

PART 4

Queensland Audit Office

Summary of departmental budget

Page	Agency	2010-11 Budget \$'000	2010-11 Est. act. \$'000	2011-12 Estimate \$'000
1-100	Queensland Audit Office	42,673	43,140	45,387

Note:

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

DEPARTMENTAL OVERVIEW

MINISTERIAL RESPONSIBILITY

The Premier and Minister for Reconstruction 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 and the truth and fairness of a wide range of general and special purpose financial statements. The Auditor-General also 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 primary client of the Auditor-General, responsibility also covers the audit of over 300 public sector clients consisting of departments, statutory bodies, government owned corporations and local governments. QAO performs over 700 financial and assurance audits on these clients and their controlled entities. 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 vision of the QAO is excellence in enhancing public sector accountability and our service is independent public sector audit services and reporting.

The directions established by the Queensland Government in *Toward Q2: Tomorrow's Queensland* have been considered in the development of QAO's strategic direction. QAO contributes to the ambitions of Strong, Green, Smart, Healthy and Fair through our actions as a public sector entity and the outcomes of our audits of the activities of public sector entities. Our objectives drive the way we meet our challenges.

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, through our reports to Parliament with audit recommendations, emerging issues and other matters of significance
- **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
- **Business.** QAO's business is effective, efficient and sustainable, building quality systems and processes to manage and report on our business and financial sustainability and audit performance

- Capability. QAO staff are motivated and capable. QAO develop staff to ensure a contemporary, innovative professional service organisation and empower staff to develop and deliver 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 strategic review included a review of the Auditor-General's functions to assess whether they are being performed economically, effectively and efficiently. The review made 44 recommendations based on 57 conclusions which 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.

The report was referred to the Public Accounts and Public Works Committee which tabled its reports in Parliament on 2 September 2010 and 9 March 2011. The Committee supported the main recommendations of the strategic review.

2011-12 HIGHLIGHTS

Significant initiatives for 2011-12:

- 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
- choose topics for performance management systems audits and sector-wide financial and compliance audits to improve the overall accountability and governance of public sector entities
- engage with auditees to explore value-adding and best practice opportunities which can be gained from conducting audits
- progress the implementation of responses to the endorsed recommendations from the 2010 strategic review
- review audit systems and staff development in preparation for the envisaged expanded audit mandate.

RECENT ACHIEVEMENTS

- Completed 100% of audits for the 2009-10 audit year within statutory timeframes, where statutory requirements were observed by auditees.
- Completed 11 Auditor-General Reports to Parliament in 2010-11.
- Conducted and reported on audits of performance management systems including:
 - sustainable management of national parks and protected areas;
 - implementation and enforcement of local laws;
 - follow up of 2009 audits of the health systems; and
 - managing offenders subject to supervision in the community.
- Identified and reported to Parliament on issues with sector-wide implications including:
 - audit committee guidance;
 - pre-employment checking;
 - payments processed through electronic funds transfer;

- compliance with the State Procurement Policy;
- tabling of financial statements in Parliament; and
- disclosure of executive remuneration.
- Identified and reported to Parliament on issues including:
 - implementation of the Queensland Health payroll;
 - the Shared Services initiative;
 - implementation of QBuild’s financial and resource management system (Ellipse);
 - sale of Queensland Government infrastructure assets; and
 - implementation of audit recommendations in relation to the management of public sector employee housing.
- Completed and reported on expenditure under the *Nation Building - Economic Stimulus Plan* at 31 August 2010.
- 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.
- Continued to brief and discuss with the Public Accounts and Public Works Committee the recommendations of the strategic review of QAO and the progress in responding to the recommendations.
- 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 sessions for clients.
- Continued to contribute to integrating activities with other Australian Audit Offices through benchmarking activities.
- Implemented an enhanced quality assurance program over audits conducted by QAO to ensure that the stringent requirements of the Auditing Standards were met.
- Completed quality reviews of contract auditors to ensure a high standard of quality work is maintained.
- Published and distributed six issues of the *INFORM* journal to update the public sector on current and emerging issues and QAO activities.
- Reviewed functions in the Audit Support Division to ensure the activities were appropriately clustered and resourced.
- Reviewed the roles, responsibilities and governance arrangements of the Information Technology branch to ensure that these were adequate to meet QAO’s business needs.
- Continued to conduct significant training of audit staff through the Learning and Development Program.
- Continued to implement improvements to QAO’s audit methodology software IPSAM.

DEPARTMENTAL SERVICES

Independent public sector auditing services and reporting contributes to the *Toward Q2: Tomorrow’s Queensland* ambitions 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.

Three major activities under this service are linked to the QAO's objectives of Parliament and Value:

- Parliamentary reporting and services and sector wide assistance:
 - reports to Parliament and better practice guides;
 - advice and assistance to Parliament, including briefings and submissions to Parliamentary Committees and briefings to Ministers;
 - advice and assistance to audit clients and key stakeholders; and
 - special investigations.
- Annual financial and assurance audits of all public sector entities:
 - independent audit opinion and management reports;
 - independent audit opinion of consolidated whole-of-government statements and management reports; and
 - audit opinions in relation to Australian Government 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.

STAFFING¹

Service areas	Notes	2010-11 Budget	2010-11 Est. actual	2011-12 Estimate
Service				
Independent public sector audit services and reporting		240	239	235
Total		240	239	235

Note:

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

DEPARTMENTAL STATEMENTS

PERFORMANCE STATEMENT

	Notes	2010-11 Target/est.	2010-11 Est. actual	2011-12 Target/est.
Service Area: Independent Public Sector Auditing Services and Reporting				
Service standards				
<i>Financial and assurance audits</i>				
Audit Client satisfaction with QAO financial and assurance audit services	1	85%	72%	80%
Percentage of quality assurance reviews of audit quality processes or audit files that comply with the Auditor-General of Queensland Auditing Standards and other relevant requirements		New measure	100%	100%
Percentage of financial statements audited and certified within statutory timeframe where statutory requirements observed by audit clients		95%	96%	95%
Average cost per Report to Parliament for financial and assurance audits		New measure	\$0.121 million	\$0.105 million
Average time for reporting financial and assurance audits to Parliament from the date of audit certification		New measure	2.8 months	< 4 months
Percentage of operational costs self funded through audit fees		85%	87%	86%
<i>Performance management systems audits</i>				
Average time to complete PMS audits including reporting to Parliament		< 7 months	6.5 months	< 7 months
Average cost per PMS audit		\$0.350 million	\$0.387 million	\$0.400 million
Audit client satisfaction with PMS audit services		75%	83%	75%
<i>Parliamentary reporting and sector-wide assistance</i>				
Audit Reports to Parliament completed to the satisfaction of the Parliament and the Public Accounts and Public Works Committee	2	Satisfied	Satisfied	Satisfied
Other measures				
<i>Parliamentary reporting and sector-wide assistance</i>				
Number of audit reports to Parliament				
- Financial and Assurance Audits		4	5	4
- Performance Management Systems Audit		7	6	7
State contribution (\$000)		6,223	6,223	6,402
Other revenue (\$000)		36,450	38,022	39,407
Total cost (\$000)		42,673	43,140	45,387

Notes:

- Survey results were severely disrupted with Round 2 survey not occurring as it coincided with the 2011 natural disasters.
- Consideration to be given to this measure due to the changing structure of Parliamentary Committees.

INCOME STATEMENT

Queensland Audit Office	Notes	2010-11 Budget \$'000	2010-11 Est. act. \$'000	2011-12 Estimate \$'000
Income				
Service revenue		6,223	6,223	6,402
User charges	1,4,6	36,255	37,659	39,108
Grants and other contributions		..	..	..
Other revenue	2	195	363	299
Gains on sale/revaluation of property, plant and equipment and investments		..	..	..
Total income		42,673	44,245	45,809
Expenses				
Employee expenses	7	24,920	24,941	25,667
Supplies and services	8	17,211	17,660	19,172
Grants and subsidies		..	..	..
Depreciation and amortisation		384	342	352
Finance/borrowing costs		3	3	..
Other expenses		155	194	196
Losses on sale/revaluation of property, plant and equipment and investments		..	..	..
Total expenses		42,673	43,140	45,387
OPERATING SURPLUS/(DEFICIT)	3,5	..	1,105	422

STATEMENT OF CHANGES IN EQUITY

Queensland Audit Office	Notes	2010-11 Budget \$'000	2010-11 Est. act. \$'000	2011-12 Estimate \$'000
Net effect of the changes in accounting policies and prior year adjustments		..	..	..
Increase/(decrease) in asset revaluation surplus		..	..	..
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	3,5	..	1,105	422
Total recognised income and expense for the period		..	1,105	422
Equity injection/(withdrawal)		..	..	..
Equity adjustments (MoG transfers)		..	..	..
Total movement in equity for period		..	1,105	422

BALANCE SHEET

Queensland Audit Office	Notes	2010-11 Budget \$'000	2010-11 Est. act. \$'000	2011-12 Estimate \$'000
CURRENT ASSETS				
Cash assets	9,11,14	168	843	1,503
Receivables		5,910	6,021	6,021
Other financial assets		..	..	..
Inventories		..	..	..
Other		323	387	307
Non-financial assets held for sale		..	..	..
Total current assets		6,401	7,251	7,831
NON-CURRENT ASSETS				
Receivables		..	..	..
Other financial assets		..	..	..
Property, plant and equipment	12,15	261	318	411
Intangibles	13	244	246	51
Other		..	10	10
Total non-current assets		505	574	472
TOTAL ASSETS		6,906	7,825	8,303
CURRENT LIABILITIES				
Payables	10	662	990	1,025
Accrued employee benefits		700	715	736
Interest-bearing liabilities and derivatives		..	..	..
Provisions		..	..	..
Other		..	..	..
Total current liabilities		1,362	1,705	1,761
NON-CURRENT LIABILITIES				
Payables		..	..	..
Accrued employee benefits		..	..	..
Interest-bearing liabilities and derivatives		..	..	..
Provisions		..	..	..
Other		..	..	..
Total non-current liabilities		..	..	..
TOTAL LIABILITIES		1,362	1,705	1,761
NET ASSETS/(LIABILITIES)		5,544	6,120	6,542
EQUITY				
Capital/contributed equity		5,183	5,183	5,183
Accumulated surplus/(accumulated deficit)		361	937	1,359
Reserves:				
- Asset revaluation surplus		..	..	..
- Other		..	..	..
TOTAL EQUITY		5,544	6,120	6,542

CASH FLOW STATEMENT

Queensland Audit Office	Notes	2010-11 Budget \$'000	2010-11 Est. act. \$'000	2011-12 Estimate \$'000
CASH FLOWS FROM OPERATING ACTIVITIES				
Inflows:				
Service receipts		6,223	6,223	6,402
User charges	16,17,19	38,212	39,773	41,065
Grants and other contributions		..	..	..
Other		195	363	299
Outflows:				
Employee costs	20	(24,850)	(24,861)	(25,566)
Supplies and services	18,21	(18,012)	(18,942)	(19,938)
Grants and subsidies		..	..	..
Borrowing costs		(3)	(3)	..
Other		(1,311)	(1,350)	(1,352)
Net cash provided by/(used in) operating activities		454	1,203	910
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		(250)	(259)	(250)
Payments for investments		..	..	..
Loans and advances made		..	..	..
Net cash provided by/(used in) investing activities		(250)	(259)	(250)
CASH FLOWS FROM FINANCING ACTIVITIES				
Inflows:				
Borrowings		..	..	..
Equity injections		..	..	..
Outflows:				
Borrowing redemptions		(109)	(109)	..
Finance lease payments		..	..	..
Equity withdrawals		..	..	..
Net cash provided by/(used in) financing activities		(109)	(109)	..
Net increase/(decrease) in cash held		95	835	660
Cash at the beginning of financial year		73	8	843
Cash transfers from restructure		..	..	..
Cash at the end of financial year		168	843	1,503

EXPLANATION OF VARIANCES IN THE FINANCIAL STATEMENTS

Income statement

Major variations between 2010-11 Budget and 2010-11 Estimated actual include:

1. An increase in user charges due to increased audit activity, improved fee recovery and increased recoverable contract audit fees. QAO fee rates were adjusted to reflect real cost impacts, particularly salary and accommodation costs. Increased recoverable contract auditor fees generated are offset by increased contractor expense included in supplies and services.
2. An increase in other revenue due to timing of cost recoveries.
3. A surplus generated from the increased audit activity and improved fee recovery and partially offset by increased use of contractors.

Major variations between 2010-11 Budget and 2011-12 Estimate include:

4. An increase in user charges due to increased audit activity, improved fee recovery and increased recoverable contract audit fees. QAO fee rates were adjusted to reflect real cost impacts, particularly salary and accommodation costs. Increased recoverable contract auditor fees generated are offset by increased contractor expense included in supplies and services.
5. A surplus generated from the increased audit activity and improved fee recovery.

Major variations between 2010-11 Estimated actual and the 2011-12 Estimate include:

6. 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.
7. An increase in employee expenses due to Enterprise Bargaining arrangements.
8. An increase in supplies and services due to increased contractor costs and the replacement of notebooks and personal computers.

Balance sheet

Major variations between 2010-11 Budget and 2010-11 Estimated actual include:

9. An increase in cash assets due to improved recovery activity and budget surplus.
10. An increase in current payables due to timing of payment process.

Major variations between 2010-11 Budget and 2011-12 Estimate include:

11. An increase in cash assets due to improved recovery activity and budget surplus.
12. An increase in property plant and equipment due to the ongoing replacement program of information technology equipment.
13. A decrease in intangibles due to amortisation of software assets.

Major variations between 2010-11 Estimated actual and the 2011-12 Estimate include:

14. An increase in cash assets due to budget surplus.
15. An increase in property plant and equipment due to ongoing replacement program of information technology equipment.

Cash flow statement

Major variations between 2010-11 Budget and 2010-11 Estimated actual include:

16. An increase in user charges due to increased audit activity, improved fee recovery and increased recoverable contract audit fees. QAO fee rates were adjusted to reflect real cost impacts, particularly salary and accommodation costs. Increased recoverable contract auditor fees generated are offset by increased contractor expense included in supplies and services.

Major variations between 2010-11 Budget and 2011-12 Estimate include:

17. An increase in user charges due to increased audit activity, improved fee recovery and increased recoverable contract audit fees. QAO fee rates were adjusted to reflect real cost impacts, particularly salary and accommodation costs. Increased recoverable contract auditor fees generated are offset by increased contractor expense included in supplies and services.
18. An increase in supplies and services due to increased expenditure on contractors and reduction of actual payables balance.

Major variations between 2010-11 Estimated actual and the 2011-12 Estimate include:

19. 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.
20. An increase in employee costs due to Enterprise Bargaining arrangements.
21. An increase in supplies and services due to increased contractor costs and the replacement of notebooks and personal computers.