

INFORM

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Photograph courtesy of the Queensland Department of Emergency Services

Tropical Cyclone Larry caused hundreds of millions of dollars of economic damage when it crossed the coast near Innisfail in Queensland's north on the morning of 20 March 2006 but incredibly, no one was killed.

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Michelle Dixon

The Cyclone Larry Operational Recovery Taskforce was set up in the aftermath of the March 2006 cyclone to coordinate all government, business and community services. This included the distribution of resources in the form of money, manpower and materials provided by federal, state and local governments.

The QAO is responsible for assuring the Queensland Parliament and taxpayer that State disaster recovery money has been spent appropriately, and that there are adequate processes in place

to facilitate quick and decisive action by governments in an emergency.

The audit will take place during the first half of this calendar year, with field financial and compliance work performed at relevant agencies.

QAO will also conduct a follow-up audit on the findings reported in Report No. 2 2004-05 on the (PMSA) audit of the Queensland Disaster Management System.

The results will be presented in an Auditor-General Report to Parliament.

News & Views

Fees feedback

One of the more common questions QAO gets asked through our client feedback process is how we set our audit fee rates and charge out our services.

QAO's fee schedule is approved by the Treasurer under the *Financial Administration and Audit Act 1977* and each level of auditing expertise is allocated an hourly rate. For example a QAO Director of Audit is charged out at \$153 per hour and a junior Auditor is charged out at \$71 per hour (with a sliding scale in between the two).

These rates are reviewed annually and the next review has been scheduled for later this year, in line with industry benchmarks.

A rigorous planning, task and time recording process is in place around audits to ensure a fair estimate of fees for the services provided to our clients.

"There are a basic number of hours we have to do the audit in compliance with auditing standards and how much work we have to do as a base to form an audit opinion," said Auditor-General Glenn Poole.

"But of course the size, scope and audit-preparedness of the client impacts on the number of hours we invest in the audit," he said.

Having workpapers together and facilitating access to key staff are factors clients can control to help keep the cost of their audit down.

"The more streamlined the process is and the more prepared clients are, then

the less time the audit should take," said Glenn.

Glenn says that communication is the other key to an efficient audit.

"It's important to take the opportunity to find out exactly what we are doing and what the audit process entails and to discuss any concerns around the service plan or fee structure with your audit team in the first instance," he said.

The new auditing standards applicable for audits of financial years after 1 July 2006 has also resulted in an increased focus on the overall quality of audits performed.

"To achieve the desired level of quality on the audits we undertake, we are constantly assessing our quality control practices and procedures at both the audit engagement level and at the entity level. An important driver of quality control on audit engagements is ensuring an appropriate level of involvement from the most senior members of the assigned audit team.

"And the price of receiving a higher quality audit may also be higher audit fees in some instances, due to the greater level of direct involvement of senior auditors on these jobs," said Glenn.

"If we work together, keeping the process transparent and communication two-way, then the audit process doesn't need to be a stressful one," he said.

A full schedule of current QAO audit fee rates is available from the QAO website at www.qao.qld.gov.au

"The more streamlined the process is and the more prepared clients are, then the less time the audit should take."

News & Views

Tips for preparing for an audit

We often get asked how to prepare for an audit ...

Since our audits assess financial management and processes, the simple answer is to manage your organisation as well as you can and keep your records in good shape!

However, we've come up with a few additional tips to help you ensure your audit will go as smoothly as possible —

1. Two way communication is critical

Contact between us needs to be regular, whether it is face to face or by other means. We need to inform each other as soon as possible of any changes which may affect the audit, we foster an environment of professionalism and mutual respect.

2. Having an agreed timetable

Deadlines are being brought forward and financial statements are being completed and published earlier each year. We work with you to agree the timetable for the audit upfront as part of our strategy. It is important that any variations by either of us is discussed and agreed with the other. We need to have a reasonable amount of time available to complete the audit.

3. Agreeing on contact officers

By having agreed contact officers for audit, we will know who to go to in the organisation for assistance and we can settle on protocols for obtaining information. It is important to have key staff available right to the end of audit process, particularly when the audit of

financial statements is being finalised, to enable the efficient completion of the audit.

4. Providing supporting work papers for financial statements

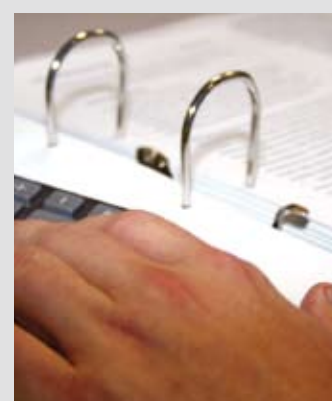
Having a complete set of stand-alone work papers containing detailed information supporting account balances and explaining any variations or issues can greatly assist the audit of the financial statements to be completed on time. Work papers should also be cross referenced, accompanied by lead schedules and provided electronically.

5. Involving internal audit and the audit committee

Internal audit can provide great assistance to us through providing quality assurance of financial statement processes, reviewing significant areas of the year end financial statement preparation processes, participating in key meetings about the financial statements and conducting an early review of potential problem areas. The Audit Committee also assists the audit process through reviewing major variations in account balances from year to year, discussing and ratifying changes in accounting policies, reviewing accounting assumptions and estimates and resolving issues between us and internal audit.

6. Ensuring our health and safety

Please help us do our work quickly and efficiently by ensuring that we have a satisfactory standard of accommodation while we are working in your organisation.



Training & Industry Infrastructure interests

With Paul Shipperley, Assistant Auditor-General

More than \$10 billion is expected to be outlaid by the Queensland Government on capital expenditure over the next financial year and the Queensland Audit Office (QAO) is on the front line of reviewing the systems and processes in place to ensure the State is getting value for money.

Queensland has experienced a population boom over the last twenty years with more than four million people now calling the State home compared to just over two and a half million in 1987. This combined with other pressures such as environmental issues has meant our need for more comprehensive infrastructure systems has increased dramatically.

As a result there is now increased resource and dollar allocation to capital works development and spending. But with a diversity of major projects running to relatively short timeframes offset against large budgets and planning considerations, how does the QAO approach the mammoth task of assessing whether these projects are delivering timely, cost effective and justifiable outcomes?

Assistant Auditor-General Paul Shipperley says the challenge in having short timeframes is that it creates risk for the State, and puts pressure on individuals to put appropriate systems in place.

“We only have so many people and so much money to do these projects, and traditionally we would review these projects as part of our normal financial and compliance audit, but with the amount of activity occurring in infrastructure development we’ve had to review our approach, and identify key issues as they emerge, so I guess you could say we have had to take a more targeted approach to infrastructure audits.

“We are fairly hands-on, we go down to the site and meet the people involved – Project Managers and the like, and even though there may be a number of things we could look at in the course of an audit, what we have done is specifically define a scope for some of the large projects – meaning we decide what key areas we should investigate to ensure the most relevant assessment of the overall project,” said Paul.

There are four key areas that QAO has decided to look at this year in auditing infrastructure projects in the current environment —

- justification of options – why agencies are building the infrastructure they are, this is in order to satisfy that all options have been explored and the best one selected, and that this process has been thoroughly documented;
- a review of the governance and reporting mechanisms – what’s in place, who forms the steering committee and what they report, how they report it and who to;
- the adequacy of procurement and risk management systems – looking at whether agencies have strategically approached procurement and tried to get best value for money and that they have identified the risks and tried to treat them on the way through; and
- compliance with legislative and other requirements.

“Another factor is that most of the billion dollar-plus projects are being managed by a State agency in conjunction with a private firm or consortium, so of course we’re also interested in how effectively these alliances are working,” said Paul.



A project alliance is an agreement where two or more entities decide to work cooperatively on a project, and join together to manage and execute the project sharing the risks and rewards associated with it.

“So looking at these alliance arrangements is part of leveraging off where we’re going to get the most impact from our analysis – if we can see that they’re complying with all the requirements and have the right tendering and risk-sharing processes in place, then we are helping to get the best out of the alliance process and the best value for money.

“The interaction between the two partners is very important, so we look at how well they work together - it’s vital that process is assessed as part of the overall audit,” said Paul.

Part of the scoped approach of QAO’s 2006-07 workplan was realising that each infrastructure project current in Queensland couldn’t be assessed individually, so it had to be agreed that projects nominated for audit had a broader reach and learnings relevant to the wider public sector.

In line with this rationale, QAO made the decision to audit four key projects across a diversity of Queensland infrastructure sectors.

“We looked at all the projects on the go and said, well OK, we can’t drill down and look at them all in detail, so let’s pick four across different industry sectors – being the Tugun bypass, the Tugun desalination plant, the Gateway upgrade project, and the Energex distribution network – all of which are billion dollar plus projects and are major infrastructure – roads, electricity and water – and we’ve targeted them because they comprise a significant proportion of the infrastructure spend.

“Obviously we can’t look at everything, even when we do target these four, so we are trying to draw lessons from them that we can share across the rest of the public sector. This also gives us an opportunity to improve the way we do our own audits as a matter of course on capital works projects – particularly in looking at the breadth and scope of what we audit,” said Paul.

The need to fast track these projects in response to the immediate needs of the State means that government may not have the luxury of extensively pre-planning them, i.e. in terms of setting up governance structures such as audit committees. Paul says that doing it on the run can create extra risks for the project in itself.

“This is particularly so when the infrastructure projects are somewhat unusual – for example, roads are something we build every day, but the desalination plant is a first for Queensland.

“We understand that when you’re dealing with reduced timeframes, you need to take calculated assessments and although we acknowledge, and are sympathetic to the need to do things quickly, some of the questions we are asking in the scope of the infrastructure audits are: ‘You can always build something, but does it meet the service delivery requirements first identified?’ and ‘Is it fulfilling the right need?’

“By asking our clients for briefings on the major infrastructure projects that are currently being planned and implemented, we can get an early understanding of project deadlines and related issues,” said Paul.

The Auditor-General Report on Queensland infrastructure, which will include feedback from key stakeholders, will be tabled in Parliament later this year.

“...we are trying to draw lessons...that we can share across the rest of the public sector.”

Fast Facts

- ▶ The State’s capital program currently amounts to 5.5% of Gross State Product.
- ▶ Under the 2006-07 State Budget more than \$10 billion will be spent on water, roads, ports, rail, health and energy infrastructure, training institutes and schools.
- ▶ The South East Queensland Infrastructure plan and program will see approximately \$66 billion of infrastructure built in the State’s South East over the next 20 years.

Training & Industry

Contract auditing overhaul

A review of contract audit arrangements has resulted in an overhaul of QAO's contractor registration process and the means by which they tender for work.

Contractors have historically registered with QAO by submitting an application to meet a generic set of standards with approved contractors then quoting on contracts as individual jobs.

Increasingly stringent quality assurance (QA) practices and standards have meant these arrangements needed to be reviewed to ensure that QAO contractors were appropriately qualified, had acceptable audit methodologies and were capable of meeting the standards for QA.

QAO's Executive Management Group also realised there was a lot of administrative work being done by auditors that could easily be picked up by QAO central administration.

"In February 2006 we created the position of Contract Audit Administrator to manage all non-audit related processes, our first step was to centralise the administrative processes to ensure consistency when appointing contractors," says Gary Biddle, Executive Director - Business Services.

"To ensure the standard of contractors was acceptable to us, and to reduce the need for contractors to verify their qualifications every time tenders were issued for quote, we introduced a process of pre-qualification and registration," he said.

In July 2006 all existing and potential contractors across the industry were

advised that QAO was opening up a new qualification and tender process.

"From this pre-qualification process we selected a pool of firms that met the relevant standards and who are now registered as authorised contract auditors," said Gary.

Under the new system, tenders are advertised to this pool of registered contractors as packages bundled by geographic region and consisting of one job or multiple jobs depending on the estimated number of hours they would take to complete.

QAO then uses a two-envelope process for evaluating tenders, the first being the application and the second being a separately submitted cost quote. This process is to ensure quality is a primary deciding factor and that the firm which is the best fit to do the job is chosen providing their cost is also within an acceptable range.

Under this two-stage process, the tender committee firstly ranks a firm's response to the information provided. If they are shortlisted on this ranking, the committee then open their second envelope which contains their quoted cost for the job. The cost quotes are also ranked and final selection is based on the combination and weight of these two rankings.

"Essentially, this competitive arrangement will enable us to give audit clients more value for money. It also retains a core group of firms who have the capacity and experience to do the work, and have methodologies and QA systems in place which meet our standards.

The bottom line is that this means we can provide the best possible service to our clients," said Gary.

"Essentially, this competitive arrangement will enable us to give audit clients more value for money."

News & Views

Clients informed

More than 200 clients attended this year's 'accounting and financial reporting client information session' hosted by QAO in February.

The session was designed to give an overview of reporting mechanisms and rationale, as well as a 'nuts and bolts' guide to the audit process and how our clients should best prepare for it.

Presenters from QAO and Queensland Treasury explored a range of subjects including strategic audit themes, audit process, early closes, general updates and Australian Accounting Standards Board (AASB) updates on audit issues and financial reporting in general government sectors.

Thanks to all of our clients who attended, we received a lot of positive feedback from the day and have made the presentations available on the publications section of our website.

The next client information session on 'performance management systems audits' will be held in May.

To receive notification of all upcoming client information sessions subscribe to our free notification service on the events section of our website at:

www.qao.qld.gov.au

Did you know ...

The term 'auditor' comes from the early French 'auditeur', a hearer or listener or member of an audience.

Senior staff movements

Terry Campbell has been appointed to the role of Assistant Auditor-General responsible for the Performance Management Systems Audit team.

Poopalasingam Brahman has taken on the new role of Assistant Auditor-General responsible for the enhancement of our Quality Assurance practices. In line with this stronger commitment to quality the Audit Policy and Reporting section has been renamed Audit Policy and Quality.

John Findlay, Director - Audit Policy and Quality has left QAO after 23 years to take up a position as Assistant Auditor-General with the Victorian Auditor-General's Office.

As part of QAO's Executive Mobility program, **Tony Johnson**, Executive Director - Business Services has taken a six month placement as Executive Manager - Compliance, in the Office of Fair Trading and **Gary Biddle** from shared services provider, PartnerOne has joined QAO in the Executive Director position for that period.

QAO Assistant Auditor-General **Neil Jackson** was recently elected to the position of Deputy President, Queensland Divisional Council, CPA Australia.

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If there's anything you would like to see featured in **INFORM** or you have an interesting story idea or picture you'd like to contribute, please contact us at Inform@qao.qld.gov.au or on (07) 3405 5003.

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Five minutes with ...

Graduate Auditor Michelle Dixon



The abridged version of what led you to QAO...

I studied a Diploma of Business Administration at the Russo Institute, and then was actually offered a position to work there in administration, so I did that for around eight months before deciding to further my studies. I then left to study a Bachelor of Business at QUT, and whilst completing that worked at Queensland Transport, where I stayed for a number of years in a customer service/administrative role. I used to catch a bus with someone who works at QAO and they told me about the grad program and encouraged me to apply, which I did and I've been here since July 2006.

The best thing about my current position is...

The best thing is the training and development; QAO really encourages you to learn at your pace and you are not expected to know everything straight away. There's that nurturing aspect of helping you get through everything you need to get through and people are really willing to mentor and share their experience and knowledge. Also, the work is so varied that each week you can be doing something different as well as getting to travel, meet clients and work with different teams – you can never be bored!

What did you study at Uni?

I studied a Bachelor of Business at QUT Gardens Point. This year I will commence part-time study at QUT in order to obtain eligibility into the CPA Program – so I'll probably be continuing my studies for the next five years or so!

What other positions have you held prior to joining QAO?

At the Russo Institute I was a Faculty Coordinator's administrative assistant which involved assisting with enquiries, helping students and performing adhoc duties.

I was also a customer service officer at Queensland Transport, where I performed tasks similar to my current job such as checking the processing of transactions in accordance with policies and procedures and some involvement in performing audits on motor dealerships.

What about auditing appealed to you?

It was a good mix for my education and the workplace skills I had acquired, and from the first interview I thought 'yes, this is for me...' It felt like a good fit on both an organisational and skills level.

What about QAO appealed to you?

QAO has been operating since the 19th century and that sense of history really appeals to me; also the people here, they have so much experience and are so willing to share their knowledge with you.

What has been your most rewarding moment so far at QAO?

There's so many interesting things about the job; I suppose the people for starters, because we're so multi-cultural and diverse you're always meeting people with different perspectives and experiences. And of course there's the work itself, which for me has included the opportunity to audit different types of entities such as Department of Police, Qld Competition Authority (a statutory body) and currently QIC (a statutory corporation). It's the variety and experience I'm gaining that is rewarding on a day-to-day basis.

What do you think of QAO's GRADtecs program?

The GRADtecs program is well-designed and extensive, offering mentoring and training at a pace which is tailored to your level of experience and development. Besides giving you financial auditing training the program also gives exposure to other facets of auditing which is fantastic for your overall development as an Auditor.