



Queensland Audit Office  
*better public services*

# Queensland state government: 2016–17 results of financial audits

**Report 11: 2017–18**



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Front cover image is an edited photograph of Queensland Parliament, taken by QAO.

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## Reference to comments

In accordance with section 64 of the *Auditor-General Act 2009*, we provided a copy of this report to all relevant agencies, as per the list at Appendix A. In reaching our audit conclusions, we have considered their view and represented them to the extent we deemed relevant and warranted in preparing this report.

The responses received are in Appendix A.

## Report cost

This audit report cost \$130 000 to produce.

Your ref:  
Our ref: 11634



22 February 2018

The Honourable C Pitt MP  
Speaker of the Legislative Assembly  
Parliament House  
BRISBANE QLD 4000

Dear Mr Speaker

**Report to Parliament**

This report is prepared under Part 3 Division 3 of the *Auditor-General Act 2009*, and is titled *Queensland state government: 2016–17 results of financial audits* (Report 11: 2017–18).

In accordance with s.67 of the Act, would you please arrange for the report to be tabled in the Legislative Assembly.

Yours sincerely

A handwritten signature in black ink, appearing to read 'B. Worrall', is positioned above the printed name.

Brendan Worrall  
Auditor-General

## Report structure

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### **CHAPTER 1**

Provides an overview of Queensland Government sectors to assist readers in understanding the audit findings and conclusions.

### **CHAPTER 2**

Delivers the audit opinion results, and evaluates the timeliness and quality of reporting.

### **CHAPTER 3**

Analyses the financial performance, position, and sustainability of the Queensland Government's consolidated financial statements.

### **CHAPTER 4**

Assesses the strength of the internal controls designed, implemented, and maintained by departments.

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## Summary

This report summarises our financial audit results for all entities owned or controlled by the Queensland Government.

### Results of our audits

As at 31 October 2017, we had issued audit opinions on 224 sets of financial statements prepared by Queensland state public sector entities for the 2016–17 financial year.

We issued unmodified opinions on 96.4 per cent of these financial statements. We do this when the financial statements are prepared in accordance with the relevant legislative requirements and Australian accounting standards. In doing so, we confirm that readers can rely upon the audited financial statements of Queensland state public sector entities.

This is a slight improvement on the 2015–16 financial year, when we issued unmodified opinions on 94.8 per cent of financial statements.

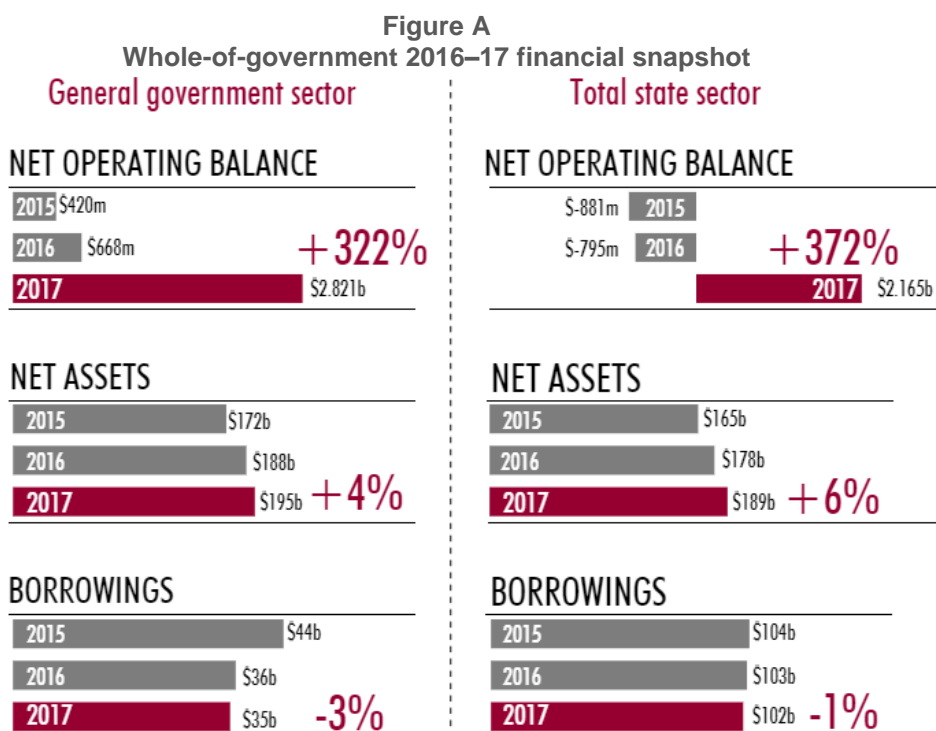
This year, 87.2 per cent of Queensland state public sector entities met their legislative timeframes for financial reporting, which was also a slight improvement on 2015–16 (84 per cent).

We also issued audit opinions on 15 of the 20 outstanding financial statements from previous reporting periods.

Government departments have generally improved their year end financial reporting processes. However, some entities could further improve the timeliness of obtaining valuations of property, plant, and equipment.

### Financial performance, position, and sustainability

Each year, the Treasurer prepares the Queensland Government's consolidated financial statements. These statements provide a complete view of the performance and position of the state government.



Source: Queensland Audit Office and state government financial statements 2015–16 and 2016–17.

The general government sector provides public services financed by taxes, fees, and charges. Examples include government departments and health and hospital services. The total state sector includes the general government sector as well as public non-financial corporations (such as Queensland Rail) and public financial corporations (such as the Queensland Treasury Corporation).

This year, both the general government sector and the total state sector reported surpluses in their operating balances. This was the fourth consecutive surplus for the general government sector and the first surplus in nine years for the total state sector.

These surpluses were underpinned by increases in revenue from royalties and Australian Government grants. The surplus for the total state sector was also supported by increased sales of goods and services by government owned corporations.

However, government is expected to incur additional expenditure in 2017–18 for the delivery of the Gold Coast 2018 Commonwealth Games and the response to recent natural disaster events.

The general government sector and total state sector also reported increases in their net assets this year. The increase in net assets was largely a result of:

- an increase in the value of property, plant, and equipment
- an increase in the value of the general government sector's investment in other public sector entities (general government sector only)
- an increase in the value of the state's investments in securities and other financial instruments (total state sector only)
- a decrease in borrowings and superannuation liabilities.

## Internal controls

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This year, we identified one significant deficiency in information and communication controls at the Department of State Development. Three arrangements (two dating back to 2002) had not been appropriately assessed for their accounting implications. It resulted in errors in prior periods that required correction this year. The department has since taken appropriate action to address the significant deficiency and strengthen internal controls.

Otherwise, we assessed the internal control systems of the 21 core departments as effective, which meant we were able to rely on the internal control systems used to produce financial statements.

Departments have resolved or are on track to resolve issues we have communicated within the agreed timeframes.

# 1. Context

This report covers all entities owned or controlled by the Queensland Government. We categorise Queensland Government entities into the three sectors of government that combine to make up the total state sector.

**Figure 1A**  
**Queensland Government sectors**

Total state sector			
Sector	General government sector	Public non-financial corporations	Public financial corporations
Services provided	Public services that are for the collective benefit of the community and are financed by way of taxes, fees, and other compulsory charges	Goods and services that are trading, non-regulatory, or non-financial in nature; and financed by way of sales of goods and services to consumers	Financial services, which may include central bank functions, savings deposits, investment fund management, and insurance services
Examples of entities	Government departments and hospital and health services	Queensland Rail Limited, Powerlink Queensland, and Port of Townsville Limited	Queensland Treasury Corporation, WorkCover Queensland, and QIC Limited

Source: Queensland Audit Office adapted from the Australian Bureau of Statistics' *Australian System of Government Finance Statistics: Concepts, Sources and Methods 2005*.



## 2. Results of our audits

### Introduction

This chapter examines the reliability of information reported by the entities that were subjected to audit. We also analyse the quality and timeliness of financial reporting.

### Conclusion

This year we have identified an overall improvement in the quality and timeliness of the financial statements for Queensland state public sector entities.

We issued unmodified audit opinions on 96.4 per cent of the financial statements prepared by Queensland public sector entities. This means we have determined that the financial statements are prepared in accordance with the relevant legislative requirements and standards, and that readers can rely on the results in the financial statements.

The Queensland Government's consolidated financial statements were also free from material misstatement. (A misstatement is material if it has the potential to influence the decisions made by users of the financial statements.) In addition, most financial statements were prepared within the legislative timeframes.

Most government departments have implemented, or are in the process of implementing, robust year end processes allowing them to produce good quality and timely financial statements. However, there is still some room for improvement.

The valuation of property, plant, and equipment continues to be the area that has the greatest impact on the quality and timeliness of financial statements prepared by government departments.

### Audit opinion results

Figure 2A details the audit opinions issued at 31 October 2017 on Queensland state public sector entities' financial statements.

**Figure 2A**  
Audit opinions issued for the 2016–17 financial year

Entity type	Unmodified opinions	Modified opinions	Opinions not yet issued
Departments and controlled entities	44	–	–
Government owned corporations and controlled entities	14	–	–
Statutory bodies and controlled entities	104	8	12
Audited by arrangement	52	–	–
Joint controlled entities	2	–	–
<b>Total</b>	<b>216</b>	<b>8</b>	<b>12</b>

Source: Queensland Audit Office.

By 31 October 2017, we had issued 94.9 per cent of the audit opinions for financial statements that required an audit for the 2016–17 financial year. This is consistent with the percentage of opinions issued on financial statements for the 2015–16 financial year by 31 October 2016 (94.8 per cent).

We issued unmodified opinions on 96.4 per cent of these financial statements. This is a slight improvement on the prior year, when 94.8 per cent of the financial statements received unmodified audit opinions.

Appendix E lists Queensland state public sector entities and the opinions issued on their financial statements.

Entities with opinions not yet issued are listed in Appendix H. These entities are small and are not included in the Queensland Government's consolidated financial statements.

## Emphases of matter

This year we issued 47 (2015–16: 49) unmodified audit opinions with emphasis of matter paragraphs. The most common types of paragraphs included in independent auditor's reports highlighted:

- where entities were allowed to prepare their financial statements using a framework that did not require full compliance with all elements of the Australian accounting standards
- disclosures in the financial statements identifying that entities were wound up (or may soon cease to exist) or had issues relating to their ability to operate as a going concern. (An entity is a going concern if it is expected to be able to pay its debts as and when they fall due.)

An *emphasis of matter* is a paragraph included with the audit opinion to highlight an issue of which the auditor believes the users of the financial statements need to be aware. The inclusion of an emphasis of matter paragraph does not modify the audit opinion.

## Modified opinions

We issue a modified opinion when financial statements do not comply with the relevant legislative requirements or Australian accounting standards. This means parts of the financial statements are not accurate or reliable.

Consistent with prior year results, the eight modified opinions we issued on financial statements for the 2016–17 financial year were for small water boards, drainage boards, and river improvement trusts. These small statutory bodies are not material to the Queensland Government's consolidated financial statements.

The main reasons we modified our opinions on these entities related to issues to do with the existence and measurement of property, plant, and equipment, and a general failure to comply with accounting standards in preparing the financial statements.

We also issued five modified opinions on financial statements prepared for prior financial years where the audits were only able to be completed during the current year. Three of these opinions were for the 2012–13, 2013–14 and 2014–15 financial statements of the same entity. In Appendix F, we have listed entities where opinions were issued this year on prior year financial statements.

## Entities exempt from audit by the auditor-general

The auditor-general may exempt a Queensland public sector entity from audit by the auditor-general for a financial year. Exempted entities are still required to engage an appropriately qualified person to conduct an audit of their financial statements.

This year, 25 Queensland state public sector entities were exempt from audit by the auditor-general. We have listed these entities in Appendix G.

## Entities not preparing financial statements

Not all public sector entities are required to prepare financial statements. This year, 43 entities were not required to prepare financial statements either by legislation or by the accounting standards. These are identified in the footnotes of Appendix E.

## Timeliness of financial reporting

Most Queensland public sector entities have a legislative timeframe within which to complete their financial statement audit. We have listed these timeframes in Appendix C. In total, 87.2 per cent met their legislative timeframe. This is an improvement on the prior year, when 84 per cent of entities met their legislative timeframe.

The entities that did not meet their legislative timeframe were not material to the Queensland Government's consolidated financial statements.

**Figure 2B**  
Entities that met and missed the legislative timeframes to complete audits

Entity type	Met the timeframe	Missed the timeframe	No legislative timeframes
Departments and controlled entities	41	–	3
Government owned corporations and controlled entities	14	–	–
Statutory bodies and controlled entities	99	24	1
Audited by arrangement	7	–	45
Joint controlled entities	2	–	–
<b>Total</b>	<b>163</b>	<b>24</b>	<b>49</b>

Source: Queensland Audit Office.

## Financial statement preparation

This year, we have seen improvements in the year end close processes and the timeliness and quality of financial statements for the 21 core departments. It is essential that departments continue to work to complete key processes earlier and increase the quality of financial statements.

Our assessment criteria are outlined in Appendix D.

## Year end close process



All 21 departments have taken steps to implement effective year end processes, with 16 departments able to achieve all outcomes by the planned dates.

The remaining five departments experienced delays in valuing their property, plant and equipment. The average date on which the valuations were completed for these five departments was 13 June 2017 (2015–16: 24 July 2016).

The valuation of non-current assets by departments can require significant judgement and estimation due to the absence of available market prices for equivalent assets. Completing the valuations early allows the preparers and auditors of financial statements sufficient time to review the calculations, judgements, and assumptions used. It also reduces the potential for adjustments to draft financial statements. We encourage departments to continue to complete their valuations of material assets earlier with the aim of achieving a target date of 31 March in future years.

## Timeliness of draft financial statements

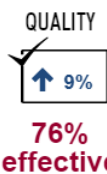


All departments produced complete draft financial statements by the dates agreed with their auditors. Last year, we reported that 17 departments completed their draft financial statements by the agreed dates.

This indicates that departments have improved the effectiveness of their financial management processes and year end processes. However, the financial statements for 12 of the 21 departments were only certified by the Queensland Audit Office on 31 August 2017, with a further six certified on either 29 or 30 August. This indicates there is still capacity for departments to prepare draft financial statements earlier in future years.

The timing of final audit committee meetings for providing clearance on financial statements also impacts on the certification date of the financial statements by both management and audit. We encourage departments to consider bringing forward the date of these meetings where possible.

## Quality of draft financial statements



Sixteen departments prepared good quality, complete draft financial statements that did not require any adjustments to revenue, expense, or net asset balances.

A significant adjustment (an adjustment of greater than five per cent) was made to the net assets reported by the Department of State Development. This was due to the late recognition of a deferred appropriation payable to the consolidated fund, representing the return of funds received (related to prior period errors).

Four other departments adjusted their draft financial statements by amounts that were not material (that is, less than five per cent of the reported balance). We do not expect adjustments to be made to financial statements unless they are material, as such changes would not impact on a user's understanding of the financial statements or the audit opinion we issue on the financial statements. However, making the changes may impact on the overall timeliness and cost of the financial statement process and increases the risk of preparation errors occurring in the financial statements.

## Prior period corrections

The accounting standards may require entities to correct or adjust prior year figures in the current financial statements. The need for these corrections or adjustments may be identified by the entity in preparing its financial statements, or detected through current year audit testing.

The extent of corrections made to amounts reported in the financial statements for prior years is another measure of the quality of financial statements as it may indicate the existence of issues with the reliability of financial reporting processes.

Figure 2C details the most material prior period corrections in departmental financial statements for 2016–17.

**Figure 2C**  
**Prior period corrections**

Entity	Details
Department of Transport and Main Roads	<p>The Department of Transport and Main Roads applies a complex methodology requiring significant judgement and estimation in valuing its road infrastructure assets. In reviewing the application of the valuation methodology in 2016–17, three corrections were made to the balances reported in the 2015–16 financial statements. These corrections related to:</p> <ul style="list-style-type: none"> <li>▪ road assets decommissioned during 2016–17 were both written-off and full-depreciated resulting in an overstatement of expenses</li> <li>▪ a detailed assessment of construction costs for the Moreton Bay Rail Link identified that costs assigned to assets controlled by other entities were recognised as property, plant, and equipment by the department rather than expenses</li> <li>▪ a review of unit rates used in the previous year’s valuation identified the incorrect assignment of market rates for formation earthworks in new construction projects.</li> </ul> <p>These corrections resulted in a \$156.3 million increase in expenses and a \$3.64 billion decrease in property, plant, and equipment at 30 June 2016. The department has since revised processes to ensure that decommissioned assets form part of the annual depreciation expense review; costs incurred on third party assets are identified at the commencement stage of such projects; and the correct market rates are used in road valuation inputs.</p>
Department of State Development	<p>Corrections were made relating to three contractual arrangements (two dating back to 2002) that had not been appropriately assessed for their accounting implications.</p> <p>The corrections resulted in a \$207 million decrease in total assets as at 30 June 2016.</p> <p>The department has since strengthened internal controls related to record keeping and communication of contractual arrangements, resulting in comprehensive assessments of accounting treatments.</p>

Source: Queensland Audit Office.

## Key audit matters

The Australian Auditing and Assurance Standards Board has introduced a new auditing standard—ASA 701 *Communicating Key Audit Matters in the Independent Auditor’s Report* for audits of listed entities.

Key audit matters are those areas that, in our professional judgement, pose a higher risk of material misstatement. These matters mostly relate to major events and transactions that occur during the period, and to those areas requiring significant accounting judgement and estimation. They do not impact on the audit opinion issued on the financial statements.

We voluntarily included 61 key audit matters in our independent auditor's reports for 44 state entities that we considered to be public interest entities. Our independent auditor's reports identified why the key audit matters were considered significant and the procedures we performed to address the matters.

Over 70 per cent of the key audit matters we included in our independent auditor's reports related to the valuation and depreciation of non-current assets. As previously identified in this report, the valuation of public sector assets often requires significant judgement and estimation. Likewise, these areas often require significant auditor attention in completing the audit.

Other common key audit matters identified in our independent auditor's reports included:

- recognition and measurement of revenue
- measurement of provisions, for example, provisions for outstanding insurance claims
- classification and measurement of financial instruments, for example, the valuation of derivative financial instruments.

Appendix E identifies those entities where the independent auditor's report included a key audit matter.

## Related party disclosures

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The Australian accounting standard AASB 124 *Related Party Disclosures* now applies to not-for-profit entities. The purpose of this accounting standard is to increase the transparency of related party transactions and relationships that could affect the financial position or performance of an entity. The standard was amended to provide additional guidance on applying the definition of key management personnel (KMP) and their related parties.

Key disclosures required by AASB 124 include:

- compensation of KMP
- information about material related party transactions and balances, including the nature of the related party relationship.

AASB 124 provides exemptions in disclosing related party transactions and balances between government-related entities.

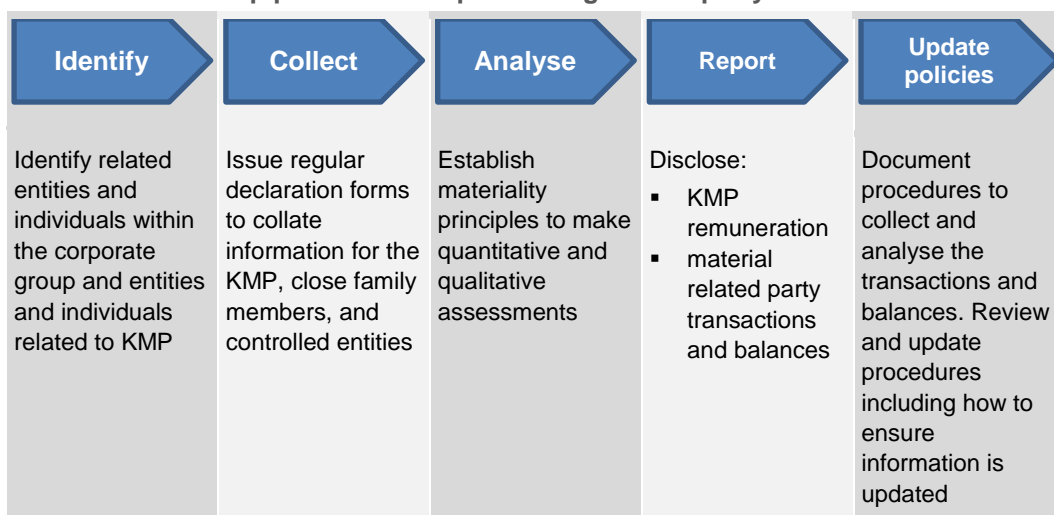
Overall, we found that all agencies materially complied with the requirements of AASB 124 in preparing their 2016–17 financial statements. Material related party transactions disclosed by agencies included transactions with other Queensland Government-controlled entities that were on normal commercial terms and with conditions no more favourable than those given to other customers. Examples include the leasing of a business premise, and shared service provider expenditure.

One of the main challenges identified in implementing the standard was the collection and assessment of related party information for KMP, including transactions with their close family members.

The definition of KMP included in AASB 124 also extended to government ministers. Government ministers were not previously considered to be KMP of either government entities or the government. This required new processes to be developed for obtaining and assessing related party information for government ministers.

We provided agencies with a five-step process to assist with implementing the new standard.

**Figure 2D**  
**Five-step process for implementing related party disclosures**



Source: Queensland Audit Office.

Queensland Treasury also issued guidance in its *Financial Reporting Requirements for Queensland Government Agencies*, including a recommended declaration form for the collection of related party information of KMP. A separate process was also developed by Queensland Treasury and the Department of the Premier and Cabinet for the collection and assessment of related party information from ministers.

We found that the majority of Queensland Government agencies used these, or similar, declarations to collect the required related party information from their KMP. However, we also identified a small number of agencies where the level of information provided for close family members of KMP was insufficient for us to assess whether material related party transactions existed. This required us to work with the agencies and the KMP to obtain additional information to enable us to make this assessment, and ensure that all material relationships and transactions were identified and disclosed.

Other than the disclosure of KMP compensation, there were no material KMP related party transactions and balances requiring disclosure in the Queensland Government's consolidated financial statements.

We encourage all agencies to review the processes they adopted for gathering related party information to ensure they remain appropriate. This should include an assessment of any additional processes required to collect related party information where there are changes to KMP or due to other changes, such as restructuring of agencies as part of recent machinery of government changes.

We will continue to work with Queensland Treasury and agencies to identify any enhancements to the processes adopted. This will ensure agencies use the most effective and efficient means for collecting the required level of information to comply with AASB 124.

## Queensland Government's consolidated financial statements

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The Treasurer prepares the Queensland Government's consolidated financial statements annually. These statements provide a consolidated view of the financial position and performance of the state government.

The financial statements are prepared in accordance with the *Financial Accountability Act 2009* and Australian accounting standards including AASB 1049 *Whole of Government and General Government Sector Financial Reporting*.

### Result of our audit

The Queensland Government's consolidated financial statements and the supporting work papers prepared by Queensland Treasury were of an appropriate standard and we did not identify any material errors in the consolidation process.

On 20 October 2017, we issued an unmodified audit opinion on the 2016–17 Queensland Government's consolidated financial statements.

## Consolidated fund financial report

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The *Financial Accountability Act 2009* requires the Treasurer to keep ledger accounts for the consolidated fund operating and investment accounts. The *Consolidated Fund Financial Report* (the report) records amounts received into and paid out of these accounts during the financial year.

### Result of our audit

We issued an unmodified audit opinion on the report on 1 September 2017, which was within the legislative deadline of 30 September 2017. Our independent audit report included an emphasis of matter paragraph to draw attention to the fact that the report was prepared on a cash basis.

## Public reports of ministerial expenses

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Ministers and assistant ministers of the government have staff and resources to assist them in the performance of their duties. The *Financial Accountability Act 2009* requires the Department of the Premier and Cabinet to prepare a public report of ministerial expenses annually.

The *Opposition Handbook* also requires the Leader of the Opposition to prepare, and have audited, an annual report of expenditure each financial year.

### Results of our audits

We issued an unmodified audit opinion on the *Public Report of Ministerial Expenses* and the *Public Report of Office Expenses of the Leader of the Opposition* on 24 August 2017.

Our independent audit reports included an emphasis of matter paragraph to draw attention to the fact that these reports are prepared to fulfil the Premier's financial reporting responsibilities under the *Financial Accountability Act* and the *Queensland Ministerial Handbook*.



## Impact of machinery of government (MoG) changes in 2017–18

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The transfer of functions between departments are commonly referred to as machinery of government (MoG) changes. On 12 December 2017 the government announced several changes to the functions administered by existing departments.

These changes were affected through:

- Administrative Arrangements Order (No. 3) 2017 as made by Governor in Council
- The Public Service Departmental Arrangements Notice (No. 3) 2017 as issued by the Public Service Commission.

The MoG changes included:

- abolishing three departments and transferring their functions to other departments (Department of Energy and Water Supply; Department of National Parks, Sport and Racing; and Department of Science, Information Technology and Innovation)
- creating three new departments and transferring to them functions previously performed by other departments (Department of Child Safety, Youth and Women; Department of Employment, Small Business and Training, and Queensland Corrective Services)
- redistributing functions between a further 12 existing departments with seven of the departments renamed.

Six of the existing departments were not impacted by these MoG changes.

The implementation of MoG changes by departments can have a significant impact on the efficiency and effectiveness of their operations. Given the potential wide-ranging impact of these changes, the affected departments need to consider all aspects of the changes and implement a formal, planned approach to help them identify, manage and monitor the associated risks at both an operational and strategic level.

Common areas that should be considered and addressed as part of this process include:

- developing a formal transition plan identifying the required changes and assigning clear lines of responsibility for driving the process
- assessing the impact of the changes on the organisational structure and existing governance and accountability arrangements
- reviewing and, where necessary, updating corporate plans, policies, performance measures and delegations
- managing the transfer of records
- considering and addressing the impact of changes on staff
- assessing budget implications
- considering how financial, human resource and other key systems will operate under the restructured departmental arrangements
- reviewing internal controls to ensure they are continuing to operate effectively and efficiently
- recording, identifying and reviewing issues previously raised by internal and external audit.

The Queensland Audit Office has developed a Checklist for managing machinery of government (MoG) changes, which provides guidance on some of the most common and important issues that arise during MoG changes. The checklist is included in Appendix K and is available on our website.

These MoG changes will also have a significant impact on financial reporting by affected departments for the 2017–18 financial year and will require the following financial reports to be prepared:

- Abolished departments are to prepare final financial statements from the commencement of the financial year to the date they were abolished, 12 December 2017.
- New departments are to prepare financial statements from their date of creation, 12 December 2017, to the end of the financial year.
- Continuing departments are to prepare financial statements for the full financial year but may need to include additional disclosures around the MoG changes.

As part of the MoG process, departments are required to negotiate and agree on asset and liability balances to be transferred. Queensland Treasury have published *Guidelines for Machinery of Government (MoG) changes*, which provides guidance on this process. The guidelines include a specific MoG Transfer Sign-Off Form to be signed by the accountable officers of both the receiving and transferring departments as evidence of agreed MoG transfers.

The *Financial Reporting Requirements for Queensland Government Agencies*, issued by Queensland Treasury, state that it is expected that departments carry out substantial valuation work to ensure that asset values transferred are representative of their value at date of transfer. This may require affected departments to bring forward planned work for revaluing assets.

Agreement on the value of asset and liability balances to be transferred as part of MoG changes has the potential to significantly impact on the timeliness and quality of departmental financial reports for the 2017–18 financial year. Accordingly, it is important that departments are able to identify and agree on these balances as soon as practicable after the MoG changes take place. The work to be performed and the expected timeframes for completion should be incorporated by departments into financial statement timetables for 2017–18.

## 3. Financial position, performance, and sustainability

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### Introduction

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In this chapter we assess the position, performance, and financial sustainability of the Queensland Government.

The information in the Queensland Government's consolidated financial statements describes its main transactions and events for the year. Over time, financial statements also help users to understand the sustainability of the Queensland Government.

Our analysis helps users understand and use the financial statements by clarifying the financial effects of significant transactions and events in 2016–17. We also use ratios to analyse the government's financial performance, position, and sustainability.

Additionally, our analysis alerts users to future challenges, including existing and emerging risks the government faces.

### Conclusion

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The general government sector and the total state sector both reported improvements in their financial performance and position this year.

The general government sector (for example, government departments and health and hospital services) provides public services financed by taxes, fees, and charges.

The total state sector includes the general government sector as well as public non-financial corporations (such as Queensland Rail) and public financial corporations (such as the Queensland Treasury Corporation).

The general government sector reported its fourth consecutive operating surplus while the total state sector reported its first surplus in nine years. These results were largely driven by increases in revenue from royalties, Australian Government grants, and sales of goods and services.

The net worth (excess of assets over liabilities) of both the general government sector and total state sector also increased this year. This increase was largely the result of increases in the value of property, plant, and equipment and investments held by the state, and decreases in government borrowings and superannuation liabilities.

In the 2017–18 financial year, the government is expected to incur additional expenditure relating to the Gold Coast 2018 Commonwealth Games and in addressing the impacts of natural disasters that occurred in 2016–17. In future years, the government will also need to fund increased commitments for operating leases and net cash outflows from public private partnerships. (These are agreements entered into with private sector entities for the delivery of government services.)

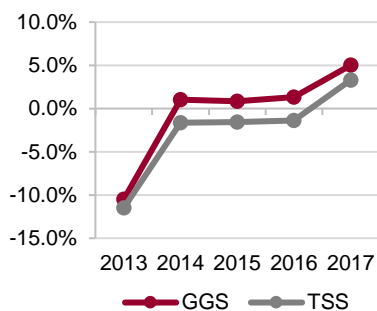
New accounting standards to be applied in future financial years are likely to change the way government entities recognise revenue and record on the balance sheet significant liabilities that are currently not appearing on the balance sheet. Some financial ratios and performance measures could be affected. These changes are complex and require agencies to start planning now.

## Understanding financial performance

The net operating balance for the general government sector was a surplus of \$2.8 billion. This means the government earned more than the expenses it incurred. This is the fourth consecutive year of surpluses. This result was \$2 billion higher than the published 2016–17 budget estimate due to a significant increase in royalty revenue driven by higher than expected coal prices.

The total state sector recorded a net operating balance surplus of \$2.2 billion—the first surplus in nine years. The performance of the general government sector contributed to this positive result, along with strong financial performance in sales of goods and services from the government owned corporations.

**Figure 3A**  
Operating ratio



Note: GGS—general government sector; TSS—total state sector.

Source: *State government financial statements for 2016–17.*

### Operating ratio

The operating ratio is the operating result, expressed as a percentage of total revenue. It shows the capacity to meet recurrent operating expenses from recurrent operating revenue. A positive ratio indicates funds are also available for capital expenditure and for reducing liabilities.

The operating ratio is a key indicator of the strength of financial performance, and should be positive over the medium to longer term if the government is to remain financially sustainable.

In 2016–17, the operating ratio for the general government sector was five per cent, up four per cent on the prior year.

The operating ratio for the total state sector was also positive this year.

## Revenue

General government sector revenue increased by \$5.4 billion to \$56.2 billion. Revenue for the total state sector increased by \$7.9 billion to \$65.6 billion. This represents an increase of 14 per cent from last year.

The Queensland Government has a number of revenue sources, with taxation, grant revenue, and sales of goods and services making up 89 per cent of the total revenue. Some revenue sources, such as Australian Government grants and royalties, are significantly influenced by factors outside of the government’s economic policies and pricing.

**Figure 3B**  
Major revenue for the total state sector in 2016–17



Source: *Queensland Government’s consolidated financial statements for 2016–17.*

## Events and transactions affecting revenue this year

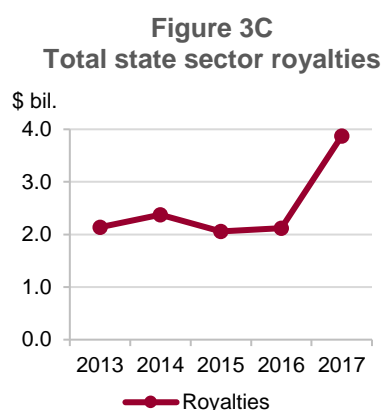
### Commonwealth grants

The amount of grant funding received by the state is dependent on the Australian Government. While the Queensland Government can spend GST revenue at its own discretion, other grant funding must be spent to achieve specific objectives such as health, education, and disaster recovery.

This year, the Queensland Government received \$27 billion in grants from the Australian Government. GST grant revenue increased by six per cent to \$13.9 billion. National partnership grants also increased by \$1.4 billion to \$3.2 billion. This was mostly due to the state receiving \$1.1 billion in outstanding funding for National Disaster Relief and Recovery Arrangements from the 2015–16 financial year.

### Sales of goods and services

Public non-financial corporations had an 18 per cent increase in goods and services revenue. For energy sector entities, higher energy production, transmission network usage, and wholesale energy prices were the main drivers of revenue increases. Water entities also had higher revenue from water pricing increases across the sector and from additional consumer demand due to population growth. The rail and ports sector revenue decreased by two per cent. This was mostly due to lower revenue from rail network access.



Source: State government financial statements for 2016–17.

### Royalties

Royalties are payments made to the Queensland Government for the right to extract petroleum, gas and most minerals.

Royalty revenue increased by \$1.8 billion to \$3.9 billion. This was due to coal prices increasing significantly in the first half of the financial year. Although coal prices started to decrease from December 2016, they remained higher on average compared to the prior financial year.

In total, royalties exceeded the 2016–17 state budget estimate by approximately \$2 billion. The additional funds have been used to reduce debt and fund the additional expenditure measures detailed in the mid-year fiscal and economic review issued by the Treasurer in December 2016.

## Future challenges and emerging risks

### New accounting standards—AASB 15 *Revenue from Contracts with Customers* and AASB 1058 *Income of Not-for-Profit Entities*

These two new accounting standards come into effect for most not-for-profit government entities for financial years commencing on or after 1 January 2019. AASB 15 applies to for-profit government entities from 1 January 2018. For some entities, accounting for revenue under these standards will be more complex, will require more judgement than before, and may change the timing of when they are allowed to record revenue in their financial statements.

AASB 15 may require entities to exercise significant judgement in determining if contracts with customers contain performance obligations that need to be fulfilled before recognising revenue. This is most likely to impact on entities that generate revenue from the provision of goods and services.

Under the new standards, not-for-profit entities may be able to defer the recognition of grant revenue; however, the circumstances are restricted. Under the existing standard, grants are normally recognised as revenue on receipt, with related expenses being recognised in later financial years, leading to a mismatch in financial results.

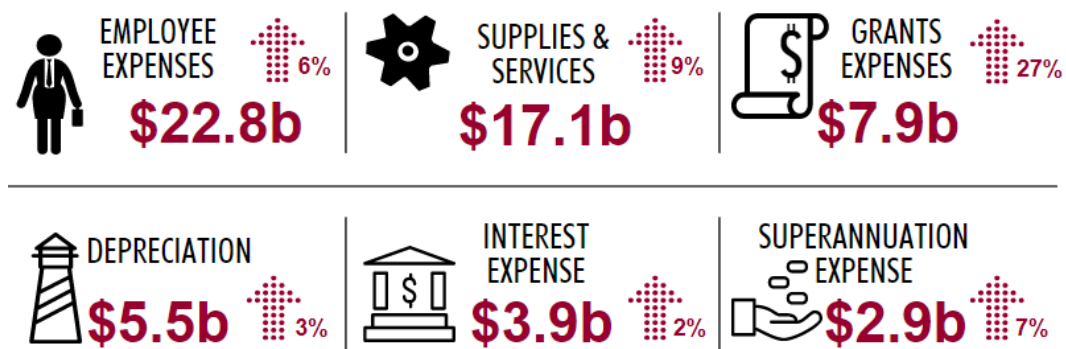
Given the variety of revenue sources, the large number of arrangements in place across government, and the complexity of the new standards, government entities should not underestimate the effort required to implement these new standards. It may require changes in systems, processes, accounting policies, and in some instances, contracts.

The new standards have to be applied retrospectively. This means government entities need to assess the impact of the new standards on their revenue recognition now, to ensure they are able to restate prior year revenue balances in the first year of implementation.

## Expenses

Expenses for the total state sector increased by \$5 billion to \$63.4 billion. General government sector expenses increased by seven per cent, which was in line with the state budget for 2016–17. The Queensland Government’s consolidated financial statements reported a total of 241 470 full-time equivalent employees within entities consolidated in the total state sector at 30 June 2017. This was an increase of three per cent from 30 June 2016.

**Figure 3D**  
Major expenses for the total state sector in 2016–17

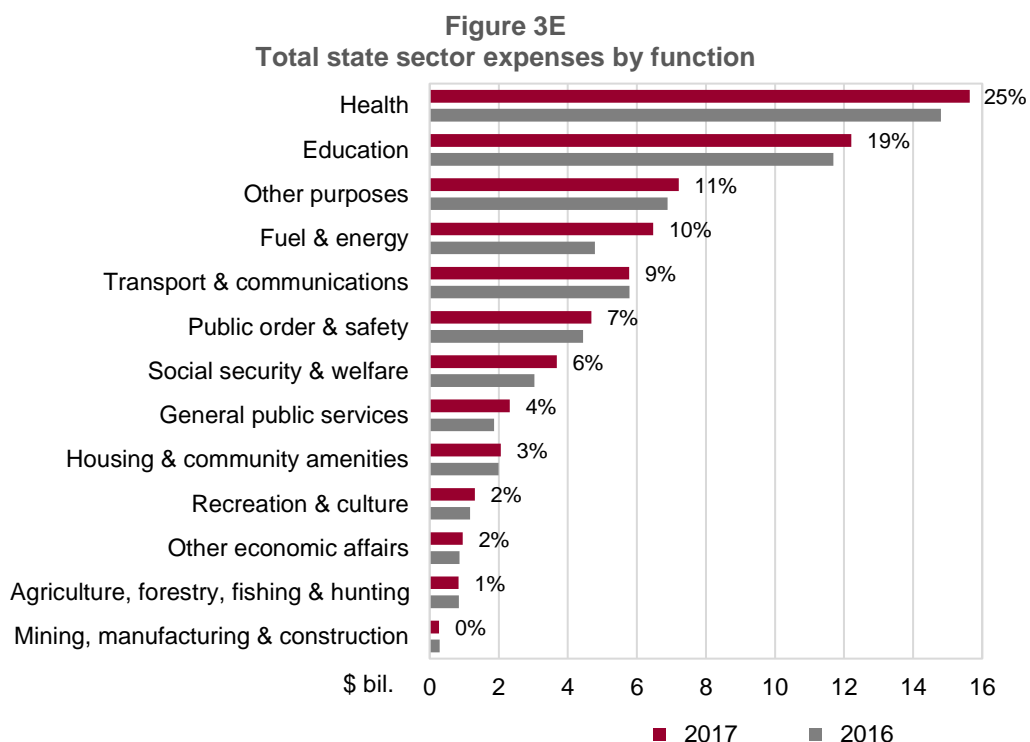


Source: Queensland Government’s consolidated financial statements for 2016–17.

## Events and transactions affecting expenses this year

### Expenses by function of government

Health, education, fuel and energy, and social security and welfare reported the largest increases in spending this year. Of all functions provided by government, health and education continue to have the highest expenses.



Source: Queensland Government’s consolidated financial statements for 2016–17.

### Grants expenses

The largest relative increase in expenses this year occurred in grants expenses in the general government sector, which increased by \$1.7 billion to \$8.6 billion. This 25 per cent increase was mostly driven by:

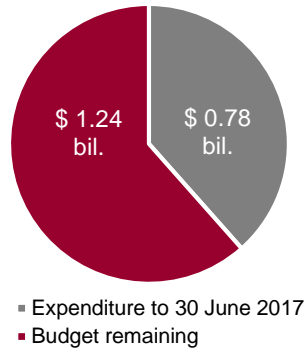
- paying the \$771 million electricity affordability grant to Energy Queensland
- early passing on of the 2017–18 Australian Government financial assistance grant to local governments (\$233 million)
- distributing \$199 million to local governments under the Works for Queensland program.

## Events and transactions affecting expenses in 2017–18

### Gold Coast 2018 Commonwealth Games

The Gold Coast 2018 Commonwealth Games (GC2018) will be held over 11 days in April 2018.

**Figure 3F**  
GC2018 expenditure budget



Source: Queensland Audit Office.

The Department of Innovation, Tourism Industry Development and the Commonwealth Games (DITID) (formerly the Department of Tourism, Major Events, Small Business and the Commonwealth Games) provides central oversight of program activities and the games budget.

While the timing of expenditure was revised in 2016–17, there were minimal changes to the approved games budget.

Significant expenditure incurred to date has related to capital works for the venues and the Commonwealth Games Village, and to planning at DITID and the Gold Coast 2018 Commonwealth Games Corporation. Approximately 62 per cent of the budget remains, with most of this expenditure to be incurred closer to the delivery of the GC2018 in 2017–18.

### Severe Tropical Cyclone Debbie

During the 2016–17 financial year, 62 councils in Queensland were affected by seven weather-related events that activated the Natural Disaster Relief and Recovery Arrangements (NDRRA). This included Severe Tropical Cyclone Debbie, which affected areas in Queensland from the Whitsunday region to the New South Wales border.

The 2017–18 budget papers estimated the future expenditure for this year’s natural disasters to be \$1.3 billion (2016: \$406 million). This excludes the economic costs to the state.

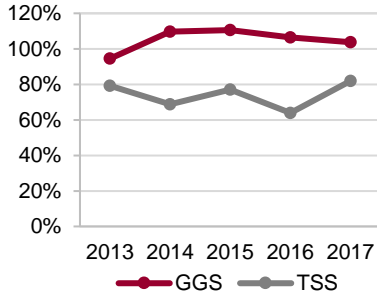
The Australian Government provides financial assistance to the Queensland Government through the NDRRA. This assistance supports recovery (after natural disasters) that is mostly used in the restoration of state and local government roads and other public infrastructure. The Australian Government reimburses up to 75 per cent of eligible costs incurred by the Queensland Government.

## Understanding financial position

The general government sector’s net worth (excess of assets over liabilities) increased by \$6.8 billion to \$194.9 billion. The main changes since last year were increases in the value of property, plant, and equipment and investments in public sector entities; and a reduction the value of the superannuation liability.



**Figure 3G**  
**Current ratio**



Source: State government financial statements for 2016–17.

The net worth of the total state sector also increased by \$10.4 billion to \$188.7 billion. The main changes from last year were increases in the value of property, plant, and equipment and investments in securities, including investments managed by QIC Limited; and reductions in the government’s superannuation liability and the value of Queensland Government bond liabilities.

The general government sector had a current ratio greater than 100 per cent for the fourth year in a row. This means their current assets exceeded the liabilities that fall due in the next 12-month period.

The total state sector’s current ratio improved to 82 per cent. Amounts borrowed by Queensland Treasury Corporation make up almost half of all current liabilities in the total state sector.

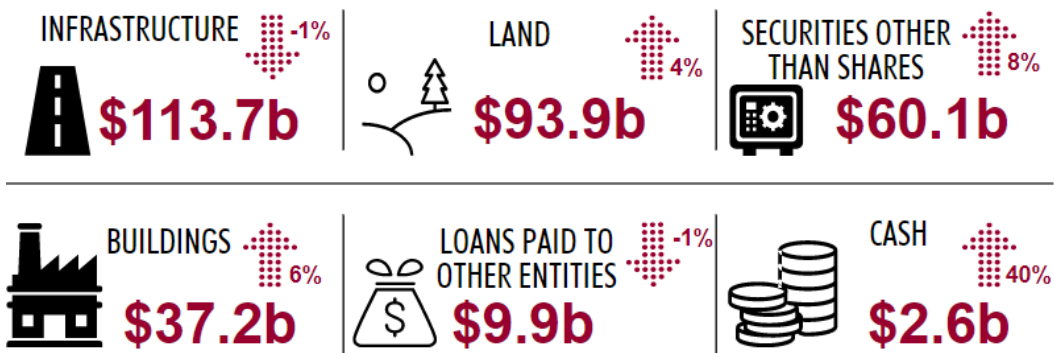
Standard and Poor’s (S&P) Global Ratings continue to report the Queensland Government as having exceptional debt and liquidity management through the Queensland Treasury Corporation. We did not identify any liquidity issues in our audit of the Queensland Treasury Corporation.

## Assets

General government sector assets increased by \$6.4 billion to \$269.9 billion. This was mostly due to an increase in the reported value of property, plant, and equipment. Investments in public sector entities, represented by the net assets of government entities within the public finance corporation and public non-financial corporation sectors, also increased.

Total state sector assets increased by \$10.7 billion to \$341.5 billion. The main drivers were increases in property, plant, and equipment, and securities other than shares (such as the investments managed by QIC Limited), and investment bonds.

**Figure 3H**  
**Total state sector assets**



Source: Queensland Government’s consolidated financial statements for 2016–17.

## Events and transactions affecting assets this year

### Measuring the value of assets

The Queensland Government is responsible for the stewardship of a large portfolio of assets that includes land, buildings, infrastructure, and heritage and cultural assets. This year, the total value of property, plant, and equipment increased by \$3.8 billion to \$198.9 billion in the general government sector and by \$4.7 billion to \$259 billion in the total state sector.

Land, buildings, infrastructure, and heritage and cultural assets must be reported at their fair values in the Queensland Government’s consolidated financial statements. The valuation of these assets by government entities can require significant judgement and estimation due to the specialised nature of the assets and the absence of available market prices for equivalent assets.

This often requires entities to use valuation techniques such as current replacement cost and income approaches to estimate an equivalent market value for the asset. The valuation approach adopted by entities depends on the nature of the assets, how they can be used, and the extent, if any, of observable inputs (for example interest rates) that can be used for valuation purposes.

This year, the increase in the value of property, plant, and equipment was mostly attributable to the valuation of land under roads, which increased from \$52.3 billion to \$56 billion. Land under roads is valued by the Department of Natural Resources and Mines using a valuation that assumes that land under roads would revert back to its original un-subdivided state if the legislative restriction were removed.

### Queen’s Wharf Brisbane

The Queen’s Wharf Brisbane development is due for completion by June 2023. This year, an early works lease with the Department of Housing and Public Works was established to enable demolition of buildings within the precinct.

No construction can commence until the integrated resort development lease is executed, which is subject to development approval.

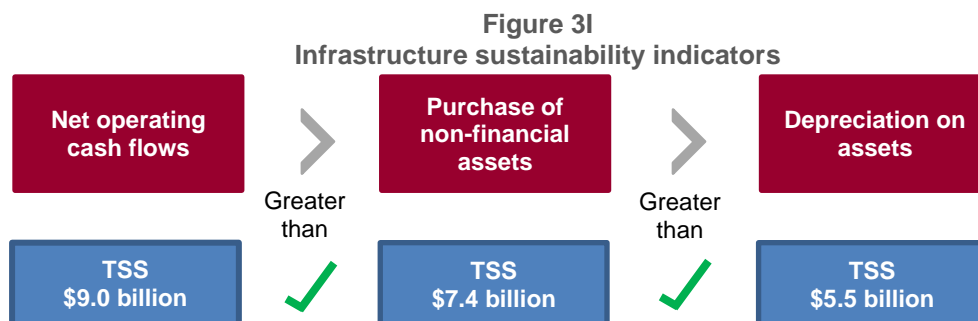
Transactions that occurred during the year include the following:

- A casino licence fee of \$91.5 million was paid by the developer in October 2016 to the Department of Justice and Attorney-General.
- An initial payment of \$121.8 million towards the precinct facilities and services was paid by the developer to the Department of Housing and Public Works. The majority of this amount was recorded as unearned revenue at 30 June 2017 pending various milestones being met in the future.

## Future challenges and emerging risks

### Infrastructure sustainability

The Queensland Government provides vital infrastructure that supports and grows the economy. Figure 3I assesses if infrastructure purchases could have been funded through cash or borrowings and whether the renewal of assets is keeping up with depreciation of assets.



Note: TSS—total state sector

Source: Queensland Government’s consolidated financial statements for 2016–17.

This year, the net operating cash flows for the total state sector exceeded the net purchases of non-financial assets (for example, property, plant, and equipment). This means the state had the capacity to fund the acquisitions of property, plant, and equipment from the net cash generated from its day-to-day operations.

The purchase of non-financial assets by the total state sector also exceeded the depreciation on assets. This indicates that there is an expanding asset base and that assets are being replaced or renewed at a greater rate than the service potential is being consumed during the financial year.

### New accounting standard—AASB 9 *Financial Instruments*

This new accounting standard applies for reporting periods beginning on or after 1 January 2018. The standard introduces changes to the following areas:

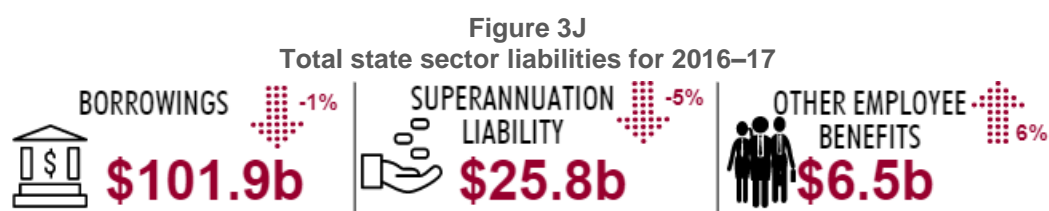
- the classification and measurement of financial assets and some financial liabilities
- hedge accounting rules
- principles for the impairment of financial assets (assessing the likelihood that an amount owing to an entity will be received).

This standard is complex, and it is not just financial service type entities that will be affected. Most entities with receivables, investments, borrowings, and derivatives will need to assess the new standard to understand how it impacts on their financial reporting.

## Debt and liabilities

For the general government sector, borrowings represent loans from the Queensland Treasury Corporation (QTC) to entities within the general government sector. For the total state sector, borrowings largely represent amounts borrowed by QTC on behalf of the government.

On 19 October 2017, S&P Global Ratings affirmed the Queensland Government's AA+ credit rating, with a stable outlook. Borrowings in the general government sector are not budgeted to increase until the 2018–19 financial year.



Source: Queensland Government's consolidated financial statements for 2016–17.

## Events and transactions affecting debt and liabilities this year

### Government borrowings

General government sector borrowings and advances decreased by three per cent to \$35 billion. The result was \$3.5 billion better than the original budget. The reduction was driven by the government's debt action plan initiatives and by higher than expected royalty revenue.

On 30 June 2017, the government placed \$2.5 billion in a redraw facility with QTC, reducing the reported general government sector borrowings by this amount. On 3 July 2017, \$1 billion was withdrawn from the redraw facility to meet the cash flow requirements of the general government sector.

In addition to action taken under the government’s debt action plan, debt for the total state sector was affected by higher discount rates decreasing the reported fair value at 30 June 2017 of Queensland Government bonds issued by QTC.

### Superannuation liability

The general government sector holds the superannuation defined benefit obligation for the State Public Sector Superannuation Scheme and Judges' Scheme.

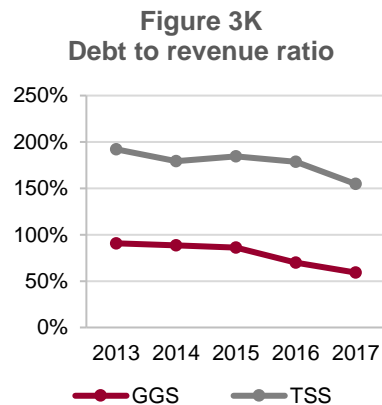
This year, the liability decreased by \$1.4 billion to \$25.8 billion. Changes in the valuation performed by the actuary resulted in gains from financial assumptions and discount rates, offset by losses on changes to experience (years of service) adjustments. The benefits paid, including contribution tax for the general government sector, increased by \$115 million to \$2 billion.

### Debt sustainability

We use debt sustainability ratios to assess the government’s ability to finance its policy objectives (that is, delivery of services) against its capacity to repay debt. We use a combination of ratios to assess whether the government’s level of debt is sustainable.

This year, both the debt to revenue and interest expense to revenue ratios decreased due to increased revenue and lower government debt. This indicates that the government had increased capacity to meet its debt and interest obligations from the revenue it generated.

#### Debt to revenue ratio



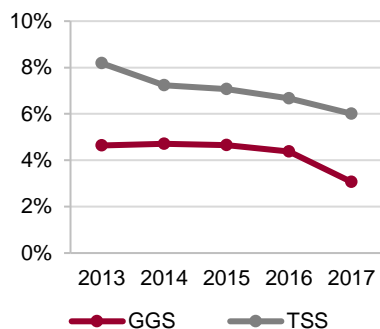
The gross debt to operating revenue ratio is a measure of the state’s capacity to repay its debt from its own revenue. The government’s fiscal strategy is to target ongoing reductions in Queensland’s relative debt burden, as measured by the general government sector debt to revenue ratio.

This year, the debt to revenue ratio for the general government sector decreased from 70 per cent to 59 per cent. The debt to revenue ratio for the total state sector decreased from 179 per cent to 155 per cent.

Note: GGS—general government sector; TSS—total state sector.

Source: *State government financial statements for 2016–17*.

**Figure 3L**  
**Interest expense to revenue ratio**



Source: *State government financial statements for 2016–17*.

### Interest expense to revenue ratio

We use the interest expense to revenue ratio to understand the portion of the budget that needs to be set aside to pay interest on debt. We have observed a continued decline of interest expense because of increased revenue for both the general government and total state sectors.

### Cash management arrangement

As part of the debt action plan, the Queensland Government announced a series of measures to reduce the level of general government sector debt. This year, a new measure was implemented to better use surplus cash held by government owned corporations.

Under the arrangement, government owned corporations perform cash flow forecasts for a 12-month period and advance any surplus cash to Queensland Treasury. The intention is to allow any surplus cash to be made available for use by the general government sector and contribute to general government sector debt reduction.

The arrangement allows the government owned corporations to recall cash should their cash flow requirements change. They receive market based interest on their deposits.

Between 28 June 2017 and 30 June 2017, Powerlink Queensland and Energy Queensland Limited transferred \$1.3 billion of surplus cash to Queensland Treasury. The cash was then used to decrease the general government sector borrowings.

## Future challenges and emerging risks

### New accounting standard—AASB 16 *Leases*

The introduction of the new accounting standard AASB 16 *Leases*, for reporting periods beginning on or after 1 January 2019, will introduce a single accounting model for leases. This will result in almost all leases being recognised in the statement of financial position as the distinction between operating and finance leases is removed.

In 2016–17, the total state sector reported operating lease commitments of \$4.4 billion in future commitments as lessee. Most of these leases will be brought onto the statement of financial position as a right of use asset and liability when the standard takes effect. The timing of recognition of expenses will also change.

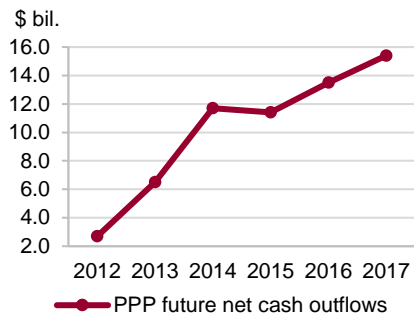
### New accounting standard—AASB 1059 *Service Concession Arrangements: Grantors*

The new accounting standard AASB 1059 *Service Concession Arrangements: Grantors* for reporting periods beginning on or after 1 January 2019 will provide additional guidance on how to account for service concession arrangements granted by public sector entities. A service concession arrangement is a contract between the government and a private sector entity where the entity has a right to access certain assets to provide public services on behalf of the government and is compensated for providing these services.

This may include public–private partnerships (PPPs) previously granted by the Queensland Government.

Under the new standard, the grantor of a service concession arrangement may need to recognise a service concession asset and a corresponding liability, subject to certain conditions being met.

**Figure 3M**  
**PPP total future net cash outflows**



Source: Queensland Government's consolidated financial statements for 2016–17.

The use of PPPs as a vehicle to deliver new infrastructure and projects to Queensland has significantly increased in recent years. These PPPs cover a broad range of asset types including hospitals, schools, roads, and rail assets.

The estimated future net cash outflows for PPPs reported in the Queensland Government's consolidated financial statements has increased from \$2.7 billion at 30 June 2012 to \$15.4 billion at 30 June 2017.

Under the new standard, the government may be required to recognise assets and liabilities for some of their PPP arrangements, where they are not currently recognised on the statement of financial position.

## 4. Internal controls

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### Introduction

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This chapter evaluates the effectiveness of internal controls as they relate to our audit of the 21 departments. We have selected these departments as they are primarily responsible for most of the services provided within the general government sector.

Through our analysis, we aim to promote stronger internal control frameworks, and to mitigate financial losses and damage to public sector reputation by initiating effective responses to identified control weaknesses.

### Conclusion

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We assessed that the control environment for each department was suitably designed to prevent, or detect and correct, material misstatements in their financial statements and non-compliance with legislative requirements. (A misstatement is material if it has the potential to influence the decisions made by users of the financial statements.) As a result, the control environment allowed us to rely on their internal control systems.

We identified one significant deficiency in the information and communication systems at the Department of State Development that led to a prior period error in their financial statements.

We identified control deficiencies at 17 of the 21 departments. Departments have improved in the areas of business planning, information technology systems, expenditure, payroll, and asset-related control activities.

We are satisfied with the departments' actions to rectify these deficiencies. Our testing of the controls at the departments did not identify any systemic issues.

### Our audit of internal controls

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We assess internal controls to ensure they are suitably designed to prevent, detect, and correct, material misstatements in the financial report. We also assess whether they achieve compliance with legislative requirements and make appropriate use of public resources. Where we identify controls that we plan to rely on, we test how effectively these controls are operating to ensure they are functioning as intended.

We are required to communicate deficiencies in internal controls to management.

### Our rating of internal control deficiencies

Our rating of internal control deficiencies allows management to gauge relative importance and prioritise remedial actions.

*Deficiency*: arises when internal controls are ineffective or missing, and are unable to prevent, or detect and correct, misstatements in the financial statements. A deficiency may also result in non-compliance with policies and applicable laws and regulations and/or inappropriate use of public resources.

*Significant deficiency (high risk matters)*: a deficiency or combination of deficiencies in internal control that requires immediate remedial action.

We increase the rating from a deficiency to a significant deficiency when:

- we consider immediate remedial action is required
- there is a risk of material misstatement in the financial statements
- there is a risk to reputation
- the non-compliance with policies and applicable laws and regulations is significant
- there is potential to cause financial loss including fraud
- management has not taken appropriate timely action to resolve the deficiency.

## Control deficiencies categorised by COSO component

We categorise internal controls using the Committee of the Sponsoring Organizations of the Treadway Commission (COSO) internal controls framework, which is widely recognised as a benchmark for designing and evaluating internal controls.

The framework identifies five components that need to be present for a successful internal control system. These components are explained in Appendix I.

Figure 4A shows control deficiencies (categorised by COSO component) reported to departments for the 2016–17 financial year.

**Figure 4A**  
Summary of internal controls for the 21 departments

 <p><b>Control environment</b> <i>Structures, policies, attitudes, and values that influence daily operations</i></p>	 <p><b>Risk assessment</b> <i>Processes for identifying, assessing, and managing risk</i></p>	 <p><b>Control activities</b> <i>Implementation of policies and procedures to prevent or detect errors and safeguard assets</i></p>	 <p><b>Information &amp; communication</b> <i>Systems to capture and communicate information to achieve reliable financial reporting</i></p>	 <p><b>Monitoring activities</b> <i>Oversight of internal controls for existence and effectiveness</i></p>
Eight deficiencies identified	Five deficiencies identified	35 deficiencies identified	Eight deficiencies and one significant deficiency identified	Two deficiencies identified

Source: Queensland Audit Office adapted from Committee of the Sponsoring Organizations of the Treadway Commission (COSO) internal controls framework.

## Control activities

We identified 18 deficiencies in manual control activities relating to authorisations, data validation, and reconciliations. We also identified 17 deficiencies in general information technology controls in user access, system security, software change, and maintenance.

We did not identify any systemic issues at departments that would indicate the systems of internal control could not be relied upon.



## Information and communication

This year, we identified one significant deficiency in information and communication controls at the Department of State Development. The department enters into complex agreements with the private sector to facilitate the economic development of Queensland. These agreements can be for extended periods of time.

Three arrangements the department entered into (two dating back to 2002) were not appropriately assessed for their accounting implications at the time. Since 2002, the department has been affected by multiple machinery of government changes resulting in loss of records and corporate knowledge. This contributed to the prior period errors identified and corrected this year.

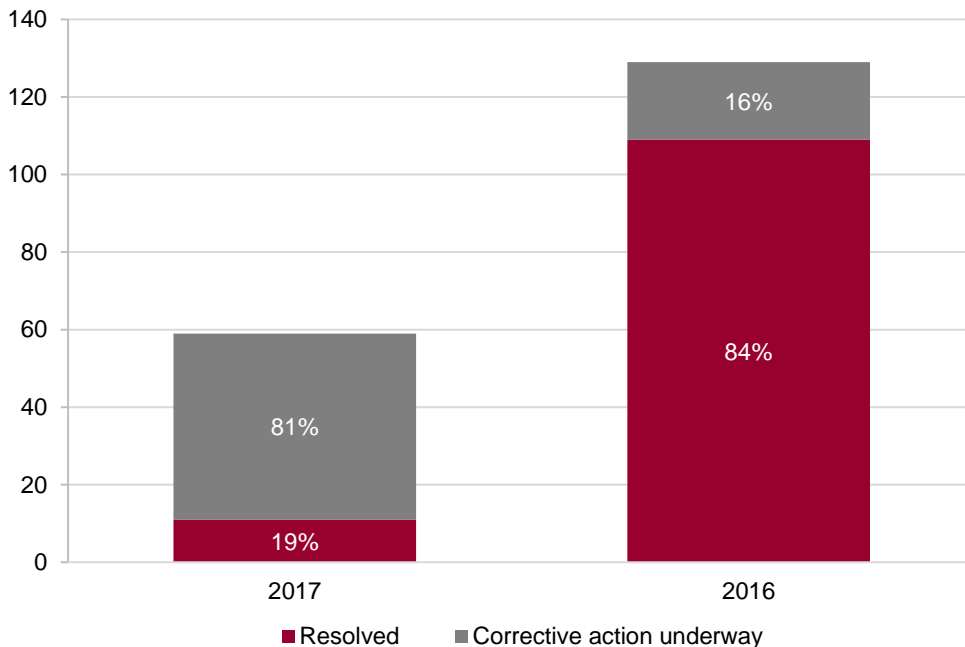
The department has since strengthened internal controls related to record keeping and communication of contractual arrangements, resulting in comprehensive assessments of accounting treatments.

### Status of internal control deficiencies

Management, and those charged with governance, are responsible for the efficient and effective operation of internal controls. An audit committee may be established to assist those charged with governance to obtain assurance over internal control systems. An audit committee is responsible for considering audit findings, management responses to those findings, and the status of audit recommendations.

We have analysed the appropriateness and timeliness of remedial action undertaken to resolve any audit matters we have identified. Figure 4B outlines the status, as at 31 August 2017, of internal control deficiencies reported over the last two years.

**Figure 4B**  
Status of internal control deficiencies for 2015–16 and 2016–17



Source: Queensland Audit Office.

For the 2016 financial year, most departments had either addressed their identified control deficiencies or were on track to do so by the agreed dates. Proactive and timely resolution of control deficiencies indicates a strong control environment.

Where corrective action is underway, we urge audit committees to monitor whether management is meeting the agreed milestone dates for all reported issues.

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## Appendix A—Full responses from agencies

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As mandated in section 64 of the *Auditor-General Act 2009*, the Queensland Audit Office gave a copy of this report to the Premier and Minister for Trade; the Deputy Premier, Treasurer and Minister for Aboriginal and Torres Strait Islander Partnerships; Director-General, Department of the Premier and Cabinet; and the Under Treasurer for their information and comment. A copy of the report was also provided to all other ministers and directors-general for their information.

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

This appendix contains their detailed responses to our audit recommendations.

## Comments received from Acting Director-General, Department of Aboriginal and Torres Strait Islander Partnerships



Department of  
Aboriginal and Torres Strait  
Islander Partnerships

Our reference: DATSIP 00358-2018  
Your reference: 11634

25 JAN 2018

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



Dear Mr Worrall

Thank you for the opportunity to review the Queensland Audit Office proposed report 'Queensland State Government: 2016–17 results of financial audits' and I congratulate you and your team on the quality of the audits.

I note the final report will recognise at page 36 under the measure 'Quality of draft financial statements' an Amber flag, denoting that there were some, but no significant adjustments made to the financial statements after they were presented for audit. These adjustments were made in relation to matters associated with the Retail Stores de-merger. I wish to advise that the Government may consider further matters in relation to the de-merger later in 2018 that may influence the statements. I will ensure your office is kept apprised as the year progresses.

The Department of Aboriginal and Torres Strait Islander Partnerships (DATSIP) and I look forward to working with you over the remaining 2017–18 financial year.

If you require any further information or assistance in relation to this matter, please contact Mr Timothy Hodda, Chief Finance Officer, Corporate Services, DATSIP on  or email

Yours sincerely

Tammy Williams  
Acting Director-General

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PO Box 15397 City East  
Queensland 4002 Australia  
Telephone: +61 7 3003 6451  
[www.datsip.qld.gov.au](http://www.datsip.qld.gov.au)  
ABN: 73882262700

## Comments received from Director-General, Department of the Premier and Cabinet



Department of the  
**Premier and Cabinet**

For reply please quote: *ECP/EP – TF/18/433 – DOC/18/10199*  
Your reference: 11634

30 JAN 2018

Mr Brendan Worrall  
Auditor-General  
Queensland Audit Office  
qao@qao.qld.gov.au

Dear Mr Worrall

Thank you for your letter of 11 January 2018 advising that your report to Parliament titled *Queensland state government: 2016–17 results of financial audits* (the Report) is nearing completion.

I appreciated receiving a copy of the draft Report, and the opportunity to provide comments.

As outlined in your Report, I am pleased that the overall quality and timeliness of financial reporting for Queensland public sector entities has improved. However, I note that there is room for further improvement, particularly in relation to entities completing their asset valuations in a timelier manner. I support appropriate actions being taken to continue enhancing the quality and timeliness of state public sector financial reporting.

I understand that Queensland Treasury has also provided specific feedback to your officers to clarify minor technical aspects of the Report.

I look forward to receiving a copy of your final Report.

Yours sincerely

A handwritten signature in black ink, appearing to read "Dave Stewart".

Dave Stewart  
**Director-General**

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Queensland 4002 Australia  
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**Facsimile +61 7 3229 2990**  
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ABN 65 959 415 158

## Comments received from Under Treasurer, Queensland Treasury

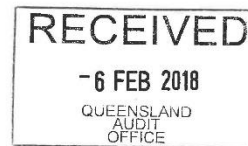


Queensland Treasury

Our Ref: 00162-2018  
Your Ref: 11634

01 FEB 2018

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



Dear Mr Worrall

Thank you for your letter of 11 January 2018, seeking my comments on the above report.

I understand officers from our respective organisations have met to clarify several points, resulting in some changes to the early draft of the report. I appreciate your agreement to the changes that have been made.

The report highlights the strong performance of the State in 2016-17, resulting in the highest General Government surplus in 10 years, the first surplus for the Total State Sector in nine years and the continued reduction in General Government and Total State Sector debt under the Government's Debt Action Plan. I note your comments that additional expenditure is expected in 2017-18 for the Gold Coast Commonwealth Games and the response to recent natural disaster events and emphasise that the 2017-18 Budget and MYFER include estimates of this expenditure.

In relation to Key Management Personnel information, Treasury and Department of Premier and Cabinet will work to assess any additional processes required to collect KMP information, especially in relation to the recent Machinery of Government Changes and provide guidance to agencies.

If your officers require further information in relation to this letter, they can contact Mr David Newby, Director, Accounting and Reporting, Queensland Treasury

Thank you for the opportunity to comment on the report.

Yours sincerely

A handwritten signature in black ink, appearing to read "Jim Murphy".

Jim Murphy  
Under Treasurer

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

## Comments received from Acting Commissioner, Queensland Fire and Emergency Services



Ph: (07) 3635 3021  
Our Ref: 00232-2018

31 JAN 2018

Mr Brendan Worrall  
Auditor General  
Queensland Audit Office  
By email: [gao@qao.qld.gov.au](mailto:gao@qao.qld.gov.au)

Dear Mr Worrall

Thank you for your correspondence dated 11 January 2018 regarding the results of the 2016–17 financial audits for Queensland state government.

I note any comments in relation to the proposed report are required to be provided no later than 2 February 2018, to allow tabling in parliament in February 2018. On reviewing the proposed report I have no further comments to be included.

Should you require any further assistance, please contact Ms Gen Wilcox, Executive Director, Strategy, Systems, Standards and Performance on or email

Yours sincerely

A handwritten signature in black ink, appearing to read 'Mark Roche'.

Mark Roche AFSM  
Acting Commissioner



Queensland  
Government

Office of the  
Commissioner  
Queensland Fire and  
Emergency Services

RECEIVED

- 6 FEB 2018

QUEENSLAND  
AUDIT  
OFFICE

Emergency Services Complex  
125 Kedron Park Road Kedron  
GPO Box 1425 Brisbane  
Queensland 4001 Australia  
**Telephone 13 QGOV**  
**Facsimile +61 3247 4683**  
**Website [www.qfes.qld.gov.au](http://www.qfes.qld.gov.au)**  
ABN 93 035 163 778

## Appendix B—The Queensland Audit Office

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The Queensland Auditor-General, supported by the Queensland Audit Office, is the external auditor of the state's public sector. Each year, through our financial audit program, we form independent audit opinions about the reliability of financial statements produced by state and local government entities.

We provide independent assurance directly to parliament about public sector finances. We also help the public sector meet its accountability obligations. Our role and the work we do is critical to the integrity of our system of government.

The auditor-general must prepare reports to parliament on each audit conducted. These reports must state whether the financial statements of a public sector entity have been audited. They may also draw attention to significant breakdowns in the financial management functions. This report satisfies these requirements.



## Appendix C—Legislative context

### Framework

The following legislation establishes the financial accountability frameworks and legislative timeframes to complete financial statement audits for Queensland state public sector entities.

**Figure C1**  
Legislative framework by entity type

Entity type	Legislative framework	Legislative timeframe
Departments and statutory bodies	<ul style="list-style-type: none"> <li>▪ <i>Financial Accountability Act 2009</i></li> <li>▪ Financial and Performance Management Standard 2009</li> </ul>	Two months from end of financial year
Government owned corporations	<ul style="list-style-type: none"> <li>▪ <i>Government Owned Corporations Act 1993</i></li> <li>▪ Government Owned Corporations Regulation 2014</li> <li>▪ <i>Corporations Act 2001</i></li> <li>▪ Corporations Regulations 2001</li> </ul>	Two months from end of financial year
Controlled entities that are companies	<ul style="list-style-type: none"> <li>▪ <i>Corporations Act 2001</i></li> <li>▪ Corporations Regulations 2001</li> </ul>	Four months from end of financial year
Controlled entities that are charities and not-for-profits	<ul style="list-style-type: none"> <li>▪ <i>Charities Act 2013 (Cth)</i></li> </ul>	Six months from end of financial year

Source: Queensland Audit Office.

### Accountability requirements

These frameworks identify the minimum requirements applying to key elements of financial accountability including:

- governance
- financial management and performance
- financial reporting.

### Queensland state government financial statements

Queensland state public sector entities must table their audited financial statements in parliament annually. These financial statements are used by a broad range of parties including parliamentarians, taxpayers, employees, and users of government services. For these statements to be useful, the information reported must be relevant and accurate.

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

We express an *unmodified opinion* when the financial statements are prepared in accordance with the relevant legislative requirements and Australian accounting standards. We may include an *emphasis of matter* paragraph in the audit opinion to highlight an issue of which we believe the users of the financial statements need to be aware. The inclusion of an emphasis of matter paragraph does not modify the audit opinion.

We *modify* our audit opinion where financial statements do not comply with the relevant legislative requirements and Australian accounting standards, and are not accurate and reliable. Modified opinions include both *qualified* opinions and *disclaimed* opinions. A *qualified* opinion is issued where, in our professional judgement, the financial statements as a whole comply with relevant accounting standards and legislative requirements except for particular matters identified in our opinion.

We issue a *disclaimer of opinion* where we are unable to express an opinion as to whether the financial statements comply with relevant accounting standards and legislative requirements.

## Appendix D—Our assessment of financial statement preparation

Our assessment of the effectiveness of financial statement preparation processes involved considering three components—the year end close process, the timeliness of financial statements, and the quality of financial statements.

### Result summary

This table summarises our assessment of financial statement preparation processes across the 21 departments. (The assessment colours are explained in the following pages.)

Entity	Financial statement preparation		
	Year end close process	Timeliness of draft financial statements	Quality of draft financial statements
Department of Aboriginal and Torres Strait Islander Partnerships	●	●	●
Department of Agriculture and Fisheries	●	●	●
Department of Communities, Child Safety and Disability Services	●	●	●
Department of Education and Training	●	●	●
Department of Energy and Water Supply	●	●	●
Department of Environment and Heritage Protection	●	●	●
Department of Health	●	●	●
Department of Housing and Public Works	●	●	●
Department of Infrastructure, Local Government and Planning	●	●	●
Department of Justice and Attorney-General	●	●	●
Department of National Parks, Sports and Racing	●	●	●
Department of Natural Resources and Mines	●	●	●
Department of Science, Information Technology and Innovation	●	●	●
Department of State Development	●	●	●
Department of the Premier and Cabinet	●	●	●
Department of Tourism, Major Events, Small Business and the Commonwealth Games	●	●	●
Department of Transport and Main Roads	●	●	●
Public Safety Business Agency	●	●	●
Queensland Fire and Emergency Services	●	●	●
Queensland Police Service	●	●	●
Queensland Treasury	●	●	●

Source: Queensland Audit Office.

We assess financial statement preparation processes against the following criteria.

## Year end close process

State public sector entities should have a robust year end close process to enhance the quality and timeliness of the financial reporting processes. This year we assessed processes for year end financial statement preparation against the following key targets:

- prepare pro-forma financial statements by 30 April
- resolve known accounting issues by 30 April
- complete non-current asset valuations by 31 May
- complete early close processes
- conclude all asset stocktakes by 30 June.

These targets were developed based on advice issued by the Under Treasurer in 2014, and on better practice identified in other jurisdictions. The extent of these key processes and the actual planned dates to perform these processes can vary depending on the needs of each entity. The target date for completion of these processes should be documented in a financial report preparation plan.

Rating scale	Assessment criteria—year end close process
● Fully implemented	All key processes completed by the target date
● Partially implemented	Three key processes completed within two weeks of the target date
● Not implemented	Less than two key processes completed within two weeks of the target date

## Timeliness of draft financial statements

We assessed the timeliness of draft financial statements by considering whether entities prepared financial statements according to the timetables set by management. This includes providing auditors with the first complete draft of financial statements by the agreed date. A complete draft is one that management is ready to sign and where no material errors or adjustments are expected.

Rating scale	Assessment criteria—timeliness of draft financial statements
● Timely	Acceptable draft financial statements received on or prior to the planned date
● Generally timely	Acceptable draft financial statements received within two days after the planned date
● Not timely	Acceptable draft financial statements received greater than two days after the planned date

## Quality of draft financial statements

We calculated the differences between the first draft financial statements submitted to audit and the final audited financial statements for the key financial statement components of total revenue, total expenses, and net assets. Our quality assessment is based on the percentage of adjustments across each of these components.

Rating scale	Assessment criteria—quality of draft financial statements
● No adjustments	No adjustments were required
● No significant adjustments	Adjustments for any of the three key financial statement components of total revenue, total expenses, and net assets were less than five per cent
● Significant adjustments	Adjustments for any of the three key financial statement components of total revenue, total expenses, and net assets were greater than five per cent

## Appendix E—Audit opinion results

The following tables present the results of our financial statement audits for state public sector entities. The table also identifies the entities that had a key audit matter included in their independent auditor's report. Key audit matters are the areas that, in our professional judgement, pose a higher risk of material misstatement. These matters mostly relate to major events and transactions that occur during the period, and to those areas requiring significant accounting judgement and estimation. They do not impact on the audit opinion issued on the financial statements.

The results have been summarised by Queensland ministers and portfolios as set out in Administrative Arrangements Order (No.3) 2017 made by the Governor in Council on 12 December 2017. The Administrative Arrangements Orders detail, for each minister, the principal responsibilities; the Acts they administer; and the departments, agencies, and office holders.

### Premier and Minister for Trade

Responsibilities include the overall management of Queensland, Cabinet, coordinating government communication, policy development, Parliamentary Counsel, protocol, intergovernmental relations, one stop shop strategy, screen industry development, Veterans' affairs, investment facilitation, trade development, government information and communication technology policy and planning, and overall public service management.

Entity	Legislative deadline	Audit certification date	Key audit matter	Audit opinion type
Department of the Premier and Cabinet	31.08.2017	29.08.2017	Yes	Unmodified
Legislative Assembly and Parliamentary Service	31.08.2017	30.08.2017	–	Unmodified
Office of the Governor	31.08.2017	15.08.2017	–	Unmodified
Public Service Commission	31.08.2017	30.08.2017	–	Unmodified
Premier's Disaster Relief Appeal Fund	–	19.10.2017	–	Unmodified
Screen Queensland Pty Ltd	31.10.2017	07.08.2017	–	Unmodified
Trade and Investment Queensland	31.08.2017	29.08.2017	–	Unmodified

Entities not preparing financial statements:

- Queensland Trade and Investment Office Pty Ltd.

## Deputy Premier, Treasurer and Minister for Aboriginal and Torres Strait Islander Partnerships

Responsibilities include the state budget; taxation; economic policy; government owned enterprises; insurance; capital works monitoring; mineral and petroleum royalties; and Aboriginal and Torres Strait Islander cultural heritage, policy and rights, and culture.

Entity	Legislative deadline	Audit certification date	Key audit matter	Audit opinion type
Board of Trustees of the State Public Sector Superannuation Scheme (QSuper)	30.09.2017	29.09.2017	–	Unmodified
Brisbane Port Holdings Pty Ltd	31.10.2017	15.08.2017	–	Unmodified
Consolidated whole-of-government and general government sector financial statements	–	20.10.2017	–	Unmodified
Cross River Rail Delivery Authority	31.08.2017	23.08.2017		Unmodified
DBCT Holdings Pty Ltd	31.10.2017	15.08.2017	–	Unmodified
Department of Aboriginal and Torres Strait Islander Partnerships	31.08.2017	31.08.2017	Yes	Unmodified
Family Responsibilities Commission	31.08.2017	24.08.2017	–	Unmodified
Motor Accident Insurance Commission	31.08.2017	29.08.2017	–	Unmodified
Nominal Defendant	31.08.2017	29.08.2017	–	Unmodified
QGOF 63G Trust	–	29.09.2017	–	Unmodified
QGOF DPI Trust	–	29.09.2017	–	Unmodified
QGOF MH Trust	–	29.09.2017	–	Unmodified
QIC Alternative Beta Fund	–	29.09.2017	–	Unmodified
QIC Alternative Investment Trust	–	29.09.2017	–	Unmodified
QIC Australian Equities Special Purpose Fund	–	31.08.2017	–	Unmodified
QIC Australian Fixed Interest Fund	–	31.08.2017	–	Unmodified
QIC Australian Venture Capital Fund	–	31.08.2017	–	Unmodified
QIC Bond Plus Fund	–	29.09.2017	–	Unmodified
QIC Cash Enhanced Fund	–	31.08.2017	–	Unmodified
QIC Cash Fund	–	31.08.2017	–	Unmodified
QIC Direct Opportunities Fund	–	29.09.2017	–	Unmodified

Entity	Legislative deadline	Audit certification date	Key audit matter	Audit opinion type
QIC Diversified Australian Equities Fund	–	29.09.2017	–	Unmodified
QIC Diversified Fixed Interest Fund	–	29.09.2017	–	Unmodified
QIC Diversified Infrastructure Fund No. 2	–	31.08.2017	–	Unmodified
QIC GFI Alpha Fund	–	29.09.2017	–	Unmodified
QIC GFI Inflation Plus Fund	–	29.09.2017	–	Unmodified
QIC Global Credit Fund	–	29.09.2017	–	Unmodified
QIC Global Credit Income Fund	–	29.09.2017	–	Unmodified
QIC Global Credit Opportunities Fund	–	29.09.2017	–	Unmodified
QIC Global Strategy Trust No. 2A	–	29.09.2017	–	Unmodified
QIC Government Office Fund No. 1	–	29.09.2017	–	Unmodified
QIC Growth Fund	–	29.09.2017	–	Unmodified
QIC Hedged International Equities Fund	–	29.09.2017	–	Unmodified
QIC Infrastructure Mandate No. 1 Trust	–	31.08.2017	–	Unmodified
QIC Infrastructure Mandate Trust No. 1A	–	31.08.2017	–	Unmodified
QIC International Equities Fund	–	29.09.2017	–	Unmodified
QIC Limited	31.08.2017	31.08.2017	Yes	Unmodified
QIC Liquid Alternatives Fund	–	29.09.2017	–	Unmodified
QIC Private Capital Pty Ltd	31.10.2017	30.08.2017	–	Unmodified
QIC Private Equity Fund No. 2	–	29.09.2017	–	Unmodified
QIC Private Equity Fund No. 3	–	29.09.2017	–	Unmodified
QIC Private Equity Fund No.1	–	29.09.2017	–	Unmodified
QIC Properties Pty Ltd	31.10.2017	28.08.2017	–	Unmodified
QIC Strategy Fund No.2	–	29.09.2017	–	Unmodified
QIC US Regional Mall Fund No. 1	–	29.09.2017	–	Unmodified
QIC US Regional Mall Fund No.2	–	29.09.2017	–	Unmodified



Entity	Legislative deadline	Audit certification date	Key audit matter	Audit opinion type
Queensland Competition Authority	31.08.2017	15.08.2017	–	Unmodified
Queensland Investment Trust No. 2	–	29.09.2017	–	Unmodified
Queensland Lottery Corporation Pty Ltd	31.10.2017	15.08.2017	–	Unmodified
Queensland Productivity Commission	31.08.2017	25.08.2017	–	Unmodified
Queensland Treasury	31.08.2017	31.08.2017	Yes	Unmodified
Queensland Treasury Corporation	31.08.2017	29.08.2017	Yes	Unmodified
Queensland Treasury Holdings Pty Ltd	31.10.2017	15.08.2017	–	Unmodified
The National Injury Insurance Agency Queensland	31.08.2017	28.08.2017		Unmodified
QIC Infrastructure Portfolio No.1	–	07.09.2017	–	Unmodified
QIC Private Equity Fund No.5	–	29.09.2017		Unmodified
Community Enterprise Queensland (Formerly Island Industries Board)	31.08.2017	31.08.2017	–	Unmodified
Business Development Fund	–	29.09.2017	–	Unmodified
QLQ Real Property Holdings Trust	–	29.09.2017	–	Unmodified
QIC Infrastructure Portfolio No. 2	–	07.09.2017		Unmodified

Exempt entities detailed in Appendix G:

- QIC (UK) Management Limited
- QIC US Investment Service Inc
- QIC US Management Inc.
- QIC European Investment Services Ltd

Entities not preparing financial statements:

- City North Infrastructure Pty Ltd
- Innovis Investments Australia Fund
- Innovis Investments Pty Ltd
- QIC Brisbane Airport Infrastructure Trust
- QIC CRCHUM Trust
- QIC Global Strategy Trust No. 2
- QIC Global Strategy Trust No. 2B
- QIC Infrastructure Management Pty Ltd
- QIC Infrastructure Mandate Trust No. 2B
- QIC Initial Unitholder Pty Ltd
- QIC Investments No. 1 Pty Ltd
- QIC Investments No. 2 Pty Ltd
- QIC Investments No. 3 Pty Ltd
- QIC NZ Power Trust No. 3
- QIC NZ Power Trust No. 4
- QIC PPP Trust
- QIC Tollroad Investment Fund No. 1
- QIC Tollroads Fund No. 1
- QIC Treasury Infrastructure Fund
- Queensland BioCapital Funds Pty Ltd
- QIC US Infrastructure Fund No. 1
- QIC US Infrastructure Fund No. 2
- QIC US Power Trust No. 1
- QIC US Power Trust No. 2
- QLQ Trust No. 2
- QLQ Trust No. 3
- QIC Global Infrastructure (US) Inc.
- QIC GRE Management (US) Inc.
- QICP Properties US Inc.
- Capital Parking Pty Ltd
- Colden Reef Infrastructure LLC
- QGIF General Partner S.a.rl.
- QIC GP Holding Trust
- QIC US Private Equity LLC
- QIC US Shopping Center Fund No 1 GP LLC
- QIC US Private Equity No 2 LLC
- QIC Strategy Fund No.3
- QIC Infrastructure Mandate No. 1B

## Minister for State Development, Manufacturing, Infrastructure and Planning

Responsibilities include state development, manufacturing, economic development, urban growth, land use planning, major project impact assessment and programs for priority industry sectors.

Entity	Legislative deadline	Audit certification date	Key audit matter	Audit opinion type
Building Queensland	31.08.2017	30.08.2017	–	Unmodified
Department of Infrastructure, Local Government and Planning*	31.08.2017	31.08.2017	Yes	Unmodified
Department of State Development	31.08.2017	29.08.2017	Yes	Unmodified
Gasfields Commission Queensland	31.08.2017	31.08.2017	–	Unmodified
Queensland Reconstruction Authority	31.08.2017	21.08.2017	–	Unmodified
South Bank Corporation	31.08.2017	22.08.2017	–	Unmodified
South Bank Employing Office	31.08.2017	22.08.2017	–	Unmodified

\* Department of Infrastructure, Local Government and Planning also included under the Minister for Local Government and Minister for Racing and Minister for Multicultural Affairs.

## Minister for Innovation and Tourism Industry Development and Minister for the Commonwealth Games

Responsibilities include the Commonwealth Games, integrated resort developments and global tourism hubs; major events; tourism development and promotion; tourism investment attraction; innovation policy, strategy and programs; international education, research and development coordination and planning.

Entity	Legislative deadline	Audit certification date	Key audit matter	Audit opinion type
Department of Tourism, Major Events, Small Business and the Commonwealth Games*	31.08.2017	23.08.2017	Yes	Unmodified
Department of Science, Information Technology and Innovation#	31.08.2017	24.08.2017	–	Unmodified
Gold Coast 2018 Commonwealth Games Corporation	31.08.2017	30.08.2017	–	Unmodified
Gold Coast Events Management Ltd (trading as Queensland Events Gold Coast)	31.10.2017	30.08.2017	–	Unmodified
Tourism and Events Queensland	31.08.2017	30.08.2017	–	Unmodified
Tourism and Events Queensland Employing Office	31.08.2017	30.08.2017	–	Unmodified

\* Department of Tourism, Major Events, Small Business and the Commonwealth Games also included under the Minister for Employment and Small Business and Minister for Training and Skill Development.

# Department of Science, Information Technology and Innovation also included under Minister for Housing and Public Works, Minister for Digital Technology and Minister for Sport; and Minister for Environment and the Great Barrier Reef, Minister for Science and Minister for the Arts.

Entities not preparing financial statements:

- Asia Pacific Screen Awards Ltd

## Attorney-General and Minister for Justice

Responsibilities include justice administration; courts; registration of births, deaths, and marriages; Legal Aid; youth justice; fair trading and consumer protection; incorporation of associations; lotteries, keno, and wagering; occupational licensing; registration of charitable and community purpose organisations; Public Trustee.

Entity	Legislative deadline	Audit certification date	Key audit matter	Audit opinion type
Anti-Discrimination Commission	31.08.2017	23.08.2017	–	Unmodified
Department of Justice and Attorney-General	31.08.2017	31.08.2017	Yes	Unmodified
Electoral Commission of Queensland	31.08.2017	25.08.2017	–	Unmodified
Forde Foundation Trust Fund	31.12.2017	28.09.2017	–	Unmodified
Gladstone Foundation	31.12.2017	28.09.2017	–	Unmodified
Lady Bowen Trust	31.12.2017	28.09.2017	–	Unmodified
Law Claims Levy Fund	31.08.2017	31.08.2017	–	Unmodified
Legal Aid Queensland	31.08.2017	31.08.2017	–	Unmodified
Legal Practitioners Admissions Board	31.08.2017	31.08.2017	–	Unmodified
Legal Practitioners Fidelity Guarantee Fund	31.08.2017	31.08.2017	–	Unmodified
Office of the Information Commissioner	31.08.2017	24.08.2017	–	Unmodified
Office of the Ombudsman	31.08.2017	11.08.2017	–	Unmodified
Professional Standards Council	31.08.2017	31.08.2017	–	Unmodified
Public Trustee of Queensland Growth Trust	–	28.08.2017	–	Unmodified
QCF Management Co. Ltd	31.10.2017	02.10.2017	–	Unmodified
Queensland Aboriginal & Torres Strait Islander Foundation	31.12.2017	28.09.2017	–	Unmodified
Queensland Community Foundation	31.12.2017	28.09.2017	–	Unmodified
Queensland Family and Child Commission	31.08.2017	31.08.2017	–	Unmodified
Queensland Law Society Incorporated	31.08.2017	31.08.2017	–	Unmodified

Entity	Legislative deadline	Audit certification date	Key audit matter	Audit opinion type
The Crime and Corruption Commission	31.08.2017	23.08.2017	–	Unmodified
The Public Trustee of Queensland	31.08.2017	25.08.2017	–	Unmodified

Exempt entities detailed in Appendix G:

- Lexon Insurance Pte Ltd
- Supreme Court Library Committee

## Minister for Health and Minister for Ambulance Services

Responsibilities include hospitals, public health, oral health, nursing homes and hostels, Aboriginal and Torres Strait Islander health, community health services, alcohol and drug services, disease surveillance, health rights and promotion, registration of health professionals, and the ambulance service.

Entity	Legislative deadline	Audit certification date	Key audit matter	Audit opinion type
Cairns and Hinterland Hospital and Health Service	31.08.2017	29.08.2017	Yes	Unmodified
Central Queensland Hospital and Health Service	31.08.2017	31.08.2017	Yes	Unmodified
Central West Hospital and Health Service	31.08.2017	31.08.2017	Yes	Unmodified
Children's Health Queensland Hospital and Health Service	31.08.2017	30.08.2017	Yes	Unmodified
Children's Hospital Foundation Queensland	31.08.2017	31.08.2017	–	Unmodified
Darling Downs Hospital and Health Service	31.08.2017	31.08.2017	Yes	Unmodified
Department of Health	31.08.2017	30.08.2017	–	Unmodified
Gold Coast Hospital and Health Service	31.08.2017	23.08.2017	Yes	Unmodified
HIV Foundation Queensland	31.08.2017	17.08.2017	–	Unmodified
Mackay Hospital and Health Service	31.08.2017	30.08.2017	Yes	Unmodified
Metro North Hospital and Health Service	31.08.2017	31.08.2017	Yes	Unmodified
Metro South Hospital and Health Service	31.08.2017	25.08.2017	Yes	Unmodified
North West Hospital and Health Service	31.08.2017	31.08.2017	Yes	Unmodified
Office of the Health Ombudsman	31.08.2017	30.08.2017	–	Unmodified
Q-Pharm Pty Ltd	31.10.2017	31.08.2017	–	Unmodified
Queensland Mental Health Commission	31.08.2017	17.08.2017	–	Unmodified
Royal Brisbane and Women's Hospital Foundation	31.08.2017	31.08.2017	–	Unmodified
South West Hospital and Health Service	31.08.2017	31.08.2017	Yes	Unmodified

Entity	Legislative deadline	Audit certification date	Key audit matter	Audit opinion type
Sunshine Coast Hospital and Health Service	31.08.2017	30.08.2017	Yes	Unmodified
The Council of the Queensland Institute of Medical Research (trading as QIMR Berghofer)	31.08.2017	31.08.2017	–	Unmodified
Torres and Cape Hospital and Health Service	31.08.2017	25.08.2017	Yes	Unmodified
Townsville Hospital and Health Service	31.08.2017	29.08.2017	Yes	Unmodified
West Moreton Hospital and Health Service	31.08.2017	28.08.2017	Yes	Unmodified
Wide Bay Hospital and Health Service	31.08.2017	30.08.2017	Yes	Unmodified
<b>Primary health networks*</b>				
Darling Downs and West Moreton Primary Health Network Limited	31.12.2017	27.10.2017	–	Unmodified
North Queensland Primary Healthcare Network Limited	31.12.2017	13.10.2017	–	Unmodified
Western Queensland Primary Care Collaborative Limited	31.12.2017	03.10.2017	–	Unmodified

Exempt entities detailed in Appendix G:

- Bundaberg Health Services Foundation
- Far North Queensland Hospital Foundation
- Gold Coast Hospital Foundation
- Ipswich Hospital Foundation
- Mackay Hospital Foundation
- PA Research Foundation
- Sunshine Coast Health Foundation
- The Prince Charles Hospital Foundation
- Toowoomba Hospital Foundation
- Townsville Hospital Foundation

Entities not preparing financial statements:

- Q-Gen Pty Limited
- Vaccine Solutions Pty Ltd

\* The three Primary Health Networks (PHNs) are considered controlled or jointly controlled Queensland public sector entities because collectively, the HHSs hold the majority of membership in these entities. PHNs are reconsidering their membership composition for 2017–18, which may mean they are no longer considered Queensland public sector entities subject to audit by the auditor-general. Further information on the PHNs is available in Report 9: 2017–18| Health: 2016–17 results of financial audits.

## Minister for Education and Minister for Industrial Relations

Responsibilities include state schooling, early childhood education and care, higher education, non-state school funding, industrial relations, employment policies and programs, worker's compensation and workplace health and safety.

Entity	Legislative deadline	Audit certification date	Key audit matter	Audit opinion type
Anzac Day Trust	31.08.2017	30.08.2017	–	Unmodified
Aviation Australia Pty Ltd	31.10.2017	31.10.2017	–	Unmodified
Building and Construction Industry (Portable Long Service Leave) Authority (trading as QLEAVE)	31.08.2017	29.08.2017	–	Unmodified
Contract Cleaning Industry (Portable Long Service Leave) Authority	31.08.2017	29.08.2017	–	Unmodified
Department of Education and Training*	31.08.2017	24.08.2017	Yes	Unmodified
Non-State Schools Accreditation Board	31.08.2017	07.08.2017	–	Unmodified
Queensland Curriculum and Assessment Authority	31.08.2017	29.08.2017	–	Unmodified
WorkCover Employing Office	31.08.2017	29.08.2017	–	Unmodified
WorkCover Queensland	31.08.2017	29.08.2017	Yes	Unmodified

\*Department of Education and Training also included under the Minister for Employment and Small Business and Minister for Training and Skills Development.

Exempt entities detailed in Appendix G:

- Queensland Tertiary Admissions Centre Limited
- Queensland Education Leadership Institute Limited



## Minister for Transport and Main Roads

Responsibilities include land transport and safety; main roads; marine infrastructure; passenger and personalised transport; ports, railways and transport infrastructure.

Entity	Legislative deadline	Audit certification date	Key audit matter	Audit opinion type
Queensland Rail	31.08.2017	31.08.2017	–	Unmodified
Queensland Rail Limited	31.10.2017	31.08.2017	Yes	Unmodified
Department of Transport and Main Roads	31.08.2017	31.08.2017	Yes	Unmodified
Far North Queensland Ports Corporation Limited (trading as Ports North)	31.08.2017	30.08.2017	–	Unmodified
Gladstone Ports Corporation Limited	31.08.2017	31.08.2017	–	Unmodified
Gold Coast Waterways Authority	31.08.2017	09.08.2017	–	Unmodified
North Queensland Bulk Ports Corporation Limited	31.08.2017	30.08.2017	–	Unmodified
Port of Townsville Limited	31.08.2017	29.08.2017	–	Unmodified
Transmax Pty Ltd	–	23.10.2017	–	Unmodified

## Minister for Natural Resources, Mines and Energy

Responsibilities include mining and petroleum; mine safety and health; Aboriginal and Torres Strait Islander land interests; land and natural resource management; native title; energy and water utilities; bulk water supply, distribution and retail arrangements; management of water supply emergencies and regulation of water quality and supply continuity.

Entity	Legislative deadline	Audit certification date	Key audit matter	Audit opinion type
Avondale Water Board	31.08.2017	30.08.2017	–	Unmodified
Australian Water Recycling Centre of Excellence Ltd	30.04.2017	28.03.2017	–	Unmodified
Bollon West Water Authority	31.08.2017	24.08.2017	–	Modified—disclaimer
Bones Knob Water Board	31.08.2017	12.09.2017	–	Modified—qualified
Brigooda Water Board	31.08.2017	03.10.2017	–	Modified—qualified
Callandoon Water Supply Board	31.08.2017	13.09.2017	–	Unmodified

Entity	Legislative deadline	Audit certification date	Key audit matter	Audit opinion type
CS Energy Limited	31.08.2017	30.08.2017	Yes	Unmodified
Department of Energy and Water Supply	31.08.2017	29.08.2017	Yes	Unmodified
Department of Natural Resources and Mines	31.08.2017	31.08.2017	Yes	Unmodified
Don River Improvement Trust	31.08.2017	22.09.2017	–	Unmodified
Dumaresq-Barwon Border Rivers Commission	31.08.2017	31.08.2017	–	Unmodified
East Deeral Drainage Board	31.08.2017	17.10.2017	–	Modified—disclaimer
Energy and Water Ombudsman Queensland	31.08.2017	21.08.2017	–	Unmodified
Energy Queensland Limited	31.08.2017	18.08.2017	Yes	Unmodified
Ergon Energy Queensland Pty Ltd	31.08.2017	18.08.2017	Yes	Unmodified
Eungella Water Pipeline Pty Ltd	31.10.2017	26.10.2017	–	Unmodified
Fernlee Water Authority	31.08.2017	17.10.2017	–	Modified—disclaimer
Gladstone Area Water Board	31.08.2017	30.08.2017	–	Unmodified
Glamorgan Vale Water Board	31.08.2017	21.09.2017	–	Unmodified
Healthy Waterways Ltd	31.12.2017	24.08.2017	–	Unmodified
Ipswich Rivers Improvement Trust	31.08.2017	30.08.2017	–	Unmodified
Kaywana Bore Water Board	31.08.2017	08.09.2017	–	Modified—qualified
LMA Support Services Pty Ltd	31.10.2017	22.08.2017	–	Unmodified
Lower Burdekin Water	31.08.2017	21.08.2017	–	Unmodified
Lower Herbert Water Management Authority	31.08.2017	21.08.2017	–	Unmodified
Matthews Road Drainage Board	31.08.2017	17.10.2017	–	Modified—disclaimer
Mount Isa Water Board	31.08.2017	23.08.2017	–	Unmodified
Orchard Creek and East Euramo Drainage Board	31.08.2017	29.08.2017	–	Unmodified
Queensland Bulk Water Supply Authority (trading as Seqwater)	31.08.2017	30.08.2017	Yes	Unmodified

Entity	Legislative deadline	Audit certification date	Key audit matter	Audit opinion type
Queensland Electricity Transmission Corporation Limited (trading as Powerlink Queensland)	31.08.2017	24.08.2017	Yes	Unmodified
Roadvale Water Board	31.08.2017	08.09.2017	–	Unmodified
Scenic Rim Rivers Improvement Trust	31.08.2017	31.07.2017	–	Unmodified
South Maroochy Drainage Board	31.08.2017	18.10.2017	–	Modified—disclaimer
Stanthorpe Shire River Improvement Trust	31.08.2017	17.10.2017	–	Unmodified
Stanwell Corporation Limited	31.08.2017	30.08.2017	Yes	Unmodified
State Council of River Trusts, Queensland Inc.	31.12.2017	29.09.2017	–	Unmodified
SunWater Limited	31.08.2017	29.08.2017	Yes	Unmodified
Valuers Registration Board of Queensland	31.08.2017	23.08.2017	–	Unmodified
Warwick Shire River Improvement Trust	31.08.2017	31.08.2017	–	Unmodified
Yambocully Water Board	31.08.2017	15.08.2017	–	Unmodified

Exempt entities detailed in Appendix G:

- Surveyors Board of Queensland

Entities not preparing financial statements:

- Callandoon Water Supply Board Employing Office
- Glamorgan Vale Water Board Employing Office
- Merlwood Water Board Employing Office
- Pioneer Valley Water Board Employing Office
- Yambocully Vale Water Board Employing Office

Audits not finished—detailed in Appendix F:

- Babinda Swamp Drainage Board
- Bollon South Water Authority
- Burdekin Shire Rivers Improvement Trust
- Cairns River Improvement Trust
- Cassowary Coast River Improvement Trust
- Eugun Bore Water Authority
- Herbert River Improvement Trust
- Ingie Water Authority
- Merlwood Water Board
- Silkwood Drainage Board
- Wambo Shire River Improvement Trust
- Whitsunday Rivers Improvement Trust

## Minister for Housing and Public Works, Minister for Digital Technology and Minister for Sport

Responsibilities include building and plumbing standards, government buildings, homelessness, housing services, licensing and regulation of the Queensland building industry, open data, digital economy, shared services systems, archives, sport and recreation.

Entity	Legislative deadline	Audit certification date	Key audit matter	Audit opinion type
Board of Architects of Queensland	31.08.2017	25.08.2017	–	Unmodified
Board of Professional Engineers of Queensland	31.08.2017	29.08.2017	–	Unmodified
Cairns Convention Centre	–	22.08.2017	–	Unmodified
Department of Housing and Public Works	31.08.2017	30.08.2017	Yes	Unmodified
Department of Science, Information Technology and Innovation*	31.08.2017	24.08.2017	–	Unmodified
Gold Coast Convention and Exhibition Centre	–	27.09.2017	–	Unmodified
Queensland Building and Construction Commission	31.08.2017	25.08.2017	–	Unmodified
Queensland Building and Construction Employing Office	31.08.2017	25.08.2017	–	Unmodified
Residential Tenancies Authority	31.08.2017	31.08.2017	–	Unmodified
Residential Tenancies Employing Office	31.08.2017	31.08.2017	–	Unmodified
Stadiums Queensland	31.08.2017	25.08.2017	–	Unmodified

\* Department of Science, Information Technology and Innovation also included under Minister for Innovation and Tourism Development and Minister for the Commonwealth Games; and the Minister for Environment and the Great Barrier Reef, Minister for Science and Minister for the Arts.

Exempt entities detailed in Appendix G:

- Mt Gravatt Showgrounds Trust

## Minister for Employment and Small Business and Minister for Training and Skills Development

Responsibilities include employment, vocational education and training, skills and workforce development, small business advocacy and resilience.

Entity	Legislative deadline	Audit certification date	Key audit matter	Audit opinion type
BCITF (Qld) Limited (trading as Construction Skills Queensland)	31.10.2017	07.09.2017	–	Unmodified
Building and Construction Industry Training Fund (Qld)	–	31.08.2017	–	Unmodified
Department of Education and Training*	31.08.2017	24.08.2017	Yes	Unmodified
Department of Tourism, Major Events, Small Business and the Commonwealth Games#	31.08.2017	23.08.2017	Yes	Unmodified
TAFE Queensland	31.08.2017	24.08.2017	–	Unmodified

\* Department of Education and Training also included under the Minister for Education and Industrial Relations.

# Department of Tourism, Major Events, Small Business and the Commonwealth games also included under the Minister for Innovation and Tourism Development and Minister for the Commonwealth Games.

## Minister for Environment and the Great Barrier Reef, Minister for Science and Minister for the Arts

Responsibilities include climate change policy, environmental planning and protection policy, the Great Barrier Reef, pollution and waste management, marine and national parks management, science strategy and the arts.

Entity	Legislative deadline	Audit certification date	Key audit matter	Audit opinion type
Aboriginal Centre for the Performing Arts Pty Ltd	31.10.2017	31.10.2017	–	Unmodified
BioPharmaceuticals Australia (Network) Pty Ltd	31.10.2017	04.08.2017	–	Unmodified
Board of the Queensland Museum	31.08.2017	31.08.2017	–	Unmodified
Department of Environment and Heritage Protection	31.08.2017	31.08.2017	–	Unmodified
Department of National Parks, Sport and Racing	31.08.2017	30.08.2017	Yes	Unmodified
Department of Science, Information Technology and Innovation*	31.08.2017	24.08.2017	–	Unmodified
Library Board of Queensland	31.08.2017	31.08.2017	–	Unmodified
Queensland Art Gallery Board of Trustees	31.08.2017	24.08.2017	–	Unmodified
Queensland Library Foundation	31.10.2017	29.08.2017	–	Unmodified
Queensland Museum Foundation Trust	–	07.09.2017	–	Unmodified
Queensland Performing Arts Trust	31.08.2017	24.08.2017	–	Unmodified

\* Department of Science, Information Technology and Innovation also included under Minister for Innovation and Tourism Development and Minister for the Commonwealth Games; and the Minister for Housing and Public Works, Minister for Digital Technology and Minister for Sport.

Exempt entities detailed in Appendix G:

- Queensland Theatre Company
- The Balance the Earth Trust
- The Board of Trustees of Newstead House
- Queensland Music Festival Pty Ltd
- Queensland Trust for Nature Fund

## Minister for Police, and Minister for Corrective Services

Responsibilities include the police service, adult corrective services, and Queensland Government Air Services.

Entity	Legislative deadline	Audit certification date	Key audit matter	Audit opinion type
Prostitution Licensing Authority	31.08.2017	14.08.2017	–	Unmodified
Public Safety Business Agency	31.08.2017	31.08.2017	Yes	Unmodified
Queensland Police Service	31.08.2017	31.08.2017	–	Unmodified

## Minister for Communities and Minister for Disability Services and Seniors

Responsibilities include community care, community recovery, community services, disability services, seniors, and social inclusion.

Entity	Legislative deadline	Audit certification date	Key audit matter	Audit opinion type
Department of Communities, Child Safety and Disability Services*	31.08.2017	31.08.2017	Yes	Unmodified

\* Department of Communities, Child Safety and Disability Services also included under the Minister for Child Safety, Youth and Women and Minister for the Prevention of Domestic and Family Violence.

## Minister for Agricultural Industry Development and Fisheries

Responsibilities include biosecurity, agriculture, animal welfare, food and fibre industry development, rural economic development, and racing integrity.

Entity	Legislative deadline	Audit certification date	Key audit matter	Audit opinion type
Darling Downs–Moreton Rabbit Board	31.08.2017	31.08.2017	–	Unmodified
Department of Agriculture and Fisheries	31.08.2017	31.08.2017	Yes	Unmodified
Queensland Agricultural Training Colleges	31.08.2017	31.08.2017	–	Unmodified
Queensland Racing Integrity Commission	31.08.2017	30.08.2017	–	Unmodified
Safe Food Production Queensland	31.08.2017	31.08.2017	–	Unmodified
QRIDA	31.08.2017	28.08.2017	–	Unmodified

## Minister for Local Government and Minister for Racing and Minister for Multicultural Affairs

Responsibilities include local government, multicultural affairs, racing and the recovery and reconstruction of Queensland following natural disaster events.

Entity	Legislative deadline	Audit certification date	Key audit matter	Audit opinion type
Department of Infrastructure, Local Government and Planning*	31.08.2017	31.08.2017	Yes	Unmodified
Racing Queensland Board	31.08.2017	28.08.2017	–	Unmodified
Rockhampton Racing Pty Ltd	31.10.2017	28.08.2017	–	Unmodified
Sunshine Coast Racing Pty Ltd	31.10.2017	28.08.2017	–	Unmodified

\* Department of Infrastructure, Local Government and Planning also included under the Minister for State Development, Manufacturing, Infrastructure and Planning.

## Minister for Child Safety, Youth and Women and Minister for the Prevention of Domestic and Family Violence

Responsibilities include adoption, child protective services, women's policy, youth affairs, and the prevention of domestic and family violence.

Entity	Legislative deadline	Audit certification date	Key audit matter	Audit opinion type
Department of Communities, Child Safety and Disability Services	31.08.2017	31.08.2017	Yes	Unmodified

\* Department of Communities, Child Safety and Disability Services also included under the Minister for Communities and Minister for Disability Services.

## Minister for Fire and Emergency Services

Responsibilities include fire and rescue services, state emergency service and disaster management.

Entity	Legislative deadline	Audit certification date	Key audit matter	Audit opinion type
Office of the Inspector-General of Emergency Management	31.08.2017	17.08.2017	–	Unmodified
Queensland Fire and Emergency Services	31.08.2017	31.08.2017	–	Unmodified



## Appendix F—Audit opinions issued for prior financial years

Entity	Audit certification date	Audit opinion type
Financial statements from the 2012–13 financial year		
Eugun Bore Water Authority	10.07.2017	Disclaimed
Financial statements from the 2013–14 financial year		
Eugun Bore Water Authority	10.07.2017	Disclaimed
Financial statements from the 2014–15 financial year		
Cairns River Improvement Trust	07.07.2017	Qualified
Eugun Bore Water Authority	10.07.2017	Disclaimed
Premier's Disaster Relief Appeal Fund	19.10.2017	Unmodified
Financial statements from the 2015–16 financial year		
Premier's Disaster Relief Appeal Fund	19.10.2017	Unmodified
Aviation Australia Pty Ltd	27.10.2016	Unmodified
Balance the Earth Trust	15.12.2016	Unmodified
Below Rail Services performed by Queensland Rail Limited	14.12.2016	Unmodified
Pioneer Valley Water Board	13.02.2017	Unmodified
Queensland Children's Medical Research Institute	31.01.2017	Unmodified
Roadvale Water Board	12.06.2017	Unmodified
Babinda Swamp Drainage Board	15.12.2016	Unmodified
Cassowary Coast River Improvement Trust	23.02.2017	Unmodified
Ingie Water Authority	11.01.2017	Qualified

## Appendix G—Entities exempt from audit by the auditor-general

Entity	Audit firm	Audit certification date	Audit opinion type
<i>Small in size and of low risk entities exempt under section 30A of the Auditor-General Act 2009</i>			
Balance the Earth Trust	BDO	–	–
Bundaberg Health Services Foundation	Lever Audit Services	06.09.2017	Unmodified
Far North Queensland Hospital Foundation	BDO	29.08.2017	Unmodified
Gold Coast Hospital Foundation	WPIAS Group	23.08.2017	Modified
Ipswich Hospital Foundation	Ramsey & Associates	21.08.2017	Unmodified
Mackay Hospital Foundation	Brown & Bird	15.08.2017	Unmodified
Mt Gravatt Showgrounds Trust	Ross Spranklin & Co	02.06.2017	Unmodified
PA Research Foundation	KPMG	31.08.2017	Unmodified
Queensland Education Leadership Institute Limited	Grant Thornton	19.09.2017	Unmodified
Queensland Music Festival Pty Ltd	Integrated Audit Services	20.04.2017	Unmodified
Queensland Tertiary Admissions Centre Limited	PKF Hacketts	22.08.2017	Unmodified
Queensland Theatre Company	EY	23.02.2017	Unmodified
Queensland Trust for Nature Fund	BDO	–	–
Sunshine Coast Health Foundation	Focus Professional Group	29.08.2017	Unmodified
Supreme Court Library Committee	PKF Hacketts	24.08.2017	Unmodified
Surveyors Board of Queensland	PKF Hacketts	31.07.2017	Unmodified
The Board of Trustees of Newstead House	C&N Audit Services	30.08.2017	Unmodified
Toowoomba Hospital Foundation	Horizon Accounting Group	29.08.2017	Unmodified
Townsville Hospital Foundation	Crowe Horwath	05.09.2017	Unmodified
The Prince Charles Hospital Foundation	Grant Thornton	31.08.2017	Unmodified

Entity	Audit firm	Audit certification date	Audit opinion type
<i>Foreign-based controlled entities exempt under section 32 of the Auditor-General Act 2009</i>			
Lexon Insurance Pte Ltd	PWC Singapore	29.08.2017	Unmodified
QIC (UK) Management Limited	KPMG	29.08.2017	Unmodified
QIC European Investment Services	KPMG	22.08.2017	Unmodified
QIC US Investment Services Inc	KPMG	25.08.2017	Unmodified
QIC US Management Incorporated	KPMG	25.08.2017	Unmodified

## Appendix H—Audits not finished

The following financial statement audits were not finished as at 31 October 2017.

	2016–17	2015–16	2014–15
Babinda Swamp Drainage Board	✓		
Below Rail Services performed by Queensland Rail Limited	✓		
Bollon South Water Authority	✓	✓	
Cairns River Improvement Trust	✓	✓	
Cassowary Coast River Improvement Trust	✓		
Eugun Bore Water Authority	✓	✓	
Herbert River Improvement Trust	✓	✓	✓
Ingie Water Authority	✓		
Whitsunday Rivers Improvement Trust	✓		
Burdekin Shire River Improvement Trust	✓		
Wambo Shire River Improvement Trust	✓		
Silkwood Drainage Board	✓		
Merlwood Water Board	✓		

## Appendix I—Our audit of internal controls

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Internal controls are designed, implemented, and maintained by entities to mitigate risks that may prevent them from achieving reliable financial reporting, effective and efficient operations, and compliance with applicable laws and regulations.

In undertaking our audit, we are required under the Australian auditing standards to obtain an understanding of an entity's internal controls relevant to the preparation of the financial report.

We assess internal controls to ensure they are designed to prevent, or detect and correct, material misstatements in the financial report, and achieve compliance with legislative requirements and appropriate use of public resources.

Our assessment determines the nature, timing, and extent of testing we perform to address the management assertions at risk of material misstatement in the financial statements.

Where we believe the design and implementation of controls is effective, we select the controls we intend to test further by considering a balance of factors including:

- significance of the related risks
- characteristics of balances, transactions, or disclosures (volume, value, and complexity)
- nature and complexity of the entity's information systems
- whether the design of the controls addresses the management assertions at risk and facilitates an efficient audit.

Where we identify deficiencies in internal controls, we determine the impact on our audit approach, considering whether additional audit procedures are necessary to address the risk of material misstatement in the financial statements.

Our audit procedures are designed to address the risk of material misstatement so we can express an opinion on the financial report. We do not express an opinion on the effectiveness of internal controls.

### Internal controls framework

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We categorise internal controls using the Committee of the Sponsoring Organizations of the Treadway Commission (COSO) internal controls framework, which is widely recognised as a benchmark for designing and evaluating internal controls.

The framework identifies five components for a successful internal control system. These components are explained in the following paragraphs.

### Control environment

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- Cultures & values
- Governance
- Organisational structure
- Policies
- Qualified & skilled people
- Management's integrity & operating style

The control environment is defined as the structures, policies, attitudes, and values that influence day-to-day operations. As the control environment is closely linked to an entity's overarching governance and culture, it is important that the control environment provides a strong foundation for the other components of internal control.

In assessing the design and implementation of the control environment we consider whether:

- those charged with governance are independent, appropriately qualified, experienced, and active in challenging management, ensuring it receives the right information at the right time to enable informed decision-making
- policies and procedures are established and communicated so people with the right qualifications and experiences are recruited, they understand their role in the organisation, and they also understand management's expectations regarding internal controls, financial reporting, and misconduct, including fraud.

## Risk assessment



- Strategic risk assessment
- Financial risk assessment
- Operational risk assessment

Risk assessment relates to management's processes for considering risks that may prevent an entity from achieving its objectives, and how management agrees risks should be identified, assessed, and managed.

To achieve appropriate management of business risks, management can either accept the risk if it is minor, or mitigate the risk to an acceptable level by implementing appropriately designed controls. Management can also eliminate risks entirely by exiting from a risky business venture.

## Control activities



- General information technology controls
- Automated controls
- Manual controls

Control activities are the actions taken to implement policies and procedures in accordance with management directives and ensure identified risks are addressed. These activities operate at all levels and in all functions, and can be designed to prevent or detect errors entering financial systems.

The mix of control activities can be categorised into general information technology controls, automated controls, and manual controls.

## General information technology controls

General information technology controls form the basis of the automated systems control environment. They include controls over information systems security, user access, and system changes. These controls address the risk of unauthorised access and changes to systems and data.

## Automated control activities

Automated controls are embedded within information technology systems. These controls can improve the timeliness, availability, and accuracy of information by consistently applying predefined business rules. They enable entities to perform complex calculations in processing large volumes of transactions, and improve the effectiveness of financial delegations and segregation of duties.

## Manual control activities

Manual controls contain a human element, which can provide the opportunity to assess the reasonableness and appropriateness of transactions. However, these controls may be less reliable than automated elements as they can be more easily bypassed or overridden. They include activities such as approvals, authorisations, verifications, reconciliations, reviews of operating performance, and segregation of incompatible duties. Manual controls may be performed with the aid of information technology systems.

## Information and communication

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- Non-financial systems
- Financial systems
- Reporting systems

Information and communication controls are the systems used to provide information to employees, and the processes used to control how responsibilities are communicated.

This aspect of internal control also considers how management generates financial reports, and how these reports are communicated to internal and external parties to support the functioning of internal controls.

## Monitoring activities

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- Management supervision
- Self-assessment
- Internal audit

Monitoring activities are the methods management uses to oversee and assess whether internal controls are present and operating effectively. This may be achieved through ongoing supervision, periodic self-assessments, and separate evaluations. They also concern the evaluation and communication of control deficiencies in a timely manner to effect corrective action.

Typically, the internal audit function and an independent audit and risk committee are responsible for implementing controls and resolving control deficiencies. These two functions work together to ensure that internal control deficiencies are identified and then resolved in a timely manner.

## Appendix J—Glossary

Term	Definition
Accountability	Responsibility of public sector entities to achieve their objectives in reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws.
Acquisition	Establishing control of an asset, undertaking the risks, and receiving the rights to future benefits as would be conferred with ownership, in exchange for the cost of acquisition.
Asset valuation	The process of determining the fair value of an asset.
Audit by arrangement	An audit by the auditor-general of an entity that is not a public sector entity, conducted at the request of a minister or a public sector entity and with the consent of the entity.
Audit committee	A committee intended to provide assistance to the accountable officer or statutory body in discharging their obligations. Duties and responsibilities can involve oversight of all or a combination of the following: <ul style="list-style-type: none"> <li>▪ effectiveness and reliability of internal controls</li> <li>▪ quality and integrity of accounting and reporting practices</li> <li>▪ effectiveness of performance management</li> <li>▪ legal and regulatory compliance</li> <li>▪ auditor's qualifications and independence</li> <li>▪ performance of the internal audit function and external auditors.</li> </ul>
<i>Auditor-General Act 2009</i>	An Act of the State of Queensland that establishes the responsibilities of the auditor-general, the operation of the Queensland Audit Office, the nature and scope of audits to be conducted, and the relationship of the auditor-general with parliament.
Auditor's opinion	A written expression of the auditor's overall conclusion on the financial report based on audit evidence obtained.
Australian accounting standards	The rules by which financial statements are prepared in Australia. These standards ensure consistency in measuring and reporting on similar transactions.
Capital expenditure	Expenditure to acquire assets or improve the service potential of existing assets. It is capitalised to the balance sheet.
Control environment	The structures, policies, attitudes, and values that influence daily operations. A component of internal control that provides the foundation for other elements of internal control.
Controlled entity	Entity controlled or owned by one or more public sector entities.
Community service obligations	Government payments to commercial entities to provide services that are not in the entity's commercial interests.
Deficit	When total expenditure exceeds total revenue, resulting in a loss.
Depreciation	The systematic allocation of a fixed asset's capital value as an expense over its expected useful life to take account of normal usage, obsolescence, or the passage of time.



Term	Definition
Disclaimer of opinion	When the auditor is unable to express an opinion as to whether the financial statements comply with relevant accounting standards and legislative requirements.
Discount rate	Interest rate used to calculate the present-day value.
Emphasis of matter	A paragraph included with the audit opinion to highlight an issue of which the auditor believes the users of the financial statements need to be aware. The inclusion of an emphasis of matter paragraph does not modify the audit opinion.
Fair value	The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.
<i>Financial Accountability Act 2009</i>	An Act of the State of Queensland that establishes accountability for the administration of the state's finances and financial administration of departments and statutory bodies, as well as annual reporting to parliament by departments and statutory bodies.
Financial and Performance Management Standard 2009	Subordinate legislation of the State of Queensland that provides a framework for an accountable officer of a department, or a statutory body, to develop and implement systems, practices, and controls for the efficient, effective, and economical financial and performance management of the department or statutory body.
Financial reporting requirements	Queensland's annual financial statement reporting requirements provided to assist departments and statutory bodies in the preparation of their financial statements. The requirements provide updates on new and revised accounting policies and standards, and additional guidance and advice on the application of such policies and standards.
Financial statements	Report on an entity's financial performance over a period of time, and financial position at a point in time, prepared in accordance with a financial reporting framework. It includes a profit and loss statement, balance sheet, cash flow statement, a statement of changes in equity, and accompanying notes disclosing how amounts have been recognised and measured.
Fraud	Any act or omission, including a misrepresentation, that knowingly or recklessly misleads, or attempts to mislead, a party to obtain a financial or other benefit or to avoid an obligation.
Going concern	An entity is expected to be able to pay its debts as and when they fall due, and to continue to operate without any intention or necessity to liquidate or wind up its operations.
Governance	The arrangements in place at an entity to plan, direct, and control its activities to achieve its strategic and operational goals.
General government sector	<p>The group of legal entities established by political processes that have legislative, judicial, or executive authority over other institutional units within a given area. The primary function of these agencies is to provide public services that:</p> <ul style="list-style-type: none"> <li>▪ are non-trading in nature and that are for the collective benefit of the community</li> <li>▪ are largely financed by way of taxes, fees, and other compulsory charges</li> <li>▪ involve the transfer or redistribution of income.</li> </ul>

Term	Definition
Impairment	When an asset's carrying amount exceeds the amount that can be recovered through use or sale of the asset.
Internal audit	An appraisal activity established or provided as a service to the entity. Its functions include examining, evaluating, and monitoring the adequacy and effectiveness of internal control, and reporting deficiencies to management.
Key management personnel	Those people having authority and responsibility for planning, directing, and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity.
Legislative timeframe	In this context, the date prescribed by legislation for a public sector entity to finalise its financial statements or annual report.
Management	Those with the executive responsibility for conducting an entity's operations.
Materiality	This relates to the size or nature of the item or error judged against the circumstances of its omission or misstatement. Information is material if its omission or misstatement could influence the economic decisions of users.
Misstatement	A difference between the amount, classification, presentation, or disclosure of a reported financial report item and the amount, classification, presentation, or disclosure that is required for the item to be in accordance with the applicable financial reporting framework. Misstatements can arise from error or fraud.
Modified audit opinion	A modified opinion is expressed when financial statements do not comply with the relevant legislative requirements and Australian accounting standards, and are not accurate and reliable.
Net operating balance	Calculated by subtracting continuing operations expenses (from transactions) from continuing operations revenue (from transactions) to show what the entity has earned or lost in a given period of time.
Net worth	Total assets less total liabilities.
Net result	Calculated by subtracting an entity's total expenses from its total revenue to show what the entity has earned or lost in a given period of time.
Non-current assets	An entity's long-term investments, where the full value will not be realised within the financial year. These assets are capitalised rather than expensed, meaning that the cost of the asset can be allocated over the number of years for which the asset will be in use, instead of allocating the entire cost to the financial year in which the asset was purchased.
Prior period error	Omissions from, and misstatements in, an entity's financial statements caused by not using or misusing information that was available or could have been obtained and taken into account in preparing the financial statements.
Public private partnership	Cooperative agreements generally entered into with private sector entities for the delivery of government services.
Public sector entity	A department, statutory body, government owned entity, local government entity, or controlled entity.

Term	Definition
Qualified audit opinion	<p>Opinion issued when the financial statements as a whole comply with relevant accounting standards and legislative requirements, with the exceptions noted in the opinion.</p> <p>These exceptions could be the effect of a disagreement with those charged with governance, a conflict between applicable financial reporting frameworks, or a limitation on scope that is considered material to an element of the financial report.</p>
Related party	A related party is a person or an entity that is related to the entity that is preparing its financial statements.
Risk management	The systematic identification, analysis, treatment, and allocation of risks. The extent of risk management required will vary depending on the potential effect of the risks.
Service concession arrangement	An arrangement that typically involves an operator in upgrading an asset or constructing the assets used to provide a public service. The operator also operates and maintains the assets for a specified period. Such arrangements are often described as public private partnerships.
Special purpose financial statements	Financial statements that are designed to meet the financial information needs of a specific group of users.
Surplus	Total revenue exceeds total expenditure resulting in a profit.
Total state sector	Includes all institutional units in the general government sector, public non-financial corporations, and public financial corporations.
Unmodified audit opinion	Opinion issued when the financial statements comply with relevant accounting standards and prescribed requirements.

# Appendix K—Checklist for managing machinery of government (MoG) changes

## Introduction to checklist

Machinery of government (MoG) changes occur when the Premier alters the government's administrative arrangements. This is achieved through an Administrative Arrangements Order, which is made by Governor-in-Council.

An Administrative Arrangements Order identifies the responsibilities of ministers and their portfolios, including the Acts they administer and the departments, agencies and office holders responsible for them.

MoG changes usually result in the transfer of specific functions and legislative responsibilities from one department to another. This also involves the transfer of assets and liabilities between departments. MoG changes may include:

- the abolition of existing departments with all responsibilities transferred to other departments
- the creation of new departments
- changes to the functions, outputs or resources within existing departments.

As this process can also affect other government entities, for example, statutory bodies and controlled entities, the generic term 'agencies' will be used throughout the remainder of this document.

Given the wide-ranging impact of MoG changes, affected agencies should consider all aspects of change including governance, delegations, financial systems and corporate policies and conduct a formal, planned approach. This will help them to identify, manage and monitor the associated risks at both an operational and strategic level.

The Queensland Audit Office (QAO) developed the following *Checklist for managing machinery of government changes* to provide an overview of the main areas of change faced by agencies in implementing MoG changes.

**This checklist provides guidance on some of the most common and important issues that arise during MoG changes. It is a guide only and does not address every possible issue resulting from MoG changes. They will be different in every agency.**

This is a starting point. How you apply the checklist will depend on the particular circumstances of the MoG changes affecting your agency.

### Disclaimer

This publication is a guide only and the topics covered by this document do not address the full range of change impacts arising from MoG changes.

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## General governance and organisational issues

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### Change management

- ❑ **Decide who will drive the changes**

Identify clear lines of responsibility for driving the required changes, and involve senior executives where appropriate.
- ❑ **Agree on the changes required**

Make sure that the transferring and receiving agencies agree on the nature and scope of the changes required. This will include agreeing on the date of the transfer and we strongly recommend this occur at a month end.
- ❑ **Communicate the changes**

Make sure that everyone who is affected by the changes understands what is required.
- ❑ **Appoint a project team**

Set up a project team early in the transition phase to coordinate all aspects of reorganisation. Ensure:

  - members of the project team have the right mix of skills and experience, including project management
  - the project team, as a matter of urgency, identifies and assesses key issues, risks, expected impacts and necessary resources
  - there is clear direction from and reporting to the senior executive
  - the project team, with guidance from the senior executive, identifies which values and cultures are to be reinforced in the new organisation.
- ❑ **Develop a transition plan**

Develop a transition plan which not only addresses change issues, but also business as usual issues. Ensure it includes:

  - mitigation strategies for the key identified risks
  - steps for reviewing progress against plans and reporting to the senior executive on a regular basis
  - procedures for dealing with variations to plans.
- ❑ **Seek expert assistance if necessary**

Decide whether you need consultants or contractors to assist in managing the process.
- ❑ **Develop a communication strategy**

Design your communication strategy early, and ensure it includes:

  - communication with central agencies and external audit
  - notifying clients about relevant changes to operations
  - keeping staff informed of the process.
- ❑ **Consider external committees**

If the agency is represented on external committees, identify any adjustments required and inform those committees of impending changes.

## Corporate policies and plans

### □ Review policies

Review and update policies to ensure they are relevant, appropriate and maintain accountability.

### □ Review standards

Review corporate standards in finance, human resources and administration.

### □ Review plans

Review and update strategic plans, asset plans, information and communication technology plans and operational plans where appropriate.

### □ Review performance measures

Review and update performance measures where appropriate.

## Delegations

### □ Review, check and update delegations

Ensure you:

- review instruments of delegation and, where appropriate, update them to ensure there is timely decision-making and continuity of operations
- confirm that delegations conform to the Administrative Arrangements Order and the new structure, and are consistent across the agency
- review relevant legislation and adjust references in instruments of delegation, where necessary.

## Governance

### □ Consider the organisational impact of revised ministerial responsibilities

Assess whether organisational changes are required to reflect revised ministerial responsibilities under the Administrative Arrangements Order.

### □ Assess the structural compatibility of merging and transferred areas

Determine whether the jobs, staff numbers and pay levels are comparable and what needs to be done about any incompatibilities.

### □ Review accountability arrangements

Focus on:

- the continuing relevance of core/strategic committees (for example, audit, finance, information technology and risk management)
- the composition, skills and terms of reference of core committees
- internal management reporting requirements
- organisational, compliance and policy frameworks
- the performance reporting framework.

### □ Communicate expectations to stakeholders

Clearly communicate expectations to all relevant parties and stakeholders in a timely manner.

### □ Address outstanding issues in audit reports and external reviews

Follow-up on issues raised in previous audit reports and external reviews before reorganisation.

❑ **Identify significant issues from key committees**

Ensure all significant and ongoing issues raised at key committees of the previous agencies are identified and carried forward.

## Legal

❑ **Address all legal matters**

Review existing obligations from contracts, leases and litigation.

- Get confirmation from Crown Law about pending matters.
- Identify opportunities for review and renegotiation of terms and contracts.
- Transfer contracts for outgoing functions.

## Records

❑ **Manage the handover of records**

In doing so:

- decide which records need to be transferred
- ensure agreements are in place between agencies for the transfer and maintenance of records
- develop and implement an effective handover process
- review the status of, and responsibility for, completion of Right to Information requests
- consider any requirements or guidance issued by Queensland State Archives
- ensure information privacy requirements are complied with.

## Staff changes

❑ **Consider and address the impact on staff**

- Deal with possible negative effects on morale with the loss of key staff and corporate knowledge and with the merging of different organisational cultures.
- Provide counselling services for staff where necessary.
- Communicate with staff on secondment or long-term leave.

❑ **Attend to payroll, salary packaging, leave, and superannuation issues**

- Arrange transfers between payroll systems.
- Review salary packaging arrangements.
- Advise the relevant Superannuation Fund of the personnel who are being transferred.
- Reconcile recreation leave, long service leave and superannuation records.

❑ **Manage staff-related records and equipment**

- Arrange for the transfer of staff records.
- Return or issue security passes and access cards.
- Arrange for the return of equipment where necessary (for example, laptop computers).

❑ **Address relocations, secondments and contracts**

- Arrange for staff relocation or secondments.
- Wind down temporary contract arrangements if these skills are no longer required.

## Stationery, signage and uniforms

### □ Assess all stationery, signage and uniforms

Decide what can still be used and what needs to be replaced.

## Financial management issues

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### Budget implications

#### □ Address all budget implications

- Transfer budgets between agencies in accordance with Governor-in-Council approval under s.79 of the *Financial Accountability Act 2009* (FA Act).
- Review issues surrounding equity injection/withdrawal.
- Review recoverable funding arrangements.
- Consider the budget implications of the changes implemented.
- Undertake a 'gap analysis' to determine the differences between the previous and new budgeting processes.

### Chart of accounts

#### □ Review and align the chart of accounts

- Review and align with new organisational structure.
- Review and align financial reporting requirements.

## Financial and other systems

### □ Make decisions about key systems

- Consider arrangements to ensure financial, human resources and other systems are operative from day one or workable interim arrangements are put in place.
- Decide which systems to use.
- Realign key systems for new organisational structure and operating arrangements. Merge computerised financial databases.
- Consider how to interface various systems.
- Where systems are incompatible, set up a working party to identify and resolve the issues.
- Consider issues with data conversion and staff training.
- Transfer ownership, licences and staff.
- Review internal controls to ensure they are continuing to operate effectively and efficiently.
- Perform reconciliations of all subsidiary systems at the time of the split (before and after transfer) and of all relevant account balances.
- Remove system access for personnel leaving the organisation and arrange access for new personnel.
- Update business directories.
- Review contractual arrangements.
- Update internet and intranet sites.



## Financial policies and procedures

- **Reach agreement on policies and procedures**
  - Consider the need for short-term operating procedures to deal with administrative matters until the new arrangements are in place.
  - Review and update policies and procedures, instructions and manuals to ensure they are relevant and appropriate and maintain accountability.
  - Agree on policies and procedures to be adopted for transferred areas. Ensure these align with policies and procedures adopted by other areas of the agency.
- **Address staffing responsibilities related to policies and procedures**
  - Communicate policy and procedural changes to staff.
  - Adopt appropriate measures to ensure staff comply with new or revised policies and procedures.
  - Review the roles and responsibilities of staff within the finance division.
  - Clarify responsibility for processing of transactions straddling the handover date to ensure all valid transactions are processed accurately and on a timely basis.
- **Address financial policy and reporting compliance issues**
  - Ensure that all accounting policies are reviewed for compliance with prescribed requirements.
  - Assess the impact on financial reporting by the relevant agencies including compliance with:
    - s.80 of the FA Act—Financial reporting—when redistribution of public business of the agency takes effect for financial reporting purposes
    - s.44 of the *Financial and Performance Management Standard 2009* (FPMS), which contains the financial reporting provisions for newly formed departments and statutory bodies
    - s.47 and s.48 of the FPMS, which identify financial reporting requirements for abolished departments and statutory bodies
    - s.52 of the FPMS, which contains the annual reporting provisions for newly formed departments and statutory bodies
    - s.53 of the FPMS, which contains annual reporting provisions for abolished departments and statutory bodies
    - Financial Reporting Requirements (FRR) issued by Queensland Treasury FRR 2F—Machinery of Government Changes FRR 4F—Equity, Contributions by Owners and Distributions to Owners.

## GST issues

- **Make necessary changes and review responsibilities for GST-related matters**
  - Consider any necessary changes to existing grouping arrangements. Apply the criteria used during the implementation phase to assess the implications of those changes.
  - Liaise with Queensland Treasury to notify the Australian Taxation Office of changes to grouping, new registrations, deregistration and other administrative changes, for example, registering a new Australian Business Number if required.
  - Review responsibility for preparation of Business Activity Statements and appointment of input tax credits.

## Management reporting

- **Ensure that effective management reporting continues**
  - Review current management reporting requirements, identify new requirements and determine options going forward.
  - Consider the need to produce an interim report to management.
  - Ensure that all new accountable officers, management and committee members are informed about the agency's major activities and provided with all relevant financial information (for example, budgets, financial position and financial performance) and audit issues.

## Shared service arrangements

- **Identify and resolve any issues related to shared service arrangements**
  - Consider the impact of the MoG changes on shared services arrangements, including any impacts on the shared service provider.
  - If necessary, renegotiate Service Level Agreements (SLA).
  - Consider controls in place to ensure compliance with the SLA including implications for breach of agreements.
  - Consider any changes to the information needs of agencies within the shared service environment.
  - Keep all stakeholders (including staff) informed of any new reporting requirements, responsibilities and protocols.
  - Review controls over the processing of transactions, data and maintenance and access to files and records.

## Split of assets, liabilities, revenue and expenses

- **Formally agree split of balances**

Do this as soon as practicable after the MOG change is announced and:

  - ensure account balances to be transferred are confirmed and formal sign-off between agencies (relevant accountable officers to sign) takes place
  - where agreement cannot be reached by agencies, ensure the issue is escalated to the appropriate minister(s) for determination
  - perform a physical stocktake with representatives of all affected agencies
  - revalue assets in accordance with the requirements of the FRRs issued by Queensland Treasury
  - re-brand assets during stocktake
  - ensure capital work in progress is correctly calculated
  - maintain detailed records
  - implement effective handover procedures.

## Split of funds

- **Officially split funds**
  - Ensure accruals are correctly calculated.
  - Confirm the final split of funds and ensure there is an official sign-off between entities.
  - Ensure an effective handover.

## Audit issues

### □ Record, identify and review audit issues

- Keep a register of audit issues raised by the QAO and internal audit.
- Identify recent matters reported to parliament or proposed to be reported to parliament by QAO.
- If prior year financial statements received a modified auditor's opinion, review the issues giving rise to the opinion and identify measures to be adopted to address the issues.

### □ Follow up outstanding matters

Follow up any outstanding matters referred to the QAO, the Crime and Corruption Commission (CCC), the Ombudsman or internal audit for review or investigation.

### □ Raise potential concerns with the QAO

Raise potential concerns or issues associated with the MoG changes with QAO auditors as soon as practicable, and maintain regular communication.

# Auditor-General reports to parliament

## Reports tabled in 2017–18

Number	Title	Date tabled in Legislative Assembly
1.	Follow-up of Report 15: 2013–14 Environmental regulation of the resources and waste industries	September 2017
2.	Managing the mental health of Queensland Police employees	October 2017
3.	Rail and ports: 2016–17 results of financial audits	December 2017
4.	Integrated transport planning	December 2017
5.	Water: 2016–17 results of financial audits	December 2017
6.	Fraud risk management	February 2018
7.	Health: 2016–17 results of financial audits	February 2018
8.	Confidentiality and disclosure of government contracts	February 2018
9.	Energy: 2016–17 results of financial audits	February 2018
10.	Finalising unpaid fines	February 2018
11.	Queensland state government: 2016–17 results of financial audits	February 2018

## Contact the Queensland Audit Office

