

PART 4

Queensland Audit Office

Summary of departmental portfolio Budgets

Page	Agency	2009–10 Estimate \$'000
1-91	Queensland Audit Office – controlled	40,001

Departmental Overview

Ministerial Responsibility

The Premier of Queensland is the responsible Minister in relation to the appropriation to the independent statutory office, the Queensland Audit Office (QAO). The Auditor-General is appointed by and reports to the Queensland Parliament.

Strategic Issues

The Auditor-General has a statutory responsibility to audit the public accounts and all public sector entities as defined in the *Financial Administration and Audit Act 1977* and to report to the Parliament, auditees and relevant Ministers. The Auditor-General also has the discretion to perform an audit of a public sector entity's performance management systems. The audits culminate with the Auditor-General reporting matters of significance identified through the audits to Parliament and providing independent audit opinions on the financial statements of public sector entities. The Auditor-General reports on compliance with prescribed requirements, the truth and fairness of a wide range of general, and special purpose financial statements, provides audit certificates to the Commonwealth in respect of Commonwealth funding, and makes recommendations for system and other operational improvements in public administration for the benefit of Parliament and the public.

Whilst Parliament is the Auditor-General's primary client, the Auditor-General has responsibility for the audit of 338 public sector entities consisting of departments, statutory bodies, government owned corporations and local governments. These audit clients in combination with their controlled entities resulted in 773 financial and compliance audits performed by the Queensland Audit Office. The QAO is an independent statutory office established to assist the Auditor-General in the discharge of the Auditor-General's duties and obligations under the *Financial Administration and Audit Act 1977*.

The Auditor-General is required by section 97(1) of the *Financial Administration and Audit Act 1977* to prepare a report to the Legislative Assembly setting out the general standards to be applied to audits conducted by QAO and by QAO's contract auditors, and indicating the extent to which the Standards are in accordance with Australian Auditing Standards issued by the relevant professional bodies.

The *Auditor-General of Queensland Auditing Standards* were last tabled in Parliament in April 2007. These Standards govern the way in which audits are conducted and provide assurance to Parliament that audits are being carried out in an independent, ethical and professional manner.

The vision of QAO is excellence in enhancing public sector accountability.

The strategic challenges facing QAO for 2009-10 significantly impacting on QAO's annual work plan include:

- changes to financial reporting deadlines requiring financial statements of all departments, government owned corporations and statutory bodies to be completed and audited by 31 August
- an additional 119 public sector entities will be required to comply with this requirement for the 2008-09 financial year
- completing the audits of final accounts for departments abolished through machinery-of-Government changes
- recruiting and retaining skilled staff
- undertaking an increasing number of complex performance management systems audits

- reviewing the accountability of agencies in relation to the funding of the Commonwealth Government ‘Nation Building - Economic Stimulus Plan’;
- auditing the financial statements of amalgamated local governments prepared for a 15 month reporting period to 30 June 2009; and
- application of Australian Accounting Standard AASB 1049 Financial Reporting by General Government Sectors by Government.

2009-10 Highlights

QAO will continue to assist and encourage all public sector entities to maintain a strong focus on accountability and governance principles including the timely finalisation of financial reporting requirements.

Topics for performance management systems audits and sector-wide financial and compliance audits in 2009-10 will be chosen to assess the extent of accountability and governance within public sector entities. QAO will continue to seek opportunities to provide value added advice to auditees including better practice noted from conducting such audits.

Enhancements will be made to QAO’s in-house audit methodology software (IPSAM) to improve useability.

2008-09 Achievements

- Completed 95% of audits for the 2007-08 audit year within statutory timeframes where statutory requirements were observed by auditees, including the whole-of-Government Financial Statements.
- Completed eight Auditor-General’s Reports to Parliament.
- Conducted and reported on audits of the performance management systems in relation to:
 - Protecting Queensland’s primary industries and environment from pests and disease (Report No. 5 for 2008);
 - Administration of Grants and Funding to Community Organisations by Local Government in Queensland (Report No. 7 for 2008); and
 - Department of Health – Service Planning for the Future (Report No. 2 for 2009).
- Conducted follow-up audits and reported on the progress of recommendations from the performance management systems audits of:
 - Follow-up of Selected Audits Tabled in 2006 (Report No. 8 for 2008) - capital works (previously reported in Report No. 5 for 2006);
 - Follow-up Audit of Workforce Planning at Departments of Education, Training and the Arts and Health, incorporating their responses to an ageing workforce (Report No. 6 for 2008) (previously reported in Report No. 6 for 2006); and
 - Follow-up of Selected Audits Tabled in 2006 (Report No. 8 for 2008) - fees and charges (previously reported in Report No. 8 for 2006).
- Identified and reported to Parliament on (Report No. 9 for 2008) issues including:
 - changes in financial reporting timeframes;
 - financial reporting by public sector companies;
 - funding of costs arising from ENERGEX Limited’s trade sale;
 - bank reconciliation issues at ENERGEX Limited;
 - progress of the local government reform; and
 - progress on the recommendations of the review of Caboolture Emergency Department tender process.

- Provided briefings to the Public Accounts Committee on reports to Parliament and briefed members of the Committee on Queensland Audit Office activities and the audit program being undertaken.
- Offered briefings to Ministers whose portfolio responsibilities changed during the year and provided briefings to Ministers on issues relevant to their portfolio.
- Participated in a public hearing held by the Public Accounts Committee in relation to *Report No 2 for 2007 - Results of Performance Management Systems Audits of Management of Funding to Non-Government Organisations (October 2008)*.
- Briefed the Public Works Committee on issues related to the audits of infrastructure project management.
- Undertook significant work with relevant agencies on ensuring sound accountability and governance frameworks for the shared corporate services arrangements, and with regional councils following the local government amalgamations to ensure that necessary accountability systems were implemented.
- Prepared submissions in relation to:
 - the Public Accounts Committee inquiry into an evaluation of the effectiveness of the performance management systems (PMS) audit mandate in terms of the Parliament's previously expressed position;
 - Australian Accounting Standards Board (AASB) exposure drafts;
 - Auditing Standards Board Exposure Drafts;
 - topical audit issues to the Australasian Council of Auditors-General; and
 - central agency policy documents and legislation.
- Provided updates to clients on accounting and auditing issues including:
 - the impact of the global economic crisis on financial reporting and the implications for auditees;
 - risk management and fraud risk management;
 - relationships with internal audit;
 - topical accounting issues and the implications for auditees;
 - accounting standards updates; and
 - contract audit arrangements.
- Provided update sessions to clients on performance management systems audits including:
 - what happens in an audit to improve auditee understanding of the audit approach;
 - upcoming audits and their implications for auditees;
 - results of the risk management audit;
 - key findings from the audit of the management of rural fires in Queensland; and
 - implications of the audits of performance measures and annual reporting for auditees.
- Contributed to collegiate activities with other Australian audit offices through benchmarking activities and by leading a project to review the capacity of audit offices to be able to review quality assurance arrangements in each audit office.
- Implemented an enhanced quality assurance program over audits conducted by QAO staff and those contracted to perform audits to ensure that the stringent requirements of the auditing standards are met.
- Published and distributed six issues of the client journal *INFORM* to update the public sector on current and emerging issues and QAO activities.

- Conducted significant training of financial and compliance audit staff through the Learning and Development Program.
- Implemented QAO's new People Capability Framework (Lominger) as well as a Performance Appraisal, Training and Development process.
- Instigated a new Leadership Development Program for senior and executive managers (AO8-SES) and a Practical People Management program for supervisors.
- Recruited, inducted and trained 15 graduate auditors.
- Further refined arrangements for contracting out audits to improve efficiency and facilitated a contract auditors workshop to inform contract auditors about their audit obligations.
- Implemented improvements to QAO's audit methodology software developed inhouse through an updated version.

Departmental Output

Independent Public Sector Auditing Services and Reporting provides a clear accountability link between the legislative responsibility of the Auditor-General to the Parliament and the Government's Charter of Social and Fiscal Responsibility prepared in accordance with the *Financial Administration and Audit Act 1977*.

The three principal services provided under this output are:

- Annual financial and compliance audits of all public sector entities which includes:
 - independent audit opinion and management reports;
 - independent audit opinion of consolidated whole-of-Government statements and management report; and
 - audit opinions in relation to Commonwealth grants.
- Performance management systems audits.
- Parliamentary reporting and services and sector wide assistance which includes:
 - reports to Parliament and better practice guides;
 - advice and assistance to Parliament including briefings and submissions to parliamentary committees and briefings to the Public Accounts Committee and Ministers;
 - advice and assistance to audit clients and key stakeholders; and
 - special investigations.

The reports prepared by the Auditor-General for presentation to Parliament are directed towards ensuring high standards of public accountability by public sector agencies.

Staffing¹

Output	Notes	2008-09 Budget	2008-09 Est. Actual	2009-10 Estimate
Output				
Independent Public Sector Auditing Services and Reporting		219	221.3	223
Total		219	221.3	223

Note:

1. Full-time equivalents (FTEs) as at 30 June.

Departmental Statements

Performance Statement

Measures	Notes	2008-09 Target/Est.	2008-09 Est. Actual	2009-10 Target/Est.
Output: Independent Public Sector Auditing Services and Reporting				
<i>Financial and compliance audits</i>				
Number of audit clients	1	393	338	330
Number of Public Sector entity audits (as prescribed by Legislation)	1,2	750	773	750
Number of other audit certificates	3	-	176	176
Stakeholder satisfaction with QAO services		85%	74%	85%
Percentage of audit opinions and findings reviewed as appropriate in terms of QAO methodology		100%	100%	100%
Percentage of financial statements audited and certified within statutory timeframe where statutory requirements observed by auditees		100%	95%	95%
<i>Performance management systems audits</i>				
Average time to complete PMSA including reporting to Parliament		< 7 months	6 months	< 7 months
<i>Parliamentary reporting and services and sector-wide assistance</i>				
Number of audit reports to Parliament				
• Financial and Compliance Audits		4	3	4
• Performance Management System Audits		6	5	6
Audit Reports to Parliament completed to the satisfaction of the Parliament and the Public Accounts Committee		Satisfied	Satisfied	Satisfied
<i>Other</i>				
Percentage of operational costs self funded through audit fees		83%	86%	83%
State contribution (\$000)		5,853	5,853	6,045
Other revenue (\$000)		28,564	33,299	33,956
Total cost (\$000)		34,417	38,435	40,001

Notes:

1. A client is defined as either the parent entity of a group of controlled entities or a single entity. An audit is performed by QAO of all public sector entities in accordance with the *Financial Administration and Audit Act 1977*.
2. This result varies depending on decisions of Government to create and abolish public sector entities. This number excludes audit opinions expressed on Commonwealth certificates. Local government amalgamations will reduce the number of audits during 2009-10.
3. New measure for 2009-10 measuring other audit certificates including Commonwealth certificates and regulatory certificates.

Income Statement

Queensland Audit Office	Notes	2008-09 Budget \$'000	2008-09 Est. Act. \$'000	2009-10 Estimate \$'000
Income				
Output revenue		5,853	5,853	6,045
User charges	1,3,7	28,442	33,111	33,768
Grants and other contributions		..	..	..
Other revenue		122	188	188
Gains on sale/revaluation of property, plant and equipment and investments		..	..	..
Total income		34,417	39,152	40,001
Expenses				
Employee expenses	4,8	20,769	20,730	21,634
Supplies and services	2,5,9	13,036	17,052	17,653
Grants and subsidies		..	..	..
Depreciation and amortisation	6,10	468	483	558
Finance/borrowing costs		31	31	17
Other expenses		113	139	139
Losses on sale/revaluation of property, plant and equipment and investments		..	..	..
Total expenses		34,417	38,435	40,001
OPERATING SURPLUS/(DEFICIT)		..	717	..

Statement of Changes in Equity

Queensland Audit Office	Notes	2008-09 Budget \$'000	2008-09 Est. Act. \$'000	2009-10 Estimate \$'000
Net effect of the changes in accounting policies and prior year adjustments	
Increase/(decrease) in asset revaluation reserve	
Net amount of all revenue and expense adjustments direct to equity not disclosed above	
Net income recognised directly in equity	
Surplus/(deficit) for the period		..	717	..
Total recognised income and expense for the period		..	717	..
Equity injection/(withdrawal)		(92)	1,000	1,000
Equity adjustments (MoG transfers)	
Total movement in equity for period		(92)	1,717	1,000

Balance Sheet

Queensland Audit Office	Notes	2008-09 Budget \$'000	2008-09 Est. Act. \$'000	2009-10 Estimate \$'000
CURRENT ASSETS				
Cash assets	16,21	406	425	(595)
Receivables	11,17	3,844	6,096	6,096
Other financial assets		..	..	..
Inventories		..	..	..
Other		323	124	124
Non-financial assets held for sale		..	..	..
Total current assets		4,573	6,645	5,625
NON-CURRENT ASSETS				
Receivables		..	..	..
Other financial assets		..	..	..
Property, plant and equipment	12,18,22	356	257	1,222
Intangibles		1,002	772	641
Other		..	..	..
Total non-current assets		1,358	1,029	1,863
TOTAL ASSETS		5,931	7,674	7,488
CURRENT LIABILITIES				
Payables		576	419	419
Employee benefit obligations	13,19	1,964	785	805
Interest-bearing liabilities and derivatives		206	207	110
Provisions		..	..	..
Other		..	..	..
Total current liabilities		2,746	1,411	1,334
NON-CURRENT LIABILITIES				
Payables		..	..	..
Employee benefits obligations		..	..	..
Interest-bearing liabilities and derivatives		109	109	..
Provisions	14,23	..	1,000	..
Other		..	..	..
Total non-current liabilities		109	1,109	..
TOTAL LIABILITIES		2,855	2,520	1,334
NET ASSETS/(LIABILITIES)		3,076	5,154	6,154
EQUITY				
Capital/contributed equity	15,20,24	2,883	4,183	5,183
Retained surplus/(accumulated deficit)		193	971	971
Reserves:				
- Asset revaluation reserve		..	..	..
- Other (specify)		..	..	..
TOTAL EQUITY		3,076	5,154	6,154

Cash Flow Statement

Queensland Audit Office	Notes	2008-09 Budget \$'000	2008-09 Est. Act. \$'000	2009-10 Estimate \$'000
CASH FLOWS FROM OPERATING ACTIVITIES				
Inflows:				
Output receipts		5,853	5,853	6,045
User charges	25,30,36	30,399	35,068	35,725
Grants and other contributions		..	..	..
Other		122	188	188
Outflows:				
Employee costs	31,37	(20,694)	(20,453)	(21,614)
Supplies and services	26,32,38	(13,837)	(19,137)	(19,454)
Grants and subsidies		..	..	..
Borrowing costs		(31)	(31)	(17)
Other	27,33,39	(1,269)	(2,741)	(1,295)
Net cash provided by/(used in) operating activities		543	(1,253)	(422)
CASH FLOWS FROM INVESTING ACTIVITIES				
Inflows:				
Sales of property, plant and equipment		..	..	..
Investments redeemed		..	..	..
Loans and advances redeemed		..	..	..
Outflows:				
Payments for property, plant and equipment and intangibles	28,34,40	(415)	(81)	(1,392)
Payments for investments		..	..	..
Loans and advances made		..	..	..
Net cash provided by/(used in) investing activities		(415)	(81)	(1,392)
CASH FLOWS FROM FINANCING ACTIVITIES				
Inflows:				
Borrowings		..	..	..
Equity injections	29,35,41	..	1,000	1,000
Outflows:				
Borrowing redemptions		(192)	(192)	(206)
Finance lease payments		..	..	..
Equity withdrawals		(92)	..	..
Net cash provided by/(used in) financing activities		(284)	808	794
Net increase/(decrease) in cash held		(156)	(526)	(1,020)
Cash at the beginning of financial year		562	951	425
Cash transfers from restructure		..	..	..
Cash at the end of financial year		406	425	(595)

Explanation of Variances in the Financial Statements

Queensland Audit Office

Income Statement

Major variations between 2008-09 Budget and 2008-09 Estimated Actual include:

1. An increase in User charges due to increased audit activity. This activity has been increased for contract auditors in relation to the local government amalgamations and the fees generated are offset by increased contractor expense included in Supplies and services. QAO fee rates were originally budgeted at CPI but the increase was adjusted to be commensurate with the level of costs incurred by QAO.
2. An increase in Supplies and services principally due to increased audit activity utilisation of contract auditors. This is offset by increased User charges for recovery of this expense.

Major variations between 2008-09 Budget and 2009-10 Estimate include:

3. An increase in User charges due to increased audit activity and a fee charge out rate increase commensurate with the level of costs incurred by QAO. A further fee increase to match increased QAO costs has been included in the 2009-10 Estimate.
4. An increase in Employee expenses is due to Enterprise Bargaining arrangements and an increased commitment to professional development.
5. An increase in Supplies and services principally due to increased audit activity utilisation of contract auditors. This is offset by increased user charges for recovery of this expense. QAO's current lease for accommodation ceases at March 2010, and it is anticipated that rent will increase in line with market forces for 2009-10.
6. An increase in Depreciation reflecting investment in leasehold improvements at new leased accommodation.

Major variations between 2008-09 Estimated Actual and the 2009-10 Estimate include:

7. An increase in User charges due to a fee charge out rate increase commensurate with the level of costs incurred plus additional hours for the reduced number of audits.
8. An increase in Employee expenses due to Enterprise Bargaining arrangements.
9. An increase in Supplies and services due to the increased rent expense on the new leased accommodation.
10. An increase in Depreciation due to investment in leasehold improvements at new leased accommodation.

Balance Sheet

Major variations between 2008-09 Budget and 2008-09 Estimated Actual include:

11. Increased audit activity in the last quarter to accommodate earlier reporting requirement deadlines, has increased the closing balance for Work in Progress and Accounts Receivable. Also now included is a receivable for annual leave paid in accordance with the Annual Leave Central Scheme.
12. A decrease in Property, plant and equipment reflecting delays in the procurement of the EDRMs software.
13. A decrease in Employee Benefit Obligations reflecting the transfer of annual leave liabilities to the Annual Leave Central Scheme (ALCS), administered by QSuper. The Scheme was established on 30 June 2008 to centrally fund annual leave obligations.
14. A provision for the make good of leased accommodation at the cessation of the current lease was created at 30 June 2008.
15. An equity injection was provided to assist with QAO's working capital needs.

Major variations between 2008-09 Budget and 2009-10 Estimate include:

16. A decrease in Cash assets principally due to the realisation of the need to make good the out of lease accommodation as per the requirements at the finalisation of the lease, estimated at \$1.0 million.
17. Increased audit activity in the last quarter to accommodate earlier reporting requirement deadlines, has increased the closing balance for Work in Progress and Accounts Receivable. Also now included is a receivable for annual leave paid in accordance with the Annual Leave Central Scheme.
18. An increase in Property, plant and equipment reflecting additional capital expenditure of an estimated \$1.0 million is required for the fit-out of leased accommodation.
19. A decrease in Employee Benefit Obligations reflecting the transfer of annual leave liabilities to the Annual Leave Central Scheme (ALCS), administered by QSuper. The Scheme was established on 30 June 2008 to centrally fund annual leave obligations.
20. An equity injection was provided in 2008-09 to assist with QAO's working capital needs. A further \$1.0 million has been provided to assist with the fit-out of leased accommodation.

Major variations between 2008-09 Estimated Actual and the 2009-10 Estimate include:

21. A decrease in Cash assets principally due the realisation of the need to make good the out of lease accommodation as per the requirements at the finalisation of the lease, estimated at \$1.0 million.
22. An increase in Property, plant and equipment reflecting additional capital expenditure of an estimated \$1.0 million is required for the fit-out of new leased accommodation.
23. The provision for the make good of leased accommodation at the cessation of the current lease will be utilised in 2008-09.
24. An equity injection of \$1.0 million has been provided to assist with the fit-out of leased accommodation.

Cash Flow Statement

Major variations between 2008-09 Budget and 2008-09 Estimated Actual include:

25. An increase in User charges due to increased audit activity. This activity has been increased for contract auditors in relation to the local government amalgamations and the fees generated are offset by increased contractor expense included in Supplies and services. QAO fee rates were originally budgeted at CPI but the increase was adjusted to be commensurate with the level of costs incurred by QAO.
26. An increase in Supplies and services principally due to increased audit activity utilisation of contract auditors. This is offset by increased User charges for recovery of this expense plus increased costs for non capitalised equipment and the cost for the use of wireless technology.
27. An increase in Other outflows due to the initial payment for the Annual Leave Central scheme.
28. A decrease in Payments for property, plant and equipment and intangibles due to the delay in the procurement of the EDRMs software. Expenditure was on minor computer hardware.

29. An equity injection was provided to assist with QAO's working capital needs.

Major variations between 2008-09 Budget and 2009-10 Estimate include:

- 30. An increase in User charges due to increased audit activity and fee charge out rate increase. QAO fee rates were increased commensurate with the level of costs incurred by QAO. A further fee increase to match increased QAO costs has been included in the 2009-10 estimate.
- 31. An increase in Employee costs due to Enterprise Bargaining arrangements and an increased commitment to professional development.
- 32. An increase in Supplies and services principally due to increased audit activity utilisation of contract auditors. This is offset by increased User charges for recovery of this expense plus increased costs for non capitalised equipment and the cost for the use of wireless technology. QAO's current lease for accommodation ceases at March 2010, and it is anticipated that rent will increase in line with market forces for 2009-10.
- 33. An increase in Other outflows reflecting payments associated with the implementation of the Annual Leave Central Scheme.
- 34. An increase in Payments for property, plant and equipment reflecting payments associated with new leasehold improvements of an estimated \$1.0 million is expected in 2009-10.
- 35. An equity injection was provided to assist with QAO's working capital needs. This \$1.0 million was utilised in 2008-09. A further equity injection is provided in 2009-10 to assist with the fit-out expense of the leased accommodation.

Major variations between 2008-09 Estimated Actual and the 2009-10 Estimate include

- 36. An increase in User charges due to CPI increase on the fee charge out rate.
- 37. An increase in Employee costs due to Enterprise Bargaining arrangements.
- 38. An increase in Supplies and services due to the increased rent expense on the new negotiated leased accommodation.
- 39. A decrease in Other outflows due to the initial payment associated with the implementation of the Annual Leave Central Scheme.
- 40. An increase in Payments for property, plant and equipment and intangibles due to new leasehold improvements of an estimated \$1.0 million is expected in 2009-10. Other capital expenditure refers to an upgrade of computer hardware and procurement of the EDRMs software.
- 41. An equity injection was provided to assist with QAO's working capital needs. This \$1.0 million was utilised in 2008-09. A further equity injection is provided in 2009-10 to assist with the fit-out expense of the leased accommodation.