

**Auditor-General of Queensland
Report to Parliament No. 7 for 2006
Results of Audits Completed at 30 September 2006**



Queensland

Prepared under Part 6

Division 3 of the

Financial Administration and Audit Act 1977

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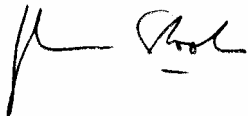
The Honourable M F Reynolds MP
Speaker of the Legislative Assembly
Parliament House
BRISBANE QLD 4000

Dear Mr Speaker

This report is prepared under Part 6 Division 3 of the *Financial Administration and Audit Act 1977*, and is on the results of audits completed at 30 September 2006. It is the seventh in the series of the Auditor-General's Reports to Parliament for 2006.

In accordance with s.105 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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Section 1

Executive summary

1.1 Auditor-General's overview

This is my seventh report to Parliament for 2006 and deals primarily with the results of the 2005-06 financial year audits of departments, statutory bodies and government owned corporations with a statutory reporting timeframe of 30 September 2006. This report also incorporates commentary on a number of significant issues which have arisen through the completion of these audits.

Shared service initiative

There have been significant changes to the shared service initiative with the amalgamation of three shared service providers into a new entity, the Shared Service Agency, from 1 July 2006. The new financial system, SAP Finance, has been piloted at the Department of Justice and Attorney-General. A number of reviews have been provided in reports to Parliament since the initiative was established in 2002. The latest audit review is provided in Section 2.1 and includes background on the initiative and the continuing audit involvement.

My 2005-06 review found continuing control issues in the existing systems used by departments for their financial and human resource activities. Although these existing systems will be replaced by the standard solution over the next two years, they will continue to provide the core systems infrastructure for departments during this period. It is imperative that adequate controls are maintained until the systems are completely replaced. Therefore the control issues identified by audit will need to be addressed in a cost effective manner to ensure the integrity of the financial and human resource data used for the Government financial statements over the next few years.

WorkCover Queensland

WorkCover's 2005-06 financial statements disclosed a significantly improved financial result for the year with the operating result before income tax equivalents increasing by \$833.1m to \$945.6m. The primary contribution to the strong financial position was a major reduction in the level of the provisions for outstanding claims in respect of latent onset injuries. The claims provision and the related operating result disclosed in the financial statements were significantly impacted by a legislative amendment to the definition governing the recognition of latent onset injuries. These legislative amendments mean that while WorkCover will continue to be classed as fully funded in terms of the claims definitions set by the legislation, the funding for potential future claims relating to latent onset injuries will be treated differently from other outstanding injury claims. In contrast to claims for other injuries, no specific claims provision will be maintained by WorkCover for latent onset injuries that have not been diagnosed. Funding for the claims, as they emerge, will be provided on a pay-as you-go basis.

The immediate short term impact on the financial position of WorkCover from this changed definition and the change to the basis of funding for these claims, do not appear to have been outlined during the debate in Parliament prior to the approval of the amending legislation. Further details are provided in Section 4.16.3.

QFleet

The significant decline in the used vehicle market had a major impact on the operating result of QFleet for the year ended 30 June 2006 and the carrying value of the vehicle fleet. QFleet incurred a significant loss as a result of the decline in the used vehicle market. It also contributed to a significant build up of vehicles held for sale at the close of the previous financial year. Action taken or under consideration by QFleet to address the risks associated with this market environment and to enhance its capacity to manage the total cost of vehicle ownership appears to be appropriate. I will continue to monitor the situation and will include further commentary if necessary in a future report. I have discussed this issue in Section 4.15.3.

Disclosure of executive remuneration and performance incentive payments

In Sections 2.2 and 2.3, I discuss the enhanced disclosure provisions for 2005-06 for the reporting of executive remuneration by departments and my latest review of the processes for the administration of at-risk performance incentive payments and the financial statement disclosure of those payments.

The financial reporting and disclosure provisions for Queensland departments are established in the *Financial Reporting Requirements for Queensland Government Agencies effective for periods beginning on or after 1 January 2005* (FRRs). For the 2005-06 financial year, the FRRs adopted enhanced disclosure provisions for the reporting of executive remuneration by departments. As a result of this, the levels of remuneration disclosed in the departmental financial statements for 2005-06 may appear to be higher than the remuneration levels previously reported by departments. It is, however, consistent with the definition of total remuneration adopted by the Australian Accounting Standards and other jurisdictions.

In relation to at-risk performance incentive payments by government owned corporations and statutory bodies, audit found no systemic sector-wide issues in relation to the payment process. This was a follow-up review based on the review results reported in Section 5.1 of Report No. 1 for 2003-04. I encourage the continued development of the disclosure provisions for these payments within the public sector. I consider the disclosure requirements for these payments for publicly listed entities to be best practice.

I commend the Government for its adoption of improved levels of disclosure in these areas which are subject to considerable public interest. I encourage the Government to continue to apply disclosure requirements that reflect the provisions of the Australian Accounting Standards and contemporary reporting principles.

Financial statement preparation – the use of early closes

In my report to Parliament tabled this time last year (Report No. 4 for 2005), I included commentary on strategies that I considered could be adopted by agencies to improve the efficiency and effectiveness of the financial statement process and so ensure more timely reporting for Parliament and the community. One of these proposals was through the use of early closes and reconciliation of key accounts.

I am pleased to report that a number of entities worked with us in the challenge of carrying out an early close this year, with some entities carrying out an early year-end process for a second year with improved results. Section 2.4 provides case studies from six significant entities. The case studies will allow other entities to learn from these experiences through highlighting successful strategies and potential pitfalls. Based on the results this year, I encourage other entities to consider improving not just their year-end financial reporting processes but their quarterly and monthly management reporting processes. Good financial management throughout the year can enable better management of risks and a more efficient financial statement process.

Other issues

The valuation of assets in the public sector environment continues to be an area of concern. During this year's audits, I identified a number of asset valuation issues which I will be examining further with the intention of providing a detailed commentary in my reports to Parliament early next year.

I welcome the approval of the *Revenue and Other Legislation Amendment Bill 2006*. The Bill includes amendments to my performance management systems audit mandate which will allow me to review public sector entities' performance measures and report whether they are relevant and appropriate in regard to their purpose and that they fairly represent an entity's performance. The extended mandate will enable appropriate independent scrutiny of the performance measures adopted by government agencies. I believe that this change will contribute toward the development of more meaningful performance measures by entities and ultimately will provide a better picture of public sector performance.

QAO's financial statements were audited by the external auditor appointed by the Governor-in-Council, BDO Kendalls, and an unqualified audit opinion was issued on 29 August 2006.

Unqualified audit certifications were provided for the Consolidated Fund Financial Report on 29 September 2006 and for the consolidated whole-of-government financial statement on 17 October 2006.

Since 1 August 2006, one qualified audit opinion was issued for 2005-06 and four qualified audit opinions were issued for 2004-05. Nine emphasis of matter references were included in the audit opinions of public sector entities for this and prior years. Full details are provided in Section 3. The status of the financial statement audits of all Queensland's public sector entities with a reporting deadline of 30 September or earlier is included in Section 5 of this report.

