

Results of audit: State public sector entities for 2011-12

Report to Parliament 5 : 2012-13



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November 2012

The Honourable F Simpson MP
Speaker of the Legislative Assembly
Parliament House
BRISBANE QLD 4000

Dear Madam Speaker

This report is prepared under Part 3 Division 3 of the *Auditor-General Act 2009*, and is titled *Results of audits: State public sector entities for 2011-12*.

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 'Andrew Greaves', is written over a light grey, circular watermark that contains the letters 'QAO'.

Andrew Greaves
Auditor-General

Contents

Summary	1
1. Context	11
2. Legislative Assembly of Queensland	15
3. Aboriginal and Torres Strait Islander and Multicultural Affairs and Assisting the Premier	19
4. Agriculture, Fisheries and Forestry	23
5. Attorney-General and Justice	29
6. Communities, Child Safety and Disability Services	35
7. Deputy Premier, State development, Infrastructure and Planning	39
8. Education, Training and Employment	45
9. Energy and Water Supply.....	55
10. Environment and Heritage Protection	65
11. Health	71
12. Housing and Public Works.....	83
13. Local Government.....	89
14. National Parks, Recreation, Sport and Racing.....	93
15. Natural Resources and Mines	97
16. Police and Community Safety.....	109
17. Premier	115
18. Science, Information Technology, Innovation and the Arts	121
19. Tourism, Major Events, Small Business and the Commonwealth Games.....	125
20. Transport and Main Roads.....	129
21. Treasurer and Trade	135
Appendices	147
Appendix A - Agency comments.....	149
Appendix B - Audit opinions issued for state public sector entities since Report No. 11 for 2011.....	158
Appendix C - Better practice for financial statement preparation	160

Summary

Background

All state public sector entities are required to prepare financial statements, have these audited, and include the audited financial statements in their annual reports. The audit opinion we express on these statements adds to their credibility; providing the reader with greater, but not absolute, assurance that the financial information contained therein is reliable.

This report to Parliament, prepared under section 60 of the *Auditor-General Act 2009*, is the first of four reports to be presented to Parliament this year. It deals with the results of the 2011-12 financial statement audits of State government departments, statutory bodies and government owned corporations; and the entities they control. Separate reports on the results of local government audits; and on universities and grammar schools, will be prepared when these audits are finalised. Given the later than usual timing of the whole of government financial statements, a separate report will be tabled on the results of that audit.

While this report deals primarily with the audit opinions we issued, the financial audit process considers also the internal financial controls that operate within each entity. We reported on our assessment of internal controls for the 2011-12 financial year in June 2012 (*Report 5: 2012 Results of audits: Internal control systems*)

Conclusion

Overall the financial statements of State public sector entities were timely and of good quality, and can be relied upon. Fewer qualified audit opinions were issued this year than last year. This is a positive sign that overall the reliability of financial reporting is improving.

This year, the completion of financial statements of all departments was significantly affected by the machinery of government changes that occurred following the state election in March 2012, with all departments being granted an extension to their usual financial statement certification deadline.

The combination of the significant changes to departments and the rescheduling of the state budget are not expected to recur. But it has highlighted the importance of having a good financial statement preparation process and in particular, building good month-end and year-end processes to be able to easily produce financial statement information. The quality of the financial statement preparation processes of four departments was adversely affected by these changes, with staff not able to conduct quality reviews of financial statements prior to providing them for audit.

The timeliness and quality of other public sector entities' financial statements was largely unaffected, with the results being the same or slightly better than last year.

Findings

Audit opinions

At 31 October 2012, audit opinions have been issued for 332 of 348 (95.4 per cent) state public sector entities required to prepare them, compared to 302 of 341 entities (88.6 per cent) at the same time last year.

Figure A
Status of financial statements

Entity type	Total	Opinion issued			Opinion not yet issued
		Unqualified	Unqualified but with an emphasis of matter	Qualified	
Departments and controlled entities	52	49	2	0	1
Government owned corporations and controlled entities	22	21	1	0	0
Joint controlled entities	7	5	1	0	1
Statutory bodies and controlled entities	165	76	80	2	7
Audited by arrangement	101	11	83	0	7
Consolidated Fund Account	1	1	0	0	0
Total	348	163	167	2	16

Source: Queensland Audit Office

For completed financial statements, 330 (99.4 per cent) unqualified opinions were issued, confirming that these financial statements have been prepared according to the requirements of legislation and relevant accounting standards. Last year, 292 (96.7 per cent) unqualified audit opinions had been issued.

Qualified audit opinions are issued when part or all of the financial statements do not comply with relevant accounting standards and legislative requirements. The two qualified audit opinions issued this year are an improvement from last year, when 10 qualified audit opinions (3.3 per cent) were issued. The issues affecting these opinions last year, mainly about the treatment of donation revenue, have been resolved.

The two qualified opinions issued this year were for the Queensland Bulk Water Transport Authority and Redcliffe Hospital Foundation.

For the last two financial years, the Queensland Bulk Water Transport Authority (trading as LinkWater) has recognised a significant deferred tax asset in their accounts (2012: \$126.102 million; 2011: \$120.264 million). Australian Accounting Standards require that a deferred tax asset should only be recognised to the extent probable that future taxable profits will be available, against which the unused tax losses can be used.

The deferred tax asset should not have been recognised as management estimated that the future taxable profits were not likely to occur until 2023. While LinkWater obtained advice during 2012 supporting their decision to recognise the net deferred tax asset at 30 June 2012, we did not consider this timeframe met the probability requirement under the Australian Accounting Standards. The probability that LinkWater will utilise tax losses is also affected by the uncertainty around the restructuring of the South East Queensland bulk water entities. Because of these issues, we issued a qualified audit opinion, as we did in 2010-11.

Financial statements are prepared under the assumption that the entity is a going concern, meaning it will continue in operation for the foreseeable future and will be able to realise assets and discharge liabilities in the normal course of operations. This is one of the fundamental concepts in preparing financial statements.

When substantial uncertainty exists about whether an entity is a going concern and has not made appropriate disclosures, a qualified opinion is issued. A qualified opinion was issued for Redcliffe Hospital Foundation (the foundation) due to going concern issues. The foundation's ability to meet its ongoing debts depends on it obtaining approval to sell an investment property and executing a lease for the operation of the Moreton Bay Integrated Care Centre. It is uncertain when these events will occur. Because of this uncertainty the foundation should have established whether the valuation and classification of its assets and liabilities would have been materially different if not prepared on a going concern basis, and have disclosed this information in its statements. The foundation's audit opinion was also qualified last year.

A paragraph can be included with the audit opinion drawing attention to or emphasising a matter in the financial statements without warranting qualification of the audit opinion. Emphasis of matter paragraphs were included in 167 audit opinions (50.3 per cent) issued for completed financial statements mainly due to special purpose financial statements being prepared, compared with 141 (46.7 per cent) issued last year. Sixteen entities that did not have emphasis of matter paragraphs included last year were or are in the process of being wound up this year and have contributed to the difference. The audit opinions of four small water bodies have not yet been issued which are likely to include an emphasis of matter paragraph relating to special purpose financial statements so the number is likely to rise.

Timeliness of financial statements

The relevance and usefulness of an entity's annual report is enhanced, and accountability more effective, where reports are available to the parliament soon after the end of the financial year.

Recognising the importance of financial statements in providing accountability for the use of public monies, entities should prepare and publish their financial information in a timely way. The later the annual reports are produced and published after year-end, the less useful they are for stakeholders and for informing decision-making.

Not all entities have a legislated timeframe to complete their statements. Of the 247 that do, 190 (76.9 per cent) had their financial statements certified by management and audit by their legislated timeframe, compared with 165 of 241 (68.4 per cent) in 2011. One department, 47 statutory bodies and one government owned corporation (27 per cent) did not meet their legislative timeframes for certification of their 2011-12 financial statements.

- **For departments**, 25 of 26 (96.1 per cent) met their legislative timeframe, compared with 18 of 20 departments (90 per cent) last year. The Department of State Development, Infrastructure and Planning did not meet the timeframe due to complications caused by the machinery of government changes. The machinery of government changes in early 2012 and the budget process this year in September instead of June delayed the financial statement preparation process for departments. All departments were granted an extra month extension by the Treasurer to have their financial statements certified by management by 30 September 2012. Five departments were granted a further extension to 19 October 2012.
- **For statutory bodies**, 109 of 156 (69.8 per cent) where audit opinions have been issued met their two-month legislated timeframe. This is also an improvement on last year, where 101 of 157 (64.3 per cent) met the timeframe. Another 25 statutory bodies' financial statements, mainly small water bodies, have been finalised but they did not meet their legislated timeframe.
- **For government owned corporations**, 11 of the 12 (91.6 per cent) financial statements were certified within the two-month legislated timeframe, compared to 100 per cent last year. The North Queensland Bulk Ports Corporation Ltd did not meet the timeframe due to accounting issues that had to be resolved.
- **For controlled entities that are public sector companies**, 44 of 53 (83 per cent) were certified by their legislated timeframe under the *Corporations Act 2001*, compared with 34 of 52 (65.3 per cent) last year.
- **For the Consolidated Fund Financial Report**, it met its timeframe, as it did last year.

Quality of financial reporting processes

The quality of an entity's financial reporting can be measured by the timeliness and accuracy of the preparation and finalisation of its financial statements. To achieve cost effective financial reporting, state public sector entities need to have well planned and managed financial report preparation processes.

We assessed the 42 most material public sector entities against better practice to determine if their processes were satisfactory or needed improvement. These entities were chosen for their significance to their individual portfolios and financial importance to the state.

Overall the financial statement processes of 37 of these 42 entities (88 per cent) were satisfactory and five (12 per cent) need improvement as shown below.

Figure B
Quality of financial statement preparation process

Type of entity	Quality level		
	Satisfactory	Need improvement	Total
Departments	19	4	23
Statutory bodies	11	0	11
Government owned corporations	7	1	8
Total	37	5	42

Source: Queensland Audit Office

For departments, 19 of 23 (83 per cent) departments' financial statement preparation processes were satisfactory. Four departments' processes need improvement. All four experienced significant machinery of government changes:

- the Department of Agriculture, Fisheries and Forestry, Department of State Development, Innovation and Planning, and the Department of Tourism, Major Events, Small Business and the Commonwealth Games require improvements to quality review processes
- the Department of Communities, Child Safety and Disability Services need to improve supporting documentation for financial statements.

Issues affecting the financial statement preparation process at new and significantly changed departments were:

- transactions and balances for new departments from the accounting systems of former departments not being easily identifiable
- key staff being diverted to complete other activities such as preparing budget information affecting the timeliness of financial statements
- rigorous analytical review not being performed due to the significant changes to the departments from last year
- lack of available or experienced staff resulting in inadequate quality review of financial statements.

All processes for the statutory bodies examined were satisfactory, although none of the 11 had been significantly affected by the machinery of government changes.

Government owned corporations were better prepared to produce their financial statements with seven of eight (88 per cent) being assessed as satisfactory. The North Queensland Bulk Ports Corporation Ltd's (the corporation) financial statement process needed improvement as it did not adequately allow for the time required to resolve complex accounting issues. The corporation has acknowledged the need to further improve planning processes.

The frequency and size of errors in the draft financial statements requiring adjustment are direct measures of accuracy. Ideally, there should be no errors or adjustments arising through the audit process. When we detect errors in the draft financial statements these are raised with management. Material errors require correction so that an unqualified audit opinion can be issued. The entity itself may also change its draft financial statements after submitting them to audit, if their quality assurance procedures subsequently identify that reported information is incorrect or incomplete.

Before being given to audit, financial statements should be subject to appropriate internal quality assurance checks to establish that they are complete and materially accurate and comply with reporting and disclosure requirements. Ideally, only one set of financial statements should be prepared by management with no adjustments being required.

The measure of the quality of the draft financial statements submitted for audit is the number of any subsequent changes required to be made to them. Combined material adjustments required to financial statements before an audit opinion could be issued for the 42 significant State public sector entities totalled \$793.28 million. Of the 42 entities, 31 (74 per cent), being 14 departments, 11 statutory bodies and six government owned corporations, required no material adjustments to their financial statements.

The figure below shows that departments required the greatest amount of financial statement adjustments at \$691.8 million. The most significant adjustments of \$287 million were made by the Public Trustee of Queensland and relate to the reclassification of balances to better disclose the nature of the amounts. Reclassification was also the most common cause of adjustments across departments. However, the type and value of changes required to departments' financial statements prior to certification by audit indicates the need to improve their internal quality assurance processes.

Figure C
Changes to financial statements prior to audit certification*

Financial statement area	Total changes (\$mil)		
	Departments	Statutory bodies	Government owned corporations
Income	22.9	0.0	10.1
Expenses	38.6	0.0	12.2
Other comprehensive income	77.6	0.0	8.3
Assets	397.1	0.0	13.4
Liabilities	58.7	0.0	15.2
Equity	96.9	0.0	42.3
Total	691.8	0.0	101.5

Number of entities that processed a change: Department: 9, Statutory bodies: 0, Government owned corporations: 2

* The extent of changes made within each entity's financial statement was considered based on materiality to the financial statements.

Source: Queensland Audit Office

Government owned corporations had minimal adjustments in comparison, with key adjustments being those for valuation and impairment of assets.

The group collectively producing the best quality financial statements was statutory bodies. Those examined had no adjustments, and also performed well in terms of the quality of their financial statement processes. This however is not indicative of the quality of all statutory bodies' financial statements. While these 11 bodies are materially significant, they represent seven per cent of the total number of statutory bodies.

Systemic financial management issues

During audit of state public sector entities, systemic issues were identified that have, or will result in, increased financial risk to the state.

Partnering arrangements for infrastructure delivery

Governments enter into arrangements with the private sector to build significant infrastructure and then typically to manage the operation and maintenance of these assets. These procurements involve complex financing and contractual arrangements, and include a variety of approaches to risk transfer and retention between the state, as the grantor, and the concession holder. Accounting for and reporting on these arrangements by the State requires a case by case consideration of the economic substance of each arrangement.

In particular, the accounting treatment for State contributions to, and concession payments for, these projects require careful consideration. If they are retained 'on-balance sheet' they have the potential to adversely affect the State's future operating results and fiscal balances.

Issues about five public private arrangements are discussed in this report, because of their significance to their individual portfolio, being:

- the accounting for the significant service concession arrangements for AirportLink and Gold Coast Rapid Transit
- the sale of the Morningside TAFE Campus at Southbank Institute of Technology and the funding of the Southbank Education and Training Precinct public private partnership
- the future value of the assets held by the state in the Western Corridor Recycled Water Scheme and the Gold Coast Desalination Plant.

Appropriate accounting treatments need to be determined for the material state contribution to AirportLink made in 2012-13, as to whether it should be capitalised or treated as a subsidy to the concession holder; and for the Gold Coast Rapid Transport Project, which on initial examination resembles a finance lease transaction and so would be retained on balance sheet.

The loss on sale of the Morningside TAFE campus effectively increased the cost of this public private partnership to the state, and there remains a significant unfunded component for this project from 2016-17.

Decisions on the future of the Western Corridor Recycled Water Scheme and the Gold Coast Desalination Plant will affect the valuation of these assets. Presently, they are all operating at significantly below their design capacity, with three recycling plants either decommissioned, partly decommissioned, or on low flow operation and the desalination plant on standby. The impact on the future operating costs of all these plants needs to be assessed in terms of the need to impair these assets and write-down their values. Any decision about the transfer of debt being accumulated by the Grid Manager; being the difference between what it pays the operators for these facilities and what it charges for water; may also adversely affect the valuation of these assets.

Maintenance of infrastructure assets

Our audit of the underlying data and records supporting the 2011-12 financial statements for the Departments of Education, Training and Employment, and Transport and Main Roads; confirmed that the maintenance of State-owned infrastructure assets, particularly roads, TAFEs and schools, is a significant burden on the State finances.

- **Schools** – in times of fiscal constraint, the risk of maintenance backlog increases, and with this the condition of assets will deteriorate. The increased capital investment in new school buildings due to the Building the Education Revolution and other programs has also added to the future maintenance funding requirements. Deferring preventative maintenance will translate into higher total maintenance costs in the longer term, or otherwise will shorten the useful lives of these assets.
- **TAFEs** – the report of the Queensland Skills and Training taskforce made recommendations to rationalise the current TAFE system, and to implement an asset management strategy addressing disposal of surplus infrastructure and ensure sufficient funds to manage and maintain the current and future asset base in the long term.
- **Road network** – while overall road maintenance was within predetermined financial targets, the indicator for road system seal age has shown an adverse trend since 2007-08, with the percentage rising from 16.2 per cent to 23.24 per cent. If this trend persists the condition of the underlying road pavement is at greater risk, which can reduce its useful life.

Contract extensions

In using public funds, the public sector should ensure that the best value for money is received for each significant purchase of goods and services. For large ongoing contracted expenditures, this is best demonstrated by periodic market testing. Typically this involves an open public tender, or some form of limited tender, at the end of the contract term.

Even where contracts have a provision for extension, it is important that some form of evaluation is undertaken to confirm best value for money continues to be obtained. For this reason it should be an exception that an existing contract is simply 'rolled-over'.

To gauge the risk that value for money outcomes are not being achieved, we conducted a preliminary survey across the departments in the general government sector of the extent of the 'rollover' of contracts over \$50 000 for the delivery of materials and services.

Fourteen departments provided data ranging from one to five years commencing in 2007-08 which indicates that more than \$4 billion worth of contracts have been extended or rolled-over in that period. Departments advised that they had extended or rolled-over more than \$1.2 billion worth of contracts in 2011-12 alone. Of most concern, according to the departments 40 per cent of the contracts rolled-over (worth \$423 million) had no provision for extension. Due to limitations in departmental contract registers, some departments could not confirm whether the contracts they rolled-over had a provision for extension or not.

This preliminary data indicates that a significant value of current contracts may be being rolled over without adequate market testing.

Four departments indicated that due to deficiencies in their contract registers, this information was not readily tracked and monitored. This is also of concern as it weakens the ability of the department to centrally monitor and manage contracted expenditure.

In terms of the relative significance of these amounts we note that for the 14 departments who supplied information to audit, their financial statements show that payments for supplies and services in 2011-12 were \$6.653 billion. This includes recurrent expenses not related to contracts or a procurement process. Also commitments at year end relating to contracted expenditure were \$5.114 billion.

Recommendations

It is recommended that all State public sector entities:

- 1. review their procurement practices for contract rollovers to ensure there is appropriate contract succession planning and that value for money is being maintained.**

Reference to agency comments

In addition to progressive engagement during the course of the audit, in accordance with section 64 of *the Auditor-General Act 2009*, relevant areas of this report were provided to entities to review the accuracy of the content.

Entities were encouraged to discuss the report with QAO to correct inaccuracies prior to the finalisation of the report.

Entity views were considered and are represented to the extent relevant and warranted in preparing this report.

Relevant comments received are included in Appendix A of this report.

1 Context

1.1 Sector responsibilities

1.1.1 Scope of report

This report covers 247 State government public sector entities with 30 June 2012 balance dates.

The results of the audits of a further 101 entities, that QAO was requested to perform, but which are not public sector entities are also included. These audits are by arrangement, and are generally for companies or trusts.

1.1.2 Legislative framework

The public sector provides services and performs functions using various types of entities. These include entities that fall under the financial management and reporting provisions of the *Financial Accountability Act 2009* are departments, public service offices, statutory bodies, statutory authorities and corporations sole.

Other types of entities within the Queensland public sector include joint ventures, government owned corporations, proprietary limited companies, trusts and controlled entities of other entities. Financial management and reporting requirements for these entities are dealt with under other specific legislative requirements, such as the *Corporations Act 2001*.

For the purposes of the *Auditor-General Act 2009* (Audit Act), a public sector entity is defined as a department; or a local government; or a statutory body; or a government owned corporation, or a controlled entity. Under the Audit Act, the Auditor-General is required to audit the consolidated fund; and all public sector entities (except for QAO) every financial year. The Auditor-General may audit an entity that is not a public sector entity if asked by the Minister or a public sector entity.

These public sector entities prepare their financial statements and annual reports under:

- the *Financial and Performance Management Standard 2009* (FPMS) – departments and statutory bodies
- *Government Owned Corporations Regulation 2004* – government owned corporations
- *Corporations Act 2001* – controlled entities that are companies.

1.1.3 Legislated timeframes

Departments and statutory bodies are required under the FPMS to have their financial statements finalised and audited no later than two months after the end of the financial year to which the statements relate, that is, by 31 August 2012. This is also the timeframe for government owned corporations as required by the *Government Owned Corporations Regulation 2004*.

As a result of the machinery of government changes and the budget process being delayed until September 2012; all departments, and 28 of the 156 statutory bodies that requested it, were granted an extension of one month by the Treasurer, until 30 September 2012, to have their financial statements certified by management.

Under the FPMS, once this extension has been granted, the legislative timeframe to finalise the financial statements (that is, to be certified by management and audit) becomes six months from balance date, in this case 31 December 2012. Five departments were granted a further extension by the Treasurer, to 19 October 2012, to certify their financial statements.

Annual reports of departments and statutory bodies must be tabled in Parliament by the Minister within three months after the end of the financial year. The appropriate Minister may extend or further extend, for the financial year, the tabling period for the annual report by notice given to the department or the statutory body.

The majority of controlled entities of departments, statutory bodies and government owned corporations are public companies subject to the *Corporations Act 2001*, requiring their annual reports to be issued within four months after the end of the financial year.

Queensland Treasury and Trade require that the annual reports of controlled entities of departments and statutory bodies be tabled in Parliament. This is a new requirement for 2012 and we will report on compliance next year.

1.1.4 Accountability requirements

Departmental Chief Finance Officers are required by the *Financial Accountability Act 2009* to provide the Chief Executive Officer with an annual statement on the operating efficiency, effectiveness and economy of financial internal controls. The minimum requirements to be addressed in the statement are included in s. 57 of the *Financial and Performance Management Standard 2009*.

This requires each departmental Chief Finance Officer to attest to:

- whether the financial records of the department have been properly maintained throughout the financial year in accordance with the prescribed requirements;
- whether the risk management and internal compliance and control systems of the department relating to financial management have been operating efficiently and effectively throughout the financial year;
- since the balance date
 - whether there have been any changes that may have a material effect on the operation of the risk management and internal compliance and control systems of the department; and
 - if there have been any changes—details of the changes; and whether external service providers have given assurance about their controls.

Although an annual statement by their Chief Finance Officers is not required, statutory bodies are required by the *Financial Accountability Act 2009* to:

- ensure their operations are carried out efficiently, effectively and economically
- establish and keep funds and accounts in compliance with legislative requirements
- ensure annual financial statements are prepared, certified and tabled in Parliament in accordance with legislative requirements
- undertake planning and budgeting appropriate to their size
- establish and maintain appropriate systems of internal control and risk management.

1.2 Audit responsibilities

Section 40 of the *Auditor-General Act 2009* requires the Auditor-General audit the annual financial statements of all public sector entities, including those of statutory bodies, and prepare an auditor's report about the financial statements.

The auditor's report, which includes the audit opinion, provides assurance about the reliability of the financial report, including compliance with legislative requirements. In accordance with Australian Auditing Standards, one or more of the following audit opinion types may be issued:

- **Unqualified opinions** are issued where the financial statements comply with relevant accounting standards and prescribed requirements.
- A **qualification** is issued when the financial statements as a whole comply with relevant accounting standards and legislative requirements, with the exceptions noted in the opinion.
- An **adverse opinion** is issued when the financial statements as a whole do not comply with relevant accounting standards and legislative requirements.
- A **disclaimer of opinion** is issued when the auditor is unable to express an opinion as to whether the financial statements comply with relevant accounting standards and legislative requirements.

An **emphasis of matter** paragraph may be included with the audit opinion to highlight an issue that the auditor believes the users of the financial statements need to be aware of. The inclusion of an emphasis of matter paragraph does not modify the audit opinion. An emphasis of matter paragraph will be included for all financial statements prepared on a special purpose basis.

The *Auditor-General Act 2009* requires that after the audit opinion has been issued, a copy of the certified statements and the auditor's report be provided to the chief executive officer of the entity as well as the appropriate Minister.

The Act also requires the Auditor-General to prepare a report to Parliament on each audit conducted. The report must state whether or not the audit has been finished and the financial statements have been audited. It must also include details of significant deficiencies where financial management functions were not adequately and properly performed and any actions taken to improve deficiencies reported in previous reports. This report satisfies these requirements.

1.3 Report structure

The report is structured as follows:

- Chapters 2 to 21 discuss the results of audits by portfolio and any significant events or issues affecting the portfolio.
- Appendix A contains responses received.
- Appendix B contains details of the prior year 2010-11 audits that were finalised since state public sector entities were last reported on in November 2011.
- Appendix C contains better practice for financial statement preparation.

2 Legislative Assembly of Queensland

In brief

Background

The Legislative Assembly of Queensland consists of 89 members who discharge a range of legislative and constituency responsibilities. The Parliamentary Service provides administrative and support services to the Legislative Assembly.

Key findings

- An unqualified audit opinion was issued for the Legislative Assembly of Queensland's financial statements.
- The Legislative Assembly of Queensland's financial statements were certified within their legislated timeframe.
- Financial statement quality was satisfactory, with appropriate preparation processes.

2.1 Background

The Legislative Assembly of Queensland consists of 89 members who discharge a range of legislative and constituency responsibilities. The Parliamentary Service provides administrative and support services to the Legislative Assembly. These services include a range of advisory, information and community engagement services to assist the Parliament, its committees and members to fulfill their responsibilities and engage with the community.

Figure 2A shows key financial information for this department.

Figure 2A
Key financial information

Audit	Revenue (\$mil)	Expenses (\$mil)	Assets (\$mil)	Liabilities (\$mil)
Legislative Assembly of Queensland	85.7	85.4	254.8	10.5

Source: Queensland Audit Office

2.2 Conclusion

The Legislative Assembly of Queensland's financial statements were timely and of good quality.

2.3 Results of audits

The financial statements of the Legislative Assembly of Queensland were unqualified (2010-11: unqualified), confirming that the financial statements were prepared according to the requirements of legislation and relevant accounting standards.

Unqualified audit opinions were also issued for the Statements for Public Disclosure of Expenditure of the Office of the Speaker of the Legislative Assembly of:

- The Honourable J Mickel MP for the period 1 July 2011 to 14 May 2012
- The Honourable F Simpson MP for the period 15 May to 30 June 2012.

2.4 Quality and timeliness of financial statements

2.4.1 Timeliness

The Legislative Assembly of Queensland's financial statements were certified by management and audit within the two month legislated timeframe, as they were in 2010-11.

2.4.2 Quality

Legislative Assembly of Queensland's financial statements were assessed against the better practice for financial report preparation in Appendix C to determine if their process was satisfactory or needed improvement. Their processes were found to be satisfactory. They had a good review process, appropriate supporting documentation and competent staff preparing the financial statements.

The quality of the draft financial statements prepared by the Legislative Assembly was good. However, adjustments totaling \$52.9 million were made in the draft financial statements.

The largest accounting adjustment was \$50.5 million required to reverse accumulated negative contributed equity in the Statement of Financial Position. The negative contributed equity balance was the result of equity withdrawals between 2004-05 and 2011-12. As part of the approach to funding the Legislative Assembly, amounts received to meet depreciation expenses directly affect the income statement, but in repaying some of these funds, an equity withdrawal is made.

A book entry transferred \$25.2 million from accumulated surpluses to remove the negative contributed equity, with the overall adjustment to equity balances in the Statement of Financial Position of \$50.5 million. This adjustment, which represented 95 per cent of the total adjustments made to the draft financial statements, was undertaken to better reflect the substance of the components that make up the net financial position.

2.5 Status of opinions

2.5.1 Financial statement opinions

Figure 2B

Audit	Included in whole of government accounts	Financial statements signed	Opinion issued	Certified within legislated timeframe	Opinion
Department					
Legislative Assembly of Queensland	Yes	30.08.2012	31.08.2012	Yes	U

Opinion key:

U = unqualified

Q = qualified

A = adverse

E = unqualified with emphasis of matter

D = disclaimer

Source: Queensland Audit Office

2.5.2 Other opinions

Figure 2C

	Period	Financial statements signed	Opinion issued	Opinion
Statement for Public Disclosure of Expenditure of the Office of the Speaker of the Legislative Assembly of The Honourable J Mickel MP	01.07.2011 to 14.05.2012	22.08.2012	22.08.2012	U
Statements for Public Disclosure of Expenditure of the Office of the Speaker of the Legislative Assembly of The Honourable F Simpson MP	15.05.2012 to 30.06.2012	21.08.2012	22.08.2012	U

Opinion key:

U = unqualified

Q = qualified

A = adverse

E = unqualified with emphasis of matter

D = disclaimer

Source: Queensland Audit Office

3 Aboriginal and Torres Strait Islander and Multicultural Affairs and Assisting the Premier

In brief

Background

This ministerial portfolio is responsible for Aboriginal and Torres Strait Islander policy, rights and culture, multicultural affairs, and assisting the Premier with public service industrial relations.

It consists of two public sector entities.

Key findings

- The Department of Aboriginal and Torres Strait Islander and Multicultural Affairs' financial statements were certified within the legislated timeframe.
- The Department of Aboriginal and Torres Strait Islander and Multicultural Affairs' financial statement preparation process was satisfactory.
- An emphasis of matter paragraph was included with the unqualified audit opinion issued for the Family Responsibilities Commission, due to going concern issues.
- The Family Responsibilities Commission's financial statements were certified within the two month legislated timeframe.

3.1 Background

This portfolio is responsible for Aboriginal and Torres Strait Islander policy, rights and culture, multicultural affairs, and assisting the Premier with public service industrial relations.

The portfolio consists of two public sector entities required to produce financial statements (shown in Section 3.6.1). Figure 3A shows key financial information for these entities.

Figure 3A
Key financial information

Audit	Revenue (\$mil)	Expenses (\$mil)	Assets (\$mil)	Liabilities (\$mil)
Department of Aboriginal and Torres Strait Islander and Multicultural Affairs *	6.9	11.8	25.7	11.2
Family Responsibilities Commission	4.0	4.2	1.6	0.5
Portfolio total	10.9	16.0	27.3	11.7

* Revenue and expenses represent only two months of transactions

Source: Queensland Audit Office

3.2 Conclusion

Timeliness and quality of the portfolio's financial statements were satisfactory. Adjustments required to the department's financial statements were caused by the machinery of government arrangements.

3.3 Results of audits

The Department of Aboriginal and Torres Strait Islander and Multicultural Affairs' audit opinion was unqualified. This department was created on 1 May 2012, so its financial statements represent only two months until 30 June 2012.

An emphasis of matter paragraph was included in the unqualified audit opinion issued for the Family Responsibilities Commission (the commission). Under the *Family Responsibilities Act 2008*, the commission's operations will cease on 1 January 2013. As this date has not been amended under the Act, there is uncertainty over the commission's ability to continue as a going concern. An emphasis of matter paragraph was included with last year's audit opinion for the same reason.

3.4 Quality and timeliness of financial statements

3.4.1 Timeliness

As a result of machinery of government changes, the Department of Aboriginal and Torres Strait Islander and Multicultural Affairs was granted a one month extension by the Treasurer until 30 September 2012 to certify their financial statements.

The financial statements were certified within this timeframe. Subsequently, QAO provided an audit opinion on the department's financial statements on 4 October 2012.

The Department of Communities, Child Safety and Disability Services was responsible for the preparation of the department's financial statements. Their financial systems were shared with other departments and no separate ledger was maintained, as there were only two months of transactions. This made the financial statement process more time consuming and delayed the issue of the audit opinion.

The Family Responsibilities Commission's financial statements were certified within their two month legislated timeframe, the same as in 2010-11.

3.4.2 Quality

The process used to produce the Department of Aboriginal and Torres Strait Islander and Multicultural Affairs' financial statements was assessed against the better practice for financial report preparation discussed in Appendix C to determine if their process was satisfactory or needed improvement.

While the department's financial statements were prepared by the Department of Communities, Child Safety and Disability Services, no individual preparation plan was in place for the financial statements of the Department of Aboriginal and Torres Strait Islander and Multicultural Affairs. Materiality was not defined and some work papers, such as the aged debtors' listings specific to the department, were not readily available which delayed the audit of the financial statements.

Having discussed the financial statement preparation issues with management, the fact that the department now has its own ledger and Chief Finance Officer should improve the timeliness and quality of the information provided for audit in future.

Adjustments of \$6.4 million were made to the department's draft financial statements. The adjustments mainly related to funds due to the department from the Department of Communities, Child Safety and Disability Services, as it shared a bank account with this department until 1 July 2012.

3.5 Significant events

3.5.1 Machinery of government changes

The Department of Aboriginal and Torres Strait Islander and Multicultural Affairs was created on 3 April 2012, effective 1 May 2012 after the restructuring of administrative arrangements. Functions transferred to the department were:

- Aboriginal and Torres Strait Islander Services, and Multicultural Affairs from the Department of Communities
- Indigenous Cultural Heritage Coordination from the Department of Environment and Resource Management
- Project 2 800 from the Public Service Commission.

3.6 Status of opinions

3.6.1 Financial statement opinions

Figure 3B

Audit	Included in whole of government accounts	Financial statements signed	Opinion issued	Certified within legislated timeframe	Opinion
Department					
Department of Aboriginal and Torres Strait Islander and Multicultural Affairs [^]	Yes	28.09.2012	04.10.2012	Yes ⁺	U
Statutory body					
Family Responsibilities Commission	Yes	31.08.2012	31.08.2012	Yes	E

Opinion key:

U = unqualified

Q = qualified

A = adverse

E = unqualified with emphasis of matter

D = disclaimer

[^]The financial year for the Department of Aboriginal and Torres Strait Islander and Multicultural Affairs was 1 May 2012 to 30 June 2012.

⁺The legislated timeframe for management certification of these financial statements was extended from 31 August 2012 to 30 September 2012.

Source: Queensland Audit Office

4 Agriculture, Fisheries and Forestry

In brief

Background

The ministerial portfolio is responsible for agriculture, fisheries, and forestry and biosecurity.

This portfolio includes seven public sector entities, which are all required to produce financial statements.

Key findings

- Five unqualified audit opinions were issued, including for the department.
- The Department of Agriculture, Fisheries and Forestry's financial statements were certified within the legislated timeframe, but their financial statement process needs improvement, particularly their quality assurance process.
- Four statutory bodies' financial statements were certified within the two month legislated timeframe for statutory bodies. The Australian Agricultural College Corporation (the corporation) and the Australian Agricultural College Employing Office did not meet this deadline due to uncertainty about the corporation's going concern status.

4.1 Background

This portfolio is responsible for agriculture, fisheries, and forestry – including food and fibre production, and biosecurity, plant and animal disease protection, exotic pest management and animal welfare.

The portfolio consists of seven public sector entities required to produce financial statements (shown in Section 4.7.1). Figure 4A shows key financial information for the portfolio.

Figure 4A
Key financial information

Audit	Revenue (\$mil)	Expenses (\$mil)	Assets (\$mil)	Liabilities (\$mil)
Department of Agriculture, Fisheries and Forestry *	91.5	91.8	641.1	84.0
Other portfolio entities (in aggregate) ^	205.0	185.4	514.6	179.8
Portfolio total	296.5	277.2	1 155.7	263.8

* Revenue and expenses represent only two months of transactions

^ Includes only amounts extracted from audited financial statements

Source: Queensland Audit Office

4.2 Conclusion

The portfolio's financial statements were generally timely and of good quality; however, the department's financial statement preparation process needs some improvement. Going concern issues were raised for the Australian Agricultural College Corporation.

4.3 Results of audits

Five (71 per cent) unqualified audit opinions were issued, compared with six (86 per cent) in 2010-11.

4.4 Quality and timeliness of financial statements

4.4.1 Timeliness

As a result of machinery of government changes, the Department of Agriculture, Fisheries and Forestry was granted a one month extension by the Treasurer until 30 September 2012 to certify their financial statements. Their financial statements were certified by management and audit within the three month timeframe.

Four of the six (67 per cent) statutory bodies' financial statements were certified by management and audit within their two month legislated timeframe, compared with three of six (50 per cent) in 2010-11.

Australian Agricultural College Corporation's and Australian Agricultural College Employing Office's financial statements have not yet been finalised. While Australian Agricultural College Corporation was granted an extension, the Australian Agricultural College Employing Office was not, due to an administrative oversight. The delay has been caused by both entities finalising issues about the corporation's going concern position.

4.4.2 Quality

The Department of Agriculture, Fisheries and Forestry's financial statements were assessed against better practice for financial report preparation discussed in Appendix C to determine if their process was satisfactory or needed improvement.

Their processes need improvement, as there was no independent review of documentation, data and the financial statements before being provided for audit. Better documented planning is required, as well as the implementation of a rigorous quality assurance process.

The financial statements process was impacted by the initial machinery of government change and the timing associated with finalising the administrative arrangements around these changes. Further impacting on the financial statements was the timing of the 2012-13 State Budget and the Cabinet Budget Review Committee process around the examination of departmental budgets and associated fiscal issues.

Adjustments totalling \$40.3 million were made to the department's draft financial statements before an audit opinion could be issued: \$38 million of this was an amendment relating to machinery of government transfers between the department and the Department of State Development, Infrastructure and Planning and the Department of Environment and Heritage Protection.

4.5 Significant events

4.5.1 Machinery of government changes

As the result of the restructuring of administrative arrangements, the Department of Agriculture, Fisheries and Forestry was created on 3 April 2012, effectively 1 May 2012. The principal activities of the department were transferred from the following departments:

- agriculture and food functions, including fisheries, agri-science and biosecurity from the former Department of Employment, Economic Development and Innovation
- forest management from the former Department of Environment and Resource Management
- Queensland Boating and Fisheries Patrol functions from the Department of Transport and Main Roads
- animal management functions from the former Department of Local Government and Planning.

4.6 Significant financial reporting issues

4.6.1 Australian Agricultural College Corporation

The Australian Agricultural College Corporation has incurred significant operating losses for the last two years (2011-12 \$7.2 million, 2010-11 \$1.9 million). The Statement of Financial Position as at 30 June 2012 identified a reduction in total equity of \$57 million resulting mainly from asset transfers and impairment of assets during the last 12 months.

In the financial statements management have made reference to the going concern issue of the Corporation and identified action to be taken to ensure it is able to pay its debts going forward, including projected future cash flows and formal documented government support being provided.

A consultant was engaged by the current government to undertake an independent business review of the corporation and a report was provided to the Minister in August 2012. Included in the summary of findings were significant concerns raised in relation to the quality of management, record-keeping, financial reporting and financial information, which all impacted on the corporation's future viability and any potential restructuring opportunities. The government is currently reviewing a number of options to address the concerns raised.

Action is being taken by management and government to ensure the continued future viability of the corporation; however, there is some uncertainty as to its future given the current cost reductions across government and operations will need to be monitored closely.

4.7 Status of opinions

4.7.1 Financial statement opinions

Figure 4B

Audit	Included in whole of government accounts	Financial statements signed	Opinion issued	Certified within legislated timeframe	Opinion
Department					
Department of Agriculture, Fisheries and Forestry [^]	Yes	28.09.2012	28.09.2012	Yes ⁺	U
Statutory bodies					
Australian Agricultural College Corporation	Yes	Not completed	Not completed	--	--
Australian Agricultural College Employing Office	Yes	Not completed	Not completed	--	--
Chicken Meat Industry Committee	Yes	29.08.2012	31.08.2012	Yes	U
Darling Downs - Moreton Rabbit Board	Yes	09.08.2012	16.08.2012	Yes	U
QRAA	Yes	31.08.2012	31.08.2012	Yes	U
Safe Food Production Queensland	Yes	21.08.2012	21.08.2012	Yes	U

Opinion key:

U = unqualified

Q = qualified

A = adverse

E = unqualified with emphasis of matter

D = disclaimer

[^] The financial year for the Department of Agriculture, Fisheries and Forestry was 1 May 2012 to 30 June 2012.

⁺ The legislated timeframe for management certification of these financial statements was extended from 31 August 2012 to 30 September 2012.

Source: Queensland Audit Office

5 Attorney-General and Justice

In brief

Background

This portfolio is responsible for all courts and justice related activities as well as fair trading, gaming and workers compensation.

Twenty-seven public sector entities required to produce financial statements make up this portfolio.

Key findings

- Twenty-four audit opinions issued were unqualified. All finalised financial statements were certified within their legislated timeframe.
- Financial statements for three entities were not finalised at the date of this report. These entities have no legislative timeframe for finalisation.
- The financial statement preparation processes of the Department of Justice and Attorney-General, Public Trustee of Queensland and Workcover Queensland were satisfactory.
- Through machinery of government changes, the department transferred their industrial relations responsibilities and their responsibilities for administering the State Penalties Enforcement Registry. The department gained responsibility for Youth Justice.
- During 2012-13, there will be an interagency property asset transfer for the old courthouse premises on an equity adjustment basis between the Department of Justice and Attorney-General and the Department of Housing and Public Works for a yet to be agreed value.

5.1 Background

This portfolio is responsible for justice administration, courts, registration of births, deaths and marriages, coroners, criminal justice reform, elections, judges and magistrates, JPs, law reform, Legal Aid, Public Trustee, business names registration, occupational licensing, Golden Casket, casinos, machine gaming, liquor licensing, fair trading and consumer protection, workplace health and safety, electrical safety, and workers' compensation.

The portfolio consists of 27 public sector entities required to produce financial statements (shown in Section 5.6.1). Figure 5A shows key financial information for the portfolio.

Figure 5A
Key financial information

Audit	Revenue (\$mil)	Expenses (\$mil)	Assets (\$mil)	Liabilities (\$mil)
Department of Justice and Attorney-General	648.0	646.5	1 651.5	74.6
The Public Trustee of Queensland *	82.0	79.7	618.1	455.7
WorkCover Queensland	1 595.5	1 313.1	3 409.9	2 868.8
Other portfolio entities (in aggregate) ^	580.4	459.2	1 636.6	1 146.6
Portfolio total	2 905.9	2 498.5	7 316.1	4 545.7

^ Includes only amounts extracted from audited financial statements.

* Excludes assets held in trust.

Source: Queensland Audit Office

5.2 Conclusion

The portfolio's finalised financial statements were timely and of good quality.

5.3 Results of audits

Twenty-four of 27 (88 per cent) audit opinions were issued, compared with 17 of the 26 (65 per cent) at the same time in 2010-11.

All 24 audit opinions were unqualified, confirming that the financial statements were prepared according to the requirements of legislation and relevant accounting standards.

Financial statements for three entities were not finalised at the date of this report.

5.4 Quality and timeliness of financial statements

5.4.1 Timeliness

Of the 24 audit opinions issued, all (2010-11: 85 per cent) were issued within the required timeframe.

As a result of machinery of government changes, the Department of Justice and Attorney-General was granted a one month extension by the Treasurer until 30 September 2012 to certify their financial statements. Their financial statements were certified by management and audit within this timeframe.

All other entities' financial statements were certified within their originally legislated timeframe.

Financial statements for three entities were still not finalised at the date of this report. These entities have no legislated timeframe for finalisation of their financial statements.

5.4.2 Quality

The processes used to produce financial statements were assessed against better practice for financial report preparation discussed in Appendix C to determine if processes were satisfactory or needed improvement. All three entities assessed were found to be satisfactory:

- The Department of Justice and Attorney-General had a robust financial reporting process to ensure that potential amendments were discussed and approved before year end. A process is in place to review the financial statements for accuracy before providing them for audit.
- One of the strengths of the Public Trustee of Queensland's process was that it had a good plan for identifying key processes to be performed including quality assurance processes, and milestones. While this was the first year it implemented a hard close, the process was adequate and well managed, enabling the audit to be completed in a timely manner.
- Workcover Queensland's staff had good understanding and experience in applying relevant accounting standards and legislation and strong project management and interpersonal skills, which assisted the audit.

Minor audit adjustments were made to the financial statements of two entities:

- An adjustment, totalling \$1 million, to the financial statements for the Department of Justice and Attorney-General to correct an equity withdrawal accrual.
- An adjustment, totalling \$0.2 million, for the Public Trustee of Queensland to correctly account for end of year prepayments and accruals.

In addition to these audit adjustments, disclosure enhancements to financial statements totalling \$296 million, were agreed between audit and two of the entities prior to audit opinions being issued:

- A reclassification of \$9 million to the Department of Justice and Attorney-General to transfer part of a claims provision from current to non-current to better reflect anticipated settlement.
- Reclassifications totalling \$287 million to the Public Trustee of Queensland, including \$268.9 million of available for sale financial assets transferred from non-current to current to better reflect the liquidity of the asset group, \$16.7 million transferred from 'operating expenses' to 'supplies and services' in the Statement of Comprehensive Income, and \$1.4 million in grant expenditure transferred from a revenue to an expense disclosure to better reflect total grant contributions made.

No adjustments or disclosure enhancements were made to the financial statements of Workcover Queensland.

5.5 Significant transactions and events

5.5.1 Machinery of government changes

The Department of Justice and Attorney-General experienced two machinery of government changes during the financial year. The first, effective 1 May 2012, transferred the administration of retirement villages and public sector industrial and employee relations from the department and transferred in the administration of youth justice. The net effect was approximately \$286 million in equity transferred to the department.

The second, effective 1 June 2012, transferred the administration of the State Penalties Enforcement Registry to Queensland Treasury and Trade, including approximately \$3.7 million in controlled equity and \$323 million in administered assets and liabilities.

5.5.2 New Brisbane Supreme and District Court development

During 2011-12 net assets of the Department of Justice and Attorney-General increased by approximately \$420 million. In addition to the assets transferred to the department as part of the machinery of government changes, \$210 million worth of capital works was spent by the department on the new Brisbane Supreme and District Court. The budgeted cost for this project is \$570 million.

At 30 June 2012, work in progress for this project totalled \$523 million. The new Queen Elizabeth II Supreme and District courts opened on 3 August 2012, replacing the existing Brisbane Supreme and District Courts. The old court house complex ceased operations after balance date on 27 August 2012.

While the complex had been independently valued at \$91 million on a depreciated replacement cost basis as at 30 June 2012, the valuation depends on the future use of the site and is yet to be agreed between the Department of Justice and Attorney-General and the Department of Housing and Public Works. Once the value of the site has been agreed, there will be an interagency property asset transfer between the departments on an equity adjustment basis during 2012-13.

5.6 Status of opinions

5.6.1 Financial statement opinions

Figure 5B

Audit	Included in whole of government accounts	Financial statements signed	Opinion issued	Certified within legislated timeframe	Opinion
Department					
Department of Justice and Attorney-General	Yes	26.09.2012	27.09.2012	Yes ⁺	U
Electoral Commission of Queensland	Yes	28.08.2012	29.08.2012	Yes	U
Office of the Ombudsman	Yes	31.08.2012	31.08.2012	Yes	U
The Public Trustee of Queensland	Yes	23.08.2012	27.08.2012	Yes	U
Statutory bodies and controlled entities					
Anti-Discrimination Commission	Yes	20.08.2012	21.08.2012	Yes ⁺	U
Anzac Day Trust	No	03.08.2012	08.08.2012	Yes	U
Building and Construction Industry (Portable Long Service Leave) Authority (trading as QLEAVE)	No	29.08.2012	29.08.2012	Yes	U
Contract Cleaning Industry (Portable Long Service Leave) Authority	No	23.08.2012	23.08.2012	Yes	U
Crime and Misconduct Commission	Yes	27.08.2012	29.08.2012	Yes ⁺	U
Legal Aid Queensland	Yes	17.08.2012	17.08.2012	Yes ⁺	U
Legal Practitioners Admissions Board	No	31.08.2012	31.08.2012	Yes	U
Office of the Information Commissioner	Yes	08.08.2012	08.08.2012	Yes ⁺	U
Professional Standards Council	No	24.08.2012	28.08.2012	Yes	U
Queensland Law Society Incorporated	No	31.08.2012	31.08.2012	Yes	U
• Law Claims Levy Fund	No	31.08.2012	31.08.2012	Yes	U
• Legal Practitioners Fidelity Guarantee Fund	No	31.08.2012	31.08.2012	Yes	U
Supreme Court Library Committee	No	30.08.2012	30.08.2012	Yes	U
WorkCover Queensland	Yes	28.08.2012	28.08.2012	Yes	U

Audit	Included in whole of government accounts	Financial statements signed	Opinion issued	Certified within legislated timeframe	Opinion
Workers' Compensation Regulatory Authority (Q-COMP)	Yes	10.08.2012	13.08.2012	Yes ⁺	U
<i>Audited by arrangement</i>					
Disaster Appeals Trust Fund	No	Not completed	Not completed	N/A	--
Forde Foundation Trust Fund	No	Not completed	Not completed	N/A	--
Gladstone Foundation	No	23.10.2012	31.10.2012	N/A	U
Lady Bowen Trust	No	23.10.2012	31.10.2012	N/A	U
Public Trustee of Queensland Investment Funds	No	23.08.2012	30.08.2012	N/A	U
QCF Management Co. Ltd	No	Not completed	Not completed	N/A	--
Queensland Aboriginal & Torres Strait Islander Foundation	No	23.10.2012	31.10.2012	N/A	U
Queensland Community Foundation	No	23.10.2012	31.10.2012	N/A	U

Opinion key:

U = unqualified

Q = qualified

A = adverse

E = unqualified with emphasis of matter

D = disclaimer

⁺ The legislated timeframe for management certification of these financial statements was extended from 31 August 2012 to 30 September 2012.

Source: Queensland Audit Office

6 Communities, Child Safety and Disability Services

In brief

Background

This ministerial portfolio is responsible for child protection and family related services, home and community care, homelessness, seniors, social inclusion, women's policy, and youth affairs.

This portfolio is made up of two public sector entities which are required to produce financial statements.

Key findings

- Two unqualified audit opinions were issued for the Department of Communities, Child Safety and Disability Services and the Commission for Children and Young People and Child Guardian.
- Both entities' financial statements were certified within their legislated timeframes.
- Provision of adequate supporting documentation was identified as an area for improvement for the Department of Communities, Child Safety and Disability Services' financial statement process.

6.1 Background

This portfolio is responsible for child protection services, adoption, carers, community recovery and services, disability services, home and community care, homelessness, seniors, social inclusion, women's policy, and youth affairs.

The portfolio consists of two public sector entities required to produce financial statements (shown in Section 6.6.1). Figure 6A shows key financial information for this portfolio.

Figure 6A
Key financial information

Audit	Revenue (\$mil)	Expenses (\$mil)	Assets (\$mil)	Liabilities (\$mil)
Department of Communities, Child Safety and Disability Services	4 005.8	4 249.4	544.0	103.5
Commission for Children and Young People and Child Guardian	49.7	49.4	17.0	8.2
Portfolio total	4 055.5	4 298.8	561.0	111.7

Source: Queensland Audit Office

6.2 Conclusion

The portfolio's finalised financial statements were timely and of good quality, however the department's financial statement preparation process could be improved.

6.3 Results of audits

Two unqualified audit opinions were issued, confirming that the financial statements were prepared according to the requirements of legislation and relevant accounting standards. This is the same result as 2010-11 for these entities.

6.4 Quality and timeliness of financial statements

6.4.1 Timeliness

As a result of machinery of government changes, the Department of Communities, Child Safety and Disability Services was granted a one month extension by the Treasurer until 30 September 2012 to certify their financial statements.

The financial statements were certified within this timeframe. Subsequently, QAO provided an audit opinion on the department's financial statements on 4 October 2012.

While the department provided a largely complete set of draft financial statements by the agreed timetable of 20 August 2012, it updated the financial statements on a progressive basis as a result of its ongoing financial data review and audit feedback.

The delays were caused mainly due to the complexities of the ledger systems and the resulting split of income and expenditure and assets and liabilities among the other entities affected by the machinery of government changes for which the department was preparing financial statements or providing financial information.

The financial statements of the portfolio's other entity, the Commission for Children and Young People and Child Guardian were certified by management and audit within the two month legislated timeframe, as they were in 2010-11.

6.4.2 Quality

The department's financial statement process was assessed against better practice for financial report preparation discussed in Appendix C to determine whether their process was satisfactory or needs improvement. Overall, its process needs improvement as:

- bank clearing accounts were not adequately analysed at the balance date which resulted in adjustments to the statements
- documentation initially supplied was not always sufficient to support certain material figures in the financial statements. Further information had to be requested by audit.

The complexities associated with the machinery of government transfers and ledger systems made this year's process extremely difficult and time consuming and ultimately was underestimated by departmental officers. The department is now smaller in size and it is expected that these issues will not recur.

Adjustments totalling \$78.1 million were made to the Department's financial statements between the first complete set and the final version certified by management. The adjustments mainly affected the Statement of Financial Position, with adjustments to Loans and Receivables and Payables.

6.5 Significant events

6.5.1 Machinery of government changes

Effective 1 May 2012, the Department of Communities was renamed the Department of Communities, Child Safety and Disability Services following machinery of government changes.

Functions transferred from the department were:

- Sport and Recreation Services and the Queensland Academy of Sport (including associated executive support functions) to the Department of National Parks, Recreation, Sport and Racing
- Housing Services and Residential Services Unit to the Department of Housing and Public Works
- Youth Justice to the Department of Justice and Attorney-General.

6.6 Status of opinions

6.6.1 Financial statement opinions

Figure 6B

Audit	Included in whole of government accounts	Financial statements signed	Opinion issued	Certified within legislated timeframe	Opinion
Department					
Department of Communities, Child Safety and Disability Services	Yes	28.09.2012	04.10.2012	Yes ⁺	U
Statutory bodies					
Commission for Children and Young People and Child Guardian	Yes	28.08.2012	30.08.2012	Yes ⁺	U

Opinion key:

U = unqualified

Q = qualified

A = adverse

E = unqualified with emphasis of matter

D = disclaimer

⁺ The legislated timeframe for management certification of these financial statements was extended from 31 August 2012 to 30 September 2012.

Source: Queensland Audit Office

7 Deputy Premier, State Development, Infrastructure and Planning

In brief

Background

This ministerial portfolio is responsible for investment and infrastructure, major projects, land use planning, urban growth, state development and reconstruction.

This portfolio includes seven public sector entities that must produce financial statements.

Key findings

- Four unqualified audit opinions were issued.
- Emphasis of matter paragraphs were included with the unqualified audit opinions for South Bank Corporation, South Bank Employing Office and Queensland Water Infrastructure Pty Ltd as these entities are being wound up.
- A valuation for 2011-12 financial statement purposes of the Mary Valley properties by independent valuers has been completed.
- The uncertainty over the reported value of the Queensland Cultural Centre site reported in South Bank Corporation's 2010-11 financial statements no longer exists.

7.1 Background

This portfolio is responsible for investment and infrastructure, major projects, land use planning, urban growth, state development - including regional economic development and local industry policy, and the reconstruction of Queensland following statewide flooding and cyclone events.

The portfolio consists of seven public sector entities required to produce financial statements (shown in Section 7.7.1). Figure 7A shows key financial information for these entities.

Figure 7A
Key financial information

Audit	Revenue (\$mil)	Expenses (\$mil)	Assets (\$mil)	Liabilities (\$mil)
Department of State Development, Infrastructure and Planning	1 066.8	1 076.6	1 541.0	323.0
South Bank Corporation	99.8	98.6	701.0	48.6
Other portfolio entities (in aggregate) [^]	8.4	8.4	1.0	1.0
Portfolio total	1 175.0	1 183.6	2 243.0	372.6

[^] Includes only amounts extracted from audited financial statements

Source: Queensland Audit Office

7.2 Conclusion

The portfolio's financial statements did not meet their timeframes for completion. The department's financial statement preparation process needs improvement.

7.3 Results of audits

Four (57 per cent) unqualified audit opinions were issued for the entities' financial statements.

Emphasis of matter paragraphs were included in the unqualified audit opinions of South Bank Corporation (the corporation) and South Bank Employing Office because both entities are being wound up.

The corporation had an emphasis of matter paragraph included with their audit opinion last year. The corporation incurred extensive damage as a result of the January 2011 floods and significant uncertainty existed over the reported value of its land and land improvement assets. This issue has now been resolved.

An emphasis of matter paragraph was included in the opinion of Queensland Water Infrastructure Pty Ltd to note the wind up of this company. An emphasis of matter paragraph was included in the 2010-11 opinion due to going concern issues.

The financial statements of Urban Land Development Authority, QMI Solutions Limited and Queensland Manufacturing Institute Trust were not finalised at the date of this report.

7.4 Quality and timeliness of financial statements

7.4.1 Timeliness

As a result of machinery of government changes, the Department of State Development, Infrastructure and Planning was granted a one month extension by the Treasurer until 30 September 2012 to certify their financial statements.

The department's financial statements were not certified within this timeframe and were granted a further extension until 19 October 2012. The department's financial statements did not meet this timeframe but have now been finalised.

South Bank Corporation was granted three months to report while due to an administrative oversight, South Bank Employing Office was not given an extension. Neither entity met its timeframe. The delay was due to finalising issues about the corporation's going concern position.

7.4.2 Quality

The financial statement process of the Department of State Development, Infrastructure and Planning was assessed against the better practice for financial report preparation discussed in Appendix C to determine whether its process was satisfactory or needs improvement.

The department's financial statement process needs improvement as there was no independent review of documentation, data and the financial statements before being provided for audit.

The department's financial statement process was impacted by the machinery of government change requirements including:

- having to prepare financial statements for two departments simultaneously under a service level agreement
- having to rely on information provided by the financial accounting system maintained by the Department of Agriculture, Fisheries and Forestry
- being required to produce budgetary information concurrently
- preparing statements for the entire financial year with finance staff unfamiliar with all the accounting treatments associated with the previous Department of Employment, Economic Development and Innovation for the ten months to 30 April 2012.

A documented planning process is needed as well as the implementation of a rigorous quality assurance process.

7.5 Significant financial reporting issues

7.5.1 Mary Valley properties

The Department of Employment, Economic Development and Innovation's 2011 financial statements disclosed that the Mary Valley properties were comprehensively valued at 30 June 2011 by independent valuers. The fair value of the Mary Valley properties was determined to be \$225 million, resulting in a revaluation decrement of \$210 million.

An integrated management and sales strategy for 2011–16 was approved in August 2011 under the former government which included the release of land for sale.

A new Mary Valley Economic Development Strategy was announced by the current government on 18 July 2012 and included an initial divestment program of properties over the next two years, complemented by a sales program and the management of the existing property portfolio. It was announced that up to 30 properties would be made available for sale in the short term.

A valuation for 2011-12 financial statement purposes of the Mary Valley properties, by independent valuers has been completed with the fair value of the Mary Valley properties at 30 June 2012 determined to be \$199 million, resulting in a further revaluation decrement for the year of \$21 million after allowing for depreciation and some minor land sales.

Given the initial fair value valuation for Mary Valley was \$435 million at 30 June 2010 and with relatively few sales of properties, most of the reduction in value to \$199 million is due to revaluation decrements reflecting a significant loss of value. The new divestment strategy needs to be closely monitored to ensure the best outcome is obtained for the state.

7.6 Issues from previous reports to Parliament

7.6.1 South Bank Corporation's land valuation

In 2011, an emphasis of matter paragraph was included with the unqualified audit opinion issued for South Bank Corporation as significant uncertainty existed over the reported value of the South Bank Corporation's land and land improvement assets. South Bank Corporation incurred extensive damage as a result of the January 2011 floods and conducted an independent valuation process for land and land improvement assets at 30 June 2011.

This valuation found that the extent of the flood impact may take some time to become evident, due to the limited sales transactions that have occurred since it happened to reveal any changes in investor and tenant sentiment. Another valuation has occurred in 2012 and the uncertainty over the reported value of the site no longer exists.

7.7 Status of opinions

7.7.1 Financial statement opinions

Figure 7B

Audit	Included in whole of government accounts	Financial statements signed	Opinion issued	Certified within legislated timeframe	Opinion
Department and controlled entity					
Department of State Development, Infrastructure and Planning	Yes	31.10.2012	01.11.2012	No ⁺	U
• Queensland Water Infrastructure Pty Ltd [~]	Yes	27.06.2012	29.06.2012	Yes	E
Statutory body and controlled entity					
South Bank Corporation	Yes	27.09.2012	06.11.2012	No	E
• South Bank Employing Office	No	22.10.2012	06.11.2012	No	U
Urban Land Development Authority	Yes	Not completed	Not completed	No	--
Jointly controlled entity					
QMI Solutions Limited	No	Not completed	Not completed	--	--
Audited by arrangement					
Queensland Manufacturing Institute Trust	No	Not completed	Not completed	N/A	--

Opinion key:

U = unqualified

Q = qualified

A = adverse

E = unqualified with emphasis of matter

D = disclaimer

⁺ The legislated timeframe for management certification of these financial statements was extended from 31 August 2012 to 19 October 2012.

[~] The financial year of Queensland Water Infrastructure Pty Ltd was 1 July 2011 to 31 March 2012.

Source: Queensland Audit Office

8 Education, Training and Employment

In brief

Background

This ministerial portfolio is responsible for state schooling, teacher registration, higher education, vocational education and training, and employment programs.

This portfolio consists of 11 public sector entities that are required to produce financial statements at 30 June 2012.

University and grammar school financial year-ends are 31 December, and the results of their audits are reported separately to Parliament.

Key findings

- Eleven unqualified audit opinions were issued. All finalised financial statements were certified within their legislated timeframe.
- The financial statement processes for the portfolio's three significant entities were satisfactory.
- The department's expenditure on asset maintenance is below the government's minimum recommended level for the financial years 2010-11 and 2011-12.
- During 2011-12, all Queensland state schools transitioned from their existing school finance systems to the new OneSchool system.
- In June 2013, \$13 million is due to be paid to the department from the proceeds of the sale of Morningside campus as part of the funding arrangements for the Southbank Education and Training Precinct public private partnership.
- The department will transition to a new SAP system in the third quarter of 2013.
- The SmartForms system, an automated system for general purpose expenditure vouchers was fully rolled out across the department on 1 October 2012.
- The Flying Start program (encompassing the move of Year 7 to High School) is due to conclude in 2015 and requires \$622 million in funding over its five year implementation.
- Additional school maintenance funding totalling \$200 million will be available for state schools to apply for during the 2012-13 and 2013-14 financial years.

8.1 Background

This portfolio is responsible for state schooling, early childhood education and care regulation, non-state school accreditation, regulation and funding, teacher registration, higher education, vocational education and training, skilled and business migration for Queensland and employment programs.

The portfolio consists of 11 public sector entities required to produce financial statements, excluding universities and grammar schools (shown in Section 8.7.1). The results of university and grammar school audits will be reported in a separate report to Parliament. Figure 8A shows key financial information for the portfolio.

Figure 8A
Key financial information

Audit	Revenue (\$mil)	Expenses (\$mil)	Assets (\$mil)	Liabilities (\$mil)
Department of Education, Training and Employment [^]	8 213.5	8 212.0	18 719.4	993.3
Gold Coast Institute of TAFE	69.8	77.1	123.2	17.3
Southbank Institute of Technology	100.4	113.3	59.7	45.0
Other portfolio entities (in aggregate)	521.5	442.4	356.8	58.7
Portfolio total	8 905.2	8 844.8	19 259.1	1 114.3

[^] Includes 11 TAFE colleges reported in the Department of Education, Training and Employment financial statements

Source: Queensland Audit Office

Figure 8B provides an overview of the size of vocational education and training sector in Queensland and represents the aggregate of two statutory TAFE institutes combined with the vocational education and training sector and higher education departmental output.

Figure 8B
Key financial information

Financial Year	Revenue (\$mil)	Expenses (\$mil)	Assets (\$mil)	Liabilities (\$mil)
2011-12	1 499	1 519	2 061	412
2010-11	1 358	1 352	2 094	370

Source: Queensland Audit Office

8.2 Conclusion

The timeliness and quality of the financial statements of the portfolio's entities was good. All opinions were unqualified, and certified within timeframes with minimal adjustments.

8.3 Results of audits

Eleven unqualified audit opinions were issued, the same result as last year, confirming that the financial statements were prepared according to the requirements of legislation and relevant accounting standards.

8.4 Quality and timeliness of financial statements

8.4.1 Timeliness

The financial statements of the Department of Education, Training and Employment and 10 other entities in this portfolio were certified by management and audit within their legislated timeframe, the same as they were in 2010-11.

8.4.2 Quality

The processes used by the entities to produce their financial statements were assessed against better practice for financial report preparation discussed in Appendix C to determine if their processes were satisfactory or need improvement. All were satisfactory with their strengths being:

- The Department of Education, Training and Employment has adopted good financial reporting practices including:
 - developing early plans for year-end financial reporting
 - submitting proforma financial statements to audit to agree disclosures before 30 June
 - having suitably experienced staff involved in financial report preparation
 - preparing appropriate supporting documentation for most amounts and certain financial statement disclosures.
- Gold Coast Institute of TAFE's monthly reconciliation of all material account balances helped in preparing the financial statements and contributed to appropriate supporting evidence being available to support material balances.
- Southbank Institute of Technology's process could be enhanced next year by providing a proforma set of financial statements to audit for review prior to 30 June.

No material adjustments were made to the financial statements for these entities.

8.5 Significant transactions and events

8.5.1 Expenditure on asset maintenance

The Department of Housing and Public Works establishes the whole of government standards for managing building maintenance through its Management Maintenance Framework (MMF). The MMF recommends a minimum funding benchmark for asset maintenance of 1 per cent of the asset replacement value of building assets.

During 2011-12 the Department of Education, Training and Employment's actual expenditure for asset maintenance was 0.88 per cent of the asset replacement value or \$160.2 million. In 2010-11 the level of expenditure on asset maintenance was 0.75 per cent or \$132.9 million, and in 2009-10 was 1.06 per cent or \$168.3 million.

The fall in maintenance expenditure in 2010-11 occurred at the time of abnormally high capital investment in schools associated with the Commonwealth Government's *Building the Education Revolution* program, which was completed in 2011-12. Since this program commenced in 2008-09, an additional \$2.1 billion has been provided to Queensland schools. While this program has delivered new facilities for Queensland schools, it has also increased the level of future funding required for asset maintenance by approximately \$17 million per annum.

This shortfall in asset maintenance funding against the MMF is also reflected in the asset maintenance register, which in 2011-12 identified the need for \$349.3 million in repairs and maintenance on assets, representing 57 604 separate jobs.

The department has been actively seeking additional funding to meet the minimum asset maintenance requirements, and has been prioritising the amount spent on asset maintenance each year.

The level of maintenance funding is more than 2010-11 levels, and the recent budget announcement of additional school maintenance funding of \$100 million per year for 2012-13 and 2013-14 will assist in resolving this issue.

The MMF points out however, a long term policy of deferring maintenance by funding below the minimum standard increases the risk of higher costs to maintain building assets over the long term.

Ongoing deferred maintenance may also have implications for the department's ability to report the fair value of building assets in accordance with Australian Accounting Standards and Queensland Treasury and Trade policy.

Due to the size and nature of the department's land and building assets (\$17.1 billion for the 2011-12 financial year), management undertake a cyclical approach to the revaluation of assets over a four year period, with approximately one quarter of the assets independently valued each year. Those assets not independently assessed for value each year, are revalued by the application of an index to estimate the fair value of the asset. This process of applying an index assumes no abnormal deterioration in the condition of the asset between each independent assessment. Over time an ongoing lack of maintenance funding increases the risk of accelerated deterioration of assets, which could result in the reported fair values of the assets being materially misstated.

8.5.2 Transition to OneSchool system

During 2011-12, all Queensland state schools completed their transition to the OneSchool system with the release of the OneSchool finance module, to replace the existing school management system. OneSchool is a web based system that provides functionality relating to student management, school resource management, and now school financial management functions.

The release of OneSchool finance completes the broader OneSchool project which originally commenced in 2004 and was scheduled for completion within three years at an estimated cost of \$45 million, plus an additional \$8 million per annum in operating costs. Our initial audit on the OneSchool project in 2007-08 identified seven issues and 18 recommendations to improve controls over project management relating to scope, time, cost and quality. In 2009, the project completion date was revised to 2011-12, with estimated costs of \$97 million. After its completion in 2011-12, the department reported the final project cost for OneSchool was \$94.9 million.

From a financial perspective OneSchool finance has enabled improved integration and more detailed reporting of school transactions and balances in the 2011-12 department's financial statements. The more significant impacts, as reported in the financial statements, include a more detailed breakdown of revenue and expenditure along with debtors and creditors within the department which enables more robust information for management decision making purposes.

OneSchool will also provide management and audit with greater capacity for data analysis and benchmarking of school financial results and enhanced accountability of financial transactions at a school level.

8.5.3 Sale of Morningside TAFE campus

In December 2011 following a tender process, Southbank Institute of Technology entered into a contract that was for the sale of 9.135 hectares of land at the Morningside campus for \$13 million. The contract was finalised in March 2012. The carrying value of the land was \$17 million and as a result, a net loss of \$3.8 million was reflected in the institute's 2011-12 financial statements.

The original intention of the campus sale was to utilise the combined sale proceeds, budgeted at \$56.1 million from the sale of both the Kangaroo Point and Morningside campuses, to offset the ongoing Southbank Institute of Technology contributions to the Southbank Education and Training Precinct project. The Kangaroo Point land, owned by the Department of Education, Training and Employment, was not sold but used as natural parkland, and the department received additional appropriation in lieu of the sale proceeds.

The Southbank Education and Training Precinct is a public private partnership. In 2005, the department entered contractual arrangements with a private sector entity to design, construct, operate, maintain and finance the Southbank Education and Training precinct for a period of 34 years on the department's land. The construction component was concluded in October 2008.

Departmental figures identify that the total contract of \$1.5 billion for the development of the precinct includes an unfunded component in excess of \$500 million over the life of the agreement to 2039. This is equivalent to a funding gap of \$22 million per annum from 2016-17. While departmental management has provided a number of funding submissions over the years, the funding shortfall remains. This significant funding deficiency remains a challenge for these entities.

8.6 Future financial risk areas

8.6.1 Financial performance

Figure 8C shows that the total expenditure for the department has historically increased on average by at least 7.63 per cent per annum.

Employee expenses are the major cost incurred by the department with actual costs for employee expenses having increased by 28.36 per cent since 2007-08 with employee full time equivalent numbers increasing by 6.29 per cent over the same period. Included in employee expenses for 2011-12 were severance payments to employees totaling \$58.7 million.

Figure 8C
Financial performance

	2007-08	2008-09	2009-10	2010-11	2011-12
Department of Education, Training and Employment – expenditure (\$bil)	6.120	6.588	7.049	7.533	8.212
Expenditure increase since the previous year (%)		7.65	6.99	7.15	8.73
Employee expenses (\$bil)	4.429	4.719	4.982	5.325	5.685
Increase in employee expenses since the previous year (%)		6.55	5.57	6.89	6.76
Number of employees (Full Time Equivalent {FTE})	63 445	63 732	65 829	66 716	67 435
FTE increase since the previous year (%)	--	0.45	3.29	1.35	1.08

Source: Queensland Audit Office

8.6.2 Change to departmental financial systems

The Department of Education, Training and Employment is currently using the whole of government financial solution, SAP ECC 5.0, but has obtained approval to implement its own SAP system in 2012-13. Departmental project teams are in place to manage the transition to SAP ERP 6, scheduled for the third quarter of 2013. In contrast to the previous shared services model, the department will have autonomy and control over both the design and implementation of the system and of the underlying data. The estimated cost of the project is \$123.4 million (inclusive of maintenance and amortisation expenses through to June 2021). The department estimates savings of more than 10 per cent, or approximately \$16.5 million over ten years (inclusive of implementation costs), by moving to the new platform.

This enhanced flexibility has the potential to increase the extent of project risks present in all significant IT projects, and will require effective project governance to effectively manage the transition to the new system in terms of time, cost and quality.

8.6.3 SmartForms system

In 2011-12, the Department of Education, Training and Employment trialed a new SmartForms system across three TAFEs and two corporate office areas. SmartForms is an online system for general purpose expenditure vouchers (direct invoices) to replace the existing paper based vouchers. The new automated system was adopted to reduce costs and improve efficiency, as approximately 60 percent of the department's annual payments are processed using this method. SmartForms was due to be rolled out across the department by July 2013; however, the full implementation was accelerated with the system ready for use across the department from 1 October 2012.

In line with the recommendations in the Auditor-General's Report to Parliament No. 5 of 2012, while the use of direct invoices may be the most cost effective method of payment, the use of direct invoices is also the method most susceptible to fraud. Prior to the full implementation of SmartForms, we recommended that adequate controls be implemented to ensure all payments are approved by an officer with appropriate financial delegation. This may be achieved through controls to prevent financial delegation limits being breached before the transaction is processed, or through controls to identify breaches of delegations after the transactions have occurred. We are yet to review the effectiveness of management's internal controls.

8.6.4 Flying Start program

During June 2011, significant reforms to the Queensland education system were announced including a move of Year 7 students from primary school to secondary school. The reforms have been supported by the education sectors, parent representatives and key stakeholders with the implementation program called 'A Flying Start for Queensland Children'. Apart from the move of Year 7 students, a number of other reform initiatives were planned and included:

- introduction of Junior Secondary in state schools from 2013
- extra professional development programs for Junior Secondary teachers
- a range of initiatives to better prepare children for their early years of school.

The program commenced in July 2011 with the full implementation of the program due to occur by June 2015. The overall program delivery is on track with the pilot implementation of the Year 7 move, being conducted in 20 high schools prior to January 2015.

The budget for the program is \$622.6 million, comprising of \$328.2 million in capital costs, \$293.8 million in recurrent funding and \$0.6 million in additional funding. Of the total funding, \$110 million will be provided to non-state schools to assist them with the non-state school reforms. At 30 June 2012, the department had used \$8.985 million of the program budget.

Although the department has prior experience in implementing large projects from the rollout of various state and federal infrastructure and Information Technology initiatives, management must ensure adequate governance and project management processes are in place to manage the delivery of this program with regard to time and cost expectations.

We have recommended management adopt the Queensland Government Gateway Review processes, which involves the conduct of independent reviews at key decision points throughout the remainder of the program, to enhance governance arrangements. The department will also need to monitor the impact on teacher numbers and ensure that sufficient buildings and infrastructure are in place to support the program.

8.6.5 School maintenance funding

Additional school maintenance funding of \$200 million will be available for state schools to apply for over the 2012-13 and 2013-14 financial years. Although the additional funding per school is capped at \$160 000, the Parents and Citizens' organisations at each school are being encouraged to contribute to the maintenance tasks if they have the funds available.

This additional schools funding also transfers the responsibility for prioritising maintenance activity and sourcing suppliers to individual schools, which are required to consult with their Parents and Citizens' organisations. To ensure the cost effective application of these funds, procurement processes are transparent and that the underlying financial transactions are accurately captured for reporting purposes, the department will need to establish an appropriate control framework.

8.6.6 Vocational education and training

A Queensland Skills and Training taskforce was established in June 2012 to advise the government on reform of the vocational education and training sector. The taskforce presented the final report to the Minister on 6 November 2012. Some of the key recommendations included:

- establishing a Queensland TAFE 'parent entity' as a statutory authority, incorporating the 13 public TAFE's. This entity should be operational by 1 July 2013
- reducing the number of Queensland TAFEs by rationalising the existing TAFE system and undertaking mergers to create six regional TAFE institutes, while also considering Central Queensland Institute of TAFE which is potentially being merged with Central Queensland University.
- an asset management strategy be developed immediately to address the disposal of surplus infrastructure and ensure sufficient funding to manage and maintain the current and future asset base over the longer term.

The government will consider the recommendations and provide a response. The department and the vocational education and training sector will need to work closely together to ensure recommendations are rolled out effectively and efficiently.

8.7 Status of opinions

8.7.1 Financial statement opinions

Figure 8D

Audit	Included in whole of government accounts	Financial statements signed	Opinion issued	Certified within legislated timeframe	Opinion
Department and controlled entities					
Department of Education, Training and Employment	Yes	22.08.2012	23.08.2012	Yes	U
• Aviation Australia Pty Ltd	No	03.10.2012	05.10.2012	Yes	U
• BCITF (Qld) Limited (trading as Construction Skills Queensland)	No	28.08.2012	28.08.2012	Yes	U
• Queensland Education Leadership Institute Limited	No	21.09.2012	24.09.2012	Yes	U
Jointly controlled entity					
Queensland Tertiary Admissions Centre Limited	No	01.08.2012	23.08.2012	Yes	U
Statutory bodies					
Gold Coast Institute of TAFE	Yes	27.08.2012	27.08.2012	Yes ⁺	U
Non-State Schools Accreditation Board	No	02.08.2012	07.08.2012	Yes	U
Queensland Studies Authority	Yes	24.08.2012	30.08.2012	Yes ⁺	U
Skills Queensland	No	22.08.2012	23.08.2012	Yes	U
Southbank Institute of Technology	Yes	27.08.2012	29.08.2012	Yes	U
Audited by arrangement					
Building and Construction Industry Training Fund (Qld)	No	28.08.2012	28.08.2012	N/A	U

Opinion key:

U = unqualified

Q = qualified

A = adverse

E = unqualified with emphasis of matter

D = disclaimer

⁺ The legislated timeframe for management certification of these financial statements was extended from 31 August 2012 to 30 September 2012.

Source: Queensland Audit Office

9 Energy and Water Supply

In brief

Background

This ministerial portfolio is responsible for energy and water utilities, and bulk water supply, distribution and retail arrangements.

This portfolio is made up of 22 public sector entities that are required to produce financial statements.

Key findings

- Twenty-one unqualified audit opinions and one qualified audit opinion were issued.
- A qualified opinion was issued for the Queensland Bulk Water Transport Authority (trading as LinkWater) due to its recognition of a significant deferred tax asset, which should not have been recognised. This is a continuing qualification.
- The Queensland Government is yet to finalise a pricing approach or economic regulatory framework to be applied to the bulk water entities from 1 July 2013.
- Emphasis of matter paragraphs were included with the audit opinions for:
 - Central SEQ Distributor-Retailer Authority (trading as Queensland Urban Utilities)
 - Northern SEQ Distributor-Retailer Authority (trading as UnityWater)
 - Queensland Bulk Water Supply Authority (trading as Seqwater)
 - Queensland Bulk Water Transport Authority (trading as LinkWater)
 - Queensland Water Commission
 - SEQ Water Grid Manager
 - Southern Regional Water Pipeline Company Pty Ltd (trading as LinkWater Projects)
 - Southern SEQ Distributor-Retailer Authority (trading as Allconnex Water).
- The significant electricity and water entities were also assessed against better practice for financial report preparation. Overall, their processes were found to be satisfactory.
- The South East Queensland bulk water industry is being consolidated into a new entity with a significant level of debt, which will need to be prudently managed to ensure its continued financial sustainability.
- There were no significant findings from the audits of Ergon Energy Corporation Limited and ENERGEX Limited's 2010-11 and 2011-12 Regulatory Information Notice financial information.

9.1 Background

This portfolio is responsible for energy and water utilities, clean energy - including energy efficiency, and energy industry development and bulk water supply, distribution and retail arrangements.

The portfolio consists of 22 public sector entities required to produce financial statements (shown in Section 9.6.1). Figure 9A shows key financial information for this portfolio.

Figure 9A
Key financial information

Audit	Revenue (\$mil)	Expenses (\$mil)	Assets (\$mil)	Liabilities (\$mil)
Department of Energy and Water Supply	22.6	18.3	28.5	12.3
Central SEQ Distributor-Retailer Authority (trading as Queensland Urban Utilities)	911.5	723.7	4 795.3	2 159.2
CS Energy Limited	444.0	518.9	1 874.8	1 498.8
Northern SEQ Distributor-Retailer Authority (trading as Unitywater)	488.2	408.1	3 030.0	1 568.5
ENERGEX Limited	2 005.0	1 601.8	11 020.5	7 903.2
Ergon Energy Corporation Limited	2 692.9	2 236.3	10 603.1	7 306.1
Queensland Bulk Water Supply Authority (trading as Seqwater)	690.8	755.3	6 530.9	5 826.0
Queensland Bulk Water Transport Authority (trading as LinkWater)	208.5	246.9	2 993.4	2 467.8
Queensland Electricity Transmission Corporation Limited (trading as Powerlink Queensland)	951.2	650.3	7 082.4	4 759.8
Queensland Water Commission	25.7	25.6	18.2	14.5
SEQ Water Grid Manager	531.5	965.3	96.3	1 607.8
SPARQ Solutions Pty Ltd	177.3	177.3	287.7	293.6
Stanwell Corporation Limited	1 380.3	1 274.8	3 280.3	2 021.1
Sunwater Limited	225.2	249.2	979.9	320.9
Other portfolio entities (in aggregate)	2 819.5	2 600.0	1 233.6	744.3
Portfolio total	13 574.2	12 451.8	53 844.9	38 503.9

Source: Queensland Audit Office

9.2 Conclusion

Overall, the quality and timeliness of the portfolio's financial statements was satisfactory. A number of audit opinions included an emphasis of matter paragraph for bulk water entities due to the restructure of the sector. A qualified audit opinion was issued for Queensland Bulk Water Transport Authority for its accounting treatment of tax. Significant financial reporting matters relate to CS Energy Limited as a going concern and the total debt for the South East Queensland Bulk Water entities.

9.3 Results of audits

All (100 per cent) audit opinions have been issued, compared with 91 per cent in 2010-11: 22 opinions issued were unqualified, one more than in 2010-11. Emphasis of matter paragraphs were included with seven (33 per cent) unqualified audit opinions, compared with 10 (48 per cent) in 2010-11. A qualified audit opinion was issued for Queensland Bulk Water Transport Authority (trading as LinkWater).

9.3.1 Electricity sector

All electricity sector audits received unqualified opinions and were certified within their legislative deadlines.

As part of the audit of electricity distributors, separate regulatory accounts opinions were certified for ENERGEX Limited and Ergon Energy Corporation Limited. These annual certifications were done under a new regulatory framework in the current year, due to the jurisdiction for these accounts moving from the Queensland Competition Authority to the Australian Energy Regulator.

The Australian Energy Regulator sets prices charged for using energy networks (electricity poles and wires and gas pipelines) to transport energy to customers, monitors wholesale electricity and gas markets to ensure suppliers comply with the legislation and rules, and taking enforcement action where necessary.

Under the new regulatory framework, the Australian Energy Regulator issues Regulatory Information Notices to the distributors which require the distributors to provide, prepare and maintain information both financial and non-financial in the manner and form specified in the notice. For 2010-11, the Australian Energy Regulator did not issue a Regulatory Information Notice to ENERGEX Limited and Ergon Energy Corporation Limited until 28 October 2011.

The non-financial component of the information was subject to audit by engineers engaged by the distributors. We audited the financial information component of the notice, with audit opinions issued on 1 March 2012 and 28 February 2012. Although no significant findings were referred to management, emphasis of matter paragraphs included with the audit opinions highlighted the fact that the financial information prepared was for the purpose of fulfilling the directors' financial information reporting responsibilities under the National Electricity (QLD) Law, and that the audit opinion was issued for that purpose only.

The process for the 2011-12 Regulatory Information Notice audits is back on track, with the audits being completed within the agreed timeframe of 12 November 2012.

9.3.2 Water sector

Within the water sector one entity was qualified and eight other audit opinions recorded emphasis of matter paragraphs in relation to the general restructure of the water sector. The inclusion of emphasis of matter paragraphs did not modify the audit opinions.

For the last two financial years, the Queensland Bulk Water Transport Authority (trading as LinkWater) has recognised a significant deferred tax asset in their accounts (2012: \$126.102 million; 2011: \$120.264 million). Australian Accounting Standards require that a deferred tax asset should only be recognised to the extent probable that future taxable profits will be available against which the unused tax losses can be used.

The deferred tax asset should not have been recognised, as management estimated that the future taxable profits against which these tax losses could be utilised were not likely to occur until 2023. While the authority obtained advice during 2012 supporting their decision to recognise the net deferred tax asset at 30 June 2012, we did not consider this timeframe met the probability requirement under the Australian Accounting Standards. The probability that the authority will generate future taxable profits against which the unused tax losses could be utilised is also affected by the uncertainty regarding the restructuring of the South East Queensland bulk water entities. Because of these issues, we issued a qualified audit opinion, as we did in 2010-11.

Emphasis of matter paragraphs were included in the audit opinions of:

- Central SEQ Distributor-Retailer Authority (trading as Queensland Urban Utilities)
- Northern SEQ Distributor-Retailer Authority (trading as UnityWater)
- Queensland Bulk Water Transport Authority
- Queensland Bulk Water Supply Authority.

The nature of these opinions reflected the significant uncertainty of the water pricing mechanism used by the bulk water sector, which ultimately impacts on asset impairment in the financial statements.

The Queensland Government is yet to finalise a pricing approach or economic regulatory framework to be applied to the bulk water entities from 1 July 2013. In the meantime, there is a level of uncertainty surrounding the pricing principles currently applied by each of the bulk water entities, and an inability to consider the impact of future pricing within current asset impairment modelling across the bulk water sector. Until the future water pricing structure is determined, we will continue to include an emphasis of matter paragraph with the audit opinion for these water entities.

For Queensland Bulk Water Transport Authority, Queensland Bulk Water Supply Authority and SEQ Water Grid Manager, paragraphs were included to highlight the significant uncertainty that exists in relation to the entities continuing in their current legal form due to the government's intended restructure to aggregate the three entities into a new single entity.

An emphasis of matter paragraph was also included in the audit opinion of the Queensland Water Commission to highlight the planned abolition of the commission from 1 January 2013.

As part of the general water sector restructure, matters were also highlighted in the opinion of the Southern Regional Water Pipeline Company Pty Ltd (trading as LinkWater Projects) to note the wind up of this company.

An emphasis of matter paragraph was included relating to the dissolution of Southern Distributor-Retailer Authority (trading as Allconnex Water). The audit opinion drew attention that Allconnex Water ceased to exist on 30 September 2012 and that all assets and liabilities of the former entity would transfer to the Gold Coast City Council, Logan City Council and Redland City Council on dissolution. In this regard Treasurer approval was obtained to allow the authority to prepare financial statements to cover the extended 15 month period up until the date of dissolution, to avoid any additional unnecessary cost and burden on the authority.

9.4 Quality and timeliness of financial statements

9.4.1 Timeliness

As a result of machinery of government changes, the Department of Energy and Water Supply was granted a one month extension by the Treasurer until 30 September 2012 to certify its financial statements. The department's financial statements were not certified within this timeframe and were granted a further extension until 19 October 2012, which it met.

Twenty of the other 21 (95 per cent) entities' financial statements were certified by management and audit within their legislated timeframe. This is a better result than last year when only 18 (86 per cent) met the timeframe.

Another entity, Mount Isa Water Board did not meet the timeframe as their financial statements were certified on 5 September 2012. The delay in certification was due to the late finalisation of asset valuation issues.

9.4.2 Quality

The Department of Energy and Water's financial statement process was generally good given they had to deal with a machinery of government change in the current year, which meant a certain level of flexibility had to be built into their year-end processes. Overall there was a sound quality control system, supporting documentation was of a high standard and staff had a good understanding of and experience in applying relevant accounting standards.

The process could be improved by preparing an early set of proforma financial statements to enable early identification of amendments and reduce the need for significant disclosure changes at year-end. In addition, the department would benefit from determining materiality thresholds in consultation with the audit committee during the planning phase of the audit, and conducting rigorous analytical review during the financial report preparation process.

Electricity sector

Overall, there was a high standard of quality in relation to the processes used to produce the sectors' financial statements and resulting financial statements. Across the electricity sector some good processes used to achieve this outcome included:

- establishing a plan that outlines the processes, resources, milestones, oversight, and quality assurance practices for preparing the financial statements
- providing to auditors a proforma financial report to enable early identification of amendments
- using full accrual monthly reporting to make the end of year process easier
- having a high standard of documentation to support and validate the financial statements and provide a management trail
- reviewing supporting documentation, data and the financial statements performed by an appropriately experienced and independent officer
- carrying out rigorous and objective analytical review during the preparation process
- staff preparing statements who have a good understanding and experience in applying relevant accounting standards and legislation.

Areas where further improvement could be made to the financial statement process include:

- earlier provision of proforma financial reports
- assessing materiality, including quantitative and qualitative thresholds, at the planning phase in consultation with the audit committee.

The quality of the processes used by the electricity sector has led to very few, if any, adjustments to financial statements.

Late adjustments were recognised by Stanwell Corporation Limited, which resulted in a \$4.1 million increase to net profit after tax, with corresponding reductions of \$26.8 million and \$31.2 million to assets and liabilities, respectively. The adjustments related to updated derivative and investment valuations in light of new information becoming available and a revision to the discount rate applied in the calculation of the provisions for rehabilitation.

Water sector

Overall, there was good quality in relation to the processes used to produce the sectors' financial statements and resulting financial statements themselves. Across the water sector some of the good processes used to achieve this outcome have included:

- establishing a plan that outlines the processes, resources, milestones, oversight, and quality assurance practices for preparing the financial statements
- providing to auditors a proforma financial report to enable early identification of amendments
- using full accrual monthly reporting to make the end of year process easier
- maintaining a high standard of documentation to support and validate the financial statements and provide a management trail
- reviewing supporting documentation, data and the financial statements performed by an appropriately experienced and independent officer
- staff preparing statements who have a good understanding and experience in applying relevant accounting standards and legislation.

Areas where further improvement could be made to the financial statement process include:

- assessing materiality at the planning phase in consultation with the audit committee
- carrying out rigorous and objective analytical review during the preparation process.

The quality of the processes used by the water sector led to very few adjustments to financial statements.

9.5 Significant financial reporting issues

9.5.1 CS Energy Limited's financial sustainability

CS Energy Limited has reported losses in the past three years (2011-12 \$51.5 million, 2010-11 \$614.6 million, 2009-10 \$47.6 million), and has projected future losses until 2014-15, which impact its ongoing sustainability. Despite the recent restructure of the government owned electricity generators in Queensland, the projected financial performance of the company remains a matter of concern due to the current and forecast future levels of electricity demand and wholesale electricity prices, in addition to problems with respect to the reliability of its plant.

For 2011-12 financial statement purposes, a going concern assessment was performed for 30 June 2012, which took into consideration the actual historical and projected future losses of the company, the restructure of the electricity generators in Queensland (including the acquisition by CS Energy Limited of the Gladstone Interconnection and Power Pooling Agreement – which is an onerous contract), and the non-receipt of some budgeted equity injections from the state government.

Adequate disclosure was made in the financial statements for the year ended 30 June 2012 regarding the directors' assessment of going concern and a positive current ratio demonstrated the ability of the company to meet short-term debt.

Key criteria continue to be reported to the Board of Directors through monthly performance reports to monitor the going concern assumption, solvency and overall sustainability of the company.

Other factors taken into consideration in assessing the future viability of the company include:

- receipt of equity injections amounting to \$300 million during 2011-12
- Queensland Treasury Corporation provided undrawn debt and working capital facilities in excess of \$575 million as at 30 June 2012
- formal correspondence from the Under Treasurer provided a guarantee for the company's existing and future borrowing requirements.

Although these guarantees, debt and working capital facilities have been provided, in the longer term CS Energy Limited's financial sustainability is critically dependent on access to undrawn debt facilities with Queensland Treasury Corporation and continued support of the government.

With a net profit after tax not currently forecast until the 2015-16 financial year, the company will be taking the action necessary to improve its underlying operational performance and improve cash flow to commence paying down debt to reduce dependency on government.

9.5.2 South east Queensland bulk water entities' debt level

Under the reforms of the south east Queensland bulk water sector, Queensland Bulk Water Transport Authority and SEQ Water Grid Manager are amalgamating with Queensland Bulk Water Supply Authority on 31 December 2012. Certain planning functions of the Queensland Water Commission will also be taken over by Queensland Bulk Water Supply Authority, with the remainder of the Commission's functions to be assumed by the Department of Energy and Water Supply. The Queensland Water Commission is expected to be abolished from 1 January 2013.

Queensland Bulk Water Supply Authority currently manages south east Queensland's water supply, including its dams and desalination plants. Queensland Bulk Water Transport Authority manages the pipe network that connects the south east Queensland water grid. The state government sets the price of bulk water which is charged, and SEQ Water Grid Manager manages the sale of water and other services to local governments, the Distributor-Retailer Authorities and other customers.

Under current arrangements, the cost of supplying water to South East Queensland is higher than the price that is charged to water consumers. This has resulted in a debt of around \$1.6 billion as at 30 June 2012, an increase from \$1.2 billion in 2011 and \$700 million in 2010 as reported in the Interim Report of Queensland Commission of Audit (June 2012). SEQ Water Grid Manager's debt is currently forecasted by Queensland Treasury and Trade to peak at just over \$3 billion in 2016-17 under the current price path.

The SEQ Water Grid Manager's debt has accumulated through the need to fund the difference between the cost of providing bulk water over the first 10 years of the bulk water price path and the revenue from sale of bulk water.

In accordance with normal commercial practice, debt associated with the construction or acquisition of the south east Queensland bulk water infrastructure assets is to be effectively paid off over the useful lives of the assets in the accounts of Queensland Bulk Water Supply Authority and Queensland Bulk Water Transport Authority. At 30 June 2012, this debt amounted to about \$7.3 billion. The accumulating debt of these water entities poses a significant financial risk to the state.

At 30 June 2012, assets relating to the Western Corridor Recycled Water Scheme and Gold Coast Desalination Plant accounted for \$2.9 billion (2010-11: \$2.6 billion) of the \$6.5 billion in total assets recorded in the financial statements of Queensland Bulk Water Supply Authority. In June 2012, the Minister for Energy and Water Supply requested that Queensland Bulk Water Supply Authority as the owner-operator of the Gold Coast Desalination Plant and the Western Corridor Recycled Water Scheme review within a nine week period, all options to make the plants more cost-effective and improve the return on the assets over their life. A final report was issued to the Minister on 27 August 2012. No decisions have been made in relation to these assets at the date of this report. The impact on future operating costs of these plants needs to be assessed in terms of the need to impair these assets and write-down these values.

To ensure a smooth transition to the new structure from 1 January 2013, there is a need to ensure that the merger process is effectively managed. A decision in relation to the management of existing debt within the amalgamating entities will also need to be finalised.

From an accounting perspective, appropriate processes should be in place to ensure all assets and liabilities are transferred at appropriate values, accounting policies align, accounting systems are integrated and final financial reports are prepared and available for audit in a timely manner.

9.6 Status of opinions

9.6.1 Financial statement opinions

Figure 9B

Audit	Included in whole of government accounts	Financial statements signed	Opinion issued	Certified within legislated timeframe	Opinion
Department					
Department of Energy and Water Supply ^A	Yes	11.10.2012	19.10.2012	Yes ⁺	U
Jointly controlled entity					
SPARQ Solutions Pty Ltd	No	07.08.2012	09.08.2012	Yes	U
Government owned corporations and controlled entities					
CS Energy Limited	Yes	27.08.2012	30.08.2012	Yes	U
ENERGEX Limited	Yes	22.08.2012	27.08.2012	Yes	U
Ergon Energy Corporation Limited	Yes	24.08.2012	30.08.2012	Yes	U
• Ergon Energy Queensland Pty Ltd	Yes	27.08.2012	30.08.2012	Yes	U
• Ergon Energy Telecommunications Pty Ltd	Yes	30.08.2012	31.08.2012	Yes	U
Queensland Electricity Transmission Corporation Limited (trading as Powerlink Queensland)	Yes	30.08.2012	31.08.2012	Yes	U
Stanwell Corporation Limited	Yes	30.08.2012	30.08.2012	Yes	U
Sunwater Limited	Yes	29.08.2012	29.08.2012	Yes	U
Statutory bodies and controlled entities					
Central SEQ Distributor-Retailer Authority (trading as Queensland Urban Utilities)	Yes	29.08.2012	31.08.2012	Yes	E
Energy and Water Ombudsman Queensland	No	13.08.2012	16.08.2012	Yes	U
Gladstone Area Water Board	Yes	30.08.2012	31.08.2012	Yes	U
Mount Isa Water Board	Yes	04.09.2012	05.09.2012	No	U
Northern SEQ Distributor-Retailer Authority (trading as Unitywater)	No	27.08.2012	30.08.2012	Yes	E
Queensland Bulk Water Supply Authority (trading as Seqwater)	Yes	27.08.2012	31.08.2012	Yes	E
• Australian Water Recycling Centre of Excellence Ltd	No	28.09.2012	05.10.2012	Yes	U

Audit	Included in whole of government accounts	Financial statements signed	Opinion issued	Certified within legislated timeframe	Opinion
Queensland Bulk Water Transport Authority (trading as LinkWater)	Yes	31.08.2012	31.08.2012	Yes	Q E
• Southern Regional Water Pipeline Company Pty Ltd (trading as LinkWater Projects)	Yes	25.07.2012	31.07.2012	Yes	E
Queensland Water Commission	No	31.08.2012	31.08.2012	Yes	E
SEQ Water Grid Manager	Yes	31.08.2012	31.08.2012	Yes	E
Southern SEQ Distributor-Retailer Authority (trading as Allconnex Water) [#]	No	01.10.2012	05.10.2012	Yes	E

Opinion key:

U = unqualified

Q = qualified

A = adverse

E = unqualified with emphasis of matter

D = disclaimer

[^] The financial year for the Department of Energy and Water Supply was 1 May 2012 to 30 June 2012.

^{*} The legislated timeframe for management certification of these financial statements was extended from 31 August 2012 to 19 October 2012.

[#] The financial year for Southern SEQ Distributor-Retailer Authority (trading as Allconnex Water) was 1 July 2011 to 30 September 2012.

Source: Queensland Audit Office

10 Environment and Heritage Protection

In brief

Background

This ministerial portfolio is responsible for environment, climate change science and policy, coastal management, ecologically sustainable development, environmental planning, protection of flora and fauna, historical cultural heritage, pollution management, and waste management.

This portfolio includes eight public sector entities that are required to produce financial statements.

Key findings

- Eight unqualified audit opinions were issued, including the Department of Environment and Heritage Protection. This was the same result as last year.
- All finalised financial statements were certified by management and audit within their legislated timeframe.

10.1 Background

This portfolio is responsible for environment, climate change science and policy, coastal management, ecologically sustainable development, environmental planning, protection of flora and fauna, historical cultural heritage, pollution management, and waste management.

The portfolio consists of eight public sector entities required to produce financial statements (shown in Section 10.6.1). Figure 10A shows the key financial information for this portfolio.

Figure 10A
Key financial information

Audit	Revenue (\$mil)	Expenses (\$mil)	Assets (\$mil)	Liabilities (\$mil)
Department of Environment and Heritage Protection	900.6	875.6	72.0	7.9
Other portfolio entities (in aggregate)	32.3	31.2	71.3	4.4
Portfolio total	932.9	906.8	143.3	12.3

Source: Queensland Audit Office

10.2 Conclusion

The portfolio's financial statements were generally timely and of good quality; however, the department required two extensions of time to finalise their financial statements.

10.3 Results of audits

Eight (100 per cent) unqualified audit opinions were issued. This was the same as 2010-11.

An emphasis of matter paragraph was included with the unqualified audit opinion of the Currumbin Wildlife Hospital Foundation to draw attention to the fact that special purpose financial statements were prepared.

10.4 Quality and timeliness of financial statements

10.4.1 Timeliness

Seven of the eight (87 per cent) entities met their legislative timeframes for finalising their financial statements, compared with 60 per cent in 2010-11.

As a result of machinery of government changes, the Department of Environment and Heritage Protection was granted a one month extension by the Treasurer until 30 September 2012 to certify its financial statements. This timeframe was not met and the department was granted a further extension until 19 October 2012. An audit opinion was issued for the department's financial statements on 19 October 2012.

Factors impacting on the timeliness of their financial statements, included:

- the finance system was not designed in a way that allowed for the timely breakup of the ledger following the machinery of government changes. Identifying transactions and balances relating to the department and other newly established departments within the ledger proved difficult
- the need for the department to support six other entities in developing revised budgets. The budgetary process is usually completed by June
- lack of timely confirmations and sign-off between machinery of government affected entities over the transfer or redistribution of revenue, expenses, assets and liabilities
- the shared service provider having difficulty providing information on the different functions transferred to and from the department as a result of the machinery of government changes
- financial accounting staff being diverted to other tasks associated with reorganising the department.

Currumbin Wildlife Hospital Foundation did not meet its timeframe. Its financial statements were certified by management and audit after this deadline, as further consideration was required on the completeness of their revenue.

10.4.2 Quality

The financial statement process of the Department of Environment and Heritage Protection was assessed against the better practice for financial report preparation discussed in Appendix C to determine whether its process was satisfactory or needs improvement. It was satisfactory.

The preparers of the financial statements are experienced and knowledgeable. The department's staff provided financial statement information to service seven other entities. This affected the timeliness of the department's own financial statement process.

10.5 Significant financial reporting issues

10.5.1 Equity position resulting from the transfer of land function

As part of the machinery of government changes, administration of the state's land valued at \$64 billion was transferred to the Department of Natural Resources and Mines with a corresponding withdrawal of equity from the Department of Environment and Heritage Protection.

This resulted in the Department of Environment and Heritage Protection's contributed equity account being overdrawn and the substantial asset revaluation surplus balance not being utilised. This was caused by the initial recognition of land under roads in the balance sheet in March 2009 at zero value and the subsequent revaluing of this asset at 30 June 2009.

To address this, the asset revaluation surplus no longer required by the department totalling \$42 billion, was transferred to the accumulated surpluses account and this account was used to offset the remaining equity withdrawal required after the contributed equity balance had been extinguished.

The inability to transfer asset revaluation surplus between departments as a consequence of machinery of government changes needs to be further explored at a financial reporting policy level.

10.5.2 Industry waste disposal levy

On 1 December 2011, the industry waste levy came into effect. This levy was applied to industrial waste delivered to a waste disposal site and was payable by the waste disposal site operator. The intended use of these funds from the levy was to improve Queensland's waste and resource management practices with targeted programs to help business, industry and local government to reduce the amount of waste generated, particularly in regional areas. The industry waste levy was effectively repealed from 1 July 2012.

Budgeted revenue from the levy to 30 June 2012 was \$57 million, compared to actual revenue for the seven month period to that date of \$42 million. The balance of the funds collected but not utilised on the environment was \$21 million. The Minister has advised that these funds will be used to reduce state debt.

Given the short life of the levy, further development on the system to account for it was curtailed and the staff administering the levy reduced. Consequently, the department wrote off software development costs of \$0.9 million.

10.6 Status of opinions

10.6.1 Financial statement opinions

Figure 10B

Audit	Included in whole of government accounts	Financial statements signed	Opinion issued	Certified within legislated timeframe	Opinion
Department and controlled entities					
Department of Environment and Heritage Protection	Yes	28.09.2012	19.10.2012	Yes ⁺	U
• Ecofund Queensland Pty Ltd	No	31.07.2012	01.08.2012	Yes	U
• Queensland Trust for Nature Fund	No	09.09.2012	21.09.2012	Yes [#]	U
• The Balance the Earth Trust	No	31.07.2012	01.08.2012	Yes	U
Statutory bodies and controlled entities					
Currumbin Bird Sanctuary	No	27.08.2012	29.08.2012	Yes	U
• Currumbin Wildlife Hospital Foundation	No	23.09.2012	24.09.2012	No	E [*]
National Trust of Queensland	No	27.08.2012	29.08.2012	Yes	U
The Board of Trustees of Newstead House	No.	27.08.2012	30.08.2012	Yes	U

Opinion key:

U = unqualified

Q = qualified

A = adverse

E = unqualified with emphasis of matter

D = disclaimer

⁺ The legislated timeframe for management certification of these financial statements was extended from 31 August 2012 to 19 October 2012.

[#] The trust deed specifies that the financial statements be audited within 12 weeks after the end of the financial year.

^{*} An emphasis of matter paragraph was issued to alert users of the financial statements to the fact that special purpose financial statements were prepared.

Source: Queensland Audit Office

11 Health

In brief

Background

This ministerial portfolio is responsible for hospitals and all public health services.

The 24 public sector entities required to produce financial statements make up this portfolio.

Key findings

- Twenty-three unqualified audit opinions were issued. A qualified audit opinion was issued for Redcliffe Hospital Foundation.
- Emphasis of matter paragraphs were included in the financial statements of six entities:
 - Dental Technicians Board of Queensland
 - Medical Radiation Technologists Board of Queensland
 - Occupational Therapists Board of Queensland
 - Speech Pathologists Board of Queensland
 - The Prince Charles Hospital Foundation Trust
 - The Royal Children’s Hospital Foundation.
- Twenty-one of the 24 financial statements were certified within their legislated timeframe.
- Mackay Hospital Foundation, PA Research Foundation and Redcliffe Hospital Foundation were finalised after the two month timeframe required for these entities.

11.1 Background

This portfolio is responsible for hospitals, public health, oral health, Aboriginal and Torres Strait Islander health, community health, mental health and registration of health professionals.

The portfolio consists of 24 public sector entities required to produce financial statements (shown in Section 11.7.1). Figure 11A shows key financial information for this portfolio.

Figure 11A
Key financial information

Audit	Revenue (\$mil)	Expenses (\$mil)	Assets (\$mil)	Liabilities (\$mil)
Queensland Health	11 328.5	11 314.7	9 465.9	1 100.5
Other portfolio entities (in aggregate)	171.1	150.5	490.2	45.0
Portfolio total	11 499.6	11 465.2	9 956.1	1 145.5

Source: Queensland Audit Office

11.2 Conclusion

Overall the quality and timeliness of the portfolio's financial statements was good, and had improved from last year. Less qualified audit opinions were issued and timeliness had improved by 21 per cent.

11.3 Results of audits

All audit opinions have been issued: 23 (96 per cent) unqualified audit opinions were issued, compared to 19 (77 per cent) last year. One (4 per cent) qualified audit opinion was issued, compared to six (32 per cent) last year.

A qualified opinion was issued for Redcliffe Hospital Foundation due to going concern issues. The Foundation's ability to meet its ongoing debts depends on the Foundation getting approval to sell an investment property and executing a lease for the operation of the Moreton Bay Integrated Care Centre. It is uncertain when these events will occur and the Foundation should not have prepared its financial statements on a going concern basis. A qualified audit opinion was issued as the Foundation did not appropriately disclose its position. The Foundation's audit opinion was also qualified last year.

Last year Queensland Health's audit opinion was qualified because of the lack of adequate internal controls over employee expenses and insufficient evidence to support payroll receivables. Other qualified audit opinions were issued for Bundaberg Health Services Foundation, Gold Coast Hospital Foundation, PA Research Foundation and Townsville Hospital Foundation due to the completeness of donation revenue received. These issues have been resolved.

Emphasis of matter paragraphs were included with six (25 per cent) of the unqualified audit opinions, compared to one (4 per cent) in 2010-11.

These were included in the audit opinions of six boards as they have been or will be abolished:

- Dental Technicians Board of Queensland
- Speech Pathologists Board of Queensland
- Occupational Therapists Board of Queensland
- Medical Radiation Technologists Board of Queensland
- The Prince Charles Hospital Foundation Trust
- The Royal Children's Hospital Foundation.

11.4 Quality and timeliness of financial statements

11.4.1 Timeliness

As a result of machinery of government changes, Queensland Health was granted a one month extension by the Treasurer until 30 September 2012 to certify their financial statements. Their financial statements were certified by management and audit within this timeframe. They also met their timeframe in 2010-11.

Another 20 of the 23 (87 per cent) financial statements finalised were certified by management and audit within their legislated timeframe. This is a better result than last year when 13 of 24 (54 per cent) were finalised within the timeframe.

Mackay Hospital Foundation, PA Research Foundation and Redcliffe Hospital Foundation, all statutory bodies, were finalised after the two month timeframe required for these entities. In these cases, this was due to delays in providing appropriate information for audit to be able to issue the audit opinions.

11.4.2 Quality

Queensland Health was assessed against better practice for financial report preparation discussed in Appendix C to determine if their process was satisfactory or needed improvement.

Their process was satisfactory. Staff preparing the financial statements had a good understanding and experience and financial statements were appropriately reviewed prior to providing these for audit.

\$154.2 million in adjustments were made to the financial statements before an audit opinion could be issued. The changes to the financial statements included the incorrect categorisation of appropriation revenue returned to Queensland Treasury and Trade as an expense and the reclassification of account balances.

11.5 Future financial risks

11.5.1 National Health Reform

As part of the Queensland Government's response to the national health reform, seventeen Hospital and Health Services (HHSs) commenced as new Queensland public entities from 1 July 2012. The Queensland Government entered into the National Health Reform Agreement with the Australian Government in August 2011. The Agreement sets out the financial and governance arrangements for Australian public hospital services and governance for primary health care and aged care.

The Queensland Government passed the *Hospital and Health Boards Act 2011* and related regulations that established the seventeen new HHSs for health service delivery throughout Queensland. The reforms involve a significant change in governance and financial management stewardship and include devolving responsibility, decision-making and accountability to these local hospital and health boards. Chairs and their boards have now been appointed, other than for the Torres Strait – Northern Peninsula Hospital and Health Service which is being administered by the Director-General, Queensland Health.

Queensland Health's seventeen existing health service districts were replaced by these new statutory bodies on 1 July 2012, with the transfer of net assets totalling \$5.4 billion from Queensland Health to the new HHSs as shown in Figure 11B.

Figure 11B
Assets of new Hospital and Health Services

New statutory bodies	Assets (\$mil)	Liabilities (\$mil)	Net assets (\$mil)
Cairns and Hinterland Hospital and Health Service	340.455	19.577	320.878
Cape York Hospital and Health Service	96.563	2.731	93.832
Central Queensland Hospital and Health Service	308.979	16.497	292.482
Central West Hospital and Health Service	46.673	1.910	44.764
Children's Health Queensland Hospital and Health Service	120.157	9.024	111.133
Darling Downs Hospital and Health Service	318.775	16.305	302.470
Gold Coast Hospital and Health Service	483.918	23.475	460.443
Mackay Hospital and Health Service	171.009	7.179	163.830
Metro North Hospital and Health Service	1 313.085	63.950	1 249.134
Metro South Hospital and Health Service	1 015.666	58.974	956.692
North West Hospital and Health Service	89.291	3.020	86.271
South West Hospital and Health Service	95.433	4.340	91.093
Sunshine Coast Hospital and Health Service	334.671	17.990	316.681
Torres Strait – Northern Peninsula Hospital and Health Service	93.531	3.718	89.812
Townsville Hospital and Health Service	462.651	23.409	439.242
West Moreton Hospital and Health Service	189.624	10.019	179.605
Wide Bay Hospital and Health Service	216.156	14.021	202.135
Total	5 696.637	296.140	5 400.497

Source: Queensland Audit Office

Responsibility for the management, maintenance and control of land and buildings will rest with the HHSs, however legal title will remain with Queensland Health. HHS Health Service Executives are employed directly by their respective HHSs.

11.5.2 Financial performance

Financial performance for Queensland Health is measured by the difference between operating revenues received from State Budget appropriations, Commonwealth grants and own source revenue and expenditure outflows for the provision of health services.

For 2011-12, the department achieved an operating surplus of \$42.3 million (2011: \$2.3 million) and exceeded its original approved budget by \$58.3 million (2011: \$177.8 million) or less than one per cent of original expenditure budget for the year.

The Queensland Health budget has increased by nearly 47 per cent over the last five years and represents approximately a quarter of the State Budget. Figure 11C shows that total expenditure has historically increased on average by at least 10 per cent per annum. Employee expenses are the major cost incurred by the department with budgeted costs for employee expenses having increased by over 53 per cent since 2007-08, with employee full time equivalent numbers increasing by 22.2 per cent over the same period. Included in employee expenses for 2011-12 were termination payments to employees totaling \$100.3 million. Budgeted employee costs on an FTE basis increased over the five year period by 25 per cent.

Increasing health costs and the issue of financial affordability are confronting many jurisdictions and remain a significant challenge for the State.

Figure 11C
Financial performance

	2007-08	2008-09	2009-10	2010-11	2011-12
Queensland Health – expenditure (\$bil)	7.703	8.578	9.552	10.570	11.315
Expenditure increase since the prior year (%)		11.36	11.35	10.66	7.05
Employee expenses (\$bil)	4.754	5.358	6.139	6.737	7.298
Increase in employee expenses since the previous year (%)		12.7	14.6	9.7	8.3
Number of employees (Full Time Equivalents {FTE})	56 333	60 770	64 158	67 947	68 864
FTE increase since the previous year (%)	8.2	7.9	5.6	5.9	1.3

Source: Queensland Audit Office

11.5.3 Budget results for existing Health Districts

The existing Health Service Districts within Queensland Health, which became HHSs from 1 July 2012, achieved the following surpluses/ (deficits) for the last three years as detailed in Figure 11D.

**Figure 11D
Budget results for Health Districts**

Queensland Health Service Districts	Budget results (Over budget) / under budget			Hospital and Health Services Budget
	2009-10 (\$mil)	2010-11 (\$mil)	2011-12 (\$mil)	
Cairns and Hinterland	(13.577)	(29.699)	7.061	581.0
Cape York	(3.005)	(3.151)	(0.068)	67.9
Central Queensland	(16.431)	(32.282)	6.065	431.9
Central West	(0.534)	(0.167)	(2.486)	51.1
Children's Health	(3.334)	(0.781)	(1.314)	300.9
Darling Downs	--	--	(2.872)	540.9
Darling Downs/West Moreton *	(6.728)	(30.655)	--	
Gold Coast	(3.200)	(7.260)	(16.296)	827.7
Mackay	(5.994)	(14.040)	(6.057)	287.8
Metro North	(33.231)	(83.914)	(14.170)	2 034.6
Metro South	(32.260)	(29.198)	(15.108)	1 638.1
Mt Isa (now North West HHS)	(7.292)	(7.138)	0.902	126.7
South West	(0.890)	(3.802)	(0.846)	107.8
Sunshine Coast	--	(12.408)	0.211	634.9
Sunshine Coast / Wide Bay *	(37.077)	--	--	
Torres Strait and Northern Peninsula Area	(6.097)	(14.232)	(6.420)	81.1
Townsville	(3.304)	(6.289)	(6.854)	699.4
West Moreton	--	--	(17.333)	373.3
Wide Bay	--	(45.043)	(8.721)	440.8
Health Service Districts/HHS Subtotal	(172.954)	(320.057)	(84.308)	11 862.1
Queensland Health Corporate Office [^]	173.786	322.344	126.642	11 049.0
Total	0.832	2.285	42.336	

* Combined districts.

[^] Corporate Office financial result is shown for completeness of Queensland Health budget position.

Source: Queensland Audit Office

Figure 11D indicates that most of the districts exceeded their allocated departmental budgets for the last three years, although for 2011-12 there was significant improvement for the majority of districts over the previous years.

On 1 July 2012, the Health Services Districts within Queensland Health became Hospital and Health Services (HHSs), statutory bodies formed as separate legal entities under the Hospital and Health Boards Act 2011. Each HHS is governed by a Hospital and Health Service Board appointed by the Minister for Health.

As statutory bodies, for 2012-13 each HHS will be required to prepare general purpose financial statements in accordance with the *Financial Accountability Act 2009*.

From 1 July 2012, service agreements have been put in place between each HHS and Queensland Health. These service agreements define the outcomes that are to be met by the HHSs and how performance will be managed. Funding to the HHSs is provided through these agreements. Chief Executives, through the HHS Boards, are responsible for the financial management, including budget management, of their HHS in accordance with the *Financial Accountability Act 2009* and subsequent regulations.

To assist the HHSs in preparing for their new role, Queensland Health undertook a readiness assessment of each HHS against four main indicators – financial, safety and quality, human resources and governance. Against the financial indicator, 11 of the 17 HHSs recorded a low (either 1 or 2) readiness assessment. In 2012-13, these HHSs are being monitored through the System Manager's Performance Management Framework.

With the creation of these seventeen new HHSs, the financial sustainability of these separate entities will be a key challenge. Financial monitoring of budgets and cash flows by the new boards of these entities and also the 'system manager' role performed by Queensland Health will be critical in mitigating this risk.

For 2012-13, QAO will audit each HHS's financial statements prior to them being tabled in Parliament. Each HHS will record its own financial result as an independent legal entity.

Future reports to Parliament will report on the financial sustainability of these separate public sector entities using an array of ratios and performance indicators including:

- underlying result (sufficient revenue generated to fund operations and asset renewal)
- liquidity (sufficient current assets to cover liabilities)
- average number of days cash available (to fund operations)
- capital replacement.

11.5.4 Expenditure on Health Infrastructure

The department's fair value of land, buildings and capital works in progress assets at 30 June 2012 totalled \$7.573 billion (2011: \$6.417 billion). This movement represents an increase of 18 per cent over the previous year and was mainly due to an increase in the value of capital works in progress of \$1.042 billion. Completed capital works in progress transferred to the buildings asset class in 2011-12 approximated \$308 million.

The 2011-12 State Budget outlined a \$1.82 billion (2012-13 \$1.83 billion) capital works program for a broad range of health infrastructure, services and equipment. Figure 11E provides budget and expenditure details for four of the major health infrastructure projects under construction during 2011-12.

Figure 11E
Budget and expenditure results for selected capital works projects

Project	Original budget (per Capital Statement) (\$mil)	Estimated bed numbers	Latest revised budget (2012-13) (\$mil)	2011-12 Budgeted expenditure (\$mil)	2011-12 Actual expenditure (\$mil)	Total expenditure to date (\$mil)
Queensland Children's Hospital	694 (2007-08)	359	1 433	241.6	233.7	592
Gold Coast University Hospital	1 230 (2007-08)	750	1 762	435.6	493.2	1 200
Sunshine Coast University Hospital	926 (2007-08)	450 increasing to 738 by 2021	1 872	46.3	27.4	114
Mackay Hospital	406 (2008-09)	161	408	87.2	153.2	260
Total	3 256	1 720	5 475	810.7	[^]907.5	2 166

[^] These costs form part of the increase in capital works balance of \$1 042 billion.

Source: Queensland Audit Office

An increase of \$813 million in the combined budgets for these projects occurred between 2008-09 and 2009-10 due to estimates in 2009-10 being expressed in estimated out turn dollars for the first time.

Some of the increases in estimated budgets for these projects were due to inadequate service delivery planning at the time of establishing the business case and original cost estimate. This was reported previously in Auditor-General Report to Parliament No. 2 for 2009. The follow up review, Auditor-General Report to Parliament No. 12 for 2010 noted improved linkages between service planning and major infrastructure decisions.

With the establishment of the 17 HHS Boards, there is a strong need for integrated service and infrastructure planning to ensure that sufficient information (e.g. revised business cases, project evaluations) is provided to decision makers to inform them whether to proceed further with a project.

The Queensland Commission of Audit Interim Report June 2012 also highlighted the cost increases for the Queensland Children's Hospital and questioned the adequacy of the preliminary evaluation, initial cost estimates, cost control and project management (including scope revisions), and therefore overall value for money in the delivery of the project.

Figure 11F shows the project budgets where annual increases exceeded \$100 million.

Figure 11F
Project budget increases over \$100 million

Project	Budget increase for the year (\$mil)		
	2008-09	2009-10	2010-11
Queensland Children's Hospital	350	240	113
Gold Coast University Hospital	--	319	213
Sunshine Coast University Hospital	284	360	403

Source: Queensland Audit Office

11.6 Queensland Health payroll

11.6.1 Issues raised in previous reports to Parliament

Since the implementation of the SAP HR payroll system in March 2010, there has been a history of issues and concerns regarding under and overpayments to employees, lack of adequate internal controls over employee expenses and system weaknesses which have been reported to Parliament.

The total amount spent on the payroll system during the current year was \$188.3 million and total cost of the system which includes system implementation and related staff costs since implementation is approximately \$403 million. The number of payroll processing staff currently needed to process payroll forms in the SAP system sits at over 989 which is a significant increase over the 600 staff required for the previous Lattice system.

The department's commitment to improve the payroll system through implementing recommendations from audit and other advisors is still evident and continuing with key system upgrades and changes made during the year.

Regular system releases have been implemented to correct errors identified in the system, implement business driven enhancements and apply system maintenance and updates. This work is ongoing and as at 19 September 2012, the release program had implemented 792 changes.

Departmental analysis indicates that the majority of overpayments are a result of late submission or processing of payroll forms or incorrect processing of payroll forms, resulting in payroll transactions not being processed by the required pay cutoff date. As a consequence, payroll overpayments of around \$1.3 million are made every pay run.

In late May 2012, the Minister for Health lifted the moratorium on the recovery of overpayments and approved commencement of departmental recovery action. In late June 2012, 49 040 current and former staff were notified of their overpayment position. At 30 June 2012, payroll receivables totalled \$94.484 million.

Significant progress has been made since the recovery action commenced. Between 1 July 2012 and 23 September 2012, Queensland Health established (or is in the process of establishing) 3 483 repayment agreements valued at \$9.1 million. Actual repayments in this same period totalled approximately \$4.1 million. At 23 September 2012, Queensland Health had recovered a total of \$21.6 million, including repayments made prior to 1 July 2012.

A qualified audit opinion was issued on Queensland Health's annual financial statements for 2010-11 covering lack of adequate internal controls over employee expenses and insufficient evidence to support payroll receivables. The 2011-12 audit opinion is unqualified due to improvements in Queensland Health's control environment and the resolution of prior year issues in relation to payroll receivables.

11.6.2 Alleged fraud

During 2011-12, Queensland Health reported an incident of alleged fraud involving misappropriated grants expense, where the estimated loss is approximately \$16 million, of which \$11.275 million related to 2011-12. Queensland Health's 2012-13 Service Delivery Statement stated that funds of \$11.9 million estimated to be raised from the sale of assets alleged fraudulently acquired by a former Queensland Health employee, will be redirected to Queensland Health to ensure more public money is spent on essential frontline services.

Queensland Health responded to the alleged fraud by implementing a new internal control framework, rationalising delegations and developing data analysis tools to better monitor spending profiles and purchasing methods. Queensland Health also established a fraud risk and control improvement project aimed at developing fraud risk awareness, fraud risk management and a fraud risk register.

Queensland Health will need to continue to be vigilant in assessing fraud risk and implement effective control strategies to ensure that public resources are safeguarded.

11.7 Status of opinions

11.7.1 Financial statement opinions

Figure 11G

Audit	Included in whole of government accounts	Financial statements signed	Opinion issued	Certified within legislated timeframe	Opinion
Department					
Queensland Health	Yes	28.09.2012	28.09.2012	Yes ⁺	U
Jointly controlled entity					
Queensland Children's Medical Research Institute	No	27.09.2012	28.09.2012	Yes	U
Statutory bodies					
Bundaberg Health Services Foundation	No	29.08.2012	31.08.2012	Yes	U
Children's Health Foundation Queensland	No	31.08.2012	31.08.2012	Yes	U
Dental Technicians Board of Queensland	No	16.08.2012	28.08.2012	Yes	E
Far North Queensland Hospital Foundation	Yes	28.08.2012	28.08.2012	Yes	U
Gold Coast Hospital Foundation	No	21.08.2012	23.08.2012	Yes	U
Health Quality and Complaints Commission	Yes	24.08.2012	27.08.2012	Yes ⁺	U
Ipswich Hospital Foundation	Yes	16.08.2012	24.08.2012	Yes	U
Mackay Hospital Foundation	No	02.10.2012	09.10.2012	No	U
Medical Radiation Technologist Board of Queensland	No	16.08.2012	20.08.2012	Yes	E
Occupational Therapists Board of Queensland	No	16.08.2012	20.08.2012	Yes	E
Office of Health Practitioner Registration Boards	No	16.08.2012	28.08.2012	Yes	U
PA Research Foundation	Yes	31.08.2012	24.09.2012	No	U
Redcliffe Hospital Foundation	No	03.09.2012	05.09.2012	No	Q
Royal Brisbane and Women's Hospital Foundation	Yes	30.08.2012	31.08.2012	Yes	U
Speech Pathologists Board of Queensland	No	16.08.2012	28.08.2012	Yes	E
Sunshine Coast Health Foundation	Yes	30.08.2012	30.08.2012	Yes	U

Audit	Included in whole of government accounts	Financial statements signed	Opinion issued	Certified within legislated timeframe	Opinion
The Council of the Queensland Institute of Medical Research	No	31.08.2012	31.08.2012	Yes ⁺	U
The Prince Charles Hospital Foundation	No	16.08.2012	24.08.2012	Yes	U
The Royal Children's Hospital Foundation	No	12.06.2012	29.06.2012	Yes	E
Toowoomba Hospital Foundation	Yes	29.08.2012	30.08.2012	Yes	U
Townsville Hospital Foundation	Yes	28.08.2012	28.08.2012	Yes	U
Audited by arrangement					
The Prince Charles Hospital Foundation Trust	No	20.08.2012	24.08.2012	N/A	E

Opinion key:

U = unqualified

Q = qualified

A = adverse

E = unqualified with emphasis of matter

D = disclaimer

⁺ The legislated timeframe for management certification of these financial statements was extended from 31 August 2012 to 30 September 2012.

Source: Queensland Audit Office

12 Housing and Public Works

In brief

Background

This Ministerial portfolio is responsible for housing services, government accommodation, buildings, vehicles, purchasing, property facilities management, and government printing.

Thirteen public sector entities required to produce financial statements make up this portfolio.

Key findings

- Thirteen unqualified audit opinions were issued, including the Department of Housing and Public Works.
- Emphasis of matter paragraphs were included with the unqualified audit opinions of Cairns Convention Centre, CSI Holdings Pty Ltd and Gold Coast Convention and Exhibition Centre.
- The Department of Housing and Public Works and Queensland Building Services Authority were assessed against better practice for financial report preparation. Overall their processes were found to be satisfactory.
- In July 2012, significant structural changes were announced to the commercialised business units of the department.

12.1 Background

This portfolio is responsible for housing services, government accommodation, buildings, vehicles, purchasing, property facilities management and related services, building industry regulation, building and plumbing standards, regulation of accommodation services, and government printing.

The portfolio consists of 13 public sector entities required to produce financial statements (shown in Section 12.7.1). Figure 12A shows key financial information for this portfolio.

Figure 12A
Key financial information

Audit	Revenue (\$mil)	Expenses (\$mil)	Assets (\$mil)	Liabilities (\$mil)
Department of Housing and Public Works	2 314.2	2 309.4	19 235.5	1 123.0
Queensland Building Services Authority	142.4	157.6	346.5	310.6
Other portfolio entities (in aggregate)	114.2	106.0	772.1	84.6
Portfolio total	2 570.8	2 573.0	20 354.1	1 518.2

Source: Queensland Audit Office

12.2 Conclusion

The timeliness and quality of the financial statements for the portfolio's entities was satisfactory, and similar to last year.

12.3 Results of audits

All 13 (100 per cent, 2010-11: 77 per cent) audit opinions have been issued. All 13 were unqualified, as was the case last year.

Emphasis of matter paragraphs were included with three (23 per cent) unqualified audit opinions, one more than in 2010-11:

- CSI Holdings Pty Ltd as the company was wound up and its assets and liabilities transferred to CITEC so it was no longer a going concern.
- Cairns Convention Centre and the Gold Coast Convention and Exhibition Centre to draw attention to the fact that special purpose financial statements were prepared.

12.4 Quality and timeliness of financial statements

12.4.1 Timeliness

Eight entities in this portfolio had legislative timeframes for finalising their financial statements: seven of the eight (88 per cent) met these timeframes, compared to 100 per cent in 2010-11.

As a result of machinery of government changes, the Department of Housing and Public Works was granted a one month extension by the Treasurer until 30 September 2012 to certify their financial statements. Their financial statements were certified by management and audit within the three month timeframe.

Queensland Building Services Authority was granted an extension of three months to report and its financial statements were certified within this timeframe.

Due to an administrative oversight, Queensland Building Services Employing Office did not obtain an extension to finalise their financial statements and were certified after their legislated timeframe. The Queensland Building Services Authority and Queensland Building Services Employing Office are closely related for financial reporting purposes. The Queensland Building Services Authority was not able to complete their financial statements until the Queensland Building Services Authority Employing Office's financial statements were completed.

12.4.2 Quality

The processes used by these entities to produce their financial statements were assessed against better practice for financial report preparation discussed in Appendix C to determine if their processes were satisfactory or needed improvement.

The Queensland Building Services Authority's financial statement preparation processes were satisfactory and their reporting process is mature. The financial statement processes of the Department of Housing and Public Works were satisfactory but some improvements are required to the quality review of the draft financial statements.

No material adjustments were made to these entities' financial statements before an audit opinion could be issued.

12.5 Significant events

12.5.1 Machinery of government changes

Machinery of government change resulted in a number of the business units transferring from the Department of Housing and Public Works to the Department of Science, Information Technology, Innovation and the Arts. The business units transferred were:

- CITEC
- Queensland Shared Services
- Smart Service Queensland
- Queensland State Archives.

The Housing program was transferred from the Department of Communities, Disabilities and Child Safety to the Department of Housing and Public Works. This has resulted in the property, plant and equipment balance of Department of Housing and Public Works increasing significantly to \$18.4 billion at 30 June 2012 with housing assets comprising 81 per cent of this balance.

12.5.2 Structural changes in the Department of Housing and Public Works

In July 2012 the Minister for Housing and Public Works announced a number of changes to the commercialised business units of the department. The department has disclosed the impact of these changes in a note to their financial statements. These structural changes are:

- Sales and Distribution Services and the commercial printing operations of GoPrint will be closed during the 2012-13 financial year.
- A number of changes to the future operations of QFleet are planned and these will include:
 - a 10 per cent reduction in the overall size of the government fleet
 - extending vehicle leases and holding new vehicle deliveries for 12 months
 - aligning the QFleet workforce to industry benchmarks impacting on staffing levels
 - closing the QFleet workshop at Zillmere.
- QBuild and Project Services will merge into a new commercialised business unit, Asset Services Queensland, to reduce duplication and provide coordinated building services to government. The amalgamation may result in the closure of some QBuild and Project Services regional offices.
- Three government owned commercial caravan parks will be offered for sale.

12.6 Significant financial reporting issues

12.6.1 Government office accommodation

The Department of Housing and Public Works through the Queensland Government Accommodation Office is the delegated authority to negotiate and manage office space for all Queensland government departments.

During 2011-12, it provided accommodation across the State totalling approximately 1.2 million square metres of office space in over 200 government owned buildings (net book value at 30 June 2012: \$1.6 billion) and over 1 000 private sector leased office spaces. Total rental revenue stream in respect of office accommodation approximates \$500 million annually.

The department procures leases and manages office space from the private sector where government owned office space is not available. This office space is provided through non-cancellable operating leases. Total non-cancellable lease commitments were in excess of \$958 million at 30 June 2012.

A number of recent developments may result in reduced government demand for office space:

- After the 2012 State election, machinery of government changes and other measures have resulted in organisational restructures and associated reductions in public service employee numbers.
- The previous Government planned to decentralise government services in line with the Government Office Accommodation Decentralisation Strategy (July 2008). Construction of office accommodation was planned in Ipswich and Brisbane suburbs, including a new major lease for government office space in Ipswich and planned construction of government owned office buildings in Bowen Hills (now cancelled) and Carseldine. This strategy is currently being reconsidered.

These developments expose the Department to several risks in regard to its management of office accommodation. There is the risk that office accommodation for both owned and leased properties may become under-utilised, leading to unnecessary costs. If the department needs to exit from non-cancellable lease arrangements, financial penalties may be incurred.

There may be a short-term rise in vacancy rates in government owned buildings given the reduced demand for office space. The department applies a discounted cash flow approach when valuing its owned office buildings. This methodology incorporates a range of inputs and assumptions (including vacancy rates) when estimating a property's future income stream. Higher vacancy rates may decrease the value of the department's commercial property assets.

The Department manages the property portfolio via the department's Strategic Portfolio Plan (June 2010). This document formulates and presents the strategic directions and actions required to ensure the property portfolio supports the service delivery requirements efficiently and effectively.

Two of the key strategic objectives relevant to office accommodation management are to:

- match government office accommodation supply to current and projected demand
- deliver suitable, cost-effective office accommodation that supports and enhances the service delivery requirements of government agencies.

The Department monitors its performance in this area using a number of benchmarks. In its 2012-13 Service Delivery Statement, it reported actual vacancy rates of 0.86 per cent (target benchmark for government owned office space ≤ 2.5 per cent). It also reported a return on investment (actual) of 7.6 per cent for its owned buildings (target benchmark ≥ 6.5 per cent).

The Department now faces a number of challenges in relation to its management of government accommodation requirements:

- reducing the level of vacancies in both office accommodation for both owned and leased properties
- minimising the costs associated with exiting non-cancellable lease arrangements. These costs include complying with 'make good' provisions, any financial penalties for breaking existing lease agreements and required fit-out costs for new accommodation
- maintaining the value of government owned buildings that are valued under a discounted cash flow approach.

12.7 Status of opinions

12.7.1 Financial statement opinions

Figure 12B

Audit	Included in whole of government accounts	Financial statements signed	Opinion issued	Certified within legislated timeframe	Opinion
Department and controlled entities					
Department of Housing and Public Works	Yes	27.09.2012	28.09.2012	Yes ⁺	U
• CSI Holdings Pty Ltd [^]	No	06.06.2012	06.06.2012	Yes	E
• Lazy Acres Caravan Park Trust	No	26.10.2012	01.11.2012	N/A	U
• The Monte Carlo Caravan Park Trust	No	26.10.2012	01.11.2012	N/A	U
• Woombye Gardens Caravan Park Trust	No	26.10.2012	01.11.2012	N/A	U
Statutory bodies and controlled entities					
Board of Architects of Queensland	No	22.08.2012	31.08.2012	Yes	U
Board of Professional Engineers of Queensland	No	27.08.2012	31.08.2012	Yes	U
Queensland Building Services Authority	Yes	06.09.2012	06.09.2012	Yes	U
• Queensland Building Services Employing Office	Yes	06.09.2012	06.09.2012	No	U
Residential Tenancies Authority	Yes	23.08.2012	27.08.2012	Yes ⁺	U
• Residential tenancies Employing Office	Yes	23.08.2012	27.08.2012	Yes	U
Audited by arrangement					
Cairns Convention Centre	Yes	23.08.2012	31.08.2012	N/A	E *
Gold Coast Convention and Exhibition Centre	Yes	25.10.2012	06.11.2012	N/A	E *

Opinion key:

U = unqualified

Q = qualified

A = adverse

E = unqualified with emphasis of matter

D = disclaimer

⁺ The legislated timeframe for management certification of these financial statements was extended from 31 August 2012 to 30 September 2012.

[^] The financial year for CSI Holdings Pty Ltd was 1 June 2011 to 4 June 2012.

* An emphasis of matter paragraph was issued to alert users of the financial statements to the fact that special purpose financial statements were prepared.

Source: Queensland Audit Office

13 Local Government

In brief

Background

This Ministerial portfolio is responsible for regulation of local government. The Department of Local Government and 176 local government entities make up this portfolio. The results of audits of local government entities will be reported in a separate report.

The Department of Local Government is the only state entity in this portfolio.

Key findings

- An unqualified audit opinion was issued for the financial statements of the Department of Local Government. The department's financial statements were certified within the legislated timeframe.
- The department's financial statement process was assessed against better practice and was found to be satisfactory.
- The Torres Strait Island Regional Council had an ongoing audit issue about unpaid wages dating back to the establishment of the council. They performed a detailed review and calculated the balance to be more than \$4 million. This amount was sufficiently disclosed within the 2010-11 financial statements.

13.1 Background

This portfolio is responsible for regulation of local government - including corporate governance, auditing of councils, local government boundaries and elections, planning and development regulation, and building stronger relationships between Queensland Local Councils and the State Government.

The portfolio consists of the Department of Local Government and 176 local government entities. The results of these local government entities will be reported in early 2013. Figure 13A shows key financial information for the department.

Figure 13A
Key financial information

Audit	Revenue (\$mil)	Expenses (\$mil)	Assets (\$mil)	Liabilities (\$mil)
Department of Local Government	446.8	470.0	98.0	11.4

Source: Queensland Audit Office

13.2 Conclusion

The Department's financial statements were timely with no significant adjustments.

13.3 Results of audits

The Department of Local Government's audit opinion was unqualified as it was in 2010-11.

13.4 Quality and timeliness of financial statements

13.4.1 Timeliness

As a result of machinery of government changes, the Department of Local Government was granted a one month extension by the Treasurer until 30 September 2012 to certify their financial statements. The financial statements were certified by management and audit within this timeframe. The department also met its timeframe in 2010-11.

13.4.2 Quality

The Department of Local Government's financial statement process was assessed against better practice for financial report preparation discussed in Appendix C to determine if their process was satisfactory or needed improvement.

Overall their processes were found to be satisfactory. The machinery of government changes and subsequent outsourcing of the Department's Corporate Services function to another department resulted in delays in providing supporting documentation.

No material adjustments were made to financial statement amounts for the Department of Local Government before an audit opinion could be issued but we did provide feedback on some presentation and disclosure matters that resulted in changes to the financial statements.

13.5 Significant financial reporting issues

13.5.1 Unpaid wages at Torres Strait Island Regional Council

The Torres Strait Island Regional Council was formed on 15 March 2008 through the amalgamation of 15 councils within the Torres Strait region and the Island Coordinating Council. The assets and liabilities of each council were transferred to the new council and other elements such as employee pay scales were inherited from the former councils. The inconsistent pay rates applied and weaknesses in the record keeping systems of the former councils posed a significant challenge for the council in determining the correct amounts owed to current and former employees of the various councils.

Since amalgamation, there has been insufficient evidence to form an opinion over the employee expenses and employee provisions disclosed within the council's financial statements for the periods 2008-09, 2009-10 and 2010-11 due to the lack of time and leave records available; the uncertainty surrounding pay rates; and the significant amount of estimation required by council in order to calculate these annual and long service leave balances.

During 2010-11, the council had made a substantial commitment to correct the pay rates and to determine any underpaid wages resulting from continuing to apply the incorrect pay rates inherited from the former councils.

The council undertook a detailed exercise comparing actual wages paid to the wages that should have been paid applying minimum wage rates for each year since the amalgamation. From this exercise, the balance of unpaid wages was calculated to be in excess of \$4 million. This liability was brought to account for the first time in the 2010-11 financial statements.

The Director-General, Department of Local Government appointed a financial controller to the Torres Strait Island Regional Council under section 118 of the *Local Government Act 2009*.

13.6 Status of opinions

13.6.1 Financial statement opinions

Figure 13B

Audit	Included in whole of government accounts	Financial statements signed	Opinion issued	Certified within legislated timeframe	Opinion
Department					
Department of Local Government	Yes	27.09.2012	28.09.2012	Yes ⁺	U

Opinion key:

U = unqualified

Q = qualified

A = adverse

E = unqualified with emphasis of matter

D = disclaimer

⁺ The legislated timeframe for management certification of these financial statements was extended from 31 August 2012 to 30 September 2012.

Source: Queensland Audit Office

14 National Parks, Recreation, Sport and Racing

In brief

Background

This Ministerial portfolio is responsible for marine parks management, national parks management, recreation, racing, and sport.

Four public sector entities required to produce financial statements make up this portfolio.

Key findings

- Four unqualified audit opinions were issued. All were certified within their legislated timeframe.
- The Department's financial statements were assessed against better practice for financial report preparation and were satisfactory.

14.1 Background

This portfolio is responsible for marine parks management, national parks management including access to national parks, and recreation, racing, and sport.

The portfolio consists of four public sector entities required to produce financial statements (shown in Section 14.5.1). Figure 14A shows key financial information for this portfolio.

Figure 14A
Key financial information

Audit	Revenue (\$mil)	Expenses (\$mil)	Assets (\$mil)	Liabilities (\$mil)
Department of National Parks, Recreation, Sport and Racing	76.3	347.5	3 290.4	60.1
Other portfolio entities (in aggregated)	141.0	154.7	1 262.9	481.5
Portfolio total	217.3	502.2	4 553.3	541.6

Source: Queensland Audit Office

14.2 Conclusions

The portfolio's financial statements were timely and of good quality.

14.3 Results of audits

Four (100 per cent) unqualified audit opinions were issued. This was the same percentage as last year.

14.4 Quality and timeliness of financial statements

14.4.1 Timeliness

As a result of machinery of government changes, the Department of National Parks, Recreation, Sport and Racing was granted a one month extension by the Treasurer until 30 September 2012 to certify their financial statements. The financial statements were not certified within this timeframe and a further extension was granted until 19 October 2012. The financial statements were certified within this timeframe.

The main factor impacting on the timeliness of the financial statements was the department's dependency on the departments transferring functions to it as part of the machinery of government changes. The financial systems of the transferring departments were not designed for these changes. These departments had difficulty in extracting from their general ledgers the opening financial position, as well as maintaining the department's business operations until it had established its own financial systems.

The three statutory bodies in this portfolio were certified by management and audit within the two month legislated timeframe which is a good result. These bodies also met this timeframe in 2010-11.

14.4.2 Quality

The financial statement process of the department was assessed against the better practice for financial report preparation discussed in Appendix C to determine whether their process was satisfactory or needs improvement.

Overall their processes were satisfactory. Statements provided were of high standard and supported by well documented work papers. The department was dependent on other entities providing information for the financial statements which contributed to the delay .

14.5 Status of opinions

14.5.1 Financial statement opinions

Figure 14B

Audit	Included in whole of government accounts	Financial statements signed	Opinion issued	Certified within legislated timeframe	Opinion
Department					
Department of National Parks Recreation, Sport and Racing [^]	Yes	27.09.2012	19.10.2012	Yes	U
Statutory bodies					
Mt Gravatt Showgrounds Trust [*]	No	29.06.2012	29.06.2012	Yes	U
Stadiums Queensland	Yes	27.08.2012	28.08.2012	Yes [*]	U
Trustees of Parklands Gold Coast	Yes	30.08.2012	30.08.2012	Yes	U

Opinion key:

U = unqualified

Q = qualified

A = adverse

E = unqualified with emphasis of matter

D = disclaimer

[^] The financial year for the Department of National Parks, Recreation, Sport and Racing was 1 May 2012 to 30 June 2012.

^{*} The legislated timeframe for management certification of these financial statements was extended from 31 August to 30 September 2012.

^{*} The financial year of Mt Gravatt Showgrounds Trust was 1 May 2011 to 30 April 2012.

Source: Queensland Audit Office

15 Natural Resources and Mines

In brief

Background

This Ministerial portfolio is responsible for mining and petroleum, land management and use, land titles, valuations, state land, land protection and Aboriginal and Torres Strait Islander land interests, and native title.

Seventy-one public sector entities required to produce financial statements make up this portfolio.

Key findings

- Sixty-five unqualified audit opinions were issued.
- Emphasis of matter paragraphs were included with the unqualified audit opinions of 59 small water bodies to draw attention to their preparation of special purpose financial statements.
- Thirty-six of the 65 finalised entities' financial statements were certified within their legislated timeframe. A further 29 statements have been certified after the timeframe.
- Of the 29 entities that did not meet the timeframe, all but one were caused by time lags in correcting financial statement issues by water bodies and one was caused by the audit opinion not being signed by us within the timeframe.
- Financial statements of six entities are yet to be finalised.
- While there has been some improvement over recent years, the timeliness of completing financial statements for small water bodies is an ongoing issue.
- The Department experienced significant changes through the machinery of government process which affected the timeliness of their financial statement process.
- Land under roads continues to be an issue.
- The small water bodies have a number of structural and financial reporting issues to contend with in 2012-13.

15.1 Background

This portfolio is responsible for mining and petroleum - including mine safety and health, land management and use, land titles, valuations, state land, land protection and Aboriginal and Torres Strait Islander land interests, and native title.

The portfolio consists of 71 public sector entities required to produce financial statements (shown in Section 15.7.1). Figure 15A shows key financial information for this portfolio.

Figure 15A
Key financial information

Audit	Revenue (\$mil)	Expenses (\$mil)	Assets (\$mil)	Liabilities (\$mil)
Department of Natural Resources and Mines	99.5	103.0	321.0	59.0
Other portfolio entities (in aggregate) ^	21.5	20.0	154.8	5.3
Portfolio total	121.0	123.0	475.8	64.3

^ Includes only amounts extracted from audited financial statements

Source: Queensland Audit Office

15.2 Conclusion

The timeliness and quality of the financial statements of the small water bodies remains an issue. This may be further affected as these entities will be preparing general purpose financial statements in 2012-13 which they have not prepared before.

15.3 Results of audits

Sixty-five (92 per cent) of the 71 audit opinions for the portfolio have been issued, not as good as last year when 69 (97 per cent) of the opinions were issued by this time. All 65 audit opinions finalised were unqualified (92 per cent), compared to 67 (94 per cent) in 2010-11.

No qualified audit opinions have been issued so far. Two were issued last year for North Burdekin Water Board and South Burdekin Water Board because an opinion was unable to be expressed on the reported depreciation expense. This issue has now been resolved for both these entities.

Emphasis of matter paragraphs were included with the unqualified audit opinions of 59 (91 per cent) water entities to draw attention to the fact that special purpose financial statements were prepared. Emphasis of matter paragraphs were included with 63 (91 per cent) audit opinions issued last year.

An additional emphasis of matter paragraph was also included in the audit opinion of the Cairns River Improvement Trust to show expenses incurred during the financial year which had yet to be approved for reimbursement by the Department of Natural Resources and Mines under Natural Disaster Relief Arrangements. This means that the Cairns River Improvement Trust spent money which it was not yet entitled to.

15.4 Quality and timeliness of financial statements

15.4.1 Timeliness

All entities except Dumaresq-Barwon Border Rivers Commission which has no legislative timeframe for completing financial statements are required to have their financial statements completed and audited by 31 August 2012.

As a result of machinery of government changes, the Department of Natural Resources and Mines was granted a one month extension by the Treasurer until 30 September 2012 to certify their financial statements. The financial statements were not certified within this timeframe and a further extension to 19 October 2012 was granted. The department met this timeframe.

Factors impacting on the timeliness of their financial statements, included:

- lack of timely confirmations and sign-off between machinery of government affected entities over the transfer or redistribution of revenue, expenses, assets and liabilities.
- systems not being designed to allow for the timely breakup of the ledger following the machinery of government changes. Identifying transactions and balances relating to the department and other newly established departments within the ledger proved difficult.
- reliance on other departments to provide information to support the financial statements for new departments.
- financial accounting staff being diverted to other tasks associated with reorganising the department.

Thirty-five (55 per cent) of the remaining 64 finalised financial statements were certified by management and audited within the two month legislated timeframe, compared to 66 per cent last year. A further 29 entities' financial statements (45 per cent) were certified after the timeframe. Financial statements of five small water bodies are yet to be finalised.

Of the 29 finalised audit opinions which did not meet the timeframe, all but one of these were not certified in time because of time lags in correcting financial statement issues by water bodies. One audit opinion was late because the audit opinion was not certified by us within the timeframe.

The timeliness of completing financial statements for these water bodies continues to be an ongoing issue for the sector. Finalising the financial statements within the legislative timeframes is affected by the lack of skilled staff in remote areas available to produce financial statements.

15.4.2 Quality

The Department of Natural Resources and Mines' financial statement process was assessed against better practice for financial report preparation discussed in Appendix C to determine if their process was satisfactory or needed improvement. The processes were assessed as satisfactory given that most of the issues impacting on the financial reporting process were largely outside the department's control.

Some of these issues included dependency on third parties to:

- make decisions on which assets and liabilities are to be transferred or redistributed to which entities
- process transactions on behalf of the department and advise of account balances for the purposes of producing financial statements.

As a result, a number of disclosure and other management initiated adjustments were made to the financial statements of the department before they were satisfied.

Adjustments totaling \$21 million identified by management were made to the department's financial statements. These changes relate to a transfer of cash from the department to the Department of Energy and Water Supply that was not identified within the draft financial statements initially provided. This change was identified by management.

The quality of financial statement and supporting information provided by the water bodies for audit were generally of a poor quality. In most cases, staff responsible for the preparation of financial statements work on a volunteer basis and have little formal training in accounting matters or the correct methods used for keeping a set of accounts to the standard required of a statutory body.

15.5 Significant events

15.5.1 Machinery of government changes

Machinery of government changes were announced on 3 April 2012, effective 1 May 2012. These changes resulted in the formation of the Department of Natural Resources and Mines which assumed a number of responsibilities from the previous Department of Environment and Resource Management and Department of Employment, Economic Development and Innovation.

Under these changes, the Department of Environment and Resource Management was renamed the Department of Environment and Heritage Protection and the Department of Employment, Economic Development and Innovation was renamed the Department of State Development, Infrastructure and Planning.

As part of the transition process, the Department of Environment and Heritage Protection and the Department of State Development, Infrastructure and Planning assumed the responsibility of processing transactions on behalf of the Department of Natural Resources and Mines for the purposes of the 2011-12 financial statements.

15.6 Significant financial reporting issues

15.6.1 Accounting treatment of land under roads

In Queensland, land under roads represents land for the purposes of the *Land Act 1994* which is not subject to freehold, leasehold title or reserve tenure, and vests in the State of Queensland. Land under roads has been estimated by the Queensland State Valuer-General as encompassing over 3.4 million hectares or around two per cent of the state's total land area.

The issue of Land under roads was reported in Auditor-General Report to Parliament No. 8 for 2009, Results of audits at 31 October 2009. Section 95 of the *Land Act 1994* identifies that land in all roads dedicated and opened for public use vests or remains vested in the State. By virtue of this Act, it was determined that land under roads would be recognised as an administered asset of the Department of Natural Resources and Mines.

As at 30 June 2012, land under roads in Queensland was valued at \$42 billion or around 15 per cent of total assets in the state sector. The methodology used to value land under roads in Queensland has been an area of focus given its impact on the state's financial position. Accounting issues relating to the valuation methodology in Queensland, how this contrasts with other jurisdictions, disclosure requirements, and control will be areas that require further attention. Left unaddressed, these issues could have the ability to significantly impact the financial position of the state sector from a financial reporting perspective in future years.

Land under roads is currently valued using a methodology provided by the State Valuation Services. It is calculated by multiplying the total area of Land under roads within each local government by the unimproved value on rural and site value on urban freehold and leasehold land. The underlying issue refers to the use of site valuation for urban areas which allows for certain improvements that unimproved values do not include. The differences between the two methodologies have not been assessed as material in 2011-12 and will be assessed on an ongoing basis each year.

Inconsistencies between the jurisdictions may undermine a reader's ability to compare the financial position of each jurisdiction. The inconsistency in valuation methodologies used between the different jurisdictions across Australia and New Zealand is a matter that will need to be resolved between the different jurisdictions.

Land under roads is not separately disclosed from other administered land within the financial statements of the Department in 2011-12. Land under roads should be separately disclosed to improve a reader's understanding of land assets within the financial statements. Land under roads comprises almost two-thirds of the \$64 billion in land administered by the Department. It is held for a specific purpose and is disclosed separately in other jurisdictions. The disclosure of land under roads and the issue of control will be an area of further focus in 2012-13.

15.6.2 Financial reporting by small water bodies

There are 68 small water bodies which are statutory bodies. In the past, these water bodies have been granted an exemption from the preparation of general purpose financial statements. The department has advised that this exemption will not extend into 2012-13 and that all 68 water bodies will be making decisions as to whether they amalgamate, transition to a different entity type, dissolve, or remain as a statutory body.

The decisions made by small water bodies will have significant financial reporting and audit implications in 2012-13. Figure 15B lists some of the key implications that each decision type may lead to.

Figure 15B
Implications of decisions

Decision type	Accounting implications to consider include
Remain as a statutory body	<ul style="list-style-type: none"> • Adoption of full accrual accounting and all accounting standards as relevant • Retrospective recognition of all assets and liabilities from the date they were first incurred • Production of general purpose financial statements • Measurement of infrastructure and selected classes of assets at fair value • Compliance with the <i>Financial Accountability Act 2009</i>, <i>Financial Accountability Regulation 2009</i>, and <i>Financial and Performance Management Standard 2009</i>
Change into a proprietary limited company	<ul style="list-style-type: none"> • Adoption of full accrual accounting and all accounting standards as relevant • Retrospective recognition of all assets and liabilities from the date they were first incurred • Production of general purpose financial statements • Company can choose to measure its assets using either the fair value or cost models • Compliance with the provisions within the Corporations Act and subordinate legislation
Amalgamation with a Local Government Council or another entity	<ul style="list-style-type: none"> • Requirements to produce and audit a final set of financial statements for discontinuing entities • Additional work that will be required to map the accounts of any abolished entities to the target entity • Additional work to ensure that there are sufficient and appropriate records in place for target entity to recognise the assets, liabilities and equity of any abolished entities • Audit requirements to audit opening balances of the target entity • Target entity will need to produce General Purpose Financial Statements and comply with the legislation of the target
Dissolution and discontinuation of functions	<ul style="list-style-type: none"> • Requirements to produce and audit a final set of financial statements for discontinuing entities

Source: Queensland Audit Office

Small water bodies should in consultation with the Department of Natural Resources and Mines finalise their decisions on structural arrangements as soon as possible and prepare a project plan for the first time preparation of general purpose financial statements if not already prepared. Such a project plan should detail how small water bodies intend to identify, record and value their assets. The lack of such plans could significantly impact an entity's ability to produce general purpose financial statements in a timely manner.

These small water bodies were exempted from complying with certain financial reporting requirements applying to statutory bodies in 2011-12. This means that a majority of these entities prepared cash based financial statements with some supplementary information being provided about non-current assets, details of any significant debtors and creditors, and the level of any long term debts.

Australian Auditing Standards require that the auditor's report on the special purpose financial report include an emphasis of matter paragraph alerting users of the auditor's report that the financial report is prepared in accordance with a special purpose framework and that, as a result, the financial report may not be suitable for another purpose. As a result, emphasis of matter paragraphs were included with the unqualified audit opinions of 59 small water bodies providing special purpose financial statements.

15.7 Status of opinions

15.7.1 Financial statement opinions

Figure 15C

Audit	Included in whole of government accounts	Financial statements signed	Opinion issued	Certified within legislated timeframe	Opinion
Department					
Department of Natural Resources and Mines	Yes	10.10.2012	19.10.2012	Yes ⁺	U
Joint controlled entity					
State Council of River Trusts Queensland Inc.	No	19.07.2012	22.09.2012	Yes	U
Statutory bodies					
Avondale Water Board	No	27.07.2012	31.08.2012	Yes	E *
Babinda Swamp Drainage Board	No	23.07.2012	13.09.2012	No	E *
Benleith Water Board	No	Not completed	Not completed	No	--
Bollon South Water Authority	No	Not completed	Not completed	No	--
Bollon West Water Authority	No	27.07.2012	18.09.2012	No	E *
Bones Knob Water Board	No	26.07.2012	02.10.2012	No	E *
Boondooma Water Board	No	21.07.2012	13.09.2012	No	E *
Brigooda Water Board	No	29.07.2012	23.10.2012	No	E *
Burdekin Shire Rivers Improvement Trust	No	13.08.2012	20.08.2012	Yes	E *
Cairns River Improvement Trust	No	06.08.2012	31.08.2012	Yes	E
Callandoon Water Supply Board	No	20.07.2012	06.08.2012	Yes	E *
Cardwell Shire River Improvement Trust	No	21.07.2012	13.09.2012	No	E *
Clifton Shire River Improvement Trust	No	02.08.2012	31.08.2012	Yes	E *
Condamine Plains Water Board	No	15.07.2012	31.08.2012	Yes	E *
Coreen Water board	No	30.07.2012	31.08.2012	Yes	E *
Cowley Drainage Board	No	03.08.2012	21.09.2012	No	E *
Crowley Vale Water Board	No	17.07.2012	21.09.2012	No	E *
Don River Improvement Trust	No	02.08.2012	13.09.2012	No	E *

Audit	Included in whole of government accounts	Financial statements signed	Opinion issued	Certified within legislated timeframe	Opinion
Dundowran-Nikenbah Water Board	No	19.07.2012	13.09.2012	No	E *
East Deeral Drainage Board	No	27.07.2012	31.08.2012	Yes	E *
East Euramo Drainage Board	No	20.07.2012	23.10.2012	No	E *
Eugun Bore Water Authority	No	26.07.2012	07.08.2012	Yes	E *
Fernlee Water Authority	No	03.08.2012	02.10.2012	No	E *
Glamorgan Vale Water Board	No	01.08.2012	31.08.2012	Yes	E *
Grevillea Water Board	No	Not completed	Not completed	No	--
Herbert River Improvement Trust	No	02.08.2012	23.10.2012	No	E *
Ingie Water Authority	No	07.08.2012	31.08.2012	Yes	E *
Ipswich Rivers Improvement Trust	No	19.07.2012	26.09.2012	No	E *
Johnstone Shire River Improvement Trust	No	16.08.2012	13.09.2012	No	E *
Jondaryan Shire River Improvement Trust	No	01.08.2012	31.08.2012	Yes	E *
Juandah Water Board	No	18.07.2012	20.09.2012	No	E *
Kaywanna Bore Water Board	No	25.07.2012	07.08.2012	Yes	E
Kelsey Creek Water Board	No	25.07.2012	31.08.2012	Yes	E *
Kooingal Water Board	No	31.07.2012	31.08.2012	Yes	E *
Lower Herbert Water Management Authority	No	04.07.2012	31.08.2012	Yes	E *
Marathon Bore Water Supply Board	No	20.07.2012	20.09.2012	No	E *
Matthews Road Drainage Board	No	25.07.2012	20.09.2012	No	E *
Merlwood Water Board	No	Not completed	Not completed	No	--
Middle Park Bore Water Supply Board	No	20.07.2012	25.10.2012	No	E *
Mourilyan Drainage Board	No	24.07.2012	21.09.2012	No	E *
Mulgildie Water Board	No	18.07.2012	31.08.2012	Yes	E *
Myall Plains Water Authority	No	13.08.2012	31.08.2012	Yes	E *
North Burdekin Water Board	No	29.08.2012	30.08.2012	Yes	U

Audit	Included in whole of government accounts	Financial statements signed	Opinion issued	Certified within legislated timeframe	Opinion
Oaky Creek Water Board	No	25.10.2012	25.10.2012	No	E *
Orchard Creek Drainage Board	No	20.07.2012	23.10.2012	No	E *
Palmgrove Water Board	No	Not completed	Not completed	No	--
Pioneer River Improvement Trust	No	21.08.2012	30.08.2012	Yes	E *
Pioneer Valley Water Board	No	21.08.2012	30.08.2012	Yes	E *
Riverdale-Murray Valley Water Management Board	No	18.07.2012	31.08.2012	Yes	E *
Roadvale Water Board	No	24.07.2012	27.09.2012	No	E *
Scenic Rim Rivers Improvement Trust	No	06.07.2012	07.08.2012	Yes	E *
Silkwood Drainage Board	No	27.07.2012	31.08.2012	Yes	E *
Six Mile Creek Water Supply Board	No	25.07.2012	31.08.2012	Yes	E *
Smithfield Drainage Board	No	10.07.2012	02.10.2012	No	E *
South Burdekin Water Board	No	29.08.2012	30.08.2012	Yes	U
South Maroochy Drainage Board	No	02.08.2012	26.09.2012	No	E *
Stagnant Creek Drainage Board	No	23.07.2012	13.09.2012	No	E *
Stanthorpe Shire River Improvement Trust	No	27.07.2012	31.08.2012	Yes	E *
Surveyors Board of Queensland	No	26.07.2012	07.08.2012	Yes	U
Valuers Registration Board of Queensland	No	22.08.2012	23.08.2012	Yes	U
Wambo Shire River Improvement Trust	No	22.08.2012	31.08.2012	Yes	E *
Wanda Creek Drainage Board	No	23.07.2012	21.09.2012	No	E
Warwick Shire River Improvement Trust	No	31.07.2012	31.08.2012	Yes	E *
Washpool Water Board	No	25.07.2012	13.09.2012	Yes	E *
Weengallon Water Authority	No	27.07.2012	31.08.2012	Yes	E *
Whitsunday Rivers Improvement Trust	No	23.07.2012	20.09.2012	No	E *
Woodmillar Water Board	No	25.07.2012	31.08.2012	Yes	E *
Yambocully Water Board	No	20.07.2012	14.09.2012	No	E *

Audit	Included in whole of government accounts	Financial statements signed	Opinion issued	Certified within legislated timeframe	Opinion
<i>Audited by arrangement</i>					
Dumaresq-Barwon Border Rivers Commissions	No	Not completed	Not completed	N/A	--

Opinion key:

U = unqualified

Q = qualified

A = adverse

E = unqualified with emphasis of matter

D = disclaimer

[^] The financial year for the department of Natural Resources and Mines was 1 May 2012 to 30 June 2012.

⁺ The legislated timeframe for management certification of these financial statements was extended from 31 August 2012 to 19 October 2012.

^{*} An emphasis of matter paragraph was issued to alert users of the financial statements to the fact that special purpose financial statements were prepared.

Source: Queensland Audit Office

16 Police and Community Safety

In brief

Background

This Ministerial portfolio is responsible for the police service, adult corrective services, ambulance service, fire and rescue service, and disaster management.

Three public sector entities required to produce financial statements make up this portfolio.

Key findings

- Three unqualified audit opinions were issued.
- All entities' financial statements were certified by management and audit within the two month legislated timeframe.
- The Department of Community Safety and Queensland Police Service's financial statement processes were assessed against better practice for financial report preparation. Overall their processes were found to be satisfactory.

16.1 Background

This portfolio is responsible for the police service, adult corrective services, ambulance service, fire and rescue service, and disaster management.

The portfolio consists of three public sector entities required to produce financial statements (shown in Section 16.6.1). Figure 16A shows the key financial information for this portfolio.

Figure 16A
Key financial information

Audit	Revenue (\$mil)	Expenses (\$mil)	Assets (\$mil)	Liabilities (\$mil)
Department of Community Safety	1 816.5	1 809.4	3 716.9	165.2
Queensland Police Service	1 914.9	1 915.6	1 980.3	127.0
Prostitution Licensing Authority	1.5	1.4	1.0	0.5
Portfolio total	3 732.9	3 726.4	5 698.2	292.7

Source: Queensland Audit Office

16.2 Conclusions

Timeliness and quality of the portfolio's financial statements was good. The financial statements were unqualified, produced within required timeframes with minimal adjustments.

16.3 Results of audits

Three (100 per cent) unqualified audit opinions were issued, the same as in 2010-11.

16.4 Quality and timeliness of financial statements

16.4.1 Timeliness

All entities' financial statements were certified by management and audit within the two month legislated timeframe, as they did in 2010-11.

16.4.2 Quality

The processes used by the Department of Community Safety and Queensland Police Service to produce their financial statements were assessed against better practice for financial report preparation discussed in Appendix C to determine if their processes were satisfactory or needed improvement.

- The Department of Community Safety's financial statement process was satisfactory.
- The Queensland Police Service's financial statement process was also satisfactory. Strengths in their process are:
 - key staff involved in the preparation of the financial report are experienced and have current knowledge in applying relevant accounting standards and legislation
 - a reasonable standard of supporting documentation is provided to assist in the audit of the financial statements.

Both departments' financial statements did not require any material adjustments.

16.5 Future financial risks

16.5.1 Financial performance

Figure 16B shows that the total expenditure for the Department of Community Safety has historically increased on average by at least 8.54 per cent per annum.

Employee expenses are the major cost incurred by the department with actual costs for employee expenses having increased by 35.81 per cent since 2007-08 with employee full time equivalent numbers increasing by 7.59 per cent over the same period. Included in employee expenses for 2011-12 were severance payments to employees totaling \$12.1 million.

Figure 16B
Department of Community Safety financial performance

	2007-08	2008-09	2009-10	2010-11	2011-12
Department of Community Safety-expenditure (\$bil)	1.350	1.506	1.593	1.684	1.809
Expenditure increase since the previous year (%)		11.56	5.78	5.71	7.42
Employee expenses (\$bil)	0.821	0.893	0.949	1.041	1.115
Increase in employee expenses since the previous year (%)		8.77	6.27	9.69	7.11
Number of employees (Full Time Equivalents {FTE})	10 126	10 435	10 644	10 887	10 895
FTE increase since the previous year (%)		3.05	2.00	2.28	0.07

Source: Queensland Audit Office

Figure 16C shows that the Queensland Police Service's expenditure has increased by an average of 7.8 per cent per cent per annum since 2007-08. Employee expenses are the major cost incurred by the department. Employee costs increased by 36.6 per cent over the same period but employee full time equivalent numbers have increased by only 9 per cent in the same period.

Demand for policing services is growing in south east Queensland and the limited policing resources is a significant challenge for the department in future. Significant funding was announced for core policing services as part of the 2012-13 State Budget with more frontline police, additional capital funding in information and communication technology initiatives and other capital works.

Figure 16C
Queensland Police Service financial performance

	2007-08	2008-09	2009-10	2010-11	2011-12
Queensland Police Service-expenditure (\$bil)	1.416	1.521	1.672	1.785	1.916
Expenditure increase since the previous year (%)	10.63	7.42	9.93	6.76	7.34
Employee expenses (\$bil)	1.086	1.180	1.292	1.390	1.483
Increase in employee expenses since the previous year (%)	9.37	8.66	9.49	7.59	6.69
Number of employees (Full Time Equivalents {FTE})	13 570	14 223	14 407	14 496	14 785
FTE increase since the previous year (%)	3.0	4.8	1.3	0.6	2.0

Source: Queensland Audit Office

16.5.2 Department of Community Safety replacement payroll system

The Department of Community Safety uses the Lattice payroll system. The version used is not supported by the vendor. Converting the system is a critical process due to the complexity of existing payroll information.

We identified the stability of the Lattice system as an issue two years ago. The system continues to represent a significant risk as:

- the scope of the proposed replacement is yet to be formalised
- information and communication technology business strategies will need to be adjusted to include a payroll system
- funding streams are reducing and greater scrutiny upon funding is continuing
- other payroll system options are being considered, aside from a SAP system, due to budgetary constraints and cost saving initiatives included in the recent budget process
- there is no business case and implementation strategy.

The department has budgeted \$100 million over four years to 2015-16 towards a new system.

16.6 Status of opinions

16.6.1 Financial statement opinions

Figure 16D

Audit	Included in whole of government accounts	Financial statements signed	Opinion issued	Certified within legislated timeframe	Opinion
Departments					
Department of Community Safety	Yes	24.08.2012	30.08.2012	Yes ⁺	U
Queensland Police Service	Yes	30.08.2012	31.08.2012	Yes ⁺	U
Statutory body					
Prostitution Licensing Authority	Yes	27.08.2012	29.08.2012	Yes ⁺	U

Opinion key:

U = unqualified

Q = qualified

A = adverse

E = unqualified with emphasis of matter

D = disclaimer

⁺ The legislated timeframe for management certification of these financial statements was extended from 31 August 2012 to 30 September 2012.

Source: Queensland Audit Office

17 Premier

In brief

Background

This Ministerial portfolio is responsible for the overall management of Queensland, Cabinet, policy development, and overall public service management.

Seven public sector entities required to produce financial statements make up this portfolio.

Key findings

- Five unqualified audit opinions were issued.
- Emphasis of matter paragraphs were included with the unqualified audit opinions of the Queensland Reconstruction Authority and Gold Coast 2018 Commonwealth Games Bid Ltd due to going concern issues.
- The five entities with a legislated timeframe to have their financial statements certified by management and audit achieved this milestone.
- The two remaining trust entities have no legislative deadline for finalising their financial statements.
- The Department of the Premier and Cabinet's financial statement process was satisfactory, with good financial reporting practices being adopted by the department.
- Through the machinery of government changes, the Commonwealth Games, the arts and information technology related responsibilities of the Department transferred to other departments.

17.1 Background

This portfolio is responsible for the overall management of Queensland, Cabinet, coordinating government communication, policy development, Parliamentary Counsel, governance, protocol and intergovernmental relations, and overall public service management.

The portfolio consists of seven public sector entities required to produce financial statements (shown in Section 17.6.1). Figure 17A shows key financial information for this portfolio.

Figure 17A
Key financial information

Audit	Revenue (\$mil)	Expenses (\$mil)	Assets (\$mil)	Liabilities (\$mil)
Department of the Premier and Cabinet	324.6	315.5	24.4	19.1
Queensland Reconstruction Authority	2 597.5	1 962.5	1 784.3	31.5
Other portfolio entities (in aggregate) ^	23.0	26.2	6.2	4.8
Portfolio total	2 945.1	2 304.2	1 814.9	55.4

^ Includes only amounts extracted from audited financial statements.

Source: Queensland Audit Office

17.2 Conclusion

The timeliness and quality of the financial statements of the portfolio's entities was satisfactory. All opinions were unqualified, certified within timeframes with minimal adjustments.

17.3 Results of audits

Five (71 per cent) unqualified audit opinions were issued for the portfolio's seven entities, the same as last year.

An emphasis of matter was included with the unqualified audit opinion of the Queensland Reconstruction Authority as the Authority was due to cease on 21 February 2013, and it was uncertain at the time the audit opinion was issued whether the Authority would continue as a going concern past this date. We have since confirmed that the Authority will keep operating past February 2013.

An emphasis of matter paragraph was included with the unqualified audit opinion of Gold Coast 2018 Commonwealth Games Bid Ltd as the company was being wound up and all assets and liabilities were transferred to the Gold Coast 2018 Commonwealth Games Corporation. The financial statements were not prepared on a going concern basis. This was also included with the audit opinion in 2010-11.

Last year, an emphasis of matter was issued with the unqualified audit opinion of the Department of the Premier and Cabinet due to the effects of the Brisbane floods on the department's land valuation. This issue has been resolved.

Apart from the audit opinions issued for the financial statements, two other opinions were issued:

- The Public Report of Ministerial Expenses for 1 July 2011 to 30 June 2012 was audited and although an unqualified audit opinion was issued, the audit opinion was issued with an emphasis of matter paragraph to draw attention to it being a special purpose financial report.
- The Public Report of the Office Expenses of the Leader of the Opposition for 1 July 2011 to 30 June 2012 was audited and although an unqualified audit opinion was issued, the audit opinion was issued with an emphasis of matter paragraph to draw attention to it being a special purpose financial report.

These public reports were tabled in Parliament on 22 August 2012 in accordance with the requirements of the *Financial Accountability Act 2009*.

17.4 Quality and timeliness of financial statements

17.4.1 Timeliness

The five entities required to have their financial statements certified by management and audit within the two month legislated timeframe met this timeframe, as they did last year.

The two remaining trust entities have no legislative deadline for finalisation of the audit of their financial statements. The financial statements of two of these entities, Premier's Disaster Relief Appeal Fund and The Cyclone Larry Disaster Relief Fund are yet to be finalised.

17.4.2 Quality

No material adjustments were made to the Department of the Premier and Cabinet's financial statements prior to the audit opinion being issued. The minimal number and extent of changes made to financial statements indicates the effectiveness of the Department's financial statement quality assurance processes.

The Department of the Premier and Cabinet's financial statement process was assessed against better practice for financial report preparation discussed in Appendix C to determine if their process was satisfactory or needed improvement.

Overall the results show good financial reporting practices had been adopted by the Department of the Premier and Cabinet developing early plans for the year-end financial reporting, submitting proforma financial statements to audit to agree disclosures prior to balance date, having suitably experienced staff involved in financial report preparation and preparing appropriate supporting documentation.

Analytical review had been performed to the extent relevant, with the substantial machinery of government changes affecting the department reducing the comparability between each year's results.

17.5 Significant Events

17.5.1 Machinery of government changes

The most significant financial reporting impact for the portfolio was the machinery of government changes which resulted in a number of functions being transferred from the Department of the Premier and Cabinet to other departments as at 1 May 2012. The significant changes were as follows:

- The Office of the Queensland Government Chief Information Officer, Corporate Administration Agency, and Arts Queensland were transferred to the Department of Science, Information Technology, Innovation and the Arts
- The Office of Commonwealth Games Coordination was transferred to the Department of Tourism, Major Events, Small Business and the Commonwealth Games
- Screen Queensland Pty Ltd, Events Queensland Pty Ltd, Aboriginal Centre for Performing Arts Pty Ltd, Queensland Music Festival Pty Ltd and Major Brisbane Festivals Pty Ltd were also transferred out of the department.

17.6 Status of opinions

17.6.1 Financial statement opinions

Figure 17B

Audit	Included in whole of government accounts	Financial statements signed	Opinion issued	Certified within legislated timeframe	Opinion
<i>Department and controlled entity</i>					
Department of the Premier and Cabinet	Yes	30.08.2012	31.08.2012	Yes	U
• Gold Coast 2018 Commonwealth Games Bid Ltd	No	30.07.2012	06.08.2012	Yes	E
Office of the Governor	Yes	10.08.2012	16.08.2012	Yes	U
Public Service Commission	Yes	31.08.2012	31.08.2012	Yes	U
<i>Statutory body</i>					
Queensland Reconstruction Authority	Yes	21.08.2012	22.08.2012	Yes	E
<i>Audited by arrangement</i>					
Premier's Disaster Relief Appeal Fund	No	Not completed	Not completed	N/A	--
The Cyclone Larry Disaster Relief Fund	No	Not completed	Not completed	N/A	--

Opinion key:

U = unqualified

Q = qualified

A = adverse

E = unqualified with emphasis of matter

D = disclaimer

Source: Queensland Audit Office

17.6.2 Other opinions

Figure 17C

	Period	Financial statements signed	Opinion issued	Opinion
Public Report of Ministerial Expenses	01.07.2011 to 30.06.2012	14.08.2012	20.08.2012	E *
Public Report of the Office Expenses of the Leader of the Opposition	01.07.2012 to 30.06.2012	20.08.2012	20.08.2012	E *

Opinion key:

U = unqualified

Q = qualified

A = adverse

E = unqualified with emphasis of matter

D = disclaimer

* An emphasis of matter paragraph was issued to alert users of the financial statements to the fact that special purpose financial statements were prepared.

Source: Queensland Audit Office

18 Science, Information Technology, Innovation and the Arts

In brief

Background

This Ministerial portfolio is responsible for science policy, strategy and investment, chief scientist, innovation, Crown copyright and intellectual property, information and communication services and delivery, archives, and the arts.

Eleven public sector entities required to produce financial statements make up this portfolio.

Key findings

- Eleven unqualified audit opinions were issued.
- All financial statements were certified within their legislated timeframe.
- The Department of Science, Information Technology, Innovation and the Arts' financial statement process was found to be satisfactory.
- The Department is new, having been created from machinery of government changes.
- The uncertainty over the reported value of the Queensland Cultural Centre site reported in 2011 no longer exists.

18.1 Background

This portfolio is responsible for science policy, strategy and investment, digital economy, chief scientist, innovation policy, strategy and programs, research and development coordination and planning, international collaborations, administration of Crown copyright and intellectual property, government information and communication services and delivery, archives, Smart Services Queensland, Queensland Shared Services, and Arts Queensland.

The portfolio has 11 public sector entities required to produce financial statements (shown in Section 18.7.1). Figure 18A shows key financial information for this portfolio.

Figure 18A
Key financial information

Audit	Revenue (\$mil)	Expenses (\$mil)	Assets (\$mil)	Liabilities (\$mil)
Department of Science, Information Technology, Innovation and the Arts *	192.8	224.4	1 195.7	156.8
Other portfolio entities (in aggregate)	224.3	214.7	1 010.0	33.7
Portfolio total	417.1	439.1	2 205.7	190.5

* Revenue and expenses represent only two months of transactions.

Source: Queensland Audit Office

18.2 Conclusion

Timeliness and quality of the portfolio's financial statements was satisfactory. All financial statements met timeframes with minimal adjustments.

18.3 Results of audits

Unqualified audit opinions were issued for all entities in this portfolio. This is the same as for 2010-11.

18.4 Quality and timeliness of financial statements

18.4.1 Timeliness

All 11 entities' financial statements were certified by management and audit within their legislated or extended timeframe. This is the same as for 2010-11.

As a result of machinery of government changes, the Department of Science, Information Technology, Innovation and the Arts was granted a one month extension by the Treasurer until 30 September 2012 to certify their financial statements.

The financial statements were certified within this timeframe. We were not able to provide an audit opinion on the Department's financial statements until 9 October 2012.

18.4.2 Quality

No adjustments were made to the financial statements for the Department before an audit opinion could be issued.

The Department's financial statement process was assessed against better practice for financial report preparation discussed in Appendix C to determine if their process was satisfactory or needed improvement.

Overall their processes were found to be satisfactory, considering the Department had only existed for two months prior to the end of the financial year. The Department's financial statement information was provided by the departments from which its functions were transferred. The quality control of the information was carried out by these departments.

18.5 Significant events

18.5.1 Machinery of government changes

The Department of Science, Information Technology, Innovation and the Arts was established as at 3 April 2012. While the department was established as at that date the government functions transferring to this department did not occur until 1 May 2012. The financial statements for the department only reflect transactions for the period 1 May 2012 to 30 June 2012.

The department's 2012 financial statements were compiled from audited information from the various transferring departments as the financial operations were on disparate systems in the Department of the Premier and Cabinet, the Department of Housing and Public Works, the Department of State Development, Infrastructure and Planning and the Department of Environment and Heritage Protection. The department will need to address the challenge of combining the financial operations of the government activities transferring to this department.

18.6 Issues from previous reports to Parliament

18.6.1 Queensland Cultural Centre asset valuation

As part of the 2012 machinery of government arrangement, Arts Queensland was transferred to the Department of Science, Information Technology, Innovation and the Arts from the Department of the Premier and Cabinet.

In 2011, an emphasis of matter paragraph was raised in the Department of the Premier and Cabinet relating to the significant uncertainty that existed over the reported value of the department's land assets at 30 June 2011. The Queensland Cultural Centre site suffered extensive damage as a result of the January 2011 floods. The department conducted an independent valuation process for land assets at 30 June 2011. This process noted that the extent of the flood impact may take some time to become evident, due to the limited sales transactions that have occurred since the event to reveal any changes in investor and tenant sentiment. A valuation has been undertaken in 2012 and the uncertainty over the reported value of the Queensland Cultural Centre site no longer exists.

18.7 Status of opinions

18.7.1 Financial statement opinions

Figure 18B

Audit	Included in whole of government accounts	Financial statements signed	Opinion issued	Certified within legislated timeframe	Opinion
Department and controlled entities					
Department of Science, Information Technology, Innovation and the Arts	Yes	28.09.2012	09.10.2012	Yes ⁺	U
• Aboriginal Centre for the Performing Arts Pty Ltd	No	27.09.2012	27.09.2012	Yes	U
• BioPharmaceuticals Australia (Network) Pty Ltd	No	22.08.2012	24.08.2012	Yes	U
• Screen Queensland Pty Ltd	No	24.08.2012	29.08.2012	Yes	U
Statutory bodies and controlled entities					
Board of the Queensland Museum	Yes	17.08.2012	17.08.2012	Yes ⁺	U
• Queensland Museum Foundation Trust	Yes	17.08.2012	17.08.2012	Yes	U
Library Board of Queensland	Yes	24.08.2012	04.09.2012	Yes ⁺	U
• Queensland Library Foundation	No	09.08.2012	27.08.2012	Yes	U
Queensland Art Gallery Board of Trustees	Yes	18.09.2012	18.09.2012	Yes ⁺	U
• Queensland Art Gallery Foundation	Yes	18.09.2012	18.09.2012	Yes	U
Queensland Performing Arts Trust	Yes	30.08.2012	31.08.2012	Yes ⁺	U

Opinion key:

U = unqualified

Q = qualified

A = adverse

E = unqualified with emphasis of matter

D = disclaimer

[^] The financial year for the Department of Science, Information Technology, Innovation and the Arts was 1 May 2012 to 30 June 2012.

⁺ The legislated timeframe for management certification of these financial statements was extended from 31 August 2012 to 30 September 2012.

Source: Queensland Audit Office

19 Tourism, Major Events, Small Business and the Commonwealth Games

In brief

Background

This Ministerial portfolio is responsible for the Commonwealth Games, developing small business capability, investment promotion, major events, regulatory reform, small business resilience and tourism development and promotion.

Eight public sector entities required to produce financial statements make up this portfolio.

Key findings

- Eight unqualified audit opinions were issued.
- The Department of Tourism, Major Events, Small Business and the Commonwealth Games financial statement process needs improvement, particularly around the quality assurance process.

19.1 Background

This portfolio is responsible for the Commonwealth Games, developing small business capability, investment promotion, major events, regulatory reform, small business resilience and tourism development and promotion.

The portfolio has eight public sector entities required to produce financial statements (shown in Section 19.6.1). Figure 19A shows key financial information for this portfolio.

Figure 19A
Key financial information

Audit	Revenue (\$mil)	Expenses (\$mil)	Assets (\$mil)	Liabilities (\$mil)
Department of Tourism, Major Events, Small Business and the Commonwealth Games *	7.0	11.8	25.7	11.2
Events Queensland Pty Ltd	45.5	46.4	7.1	2.8
Tourism Queensland	67.0	66.5	13.5	9.8
Other portfolio entities (in aggregate)	41.6	36.6	18.4	6.8
Portfolio total	161.1	161.3	64.7	30.6

* Revenue and expenses represent only two months of transactions.

Source: Queensland Audit Office

19.2 Conclusion

The portfolio's financial statements were generally timely and of good quality however the Department's financial statement preparation process needs improvement.

19.3 Results of audits

Audit opinions have been issued for all the portfolio's eight entities (100 per cent). All audit opinions were unqualified, the same as for 2010-11.

19.4 Quality and timeliness of financial statements

19.4.1 Timeliness

As a result of machinery of government changes, the Department of Tourism, Major Events, Small Business and the Commonwealth Games was granted a one month extension by the Treasurer until 30 September 2012 to certify their financial statements. Their financial statements were certified by management and audit within this timeframe.

The other seven financial statements also met their legislated timeframes. They also met their timeframe in 2010-11.

19.4.2 Quality

The processes used by these entities to produce their financial statements were assessed against better practice for financial report preparation discussed in Appendix C to determine if their process was satisfactory or needed improvement.

The Department's financial statements process needs improvement as there was no independent review of documentation, data and the financial statements before being provided for audit. The financial statements process was impacted by the initial machinery of government change and the timing associated with finalising the administrative arrangements around these changes. Further impacting on the financial statements was the timing of the 2012-13 State Budget and the Cabinet Budget Review Committee process around the examination of departmental budgets and associated fiscal issues. A more formal planning process is required as well as the implementation of a rigorous quality assurance process.

Material adjustments totaling \$22.6 million were made to the Department of Tourism, Major Events, Small Business and the Commonwealth Games' financial statements before an audit opinion could be issued: \$19 million in adjustments was made to amend the classification of machinery of government transfers from retained earnings to contributed equity.

Tourism Queensland's financial statement process was satisfactory with its strengths being appropriate supporting documentation for the financial statements, competent staff and adequate quality assurance processes. There were no material adjustments made to Tourism Queensland's financial statements.

19.5 Significant events

19.5.1 Machinery of government changes

As a result of a restructuring of administrative arrangements, the Department of Tourism, Major Events, Small Business and the Commonwealth Games was created on 3 April 2012. The principal activities of the department were transferred from other departments:

- Tourism Division, Small Business, Office of the Queensland Business Commissioner and Executive Support Services from the former Department of Employment, Economic Development and Innovation
- Office of the Commonwealth Games Coordination Unit from the Department of the Premier and Cabinet
- Motor Racing Events from the former Department of Communities.

19.6 Status of opinions

19.6.1 Financial statement opinions

Figure 19B

Audit	Included in whole of government accounts	Financial statements signed	Opinion issued	Certified within legislated timeframe	Opinion
Department and controlled entities					
Department of Tourism, Major Events, Small Business and the Commonwealth Games [^]	Yes	28.09.2012	28.09.2012	Yes ⁺	U
• Asia Pacific Screen Awards Ltd	No	02.08.2012	02.08.2012	Yes	U
• Events Queensland Pty Ltd	No	31.07.2012	02.08.2012	Yes	U
• Gold Coast Events Co. Pty Ltd	Yes	02.08.2012	02.08.2012	Yes	U
• Gold Coast Events Management Ltd (trading as Queensland Events Gold Coast)	No	31.07.2012	02.08.2012	Yes	U
Statutory bodies					
Gold Coast 2018 Commonwealth Games Corporation	No	29.08.2012	30.08.2012	Yes	U
Tourism Queensland	Yes	14.09.2012	14.09.2012	Yes ⁺	U
Tourism Queensland Employing Office	No	14.09.2012	14.09.2012	Yes ⁺	U

Opinion key:

U = unqualified

Q = qualified

A = adverse

E = unqualified with emphasis of matter

D = disclaimer

[^] The financial year for the Department of Tourism, Major Events, Small Business and the Commonwealth Games was 1 May 2012 to 30 June 2012.

⁺ The legislated timeframe for management certification of these financial statements was extended from 31 August 2012 to 30 September 2012.

Source: Queensland Audit Office

20 Transport and Main Roads

In brief

Background

This portfolio is responsible for air services, busways, land transport and safety, main roads, maritime, passenger transport, ports, railways, transport infrastructure and TransLink Transit Authority.

Ten public sector entities required to produce financial statements make up this portfolio.

Key findings

- Ten unqualified audit opinions were issued.
- Emphasis of matter paragraphs were included with the unqualified audit opinions of Translink Transit Authority, Translink Transit Authority Employing Office and Transport Holdings Queensland Pty Ltd.
- Nine of the ten finalised financial statements were certified by management and audit within their legislated timeframe. North Queensland Bulk Ports Corporation Limited did not meet this timeframe.
- The four most significant entities in the portfolio were assessed against better practice for financial report preparation. The process used by North Queensland Bulk Ports Authority needs improvement. The other entities' processes are satisfactory.
- The indicator for road system seal age has shown an adverse trend since 2007-08.

20.1 Background

This portfolio is responsible for air services, busways, land transport and safety, main roads, maritime, passenger transport, ports, railways, transport infrastructure and TransLink Transit Authority.

The portfolio has 10 public sector entities required to produce financial statements (shown in Section 20.7.1). Figure 20A shows key financial information for this portfolio.

Figure 20A
Key financial information

Audit	Revenue (\$mil)	Expenses (\$mil)	Assets (\$mil)	Liabilities (\$mil)
Department of Transport and Main Roads	4 851.9	4 271.7	50 863.6	2 373.3
Gladstone Ports Corporation Limited	841.1	741.9	1 815.8	961.0
Queensland Rail Limited	1 946.0	1 760.0	6 846.6	4 108.9
North Queensland Bulk Ports Corporation Limited	61.5	75.1	414.6	181.1
TransLink Transit Authority	1 534.4	1 531.6	364.0	102.5
Other portfolio entities (in aggregate)	183.2	153.2	720.7	143.8
Portfolio total	9 418.1	8 533.5	61 025.3	7 870.6

Source: Queensland Audit Office

20.2 Conclusion

The portfolio's financial statements were generally timely and of good quality. North Queensland Bulk Ports Corporation Limited's financial statement process needs improvement.

20.3 Results of audits

All ten audit opinions issued are unqualified this year. They were also unqualified last year.

Emphasis of matter paragraphs were included with three unqualified audit opinions, compared with none in 2010-11. An emphasis of matter paragraph was included with the unqualified audit opinions of Translink Transit Authority and Translink Transit Authority Employing Office as these entities are being amalgamated with the Department of Transport and Main Roads during 2012-13. Because their assets and liabilities and functions are being transferred to the Department, their financial statements were prepared on a going concern basis.

An emphasis of matter paragraph was included in the unqualified audit opinion of Transport Holdings Queensland Pty Ltd. An application has been made to the Australian Securities and Investment Commission to deregister this company.

20.4 Quality and timeliness of financial statements

20.4.1 Timeliness

Nine of the entities' audit opinions were issued within their legislated timeframe, compared to 10 in 2010-11.

North Queensland Bulk Ports Corporation Limited did not meet their timeframe. This was the result of a number of complex and inter-related accounting issues which impacted the finalisation and processing of the property, plant and equipment valuation with a flow on effect on the finalisation of financial statements and notes. Significant turnover of key finance staff involved in financial statement preparation also contributed to the Corporation's capacity to meet timelines.

20.4.2 Quality

The processes used by four entities to produce their financial statements were assessed against better practice for financial report preparation discussed in Appendix C to determine if their processes were satisfactory or needed improvement. Three of the four entities' processes were satisfactory:

- The Department of Transport and Main Road's supporting work papers were a good standard. There was evidence of reviews by senior finance management in all cases and work papers were not provided to audit until these independent checks were carried out and evidenced. No material adjustments were made to the financial statements.
- Queensland Rail Limited's staff are very experienced in financial reporting and good monthly reporting processes to assist in preparing the financial statements. These processes allow for the year-end process to be an extension of the month-end process. This year, Queensland Rail Limited carried out a hard close to allow audit to perform certain procedures before year-end, which expedited the audit process. No material adjustments were made.
- Translink Transit Authority's key staff involved in preparing the financial statements are adequately experienced and supporting documentation is of a standard to assist the audit of the financial statements. Adjustments totalling \$18.9 million were made to the TransLink Transit Authority's draft financial statements. The adjustments primarily related to revaluation of property, plant and equipment which was not reflected in the draft financial statements.

North Queensland Bulk Ports Corporation Limited's financial statement process was significantly impacted by the complexities of the accounting issues that were being dealt with. This resulted in \$22.3 million in adjustments being made, primarily to the valuation and impairment of property, plant and equipment.

As a consequence of the need for the Corporation and QAO to interactively work together to deal with several complex accounting issues, the Corporation provided QAO with early versions of draft financial statements. These draft financial statements contained key presentation and disclosure inconsistencies that required correction. Also, the need for late modifications to a complex valuation model to reflect new disclosure requirements made it difficult and time consuming to readily obtain documentation to support the revised disclosures contained in draft financial statements. These matters contributed to a delay in producing financial statements before they could be finalised.

While the Corporation had in place processes to bring forward and deal with material issues, these processes did not adequately allow for the time required to resolve the complex and inter-related accounting issues. The timing for dealing with some of these issues was outside of the Corporation's control. The Corporation has acknowledged the need to further improve planning processes.

20.5 Significant transactions and events

20.5.1 Service concession arrangements

The financial statements for the Department of Transport and Main Roads identify a number of significant service concession arrangements where transport infrastructure assets are constructed and/or operated by private sector partners for certain periods of time with ownership of these assets reverting to the State at the end of these agreements.

Transactions of this nature are often complex and may require the recognition of an asset and associated liability depending on the terms of the underlying agreement and the substance of the transaction.

Completion of the Airportlink tolling system was delayed beyond 30 June 2012 which resulted in the department's scheduled capital contribution of \$267.164 million being deferred until July 2012. The department will need to identify the appropriate treatment for this payment which may need to be capitalised, if the amount can be attributed to specific assets which are under the control of the Department.

In the absence of an Australian Accounting Standard, Queensland Treasury and Trade have provided guidance on the appropriate accounting treatments for financial transactions arising under service concession arrangements through *APG 17 Service Concession Arrangements: Grantor*. However, the accounting treatment for the Gold Coast Rapid Transport Project Operator Franchise has yet to be determined.

The terms of the agreement indicate that this project is more likely to be of the nature of a finance lease which would require the department to recognise the value of the underlying asset and associated lease liability in the 2013-14 financial year when the asset is expected to become operational.

The agreement requires the state to pay a capital contribution of \$365 million, of which \$46.350 million had been paid by 30 June 2012. The department's estimated capital cost (principal and interest) for the life of this project is \$672.366 million. The department will need to establish the appropriate treatment for this arrangement during 2012-13.

20.6 Future financial risks

20.6.1 Department of Transport and Main Roads financial performance

Financial performance for the Department is measured by its operating result which is the difference between its revenue, primarily received from State Budget appropriations and expenditure incurred in provision of its services. Figure 20B provides a comparison of financial performance from when the Department of Transport and Department of Main Roads were amalgamated in 2009 to 30 June 2012.

**Figure 20B
Financial performance**

	2007-08	2008-09 *	2009-10	2010-11	2011-12
Revenue (\$bil)	N/A	1.402	3.799	4.412	4.852
Expenditure (\$bil)	N/A	1.491	6.574	7.832	4.272
Expenditure increase since the previous year (%)	N/A		340.90	19.14	(45.45)
Employee expenses (\$bil)	N/A	0.121	0.528	0.462	0.461
Increase in employee expenses since the previous year (%)	N/A		312.5	(12.5)	(0.22)
Number of employees (Full Time Equivalents {FTE})	N/A	8 988	9 049	9 046	8 851
FTE increase since the previous year (%)	N/A		0.68	(0.03)	(2.16)
Operating result (\$bil)	N/A	(0.088)	(2.763)	(2.209)	2.664

N/A = Amounts not available as the current department was formed on 27 March 2009 through the amalgamation of the Department of Transport and Department of Main Roads.

* Amounts for 2008-09 relate to the period 27 March 2009 to 30 June 2009.

Source: Queensland Audit Office

It is difficult to establish any trend in the financial performance of the Department over this period due to the number of unusual transactions and events that have occurred over this period and impacted the reported results.

For the period to 30 June 2009, the Department recorded a loss of \$0.449 billion relating to a revaluation decrement arising from revaluation of its road infrastructure assets. Similarly a further \$2.390 billion loss resulting from revaluation was recorded in 2009-10.

In 2010-11 the road infrastructure was severely damaged following a series of adverse weather events which resulted in an impairment loss of \$3.110 billion being recorded. This year, following significant rectification work by the Department \$1.660 billion of that impairment and revaluation decrements of \$0.435 billion were reversed. In addition, the Department spent \$4.045 billion in capital work in progress. Depreciation on its infrastructure assets for 2011-12 was \$0.947 billion.

20.6.2 Road infrastructure condition

The Department of Transport and Main Roads has responsibility for managing the State's road infrastructure assets, which at 30 June 2012 extended across 33 328 km and had a reported written down value of \$40.383 billion.

As part of its Transport and Roads Infrastructure Program, the department has to find the right balance of investment between development of new roads and maintaining existing roads to an appropriate standard. Performance indicators in the department's 2011-12 annual report show that 97.99 per cent of urban roads and 95.85 per cent of rural roads have a condition better than the Department's specified benchmark. These have been consistent since 2007-08.

However, the indicator for road system seal age (percentage of the state-controlled road network exceeding optimal seal age) has shown an adverse trend since 2007-08 with the percentage rising from 16.2 per cent in 2007-08 to 23.24 per cent in 2011-12.

While the indicator for road seal for 2011-12 has been impacted by adverse weather conditions referred to earlier, if this overall trend continues it could lead to a gradual deterioration in the condition of road infrastructure. The challenge for the Department will be to reverse this trend and complete its program of restoration in 2012-13 with a reduced operating budget.

20.7 Status of opinions

20.7.1 Financial statement opinions

Figure 20C

Audit	Included in whole of government accounts	Financial statements signed	Opinion issued	Certified within legislated timeframe	Opinion
Departments and controlled entities					
Department of Transport and Main Roads	Yes	31.08.2012	31.08.2012	Yes	U
• Transmax Pty Ltd	No	27.08.2012	03.09.2012	Yes	U
• Transport Holdings Queensland Pty Ltd	No	02.10.2012	09.10.2012	Yes	E
TransLink Transit Authority Employing Office	Yes	27.08.2012	30.08.2012	Yes	E
Government owned corporations					
Far North Queensland Ports Corporation Limited (trading as Ports North)	Yes	31.08.2012	31.08.2012	Yes	U
Gladstone Ports Corporation Limited	Yes	24.08.2012	24.08.2012	Yes	U
North Queensland Bulk Ports Corporation Limited	Yes	31.08.2012	07.09.2012	No	U
Port of Townsville Limited	Yes	20.08.2012	20.08.2012	Yes	U
Queensland Rail Limited	Yes	29.08.2012	30.08.2012	Yes	U
Statutory body					
TransLink Transit Authority	Yes	28.08.2012	30.08.2012	Yes	E

Opinion key:

U = unqualified

Q = qualified

A = adverse

E = unqualified with emphasis of matter

D = disclaimer

Source: Queensland Audit Office

21 Treasurer and Trade

In brief

Background

This Ministerial portfolio is responsible for the state budget and taxation, economic policy, trade development, government owned enterprises, and insurance.

25 public sector entities required to produce financial statements and 85 audits conducted on a by arrangement basis make up this portfolio.

Key findings

- Of the 110 audit opinions, 109 unqualified audit opinions were issued.
- Emphasis of matter paragraphs were included with the unqualified audit opinions of 85 companies and trusts audited by arrangement to draw attention to them being special purpose financial statements.
- Financial statements for two entities are yet to be finalised.
- All entities' financial statements finalised to date where a statutory deadline applied were certified by management and audit within their legislated timeframe.

21.1 Background

This portfolio is responsible for the state budget and taxation, economic policy, trade development, government owned enterprises, and insurance.

The portfolio has 25 public sector entities required to produce financial statements, and 85 audits conducted on a by arrangement basis (shown in Section 21.7.1). Figure 21A shows key financial information for this portfolio.

Figure 21A
Key financial information

Audit	Revenue (\$mil)	Expenses (\$mil)	Assets (\$mil)	Liabilities (\$mil)
Queensland Treasury and Trade	38 621.6	38 620.8	2 817.1	28 424.6
Board of Trustees of the State Public Sector Superannuation Scheme (QSuper)	7 662.0	2 877.1	44 258.0	8 202.3
Q Invest Limited	21 364.1	20 668.0	8 356.5	3 837.2
QIC Limited *	157.5	134.1	306.7	207.3
Queensland Competition Authority	13 445.9	13 095.4	14 487.8	6 706.5
Queensland Treasury Corporation	12 041.5	9 461.1	119 473.4	121 655.5
Other portfolio entities (in aggregate) ^	8 287.1	657.2	100 679.3	13 715.1
Portfolio total	101 579.7	85 513.7	290 378.8	182 748.5

* Excludes investment funds under management through trust structures

^ Includes only amounts extracted from audited financial statements.

Source: Queensland Audit Office

The financial statements of the Consolidated Fund Account are also included. Key financial information for the Consolidated Fund Financial Report is shown in Figure 21B.

Figure 21B
Key financial information

Audit	Revenue (\$mil)	Expenses (\$mil)	Assets (\$mil)	Liabilities (\$mil)
Consolidated Fund Financial Report	53 668.5	50 056.2	26 350.6	--

Source: Queensland Audit Office

21.2 Conclusions

The timeliness and quality of the financial statements of the portfolio's entities was good. All opinions were certified within timeframes with minimal adjustments.

21.3 Results of audits

Twenty-four of 25 (96 per cent) audit opinions were issued for public sector entities and the Consolidated Fund Financial Report, compared to 100 per cent last year. All audit opinions issued were unqualified, as they were last year. The Australian Institute for Commercialisation Limited's financial statements are still outstanding.

An emphasis of matter paragraph was included with the audit opinion of Brisbane Market Corporation Limited as the Corporation is in the process of being wound up. An emphasis of matter paragraph was included with the unqualified audit opinion of the Gladstone Economic and Industry Development Board as the Board is being abolished.

An emphasis of matter paragraph was included with the unqualified audit opinions of QIC Properties Pty Ltd and Queensland BioCapital Funds Pty Ltd to draw attention to the fact that special purpose financial statements were prepared. An emphasis of matter paragraph was also included for these entities last year.

An unqualified audit opinion was issued for the financial statements of Consolidated Fund Financial Report. Although not an emphasis of matter paragraph, a paragraph was appended to the audit opinion to highlight that an Executive Council Minute for Unforeseen Expenditure of \$500 000 for the Public Service Commission was obtained on 16 August 2012. This was outside the four week period prescribed under legislation.

All of the 85 (100 per cent) audit opinions issued for audits conducted on a by arrangement basis were unqualified. An emphasis of matter paragraph was included with 80 (94 per cent) unqualified audit opinions of these entities to draw attention to the fact that special purpose financial statements were prepared. Most of these are QIC Limited related companies and trusts.

21.4 Quality and timeliness of financial statements

21.4.1 Timeliness

Twenty-three of 26 (88 per cent) financial statements where a statutory deadline applies were certified by management and audit within their legislated timeframe, compared to 100 per cent last year.

Brisbane Market Corporation Ltd and Urban Land Development Authority, both statutory bodies did not meet their two month timeframe for certification of their financial statements. Urban Land Development Authority was granted an extension by the Treasurer to 30 September 2012 to finalise the statements but this timeframe was not met and the financial statements are still unfinalised. The Authority is in the process of being wound up.

The financial statements of the Australian Institute for Commercialisation Limited were also not finalised at the date of this report. It has a legislative deadline for completion of 31 October 2012.

21.4.2 Quality

The processes used to produce financial statements were assessed against better practice for financial report preparation discussed in Appendix C to determine if their processes were satisfactory or needed improvement.

Queensland Treasury and Trade's financial statement preparation process was satisfactory. We will work with their finance staff to enhance this process during the 2012-13 audit.

QIC Limited's process was satisfactory. Quality working papers were prepared to support the financial statements and their finance staff have a good working understanding of the accounting standards and are appropriately qualified.

Queensland Treasury Corporation's process was satisfactory with the statements being reviewed by the Chief Finance Officer before providing them to audit. The supporting documentation was sufficient to support material figures in the financial statements.

No material adjustments were made to any of these entities' financial statements before an audit opinion could be issued.

21.5 Significant events

21.5.1 Machinery of government changes

Queensland Treasury and Trade experienced three machinery of government changes during the financial year. The first, effective from 1 July 2011, transferred in the administration of mining royalties from the former Department of Employment, Economic Development and Innovation including \$768.6 million in administered assets and liabilities.

The second, effective 1 May 2012, transferred in the Trade and Investment Queensland function from the former Department of Employment, Economic Development and Innovation. The net effect was approximately \$2 million in equity transferred to the department.

The third, effective 1 June 2012, transferred the administration of the State Penalties Enforcement Registry (SPER) from the Department of Justice and Attorney-General including approximately \$3.7 million in controlled equity and \$323 million in administered assets and liabilities. The debt receivable recorded in the State Penalties Enforcement Registry amounted to \$590 million as at 30 June 2012 with an allowance for impairment of \$257.7 million. Consideration will need to be given by the Department as to how this debt is managed within the legislative framework in future depending on the outcomes of the due diligence process currently in progress.

21.6 Future financial risks

21.6.1 QIC Limited's mandate for external investors

QIC Limited, a government owned corporation, is a wholesale funds manager with \$64.7 billion under management at 30 June 2012. QIC Limited was established in 1991 to provide long-term investment services to the State of Queensland and invests, on behalf of its clients, in a broad range of asset classes.

QIC Limited has two shareholding Ministers, the Treasurer and the Premier, and is managed according to government owned corporation governance arrangements.

QIC Limited has more than 90 investors with Queensland State public sector entities and the State Public Sector Superannuation Scheme (QSuper Limited) and the Local Government Superannuation Scheme representing over 86.5 per cent of funds under management at 30 June 2012. Queensland Treasury Corporation's (QTC) Long Term Assets, representing the Queensland Government's funding for the defined benefit superannuation scheme and other long term liabilities, is the largest public sector client with investments of \$29.2 billion at 30 June 2012.

In November 2010, QIC Limited's shareholding Ministers removed the restriction on funds under management being held by non-government investors and, at 30 June 2012, \$8.7 billion of the \$64.7 billion in funds under management represented non-Queensland government and private investments. One of QIC Limited's strategic objectives is to increase the portion of non-government investors.

To ensure that QIC Limited's objective of providing long-term investment services to the State of Queensland is fulfilled, the shareholding Ministers have clearly communicated their expectations to QIC Limited regarding their fiduciary duties to foundation clients.

21.6.2 Outsourcing of QIC Limited's operations

QIC Limited has established a structure of investment boutiques (Global Fixed Interest, Global Real Estate, Capital Markets, Global Infrastructure, Global Private Equity and Australian Small Companies) to manage investments on behalf of clients. The boutiques manage multiple pooled investment trusts and discrete mandates. At 30 June 2012, QIC Limited or its controlled entities were trustee of 113 investment trusts.

For those trusts and discrete investments holding predominately listed assets, QIC Limited uses a combination of in-house trade execution and external managers for trading activities and has established a combination of in-house and outsourced middle and back office functions. QIC Limited performs compliance and performance monitoring internally, while other functions, including custodial services, unit pricing and valuation, settlements, income collection and corporate actions, accounting, taxation and financial reporting are outsourced to 'National Australia Bank Asset Servicing'.

In addition, QIC Limited has recently outsourced key middle office functions and its unit registry to 'Northern Trust'. Northern Trust is a global entity based in the United States and has currently offshored key processing to India and Asia. There are operational and financial benefits gained from outsourcing processing activities, however key risks arising from the activities include QIC Limited's ability to:

- maintain confidentiality, privacy and security of information
- sufficiently manage all risks included in the risk management framework
- manage business continuity and default of the service provider and
- manage the effect of any sub-contracting to third party-service providers.

We will review the effect of the outsourcing of middle office functions, including the reliability of key controls, as part of the 2012-13 audit.

21.6.3 Changes to QSuper Limited's custodian

The State Public Sector Superannuation Scheme (QSuper) is a regulated superannuation fund governed by the Australian Prudential Regulation Authority and performs two key roles:

- manages accumulation accounts primarily for State Government employees
- makes defined benefit payments to members

QSuper is not owned by the State Government however it is the compulsory superannuation fund for State Government employees. At 30 June 2012, QSuper's net investment assets were \$32.1 billion.

QSuper owns an administrative and investment support company, QSuper Limited. QSuper Limited, as investment manager, performs capital market trading in-house and uses a selection of external investment managers, including Queensland Investment Corporation, to invest funds. External expert reviews of the investment operations established have concluded that robust controls are in place.

QSuper outsources certain middle and back office functions, including custodial services, unit pricing and valuation, settlements, income collection and corporate actions, accounting, taxation and financial reporting to National Australia Bank Asset Servicing.

QSuper transitioned all of its outsourced custodial and back office functions from National Australia Bank Asset Servicing to State Street Australia Limited during October and November 2012. There are operational and financial efficiencies gained from changing custodian, however key risks include QSuper's ability to:

- maintain confidentiality, privacy and security of information
- sufficiently manage all risks included in the risk management framework
- manage business continuity and default of the service provider
- ensure the complete and accurate transfer of data between custodians and
- manage the effect of any sub-contracting to third party-service providers.

We will review the transition of custodial and back office functions from National Australia Bank Asset Servicing to State Street Australia Limited as part of the 2012-13 audit.

21.6.4 QSuper Limited's tax audit by the Australian Tax Office

QSuper is currently subject to an income tax audit by the Australian Tax Office (ATO) and the ATO is disputing the tax treatment of distributions and capital gains relating to QSuper's interest in two trusts (Queensland Investment Trust No.1 and Queensland Investment Trust No.2). QSuper withdrew its investments in the two trusts between 2010 and 2012, and the tax matters will not be extended beyond the withdrawal dates.

The ATO has issued an amended tax assessment for 2007 to the value of \$339.41 million. It is expected to issue amended assessments for 2008-2010, as well as adjustments to subsequent years, which are estimated to be additional tax payable of \$184.80 million. The total of the estimated additional tax payable is \$524.21 million which includes interest and penalties of \$165.96 million.

The ATO's amended assessment will also result in QSuper being unable to use \$185.12 million of unused capital losses previously included as a deferred tax asset. The total increase to income tax expense as a result of the ATO audit included in the 2011-12 financial statements is \$699.88 million.

QSuper has lodged an objection against the 2007 assessment with the ATO and indicated it also intends to dispute any subsequent amended assessments. In accordance with ATO established practice on disputed assessments, QSuper has paid 50 per cent of the 2007 assessment notice and as a result qualifies for a significant reduction in interest.

QSuper expects to fund any payments to the ATO from:

- existing arrangements with Queensland Treasury for defined benefit payments for portions attributable to the defined benefit superannuation scheme and
- the General Reserve held by QSuper for portions attributable to the accumulation plan.

The General Reserve held by QSuper had \$164.99 million remaining at 30 June 2012 after the portion relating to the accumulation plan (\$274.94 million) was adjusted.

The State Government guarantees the liabilities of the defined benefit plan and has investment arrangements in place to fund the majority of the plan. Any deficits may be met by requiring employers to increase their contribution rates.

We will continue to review the tax matters as QSuper continues to work closely with the ATO to come to an agreement on the final assessment amount.

21.7 Status of opinions

21.7.1 Financial statement opinions

Figure 21C

Audit	Included in whole of government accounts	Financial statements signed	Opinion issued	Certified within legislated timeframe	Opinion
Whole of government					
Consolidated Fund Financial Report	No	06.09.2012	07.09.2012	Yes	U
Department and controlled entities					
Queensland Treasury and Trade	Yes	30.08.2012	06.09.2012	Yes ⁺	U
• Australian Institute for Commercialisation Limited	No	Not completed	Not completed	--	--
• DBCT Holdings Pty Ltd	No	16.08.2012	23.08.2012	Yes	U
• Brisbane Port Holdings Pty Ltd	Yes	16.08.2012	20.08.2012	Yes	U
• Queensland Lottery Corporation Pty Ltd	Yes	20.08.2012	20.08.2012	Yes	U
• Queensland Treasury Holdings Pty Ltd	Yes	14.08.2012	20.08.2012	Yes	U
Jointly controlled entities					
City North Infrastructure Pty Ltd	No	23.07.2012	25.07.2012	Yes	U
Local Government Infrastructure Services Pty Ltd	No	10.09.2012	18.09.2012	Yes	U
Government owned corporations and controlled entities					
QIC Limited	Yes	29.08.2012	30.08.2012	Yes	U
• Martin Place Management Limited	No	29.08.2012	30.08.2012	Yes	U
• QIC Private Capital Pty Ltd	No	29.08.2012	30.08.2012	Yes	U
• QIC Properties Pty Ltd	No	28.08.2012	30.08.2012	Yes	E *
• QIC Retail Pty Ltd	No	29.08.2012	30.08.2012	Yes	U
• Queensland BioCapital Funds Pty Ltd	No	29.08.2012	30.08.2012	Yes	E *
• QIC Investments No. 1 Pty Ltd	No	29.08.2012	30.08.2012	Yes	U
• QIC Investment No. 3 Pty Ltd	No	29.08.2012	30.08.2012	Yes	U
• QIC Infrastructure Management No. 2 Pty Ltd	No	29.08.2012	30.08.2012	N/A	U
Statutory bodies and controlled entity					
Gladstone Economic and	No	27.09.2012	12.10.2012	No	E

Audit	Included in whole of government accounts	Financial statements signed	Opinion issued	Certified within legislated timeframe	Opinion
Industry Development Board					
Motor Accident Insurance Commission	Yes	29.08.2012	29.08.2012	Yes ⁺	U
Nominal Defendant	Yes	29.08.2012	29.08.2012	Yes ⁺	U
Queensland Competition Authority	No	09.08.2012	16.08.2012	Yes	U
Queensland Future Growth Corporation	Yes	30.08.2012	31.08.2012	Yes	U
Queensland Treasury Corporation	Yes	14.08.2012	20.08.2012	Yes	U
• Brisbane Market Corporation Limited ⁺⁺	No	11.10.2012	12.10.2012	No	E
<i>Audited by arrangement</i>					
Alternative Beta Fund	No	29.08.2012	29.08.2012	N/A	E*
Canberra Centre (No. 2) Investment Trust	No	29.08.2012	06.09.2012	N/A	E*
Canberra Centre Investment Trust	No	29.08.2012	06.09.2012	N/A	E*
Eastland Shopping Centre Trust	No	29.08.2012	06.09.2012	N/A	E*
Innovis Investments Australia Fund	No	26.09.2012	27.09.2012	N/A	E*
Martin Place Property Trust	No	29.08.2012	06.09.2012	N/A	E*
Melton Property Trust	No	29.08.2012	06.09.2012	N/A	E*
Noosa Civic Trust ⁺⁺⁺	No	29.08.2012	06.09.2012	N/A	E*
QIC 141 Queen Street Trust	No	29.08.2012	06.09.2012	N/A	E*
QIC 80 Collins Street Trust	No	29.08.2012	06.09.2012	N/A	E*
QIC Active Large Companies Fund [~]	No	29.08.2012	30.08.2012	N/A	E*
QIC Active Small Companies Fund	No	29.08.2012	30.08.2012	N/A	E*
QIC Australian Equities Fund	No	26.09.2012	27.09.2012	N/A	E*
QIC Australian Equities Managed Beta Fund [~]	No	29.08.2012	30.08.2012	N/A	E*
QIC Australian Equities Special Purpose Fund [^]	No	29.08.2012	30.08.2012	N/A	E*
QIC Australian Fixed Interest Fund	No	26.09.2012	27.09.2012	N/A	E*

Audit	Included in whole of government accounts	Financial statements signed	Opinion issued	Certified within legislated timeframe	Opinion
QIC Australian Venture Capital Fund	No	26.09.2012	27.09.2012	N/A	E *
QIC Cash Enhanced Fund	No	29.08.2012	30.08.2012	N/A	E *
QIC Cash Fund	No	29.08.2012	30.08.2012	N/A	E *
QIC Castle Towers Trust	No	29.08.2012	06.09.2012	N/A	E *
QIC Colonial Centre Trust	No	29.08.2012	06.09.2012	N/A	E *
QIC Coomera Trust	No	29.08.2012	06.09.2012	N/A	E *
QIC CRCHUM Trust	No	29.08.2012	29.08.2012	N/A	E *
QIC Diversified Australian Equities Fund	No	26.09.2012	27.09.2012	N/A	E *
QIC Diversified Fixed Interest Fund	No	26.09.2012	27.09.2012	N/A	E *
QIC Finance (Shopping Centre Fund) Pty Ltd	No	29.08.2012	06.09.2012	N/A	U
QIC GFI Inflation Plus Fund	No	26.09.2012	27.09.2012	N/A	E *
QIC Global Credit Fund	No	26.09.2012	27.09.2012	N/A	E *
QIC Global Credit Opportunities Fund	No	26.09.2012	27.09.2012	N/A	E *
QIC GFI Alpha Fund	No	26.09.2012	27.09.2012	N/A	E *
QIC Global Listed Real Estate Fund	No	26.09.2012	27.09.2012	N/A	E *
QIC Global Strategy Trust No. 2	No	26.09.2012	27.09.2012	N/A	E *
QIC Global Strategy Trust No. 2A	No	29.08.2012	30.08.2012	N/A	E *
QIC Global Strategy Trust No. 2B	No	29.08.2012	30.08.2012	N/A	E *
QIC Grant Central Trust	No	29.08.2012	06.09.2012	N/A	E *
QIC Growth Fund	No	26.09.2012	27.09.2012	N/A	E *
QIC Hedged International Equities Fund	No	26.09.2012	27.09.2012	N/A	E *
QIC Helensvale Trust	No	29.08.2012	06.09.2012	N/A	E *
QIC High Duration Bonds Trust #	No	29.08.2012	30.08.2012	N/A	E *
QIC Industrial Trust	No	29.08.2012	06.09.2012	N/A	E *
QIC Infrastructure Mandate No. 1 Trust	No	29.08.2012	29.08.2012	N/A	E *

Audit	Included in whole of government accounts	Financial statements signed	Opinion issued	Certified within legislated timeframe	Opinion
QIC Infrastructure Mandate No. 1A Trust	No	29.08.2012	29.08.2012	N/A	E *
QIC Infrastructure Mandate No. 2 Trust	No	29.08.2012	29.08.2012	N/A	E *
QIC Infrastructure Mandate No. 2A Trust	No	29.08.2012	29.08.2012	N/A	E *
QIC International Equities Fund	No	26.09.2012	27.09.2012	N/A	E *
QIC January 1999 Trust	No	29.08.2012	06.09.2012	N/A	E *
QIC Logan Hyperdome (No.2) Trust	No	29.08.2012	06.09.2012	N/A	E *
QIC Logan Hyperdome Trust	No	29.08.2012	06.09.2012	N/A	E *
QIC March 2001 Trust	No	29.08.2012	06.09.2012	N/A	E *
QIC MLC Centre Trust	No	29.08.2012	06.09.2012	N/A	E *
QIC Office Property Fund	No	26.09.2012	27.09.2012	N/A	E *
QIC Ports Trust No. 1A	No	29.08.2012	29.08.2012	N/A	E *
QIC Ports Trust No. 1B	No	29.08.2012	29.08.2012	N/A	E *
QIC Ports Trust No. 2	No	29.08.2012	29.08.2012	N/A	E *
QIC PPP Trust	No	29.08.2012	29.08.2012	N/A	E *
QIC Property Fund	No	26.09.2012	27.09.2012	N/A	U
QIC Retail (No. 2) Fund	No	26.09.2012	27.09.2012	N/A	E *
QIC Ringwood Trust	No	29.08.2012	06.09.2012	N/A	E *
QIC Robina Trust	No	29.08.2012	06.09.2012	N/A	E *
QIC Shopping Centre Fund	No	29.08.2012	06.09.2012	N/A	U
QIC Stable Fund	No	26.09.2012	27.09.2012	N/A	E *
QIC Strategy Fund No. 2	No	26.09.2012	27.09.2012	N/A	E *
QIC Tollroads Fund No. 1	No	29.08.2012	29.08.2012	N/A	E *
QIC Tollroads Fund No. 2	No	29.08.2012	29.08.2012	N/A	E *
QIC Treasury Infrastructure Fund No. 1	No	29.08.2012	29.08.2012	N/A	E *
QIC Treasury Infrastructure Fund No. 2	No	29.08.2012	29.08.2012	N/A	E *
QIC Westpoint Trust	No	29.08.2012	06.09.2012	N/A	E *

Audit	Included in whole of government accounts	Financial statements signed	Opinion issued	Certified within legislated timeframe	Opinion
QLQ Trust No. 1	No	26.09.2012	27.09.2012	N/A	E *
QLQ Trust No. 2	No	26.09.2012	26.09.2012	N/A	E *
QLQ Trust No. 3 **	No	26.09.2012	27.09.2012	N/A	E *
Queensland BioCapital Fund No. 1	No	26.09.2012	27.09.2012	N/A	E *
Queensland BioCapital Fund No. 2	No	26.09.2012	27.09.2012	N/A	E *
Queensland Investment Trust No. 2	No	26.09.2012	27.09.2012	N/A	E *
Watergardens Trust	No	29.08.2012	06.09.2012	N/A	E *
Board of Trustees of the State Public Sector Superannuation Scheme (QSuper)	No	30.08.2012	05.09.2012	N/A	U
QSuper Limited	No	31.08.2012	05.09.2012	N/A	U
Q Invest Limited	No	20.09.2012	20.09.2012	N/A	U
QS International Strategy Trust	No	16.10.2012	29.10.2012	N/A	E *
QS US Strategy Trust	No	15.10.2012	29.10.2012	N/A	E *
QSuper Global Infrastructure Trust	No	15.10.2012	29.10.2012	N/A	E *
QSuper US Infrastructure Trust No. 2 (Open)	No	15.10.2012	29.10.2012	N/A	E *
QSuper US Infrastructure Trust	No	15.10.2012	29.10.2012	N/A	E *
QSuper European Infrastructure Trust	No	15.10.2012	29.10.2012	N/A	E *
QSuper Global Real Estate Trust	No	15.10.2012	29.10.2012	N/A	E *
QSuper RE Trust No. 1	No	15.10.2012	29.10.2012	N/A	E *

Opinion key:

U = unqualified

Q = qualified

A = adverse

E = unqualified with emphasis of matter

D = disclaimer

* The legislated timeframe for management certification of these financial statements was extended from 31 August 2012 to 30 September 2012.

** Financial year of Brisbane Market Corporation Limited was 1 July 2012 to 20 September 2012.

*** Financial year of Noosa Civic Trust was 15 March 2012 to 30 June 2012.

~ Financial year of QIC Australian Equities Managed Beta Fund and QIC Active Large Companies was 1 July 2011 to 15 November 2011.

^ Financial year of QIC Australian Equities Special Purpose Fund was 23 June 2011 to 30 June 2012.

Financial year of QIC High Duration Bonds Trust was 5 October 2011 to 30 June 2012.

** Financial year of QLQ Trust No. 3 was 16 January 2012 to 30 June 2012.

* An emphasis of matter paragraph was issued to alert users of the financial statements to the fact that special purpose financial statements were prepared.

Source: Queensland Audit Office

Appendices

Appendix A - Comments	148
<i>Auditor-General Act 2009</i> (Section 64) – Comments received	148
Comments received and response to recommendations	149
Appendix B	158
Audit opinions issued for State public sector entities since Report No 11 for 2011	158
Appendix C	160
Better practice for financial statement preparation	160

Appendix A - Comments

Auditor-General Act 2009 (Section 64) – Comments received

Introduction

In addition to progressive engagement during the course of the audit, in accordance with section 64 of the *Auditor-General Act 2009*, relevant areas of this report were provided to entities to review the accuracy of the content. Entities were encouraged to discuss the report with QAO officers to correct any inaccuracies prior to the finalisation of this report.

Entity views were considered and are represented to the extent relevant and warranted in preparing this report.

Comments received

Response provided by the Director-General, of the Department of the Premier and Cabinet on 12 November 2012



For reply please quote: *EPI/CdeB – TF/12/28736 – DOC/12/205287*
Your reference: 10442

Department of the
Premier and Cabinet

12 NOV 2012

Mr Andrew Greaves
Auditor-General
Queensland Audit Office
GPO Box 15396
CITY EAST QLD 4002

Dear Mr Greaves

Thank you for your letter of 23 October 2012 concerning the *Draft State public sector entities report* which you propose to table in Parliament on 27 November 2012.

Overall, the Department of the Premier and Cabinet (DPC) regards the report as timely and is supportive of the generally positive findings.

In particular, DPC regards the overall improvements in terms of the quality, timeliness and accuracy of public sector entity financial statements when compared to last year as positive. The reporting metrics demonstrate improvement in all of these areas, which is particularly heartening given a number of departments underwent significant Machinery-of-Government changes during this period.

In terms of issues raised, the Queensland Government takes these seriously and broadly supports your summary recommendation concerning market-testing for existing Government contracts.

As you are aware, to ensure recommendations and issues raised are addressed, letters were sent to all departments following-up on issues you have raised in the report and reminding accountable officers of the need to regularly monitor, review and improve internal controls, and asking departments to liaise with the statutory bodies within their Minister's portfolio.

Queensland Treasury and Trade also wrote to all Queensland government-owned corporations (GOCs) at this time, to ensure GOCs address the matters you have raised that are relevant to them.

Executive Building
100 George Street Brisbane
PO Box 15185 City East
Queensland 4002 Australia
Telephone +61 7 3224 2111
Facsimile +61 7 3229 2990
Website www.premiers.qld.gov.au
ABN 65 959 415 158

Additionally, on 6 October 2012, Ms Mary Godwin was appointed as the new Chief Procurement Officer for Queensland. Based on your recommendation, I have asked Ms Goodwin to examine the issue of market testing for existing Government contracts and respond directly to you.

Again, thank you for bringing these issues to my attention.

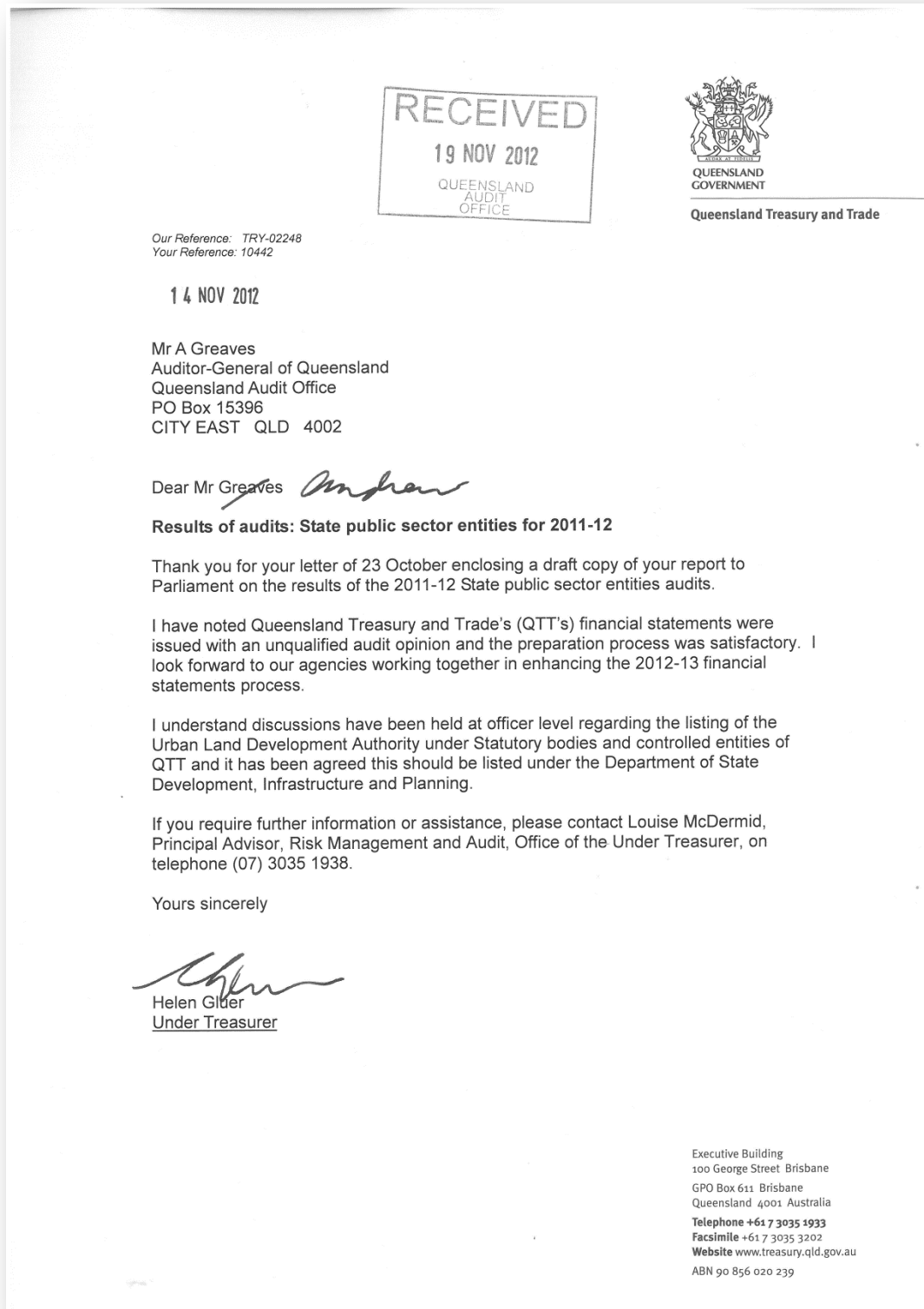
Yours sincerely



Jon Grayson
Director-General

Comments received

Response provided by the Under Treasurer of Queensland Treasury and Trade on
14 November 2012



Comments received

Response provided by the A/Director-General of the Department of Education, Training and Employment on 9 November 2012



Department of
Education, Training and Employment

9 NOV 2012

Mr Andrew Greaves
Auditor-General
Queensland Audit Office
PO Box 15396
CITY EAST QLD 4002

Dear Mr Greaves

Thank you for your letter dated 23 October 2012 providing the proposed report on the results of the 2011-12 State public sector entities audits.

The proposed report provides a useful summary of the audit findings and the future financial risk areas, and has a series of recommendations for further actions by the Department of Education, Training and Employment.

Although general comments have previously been provided to Mr Damon Olive, I would like to clarify two matters in the report.

- Section 8.5.2 Transition to OneSchool system – The second paragraph in this section may be taken to imply that the original 2004 scheduled project cost of \$45 million plus an additional \$8 million per annum in operating costs is comparable to the expected final project cost of \$94.9 million. The \$94.9 million expected final project cost to 2011-12 includes these operating costs.
- Section 8.5.3 Sale of Morningside TAFE campus – The second paragraph in this section suggests that the Department was required to forego the sale proceeds from transfer of the Kangaroo Point campus to the Brisbane City Council. However, the Department received \$40.3 million in compensation from Queensland Treasury to be used in covering commitments under the Southbank Education and Training Public Private Partnership agreement.

Should your officers require any further clarification on these matters, I invite them to contact Mr Allan Pickering, Director Financial Performance Reporting, on telephone 3237 0705 or by email at allan.pickering@dete.qld.gov.au.

I appreciate the opportunity to provide comment on the proposed report.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Annette Whitehead'.

Annette Whitehead
A/Director-General

Ref: 12/408788
Your Ref: 10442

Office of the Director-General
Floor 22 Education House
30 Mary Street Brisbane 4000
PO Box 15033 City East
Queensland 4002 Australia
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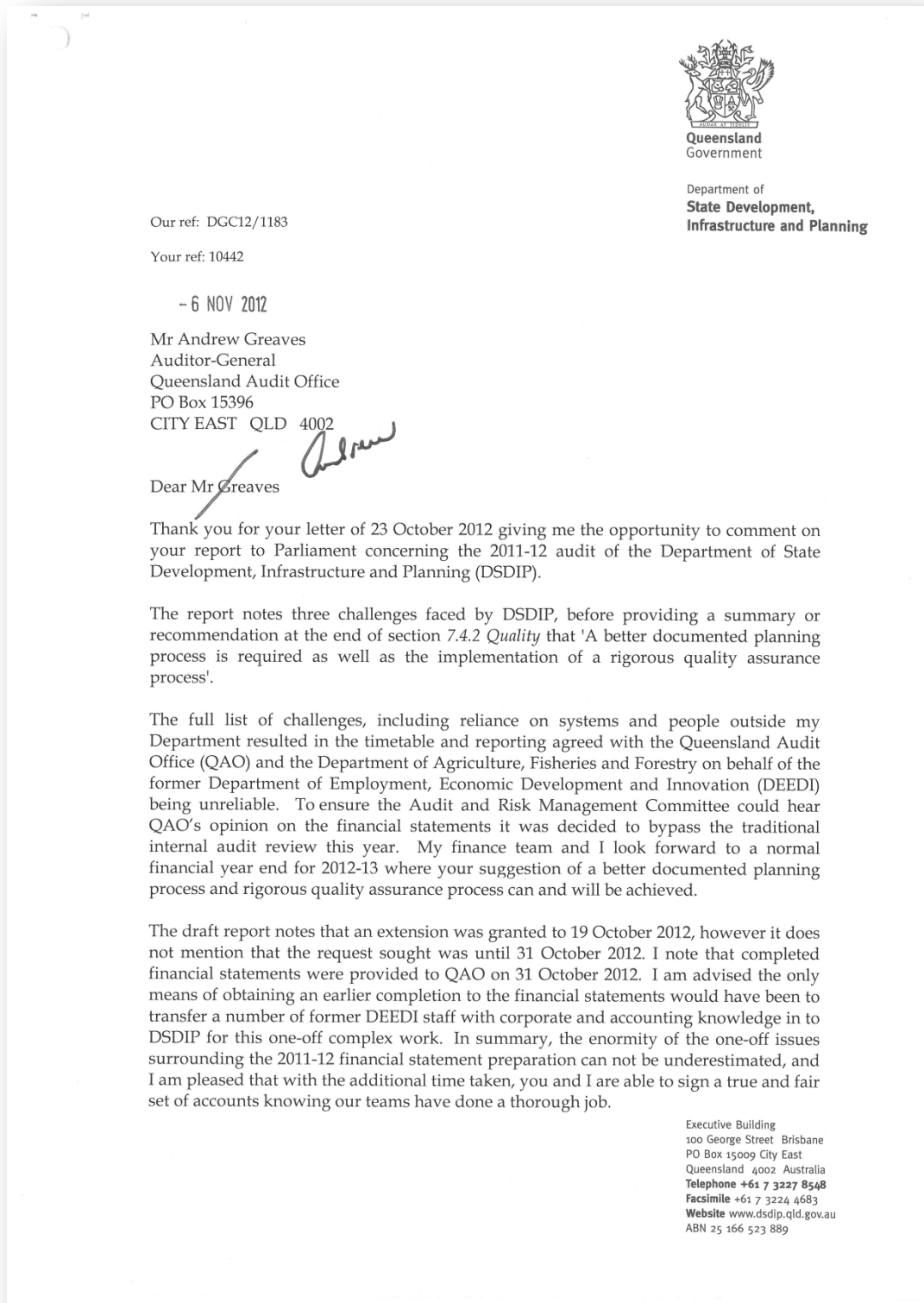
Comments received

Response provided by the Director-General of the Department of Environment and Heritage Protection on 12 November 2012



Comments received

Response provided by the Director-General of the Department of State Development, Infrastructure and Planning on 6 November 2012



The only correction I would suggest to the report is to state the rounded value of Mary Valley properties at 30 June 2012 as \$199 million, and the revaluation decrement for 2011-12 at \$21 million, in order to be consistent with the financial statements. Note the reduction in the value of \$26 million compared to the value of \$225 million reported by DEEDI at 30 June 2011 includes depreciation, sales of properties and the revaluation decrement.

If you require any further information, please contact Mr Michael McKee, Chief Finance Officer on 3224 4914 or michael.mckee@dscip.qld.gov.au, who will be pleased to assist.

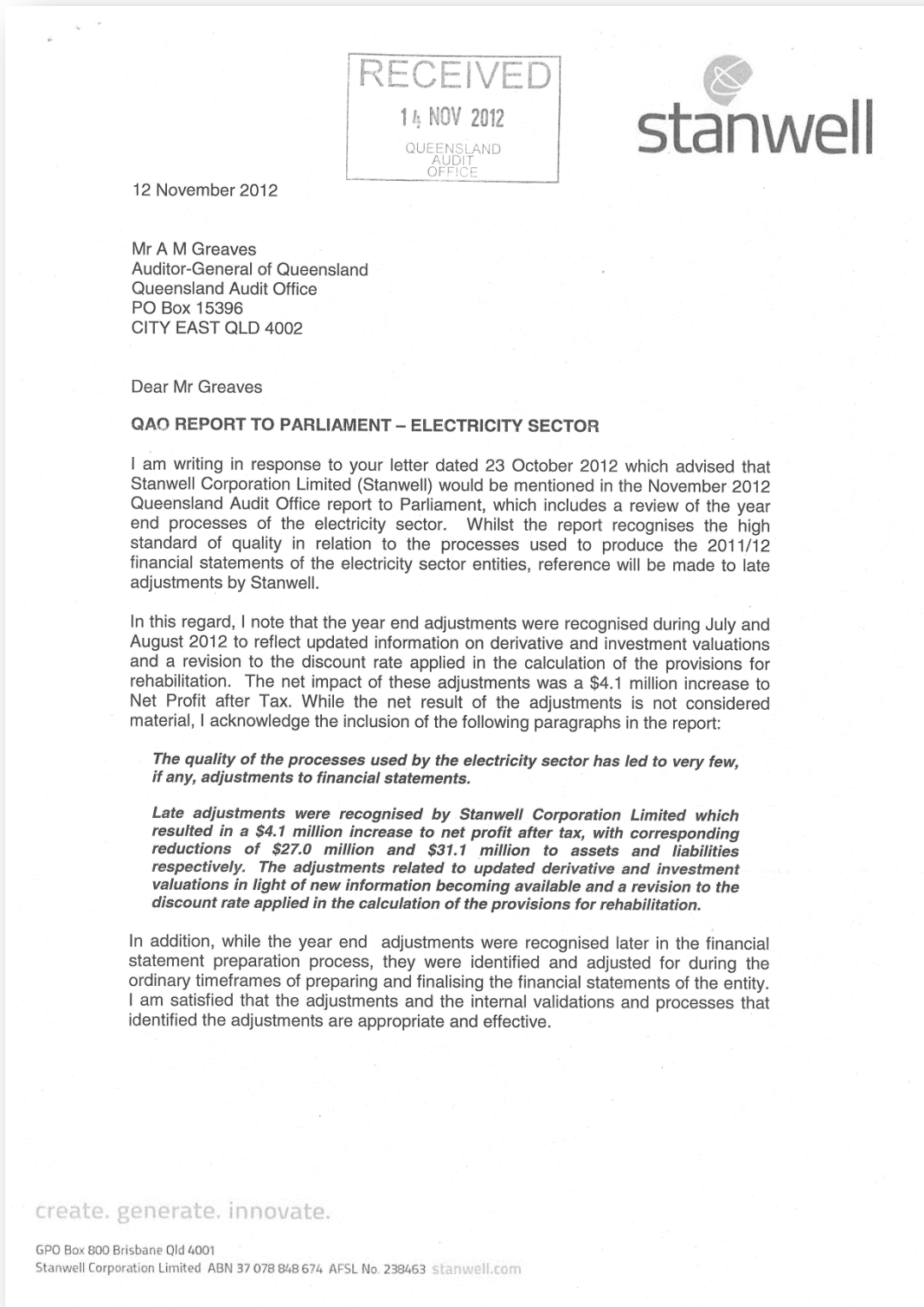
Yours sincerely



David Edwards
Director-General

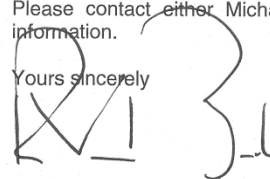
Comments received

Response provided by the Chief Executive Officer of the Stanwell Corporation on 12 November 2012



Please contact either Michael O'Rourke or me should you require any further information.

Yours sincerely

A handwritten signature in black ink, appearing to read 'R. Van Breda', written over the typed name below.

Richard Van Breda
Chief Executive Officer

Appendix B

Audit opinions issued for State public sector entities since Report No 11 for 2011

Figure B1

Audit	Balance date	Financial statements signed	Opinion issued	Certified within legislated timeframe	Opinion
Department and controlled entities					
Aboriginal Centre for the Performing Arts Pty Ltd	30.06.2011	26.10.2011	31.10.2011	Yes	U
Lazy Acres Caravan Park	30.06.2011	30.01.2011	10.02.2011	N/A	U
The Monte Carlo Caravan Park Trust	30.06.2011	01.02.2012	10.02.2012	N/A	U
The Queensland Music Festival Pty Ltd ~	30.09.2011	24.11.2011	25.11.2011	Yes	U
Woombye Gardens Caravan Park Trust	30.06.2011	21.02.2012	27.02.2012	N/A	U
Jointly controlled entities					
QMI Solutions Limited	30.06.2011	22.05.2012	15.06.2012	No	U
Queensland Tertiary Admissions Centre Limited	30.06.2011	23.08.2011	24.08.2011	Yes	U
Statutory bodies					
Australian Water Recycling Centre of Excellence Ltd	30.06.2011	19.10.2011	25.11.2011	No	U
Australian Agricultural College Employing Office	30.06.2011	31.08.2011	16.09.2011	No	U
Bollon South Water Authority	30.06.2011	05.08.2011	29.11.2011	No	E *
Energy and Water Ombudsman Queensland	30.06.2011	26.08.2011	26.08.2011	Yes	U
South Maroochy Drainage Board	30.06.2011	28.07.2011	29.11.2011	No	E *
Supreme Court Library Committee	30.06.2011	18.08.2011	18.08.2011	Yes	U
Taberna Bore Water Board ^	30.06.2011	18.10.2011	30.11.2011	No	E *
Workers' Compensation Regulatory Authority (Q-COMP)	30.06.2011	30.08.2011	30.08.2011	Yes	U
Audited by arrangement					
2010 / 2011 Queensland Floods and Cyclone Yasi Disaster Relief Fund	30.06.2011	05.01.2012	06.02.2012	N/A	E *

Audit	Balance date	Financial statements signed	Opinion issued	Certified within legislated timeframe	Opinion
2010 / 2011 Queensland Floods and Cyclone Yasi Disaster Relief Fund [#]	31.10.2011	05.03.2012	05.04.2012	N/A	E *
Disaster Appeals Trust Fund	30.06.2011	19.03.2012	22.03.2012	N/A	U
Forde Foundation Trust Fund	30.06.2011	11.01.2012	12.01.2012	N/A	U
Lady Bowen Trust	30.06.2011	10.01.2012	11.01.2012	N/A	U
Premier's Disaster Relief Appeal Fund	30.06.2011	05.01.2012	06.02.2012	N/A	U
Queensland Community Foundation	30.06.2011	12.09.2011	15.09.2011	N/A	U
Queensland Manufacturing Institute Trust	30.06.2011	22.05.2012	14.06.2012	N/A	E *
Queensland Motorway Holdings Pty Ltd ⁺	30.06.2011	21.12.2011	22.12.2011	N/A	U
The Cyclone Larry Disaster Relief Fund	30.06.2011	05.01.2012	17.02.2012	N/A	U
The Queensland Aboriginal and Torres Strait Islander Foundation	30.06.2011	02.12.2011	07.12.2011	N/A	U

Opinion key:

U = unqualified

Q = qualified

A = adverse

E = unqualified with emphasis of matter

D = disclaimer

[~] The financial year of the Queensland Music Festival Pty Ltd was 1 October 2010 to 30 September 2011.

[^] The financial year for the Taberna Bore Water Board was 1 July 2010 to 3 June 2011.

[#] The financial year for the 2010 /2011 Queensland Floods and Cyclone Yasi Disaster Relief Fund was 1 July 2011 to 31 March 2012.

⁺ The financial year for Queensland Motorway Holdings Pty Ltd was 5 April 2010 to 30 June 2011.

* An emphasis of matter paragraph was issued to alert users of the financial statements to the fact that special purpose financial statements had been prepared.

Source: Queensland Audit Office

Appendix C

Better practice for financial statement preparation

State public sector entities should aim for the better practice elements below to assist them to produce complete, accurate and compliant financial statements within the legislative timeframe.

Figure C1
Selected better practice – financial report preparation

Key area	Better practice
Financial report preparation plan	Establish a plan that outlines the processes, resources, milestones, oversight, and quality assurance practices required in preparing the financial report
Preparation of shell financial statements	Prepare a shell financial report before balance date and provide to the auditors to enable early identification of amendments, minimising the need for significant disclosure changes at year-end
Materiality assessment	Assess materiality, including quantitative and qualitative thresholds, at the planning phase in consultation with the audit committee. The assessment assists preparers in identifying potential errors in the financial report
Monthly financial reporting	Adopt full accrual monthly reporting to assist in preparing the annual financial report. This allows for the year-end process to be an extension of the month-end process
Rigorous quality control and assurance procedures	Require review of the supporting documentation, data and the financial report itself by an appropriately experienced and independent officer prior to providing to the auditors
Supporting documentation	Prepare high standard documentation to, support and validate the financial report, and provide a management trail
Rigorous analytical reviews	Undertake rigorous and objective analytical review during the financial report preparation process to help to improve the accuracy of the report
Reviews of controls / self-assessment	Establish sufficiently robust quality control and assurance processes to provide assurance to the audit committee on the accuracy and completeness of the financial report
Competency of staff	Require that preparers of the financial report have a good understanding and experience in applying relevant accounting standards and legislation. Require that they also have project management and interpersonal skills
Financial compliance reviews	Undertake periodic compliance reviews to identify areas of noncompliance or changes to legislation that impact the financial report
Adequate security	Protect and safeguard sensitive information throughout the process to prevent inappropriate public disclosure

Source: Victorian Auditor-General's Office and Australian National Audit Office, *Better Practice Guide Preparation of Financial Statements*, June 2009

Auditor-General Reports to Parliament

Tabled in 2012-13

Report Number	Title of report	Date tabled in Legislative Assembly
1	Racing Queensland Limited: Audit by arrangement	July 2012
2	Follow up of 2010 audit recommendations	October 2012
3	Tourism industry growth and development	November 2012
4	Queensland Health e-Health Program	November 2012

Reports to Parliament are available at www.gao.qld.gov.au