



Queensland Audit Office

2011–12

Annual Report

Queensland Audit Office



September 2012

The Honourable C Newman MP
Premier
Level 15, Executive Building
100 George Street
BRISBANE QLD 4000

Dear Premier

Annual Report 2011-12

I am pleased to present the Annual Report 2011-12 and financial statements for the Queensland Audit Office.

I certify that this Annual Report complies with:

- the prescribed requirements of the *Financial Accountability Act 2009* and the *Financial and Performance Management Standards 2009*
- the detailed requirements set out in the *Annual report requirements for Queensland Government agencies*.

A checklist outlining the annual reporting requirements can be accessed at www.qao.qld.gov.au.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Andrew Greaves', with a long, sweeping underline.

Andrew Greaves
Auditor-General

Accessibility



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CONTENTS

Summary.....	8
1 Context.....	14
2 Parliament.....	20
3 Value.....	28
4 Business.....	38
5 Capability.....	42
Financials	48
Appendices.....	88

Structure and cost of this report

The annual report presents financial and non-financial performance information on whether the Queensland Audit Office (QAO) has met its aims during the 2011-12 financial year.

It includes a summary of our financial and non-financial performance during 2011-12, along with progress of work against our challenges from last year and our strategic planning.

Chapter one provides organisational context to help readers interpret and understand our results and performance.

Chapters two to five are structured around the four key results areas in our strategic plan, based on the following performance indicators:

- Parliament - portfolio committees are satisfied with reports from the Auditor-General
- Value - high quality audit services are delivered in accordance with approved auditing standards
- Business - sustainable technology and quality business systems are used to deliver efficient and effective services
- Capability - our staff are motivated and skilled to meet our service expectations.

The performance measures in these chapters are detailed in the *2011-12 Queensland State Budget – Service Delivery Statements*.

Chapters two and three include information on whether we are achieving our business objectives for the independent public sector auditing and reporting services we deliver.

Chapters four and five review the efficiency of our business operations and our internal resourcing and developments.

Financials contains a financial summary and the audited financial statements for the reporting period.

Appendices provide additional details and information to assist with reader understanding and to ensure openness of information.

In compliance with the Department of the Premier and Cabinet Annual Report Guidelines additional information is provided at www.qao.qld.gov.au

The cost of preparing this report, including staff time and overheads was \$65 000 and printing costs were \$3 500.

Auditor-General's report

I am pleased to present my first annual report as the 22nd Auditor-General for Queensland.

A year of transition

For the Queensland Audit Office this has been a year of transition:

- an expanded audit mandate, which makes the *Auditor-General Act 2009* one of the most progressive of all Australian jurisdictions
- a new Auditor-General, following the end of the term of appointment of my predecessor, Glenn Poole
- a new Parliament, and a new way of doing business with the portfolio committee system.

Each of these has presented challenges, but importantly also provided significant opportunity for the QAO to re-examine and revisit its approaches, in order to further our goal of strengthening public sector accountability and being a catalyst to improve public sector performance.

It is testament to my predecessor and to my staff that the organisation was well placed to respond effectively to these challenges and has been able to deliver its auditing and reporting services largely as planned. It was particularly pleasing that we were able to deliver on the opportunity afforded to us by the new performance audit mandate.

As this annual report demonstrates through the analysis of our key performance measures and indicators, we have delivered the quantum of services we planned at good quality and generally in good time. We have achieved this within our overall cost targets, and more importantly, in a time of heightened fiscal restraint have been able to constrain our financial audit costs well within budget. This provides a direct benefit to our fee paying clients, who are required to have their financial statements audited as part of their own accountability obligations to the Parliament.

No doubt we can do better. We need to respond to concerns about the cost of financial audit and we can also improve in areas such as our client engagement and better understanding their operating environments and constraints.

The year in prospect

Next year is a year of transformation: building on the new strategic and business planning, monitoring and reporting frameworks we implemented this year; and on the methodological changes we have introduced as we continue to refine our audit approaches.

Our aim is to now shift our focus onto the value we add, while not losing sight of the need to continually scrutinise our costs. The new sector-based organisational structure that we are rolling out is central to our success in this respect.

By aligning our organisation more closely with the parliamentary committee system, and with the way our public sector clients are organised, we expect to better leverage our knowledge and expertise, and to have this reflected in the quality of our reports and advice to our clients.

I look forward to continuing to build on the achievements of the QAO and to further enhancing its reputation, standing and contribution to the accountability and performance of the public sector.



Andrew Greaves
Auditor-General

SUMMARY

Background

The Queensland Audit Office (QAO) is an independent body that performs statutory functions for the Parliament. We generate 85 per cent of our revenue from charging our public sector clients fees for financial auditing services.

Our audit program aims to add value to the public sector through reporting to Parliament on a range of matters identified through our audits and through recommendations that improve business operations.

Our vision for the future is to be a leader in public sector audit, strengthening the accountability of the public sector, and being a catalyst for improving the performance of public sector entities. We do this by providing Parliament with independent assurance and advice about the accountability and performance of the public sector through our reports to Parliament.

Our key achievements

During the 2011-12 year we delivered significant achievements whilst responding to substantial challenges. We are proud of our uptake of the extended mandate granted by Parliament, in particular the introduction of performance audits to the Queensland public sector and our reduction in the overall audit fees paid by clients.

In 2011-12 we:

- issued 552 financial audit opinions, 34 more than planned, so that public sector entities could satisfy their own reporting and accountability obligations to the Parliament
- completed 11 reports to Parliament for 2011-12
- conducted and reported on three performance audits under the new performance mandate
- conducted and reported on three performance management systems audits
- identified and reported to Parliament on issues with sector-wide implications ranging from fraud risk management through to information security
- identified and reported to Parliament on issues including sale of Queensland Government infrastructure through to financial sustainability and internal control of universities.

Our major challenges

While this has been a year of significant achievement we need to 'lock in' the progress we have made and continue to improve in a number of areas. The most significant of these are:

- strengthening our strategic audit planning processes to better identify those performance audit topics that will have the greatest impact on public sector efficiency, economy and effectiveness
- better leveraging our financial audit mandate to generate more 'value' for Parliament and the public sector by implementing sector-based specialisation and reporting
- improve satisfaction levels with our financial audit services, as although they remained consistent in 2011-12, levels were less than our target
- constrain fee growth—against a background of increasing input costs, we aim to continue constraining our total audit fees while remaining financially sustainable
- reverse the upward trend in sick leave through continued monitoring and local action to support staff and managers.

OUR SERVICE PERFORMANCE

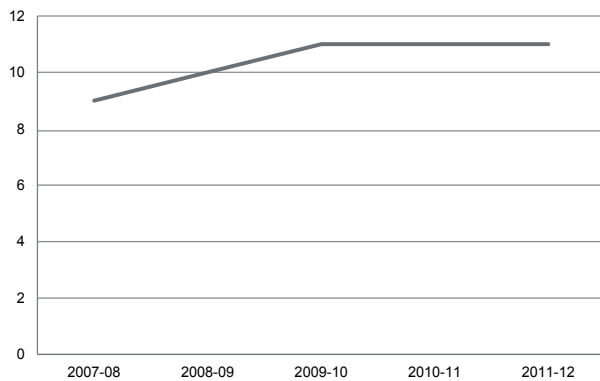
To understand our results we have developed five performance dimensions across our two major service areas—reporting and advisory services to the Parliament and auditing services to the public sector. The performance dimension measures relate to quantity, cost, timeliness, quality and impact. The two service areas are reflected in our first two strategic objectives - Parliament and Value.

Quantity of services delivered

Reporting to Parliament

- We tabled 11 reports to Parliament as planned.
- This was achieved in a year of transition with the introduction of our expanded audit mandate from performance management systems to full performance audits.

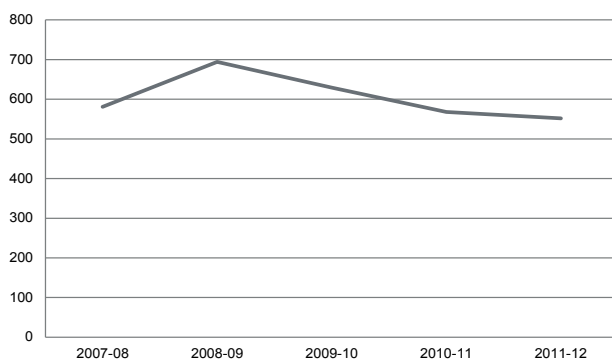
Figure A
Number of reports tabled in Parliament



Audit opinions on financial statements

- We issued 552 financial audit opinions, together with 220 related audit certifications.
- This was more than planned due mainly to a number of new entities being established and a number of outstanding opinions remaining from the previous year. Natural disaster and relief arrangements also impacted on the number of opinions issued during 2011-12.

Figure B
Audit opinions

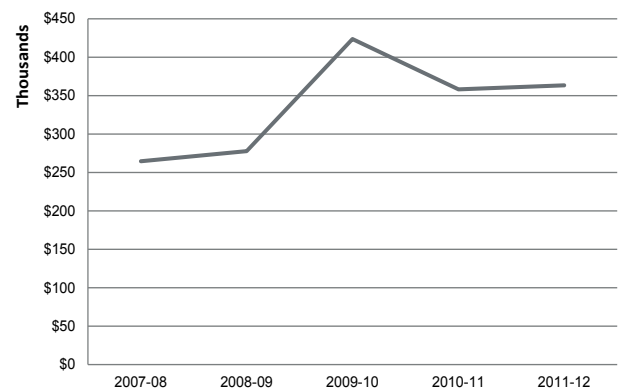


Cost of services delivered

Reporting to Parliament

- The average cost of our reports on financial audits for 2011-12 (\$149 031) increased compared with last year (\$101 545) and our target of \$105 000. The higher costs are attributable primarily to refocusing on the areas of internal controls and financial sustainability.
- We saw an increase in the average cost of our performance reports to Parliament over the year. This was mainly attributable to our drive to increase quality and improve our internal processes.

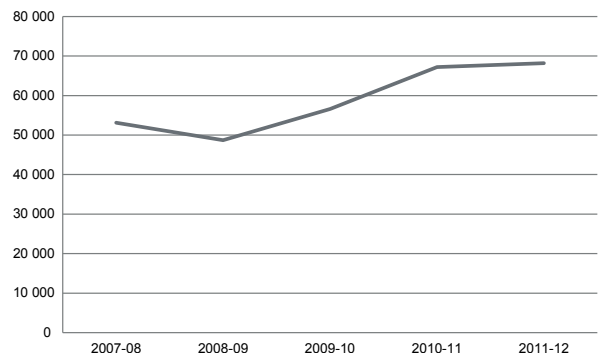
Figure C
Avg cost per performance report(\$)



Audit opinions on financial statements

- Average cost per opinion rose marginally from last year from \$67 216 to \$68 188.
- This shows that we have contained our fees against rising costs.

Figure D
Average cost per opinion



OUR SERVICE PERFORMANCE

Timeliness of services delivered

Reporting to Parliament

- Five out of 11 reports to Parliament were not tabled within the original tabling timelines we had set for ourselves. This was due in part to the dissolution of Parliament, but also because of changes to our internal reporting processes that were introduced after we set the original tabling timetable.

Audit opinions on financial statements

- We met our target of 95 per cent of opinions issued within statutory deadlines.
- We issued more audit opinions earlier than the same time last year by streamlining our audit processes, which has enabled our clients to finalise their statements earlier.

Quality of services delivered

Reporting to Parliament

- With the new Parliament and since the new parliamentary committees were appointed in May 2012, the five reports to Parliament tabled since January 2012 have been referred to a parliamentary committee for consideration and of these three had resulted in inquiries and reports.

- Surveys of public sector entities subject to audit show general satisfaction with our reports to Parliament.

Audit opinions on financial statements

- We continue to work on identifying areas for improvement and have amended our audit practice to meet feedback received.

Figure E
Opinions issued within deadlines (%)

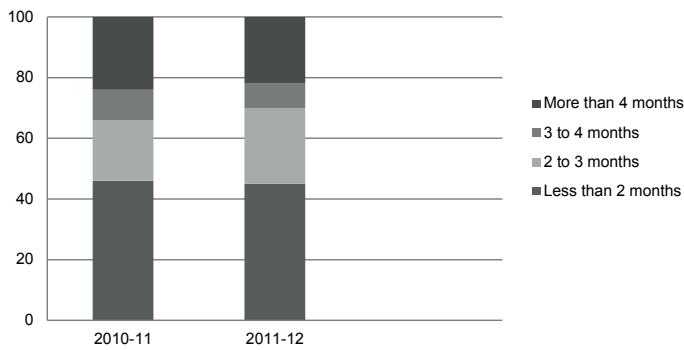
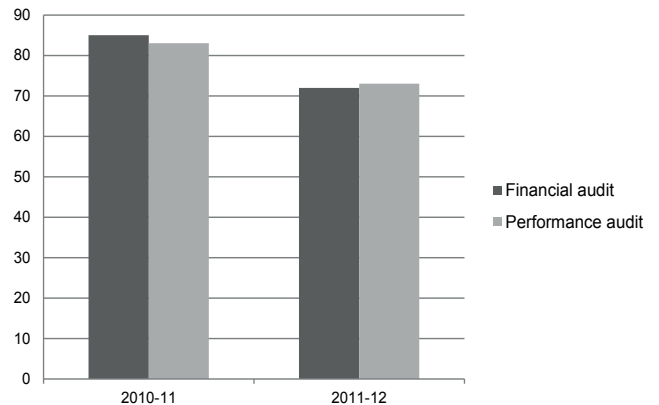


Figure F
Client satisfaction rates – index points



OUR SERVICE PERFORMANCE

Impact of services delivered

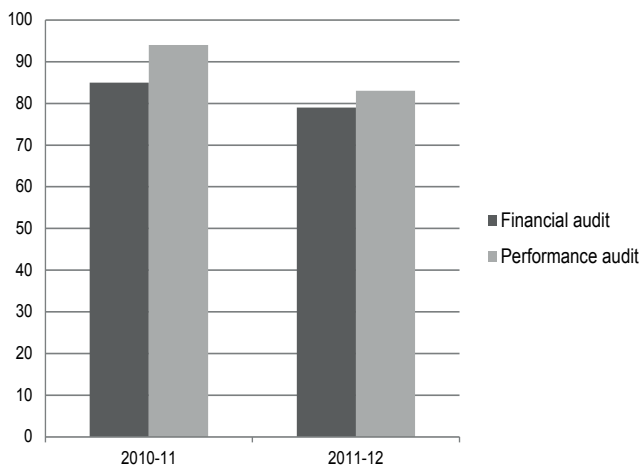
Reporting to Parliament

- Fifty-four recommendations were made in our 2011-12 Performance Audit reports to Parliament, of which 45 were fully accepted (83 per cent) and nine partially accepted. This represents a decrease from previous years, and does not compare favourably with the 2010-11 average of Australian audit offices of 97 per cent.
- In 2011-12, we followed up on the implementation of recommendations made in four performance management systems audits tabled in 2008. Eight out of ten agencies in the follow up audit had fully implemented at least half of the recommendations and of the remaining recommendations, all but one had been partially implemented.

Audit opinions on financial statements

- During the year we raised 1 391 significant audit issues, compared with 1 254 during 2010-11 in our management letters. Issues rated by QAO as high or moderate risk related predominantly to weaknesses in agency internal control.
- We made 1 600 recommendations for improvement in 2011-12 (1 640 in 2010-11). Of these, 79 per cent were accepted by the client, down from 85 per cent in the previous year .

Figure G
Recommendations accepted by entities audited (%)



Business and capability

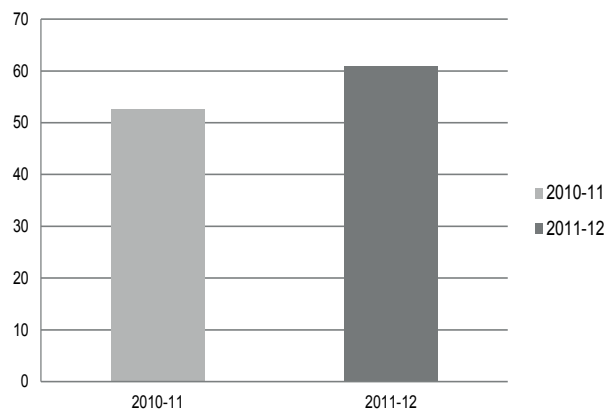
Operational efficiency and economy

- Against a background of increasing costs we were able to constrain our total operating costs, and met our operational efficiency and economy targets.
- While our average hourly rate for parliamentary and audit services increased by \$11.19/hr to \$156.28 (7.7 per cent), compared with last year we were able to constrain our total costs—achieving a saving of \$1.19 million (2.6 per cent) against our approved budget, while remaining financially sustainable.

Staff capacity and capability

- We have been able to meet the challenges and carry out our planned activities with a workforce that was smaller than we allowed in our budget.
- The number of staff with postgraduate qualifications increased to 61 per cent.
- Sick leave rates and the proportion of staff with excessive recreation leave increased during this period. Continued monitoring and local action will take place over the next 12 months to support staff and managers to reduce this leave.

Figure H
Postgraduate qualified all staff (%)



OUR FINANCIAL PERFORMANCE

- We achieved a net operating surplus for 2011-12 of \$0.138 million.
- We maintained our short-term solvency and our longer-term sustainability.

Key financial sustainability ratios

	2007-08	2008-09	2009-10	2010-11	2011-12	
					Plan	Actual
Operating expense ratio	0.99	1.00	1.01	0.97	0.99	0.997
Operating expenses to operating revenue <i>(Measures our ability to meet operating expenses within operating revenue)</i>						
Own-source revenue ratio:	0.85	0.85	0.83	0.85	0.85	0.85
Audit fee revenue to total revenue <i>(Measures extent of self-reliance for funding operations)</i>						
Operating cash flow to current liabilities ratio						
Net cash provided by operating activities divided by current liabilities <i>(Ability to pay short-term liabilities from internally generated cash flow)</i>	0.23	-0.49	-0.24	0.34	0.52	0.24
Current ratio	1.86	1.90	2.90	3.89	4.45	4.04
Current assets/current liabilities <i>(Measures ability to repay short-term liabilities using short term assets)</i>						

Operating expense ratio

As a not-for-profit organisation, over time we aim to break-even with a ratio of 1.00. However, because we are largely self-reliant for funding, we need to generate small surpluses in some years to recover deficits from prior years where we have invested in asset replacements and to set aside funds for investing in our human capital and for future asset replacement. This year, we have achieved a small surplus (with a ratio of 0.997) and so maintained our financial viability.

Own-source revenue ratio

Our financial audit services are required to be self-reliant through charging fees to the entities to which we provide our audit opinions. This ratio shows the relationship between our fee revenue and our total revenue. The difference is funding from consolidated revenue which is applied only to the provision of services to the Parliament and the delivery of our performance audit services. Achieving the ratio means that we have been successful in self-funding our financial audit services.

Operating cash flow to current liabilities ratio

This ratio shows our ability to meet short-term debt obligations from internally generated cash flow. Our ability to generate consistent, positive ratios is important for our future financial sustainability. After a two year period of negative ratios during the years 2008-09 and 2009-10, this ratio remains relatively strong at 0.24 in 2011-12 and is consistent with that achieved in 2007-08.

Current ratio

The current ratio shows our ability to meet short-term liabilities, including our trade and other payables, from current assets, such as our cash and accounts receivables. A current ratio of two or more is considered desirable and the higher the ratio, the more resources we have to repay short-term debt, making it less likely that we will experience cash flow problems in the near future. As we have \$4 worth of current assets for every \$1 worth of short-term debt and other payables, our business remains financially sustainable.



CONTEXT

The Queensland Audit Office

The QAO is established by section 6 of the *Auditor-General Act 2009* (the Audit Act).

It comprises the Auditor-General and Deputy Auditor-General, statutory positions established also by section 6; and the staff of the office.

The Auditor-General

The Auditor-General, an independent officer of the Parliament, is appointed for a non-renewable seven-year term. The position is not subject to direction about the exercise of audit powers or the priority to be given to audit matters.

Audit mandate

Our mandate covers more than 700 public sector entities subject to audit, including the Parliament, government departments, statutory bodies, business enterprises, superannuation funds, health services, universities and other educational institutions, local governments, and water authorities.

Not all of these entities will require auditing during the year, as some are currently dormant, some are non-reporting and audited separately (but their financial statements are consolidated into other entities' financial statements), some are foreign owned entities that fall within the mandate but we do not conduct the audit directly.

For those reasons QAO issued 552 financial audit opinions plus 220 audit certifications, making a total of 772 opinions issued during 2011-12.

The Audit Act requires that the Auditor-General carry out financial audits of all public sector entities and of the consolidated whole-of-government financial statements each year.

Financial audits of non-public sector entities are undertaken on a 'by-arrangement' basis, where asked by a Minister or public sector entity to do so, providing the Auditor-General considers the audit is in the public interest.

The Auditor-General has the power also to conduct performance audits of public sector entities, excluding government owned corporations; and performance management system audits of all public sector entities.

Purpose and objectives

Our purpose is to provide the Parliament with independent assurance of public sector accountability and performance.

During the year our activities were guided by our Strategic Plan 2011-14, annual business plan and divisional plans.

The strategic plan set out our vision—**excellence in enhancing public sector accountability**—and our strategic objectives under four key result areas: Parliament, Value, Business, and Capability.

Parliament

We will provide independent assurance on the stewardship of public moneys and assets, through our reports to Parliament with audit recommendations, emerging issues and other matters of significance.

Value

We will deliver high-quality audit services and develop strong professional relationships to benefit public sector entities.

Business

We will build quality systems and processes to manage and report on our business and financial sustainability and audit performance.

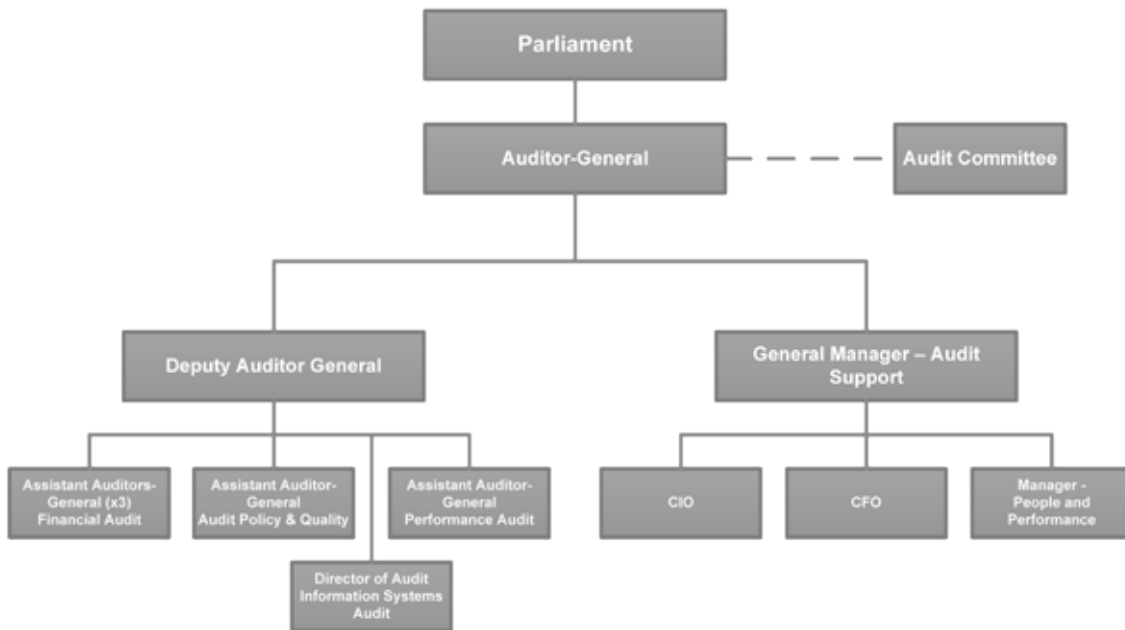
Capability

We will develop staff to ensure a contemporary, innovative professional service organisation and empower staff to develop and deliver quality services.

Organisation structure

The organisational structure of QAO supports the Auditor-General in meeting the statutory audit functions set out in the Audit Act. The Deputy Auditor-General and staff of the QAO are employed under the *Public Service Act 2008*. Our organisation is divided into two main sections; Audit Operations and Audit Support. Figure 1A sets out the organisation structure that applied during the year.

Figure 1A
QAO organisation structure



Audit operations

Reporting to the Deputy Auditor-General, the Financial and Performance Audit divisions deliver our independent public sector auditing and reporting services.

The Audit Policy and Quality section maintains audit standards and methodologies, and monitors their use by the audit divisions.

Audit support

Reporting to the General Manager, the Information Services, Finance and Office Services, and People and Performance sections provide the corporate services necessary for a fee-charging professional services entity within the public sector.

Executive management team

Significant changes to the executive team during the year were:

- Glenn Poole was Auditor-General until his term expired on 16 December 2011, and was replaced by Andrew Greaves.
- Assistant Auditor-General, Audit Policy and Quality, Neil Jackson started leave on 30 November 2011 and resigned on 20 July 2012. Michael Booth acted in his role from November 2011.
- Assistant Auditor-General, Education and Local Government, John Harten departed on 15 August 2011 and Karen Johnson replaced him in January 2012.

Andrew Greaves – Auditor-General BEc FCA FCPA

Andrew is the twenty-second Auditor General of Queensland. He has more than 29 years' experience in public sector external and internal audit, at the Commonwealth, state and local government levels.

Val Manera – Deputy Auditor-General B Com (Acc) FCPA MAICD

Val was appointed in 1993. He has more than 40 years' experience in auditing at the Commonwealth and state level. He is responsible for managing the public sector auditing function.

David Mills – General Manager, Audit Support BA MPA

David has worked in several executive positions within the Queensland Government. David provides corporate management services and guides QAO's business improvements.

David is also Chair of the Queensland University of Technology Management School Advisory Board.

Michael Booth – Acting Assistant Auditor-General, Audit Policy and Quality B Bus (Acc) Grad Cert Mgt FCPA

Michael has been with the QAO for more than 28 years. He leads the audit policy and quality group and is also responsible for oversight of our internal audit function.

Terry Campbell – Assistant Auditor-General, Performance Audit MA P Sect Lead Grad Cert P Sect Lead

Terry has extensive experience in governance, risk management and systems, and private and public sector performance auditing. She is responsible for delivering the performance audit program and developing the three-year strategic audit plan.

Paul Shipperley – Assistant Auditor-General, Transport and Development B Com G Cert Mgt FCPA

Paul has more than 35 years' experience in public sector auditing and was appointed Assistant Auditor-General in 1998. His audit responsibilities include Queensland Treasury and Trade, including the whole-of-government financial statements and Queensland Rail Limited.

Poopalasingam Brahman – Assistant Auditor-General, Services and Contracting B Bus CPA

Brahman was appointed to the position of Assistant Auditor-General in 2001 and has more than 20 years' experience in performing and managing audits in the public sector.

His audit responsibilities include Queensland Health and Department of Housing and Public Works. Brahman also manages our contracted audits.

Karen Johnson – Assistant Auditor-General, Education and Local Government B Com FCA MAICD

Karen joined QAO in January 2012, bringing more than 20 years' experience in senior audit and governance roles in the private sector. Karen's audit responsibilities include the audits of Queensland Investment Corporation and Brisbane City Council.

Control framework

Our internal control framework helps us meet our organisational objectives. The key elements are governance, risk management and self-assessment through various committees. Internal and external audit are also important elements of the control framework.

Governance

The governance bodies which monitor and oversight risk management and control at QAO encompass the:

- Executive Management Group
- Audit and Risk Management Committee
- Information Steering Committee.

Executive Management Group

The Executive Management Group comprises the Auditor-General, Deputy Auditor-General, General Manager Audit Support and the Assistant Auditors-General.

Before May 2012 the Director, Information Systems Audit, and the Manager, People and Performance were also members.

The purpose of the EMG is to lead the QAO in meeting the objectives and strategies in our strategic plan, and to assist the Auditor-General in meeting his statutory responsibilities.

Audit and Risk Management Committee

The Audit and Risk Management Committee (ARMC) advises the Auditor-General, to help him meet his obligations as Accountable Officer.

A membership review of the ARMC during 2011-12, resulted in the number of members decreasing from seven to three; with the remaining three being external independent representatives: Mr Col Colquhoun (Chair), Dr Lyndal Drennan and Ms Christine Flynn.

Dr Drennan resigned from the committee on 24 May 2012 and a new external member, Mr Bob Grice has since been appointed.

The external members of the committee are remunerated for their services. For 2011-12 the Chair received \$5 294; Dr Drennan \$3 000 and Ms Flynn, \$2 903.

The former QAO representatives Ms Rajagopal, Messrs Brahman, Hodson and Welsh ceased their membership during the year.

Figure 1B
Audit and Risk Management Committee membership

Member	Term	Meetings attended
C. Colquhoun	Jul 11 – Jun 12	4
L. Drennan	Jul 11 – May 12	3
C. Flynn	Nov 11 – Jun 12	3
P. Brahman	Jul 11 – Feb 12	2
R. Hodson	Jul 11 – Feb 12	2
J. Welsh	Jul 11 – Feb 12	2
A. Rajagopal	Jul 11 – Aug 11	1

The ARMC met four times during the year and reviewed various matters, including business risks, internal and external audit reports, risk management frameworks, and the QAO draft Strategic Plan 2012-16.

The ARMC has observed the terms of its charter and had due regard to *Queensland Treasury's Audit Committee Guidelines*.

Information Steering Committee

The General Manager, Audit Support (Chair); the Deputy Auditor-General; the Assistant Auditor-General, Audit Policy and Quality; an Audit Director and the Director, Information Systems Audit are the members of the Information Steering Committee (ISC). The Chief Information Officer attends most meetings, by invitation.

The ISC met on 17 occasions during 2011-12, reflecting the dynamic needs of the business and the reform of the information function.

The ISC developed the *QAO IS Strategic Plan 2012-16*, which the EMG approved. The ISC also established ongoing processes to measure whether plan objectives are being met.

At the operational level, the ISC developed and reviewed QAO's information policies. This review was to ensure that QAO is making full use of communications technology to support an increasingly mobile audit workforce.

The ISC has also worked with the Chief Information Officer in reforming the QAO information technology and information management capabilities. These reforms focused on choosing skilled staff to fulfil the plan based on the 2010 review by an external consultancy of QAO's information, communication and technology capabilities.

Risk management

Our risk framework is maintained in accordance with the *Financial Accountability Act 2009*.

The International Standard *AS/NZS ISO 31000:2009 Risk Management – Principles and guidelines* has been used to develop our risk framework.

We have two interconnected risk registers, strategic and operational, which are reviewed and updated annually. We use these to assist in identifying risks, and to actively guide effective methods of responding to and managing risks.

Monitoring of risks is achieved through regular reporting to the EMG, and to the Audit and Risk Management Committee.

This year we rationalised our risk registers to better integrate and align them with our strategic and business plans.

The latest review showed that the framework was operating effectively, and focused on integrating and aligning the registers with our strategic and business plans.

Internal control

QAO's internal controls, described in documented policy and procedures, are evaluated for effectiveness through management self-assessment, internal audit and external audit.

Self-assessment

QAO audit and administrative policies and procedures are readily available to all staff on our intranet. QAO's business units continually monitor and update policies and procedures based on changes in legislation, directives, standards and guidelines. All new employees to QAO are briefed on our key administrative policies as part of their orientation.

During the year, five QAO policies were rescinded and 15 revised. One new policy was developed on social media.

Internal audit

Internal audit operates under its own charter and reports directly to the Auditor-General. The charter aligns with the *International Standards for the Professional Practice of Internal Auditing* developed by the Institute of Internal Auditors.

The primary role of internal audit is to conduct independent and objective assurance activities. The scope of the work is set out in the approved strategic internal audit plan and the internal audit plan.

QAO's Head of Internal Audit, Michael Booth, B Bus (Acc) Grad Cert Mgt FCPA, managed the internal audit program during most of 2011-12. The program was delivered through a co-sourcing contractual arrangement with Hayes Knight (Qld) Pty Ltd.

In line with its charter, the Audit and Risk Management Committee oversaw the internal audit program, including the review of report findings and management responses.

The major areas audited related to corporate reporting, business continuity, wireless cards, leave management, and portable and attractive assets. There were no high risk issues reported. All issues have either been implemented or are in the process of being addressed.

External audit

Mr Simon Hancox, Director, Audit and Assurance, with Grant Thornton, was appointed by the Governor in Council as the independent external auditor of QAO. The appointment was for three years and commenced in the 2010-11 reporting period.

All items raised by the external auditor during 2011-12 have been resolved and recommendations fully implemented.

At the Audit Risk Management Committee meeting of 25 July 2012, the external auditor presented his year-end report, in which several low risk areas for improvement were identified. QAO is currently taking action to address these matters.

The audited financial statements are on pages 52 to 86 of this report.

This year we directly engaged and paid our external auditor to undertake a review engagement of the non-financial performance information included in this report, which is taken from our Service Delivery Statement. This provides added assurance to the users of our annual report that this information is reliable and fairly presented.

The audited performance statement is on pages 90 to 94 of this report.

Our external auditor provided no other services to the QAO during the year.



PARLIAMENT

Objective – we meet the needs of Parliament

We will provide independent assurance on the stewardship of public moneys and assets, through our reports to Parliament with audit recommendations, emerging issues and other matters of significance.

Performance Indicator – The parliamentary committees are satisfied with reports from the Auditor-General.

Output performance summary

Dimension	Measure	2010-11		2011-12	
		Actual	Plan	Actual	Variance
Quantity	Reports tabled (number)	11	11	11	-
	Results of financial audits	6	4	4	-
	Results of performance audits	5	7	7	-
Cost	Cost of reports tabled (\$ '000s)	2 399	2 578	3 139	561
	Results of financial audits	609	420	596	176
	Results of performance audits	1 790	2 158	2 543	385
Timeliness	Reports tabled when intended		11	6	(5)
	Results of financial audits		4	2	(2)
	Results of performance audits		7	4	(3)
Quality	Parliament satisfaction with reports	Satisfied	Satisfied	Satisfied	-
	Results of financial audits	Satisfied	Satisfied	Satisfied	-
	Results of performance audits	Satisfied	Satisfied	Satisfied	-

Achievements and challenges

- Eleven reports were tabled as planned.
- While our reports cost more than originally planned, this was largely by design - we made changes during the year to their structure and content to improve their readability, relevance and usefulness to the Parliament.
- Our preference is to table our reports when Parliament is sitting so that parliamentary committees have the earliest opportunity to consider them. We did this for all but one report. However, this also meant that because of the dissolution of Parliament for the election, during which time we did not table any reports, we did not meet the original tabling timetables we set for ourselves.
- Our reports are being used increasingly by members of Parliament and parliamentary committees, as evidenced by references in Hansard, parliamentary committees and briefings.
- Our reports to Parliament tabled in 2012 were referred by the Committee of the Legislative Assembly to the responsible parliamentary committees.

Quantity

We tabled 11 reports on the results of financial and performance audits.

Results of financial audits

We tabled two reports on our audits of financial statements of state and local government entities with 30 June 2011 balance dates (Report No.11 for 2011 and No. 2 for 2012); and one report on the results of audits of education entities with 31 December balance dates (Report No. 3 for 2012).

One further report (Report No. 5 for 2012) was tabled in June 2012 on the interim results of our audits of state entities with 30 June 2012 balance dates. This report dealt with the internal control systems at these entities, with a focus on fraud risk controls.

Results of audits at 31 October 2011

Report No. 11 for 2011

Tabled 17 November 2011

This reported the results of the financial audits of the Consolidated *Whole-of-Government Financial Statements*, Consolidated *Fund Financial Report* and state public sector entities with 30 June 2011 balance dates.

The report dealt also with the sale of Queensland Government infrastructure assets, a follow-up of Auditor-General's reports to Parliament on infrastructure, the status of the Nation Building–Economic Stimulus Plan, shared services, and implementation of 2008 audit recommendations on the management of public sector employee housing.

Results of audits: Local government financial statements for 2010-2011

Report No. 2 for 2012

Tabled 29 May 2012

This sector-specific report summarises the results of our 2010-11 financial audits of local governments and the entities they control.

The majority of audit opinions issued were unmodified, which is a positive result when set against the background of the natural disasters of early 2011.

The timeliness and quality of reporting by councils still requires significant improvement. The number and nature of internal control weaknesses identified is of continuing concern, with 484 significant control issues reported to management. A significant number of councils had results which were outside their financial sustainability.

Results of audits: Education Sector

Financial Statements 2011

Report No. 3 for 2012

Tabled 5 June 2012

This report summarises the results of our audits of universities and grammar schools, and their controlled entities.

Audit opinions for all grammar schools were qualified because they did not disclose the remuneration of all their key management personnel. Systemic issues with internal control were also reported, as was an analysis of the financial sustainability of universities.

Results of audits: Internal Control Systems

Report No. 5 for 2012

Tabled 28 June 2012

This report summarises the results from the interim phase of the 2011-12 financial audits of departments, statutory bodies and government-owned corporations.

The report details significant weaknesses identified in the effectiveness of financial controls, effectiveness of fraud controls and IT governance.

Results of performance audits

The seven performance reports tabled during the year comprised three audits of performance management systems; three performance audits and one follow-up report.

Systems to coordinate delivery of the Toward Q2: Tomorrow's Queensland target - Halve the proportion of Queensland children living in a household without a working parent.

***Report No. 6 for 2011
Tabled 6 July 2011***

This performance management systems audit identified that the departmental systems in place did not allow the department to effectively coordinate the planning, monitoring and reporting on activities contributing to the achievement of the target.

Recommendations were made to improve the governance and performance reporting processes to ensure the objectives of the target were met.

National Partnership Agreement for Natural Disaster Reconstruction and Recovery
Report No. 7 for 2011
Tabled 22 Sep 2011

This performance management systems audit assessed whether Queensland has adequate systems in place to fulfil its roles and responsibilities under the National Partnership Agreement for Natural Disaster Reconstruction and Recovery, to help restore and rebuild Queensland communities affected by the 2010-11 natural disasters.

The audit found that the establishment of the Queensland Reconstruction Authority (QRA) and its systems and processes were efficient and effective. The audit made recommendations to QRA all of which have been addressed since the completion of the audit and prior to the tabling of the Report in September 2011.

Follow up of four audits completed in 2008 and 2009
Report No. 8 for 2011
Tabled 29 September 2011

This follow up audit assessed the progress made by agencies in addressing the recommendations in reports tabled in 2008 and 2009. The four audits were:

- Report 3:2008 – *Management of Rural Fire Services in Queensland*
- Report 3:2009 – *Transport Network Management and Urban Congestion in South East Queensland*

- Report 5:2008 – *Protecting Queensland's Primary Industries and Environment from Pests and Disease*
- Report 6:2009 – *Providing the Information Required to Make Good Regulation*

Out of a total 53 recommendations, 30 (57 per cent) had been fully implemented, a further 22 (42 per cent) were partially implemented. No substantial action had been taken on one recommendation.

Acquisition and public access to the Museum, Art Gallery and Library collections
Report No. 9 for 2011
Tabled 11 October 2011

This performance management systems audit examined whether the Queensland Museum, Queensland Art Gallery and State Library of Queensland had adequate systems to efficiently, effectively and economically acquire and provide access to their collections.

It also reviewed Arts Queensland oversight, coordination and support roles. The audit found that the systems were effective but that the entities were not fully capitalising on the advantages of co-location within the one Cultural Centre. QAO recommended creating a cultural centre strategy and plan, as well as greater collaboration among the four entities.

Regulating waste: protecting the environment
Report No. 10 for 2011
Tabled 9 November 2011

The audit assessed whether the former Department of Environment and Resource Management (DERM) effectively administered and enforced the legislation to lessen the risk that waste poses to the environment.

The audit found that there were effective policies and guidelines for assessing and processing development approvals and issuing registration certificates and the decision-making process was transparent and accountable.

However, inefficient practices delayed development approvals and registration certificates, and the collection of annual returns and operator fees.

DERM was unable to accurately quantify the amount of the outstanding fees for current permits. The department agreed to implement the recommendations made in the report.

Improving student attendance

Report No. 1:2012

Tabled 17 May 2012

As there is a direct correlation between higher levels of attendance and better academic performance, this report examined the success of strategies to improve student attendance in Queensland state schools.

The audit found that attendance rates had not improved and schools management of student attendance was inconsistent. Principals have to address 'unsatisfactory' attendance, but there was no clear definition to help identify students at risk.

The department prosecutes parents as a last resort but does not know if it is effective in increasing attendance.

The department acknowledged the report would be a useful reference in supporting the ongoing work to improve student attendance.

Managing unplanned employee absence

Report No. 4 for 2012

Tabled 19 June 2012

Unplanned absence includes sick leave, the illness or death of close family members, workplace injury, industrial disputes or natural disasters.

This audit assessed whether public service departments are effectively managing unplanned absence.

The audit found that during the past five years, the cost and incidence of unplanned absence has been increasing.

Despite this, most departments are not actively addressing this by analysing absence patterns to identify whether and where to target management intervention.

Departments audited agree they need to commit to actively managing these absences.

Cost

The full cost of the 11 reports tabled during 2011-12 was \$3 139 000.

This represents an increase of \$740 000 from the previous financial year and was \$561 000 more than planned.

This increase for the year was driven mainly by our investment

in developing sector-based reports on the results of financial audits, and added costs associated with process changes in transitioning to full performance audits.

Results of financial audits

The four reports cost on average \$149 031 each (\$101 545 in 2010-11), which was higher than our target average cost of \$105 000.

The higher costs are attributed primarily to refocusing the content of these reports to emphasise the areas of internal controls and financial sustainability.

Results of performance audits

The total cost for performance audit reports exceeded the budget by \$385 000 (18 per cent). Six of the seven reports tabled exceeding their approved budget.

The seven reports cost an average of \$363 326 (\$358 000 in 2010-11) which was lower than our target average cost of \$400 000.

In a year of transition to a new performance audit mandate, the budgets for these audits had been developed early in the preliminary planning stages of each audit, at a time when we had a limited understanding of the audit topic or the agency being audited.

We also did not allow any contingency to accommodate changes that may have been required to our audit methods to accommodate our new performance audit mandate.

Changes to our audit practice to address these issues have since been made, and we now have preliminary and detailed planning phases. Budgets are finalised at the end of the detailed planning phase to allow for more accurate estimates of time and cost.

Timeliness

Of the 11 reports tabled during 2011-12, six met the tabling date we set for ourselves in our business plans.

Two of the four financial audit reports and three of the seven performance audit reports were tabled later than originally planned.

Results of financial audits

To arrive at the planned tabling dates, we set ourselves a target of tabling these reports within four months of the statutory deadlines set for agencies to finalise their financial statements.

For example, for state entities with 30 June balance dates, their deadline is ordinarily 31 August, so we plan to table our report in Parliament no later than December, and preferably in November when Parliament is sitting.

We achieved our four-month benchmark this year for all reports, except Report No. 2 for 2012 on local government. We originally planned to table this report no later than March 2012 but with the March 2012 election and the dissolution of Parliament we chose not to table this report until May.

The average time taken to table our reports in Parliament was 3.7 months in 2011-12, compared with 3 months in 2010-11.

Results of performance audits

Four of the seven audit reports to Parliament tabled in 2011-12 met their planned tabling dates. The last three reports, all of which were the results of performance audits, exceeded their planned tabling date by one to three months.

Part of the delay was because of the step added to our reporting process, to provide agencies the opportunity to comment on preliminary audit findings and conclusions, before we finalise and issue the proposed report to Parliament for their comment.

This process step was not in place when the original time frames were set. Benefits of this practice have already been realised, with greater engagement with agency management and increased consultation regarding the findings and recommendations prior to finalising the report.

Quality

We measure the quality of our reports to Parliament using the feedback we obtain, both through our interaction with the Finance and Administration Committee, our oversight committee, and from other committees and individual Members.

Our expectation is that the quality of our reports and their usefulness to the Parliament will manifest in their increasing use by Members.

Parliamentary oversight

In its report on its oversight responsibilities with respect to the Auditor General (Report No. 11, February 2012) the Finance and Administration Committee acknowledged the Auditor-General's valuable contribution and commended the staff of QAO for their ongoing commitment and dedication to their duties.

Parliamentary referral of reports

During 2011-12, the Finance and Administration Committee investigated the issues raised in Report No. 9 for 2011 - *Acquisition and Public Access to the Museum, Art Gallery and Library Collections*.

The Finance and Administration Committee made six recommendations to the agencies involved in its Report No. 12, tabled on 16 February 2012. The government response was tabled on 17 May 2012 which supported 5 of the 6 recommendations in full or in part. (No response was provided for recommendation 6).

The Finance and Administration Committee is presently considering Report No. 4 for 2012 *Managing Employee Unplanned Absences* and Report No. 5 for 2012 *Internal Control Systems*.

The five reports to Parliament tabled since January 2012 were referred to the relevant portfolio committee for further review.

Three of these reviews were underway at 30 June 2012 and one had been finalised:

- The Education and Innovation Committee was briefed by the Auditor-General and the Department of Education and Employment in June 2012 in respect of matters raised in Report No. 1 for 2012 *Improving Student Attendance*. The committee tabled its report in August 2012 and commended the Auditor-General that this was an important area for a performance audit.
- The Education and Innovation Committee considered Report No. 3 for 2012 *Results of audit: Education sector financial statements for 2011*, and tabled its own report thereon (Report No. 5) in July 2012.
- The Transport, Housing and Local Government Committee were briefed by the Auditor-General on Report No. 2 for 2012 *Results of audits: Local government financial statements for 2010-2011*.

'From our committee's perspective, we believe this is a very important report. I congratulate you and commend you on this report...'

Mrs Rosemary Menkens MP
 Chair of the Education and Innovation Committee,
 June 2012

Impact Parliamentary debate

During 2011-12 Auditor-General reports to Parliament were referred to in the Parliament on 37 occasions.

The most prominent references, occurring during July 2011, related to our findings regarding the audits of the Queensland Health Payroll and the new Queensland Drivers Licences.

'The Auditor-General's role in Queensland is significant and vital, as we all know ... The value of the Auditor-General to the Parliament and to the wider public is well established and I think accepted by Parliamentarians and the public alike, who recognise the value that the Auditor-General adds to public life in Queensland.'

People look to the Auditor-General to hold complex areas of finance, particularly public finance, open to scrutiny'.

Tim Nicholls MP
 then Deputy Leader of the Opposition, August 2011

Referrals

Each year, we receive referrals or enquiries concerning the actions of public sector entities in managing public resources, wrongdoing or maladministration. These referrals are received from a variety of sources including Members of Parliament, Mayors or other members of Local Councils, the Crime and Misconduct Commission, the general public or entity management.

Although we investigate all matters referred to us as part of the normal audit process, we are not able to report back directly to the person who referred the matter on the details of what we have found due to the confidentiality provisions of s.53 of the *Auditor-General Act 2009*. Any significant audit findings are included in an Auditor-General Report to Parliament.

Figure 2A
 Referrals by type

Source	In progress at 1 July	New	Finalised	In progress at 30 June
Member of Parliament/ Councillor	2	12	6	8
Crime and Misconduct Commission	4	2	5	1
General public	8	23	27	4
Entity management	2	3	5	0
Anonymous	0	2	0	2
TOTAL	16	42	43	15

The average time taken to complete a referral in 2011-12 was 162 days (2010-11 148 days).

Continuous improvement

The establishment of the new parliamentary committee structure during 2011-12 has created an opportunity for greater engagement with Parliamentarians. Following the appointment of committees in May 2012 we have strengthened our relationships through attending public hearings, making submissions to inquiries, and direct interaction with the committees' research directors.

For 2012-13, we have changed our structure to provide better alignment with the responsibilities of portfolio committees. We will be increasing consultation with the committees with regular liaison by our new sector directors as the primary contacts for committees.

We will be adopting a stronger sector focus for our reports to Parliament and will aim, to the extent practicable, to table reports to coincide with committee meetings to enable earlier consideration of our reports. The Auditor-General will also be available to brief the Finance and Administration Committee, and other committees, as reports are tabled.

In order to better meet the needs of Parliamentarians, during 2012-13 we will be exploring avenues to gather feedback from Members of Parliament on our performance.

We have commenced to implement the powers extended to the Auditor-General in 2011 to make alternative audit arrangements, if the audit of the public sector entity is small in size and of low risk. We have approached audited entities whose audits fall into these categories. These powers will be applied to the audits of selected eligible entities commencing with the 2012-13 audits.

3

VALUE

Objective – we add value to public sector entities

We will deliver high quality audit services and develop strong professional relationships to benefit public sector entities.

Performance Indicator – We deliver high quality audit services in accordance with the Auditor-General of Queensland Auditing Standards.

Output summary: financial audit services

Dimension	Measure	2010-11		2011-12	Variance
		Actual	Plan	Actual	
Quantity	Opinions issued (number)	761	n.a	772	
	Financial statement audits	568	518	552	34
	Other audit certifications ⁽¹⁾	193	n.a.	220	
Cost	Average cost per opinion (\$ '000s)				
	Financial statement audits ⁽²⁾	67.216	71.454	68.188	(3.266)
Timeliness	Opinions issued on time (%)				
	Financial statement audits	96	95	95	-
Quality	Agency satisfaction (points)	85	80	72	(8)
	Satisfactory quality reviews (%)	93	100	100	-
Impact	Recommendations accepted (%)	85	85	79	

n.a. – not applicable

Notes: (1) Other certificates include internal controls reports, Commonwealth Government and other grant acquittals, derivative risk statements and other ad hoc audit opinions required by regulatory authorities.

(2) Includes cost of other audit certifications provided.

Achievements and challenges

- We issued more opinions in total than planned as 30 new entities were established during the year and another 11 opinions issued were either outstanding from the prior year or issued early. At 30 June, seven audit opinions were outstanding. All but two of these have now been issued.
- While average cost per opinion rose marginally compared with last year, it was well below expected cost, and signals that we have constrained our fees against a background of rising input costs.
- We maintained timely service provision overall, and as part of this, improved the proportion of opinions we issued within 3 months of balance date.
- Satisfaction with our financial audit services remained consistent from last year to this year, although it remains less than our target. We need to address this during 2012-13.
- While we made more recommendations for improvement this year, the percentage of these accepted by the client and ultimately implemented was lower than last year. Our challenge for 2012-13 will be to raise the level of acceptance of our audit findings and recommendations for improvements by our clients.

Quantity

Financial opinions

We issued 552 audit opinions on financial statements in 2011-12. This was 34 more than our target of 518.

This difference between our actual (552) and our target (518) was attributable to various issues that occurred through the year:

- we issued 30 additional opinions for entities that were established during the year
- we issued an additional eight opinions on financial statements from prior years, that were finalised this year
- we issued one 2012-13 opinion which was finalised early, and two additional opinions due to a change in financial year
- we did not issue opinions on seven entities, whose financial audit was not completed by 30 June 2012.

The seven 2010-11 audits not finalised as at 30 June 2012, were all from the local government sector. The main reason for the delay was due to the impact of 2011 natural disasters on local governments and the entities not finalising their financial statements for audit.

Although we issued more than our planned target for 2011-12 we had set this year's target of 518 at 50 less than last year's actual result of 568 after careful consideration of influencing factors:

- 10 entities were sold as part as the government's asset sales in 2009-10 and were no longer audited by QAO
- 11 medical boards were wound up after their functions were transferred to the Commonwealth Government
- 30 other entities were wound up last year and did not require an opinion this year
- the 2010-11 actual result included three opinions from prior years' financial statements and two opinions from 2011 12 which were finalised early.

Figure 3A
Reasons for non-finalisation of 2010-11 financial statements

Entity	Reason
Burke Shire Council	Resolving issues identified by QAO delayed process
Cherbourg Aboriginal Shire Council	Entity resolving issues identified by QAO delayed process
The Kronosaurus Korner Board Inc.	Delay by entity in finalising financial statements
South West Queensland Local Government Association	Financial statements not completed by entity
Townsville Breakwater Entertainment Centre Joint Venture	Entity resolving issues identified by QAO delayed process
Western Queensland Local Government Association	Financial statements not completed by entity
Western sub regional organisation of councils	Delay by entity in finalising financial statements

Since 30 June, opinions have been issued for Cherbourg Aboriginal Shire Council, The Kronosaurus Korner Board Inc., Townsville Breakwater Entertainment Centre Joint Venture, and Western Sub Regional Organisation of Councils.

We also issued 220 other opinions relating to internal controls reports, Commonwealth and other grant acquittals, derivative risk statements and other audit opinions required by regulatory bodies. The increase from last year was due mainly to an increase in the number of opinions to be issued in relation to certification of expenditures for the Natural Disaster Relief and Recovery Arrangements.

Modified opinions

We work with the agencies who prepare statements, to the extent possible, to avoid the need for us to qualify our audit opinion.

This year we issued 34 qualified opinions representing 6 per cent of opinions issued (31 in 2010-11 representing 5 per cent).

The 34 qualified opinions related to:

- financial statements not being prepared on a going concern basis
- uncertainty surrounding the impact of the proposed carbon price mechanism
- uncertainty around water pricing
- completeness of donation revenue
- asset valuations
- insufficient internal control systems
- non-disclosure of executive remuneration as required
- inadequate records to support prior year comparative figures.

In addition we included an 'emphasis of matter' paragraph in 206 audit opinions (75 in 2010-11) largely because of changes in special purpose financial reporting requirements of the Australian Accounting Standards.

Cost

The average cost of a financial audit of \$68 188 represents a slight increase compared with last year's actual of \$67 216 and decrease compared with this year's target of \$71 454.

This cost includes the cost of additional certifications, the number of which increased from 193 to 220, but with minimal impact on the average cost of a financial audit.

While our scheduled hourly fee rates increased by 3.9 per cent from 1 October 2011, the cost of our audits only went up 1.3 per cent.

This was achieved through reducing the average hours spent on each financial audit opinion in 2011-12 by around 6 per cent, through more efficient audit procedures and better targeting of audit risks.

The ongoing refinement of the application of our risk based audit approach will continue into 2012-13.

Nevertheless the average cost of audit remains higher than other audit jurisdictions. The overall average cost of financial audit for the Australasian Council of Auditors-General (ACAG) benchmark was \$55 098 for 2010 11 (the latest year for which data is available). This needs to be considered in some context, as we provide on average 60 per cent more additional certifications than other states.

Timeliness

We measure our timeliness of audit opinions in two key areas; whether we issue our audit opinions within the statutory time frames set for our clients and by measuring how long after each balance date do we issue our audit opinions.

Audit opinions issued within the statutory time frames

For most state entities with a 30 June balance date this is by 31 August, and for local government this is by the end of November.

We were able to maintain our high levels of performance in this respect this year.

While this is a positive result we also seek to constantly bring forward the timeliness of financial audits. We achieve this by streamlining our audit processes and so constraining costs; and it means also that our clients have been able to finalise their statements earlier.

Time taken to issue our audit opinions

We gauge our success in this respect by measuring how long after each balance date we issue our audit opinions.

Our financial audit opinions were issued within the following time frames.

Figure 3B
Per cent of opinions issued

<i>From year end</i>	2010-11	2011-12	ACAG
< 2 months	46	45	25
2 to 3 months	20	25	37
3 to 4 months	10	8	25
> 4 months	24	22	13

Of all audit opinions issued, 45 per cent were issued within 2 months of the balance date, and 70 per cent issued within 3 months. This was a 4 point improvement from 2010-11; and compares well with the ACAG average of 62 per cent.

The natural disasters in late 2011 and early 2012 significantly affected the ability of councils to finalise financial statements due to asset valuation issues.

Queensland local governments are not required to obtain audit opinions until five months after balance date and this impacts the ability of QAO to achieve ACAG benchmarks.

In the forthcoming audit year we plan to promote the benefits of early sign-off of financial statements, and to continue our work with local government finance management to help them prepare quality financial statements.

Reporting to those charged with governance

In addition to our audit opinions we issued final 468 management letters, which contain our assessment of the effectiveness of the operation of internal controls and accounting processes.

Final management letters were issued on average 9.5 days after the audit opinion was issued, with 80 per cent issued within 14 days of the opinion being issued. Our target was to issue 95 per cent within 14 days.

In 2012-13, our target will be to issue these letters for all audits within 10 business days of the audit opinion being issued.

Quality

Client satisfaction

Each year we commission independent client surveys to gauge client satisfaction. Of the 313 entities surveyed 224 (72 per cent) responded. Of the respondents, 23 per cent were local government and 77 per cent state government.

An overall performance index is calculated from the survey results to allow us to compare results on the same basis from year to year. This index is the average of the aggregate indices for each area of performance included in the survey.

The overall performance index score for 2012 was 72 index points showing that on average respondents were generally positive about their experiences with QAO. The average score for the six audit offices participating in the 2012 client survey benchmarking was 77 index points. This result is consistent with 2011, 72 index points (average was 76 index points), but less than our target for 2012 of 80 index points.

When compared with the other five audit offices participating in this benchmarking, QAO had the lowest overall performance index score. The highest was 80 index points.

We are working to actively engage our clients to improve their overall satisfaction with our audits. Areas identified by financial audit clients for improvement in the client survey included:

- time frames and the timeliness with which deliverables are received
- communications to make the audit process easier
- improved auditor skills or understanding
- increased staff continuity.

The audit fee is the one area that is consistently rated low for QAO, but also in all other audit jurisdictions.

Around one in two of QAO's clients surveyed indicated that the Office's audit fees are reasonable relative to the level of audit activity undertaken (46 per cent, consistent with 47 per cent in 2011). The ACAG average is 58 per cent.

We have already worked to reduce the average cost of our audits, as explained above, and will continue to benchmark our audit processes as part of this process.

Quality assurance reviews

Our quality control framework is designed to meet the requirements of APES 320, *Quality Control for Firms*, issued by the Accounting Professional and Ethical Standards Board.

As part of this framework we undertake quality assurance reviews on a representative selection of audits.

Quality assurance reviews covering 33 files of our engagement leaders, team leaders and contracted auditors were initially planned for 2011-12. (This compares to 29 completed in 2010-11). A risk re-assessment was subsequently undertaken due to changes in audit teams and audit completions, and 28 files were approved for review.

This number exceeds the requirements of APES 320 due to our inclusion of team leaders in our cyclical monitoring program. APES 320 requires an inspection of at least one completed engagement for each engagement partner, on a cyclical basis.

The results of all reviews were satisfactory this year in terms of their substantive compliance with the auditing standards.

Impact

During the year we raised 1 391 significant audit issues (1 254 during 2010-11) in our management letters. These issues, rated by QAO as high or moderate risk, related predominantly to weaknesses in agency internal control.

We made 1 600 recommendations for improvement (1 640 in 2010-11). Of these, 79 per cent were accepted by the client, down from 85 per cent in the previous year. Most of the difference between years was attributable to small entities across the education, local government and water sectors who disagreed with our audit recommendations.

We followed up the recommendations we made in 2010-11 and found that 13 per cent remained unresolved at year end (7 per cent for the prior year). The higher percentage of unresolved relates to entities disagreeing with financial statement issues we raised that led to modified audit opinions.

The majority of unaccepted recommendations relate to asset valuation methodologies and financial statement disclosures, such as key management remuneration.

Continuous improvement

A key challenge for 2011-12, included in last year's annual report, was dealing with an expected increase in the number of modified audit opinions because of the impact of the natural disasters.

We worked closely with the affected entities to minimise this likelihood. Only three entities received qualified opinions because of the impact of the 2011 natural disasters. The qualifications were because valuations which would have allowed the entities to assess the impact of the natural disasters on their assets had not been undertaken. These qualifications should not recur if the entities value their assets this financial year.

From July 2012, we will have restructured to have in place sector directors who will specialise in the key industries that we audit. These sector directors will be directly responsible for engaging with key stakeholders for their industry, including relevant parliamentary committees, public sector entities and peak bodies.

Other key business improvement initiatives underway include:

- improving our use of technology and data analysis techniques to target fraud and probity issues
- benchmarking our audit fees and challenging our risk assessments
- increasing our use of specialist auditors
- improving the management of auditor contractor performance
- engaging external specialists to perform peer reviews on high risk audits.

Output summary: performance audit services

Dimension	Measure	2010-11		2011-12	
		Actual	Plan	Actual	Variance
Quantity	Audits completed (number)	5	7	7	-
Cost	Average cost per audit (\$000)	358	400	363	(37)
Timeliness	Average duration (months)	6.5	<7	6.6	(0.4)
Quality	Entity satisfaction (index points)	83	75	73	(2)
Impact	Recommendations accepted (%)	94	95	83	(12)

Achievements and challenges

- We met our overall targets on cost, quantity and timeliness, although some individual audits exceeded these targets.
- We fully utilised our performance audit mandate, introduced in August 2011, by tabling three performance audits. To do this we implemented the required changes to our audit methodology and practices and provided our staff with training to effectively undertake performance audits.
- We developed our first, three-year strategic audit plan. In doing so we consulted with parliamentary committees and executive management of key government agencies, and will extend our consultation to other agencies and stakeholders, including peak bodies and industry groups.

Quantity

The seven audits completed during the financial year included three performance management systems audits, three performance audits, and one follow up report on audit recommendations made in 2008-09.

While the target number of audits completed was achieved, two of these audits were originally scheduled for tabling in 2010-11. Two further audits, originally scheduled for completion in 2011-12 have also been delayed and will now be tabled in the first quarter of the new financial year.

Cost

At \$363 326, the average cost of audits has decreased over the past two years, but is still above the 2010-11 average of Australian audit offices of \$290 567.

The cost of individual audits ranged from \$150 376 to \$515 132. Only one audit met its budgeted cost in 2011-12. The average budget overrun was 15 per cent; however, the average cost of the seven reports was still under the target of \$400 000.

Of those which exceeded budget, regulating waste was commenced as performance management systems audits and required rework to be tabled as a performance audit under the new mandate.

two further audits, (student attendance and management of unplanned absences) were undertaken during the transition period for the practice from the performance management systems mandate to the full performance audit mandate.

Timeliness

The average elapsed time, from audit initiation to tabling of the report to Parliament was again within our target of seven months. This remains also under the 2010-11 average of Australian audit offices of 8.4 months.

Elapsed time for individual audits ranged from 4.4 months for the follow up audit report, to 8.9 months for the Management of unplanned absences audit.

The three audits that exceeded planned time frames – Regulating Waste, Student Attendance and Management of unplanned absences were also the audits that most significantly exceeded their budgets.

Quality

Independent client surveys were conducted with the ten entities involved in the six performance management systems audits completed and reported to Parliament in 2011. Compared with the previous years' results there was a downward trend from 83 index points to 73 index points.

Detailed analysis shows that this trend resulted from two individual surveys where there were strong negative findings. The other audits were assessed positively by the survey respondents.

Areas identified by agencies for improvement include:

- consulting independent subject matter experts during complex audits
- ensuring greater contact and communication from senior audit staff
- increasing the amount of consultation with the entity regarding issues and recommendations prior to reporting.

We have made changes to our audit practice and methodology to address these issues.

We also periodically benchmark our report quality by having independent external experts assess them against set criteria. This year we achieved an average score of 4.1 out of 5, which is a significant improvement from our last score of 3.4 in 2010. We scored highest on potential impact and persuasiveness of conclusions.

Figure 3C
Report quality benchmark

Criteria	2010	2012	ACAG
Potential for impact	3.7	4.4	4.2
Focus on 3E's	3.1	3.6	3.6
Persuasiveness	3.6	4.5	4.2
Communication—print	3.6	4.2	3.8
Communication—online	3.4	3.8	4.0
Usefulness	2.9	4.1	4.0
Overall score (max. 30)	20.3	24.6	23.8
Average	3.38	4.10	3.97

This result confirms that the extra time taken and added cost to improve the readability, relevance and usefulness of our reports has been to good effect. Our result this year is also better than the Australian Council of Auditors-General (ACAG) three-year average score of 3.97 obtained from all participating audit offices.

Impact

Fifty-four recommendations were made in our 2011-12 reports, of which 45 (83 per cent) were fully accepted and nine partially accepted. This represents a decrease from 94 per cent in 2010-11 and does not compare favourably with the 2010-11 average of Australian audit offices of 97 per cent.

In 2011-12, we followed up on the implementation of recommendations made in four audits tabled in 2008. Eight out of ten agencies in the follow up audit had fully implemented at least half of the recommendations and of the remaining recommendations; all but one had been partially implemented. The audit found:

- Report to Parliament No.3 for 2008 – *Management of Rural Fire Services in Queensland* – This report identified weaknesses in the management of Queensland’s rural fires services that threatened its sustainability. Three years later, the follow up audit found that 10 out of the 16 recommendations had been fully implemented. Actions taken include improving accountability, planning, risk management and reporting. However the follow-up found that more needs to be done in all these areas. Importantly, the legal status of brigades remains outstanding with no action to date.
- Report to Parliament No.3 for 2009 – *Transport Network Management and Urban Congestion in South East Queensland* – This report drew attention to the less than fully effective management of congestion in South East Queensland. The follow up audit found the four agencies that share responsibility for transport network management were progressing the recommendations well, with nine of the 17 recommendations fully implemented.
- Report to Parliament No.5 for 2008 – *Protecting Queensland’s Primary Industries and Environment from Pests and Disease* – This report found that Biosecurity Queensland’s ability to respond to outbreaks had been compromised. Three years later, progress has been made on all recommendations, with four of the eight recommendations fully implemented.

A comprehensive biosecurity strategy has been completed and good progress made on risk management systems. However, legislative change in progress at the time of the original audit was still in draft at the time of the follow up.

- Report to Parliament No. 6 for 2009 – *Providing the Information Required to Make Good Regulation* – The follow up audit on the 2009 audit found a significant amount of work had been done to create an improved system for developing regulatory proposals, with almost all recommendations fully implemented. This work incorporated regulatory better practice principles and applied to a broader reach of regulation than the system it replaced. Remaining requirements are to align this new system to its authorising legislation, to assure that requirements provide unambiguous support and direction.

Continuous improvement

Our key challenge in 2011-12 was to make the transition from performance management systems audits to performance audits. We met the challenge of the new mandate, tabling three performance audits in 2011-12.

Key improvement initiatives in 2011-12 focused on responding to quality reviews and changes to the *Auditor-General Act 2009*. Actions undertaken this year include:

- **Improving our systems** – audit methodology and practices. Changes were made to the audit methodology to incorporate recommendations from quality reviews and ensure the office was ready to implement the performance audit mandate.
- **Improving our capability** – staff training. All performance audit staff were trained in key skills needed for the new performance audit mandate.
- **Meeting new requirements** – A three year strategic audit plan has been developed and is expected to be published by 30 September 2012.

Key business improvement initiatives underway include:

- consulting with the Parliament, public sector and external stakeholders to identify audit topics that can make a difference
- undertaking collaborative audits with other jurisdictions
- increasing clarity of reports to Parliament achieved by using professional writing expertise and developing our staff’s report writing skills.
- use of subject matter experts and specialists on our performance audits
- improvements to our audit methodology and practices.



BUSINESS

Objective – our business is efficient, effective and sustainable

We will build quality systems and processes to manage and report on our business and financial sustainability and audit performance.

Performance Indicator– We use sustainable technology and quality business systems to deliver efficient and effective services.

Operational summary

Dimension	Measure	2010-11		2011-12	
		Actual	Plan	Actual	Variance
Economy	Average charge-out rate (\$/hr.)	145.09	156.10	156.28	(0.18)
	Actual to budget cost (ratio)	1.014	1.0	0.974	(0.026)
Efficiency	Total hours charged (%)	49.5	> 51.0	49.7	(1.3)
	Available hours charged (%)	60.2	> 60.0	60.3	0.3
Sustainability	Self-funding ratio (%)	88	86	85	(1)
	Operating result (\$ 000)	1 484	422	138	(284)

Achievements and challenges

- We met our operational efficiency and economy targets for the year.
- Against a background of increasing average hourly input costs, we were able to constrain our total costs—achieving a saving of \$1.19 million (2.6 per cent) against our approved budget, while remaining financially sustainable.
- We need to complete our actions arising from the strategic review.
- We need to continue to focus on the cost and efficiency of our services.

Economy of operations

The fees we charge for our financial audit services, and the cost of our parliamentary and performance audit services, take account of the full costs of our operations—both the direct costs of audit staff and audit contractors, and indirect costs including support staff, office accommodation, and systems. Details on contract audit firms for 2011-12 are listed in Appendix 4.

We use the full costs to establish an hourly charge-out rate for our auditors, and this rate is applied to expected audit effort to, in turn, arrive at audit fee and cost estimates.

Tracking our hourly charge out rate over time tells us in part about how well we control the cost of our inputs, and it is therefore a proxy measure of the economy of our operations.

Our actual average hourly rate for parliamentary and audit services increased by \$11.19/hr (7.7 per cent) compared with last year.

This is primarily due to cost pressures affecting the business, including:

- a salary award increase of 4 per cent to award staff, and 2.5 per cent for senior officers and above
- voluntary separation payments and other service contract payments which added an additional 1.7 per cent to operating costs for the year
- our triennial upgrade of computer notebooks used by our auditors in the field, and the introduction of a new standard operating environment (SOE) to avoid obsolescence, which added around 1.3 per cent to operating costs for the year.

Notwithstanding this background of rising input costs, and due in large part to measures that have been progressively implemented since the 2010 strategic review of the office, our total operating costs for the 2011-12 year were 2.6 per cent lower than the approved budget, and only 2.2 per cent higher than 2010-11 total expenses.

We achieved this reduction in total costs largely by reducing our total workforce, both in audit and non-audit by 17.9 FTE (8.5 per cent).

Efficiency of operations

Our efficiency is determined by the rate at which we convert our inputs into outputs. The primary proxy measure we use for this considers the proportion of paid staff hours that are directly charged to providing parliamentary and audit services.

This measure is affected by the productivity of our audit operations staff, and also by the ratio of audit to non-audit staff, as the latter do not charge time directly to audit services.

In terms of total paid hours, the proportion of staff hours charged to parliamentary and audit services across QAO increased to 49.7 per cent (2010-11 49.5 per cent).

After taking account of staff leave, to arrive at available hours, the proportion of paid hours charged to audit services by all QAO staff improved to 60.3 per cent.

This result has been achieved primarily by reducing the number of Audit Support Division staff to implement the strategy of maintaining the division at a proportion of between 15 to 18 per cent of the QAO total workforce staffing level. The 2010 Strategic review had observed that the proportion of total staff in the Audit Support Division in 2008-09 was 24 per cent. As at 30 June 2011 the proportion was 18 per cent and at 30 June 2012 was 17.5 per cent.

We are working to reduce this proportion to 16 per cent by 30 June 2013 however this will become difficult if the total workforce is reduced further.

Efficiency in our operations was also gained by improvements to our wide area network (WAN) and virtualisation of our service. The organisation wide optimisation of our WAN has achieved much better network performance measured as an average data reduction of 60 per cent, which has improved network performance.

The 'virtualisation' of physical servers has increased our ability to provide additional capability at a reduced cost and time overhead. This technology has also provided the ability to re-engineer our business continuity capability through reduced reliance on hardware.

Sustainability of operations

Financial sustainability

While our financial audit fee revenues were \$1.5 million lower than budgeted, we maintained our self-funding ratio. This is because our actual operating costs were 2.6 per cent lower than budget, which allowed us to achieve a modest surplus.

While we aim to achieve balanced budget positions over time, it is important to achieve modest surpluses to help us fund future investments, such as the cyclical upgrades to our equipment and other infrastructure. The operating surplus in 2010-11 underpinned this year's cash flow requirement to upgrade our network of computers and associated software.

Environmental sustainability

We continue to work to ensure environmental responsibilities are monitored and addressed. During 2011-12, QAO introduced measures to help reduce overall energy use through smarter technology including energy efficient screen savers, lowering our use of colour printing and introducing the use of electronic tablets for paperless executive meetings.

Current methods of reducing carbon emissions include ensuring we comply with the Queensland Government commitment to reduce vehicle greenhouse emissions. QAO only operates one fleet car and travel requirements of our staff are also carefully assessed in balance with audit and client requirements.

Our estimated level of carbon emissions attributable to QAO's use of electricity, paper, publications, transport and refrigeration are available on our corporate website. Key points to note are:

- our electricity consumption increased compared with last year, but last year our business was disrupted due to the floods
- we have reduced our use of paper by reducing our print quantities of our newsletter and reports produced. Further reductions will continue during 2012-13
- reports to Parliament are printed to environmental standard ISO 14001
- used toner cartridges are collected by an office supplier for recycling.

Continuous improvement

During the year we continued to enhance our systems and processes. Much of our effort has been directed toward addressing the findings of the Strategic Review of QAO undertaken in 2010.

We also continued and expanded our series of management self-examinations or operational performance reviews, to identify process and system improvements.

Strategic review

A strategic review of QAO is undertaken at least every five years. The review provides an independent assessment of the organisation and assists in targeting opportunities for future development.

The last strategic review was completed in early 2010, and QAO has been continuing to work on responding to the 44 recommendations raised. We have made good progress on implementing these recommendations, with two only remaining outstanding at 30 June.

Figure 4A
Strategic review – progression of recommendations

Status	June 2011	June 2012
Completed	28	42
In progress	16	2
TOTAL	44	44

During the year we completed action on a further 14 recommendations. These recommendations related primarily to the performance management system/performance audit mandate and the associated strategic audit planning processes.

The two outstanding recommendations deal with improving our audit resourcing model and benchmarking of our audit fees. Both are well progressed and will be finalised during 2012-13.

Operational performance reviews

We continued to utilise performance reviews to focus management upon achievements and identify improvements and opportunities in subsequent cycles of the review process.

The issues and opportunities found were fed into the risk, operational and strategic planning cycle.

5

CAPABILITY

Objective – Our staff are motivated and capable

We will develop staff to ensure a contemporary, innovative professional service organisation and empower staff to develop and deliver quality services.

Performance Indicator – We have motivated and skilled staff to meet our service expectations.

People summary

Dimension	Measure	2010-11		2011-12	
		Actual	Plan	Actual	Variance
Profile	Effective headcount (number)	251	235	226	(9)
Motivated	Staff satisfaction (% satisfied)	62	60	64	4
	Permanent separation rate (%)	4.5	< WACA* (7.69)	11.73	4.04
Skilled	Staff development (% of hours)	5.7	5	4.7	-0.3
	Qualified staff (%) ⁽¹⁾	62	n.m	67.1	17.1
Healthy	Sick leave (average days per employee)	10.71	-	12.26	
	Days lost to injury (Total)	54.07	-	34.93	

*WACA (Workforce Analysis and Collection Application).

n.m: new measure.

Notes: (1) Postgraduate, inclusive of CA and CPA accreditation for audit and non-audit staff.

Achievements and challenges

- We have been able to meet the challenges and carry out our planned activities with a workforce that was smaller than we allowed in our budget.
- We also increased the number of staff with postgraduate qualifications.
- Sick leave increased during this period despite our close attention to sick leave being taken. Continued monitoring and local action will take place over the next 12 months to support staff and managers.

Staff profile

We consider our workforce profile in three different ways – effective headcount, effective full-time equivalent (FTE) and Minimum Obligatory Human Resource Information (MOHRI).

As at 30 June 2012 we had an effective headcount of 226. The headcount includes temporary, contracted and seconded in staff. It excludes seconded out and leave without pay employees. This was nine (3.8 per cent) less than our target of 235, and 25 (10.0 per cent) less than last year.

In terms of our effective FTE, our actual result at year end of 216.3 was 11.7 per cent less than last year.

Figure 5A
Staff numbers at 30 June

	2010-11	2011-12
Effective headcount	251	226
Effective FTE	245.0	216.3
MOHRI FTE	227.6	209.7

We use MOHRI to report our workforce numbers to the Public Service Commission and Queensland Treasury. Both these central agencies require MOHRI data as per the Directive 02-06. MOHRI includes permanent and temporary employees, who are either full or part-time. MOHRI does not include employment agency or contracted staff, or employees on leave without pay greater than eight weeks. It also does not include staff seconded to another department/agency.

Diversity

QAO supports the Queensland Government’s commitment to promote and deliver programs for target groups. We ensure equal opportunities through the *Queensland Multicultural Action Plan: 2011-2014* and support reconciliation through the *Queensland Government Reconciliation Action Plan 2009-12*.

QAO continues to perform well in relation to employees from a culturally and linguistically diverse background. QAO again performed well in the EEO Statistical Bulletin 2011, as the highest ranking agency in the Queensland Public Service under diversity.

All equity and diversity measures have remained fairly stable over the last five years.

Figure 5B
Target groups at 30 June

	2010-11	2011-12
Female (%)	49.8	43.4
Non-English Speaking Background (%)	27.9	19.2
People with Disabilities (%)	12.7	12.6
Aboriginal and Torres Strait Islanders (ATSI) (%)	0.8	0.9

Motivated staff

We measure the attitude, health and wellbeing of our staff by considering a range of indicators.

Staff satisfaction

A QAO Staff Survey is conducted every two years by an independent expert.

A satisfaction index was developed as part of the survey made up of a number of key measures. The index provides a general measure of employee satisfaction. The overall level of employee satisfaction exceeded our target and has increased from 62 per cent to 64 per cent (3.2 per cent) since 2010.

Workshops were conducted in May 2012 to explore and address the key findings of the survey. Action plans have since been developed by all areas of QAO, and work continues on the areas identified for improvement.

Attraction and retention

The rate of permanent separation during 2011-12 was 11.73 per cent compared with 4.5 per cent the previous year.

Our permanent staff retention rate decreased during 2011-12 to 84.6 per cent from 95 per cent in 2010-11 financial year.

Exit surveys conducted with departing employees identified that for a significant number of employees what influenced their decision to leave QAO was a ‘better job opportunity’. In a number of instances these opportunities were not within the audit area but in other accounting related disciplines.

Skilled staff

Professional development

One redundancy package was paid during 2011-12 with a value of \$24 216 (gross).

The whole-of-government Voluntary Separation Program was introduced as part of the Mid-Year Fiscal and Economic Review in January 2011. This program was targeted primarily at non-frontline areas and on that basis we sought expressions of interest from all permanent staff in Audit Support. Offers were made to eligible employees based on key criteria agreed to by the Executive. In 2011-12 five employees accepted offers of voluntary separation packages at a cost of \$555 000 (gross).

With the increase in separations in audit operations we undertook a number of recruitment activities during 2011-12. Twenty one recruitment processes were completed during this financial year. An ongoing issue is the limited number of external applicants for our processes especially at the AO4 level and above. Work has begun identifying strategies and initiatives to address the difficulty of attracting suitably qualified and experienced applicants.

In 2011-12 we focused on enhancing our attraction strategies for graduates. Activities included targeted participation in careers fairs, university information events and networking activities to promote QAO as an attractive employer. We also participated in the Queensland Public Sector Graduate Portal which is a state-wide graduate recruitment website managed through the Public Service Commission.

The GRADtects Program achieves best practice in graduate development based on graduate industry criteria. It provides participants with a practical curriculum that consists of formal training, on-the-job learning, personal development activities and peer led forums. Graduates participate in internal and external technical and non-technical training.

During 2011-12 five graduates started in the program. We have also supported two interns from the CPA Australia Internship Program, and one student from the QUT Accounting School work experience placement program.

Our 2012-13 strategic, business and risk planning has in turn built on the outcomes of planning and precisely identified what QAO must do to have a suitably capable and skilled workforce.

Our ability to deliver on our mandate depends on the skills of our employees. We invest in our employees through the provision of study assistance, targeted technical and non-technical learning and development programs and secondment between government departments. Technical training focuses on accounting and auditing standards, audit tools, methodologies and development opportunities identified through quality assurance reviews. Technical, non-technical and leadership development is delivered through in-house programs and external courses.

QAO requires professional accreditation for audit staff, and encourages other qualifications as an investment in employee's careers.

During 2011-12, 17 employees achieved accreditation with the two major professional bodies: one became CA qualified and 16 became CPA qualified.

In 2011-12, we achieved 4.7 per cent professional development hours against our plan of 5 per cent. (Audit related development was 3.5 per cent of the total with non-audit at 1.2 per cent). The decrease from last year of 5.7 per cent has been due to workload and priorities impacting on employees being able to attend training.

We also support our employees through a Study Group. Employees who are studying for a qualification can attend a monthly study forum to work together, share experiences and coach one another.

These initiatives have resulted in the following increase in the proportion of staff with postgraduate qualifications.

Figure 5C
Staff qualifications

Post graduate qualifications	2010-11	2011-12
All staff (%)	52.7	60.9
Audit staff (%)	62.0	67.1

Performance management

Our staff participate in a performance, achievement and development process (LaunchPAD). Individual staff goal plans are directly linked to divisional and business plans. Individual performance is assessed against these business goals and Lominger role competencies.

Our completion rate for mid-year review of the development process was high with 91 per cent completed by July 2012. This result is well ahead of the average whole-of-government participation result of 34.7 per cent published in the Queensland Public Service Commission 2010 State of the Service Report.

Healthy staff

Sick leave

We have experienced an increase in the amount of sick leave being taken by employees.

Sick leave in 2010-11 was 10.71 average days per employee, which has increased to 12.26 days in 2011-12. Our analysis of the sick leave data identified an increasing trend over the last 12 months of employees taking up to and more than their 10 days sick leave entitlement. During the year, we took action to encourage more open conversations with employees about their reasons for taking sick leave.

The increase in average days was attributed to an increase in the number of employees taking long-term sick leave, our aging workforce profile and the pace of change both within the office and across the broader public service.

Employees continue to be managed proactively by partnering with the supervisor, employee, treating medical practitioner and People and Performance.

While the trend in the second half of the year was downward, we continue to monitor sick leave on a monthly basis via internal corporate reporting and through the Executive Management Group.

Workplace safety

QAO has remained stable with the number of workplace incidents, increasing by one on 2011-12 to 10 reported matters. The number of WorkCover claims has remained the same from last year with three claims lodged for the financial year.

We have been monitoring recreation leave balances greater than 290 hours (8 weeks) as a key measure in the corporate reporting over the last two years. In 2011-12 there was an increase to 7.6 per cent from 4.7 per cent in 2010-11. Even though this is below our target of 10 per cent we continue to monitor these balances and ensure that employees have leave plans in place which are managed at the local level.

Work-life balance

QAO supports flexible work practices and enables employees to balance their work and home lives. Employees have access to a number of initiatives including reduced/compressed hours, accumulated time (banked time), leave at half pay and purchased leave. We also have arrangements such as tele-commuting and part-time.

In 2011-12, 11.3 per cent of employees undertook formal part-time arrangements, which was an increase from last year's 10.4 per cent.

The QAO Staff Survey in 2012 recorded 80 per cent of respondents as being relatively happy with the work life balance policies at QAO.

Code of Conduct and Public Sector Ethics

QAO is a signatory to the Public Sector Ethics Act 1994 whole-of-government Code of Conduct. To support the implementation of the new Code, education and training has been delivered to 98 per cent of employees. The remaining employees are scheduled for training in the near future. The Code of Conduct and Ethical Behaviour Training was delivered by the Queensland Ombudsman and work is now being completed on the development of the refresher training.

Our strategic plan has been shaped to promote and apply the public sector ethics principles and code. Our internal procedures and practices have regard to ethical principles and values. This is reflected in role descriptions and human resource policies and guidelines such as complaints management. We comply with all reporting and performance management requirements and the ethics priorities are incorporated into our performance, achievement and development (LaunchPAD) plans.

APPENDICES

Appendix 1 :Performance statement.....	89
Appendix 2 :Performance information	95
Appendix 3 :Budget versus actual results.....	104
Appendix 4 :Audit contractor fees.....	106
Appendix 5 :Compliance information.....	110
Appendix 6 :Glossary.....	112



APPENDIX 1: PERFORMANCE STATEMENT

Performance statement.....	90
Certification.....	92
Independent Auditor's Review Report.....	93

Queensland Audit Office Performance Statement

	Notes	2011-12 Target	2011-12 Actual	Variance (A-T)
Service Area: Independent public sector auditing services and reporting				
Service standards				
<i>Financial audits</i>				
Audit client satisfaction with financial audit services (index points)	4, 7	80	72	-8.0
Quality assurance reviews that substantively comply with auditing standards (per cent)	1	100	100	0
Financial statements audited and certified within statutory timeframe where statutory requirements observed by audit clients (per cent)		95	95	0
Average cost per Report to Parliament for financial audits (\$ million)	2, 4	0.105	0.149	+0.044
Average time for reporting financial audits to Parliament from the statutory deadline for audit certification (months)	3, 4	< 4	3.7	-0.30
Operational costs self-funded through audit fees (per cent)		86	85	-1
<i>Performance audits</i>				
Average time to complete performance audits including reporting to Parliament (months)	4	< 7	6.6	-0.40
Average cost per performance audit (\$ million)	4	0.400	0.363	-0.037
Audit client satisfaction with performance audit services (index points)	4, 7	75	73	-2.0
<i>Parliamentary services</i>				
Reports to Parliament completed to the satisfaction of the Parliament and the Parliamentary Committee	5, 6	Satisfied	Satisfied	-
Other measures				
Reports to Parliament				
Financial audit (number tabled)	4	4	4	-
Performance audit (number tabled)		7	7	-

Notes:

1. Measure amended to improve readability only, the calculation method has not changed.
2. The increase in the cost of Reports reflects the changes that have been introduced to improve the clarity and purpose of Reports. The target for cost for 2012-13 is currently under review.
3. Wording in relation to the way timeliness has been calculated for financial audit has been amended to improve readability.
4. 'Financial and assurance audit' and 'performance management systems audit' has been changed in these measures to 'financial audit' and 'performance audit' to better align with the terminology in the Auditor-General Act.
5. 'Parliamentary reporting and sector-wide assistance' has been changed to 'Parliamentary services' to align with the QAO Strategic Plan 2012-16.
6. Reference to 'Public Accounts and Public Works Committee' changed to 'Parliamentary Committee' due to new Committee structure.
7. Surveys were independently conducted in relation to audits performed during 2010 and 2011. The 2012-16 QAO Strategic Plan includes a strategy for more timely and open engagement with the public sector to address the satisfaction measure being below target.

Queensland Audit Office Performance Statement 2011-12

We certify that the Performance Statement to be included in the Queensland Audit Office's Service Delivery Statement and Annual Report presents fairly QAOs performance against the stated measures for the financial year ending 30 June 2012.



K S BULLOCK FCPA
Chief Financial Officer
31 July 2012



A GREAVES FCA, FCPA
Auditor-General
31 July 2012



INDEPENDENT AUDITOR'S REVIEW REPORT

TO THE ACCOUNTABLE OFFICER OF THE QUEENSLAND AUDIT OFFICE

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We have reviewed the accompanying Performance Statement of the Queensland Audit office which details the Queensland Audit Office's performance against its key performance indicators for the year ended 30 June 2012.

The accountable officer's responsibility for the performance statement

The Accountable Officer is responsible for the preparation and fair presentation of Performance Statement. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of a Performance Statement that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the Performance Statement based on our review. We have conducted our review in accordance with the Standard on Assurance Engagements ASAE 3000: Assurance Engagements Other than Audits or Reviews of Historical Financial Information, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the Performance Statement does not present fairly the Queensland Audit Office's performance against its key performance indicators for the year ended 30 June 2012. As the auditors of the Queensland Audit office, ASAE 3000 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of the Performance Statement consists of making enquiries and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

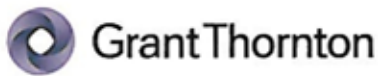
Independence

In conducting our review, we followed applicable independence requirements of the Australian professional ethical pronouncements.

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**Conclusion**

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the Performance Statement of the Queensland Audit office does not present fairly the Queensland Audit Office's performance against key performance indicators listed for the year ended 30 June 2012.

A handwritten signature in cursive script, appearing to read "Grant Thornton".

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

A handwritten signature in cursive script, appearing to read "S G Hancox".

S G Hancox
Partner - Audit & Assurance

Brisbane, dated 31 July 2012



APPENDIX 2: PERFORMANCE INFORMATION

Performance indicators.....	96
Performance indicator definitions.....	100

Performance indicators

Performance Indicator	2007-08	2008-09	2009-10	2010-11	Target 2011-12	Actual 2011-12	Notes
Parliament							
Reports to Parliament completed to the satisfaction of the Parliament and the parliamentary committee	Satisfactory	Satisfied	Satisfied	Satisfied	Satisfied	Satisfied	1
Average cost per report to Parliament for financial audits	*	*	\$107,285	\$101 545	\$105 000	\$149 031	1
Average cost per performance audit	\$264 693	\$277 740	\$423 487	\$358 000	\$400 000	\$363 326	1
Average time for reporting financial audits to Parliament from the statutory deadline for audit certification	*	*	3 months	3 months	< 4 months	3.7 months	1
Average time to complete performance audits, including reporting to Parliament	5.9 months	6.8 months	7.5 months	6.5 months	< 7 months	6.6 months	1
Number of reports to Parliament:	9	10	11	11	11	11	1
Financial audits	3	4	4	6	4	4	
Performance audits	6	6	7	5	7	7	
Percentage of financial statements audited and certified within statutory time frame, where statutory requirements observed by audit clients.	100%	99%	100%	95%	95%	95%	
The Finance and Administration Committee satisfaction with QAO's progress with the QAO 2010 Strategic Review recommendations	*	*	*	*	Satisfied	Satisfied	2

Performance indicators continued

Performance Indicator	2007-08	2008-09	2009-10	2010-11	Target 2011-12	Actual 2011-12	Notes
Value							
Percentage of quality assurance reviews of financial audits that substantively comply with auditing standards.	*	*	100%	100%	100%	100%	1
Percentage of quality assurance reviews of Performance audits that substantively comply with auditing standards.	*	*	*	*	100%	100%	2
Percentage of recommendations agreed by auditees for Performance audits.	*	*	100%	94%	95%	83%	1
Audit client satisfaction with financial audit services.	*	*	75 index points	72 index points	80%	72%	1
Audit client satisfaction with Performance audit services.	*	*	67 index points	83 index points	75%	73%	1

Performance indicators continued

Performance Indicator	2007-08	2008-09	2009-10	2010-11	Target 2011-12	Actual 2011-12	Notes
Business							
Revenue against budget	*	*	97.4%	105%	>= YTD budget	96.8%	
Expenditure against budget	*	*	101.7%	98%	<= YTD budget	97.4%	
Percentage of operational costs self-funded through audit fees	85%	85%	82%	88%	86%	85%	
Revenue write-off does not exceed 1-2% of total audit fee	*	*	0.7%	0.3%	<2%	0.7%	
Percentage of total paid hours used directly on chargeable activities against paid hours			47%	49.5%	51%	49.7%	
WIP and receivables turnover			6.3	6.5	>6	6.3	

Performance indicators continued

Performance Indicator	2007-08	2008-09	2009-10	2010-11	Target 2011-12	Actual 2011-12	Notes
Capability							
Staff turnover rate	20%	11%	4.59%	8.36%	QAO rate < WACA	2.44% QAO 2.31% WACA	3
Sick leave taken			2.49%	2.58%	QAO rate < WACA	3.8% QAO 3.18% WACA	3
Less than 10 per cent of staff with excessive recreation leave (i.e. over 290 hours).	*	*	9%	4.71%	<10%	8.1%	
Percentage of audit staff with professional qualifications (including CPA/CA/CISA status).	44%	48%	49%	46%	50%	67.1%	
Percentage of temporary employees (including temporary, casual and contracted-in).			7.77%	11.02%	30-9 13%-17% 31-12 7%-11% 31-3 5%-9% 30-6 5%-9%	10.2%	
Average of available hours spent on PD by permanent staff members.	*	*	*	*	5%	4.7%	2
Staff satisfaction index						64%	2

* Information not collected.

1. Wording amended in 2011-12.
2. New measure for 2011-12.
3. WACA data, based on March quarter data

Performance indicator definitions

Objective 1: Parliament: We meet the needs of Parliament

The Parliament and the Parliamentary committees are satisfied with reports from the Auditor-General.

This indicator assesses whether QAO meets the needs of Parliament by measuring Parliament's and parliamentary committees satisfaction with the Auditor-General's reports to Parliament. Reports to Parliament are the core output Parliament receives from QAO. This indicator incorporates a number of measures.

Measure	Description
Quality	
Reports to Parliaments completed to the satisfaction of the Parliament and the Parliamentary Portfolio Committees	The Auditor-General offers a briefing to the relevant portfolio Parliamentary Committees for each report to Parliament that is tabled.
The Finance and Administration Committee satisfaction with QAO's progress with the QAO 2010 Strategic Review recommendations	QAO wrote to the Finance and Administration Committee with an update on progress undertaken in relation to the recommendations from the QAO 2010 Strategic Review.
Cost	
Average cost per Report to Parliament for Financial reports	Costs for each report are recorded progressively and an average calculated at year-to-date. Printing costs are included. Staffing costs are at charge out rates as opposed to cost. This measure is for reports tabled in the 2011-12 financial year.
Average cost per Performance audit	Costs for each report are recorded progressively and an average calculated at year-to-date. Printing costs are included. Staffing costs are at charge out rates as opposed to cost. This measure is for reports tabled in the 2011-12 financial year.
Timeliness	
Average time for reporting Financial audits to Parliament from the statutory deadline for audit certification	Average time for tabling Reports for financial audits is based on the date of the audit certificate for audits being reported in comparison to when the report was tabled. The QAO target is < 4 months based on 30 June audits signed by August and usually reported by November.
Average time to complete Performance audits including reporting to Parliament	Times for each report are recorded progressively and an average calculated at year-to-date. ACAG also report on this measure as part of the ACAG benchmarking.
Number of reports to parliament: Financial audits Performance audits	The purpose of this measure is to provide Parliament with timely audit information. The number of reports to parliament is compared to the target figure set at the beginning of the audit year. The quantity of financial audit and performance audit reports are measured separately.
Percentage of financial statements audited and certified within statutory time frame, where statutory requirements observed by audit clients	This measure indicates whether QAO is completing its audits in a timely manner.

Objective 2 – Value: We add value to public sector entities

We deliver high quality audit services in accordance with the Auditor-General of Queensland Audit Standards.

The purpose of this indicator is to ensure we add value to public sector entities by delivering high quality audit services.

Quality

Percentage of quality assurance reviews that substantively comply with standards

This measure is used to assess quality processes against the APES 320 and ASQC 1 professional standards for both QAO and our contracted audits.

Percentage of recommendations agreed by auditees for Performance audits

This measure is based on auditees' acceptance of audit recommendations including performance audit and performance management systems audit.

Timeliness

Audit client satisfaction with QAO financial services

ORIMA Research Pty Ltd has been commissioned to conduct surveys to measure how clients view the effectiveness and quality of QAO services. One measure is an audit value index which is the index scores for audit process, audit reporting and audit value.

Audit client satisfaction with Performance audit satisfaction

The purpose of this measure is to evaluate client satisfaction pertaining to performance audit services. ORIMA Research Pty Ltd conducts the surveys for QAO.

Objective 3 – Business: Our business is efficient, effective and sustainable

We use sustainable technology and quality business systems to deliver efficient and effective services.

The purpose of this indicator is to assess the efficiency and effectiveness of how QAO runs its business.

Operating result

Revenue against budget	Data (YTD actual and budget) is obtained from the QAO ledger.
Expenditure against budget	Data (YTD actual and budget) is obtained from the QAO ledger.
Percentage of operational costs self-funded through audit fees.	To calculate a percentage of the total costs compared to QAOs audit revenue.
Revenue write-off does not exceed 1-2% of total audit fees	This measure is used to calculate a percentage to reflect the comparison of revenue write-offs to audit fees.
Percentage of total paid hours used directly on chargeable activities against paid hours (ACAG – chargeable of (available + leave)	Percentage of chargeable hours as part of the utilisation of hours report. This is the hours that contribute to our services (Financial audits, Performance audits, Parliamentary reporting and sector-wide assistance).
WIP and receivables turnover	This measure is used to determine the WIP and receivables turnover (i.e. rolling revenue divided by rolling debtors and WIP)

Objective 4 – Capability: Our staff are motivated and capable

We have motivated and skilled staff to meet our service expectations.

The purpose of this indicator is measure the staff pulse and mix.

Staff pulse

Staff turnover rate	The Queensland Public Service figure is obtained from quarterly reports for the Workforce Analysis comparison application (WACA). QAO's rate must not exceed the whole-of-government rate for each quarter. Quarterly comparisons will be based on WACA's previous quarter data.
Sick leave	
Less than 10 per cent of staff with excessive recreation leave (i.e. over 290 hours)	Recreation leave reports run within three days after the end of the quarter.
Staff satisfaction index	The purpose of this milestone is to determine the level of satisfaction that the staff of QAO have with their work environment and the leadership provided by management. This measure is monitored approximately every two years.

Skill mix

Percentage of staff with professional qualifications	Professional qualifications include CPA, CA and CISA status or relevant post graduate qualifications for performance audit staff.
Percentage of temporary employees (including temporary, casual and contracted-in)	This measure is used to capture the employment category of QAO staff to ensure their effectively meet our business needs.
Average of available hours spent on PD by permanent staff members	This measure was trialled for the 2011-12 reporting period. The development of staff is important and this measure aims to identify training measures to ensure our staff are competent to perform their roles.

APPENDIX 3: BUDGET VERSUS ACTUAL RESULTS

Table of Material Variances	Budget 2011-12	Actual 2011-12	Variance
	\$'000	\$'000	\$'000
Statement of comprehensive income			
User charges	39 108	37 601	-1 507
Other revenue	299	334	35
Employee expenses	25 667	23 638	-2 029
Supplies and services	19 172	19 846	674
Operating surplus/(deficit)	422	138	-284
statement of financial position			
cash assets	1 503	1 043	-460
receivables and work in progress	6 021	7 701	1 680
property plant and equipment	411	119	-292
Payables	1 025	1 494	469

Notes

For consistency across this report, actual figures are taken from the financial statements at Chapter 6 and may differ slightly between expense items to align with state budget reporting requirements in the 2012-13 Service Delivery Statement.

User charges

The 4 per cent decline in actual audit fees against budget largely reflects efficiencies in the delivery of financial and assurance audit services through lower employee expenses and contracted out audit costs compared with 2010-11.

Other revenue

The increase in other revenue against budget is mainly due to an increase in State Archives storage services received below fair value and IPSAM licence fees.

Employee expenses

The 8 per cent decline in employee expenses against budget is due to lower than budgeted staffing levels during the year in both the financial audit and support functional areas. The auditing services as well as some streamlining of our back office costs.

Supplies and services

A 3.5 per cent increase in supplies and services against budget was largely due to higher than budgeted contracted out audit costs (up by \$0.417 million) and an increase in unanticipated costs for legal and human resource management services during the year (up by \$0.109 million).

Operating surplus

The operating result for 2011-12 was a net surplus of \$0.138 million against budgeted surplus of \$0.422 million. The reduction in our surplus reflects the strong focus this year on achieving more efficient use of QAO's resources, as evidenced by the savings achieved against budget in our audit fees and further efficiencies in our cost base, most notably our employee expenses.

Cash assets

The decline in cash assets was largely due to the factors underpinning the Operating Surplus (that is, lower revenue against a more efficient cost base) and needs to be considered alongside the increase in receivables at year end.

Receivables and work in progress

The increase in Receivables and Work in Progress against budget is due to the timing of financial and assurance auditing activity completed at financial year end, particularly for contracted out auditing services (refer comments under Payables).

Property plant and equipment

The decrease in property, plant and equipment against budget was due to the re-scheduling of procurement activity to replace minor information and technology equipment which has now been deferred until 2012-13. While QAO undertook a triennial replacement of the full network of office computers this year, these costs were expensed in accordance with Queensland Treasury's financial reporting requirements.

Payables

An increase in payables was due to the timing of invoices for services performed at year end, particularly payments for contracted out auditing services. The timing of contracted auditing services at year end impacts upon the level of both payables and receivables as recovery occurs through client invoicing.

APPENDIX : 4

AUDIT CONTRACTOR FEES

Firm	Location	Contractor	\$ Cost	Total \$ of firm
Crowe Horwath	Brisbane	B Worrall	1 031 127	
		V De Waal	24 500	
WHK NQ	Townsville	D Campbell	615 597	
		R Dunstan	442 899	
		R Tardiani	5 250	
WHK Audit & Assurance	Gold Coast	R Buker	653 093	
	Toowoomba	I Brooks	122 224	
		L Meehan	17 100	2 911 790
Deloitte Touche Tohmatsu	Brisbane	T Biggs	1 065 801	
		S Stavrou	537 849	
		S Tarling	313 330	
		C Harris	208 275	2 125 255
KPMG	Brisbane	J Adams	451 659	
		J Richards	376 236	
		S Guse	241 100	
		R Jones	83 415	
	Cairns	G Coonan	275 450	
		G Mier	62 466	1 490 326
Moore Stephens (Queensland) Audit Pty Ltd	Townsville	J Zabala	406 607	
		P Catterson	274 704	
	Brisbane	M McDonald	193 050	874 361

Firm	Location	Contractor	\$ Cost	Total \$ of firm
Prosperity Audit Services	Brisbane	M Maybury	413 885	609 300
		L Malone	89 500	
	Newcastle	P Horne	105 915	
PricewaterhouseCoopers	Brisbane	C Thomason	305 440	446 778
		T Mahoney	112 338	
	Townsville	P Clarke	29 000	
Bentleys (Qld) Pty Ltd	Brisbane	P Power	270 610	416 818
		S Douglas	146 208	
BDO Audit Pty Ltd	Brisbane	C Jenkins	349 911	
		M Molesworth	23 616	
BDO (Nth Qld)	Cairns	G Mitchell	7 685	384 412
		K McCallum	3 200	
William Buck (Qld)	Brisbane	J Latif	207 712	302 671
		A Cranstoun	66 250	
		M Ayoob	28 709	
Johnston Rorke Chartered Accountants	Brisbane	J Evans	247 500	299 700
		W Face	52 200	
Bennett Partners Pty Ltd	Mackay	P Hinton	275 190	275 190
PGL Financial Services Pty Ltd	Brisbane	L Demichelis	246 451	246 451

Firm	Location	Contractor	\$ Cost	Total \$ of firm
Thomas Noble & Russell	Lismore	G Dwyer	41 573	
		K Franey	195 475	237 048
GPS Business Services Pty Ltd	Brisbane	G Smith	150 450	150 450
AAT Accountants Pty Ltd	Brisbane	D Munro	113 194	
		M Wright	24 800	137 994
Ringrose Button Pty Ltd	Longreach	B Ringrose	103 290	103 290
Lawler Hacketts Chartered Accountants	Brisbane	L Murphy	79 352	79 352
Walsh Accounting	Barcaldine	B Walsh	46 700	
		L Walsh	23 230	69 930
Priestleys Chartered Accountants	Brisbane	B Hiley	17 311	
		K Vivan	32 562	49 873
Merrotts Chartered Accountants and Business Advisors	Brisbane	R Muller	38 500	
		T Zimmermann	7 550	46 050
Hooper Accountants	Toowoomba	A Hooper	30 460	30 460
HLB Mann Judd (SE Qld Partnership)	Brisbane	C Sturgess	5 000	
		C King	12 000	17 000

Firm	Location	Contractor	\$ Cost	Total \$ of firm
Pacifica Chartered Accountants	Cairns	P Catterson	15 777	15 777
MSI Taylor Pty Ltd	Brisbane	R Prabhu	14 861	14 861
Energy Edge Pty Ltd	Brisbane	A Macleod	10 000	10 000
Focus Professional Group HTA Partners Pty Ltd	Sunshine Coast	A Hertel	7 526	7 526
John Gosper Audit and Assurance Pty Ltd	Toowoomba	J Gosper	2 900	2 900
Grant Thornton Audit Pty Ltd	Brisbane	D Carroll	1 707	1 707
		Total:	11 357 270	11 357 270

APPENDIX 5: COMPLIANCE INFORMATION

Staff classification by FTE (MOHRI)

Agency	Annual earnings FTE Groupings (\$)	FTE			% of FTE		
		Female	Male	Total	Female (%)	Male (%)	Total (%)
Qld Audit Office	40 000 - 49 999	2	1	3	66.67	33.33	100
	50 000 - 59 999	10.8	10	20.8	51.92	48.08	100
	60 000 - 69 999	14.86	8.68	23.54	63.13	36.87	100
	70 000 - 79 999	14.6	17.6	32.2	45.34	54.66	100
	80 000 - 89 999	13.31	10.46	23.77	55.99	44.01	100
	90 000 - 99 999	18.84	23.6	42.44	44.39	55.61	100
	100 000 - 109 999	5.49	32	37.49	14.64	85.36	100
	110 000 - 119 999	2.5	2	4.5	55.56	44.44	100
	120 000 and over	8	14	22	36.36	63.64	100
	Total		90.4	119.34	209.74	43.10	56.90

For further information

As required by DPC guidelines, QAO has compiled mandatory information on the following topics, and made it available online at www.qao.qld.gov.au

- Consultancies
- Information Systems and recordkeeping
- Initiatives for women
- Waste management
- Recycling policy
- Carbon emissions
- Overseas travel
- *Carer (Recognition) Act 2008*
- A & TSI matters
- QLD multicultural policy.

Optional online information is provided on the following topics:

- Right to information
- Information privacy.

APPENDIX 6: GLOSSARY

Audit

An examination of the records, statements, systems, and procedures of an organisation.

Best practice

A method for accomplishing a business function process or outcome/result that is considered to be superior to all other known methods.

External audit

A formal, independent review of an organisation's financial statements, records, transactions, or operations.

Financial year

The financial year we are reporting on in this Annual Report is the period from 01 July 2011 to 30 June 2012.

Governance

The process by which decisions are taken and implemented, organisations are controlled and managed to achieve their objectives, and the process by which organisations are directed, reviewed and held to account.

Key Performance Indicator

Objective evidence on the extent of, or progress towards, achievement of a desired outcome.

Vision

A statement that embraces the desired future the organisation is working towards.

Accessible information

We are committed to providing accessible services to Queenslanders from all culturally and linguistically diverse backgrounds. If you have difficulty in understanding this report contact us on 07 3149 6000 and we will arrange an interpreter to effectively communicate the report to you.

Acknowledgments

QAO would like to thank everyone who contributed to the development of the Annual Report 2011-12.

The production of the Annual Report would not be possible without the commitment and dedication of all areas of QAO.

Feedback

At QAO we strive to continue to improve the standard of our reporting. To assist in this development we encourage input and feedback. Please send any feedback on this Annual Report via any of the options listed.

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