staff within this group who had indicated they wished to repay monies owing. In addition, any other voluntary payments staff wish to make are also being processed.
- *Focus on the recovery of targeted overpayments*
This initiative will seek to address the recovery of overpayments for ex-employees and current staff with high value overpayments as a first priority. This will require a Government decision to selectively lift the moratorium and this is being progressed as a priority.
- *Payslip changes*
This initiative will implement improvements to the payslip in three stages. Stage one will scope and design electronic payslip distribution for rollout during 2012. Stage two will provide improved payslip design and layout. Stage three (late 2012) will provide increased levels of information, including analysis of overpayment repayments and more detail on retrospective adjustments.
- *Rostering*
This initiative will build on the work already in place in the Gold Coast Health Service District with electronic rostering front end capability (eRoster). This will be further invested in and made available to other Districts, with the Princess Alexandra and Royal Brisbane and Women's Hospitals already committed. This will significantly improve roster and data entry accuracy and therefore lead to higher levels of payslip accuracy.
- *Other initiatives*
These include a major program of staff engagement state-wide, delivery of capability for the automatic recovery of overpayments (mid November 2011), a state-wide education and training program, support for line managers burdened by payroll administration and improvements in forms processing and business operations. Additional reports have also been introduced to assist line managers with payroll support and management.

Payroll Receivables

In March 2011, an Employee Overpayments Program was established to recover approximately \$62 million from around 38,000 staff. This included developing business processes, establishing analysis and recovery teams, implementing call centre systems and issues management systems.

In June 2011, Queensland Health sent a letter to each employee who has received an overpayment highlighting when an overpayment had occurred. The letter also requested that employees either confirm that they were satisfied that an overpayment had occurred or confirm that they disagreed that an overpayment had occurred. If they agreed an overpayment had occurred, then they were encouraged to identify their preferred method of recovery. If they disputed that an overpayment had occurred, staff were then requested to respond as such and a case manager would be assigned to work with them to resolve the dispute.

Subsequently, in July 2011 the Government announced a moratorium on the recovery of overpayments and made a commitment to first strengthen the focus on processes to reimburse underpaid staff.

Queensland Health remains committed to recovering amounts owed to the Department by employees. In addition, it has a statutory obligation to pursue recovery. The overpayment recovery process is expected to recommence following the state-wide underpayment campaign which itself will begin as soon as the testing of the campaign at The Prince Charles Hospital is completed in October of this year. In summary, for the financial year ending 30 June 2011, Queensland Health recorded the employee overpayments as recoverable and therefore classified them as receivables on the Statement of Financial Position.

Since 20 June 2011 (i.e. the date the letters were sent out), employees have agreed to repay \$7.069 million even though the moratorium was put in place on 9 July 2011. This is indicative of a process whereby employees are informed when they have received an overpayment (via their payslip) and are readily able to repay it on a basis that works for them.

Implementation of the National Health Reform Agreement (Section 4.2.2)

The Director-General, Department of Health provided the following response on 28 October 2011.

In February 2011, the Council of Australian Governments (COAG) signed a Heads of Agreement on National Health Reform and a revised National Partnership Agreement on Improving Public Hospital Services and committed to signing a full National Health Reform Agreement by 1 July 2012. This health reform is necessary if Queensland Health is to continue to provide a quality health care system that is appropriately funded and accessible to all Queenslanders.

While the changes are necessary, the timeframe for the implementation of the reform is very compressed with the requirement that the Local Health and Hospital Networks (LHHNs) be operating on 1 July 2012. In this regard, Queensland's Local Health and Hospital Network Bill was passed by Parliament on 14 October 2011. Accordingly, the new Health and Hospitals Network Act 2011 will replace the current Health Services Act 1991 from 1 July 2012.

As of 1 July 2012, the Queensland Health Corporate Office will take on the role of System Manager. In addition, seventeen LHHNs will be created as statutory bodies. Each LHHN will be managed by a local Governing Council and be responsible for the delivery of public hospital services and the current range of community health services provided by Districts. These operational arrangements will mean that the LHHNs will manage their network operations and have the flexibility to respond to local priorities.

While the reform is proceeding, what is non-negotiable from both the Department's and State's perspectives is that high quality patient care continues to be provided not only leading up to 1 July 2012 but also post the establishment of the LHHNs. In addition, the Department needs to ensure continuity of business practices throughout, and subsequent to, reform. These are the Department's major priorities with the process of reform, including the replacement of the financial management system, being less critical. The commencement date of 1 July 2012 has been imposed on the Department and the State by the Commonwealth and while the Department is committed to meeting this deadline, there are certain tasks that cannot be achieved by 1 July 2012. This includes the replacement of the financial management system (FAMMIS).

A review of FAMMIS' capability resulted in the Department concluding that the current system could not be upgraded but rather a more recent version of SAP (ECC6) needs to be implemented. This conclusion was supported by independent consultants, PricewaterhouseCoopers. The implementation of ECC6 will take up to two years which is longer than the time available to have the LHHNs established and operating. Therefore, the Department needs to utilise FAMMIS to provide financial statements for both the Department and individual LHHNs. In order to ensure that the transition to LHHNs occurs in a manner that maintains best practice business continuity, a considered approach has been adopted by the Department to utilise the existing system (FAMMIS) which is sufficiently robust to ensure budgetary and financial control, while a program of work is undertaken to upgrade the existing system. In addition, SAP remains committed to providing customer specific resolution to any issues that arise.

Due to the above, the Department is seeking an exemption modification to the Financial and Performance Management Standards to LHHNs for a transitional period of two years from 1 July 2012 in providing audited general purpose financial statements for each LHHN. Each LHHN, however, will be able to provide special purpose financial statements for these years (i.e. for the 2012/13 and 2013/14 financial years). These special purpose financial statements will be very similar to a set of general purpose financial statements with the only significant difference being the certification the Auditor-General provides. The Department will continue to be able to provide consolidated general purpose financial statements.

South East Queensland Water Grid (Section 6.2.2)

The Commissioner, Queensland Water Commission provided the following response on 25 October 2011.

Bulk water entities

The State bulk water entities, Seqwater (which from 1 July 2011, includes WaterSecure) and LinkWater, are paid Grid Service Charges (GSCs) to provide water service to the SEQ Water Grid Manager. GSCs are set by the Minister for Energy and Water Utilities, as the Price Regulator in accordance with the SEQ Water Market Rules (Market Rules).

The Market Rules also provides for an Investigating Authority to investigate GSCs and provide a report, including recommendations to the Price Regulator on the GSCs to apply for a stated period. The Queensland Competition Authority (QCA) is the Investigating Authority for the periods 1 July to 30 June 2012 and 1 July 2012 to 30 June 2013. The Price Regulator is yet to determine the Investigating Authority for future periods.

The Distributor-retailers, Unitywater, Queensland Urban Utilities and Allconnex purchase water from the SEQ Water Grid Manager at the bulk water price. The bulk price is set by the Queensland Government on a 10 year price path to mitigate the impact of price increases on consumers. The difference between the GSCs and revenue from the sale of bulk water is accumulated as SEQ Water Grid Manager debt, which will be repaid from water charges by 2027-28.

Distributor-retailer entities

The SEQ Water (Distribution Retail and Restructuring) Act 2009 was amended by the Fairer Water Prices for SEQ Amendment Bill 2011. The Act imposes a maximum CPI cap on annual distribution and retail water and wastewater (sewerage only excluding trade waste and recycled water) prices for households and small businesses. The CPI cap is for two years commencing from 1 July 2011 and ending on 30 June 2013.

The Act also requires the SEQ Councils to publish a price mitigation plan and implement, as a minimum a 5 year price path at the end of the price cap period in 2013. The Minister does not approve the price mitigation plan or price path.

A price mitigation plan must include information about:

- *how a Council intends to moderate the impact on customers of price increases; for instance through price paths*
- *show how more vulnerable customers will be assisted; and*
- *indicate how the community will be informed about future price increases.*

The requirement to have in place a price mitigation plan and a price path applies to all SEQ Councils irrespective of whether the Council has decided to stay with, or withdraw from, their Distributor-retailer. The responsibility and accountability for pricing for water and wastewater distribution and retail changes lies with Councils.

The distributor-retailer must take all reasonable steps to ensure it implements the final price path of the Council for the Council's residents.

A Council, operating with the distributor-retailer model, would reasonably seek the views of their Distributor-retailer before finalising the price path. The SEQ Water (Distribution and Retail Restructuring) and other Legislation Amendment Bill 2011, which was introduced into Parliament on 11 October 2011, recognises that a Council pricing decision may have a detrimental impact on the Distributor-retailer's business and/or that of another participating local government. The Council who makes such a pricing decision, has a liability to compensate the Distributor-retailer and its other participating local governments for any direct and reasonably anticipated financial detriment.

The QCA has a price monitoring role for the three Distributor-retailers. The SEQ Water (Distribution and Retail Restructuring) and other Legislation Amendment Bill 2011 provides for the QCA to have the same role for the new specific water businesses of Gold Coast, Redland and Logan City Councils.

Local government community funds (Section 6.2.3)

The Director-General, Department of Local Government and Planning provided the following response on 21 October 2011.

Your advice in this matter is noted. I propose that the Department of Local Government and Planning (DLGP) will issue guidelines to all Local Governments to ensure that the disaster relief community funds are not part of the Local Government's management and operations and not subject to audit by the Queensland Audit Office.

DLGP is also concerned in relation to Local Governments establishing business enterprises for the purposes of collecting and distributing donations that may not have sought direct DLGP approval. I undertake that DLGP will formally re-enforce the requirements with all Local Governments.

Department of Public Works – QBuild's Ellipse system (Section 8.2.1)

The Director-General, Department of Public Works provided the following response on 28 October 2011.

The contents of this report in relation to the Ellipse system are noted. QBuild was aware of the issues identified by QAO and had, prior to the audit, commenced a program of work to address control weaknesses. These enhancements were in place by 30 June 2011 and none of the issues identified by QAO impacted on the 2010-2011 financial statements and reporting.

Since the completion of the first program of work, QBuild has enhanced systems, processes and controls which have improved data accuracy. In addition, QBuild will continue to work with the system vendor on the functionality of, and the ongoing improvements to, the Ellipse system.

Retrospective 2004-11

This is the final report that I will present to Parliament during my term as Auditor-General. It provides a timely opportunity to reflect upon progress and developments in the public sector that have occurred over my term.

Introduction

Since I became Auditor-General in 2004, there have been major reform agendas such as the amalgamation of local governments, a number of machinery of government changes and legislative amendments affecting the financial and performance management of the public sector.

From a wider perspective, over the last seven years, there have been the pressures of globalisation and rapidly evolving information technology, fiscal stress, commercialisation, corporatisation, privatisation and downsizing. In addition, demands on governments and public sector agencies for greater public accountability and responsiveness to community needs have increased.

The Queensland Public Sector is large and complex, with over 240,000 employees responsible for managing expenditure in excess of \$52 billion in 2010-11 and assets of \$292 billion at 30 June 2011.

There will always be times when the financial management practices adopted by agencies will prove to be deficient and those where efficiencies and more effective approaches can be implemented. During my time as Auditor-General, departmental officers have generally responded positively and promptly to recommendations for improvement identified from our audits.

While my reports to Parliament have identified instances where public sector managers have not responded adequately to the challenges they face, I have also endeavoured to highlight areas of positive performance.

Post-disaster recovery and the expenditure of funding from the Economic Stimulus Package provide two good examples of strong public sector responses to community needs.

Public sector employees can be justly proud of the response to the natural disasters in late 2010 and early 2011. The speed of the delivery of assistance to the community and the compassion and genuine care shown by so many public sector employees in the days and weeks after the disasters demonstrated the depth of capacity available within the public sector. The ability of staff from across many departments to respond in such an efficient and financially effective manner is a credit to the systems and financial management policies developed over time within those agencies.

Departmental staff have also responded well to the delivery of a significant infrastructure investment program over recent years. Any program of this size will encounter difficulties and challenges. However, the program has been generally well managed and implemented.

This capacity was particularly evident in the Queensland response to the Economic Stimulus Package initiated by the Commonwealth Government in 2009. Expenditure of some \$4,228 million on capital works and maintenance programs across several departments was well managed and the projects were completed effectively within tight timeframes.

Public sector leaders can expect the challenges of recent years to continue as government responds to community needs within a constrained fiscal environment. In addition to the continuous improvement agenda that all agencies need to pursue, our audit activity indicates three primary areas for continued focus:

- Increasing the attention given to planning and informed decision-making for major projects and expenditure programs.
- Giving greater attention to basic financial management principles.
- Improving the management of the services delivered to departments by third party providers.

If not attended to, these three areas have the potential to derail the hard-won achievements of the past seven years. Planning, attention to basic financial management principles and effective management of third party service providers will become increasingly important as pressures increase on government entities to find further savings and efficiencies.

Public sector auditing environment

At the same time as the community seeks more information about public sector activities, its members also want assurance that:

- The activities to which their dollars are allocated have a clear and relevant purpose.
- The activities are undertaken efficiently, effectively and are providing value for money.
- The highest standards of ethics are maintained by those who have been entrusted with administering the programs.

Parliament wants public sector entities to be accountable for more than is provided for in the accounting and auditing standards. It wants assurance about compliance, probity, propriety and performance. My audits have provided Parliament with assurance over these aspects of the Queensland public sector's activities.

The role of Auditor-General revolves around the needs of Parliament to hold executive government and its entities accountable. My audits have alerted Parliament to issues that may otherwise not have been reported.

There is a perception at times that Auditor-General reports focus on the negative occurrences rather than the positive actions of agencies. While that may be the nature of auditing, I have seen significant improvements over the last seven years in both financial management and in performance management across the Queensland public sector. The following are areas where I have seen the most fundamental change as well as areas where there is still work to be done.

Improvements in financial management

More timely financial reporting

The earlier annual financial statements can be finalised, the greater the benefit that can be derived by public sector entities, the Parliament and the community from using the statements for accountability purposes and for resource allocation decisions.

In 2007, the Treasurer reduced the statutory timeframes for completing the financial statements including the provision of an audit opinion for departments, statutory bodies and government owned corporations. The new deadline was four weeks earlier than previously required with statements to be finalised within two months of the end of the financial year to which the statements relate.

In 2011, 70 per cent of departments, government owned corporations and statutory bodies have been able to achieve the shortened timeframes. To achieve this timeframe requires a significant commitment from agencies and audit. Public sector accountability has benefited from having more timely financial information.

Financial accountability requirements

Each public sector entity is responsible for developing and maintaining an adequate system of internal control. 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 these procedures, identifying any weaknesses and bringing these weaknesses to the attention of management.

On 1 July 2009, the *Financial Accountability Act 2009* introduced a number of new requirements to improve public sector financial accountability. This included requiring the Chief Finance Officer to provide the Accountable Officer each financial year with a statement about whether internal financial controls are operating efficiently, effectively and economically.

These changes to the legislative framework have provided the means for improved accountability within agencies and, if properly implemented, Chief Executive Officers can have greater confidence that their agencies are financially well controlled.

Widespread use of audit committees and internal audit

Internal audit plays an important role in public administration in Queensland. The *Financial Accountability Act 2009* now requires departments to appoint an appropriately qualified head of internal audit who can provide senior management with assurance that financial, administrative and operational controls and management practices are effective.

Changes to the local government legislation in 2010 also introduced a similar requirement and the requirement for larger local governments to have audit committees where previously this had not been mandatory.

Audit committees have a significant role in providing an independent review of the integrity of internal and external reporting functions of local governments and improving the quality of financial statements presented to external audit. In 2008, only 23 per cent of local governments existing at that time had audit committees in place. This year, nearly half of local governments had an audit committee.

Enhanced accountability of companies established by departments

In 2006, I reported on the increasing use of corporate structures to deliver public infrastructure services and that these entities were not subject to the same high level of governance and accountability mechanisms expected of other types of government entities. A rigorous process was not always being used to determine the best type of entity to achieve the most effective outcome for the community.

I recommended that the use of the company structure be minimised and limited to those instances where there is clearly no alternative corporate structure available and that the policy for the establishment of companies be further reviewed by Treasury Department.

The Public Accounts Committee followed up on this issue. In 2008, the Committee reiterated in their Report No 80 the need to be circumspect when establishing and operating public sector companies, given their status as separate legal entities. The Committee made recommendations to Treasury Department to improve the *Guidelines for the formation, acquisition and post-approval monitoring of public sector companies*. The Guidelines now have clear processes for the creation of companies that limit the circumstances for the creation of these entities.

Public sector companies still account for a relatively high proportion of entities within my audit mandate, but improvements to the policy have seen a slowing in the number of companies created.

The community's expectation of appropriate governance and accountability is the same for all public sector entities, regardless of their size or type.

Infrastructure project governance

The development of new infrastructure is a key government priority with capital outlays budgeted to be \$14.951 billion in 2011-12.

Given the urgent infrastructure needs of the State and pressures for job creation, timeframes for completion of projects have been compressed. Such pressures have potentially increased the risk of inappropriate decisions being made during the infrastructure procurement process, and the adoption of inadequate governance procedures and financial management practices.

Traditionally, QAO's audit approach had focused on the governance and systems of control over the cost of supplying infrastructure services. In 2007 and 2008, infrastructure audits reviewed the adequacy of the project management frameworks adopted by the entities responsible for this infrastructure expenditure and compliance with infrastructure strategies, plans, charters, frameworks, policies and guidelines.

These audits resulted in recommendations for improvement of processes and policies for individual projects as well as recommendations for improved sector-wide management. In 2009, common issues arising across projects, including the use of inadequate business cases for project approval, poor determination of project benefits, monitoring of the achievement of those benefits and procurement issues, were reported to Parliament. These audit issues had wider application across the public sector.

Audit recommendations have led to revisions to the project assurance framework to improve transparency and accountability.

Information systems control environments

Information systems are critical in all areas of government business. Good information technology and systems management can assist with the achievement of strategic outcomes, optimised costs and better management of the risk of projects not delivering the intended outcomes.

QAO's information systems audits examine the controls within an organisation's information technology environment and evaluate evidence of its information systems, practices and operations. In 2010, I tabled the first report which had a sole focus on information systems governance and control issues. This report examined information systems from a whole of government as well as an individual system level. A second report on information systems governance and control issues was tabled in 2011.

A number of audits have explored the effectiveness of the governance of information technology at an agency level. There has been significant improvement by some agencies since the first audit in 2009. The audits have contributed significantly in recommending improvements which, when implemented, should place the Queensland Government in a better position to achieve the desired outcomes.

Network security has been specifically targeted for audit across the public sector. The data collected by audit enables benchmarking of agency's network security controls against the Department of Public Works best practice maturity model. The audits have shown that the networks audited are improving within maturity levels.

Development of shared services

The major shared services initiative commenced in late 2002 and, because of its significance to financial accountability, I have continued to monitor progress of the implementation of solutions for the delivery of finance and human resource services.

The intention of the shared services initiative was to deliver cost effective corporate services through standardising business processes, consolidating technology and pooling resources and expertise.

While it has faced some major issues over time, including a number of restructures and consolidation of processes, the shared services initiative has been a positive change to the way financial accounting services are delivered. QAO continues to identify financial management control issues in this environment. Although the significance of these issues has lessened over time, the lack of adequate operating level agreements is a major impediment to improvement as both agencies and Queensland Shared Services do not have complete clarity as to their responsibilities at each stage of the processing of transactions. Active engagement needs to continue between all parties to ensure the effective operation of a strong end-to-end control environment.

Improved financial accountability at indigenous councils

When I commenced as Auditor-General, a number of separate acts governed the financial operations of the 15 Aboriginal Shire Councils and 17 Torres Strait Island Councils. Different accounting and reporting requirements applied to these council groups.

The *Local Government Act 2009* now governs the councils and they are subject to the same requirements as other councils in Queensland. Due to the amalgamation of local councils, the 32 previous Aboriginal and Island council areas are now represented by 12 Aboriginal councils and two regional councils.

In a Report to Parliament in 2006, I reviewed previous Auditor-General's reports to Parliament and reports of the Public Accounts Committee to identify the common themes of concern.

That report highlighted that during the previous ten years, approximately 50 per cent of the Aboriginal Shire and Torres Strait Island Councils had each year received a qualified auditor's opinion on their financial statements. The audit findings revealed unacceptable governance practices and concerns over financial accountability and the viability of the councils over the same period.

Since 2006, the departments responsible for local government have implemented improvement strategies including the appointment of financial controllers, issued pro forma financial statements and held supporting workshops across Queensland. While some governance and accountability issues remain for these councils, in this year's report to Parliament, I acknowledged continued improvement in the timeliness and quality of the financial statements of the Aboriginal Shire councils and the increased level of quality review undertaken over their financial statements. The audits of 2010-11 financial statements are still in progress, but I anticipate that a continued improvement in quality and timeliness will be evident.

Improvements in performance management

Performance reporting across Government

Performance reporting is an essential accountability tool to foster better results in the public sector and deliver public value. Performance information tells the Parliament and the community what the government is planning to do and what it actually achieves. Parliament needs to be confident that the performance data supplied by public sector agencies is accurate and rigorously prepared.

If the measures used and performance information collected does not assist with improving performance and accountability, then it becomes a costly exercise for the public sector, with no real return to Parliament or the community.

Over the last seven years, a series of audits have examined the systems government departments and government owned corporations use to measure and report their performance to external stakeholders. This audit activity resulted in six reports to Parliament and the publication of better practice material for use by public sector entities.

The early audit reports on performance reporting found a varying level of maturity of systems and reporting arrangements across agencies and a lack of clarity about what are relevant and appropriate performance measures. The audits also identified that there was not an extensive use of performance information by the government or by departmental officers responsible for resource allocation and monitoring activity.

At a whole of government level, the Department of the Premier and Cabinet and Treasury Department reviewed the performance management and reporting framework and requirements included in the *Financial and Performance Management Standard 2009*. The Department of the Premier and Cabinet produced a *Guide to the Queensland Government Performance Management Framework*. The performance management system audit mandate was extended in October 2007 to allow the assessment of the relevancy and appropriateness of a public sector entity's performance measures.

Good performance information provides an early warning system so that managers can undertake preventative action and manage risk. It allows managers to determine whether scarce public resources are being directed towards the achievement of the desired outcomes in the most efficient and effective manner.

Today, there is a greater focus on the benefits of performance measurement, rather than viewing external reporting as a compliance exercise. There is more focused performance measurement, more integrated systems for internal and external reporting and significant movement toward more robust governance frameworks, effective recording systems and suitable reporting processes.

I am confident that, in time, the good examples will increase as agencies realise the real value to be gained from the use of relevant and appropriate performance indicators.

Greater consideration of the benefits of performance monitoring and review

A number of performance management systems audits identified concerns with the effectiveness of performance monitoring and review. The audits concluded that, while agencies reported against performance measures, some agencies did not analyse and use the information to monitor and improve performance and to improve decision-making.

In a number of international jurisdictions performance review systems are used that emphasise accountability and performance improvement. These performance review systems aim to improve performance through senior executives holding accountable those managers who have the greatest capacity to influence service delivery. Because responsibilities for performance have been devolved throughout organisations to lower level managers, accountability for managers' performance and its improvement requires regular monitoring and review of performance results. Under these systems, managers are expected to have in-depth knowledge of the areas they are responsible for, and to provide explanations of performance outcomes and trends, and suggestions for continuous improvement.

For responsible officers, the system provides:

- Clarity about leadership team expectations.
- Input and guidance on problem areas.
- Capacity to highlight good performance.

For executive leaders, the system provides greater insight into organisational performance and a forum for the identification and sharing of good practice.

Auditor-General Report to Parliament No 5 for 2010 – Performance Reviews – Using performance information to improve delivery audited three agencies, which had implemented formal performance review systems based on international models and using performance information. While at varying levels of maturity with their processes, the agencies identified benefits including a greater level of accountability and responsibility, with a focus on continuous improvement.

What has been most encouraging about QAO's work in this area is the level of interest in this report and in the processes adopted by the three agencies. QAO has provided information about these systems in various forums and has been approached by other agencies looking seriously at adapting performance review systems to suit their operations.

Better risk management

Recent years have seen a heightened concern and focus on risk management both in the private and public sectors. *Auditor-General Report to Parliament No. 6 for 2007 – Beyond Agency Risk* acknowledged the need to identify and collate risks that may have a broader impact for the government as a whole.

The audit found that risk needs to be handled by government strategically, operationally and at three levels: whole of-government, portfolio and individual agency. While there was evidence that some agencies handled operational risk reasonably well, there was less evidence of the strategic management of risk across the three levels. The audit also confirmed a need for a robust mechanism to identify, assess and manage risk effectively across agencies and for a greater focus on the risks that extended beyond individual agencies.

A further outcome from the audit was the publication of QAO's *Better Practice Guidelines on Risk Management*. These guidelines are designed to help public sector management to assess risk and mitigate to reduce the consequences of risk to their organisations, government and the wider community. The Department of the Premier and Cabinet and Treasury Department developed detailed, whole of government *Strategic Risk Management Guidelines* that complemented these Better Practice Guidelines.

A follow-up audit in 2010 found that there has been good progress in improving risk management practices, with risk management champions and risk management committees in place. Integrated risk management frameworks had been adopted and implemented and risk management aligned with corporate objectives. All agencies had fully or partially implemented the recommendations from the initial audit.

Improved performance management systems

Since July 2005, QAO has conducted a significant number of performance management systems audits at public sector entities. Some entities have been the subject of a number of audits over this period with the results of the audits incorporated into thirty-five reports to Parliament. The audits have covered a diverse range of topics including:

- Capital works management.
- Workforce planning and addressing skills shortages.
- Management of departmental fees and charges.
- Funding to non-government organisations.
- Water balance in South East Queensland.
- Rural fire services.
- Transport network management and urban congestion.
- Management of patient flow through hospitals and health service planning.
- Regulatory frameworks.
- Administration of Magistrate court services.
- Use of student test information to improve student learning.
- Sustainable management of national parks and protected areas.
- Implementation and enforcement of local laws.
- Management of offenders subject to supervision in the community.
- Systems to coordinate delivery of the Toward Q2: Tomorrow's Queensland target – Halve the proportion of Queensland children living in a household without a working parent.

All of these audits have influenced agencies, the public sector and the community in some way. The following are some examples of the broad influence of QAO audit recommendations.

Capital works management

Auditor-General Report to Parliament No. 5 for 2006 on the performance management systems audit of capital works management provided recommendations applicable to the general public sector covering the areas of project planning, project delivery, project reviews and project governance. It also included recommendations for improvement to address specific issues noted at the public sector entities that were subject to this audit.

As a result of the audit:

- The Department of Public Works requested assistance from QAO in relation to the review and revision to the Capital Works Management Framework.
- Other departments sought advice regarding their implementation of the Capital Works Management Framework.
- The Public Accounts Committee conducted an inquiry into the issues raised in the report. The Committee endorsed the findings and recommendations of this audit in their Report No. 73 tabled in Parliament in April 2007.

Funding to non-government organisations

Auditor-General Report to Parliament No. 2 for 2007 on the results of the performance management systems audit of the provision of funding to non-government organisations has attracted a significant amount of attention both from within Government and the non-government organisation sector.

The audit considered the systems and procedures in place to determine whether the agreements established by departments to provide these services are achieving the stated objectives and quality outcomes expected from the non-government organisations and not for profit sector. It was evident from the audit that there was no whole of government framework or coordinated approach to funding and maintaining relationships with the non-government organisation sector. It was not always clear from the systems used by the agencies audited as to what the individual funding programs were designed to achieve.

The recommendations related to improvements in the areas of governance, systems, transparency and public disclosure. The report also included a number of better practice examples that were noted during the audit. In response to this audit, and following a report by the Service Delivery and Performance Commission, the Queensland Government developed a framework for investment in human services that addressed the key recommendations from the reports and provided a platform for a more consistent approach across government to the allocation and management of government investment in the non-government sector.

Management of Rural Fire Services in Queensland

Auditor-General Report to Parliament No. 3 for 2008 – Management of Rural Fire Services in Queensland reported on whether there were suitable systems operating to ensure the efficient and effective management of rural fire brigades. The audit found that, while the rural fire service provided effective management of fires within rural communities, it was at risk of being unsustainable due to a number of internal and external factors. There was a lack of forward planning and risk management processes as well as inadequate systems to assess the funding and resourcing requirements of the brigades.

In August 2008, the Public Accounts Committee decided to investigate the issues in the report, particularly funding and resource allocation. The Committee's Report No. 11 tabled in June 2011 was the result of an extensive inquiry into the structure and operations of rural fire services in Queensland. The Committee has made significant recommendations regarding the legal status of the rural fire brigades and funding arrangements.

Follow up of the progress of the audit recommendations was reported in *Auditor-General Report to Parliament No 8 for 2011 – Follow up of four audits completed in 2008 and 2009*. The follow up audit found that the Queensland Fire and Rescue Service had made substantial progress in implementing recommendations from the 2008 report however, the recommendation regarding clarification of the legal status of the brigades remained outstanding.

Challenges for the future

Improved project and program planning

I first raised the importance of planning in 2005 when I reported on program oversight and project management issues across a sample of IT projects. Over the years, other audits identified further examples of major infrastructure projects and information technology projects with poor project management processes.

Inadequate planning practices have resulted in problems with the completion of a number of projects. Perhaps the most significant example has been the Queensland Health payroll project, where the implementation of improvement activities continues.

The failure of major system implementations is not unique to the public sector. Research into such failures generally identifies common deficiencies – poor project management, poor business processes and poor requirements and project specification.

In addition to deficiencies in planning, requirement specification and the identification of expected benefits and the measurement of whether these benefits have been realised are other areas of project implementation that have not been adequately undertaken in all instances.

Comprehensive planning provides the framework for informed decision-making. Failing to invest appropriate time and resources in correctly planning and specifying project requirements can lead to major delays and cost overruns. Clearly identifying the intended benefits during the planning for a project requires the benefits to be measurable and provide a compelling case for investment. Action then is required during project implementation to ensure the achievement of the desired outcomes. Our audits have identified that the planning tools available to the public sector, such as the Project Assurance Framework and Prince2, are not always effectively utilised.

With the significant levels of funding allocated to large infrastructure and information technology projects, it is critical for departments to improve their performance in this area. The benefits are clear:

- Fewer project failures.
- Fewer cost over-runs.
- Enhanced achievement of project benefits.
- Projects delivered on time.

The project planning and monitoring tools available to departments are sound. They need to be rigorously applied. That is the challenge for departmental senior management.

Do not forget basic financial management principles

Complex financial management transactions are built on fundamental accounting concepts and practices. For example, success in the implementation of an innovative procurement strategy will depend largely on the knowledge of staff in basic procurement principles and practices. Similarly good financial management will have strong controls at its core to ensure that transactions are appropriately completed and documented.

The nature of the current public sector is that staff tend to not stay in their job roles or in individual agencies for long periods. There is also an increasing trend for part-time employment across the public sector. Over the last seven years as Auditor-General, I have observed a general decline in the understanding by departmental staff of the reasons for financial management policies, processes and procedures and in an understanding of good internal controls and the essential role that the controls play in delivering good financial management.

This may be the result of inadequate training as staff change roles, or just the pressure to do more with less within agencies. Care will need to be exercised in the implementation of the various redundancy and staff reduction programs, to ensure that there is no unintended impact on the effectiveness of the 'back office' roles.

Section 61 of the *Financial Accountability Act 2009* 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.
- To establish and maintain appropriate systems of internal controls.

The requirements of the *Financial Accountability Act 2009* place the responsibility for the maintenance of appropriate financial internal controls on the Accountable Officer and the Chief Finance Officer of the department, regardless of whether an independent service provider undertakes certain functions. The Chief Finance Officer and the Accountable Officer may rely on their staff to implement these controls and ensure they are operating as required.

Recent audits examined basic controls in accounting areas including the appropriateness of controls and procedures in place over vendor information, the nature, extent, monitoring and reporting of salary overpayments and the governance of employee leave entitlements.

These are fundamental but essential areas of financial control. Inadequate controls of 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 have not only a financial impact, but also have a negative effect on the relationship between the employer and employee.

Other audits over the last seven years have identified a range of instances where staff did not have a good understanding of the legislative basis for financial management policies and practices. It is of concern that audits have identified aspects that need to be urgently addressed to ensure fundamental controls are working. The focus across the public sector on maintaining basic financial controls seems to be declining with issues raised during my audits showing an increase in the number of agencies failing to maintain adequate financial controls.

In the complex and changing environment in which the public sector operates, the challenge for financial leaders will be to manage emerging issues while also ensuring that there is no erosion to the application of basic financial management principles.

Effectively using third party service providers

Government departments now contract a range of other entities within or outside the public sector to undertake a variety of services. The trend to the use of this type of operation is expected to continue, as departments look for efficient ways to deliver their services to the community.

The benefits of these third-party arrangements include potential cost savings, improved focus on the core business, or increased operational expertise, which may be too costly to achieve or maintain in-house. However, appropriate arrangements need to be in place to ensure that the benefits are achieved within an appropriate control environment.

The success or otherwise of a third-party supply arrangement is dependent on the quality of the contractual arrangements as well as the relationship between the parties.

I have raised many issues from our audits about the poor quality of the operating level agreements between shared service providers and the agencies using these services. The purpose of such an agreement is to describe in a clear, concise and measurable way the responsibilities of each party, including the process and timeframe for delivery of the services.

Although operating level agreements have been in place for many years, the agreements generally lack clarity about the roles and responsibilities of each party and there is confusion about the service being provided and the actions to be taken by those receiving the service. An expectation gap currently exists between both parties to many of the operating level agreements.

For more of these arrangements to occur between the public and private sectors, there needs to be better clarity about responsibilities and accountabilities. This is a major challenge for many departments, as it requires clarity about the services to be provided and an understanding of the full costs of delivering those services in-house. It also requires the application of skills in contract negotiation and management which have not been traditional, core public sector competencies. Action to address these challenges is required to ensure that the public sector can maximise its effectiveness in response to the fiscal constraints being experienced.

Conclusion

In my view, many areas of financial management are well managed by the Queensland public sector. Over the last seven years, improvement has been obvious in many areas. As always, the challenge is to build on the current strengths and to continue that improvement focus.

Improved project and program planning, attention to basic financial principles and the effective use of third party service providers appear to be elementary areas of public administration. They are however, the building blocks for the achievement of continued success. Public sector leaders are encouraged to focus attention on these issues as an integral part of their improvement agenda.

1 | Summary of audit results and related issues

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 2010-11 audits completed to 31 October 2011.

Key findings

- An unmodified opinion was issued on the Consolidated Whole of Government Financial Statement on 19 October 2011. An unmodified opinion was issued on the Consolidated Fund Financial Report on 20 September 2011.
- For 2010-11 342 financial statements were audited and 188 unmodified opinions issued. Another 154 opinions have been modified.
- For 2010-11, 68 per cent of departments, government owned corporations, statutory bodies and public sector companies met their statutory deadline for completion and audit of their financial statements.
- At 31 October 2011, 611 moderate to high risk financial management issues identified by audit had been reported to management from the finalised audits of departments, statutory bodies and government owned corporations.
- A review of departmental Chief Finance Officers' certified statements of internal controls found that while there has been an improvement in the standard of the statements since last year, there is still a significant variation between those statements representing minimal compliance and those considered to represent better practice.
- Audit placed an increased focus on assessing the appropriateness of valuation methodologies and techniques used by departments to determine the fair value of their property, plant and equipment classes at 30 June 2011. As a result, a number of improvement opportunities were identified and reported to departments.

1.1 Audit approach

1.1.1 Legislative reporting requirements

The *Auditor-General Act 2009* requires the Auditor-General to issue an opinion on the Consolidated Whole of Government Financial Statement and on the Consolidated Fund Financial Report, and report to Parliament on the results of these audits.

The Auditor-General must also report to Parliament on the audits of all public sector entities conducted each year. Section 9.2 contains an explanation of the types of auditors' opinions issued.

1.1.2 Factors impacting on 2010-11 financial statements

Effects of natural disasters

Financial statements for 2010-11 include additional disclosures where financial impact from natural disasters has occurred.

Compliance with Accounting Standards

Australian Auditing Standard ASA 800 Special Considerations – Audits of Financial Reports Prepared in Accordance with Special Purpose Frameworks

Many smaller companies audited by the Auditor-General prepare special purpose financial statements. ASA 800 specifically addresses the auditor's obligations for auditing these reports. To meet the requirements of ASA 800, auditors must:

- Assess whether the financial reporting framework is acceptable given the information needs of the intended users.
- Evaluate whether the financial report adequately refers to or 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.
- Alert users of the auditor's report that the financial report is prepared in accordance with a special purpose framework and that, 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 the financial report is a special purpose financial report.

For 124 entities, an emphasis of matter was issued to alert users to the fact that special purpose financial statements had been prepared for 2010-11.

Changes in Queensland's financial management framework

There were no changes in Queensland's financial management framework in 2010-11 which affected the audit process or the preparation of public sector entities' financial statements.

1.2 Auditors' opinions issued

1.2.1 Opinion issued for the Consolidated Whole of Government Financial Statements

The 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 about:

- The stewardship by the Queensland Government in relation to the General Government Sector and Whole of Government (Total State Sector) and accountability for the resources entrusted to it.
- The financial position, performance and cash flows of the General Government Sector and Total State Sector.

The financial report also facilitates assessments of the macro-economic impact of the Queensland 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.

In respect of the Total State Sector, 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 \$4 million, or net assets in excess of \$50m.

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 auditor's opinion on the 2010-11 financial statements was issued without qualification on 19 October 2011, following its certification by management on 19 October 2011.

1.2.2 Opinion issued for the Consolidated Fund Financial Report

Under the *Financial Accountability Act 2009*, the Treasurer is responsible for the preparation and presentation of the financial report of the Consolidated Fund.

On 20 September 2011, an unmodified opinion was issued on the Consolidated Fund Financial Report which sets out particulars of transactions in respect of the Consolidated Fund for 2010-11.

As required by s.39 of the *Auditor-General Act 2009*, the Auditor-General audited the prescribed statements which collectively form the Consolidated Fund Financial Report.

The Treasurer's Consolidated Fund Operating Account and the Treasurer's Consolidated Fund Investment Account, as defined in s.17 of the *Financial Accountability Act 2009*, have been properly kept in accordance with that Act.

The Consolidated Fund Financial Report is in agreement with the Consolidated Fund accounts.

The Consolidated Fund Financial Report has been properly drawn up to present a true and fair view of the transactions for 2010-11 and the position of the accounts at the end of that financial year.

1.2.3 Auditors' opinions issued for public sector entities

Status of 2010-11 financial statements

At 31 October 2011, auditors' opinions have been issued for 342 financial statements. The status of the 2010-11 financial statements is summarised in Figure A on page 2 of this report.

One hundred and fifty-four modified opinions were issued for the 2010-11 financial year, including 124 opinions with emphasis of matter references due to ASA 800, as discussed in Section 1.1.2. Summaries of the other modified opinions issued are provided in Figure 1A.

Figure 1A – Modifications issued for 2010-11

Audit	Basis for opinions issued
Qualified opinions	
Bundaberg Health Services Foundation	A qualified opinion was issued as the Foundation determined it was impractical to establish control over the collection of donations prior to entry in its financial records. Consequently, an opinion could not be expressed on the completeness of donation revenue. Also, the Foundation received computer equipment from the Department of Health, free of charge, for further sale to the public, however this donation was not recognised as revenue and inventory in accordance with Australian Accounting Standard AASB 1004 <i>Contributions</i> . As a result, an opinion was unable to be expressed on the inventory balance at 30 June 2011.
Department of Health	Section 61(b) of the <i>Financial Accountability Act 2009</i> requires the Accountable Officer to establish and maintain appropriate systems of internal control. Further, s.19 of the <i>Financial and Performance Management Standard 2009</i> requires the Accountable Officer to manage the Department's expenses in accordance with an expense management system that provides for the prompt identification, approval, management, recording and timely payment of expenses. During the year, the Department continued to implement recommendations to improve the effectiveness of payroll processing. However, significant deficiencies were identified in the completeness and accuracy of employee payments as a result of the absence of adequate internal controls. While these deficiencies did not have a material effect on the completeness and accuracy of reported employee expenses, they represented material

Continued...

Audit	Basis for opinions issued
	<p>non-compliance with the prescribed requirement for the Department to maintain an appropriate system of internal control in relation to its expense management system for employee expenses.</p> <p>The Department has temporarily suspended the recovery of salary overpayments as it undertakes initiatives to stabilise the payroll and rostering system to ensure that employees receive their correct pay and entitlements. The Department has agreements in place with employees for the repayment of salary overpayments in the order of \$6 million.</p> <p>In the Auditor-General's opinion, there are no agreements with affected employees for the repayment of a substantial part of the amounts assessed by the Department to be overpayments and in view of the continuing issues associated with the implementation of the payroll system, there is insufficient evidence to assess the amount recognised as payroll receivables for salary overpayments and the associated allowance for impairment. Accordingly an opinion could not be expressed on these balances.</p>
<p>Gold Coast Hospital Foundation PA Research Foundation Townsville Hospital Foundation</p>	<p>A qualified opinion was issued as these Foundations determined it was impractical to establish control over the collection of donations prior to entry in their financial records. Consequently, an opinion could not be expressed on the completeness of donation revenue.</p>
<p>Local Buy Trading Trust</p>	<p>A qualified opinion was issued because the completeness of tender arrangements revenue and receivables was not able to be verified as an effective system of internal control was not maintained.</p>
<p>North Burdekin Water Board South Burdekin Water Board</p>	<p>Qualified opinions were issued for each of these Boards because as in 2009-10, an opinion was unable to be expressed on the 2010 comparative depreciation expense. This was because this expense was based on the reported value of buildings and infrastructure prior to the 30 June 2010 revaluation and the Boards were unable to demonstrate those values did not materially differ from fair value at that time.</p>
<p>Queensland Bulk Water Transport Authority (trading as Linkwater)</p>	<p>A qualified opinion was issued as the Authority has recognised a deferred tax asset of \$120.264 million at 30 June 2011. Australian Accounting Standard AASB 112 <i>Income Taxes</i> requires that a deferred tax asset should only be recognised to the extent that it is probable that future taxable profits will be available against which the unused tax losses can be utilised.</p> <p>Current profitability projections for the Authority indicated that the generation of profits is unlikely to occur prior to 2022. In the Auditor-General's opinion, this timeframe does not meet the probability requirement in AASB 112. As a result, the reported deferred tax asset was estimated to be overstated by \$60.829m.</p> <p>An emphasis of matter was also issued as there was significant uncertainty regarding the water pricing mechanism. The Authority's impairment modelling was based on current water pricing arrangements under normal pricing principles for regulated assets. However, the Queensland Government has not yet determined the water pricing mechanism post 30 June 2011. Consequently the impact of impairment on the reported asset values was significantly uncertain.</p>
<p>Queensland Manufactured Water Authority (trading as WaterSecure)</p>	<p>A qualified auditor's opinion was issued as the Authority has recognised a deferred tax asset of \$233.988 million at 30 June 2011. Australian Accounting Standard AASB 112 <i>Income Taxes</i> requires that a deferred tax asset should only be recognised to the extent that it is probable that future taxable profits will be available against which the unused tax losses can be utilised. Given that the Authority was dissolved on 1 July 2011, in the Auditor-General's opinion, the probability requirement in AASB 112 cannot be satisfied. As a result, the reported deferred tax asset was estimated to be overstated by \$111.360 million.</p> <p>An emphasis of matter was also issued as there was significant uncertainty regarding the water pricing mechanism. The Authority's impairment modelling was based on current water pricing arrangements under normal pricing principles for regulated assets. However, the Queensland Government has not yet determined the water pricing mechanism post 30 June 2011. Consequently the impact of impairment on the reported asset values was significantly uncertain.</p>

Continued...

Audit	Basis for opinions issued
	An additional emphasis of matter was issued as the Authority was abolished on 1 July 2011. All assets and liabilities were transferred to Queensland Bulk Water Supply Authority immediately prior to the Authority's abolition. As a result, the final financial report was prepared on a basis consistent with a going concern basis.
Redcliffe Hospital Foundation	<p>A qualified opinion was issued as the Foundation has determined it was impractical to establish control over the collection of donations prior to entry in its financial records. Consequently, an opinion could not be expressed on the completeness of donation revenue.</p> <p>During 2011, the Foundation transferred assets including a building to Kabtec Limited. The Board did not obtain Ministerial approval prior to transferring this building as required by the <i>Hospitals Foundations Act 1982</i> resulting in non-compliance with this prescribed requirement.</p> <p>The Foundation did not call for tenders before awarding a construction contract to Ray White Constructions to construct the Moreton Bay Integrated Care Centre. Under the State Procurement Policy in place at the time the contract was signed, the Foundation was required to conduct its procurement activities in a transparent manner which demonstrated probity, accountability and value for money. In the Auditor-General's opinion, by not calling for tenders, the Foundation did not comply with these prescribed requirements.</p> <p>An emphasis of matter was also issued because the Foundation entered into a contract with a total cost of \$11.74 million for the construction of the Moreton Bay Integrated Care Centre and was seeking borrowings of \$3.5 million to complete the project which had not been secured at the time of certification. As a result, significant uncertainty existed regarding the Foundation's ability to continue as a going concern.</p>
The Rockhampton Art Gallery Trust	A qualified opinion was issued as the Trustees determined it was impractical to establish control over the collection of donations prior to entry in the Trust's financial records. Consequently, an opinion could not be expressed on the completeness of donation revenue.
Emphasis of matter references	
Brisbane Market Corporation Limited	An emphasis of matter was issued as the financial report was not prepared on a going concern basis. The directors indicated their intention to wind up the company during 2011-12.
Building and Construction Industry (Portable Long Service Leave) Authority (trading as QLeave)	An emphasis of matter was issued because there was significant uncertainty as to whether the Authority would continue as a going concern due to the Authority's deficiency of net assets.
CS Energy Limited	An emphasis of matter was issued as significant uncertainty existed regarding the impact of the Commonwealth Government's announcement to introduce a carbon pricing mechanism. This uncertainty impacted on impairment testing performed as at 30 June 2011 which resulted in the recognition of an impairment loss of \$773.163 million for the Group.
CSI Holdings Pty Ltd	An emphasis of matter was issued as the financial report was not prepared on a going concern basis. The directors indicated their intention to wind up the company before the end of 2011.
<p>Central SEQ Distributor-Retail Authority (trading as Queensland Urban Utilities)</p> <p>Northern SEQ Distributor-Retailer Authority (trading as Unitywater)</p> <p>Southern SEQ Distributor-Retailer Authority (trading as Allconnex Water)</p>	<p>An emphasis of matter was issued for each of these entities as the Authorities determined the fair value of land, buildings and infrastructure assets using an income approach based on discounted cash flows. The Authorities also performed impairment assessments of their assets based on current pricing arrangements for water distributor-retailers in South East Queensland. As the price paths for retail water and sewerage charges post 30 June 2013 have not yet been determined, significant uncertainty exists regarding the assumptions used for valuation and impairment modelling and the resulting impact, if any, on the reported asset balances.</p> <p>An additional emphasis of matter was issued for the Southern SEQ Distributor-Retailer Authority due to the significant uncertainty that existed</p>

Continued...

Audit	Basis for opinions issued
	regarding the Authority's ability to continue as a going concern as a result of decisions made by each of the participating councils indicating an intention to withdraw from the Authority.
Department of the Premier and Cabinet	An emphasis of matter was issued as significant uncertainty existed over the reported value of the department's land assets at 30 June 2011. The Queensland Cultural Centre site suffered extensive damage as a result of the January 2011 floods. The Department conducted an independent valuation process for land assets at 30 June 2011. This process noted that the extent of the flood impact may take some time to become evident, due to the limited sales transactions that have occurred since the event to reveal any changes in investor and tenant sentiment.
Family Responsibilities Commission	An emphasis of matter was issued as the <i>Family Responsibilities Commission Act 2008</i> will expire on 1 January 2012. The Commission will cease to operate on this date unless the Act is amended to revise this date. Consequently, there was uncertainty over the Commission's ability to continue as a going concern.
Gold Coast 2018 Commonwealth Games Bid Ltd	An emphasis of matter was issued as the financial report was not prepared on a going concern basis. The directors have disclosed that they anticipate the company will wind up proceedings shortly after the announcement of the host city of the 2018 Commonwealth Games.
Logan City Council	An emphasis of matter was issued due to the significant uncertainty of the value of the Council's investment in the Southern SEQ Distributor-Retailer Authority (trading as Allconnex Water) as a result of decisions made by each of the participating councils which indicate their intention to withdraw from the authority.
Queensland Institute of Medical Research Trust	An emphasis of matter was issued as the Trust was abolished on 1 February 2011 and the assets and liabilities transferred to the Council of The Queensland Institute of Medical Research. As the abolished Trust was no longer a going concern, the final financial report was not prepared on a going concern basis.
Queensland Bulk Water Supply Authority (trading as Seqwater)	An emphasis of matter was issued as there was significant uncertainty regarding the water pricing mechanism. The Authority's impairment modelling was based on current water pricing arrangements under normal pricing principles for regulated assets. However, the Queensland Government has not yet determined the water pricing mechanism post 30 June 2011. Consequently the impact of impairment on the reported asset values was significantly uncertain.
Queensland Water Infrastructure Pty Ltd	An emphasis of matter was issued as the financial report was not prepared on a going concern basis. All assets and liabilities were reported at amounts which the directors expected to realise, extinguish or transfer these balances prior to the wind up of the company.
South Bank Corporation	An emphasis of matter was issued as significant uncertainty existed over the reported value of the Corporation's land and land improvement assets. The Corporation incurred extensive damage as a result of the January 2011 floods. The Corporation conducted an independent valuation process for land and land improvement assets at 30 June 2011. This process noted that the extent of the flood impact may take some time to become evident, due to the limited sales transactions that have occurred since the event to reveal any changes in investor and tenant sentiment.
Sunwater Limited	An emphasis of matter was issued as there was significant uncertainty regarding the future price mechanism for irrigation water post 30 June 2011. As the financial model used is highly sensitive to small variations in key assumptions, including changes in prices, significant uncertainty existed over the calculation of value in use of infrastructure assets for impairment purposes.
Stanwell Corporation Limited	An emphasis of matter was issued as significant uncertainty existed regarding the impact of the Commonwealth Government's announcement

Continued...

Audit	Basis for opinions issued
	to introduce a proposed carbon pricing mechanism. This uncertainty impacted on impairment testing performed as at 30 June 2011 which resulted in the recognition of an impairment loss of \$232 million as at 30 June 2011. This uncertainty will also impact on the value of the Gladstone Interconnection and Power Pooling Agreement transferred by Stanwell Corporation Limited and recognised by CS Energy Limited on 1 July 2011.
Tarong Energy Corporation Limited	An emphasis of matter was issued as significant uncertainty existed regarding the impact of the Commonwealth Government's announcement to introduce a proposed carbon pricing mechanism. This uncertainty impacted on the determination of the fair value less costs to distribute of the Group's generation and mining assets at 30 June 2011 which resulted in the recognition of an impairment loss of \$709.6 million as at 30 June 2011. This uncertainty impacts on the fair value of property, plant and equipment transferred by Tarong Energy Corporation Limited and recognised by Stanwell Corporation Limited on 1 July 2011.
ZeroGen Pty Ltd	An emphasis of matter was issued because the financial report was not prepared on a going concern basis. The report was prepared on a liquidation basis assuming the orderly wind-down of the company's operations.

Reissue of 2010-11 financial statements

The 2010-11 financial statements for Hope Vale Aboriginal Shire Council were certified by management on 8 August 2011. An unmodified opinion on the financial statements was issued on 17 August 2011.

Subsequent to the opinion being issued, a material misstatement was identified in the financial statements. This related to the classification of leases over certain housing assets owned by the Council as operating leases instead of finance leases under Australian Accounting Standard AASB 117 *Leases*.

As a result of this material misstatement being identified, action has been taken to recall the audited financial statements and have the statements corrected and reissued with a new opinion, as required by Australian Auditing Standard ASA 560 *Subsequent Events*.

Status of 2009-10 financial statements

Sixteen financial statement audits were not completed for the 2009-10 financial year when *Auditor-General Report to Parliament No. 5 for 2011 – Results of audits at 31 May 2011* was tabled on 23 June 2011. Opinions have now been issued for 14 of these audits. The financial statements and related audits for the remaining two audits remain unfinalised as shown in Figure 1B.

Figure 1B – Opinions issued for the 2009-10 financial statements

Audit	Balance Date	Financial statements signed	Opinion issued	Opinion
Departmental controlled entity				
The Monte Carlo Caravan Park Trust	30.06.2010	29.06.2011	08.07.2011	U
Local governments and controlled entities				
Brisbane Arts Trust	30.06.2010	09.05.2011	08.06.2011	U [^]
Brisbane Environment Trust	30.06.2010	09.05.2011	08.06.2011	U [^]
Cherbourg Aboriginal Shire Council	30.06.2010	16.05.2011	08.07.2011	Q E
City of Brisbane Arts and Environment Ltd	30.06.2010	02.06.2011	08.06.2011	U [^]
Torres Strait Island Regional Council	30.06.2010	18.10.2011	20.10.2011	Q
Statutory bodies and controlled entities				
GRW Industries Pty Ltd	31.12.2010	07.06.2011	15.06.2011	E*
JCU Enterprises Pty Ltd	31.12.2010	20.09.2011	25.10.2011	E*
JCU Uninet Pty Ltd	31.12.2010	16.02.2011	16.02.2011	U
JCU UniVet Pty Ltd	31.12.2010	Not completed	Not completed	
The Grammar Schools of Queensland Association Inc.	31.12.2010	Not completed	Not completed	
The JCU Asset Trust	31.12.2010	19.08.2011	23.08.2011	E*
Unicare (NQ) Limited	31.12.2010	14.06.2011	20.06.2011	E*
UniHealth (NQ) Limited	31.12.2010	10.06.2011	20.06.2011	E*
UQ Health Care Pty Ltd	31.12.2010	08.06.2011	10.06.2011	E*
Audited by arrangement				
Uninet Enclosure Systems Joint Venture	31.12.2010	19.06.2011	10.08.2011	Q

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

* An emphasis of matter was issued to alert users of the financial statements to the fact that special purpose financial statements had been prepared.

[^] A report on other legal and regulatory requirements was included in the opinions for these audits as monies were transferred from the trusts to the trustee, City of Brisbane Arts and Environment Ltd, in a manner other than that specified in the trust deed.

Unmodified opinions have been issued for five entities. Three qualified opinions have been issued for 2009-10 as detailed in Figure 1C and six opinions have been issued with emphasis of matter references due to ASA 800 as discussed in Section 1.1.2.

Figure 1C – Modifications issued for 2009-10 financial statements

Audit	Basis for auditors' opinions issued
Qualified opinions	
Cherbourg Aboriginal Shire Council	<p>A qualified opinion was issued because:</p> <ul style="list-style-type: none"> • Council was not able to demonstrate that reported values for buildings, houses, land and infrastructure did not materially differ from their fair values at 30 June 2009. Consequently, these comparative asset values, the associated depreciation expense and asset revaluation surplus balances were unable to be verified. Accordingly, the 2009 comparative balances remained qualified in 2010. • Council did not assess its non-current assets for indicators of impairment at 30 June 2009. Had impairment been assessed an impairment loss may have resulted, increasing the net loss attributable to Council. This remained qualified in 2010. • Employee benefit liabilities in 2009 were not calculated in accordance with Australian Accounting Standard requirements. These 2009 comparative balances remained qualified in 2010. <p>An emphasis of matter was issued as the council utilised available grant monies to meet operational needs rather than for the purposes approved by the grant provider. Consequently, there was significant uncertainty as to whether the Council would be able to pay its creditor and grant obligations as and when they fell due without the continued support of grant funding bodies.</p> <p>An additional emphasis of matter was issued as the Council did not adopt the Annual Report by 30 November 2010 in accordance with the requirements of the <i>Local Government Act 2009</i>.</p>
Torres Strait Island Regional Council	<p>A qualified opinion was issued because:</p> <ul style="list-style-type: none"> • Council was unable to provide adequate supporting documentation or appropriate reconciliations to substantiate the completeness and accuracy of rental income, the associated debtors balance and the aging analysis of receivables. • Council failed to maintain an effective system of internal control and adequate supporting documentation in respect of its payroll function, including employee benefit liabilities. • Subsequent to year end additional information was obtained indicating that significant uncertainty existed over the completeness and accuracy of the reported property, plant and equipment and asset revaluation surplus balances. The associated depreciation expense was also qualified. • Council's analysis of results by function was inconsistent with the amounts reported in the financial statements. • Council did not submit Business Activity Statements or remit GST to the Australian Taxation Office for the period 1 July 2009 to 30 June 2010. While Business Activity Statements were subsequently submitted in June 2011, insufficient documentation was provided to substantiate the GST payable balance at 30 June 2010. • Council failed to remit long overdue superannuation contributions to the relevant funds during 2009-10. • Prior period errors and the manner in which these errors were corrected in the financial statements were not adequately disclosed or sufficiently supported by documentation. • The financial report failed to disclose that significant uncertainty existed about the Council's ability to continue as a going concern. • As the Council did not maintain effective systems of internal control over its financial operations in 2008-09, an opinion could not be expressed on 2009 comparative amounts and disclosures reported in the 2009-10 financial report.
Uninet Enclosure Systems Joint Venture	<p>A qualified opinion was issued as the financial statements were prepared under a special purpose framework. The joint venture agreement required the preparation of general purpose financial statements that complied with all Australian Accounting Standards.</p>

1.3 Internal control issues

1.3.1 Effectiveness of internal controls

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 including whether prescribed requirements included in legislation for the establishment and keeping of accounts have been complied with in all material respects. Any weaknesses identified by audit are brought to the attention of management.

Weaknesses in internal controls identified during an audit will not necessarily result in a modified opinion. Often other control procedures in place 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 October 2011, 611 moderate to high risk financial management issues had been reported to management from the finalised audits of departments, statutory bodies and government owned corporations. This is a similar number to the 613 moderate to high risk financial management issues reported in the previous year.

Of the 611 issues noted at 31 October 2011:

- 89 issues, approximately 15 per cent (13 per cent in 2009-10) were high risk issues – findings that pose a significant business or financial risk to the entity requiring immediate corrective action.
- 522 issues, approximately 85 per cent (87 per cent in 2009-10) 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.

Management is responsible for developing and maintaining sound internal control frameworks. A good system of internal controls substantially reduces the risk of fraud and error and provides assurance to management and audit that the amounts reported in entities' systems and financial statements are materially correct and that a sound governance framework is operating within the entity.

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 by audit for 2010-11. All entities should consider whether they have policies and procedures in place to address these weaknesses and implement required changes to ensure that their controls are operating in a cost effective manner.

Information technology security

One hundred and seventy-five audit issues raised related 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, 41 were considered by audit to be of a high risk and 134 were moderate risk.

Among these issues were instances of inadequate controls being maintained over access to and use of financial and human resources systems. For example, in some cases, user profiles were not regularly monitored to ensure that users of these systems were current employees, had the correct level of access for their position, or were using the system appropriately. In other instances, reports on security levels were not being regularly reviewed.

Users' security profiles should be regularly monitored by management and updated to reduce the risk of unauthorised access which may lead to unauthorised payments, access to confidential information or changes to master data such as vendor details.

An example of how the security of systems and information can be left open to being compromised was raised by audit, where sensitive payroll data for one department was provided to a private business on a portable storage device for payroll information to be printed, enveloped and issued. The data was not encrypted which is not in accordance with the *Information Privacy Act 2009* and no risk assessment was performed as required by departmental policy. This process exposed the department to a number of risks including that sensitive unencrypted data passed from its direct control. Given the small size of the storage device, it could also easily have been lost, misplaced or stolen. Action was promptly taken and the issue resolved.

Expenditure and accounts payable

Seventy-nine issues relating to expenditure and accounts payable controls were raised, including inadequate procurement practices, existence of duplicate vendors and payments, inappropriate expenditure approval levels, inadequate checking of expenditure transactions processed and policies not being correctly followed. Four of these issues were considered to be high risk while 75 were moderate risk. While management have since taken action to address the procedural deficiencies identified by audit, these deficiencies could potentially have exposed the entities to misappropriation of funds.

Revenue and receivables

Thirty-two issues were raised regarding revenue and receivables. Four of these issues were considered to be high risk while 28 were moderate risk. Inadequate control over revenue could result in a loss of public monies and provide the opportunity for fraud.

Issues raised by audit included weaknesses in receipting of amounts received, lack of review of key reconciliations performed and inadequate reporting. For example, a billing and receipting system at one department was unable to generate an accurate aged debtors report, impeding effective monitoring and follow up of outstanding debts. The department was unable to reconcile the system to its general ledger due to incorrect reporting of receipting transactions. Management are taking action to address all issues raised by audit.

Employee expenses

One hundred and four weaknesses in processes used to make payments to employees were raised, including no evidence of checking of payroll reports, lack of documentation to support payments and inadequate payroll processing procedures. Of the issues raised, 17 were high risk and 87 were 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.

1.3.2 Statements by Chief Finance Officers

Under s.77 of the *Financial Accountability Act 2009*, departmental Chief Finance Officers are required to provide the Accountable Officer with an annual statement on the operating efficiency, effectiveness and economy of financial internal controls. The minimum requirements to be addressed in the statement are included in s. 57 of the *Financial and Performance Management Standard 2009*.

Section 3.3 of *Auditor-General Report to Parliament No. 13 for 2010 – Results of audits at 31 October 2010* reported on the results of a review conducted over the statements provided by Chief Finance Officers for the 2009-10 financial year, which was the first year the statements were required. While that report identified a positive result with the majority of the statements complying with the legislative requirements, a number of improvement opportunities were also identified.

Areas identified for improvement related to:

- Including a specific statement of compliance with prescribed requirements as required by s.57(1)(a) of the *Financial and Performance Management Standard 2009*.
- Including a direct statement on efficiency and effectiveness of financial internal controls and financial management processes as required by s.57(1)(b) of the *Financial and Performance Management Standard 2009*.
- Identifying that the statement is for the 'year ended' rather than the 'period under review'.
- Providing additional information on a voluntary basis in relation to the internal control and assurance frameworks in place within the department.

A follow up review conducted of statements provided by Chief Finance Officers for the 2010-11 financial year identified the following:

- The statements provided generally complied with the requirements of the *Financial Accountability Act 2009* and the *Financial and Performance Management Standard 2009*, although areas for improvement were identified in some statements.
- While the majority of departments provided statements similar to that prepared in the previous year, a number of departments had expanded on the information provided in the previous statement.
- Eleven of the Chief Finance Officers' statements identified specific information on matters identified in assessments of the internal controls of the department. Of these statements, the Chief Finance Officers for two departments issued qualified statements of compliance due to the matters identified.

- The Chief Finance Officer for one department provided a statement that was considered to contain a reduced level of information when compared to the statement for the previous year.
- The Chief Finance Officer of one department provided a statement that merely identified the matters in s.57(1) of the *Financial and Performance Management Standard 2009* without providing any additional information.

While these issues identify that there has been an improvement in the standard of the statements provided by Chief Finance Officers, there is still a significant variation between those statements representing minimal compliance and those considered to represent better practice.

One matter identified as a potential area for improvement relates to the format of the actual certification provided by the Chief Finance Officer as part of the statement. In some instances, while it was identified that the statements taken as a whole covered all of the matters required by s.57 of the *Financial and Performance Management Standard 2009*, the final conclusion provided by the Chief Finance Officers appeared more limited in its nature. In particular, the Chief Finance Officers for those departments concluded that:

- The financial records of the department have been properly maintained throughout the year.
- The financial statements have been fairly stated.
- The department has complied with the financial requirements mandated in the *Financial Accountability Act 2009*, the *Financial and Performance Management Standard 2009*, and other prescribed requirements, including internal governance policies and Australian Accounting Standards, where relevant.

Those statements considered to be better practice provided a clear conclusion from the Chief Finance Officers on all of the matters specifically stated in s.57 of the *Financial and Performance Management Standard 2009*, namely:

- The financial records of the department have been properly maintained throughout the financial year in accordance with the prescribed requirements.
- The risk management and internal compliance and control systems of the department relating to financial management have been operating efficiently and effectively throughout the financial year.
- Since the balance date whether there have been any changes that may have a material effect on the operation of the risk management and internal compliance and control systems of the department.
- Whether external service providers have given assurance about their controls.

A conclusion on this basis would more clearly demonstrate compliance with the requirements of the legislation and would more appropriately conclude on those matters discussed in the body of the statement.

Section 4.2 of the *Financial Management Tools* issued by Treasury Department, includes an example of a Chief Finance Officer statement for the purposes of s.57 of the *Financial and Performance Management Standard 2009*. A number of Chief Finance Officers have used this example as a guide in preparing their statements for the 2010-11 financial year. As this statement is provided by way of an example only, Chief Finance Officers are encouraged to continue to assess their own statements for possible improvement opportunities. Chief Finance Officers are also encouraged to continue to discuss these requirements with their peers as a basis for identifying and sharing better practice examples.

1.4 Financial reporting issues

1.4.1 Timeliness of preparation of entity financial statements

The *Financial and Performance Management Standard 2009* sets statutory timeframes for departments and statutory bodies to prepare financial statements. Accountable Officers are required to provide the financial statements 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 to which the statements relate. For departments and statutory bodies with a 30 June balance date, that is by 31 August.

Similarly, the *Government Owned Corporations Regulation 2004* requires government owned corporations to provide their financial statements to the Auditor-General by an agreed date that allows the audit of the statements to be completed no later than two months after the end of the financial year to which the statements relate.

The *Corporations Act 2001* requires public companies to report to members, including providing the auditor's report on the financial report, by the earlier of 21 days before the next Annual General Meeting after the end of the financial year, or four months after the end of the financial year. For entities with a 30 June year end, that is by 31 October.

For 2010-11, 70 per cent of departments, government owned corporations and statutory bodies met their statutory deadline for completion and audit of their financial statements. Details by audit type are provided in Figure 1D.

Figure 1D – Completion of 2010-11 audits within statutory deadlines

Audit type	Number of audits	Completed by due date (total)	Completed by due date (%)
Audits required to be completed by 31 August			
Departments	20	18	90
Government owned corporations	13	13	100
Statutory bodies	157	101	64
Subtotal	190	132	70
Audits required to be completed by 31 October			
Public sector companies	43	26	60
Total	233	158	68

1.4.2 Australian Accounting Standard AASB 116 *Property, Plant and Equipment*

Where classes of property, plant and equipment are measured at fair value, Australian Accounting Standard AASB 116 *Property, Plant and Equipment* requires that revaluations should be made with sufficient regularity to ensure that the carrying amount does not differ materially from fair value at the end of the reporting period. While AASB 116 does not specify a timeframe within which assets must be revalued, it identifies that the frequency of revaluations will depend on the extent to which the assets experience significant and volatile changes in fair value. Assets which experience significant and volatile changes in fair value should be revalued on a more frequent basis than those that do not. The *Non-Current Asset Policies for the Queensland Public Sector* issued by

Treasury Department, also note that while agencies are required to perform comprehensive revaluations at least once every five years these revaluations should however, be undertaken more frequently for those asset classes which experience significant or volatile changes in fair value. AASB 116 also allows a class of assets to be revalued on a rolling basis provided revaluation of all assets in the class of assets is completed within a short period and the revaluations are kept up to date.

Property, plant and equipment represents a material balance in the financial statements of many larger public sector entities. For some of these entities determining the fair value of the assets for financial reporting purposes can pose practical challenges particularly where there is a large asset base and the assets are located across the State. In these circumstances agencies often use a combination of techniques for determining fair value for classes of property, plant and equipment at the reporting date.

Due to concerns identified in previous years, an increased audit focus was placed on assessing the appropriateness of valuation methodologies and techniques used by departments to determine the fair value of their property, plant and equipment classes as at 30 June 2011. While no instances of material non-compliance with the prescribed accounting requirements were identified warranting the issue of a modified auditor's opinion, a number of improvement opportunities were identified and reported to departments.

To ensure compliance with the requirements of AASB 116, agencies should annually assess their asset revaluation processes to determine if they remain appropriate and that the reported carrying value of each of the asset classes does not materially differ from their fair value. This assessment, where relevant, should include:

- Assessing the appropriateness of the valuation techniques used for determining fair value.
- Comparing results from independent valuations with results of other valuation techniques, such as indices, for consistency.
- Assessing the appropriateness of the indices used, including the extent to which they reflect specific factors related to the nature and location of the asset.
- Ensuring that any sampling techniques used for valuation purposes are statistically valid.
- Determining when movements in fair value are considered to be significant and volatile potentially requiring changes in the valuation methodology.
- Assessing the appropriateness of timing between independent valuations for assets classes or assets within a class.

Even where management rely on advice from independent external experts in assessing fair value, the onus remains with management to assess, understand and accept the advice received.

Further, the notes to the financial statements should provide adequate disclosure of the valuation methodologies and techniques used for determining fair value and how the values obtained represent fair value in accordance with AASB 116.

These matters will continue to be an area of focus for audits of public sector entities with material property, plant and equipment classes reported at fair value in the 2011-12 financial year.

1.5 Public sector losses

Losses may result from various causes including theft, unauthorised acts and omissions, and wilful destruction. The *Financial and Performance Management Standard 2009* defines a material loss as: for money – a loss of money of more than \$500, and for other property – a loss valued by the Accountable Officer or statutory body at more than \$5,000.

The *Financial and Performance Management Standard 2009* requires Accountable Officers and statutory bodies to provide written notice to the Auditor-General if a suspected loss occurs as a result of an offence under the Criminal Code or another Act or the official misconduct of an officer, consultant or engaged contractor of a department or statutory body. This notification must occur as soon as practicable but not later than six months after the Accountable Officer or statutory body becomes aware of the loss. Similar provisions exist for local governments in the relevant legislation.

Figure 1E shows the total material losses reported by all public sector entities to the Auditor-General for 2010-11, compared to losses reported for 2009-10.

Figure 1E – Material losses for 2009-10 and 2010-11

Type	2009-10		2010-11	
	Instances	Amount reported	Instances	Amount reported
Damage	20	\$213,777	11	\$233,260
Fraud	10	\$936,649	16	\$524,615
Missing/stolen property	134	\$483,483	86	\$574,043
Total	164	\$1,633,909	113	\$1,331,918

While there has been a decrease in the overall total dollar amount of losses reported to the Auditor-General, the average individual loss reported increased from \$9,963 to \$11,787.

In addition to the amounts shown in Figure 1E, instances of losses that individually did not meet the definition of a reportable loss were reported to the Auditor-General. These losses were mainly attributable to the 2011 floods and other natural disasters.

In terms of overall losses for the public sector, these amounts can only be indicative as only 83 of 252 entities required to do so have provided information about losses or confirmed that no such losses have occurred. It is not practicable to determine the extent of losses that have not been reported to the Auditor-General.

2 | Cross cluster issues

Summary

Background

While this report has been structured by policy cluster to enable easier identification of responsibilities, some issues have shared responsibilities and involve multiple entities across policy clusters.

Issues identified as cross cluster issues for the purposes of this report are:

1. Sale of Queensland Government infrastructure assets.
2. Follow up of Auditor-General reports to Parliament on infrastructure.
3. Status of the *Nation Building – Economic Stimulus Plan* at 30 June 2011.
4. Shared services.
5. Management of public sector employee housing – implementation of 2008 recommendations.

Key findings and issues

- Queensland Government's asset sale program was announced on 2 June 2009. Section 2.1 provides an update on the asset sales program and recommendations made regarding the process and framework for future sales of major government assets.
- Several Auditor-General Reports to Parliament have contained recommendations in relation to infrastructure projects and frameworks. An update is provided from Treasury Department in Section 2.2 on the progress of the implementation of these recommendations.
- The Commonwealth Government's *Nation Building – Economic Stimulus Plan* was released on 3 February 2009 to support jobs and invest in future long term economic growth. Queensland projects under this Plan are almost complete and an update is provided in Section 2.3 on the status of these projects.
- Changes have occurred in shared services arrangements and the current status and issues are provided in Section 2.4.
- Recommendations were made in 2008 to improve the management of public sector employee housing. An update is provided in Section 2.5 on the progress of the implementation of these recommendations.

2.1 Sale of Queensland Government infrastructure assets

2.1.1 Background

Section 5.3 of *Auditor-General Report to Parliament No. 13 for 2010 – Results of audits at 31 October 2010* reported the status of the Queensland Government's asset sale program announced on 2 June 2009. In that report, the significant impacts and challenges in auditing the entities subject to the sale program were identified and it was reported that a further update on the sales program would be provided in a future report.

During the 2010-11 financial year, the Queensland Government completed its asset sale program. This section provides an update on the actions taken under the asset sale program since Auditor-General Report to Parliament No. 13 for 2010 was tabled on 18 November 2010.

2.1.2 Licence for Queensland forestry plantation assets

Subsequent to the settlement of the Share Sale Agreement for Forestry Plantations Queensland Pty Ltd, as reported in Auditor-General Report to Parliament No. 13 for 2010, post settlement activities were undertaken to facilitate the abolition of Forestry Plantations Queensland Office and Forestry Plantations Queensland. These activities included:

- On 23 September 2010 all remaining equity in Forestry Plantations Queensland Office was withdrawn through the return of available funds to the state.
- On 25 November 2010 all remaining equity in Forestry Plantations Queensland was withdrawn through the return of available funds to the state.
- The abolition of both Forestry Plantations Queensland and Forestry Plantations Queensland Office was effected on 30 November 2010.
- Final financial statements for both Forestry Plantations Queensland and Forestry Plantations Queensland Office were prepared for the period 1 July 2009 to 30 November 2010.

An emphasis of matter paragraph was included in the auditor's opinions issued on the final financial statements of both Forestry Plantations Queensland and Forestry Plantations Queensland Office to draw attention to the abolition of these entities and the impact this had on the preparation of the final financial statements. This was identified in *Auditor-General Report to Parliament No. 5 for 2011 – Results of audits at 31 May 2011*.

2.1.3 Listing of QR National Limited – sale of coal business

The shares of QR National Limited were formally offered for sale on 10 October 2010 and comprised both a Retail Offer and an Institutional Offer. On 20 November 2010 the retail price, the institutional price and the allocation of the shares were announced:

- Institutional investors were allocated 1,064 million shares at a price of \$2.55 per share.
- Retail investors were allocated 546 million shares at a price of \$2.45 per share.

Through this process the state sold approximately 66 per cent of the total shares in QR National Limited, and retained a 34 per cent interest. Total proceeds received from the sale of shares was \$4,050 million.

On 22 November 2010, QR National Limited was listed on the Australian Stock Exchange with a closing price on that date of \$2.65 per share.

On 6 December 2010, the state transferred its 821.4 million shares in QR National Limited to Queensland Treasury Holdings Pty Ltd for \$2,095 million. An additional 8.2 million buffer stock shares were also transferred to Queensland Treasury Holdings Pty Ltd in February 2011. These shares were recorded as investments at fair value through profit or loss in the financial statements of Queensland Treasury Holdings Pty Ltd. The fair value of these shares reported in the Queensland Treasury Holdings Pty Ltd 2010-11 financial statements was \$2,803.922 million based on the closing share price for QR National Limited on 30 June 2011 of \$3.38 per share.

Upon listing on the Australian Stock Exchange, QR National Limited no longer met the definition of a public sector entity for the purposes of the *Auditor-General Act 2009*. Accordingly, the Auditor-General resigned as the auditor of the company for the purposes of the *Corporations Act 2001*. A final audit of QR National Limited was undertaken up to the date of listing in order to satisfy the requirements of the *Auditor-General Act 2009* and to assist with the audit of the Consolidated Whole of Government Financial Statement for the 2010-11 financial year.

2.1.4 Lease of Port of Brisbane

On 10 November 2010, the Treasurer announced the Q Port Holdings consortium as the successful bidder for the sale of the Port of Brisbane. The sale process was completed on 30 November 2010 and included:

- Transfer to Q Port Holdings of shares in Port of Brisbane Pty Ltd, a wholly owned subsidiary of Port of Brisbane Corporation Limited and operator of the port under an interim lease from 1 July 2010, under a Share Sale and Purchase Agreement.
- Granting of a 99 year lease to Port of Brisbane Pty Ltd and execution of other agreements to enable Port of Brisbane Pty Ltd to continue operating the port.

Cash proceeds of \$2.1 billion were received by the state in consideration for the sale of the shares in Port of Brisbane Pty Ltd and the entering of the lease.

Subsequent to the sale, the Queensland Government retained ownership of the port land and associated strategic infrastructure such as wharves, buildings, terminals and roads. In addition, the following post sale activities also occurred:

- On 16 December 2010, the Treasurer and Minister for Employment and Economic Development revoked Port of Brisbane Corporation Limited's declaration as a government owned corporation.
- Port of Brisbane Corporation Limited changed its name to Brisbane Port Holdings Pty Ltd.
- The shares of Brisbane Port Holdings Pty Ltd were transferred from the state to Queensland Treasury Holdings Pty Ltd on 5 April 2011 following the repatriation of the proceeds from the sale of Port of Brisbane Pty Ltd.

Upon transfer of its shares to Q Port Holdings, Port of Brisbane Pty Ltd no longer met the definition of a public sector entity for the purposes of the *Auditor-General Act 2009*. Accordingly, the Auditor-General resigned as the auditor of the company for the purposes of the *Corporations Act 2001*. A final audit of Port of Brisbane Pty Ltd was undertaken up to the date of sale in order to satisfy the requirements of the *Auditor-General Act 2009* and to assist with the audit of the Consolidated Whole of Government Financial Statement for the 2010-11 financial year.

2.1.5 Lease of Abbot Point Coal Terminal

On 29 October 2010, the Queensland Government announced the commencement of a competitive bid process in relation to the Abbot Point Coal Terminal with suitably qualified parties invited to submit expressions of interest. Based on the expressions of interest, bidders were short listed with selected bidders requested to submit indicative bids for detailed due diligence assessments prior to submitting final binding bids.

On completion of the competitive bid process, Mundra Port and Special Economic Zone Limited, through its Australian subsidiaries, Mundra Port Pty Ltd and Mundra Port Holdings Pty Ltd were announced on 3 May 2011 as the successful bidder.

Key actions taken in progressing the sale program included:

- The establishment of APCT #1 Pty Ltd on 22 March 2011 as a wholly owned subsidiary of North Queensland Bulk Ports Corporation Limited, a government owned corporation.
- Transfer to the State on 31 May 2011 of Queensland Treasury Corporation debt owing by Ports Corporation of Queensland Limited, a wholly owned subsidiary of the North Queensland Bulk Ports Corporation Limited, relating to the Abbot Point Coal Terminal.
- Transfer of assets, liabilities and other legal rights relating to the Abbot Point Coal Terminal from Ports Corporation of Queensland Limited, a wholly owned subsidiary of the North Queensland Bulk Ports Corporation, to North Queensland Bulk Ports Corporation Limited on 31 May 2011.
- Transfer of assets, liabilities and other legal rights relating to Abbot Point Coal Terminal from North Queensland Bulk Ports Corporation Limited to APCT #1 Pty Ltd in exchange for shares in APCT #1 Pty Ltd on 31 May 2011.
- Execution of a Sale and Purchase Agreement between the state, North Queensland Bulk Ports Corporation Limited and Mundra Port and Special Economic Zone Limited on 3 May 2011 for the sale of North Queensland Bulk Ports Corporation Limited's shares in APCT #1 Pty Ltd and entering into necessary leases to enable Mundra Port and Special Economic Zone Limited to access and operate the port facilities.
- Completion of the sale on 1 June 2011, including transfer of the shares and execution of the required leases, including 99 year leases for the onshore area and a sublease of the offshore area. Total cash consideration of \$1.829 billion was received by North Queensland Bulk Ports Corporation Limited from Mundra Port and Special Economic Zone Limited on this date, including an amount received as stamp duty on behalf of the state which was immediately remitted to the Office of State Revenue.
- A further amount of \$3.9 million was paid to North Queensland Bulk Ports Corporation Limited by Mundra Port and Special Economic Zone Limited on 4 August 2011 as a purchase price adjustment.
- The proceeds of sale held by North Queensland Bulk Ports Corporation Limited were repatriated to the state under a project direction issued by the Treasurer and Minister for Employment and Economic Development on 30 June 2011 as follows:
 - Payment of an initial dividend of \$200 million.
 - Payment of direct transaction costs of \$15.7 million.
 - A capital reduction of \$1,534,448,682 in North Queensland Bulk Ports Corporation Limited.
 - Payment of a second dividend of \$3.9 million representing the purchase price adjustment.

An audit of APCT #1 Pty Ltd, up to the date of sale, was undertaken as part of the audit of the North Queensland Bulk Ports Corporation Limited's financial statements for the 2010-11 financial year. Upon transfer of its shares to Mundra Port and Special Economic Zone Limited, APCT #1 Pty Ltd no longer met the definition of a public sector entity for the purposes of the *Auditor-General Act 2009*. Accordingly, the Auditor-General resigned as the auditor of the company for the purposes of the *Corporations Act 2001*.

2.1.6 Transfer of Queensland Motorways Limited to QIC Limited

On 2 June 2009, the Queensland Government announced that, subject to market conditions, it would offer for sale Queensland Motorways Limited and its subsidiaries via a competitive sale process. On 25 November 2010, the Queensland Government announced its intention to dispose of Queensland Motorways Limited and its subsidiaries via an exclusive commercial negotiation with QIC Limited. In particular, the Queensland Government announced that:

- The state would retain ownership of the relevant land, bridge and road infrastructure assets.
- Queensland Motorways Limited would be transferred to QIC Limited to benefit the state's defined benefits superannuation fund.

To facilitate the sale to QIC Limited, on 6 December 2010 the shares in Queensland Motorways Limited were transferred from the Department of Transport and Main Roads to Queensland Treasury Holdings Pty Ltd, to be held in trust on behalf of the state. As this transfer occurred for no consideration and was not declared to be a contribution by owners, this resulted in the Department of Transport and Main Roads recording a loss of \$403.503 million in its Statement of Comprehensive Income on transfer of the shares.

On 10 May 2011, the Treasurer announced that the state would transfer Queensland Motorways Limited to QIC Limited for an agreed price of \$3,088 million. The sale process included the following activities:

- Land upon which the Gateway and Logan Motorways are constructed was declared state toll road corridor land with a perpetual lease over the land granted to the Department of Transport and Main Roads.
- Subsidiaries of Queensland Motorways Limited were granted 40 year subleases over the declared state toll road corridor land.
- Existing road franchise agreements relating to the operation of the toll roads were terminated.
- The State entered into new road franchise agreements with Queensland Motorways Limited and its subsidiaries that grant the companies the right to levy tolls in connection with the use of the motorways and obliges them to operate, maintain and repair the motorways.
- On 27 May 2011, the legal ownership of the shares in Queensland Motorways Limited were transferred from Queensland Treasury Holdings Pty Ltd to the State.
- On 30 May 2011 all debt owed by Queensland Motorways Limited and its subsidiaries was either repaid or transferred to the general government sector.
- On 31 May 2011 the State transferred the shares in Queensland Motorways Limited to QMH Hold Co Pty Ltd, a related entity of QIC Limited, on receipt of the agreed purchase price.

The Queensland Motorways Limited will continue to be audited by the Auditor-General as part of the audit of QIC Limited and its related entities and funds.

2.1.7 Summary of sale proceeds and costs

Based on information included in Sales Summary Reports prepared by the Commercial Transaction Team, Treasury Department, Figure 2A identifies the proceeds and costs associated with each of the asset sales.

Figure 2A – Total proceeds and transaction costs of assets sales

Sale	Total proceeds (\$m)	Transaction costs (\$m)
Forestry Plantations Queensland and Forestry Plantations Queensland Office	613	21
QR National Limited	*4,603	143
Port of Brisbane	2,095	25
Abbot Point Coal Terminal	1,833	16
Queensland Motorways Limited	3,088	21

* Proceeds include amounts paid by QR National Limited as a final dividend to the state and as a repayment of Queensland Treasury Corporation debt.

2.1.8 Challenges and matters for future consideration

As identified in *Auditor-General Report to Parliament No. 13 for 2010 – Results of audits at 31 October 2010*, the Queensland Government's asset sale program had a significant impact on audits undertaken during the 2009-10 audit year. These impacts have continued through the 2010-11 audit year and have required significant resources to perform our audit functions in terms of both the review of the overall sales program and the annual audits of individual entities impacted by the sales program.

This has provided a number of challenges including:

- Regular liaison with a range of key stakeholders including Treasury Department's Commercial Transaction Team, advisors appointed to assist the Commercial Transaction Team, the Investigating Accountants appointed in relation to the listing of QR National Limited, key personnel of each of the individual entities and other accounting advisors engaged by those entities.
- Coordination of effort within QAO including the use of internal specialists and experts to ensure consistent and timely advice is provided to auditors, including contracted auditors, in relation to issues associated with the assets sales.
- The diversion of resources from other audits and QAO's technical division to assist in additional work required to undertake and complete the audits of entities impacted by the sale program.
- Ensuring adequate consideration of issues arising from the asset sales at both the entity and whole of government reporting levels.

Some of the specific challenges and matters for further consideration are identified in the following.

Complex accounting issues

One of the key challenges in auditing the sale process has involved providing independent, timely and quality assessments of complex accounting transactions. In assessing and providing comment on these complex issues, QAO staff were required to liaise with members of the Commercial Transactions Team, private accounting firms engaged by Treasury Department and the entities impacted by the sales program to provide expert advice and staff of the relevant entities.

In particular, these complex accounting matters often arose on the restructuring of entities prior to sale and required consideration of public sector specific issues where there was limited guidance available in the existing accounting standards.

In particular, matters requiring detailed assessment and comment included:

- Transfers of assets and liabilities on the restructuring of wholly owned government entities including the application of AASB Interpretation 1038 *Contributions by Owners to Wholly Owned Public Sector Entities*.
- Repatriation of sale proceeds to the state through adjustments to equity.
- Changes in ownership of public sector companies, including issues relating to the control and consolidation of entities under Australian Accounting Standard AASB 127 *Consolidated and Separate Financial Statements*.
- Recognition and valuation of residual interests in assets of Queensland Motorways Limited at the end of the road franchise agreements.

This has again highlighted the importance of ensuring that there is adequate consideration of the accounting requirements in a timely manner. In particular, these requirements should be assessed prior to the transactions occurring. Where consideration of the accounting requirements is delayed, unintended consequences may arise which are difficult to address, from an accounting perspective, after the event.

Impact on Queensland Treasury Holdings Pty Ltd

The principal activity of Queensland Treasury Holdings Pty Ltd is to act as a corporate vehicle through which the Queensland Government holds assets of strategic importance to the state. This has included Queensland Treasury Holdings Pty Ltd holding an equity interest in the following companies:

- Queensland Lottery Corporation Pty Ltd.
- Queensland Airport Holdings (Cairns) Pty Ltd.
- Queensland Airport Holdings (Mackay) Pty Ltd.
- Network Infrastructure Company Pty Ltd.
- DBCT Holdings Pty Ltd.
- City North Infrastructure Pty Ltd.

As identified during the 2010-11 financial year the state transferred its shares in QR National Limited and Brisbane Port Holdings Pty Ltd to Queensland Treasury Holdings Pty Ltd. The transfer of these shares has had a significant impact on the balance sheet of Queensland Treasury Holdings Pty Ltd as at 30 June 2011 as shown in Figure 2B.

Figure 2B – Movement in Queensland Treasury Holdings Pty Ltd asset and liability balances

	As at 30 June 2010 (\$m)	As at 30 June 2011 (\$m)
Total assets	82.566	4,180.681
Total liabilities	53.685	3,600.504
Net assets	28.701	580.177

Included in the amount shown in Figure 2B are the following:

- Fair value of shares held in QR National Limited (\$2,803.922 million).
- Fair value of land held as investment property by Brisbane Port Holdings Pty Ltd (\$968.251 million).
- Deferred revenue relating to prepayment of operating leases held by Brisbane Port Holdings Pty Ltd (\$952.765 million).
- Queensland Treasury Corporation loans relating to the purchase of shares in QR National Limited and the rights to future cashflows from Brisbane Port Holdings Pty Ltd (\$2,358,170).

For the 2009-10 financial year, Queensland Treasury Holdings Pty Ltd recognised a profit after tax of \$1.662 million, while for the 2010-11 financial year Queensland Treasury Holdings Pty Ltd recognised a profit after tax of \$453.669 million. The significant increase in the profit after tax was largely due to a gain of \$688.537 million recognised as an increase in the fair value of the shares in QR National Limited as at 30 June 2011.

The size and nature of the assets and liabilities now held by Queensland Treasury Holdings Pty Ltd on behalf of the state may require Treasury Department to consider the adoption of different governance and monitoring arrangements over the activities of the Queensland Treasury Holdings Pty Ltd group of companies than presently exists.

Preparation of sales summary reports for tabling in Parliament

The Queensland Audit Office's *Best Practice Guidelines for the Sale of Material Public Sector Assets* recommends that at the completion of the sale process a sale summary report should be prepared and tabled in Parliament in order to promote accountability and probity over the sale process.

During the 2010-11 audit year, the Auditor-General was requested to provide comment on various Sales Summary Reports prepared by the Commercial Transactions Team established within Treasury Department. The final Sales Summary Reports were tabled in Parliament by the Treasurer and Minister for State Development and Trade as part of the documents tabled at the estimates hearing for the Parliamentary Finance and Administration Committee on 12 July 2011.

While these reports were reviewed and comments provided for consideration by the Commercial Transactions Team, a formal audit opinion was not issued for inclusion with the final reports tabled by the Treasurer and Minister for State Development. This was due to significant limitations identified in the ability to provide an auditor's opinion on the reports.

The most significant limitation identified related to the absence of a formal framework for the preparation of the reports. A formal framework is important to ensure that requirements relating to the responsibility for the preparation, the required content and the tabling of the reports in Parliament are clearly identified and understood.

As noted above, these reports provide an important accountability link to Parliament over the sale process and the outcomes achieved. Information disclosed in the reports tabled by the Treasurer and Minister for State Development and Trade included:

- Background to the sale process.
- Governance over the sale process.
- Action taken in preparation for the sale.
- Process for identifying the successful purchaser.
- Sale outcomes including identification of both the proceeds and costs associated with the sale.
- Summary report from the appointed probity advisers.

Accordingly, it is strongly encouraged that a process and framework for the preparation and tabling of Sales Summary Reports be formally developed by Treasury Department and adopted for future sales of major Queensland Government infrastructure assets.

2.2 Follow up of Auditor-General Reports to Parliament on infrastructure

The *Auditor-General Act 2009* requires the Auditor-General to follow up and report on the progress of matters included in Auditor-General Reports to Parliament until these matters are satisfactorily resolved. Over recent years, specific comment on a number of infrastructure audits was included in *Auditor-General Report No 4 for 2009 – Results of Audits at 31 May 2009* tabled in Parliament on 30 June 2009, *Auditor-General Report No 8 for 2009 – Results of Audits at 31 October 2009* tabled in Parliament on 12 November 2009 and *Auditor-General Report No 8 for 2010 – Results of Audits at 31 May 2010* tabled in Parliament on 6 July 2010. These reports included the results of audits of:

- Project cost escalation.
- Implementation of a project review framework.
- Infrastructure project procurement.
- Investment decisions.
- Benefits realisation.
- Use of independent project verifiers.

The status of corrective action on these issues was followed up and a response was received from the Acting Under Treasurer on 29 September 2011 on action currently being taken:

I refer to your letter of 8 August 2011 to the Director-General of the Department of Employment, Economic Development and Innovation (DEEDI) seeking further details of the response to recent audit reports on infrastructure. For the reasons outlined below, DEEDI has forwarded your letter to Treasury Department (Treasury) for a response.

Effective from 1 July 2011, Treasury has assumed responsibility from the Office of Coordinator-General (OCG) for the Project Assurance Framework (PAF), the Value for Money Framework and the Gateway Review process. The Government's objectives in consolidating responsibility for these frameworks within Treasury are to ensure a consistent and coordinated approach to application of the frameworks and to streamline ongoing policy development related to project delivery.

One of Treasury's priorities is to complete the review of the PAF which the former Department of Infrastructure and Planning commenced in late 2010. The work on this review so far addresses the recommendations to improve project planning delivery which were included in recent audit reports. Treasury is reviewing work done by OCG to date and will also consider:

- Whether there is a need for any additional PAF guidance; and
- The scope of any further changes to the PAF.

Treasury would welcome the opportunity to discuss these matters with the Queensland Audit Office during the course of the review.

Responses to audit recommendations

Report No. 4 for 2009

Project Cost Escalation: The current review of the Project Assurance Framework (PAF) will consider the need for and nature of any additional guidance for agencies on the appropriate basis for cost escalation. Treasury intends to consult with the Departments of Transport and Main Roads, Public Works and the Queensland Audit Office (QAO) in finalising any additional guidance.

In relation to the application of escalation to projects in the South East Queensland Infrastructure Program and Plan (SEQIPP), Treasury seeks to achieve a consistent and transparent basis for estimating cost escalation for infrastructure projects. As part of the review of the PAF, Treasury will consider the merits of disclosing the cost escalation rate(s).

It should also be noted that the Government is now developing the Queensland Infrastructure Plan (QIP), which will replace and build on SEQIPP. The QIP is due to be released by the end of 2011.

As part of Treasury's role in assisting agencies in applying the PAF, Treasury will also encourage agencies to use independent review processes for scope design where appropriate, and assist in the development of clear project briefs.

Implementation of a Project Review Framework: Treasury recently assumed responsibility for coordinating Gateway Reviews of Queensland Government projects. Treasury will now manage the reviews of specific projects, arrange for training of Gateway reviewers, and collate lessons learned from reviews undertaken in the last three years. The latter activity aims to ensure that learnings from reviews are consolidated and disseminated across Government, thereby improving the effectiveness of project delivery.

Treasury will also consider modifying Gateway processes to make Gateway reviews more effective in supporting improved project outcomes. This could include, for example, making Gateway reviews mandatory above a specified project cost, requiring review outcomes to be reported to Ministers/Cabinet. It is intended to seek Queensland Audit Office views on how the Gateway review process could be enhanced across the public sector.

Report No. 8 for 2009

Infrastructure Project Procurement: This report recommended, inter alia, that the PAF be updated and strengthened to provide better practice guidance on project and program management. In response to this recommendation and other feedback, the former Department of Infrastructure and Planning commenced a review of the PAF in 2010 to address a number of areas in which clearer and more specific guidance would assist agencies (e.g. cost escalation, benefits realisation, the role of independent verifiers, risk management and probity).

Treasury now has responsibility for completion of the review, including consideration of any updates and further modifications (beyond those identified in the review to date) which Treasury considers will enhance the effectiveness of the PAF. As noted, Treasury would welcome input from the Queensland Audit Office on potential modifications to the PAF.

In relation to development of probity planning a consistent approach will be addressed in the review of the PAF.

Report No. 8 for 2010

Investment Decisions: Treasury recognise the importance of ensuring that officers working in procurement have provided conflict of interest declarations and adopt an impartial approach, increasing the level of documentation around the reasons for selecting particular delivery methods, and clarifying the coverage of public sector entities by the PAF. In the further work on the review of the PAF, Treasury intends to address these matters in consultation with the QAO and other agencies.

Benefits Realisation: The additions and amendments being considered in the review of the PAF include additional guidance on benefits realisation, which would concentrate on both the identification and management of expected benefits.

Use of Independent Project Verifiers: The inclusion of additional guidance in the PAF to encourage the use of independent verifiers where appropriate is being considered as part of the current review of the PAF.

The action to be taken by Treasury Department in relation to the Project Assurance Framework is encouraged and QAO will continue to follow up with Treasury Department the progress of implementation of audit recommendations and the initiatives planned to satisfy these recommendations.

2.3 Status of the Nation Building – Economic Stimulus Plan at 30 June 2011

2.3.1 Background

The Commonwealth Government's *Nation Building – Economic Stimulus Plan* was released on 3 February 2009 to support jobs and invest in future long term economic growth. The plan included \$4.392 billion for Queensland to build school halls, resource centres, classrooms, new public housing and road and rail projects under three major programs: Building the Education Revolution, Social Housing Initiative and Roads and Safety Initiative.

Figure 2C shows the breakdown of funding and expenditure as at 30 June 2011 across the three programs and their individual elements.

Figure 2C – Funding allocated to Queensland and total expenditure as at 30 June 2011

Department and program	Total funding (\$m)	Total expenditure at 30 June 2011 (\$m)
Building the Education Revolution (Department of Education and Training) – Total	3,100.077	**3,100.822
State Schools (Department of Education and Training)	^2,138.725	**2,139.470
Primary Schools for the 21st Century	*1,789.000	**1,789.547
Science and Language Centres for 21st Century Secondary Schools	155.260	**155.751
National School Pride	165.463	**166.072
Administration Funding Allocation	29.002	28.100
Non-state schools (Block Grant Authorities)	961.352	~961.352
Social Housing Initiative (Department of Communities) – Total	1,165.567	984.063
New construction	1,085.471	903.967
Repairs and maintenance	80.096	80.096
Roads and Safety Initiative (Department of Transport and Main Roads) – Total	126.100	143.770
New construction	73.200	#90.870
Repairs and maintenance	52.900	52.900
TOTAL for Queensland	4,391.744	**4,228.655

^ The Department of Education and Training has obtained approval to apply up to \$20 million in interest from Building the Education Revolution funding for use in the completion of approved projects. This amount has not been included in the above funding.

* This amount does not include \$2.644 million funding transferred to the Building the Education Revolution Implementation Taskforce.

** These amounts include additional funding from external sources such as Parents and Citizens Associations and other government departments.

~ Administered funding transferred to the Block Grant Authorities as Building the Education Revolution funding for non-state schools.

This total amount includes funding sourced directly from Queensland Rail Limited and also from existing projects funded by the Department of Transport and Main Roads.

The progress of the Queensland Government in delivering the Plan's infrastructure projects was last reported in *Auditor-General Report to Parliament No. 10 for 2010 – Expenditure under the Nation Building – Economic Stimulus Plan at 31 August 2010*.

Queensland's progress was assessed in delivering the infrastructure projects under the two largest programs, Building the Education Revolution and the Social Housing Initiative at 30 June 2011.

Overall the audit found that the Department of Education and Training and the Department of Communities, in conjunction with the Department of Public Works, had designed and implemented appropriate processes to address the requirements of the Building the Education Revolution and the Social Housing Initiative.

As discussed in *Auditor-General Report to Parliament No. 10 for 2010 – Expenditure under the Nation Building – Economic Stimulus Plan at 31 August 2010*, Queensland had spent 98 per cent of the total funding for the Roads and Safety Initiative. The Roads and Safety Initiative was appropriately completed by 30 June 2011 in relation to both elements of the Initiative, being new construction (black spot safety projects and boom gates for rail crossings) and repairs and maintenance (regional road maintenance).

2.3.2 Building the Education Revolution

Objectives of Building the Education Revolution

The objective of Building the Education Revolution was to provide economic stimulus through the rapid construction and refurbishment of school infrastructure under three distinct program elements.

1. *Primary Schools for the 21st Century*

Under the Primary Schools for the 21st Century program element, capital expenditure of \$1.79 billion was incurred to 30 June 2011. One thousand and eighty Queensland primary schools obtained approved funding for construction projects ranging in cost from \$250,000 to \$3 million. At 30 June 2011, 1331 projects at a cost of \$1.529 billion had been completed, representing 86 per cent of all Primary Schools for the 21st Century program element projects. These completed facilities were 734 resource centres, 462 multipurpose halls, 78 covered outdoor learning areas and 57 miscellaneous projects. At 30 June 2011, 1546 construction projects had commenced from a total of 1555.

2. *Science and Language Centres for 21st Century Secondary Schools*

Under the Science and Language Centres for 21st Century Secondary Schools program element, capital expenditure of \$155.751 million was incurred to 30 June 2011. Ninety-four Queensland secondary schools were chosen, on a competitive basis, to have new science laboratories and/or language learning centres constructed at their schools. At 30 June 2011, 90 of these Science and Language Centres for 21st Century Secondary Schools program element projects had been completed at a cost of \$151.08 million, with four projects still under construction.

3. *National School Pride*

Under the National School Pride program element, expenditure of \$166.072 million was incurred to 30 June 2011 for minor capital works and maintenance projects. Two thousand, eight hundred and fourteen of these projects had been completed at 30 June 2011.

Finalisation of the Building the Education Revolution Program

Some delays in the program occurred as a result of persistent adverse weather events, particularly the Central Queensland and South East Queensland floods, Tropical Cyclone Anthony and Tropical Cyclone Yasi. While some projects did not meet original Commonwealth Government targets, these timeframes have since been renegotiated and the Queensland Government continues to provide monthly updates to the Commonwealth Government on progress in relation to all milestones.

At 30 June 2011, the Department of Education and Training, in conjunction with the Department of Public Works, had delivered the majority of the approved projects within each of the elements of the Building the Education Revolution program. All outstanding projects are expected to be completed by June 2012 in accordance with the Commonwealth Government's revised strategy for the Building the Education Revolution Program following the persistent weather events from earlier this year.

2.3.3 Social Housing Initiative

Objectives of the Social Housing Initiative

The objectives of the Social Housing Initiative were to construct social housing dwellings for the disadvantaged at an average cost of below \$300,000 per dwelling and refurbish existing dwellings, further increasing the social housing stock. There were three distinct program elements.

1. New Construction

Under the New Construction element of the Social Housing Initiative program, 4,034 dwellings were expected to be completed by 30 June 2012 at a total cost of \$1.085 billion. At 30 June 2011, 3,881 dwellings (96 per cent) had commenced and 2,754 dwellings (68 per cent) were completed at a total cost of \$903.967 million which accounted for 83 per cent of the funding. A further 96 dwellings (two per cent) were committed for construction at 30 June 2011.

As reported in Auditor-General Report to Parliament No 10 for 2010, Social Housing Initiative constructions are predominately one and two bedroom dwellings (97 per cent of all dwellings) delivered using three procurement strategies:

- Turnkey – dwelling and land packages negotiated with developers (approx 50 per cent of dwellings).
- Not for profit– capital grants to community housing providers (approx 34 per cent of dwellings).
- Traditional – construction on State land (approx 16 per cent of dwellings).

Delays in the program occurred as a result of persistent adverse weather events, particularly the Central Queensland and South East Queensland floods, Tropical Cyclone Anthony and Tropical Cyclone Yasi. The interim target to complete 2,714 dwellings by 31 December 2010 was ultimately achieved in June 2011.

2. Repairs and Maintenance

The Repairs and Maintenance component of the Social Housing Initiative Program of \$80.096 million was fully expended by 30 September 2010. Since the inception of the program, repairs and maintenance have been carried out on approximately 38,200 dwellings.

3. Tenancy allocations

Of the 4,034 dwellings to be delivered under the Social Housing Initiative, 2,659 (66 per cent) are state owned. At 30 June 2011, the Department of Communities had rolled out tenancy management arrangements for 98 per cent of these state owned dwellings, mainly through leases executed with community organisations.

Finalisation of the Social Housing Initiative Program

At 30 June 2011, the Department of Communities, in conjunction with the Department of Public Works, had completed the repairs and maintenance element of the Social Housing Initiative, and was on track in its agreement with the Commonwealth Government to complete 4,034 dwellings by 30 June 2012.

Of the 1,280 uncompleted dwellings as at 30 June 2011, 88 per cent had commenced construction and a further 8 per cent were committed for construction. If all 4,034 dwellings are completed at the funding level of \$1,085.471 million, these dwellings will average \$269,080 per unit of accommodation. This achieves the Commonwealth Government's expectations for the state to deliver each unit of accommodation at an average cost of no greater than \$300,000.

2.4 Shared services

2.4.1 Status of shared services

The shared services concept within the Queensland Government began operating in 1996 when the Corporate Services Agency was formed to service the then Departments of Primary Industries and Natural Resources. In 1997, the Corporate Administration Agency was established in the Arts portfolio and over time has provided finance, human resources, facilities management, and information management services to a number of smaller Queensland Government agencies.

In December 2002 the shared service Initiative was implemented with the prime objective to deliver cost effective corporate services through standardising business processes, consolidating technology and pooling resources and expertise. This initiative encompassed all the Queensland Government departments as well as some other government agencies.

As of 1 July 2011, apart from the Corporate Administration Agency, there are three main shared service providers operating across the Queensland Government. These are the Department of Education and Training, which provides services to the department as well as some TAFE Colleges, the Queensland Health Shared Service Provider, the provider for the Department of Health, and Queensland Shared Services, which provides shared services for all other government departments. Queensland Shared Services was established on 1 July 2011 within the Department of Public Works as a result of a merger of CorpTech and the Shared Service Agency which were business units within the Department.

While part of the original shared service initiative, the Queensland Parliamentary Service provides corporate service support to a number of agencies that operate at arms length from the government but is no longer considered to be part of the shared services initiative.

Queensland Shared Services and the Corporate Administration Agency are more typical of the shared service model in that they service multiple government agencies while the Queensland Health Shared Service Provider and the shared service arrangements in the Department of Education and Training have been established within a department to service that department.

This section provides a summary of audit findings identified at each shared service provider during 2010-11 and also comments on potential future issues and progress being made on significant issues previously raised.

2.4.2 Queensland Shared Services

In relation to the Queensland Shared Services processing controls environment, audit performed controls testing around the accounts payable, accounts receivable, payroll and general ledger systems with the main objective of enabling Queensland Shared Services to provide assurance to its client agencies regarding the operations of the financial systems controls it has implemented. This assurance can then be used by the relevant agency auditor when providing an auditor's opinion on the financial statements of their respective agencies.

A number of control weaknesses were identified across all systems. Management are currently addressing these issues and a number have been resolved during the year. Some common themes related to lack of supporting documentation, lack of evidence of various review processes, lack of approval or authorisation on certain reports and source documents, division of duty breakdowns and inappropriate access and security over certain data.

While the number of issues raised is still of concern, it is acknowledged that the amount, including the level of high risk issues has reduced significantly over the past three years.

The number of systems being audited along with staff turnover and the training provided to staff all contribute in some way to the number of audit issues raised. As the number of systems reduces and the business processes are standardised and documented, it is anticipated that a reduction will occur in the number of audit findings reported.

For 2011-12, it was recommended that all Queensland Shared Services clients engage with the Department of Public Works and Queensland Shared Services to establish clarity about respective obligations and expectations including those in relation to the independent assurance to be provided to the agency over various key controls to enable the agency Chief Executive Officer, Chief Finance Officer and QAO to confidently certify the agencies financial statements. This process requires all Chief Executive Officers to take a more active role in engaging directly with their service provider about the quality and level of services being provided.

Another issue which needs to be considered from both a Queensland Shared Services and agency perspective is the impact that digitisation and electronic workflow may have on the shared service processing environment. The use of faxes, emails and scanned documents has increased significantly and needs to be considered in relation to record retention requirements within the *Public Records Act 2002*. The adequacy of an acceptable audit trail must also be considered given the original source document is required for audit purposes. This issue will be reviewed further during 2011-12.

In *Auditor-General Report to Parliament No. 5 for 2011 – Results of audits at 31 May 2011*, a number of control breakdowns were identified across various government agencies including Queensland Shared Services around salary overpayments and vendor information. Since that report, Queensland Shared Services has engaged with relevant agencies to better clarify roles and responsibilities between all parties in an effort to resolve some of these issues. This regular proactive engagement with client agencies will assist the end to end controls process.

General computer controls

Over several years, a large number of security issues at CorpTech (now Queensland Shared Services) have been raised. In response to this, CorpTech established a project in 2010 to address the control issues identified through audits. As a result of actions undertaken through this project, the control environment has been strengthened and the number of audit issues reported in 2010-11 has decreased. The results of the audits of SAP systems supported by CorpTech were generally positive in 2010-11, though some issues were noted regarding the need to further tighten controls over privileged user access.

The need for improvements in change control processes at CorpTech has been reported annually in Auditor-General Reports to Parliament since 2006. In August 2010, a new service management tool was implemented that provides a central repository for change management information and electronic workflow approvals. To date, the new tool has had a positive impact on the change control environment and on audit efficiency. Both are expected to continue to improve as the system processes mature.

Human resources master data

The audit found that a number of application support users were provided with access to create and maintain sensitive human resources master data in a number of SAP payroll systems. This level of access enabled the ability to view and edit such personal information as birth dates, addresses, contact information, employment information and wages. The maintenance of human resources master data is a responsibility of client agencies which process such data. Application support users should not be provided with this functionality. The potential for unauthorised changes to be made to human resources master data poses a fraud risk for data owners. Queensland Shared Services has undertaken to research and resolve this issue.

2.4.3 Corporate Administration Agency

A number of information systems and financial control weaknesses were identified during 2010-11. Some of the key information systems control issues included weaknesses in change management processes, the lack of testing of the disaster recovery plan process, public access to stored procedures, improvements required to the user access and termination process, inadequate segregation of duties for the payroll and lack of electronic funds transfer authorisation. The two key financial control issues raised were the existence of duplicate vendors and the lack of monitoring of outstanding employee timesheets.

These issues were categorised as moderate to low risk and no high risk issues were identified. The Corporate Administration Agency has been generally positive in accepting and actioning these matters.

2.4.4 Queensland Health Shared Service Provider

During 2010-11, detailed controls testing was not performed over the human resource and finance systems operated by the Queensland Health Shared Service Provider. The operation of the human resource system was not considered to be sufficiently stable following the implementation of the SAP HR/Workbrain solution in March 2010. As a consequence, a substantive audit approach was considered the most appropriate strategy to test the payroll system.

The issues relating to the development, implementation and ongoing operation of the Queensland Health's payroll system have been previously reported in several recent Auditor-General reports. No audit issues have been raised in relation to the processing controls over the accounts payable, assets and general ledger systems.

PricewaterhouseCoopers was appointed by the Queensland Government to conduct a review of the shared service model in 2010. The subsequent report titled *Review of Shared Services Model for Queensland Government* provided to the Premier on 30 September 2010 made the specific recommendation that the Director-General, Department of Health should be accountable for the management of the Department's finance and human resources/payroll business applications.

As a result of the recommendation and other changes identified during the PricewaterhouseCoopers review, the Queensland Health Shared Service Provider is effectively being moved away from direct involvement in the shared services arrangements.

The Queensland Health Shared Service Provider is no longer a separate reporting entity and is essentially managed as a business unit of the Department of Health, directly responsible to the Deputy Director-General, Human Resource Services.

2.4.5 Department of Education and Training

Corporate and Professional Services was the Department of Education and Training shared service provider. Following negotiations with Treasury Department to maintain the shared delivery model and comply with a number of principles, Corporate and Professional Services was integrated as another division of the department. These functions are now managed as discrete activities of various units.

For the 2010-11 year, the following matters were noted:

- Queensland Shared Services is the whole of government vendor master data custodian. As both the Department of Education and Training and Queensland Shared Services have responsibilities in maintaining the master data, the responsibility for the accuracy of the master data is shared. An ongoing issue was raised regarding the potential for Queensland Shared Services staff to change Department of Education and Training vendor master data and the lack of adequate monitoring of this risk by the department. In addition, some Department of Education and Training specific control weaknesses were also raised over vendor creation and amendments. The processes in place to review and assess Aurion payroll user access could also be improved. Management have advised corrective action is being taken to address the noted weaknesses.
- There were a number of system weakness noted across the SAP and ISAS systems regarding management of user access and segregation of duty conflicts including the maintenance of business profiles, inadequate systems to remove terminated employees and excessive access levels for developers in relation to the ISAS system. Change management over TAFE's ICT services, access control rules of internet gateway firewalls and password security for internet services could be improved. Management have advised corrective action is being taken to address the noted weaknesses.

2.4.6 Queensland Parliamentary Service

QAO performs an annual audit of the processing controls operating over the services provided for the relevant agencies and no significant audit issues have been raised in 2010-11.

2.4.7 Impairment and write off of CorpTech intangible assets

In the *Shared Service Review of the Shared Service Model for Queensland Government* in September 2010, PricewaterhouseCoopers recommended the three shared service providers take responsibility for the ownership and management of their systems and service delivery. As a consequence, there needed to be a write down/impairment of CorpTech's internally generated assets, as the Department of Education and Training and Queensland Health pursue agency specific system solutions.

The total decrement to the Intangible assets of CorpTech in 2010-11 was \$51.5 million. Approximately \$47.9 million (or 93 per cent) of this decrement was due to this change in policy. The decrement impacted on the consolidation of the Department of Public Works accounts, of which CorpTech is a business unit, and contributed to the consolidated loss position for the Department of Public Works at the end of the financial year.

2.5 Management of public sector employee housing – implementation of 2008 recommendations

Employee housing is a valuable state asset, contributing to service delivery. In 2008, an audit was conducted to assess how effectively the Department of Education and Training, Department of Health, Department of Police and Department of Public Works were managing the provision of Queensland Government employee housing. The results of this audit were reported in *Auditor-General Report to Parliament No. 4 for 2008 – Results of audits at 31 May 2008*, which was tabled in Parliament on 8 July 2008.

Overall, the audit identified a need for improvement in the operation of the whole of government management framework and the departmental systems used to manage tenancy and maintenance information. Assessments by the departments of maintenance requirements were not comprehensive. Condition assessments were not timely and maintenance backlogs were not effectively managed. Departmental tenancy management systems were also found to be inadequate for three departments and strategic planning for procuring and maintaining employee housing was inadequate.

Whole of government management of the state employee housing assets was found to be ineffective with poor information available and appropriate management information systems not being in place. The implementation of the model for providing and maintaining employee housing needed to be reviewed to ensure adequate systems and processes were developed and utilised.

An update on the status of these issues included in *Auditor-General Report to Parliament No. 8 for 2010 – Results of audits at 31 May 2010* indicated that positive progress had been made in addressing the issues raised in Auditor-General Report to Parliament No. 4 for 2008.

The status of corrective action has subsequently been followed up with the Director-General, Department of Public Works and the most recent update on action taken received from the Director-General on 23 August 2011 on behalf of the four departments is as follows:

Status of the department transitioning to the centralised management of maintenance records through a centralised maintenance management system

QBuild's Ellipse system is now implemented and is designed to capture all maintenance data across Government for employee housing which QBuild is contracted to manage. Ellipse contains information regarding all maintenance work requested by departments and undertaken by QBuild or by contractors engaged by QBuild. The relevant data can be extracted from Ellipse for reporting purposes.

Implementation and operation of the mandatory whole-of-Government benchmarking and reporting to the Housing Management Committee

The inaugural Government Employee Housing Annual Report 2010 (Policy Requirement 12 of the Government Employee Housing Management Framework (the Framework)) was submitted to the Housing Management Committee on 4 August 2011.

The mandatory report captures employee housing data across all house owning departments. The report has met its objectives in terms of providing a status of the portfolio's performance, agency and Government accountability and transparency, facilitating benchmarking and comparison of individual agency portfolios and identifying risks. In this regard, benchmarking included the monitoring of the condition of housing portfolios, annual maintenance expenditure, deferred maintenance costs and utilisation/vacancy rates.

As the Government is committed to improving the report further in this regard, the Department of Public Works has developed a guideline to assist agencies in the provision of quality and reliable data for the 2011 report.

Use of the upgraded Tenancy Management Information Systems by relevant departments

The Department of Public Works liaised with the departments identified in the 2010 Auditor-General report, each of which is responsible for maintaining a system to provide accurate and complete details. Advice was provided as follows:

- *The Department of Education and Training has advised that it has completed the initial project investigation and has approved funding in 2011-12 for a new Tenancy Management System. The department is now able to appoint a Project Manager to undertake the final investigations and to develop a project plan for the development and implementation of the system.*
- *The Queensland Police Service has advised that its Tenancy Management Policy was endorsed by Cabinet, and the department is currently working throughout Queensland with information sessions prior to its implementation in January 2012. The Queensland Police Service is currently in the process of establishing a new replacement system, which will allow for a greater ability to manage the tenancy requirement, as well as all related asset activities and requirements across Queensland. It is anticipated that the new system will be in place during the last quarter of 2012.*
- *Queensland Health has advised that it is further investigating the possible implementation of the Tenancy Management System used by the Department of Public Works. The impact of the National Health Reform agenda on this possible solution for Queensland Health is affecting Queensland Health's ability to make a final decision. However, Queensland Health is developing/revising systems and process maps to ensure that data integrity is maintained in a new tenancy management information system. As an interim measure, Queensland Health is undertaking six monthly surveys with all Health Service Districts to gather and centrally record employee housing data, which is then cross-referenced with the Government Land Register.*

Furthermore the Department of Public Works has implemented the Government Employee Housing Website portal (Policy Requirement 16 of the Framework). This portal is designed to capture vacant employee housing across government. All departments have access to the portal to check details of vacant properties.'

Audit has confirmed that action has been taken to address the key findings in *Auditor-General Report to Parliament No. 4 for 2008 – Results of audits at 31 May 2008* that related to the management of public sector employee housing. There have been improvements in the role being performed by the Housing Management Committee as well as an improved Government Employee Housing policy framework. Positive outcomes have occurred relating to the monitoring of conditions of employee housing as well as improved standards for new housing.

There are still some areas where further action is required:

- Improvements are still needed to accurately report the level of deferred maintenance for each department.
- Apart from the Department of Public Works, the other departments with public sector employee housing have not yet implemented effective tenancy management systems. Management of vacancies on a whole of government basis requires more active participation from the respective departments. Departments with public sector employee housing other than the Department of Public Works have not yet listed vacant houses on the whole of government Vacant Housing Portal.

All departments responsible for public sector employee housing are encouraged to increase the rate of implementation of the required processes and systems such as an effective tenancy management system and participation in the whole of government vacant housing portal.

The relatively slow implementation of the 2008 audit recommendations is delaying the achievement of efficiencies in the provision of public sector employee housing.

3 | Results of audits – Policy and Fiscal Coordination cluster

Summary

Background

Key entities included in the Policy and Fiscal Coordination cluster are the Department of the Premier and Cabinet, Treasury Department, QIC Limited, Queensland Treasury Corporation and the state's arts bodies.

The Premier and Minister for Reconstruction, the Deputy Premier, Treasurer and Minister for State Development and Trade and the Minister for Finance, Natural Resources and the Arts have responsibilities within this cluster.

Key findings

- Unmodified opinions were issued for the financial statements of all entities within this cluster except for the auditors' opinions of the Department of the Premier and Cabinet and South Bank Corporation, which contained an emphasis of matter paragraph due to issues with asset valuations following the January 2011 floods. The opinions of Gold Coast 2018 Commonwealth Games Bid Ltd and the Brisbane Market Corporation Limited contained an emphasis of matter paragraph as the financial statements were not prepared on a going concern basis.

3.1 Ministerial responsibilities

- The Premier and Minister for Reconstruction is responsible for the Cabinet, Government, drafting legislation, overall public service management, administrative reform and reconstruction following state wide flooding and Cyclone Yasi in 2010-11.
- The Deputy Premier, Treasurer and Minister for State Development and Trade in this policy cluster is responsible for the state budget and taxation, and economic policy.
- The Minister for Finance, Natural Resources and the Arts in this policy cluster is responsible for government owned enterprises, insurance, and the arts.

3.2 Audits included in the policy cluster

Audit	Included in whole of government accounts	Financial statements signed	Opinion issued	Certified within statutory timeframe	Opinion
Departments and controlled entities					
Aboriginal Centre for the Performing Arts Pty Ltd	No	Not completed	Not completed		
Asia Pacific Screen Awards Ltd	No	02.08.2011	05.08.2011	Yes	U
DBCT Holdings Pty Ltd	Yes	15.08.2011	15.08.2011	N/A	U
Department of the Premier and Cabinet	Yes	31.08.2011	31.08.2011	Yes	E
Gold Coast 2018 Commonwealth Games Bid Ltd	No	21.09.2011	28.09.2011	Yes	E
Gold Coast Events Management Ltd (trading as Queensland Events Gold Coast)	No	02.08.2011	05.08.2011	Yes	U
Legislative Assembly and Parliamentary Service	Yes	29.08.2011	30.08.2011	Yes	U
Office of the Governor	Yes	11.08.2011	12.08.2011	Yes	U
Pan Pacific Masters Games Ltd	No	Not completed	Not completed		
Public Service Commission	Yes	30.08.2011	31.08.2011	Yes	U
Queensland Events Corporation Pty Ltd	Yes	03.08.2011	05.08.2011	N/A	U
Queensland Lottery Corporation Pty Ltd	Yes	16.08.2011	18.08.2011	N/A	U
Queensland Music Festival Pty Ltd	No	Not completed	Not completed		
Queensland Treasury Holdings Pty Ltd	Yes	31.08.2011	31.08.2011	Yes	U
Screen Queensland Pty Ltd	No	02.09.2011	02.09.2011	N/A	U
Treasury Department	Yes	31.08.2011	31.08.2011	Yes	U

Opinion key: U=Unmodified Q=Qualified A=Adverse E=Emphasis of matter D=Disclaimer

Continued...

Audit	Included in whole of government accounts	Financial statements signed	Opinion issued	Certified within statutory timeframe	Opinion
Government owned corporations and controlled entities					
QIC Limited	Yes	30.08.2011	31.08.2011	Yes	U
QIC Private Capital Pty Ltd	Yes	30.08.2011	31.08.2011	Yes	U
QIC Properties Pty Ltd	Yes	29.08.2011	31.08.2011	Yes	U
QIC Retail Pty Ltd	Yes	30.08.2011	31.08.2011	N/A	U
Queensland BioCapital Funds Pty Ltd	Yes	30.08.2011	31.08.2011	N/A	U
Joint controlled entities					
Local Government Infrastructure Services Pty Ltd	No	05.09.2011	08.09.2011	Yes	U
Queensland Local Government Workers Compensation Self-Insurance Scheme (Local Government Workcare)	No	Not completed	Not completed		
Statutory bodies and controlled entities					
Board of the Queensland Museum	Yes	19.08.2011	30.08.2011	Yes	U
Brisbane Market Corporation Limited	No	26.10.2011	28.10.2011	Yes	E
Library Board of Queensland	Yes	26.08.2011	31.08.2011	Yes	U
Motor Accident Insurance Commission	Yes	29.08.2011	29.08.2011	Yes	U
Nominal Defendant	Yes	29.08.2011	29.08.2011	Yes	U
Queensland Art Gallery Foundation	Yes	22.08.2011	22.08.2011	N/A	U
Queensland Art Gallery Board of Trustees	Yes	22.08.2011	22.08.2011	Yes	U
Queensland Competition Authority	No	04.08.2011	18.08.2011	Yes	U
Queensland Future Growth Corporation	Yes	26.08.2011	31.08.2011	Yes	U
Queensland Library Foundation	Yes	15.08.2011	21.08.2011	Yes	U
Queensland Museum Foundation Trust	Yes	24.08.2011	30.08.2011	N/A	U
Queensland Performing Arts Trust	Yes	30.08.2011	30.08.2011	Yes	U
Queensland Reconstruction Authority	Yes	31.08.2011	31.08.2011	Yes	U
Queensland Treasury Corporation	Yes	18.08.2011	19.08.2011	Yes	U
South Bank Corporation	Yes	30.08.2011	30.08.2011	Yes	E

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

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Audit	Included in whole of government accounts	Financial statements signed	Opinion issued	Certified within statutory timeframe	Opinion
Audited by arrangement					
2010/2011 Queensland Floods and Cyclone Yasi Disaster Relief Fund	No	Not completed	Not completed		
Board of Trustees of the State Public Sector Superannuation Scheme (QSuper)	No	25.08.2011	05.09.2011	N/A	U
Canberra Centre (No.2) Investment Trust	No	30.08.2011	31.08.2011	N/A	E*
Canberra Centre Investment Trust	No	29.08.2011	31.08.2011	N/A	U
Eastland Shopping Centre Trust	No	29.08.2011	31.08.2011	N/A	U
Innovis Investments Australia Fund	No	28.09.2011	29.09.2011	N/A	E*
Melton Property Trust	No	29.08.2011	31.08.2011	N/A	U
Premier's Disaster Relief Appeal Trust	No	Not completed	Not completed		
Q Invest Limited	No	14.09.2011	20.09.2011	Yes	U
QIC 141 Queen Street Trust	No	30.08.2011	31.08.2011	N/A	U
QIC 80 Collins Street Trust	No	30.08.2011	31.08.2011	N/A	U
QIC Active Large Companies Fund	No	30.08.2011	31.08.2011	N/A	E*
QIC Active Small Companies Fund	No	30.08.2011	31.08.2011	N/A	E*
QIC Australian Equities Fund	No	30.08.2011	31.08.2011	N/A	E*
QIC Australian Fixed Interest Fund	No	28.09.2011	29.09.2011	N/A	E*
QIC Australian Venture Capital Fund	No	28.09.2011	29.09.2011	N/A	E*
QIC Cash Enhanced Fund	No	30.08.2011	31.08.2011	N/A	E*
QIC Cash Fund	No	30.08.2011	31.08.2011	N/A	E*
QIC Castle Towers Trust	No	30.08.2011	31.08.2011	N/A	U
QIC Colonial Centre Trust	No	30.08.2011	29.09.2011	N/A	E*
QIC Coomera Trust	No	29.08.2011	29.09.2011	N/A	E*
QIC Diversified Fixed Interest Fund	No	28.09.2011	29.09.2011	N/A	E*
QIC Emerging Markets Equities Fund	No	30.08.2011	31.08.2011	N/A	E*
QIC Finance (Shopping Centre Fund) Pty Ltd	No	Not completed	Not completed		
QIC GFI Alpha Fund	No	28.09.2011	29.09.2011	N/A	E*
QIC GFI Inflation Plus Fund	No	28.09.2011	29.09.2011	N/A	E*

Opinion key: U=Unmodified Q=Qualified A=Adverse E=Emphasis of matter D=Disclaimer

Continued...

Audit	Included in whole of government accounts	Financial statements signed	Opinion issued	Certified within statutory timeframe	Opinion
QIC Global Credit Fund	No	28.09.2011	29.09.2011	N/A	E*
QIC Global Credit Opportunities Fund	No	28.09.2011	29.09.2011	N/A	E*
QIC Global Listed Real Estate Fund	No	28.09.2011	29.09.2011	N/A	E*
QIC Global Strategy Trust No. 2A	No	28.09.2011	29.09.2011	N/A	E*
QIC Global Strategy Trust No. 2B	No	28.09.2011	29.09.2011	N/A	E*
QIC Global Strategy Trust No. 1	No	28.09.2011	29.09.2011	N/A	E*
QIC Global Strategy Trust No. 2	No	30.08.2011	29.09.2011	N/A	E*
QIC Grand Central Trust	No	30.08.2011	31.08.2011	N/A	U
QIC Growth Fund	No	28.09.2011	29.09.2011	N/A	E*
QIC Hedged International Equities Fund	No	28.09.2011	29.09.2011	N/A	E*
QIC Helensvale Trust	No	29.08.2011	29.09.2011	N/A	E*
QIC Implemented Australian Equities Fund	No	28.09.2011	29.09.2011	N/A	E*
QIC Industrial Trust	No	30.08.2011	29.09.2011	N/A	E*
QIC Infrastructure Mandate No. 2 Trust	No	30.08.2011	30.08.2011	N/A	E*
QIC Infrastructure Mandate No. 2A Trust	No	29.08.2011	29.08.2011	N/A	E*
QIC International Equities Fund	No	28.09.2011	29.09.2011	N/A	E*
QIC January 1999 Trust	No	29.08.2011	31.08.2011	N/A	U
QIC Logan Hyperdome No. 2 Trust	No	29.08.2011	31.08.2011	N/A	U
QIC Logan Hyperdome Trust	No	29.08.2011	31.08.2011	N/A	U
QIC March 2001 Trust	No	29.08.2011	31.08.2011	N/A	U
QIC MLC Centre Trust	No	30.08.2011	31.08.2011	N/A	U
QIC Office Property Fund	No	19.09.2011	29.09.2011	N/A	E*
QIC Ports Trust No. 1A	No	29.08.2011	29.08.2011	N/A	E*
QIC Ports Trust No. 1B	No	29.08.2011	29.08.2011	N/A	E*
QIC Ports Trust No. 2	No	29.08.2011	29.08.2011	N/A	U
QIC Property Fund	No	28.09.2011	29.09.2011	N/A	E*
QIC Retail (No. 2) Fund	No	19.09.2011	29.09.2011	N/A	E*
QIC Ringwood Trust	No	29.08.2011	31.08.2011	N/A	U
QIC Robina Trust	No	29.08.2011	31.08.2011	N/A	U
QIC Shopping Centre Fund	No	30.08.2011	31.08.2011	N/A	E*

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Continued...

Audit	Included in whole of government accounts	Financial statements signed	Opinion issued	Certified within statutory timeframe	Opinion
QIC Stable Fund	No	28.09.2011	29.09.2011	N/A	E*
QIC Strategy Fund No. 1	No	28.09.2011	29.09.2011	N/A	E*
QIC Strategy Fund No. 2	No	28.09.2011	29.09.2011	N/A	E*
QIC Tollroad Funds No. 2	No	30.08.2011	31.08.2011	N/A	E*
QIC Tollroads Fund No. 1	No	29.08.2011	29.08.2011	N/A	E*
QIC Treasury Infrastructure Fund No. 1	No	29.08.2011	29.08.2011	N/A	E*
QIC Treasury Infrastructure Fund No. 2	No	29.08.2011	29.08.2011	N/A	E*
QIC Westpoint Trust	No	30.08.2011	31.08.2011	N/A	U
QLQ Trust No. 1	No	28.09.2011	29.09.2011	N/A	E*
QLQ Trust No. 2	No	28.09.2011	28.09.2011	N/A	E*
QSuper Limited	No	25.08.2011	01.09.2011	Yes	U
Queensland BioCapital Fund No. 1	No	19.09.2011	29.09.2011	N/A	E*
Queensland BioCapital Fund No. 2	No	19.09.2011	29.09.2011	N/A	E*
Queensland Investment Trust No. 1	No	28.09.2011	29.09.2011	N/A	E*
Queensland Investment Trust No. 2	No	28.09.2011	29.09.2011	N/A	E*
The Cyclone Larry Disaster Relief Fund	No	Not completed	Not completed		
Watergardens Trust	No	30.08.2011	31.08.2011	N/A	U

Opinion key: U=Unmodified Q=Qualified A=Adverse E=Emphasis of matter D=Disclaimer

* An emphasis of matter was issued to alert users of the financial statements to the fact that special purpose financial statements had been prepared.

4 | Results of audits – Social Development cluster

Summary

Background

Key entities included in the Social Development cluster are the Department of Communities, Department of Education and Training, Queensland Health, Commission for Children and Young People and Child Guardian, Health Quality and Complaints Commission, Stadiums Queensland, Gold Coast Institute of TAFE and Southbank Institute of Technology.

Ministers having responsibilities within this cluster are the Minister for Child Safety and Sport, the Minister for Community Services and Housing, and Minister for Women, the Minister for Disabilities, Mental Health and Aboriginal and Torres Strait Islander Partnerships, the Minister for Education and Industrial Relations, the Minister for Employment, Skills and Mining, the Minister for Health and the Minister for Transport and Multicultural Affairs.

Key findings and issues

- A qualified opinion was issued on Queensland Health's annual financial statements for 2010-11, covering two areas, the lack of adequate internal controls over employee expenses and insufficient evidence to support payroll receivables.
- The National Health Reform Agreement has created 17 new statutory bodies however current financial systems at Queensland Health are unable to meet financial management and accountability requirements for these bodies. This matter needs to be resolved prior to the 1 July 2012 deadline for the commencement of these bodies' operations.
- Since the establishment of Southbank Institute of Technology on 1 April 2008, a formal rental lease agreement to sublease the premises from the Department of Education and Training had not been formalised. This agreement is now in place.
- Qualified opinions were issued for the Bundaberg Health Services Foundation, Gold Coast Hospital Foundation, PA Research Foundation, Redcliffe Hospital Foundation and Townsville Hospital Foundation. An emphasis of matter paragraph was included in the auditor's opinion of the Family Responsibilities Commission, the Queensland Institute of Medical Research Trust and the Queensland College of Wine Tourism.
- Unmodified opinions were issued for the financial statements of all other entities within this policy cluster.

4.1 Ministerial responsibilities

- The Minister for Child Safety and Sport is responsible for child protection, adoption, sport and recreation and motor racing.
- The Minister for Community Services and Housing, and Minister for Women is responsible for community services, social inclusion, seniors, youth, housing services, homelessness, accommodation services, including boarding houses, and residential parks, and women's policy.
- The Minister for Disabilities, Mental Health and Aboriginal and Torres Strait Islander Partnerships is responsible for disability services, Home and Community Care, mental health and Aboriginal and Torres Strait Islander policy, rights and culture.
- The Minister for Education and Industrial Relations is responsible for education, schools, early childhood education and care, non-state school funding, and teacher registration.
- The Minister for Employment, Skills and Mining in this policy cluster is responsible for vocational education and training, skills and workforce development, Skills Queensland and TAFE.
- The Minister for Health is responsible for hospitals, public health, oral health, Aboriginal and Torres Strait Islander health and community health.
- The Minister for Transport and Multicultural Affairs in this policy cluster is responsible for multicultural affairs.

4.2 Key issues

4.2.1 Queensland Health payroll

Background

Queensland Health implemented the new SAP HR payroll system that delivered its first pay on 24 March 2010, and experienced significant problems in paying employees accurately and on time. Issues included over and underpayments, disruptions to payroll activities and backlogs of unprocessed payroll forms.

During 2009-10, QAO reviewed the system implementation and made a range of recommendations in *Auditor-General Report to Parliament No. 7 for 2010 – Information systems governance and control, including the Queensland Health Implementation of Continuity Project*. These recommendations were accepted and are currently being implemented by the department. In addition, the department engaged Ernst & Young to review the ongoing implementation of the payroll and rostering system and committed to implementing the recommendations of their report. The report provided advice on future direction for the payroll system with a recommendation for reconfiguration of the proposed solution over three years.

Audit findings

A qualified opinion was issued on Queensland Health's annual financial statements for 2010-11. The opinion covered the following two areas.

Lack of adequate internal controls over employee expenses

During 2010-11 payroll testing was performed which identified that the lack of adequate payroll processing controls had contributed to a significant number of employees not being paid accurately during the year. The payroll integrity issues identified in 2009-10 and the ongoing inaccuracies occurring in individual employee pays resulted in the issuing of the qualified auditor's opinion. While the reported expenditure for employee expenses was not considered to be materially misstated, the quantum and volume of error that was evident in individual employees' pays meant that the Department had again failed to satisfy the prescribed requirement to maintain an appropriate system of internal control in relation to its expense management system for employee expenses.

Insufficient evidence to support payroll receivables

The auditor's opinion was also qualified in relation to \$59.448 million in payroll receivables recognised in the financial statements, due to the department not having agreements from the majority of employees as to the amounts claimed by the department to be salary overpayments. Following a moratorium on overpayments recovery action in mid July 2011, the department is yet to obtain acknowledgement from over 30,000 affected employees that the amounts included in salary overpayment letters were accepted as an overpayment by those employees.

In the absence of such acknowledgements, there was significant uncertainty as to the accuracy of the total shown in the department's financial statements as a receivable. This together with the continuing payroll integrity issues and the ongoing overpayments being made each fortnight made it difficult to attest to the completeness, accuracy and recoverability of the payroll receivable and the associated impairment allowance.

It is understood that overpayments currently average at less than one per cent of the total employee pays for each fortnight. Based on audit activity, the systems and processes implemented by the department address salary underpayments recognised within the system in a reasonably short timeframe and the total amount of underpayments appears to be relatively small compared to the recorded amount of overpayments. Departmental analysis indicates that the majority of underpayments and overpayments are as a result of late submission of documentation by employees and supervisors resulting in payroll transactions not being processed by the required pay cutoff date, rather than being caused by deficiencies in the SAP payroll framework computer system.

The department's commitment to improve the payroll system through implementing recommendations from audit and other advisors such as Ernst & Young is evident. This commitment will continue to be tested by audit until the outcomes from the department's focus on improving work practices reaches a point where timely processing of payroll adjustments is in place to resolve under and overpayment issues as they occur.

Audit is supportive of the actions being undertaken by the department and will continue to liaise with management and monitor systems' enhancements as they are implemented.

4.2.2 Implementation of the National Health Reform Agreement

The National Health Reform Agreement between the Commonwealth Government and the states and territories will result in the establishment of local health and hospitals networks that will be responsible for the delivery of public hospital health services and other health services. The National Health Reform Agreement requires that the local health and hospitals networks be separate legal entities that are independent and locally controlled by a governing council. As a result, it is proposed 17 separate statutory bodies will be established in Queensland by 1 July 2012.

As statutory bodies, each local health and hospital network will be required by the *Financial Accountability Act 2009* to produce separate financial statements, that is, Statement of Cash Flows, Statement of Comprehensive Income, Statement of Financial Position and Statement of Changes in Equity and be subject to audit by the Auditor-General.

Queensland Health's existing FAMMIS (SAP 4.6B) financial system was originally implemented in 2000 to support the department's current operating model as a single legal entity. The existing systems and processes cannot support the new arrangements without significant changes being made to both the business operating model and the finance and human resource system. These changes will require significant effort and will require more time and resources for design and implementation before the local health and hospitals networks will be able to produce independent auditable financial statements.

The FAMMIS finance system was implemented with one company code and one bank account. To enable local health and hospital networks to report their financial position, the system would be required to support 18 bank accounts. The system provider, Queensland Shared Services, have advised Queensland Health that setting up of an additional 17 company codes in the FAMMIS system is too risky as it would increase infrastructure and hardware demands above the current capacity. The FAMMIS system has not had vendor support for approximately five years and has not been updated during this time.

The following issues were identified as part of an initial analysis conducted by the department in consultation with Queensland Shared Services into the ICT functional requirements for the establishment of local health and hospitals networks:

- Separate bank accounts cannot be set up in the existing system. Local health and hospitals networks would not be able to account for their liquidity/cash position on a daily basis.
- The FAMMIS system can only report GST at the company code level. Local health and hospitals networks would not be able to record their GST payments and refunds, affecting their ability to report their financial position.
- Significant manual rework is required to develop new reporting structures in the FAMMIS system. This may not be achieved by 1 July 2012.
- Local health and hospitals networks will be unable to account for all their transactions to reconcile against their cash at bank position.
- The existing procurement process places multiple local health and hospitals networks within one purchase order, invoice and payment. Local health and hospitals networks cannot account for their procurement transactions without lengthy out of system processes to reconcile and pay for their purchases.

- The system does not support inter-entity trading. Local health and hospital networks require a method of trading between themselves and with the department in order to accurately report their financial obligations and benefits.
- Twenty-eight clinical and enterprise wide systems interface with the FAMMIS system. It is unknown what flow on affects system changes in the FAMMIS system would have on these systems.

While the intent of the proposed legislation is that local health and hospital networks are to be independent and locally controlled, until changes are made to the FAMMIS system, local health and hospitals networks will not be able to monitor or manage their cash position and will therefore not have full control over their operations.

The department has estimated that it will take approximately 18 to 24 months to implement a new financial system (SAP ECC6), including analysis and implementation of new business processes. Upgrading the existing FAMMIS system would involve the need to carefully manage the significant risk from the system not receiving general maintenance from the vendor. In addition, the current system lacks functionality that is available in newer versions of SAP used by a number of other agencies.

The inability of current financial systems at Queensland Health to meet the financial management and accountability requirements of the National Health Reform Agreement is a matter of significant concern. The identification of an acceptable financial management framework will be required prior to the 1 July 2012 deadline for the commencement of the operations of these statutory bodies.

4.2.3 Department of Education and Training – formalisation of rental agreement with Southbank Institute of Technology

Auditor-General Report to Parliament No. 13 for 2010 – Results of audits at 31 October 2010, reported that since the establishment of Southbank Institute of Technology as a separate statutory TAFE institute on 1 April 2008, a formal rental lease agreement to sublease the premises from the department had not been formalised.

Although some progress was made during the 2010-11 financial year by both agencies to address the matter, an agreement was not signed during that period. The agencies had developed:

- Draft sub-sublease agreement (peppercorn lease of \$1 per annum).
- Contribution and cooperation deed outlining the financial contribution paid by the Southbank Institute of Technology to the State. This deed excludes the amounts relating to the ongoing maintenance and life cycle costs arising from existing variations. Future variations will be the subject of a future agreement between the State of Queensland and the Southbank Institute of Technology.

The Southbank Institute of Technology Board signed the formal lease agreement on 24 August 2011. The agreement was signed by the Department of Education and Training on 15 September 2011.

4.3 Audits included in the policy cluster

Audit	Included in whole of government accounts	Financial statements signed	Opinion issued	Certified within statutory timeframe	Opinion
Departments and controlled entities					
Aviation Australia Pty Ltd	No	08.09.2011	15.09.2011	Yes	U
BCITF (Qld) Limited (trading as Construction Skills Queensland)	No	23.08.2011	29.08.2011	N/A	U
Department of Communities	Yes	05.09.2011	06.09.2011	No	U
Department of Communities – Retail Stores	No	30.08.2011	31.08.2011	Yes	U
Department of Education and Training	Yes	25.08.2011	31.08.2011	Yes	U
Department of Health	Yes	01.09.2011	01.09.2011	No	Q
Gold Coast Events Co. Pty Ltd	Yes	07.10.2011	10.10.2011	N/A	U
Lazy Acres Caravan Park	No	Not completed	Not completed		
The Monte Carlo Caravan Park Trust	No	Not completed	Not completed		
Woombye Gardens Caravan Park	No	Not completed	Not completed		
Joint controlled entities					
Queensland Children's Medical Research Institute	No	29.09.2011	30.09.2011	Yes	U
Queensland College of Wine Tourism	No	19.08.2011	31.08.2011	N/A	E*
Queensland Tertiary Admissions Centre Limited	No	23.10.2011	24.10.2011	Yes	U
Statutory bodies					
Bundaberg Health Services Foundation	No	23.08.2011	06.09.2011	No	Q
Commission for Children and Young People and Child Guardian	Yes	31.08.2011	31.08.2011	Yes	U
Dental Technicians Board of Queensland	No	31.08.2011	01.09.2011	No	U
Family Responsibilities Commission	No	19.08.2011	23.08.2011	Yes	E
Far North Queensland Hospital Foundation	No	30.08.2011	30.08.2011	Yes	U
Gold Coast Hospital Foundation	No	09.09.2011	15.09.2011	No	Q
Gold Coast Institute of TAFE	Yes	29.08.2011	29.08.2011	Yes	U

Opinion key: U=Unmodified Q=Qualified A=Adverse E=Emphasis of matter D=Disclaimer

Continued...

Audit	Included in whole of government accounts	Financial statements signed	Opinion issued	Certified within statutory timeframe	Opinion
Health Quality and Complaints Commission	Yes	30.08.2011	31.08.2011	Yes	U
Ipswich Hospital Foundation	No	13.08.2011	29.08.2011	Yes	U
Mackay Hospital Foundation	No	11.10.2011	13.10.2011	No	U
Medical Radiation Technologists Board of Queensland	No	29.08.2011	01.09.2011	No	U
Mt Gravatt Showgrounds Trust [^]	No	30.06.2011	30.06.2011	Yes	U
Non-State Schools Accreditation Board	No	23.08.2011	23.08.2011	Yes	U
Occupational Therapists Board of Queensland	No	30.08.2011	01.09.2011	No	U
Office of Health Practitioner Registration Boards	No	05.09.2011	08.09.2011	No	U
PA Research Foundation	No	29.08.2011	06.09.2011	No	Q
Prince Charles Hospital Foundation Trust	No	18.08.2011	18.08.2011	Yes	U
Queensland Institute of Medical Research Trust ⁺	No	30.06.2011	19.07.2011	Yes	E
Queensland Studies Authority	Yes	26.08.2011	29.08.2011	Yes	U
Redcliffe Hospital Foundation	No	26.09.2011	04.10.2011	No	Q E
Residential Tenancies Authority	Yes	19.08.2011	19.08.2011	Yes	U
Residential Tenancies Employing Office	No	19.08.2011	19.08.2011	Yes	U
Royal Brisbane and Women's Hospital Foundation	No	29.08.2011	30.08.2011	Yes	U
Skills Queensland #	No	23.08.2011	25.08.2011	Yes	U
Southbank Institute of Technology	Yes	31.08.2011	31.08.2011	Yes	U
Speech Pathologists Board of Queensland	No	30.08.2011	01.09.2011	No	U
Stadiums Queensland	Yes	23.08.2011	24.08.2011	Yes	U
Sunshine Coast Health Foundation	No	31.08.2011	31.08.2011	Yes	U
The Council of the Queensland Institute of Medical Research	Yes	02.09.2011	06.09.2011	No	U
The Prince Charles Hospital Foundation	No	18.08.2011	18.08.2011	Yes	U
The Royal Children's Hospital Foundation	No	06.09.2011	12.09.2011	No	U
Toowoomba Hospital Foundation	No	25.08.2011	25.08.2011	Yes	U
Townsville Hospital Foundation	No	24.08.2011	30.08.2011	Yes	Q

Opinion key: U=Unmodified Q=Qualified A=Adverse E=Emphasis of matter D=Disclaimer

Continued...

Audit	Included in whole of government accounts	Financial statements signed	Opinion issued	Certified within statutory timeframe	Opinion
Audited by arrangement					
Building and Construction Industry Training Fund (Qld)	No	23.08.2011	29.08.2011	N/A	U
Queensland Education Leadership Institute Limited	No	20.09.2011	23.09.2011	Yes	U

Opinion key: U=Unmodified Q=Qualified A=Adverse E=Emphasis of matter D=Disclaimer

* An emphasis of matter was issued to alert users of the financial statements to the fact that special purpose financial statements had been prepared.

^ Mt Gravatt Showgrounds Trust's financial year was 1 April 2010 to 30 April 2011.

+ Queensland Institute of Medical Research Trust's financial year was 1 July 2010 to 1 February 2011.

Skills Queensland's financial year was 20 December 2010 to 30 June 2011.

5 | Results of audits – Environment and Sustainable Resource Management cluster

Summary

Background

Key entities included in the Environment and Sustainable Resource Management cluster are the Department of Environment and Resource Management, Gladstone Area Water Board, Mount Isa Water Board, and other water boards, drainage boards and river improvement trusts.

The Minister for Energy and Water Utilities, the Minister for Environment and Resource Management and the Minister for Finance, Natural Resources and the Arts have responsibilities within this cluster.

Key findings and issues

- Qualified opinions were issued for North Burdekin Water Board and South Burdekin Water Board because, as in 2009-10, an opinion was unable to be expressed on the reported depreciation expense.
- Opinions issued for the financial statements of 62 audits contained an emphasis of matter paragraph due to the requirements of Australian Auditing Standard ASA 800 *Special Considerations – Audits of Financial Reports Prepared in Accordance with Special Purpose Frameworks*.
- All other entities were issued with unmodified opinions.

5.1 Ministerial responsibilities

- The Minister for Energy and Water Utilities in this policy cluster is responsible for bulk water supply, distribution and retail.
- The Minister for Environment is responsible for environment, climate change policy and science, historical cultural heritage, waste management, coastal management, and wet tropics management.
- The Minister for Finance, Natural Resources and the Arts in this policy cluster is responsible for land, including conservation, land titles, valuations, state land, land protection and Aboriginal and Torres Strait Islander land interests, water recycling, place names, native title, and natural resources management.

5.2 Audits included in the policy cluster

Audit	Included in whole of government accounts	Financial statements signed	Opinion issued	Certified within statutory timeframe	Opinion
Department and controlled entity					
Department of Environment and Resource Management	Yes	26.08.2011	31.08.2011	Yes	U
Ecofund Queensland Pty Ltd	No	26.07.2011	02.08.2011	N/A	U
The Balance the Earth Trust	No	05.08.2011	10.08.2011	N/A	U
Joint controlled entity					
State Council of River Trusts Queensland, Inc	No	18.08.2011	26.09.2011	No	E*
Statutory bodies					
Avondale Water Board	No	26.07.2011	15.08.2011	Yes	E*
Babinda Swamp Drainage Board	No	26.07.2011	07.09.2011	No	E*
Benleith Water Board	No	26.07.2011	05.08.2011	Yes	E*
Bollon South Water Authority	No	Not completed	Not completed		
Bollon West Water Authority	No	29.07.2011	06.09.2011	No	E*
Bones Knob Water Board	No	28.07.2011	10.08.2011	Yes	E*
Boondooma Water Board	No	21.07.2011	03.08.2011	Yes	E*
Brigooda Water Board	No	06.08.2011	15.08.2011	Yes	E*
Burdekin Shire Rivers Improvement Trust	No	21.07.2011	09.09.2011	No	E*
Cairns River Improvement Trust	No	08.08.2011	31.08.2011	Yes	E*
Callandoon Water Supply Board	No	27.07.2011	13.09.2011	No	E*

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Audit	Included in whole of government accounts	Financial statements signed	Opinion issued	Certified within statutory timeframe	Opinion
Cardwell Shire River Improvement Trust	No	22.07.2011	31.08.2011	Yes	E*
Clifton Shire River Improvement Trust	No	19.07.2011	31.08.2011	Yes	E*
Condamine Plains Water Board	No	29.07.2011	04.08.2011	Yes	E*
Coreen Water Board	No	14.07.2011	28.07.2011	Yes	E*
Cowley Drainage Board	No	29.07.2011	11.08.2011	Yes	E*
Crowley Vale Water Board	No	15.09.2011	05.10.2011	No	E*
Currumbin Bird Sanctuary	No	29.08.2011	09.09.2011	No	U
Don River Improvement Trust	No	02.08.2011	13.09.2011	No	E*
Dundowran-Nikenbah Water Board	No	25.07.2011	09.09.2011	No	E*
East Deeral Drainage Board	No	03.08.2011	09.09.2011	No	E*
East Euramo Drainage Board	No	31.07.2011	31.08.2011	Yes	E*
Eugun Bore Water Authority	No	30.07.2011	06.09.2011	No	E*
Fernlee Water Authority	No	26.07.2011	27.10.2011	No	E*
Gladstone Area Water Board	Yes	29.08.2011	30.08.2011	Yes	U
Glamorgan Vale Water Board	No	27.07.2011	06.10.2011	No	E*
Grevillea Water Board	No	22.07.2011	28.07.2011	Yes	E*
Herbert River Improvement Trust	No	07.07.2011	06.09.2011	No	E*
Ingie Water Authority	No	30.07.2011	27.09.2011	No	E*
Ipswich Rivers Improvement Trust	No	28.07.2011	14.09.2011	No	E*
Johnstone Shire River Improvement Trust	No	14.07.2011	31.08.2011	Yes	E*
Jondaryan Shire River Improvement Trust	No	09.08.2011	09.09.2011	No	E*
Juandah Water Board	No	20.07.2011	07.09.2011	No	E*
Kaywanna Bore Water Board	No	26.07.2011	23.10.2011	No	E*
Kelsey Creek Water Board	No	18.07.2011	02.08.2011	Yes	E*
Kooingal Water Board	No	14.07.2011	28.07.2011	Yes	E*
Lower Herbert Water Management Authority	No	14.07.2011	03.08.2011	Yes	E*
Marathon Bore Water Supply Board	No	19.07.2011	10.08.2011	Yes	E*
Matthews Road Drainage Board	No	26.07.2011	31.08.2011	Yes	E*
Merlwood Water Board	No	19.07.2011	02.08.2011	Yes	E*
Middle Park Bore Water Supply Board	No	20.07.2011	10.08.2011	Yes	E*

Opinion key: U=Unmodified Q=Qualified A=Adverse E=Emphasis of matter D=Disclaimer

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Audit	Included in whole of government accounts	Financial statements signed	Opinion issued	Certified within statutory timeframe	Opinion
Mount Isa Water Board	Yes	24.08.2011	30.08.2011	Yes	U
Mourilyan Drainage Board	No	21.07.2011	09.09.2011	No	E*
Mulgildie Water Board	No	19.07.2011	28.07.2011	Yes	E*
Myall Plains Water Authority	No	05.08.2011	13.09.2011	No	E*
National Trust of Queensland	No	31.08.2011	31.08.2011	Yes	U
North Burdekin Water Board	No	02.09.2011	29.09.2011	No	Q
Oaky Creek Water Board	No	21.07.2011	28.07.2011	Yes	E*
Orchard Creek Drainage Board	No	31.07.2011	31.08.2011	Yes	E*
Palmgrove Water Board	No	19.07.2011	29.07.2011	Yes	E*
Pioneer River Improvement Trust	No	31.08.2011	05.09.2011	No	E*
Pioneer Valley Water Board	No	26.08.2011	29.08.2011	Yes	U
Queensland Water Commission	No	30.08.2011	31.08.2011	Yes	U
Riversdale-Murray Valley Water Management Board	No	24.07.2011	31.08.2011	Yes	E*
Roadvale Water Board	No	26.07.2011	10.08.2011	Yes	E*
Scenic Rim Rivers Improvement Trust	No	08.07.2011	19.07.2011	Yes	E*
Silkwood Drainage Board	No	08.08.2011	14.09.2011	No	E*
Six Mile Creek Water Supply Board	No	21.07.2011	05.08.2011	Yes	E*
Smithfield Drainage Board	No	26.07.2011	09.09.2011	No	E*
South Burdekin Water Board	No	02.09.2011	29.09.2011	No	Q
South Maroochy Drainage Board	No	Not completed	Not completed		
Stagnant Creek Drainage Board	No	24.07.2011	31.08.2011	Yes	E*
Stanthorpe Shire River Improvement Trust	No	14.09.2011	26.09.2011	No	E*
Surveyors Board of Queensland	No	01.08.2011	05.08.2011	Yes	U
Taberna Bore Water Board	No	Not completed	Not completed		
The Board of Trustees of Newstead House	No	01.09.2011	15.09.2011	No	U
Valuers Registration Board of Queensland	No	22.08.2011	25.08.2011	Yes	U
Wambo Shire River Improvement Trust	No	03.07.2011	31.08.2011	Yes	E*
Wanda Creek Drainage Board	No	25.07.2011	09.09.2011	No	E*
Warwick Shire River Improvement Trust	No	27.07.2011	31.08.2011	Yes	E*

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Continued...

Audit	Included in whole of government accounts	Financial statements signed	Opinion issued	Certified within statutory timeframe	Opinion
Washpool Water Board	No	18.07.2011	02.08.2011	Yes	E*
Weengallon Water Authority	No	20.09.2011	20.09.2011	No	E*
Whitsunday Rivers Improvement Trust	No	25.07.2011	10.09.2011	No	E*
Woodmillar Water Board	No	14.07.2011	29.07.2011	Yes	E*
Yambocully Water Board	No	29.07.2011	04.08.2011	Yes	E*
Audited by arrangement					
Queensland Trust For Nature Fund	No	27.09.2011	08.10.2011	N/A	U

Opinion key: U=Unmodified Q=Qualified A=Adverse E=Emphasis of matter D=Disclaimer

* An emphasis of matter was issued to alert users of the financial statements to the fact that special purpose financial statements had been prepared.

6 | Results of audits – Employment and Economic Development cluster

Summary

Background

Among the entities included in the Employment and Economic Development policy cluster are the Department of Employment, Economic Development and Innovation, Department of Local Government and Planning, Department of Transport and Main Roads, ENERGEX Limited, Queensland Rail Limited, SEQ Water Grid Manager, and other energy and water entities.

The Deputy Premier, Treasurer and Minister for State Development and Trade, the Attorney-General, Minister for Local Government and Special Minister of State, the Minister for Energy and Water Utilities, the Minister for Main Roads, Fisheries and Marine Infrastructure, the Minister for Agriculture, Food and Regional Economies, the Minister for Employment, Skills and Mining and the Minister for Tourism, Manufacturing and Small Business have responsibilities within this policy cluster.

Key findings and issues

- The Queensland Government owned electricity generators, CS Energy Limited, Stanwell Corporation Limited and Tarong Energy Corporation Limited were restructured into two entities from 1 July 2011 resulting in significant impacts on the audits of each of the restructuring entities for the 2010-11 financial year. Due to the uncertainty surrounding the impact of the Commonwealth Government policy to introduce a price on carbon and the associated impairment modelling, an emphasis of matter paragraph was included in the auditor's opinion of each of the generator entities.
- In 2010, South East Queensland's water sector was reformed with a key change being the reduction in the number of organisations involved in managing and distributing water supplies. A number of issues arose for entities in this sector including significant uncertainty regarding the water pricing mechanism post 30 June 2011, going concern issues, National Tax Equivalent Regime and debt levels. These issues resulted in two qualified auditors' opinions and seven emphasis of matter references.
- The natural disasters in late 2010 and early 2011 have led to an increase in community organisations being set up to collect donations to provide assistance to local residents impacted by the disasters. A review was conducted over information provided by the local governments to assess whether these entities should be considered to be controlled by the relevant local governments.
- Two qualified opinions were issued for Local Buy Trading Trust and The Rockhampton Art Gallery Trust. Emphasis of matter paragraphs were included in the opinions of 14 other entities.

6.1 Ministerial responsibilities

- The Deputy Premier, Treasurer and Minister for State Development and Trade in this policy cluster is responsible for economic development, copyright and intellectual property, innovation, trade development, and industrial development.
- The Attorney-General, Minister for Local Government and Special Minister of State in this policy cluster is responsible for local governments, land use planning, urban growth, occupational licensing, and building and plumbing standards.
- The Minister for Agriculture, Food and Regional Economies is responsible for animal welfare, agricultural chemicals, biosecurity, food and fibre production, plant and animal diseases, forestry, racing, rural communities and regional economies.
- The Minister for Energy and Water Utilities in this policy cluster is responsible for clean energy, energy efficiency and industry development, electricity, gas, nuclear and renewable energy.
- The Minister for Employment, Skills and Mining in this policy cluster is responsible for employment, and mining and petroleum, including safety and health.
- The Minister for Main Roads, Fisheries and Marine Infrastructure in this policy cluster is responsible for main roads, busways, maritime, ports and fisheries.
- The Minister for Transport and Multicultural Affairs in this policy cluster is responsible for passenger transport, land transport and safety, transport infrastructure, railways, and air services.
- The Minister for Tourism, Manufacturing and Small Business is responsible for tourism development and promotion, manufacturing industry and small business.

6.2 Key issues

6.2.1 Restructure of the electricity generation sector

Legislative background

On 25 November 2010, the Treasurer announced the Queensland Government's intention to restructure the State owned electricity generators, CS Energy Limited, Stanwell Corporation Limited and Tarong Energy Corporation Limited into two restructured entities from 1 July 2011. The *Government Owned Corporations (Generator Restructure) Regulation 2011* commenced on 1 July 2011 and resulted in:

- Gladstone Interconnection and Power Pooling Agreement transferring from Stanwell Corporation Limited to CS Energy Limited.
- Wivenhoe Hydro Power Station transferring from Tarong Energy Corporation Limited to CS Energy Limited.
- Tarong Power Station, Tarong North Power Station, Meandu Mine and Kunioon coal assets and corporate assets and liabilities transferring from Tarong Energy Corporation Limited to Stanwell Corporation Limited.
- Collinsville Power Purchase Agreement, Swanbank E Power Station, Swanbank B Power Station and Mica Creek Power Station transferring from CS Energy Limited to Stanwell Corporation Limited.
- Glen Wilga and Haystack Road coal resources transferring from Tarong Energy Corporation Limited to CS Energy Limited.
- The government owned corporation status of Tarong Energy Corporation Limited being revoked.

The following values of assets and liabilities (including provision for onerous contract values) held for distribution were reported in the financial statements at 30 June 2011 as shown in Figure 6A.

Figure 6A – Values of assets and liabilities held for distribution

Entity	Assets held for distribution	Liabilities held for distribution
CS Energy Limited	\$273.956m	\$278.828m
Stanwell Corporation Limited	\$69.857m	\$184.724m
Tarong Energy Corporation Limited	\$1,733.906m	\$1,011.278m

Process for restructure and impact on 2010-11 financial statements

While the restructure of the industry occurred on 1 July 2011, there was a significant impact on the audit of each of the restructuring entities for the 2010-11 financial year.

The Genco Review Government Implementation Team established within Treasury Department to coordinate the transfers engaged Deloitte Touche Tohmatsu to provide specific accounting advice relating to the restructure. QAO's role included liaising with the Genco Review Government Implementation Team and Deloitte Touche Tohmatsu as required while the audits of the financial statements of each of the restructured entities were performed for the 2010-11 financial year by QAO (CS Energy Limited) and through contract auditors.

In preparing their financial statements as at 30 June 2011, each of the generators adopted discounted cash flow methodologies for the purposes of determining the value of their assets at either:

- Fair value less cost to distributed under AASB 5 *Non-current Assets Held for Sale and Discontinued Operations*; or
- Value in use under AASB 136 *Impairment of Assets*.

The discounted cash flow methodologies adopted by the generators were based on a number of significant assumptions relating to the projection of future cash flows and resulted in each of the entities recognising the following impairment losses in respect of generation and mining assets for the financial year ended 30 June 2011:

- CS Energy Limited – \$773.2 million.
- Stanwell Corporation Limited – \$234.2 million.
- Tarong Energy Corporation Limited – \$713.5 million.

A key assumption used in the discounted cash flow model related to weighted carbon price scenarios. The scenarios recognised the significant uncertainty arising from the proposed introduction of the Commonwealth Government's *Securing a Clean Energy Future – the Australian Government's Climate Change Plan* which has impacted on the fair value of generation assets.

At the time of finalising the financial statements for CS Energy Limited, Stanwell Corporation Limited and Tarong Energy Corporation Limited, there was a lack of enacted legislation for a carbon pricing mechanism in Australia however, the introduction of a price on carbon was becoming increasingly more likely.

While the Commonwealth Government's carbon pricing mechanism was released subsequent to 30 June 2011, given the accounting standard requirements for management's best estimates of economic conditions, the Commonwealth Government's Plan provides further information about assumptions that existed at reporting date. While there was still uncertainty regarding the final form of the carbon pricing mechanism and associated legislation, the directors of all three entities were of the view that the information available should be incorporated into the respective impairment models to enable the determination of the recoverable amounts of affected assets. Certain onerous contract provisions were also affected by the carbon price trajectory chosen.

In this regard, CS Energy Limited, Stanwell Corporation Limited and Tarong Energy Corporation Limited included in their financial statements their rationale for the carbon price trajectory to be adopted for valuation purposes.

In order to provide an opinion on the various models, including the market assumptions used, Queensland Treasury Corporation's Infrastructure Modelling Team was engaged by QAO to provide an expert's opinion on:

- The relevant asset values reported in the 2010-11 financial statements of each of the entities.
- The opening balances of generation assets and onerous contract provision in the 2011-12 financial statements of the two restructured entities.

Restructuring entities' auditors' opinions

Due to the uncertainty surrounding the proposed carbon price mechanism and the associated impairment modelling, an emphasis of matter paragraph was included in the auditor's opinion of each of the generator entities financial statements to draw the reader's attention to this matter. Further details can be found in Section 1.2.3.

Other external audit engagements relating to the restructure

Assets, liabilities and employees associated with each of the business units were transferred as part of the restructure on 1 July 2011 under the *Government Owned Corporations (Generator Restructure) Regulation 2011*. The Regulation also required the preparation of asset schedules and balance sheets as soon as practicable after the transfer dates. QAO performed an assurance engagement for the Office of Government Owned Corporations and the two restructured entities over the asset schedules and balance sheets.

6.2.2 South East Queensland Water Grid

South East Queensland water grid structure

In 2010, South East Queensland's water sector was reformed with a key change being the reduction in the number of organisations involved in managing and distributing water supplies to six and the SEQ Water Grid Manager. The entities are:

- Queensland Bulk Water Supply Authority (trading as Seqwater) catches, stores and treats water by managing catchments, owning, operating and maintaining storages and providing water services to SEQ Water Grid Manager.
- Queensland Manufactured Water Authority (trading as WaterSecure) supplies desalinated water to the water grid and supplies purified recycled water to power stations and other customers. On 1 July 2011, Seqwater and WaterSecure merged into one organisation retaining the name Seqwater.

- Queensland Bulk Water Transport Authority (trading as Linkwater) manages, operates and maintains South East Queensland's potable bulk water pipelines and moves drinking water from treatment plants and reservoirs through bulk pipelines and into the distribution networks, for the SEQ Water Grid Manager.
- The SEQ Water Grid Manager operates the South East Queensland water grid and oversees the flow of water around the grid. It purchases services to store, treat, produce and transport bulk water from Seqwater, Linkwater and WaterSecure. It then sells water to council owned retail distributors/retailers.
- Three distributor-retailers sell and deliver drinking water to customers and collect, transport and treat wastewater and sewerage, and service different areas of South East Queensland:
 - Central SEQ Distributor-Retailer Authority (trading as Queensland Urban Utilities) is the distribution and retail water authority for Brisbane, Scenic Rim, Ipswich, Somerset and Lockyer Valley area.
 - Southern SEQ Distributor-Retailer Authority (trading as Allconnex Water) is the distribution and retail water authority for the Gold Coast, Logan and Redlands area.
 - Northern SEQ Distributor-Retailer Authority (trading as Unitywater) is the distribution and retail water authority for the Sunshine Coast and Moreton Bay areas.

On 7 April 2011, the Premier announced that the Queensland Government would amend the *South East Queensland Water (Distribution Retail and Restructuring) Act 2009*, and provide participating councils the option to withdraw from the Authority and re-establish water and wastewater businesses within direct Council operations. Councils were required to advise the Queensland Government of their preferred water business structure by 1 July 2011. If councils chose to withdraw from the distributor-retailers, the change is to be implemented by 1 July 2012 subject to necessary legislative amendments being agreed by Parliament.

Gold Coast City Council, Redland City Council and Logan City Council subsequently voted to withdraw from Allconnex Water.

Results of 2010-11 audits

Figure 6B shows the results of these 2010-11 water entity audits.

Figure 6B – Results of 2010-11 water entity audits

Water entity	2010-11 opinion	2010-11 result (\$m)		
		Property, plant and equipment	Debt	Operating result
Queensland Bulk Water Transport Authority (trading as Linkwater)	Qualified opinion in relation to the value of deferred tax assets and an emphasis of matter relating to the significant uncertainty surrounding water pricing.	2,084	1,787	(21)
Queensland Bulk Water Supply Authority (trading as Seqwater)	Unmodified opinion but included an emphasis of matter relating to the significant uncertainty surrounding water pricing.	2,898	2,143	10
Queensland Manufactured Water Authority (trading as WaterSecure)	Qualified opinion in relation to the value of deferred tax assets, an emphasis of matter relating to the significant uncertainty surrounding water pricing and an emphasis of matter due to its abolition and transfer of assets and liabilities to the Queensland Bulk Water Supply Authority.	3,109	2,555	(29)
SEQ Water Grid Manager	Unmodified opinion.	1	1,143	(438)
Southern Distributor-Retailer Authority (trading as Allconnex Water)	Unmodified opinion but included an emphasis of matter relating to the status of the entity as a going concern, and significant uncertainty surrounding water pricing post 30 June 2013.	4,176	1,971	(28)
Northern Distributor-Retailer Authority (trading as Unitywater)	Unmodified opinion but included an emphasis of matter relating to the significant uncertainty surrounding water pricing post 30 June 2013.	2,736	1,315	69
Central SEQ Distributor-Retailer Authority (trading as Queensland Urban Utilities)	Unmodified opinion but included an emphasis of matter relating to the significant uncertainty surrounding water pricing post 30 June 2013.	4,335	1,775	131

Areas of interest for the South East Queensland water sector

The following are current issues for the sector.

Significant uncertainty regarding the pricing mechanism post 30 June 2011

Bulk water entities

In conducting valuation and impairment assessments over property, plant and equipment, the South East Queensland bulk water entities each rely significantly upon estimates as part of their methodology. While each entity applies its own key assumptions, the assessments performed incorporate current water pricing arrangements under the normal pricing principles for regulated assets.

The assessments undertaken are largely sensitive to water pricing within the industry and form an integral component of the impairment modelling that is applied. Prices (in the form of grid service charges) are set by the Queensland Price Regulator and are based upon the key principles of the South East Queensland Market Rules.

The Queensland Competition Authority currently has the role to investigate and make recommendations to the Queensland Price Regulator on grid service charges to be paid to Seqwater and Linkwater for 1 July 2011 to 30 June 2012, 1 July 2012 to 30 June 2013, and thereafter for such periods as determined by the Queensland Price Regulator.

The Queensland Government is yet to finalise a pricing approach or economic regulatory framework to be applied to the bulk water entities from 1 July 2013. In the meantime, there is a level of uncertainty surrounding the pricing principles currently applied by each of the bulk water entities, and an inability to consider the impact of future pricing within current asset impairment modelling across the bulk water sector.

The Auditor-General continues to recognise that uncertainty exists regarding the pricing structure when forming an opinion over the methodologies applied by each of the bulk water entities, and has highlighted the issue within each auditor's opinion as an emphasis of matter for 2010-11, as in previous years.

Distributor-retailers entities

The South East Queensland distributor-retailer authorities also face a similar predicament, whereby the price paths for retail water and sewerage charges post 30 June 2013 are yet to be determined. Currently a conservative approach is undertaken by assuming a price path of ten years. As these paths form the cornerstone of key assumptions applied by the distributor-retailers when valuing their assets under the income approach using discounted cash flows, and when applying current pricing arrangements for asset impairment, it creates a substantial degree of uncertainty surrounding the accuracy of these calculations.

The *Fairer Water Prices for SEQ Amendment Bill 2011* was passed by the Queensland Government in June 2011 to legislate that participating councils develop and publish final price paths for their retail water and sewerage services by 30 March 2013 for the period 1 July 2013 to 30 June 2019. Therefore, there is likely to be a difference between the conservative approach, currently undertaken, and that required under the Bill. Until such time that the price paths have been developed, it will not be possible to determine the magnitude of the difference between both models. This therefore generates uncertainty surrounding pricing, which is commensurate with the South East Queensland bulk water industry.

The Fairer Water Prices for SEQ Amendment Bill also imposes a maximum Consumer Price Index cap on distribution and retail charges (sewerage only excluding trade waste and recycled water) on households and small businesses. The Consumer Price Index cap applies for two years, commencing on 1 July 2011.

Southern SEQ Distributor-Retailer Authority (trading as Allconnex Water) – going concern issue

Allconnex Water is a statutory body, and from 1 July 2010 assumed the responsibility for the provision of retail water and waste services from Gold Coast, Logan and Redland City Councils. The arrangement with the councils was underpinned by a participation agreement that was signed by all parties, and supported by the *South East Queensland Water (Distribution Retail and Restructuring) Act 2009*.

Subsequent to the initial restructure the following events occurred:

- 7 April 2011 - The Premier announced that the Queensland Government would amend the *South East Queensland Water (Distribution Retail and Restructuring) Act 2009*, and provide participating councils the option to withdraw from the Authority and re-establish water and waste water businesses within Council direct operations.
- 25 July 2011 – Gold Coast City Council elected to opt out of the agreement held with Allconnex Water.
- 26 July 2011 – The Minister for Energy and Water Utilities announced that the Queensland Government would focus on drafting legislation to assist participating councils to demerge from their distributor-retailers.
- 8 August 2011 – Redlands City Council elected to opt out of Allconnex Water, and look to reestablish the council's retail water distribution operations as of 1 July 2012.
- 23 August 2011 – Logan City council elected to opt out of Allconnex Water, and look to reestablish the council's retail water distribution operations as of 1 July 2012.

Although all participating councils have currently elected to withdraw from the arrangement agreed with Allconnex Water, the ability for each council to undertake this course of action is dependent upon necessary amendments being made to the *South East Queensland Water (Distribution Retail and Restructuring) Act 2009* by the Queensland Government. In the meantime, each council will have to continue as part of the previously formalised arrangement with Allconnex Water, until such time that the amending legislation is enacted.

Due to the significant uncertainty created by these events, an emphasis of matter paragraph was included in the auditor's opinion for Allconnex Water. This auditor's opinion is detailed in Section 1.2.3.

National Tax Equivalent Regime

While bulk water entities are exempt from income tax from the Commonwealth Government, these entities fall under the National Tax Equivalent Regime, meaning the entities are entitled to recognise current and deferred tax components within the Statement of Comprehensive Income and Statement of Financial position, respectively. The regime also enables entities to further recognise deferred tax assets and liabilities as part of the financial report. In the area of raising a deferred tax asset, this relies strongly on the entity's ability to generate future taxable profits as part of the operations, against which it is possible to offset tax losses. Given the unpredictable nature of the water industry and the significant uncertainty surrounding pricing mechanisms, it is difficult to anticipate that substantial tax profits will be generated by some water entities for a considerable period of time.

For 2010-11 the Queensland Bulk Water Transport Authority and Queensland Manufactured Water Authority recognised a substantial deferred tax asset in the amount of \$120.264 million and \$233.989 million, respectively. In accordance with Australian Accounting Standard AASB 112 *Income Taxes*, an entity recognising a deferred tax asset must be able to demonstrate that taxable profits are available to offset unused tax losses. In the case of the Queensland Bulk Water Transport Authority, the entity was unable to demonstrate that they would have taxable profits available until 2022, which was in the Auditor-General's opinion insufficient to enable a deferred tax asset to be recognised in the accounts for 2010-11. In considering the requirements of AASB 112, this timeframe did not demonstrate that taxable profits were probable, but instead indicated a

significant delay between when the deferred tax asset was recognised, and the entity's potential ability to subsequently offset the losses against the taxable profits, resulting in a qualification to the auditor's opinion.

A similar qualification was issued for the Queensland Manufacturing Water Authority, which merged with the Queensland Bulk Water Supply Authority from 1 July 2011. The deferred tax asset was considered to be significantly overstated given the entity's inevitable merger and inability to generate any future taxable profits in its own right.

The auditors' opinions issued for Queensland Bulk Water Transport Authority and Queensland Manufactured Water Authority are included in Section 1.2.3.

Level of debt – SEQ Water Grid Manager

Bulk water assets in South East Queensland such as dams, weirs, the desalination plant, western corridor recycled water scheme, water treatment plants and major grid pipelines are all owned and operated by Seqwater and Linkwater as commercial statutory bodies on behalf of the Queensland Government. The full cost of operation of these businesses including depreciation is funded by the SEQ Water Grid Manager through grid service charges.

In accordance with normal commercial practice, debt associated with the construction or acquisition of the South East Queensland bulk water infrastructure assets is effectively paid off over the useful lives of the assets in the accounts of Seqwater and Linkwater. The SEQ Water Grid Manager's debt is separate to the debt held by Seqwater and Linkwater in respect of the bulk water assets.

The SEQ Water Grid Manager's debt has accumulated through the need to fund shortfalls resulting from the price currently charged to water users being less than the full operational cost incurred by Seqwater and Linkwater. Queensland Government policy is to incrementally increase bulk water prices to reach full cost recovery for the services provided by Seqwater and Linkwater over a ten year period with all SEQ Water Grid Manager debt repaid over twenty years.

It is currently estimated by Treasury Department that the SEQ Water Grid Manager's debt will accumulate to between \$2.5 billion and \$3 billion in the first ten years of the price path (due to the operating losses incurred). The current bulk water price path has been set consistent with the Queensland Government's policy that the SEQ Water Grid Manager debt is to be repaid over the following 10 years, that is, by 2027-28.

The potential size of the SEQ Water Grid Manager's 'peak' debt is sensitive to a range of assumptions specifically:

- Water demand, particularly noting the water demand over the last few years has been historically low.
- Population growth.
- Interest rates, noting that interest rates continue to be lower than the longer term average assumed.
- Operating costs and capital expenditure levels over time.

It is understood that the Queensland Government has committed to a full review of bulk water prices and the SEQ Water Grid Manager's debt prior to bulk water prices being set for the period 1 July 2013 to 30 June 2018.

Changes in any one of the factors above will impact on the size of the SEQ Water Grid Manager's debt. It is important that these factors and the debt be monitored on an ongoing basis so that measures can be implemented should revenues or costs deviate substantially from those assumed in the bulk water price path.

6.2.3 Local government community funds

Natural disasters in late 2010 and early 2011 devastated many communities across Queensland, with all 73 local government areas being affected. This has led to an increase in community organisations being set up to collect donations to provide assistance to local residents impacted by the disasters. A number of these community organisations included references to the Mayor, Mayoress or local government area in their names. This may give the appearance that these organisations are controlled by, or otherwise associated with, the relevant local government.

Auditor-General Report to Parliament No. 5 for 2011 – Results of audits at 31 May 2011, stated the intention to review the status of these bodies to establish whether they are controlled entities of local government and subject to audit by the Auditor-General with accountability to Parliament and the local government. In undertaking this review, the Auditor-General wrote to all Queensland local governments requesting them to provide details of all such entities with which the council has or may be considered to have an association.

At the time of preparing this report, 59 of 73 local governments had responded to the request for information. Of these local governments:

- 11 provided information relating to entities associated with the local government.
- 46 responded by advising that there were no such entities with which they had an association.
- Two local governments responded, but further information is required to clarify their response.

A review was conducted over information provided by the local governments to assess whether these entities should be considered to be controlled by the relevant local governments based on the requirements of both s.5 of the *Auditor-General Act 2009* and Australian Accounting Standard AASB 127 *Consolidated and Separate Financial Statements*.

In undertaking this assessment a range of factors were considered including ownership and funding arrangements, membership of boards and committees and the extent to which the operations and finances are managed by the local government.

Based on an initial review of the information provided the following was identified:

- Eight of the 11 local governments who responded identified the existence of 13 entities consisting of:
 - Three companies.
 - Six trusts.
 - Three other funds which would be considered unincorporated associations.
 - One incorporated association.
- Nine of the 13 entities identified are considered to be controlled by the local government. Of these, only two entities are currently being audited by the Auditor-General.
- One instance was identified where the local government advised that their entity was a controlled entity, however, QAO identified it was not consolidated into the local government's financial statements and the Auditor-General had not been requested to undertake the audit of the entity.
- Three of the 11 local governments identified they had established funds that were accounted for within the local government and not through a separate entity.

While the review of these entities is continuing, the initial findings reported above indicate that this is an area of potential risk for local governments. In particular, the existence of such entities may expose the local government to some financial risk or, at least, a risk to their reputation in the community where there is an impression of a direct relationship and a degree of interdependence or support between the local government and the entities.

Where local governments are involved in the establishment and/or operation of such entities it is important they have a clear understanding of their intended level of involvement in the entities and how this is reflected in the manner in which the entities are structured and operate.

On this basis, it is recommended that the Department of Local Government and Planning develop guidelines to assist local governments in relation to these entities. These guidelines should address matters including:

- Identifying the need for the establishment of a new entity.
- Assessing the most appropriate entity type to be used.
- Membership requirements.
- Level of financial and operational support to be provided by local governments.
- Governance and accountability requirements.
- Financial reporting and auditing requirements, including the need for the Auditor-General to undertake the audit of all controlled entities of local governments.

The findings in relation to the individual local governments will also be reported to them at the completion of the review.

6.3 Audits included in the policy cluster

Audit	Included in whole of government accounts	Financial statements signed	Opinion issued	Certified within statutory timeframe	Opinion
Departments and controlled entities					
Australian Institute for Commercialisation Limited	No	23.08.2011	26.08.2011	Yes	U
BioPharmaceuticals Australia (Network) Pty Ltd	No	24.08.2011	31.08.2011	N/A	U
Brisbane Port Holdings Pty Ltd+	Yes	31.03.2011	31.03.2011	Yes	U
Department of Employment, Economic Development and Innovation	Yes	26.08.2011	31.08.2011	Yes	U
Department of Local Government and Planning	Yes	22.08.2011	31.08.2011	Yes	U
Department of Transport and Main Roads	Yes	25.08.2011	31.08.2011	Yes	U
Queensland Water Infrastructure Pty Ltd	Yes	08.08.2011	11.08.2011	N/A	E
TransLink Transit Authority Employing Office	No	12.08.2011	23.08.2011	Yes	U
Transmax Pty Ltd	No	30.08.2011	31.08.2011	N/A	U

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Continued...

Audit	Included in whole of government accounts	Financial statements signed	Opinion issued	Certified within statutory timeframe	Opinion
Transport Holdings Queensland Pty Ltd	No	15.09.2011	19.09.2011	Yes	U
ZeroGen Pty Ltd	Yes	31.08.2011	31.08.2011	Yes	E
Government owned corporations and controlled entities					
Burnett Water Pty Ltd	Yes	Not completed	Not completed		
CS Energy Limited	Yes	29.08.2011	31.08.2011	Yes	E
ENERGEX Limited	Yes	22.08.2011	26.08.2011	Yes	U
Ergon Energy Corporation Limited	Yes	26.08.2011	26.08.2011	Yes	U
Ergon Energy Queensland Pty Ltd	Yes	29.08.2011	29.08.2011	Yes	U
Ergon Energy Telecommunications Pty Ltd	Yes	26.08.2011	26.09.2011	N/A	E*
Eungella Water Pipeline Pty Ltd	Yes	Not completed	Not completed		
Far North Queensland Ports Corporation Limited (trading as Ports North)	Yes	26.08.2011	26.08.2011	Yes	U
Gladstone Ports Corporation Limited	Yes	25.08.2011	26.08.2011	Yes	U
North Queensland Bulk Ports Corporation Limited	Yes	31.08.2011	31.08.2011	Yes	U
North West Queensland Water Pipeline Pty Ltd	Yes	Not completed	Not completed		
On Track Insurance Pty Ltd	Yes	29.08.2011	30.08.2011	Yes	U
Port of Townsville Limited	Yes	15.08.2011	15.08.2011	Yes	U
Queensland Electricity Transmission Corporation Limited (trading as Powerlink Queensland)	Yes	26.08.2011	26.08.2011	Yes	U
Queensland Energy Services Team Pty Ltd	Yes	16.08.2011	23.08.2011	Yes	U
Queensland Rail Limited	Yes	29.08.2011	30.08.2011	Yes	U
Stanwell Corporation Limited	Yes	30.08.2011	31.08.2011	Yes	E
SunWater Limited	Yes	24.08.2011	31.08.2011	Yes	E
Tarong Energy Corporation Limited	Yes	30.08.2011	31.08.2011	Yes	E
Joint controlled entities					
Advance Cairns Limited	No	Not completed	Not completed		
Central Queensland Local Government Association Inc.	No	13.10.2011	13.10.2011	N/A	E*

Opinion key: U=Unmodified Q=Qualified A=Adverse E=Emphasis of matter D=Disclaimer

Continued...

Audit	Included in whole of government accounts	Financial statements signed	Opinion issued	Certified within statutory timeframe	Opinion
Central Western Queensland Remote Area Planning and Development Board (RAPAD)	No	Not completed	Not completed		
City North Infrastructure Pty Ltd	Yes	25.07.2011	27.07.2011	N/A	U
Council of Mayors (South East Queensland) Pty Ltd	No	Not completed	Not completed	N/A	
DDS Unit Trust	No	27.09.2011	30.09.2011	N/A	U
Far North Queensland Regional Organisation of Councils	No	Not completed	Not completed		
Gulf Savannah Development Inc.	No	29.09.2011	12.10.2011	Yes	E*
LG Disaster Recovery Services Pty Ltd	No	Not completed	Not completed		
Local Buy Trading Trust	No	27.09.2011	27.09.2011	N/A	Q
Local Government Association of Queensland Ltd	No	30.09.2011	30.09.2011	N/A	U
Local Partnerships Services Pty Ltd	No	27.09.2011	27.09.2011	Yes	E*
Palm Island Community Company Limited	No	Not completed	Not completed		
Prevwood Pty Ltd	No	27.09.2011	28.09.2011	N/A	E*
QMI Solutions Limited	No	Not completed	Not completed		
QPG Shared Services Support Centres Joint Venture	No	27.09.2011	27.09.2011	N/A	E*
Queensland Local Government Mutual Liability Pool (LGM Queensland)	No	Not completed	Not completed		
Queensland Partnerships Group (LG Shared Services) Pty Ltd	No	Not completed	Not completed		
Resolute I.T. Pty Ltd	No	27.09.2011	27.09.2011	N/A	E*
SEQ Regional Recreational Facilities Pty Ltd	No	Not completed	Not completed		
Services Queensland	No	27.09.2011	27.09.2011	N/A	E*
South West Queensland Local Government Association	No	Not completed	Not completed		
SPARQ Solutions Pty Ltd	No	09.08.2011	09.08.2011	Yes	U
Urban Local Government Association of Queensland Inc.	No	Not completed	Not completed		
Western Queensland Local Government Association	No	Not completed	Not completed		
Western Sub Regional Organisation of Councils	No	Not completed	Not completed		
Whitsunday Hinterland and Mackay Bowen Regional Organisation of Councils Inc.	No	Not completed	Not completed		

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Audit	Included in whole of government accounts	Financial statements signed	Opinion issued	Certified within statutory timeframe	Opinion
Wide Bay Burnett Regional Organisation of Councils Inc.	No	Not completed	Not completed		
Local governments and controlled entities					
Aurukun Shire Council	No	Not completed	Not completed		
Balonne Shire Council	No	Not completed	Not completed		
Banana Shire Council	No	Not completed	Not completed		
Barcaldine Regional Council	No	Not completed	Not completed		
Barcoo Shire Council	No	Not completed	Not completed		
Blackall Tambo Regional Council	No	Not completed	Not completed		
Boonah and District Art Gallery and Library Trust	No	Not completed	Not completed		
Boonah and District Performing Arts Centre Trust	No	Not completed	Not completed		
Boulia Shire Council	No	Not completed	Not completed		
Brisbane Arts Trust	No	Not completed	Not completed		
Brisbane City Council	No	26.08.2011	02.09.2011	Yes	U
Brisbane Environment Trust	No	Not completed	Not completed		
Brisbane Green Heart CitySmart Pty Ltd	No	22.09.2011	23.09.2011	N/A	U
Brisbane Marketing Pty Ltd	No	28.09.2011	29.09.2011	N/A	U
Brisbane Powerhouse Pty Ltd	No	29.09.2011	30.09.2011	N/A	U
Broadbeach Alliance Limited	No	28.09.2011	29.09.2011	Yes	U
Bulloo Shire Council	No	Not completed	Not completed		
Bundaberg Regional Council	No	Not completed	Not completed		
Burdekin Shire Council	No	Not completed	Not completed		
Burke Shire Council	No	Not completed	Not completed		
Cairns Regional Council	No	13.09.2011	13.09.2011	Yes	U
Cairns Regional Gallery Limited	No	Not completed	Not completed		
Carpentaria Shire Council	No	Not completed	Not completed		
Cassowary Coast Regional Council	No	Not completed	Not completed		
Castra Retirement Home Limited	No	Not completed	Not completed		
Central Highlands Regional Council	No	Not completed	Not completed		
Charters Towers Regional Council	No	Not completed	Not completed		
Cherbourg Aboriginal Shire Council	No	Not completed	Not completed		
Cloncurry Shire Council	No	Not completed	Not completed		
City of Brisbane Arts and Environment Ltd	No	Not completed	Not completed		

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Audit	Included in whole of government accounts	Financial statements signed	Opinion issued	Certified within statutory timeframe	Opinion
City of Brisbane Investment Corporation Pty Ltd	No	19.10.2011	19.10.2011	Yes	U
Cook Shire Council	No	Not completed	Not completed		
Connecting Southern Gold Coast Ltd	No	22.08.2011	26.08.2011	Yes	U
Croydon Shire Council	No	Not completed	Not completed		
Diamantina Shire Council	No	Not completed	Not completed		
Doomadgee Aboriginal Shire Council	No	Not completed	Not completed		
Edward River Crocodile Farm Pty Ltd	No	Not completed	Not completed		
Empire Theatre Projects Pty Ltd	No	15.08.2011	16.08.2011	N/A	U
Empire Theatres Foundation	No	31.08.2011	31.08.2011	N/A	U
Empire Theatres Pty Ltd	No	15.08.2011	16.08.2011	N/A	U
Esk-Gatton-Laidley Water Board	No	Not completed	Not completed		
Etheridge Shire Council	No	19.09.2011	19.09.2011	Yes	U
Flinders Shire Council	No	Not completed	Not completed		
Fraser Coast Regional Council	No	Not completed	Not completed		
Gladstone Regional Council	No	Not completed	Not completed		
Gold Coast Arts Centre Pty Ltd	No	Not completed	Not completed		
Gold Coast City Council	No	Not completed	Not completed		
Gold Coast City Council Insurance Company Limited	No	Not completed	Not completed		
Goondiwindi Regional Council	No	Not completed	Not completed		
Gympie Regional Council	No	Not completed	Not completed		
Hinchinbrook Shire Council	No	Not completed	Not completed		
Hope Vale Aboriginal Shire Council	No	Not completed	Not completed		
Ipswich Arts Foundation	No	Not completed	Not completed		
Ipswich Arts Foundation Trust	No	Not completed	Not completed		
Ipswich City Council	No	Not completed	Not completed		
Ipswich City Enterprises Investments Pty Ltd	No	Not completed	Not completed		
Ipswich City Enterprises Pty Ltd	No	Not completed	Not completed		
Ipswich City Properties Pty Ltd	No	Not completed	Not completed		
Isaac Regional Council	No	Not completed	Not completed		
Isaac Affordable Housing Fund Pty Ltd	No	Not completed	Not completed		
Isaac Affordable Housing Trust	No	Not completed	Not completed		

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Audit	Included in whole of government accounts	Financial statements signed	Opinion issued	Certified within statutory timeframe	Opinion
Kingaroy Private Hospital Limited	No	Not completed	Not completed		
Kowanyama Aboriginal Shire Council	No	Not completed	Not completed		
Lockhart River Aboriginal Shire Council	No	Not completed	Not completed		
Lockhart River Aerodrome Company Pty Ltd	No	Not completed	Not completed		
Lockyer Valley Regional Council	No	Not completed	Not completed		
Logan City Council	No	26.09.2011	29.09.2011	Yes	E
Longreach Regional Council	No	Not completed	Not completed		
Mackay Regional Council	No	Not completed	Not completed		
Mapoon Aboriginal Shire Council	No	Not completed	Not completed		
Maranoa Regional Council	No	Not completed	Not completed		
McKinlay Shire Council	No	Not completed	Not completed		
Moreton Bay Regional Council	No	Not completed	Not completed		
Mornington Shire Council	No	Not completed	Not completed		
Mount Isa City Council	No	Not completed	Not completed		
Murweh Shire Council	No	Not completed	Not completed		
Napranum Aboriginal Shire Council	No	11.10.2011	26.10.2011	Yes	U
Nogoa River Flood Plain Board	No	Not completed	Not completed		
Noosa Biosphere Ltd	No	Not completed	Not completed		
North Burnett Regional Council	No	Not completed	Not completed		
Northern Peninsula Area Regional Council	No	Not completed	Not completed		
Nuffield Pty Ltd	No	05.10.2011	11.10.2011	N/A	U
Outback @ Isa Pty Ltd	No	Not completed	Not completed		
Palm Island Aboriginal Shire Council	No	Not completed	Not completed		
Paroo Shire Council	No	Not completed	Not completed		
Pormpuraaw Aboriginal Shire Council	No	Not completed	Not completed		
Poruma Island Pty Ltd	No	Not completed	Not completed		
Quad Park Corporation Pty Ltd	No	Not completed	Not completed		
Quilpie Shire Council	No	Not completed	Not completed		
Redland City Council	No	Not completed	Not completed		
Richmond Shire Council	No	Not completed	Not completed		
Rockhampton Regional Council	No	19.10.2011	20.10.2011	Yes	U
Rodeo Capital Pty Ltd	No	Not completed	Not completed		
Scenic Rim Regional Council	No	Not completed	Not completed		

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Audit	Included in whole of government accounts	Financial statements signed	Opinion issued	Certified within statutory timeframe	Opinion
Somerset Regional Council	No	Not completed	Not completed		
South Burnett Regional Council	No	Not completed	Not completed		
Southern Downs Regional Council	No	Not completed	Not completed		
Sunshine Coast Enterprises Pty Ltd	No	Not completed	Not completed		
Sunshine Coast Events Centre Pty Ltd	No	Not completed	Not completed		
Sunshine Coast Regional Council	No	Not completed	Not completed		
Surfers Paradise Alliance Limited	No	25.08.2011	26.08.2011	Yes	U
Tablelands Regional Council	No	11.10.2011	18.10.2011	Yes	U
The Brolga Theatre Board Inc.	No	Not completed	Not completed		
The Burdekin Cultural Complex Board Inc [^]	No	14.07.2011	22.07.2011	Yes	E*
The Kronosaurus Korner Board Inc.	No	Not completed	Not completed		
The Rockhampton Art Gallery Trust	No	14.09.2011	16.09.2011	N/A	Q E*
Toowoomba Regional Council	No	Not completed	Not completed		
Torres Shire Council	No	Not completed	Not completed		
Torres Strait Island Regional Council	No	Not completed	Not completed		
Townsville Breakwater Entertainment Centre Joint Venture	No	Not completed	Not completed		
Townsville City Council	No	17.10.2011	24.10.2011	Yes	U
TradeCoast Land Pty Ltd	No	26.10.2011	28.10.2011	N/A	U
Waltzing Matilda Centre Ltd	No	Not completed	Not completed		
Warwick Tourism and Events Pty Ltd	No	Not completed	Not completed		
Western Downs Regional Council	No	Not completed	Not completed		
Whitsunday Regional Council	No	Not completed	Not completed		
Wide Bay Water Corporation	No	Not completed	Not completed		
Widelinx Pty Ltd	No	Not completed	Not completed		
Winton Shire Council	No	Not completed	Not completed		
Woorabinda Aboriginal Shire Council	No	Not completed	Not completed		
Woorabinda Pastoral Company Pty Ltd	No	Not completed	Not completed		
Wujal Wujal Aboriginal Shire Council	No	Not completed	Not completed		
Yarrabah Aboriginal Shire Council	No	Not completed	Not completed		

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Audit	Included in whole of government accounts	Financial statements signed	Opinion issued	Certified within statutory timeframe	Opinion
Statutory bodies and controlled entities					
Australian Agricultural College Corporation	Yes	31.08.2011	16.09.2011	No	U
Australian Water Recycling Centre of Excellence Ltd	No	Not completed	Not completed		
Australian Agricultural College Employing Office	No	Not completed	Not completed		
Central SEQ Distributor-Retailer Authority (trading as Queensland Urban Utilities)	No	31.08.2011	02.09.2011	No	E
Chicken Meat Industry Committee	No	22.09.2011	22.09.2011	No	U
Darling Downs – Moreton Rabbit Board	No	03.08.2011	05.08.2011	Yes	U
Energy and Water Ombudsman Queensland	No	Not completed	Not completed		
Gladstone Economic and Industry Development Board	No	25.08.2011	02.09.2011	No	U
Northern SEQ Distributor-Retailer Authority (trading as Unitywater)	No	25.08.2011	31.08.2011	Yes	E
Parklands Gold Coast Trust	Yes	30.08.2011	30.08.2011	Yes	U
QRAA	Yes	23.08.2011	24.08.2011	Yes	U
Queensland Bulk Water Supply Authority (trading as Seqwater)	Yes	26.08.2011	31.08.2011	Yes	E
Queensland Bulk Water Transport Authority (trading as LinkWater)	Yes	21.08.2011	08.09.2011	No	Q E
Queensland Manufactured Water Authority (trading as WaterSecure)	Yes	28.09.2011	29.09.2011	No	Q E
Safe Food Production Queensland	No	19.08.2011	19.08.2011	Yes	U
SEQ Water Grid Manager	Yes	26.08.2011	31.08.2011	Yes	U
Southern Regional Water Pipeline Company Pty Ltd (trading as LinkWater Projects)	Yes	10.08.2011	11.08.2011	N/A	U
Southern SEQ Distributor-Retailer Authority (trading as Allconnex Water)	No	31.08.2011	09.09.2011	No	E
The Island Industries Board (trading as Islanders Board of Industry and Service (IBIS))#	No	11.03.2011	16.03.2011	Yes	U
Tourism Queensland	Yes	16.08.2011	22.08.2011	Yes	U
Tourism Queensland Employing Office	No	16.08.2011	22.08.2011	Yes	U
TransLink Transit Authority	Yes	12.08.2011	23.08.2011	Yes	U
Urban Land Development Authority	Yes	18.08.2011	25.08.2011	Yes	U

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Audit	Included in whole of government accounts	Financial statements signed	Opinion issued	Certified within statutory timeframe	Opinion
Audited by arrangement					
Advanced Moulding Technologies Pty Ltd	No	Not completed	Not completed		
Brisbane City Council Superannuation Plan	No	20.10.2011	26.10.2011	N/A	U
Brisbane Powerhouse Foundation	No	29.09.2011	30.09.2011	N/A	U
City Super Pty Ltd (As Trustee for BCC Superannuation Plan)	No	20.10.2011	26.10.2011	N/A	U
Local Government Superannuation Scheme	No	19.10.2011	27.10.2011	N/A	U
Logan Motorway Company Limited	No	Not completed	Not completed		
Port Motorway Limited	No	Not completed	Not completed		
Queensland Local Government Superannuation Board (trading as LGsuper)	No	19.10.2011	27.10.2011	N/A	U
Queensland Manufacturing Institute Trust	No	Not completed	Not completed		
Queensland Motorways Limited	No	Not completed	Not completed		
Queensland Motorways Management Pty Ltd	No	Not completed	Not completed		
The Gateway Bridge Company Limited	No	Not completed	Not completed		

Opinion key: U=Unmodified Q=Qualified A=Adverse E=Emphasis of matter D=Disclaimer

* An emphasis of matter was issued to alert users of the financial statements to the fact that special purpose financial statements had been prepared.

+ The financial year of Brisbane Port Holdings Pty Ltd was 1 July 2010 to 30 November 2010.

The financial year of the Island Industries Board was 1 February 2010 to 31 January 2011.

^ The financial year of The Burdekin Cultural Complex Board Inc. was 1 May 2010 to 30 April 2011.

7 | Results of audits – Law, Justice and Safety cluster

Summary

Background

Among the key entities included in the Law, Justice and Safety cluster are the Department of Community Safety, Department of Justice and Attorney-General, Department of Police, Electoral Commission of Queensland, Office of the Ombudsman, The Public Trustee of Queensland, Crime and Misconduct Commission, Legal Aid Queensland, Office of the Information Commissioner, and WorkCover Queensland.

The Attorney-General, Minister for Local Government and Special Minister of State, the Minister for Education and Industrial Relations and the Minister for Police, Corrective Services and Emergency Services have responsibilities within this cluster.

Key findings and issues

- The opinion issued for the financial statements of Building and Construction Industry (Portable Long Service Leave) Authority (trading as QLeave) contained an emphasis of matter paragraph due to going concern issues.
- Unmodified opinions were issued for the financial statements of all other entities within this policy cluster.

7.1 Ministerial responsibilities

- The Attorney-General, Minister for Local Government and Special Minister of State in this policy cluster is responsible for justice administration, births, deaths and marriages, coroners, criminal justice reform, elections, judges and magistrates, JPs, law reform, Legal Aid, Public Trustee, business names registration, art unions, Golden Casket, casinos, machine gaming, liquor licensing, fair trading and consumer protection, incorporation of associations, and registration of charitable organisations.
- The Minister for Education and Industrial Relations in this policy cluster is responsible for industrial relations, public sector employment, workers' compensation and workplace health and safety.
- The Minister for Police, Corrective Services and Emergency Services is responsible for the police service, adult corrective services, ambulance service, fire service and disaster management.

7.2 Audits included in the policy cluster

Audit	Included in whole of government accounts	Financial statements signed	Auditor's opinion issued	Certified within statutory timeframe	Auditor's opinion
Departments					
Department of Community Safety	Yes	26.08.2011	31.08.2011	Yes	U
Department of Justice and Attorney-General	Yes	29.08.2011	31.08.2011	Yes	U
Department of Police	Yes	30.08.2011	31.08.2011	Yes	U
Electoral Commission of Queensland	Yes	19.08.2011	23.08.2011	Yes	U
Office of the Ombudsman	Yes	31.08.2011	31.08.2011	Yes	U
The Public Trustee of Queensland	Yes	30.08.2011	31.08.2011	Yes	U
Statutory bodies and controlled bodies					
Anti Discrimination Commission	Yes	18.08.2011	19.08.2011	Yes	U
Anzac Day Trust	No	11.08.2011	12.08.2011	Yes	U
Building and Construction Industry (Portable Long Service Leave) Authority (trading as QLeave)	No	26.08.2011	31.08.2011	Yes	E
Contract Cleaning Industry (Portable Long Service Leave) Authority	No	25.08.2011	26.08.2011	Yes	U
Crime and Misconduct Commission	Yes	25.08.2011	29.08.2011	Yes	U
Law Claims Levy Fund	No	31.08.2011	31.08.2011	N/A	U
Legal Aid Queensland	Yes	12.08.2011	12.08.2011	Yes	U

Opinion key: U=Unmodified Q=Qualified A=Adverse E=Emphasis of matter D=Disclaimer

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Audit	Included in whole of government accounts	Financial statements signed	Auditor's opinion issued	Certified within statutory timeframe	Auditor's opinion
Legal Practitioners Admissions Board	No	31.08.2011	31.08.2011	Yes	U
Legal Practitioners Fidelity Guarantee Fund	No	31.08.2011	31.08.2011	N/A	U
Office of the Information Commissioner	Yes	31.08.2011	31.08.2011	Yes	U
Professional Standards Council	No	26.08.2011	30.08.2011	Yes	U
Prostitution Licensing Authority	Yes	29.08.2011	31.08.2011	Yes	U
Queensland Law Society Incorporated	No	08.09.2011	14.09.2011	No	U
Supreme Court Library Committee	No	Not completed	Not completed		
WorkCover Employing Office	No	30.08.2011	30.08.2011	Yes	U
WorkCover Queensland	Yes	30.08.2011	30.08.2011	Yes	U
Workers' Compensation Regulatory Authority (Q-COMP)	Yes	Not completed	Not completed		
Audited by arrangement					
Disaster Appeals Trust Fund	No	Not completed	Not completed		
Forde Foundation Trust Fund	No	Not completed	Not completed		
Lady Bowen Trust	No	Not completed	Not completed		
Public Trustee of Queensland Investment Funds	No	31.08.2011	31.08.2011	N/A	U
Queensland Community Foundation	No	Not completed	Not completed		
Southern Downs Flood Relief Fund	No	Not completed	Not completed		

Opinion key: U=Unmodified Q=Qualified A=Adverse E=Emphasis of matter D=Disclaimer

8

Results of audits – Government Services cluster

Summary

Background

Key entities included in the Government Services cluster are the Department of Public Works, Queensland Building Services Authority, Board of Architects of Queensland and Board of Professional Engineers of Queensland.

The Minister for Government Services, Building Industry and Information and Communication Technology has responsibility for this cluster.

Key findings and issues

- QBuild, a business unit of the Department of Public Works implemented the Ellipse system in November 2009. Significant issues, which arose after the system was implemented, were reported in *Auditor-General Report to Parliament No. 13 for 2010 – Results of audits at 31 October 2010*. These issues have been resolved however audit has identified further payroll issues during 2010-11 which have been referred to the Department for resolution. This is discussed further in Section 8.2.1.
- The opinion issued for the financial statements of CSI Holdings Pty Ltd contained an emphasis of matter paragraph due to going concern issues. The opinions of Cairns Convention Centre and Gold Coast Convention and Exhibition Centre contained an emphasis of matter paragraph due to the requirements of Australian Auditing Standard ASA 800 *Special Considerations - Audits of Financial Reports Prepared in Accordance with Special Purpose Frameworks*.

8.1 Ministerial responsibilities

The Minister for Government Services, Building Industry and Information and Communication Technology is responsible for archives, government accommodation, buildings, vehicles, purchasing, communication and information services, and building industry regulation and Smart Service Queensland.

8.2 Key issues

8.2.1 Department of Public Works – QBuild’s Ellipse system

QBuild, a business unit of the Department of Public Works implemented a new Enterprise Resource Planning system, the Ellipse system in November 2009 to upgrade its existing system, Information Management System Open Enterprise (MIMSOE). The Payroll module was implemented in March 2010.

Significant issues which arose after the system was implemented were reported in *Auditor-General Report to Parliament No. 13 for 2010 – Results of audits at 31 October 2010*, including the response from the Director-General, Department of Public Works. Auditor-General Report No 13 for 2010 included comment that some staff were incorrectly paid following the go-live of the payroll module and that payroll issues had since been resolved. Audit however identified further payroll issues during 2010-11 which have been referred to the Department for resolution.

8.3 Audits included in the policy cluster

Audit	Included in whole of government accounts	Financial statements signed	Opinion issued	Certified within statutory timeframe	Opinion
Department and controlled entity					
CSI Holdings Pty Ltd	No	08.09.2011	08.09.2011	N/A	E
Department of Public Works	Yes	30.08.2011	31.08.2011	Yes	U
Statutory bodies					
Board of Architects of Queensland	No	05.08.2011	08.08.2011	Yes	U
Board of Professional Engineers of Queensland	No	25.08.2011	30.08.2011	Yes	U
Queensland Building Services Authority	Yes	25.08.2011	25.08.2011	Yes	U
Queensland Building Services Employing Office	No	25.08.2011	25.08.2011	Yes	U
Audited by arrangement					
Cairns Convention Centre	No	02.09.2011	09.09.2011	N/A	E*
Gold Coast Convention and Exhibition Centre	No	23.09.2011	30.09.2011	N/A	E*

Opinion key: U=Unmodified Q=Qualified A=Adverse E=Emphasis of matter D=Disclaimer

* An emphasis of matter was issued to alert users of the financial statements to the fact that special purpose financial statements had been prepared.

9 | Appendices

9.1 Financial and Assurance audit process

In Queensland every public sector entity is subject to a Financial and Assurance audit each financial year. The objectives of a Financial and Assurance audit undertaken by an Auditor-General are to form an opinion on the financial report and to gain assurance about the appropriateness of the use of public resources.

These audits involve financial statement verification, review of systems and controls, compliance with prescribed requirements, and consideration of the probity and propriety of administrative actions which are prescribed by legislation.

The following chart provides an outline of the financial audit process:

Figure 9A – Overview of the financial and assurance audit process

Strategic planning	Audit work to reduce risks		Assess results
Entity and cycle level planning	Detailed controls assessment	Residual audit procedures	Report to Auditor-General
Probity, propriety and compliance			
Understanding of client to assess risk of material misstatement	Conduct assessment of controls over major areas of financial statement audit focus	Substantive audit procedures	Auditor's opinion on financial statements
Assessment of governance and control environment		Overall analytical review	
Identify major financial statements audit risks		Closing Report to Audit Committee (Interim)	
Audit Strategy	Interim management letter	Final management letter	Report to Auditor-General

The outcome of a Financial and Assurance audit is the expression of an independent opinion on the truth and fairness of a set of financial statements by the Auditor-General. This opinion provides reasonable assurance that the financial statements are free from material misstatement and comply with legislation and applicable accounting standards.

With regard to the appropriateness of the use of public resources, the auditor is required to obtain assurance even though the transactions subject to scrutiny may be relatively immaterial. Although possible, it is unlikely that these transactions would be identified as financial report risks as they are unlikely to lead to a material misstatement of the financial report.

Information systems auditing is an integral part of the financial statement audit process and ensures that public sector entities' information systems and services are examined. From these audits recommendations are made to clients on ways they can improve their financial systems and controls.

The time it takes to conduct an audit depends on the size and complexity of the entity. QAO's auditors attend client premises and review their financial systems and statements and information systems. This is done by talking to clients about their operations, observing the way they work and analysing records.

To help the audit process run smoothly, we discuss with clients when they will be audited and ask them to be available to work with us and assist with any documentation needed. Once all the necessary information from clients have been assessed, audit findings and recommendations are reported to them and to Parliament where appropriate.

To ensure QAO's auditors are able to undertake the audit, it is important that management understand they are responsible for:

- Maintaining adequate accounting records and preparing the financial statements, and appropriate internal controls to prevent or detect errors or irregularities.
- Provide written confirmation of representations made through the audit.
- Informing QAO of facts that may effect the audit of the financial statements.
- Provide unrestricted access to information and their staff.

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

Unmodified 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 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 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 opinion

The 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 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.

9.4 Acronyms

AAS	Australian Accounting Standard
AASB	Australian Accounting Standards Board
CEO	Chief Executive Officer
CFO	Chief Finance Officer
QAO	Queensland Audit Office.

9.5 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.

Audit by arrangement

An audit by the Auditor-General of an entity that is not a public sector entity, conducted at the request of a Minister or a public sector entity and with the consent of the entity.

Auditor's opinion

Positive written expression within a specified framework indicating the auditor's overall conclusion on the financial report based on audit evidence obtained.

Authorised auditor

The Auditor-General or Deputy Auditor-General, or a member of staff of QAO, or a contract auditor.

Contract auditor

An appropriately qualified individual, who is not a staff member of QAO, appointed by the Auditor-General to undertake audits of public sector entities on his behalf.

Controlled entities

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

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.

High risk issues

Audit findings that pose a significant business or financial risk to the entity and must be addressed as a matter of urgency.

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.

Moderate risk issues

Audit findings that pose a moderate business or financial risk and should be addressed as a matter of high priority.

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.

Public sector entity

A department or a local government or a statutory body or a government owned entity or a controlled entity.

9.6 References

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AASB 117 *Leases*.

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AASB 136 *Impairment of Assets*.

AASB 1004 *Contributions*.

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

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10 | Auditor-General Reports to Parliament

10.1 Tabled in 2011

Report No.	Subject	Date tabled in Legislative Assembly
1	<i>Auditor-General Report to Parliament No. 1 for 2011</i> <i>Management of offenders subject to supervision in the community</i> Performance Management Systems audit	25 February 2011
2	<i>Auditor-General Report to Parliament No. 2 for 2011</i> <i>Results of local government audits</i> Financial and Assurance audit	22 March 2011
3	<i>Auditor-General Report to Parliament No. 3 for 2011</i> <i>Follow up of 2008 audit on administration of grants and funding to community organisations by local government in Queensland</i> Performance Management Systems audit	9 June 2011
4	<i>Auditor-General Report to Parliament No. 4 for 2011</i> <i>Information systems governance and security</i> Financial and Assurance audit	21 June 2011
5	<i>Auditor-General Report to Parliament No. 5 for 2011</i> <i>Results of audits at 31 May 2011</i> Financial and Assurance audit	23 June 2011
6	<i>Auditor-General Report to Parliament No. 6 for 2011</i> <i>Systems to coordinate delivery of the Toward Q2: Tomorrow's Queensland target, Halve the proportion of Queensland children living in a household without a working parent</i> Performance Management Systems audit	6 July 2011
7	<i>Auditor-General Report to Parliament No. 7 for 2011</i> <i>National Partnership Agreement for Natural Disaster Reconstruction and Recovery</i> Performance Management Systems audit	22 September 2011
8	<i>Auditor-General Report to Parliament No. 8 for 2011</i> <i>Follow up of four audits completed in 2008-2009</i> Performance Management Systems audit	29 September 2011

9	<i>Auditor-General Report to Parliament No. 9 for 2011</i> <i>Acquisition and public access to the Museum, Art Gallery and Library collections</i> Performance Management Systems audit	11 October 2011
10	<i>Auditor-General Report to Parliament No. 10 for 2011</i> <i>Regulating waste: protecting the environment</i> Performance audit	9 November 2011
11	<i>Auditor-General Report to Parliament No. 11 for 2011</i> <i>Results of audits at 31 October 2011</i> Financial and Assurance audit	November 2011

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