

# PART 4

## Queensland Audit Office

### Summary of Budget

Page	Agency	2009-10 Budget \$'000	2009-10 Est. act. \$'000	2010-11 Estimate \$'000
1-103	Queensland Audit Office	40,001	41,186	42,673

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Notes:

1. Explanations of variances are provided in the financial statements.

## 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).

### STRATEGIC ISSUES

The Auditor-General has a statutory responsibility to audit the consolidated fund and all public sector entities as defined in the *Auditor-General Act 2009* 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 Australian Government in respect of Australian Government funding, and makes recommendations for system and other operational improvements in public administration for the benefit of Parliament and the public.

While Parliament is the Auditor-General's primary client, the Auditor-General has responsibility for the audit of 339 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 792 financial and other compliance audits being performed by the QAO. The QAO is an independent statutory office established to support the Auditor-General in the discharge of the Auditor-General's duties and obligations under the *Auditor-General Act 2009*.

The Governor-in-Council approved the re-appointment of Mr Glenn Poole as Auditor-General for a further two year term. This will take his appointment up to the seven year maximum period permitted under the *Auditor-General Act 2009*.

The vision of QAO is excellence in enhancing public sector accountability and our service is independent public sector auditing services and reporting.

The QAO has four objectives:

- **Parliament.** QAO will meet the needs of Parliament by providing independent assurance on the stewardship of public moneys and assets and reporting to Parliament on audit recommendations, emerging issues and other matters of significance. This will be measured by the utilisation by Parliament and the Public Accounts and Public Works Committee of reports from the Auditor-General.
- **Value.** QAO adds value to public sector entities through the delivery of high quality audit services and developing strong professional relationships to benefit public sector entities. This will be measured by Parliament and our other audit clients' perceived value of QAO's services.
- **Business.** QAO's business is effective, efficient and sustainable, building quality systems and procedures and measuring and reporting business and audit performance. This will be measured by reporting on whether key business metrics demonstrate efficient use of resources to deliver service requirements.

- Capability. QAO staff are motivated and capable. QAO will develop staff to ensure it is a contemporary, innovative professional service organisation delivering quality services.

*The Report of the 2010 Strategic Review of the Queensland Audit Office* pursuant to the *Auditor-General Act 2009* was tabled in Parliament on 10 March 2010. The report has been referred to the Public Accounts and Public Works Committee. The strategic review includes a review of the Auditor-General's functions to assess whether they are being performed economically, effectively and efficiently. The recommendations of this review will provide a strategic direction for QAO in 2010-11.

The review made a total of 57 conclusions and 44 recommendations. These addressed various areas for continued action and improvement to enable QAO to better respond to emerging challenges in the future.

Some of the main recommendations raised related to:

- a proposed expansion of the audit mandate to include full performance audits, consistent with the approach adopted in other Australian and international jurisdictions.
- proposed changes to the *Auditor-General Act 2009* to allow the audit of government financial transactions with third parties via a 'follow the dollar' approach.
- a proposal to allow alternative audit arrangements for some small, low risk entities.

These recommendations, if approved by Parliament, have the potential to significantly assist the capacity of QAO to provide assurance to Parliament.

## **2010-11 HIGHLIGHTS**

*The Auditor-General Act 2009*, *Financial Accountability Act 2009* and the *Financial and Performance Management Standard 2009* have replaced the *Financial Administration and Audit Act 1977* and the *Financial Management Standard 1997* effective 1 July 2009. This represents a significant change from the previous framework since the legislation now concentrates on accountability and outcomes without prescribing the processes or inputs to achieve these outcomes.

During 2010-11 the QAO will celebrate 150 years since the first Auditor-General of Queensland took office, on 27 September 1860, only one year after Queensland was declared an independent colony.

During 2010-11 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
- engage with auditees to explore value-adding and best practice opportunities which can be gained from conducting audits
- continue to progress the QAO Professional Auditors Skills Scheme (PASS). Managers and staff have been working with an external facilitator to provide information, investigate and explore the technical skills required across the auditing roles of the Office, in order to build technical skills statements for each level of financial and assurance auditor.

## RECENT ACHIEVEMENTS

- Completed 100% of audits for the 2008-09 audit year within statutory timeframes where statutory requirements were observed by auditees.
- Completed ten Auditor-General's Reports to Parliament.
- Conducted and reported on audits of the performance management systems in relation to:
  - management of patient flow through Queensland hospitals;
  - providing the information required to make good regulation;
  - follow-up on government owned corporation and budget sector performance measurement and reporting;
  - the use of operational performance reviews in departmental management;
  - magistrates court services;
  - using student information to inform teaching and learning; and
  - follow-up audits on the progress of implementing recommendations from four performance management systems audits.
- Identified and reported to Parliament on issues including:
  - Australian Government stimulus package;
  - infrastructure project procurement;
  - recognition of land under roads;
  - asset accounting issues in price regulated industries; and
  - impact of the independent review of Queensland Government Boards, Committees and Statutory Authorities.
- Completed and reported on the Audit of A1 Grand Prix Agreements.
- Continued to provide briefings to the Public Accounts and Public Works Committee on reports to Parliament and briefed members of the Committee on QAO activities and the audit program being undertaken.
- Prepared submissions in relation to:
  - Australian Accounting Standards Board (AASB) exposure drafts;
  - Auditing and Assurance 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.
- Provided information session for clients on performance management systems audits.
- Continued to contribute to collegiate activities with other Australian audit offices through benchmarking activities and completing a project to provide a framework for the review of the operations of each audit office against established professional standards.
- Completed a suite of quality policies to enhance quality assurance processes across the Office and to monitor those contracted to perform audits to ensure that the stringent requirements of the auditing standards are met.
- Completed 28 quality reviews of contract auditors to ensure a high standard of quality work is maintained.
- Continued to conduct significant training of financial and assurance audit staff through the Learning and Development Program.
- Released the Client Relationship Management Framework to improve the consistency, quality and capability of QAO staff in engaging with and adding value for our audit clients.
- Continued to implement improvements to QAO's audit methodology software IPSAM.
- Developed a new training course for managers and supervisors which promotes human resource (HR) legislative requirements, key HR strategies, and initiatives to enhance decision making and aid staff retention.

## DEPARTMENTAL SERVICES

The Government's Performance Management Framework is being progressively implemented. The Framework no longer uses the concepts of 'outputs' and 'performance measures' that were previously used in Service Delivery Statements. They are replaced with 'services' and 'service standards'. These terms are defined in the Budget Readers' Guide. Together, they begin to provide information about how efficiently and effectively agencies deliver services within their approved Budget.

All agencies reviewed their service structures and service standards as part of this transition year. Approved changes are included in this year's Service Delivery Statement. Results against measures that have been discontinued are included in Appendix A (Book 5 of the Service Delivery Statements) for this year only. A key aspect of improving performance information is reviewing performance data. As such, each year agencies will continue to review and improve their service standards to provide better information on the effectiveness and efficiency of their services.

Independent Public Sector Auditing Services and Reporting contributes to the ambitions of Queenslanders through QAO's actions as a public sector entity and the outcomes of audits by providing Parliament with assurance over the financial management activities of public sector entities.

The three major activities under this service which are linked to the objectives of Parliament and Value are:

- 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 and Public Works Committee and Ministers;
  - advice and assistance to audit clients and key stakeholders; and
  - special investigations.
- Annual financial and assurance 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.

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

## STAFFING<sup>1</sup>

Service	Notes	2009-10 Budget	2009-10 Est. actual	2010-11 Estimate
<b>Services</b>				
Independent Public Sector Auditing Services and Reporting		223	246	240
<b>Total</b>		<b>223</b>	<b>246</b>	<b>240</b>

Notes:

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

## DEPARTMENTAL STATEMENTS

### PERFORMANCE STATEMENT

Service standards	Notes	2009-10 Target/est.	2009-10 Est. actual	2010-11 Target/est.
<b>Service: Independent Public Sector Auditing Services and Reporting</b>				
<i>Financial and compliance audits</i>				
Audit Client satisfaction with QAO		85%	76%	85%
Financial and Compliance assurance services				
Of financial and assurance audits subject to internal and external review, no audits were assessed as unsatisfactory	1	..	..	..
Percentage of financial statements audited and certified within statutory timeframe where statutory requirements observed by audit clients		95%	100%	95%
<i>Performance management systems audits</i>				
Average elapsed time for completion of PMS audit compared to time recommended in 2004 strategic review (ie < 7 months)		< 7 months	7.5 months	< 7 months
Average cost per PMS audit	2	\$0.275 M	\$0.420 M	\$0.350 M
Audit client satisfaction with PMS audit services	2	75 index points	67 index points	75 index points
<i>Parliamentary reporting and services and sector-wide assistance</i>				
Number of audit reports to Parliament				
- Financial and Assurance Audits		4	3	4
- Performance Management Systems Audit		6	7	7
Audit Reports to Parliament completed to the satisfaction of the Parliament and the Public Accounts and Public Works Committee		Satisfied	Satisfied	Satisfied
<i>Other</i>				
Percentage of operational costs self funded through audit fees as per QAO's approved budget.		84%	86%	85%
<b>State contribution (\$000)</b>		<b>6,045</b>	<b>5,970</b>	<b>6,223</b>
<b>Other revenue (\$000)</b>		<b>33,956</b>	<b>35,469</b>	<b>36,450</b>
<b>Total cost (\$000)</b>		<b>40,001</b>	<b>41,186</b>	<b>42,673</b>

Notes:

1. Quality reviews conducted to cover every QAO engagement leader and external contractor within a three year period.
2. New service standards introduced in 2010-11.

## INCOME STATEMENT

Queensland Audit Office	Notes	2009-10 Budget \$'000	2009-10 Est. act. \$'000	2010-11 Estimate \$'000
<b>Income</b>				
Service revenue		6,045	5,970	6,223
User charges	1,5,9	33,768	35,236	36,255
Grants and other contributions		..	..	..
Other revenue		188	233	195
Gains on sale/revaluation of property, plant and equipment and investments		..	..	..
<b>Total income</b>		<b>40,001</b>	<b>41,439</b>	<b>42,673</b>
<b>Expenses</b>				
Employee expenses	2,6,10	21,634	23,603	24,920
Supplies and services	3,7,11	17,653	16,966	17,211
Grants and subsidies		..	..	..
Depreciation and amortisation	4,8,12	558	458	384
Finance/borrowing costs		17	17	3
Other expenses		139	142	155
Losses on sale/revaluation of property, plant and equipment and investments		..	..	..
<b>Total expenses</b>		<b>40,001</b>	<b>41,186</b>	<b>42,673</b>
<b>OPERATING SURPLUS/(DEFICIT)</b>		<b>..</b>	<b>253</b>	<b>..</b>

## STATEMENT OF CHANGES IN EQUITY

Queensland Audit Office	Notes	2009-10 Budget \$'000	2009-10 Est. act. \$'000	2010-11 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		..	..	..
<b>Net income recognised directly in equity</b>		<b>..</b>	<b>..</b>	<b>..</b>
Surplus/(deficit) for the period		..	253	..
<b>Total recognised income and expense for the period</b>		<b>..</b>	<b>253</b>	<b>..</b>
Equity injection/(withdrawal)		1,000	1,000	..
Equity adjustments (MoG transfers)		..	..	..
<b>Total movement in equity for period</b>		<b>1,000</b>	<b>1,253</b>	<b>..</b>



## BALANCE SHEET

Queensland Audit Office	Notes	2009-10 Budget \$'000	2009-10 Est. act. \$'000	2010-11 Estimate \$'000
<b>CURRENT ASSETS</b>				
Cash assets	13,18,22	(595)	73	168
Receivables		6,096	5,910	5,910
Other financial assets		..	..	..
Inventories		..	..	..
Other	14,19	124	393	323
Non-financial assets held for sale		..	..	..
<b>Total current assets</b>		<b>5,625</b>	<b>6,376</b>	<b>6,401</b>
<b>NON-CURRENT ASSETS</b>				
Receivables		..	..	..
Other financial assets		..	..	..
Property, plant and equipment	15,20,23	1,222	131	261
Intangibles	24	641	508	244
Other		..	..	..
<b>Total non-current assets</b>		<b>1,863</b>	<b>639</b>	<b>505</b>
<b>TOTAL ASSETS</b>		<b>7,488</b>	<b>7,015</b>	<b>6,906</b>
<b>CURRENT LIABILITIES</b>				
Payables	16,21	419	662	662
Accrued employee benefits		805	700	700
Interest-bearing liabilities and derivatives	25	110	109	..
Provisions		..	..	..
Other		..	..	..
<b>Total current liabilities</b>		<b>1,334</b>	<b>1,471</b>	<b>1,362</b>
<b>NON-CURRENT LIABILITIES</b>				
Payables		..	..	..
Accrued employee benefits		..	..	..
Interest-bearing liabilities and derivatives		..	..	..
Provisions		..	..	..
Other		..	..	..
<b>Total non-current liabilities</b>		<b>..</b>	<b>..</b>	<b>..</b>
<b>TOTAL LIABILITIES</b>		<b>1,334</b>	<b>1,471</b>	<b>1,362</b>
<b>NET ASSETS/(LIABILITIES)</b>		<b>6,154</b>	<b>5,544</b>	<b>5,544</b>
<b>EQUITY</b>				
Capital/contributed equity		5,183	5,183	5,183
Retained surplus/(accumulated deficit)	17	971	361	361
Reserves:				
- Asset revaluation reserve		..	..	..
- Other		..	..	..
<b>TOTAL EQUITY</b>		<b>6,154</b>	<b>5,544</b>	<b>5,544</b>

## CASH FLOW STATEMENT

Queensland Audit Office	Notes	2009-10 Budget \$'000	2009-10 Est. act. \$'000	2010-11 Estimate \$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
<b>Inflows:</b>				
Service receipts		6,045	5,970	6,223
User charges	26	35,725	37,991	38,212
Grants and other contributions		..	..	..
Other		188	233	195
<b>Outflows:</b>				
Employee costs	27,29,31	(21,614)	(23,523)	(24,850)
Supplies and services	30,32	(19,454)	(19,845)	(18,012)
Grants and subsidies		..	..	..
Borrowing costs		(17)	(17)	(3)
Other		(1,295)	(1,298)	(1,311)
<b>Net cash provided by/(used in) operating activities</b>		<b>(422)</b>	<b>(489)</b>	<b>454</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
<b>Inflows:</b>				
Sales of property, plant and equipment		..	..	..
Investments redeemed		..	..	..
Loans and advances redeemed		..	..	..
<b>Outflows:</b>				
Payments for property, plant and equipment and intangibles	28	(1,392)	(72)	(250)
Payments for investments		..	..	..
Loans and advances made		..	..	..
<b>Net cash provided by/(used in) investing activities</b>		<b>(1,392)</b>	<b>(72)</b>	<b>(250)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
<b>Inflows:</b>				
Borrowings		..	..	..
Equity injections		1,000	1,000	..
<b>Outflows:</b>				
Borrowing redemptions	33	(206)	(207)	(109)
Finance lease payments		..	..	..
Equity withdrawals		..	..	..
<b>Net cash provided by/(used in) financing activities</b>		<b>794</b>	<b>793</b>	<b>(109)</b>
<b>Net increase/(decrease) in cash held</b>		<b>(1,020)</b>	<b>232</b>	<b>95</b>
<b>Cash at the beginning of financial year</b>		<b>425</b>	<b>(159)</b>	<b>73</b>
Cash transfers from restructure		..	..	..
<b>Cash at the end of financial year</b>		<b>(595)</b>	<b>73</b>	<b>168</b>

## EXPLANATION OF VARIANCES IN THE FINANCIAL STATEMENTS

### Income statement

Major variations between 2009-10 Budget and 2009-10 Estimated actual include:

1. An increase in user charges due to increased audit fee charge out rates, improved fee recovery and increased recoverable contract audit fees. QAO fee rates were originally budgeted to increase by CPI but the increase was adjusted to reflect real cost impacts, particularly salary and accommodation costs. Increased recoverable contract auditors fees generated are offset by increased contractor expense included in supplies and services.
2. An increase in employee expenses is due to increased staff numbers. This increase has been offset by reduced use of contracted staff which is reflected in the reduced expenditure for supplies and services.
3. A decrease in supplies and services is principally due to reduced use of contracted staff and the partial write back of the provision for the lease refurbishment. This reduction was partially offset by increased lease costs.
4. A decrease in depreciation and amortisation is due to elimination of the requirement to capitalise leasehold improvements under the new accommodation lease agreement.

Major variations between 2009-10 Budget and 2010-11 Estimate include:

5. An increase in user charges due to increased audit fee charge out rate, improved fee recovery and increased recoverable contract audit fees.
6. An increase in employee expenses due to increased staff numbers. This increase has been offset in part by reduced use of contracted staff which is reflected in reduced expenditure for supplies and services.
7. A decrease in supplies and services principally due to reduced use of contracted staff. This reduction was partially offset by increased lease costs.
8. A decrease in depreciation and amortisation due to elimination of the requirement to capitalise leasehold improvements under the new accommodation lease agreement.

Major variations between 2009-10 Estimated actual and the 2010-11 Estimate include:

9. An increase in user charges due to increased audit fee charge out rates which have been adjusted to be commensurate with the level of costs incurred by QAO.
10. An increase in employee expenses due to Enterprise Bargaining arrangements, increased commitment to professional development and a higher average staffing level during the year.
11. An increase in supplies and services due principally to the removal of the one-off write back of lease refurbishment in 2009-10.
12. A decrease in depreciation and amortisation due to elimination of the requirement to capitalise leasehold improvements under the new accommodation lease agreement.

### Balance sheet

Major variations between 2009-10 Budget and 2009-10 Estimated actual include:

13. An improvement in cash assets resulting from reduced capital expenditure on the fit-out of new leased accommodation, improved collection of debts and timing of creditor payments.
14. An increase in other current assets was principally due to an increase in prepaid salaries.
15. A decrease in property, plant and equipment was due to the capitalisation of leasehold improvements no longer being required under the new accommodation lease agreement.
16. An increase in payables due to timing of final payments at June 2010. This increase reflected in improved cash assets.
17. A decrease in the retained surplus reflects the 2008-09 deficit partially offset by the 2009-10 estimated actual surplus.

Major variations between 2009-10 Budget and 2010-11 Estimate include:

18. An improvement in cash assets resulting from reduced capital expenditure on the fit-out of new leased accommodation, improved collection of debts and timing of creditor payments.
19. An increase in other current assets was principally due to an increase in prepaid salaries.
20. A decrease in property, plant and equipment was due to the capitalisation of leasehold improvements no longer being required under the new lease agreement.
21. An increase in payables due to the timing of final payments at year end. This increase is reflected in improved cash assets.

Major variations between 2009-10 Estimated actual and the 2010-11 Estimate include:

22. An improvement in cash assets due to improved collection of debts and timing of creditor payments.
23. An increase in property, plant and equipment due to the timing of the replacement program for minor equipment.
24. A decrease in intangibles reflecting standard depreciation charges with no new intangibles expected.
25. A decrease in interest bearing liabilities and derivatives reflecting the finalisation of the liability.

### Cash flow statement

Major variations between 2009-10 Budget and 2009-10 Estimated actual include:

26. An increase in user charges due to increased audit fee charge out rates, improved fee recovery and increased recoverable contract audit fees. QAO fee rates were originally budgeted to increase by CPI but the increase was adjusted to reflect real cost impacts, particularly salary and accommodation costs.
27. An increase in employee costs due to increased staff. This is offset by reduced contractor expenses which is reflected in the reduced outflows for supplies and services.
28. A decrease in payments of property, plant and equipment due to the elimination of requirement to pay for accommodation fit-out.

Major variations between 2009-10 Budget and 2010-11 Estimate include:

29. An increase in employee costs due to increased staff and Enterprise Bargaining arrangements.

30. A decrease in supplies and services due to a reduction in contracted staff, procurement of non-capitalised assets and the one-off payment for refurbishment of old leased accommodation.

Major variations between 2009-10 Estimated actual and the 2010-11 Estimate include:

31. An increase in employee costs due to Enterprise Bargaining arrangements.
32. A decrease in supplies and services due to reduced expenditure on contracted staff, procurement of non-capitalised equipment and the one-off payment for refurbishment of previously leased accommodation made in 2009-10.
33. A decrease in borrowing redemptions due to finalisation of borrowings.