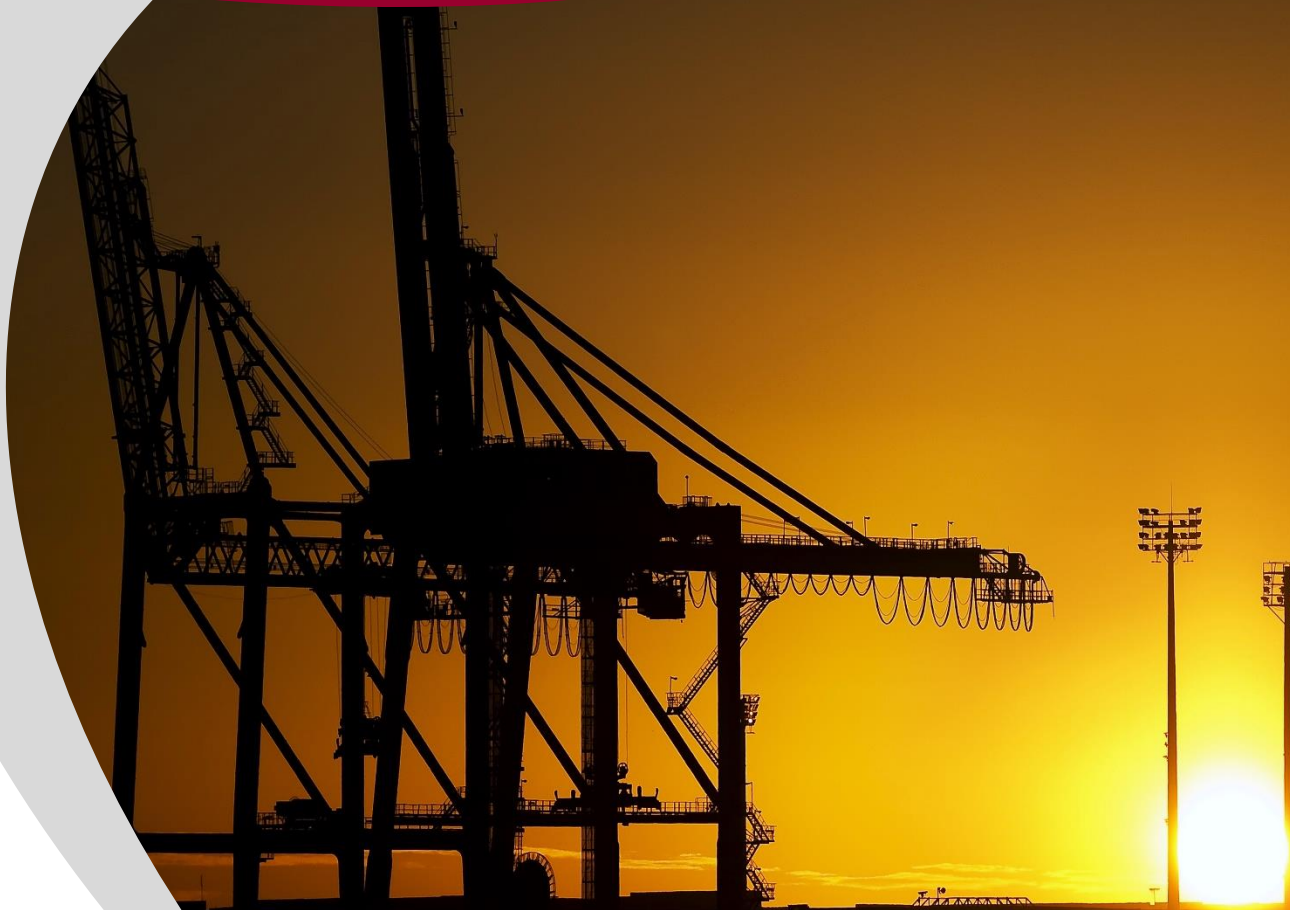




Rail and ports: 2016–17 results of financial audits

Report 3: 2017–18



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

ISSN 1834-1128

Reference to comments

In accordance with section 64 of the *Auditor-General Act 2009*, we provided a copy of this report to the Deputy Premier, Minister for Transport and Minister for Infrastructure and Planning; the Director-General, Department of Transport and Main Roads; the Minister for Main Roads, Road Safety and Ports and Minister for Energy, Biofuels and Water Supply; the Treasurer, Queensland Treasury; Queensland Rail Group; Far North Queensland Ports Corporation Limited; Gladstone Ports Corporation Limited; North Queensland Bulk Ports Corporation Limited; Port of Townsville Limited. In reaching our audit conclusions, we have considered their/his/her view and represented them to the extent we deemed relevant and warranted in preparing this report.

Responses were received from the Treasurer and Minister for Trade and Investment, and from the Department of Transport and Main Roads. The responses are in Appendix A.

Report cost

This audit report cost \$70 000 to produce.



Your ref:
Our ref: 11633



7 December 2017

Mr Neil Laurie
The Clerk of the Parliament
Parliament House
BRISBANE QLD 4000

Dear Mr Laurie

Report to Parliament

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

In accordance with s.67 of the Act, would you please arrange for the report to be tabled. In accordance with s59A of the Parliament of Queensland Act and Standing Order 31, I request that this document be tabled during the period that the Legislative Assembly is dissolved.

Yours sincerely

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

Brendan Worrall
Auditor-General

Summary

Introduction

This report summarises the results of our financial audits of the Queensland Government's six rail and port entities being:

- the Queensland Rail Group (QR), including Queensland Rail Transit Authority (now Queensland Rail) and Queensland Rail Limited (QRL). QRL is a wholly owned subsidiary of Queensland Rail
- Far North Queensland Ports Corporation Limited (trading as Ports North)
- Port of Townsville Limited (PoTL)
- North Queensland Bulk Ports Corporation Limited (NQBP)
- Gladstone Ports Corporation Limited (GPC).

These entities provide passenger and freight transport facilities to generate profit and benefit the public.

QR's role as a Queensland railway manager and operator is to service the passenger, tourism, resources, and freight customer markets across more than 6 500 kilometres of track and third-party access.

Figure A shows Queensland has a network of 20 ports ranging from small community ports to large coal export terminals and a capital city multi-cargo port. The four government-owned port corporations manage 19 of these ports and a private company manages the Port of Brisbane.



Source: *Trade Statistics for Queensland Ports 2014–15, Department of Transport and Main Roads.*

Results of our audits

We issued unmodified audit opinions on all rail and port entities' financial statements this year within the statutory deadline of 31 August 2017. We do this when the financial statements are prepared in accordance with the relevant legislative and Australian accounting standards. In doing so, we confirm that readers can rely upon the audited financial statements.

Rail and port entities used good financial reporting practices to produce good quality financial statements for 2016–17 in a timely manner.

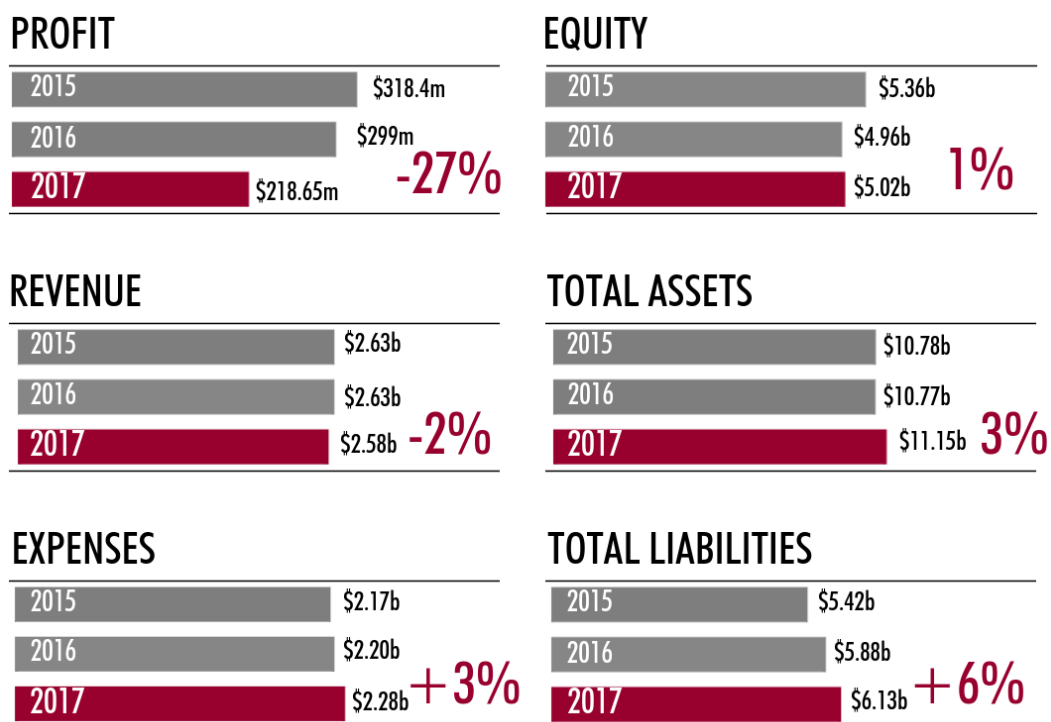
None of the six subsidiary companies across the rail and ports sector prepared financial statements for 2016–17. These entities were either dormant or small, and therefore did not need to prepare financial statements under the *Corporations Act 2001*.

QR is also subject to regulatory oversight by the Queensland Competition Authority for its below-rail services. These services relate to the management of the track, while above-rail services relate to the operation of trains. We issued an unmodified opinion on the 2015–16 regulatory financial statements for below-rail services provided by QR.

Financial performance, position, and internal controls

All rail and port entities achieved profits in 2016–17, although net profit after tax declined by 26.9 per cent compared to last year. Profits fell due to a combination of less revenue (\$47 million), and increased expenses (\$33 million).

Figure B
Aggregate rail and port entities financial snapshot 2016–17



Source: Queensland Audit Office.

Understanding financial performance

The entities receive revenue from sources internal and external to the Queensland Government, with QR sourcing 84.1 per cent of its revenue from a rail transport service contract with the state for the provision of Citytrain, Traveltrain, and rail infrastructure services. This remains consistent with the previous year.

Most revenue received from customers outside of government relates to rail network access, port access, commercial facility management, investment property and cargo handling of coal.

Profit after tax was nearly \$218.6 million but this was down \$80.3 million, or 26.9 per cent, from the previous year. The following factors contributed to this movement:

- higher employee expenses at QR of \$46.9 million due to an increase in full-time equivalent employees and \$12 million spending on rolling stock and track maintenance to support the expansion of the rail network
- a decrease in rail network access revenue of \$50.5 million, which is 23.6 per cent lower than in 2015–16, due to Queensland Competition Authority requiring QR to credit back \$29 million in over-recovered access charges and 7.3 per cent decrease in QR's gross tonne kilometres (GTKs) of goods transported over QR's network.

Understanding financial position

Net assets for the rail and port entities exceed five billion dollars, up one per cent from the previous year.

The rail and port entities are asset intensive, and collectively own and manage \$11.1 billion of assets, including large and complex infrastructure assets. Property, plant and equipment represents 90 per cent of rail and port assets.

This year QR property, plant and equipment increased by \$255 million. The assets are largely intended to improve and expand the rail network.

The Queensland Government, as owners of these entities, continued the policy of 100 per cent dividend payments of net profits after tax. Over the last three years, the rail and port entities have returned \$275 million, \$643 million and \$284 million to the state government.

The returns continue to be funded through cash, borrowings, and contributed equity. In 2016–17 borrowings increased by \$744 million to fund asset acquisitions and the payment of returns to the government declared in 2015–16. The impact on QR, GPC, and NQBP from these new borrowings is higher gearing levels, reduced profit margins and lower returns to government through lower dividends.

The increased gearing levels remain within capital structure benchmarks determined by Australian economic regulators for infrastructure and utility businesses.

Internal controls

This year we identified one significant deficiency in control activities at Gladstone Ports Corporation. The company is on track to resolve the issue by the board-approved target date.

We assessed the internal control systems of the other rail and port entities as effective, as we could rely on the internal controls to prevent, or detect and correct, misstatements in the financial statements, and achieve compliance with legislative requirements.

Auditor-General reports to parliament

Reports tabled in 2017–18

Number	Title	Date tabled in Legislative Assembly
1.	Follow-up of Report 15: Environmental regulation of the resources and waste industries	September 2017
2.	Managing the mental health of Queensland Police employees	October 2017
3.	Rail and ports: 2016–17 results of financial audits	December 2017

Contact the Queensland Audit Office

