

INFORM

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Tugun Bypass - photograph courtesy of Queensland Department of Main Roads

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Highlights

Welcome to edition 4 of INFORM for 2008. The focus of this edition is on:

- asset valuation
- infrastructure projects
- new standards, interpretations and exposure drafts
- QAO news including reports to Parliament, contracting and recruitment.

We hope these topics are of value to you. Any feedback or suggestions for articles are appreciated. Contact the editor via inform@qao.qld.gov.au.

Infrastructure

Over the last two years we have been reviewing several major infrastructure projects across South-East Queensland. Of these projects, Tugun Bypass is fully operational and components of the Western Corridor Recycled Water Project are now working to supply recycled water as the project is nearing completion.

The **Tugun Bypass** opened on 3 June 2008, six months before the scheduled completion date. The final cost of the project is being audited and the Department of Main Roads will include the audited value of Queensland's portion of the six lane motorway in its

News & Views

“... the Tugun Bypass project had fully implemented all aspects of best practice in the areas of governance, transparency and accountability...”

Infrastructure (cont)

2007-08 financial statements. As part of the motorway is controlled by the New South Wales Government, it is not included in the value to be reported by the Department of Main Roads.

The overall management of the Tugun Bypass project was included in the project evaluation audit that rated various aspects of project management using the United Kingdom's Office of Government Commerce (OGC) *Best Practice Guidelines*. The Auditor-General has reported that the Tugun Bypass project had fully implemented all aspects of best practice in the areas of governance, transparency and accountability and probity and propriety, as well as scoring well on the other aspects of project management.

Western Corridor Recycled Water Pty Limited has successfully provided recycled water to the Swanbank and Tarong Power Stations and will provide water into Wivenhoe dam in the near future. The Auditor-General reported that this project fully implemented all aspects of better practice as recommended by the OGC for governance, probity and propriety and consistency with legislation.

Further information on the Infrastructure Project Evaluation audit can be found in the *Auditor-General's Report to Parliament No. 4 for 2008 Results of Compliance Audits*.

All Reports to Parliament are available on our website www.qao.qld.gov.au.

Contracting update

Our contracting procedures have been going through a period of continuous improvement. The recent tendering of two University audits resulted in the introduction of a new step for our larger audits, a contractor briefing session.

The Queensland University of Technology (QUT) and Griffith University were tendered in May/June this year, with the tender request closing on 6 June. Tender information was available through our extranet and a contractor briefing session was held a week into the tender offer. The aim of the session was to provide information to our contractors so they could better assess the requirements of the tender. We also wanted to provide a more efficient forum for our clients to provide this information without having to speak individually to the contractors.

The tendering process for our 2009 audits is underway. Tenders were offered on our extranet on 11 August and briefing sessions held for the larger audits on 18 and 19 August. These tender offers close on 5 September.



News & Views

Overseas training

In June 2008 one of our staff, David Adams, undertook a work trip to the United Kingdom. The purpose of the trip covered:

- training at the UK National Audit Office (NAO) on the efficiency toolkit
- learning about the NAO and how they deal with many issues similar to our own
- learning about infrastructure projects in light of the infrastructure projects being undertaken in Queensland
- performing an audit of the Queensland Government Trade and Investment Office (Europe).

The primary focus was to attend a training program hosted by the UK NAO. The training initiative centred on the use of an Efficiency Toolkit developed by the NAO to help auditors assess an organisation's current approach to achieving efficiency. The toolkit is designed around a broad interpretation of what "efficiency" means and is also relevant to aspects of effectiveness e.g. spending money on the right things. The challenge for QAO is to assess how this framework can be applied to our audit methodology.

David's time at the NAO was also put to good use in learning some of the key challenges facing the NAO. Not surprisingly, QAO is also facing some of the same challenges such as:

- recruitment, employee exchanges, and implementation of a success future leaders program
- the continuing development and refinement of audit methodologies and toolkits
- use of strategic partners to help with the delivery of the audit mandate
- developments in quality assurance practices.

With significant infrastructure spending forecast for the Queensland public sector, David also took the opportunity to hold discussions with representatives from the UK's Office of Government Commerce (OGC). The developments in the OGC "Gateway" and "Achieving Excellence in Construction" frameworks were considered. QAO is looking to better position itself to meet the challenges of auditing major infrastructure spending components of the SEQ Regional plan. It was interesting to note however, that the OGC's interest in monitoring and reporting on the financial and economic (inflationary) impacts of increased construction activity arose from the 2012 Olympics and London cross-tunnel projects.

David said he also thoroughly enjoyed undertaking a branch audit of the Queensland Government Trade and Investment Office (Europe).



Training & Industry

Asset values

With Debra Stolz and Paul Christensen



It's that time of year when accountants and auditors are turning their thoughts to asset values and how they are reported and audited in the agencies' annual financial statements.



While some assets are relatively easy to value because there is an active market which can be used to determine a selling or buying price, the value of other assets, such as roads, bridges and busways isn't as easy.

Queensland Treasury's *Non-current Asset Policies for the Queensland Public Sector* has set how various classes of assets will be revalued and reported in the financial statements. For infrastructure assets such as roads, bridges and busways, the assets must be reported at their 'fair value'.



While there are several ways of determining 'fair value', the nature of the road infrastructure and the fact that the assets would rationally be replaced, means the Department of Main Roads needs to calculate the 'Depreciated Replacement Cost'. The Depreciated Replacement Cost is the value determined by first calculating the cost of replacing the existing asset with a new one, then reducing the asset value for the portion of the asset that has already been used, so the final value is more in line with the age and condition of the existing asset.

In previous years, the Department of Main Roads, used an indexing approach to value the asset at 'fair value'. As there are no specific indices for valuing road construction, management judgement was needed to assess the available indices and select the one considered to be the most appropriate. Using this approach, the reported value of the State road network at 30 June 2007 was around \$22 billion.

In 2007-08, the department needed to undertake a comprehensive revaluation of the road network so it could meet the requirements of the Treasury policy.

Engineers and accountants at the Department of Main Roads have been working on a comprehensive revaluation project to enable the department to arrive at a more realistic fair value of its road assets. The work on the project has occurred over several months. The result is the use of unit costs and road stereotypes to determine the cost of replacing the existing road network, in conjunction with reviewing the condition and age of the roads. The department set up a steering committee and a working party. The working party was supported by various small working groups that handled specific aspects of the project to ensure the project was completed on time and achieved the required outcome.

The department has identified several components which are used to determine the unit cost of a segment of road. The department's district offices around the

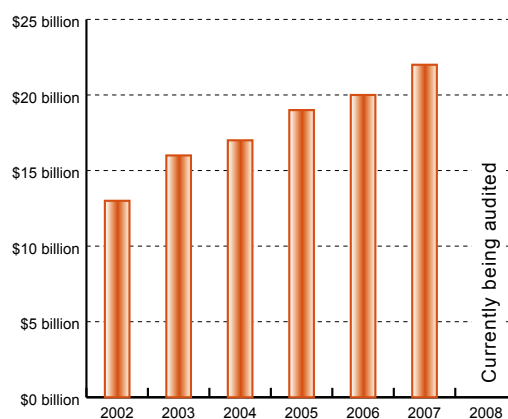
State were asked to provide information on a number of stereotypes, that is a typical construction for a specific road type.

The complexity of the project and the assumptions the Department of Main Roads made were also tested, when the department hosted a workshop for its counterparts in the other states. One of the objectives was to work towards a consistent approach to road valuations in future years.

Future challenges in this area will include the introduction of AASB1051 *Land Under Roads* which brings an end to transitional provisions in AAS 27, AAS 29 and AAS 31. These transitional provisions allowed departments and local governments to not recognise land under roads as assets. AASB 1051 is effective for financial periods beginning on or after 1 July 2008.

“Queensland Treasury’s *Non-current Asset Policies for the Queensland Public Sector* has set how various classes of assets will be revalued and reported in the financial statements.”

Road Values



Comprehensive revaluation occurred in 2003 and 2008. Other years' (2004-2007) valuations based on 2003 indexed.

- ▶ Fair value is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction. (AASB 116 - www.aasb.com.au)
- ▶ Depreciated replacement cost is the cost of replacing the future economic benefits from that asset, adjusted to reflect the condition of the asset being currently valued. (Queensland Treasury Non-Current Asset Policies for the Queensland Public Sector - www.treasury.qld.gov.au)

Training & Industry

New standards, interpretations, exposure drafts

The following standards, interpretations and exposure drafts have been issued by the Australian Accounting Standards Board since February 2008. Copies of these documents can be downloaded from www.aasb.com.au.

Standards

No.	Title	Issue	Operative date
AASB 3	Business combinations	March 2008	1 July 2009
AASB 127	Consolidated and Separate Financial Statements	March 2008	1 July 2009
AASB 2008-1	Amendment to Australian Accounting Standards – Share Based Payments: Vesting Conditions and Cancellations	February 2008	1 January 2009
AASB 2008-2	Amendment to Australian Accounting Standards – Puttable Financial Instruments and Obligations Arising on Liquidation	March 2008	1 January 2009
AASB 2008-3	Amendment to Australian Accounting Standards Arising from AASB 3 and AASB 127	March 2008	1 July 2009
AASB 2008-4	Amendment to Australian Accounting Standards – Key Management Personnel Disclosures by Disclosing Entities	June 2008	30 June 2008

Interpretations

There have been no interpretations issued since December 2007 but the following interpretation took effect at 1 July 2008.

Int. No.	Title	Issue	Operative date
1038	Contributions by owners made to wholly-owned public sector entities (Revised)	December 2007	1 July 2009

Exposure drafts

There are no current exposure drafts available for comment.

Accounting Professional & Ethical Standards Board (APESB)

The APESB issued three revised standards which applied from 1 July 2008:

- *APES 205 Conformity with Accounting Standards* - replaced *APS 1 Conformity with Accounting Standards and UIG Consensus Views*. The revision reflects the responsibilities of professional accountants in the preparation of general and special purpose statements.
- *APES 220 Taxation Services* – replaced *APS 6 Statement of Taxation Standards*.
- *APES 305 Terms of Engagement* – replaced *APS 2 Terms of Engagement*. It is mandatory for all professional accountants working in public practice to document and communicate the terms of engagement when providing professional services to clients.

APS 8 Statement of Management Consulting Service has been withdrawn since it has been covered by *APES 110 Code of Ethics for Professional Accountants* effective from 30 June 2008.

The standards can be downloaded from www.apesb.org.au.

News & Views

Report to Parliament

The Auditor-General tabled in Parliament on 8 July 2008 Report to Parliament No. 4 for 2008 on the results of audits as at 31 May 2008. This report provides the audit results of areas of public sector activity including fraud risk management; corporate card use and management; the management of public sector employee housing; information and communication technology (ICT) project management; and infrastructure project evaluation. The report also includes the results of the 2007 financial year audits of universities and grammar schools, the current status of the Shared Service Initiative and other audit results.

The fraud risk management and corporate card use and management audits were conducted to provide assurance to Parliament about systems in use to manage these risks and identify any areas which needed improvement.

For the audits of the management of public sector employee housing, ICT project management and infrastructure project evaluation, specific agencies were chosen for audit and have been reported on to enhance overall performance and accountability. These audits identified areas of improvement and for some, where urgent action needs to be taken.

A significant change affecting departments, statutory bodies and government owned corporations this financial year, is the change to financial reporting deadlines from three months to two months after the end of the financial year. The change was discussed in Report No. 4 together with actions being taken by QAO to assist entities to meet the shortened timeframes.

Recruitment

2008 has been a busy year with several recruitment processes undertaken. In previous years there had been a single major recruitment drive which provided internal staff and external candidates an opportunity for advancement or employment. Two selection processes have already been finalised with a third planned for the end of the year.

It is recognised that new strategies and processes are needed to compete in the current tight labour market for accountants and auditors. Alternate attraction methods and faster, efficient selection is now essential to fill our resourcing needs.

Kristin Furber-Burgess, Manager – People and Performance said “with vacancies and audit workloads increasing, recruitment is an ongoing part of everyday business and planning. If we can attract new staff to the Office and start them quickly we can sustain our workforce.”

She also commented that the GRADtects 2009 intakes this year attracted over 250 applications. The candidates are being selected and will know the outcome in the coming weeks.



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If there is 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 ...

Clive Stubbs, Auditor



When did you join QAO and how did it come about?

I joined QAO through the graduate program in July 2005. My early introduction to QAO was through Queensland Treasury where I was doing vocation work. Teresa Rafter who was working there put in a big plug for QAO's Graduate Program and the support it offered. I was sold and QAO was my first choice as an employer. I was extremely happy to be offered a position here.

The abridged version of what you did previously?

Before joining QAO I spent many years travelling the east coast of Australia doing voluntary Bible education work. To support this work and my family, I had various part-time jobs but mainly as a labourer and a window-cleaner. Before this I spent a couple of years at University doing a teaching degree. Between these chapters of my life there was also a couple of years spent overseas, one of these as an exchange student in Ohio in the U.S.A.

My best career move was?

This is a difficult one as I feel that my career has always been my family, the Bible education work I continue to do part-time and helping people within the community. It is most probably this background that makes me passionate about QAO and its number one resource - 'people'. And it's here where another direction of my working career has unfolded, taking on the role of the Graduate Coordinator for the past year. This position has exposed me to many challenges, various new tasks and a great number of people. What I have enjoyed the most about it is the opportunity to help our new graduates and see them grow professionally. I have come to appreciate that many of the 'fresh' talent that joins QAO have a massive potential that is ready and willing to be harnessed. Also the Graduate Coordinator role within the

People and Performance area has given me an opportunity to become more involved in corporate activities and to interact and learn from various staff.

The best thing about my current position?

I work with a great team. I have lots to learn and my current position continues to provide a host of learning experiences.

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

There have been many rewarding moments. It's a real buzz to see people I have encouraged to apply for the graduate program sitting in graduate training the following year and graduating from the program and progressing within QAO. Also being involved in in-house training (while being a little nervous before your peers) is always a rewarding experience.

Who do you admire and why?

The person I admire most is my wife Lisa (Asset manager and Investment officer for the Stubbs Family). She has to control our assets - the three boys (7,5,3) and our little girl Paris (1year 6 months) and invest her time and energy in their 'capital' growth. Now when I come home from work, these wonderful growing assets wear me out in about 10 minutes but Lisa has to attend to the constant needs of our little bundles of energy. I am sure that anyone who has had three young boys understands this. She is the one I admire and in my books a 9-5 job is the easier option!

Professionally in the next year ...

I want to continue to deepen my understanding of auditing while contributing to corporate improvement and change. I don't want to see myself in a 'position' but rather with the skill set to achieve outcomes and to be enjoying what I am doing.

My personal motto is

'Treat others as you would like to be treated'.