

INFORM

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Photograph courtesy of QR Limited

As a statutory Government Owned Corporation (GOC), QR was one of the GOCs affected by recent amendments to the GOC Act. As a consequence, QR transitioned to a company GOC on 1 July 2007 and is known as QR Limited.

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Melissa Fletcher,
Auditor

Changes for statutory GOCs

The *Government Owned Corporations Act 1993* was recently amended to modernise and strengthen the governance framework for government owned corporations (GOCs) and to update the Act under current company law requirements.

As a result, all statutory GOCs will become company GOCs before the end of 2008, making them subject to regulation and oversight by the Australian Securities and Investments Commission.

QAO will work with statutory GOCs during the transition to ensure they meet all relevant audit, financial and other reporting requirements.

Other amendments to the Act include aligning timeframes for the Statements of Corporate Intent and Corporate Plans, as well as changes to the dividend process, oversight mechanisms and the appointment process for chief and senior executives.

News & Views

The PAC hearings process

“... the PAC held a public hearing to consider the findings and recommendations in respect of Local government investment credit risk ...”

The Public Accounts Committee (PAC) is a bipartisan committee of the Queensland Parliament made up of seven members of Parliament and supported by a research secretariat. One of the PAC's core activities is to consider the reports of the Auditor-General.

The PAC does this through organised briefings by the Auditor-General on the key findings and issues from his reports, which invites questioning of the reports and provides them with a better understanding of issues raised.

The PAC review the issues raised in the Auditor-General's reports and any relevant agency responses and, if considered beneficial to the public interest, will examine certain matters further. This may take the form of written responses, briefings, meetings or public hearings.

In July this year, the PAC held a public hearing to consider the findings and recommendations in respect of Local government investment credit risk contained in Auditor-General's Report No. 1 for 2006 Results of Local Government Audits for 2004-05.

The PAC invited Auditor-General, Glenn Poole to give evidence at the first hearing. The Auditor-General was accompanied by Director of Audit, Peter Tognolini. Also in attendance were representatives from Queensland Treasury, Queensland Treasury Corporation and the Department of Local Government, Planning, Sport and Recreation. Mayors and staff from Warwick Shire, Murweh Shire and Redcliffe City Councils and representatives from the Local Government Association of Queensland attended the second part of the hearing.

The PAC's questions covered a broad range of issues facing local government

and included a probe of the investment credit management and local issues that impact on investment decisions.

The Auditor-General commented specifically on the issues raised in his report. He confirmed that while the purchase of unrated investments complies with legislation, he is concerned that the investment frameworks adopted by Councils may not always fully consider all the attendant risks and could be strengthened in the following areas —

- investment management resourcing (skills, training and independence);
- new counter-party approval processes, including credit risk assessment;
- ongoing credit risk measurement and monitoring processes.

Unrated investments are investments which have not received an official rating from a rating agency such as Standard and Poors.

The Auditor-General reaffirmed his recommendation to develop investment guidelines that focus on better practice investment and credit risk management.

The Department of Local Government, Planning, Sport and Recreation advised that investment guidelines had been developed and appropriate distribution and training will take place soon.

The PAC welcomed the variety of opinions from attendees including exploring the benefits of centralising, within government, the investment and credit risk decision process and retaining banking services in the local economy. The committee will table their findings in a report to the Parliament, which will be available on Parliament's website at www.parliament.qld.gov.au.

News & Views

Reporting wrap-up

The third Auditor-General's Report to Parliament for 2007 was tabled on 26 June, covering audits of Aboriginal Shire Councils and Torres Strait Island Councils for 2005-06.

At the time the report was prepared, 25 audits had been completed, including seven qualified audit opinions.

Audits of four Aboriginal Shire Councils and three Torres Strait Island Councils remained outstanding due to delays in finalising financial statements.

The Auditor-General's fourth report to Parliament for 2007, tabled on 7 August, was the first to make use of the extended performance management systems audit mandate. It looked at the

relevance, appropriateness and fairness of departmental output performance measures when looking at their performance achievements.

Report No. 5 for 2007 was tabled on 9 August, covering QAO's 2006-07 interim audit activity including the shared services initiative and a number of sector-wide reviews. These included Cyclone Larry expenditure, accounting treatments for the impairment of non-current assets and issues around the evaluation of infrastructure project governance.

All reports for 2007 are available on the QAO website at www.qao.qld.gov.au



Extended mandate in use

The Auditor-General's fourth report to Parliament for 2007 is the first to make use of the recently extended performance management systems audit mandate by asking the question '*Are departmental output performance measures relevant, appropriate and a fair representation of performance achievements?*'

This report follows up the 2005 audits of output performance management across the budget sector, extending the previous audit scope to use the extended mandate. It also reports on the status of the 2005 audit recommendations.

The report found that a more informed government needs better performance information and that departments need to develop clearer objectives for outputs and greater alignment between measures reported in strategic plans, Ministerial Portfolio Statements and annual reports.

Many departments only identify the cost of delivering products and services at the output level, which is often made up of significant key activities. The report found that departments need a more detailed approach to costing at the activity level to enable them to better assess the efficiency and effectiveness of their service delivery and enable more informed decision making. This recommendation has been met with little or no progress to date and QAO will follow up further the reasons for this.

For a full copy of this report go to our website at www.qao.qld.gov.au

Training & Industry

Local government reform

With John Harten, Assistant Auditor-General



In April this year, the Government established the Local Government Reform Commission to examine and make recommendations for the reform of the State's local government system.

The *Report of the Local Government Reform Commission*, released on 27 July, recommends significant changes to local government area boundaries, classes and names.

The Government stated their objectives for the reform were to establish local governments that —

- facilitate optimum service delivery to Queensland communities;
- effectively contribute and participate in Queensland's regional economies;
- better manage economic, environmental and social planning consistent with regional communities of interest; and
- effectively partner with other levels of government to ensure sustainable and viable communities.

Assistant Auditor-General John Harten says the Auditor-General's first report to Parliament for 2007, although independent of the Commission's review, highlighted some ongoing concerns about financial management in local governments.

"These included the timeliness of preparing financial statements and financial viability and strategic asset

management within mainstream local governments," he said.

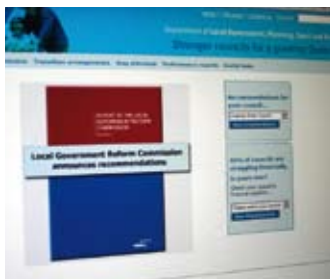
Commission's recommendations

The Commission's recommendations for local government excluding Brisbane City Council included —

- amalgamation of 156 local government areas into 72 councils;
- a new class of councils representing key economic development hubs, i.e. regional councils;
- new names for amalgamated councils;
- the existing Island councils currently operating under the *Community Services (Torres Strait) Act 1984* (excluding Bamaga and Seisia) be abolished and a new Torres Strait Island Regional Council (TSIRC) be established; and
- the existing councils of Bamaga, Injinoo, New Mapoon, Umagico and Seisia be abolished and a new Northern Peninsula Area Regional Council (NPA Regional Council) be established.

No boundary changes were recommended for 12 Aboriginal Shire Councils and another 24 councils, predominantly in Western Queensland.

The State Government has announced that Local Transition Committees (LTC) will be established for all new councils, which will include representatives from amalgamated councils. The intention is that the committees will play an important role in ensuring reform is managed locally



to minimise negative impacts on existing local government areas.

These committees will transition existing councils towards new arrangements up until the March 2008 local government elections. Key deliverables of the LTCs include —

- appointment of a chair;
- appointment of an interim CEO;
- approval of an interim organisational structure; and
- oversight and preparation of a Transition Action Plan.

What QAO is doing

The Auditor-General is the auditor of all existing 157 local government councils and their various controlled entities.

John says that a QAO project team, set up in April to develop strategies for managing the impact of the changes on the local government audits, has met regularly with the Department of Local Government, Planning, Sport and Recreation's *Local Government Reform Task Force* to provide advice from an audit perspective, particularly in the areas of financial reporting and transfer of assets and liabilities.

"The Auditor-General will closely monitor the transition of existing councils to the new amalgamated councils and the associated governance arrangements," said John.

Existing councils will have to prepare and have audited a set of general

purpose financial reports at the date they cease operations, which is expected to be 14 March 2008, the day before the council elections. This is to provide for the ownership and accountability for the transactions of the abolished councils.

Councils not affected by the reforms will continue as usual.

The amalgamation will have a significant effect on the current and future contract audit arrangements which QAO has with private sector accounting firms. The Auditor-General will be talking to the contractors about the impact on the current auditing contracts.

The Auditor-General will report progressively to Parliament on the amalgamation process from a financial and audit perspective.

"The Auditor-General will closely monitor the transition of existing councils ..."

Fast Facts

- ▶ amalgamation of 156 local government areas into 72 councils.
- ▶ Existing councils must prepare and have audited a set of general purpose financial reports as at the date they cease operations, which is expected to be 14 March 2008.

Training & Industry

Expert guidance

With Peter Tognolini, Director of Audit



Government owned corporations (GOCs) in Queensland are audited by QAO. Given the largely commercial orientation of GOCs, QAO has a dedicated financial services audit specialist to manage these audits and any related special investigations.

Director of Audit Peter Tognolini manages QAO's treasury and financial services audit section, which assesses and reports on GOC transactions in financial markets, ensuring they remain compliant with Government and board policies and that they are reported in compliance with accounting standards.

Through its agencies, the State Government borrows money from the private sector to fund infrastructure, investing superannuation funds in equities, property and fixed interest and managing risks in foreign currency, electricity and oil markets.

Peter says his role is two-pronged, the first being about controls and ensuring governance and financial reporting is closely managed, and the second being advisory – making sure clients are aware of their financial reporting options and obligations from an accounting standard and audit perspective.

"In financial markets my clients work with 'financial instruments', which could be things like bonds, shares or derivatives, and essentially I'm there to ensure that when entities use these tools in the

open financial market, they observe tight controls, which is especially critical when you're dealing with such large dollar amounts.

"Essentially it's a balancing act between achieving what accountants and auditors require and what the general managers and traders are trying to achieve. I am here to ensure that they report accurately and thoroughly on their risk positions so we can ensure they don't take on more risk than they are allowed," he said.

"Essentially it's a balancing act between achieving what accountants and auditors require and what the general managers and traders are trying to achieve ..."

Achieving high returns relative to risk is the goal for GOCs, as their behaviour is ultimately driven by a combination of their market risk tolerance and the shareholders' risk tolerance.

"Helping to ensure an appropriate balance between compliance with risk tolerances, optimising operations and fiscal efficiency is one of QAO's many challenges across our broad and diverse client base," said Peter.

News & Views

Way ahead for NGOs

During 2005-06 the Queensland Government provided over \$3.7b in funding to non-government organisations (NGOs) for the delivery of community support and essential social services.

The Auditor-General's second report for 2007 on the Management of Funding to Non-Government Organisations examined the frameworks and systems used to shape and sustain Government relationships with NGOs.

The report suggests that greater collaboration across the sector and improvements to governance arrangements, management systems and public reporting could reduce the amount of red tape and compliance issues.

The Auditor-General recommended a whole-of-government framework including a simple model outlining the interaction between government and NGOs to allow governments to —

- give (or donate) money to worthy causes;
- shop for (or procure) specialist services; or
- invest through providing infrastructure or training.

The report also suggested that the current system of classing all financial interactions as grants should be discontinued because it is not always clear which of the three interaction options are in use.

A number of Members of Parliament acknowledged the value of these recommendations during recent discussions at an Estimates Committee Hearing.

Estimates hearings

QAO is subject to the Parliament's estimates process each year, just like other public sector entities.

Parliament establishes seven estimates committees to scrutinise the Government's proposed spending for the forthcoming financial year.

Each committee examines the proposed spending for several ministerial portfolios and holds a one-day public hearing to question the relevant Ministers. QAO is included in the Premier and Minister for Trade's portfolio and appeared before Estimates Committee A on 10 July this year.

Estimates committees then report to the Parliament on whether they agree to the proposed expenses. Dissenting reports can be included if a committee member does not agree with the report. These reports are available on Parliament's website at www.parliament.qld.gov.au

The full estimates process is set out in the Queensland Parliamentary Procedures Handbook available on the Department of the Premier and Cabinet's website at www.premiers.qld.gov.au

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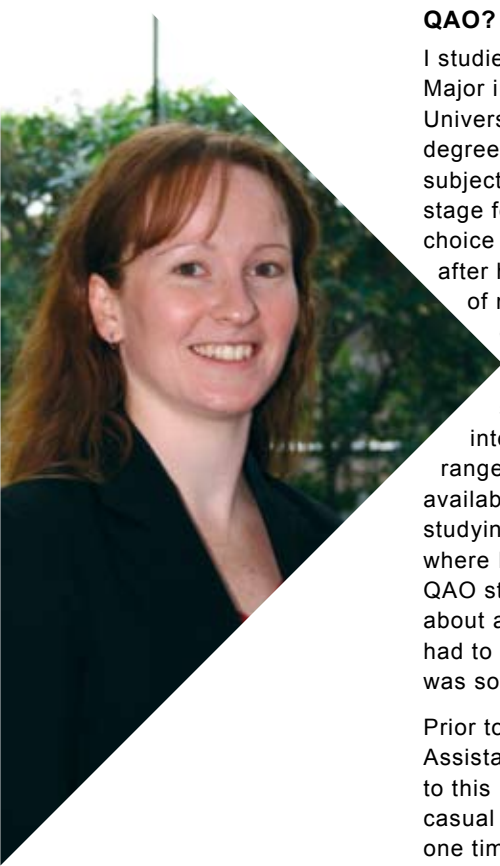
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Five minutes with ...

Melissa Fletcher, Auditor



The abridged version of your path to QAO?

I studied a Bachelor of Business with a Major in Accounting at the Queensland University of Technology. As part of my degree, I had to complete an auditing subject in my final year. I remember at this stage feeling uncomfortable with my career choice to be a private sector accountant, after hearing the pressures that a number of my friends outside of uni were currently experiencing.

Luckily, I commenced the auditing subject and developed a keen interest for the topic and the broad range of opportunities that could be available within the workplace. Whilst studying auditing, I attended a Careers Fair where I met Michael Sheehan, a former QAO staff member. He was able to tell me about all of the fantastic things that QAO had to offer. It only took five minutes and I was sold!

Prior to working at QAO, I was a Service Assistant for Woolworths, but even prior to this I have had a number of diverse casual jobs, some at the same time. At one time I would work during the day as an administration assistant for Centres for Retirement Living and Brisbane Lifestyle Support Services, and then put on the apron to work at the local Chinese restaurant. I started my first paying job when I was 11 years old as a pamphlet deliverer and have been employed ever since.

The best thing about my current position is...

I really enjoy the increasing level of responsibility that I am being given. I have appreciated the level of trust that I have received from my current supervisors and the different opportunities I have experienced throughout the last year. They have ranged from my involvement with

the GRADtects program, to being able to contribute to the recent report to Parliament on Aboriginal Shire Councils and Torres Strait Island Councils.

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

My most rewarding moment at QAO would have been participating in Graduate training and the chance to be involved with Graduate recruitment. I have really enjoyed being able to provide assistance to the recent intakes of Graduates and see how they each develop and progress within the organisation.

Who do you admire and why?

The two people I most admire are my mum and brother. Mum's strength and ability to persist through life, regardless of the severity of the circumstances is admirable, and my brother is always there to give me advice when I need it.

Professionally in the next year I want to...

Take on different audit clients and expand my knowledge within the Aboriginal and Island (A&I) Council sector. So far I have audited departments, statutory bodies, and GOCs, but I want to have as much exposure as I can to new auditing experiences. I strongly believe that you need to keep learning in life, and that once you feel too comfortable you are ready for a new challenge. The A&I sector has particularly interested me as I am keen to make a difference with this group of clients. Having had some experience on these audits I have thoroughly enjoyed liaising with the members of these councils, and have liked the fact that we are able to provide 'real' assistance and support where it is needed most.

My personal motto is...

'Choose your future before your future chooses you'.