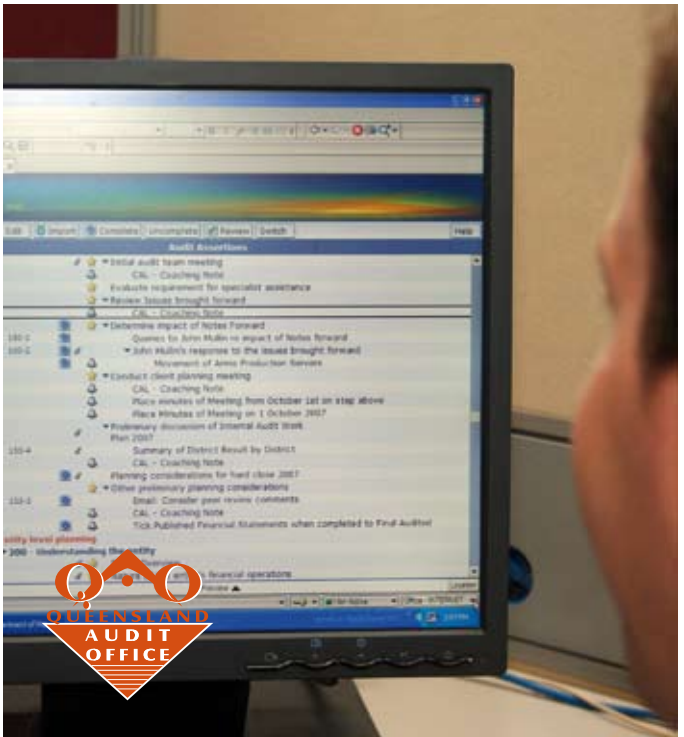


# Auditor-General of Queensland

## Report to Parliament No. 9 for 2007 Results of Audits as at 31 October 2007 Executive Summary



# 1. Executive Summary

## 1.1 Auditor-General's overview

This is my ninth report to Parliament for 2007. It contains the results of the 2006-07 financial and compliance audits of departments, statutory bodies and government owned corporations and their controlled entities completed at 31 October 2007. This report also includes details of significant issues that arose during the 2006-07 audits.

The main component of QAO's work each year is the financial and compliance audits which assess whether public sector entities' financial statements are true and fair. Audit also checks that account keeping methods comply with prescribed requirements and assesses whether the use of public resources is appropriate.

This report represents the work of approximately 170 QAO auditors and 87 contracted auditors who each year complete the 815 audits which are currently covered by my audit mandate. I would like to thank all these auditors for their hard work and dedication in performing these audits.

Considerable change has been occurring to Queensland public sector entities:

- Amendments to the *Government Owned Corporations Act 1993* have provided that statutory government owned corporations will become company government owned corporations.
- The Government has approved the recommendations of the Local Government Reform Commission that 156 local government areas will be amalgamated into 72 councils by 14 March 2008.
- The transfer of water infrastructure assets from councils to the State Government has been announced.

These changes, coupled with changes to statutory reporting deadlines proposed by the Treasurer to ensure more timely completion and certification of financial statements and annual reporting to Parliament, will have significant implications for our 2007-08 audits. We are assessing what we need to do to ensure we are fully prepared to meet any audit challenges from these changes.

I strongly support earlier preparation and audit of financial statements as I believe that it will improve the accountability of the public sector to Parliament and the community. I have outlined some strategies in Section 2.5 of this report that entities can consider to ensure earlier financial statement completion. Earlier completion of financial statements by our audit clients will help us in balancing our workload during the year ahead particularly if entities are carrying out early closes and reviewing accounting policies earlier.

In 2006-07, 94 per cent of departments, 95 per cent of GOCs and 94 per cent of statutory bodies met the statutory timeframe by having their financial statements completed and audited by 30 September 2007 (refer Section 2.4). The entities that could not achieve the timeframe this year will find it difficult to achieve the earlier financial reporting timeframes next year unless significant work is undertaken to change their current processes.

Good financial management throughout the year enables better management of risks and a more efficient financial statement process. With shortening timeframes, it is not enough to just have year-end financial reporting processes to produce the financial statements. Good quality quarterly or monthly reporting allows management to identify and address issues that have the potential to adversely affect the year-end financial statement preparation.

The FA&A Act places an obligation on departments and statutory bodies to negotiate a timeframe with me to enable the preparation and audit of their financial statements within the timeframe set by legislation. Sections 40AA and 46FA of the Act require a date to be agreed between myself and the accountable officer or statutory body for the financial statements to be given to me for audit.

In recent years, we have used informal processes to agree timeframes at officer level to support the requirements of the legislation. For the 2007-08 financial year, when the proposed changes to timeframes take effect, I intend to require a more formal protocol to highlight the importance of adhering to agreed timeframes for providing quality financial statements for audit.

I require a minimum of ten clear working days between management finalisation of the financial statements and audit certification, provided only minimal changes are required after the statements are provided to audit. QAO auditors have been able to finalise audits within the current 30 September statutory timeframe even when the agreed time available to audit has been reduced because of delays by entities in finalising their financial statements. However, the more onerous obligations of the auditing standards and earlier deadlines proposed for the 2007-08 and 2008-09 financial years mean that entities' statutory obligations to finalise their financial statements will be compromised if timeframes agreed with audit cannot be met.

Even with this more formal process, I am prepared to adjust my audit program where possible to help entities to achieve this deadline. But I expect similar support to be shown to my auditors by accountable officers, chief executive officers, boards and audit committees when managing the financial statement process.

## **1.2 Summary of key audit findings**

### **Results of audits (Section 2)**

I issued unmodified audit certification for the Consolidated Fund Financial Report on 28 September 2007 and the consolidated whole-of-government financial statement on 26 October 2007.

At 31 October 2007, 379 audits (or 98 per cent) of the 388 audits completed or required to be completed by this date had been finalised.

I issued five qualified auditor's opinions for 2006-07 and five qualified auditor's opinions for 2005-06 financial year statements. Emphasis of matter references were included in the audit opinions for the 2006-07 financial statements of nine public sector entities. Full details are provided in Section 4 of this report.

### **Local government reform (Section 3.1)**

The *Report of the Local Government Reform Commission* released on 27 July 2007 recommended significant changes to the local government sector, including merging 156 local government areas into 72 councils.

My officers have been meeting regularly with the Department of Local Government, Sport and Recreation's

Local Government Reform Task Force (LGRTF) to discuss the impact of the reform process from an audit perspective, particularly in the areas of financial reporting and the transfer of assets and liabilities.

I have detailed a number of audit and accounting considerations that require a final resolution to ensure a smooth and successful transition to the new arrangements. These include when the first set of financial statements by the amalgamation of councils need to be prepared, who will accept responsibility for certifying the financial statements of the ceasing local governments and other issues related to revenue apportionment, probity and propriety.

Bringing together councils' assets, liabilities and accounting systems and making decisions about future accounting policies and practices in the early months of the new councils will be a difficult task. To support the new councils during this period, my auditors will be contacting chief executive officers to arrange interim audit visits to provide assistance in dealing with accounting issues.

I will progressively report to Parliament on the outcomes of the reform process from a financial and audit perspective.

## **South East Queensland water reform (Section 3.2)**

On 24 May 2007, the Queensland Water Commission released its final report to the Queensland Government on the urban water supply arrangement in South East Queensland. The report outlined a range of structural and regulatory reforms which will impact on public sector entities including water infrastructure and pipeline companies, electricity generating companies and 17 local governments.

Under the Government's approved model for the institutional reform of water supply in South East Queensland, bulk water supply, manufactured water and major water transportation infrastructure will be the responsibility of the Government with the required asset transfers occurring from 1 January 2008.

The timing of the Queensland Water Commission's report and the Government's initial response created uncertainty for public sector entities in respect of the amount of compensation to be paid for assets to be transferred; the impact on asset values due to a lack of certainty over the

longer term cost of water; and the continuing operation of infrastructure and other companies in their current form and structure.

As a minimum level of disclosure, I recommended that a significant note should appear in the 2006-07 accounts of all affected public sector entities. This was to alert readers of the financial statements to the potential impact of the reform measures on the entity and their financial statements and the uncertainty that existed about these issues when the statements were signed.

### **Sale of energy retail companies (Section 3.3)**

On 26 April 2006, the then Premier announced that in preparation for the introduction of full retail competition into the domestic electricity market, the retail business arm of ENERGEX Limited and the contestable elements of Ergon Energy Corporation Limited would be sold. Subsequently, Allgas Energy Pty Ltd, Sun Retail Pty Ltd, Sun Gas Pty Ltd, Powerdirect Australia Pty Ltd and Powerdirect Utility Services Pty Ltd were all sold between November 2006 and March 2007. The total sale proceeds amounted to \$3.028b.

I have completed my audits of ENERGEX Limited and Ergon Energy Corporation Limited for 2006-07, which included the audit of the respective disclosures and results regarding the above sales. I issued unmodified auditor's opinions on their respective financial statements. In accordance with legislative provisions, the proceeds of these sales that are available for distribution have been transferred into the newly created Future Growth Fund, the audit of which I have also completed.

### **Shared Service Initiative update (Section 3.4)**

Audits of entities forming part of the Shared Service Initiative (SSI) have been finalised for 2006-07. Interim and final referral letters issued since I reported on the SSI in *Report to Parliament No. 5 for 2007* included details of control breakdowns that continued to be identified at CorpTech and the shared service providers (SSPs). I have received generally positive responses from management.

Consultation between CorpTech, SSPs and their clients was another significant issue which could be addressed in part by the implementation of a robust management

assurance framework. Through this mechanism, CorpTech and the Shared Service Agency could give all client agencies serviced by the SSPs a formal assurance report over their control environment in a timely manner. This report would also help departmental CEOs in meeting their accountability responsibilities under the FA&A Act and the FMS.

### **Update on impact of AelFRS on dividend payment arrangements for government owned corporations (Section 3.5)**

In my *Report to Parliament No. 2 for 2005*, I provided an overview of the impact of the transition to Australian equivalents to International Financial Reporting Standards (AelFRS) on GOCs' financial reports. I outlined the first time implementation impact of AelFRS and the possible recognition of accumulated losses and negative retained earnings balances by GOCs. I also outlined the continuing impact that Australian Accounting Standard AASB 139 *Financial Instruments: Recognition and Measurement* may have upon the volatility of reported profits between annual reporting periods.

On 20 March 2007, Parliament assented to the *Government Owned Corporations Act 2007* which amended the *Government Owned Corporations Act 1993*. Amongst other things, this amended s.159 on payment of dividends and s.160 on interim dividends. A GOC board can now make dividend recommendations to the shareholding Ministers and include any adjustments to the estimated profits providing the amount of and reason for each adjustment is stated. As a result of these amendments, the issues I raised in my 2005 report have been appropriately addressed.

### **Contraventions of the *Corporations Act 2001* (Section 3.6)**

The *Corporations Act 2001* requires me, as the auditor of public sector companies, to notify the Australian Securities and Investment Commission (ASIC) when I have reasonable grounds to suspect there has been a significant contravention of the *Corporations Act*. I must also report to ASIC those contraventions which may not be significant but which I believe have not or will not adequately be dealt with by commenting on it in the independent auditor's report or by bringing it to the attention of directors.

I am also obligated under s.99(2)(b) of the FA&A Act to draw attention to any case in which the financial management of a public sector entity was not adequately and properly performed if, in my opinion, the matter is of sufficient significance to require inclusion in a report to Parliament. A suspected significant contravention of the Corporations Act would usually be included in a report to Parliament, however, to report these matters publicly might in some cases prejudice the outcome of investigations being conducted by ASIC.

It is imperative that Parliament is fully informed of all matters of significance affecting public administration and to ensure this, I have agreed a protocol with the Public Accounts Committee for referring these matters to them at the time that I report the matter to ASIC. One matter has been reported to the Public Accounts Committee under this protocol.

## **Government shareholdings in jointly owned entities (Section 3.7)**

Shareholdings in companies in the public sector by multiple entities provide additional challenges from a coordination and governance perspective. This situation is particularly apparent where the government has an equal or minority legal interest in the company although its perceived power may indicate that its real influence on the actions of the company is greater.

Where the government becomes involved in the establishment of a company and for policy reasons determines that it will have less than a full controlling interest, I consider it essential for the government and the shareholding departments to ensure that the legal control position outlined in the company's constitution and other management documents are strictly observed in the interaction with the company and its operations.

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