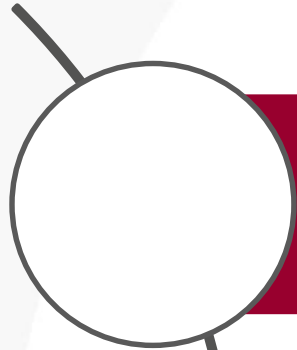


# Briefing for audit committee chairs

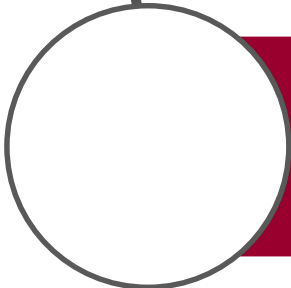
16 May 2017

*Better public services*

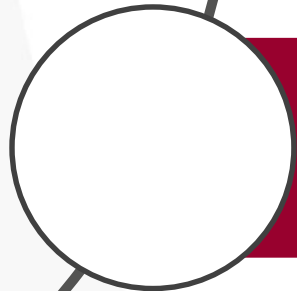
# Welcome and agenda



Strategic audit plan—topics for 2018-19



Technical update



Closing remarks—learnings from recent reports

# Performance audit update

Daniele Bird

Assistant Auditor-General, Performance Audit

QAO focuses its audit efforts on those areas where it can have greatest impact, and maximise the value to the community

A **strategic audit plan** is produced each year by June 30

→ includes prospective audit topics for the three subsequent years

Audit topics may be amended if priorities or risk change, and issues develop

# Proposed program 2017-18

## 2017-18

Investing for success

Monitoring and managing ICT projects

Finalising unpaid fines

Use of confidentiality clauses in government contracts

Fraud risk management

Implementing the National Disability Insurance Scheme

Digitising hospitals

Local government rating practices

Delivering social housing and housing services

## 2018–19

Conserving threatened species

Investing in vocational education and training

Cyber security

Effectiveness of the shared service model

Preventing and responding to domestic violence

Integrated care approach to chronic disease and high risk groups (such as the elderly)

Major projects and market-led proposals

Strategic asset management in local government

Delivering forensic services

Queensland Child Protection Commission of Inquiry

# Proposed program 2019-20

## 2019–20

Monitoring environmental conditions for mining activities	Capital asset management and planning
Managing oil and chemical spills	Managing the cost of local government services
	Development applications and approvals
School program for students with disability	Deploying police resources
Educating for the digital future	Diverting young offenders from crime
Open data	
Collecting state revenue	Monitoring and managing dam safety
Managing public trustee services	
Childhood obesity	
Health care pathways (waitlist management)	

## Consultation process

- Comment on proposed topics and the SAP report
- Meetings with sector directors and other QAO staff
- Discussing proposed and upcoming topics with your committee
- Providing feedback on existing topics and suggestions for new topics





QAO welcomes suggestions for audit topics from all our stakeholders

These can be made via an online form on the QAO website  
[www.qao.qld.gov.au/contact-us](http://www.qao.qld.gov.au/contact-us)

You can also contribute to a performance audit in progress  
[www.qao.qld.gov.au/audits/audits-in-progress](http://www.qao.qld.gov.au/audits/audits-in-progress)

## Contribute to a performance audit

Contribute to a performance audit which is currently in progress.

CONTRIBUTE



## Suggest a performance audit topic

Suggest a potential topic for a performance audit.

SUBMIT TOPIC



## Raise an issue about financial waste and mismanagement

Make a submission about public sector financial waste or mismanagement.

RAISE ISSUE



## Audits in progress

- Organisational structure and accountability Jun 2017
- Government advertising Jun 2017
- Security of critical water infrastructure Jun 2017
- Managing the mental health of police Jun 2017
- Education and employment outcomes for  
Aboriginal and Torres Strait Islander people Jun 2017
- Integrated transport planning Jul 2017

# 2016-17 tabled reports so far

[www.qao.qld.gov.au/reports-resources/parliament](http://www.qao.qld.gov.au/reports-resources/parliament)

Report number	Title	Tabled in Legislative Assembly
1	Strategic procurement	September 2016
2	Forecasting long-term sustainability of local government	October 2016
3	Follow-up: Monitoring and reporting performance	November 2016
4	Criminal justice data—prison sentences	November 2016
5	Energy: 2015-16 results of financial audits	November 2016
6	Rail and ports: 2015-16 results of financial audits	November 2016
7	Water: 2015-16 results of financial audits	December 2016
8	Queensland state government: 2015-16 results of financial audits	December 2016
9	Hospital and Health services: 2015-16 results of financial audits	January 2017
10	Efficient and effective use of high value medical equipment	February 2017
11	Audit of Aurukun school partnership arrangement	February 2017
12	Biosecurity Queensland's management of agricultural pests and diseases	March 2017
13	Local government entities: 2015-16 results of financial audits	April 2017
14	Criminal justice data—integration and reliability of data	April 2017
15	Managing performance of teachers in Queensland state schools	April 2017

Three–seven minute summary presentations for each report:  
[www.qao.qld.gov.au/reports-resources/parliament](http://www.qao.qld.gov.au/reports-resources/parliament)



## Managing performance of teachers in Queensland state schools (Report 15: 2016–17)

TABLED DATE: 28 April 2017

SECTOR(S): Education

This audit assessed whether the Department of Education and Training's performance review process for teachers, as part of its overall performance management framework, is improving teaching quality in Queensland state schools.

Teachers are our schools' most important resource. Research shows that effective teachers make the biggest difference to student outcomes after family background.



WATCH PRESENTATION



MORE INFO



**VIEW REPORT**  
Document (2.79 MB)

## Watch Presentation

RUNTIME:

4:01

Managing performance of teachers in Queensland state schools (Report 15: 2016–17)

### Report to parliament

**Managing the performance  
of teachers in Queensland  
state schools  
(Report 15: 2016–17)**



0:00 / 4:01

Tabled 28 April 2017



# Q&A

# Technical update



Karen Johnson  
Assistant Auditor-General,  
Specialist Audit Services



Key audit matter reporting

Related party disclosure

Lease recognition

Revenue recognition

Better practice guide—Valuing public infrastructure

Timeliness and quality of financial reporting

# Key Audit Matters — moving from trial to implementation

## State government

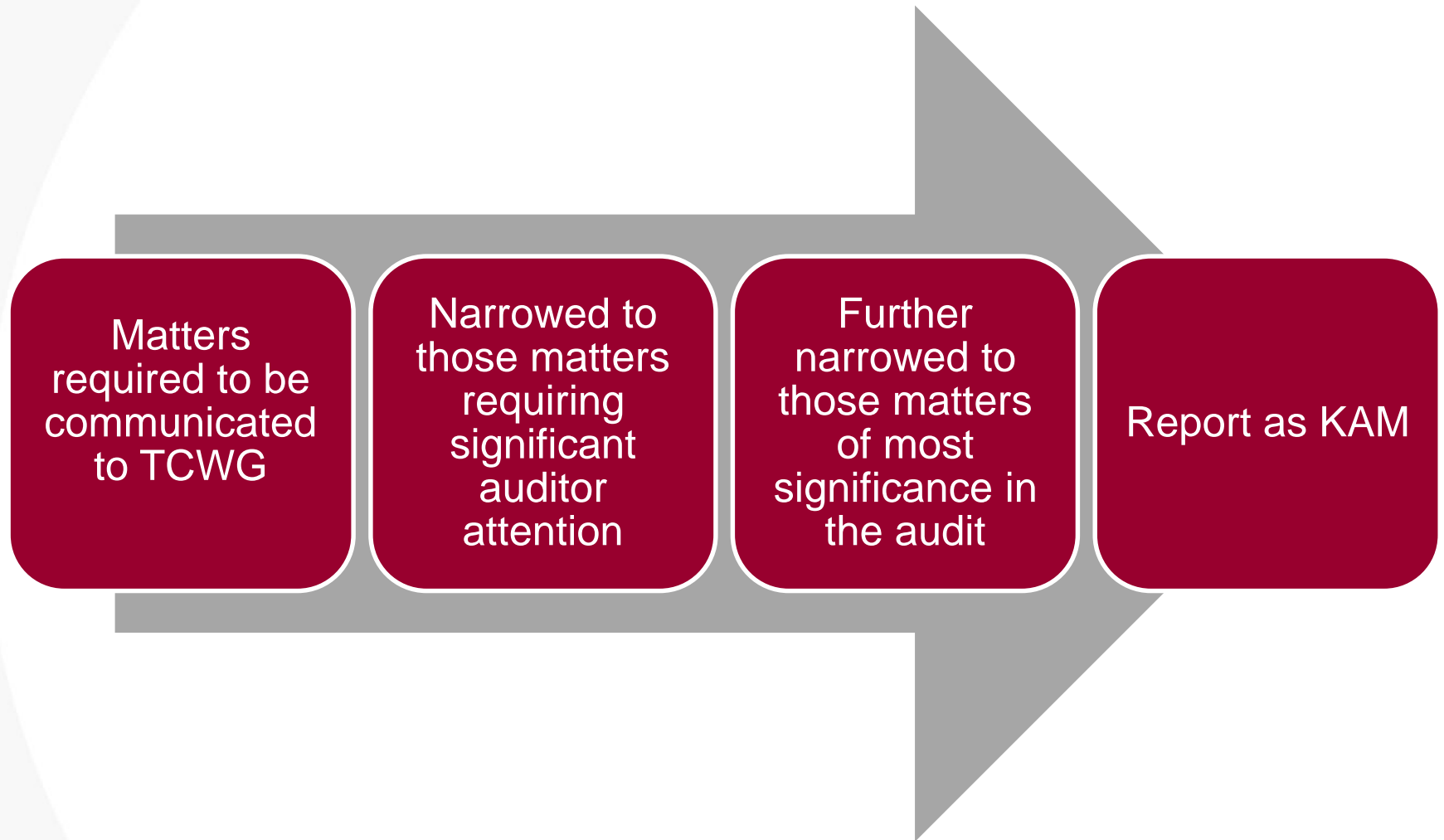


## Local government





# KAM decision process



## Details

- Why the matter was considered of most significance in the current year audit
- Must cross-reference to any relevant FS note disclosure

## Audit

- Our approach to the matter
- What we did (key audit procedures only—not necessarily all)

## Outcome

- How the matter was addressed in the audit
- No separate opinion expressed

## Other information

- Change in auditor responsibilities over the information reported in the annual report
- Change in process—we will work with management to ensure this is factored into deliverable timetables

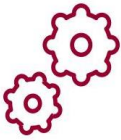
# Related party disclosure - Objective of AASB 124

‘...to ensure that an entity’s financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and profit or loss may have been affected by the existence of related parties and by transactions and outstanding balances, including commitments, such parties’



## Related Party Disclosures

- Remuneration of Key Management Personnel (KMP)
  - Ministers as KMP
- Transactions with KMP
- Transactions with WOG KMP
- Transactions with other related parties



- Process
  - identify
  - collect
  - analyse
  - report



- Disclosures
  - amount of the transactions
  - amount of outstanding balances
  - terms and conditions
  - other



- Materiality
  - Focused financial reporting
  - Normal citizen transactions / domestic or trivial
  - Normal terms and conditions

# Are you AASB 124 ready?

- ✓ Have the declarations been assessed to determine which transactions need to be disclosed?
- ✓ Has a pro-forma disclosure based on those transactions been prepared?
- ✓ Have the pro-forma disclosures been reviewed by QAO?
- ✓ Have the other disclosures required by the standard been considered?



# Are you AASB 124 ready?

- ✓ Do those charged with governance and senior executives (KMP) understand what is required by the related party disclosure requirements?
- ✓ Have declarations been obtained from all KMP as to related party relationships and transactions (excluding ordinary citizen transactions)?
- ✓ Do those charged with governance review the declaration to assess that they are reasonable and complete?





# Upcoming changes

**2016–17**

**AASB 124 Related  
Party Disclosures**

**New long form  
audit reports**

**AASB 9 Financial  
Instruments**

**2019–20**

**AASB 15 Revenue  
+ AASB 1058  
Income for NFPs**

**AASB 16 Leases**

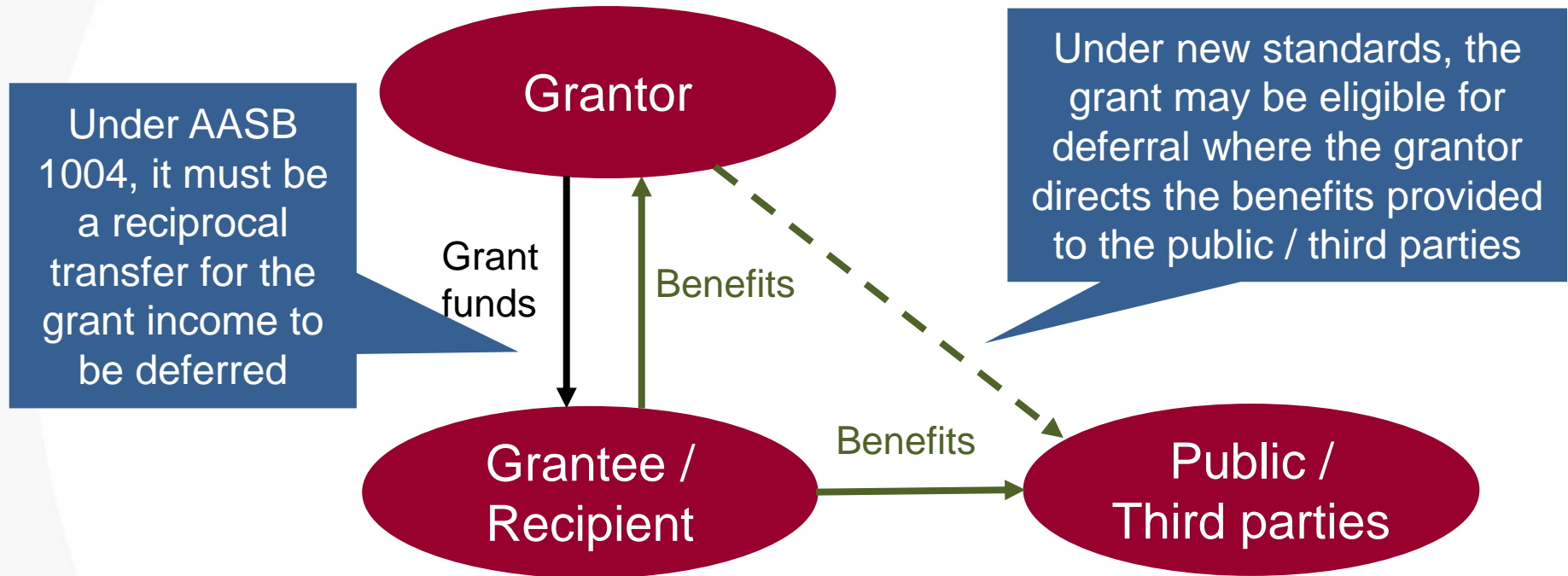
**Tier 2 / RDR  
Reduced  
Disclosure  
Requirements**

**Beyond**

**Reporting entities**

# Revenue recognition changes -Accounting for grant income

## Conceptual change from AASB 1004



# Are you AASB 1058 / AASB 15 ready?

- What are your revenue, income and grant sources?
- Which sources involve activities in a different financial year to when the money is received?
- How will your accounting change? E.g. from up-front to deferral?
- Do you have systems to determine how much to recognise and how much to defer)?
- Will you be preparing comparatives in the first year of application?



## Same accounting treatment as for finance leases

- Determine term
- Determine rental payments (cash flows)
- Determine discount rate



## Recognise

- Lease liability
  - lease interest
- Lease asset (right-to-use asset)
  - depreciation



# Are you AASB 16 ready?

- What operating leases do you have?
- Do any of them get excluded under the less than 12-month and low value (\$7 500 AUD) exemptions?
- Are you reasonably certain of exercising any options – even if at market value?
- How do your lease rentals change (e.g. CPI, fixed, market reviews)?
- When do your lease rentals change?



# Are you AASB 16 ready?

- Do you have an accounting system that can undertake the detailed calculations for rental adjustments?
- How will your balance sheet change with the extra assets and liabilities?
- How will your net profit change with the financing effect? I.e. your results change from lease accounting rather than underlying operations?
- Are your systems sufficient to meet the disclosure requirements?

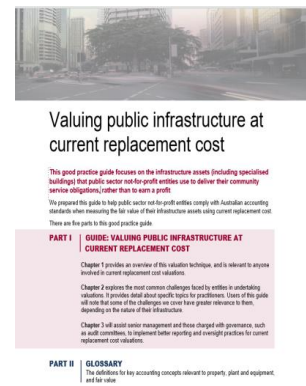


## Valuing public infrastructure at current replacement cost

### The guide:

- provides an overview of this valuation technique
- explores the most common challenges faced by entities in undertaking valuations. It provides detail about specific topics for practitioners
- assists senior management and those charged with governance, such as audit committees, to implement better reporting and oversight practices

[www.qao.qld.gov.au/assetvaluationguide](http://www.qao.qld.gov.au/assetvaluationguide)



# Available online in May 2017

[www.qao.qld.gov.au/Assetvaluationguide](http://www.qao.qld.gov.au/Assetvaluationguide)

## Valuing public infrastructure at current replacement cost

This good practice guide focuses on the infrastructure assets (including specialised buildings) that public sector not-for-profit entities use to deliver their community service obligations, rather than to earn a profit.

We prepared this guide to help public sector not-for-profit entities comply with Australian accounting standards when measuring the fair value of their infrastructure assets using current replacement cost.

There are five parts to this good practice guide.

### PART I | GUIDE: VALUING PUBLIC INFRASTRUCTURE AT CURRENT REPLACEMENT COST

Chapter 1 provides an overview of this valuation technique, and is relevant to anyone involved in current replacement cost valuations.

Chapter 2 explores the most common challenges faced by entities in undertaking valuations. It provides detail about specific topics for practitioners. Users of this guide will note that some of the challenges we cover have greater relevance to them, depending on the nature of their infrastructure.

Chapter 3 will assist senior management and those charged with governance, such as audit committees, to implement better reporting and oversight practices for current replacement cost valuations.

### PART II | GLOSSARY

Provides definitions for key accounting concepts relevant to property, plant and equipment, and fair value.

## Glossary: definitions for key accounting concepts relating to property, plant and equipment, and fair value

The document Valuing public infrastructure at current replacement cost (the Guide) helps not-for-profit entities comply with Australian accounting standards when measuring the fair value of their infrastructure assets (including specialised buildings) using current replacement cost.

An understanding of current replacement cost requires some pre-requisite, general knowledge of fair value, and the accounting requirements for property, plant and equipment.

To help readers who have less knowledge on these topics, this document provides detailed guidance about the key terms used in the Guide.

There are five parts to this good practice guide.

### PART I | GUIDE: VALUING PUBLIC INFRASTRUCTURE AT CURRENT REPLACEMENT COST

#### PART II | GLOSSARY

Provides definitions for key accounting concepts relevant to property, plant and equipment, and fair value.

#### PART III | APPLICATION OF CONCEPTS TO SPECIALISED BUILDINGS

Provides an example of practical application of current replacement cost valuation principles.

#### PART IV | APPLICATION OF CONCEPTS TO ROADS

Provides an example of practical applications of current replacement cost valuation principles.

#### PART V | APPLICATION OF CONCEPTS TO AUDIT COMMITTEE PAPERS

Provides examples of better practice.

## Roads—practical application of current replacement cost valuation principles

The document Valuing public infrastructure at current replacement cost (the Guide) helps public sector not-for-profit entities comply with Australian accounting standards when measuring the fair value of their infrastructure assets (including specialised buildings) using current replacement cost.

This supplementary material gives examples of how entities can apply the theory provided in the Guide to the valuation of roads. This supplement should be read in conjunction with the Guide.

An understanding of current replacement cost requires some pre-requisite knowledge about general fair value principles and the accounting requirements for property, plant and equipment.

To assist readers who have less knowledge about these topics, the supplementary document Definitions for key accounting concepts relevant to property, plant and equipment and fair value provides definitions of, and guidance about, the key terms used in this document.

There are five parts to this good practice guide.

### PART I | GUIDE: VALUING PUBLIC INFRASTRUCTURE AT CURRENT REPLACEMENT COST

#### PART II | GLOSSARY

Provides definitions for key accounting concepts relating to property, plant and equipment, and fair value.

#### PART III | APPLICATION OF CONCEPTS TO SPECIALISED BUILDINGS

Provides an example of practical application of current replacement cost valuation principles.

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## Specialised buildings—practical application of current replacement cost valuation principles

The document Valuing public infrastructure at current replacement cost (the Guide) helps public sector not-for-profit entities comply with Australian accounting standards when measuring the fair value of their infrastructure assets (including specialised buildings) using current replacement cost.

This supplementary material provides examples of how entities can apply the theory provided in the Guide to the valuation of specialised buildings, and should be read in conjunction with the Guide.

Specialised buildings are those with a specific purpose that a user cannot easily convert to achieve alternative economic objectives. Examples of properties generally accepted as being special-purpose include:

- schools and universities
- hospitals
- prisons
- police, fire and ambulance stations
- laboratories
- libraries, museums and galleries.

Specialised buildings do not include those that could provide equal or better value through an alternative use. The most common example of buildings with an alternative use (that is the highest and best use) are administration buildings for which there is competitive rental market.

An understanding of current replacement cost requires some pre-requisite knowledge about general fair value principles and the accounting requirements for property, plant and equipment. To help readers who have less knowledge of these topics, the supplementary document Definitions for key accounting concepts relevant to property, plant and equipment and fair value provides definitions of,

and guidance about, the key terms used in this document.

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## Audit committee papers—practical application of current replacement cost valuation principles

The document Valuing public infrastructure at current replacement cost (the Guide) helps public sector not-for-profit entities comply with Australian accounting standards when measuring the fair value of their infrastructure assets (including specialised buildings) using current replacement cost.

This supplementary material gives detailed examples of how entities can apply the theory provided in the Guide to the reports management provide those charged with governance. This supplement should be read in conjunction with the Guide.

The examples in this document are not templates. Rather, we have designed them to help entities generate ideas for improving their audit committee papers. Each entity needs to tailor its audit committee papers to address their specific circumstances.

An understanding of current replacement cost requires some prerequisite knowledge about general fair value principles and the accounting requirements for property, plant and equipment. To assist readers who have less knowledge about these topics, the supplementary document Glossary: definitions for key accounting concepts relevant to property, plant and equipment, and fair value provides definitions of, and guidance about, the key terms used in this document.

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Is your approach consistent with our explanation of the current replacement cost method?

What significant assumptions and estimates do you make? E.g. determining:

- replacement cost
  - cost of a substitute asset of comparable utility
- obsolescence
  - physical deterioration, remaining useful life, funding constraints on replacement
  - functional (technological) obsolescence
  - economic (external) obsolescence

Are these consistent with the guide?

Are your disclosures adequate?

What guidance would you like added

# Timeliness and quality of financial reporting



# How do we measure?

**Timeliness** is reflected in whether financial statements are prepared and audited within statutory deadlines

**Quality** is reflected in the type of audit opinion issued on the financial statements



However, we are now reporting on other measures that reflect on the timeliness and quality of financial reports.

Our rating	Timeliness of draft financial statements assessment
● Effective	Acceptable draft financial statements were received on or prior to the planned date
● Generally effective	Acceptable draft financial statements were received within two days after the planned date
● Ineffective	Acceptable draft financial statements were received greater than two days after the planned date

- Total revenue
- Total expenditure
- Net assets

Our rating	Quality of draft financial statements assessment
● Effective	No adjustments were required
● Generally effective	Adjustments for any of the three key financial statement components were less than five per cent
● Ineffective	Adjustments for any of the three key financial statement components were greater than five per cent

- Non-current asset valuations by 31 May
- Pro forma financial statements by 30 April
- Resolving known accounting issues by 30 April
- Completing early close processes
- Concluding all asset stocktakes by 30 June

Our rating	Year end close process assessment
● Effective	All five key processes were completed by the planned date
● Generally effective	Three of the five key processes were completed within two weeks of the planned date
● Ineffective	Less than three of the five key processes were completed within two weeks of the planned date

# New look parliamentary reports

Entity	Internal controls					Financial statement preparation		
	CE	RA	CA	IC	MA	YE	T	Q
<b>Entity type</b>								
Entity 1	●	●	●	●	●	●	●	●
Entity 2	●	●	●	●	●	●	●	●
Entity 3	●	●	●	●	●	●	●	●
Entity 4	●	●	●	●	●	●	●	●
Entity 5	●	●	●	●	●	●	●	●
Entity 6	●	●	●	●	●	●	●	●

- CE = control environment
- RA = risk assessment
- CA = controls activities
- IC = information communications
- MA = monitoring activities

- YE = Year end close processes
- T = timeliness
- Q = quality

# Q&A



# Closing remarks

Anthony Close  
Auditor-General (acting)

## Summary of strategic recommendations

- The auditor-general, or deputy auditor-general meets with the director-general or chief executive of each major client each year
- Funding for performance audits be doubled
- Review the 2016–17 fee budget for financial audits
- Amend the *Auditor-General Act 2009* around staff employment
- The independence of the Auditor-General be strengthened

## Stewardship

Vision and strategy  
Design and implementation  
Monitoring and review



## Performance

Economy and efficiency  
Cost effectiveness  
Equity and access

## Conformance

Financial regularity  
Probity and propriety  
Regulatory compliance

# Q&A

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*better public services*