



FINANCIAL AUDIT REPORT

9 February 2021

# Health 2020

Report 12: 2020–21

As the independent auditor of the Queensland public sector, including local governments, the Queensland Audit Office:

- provides professional audit services, which include our audit opinions on the accuracy and reliability of the financial statements of public sector entities
- provides entities with insights on their financial performance, risk, and internal controls; and on the efficiency, effectiveness, and economy of public service delivery
- produces reports to parliament on the results of our audit work, and on our insights, advice, and recommendations for improvement
- conducts investigations into claims of financial waste and mismanagement raised by elected members, state and local government employees, and the public
- shares wider learnings and best practice from our work with state and local government entities, our professional networks, industry, and peers.

We conduct all our audits and reports to parliament under the *Auditor-General Act 2009* (the Act). Our work complies with the *Auditor-General Auditing Standards* and the Australian standards relevant to assurance engagements.

- Financial audit reports summarise the results of our audits of over 400 state and local government entities.
- Performance audit reports cover our evaluation of some, or all, of the entities' efficiency, effectiveness, and economy in providing public services. Depending on the level of assurance we can provide, these reports may also take the form of:
  - Audit insights, which provide some evaluation and share our insights or learnings from our audit work across government
  - Audit briefs, which set out key facts, involve some evaluation, and may include findings and recommendations
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The Honourable C Pitt MP  
Speaker of the Legislative Assembly  
Parliament House  
BRISBANE QLD 4000

9 February 2021

This report is prepared under Part 3 Division 3 of the *Auditor-General Act 2009*.



Brendan Worrall  
Auditor-General



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# Report on a page

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This report discusses the audit results of Queensland health entities, which include the Department of Health (the department) and 16 hospital and health services (HHSs). The report also summarises the audit results for 12 hospital foundations and four other statutory entities.

## Financial statements are reliable

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The financial reports prepared by Queensland health entities, most hospital foundations, and the four other statutory bodies are reliable and comply with relevant laws and accounting standards.

## Some systems and processes have been ineffective

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In our recent report to parliament—*Queensland Health's new finance and supply chain management system* (Report 4: 2020–21)—we found the department experienced significant issues after implementing its new finance system.

As a result of these issues, the HHSs could place only limited reliance on the finance system's purchasing controls for their goods and services. We also were unable to rely on these controls in conducting the audit, which led to additional work and cost for the Queensland health entities and us.

The health entities still have some manual recording and reporting processes, which should be automated if possible.

Some health entities have still not addressed internal control deficiencies we identified in previous financial years. These include deficiencies in purchasing processes and controls. Also, after eight years of operations, not all HHSs have approved service level agreements with the department for the purchasing and payroll services the department performs on their behalf.

## Impact of COVID-19

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The health sector is at the frontline of the battle against COVID-19 and is being successful in containing the spread of the virus. The Queensland Government signed an agreement with the Australian Government to help the public and private health sectors respond to COVID-19.

Queensland Health received \$345 million to fund personal protective equipment, fever clinics, community screening, and other costs associated with preparing and responding to the pandemic.

Queensland's compliance with the Australian Government policy of temporarily suspending all non-urgent elective surgeries temporarily reduced the number of typically high volume, non-urgent procedures performed at HHSs. COVID-19 has resulted in a decrease in own-source revenue from private patients and increased employee expenses to respond to the pandemic.

## Financial sustainability of HHSs continues to decline

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In 2019–20, 11 out of 16 HHSs reported operating losses (three more than last year), despite only one HHS having budgeted for an operating loss in 2019–20. Seven HHSs have now made an overall loss since they were formed in 2012. The former Minister for Health and Ambulance Services appointed advisors to two HHS boards in response to ongoing financial sustainability issues.



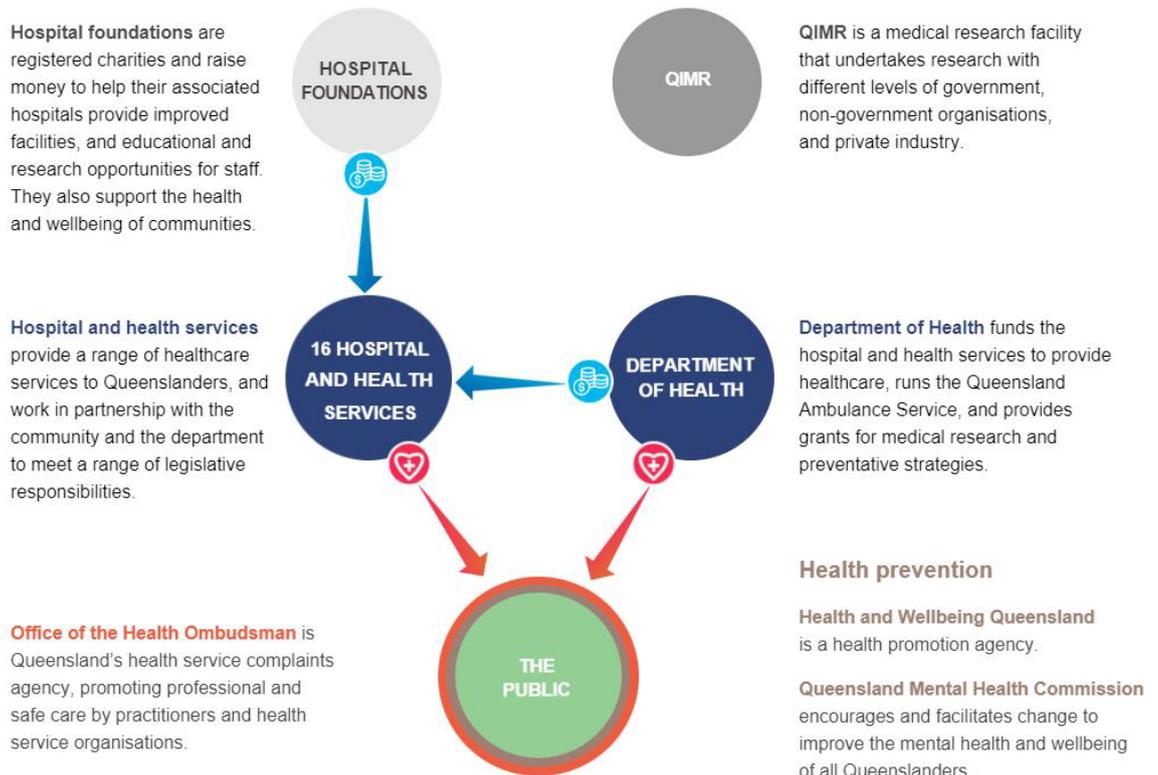
# Recommendations for entities

Automate manual financial reporting processes (Queensland health entities)	
<u>REC 1</u>	Queensland health entities should improve the efficiency of their reporting by automating manual processes, where possible.
Resolve outstanding audit issues (Queensland health entities)	
<u>REC 2</u>	Queensland health entities and their audit committees should continue to regularly review the status of outstanding audit issues and ensure they are resolved in a timely manner.
Strengthen the security of information systems (all entities)	
<u>REC 3</u>	<p>We recommend all entities strengthen the security of their information systems. They rely heavily on technology, and increasingly, they have to be prepared for cyber attacks. Any unauthorised access could result in fraud or error, and significant reputational damage. Their workplace culture, through their people and processes, must emphasise strong security practices to provide a foundation for the security of information systems.</p> <p>Entities should:</p> <ul style="list-style-type: none"> <li>• provide security training for employees so they understand the importance of maintaining strong information systems, and their roles in keeping them secure</li> <li>• assign employees only the minimum access required to perform their job, and ensure important stages of each process are not performed by the same person</li> <li>• regularly review user access to ensure it remains appropriate</li> <li>• monitor activities performed by employees with privileged access (allowing them to access sensitive data and create and configure within the system) to ensure they are appropriately approved</li> <li>• implement strong password practices and multifactor authentication (for example, a username and password, plus a code sent to a mobile), particularly for systems that record sensitive information</li> <li>• encrypt sensitive information to protect it</li> <li>• patch vulnerabilities in systems in a timely manner, as upgrades and solutions are made available by software providers to address known security weaknesses that could be exploited by external parties.</li> </ul> <p>Entities should also self-assess against all of the recommendations in <i>Managing cyber security risks</i> (Report 3: 2019–20) to ensure their systems are appropriately secured.</p>
Approve service agreements for shared services (Queensland health entities)	
<u>REC 4</u>	The Department of Health and the hospital and health services should work together to approve and sign service level agreements with each other for the purchasing and payroll services the department performs on behalf of the HHSs. The agreements should clearly identify the roles and responsibilities of each party, including the quality and scope of services and the respective costs.
Address backlog of asset maintenance (Queensland health entities)	
<u>REC 5</u>	<p>Queensland health entities should continue to prioritise high-risk maintenance.</p> <p>The hospital and health services should work with the department to find ways to mitigate the operational, clinical, and financial risks associated with anticipated maintenance.</p>



# 1. Overview of entities in this sector

**Figure 1A**  
**Queensland health sector**



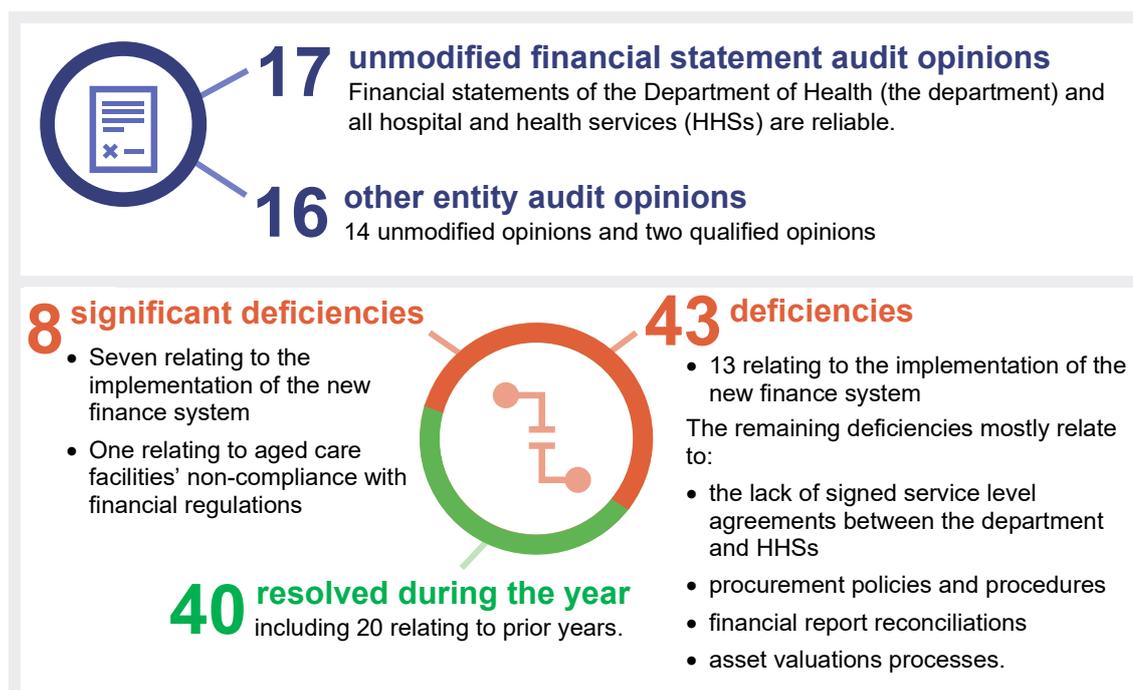
Source: Queensland Audit Office.



## 2. Results of our audits

This chapter provides an overview of our audit opinions for the entities in the health sector. It also provides conclusions on the effectiveness of the systems and processes (internal controls) entities use to prepare financial statements.

### Chapter snapshot



### Financial statements are reliable

We issued unmodified audit opinions to all 17 Queensland health entities (the department and the 16 HHSs). Readers can rely on their audited financial statements. All Queensland health entities finalised their financial reports within their legislative deadlines. This is a good achievement given the impact of COVID-19 on staff and the issues with the implementation of the new finance system.

None of the annual reports were tabled by the legislative date of 30 September 2020. The HHSs' annual reports were tabled in parliament on 14 December 2020, and the department's annual report was tabled on 15 December 2020. This is the second time in three years all the Queensland health entities' annual reports have not been published by their due date. Unless the appropriate minister extends the time frame, Queensland legislation requires departments and statutory bodies to table their annual reports in parliament within three months after the end of the financial year.

We also audited 12 hospital foundations and four other statutory bodies. All 16 entities, except for Townsville Hospital Foundation and Gold Coast Hospital Foundation, received an unmodified opinion. The qualified opinions for these two entities were due to the lack of appropriate controls to ensure all cash donations from the public and revenues from sales of goods were recorded. Bundaberg Hospital Foundation and Townsville Hospital Foundation did not finalise their financial reports within the legislative deadline.

Appendix D details the audit opinions we issued.

#### DEFINITION

We express an **unmodified opinion** when the financial statements are prepared in accordance with the relevant legislative requirements and Australian accounting standards.

We express a **modified opinion** when financial statements do not comply with the relevant legislative requirements and Australian accounting standards and, as a result, are not accurate and reliable.

A modified opinion can **qualify** only certain aspects of the financial statements that are not prepared in accordance with the relevant legislative requirements and Australian accounting standards.

Not all entities in the health sector produce financial statements. Appendix F lists the entities not preparing financial statements and the reasons.

## Other audit and assurance opinions

Appendix E lists the other audit and assurance opinions we issued.

For the fourth time in five years, we issued a qualified audit opinion for the annual 'prudential compliance statement' for Queensland Health's aged care facilities across four HHSs.

In this statement, Queensland Health is required to outline to the Australian Government how it has managed refundable accommodation deposits, accommodation bonds, and entry contributions from aged care residents. We qualified our audit opinion because of significant non-compliance with several financial regulations. For example, the aged care facilities did not provide evidence that they have completed accommodation agreements with residents within the legislative time frame.

## Queensland health entities assessed their financial statement preparation processes as mature

We worked with the department and the HHSs as they undertook a self-assessment of their financial statement preparation processes using the maturity model on our [website](#).

In general, the entities assessed themselves as having mature financial statement preparation processes. They rated many elements of their financial statement preparation processes as either 'integrated' or 'optimised' (the two highest levels of maturity). This means they have assessed their processes for supporting the preparation of financial statements as efficient and as providing high-quality information in a regular, timely manner.

Figure 2A outlines the entities' self-assessed strengths and opportunities.



## Figure 2A Queensland health entities' strengths and opportunities in financial statement preparation

<b>Strengths</b>	<ul style="list-style-type: none"> <li>• Producing good quality proforma financial statements (which show how the financial statements will look at the end of the year. These are prepared early in the year and updated as figures become available.)</li> <li>• Using financial statement project timetables</li> <li>• Management appropriately challenging outcomes of valuation of property, plant and equipment</li> <li>• Effectively engaging with audit committees and external audit on financial reporting matters.</li> </ul>
<b>Opportunities for improvement</b>	<p>Common opportunities for Queensland health entities included:</p> <ul style="list-style-type: none"> <li>• more automation of financial reconciliations (comparing two sets of records to check figures are correct and in agreement), as many HHSs perform them manually or with only some level of automation</li> <li>• reducing the manual intervention required to prepare month-end reporting.</li> </ul> <p>Common opportunities for some HHSs include:</p> <ul style="list-style-type: none"> <li>• increasing the regularity of training for their financial reporting team</li> <li>• improving the completeness and accuracy of early versions of draft financial statements.</li> </ul>

Source: Queensland Audit Office.

### Recommendation for Queensland health entities

#### Opportunities to automate manual financial reporting processes (REC 1)

Queensland health entities should improve the efficiency of their reporting by automating manual processes, where possible.

## Not all systems and processes for purchasing goods and services were effective

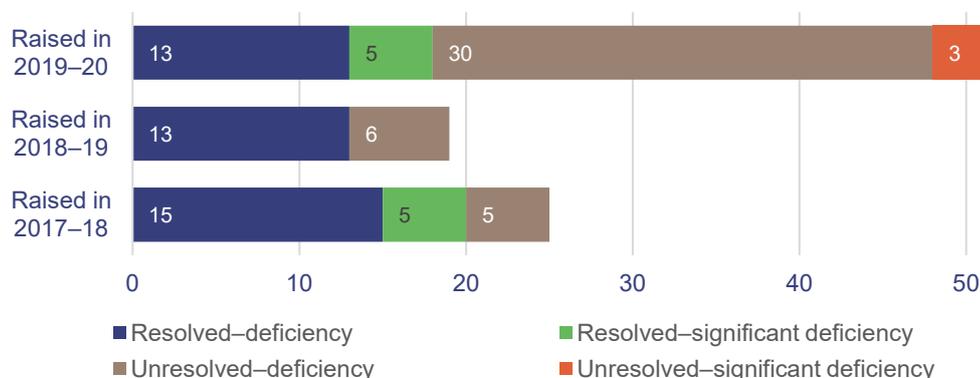
We assess whether the internal controls entities use to prepare financial statements are effective. If we find issues in internal controls, we identify them as either *significant deficiencies*, that require immediate action by management, or *deficiencies*, that management can correct over time.

We found Queensland health entities' internal controls within the new finance system were not effective. As a result, we were not able to rely on them for our audits, which meant additional work and cost.



Figure 2B shows the number of internal control deficiencies we have raised in each of the last three financial years, and their status at 31 August 2020. Of the 51 new issues we have identified in 2019–20, 20 relate to the implementation of the new finance system.

**Figure 2B**  
**Status of internal control deficiencies at the department and HHSs**



Note: One deficiency, relating to the lack of a signed service level agreement between the department and a HHS, remains outstanding from 2014–15.

Source: Compiled by Queensland Audit Office.

## Issues identified in previous years

Of the deficiencies raised between 2014 and 2019, 27 per cent remain unresolved. These mostly relate to procurement processes and controls, and to HHSs not having signed service level agreements with the department for the operational services they use. By not resolving audit issues in a timely manner, entities are unnecessarily exposed to risks that should have been mitigated. All entities should proactively work to resolve outstanding issues by their implementation date.

### Recommendation for Queensland health entities

#### Resolve outstanding audit issues (REC 2)

Queensland health entities and their audit committees should continue to regularly review the status of outstanding audit issues and ensure they are resolved in a timely manner.

## We identified significant deficiencies with the implementation of the new finance system

On 1 August 2019, the department launched its new finance system. In our recent report to parliament—*Queensland Health’s new finance and supply chain management system* (Report 4: 2020–21)—we found the department experienced significant issues after implementing the finance system. The department identified little to no adverse impact on patient care.

### The department did not clearly document its internal controls prior to the system going live

The department provides critical purchasing, payroll, and information technology services to the HHSs. This includes designing and operating the relevant purchasing and payroll controls that directly impact on their ability to prepare true and fair financial statements. The controls also impact on the accuracy of management reports that rely on information from the finance system.

From when the system went live on 1 August 2019 until 24 November 2019, we were unable to audit the department's information technology and purchasing controls. This was because the department had not documented descriptions of the internal controls prior to the system going live, and it was amending controls and stabilising the system.

Without independent assurance on the effectiveness of the system's internal controls, HHSs faced a greater risk of fraud or error when processing transactions in the system.

### The department's new finance system controls did not operate effectively

We identified six significant control deficiencies relating to the implementation of the finance system. These issues primarily related to user access to the system and to information security, including:

- inappropriate configuration of the system, which did not protect financial data from deletion
- inappropriate allocation and maintenance of user access to the system
- inappropriate validation of bank account information in the system.

As a result, the department and the HHSs could only place limited reliance on the finance system controls that prevent or detect errors in expenditure transactions. We did not find evidence that anyone intentionally exploited these weaknesses.

Consistent with the experience of Queensland health entities, management of user access is a common issue identified across the public sector. Other common weaknesses relate to the ongoing maintenance of systems, which Queensland health entities will need to establish appropriate processes for in the future. We have made the following recommendation for all entities across the public sector. This is to highlight the importance of protecting information systems so entities are not exposed to loss of sensitive information or valuable assets.

#### Recommendation for all entities

##### Strengthen the security of information systems (REC 3)

We recommend all entities strengthen the security of their information systems. They rely heavily on technology, and increasingly, they have to be prepared for cyber attacks. Any unauthorised access could result in fraud or error, and significant reputational damage.

Their workplace culture, through their people and processes, must emphasise strong security practices to provide a foundation for the security of information systems.

Entities should:

- provide security training for employees so they understand the importance of maintaining strong information systems, and their roles in keeping them secure
- assign employees only the minimum access required to perform their job, and ensure important stages of each process are not performed by the same person
- regularly review user access to ensure it remains appropriate
- monitor activities performed by employees with privileged access (allowing them to access sensitive data and create and configure within the system) to ensure they are appropriately approved
- implement strong password practices and multifactor authentication (for example, a username and password, plus a code sent to a mobile), particularly for systems that record sensitive information
- encrypt sensitive information to protect it
- patch vulnerabilities in systems in a timely manner, as upgrades and solutions are made available by software providers to address known security weaknesses that could be exploited by external parties.

Entities should also self-assess against all of the recommendations in *Managing cyber security risks* (Report 3: 2019–20) to ensure their systems are appropriately secured.



## The department and HHSs do not have approved service level agreements

We continue to raise control deficiencies with the department and the HHSs because they do not all have signed service level agreements that outline the cost and scope of services the department provides to the HHSs.

Only two HHSs have signed their service level agreements for operational support services such as the provision of linen and of pathology. Only five HHSs have signed their service level agreements for information and communication technology support with the department.

Without signed service agreements, there is a lack of accountability and an increased risk of gaps and weaknesses in the services the department provides to the HHSs. This may lead to fraud or errors when processing transactions.

### **Recommendation for Queensland health entities**

Approve service agreements for shared services (REC 4)

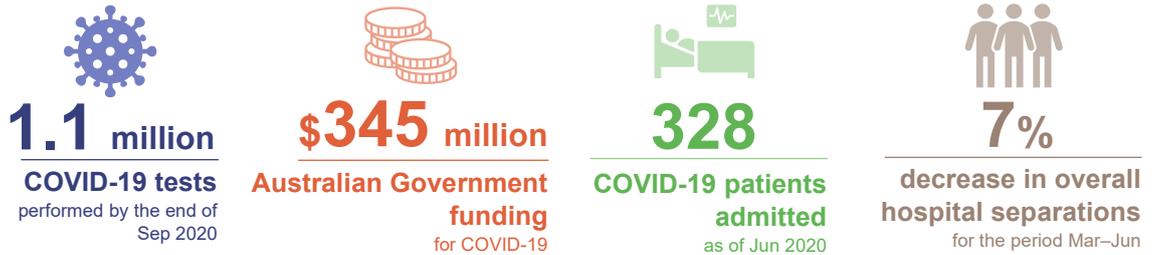
The department and HHSs should work together to approve and sign service level agreements with each other for purchasing and payroll services the department performs on behalf of the HHSs. The agreements should clearly identify the roles and responsibilities of each party, including the quality and scope of services and the respective costs.



# 3. Impact of COVID-19

The health sector is at the frontline of the battle against COVID-19. Our report to parliament—*Queensland Government response to COVID-19* (Report 3: 2020–21)—provided an overview of the measures announced by the Queensland Government up to 21 August 2020.

## Chapter snapshot



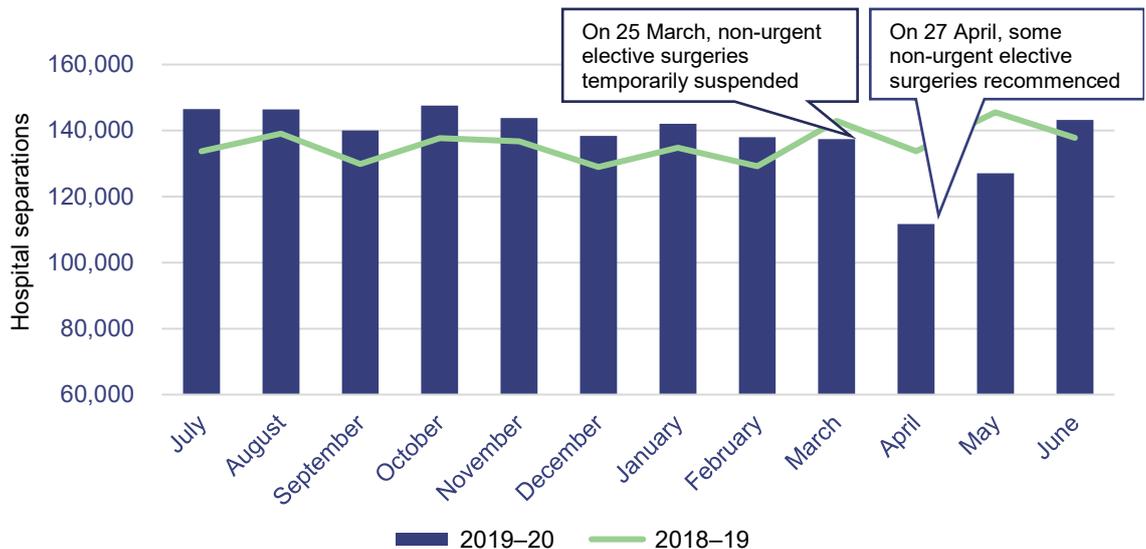
## The number of hospital separations and surgeries decreased because of COVID-19

**DEFINITION**

**Separations** are the total number of episodes of care for admitted patients, which include total hospital stays (from admission to discharge, transfer, death or change of type of care).

As shown in Figure 3A, from March to June 2020, there was a decrease in hospital separations because of COVID-19. Hospital and health services (HHSs) admitted seven per cent less patients than in the same period the previous year.

**Figure 3A**  
Decrease in hospital separations due to COVID-19



Source: Queensland Audit Office from the HHSs' hospital separations data.



The Australian Government's policy to temporarily suspend all non-urgent elective surgeries reduced the number of typically high volume, non-urgent procedures in Queensland hospitals. Comparing March to June 2019–20 to the same period in 2018–19, the most significant reductions were in the following specialty areas:

- ear, nose, and throat—down 33.5 per cent. Non-urgent procedures include removing tonsils
- ophthalmology—down 34.8 per cent. Non-urgent procedures include cataract surgery
- orthopaedics—down 35.3 per cent. Non-urgent procedures include knee surgery and associated procedures.

Physical distancing practices to prevent community transmission of COVID-19 also significantly helped to reduce the severity of Queensland's flu season in 2020. Between January and October 2020, Queensland Health recorded 6,008 cases of the flu, which is 60,000 less than the same period in 2019. This contributed to a 22 per cent reduction in hospital admissions relating to respiratory medicine.

Ordinarily, delivering less patient activity would result in less revenue for hospitals, which are funded on the basis of the activities they carry out. However, in response to COVID-19, the Queensland and Australian governments guaranteed state and HHSs' funding based on the 2019–20 patient activity targets. This arrangement is continuing in 2020–21. Some HHSs experienced a decrease in own-source revenue from private patients.

## National funding agreement to reimburse COVID-19 costs

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The Queensland Government has signed a National Partnership Agreement with the Australian Government. The agreement provides funding to support the health sector's response to COVID-19, including for:

- diagnosing and treating COVID-19 cases in private and public hospitals
- specific costs incurred in preparing and responding to COVID-19 in public hospitals
- providing additional emergency staffing and accommodation in aged care facilities
- ensuring private hospitals remain financially viable over the COVID-19 pandemic, in return for agreeing to provide their facilities, staff and supplies to support the COVID-19 response. Twenty-eight private hospital operators signed the agreement with the Queensland Department of Health.

The agreement includes funding for personal protective equipment, fever clinics, community screening, and other costs associated with preparing for and responding to the pandemic. The National Partnership Agreement does not compensate HHSs for indirect COVID-19 impacts, such as increased employee expenses and reduced own-source revenue from private patients.

In 2019–20, Queensland health entities received up to \$345 million under the agreement, consisting of:

- \$207 million in Australian Government funding relating to payments to ensure private hospitals can operate viably and to support the COVID-19 response
- \$118 million relating to state public health and hospital payments, which was funded equally by the Queensland and Australian governments
- \$20 million in Australian Government funding for up-front advance payments.



## Employees are taking less leave due to COVID-19

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HHS employees took less annual leave in the final five months of 2019–20 compared to the same period in 2018–19. In 13 of the 16 HHSs, employee annual leave expenditure was more than 10 per cent lower in 2019–20 than in 2018–19. In the short term, this will increase costs because the HHSs paid salaries and wages for a greater portion of 2019–20, while employees also earned leave entitlements.

It also presents an operational and financial challenge to HHSs in the medium term. As employees take higher rates of leave in the future, HHSs will need to ensure they have appropriate capacity to maintain health services. This could lead to additional spending on temporary labour or employee overtime.



# 4. Ongoing decline in financial sustainability

## Chapter snapshot

**4%** increase in frontline health employees in hospital and health services (HHSs) in 2019–20.

**8%** increase in total employee expenses for all HHSs in 2019–20. Employee expenses were 68% of total HHS expenditure in 2019–20.

**11** HHSs reported operating losses in 2019–20:

- Combined operating loss of \$82 mil. for HHSs.
- 12 HHSs delivered services at a higher cost than the Department of Health (the department) funded them for.

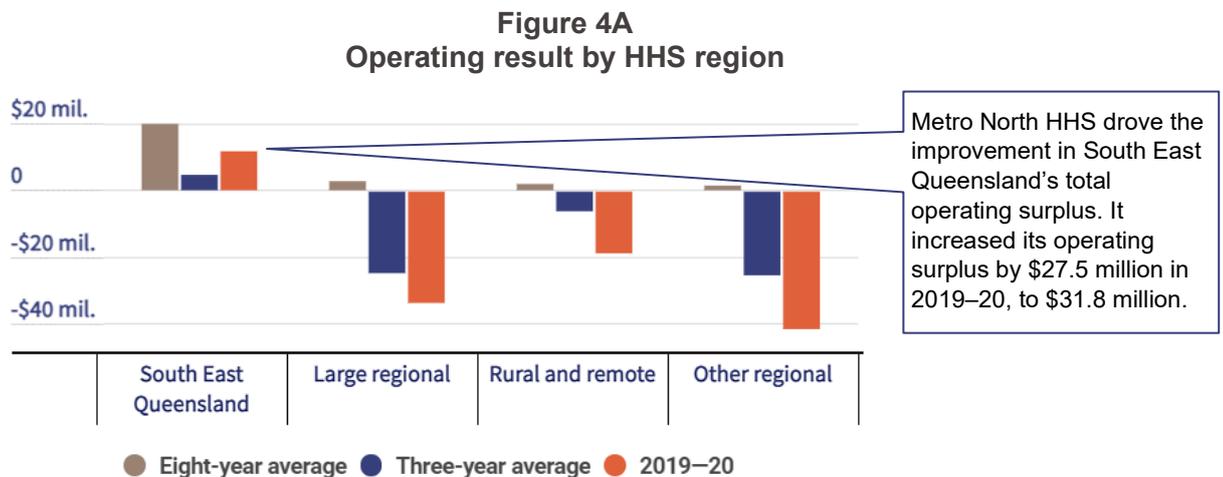
Source: Compiled by Queensland Audit Office from the HHSs' financial statements.

## HHSs' operating losses increased

The HHSs' combined operating loss in 2019–20 was \$82 million (2018–19: \$34 million). Eleven of the 16 HHSs reported an operating loss—three more than last year.

Seven out of 16 HHSs have now accumulated an overall loss since they formed in 2012, which is three more than in 2018–19 (Appendix G lists these HHSs). The former Minister for Health and Minister for Ambulance Services appointed board advisors to help Sunshine Coast and North West HHSs deliver operational efficiencies in response to their financial results.

Figure 4A shows each HHS region's operating result for 2019–20 compared to its three-year and eight-year averages.



Note: Appendix B shows how the HHSs are grouped into regions. See Appendix G for individual HHS financial results.

Source: Queensland Audit Office from HHSs' financial statements.



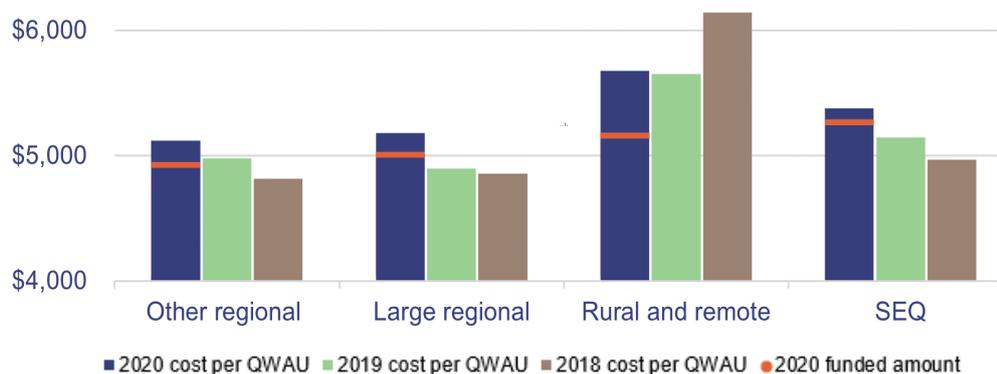
The department funded most of the HHSs based on the number and complexity of clinical services provided to patients. To measure this, the department standardises health activity into Queensland weighted activity units (QWAU). For example, a HHS would record a higher number of QWAUs for delivering complex surgery than for a simple day procedure.

The HHSs' operating losses are increasing because, while they were funded for \$5,033 per QWAU in 2019–20, the cost of delivering a QWAU in 2019–20 was, on average, \$5,161.

Increasing employee expenses over the year for salary increases, overtime, allowances and additional staff are mostly responsible for the increasing cost per QWAU in HHSs. In 2019–20, employee expenses increased eight per cent to \$778 million, and are now 68 per cent of total HHS expenses. While not all of this increase was a direct result of COVID-19, it did contribute to HHSs' increasing net costs and declining financial results.

As Figure 4B shows, HHSs in all regions have not been able to deliver sufficient savings to close the gap between the cost and funding to deliver a QWAU. The cost to deliver QWAUs has increased in all regions over the last three years, except at North West HHS within the rural and remote region.

**Figure 4B**  
Average cost to deliver one Queensland weighted activity unit



Source: Queensland Audit Office.

The department has applied efficiency and productivity dividends on HHSs. Efficiency dividends encourage HHSs to identify cost savings by reducing how much the department funds HHSs without reducing their target level of QWAUs. With productivity dividends, the department increases the HHSs' expected activity output without a corresponding increase in the funding they provide.

The department is also implementing a new way of measuring the labour that HHSs require to deliver health services. Previously, the department's analysis and reporting on HHSs' labour excluded some elements of the workforce such as contractors, consultants and the amount of overtime HHSs incur. It now includes those elements, which provides a more holistic view of the workforce.

Aiming to control labour costs, the department is using its new measure of labour to set sustainable labour targets for each HHS. These targets will be difficult for some HHSs to achieve while maintaining performance targets.



## HHSs have less cash available to pay their bills

Five of 16 HHSs failed to meet all three of our better practice financial benchmarks (see Figure 4C) in 2019–20 (refer to Appendix H for a more detailed explanation of our financial benchmarks). These provide insights into the financial sustainability of the HHSs. Four of the five are from the rural and remote or other regional HHS groups.

These HHSs may not have enough cash to pay for significant expenditure items as they arise, for example, construction payments. This means they may choose to hand back the operational management of these projects to the department.

**Figure 4C**  
HHSs' results across our three cash benchmarks

**1** 56% of HHSs have more current assets than current liabilities.

This indicates the HHS is able to pay its current debts (63 per cent in 2018–19).

**2** 50% of HHSs have enough cash to pay their average daily costs for 14 days or more.

This refers to the number of days that a HHS can continue to pay operating costs, given the amount of cash it has available (63 per cent in 2018–19). The department pays HHSs every 14 days.

**3** 56% of HHSs have a positive operating cash flow.

A positive operating cash flow indicates the HHS is funding its operations from its normal revenue streams (44 per cent in 2018–19).

Note: 'Current'—for assets, liabilities, and debts—means they will be available, used, incurred, or need to be paid in the current financial year.

Source: Queensland Audit Office from HHSs' financial reports.

## The department is helping HHSs access more cash

The department is using the following two methods to ensure HHSs have access to enough cash to pay their bills, when needed.

**Figure 4D**  
Ways in which the department is helping HHSs access more cash

Method	Detail
Cash advances	HHSs can request advance cash payments of their fortnightly funding from the department. In 2019–20, the department paid \$8.92 million in cash advances to three HHSs. In all cases, the department recouped the cash advance by reducing future fortnightly payments.
Increasing overdraft facility	The HHSs' total overdraft facility with Queensland Treasury increased from \$100 million to \$200 million. An overdraft facility enables HHSs to access cash to pay suppliers and continue operations in the event of temporary cash shortfalls. As at 30 June 2020, only North West HHS had drawn on its overdraft facility (by up to \$3.35 million, out of a total limit of \$4 million).

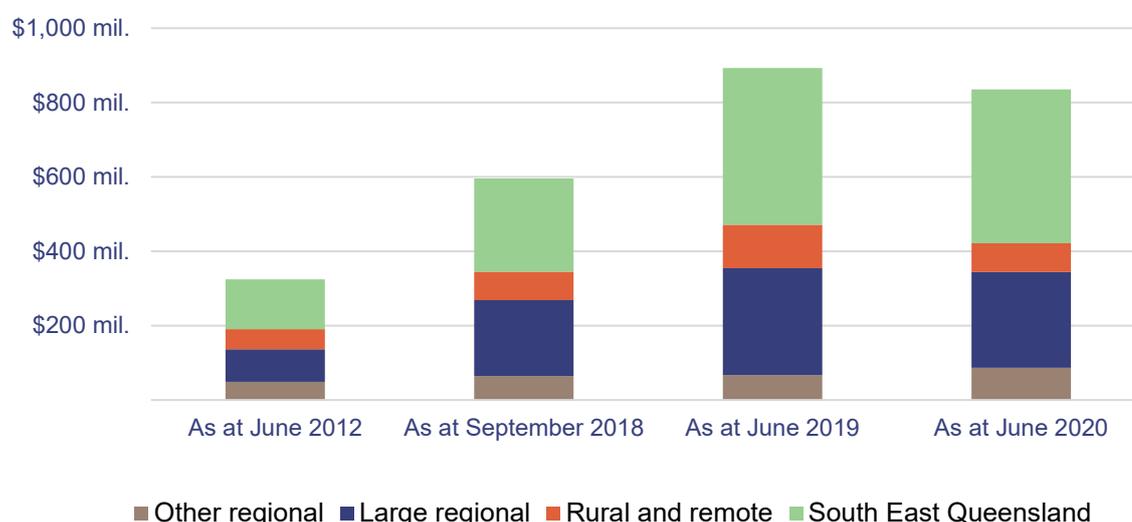
Source: Queensland Audit Office from HHSs' financial reports.

## HHSs face challenges in funding building maintenance

HHSs face a significant future challenge in funding the anticipated maintenance of their buildings. To comply with the Queensland Government’s maintenance management framework, all Queensland health entities report on their anticipated maintenance (often referred to as deferred maintenance in other sectors). HHSs’ anticipated maintenance has increased significantly since 2012, and they will need to dedicate increasing proportions of their future budgets to this.

Figure 4E details the anticipated maintenance costs for HHSs by region. Across the HHSs, the value of anticipated maintenance decreased by \$57 million in 2019–20, while HHSs’ total repairs and maintenance expenses increased by less than \$2 million.

**Figure 4E**  
HHSs’ anticipated building maintenance



Note: The June 2012 column relates to immediately before HHSs were formed on 1 July 2012.

Source: Queensland Audit Office from the HHSs’ annual reports.

### Recommendation for Queensland health entities

#### Address backlog of asset maintenance (REC 5)

Queensland health entities should continue to prioritise high-risk maintenance.

The hospital and health services should work with the department to find ways to mitigate the operational, clinical, and financial risks associated with anticipated maintenance.



# Appendices

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# A. Full responses from entities

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As mandated in Section 64 of the *Auditor-General Act 2009*, the Queensland Audit Office gave a copy of this report with a request for comments to the:

- Deputy Premier and Minister for State development, Infrastructure, Local Government and Planning
- Minister for Health and Ambulance Services
- Assistant Minister for Health and Regional Health Infrastructure
- Under Treasurer, Queensland Treasury
- Director-General, Department of Health
- board chairs of the 16 hospital and health service boards
- chief executive officers of the 16 hospital and health services.

We also provided a copy of this report to the Premier and Minister for Trade; Treasurer and Minister for Investment; and Director-General, Department of the Premier and Cabinet with an invitation to respond.

This appendix contains the formal responses that we received.

The heads of these entities are responsible for the accuracy, fairness, and balance of their comments.



## Comments received from Under Treasurer, Queensland Treasury



Queensland Treasury

Our Ref: 05903-2020

Mr Brendan Worrall  
Auditor-General of Queensland  
Queensland Audit Office  
PO Box 15396  
CITY EAST QLD 4002

Email: [qao@qao.qld.gov.au](mailto:qao@qao.qld.gov.au)

Dear Mr Worrall

Thank you for your email of 1 December 2020 inviting a response to the Queensland Audit Office's (QAO) proposed report to Parliament titled *Health 2020*. I acknowledge receipt of the report and the contents proposed to be included in this report.

I note the ongoing challenge in relation to financial sustainability within the health sector and the significant impact of COVID-19. I can confirm that Queensland Treasury has no substantive comments on the proposed report. Queensland Treasury continues to work with Queensland Health to balance funding to meet health needs, support the delivery of cost-efficient health services and ensure the sustainability of the health system.

I thank the QAO for its ongoing work and valuable insights to ensure the safety and health of all Queenslanders.

Yours sincerely

Handwritten signature of Rachel Hunter in blue ink.  
Rachel Hunter  
Under Treasurer

25 / 1 / 2021

1 William Street  
GPO Box 611 Brisbane  
Queensland 4001 Australia  
Telephone +61 7 3035 1933  
Website [www.treasury.qld.gov.au](http://www.treasury.qld.gov.au)  
ABN 90 856 020 239

## Comments received from Director-General, Department of Health



Queensland Health

Enquiries to:

Telephone:  
Our ref:  
Your ref:

Mr Brendan Worrall  
Auditor-General  
Queensland Audit Office  
Level 14, 53 Albert Street  
BRISBANE QLD 4000

Email: [QAO.Mail@gao.qld.gov.au](mailto:QAO.Mail@gao.qld.gov.au)

Dear Mr Worrall

Thank you for your email dated 1 December 2020, in relation to Queensland Audit Office's (QAO) proposed report to Parliament titled 'Health 2020'.

I acknowledge receipt of the report and the contents proposed to be included in this report. I am responding on behalf of the Department of Health and the 16 Hospital and Health Services (HHSs) to provide a single health system response to your report.

It is pleasing to note that all Queensland Health entities received an unmodified audit opinion on their financial statements for 2019-20 within the statutory deadline of 31 August 2020 and have achieved this despite the challenges noted resulting from the implementation of a new finance system and the COVID-19 pandemic.

### Recommendation 1: Automate manual financial reporting processes

Queensland Health understands the importance of ensuring that reporting practices are constantly reviewed, and efficient best practices put in place to achieve desired outcomes.

With the implementation for Queensland Health entities of the new S/4 Hana finance system during 2019-20, this brought with it the adoption of industry specific best practices. It also provides the opportunity for the Department and HHSs to explore how further the new finance system can better assist with potential for further automation in the preparation of financial reporting.

Improvements in financial reporting are part of an ongoing process of review to drive efficiencies in the system to ensure the continuation of timely and accurate reporting across the sector.

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Email [DG\\_Correspondence@health.qld.gov.au](mailto:DG_Correspondence@health.qld.gov.au)  
ABN 66 329 169 412

**Recommendation 2: Resolve outstanding audit issues**

The Department and HHSs are continuing to ensure that QAO audit recommendations are addressed and resolved promptly, with a strong focus on prior year recommendations yet to be resolved. Audit and Risk Committees and Hospital Boards will continue to play an active role in this regard.

Queensland Health entities continue to monitor and regularly report to their respective committee members on all open recommendations and actions being undertaken to resolve them.

It is positive to note that of the 44 internal control deficiencies raised in 2017-18 and 2018-19, only 11 remain unresolved as at 31 August 2020.

**Recommendation 3: Strengthen the security of information systems**

Queensland Health recognises the importance of ensuring strong practices are in place when it comes to the security of all information systems and is constantly reviewing and strengthening these where possible.

Following the release of the Managing cyber security risks (Report 3:2019-20) by QAO, activities were undertaken by Queensland Health entities to self-assess against the recommendations in this report. Of the 17 recommendations made in the report, nine were assessed to require no action as current processes and controls were already in place to address these. For the remaining eight recommendations, in discussion with the Audit and Risk Committee, an action plan was created for these and agreed. These actions will now be tracked and monitored by the Audit and Risk Committee and deemed resolved only upon validation by the Internal Audit Unit.

Staff across Queensland Health entities undertake mandatory training in Cyber Security Essentials upon commencement and are required to take a refresher course annually.

User access within our information systems is managed according to defined governance and Standing Operating Instructions and is granted on a business requirement need only. Existing access in the systems is managed under a user access review process that occurs on a monthly basis.

Access roles are designed and defined with segregation of duties in mind and mitigating controls in place for any duties that do have cross-over.

**Recommendation 4: Approve service agreements for shared services**

The Department remains committed to working closely with HHSs to ensure there are signed Support Service Agreements (SSAs) in place with all entities. In 2019-20, numerous engagement and consultation activities were undertaken with the HHSs, to help identify and understand any issues that existed with the current SSAs. As a result of the consultation, the Department set up SSA working groups, on which representation by the HHSs was included, and work began to redevelop the agreements.

As a result of these initiatives and work performed to revise the agreements, 2020-21 SSAs were finalised and provided to the Health Services Chief Executives in September 2020. As of late December 2020, it is positive to note that 40 per cent of the agreements have already been returned signed and the Department continues to be in close consultation with the remaining entities to ensure all agreements are finalised in a timely manner.



#### Recommendation 5: Address backlog of asset maintenance

In response to the QAO observation regarding the challenge faced with funding the anticipated maintenance of buildings across the sector, I can advise that the Department recognises this ongoing issue and is continually working with HHSs to address this.

The Department provides guidance to the HHSs on strategies to better manage anticipated maintenance and whole of life cycle costs, including the level of maintenance investment required to sustain the built environment. Further, the Department has increased its monitoring oversight in the 2019-20 to 2021-22 HHS Service Agreements, requiring HHSs to undertake a comprehensive assessment of their maintenance demands, suggesting they increase their maintenance budgets from 2.15 per cent to 2.81 per cent of their current building value, and submission of an annual asset management and maintenance plan to the Department.

The Department continues to work with HHSs to categorise items sitting on the anticipated maintenance register based on the type of expenditure (e.g. deferred operational maintenance, capital maintenance, etc.) and projected year for completion. Preliminary results indicate that whilst a portion of the anticipated maintenance is currently due, the remainder is projections for future expenditure.

In addition to implementing more detailed reporting of the anticipated maintenance register, the Department is partnering with HHSs to develop the management framework that will determine how asset-related issues (e.g. anticipated maintenance) are addressed in a systematic manner. This framework will consider information such as building performance criteria, condition, and risk data, to help determine how available funding can best be deployed.

#### Financial sustainability and the impacts of COVID-19

Queensland Health recognises the current and future challenges the sector faces around financial sustainability and this is always a key area of focus for all entities. Whilst noting QAO's observations of the continuing financial challenge in 2019-20, it is important to recognise the unique challenges that the sector faced as a result of the COVID-19 pandemic, and the resulting financial impacts across all Health entities.

The deficit positions recorded across the HHSs in 2019-20 were materially impacted by the pandemic, with the two main drivers being a reduction in forecast own source revenue, and higher labour costs associated with reduced leave being taken. Queensland Health has estimated the combined negative operating statement impact of these two items was approximately \$70 million across the HHSs in 2019-20.

HHSs have access to COVID-19 specific funding following the announcement from the Commonwealth of the COVID-19 National Partnership Agreement. However, it is important to note that while this agreement was to provide financial assistance for the additional costs incurred by state health services in responding to the pandemic, not all COVID-19 related costs and lost revenue are covered, including the impact of reduction in own source revenue and cost of reduced annual leave taken.



In addition, Mackay HHS (\$4.4M in 2019-20) and Torres and Cape York HHS (\$10.5M in 2019-20) have reinvested prior year retained earnings totalling \$14.9M in 2019-20, resulting in a technical deficit that further contributes to the overall position across the sector.

Thank you again for seeking our comments. Should you require any further information in relation to this matter, I have arranged for [REDACTED]

to be available to assist you.

Yours sincerely



Dr John Wakefield PSM  
**Director-General**  
02/02/2021

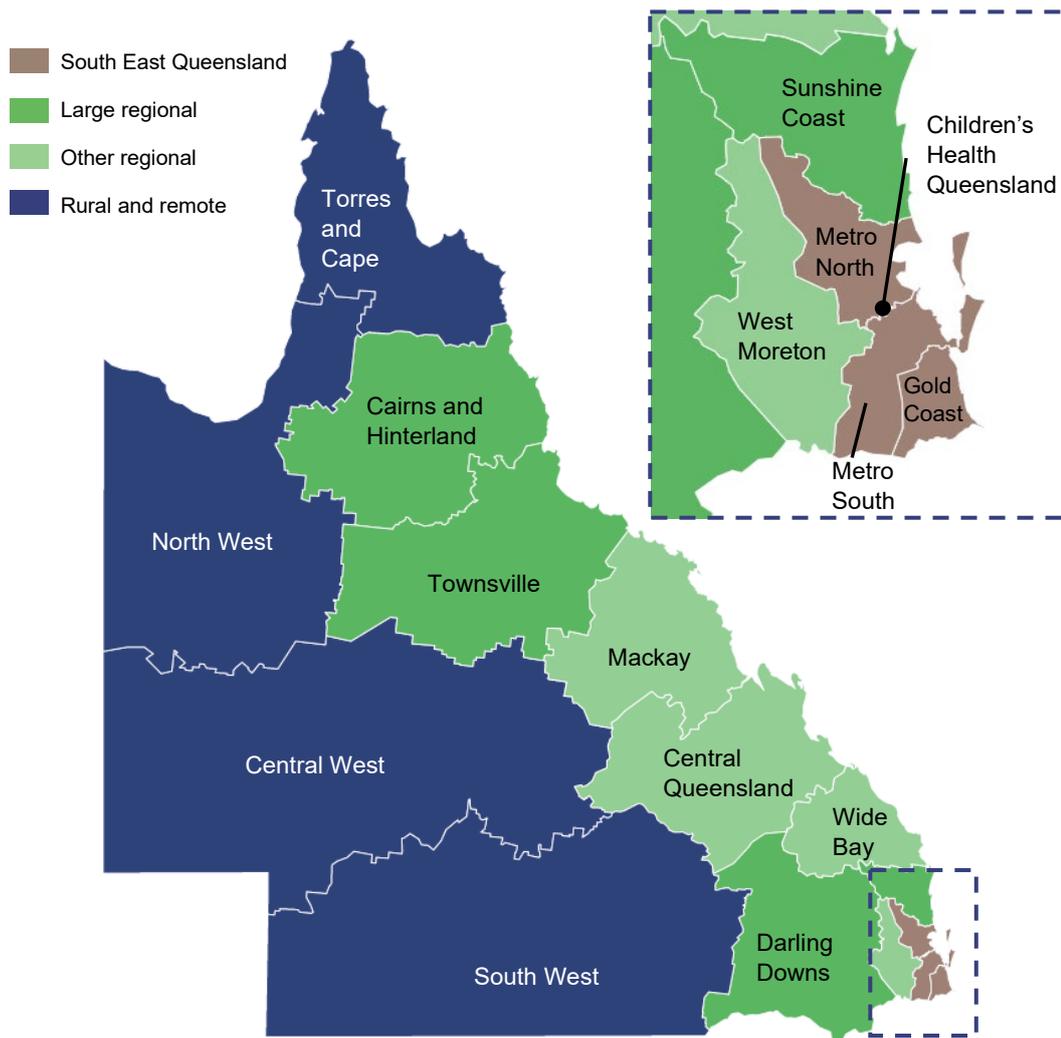


# B. Queensland hospital and health service regions

Hospital and health services (HHSs) provide health services across metropolitan, regional, and rural areas of Queensland. They are grouped into the following regions:

**Figure B1**  
Queensland hospital and health service regions

South East Queensland	Large regional	Other regional	Rural and remote
Children’s Health Queensland HHS	Cairns and Hinterland HHS	Central Queensland HHS	Central West HHS
Gold Coast HHS	Darling Downs HHS	Mackay HHS	North West HHS
Metro North HHS	Sunshine Coast HHS	West Moreton HHS	South West HHS
Metro South HHS	Townsville HHS	Wide Bay HHS	Torres and Cape HHS



Source: Queensland Audit Office from Queensland Health.



## C. Legislative context

### Frameworks

Health entities prepared their financial statements in accordance with the following legislative frameworks and reporting deadlines.

**Figure C1**  
**Legislative frameworks for the health sector**

Entity type	Entity	Legislative framework	Legislated deadline
Department/ statutory body	<ul style="list-style-type: none"> <li>Department of Health</li> <li>16 hospital and health services</li> </ul>	<ul style="list-style-type: none"> <li><i>Financial Accountability Act 2009</i></li> <li>Financial and Performance Management Standard 2019</li> <li><i>Hospital and Health Boards Act 2011</i></li> <li><i>Statutory Bodies Financial Arrangements Act 1982</i></li> </ul>	31 August 2020
Other statutory bodies and the entities they control	<ul style="list-style-type: none"> <li>12 hospital foundations</li> <li>Queensland Mental Health Commission</li> <li>Office of the Health Ombudsman</li> <li>Health and Wellbeing Queensland</li> <li>The Council of the QIMR Berghofer Medical Research Institute</li> <li>Q-Gen Pty Ltd*</li> <li>Vaccine Solutions Pty Ltd*</li> <li>genomiQa Pty Ltd*</li> </ul>	<ul style="list-style-type: none"> <li><i>Hospital Foundations Act 2018</i></li> <li><i>Financial Accountability Act 2009</i></li> <li>Financial and Performance Management Standard 2019</li> <li><i>Statutory Bodies Financial Arrangements Act 1982</i></li> <li><i>Queensland Mental Health Commission Act 2013</i></li> <li><i>Health Ombudsman Act 2013</i></li> <li><i>Health and Wellbeing Queensland Act 2019</i></li> <li><i>Queensland Institute of Medical Research Act 1945</i></li> <li><i>Corporations Act 2001</i></li> <li>Corporations Regulations 2001</li> </ul>	31 August 2020

Note: \*Not required to prepare financial statements for 2019–20 (see Appendix F).

Source: Queensland Audit Office.

### Accountability requirements

The *Financial Accountability Act 2009* requires health sector entities to:

- achieve reasonable value for money by ensuring the operations of the department and statutory bodies are carried out efficiently, effectively, and economically
- establish and maintain appropriate systems of internal control and risk management
- establish and keep funds and accounts that comply with the relevant legislation, including Australian accounting standards.

## D. Entities preparing financial reports

### Queensland state government financial statements

Each year, Queensland state public sector entities must table their audited financial statements in parliament.

These financial statements are used by a broad range of parties including parliamentarians, taxpayers, employees, and users of government services. For these statements to be useful, the information reported must be relevant and accurate.

The Auditor-General's audit opinion on these entities' financial statements assures users that the statements are accurate and in accordance with relevant legislative requirements.

We express an *unmodified opinion* when the financial statements are prepared in accordance with the relevant legislative requirements and Australian accounting standards. We *modify* our audit opinion when financial statements do not comply with the relevant legislative requirements and Australian accounting standards and are not accurate and reliable.

Sometimes we include an *emphasis of matter* in our audit reports to highlight an issue that will help users better understand the financial statements. It does not change the audit opinion.

The following table details the types of audit opinions we issued in accordance with Australian auditing standards for the 2020 financial year.

**Figure D1**  
Queensland health entities

Entity type	Entity	Date audit opinion issued	Type of audit opinion issued
Department	Department of Health	28.08.2020	Unmodified
Statutory bodies —hospital and health services (HHS)	Cairns and Hinterland	28.08.2020	Unmodified
	Central Queensland	31.08.2020	Unmodified
	Central West	27.08.2020	Unmodified
	Children's Health Queensland	27.08.2020	Unmodified
	Darling Downs	26.08.2020	Unmodified
	Gold Coast	21.08.2020	Unmodified
	Mackay	31.08.2020	Unmodified
	Metro North	26.08.2020	Unmodified
	Metro South	21.08.2020	Unmodified
	North West	28.08.2020	Unmodified
South West	31.08.2020	Unmodified	



Entity type	Entity	Date audit opinion issued	Type of audit opinion issued
	Sunshine Coast	27.08.2020	Unmodified
	Townsville	24.08.2020	Unmodified
	Torres and Cape	24.08.2020	Unmodified
	West Moreton	11.08.2020	Unmodified
	Wide Bay	27.08.2020	Unmodified
Statutory bodies —hospital foundations	Bundaberg Health Services Foundation	21.10.2020	Unmodified
	Children’s Hospital Foundation Queensland	31.08.2020	Unmodified
	Far North Queensland Hospital Foundation	28.08.2020	Unmodified
	Gold Coast Hospital Foundation	26.08.2020	Qualified*
	Ipswich Hospital Foundation	13.08.2020	Unmodified
	Mackay Hospital Foundation	31.08.2020	Unmodified
	PA Research Foundation	31.08.2020	Unmodified
	Royal Brisbane and Women’s Hospital Foundation	31.08.2020	Unmodified
	Sunshine Coast Health Foundation	28.08.2020	Unmodified
	The Prince Charles Hospital Foundation	27.08.2020	Unmodified
	Toowoomba Hospital Foundation	31.08.2020	Unmodified
	Townsville Hospital Foundation	02.09.2020	Qualified
	Other statutory bodies	Queensland Mental Health Commission	31.07.2020
Office of the Health Ombudsman		07.08.2020	Unmodified
The Council of The Queensland Institute of Medical Research (QIMR)		28.08.2020	Unmodified
Health and Wellbeing Queensland		06.08.2020	Unmodified

Note: \*Qualified on prior year (2018–19) figures only.

Source: Queensland Audit Office.



## E. Other audit and assurance opinions

We issued the following opinions for other audit and assurance engagements performed in the Queensland public health sector. To provide assurance, an auditor must confirm whether specific information is correct, so users of the information can confidently make decisions based on it.

**Figure E1**  
**Other audit and assurance opinions issued**

Type of engagement	Subject	Date opinion issued	Type of opinion issued
<b>Department of Health</b>			
Audit of a special purpose financial report	National Health Funding Pool Queensland State Pool Account—the cash receipts from the Australian and Queensland governments to fund Queensland public health services	17.09.2020	Unmodified— Emphasis of matter*
Compliance audit	Annual Prudential Compliance Statement for Queensland Health's aged care facilities that collect refundable deposits and accommodation bonds	29.10.2020	Qualified
Assurance audit	ASAE 3402 Assurance Report for the period 25 November 2019 to 31 March 2020 (Type 2)—covering the design, implementation, and effectiveness of key financial controls	17.06.2020	Qualified
Assurance audit	ASAE 3402 Assurance Report as at 30 June 2020 (Type 1)—covering the design and implementation of key financial controls	28.07.2020	Unmodified
<b>Sunshine Coast Health Institute</b>			
Audit of a special purpose financial report	Sunshine Coast Health Institute financial report	03.03.2020	Unmodified— Emphasis of matter*

Note: \*Emphasis of matter was to highlight the basis of preparation.

Source: Queensland Audit Office.



## F. Entities not preparing financial reports

When entities are part of a group and are secured by a deed of cross guarantee (with other entities in that group agreeing to cover debts), they are not required by the Australian Securities and Investments Commission (ASIC) to prepare financial statements.

Small companies that meet specific criteria under the *Corporations Act 2001* also do not have to prepare financial statements.

If entities form part of a larger group that reports to the Australian Charities and Not-for-profits Commission, the commissioner may allow the group to jointly report under subsection 60–95(1) of the *Australian Charities and Not-for-profits Commissions Act 2012*.

Accordingly, the Auditor-General will not issue audit opinions for the following entities for 2019–20, as they were not required to produce financial statements.

**Figure F1**  
**Health sector entities not preparing financial reports in 2019–20**

Public sector entity	Reason for not preparing financial statements
<b>Entities controlled by The Council of The Queensland Institute of Medical Research (QIMR)</b>	
genomiQa Pty Ltd	Non-reporting
Q-Gen Pty Ltd	Dormant
Vaccine Solutions Pty Ltd	Non-reporting

Source: Queensland Audit Office.



## G. Financial results

**Figure G1**  
**Department of Health and hospital and health services—for the year ending**  
**30 June 2020**

Amounts in \$'000						
Health entity	Total assets	Total liabilities	Total income	Total expenses	Operating result	Accumulated operating result
Department of Health	4,166,350	2,468,004	21,737,519	21,735,339	2,180	1,316,475
Cairns and Hinterland HHS	773,361	58,651	1,056,767	1,056,712	55	(66,669)
Central Queensland HHS	440,157	39,722	650,522	665,345	(14,823)	(12,411)
Central West HHS	100,712	6,009	86,941	88,429	(1,488)	(482)
Children's Health Queensland HHS	1,243,099	73,709	889,602	888,437	1,165	41,855
Darling Downs HHS	518,717	66,810	883,602	892,281	(8,679)	53,427
Gold Coast HHS	1,834,323	144,354	1,659,613	1,671,374	(11,759)	6,145
Mackay HHS	433,692	31,318	493,595	502,373	(8,778)	21,461
Metro North HHS	1,958,071	274,770	3,197,506	3,165,703	31,803	127,515
Metro South HHS	1,372,178	168,782	2,669,969	2,679,403	(9,434)	(14,784)
North West HHS	132,443	19,499	201,140	209,495	(8,355)	(9,904)
South West HHS	173,934	13,801	159,878	158,881	997	17,450
Sunshine Coast HHS	2,013,379	715,461	1,281,487	1,308,514	(27,027)	(41,699)
Torres and Cape HHS	230,650	26,650	242,644	252,445	(9,801)	4,468
Townsville HHS	936,398	65,334	1,083,998	1,081,966	2,032	76,906
West Moreton HHS	301,561	54,024	691,358	701,714	(10,356)	(7,239)
Wide Bay HHS	363,005	49,016	683,209	690,776	(7,567)	4,019
<b>Total</b>	<b>16,992,030</b>	<b>4,275,914</b>	<b>37,669,350</b>	<b>37,749,187</b>	<b>(79,835)</b>	<b>1,516,533</b>

Source: Queensland health entities' 2019–20 audited financial statements.



## H. Financial benchmarks

Figure H1  
Financial benchmarks

Benchmark	Calculation	Benchmark	What it means
Current assets exceed current liabilities	Current assets divided by current liabilities	Greater than one	HHSs with current assets lower than their current liabilities may find it more difficult to pay their debts as they are due.
Cash to pay average daily costs for 14 days or more	HHSs cash balance divided by its average daily operating costs	A cash balance which can pay for greater than 14 days of operating costs	HHSs receive fortnightly payments for health funding from the department.  A ratio close to 14 days indicates HHSs may encounter short-term problems in having enough cash to cover their costs.
Positive operating cash flow	Annual operating cash inflows minus operating cash outflows	A positive annual operating cashflow	A negative operating cashflow indicates HHSs may encounter liquidity problems as their cash balances decrease over time. It may also indicate a reliance on other funding sources, for example cash injections from the department.

Source: Queensland Audit Office.



# I. Glossary

Term	Definition
Accountability	The responsibility of public sector entities to achieve their objectives of delivering reliable financial reporting, effective and efficient operations, compliance with applicable laws, and reports to interested parties.
Anticipated maintenance	Referred to as deferred maintenance in other sectors. Maintenance that is due and necessary to prevent the deterioration of an asset or its function, but which has not been carried out.
Assurance engagement	An engagement where we obtain enough evidence so we can conclude about the measurement of a subject matter (for example, whether internal controls are suitably designed and implemented) against audit criteria. This enhances the confidence of the users of the report in the subject matter that was audited.
<i>Auditor-General Act 2009</i>	An Act of the State of Queensland that establishes the responsibilities of the Auditor-General, the operation of the Queensland Audit Office, the nature and scope of audits to be conducted, and the relationship of the Auditor-General with parliament.
Australian accounting standards	The rules by which financial statements are prepared in Australia. These standards ensure consistency in measuring and reporting on similar transactions.
Current assets	Cash and other assets that are expected to be converted to cash or used within one year.
Current liabilities	Short-term financial obligations that are due to be settled within one year.
Deficiency	When internal controls are ineffective or missing, and are unable to prevent, or detect and correct, misstatements in the financial statements. A deficiency may also result in non-compliance with policies and applicable laws and regulations and/or inappropriate use of public resources.
Modified audit opinion	A modified opinion is expressed when financial statements do not comply with the relevant legislative requirements and Australian accounting standards and, as a result, are not accurate and reliable.
Qualified audit opinion	An opinion issued when the financial statements as a whole comply with relevant accounting standards and legislative requirements, with the exceptions noted in the opinion.  These exceptions could be the effect of a disagreement with those charged with governance, a conflict between applicable financial reporting frameworks, or a limitation on scope that is considered material to an element of the financial report.
Significant deficiency	A deficiency, or combination of deficiencies, in an internal control, that requires immediate remedial action.



Term	Definition
Special purpose financial report	A financial report that is not prepared in accordance with all the requirements of the Australian accounting standards. It is intended to be used by a limited group of users or for a specific purpose.
Unmodified audit opinion	An unmodified opinion is expressed when financial statements are prepared in accordance with the relevant legislative requirements and Australian accounting standards.





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