

QAO briefing for Audit Committee Chairs

10 December 2014

Welcome

Anthony Close
Deputy Auditor-General

Agenda

Key audit matters from
our Reports to
Parliament

Enhancing our client
engagement

Future direction for QAO

Morning tea and
networking

Key audit matters from our Reports to Parliament

Karen Johnson, Assistant Auditor-General

Michael Keane, Sector Director – Financial Services

Sandra Heidrich, Director – Performance Audit

Rachel Vagg, Director – Technical and Treasury Products

David Adams, Sector Director – Infrastructure

Financial statements

Disclosure overload:

Department of Education, Training & Employment		
Year	No. of pages in audited financial statements	No. of notes in audited financial statements
2004	31	36
2014	60	40

Do the financial statements provide only meaningful information to their users?

Financial statements focus

- Focus on the financial information important to users
- Example – Department of the Premier and Cabinet annual report:
 - Report is 82 pages of which 48 are financial statements (59%)
 - Policy notes – 9 pages
 - KMP note – 6 pages
 - Financial instruments note – 4 pages (and they only have cash and receivables)

Model financial statements

- Disclosure **guidance** - Sunshine Department Model Financial Statements
- “Agencies must comply with the **general form and content** of these model financial statements when preparing their own financial statements”

Source: QTT

- QAO challenge:
 - 2014 financial statements 32 pages
 - 2015 draft shell financial statements 24 pages
 - 20% reduction

Proforma financial statement review process

Role of the Audit Committee:

1. Request removal of:
 - any non-applicable accounting policy disclosures
 - any disclosures of irrelevant scenarios
 - unnecessary carry forward information
2. Promote only material disclosure
3. Promote tailoring - what decision useful information is required?

AASB 1055 budgetary reporting

Points to consider:

- Controlled and administered statements
- Explanations of major variances between actual amounts and original budget amounts
- Prior period comparative budgetary information need NOT be disclosed.

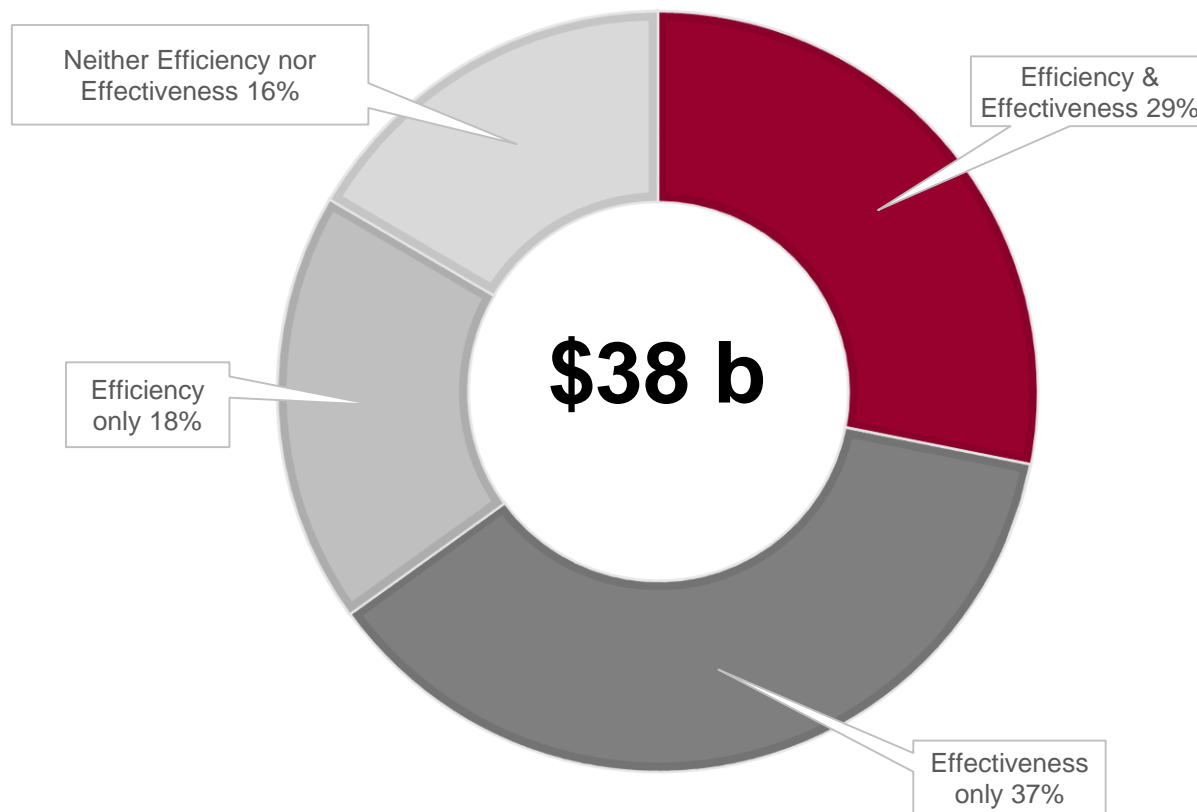
AASB 1055 budgetary reporting

- What does “major variance” mean?
 - Those relevant to an assessment of the discharge of accountability and to an analysis of performance of an entity, not merely focusing on the numerical differences between original budget and actual amounts
 - Use FRRs as a guide for disclosures

Monitoring and reporting performance

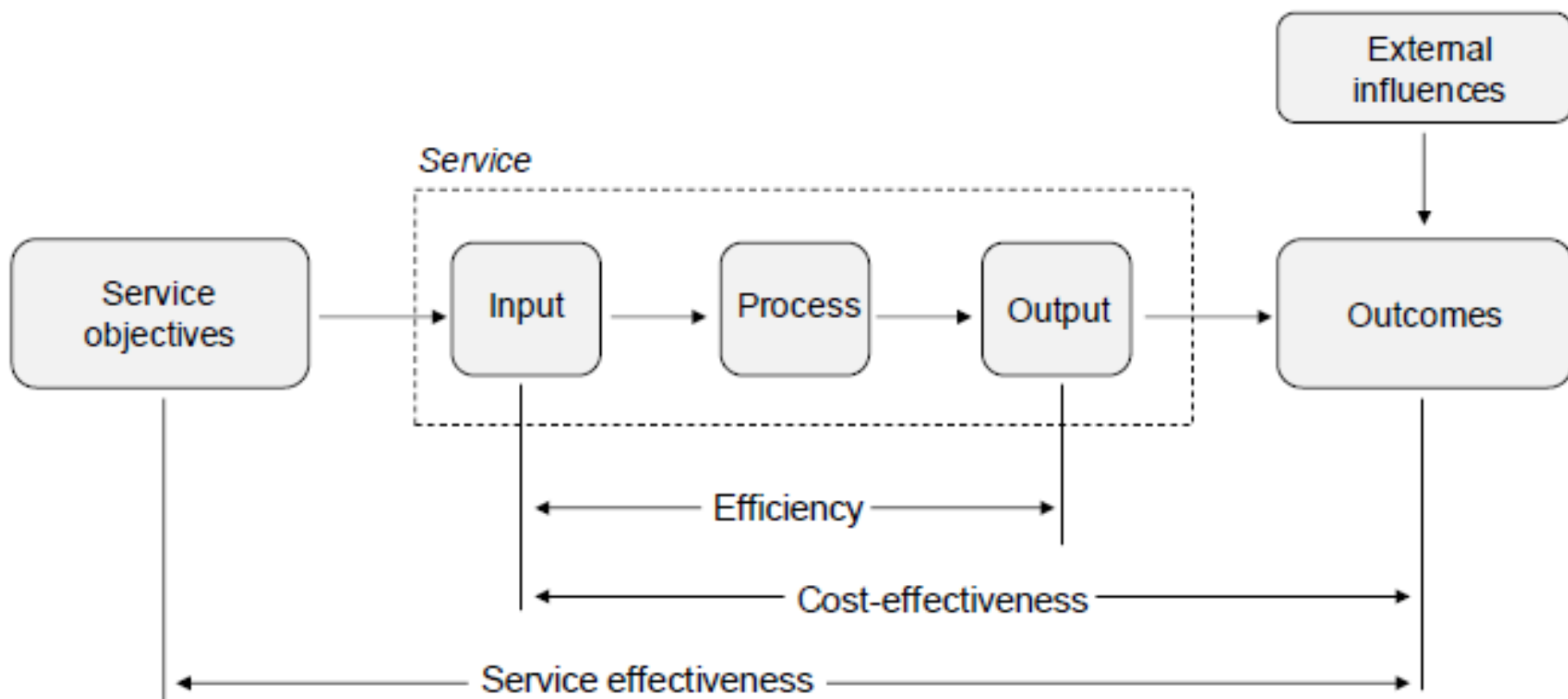
2013-14 Service Delivery Standards:

- Incomplete performance information for 72% of budget



Monitoring and reporting performance

Service logic diagram



Source: Queensland Audit Office adapted from ROGS

Monitoring and reporting performance

- Defining service areas
- Setting meaningful objectives
- Matching objectives and standards
- Formulating relevant standards
- Fair representation of performance

Valuation of assets

- Challenge the accounting treatments
- Seek explanations
- Seek appropriate professional advice

Valuation of assets – AASB13

Price that would be received to sell an asset or paid to transfer a liability.

Valuation techniques	Maximise observable inputs Minimise unobservable inputs	
	Market approach Income approach Cost approach	Fair value hierarchy Level 1,2 & 3

Valuation of assets – disclosure

Increased disclosure:

- Specialised assets
- Unobservable data
- Significant professional judgment

Major projects

- Governance – get informed
- Project Assurance Framework – it's time to check
- Business Case – scope change = refresh
- Accounting implications – review costs regularly

Major Projects - Governance

- Do you have systems for reporting on major projects?
- Are there regular presentations by project managers to Audit Committees?
- Are projects integrated with risk management practices and reporting?
- Challenge – don't rely on others to inform you, get informed.

Project Assurance Framework (PAF)

PAF stages

1. Strategic Assessment of Service Requirement
2. Preliminary Evaluation
3. Business Case Development
4. Supply Strategy Development
5. Source Supplier/s
6. Establish Service Capability
7. Deliver Service

- Revised PAF due soon
- Check that your internal policies and methodologies align

Major projects – business case

Legislative framework

- F&PMS - establishment of an asset mgt system
- F&PMS - must have regard to the PAF and VfM framework

QAO findings

- No formal business case prepared
- Project delivery method decision made before business case development
- Immature or inadequate benefits managements systems
- Business cases not refreshed following major scope change

Need to be on the look out for signals

Major projects – accounting implications

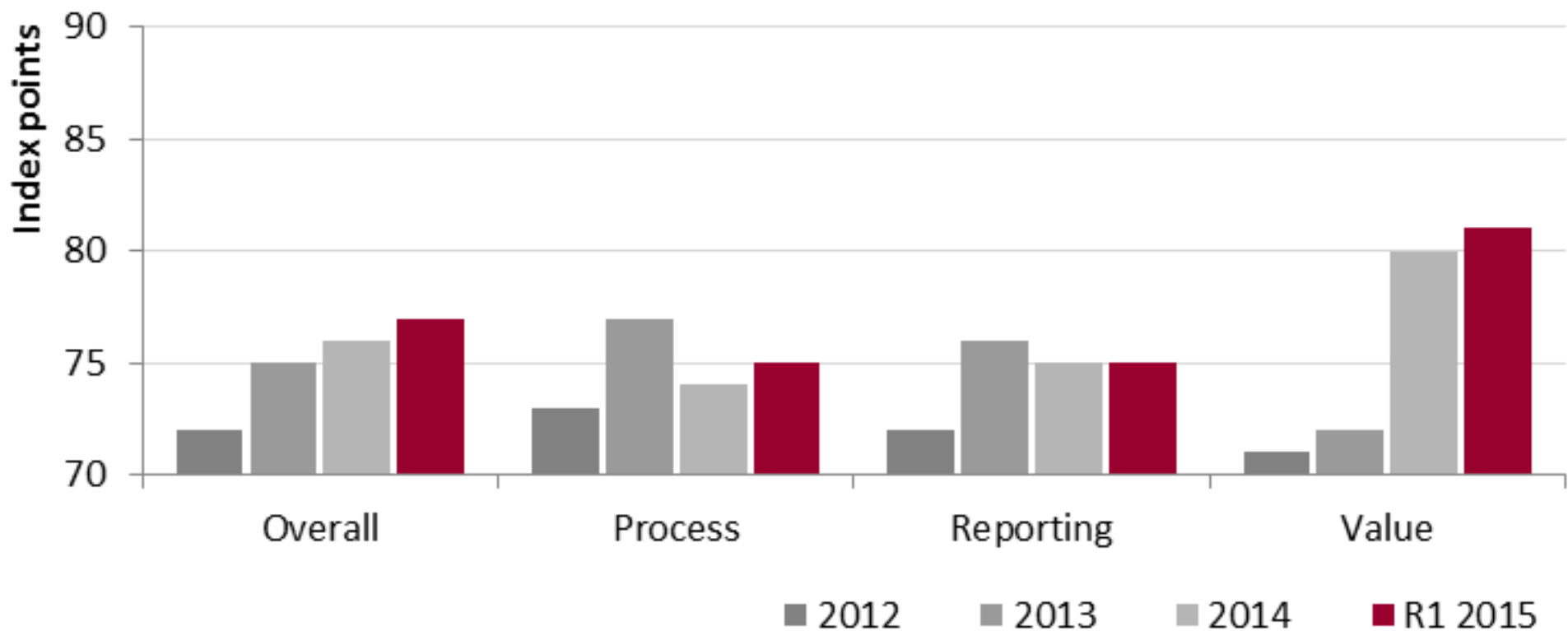
- Accounting treatment determined early
- Examine WIP balances from time to time
- Timely transfer of completed assets
- classification of costs - capital v operating
- Valuation of completed assets

Enhancing our client engagement

P Brahman, Assistant Auditor-General

Michael Booth, Assistant Auditor-General

Feedback from financial audit clients



Areas to sustain

97%

Professional conduct

↑ 2 points

94%

Management letters
communicate clearly

↑ 5 points

94%

Value the assurance

↑ 5 points

92%

Timely audit opinion

↑ 4 points

Client feedback – most improved

13
points

- Senior audit staff appropriately involved (89%)

9
points

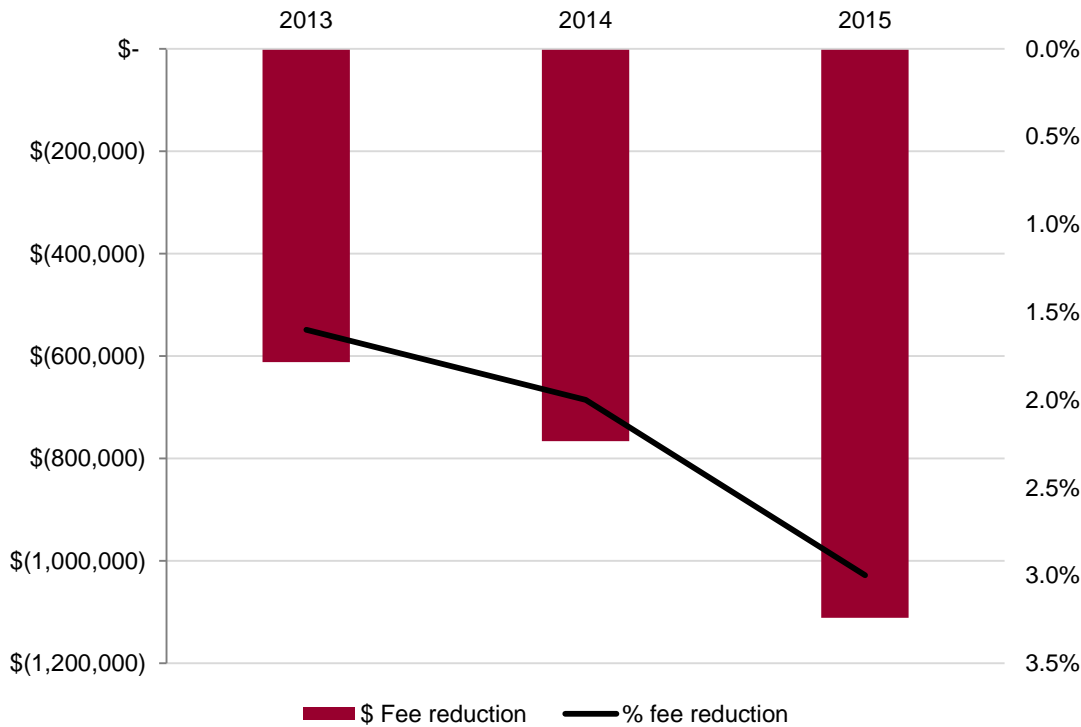
- Audit program undertaken in timely manner (87%)

6
points

- Opportunity to comment on management letter (90%)

Areas to improve

Fee reduction by audit year



54%

Audit fees reasonable

↑ 2 points

Areas to improve

71%

AG reports accurate

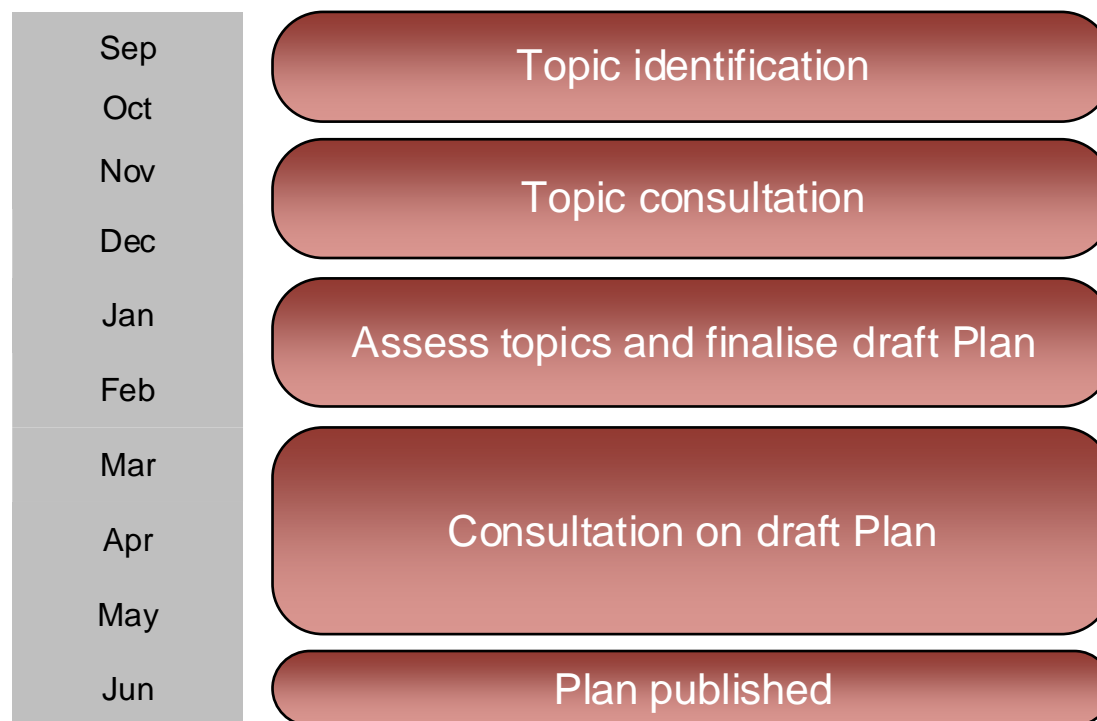
↓ 5 points

67%

AG reports
balanced / fair

↓ 8 points

Strategic audit planning process



www.qao.qld.gov.au/strategic-audit-plan

QAO business drivers

Relevance

Significance

QAO value

Future direction for QAO

Andrew Greaves
Auditor-General