Queensland Audit Office

Annual Report 2013-14

About this report

This annual report summarises the activities and performance of the Queensland Audit Office for 2013–14 against the objectives, strategies and indicators in our strategic plan. As well as reporting on the corporate performance for the past year, the report looks to the year ahead. The cost of preparing this report was $60 000. This and earlier annual reports are available on our website at www.qao.qld.gov.au and printed copies are available on request.

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Accessibility

Interpreter

We are committed to providing accessible services to Queenslanders from all culturally and linguistically diverse backgrounds. If you have difficulty understanding this report, you can contact us on (07) 3149 6000 and we will arrange an interpreter to communicate the report effectively to you.

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QUEENSLAND

Prepared under Part 3 Division 3 of the *Auditor-General Act 2009*

Queensland Audit Office

15 September 2014

The Honourable C Newman MP
Premier
Level 15, Executive Building
100 George Street
BRISBANE QLD 4000

Dear Premier

I am pleased to present the Annual Report 2013–14 and financial statements for the Queensland Audit Office.

I certify that this Annual Report complies with:

- the prescribed requirements of the *Financial Accountability Act 2009* and the Financial and Performance Management Standard 2009 and
- the detailed requirements set out in the *Annual report requirements for Queensland Government agencies.*

A checklist outlining the annual reporting requirements can be found at Appendix B of this annual report or accessed at www.qao.qld.gov.au.

Yours sincerely

Andrew Greaves
Auditor-General

Contents

Report highlights

Parliament

18 reports
tabled in Parliament

$11m +
health revenues recovered since our audit of the right of private practice scheme

8.1 months
1st
fastest audit office at completing performance audits

98% acceptance
recommendations agreed by clients

Public sector

$120bn
value of transactions examined

530 opinions
issued on financial statements

80 index points
'value' score for financial audits as rated by our clients

$1,600 reduction
average fee saving passed on to state clients; $1,300 for local governments

Business

$146 per hour

fee rates down from
$157/hr last year

63% chargeable

1st

most productive audit
office in Australia

$6.92 m

support service costs
down from $7.63 m
last year

v.4.0 IPSAM

released a major
upgrade to our
internally developed
financial audit sofware

Workforce

74% qualified

auditors with post-
graduate qualifications

9.8 days

sick leave per
employee, down from
13.1 days last year

50 hours CPD

average per employee,
continued strong focus
on training

15.1 % turnover

employee separations
down from 17.1% last year

Auditor-General’s overview

This has been a year of significant achievements for the Queensland Audit Office.

Our efforts to economise and to become more efficient have been more successful than we anticipated at the beginning of the year. We are now the most productive audit office in Australia and we had the second lowest actual fee rates of any state or territory.

We aimed to provide greater assurance to Parliament about the accountability and performance of the public sector, delivered through our planned growth in the tailored reports that we provide to it. This we achieved, demonstrated by the number of reports we tabled and growth this year in the legislature’s use of and reliance on our current and past reports.

The year began and ended with two sentinel reports—*Right of private practice in Queensland public hospitals* (Report 1: 2013–14) and *Monitoring and reporting performance* (Report 18: 2013–14).

Our first report heralded the new approaches we are developing to both financial and performance audits. In Report 1, we consolidated and analysed disparate data sets which allowed us to detect errors and to analyse business processes better for their efficiency and effectiveness. We provided unique insights into the operation of public health care that were not available to the department or to hospital and health services. I am pleased that, because of our work, the Department of Health has been able to recoup more than $11 million in revenue that the State would otherwise have foregone.

Building on this success, we made significant progress toward automating our access to the financial data of our clients that are warehoused on their shared service platforms. Complemented by organisational and systems changes, we are well placed to integrate data analytics as routine audit practice. We expect this will reap future dividends in making our audits both more efficient and more effective.

Our last report for the year focused debate and attention during the estimates process on what it means for the general government sector to be efficient and effective, and has stimulated a renewed interest in the public sector measuring these correctly. In a data driven world, the right metrics—reliably measured and fairly reported—provide Parliament and the public with clearer insights into the performance of the public sector. This strengthens accountability and improves transparency in the public sector. Because it is so fundamental to good governance, we plan to continue our work with agencies on their performance information and will review publicly reported data for reliability on a systematic basis.

As a matter of good practice, I have continued to include an audited performance statement in this report, based on the service standards set down in our Service Delivery Statement from the 2013–14 budget papers. This provides the reader with added assurance that the non-financial data we report is accurate. I made a recommendation in Report 18, which was not accepted, that this be done by all departments; we will continue to advocate this proposition.

This year, we engaged more with parliamentary committees and Members of Parliament. Of particular note was our submission to the Finance and Administration Committee’s inquiry into the legislative arrangements assuring the Queensland Auditor-General’s independence. While we have a modern audit mandate, we believe scope remains to align our financial and administrative autonomy better to our mandate.

Central to this is the proposition that my staff should be completely independent of the public servants they audit, including being free from control over their terms and conditions of employment by the Public Service Commission. We await the Committee’s report.

Our effect on state and local government public sector clients has been equally positive, as we see our efforts catalyse real improvements in their systems of governance and control. The results of our financial audits tell us that their financial control frameworks have strengthened, reducing the risk of error and fraud.

It is pleasing that local governments are now reporting much earlier and with greater reliability to their constituents. Having focused on this area in past years, we will continue to work proactively with the Department of Local Government, Community Recovery and Resilience and with councils to make further inroads towards achieving best practice reporting.

It is also pleasing that we again certified our own financial statements in late July, demonstrating that, by working proactively with our external auditors and planning ahead, timelier reporting is a realistic goal for all public sector entities.

We have worked systematically throughout the year to review and rationalise our external and internal services. Our service catalogue has guided much of this, shaped by the considerable effort we spent during the year to define each service clearly; assign responsibility; and develop relevant performance measures. This work is ongoing, but the significant reduction we realised in the hourly fee rates we charge our clients and the increase in audit staff productivity we achieved are testament to the success of these efforts.

Our corporate staff ratios and non-audit staff costs are now well within the parameters recommended for us by our last strategic reviewers in their 2010 report, while the quality and responsiveness of our support services has been sustained. This is gratifying, given my staff report they were more engaged and satisfied than they were last year. We still have some way to go in this respect but the results are encouraging and heading in the right direction.

One ongoing challenge is our inability to attract high quality replacements when our senior staff retire or take up new employment opportunities. While our staff turnover has dropped, being unable to fill vacancies meant our remaining staff had to shoulder a greater burden of work. They responded well to this last year but this is not a sustainable proposition for their long term health or their wellbeing. Regardless of the outcome of the parliamentary inquiry into our independence, we will continue to pursue means by which we can better remunerate, recognise and reward our staff for their efforts.

With our costs controlled, we now turn to address this and other new challenges. In the next year, we need to replace our legacy financial and audit practice management systems, which are close to the end of their lives and do not serve us well in our efforts to monitor and report on our performance internally or externally.

Outwardly we can always improve the quality of our audits so they provide even more value to our clients. We will redouble our efforts to better manage and schedule our parliamentary report program so we deliver our reports in the month we intend, not just the quarter.

On balance, we can look back on a year of substantial and uniform improvement, a year in which the strategies we first developed in 2011 continue to bear fruit, assuring us that these are the right things to be doing and that we are doing things right!

Andrew Greaves
Auditor-General

About us

Our role

We provide independent audit services that give assurance to Parliament and the community about the performance and accountability of the public sector.

Our values

- Service to Parliament and the community
- People and relationships
- Professionalism
- Working smarter

Our history

Queensland's first Auditor-General, Henry Buckley, was appointed in 1860, a year after the state was declared an independent colony.

The colony's first Audit Act was passed in August 1886, establishing the principles and responsibilities of public sector auditing and the terms of appointment of the Auditor-General; legislation which remained relatively unchanged until 1977, when the *Financial Administration and Audit Act* was passed. In 2009, legislation was updated with the introduction of the *Auditor-General Act 2009* and the *Financial Accountability Act 2009*.

There have been 22 Auditors-General since the first appointment.

For more than 150 years, the Auditor-General's office has monitored Queensland through boom times, depression, world wars, flood, drought and social and political upheaval.

The modern Queensland Audit Office was officially established in 1993. We continue to honour this important role of monitoring and assuring Queensland's continuing sustainability and stability.

Queensland Audit Office

The *Auditor-General Act 2009* (the Act) defines the roles of the Auditor-General and the Deputy Auditor-General and establishes the Queensland Audit Office (QAO).

QAO is an independent body that performs statutory functions on behalf of Parliament and supports the Auditor-General to fulfil the mandate set out in the Act. QAO staff are employed under the *Public Service Act 2008*.

The Auditor-General

The Auditor-General is appointed by the Governor in Council under the Act as an independent officer, not subject to direction by any person on the exercise of audit powers or the priority given to audit matters. The position of Auditor-General is an integrity role, where the appointment is for a fixed, non-renewable seven-year term.

The Act makes the Auditor-General the external auditor of all Queensland public sector entities—departments; local governments; statutory bodies; government owned corporations; and the entities any of these control. The Auditor-General also has ‘follow the dollar’ powers to audit entities outside the public sector that receive public funds or assets.

As external auditor, the Auditor-General is to conduct financial audits of the state’s consolidated fund and all public sector entities. Conducting financial audits provides opportunities to identify areas for improvement in financial and risk management practices which, when implemented, strengthen public sector accountability.

The Auditor-General may also conduct performance audits of all or any particular activities of a public sector entity. Conducting performance audits provides opportunities to identify areas for improvement on an entity’s approach to achieving its objectives. A list of upcoming performance audits is published each year in our strategic audit plan published on the QAO website at www.qao.qld.gov.au.

Purpose and objectives

Our purpose is to strengthen public sector accountability and be a catalyst for its improved performance. To achieve this purpose, we have aligned our activities to the strategic objectives under our four key result areas in our *Strategic Plan 2012–16*.

Services to the Parliament	Services to the public sector
Provide **independent assurance and advice** to Parliament about the accountability and performance of the public sector	Provide **authoritative reporting** that is used by the public sector to fulfil its accountability obligations and improve its performance
Deliver **efficient and effective** support services	Maintain a **highly motivated, committed and competent** workforce
Support services	**Capacity and capability**

Our clients

Parliament

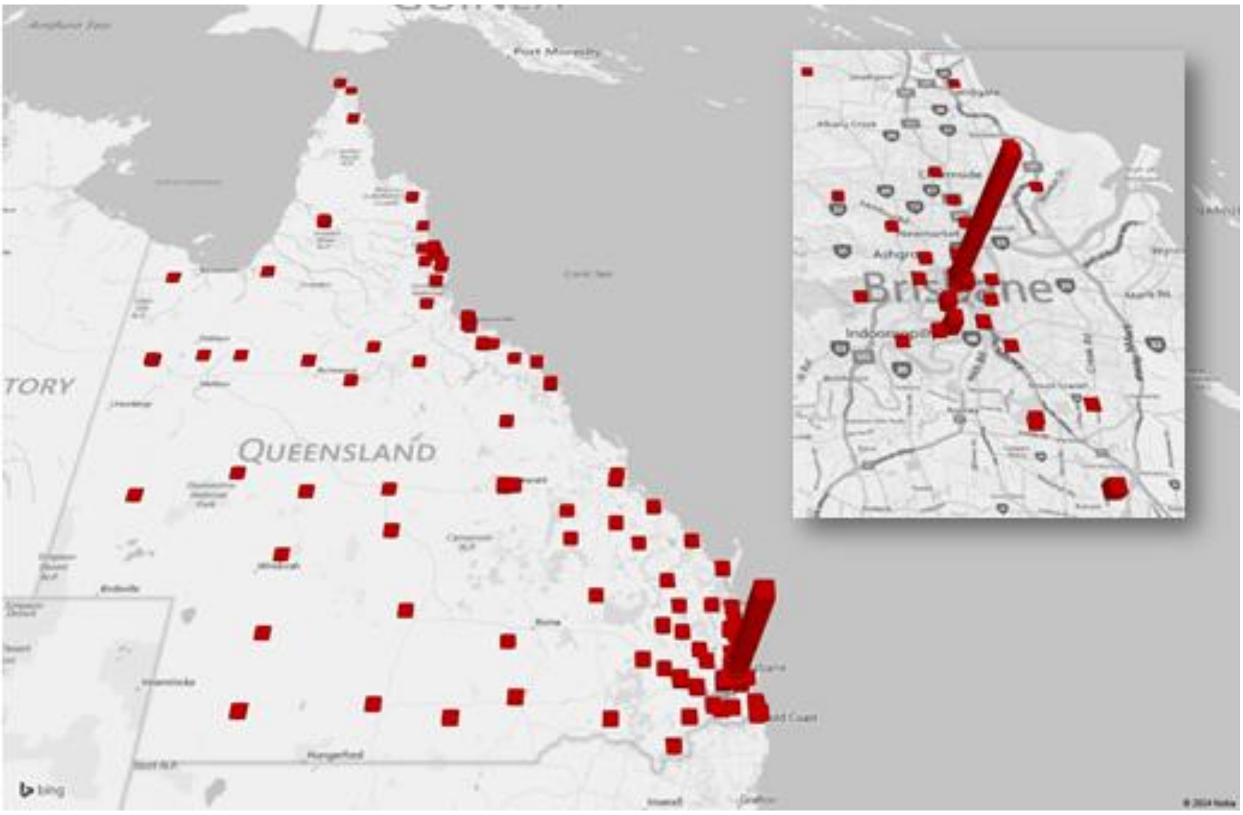
Parliament is our primary client and our role is to provide it with assurance about the performance and accountability of the public sector.

We do this through the reports that we table in Parliament and by providing direct advice and assistance to parliamentary committees and to individual Members of Parliament.

Public sector

Our audit mandate encompasses state and local government public sector entities. According to the Australian Bureau of Statistics, these sectors transact around $125 billion annually.

We deliver financial audit services to these entities so they may meet their own obligations to report annually. They are spread across Queensland, with the greatest concentration in the south east.



We seek to add value to public sector entities through our performance audit and financial audit recommendations about how they can make their activities more efficient, economic and effective while maintaining the required standards of accountability and transparency.

Our organisation

Key executive management personnel at 30 June 2014

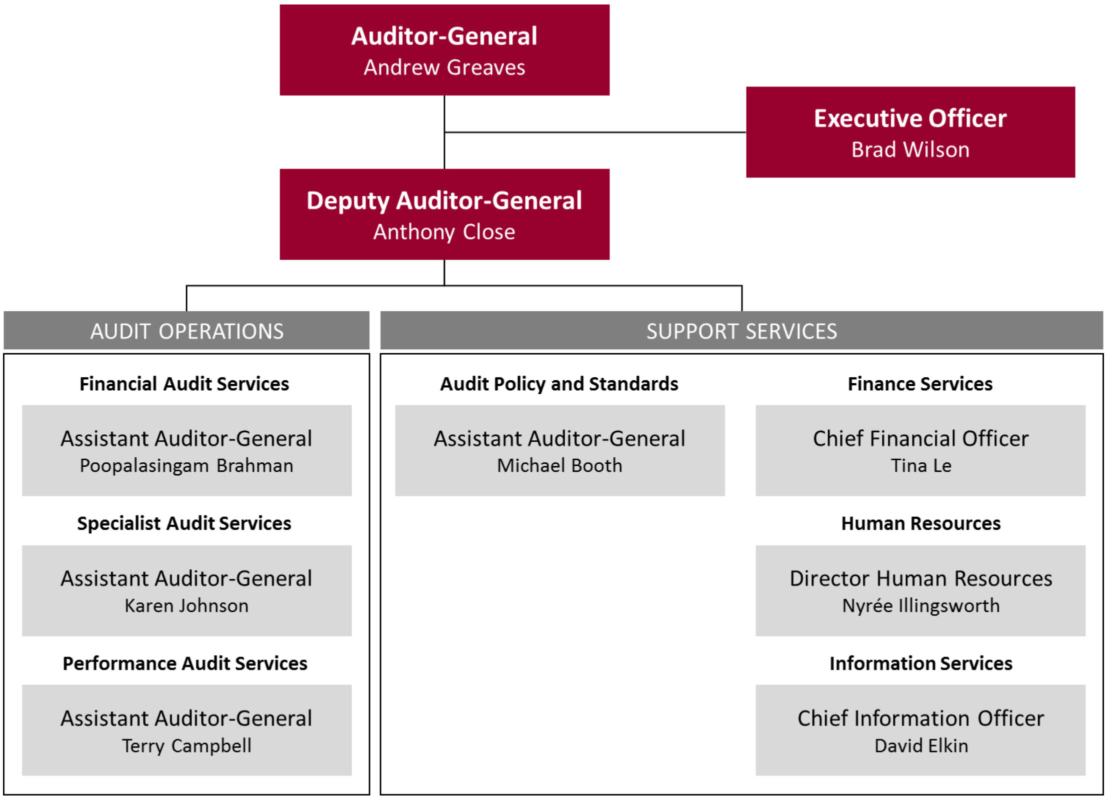
There are six members of the Executive Management Group (EMG).

Andrew Greaves BEc FCA FCPA Auditor-General	Andrew has over 30 years' experience in public sector external and internal audit at the federal, state and local government levels. He is the chief executive and accountable officer for the Queensland Audit Office.
Anthony Close BBusMgt (Acc) Deputy Auditor-General / Chief Operating Officer	Anthony has over 20 years' experience in public and private sector strategy execution, leading and improving business operations in both government service delivery and professional services contexts. He is responsible for both audit operations and support services on behalf of the Auditor-General.
Michael Booth BBus(Acc) GradCertMgt FCPA Assistant Auditor-General	Michael has over 30 years' experience in public sector auditing. He leads the Audit Policy and Standards division with key responsibility for quality audits and stakeholder engagement.
Terry Campbell MA PSect Lead GradCert Assistant Auditor-General	Terry has over 30 years' experience in public and private sector systems and performance auditing. She is responsible for the delivery of the performance audit program and development of the three-year strategic audit plan.
Poopalasingam Brahman BBus CPA Assistant Auditor-General	Brahman has over 25 years' experience in public sector auditing. He is responsible for the delivery of the annual program of financial audits and related sector reports to Parliament.
Karen Johnson BCom FCA Assistant Auditor-General	Karen has over 20 years' experience in private sector auditing and governance. She is responsible for the delivery of specialist audit services, financial services sector audits and reports to Parliament across multiple sectors.

Organisation structure

Our structure changed during the year. While we maintained the broad distinction between our audit operations areas and our support services, we reduced the number of executives by two positions to produce a flatter structure, with a clearer separation of roles and responsibilities.

Organisation structure at 30 June 2014



Audit operations

Audit operations deliver financial and performance audit products, each of which requires some different specialised capabilities and approaches but shares other specialties. Consequently, we are structured around the discrete functions of:

- Financial Audit Services—this larger service line is organised by industry sectors to enable more effective stakeholder engagement and understanding of common client issues, enhancing reporting to Parliament
- Performance Audit Services—small teams work on producing our reports to Parliament across our clients, leveraging sector knowledge from Financial Audit Services.

Delivering audit services demands common, emerging or highly-specialised knowledge and skills. Specialist Audit Services gives our audit teams the access to these capabilities, improving consistency, efficiency and quality in our audit products. Specialist Audit Services collaborates across sectors to deliver cross-sector or whole-of-government reports and coordinates the internal allocation of audit resources.

Support services

Our Audit Policy and Standards division provides an escalation point from Specialist Audit Services in matters relating to complex, whole-of-government technical accounting issues, quality assurance and audit standards and methodologies. Audit Policy and Standards also manages relationships with our key business stakeholders including parliamentary committees, audit offices in other jurisdictions through the Australasian Council of Auditors-General (ACAG) and central agencies of government.

Our Finance, Human Resources and Information Services divisions deliver the corporate support we require as a professional services organisation within the public sector, ensuring we satisfy our obligations in our finances, people, data and systems.

Aligning roles, responsibility and authority

Our previous organisational structure was reviewed against our business services model, our strategies and risks, with the aim of designing a more efficient organisation with clearer accountabilities.

We assessed key services and identified opportunities to centralise functions, reducing organisational 'silos' and leveraging audit support across financial and performance audit operations.

Our new organisational structure provides clearer alignment between individual roles and the services we deliver, and the right number of people with the right skills to deliver our services.

The creation of Specialist Audit Services was a significant enhancement, establishing a central pool of auditors and capabilities across both our financial audits and performance audits.

Specialist Audit Services			
Data analytics	Information systems risk	General technical	Treasury

This means we can deliver specialist advice centrally that must otherwise be bought in or developed against each of our audit teams and allows us to repeat, re-use and improve our approaches.

We amalgamated three separate financial audit divisions into Financial Audit Services to improve resource allocation and flexibility across our audits.

Other changes include:

- simplified financial audit roles around job families to improve both flexibility when assigning individuals to audit jobs and career opportunities to staff
- centralised workforce planning, auditor performance reviews and auditor competency management into a single people coordinator role
- more direct involvement of audit management in our graduate program as mentors and coaches
- centralised strategic oversight functions into one team at the Office of the Auditor-General to manage our planning, governance, internal audit, communications and risk management services more efficiently
- centralised management reporting into one management accounting team within Finance Services to improve the efficiency and quality of our decision support information.

Governance and control

As an integrity agency, we recognise the essential nature of effective governance and have ensured it is present and active in our daily operations.

Governing bodies

Under the Act, the Auditor-General is the accountable officer for QAO, supported by the Executive Management Group, the Audit and Risk Management Committee and the Information Steering Committee.

Executive Management Group

Audit and Risk Management Committee

Information Steering Committee

The Executive Management Group

The Executive Management Group (EMG) leads us towards achieving the objectives and strategies outlined in the strategic plan and assists the Auditor-General to meet his statutory responsibilities.

The EMG meets monthly—or more frequently as the Auditor-General requires—and operates under terms of reference which are available on request and were last updated in June 2014. The EMG has six members and requires a quorum of four which must include either the Auditor-General or Deputy Auditor-General.

During 2013–14, the EMG met 11 times and also conducted separate sessions for strategic planning purposes.

Audit and Risk Management Committee

The Audit and Risk Management Committee (ARMC) provides independent advice and assurance to the Auditor-General in discharging his responsibilities. The ARMC does this through effective oversight of the risk, control and compliance frameworks and fiscal responsibilities underpinning our corporate governance.

The ARMC meets at least four times each year and operates under a charter, available on request, and was last updated in June 2014. The ARMC has three external independent members and requires a quorum of two.

Audit and Risk Management Committee

Member	Term	Meetings attended		Remuneration	
		2012–13	2013–14	2012–13	2013–14
Mr Bob Grice AO (Chair) FCA HonDPhil	Jun 2012—Jun 2015	4	4	$6 000	$6 080
Ms Christine Flynn BA DipEd FAICD	Nov 2011—Nov 2014	4	4	$2 400	$2 480
Professor Kerry Jacobs BCom MCom PhD FCA FCPA	May 2013—May 2016	1	4	$600	$2 480

All amounts exclude GST and do not include reimbursement of out-of-pocket expenses.

During 2013–14, the ARMC met four times and reviewed numerous matters including business risks; internal and external audit plans and reports; risk management frameworks and registers; financial statements; and strategic and operational plans. The ARMC Chair reports annually to the Auditor-General on ARMC activities and makes recommendations to improve ARMC performance.

A number of regular attendees support the ARMC at its meetings, including our co-sourced internal auditor, Ms Pamela Robertson-Gregg of O'Connor Marsden and Associates and our external auditor, Mr Simon Hancox of Grant Thornton.

Information Steering Committee

The purpose of the Information Steering Committee (ISC) is to direct, evaluate and monitor progress against our information and communication technology strategy for effective governance over the portfolio of information systems projects.

During 2013–14, the ISC was redesigned to increase its focus on strategic investment and organisational change matters related to our investment in technology. The new terms of reference were approved in February 2014 and are available on request.

The revised ISC is to meet quarterly and has six members, requiring a quorum of four. The members are the Deputy Auditor-General as the Chief Operating Officer (Chair); Chief Information Officer (Deputy Chair); Assistant Auditor-General, Audit Policy and Standards; Assistant Auditor-General, Specialist Audit Services; Assistant Auditor-General, Performance Audit Services; and Executive Officer.

During 2013–14, the ISC met once in its previous form and twice under the new terms of reference and reviewed the information and communication technology strategic plan and the progress and performance of technology initiatives including change management activities.

Integrity culture

Our culture as an integrity agency gives the highest regard to ethical conduct and probity in all our operations. Our independence from influence and our ability to assess impartially the performance of agencies through the audit process are fundamental to our integrity.

We are a signatory to the whole of government code of conduct established under the *Public Sector Ethics Act 1994* and adhere to the *Public Service Code of Conduct 2011* and a code of ethics for professional accountants. We undertake a program of activities each year to safeguard and promote ethical conduct.

With regard to new starters:

- we undertake pre-employment screening on all contractors and employees, which includes a criminal history check prior to commencement
- we require the completion of a comprehensive independence declaration, which includes conflicts of interest, criminal history charges and convictions, and secondary employment
- our induction program provides training in public sector ethics and the *Public Service Code of Conduct 2011*.

With regard to all staff, we require independence declarations to be updated annually and also provide refresher training regarding the code of conduct.

Our internal policies, procedures and practices have regard to ethical principles and values which is also reflected in role descriptions and human resource policies and guidelines such as complaints management. We comply with all reporting and performance management requirements and ethics priorities are incorporated into our performance, achievement and development plans.

Internal assurance mechanisms

In addition to monitoring activities performed by governing bodies, internal mechanisms exist to provide further assurance on operational performance; audit quality; the effectiveness of internal controls; and compliance with internal and external obligations.

Internal assurance mechanisms		
Operational performance reviews	Audit quality assurance reviews	Internal audit

Operational performance reviews

Operational performance reviews (OPRs) are formal reviews held with an executive panel which includes the Auditor-General and Deputy Auditor-General. At each review, divisional performance is examined with divisional leaders to identify improvement opportunities and corrective actions. Review outputs are valuable inputs to planning activities and employee performance reviews.

Three cycles of OPRs were conducted during 2013–14 which required divisional leaders to review their division's performance formally each time and to engage with the executive panel at least once during the year. For the first time, reviews were held at the financial audit sector director level, demonstrating a broader focus on operational performance.

Audit quality assurance reviews

The Accounting Professional and Ethical Standards Board (APESB) issues standards that contain mandatory requirements for accounting professionals. Our audit quality control framework is designed to meet the requirements of APES 320 *Quality Control for Firms*.

As part of this framework, we undertake quality assurance reviews on a representative selection of our audits. It is a minimum requirement that, for each of our audit engagement leaders, we review one of the leader's completed engagements over a three-year period. Reviews are classified as either 'hot' reviews, which are conducted on active audits, or 'cold' reviews, which are conducted on completed audits. 'Hot' and 'cold' reviews are conducted by different divisions within QAO.

During 2013–14, we conducted 26 audit quality assurance reviews:

- 11 'hot' reviews focused on planning activities for 2013–14 audits we were conducting
- 15 'cold' reviews—one engagement by us and 14 engagements contracted out and which included a quality assessment of the contracted partners.

The 'hot' reviews' findings were addressed satisfactorily by engagement leaders prior to 2013–14 audit completions.

The 'cold' reviews resulted in 14 of 15 engagement files assessed as meeting minimum requirements. The engagement file for one contracted-out audit did not meet minimum requirements, due to limited documentation to support judgements and audit assessments. There was also a conflict of interest issue which gave rise to probity and propriety concerns. Actions are in place to ensure this issue does not recur.

In 2012–13, engagement files of four contracted-out audits did not meet minimum requirements. These audits were reviewed again during 2013–14, before the 30 June 2013 financial statements were signed, and one failed again to meet the minimum requirements. We terminated the relevant contract and our auditors performed the additional work required to address the quality issue.

Internal audit

Internal audit operates under its own charter within QAO with the Head of Internal Audit reporting directly to the Auditor-General. The charter aligns with International Standards for the Professional Practice of Internal Auditing developed by the Institute of Internal Auditors. The primary role of internal audit is to conduct independent, objective and risk-based assurance activities. This function has had due regard to Treasury's *Audit Committee Guidelines*.

In November 2013, our Head of Internal Audit role transferred from Mr Michael Booth, Assistant Auditor-General, Audit Policy and Standards to Mr Brad Wilson, Executive Officer. The arrangement with Ms Pamela Robertson-Gregg of O'Connor Marsden and Associates to conduct the internal audit continued throughout the year.

A list of upcoming internal audits is produced each year in our strategic internal audit plan and the ARMC is responsible for approval. During 2013–14, we finalised two of six internal audits as planned, one was in progress and two were in planning as at 30 June 2014. The number of internal audits planned for 2014–15 has been increased to balance the audit program over the two years and is being monitored by the ARMC.

External assurance mechanisms

External mechanisms provide further assurance on performance, controls and compliance and provide the greatest potential for independence.

External assurance mechanisms			
External audit	ACAG macro benchmarking	ACAG quality assurance peer reviews	Five-yearly strategic review

In addition, during 2013–14, Parliament's Finance and Administration Committee (FAC) commenced an inquiry into the legislative arrangements assuring the Auditor-General's independence.

External audit

The Act requires an independent audit of QAO to be conducted each financial year. The Governor in Council appoints an external auditor who provides a report about the audit which must be included in our annual report.

The external auditor for 2013–14 was Mr Simon Hancox of Grant Thornton.

Mr Hancox conducted an audit of our financial statements and presented his report to the ARMC. The report identified several low risk areas for improvement; all items raised by the external auditor during 2013–14 have been resolved and recommendations fully implemented. The audit of our financial statements was completed on 22 July 2014.

As in previous years, the external auditor was also engaged to conduct an audit of our performance statement. The performance statement contains information about financial and non-financial performance measures in our service delivery statement. This audit provides further assurance to users of our annual report that our performance information is reliable and fairly represented. The audit of our performance statement was completed on 26 August 2014.

At the end of the 2013–14 audit process, Mr Hancox resigned from the position of external auditor. This decision was taken in consultation with us and was due to the potential for a significant conflict of interest as Mr Hancox's firm, Grant Thornton, now undertakes audits on our behalf, following its recent amalgamation with the former KPMG Cairns.

ACAG macro benchmarking

ACAG promotes information sharing between audit offices and provides opportunities for the offices to improve their efficiency and effectiveness.

ACAG facilitates macro benchmarking and enables audit offices to compare operational performance information across jurisdictions. Macro benchmarking allows an office to identify superior performance in another jurisdiction and potentially leverage it in its own.

We participate in macro benchmarking each year; it is timed to coincide with annual reporting so each office can report its performance against an ACAG average. Our performance against ACAG benchmarks is included throughout this annual report.

ACAG quality assurance peer review program

The ACAG quality assurance peer review program is an opportunity for members from different jurisdictions to review other audit offices. The peer review focuses on quality assurance and is valuable preparation for a strategic review.

We aim to have an independent review of our audit operations against the ACAG quality assurance framework at least every three years.

The last peer review was completed in April 2013. The review confirmed our overall compliance with the Accounting Professional and Ethical Standards Board's APES 320 *Quality Control for Firms* and auditing standard ASQC1 *Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, and Other Assurance Engagements*, issued by the Auditing and Assurance Standards Board (AUASB).

Five-yearly strategic review

The Act requires an independent strategic review of QAO to be conducted at least every five years. The strategic review is to include a review of the Auditor-General's functions and performance; the Governor in Council appoints the reviewer. Based on the requirements in the Act, the next reviewer is to be appointed by June 2016.

Our last strategic review was tabled in Parliament in March 2010. This review made 44 recommendations and, in last year's annual report, we confirmed 41 of the 44 recommendations had been finalised. During 2013–14, we finalised two of the three outstanding actions and the final outstanding recommendation—to review our remuneration and reward structure—is in progress.

During 2014–15, we will review our responses to all recommendations to prepare for the strategic review anticipated in 2016.

Recommendation	Action taken to finalise
RN.7(iv) That the QAO develop a more comprehensive program of benchmarking of audit fees for comparable entities with a view to ensuring greater consistency in the determination of fees, including: • internal benchmarking of fees for comparable size and type of entities • external benchmarking, both with ACAG, and with private sector audit firms where relevant and practical.	An internal benchmarking process has now been adopted, with testing of the private sector market through our annual competitive contracting-out arrangements. An external benchmarking study was completed in November 2013 which examined audit fees of comparable size and type and indicated they were generally consistent, taking into account individual client risk and complexity. Our review also demonstrated our fees are generally comparable with private sector providers.
RN.10(ii) That the QAO's audit resourcing model be further refined to provide improved focus on the nature and size of the audit task, and on the assessment of audit risks. This would mitigate the risk that inbuilt inefficiencies in resourcing are perpetuated through the current configuration of the model.	Senior management review and benchmarking of audits with similar characteristics help identify any inbuilt inefficiencies in audit plans. We use zero-based budgeting for financial audits with fees above $150 000. We match appropriately qualified and experienced teams to audit size and risk. Our sourcing strategy is reviewed annually to determine the optimal mix between permanent and contract staff.

Inquiry into the legislative arrangements assuring the Queensland Auditor-General's independence

The FAC provides parliamentary oversight of QAO and, in September 2013, it commenced an inquiry into the legislative arrangements that provide assurance of the Auditor-General's independence. We welcomed this inquiry as a potential opportunity to strengthen our independence.

Scope of Inquiry

- the legislative arrangements for the independence and accountability of the Auditor-General and the Queensland Audit Office
- how Queensland arrangements compare to arrangements in New Zealand and other Australian jurisdictions
- how Queensland arrangements compare with international best practice
- the effectiveness of section 56 of the *Auditor-General Act 2009*
- other independence issues

This inquiry resulted from representations by the Auditor-General to the FAC about current limitations on his managerial and administrative independence. The inquiry provides an ideal opportunity to have Parliament consider these matters and, where appropriate, to update our Act to reflect recognised international best practice.

We made a submission to the inquiry in October 2013, which is available on the FAC website and the Auditor-General and senior staff appeared before the FAC at a public hearing on 12 February 2014. We provided additional information in March 2014 in response to questions raised by the FAC.

As at the date of issue of this report, the FAC had yet to report its findings.

Parliament

Objective

Provide independent assurance and advice about the accountability and performance of the public sector

Strategies

- Strengthen our engagement with Parliament
- Achieve greater clarity and purpose in our reporting
- Undertake collaborative audits with other states and the Commonwealth
- Identify and address expectation gaps

Outputs

Reports to Parliament on the results of our financial and performance audits; and advice and assistance to Members of Parliament and parliamentary committees

Outcomes

Growth in Parliament’s use of, and reliance on, audit reports and services

Parliamentary services

Parliament is our primary client and our role is to provide it with assurance about the performance and accountability of the public sector. We do this through the reports we table in Parliament and by providing direct advice and assistance to parliamentary committees and to individual Members of Parliament (MPs).

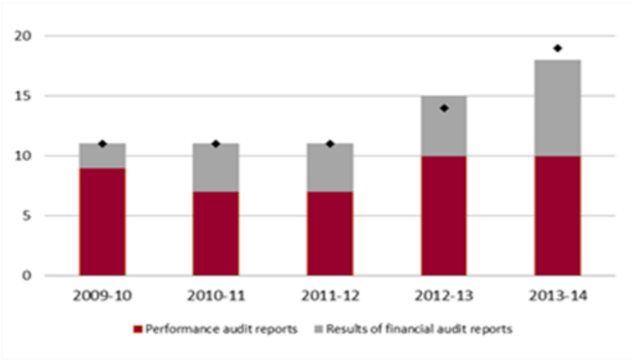
Dimension	Measure	2012–13	2013–14	
		Actual	Target	Actual
Quantity	Reports tabled (number)	15	19	18
Cost	Annual spend ($ million)	7.51	5.96	6.38
Timeliness	On schedule (%)	60	100	56
Quality	Client rating (index points)	71	80	77
Impact	Recommendations accepted (%)	100	95	98

- We tabled more reports to Parliament this year than ever before.
- We need to do better to hit our performance audit tabling targets.
- We completed performance audits faster than any other Australian audit office.

Our indicator of success: Growth in Parliament's use of, and reliance on, audit reports and services

- Parliamentary committees requested more briefings on our reports.
- MPs referred to the Auditor-General twice as often as last year, including references to 19 different Auditor-General's reports during debates, ministerial statements, motions and questions without notice.
- Our reports informed debate more during second readings of Bills in Parliament. This year, 25 Ministers and MPs referred to our reports, audit findings and recommendations while debating nine Bills.
- Portfolio committees tabled in Parliament reports on their reviews of 16 Auditor-General's reports to Parliament, including four reports tabled in 2013–14 and 12 reports from earlier years. Committees are still considering 14 reports referred in 2013–14, and six reports from previous financial years.
- Our report into right of private practice in Queensland public hospitals highlighted potential missed revenue of $22 million in 2011–12; public health providers have since recovered $11.3 million.

Outputs at a glance

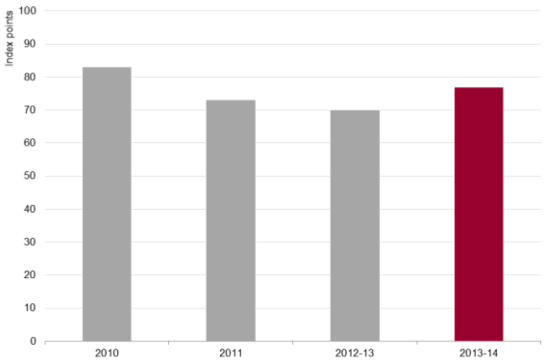


Quantity

We delivered more reports to Parliament this year than in any other, comprising:

- 10 performance audit reports; and
- eight results of financial audit reports.

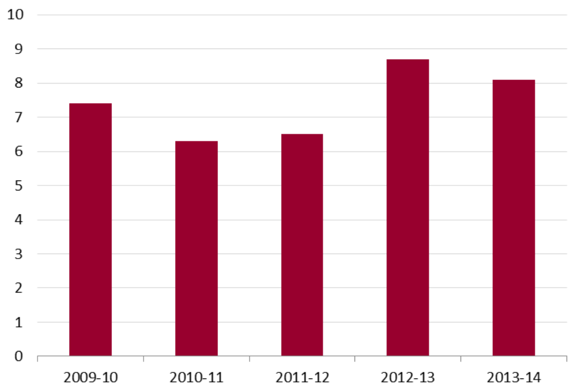
We were one performance audit report short of our annual target, but we had two audits in progress at year end with field work substantially complete.



Quality

Our overall satisfaction ratings from our performance audit clients significantly improved this year to 77ip and for the first time we achieved our target of 80ip in the value category.

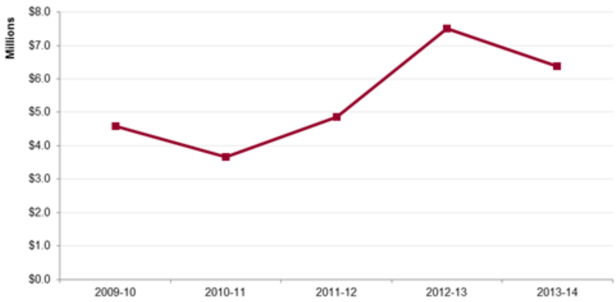
The results of independent peer reviews of our reports were again favourable.



Timeliness

We reduced the average duration to complete a performance audit which is not only better than the ACAG average of 8.8 months but at 8.1 months is the shortest of all jurisdictions.

Not all of our reports were tabled as planned. We can perform better against our internal targets by improving the project management of our audits.



Cost

We have improved our use of our annual appropriation to deliver services to Parliament.

Since receiving our performance audit mandate in 2011, we have maximised the amount of money we spend conducting these audits as they have the potential to deliver the most significant benefits.

Cash reserves from previous years were used to deliver increased services this year and last year.

Parliamentary service output performance

As the independent auditor of all Queensland public sector entities, we are uniquely positioned to provide a perspective on the economy, efficiency and effectiveness across different sectors and services.

Our key products and services funded directly by Parliament are:

- reports on the results of performance audits that focus on the economic, efficient and effective use of public resources to achieve public program objectives
- reports on the annual results of financial statements of public sector entities
- a three-year strategic audit plan, setting out the performance audits and areas of control focus we propose to undertake, published in June each year on our website
- investigation of and response on matters referred to us by MPs and councillors, our audit clients and the general public
- other direct advice and assistance to Parliament, its committees and to individual members.

Reports on performance audits

Section 37A of the *Auditor-General Act 2009* governs performance audits. Performance audits provide Parliament and the community with independent assurance that public money has been used wisely and well and that actual results meet Parliament's expectations. Performance audits are funded through annual appropriation.

The numbers and the costs of performance audits vary between years, according to the nature and complexity of the selected topics and the resources available. Typically, we plan to deliver between eight and 10 major new audit reports each year; and to follow up on at least two previous audit reports.

We balance our performance audit program to provide assurance to Parliament across the full range of public sector accountabilities: from financial regularity, probity, propriety and compliance at one end of the spectrum to economy, efficiency and effectiveness at the other.

Measuring quantity

We planned to table 11 reports this year—10 on the results of performance audits and one report which followed up past audit recommendations from reports tabled in 2011.

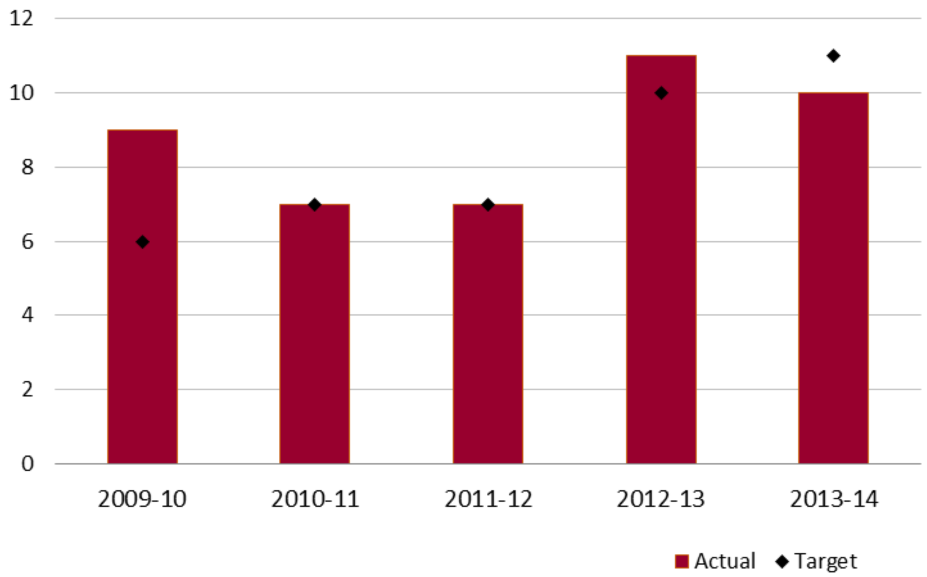
We tabled 10 reports—eight on the results of performance audits and two follow up reports.

We completed six of the 10 performance audits we planned to finish during 2013–14. We introduced and completed two new topics—right of private practice: senior medical officer conduct; and monitoring and reporting performance.

Two planned reports on disability access and services and on early childhood education were deferred to 2015–16 to allow agencies time to consider and implement policy changes affecting those areas.

The remaining two reports scheduled to be tabled by 30 June 2014 were substantially complete at year end and will be tabled during 2014–15: *Major infrastructure projects: tertiary hospitals* and *Progress on the 2018 Commonwealth Games*. Part of the reason for the delay in these audits is because we invested more resources in the other audits that were tabled because of the extra benefits we could derive from them.

Number of 'performance' audit reports tabled 2009–10 to 2013–14



Note: for 2009–10 and 2010–11, we have counted all reports tabled that were not on the results of financial audits as 'performance' audits for better comparability with the current year. Our audit mandate changed during 2011 when 'performance' audits were introduced for the first time.

While we fell one short of our annual target, we have sustained the uplift in our performance audit report program that we achieved last year.

Measuring cost

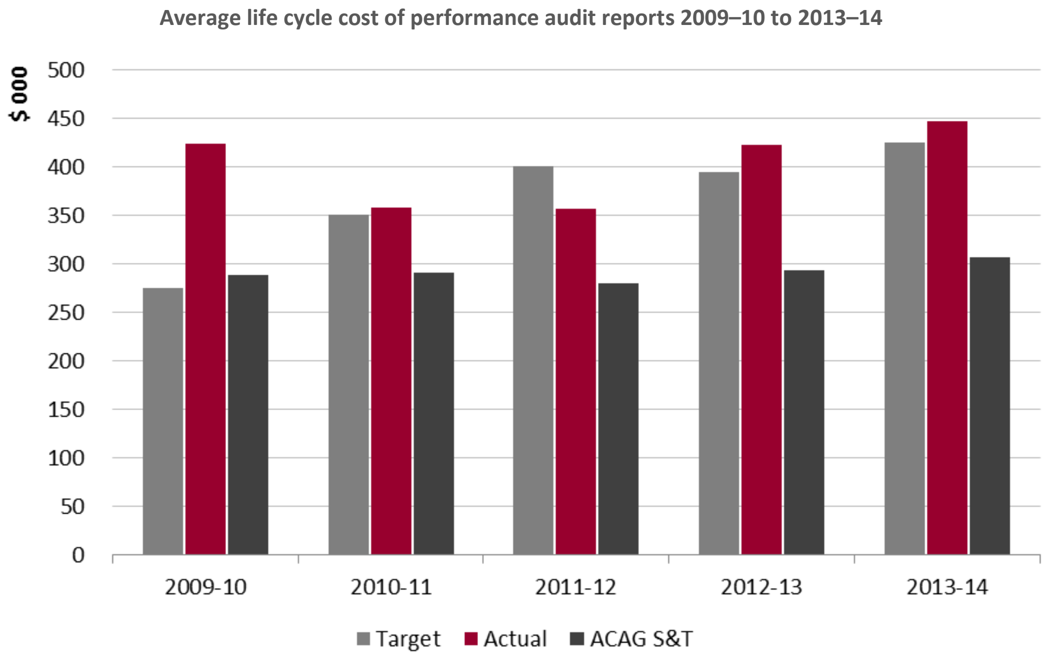
The total annual cost for our performance audits was $3.97 million, which was close to our budget of $4.07 million. This was around $1 million (20 per cent) less than in 2012–13.

The decline in actual cost this year, compared to last year, highlights the unusual nature of 2012–13. A significant amount of work was undertaken in that year on reports tabled after 30 June 2013; for example, the report on the right of private practice arrangements was substantially complete at 30 June 2013 but was tabled on 11 July 2013. By comparison, we have less work in progress on 2014–15 audits: $500 000 compared to $2 million at 30 June 2013.

As well as tracking our full year costs, we benchmark the entire life cycle cost of the reports we produce, as many reports commenced in one year are finished in the next.

The cost of individual audits completed during the year ranged from $115 000 for both follow up reports to $982 000 for the first of the two reports on right of private practice in Queensland public hospitals.

Given total resources available for performance audits in any one year are constrained by our annual appropriation, we always face a trade-off between delivering all the audits we scheduled for the year and investing more than planned in individual audits where we perceive extra value can be extracted from an audit.



The 10 reports tabled in 2013–14 cost an average of $446 739 ($400 171 in 2012–13) which was five per cent higher than our target average cost of $425 000. It also exceeds the 2013–14 average of Australian state and territory audit offices (ACAG S&T) of $307 238.

Four of the 10 reports tabled exceeded their original approved budgets. On average, the cost overrun on all reports tabled was 12.5 per cent. In three of these four audits, we identified opportunities to expand our planned data analyses from their original scope for more specific and useful information on performance, including cost effectiveness. In two cases—the reports on right of private practice and on traffic management systems—we developed information that the departments had not been able to produce previously.

Such initiatives are consistent with our strategic plan intent to better leverage our ability to access data across the public sector and apply richer quantitative analysis in our reports to Parliament. Our future aim is to implement sustainable and integrated data analytics into audits, improving audit efficiency and quality.

In the case of our fourth audit, on monitoring and reporting performance, we expanded the scope from a high level review of publicly reported performance measures to include an assessment of all 20 government departments' internal performance reporting. We made these detailed assessments available to each department with customised suggestions for improved measures. Responding to a lack of training, we also ran two workshops for departmental staff, providing practical guidance on developing efficiency and effectiveness standards. Participants gave positive feedback on the usefulness of the workshops. Both workshops were oversubscribed.

Measuring timeliness

We endeavour to spread our tabling program across the year, so that parliamentary committees and MPs do not have to deal with too many reports simultaneously.

In our *Strategic Audit Plan 2013–2016*, we set out when we expected to table our reports during 2013–14. We planned to table two of the 10 performance audits in the first quarter of the year; three in the second quarter; three in the third quarter; and two in the last quarter. We expected also to table the follow up audit in the second quarter of 2013–14.

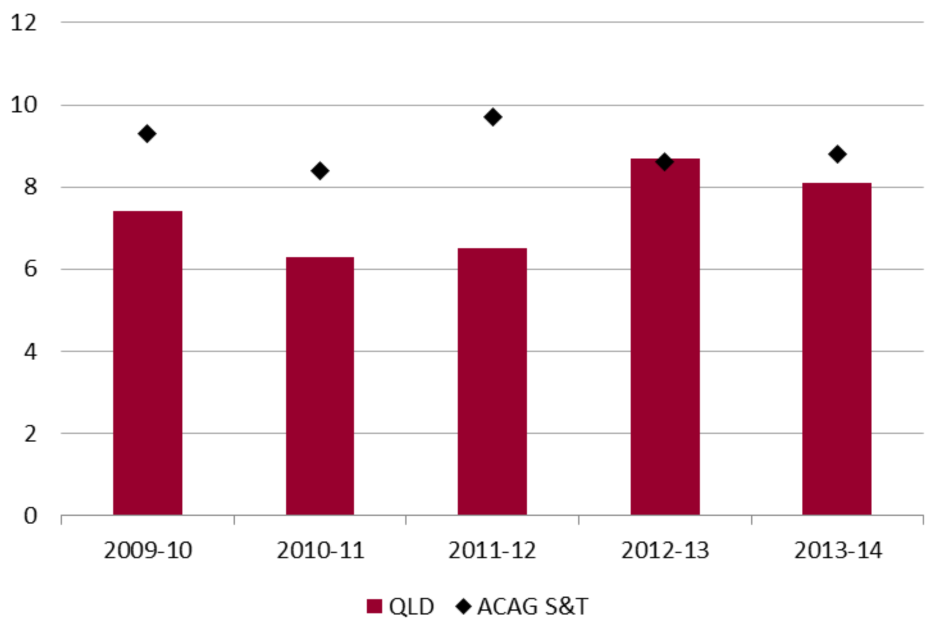
We tabled six of the 10 reports in the quarter we said we would. While we set high standards for ourselves in early forecasting and delivery that is responsive and relevant to related environmental factors, better project scheduling is required to improve the spread of our tabling program across the year.

As well as striving for a 'smooth' tabling program, we measure the duration of our performance audits against our average 'elapsed time' target of eight months. The usefulness of an audit report can be diluted if the audit takes too long. The actual duration of each audit depends on its scope, scale and complexity.

The actual average elapsed time for the ten performance reports tabled during 2013–14 was 8.1 months: slightly above our target, but less than the 8.7 months we reported in 2012–13. It is also less than the 2013–14 average of Australian state and territory audit offices of 8.8 months, against which we benchmark ourselves.

It is pleasing to note this year that, on average, we completed our performance audits faster than any other jurisdiction.

Average elapsed time to complete a performance audit 2009–10 to 2013–14



While our audits cost more on average than other Australian audit offices—a measure of their size and complexity—our stronger emphasis this year on project management meant we again produced high quality reports on very complex matters on a more timely basis than our peers.

The duration of our audits ranged from five months for both follow up reports to 12 months for the Queensland Ambulance Service performance audit.

The longer than average time taken to complete the Queensland Ambulance Service audit was due to our decision to expand our analysis of performance information and cost, including comparing to other states and examining regional performance data. We reported these in our report *Queensland Ambulance Service performance* (Report 17: 2013–14), tabled on 6 May 2014.

This decision was consistent with our strategy to provide more disaggregated geospatial data to MPs, councillors and the public for better information about local performance and its comparison to statewide and interstate performance.

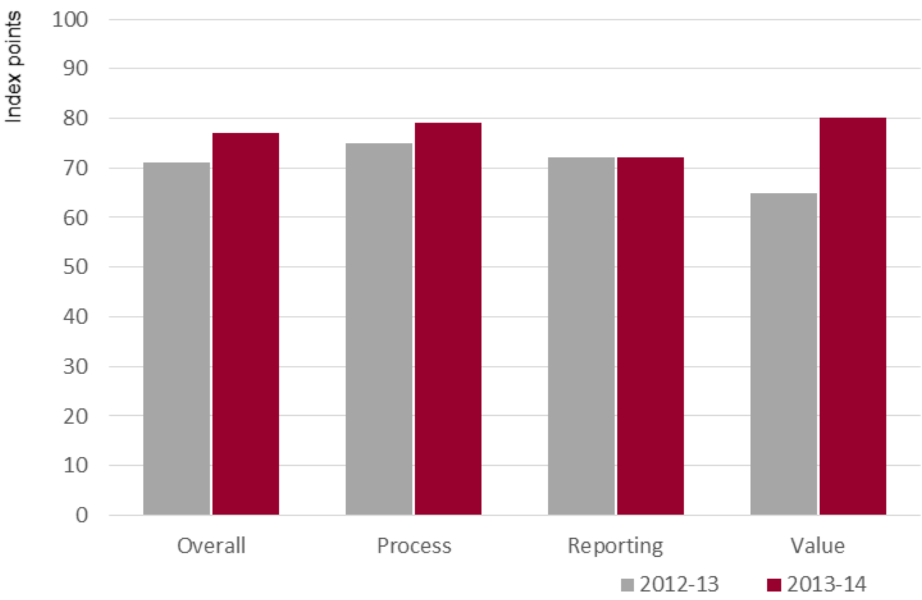
Measuring quality

We measure stakeholder satisfaction as one indicator of service effectiveness. While this measure provides useful information about the perceived quality of our services to clients, it does not directly demonstrate that the service objective has been achieved, so we use this measure as part of a balanced suite of measures.

We survey our performance audit clients each year through an independent firm skilled in satisfaction surveys. The survey measures the three dimensions of audit process, reporting and value and uses a core set of common questions agreed between Australian Auditors-General. This allows us to benchmark our performance. An overall performance index (OPI) is determined by measuring client satisfaction with our audit process, reporting and value to the client's operations and aggregating the results.

In 2013–14, from the 16 of 21 performance audit clients who responded to the survey on seven performance audits, we achieved an OPI of 77 index points (ip). This is a considerable improvement from 71ip in 2012–13. We also achieved the highest OPI compared to our peers, who averaged 74.8ip.

Performance audit client satisfaction



We maintained or improved the levels of client satisfaction in audit process, reporting and value, compared to last year. The most significant improvement was observed in client satisfaction with the value of the audit: improving from 65ip last year to reach our overall target of 80ip for the first time this year.

Our clients were more satisfied with the reports we delivered this year. The key factors driving this improvement were the usefulness of our reports and the greater assurance they provided. Our clients also commented favourably on the clarity of our report findings, the effective way we communicated during the audit and the practicality of report recommendations.

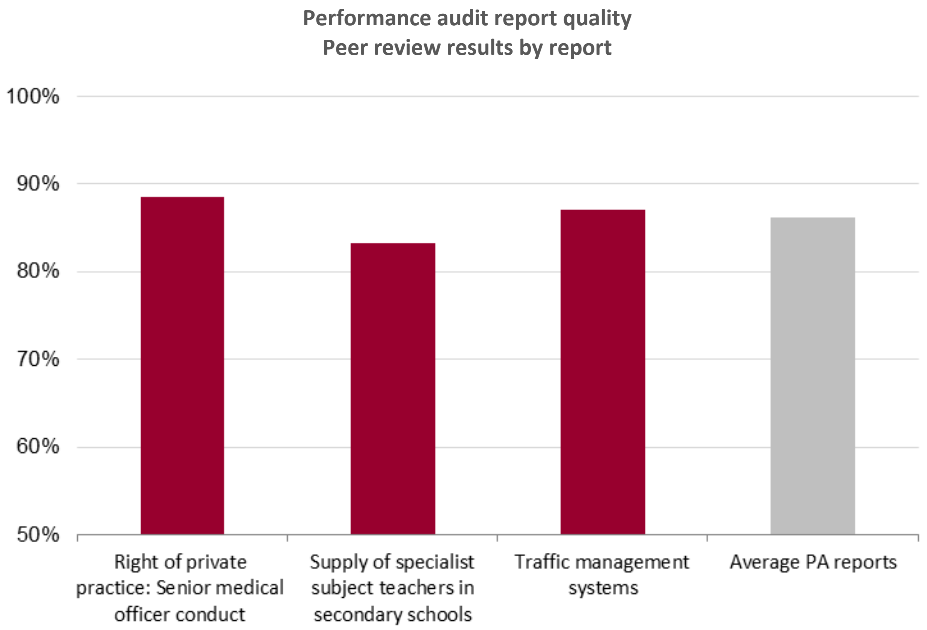
This feedback confirms our strategies to achieve greater clarity and purpose in our reporting are taking effect; a point reinforced by the results of our annual benchmarking.

A panel of independent experts, appointed externally, assesses a selection of our reports to Parliament to provide a benchmark of our report quality. This is coordinated through the Australasian Council of Auditors-General (ACAG).

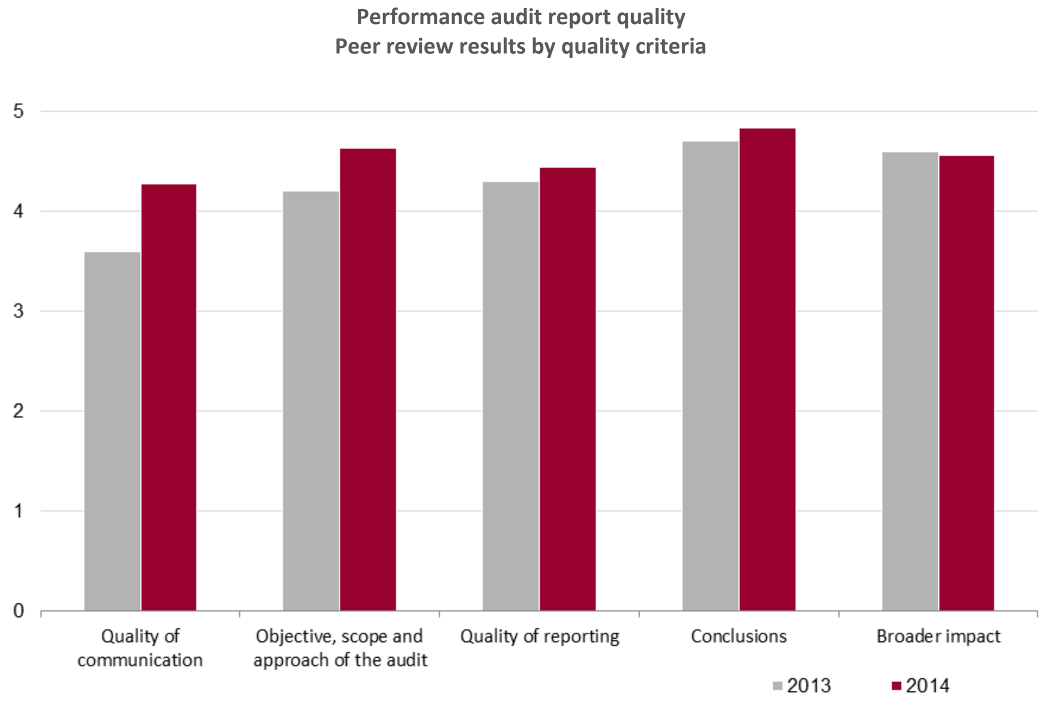
The three performance audit reports reviewed this year were:

- *Supply of specialist subject teachers in secondary schools* (Report 2: 2013–14)
- *Traffic management systems* (Report 5: 2013–14)
- *Right of private practice: Senior medical officer conduct* (Report 13: 2013–14).

Our performance audit reports achieved an average overall score of 86 per cent, slightly better than the ACAG average of 85 per cent.



We improved on last year's rating in four of five quality criteria assessed by the panel—most significantly, for the quality of our communication, followed by our audit approach. This demonstrates our continuous improvement over the last three years, which we attribute to our ongoing focus on greater clarity in our reporting through strengthened internal management reviews and professional communication support.



Measuring impact

We made 50 recommendations in our 2013–14 performance audit reports to Parliament, of which 49 (98 per cent) were accepted by the entities we audited. While a minor decrease from the unanimous acceptance recorded in 2012–13, this year's acceptance rate exceeds our target of 95 per cent, and is better than the 2013–14 average of Australian state and territory audit offices of 97 per cent.

We undertook two follow up audits this year to assess the progress and effectiveness of agencies in implementing recommendations from reports tabled in 2011. We found agencies had taken steps to address all recommendations, fully implementing 10 of 16 recommendations and partially implementing the remainder.

Reports on results of annual financial audits

Section 60 of the *Auditor-General Act 2009* requires that we report to Parliament at least once each year on the results of the financial audits we undertake for public sector entities.

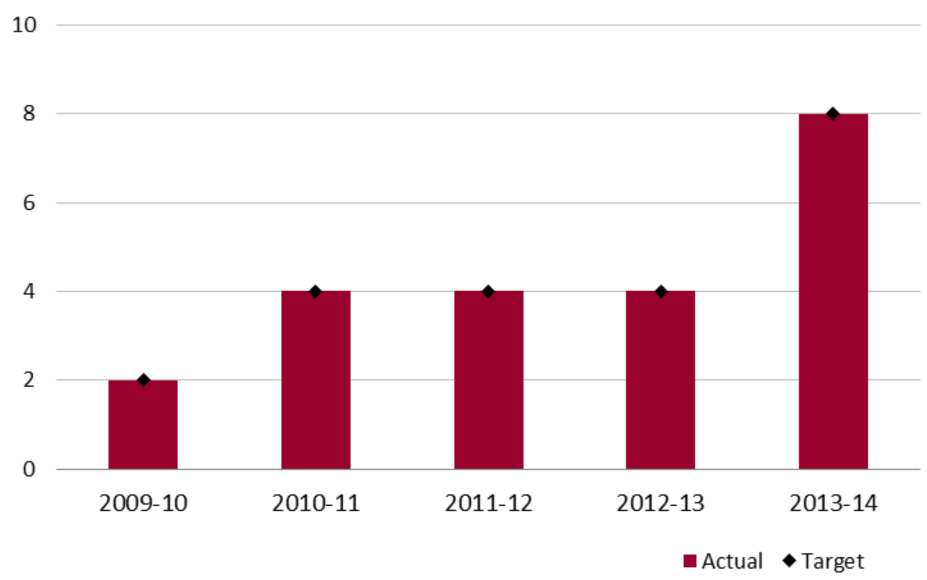
Over the last 12 months, each of our reports to Parliament on the results of financial audits has emphasised ongoing issues with the quality of the financial statement process across different government sectors.

Measuring quantity

We tabled eight reports as planned on the results of our financial audits:

- an interim report on the results of our testing of entities' systems of internal control arising from our audits of state entities with 30 June 2013 balances (Report 6, tabled 19 November 2013)
- five reports on the results of our financial audits of entities primarily with 30 June 2013 balance dates:
    - entities in the health sector, primarily Hospital and Health Services (Report 8, tabled 21 November 2013)
    - entities in the water sector (Report 7, tabled 21 November 2013)
    - entities in the energy sector (Report 9, tabled 3 December 2013)
    - departments and other portfolio entities (Report 11, tabled 10 December 2013)
    - local government entities (Report 14, tabled 18 March 2014)
- one on the results of our financial audit of the whole of government consolidated financial statements (Report 12, tabled 10 December 2013)
- one for universities and grammar schools, which have 31 December 2012 balance dates (Report 16, tabled 6 May 2014).

Number of results of financial audit reports tabled each year



The uplift in the number of reports this year was a direct result of our strategy to provide focused, sector-based reports with more detailed analysis, making them more amenable to review by the relevant parliamentary portfolio committees.

Measuring cost

The full year cost of our reporting to Parliament on the results of our financial audit activity was $1.43 million, compared to our budget of $1.13 million, and $1.42 million in 2012–13. While we were $300 000 ahead of budget, this additional cost largely reflects our bringing forward work on our internal controls report for 30 June 2014 balance dates, which was substantially completed at year end and tabled on 11 July 2014, four months earlier than last year's equivalent report.

In addition to measuring annual cost, we measure the life cycle cost of each report tabled, as reports are typically prepared across two financial years. The total life cycle cost of the eight reports we tabled during the year was $1.27 million, an average of $159 000 per report ($213 000 in 2012–13), which was lower than our target average cost of $180 000. This improvement reflects greater efficiency, as we streamlined our report production processes.

Measuring timeliness

We set ourselves a target to table our reports on financial audits within five months of year end balance dates. This means:

- for audits on entities with 30 June balance dates, we plan to table our reports in Parliament on average no later than November
- for entities with 31 December balance dates (universities and grammar schools), we plan to table our reports in Parliament by the following May.

The average elapsed time to table was 5.4 months after the balance date. Four reports were tabled within five months and three reports tabled in December 2013 were within two weeks of this target.

The report on local government was not able to be tabled until March 2014, nine months after balance date. This was because most local governments do not finalise their statements until their statutory deadline of 31 October and a significant number failed to meet this deadline. We took the view that it was better to wait until most local government entities had their statements finalised, so Parliament and the public would obtain a more complete view of that sector's performance. We continue to work closely with local governments to assist them to improve the timeliness of the financial statements.

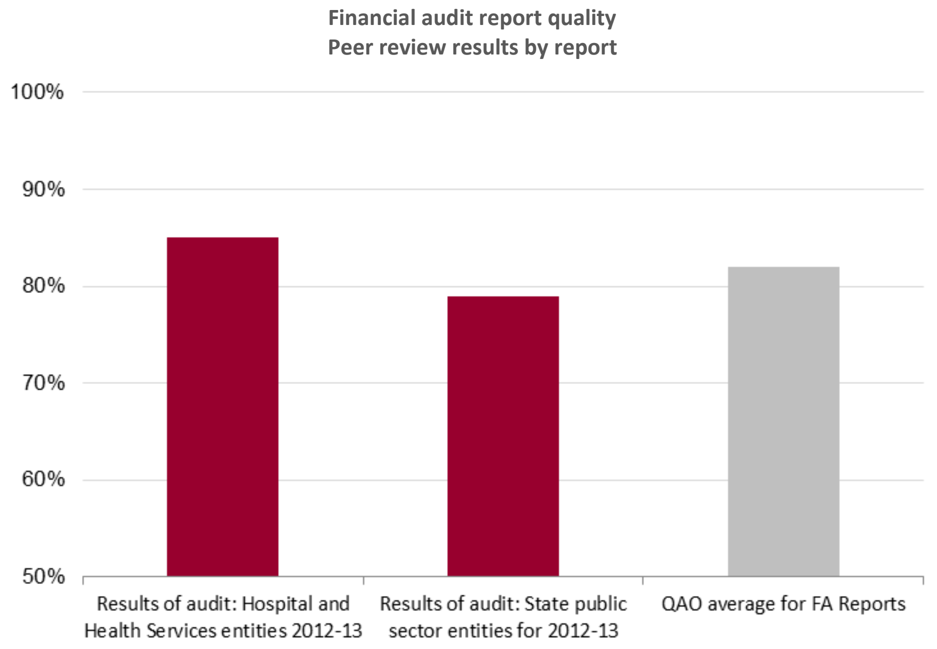
Measuring quality

As with our performance audit reports, we benchmark the quality of our reports to Parliament by having an externally appointed panel of independent experts assess a selection of them. This is coordinated through ACAG.

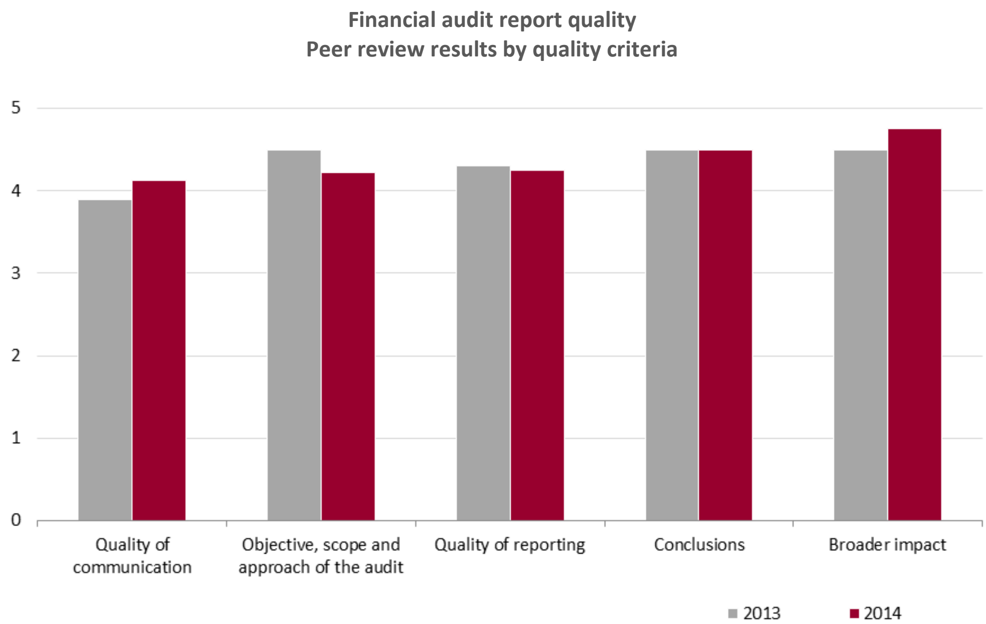
Two financial audit reports were reviewed this year:

- *Results of audit: Hospital and Health Services entities 2012–13* (Report 8: 2013–14)
- *Results of audit: State public sector entities for 2012–13* (Report 11: 2013–14).

Our financial audit reports achieved an average overall score of 82 per cent, slightly less than the ACAG average of 85 per cent.



We improved on last year's rating in two of five quality criteria assessed by the panel—most significantly for the quality of our communication and the potential for the reports to have a broader impact.



We will continue to review and refine our approach to reporting on the results of financial audits by working to make the financial and control issues we discuss easier for the lay reader to understand and by working to develop a common suite of measures of sustainability that can be used to understand and interpret the financial statements that each entity produces.

Measuring impact

We make recommendations in these reports only if there are systemic issues that require a whole of government or central agency response.

In our reports on the water and energy sector, we recommended that the Department of Energy and Water Supply and Queensland Treasury and Trade adopt the indicators of financial sustainability we developed for use in our reports in their own performance monitoring frameworks.

The recommendation for the water sector was accepted and these ratios are being incorporated in the performance reporting framework the department is developing.

The recommendation for the energy sector was partly agreed: Queensland Treasury and Trade concluded the capital growth and replacement ratio is useful in the analysis of government owned corporations' corporate plans, where they incur regular ongoing capital expenditure. The calculation of this ratio now forms part of the monitoring activities of the Department of Energy and Water Supply.

The government also supported two recommendations proposed by the Education and Innovation Committee arising from its review of our *Results of audit: Education sector entities 2012* (Report 11: 2012–13). The first recommendation was that all statutory bodies within the education sector consider and adopt our better practice guidelines on short term cash flow liquidity management. The second recommendation requested the Department of Education, Training and Employment engage with stakeholders to monitor the grammar schools which have financial position and performance concerns noted in our financial audit reports.

Parliament has considered the audit recommendations contained in the 2011–12 report on the local government sector, particularly those about council asset management. The Transport, Housing and Local Government Committee has further promoted the recommendations in its Report No. 30. This Committee made its own four recommendations adopted and acquitted by the Minister for Local Government, Community Recovery and Resilience.

Our strategic audit plan

Each year, we develop and publish by 30 June a three-year strategic audit plan setting out the performance audits we propose to undertake. We also include financial audit areas of control focus in our plan.

Our third strategic audit plan for 2014–17 was published on 25 June 2014, in line with legislation.

The annual cost of developing the plan, including supporting sector-based planning, was $473 000. This was $85 000 more than our internal budget allocation of $388 000, but significantly less than last year's total cost of $819 000.

We measure the quality of the strategic audit plan by the number of topics retained from the prior year's plan. The decision to retain a topic is primarily based on whether the topic is still relevant and timely and likely to add value to Parliament and the public sector. This is determined by our assessment of key issues and challenges across the public sector, together with feedback from the parliamentary committees and executive management of key government agencies during the consultation period.

Topics retained from 2013–16 strategic audit plan	Target	Actual
Year 1 topics retained (%)	80	100
Year 2 topics retained (%)	60	69
Year 3 topics retained (%)	50	71

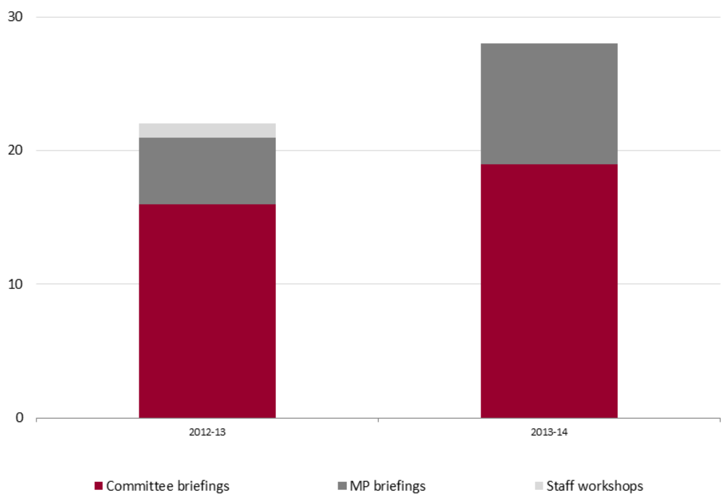
While we met our target of retaining all topics from Year 1, not all were delivered during 2013–14. While six of the ten topics planned were completed, two audits were deferred to 2015–16 to allow agencies more time to implement new initiatives, and two will be delivered in the first half of 2014–15.

Direct advice and assistance to Parliament and councillors

We provide direct advice and assistance to parliamentary committees and to individual MPs and local government councillors. This advice includes briefing committees and MPs on our reports to Parliament; providing submissions to assist committees with their inquiries, where relevant to the Auditor-General's mandate; and advising more broadly on public sector reporting and accountability.

One focus during 2013–14 has been delivering a targeted education campaign for committees, MPs and their support staff to interpret and understand public sector agency budgets and annual reports. The Auditor-General and our senior staff gave 19 public and private briefings to portfolio committees and nine briefings to MPs about our reports to Parliament, our strategic audit plan and understanding financial statements.

Direct contact activities with parliamentary stakeholders



We invested around 2 000 hours at a cost of $325 000 providing this support. This was $135 000 more than our internal budget allocation of $190 000. The most significant component of cost was the secondment of a financial audit director to the parliamentary committees' office from March to November 2013. This secondment enhanced the shared understanding of our respective roles. We also provided direct assistance to the committees and research directors to develop their knowledge and understanding of public sector accountability and assisted with their review of agency annual reports for 2012–13.

Investigation of referrals

We receive information and allegations about the activities of public sector entities from the general public, MPs, councillors, entity management and other integrity offices. We assess all referrals received and investigate those within our mandate. This year, nine referrals either were outside our mandate or we determined from our initial assessment that no subsequent action was required. The referrals received in 2013–14 which we investigated were mostly about financial management or procurement issues.

Because of the confidentiality provisions of the *Auditor-General Act 2009,* we cannot report back directly to the referrer about the results of our investigations. Any significant audit findings are reported to Parliament or, if they are systemic in nature, may lead to a performance audit topic in our strategic audit plan.

We received 39 new referrals in 2013–14 (47 referrals received in 2012–13) and continued investigating 10 referrals from 2012–13. Over half of the new referrals we received were from the public. Of the referrals we investigated in 2013–14, 59 per cent were in the local government sector.

Number of external referrals received and finalised

Source of referral	In progress at 1/7/13	Received	Finalised	In progress at 30/6/14
Anonymous	2	1	2	1
CMC	1	2	—	3
Entity management	2	2	3	1
General public	3	27	21	9
Elected members	1	5	3	3
Public interest disclosure (external to QAO)	1	2	3	0
Total	**10**	**39**	**32**	**17**

We took 3.6 months to finalise referrals during 2013–14, compared to 3.1 months in 2012–13. The increased time taken to finalise referrals this year was due to the complexity of several matters referred and concurrent investigations by other agencies.

We spent approximately 850 hours managing the referrals program in 2013–14 at a cost of $175 000. This does not include investigation time which was charged to the relevant audits.

Parliamentary service outcomes

Our reports aim to be objective, non-partisan and reliable. They provide fact-based information that Parliament needs to fulfil one of its most important roles: holding government accountable for its stewardship of public funds. They also provide valuable commentary, findings and recommendations on how to improve accountability and performance in the public sector.

Through our reports we aim to:

- strengthen accountability and transparency, providing the public with confidence in the system of government
- inform Parliament to better support decision making and debate, leading to changes to legislation and policy
- provide unique insights, leveraging our mandate to access and collate information not readily available
- be a catalyst for improved performance through increased efficiency and effectiveness of service delivery.

Strengthening accountability and transparency

Strengthening public accountability is a key strategy for addressing governance deficits, mitigating fraud and improving the efficacy of service delivery. Transparency is critical so actions can be scrutinised and performance of public service providers can be appraised.

Acting on our recommendations in our report *Results of audit: Local government entities 2011–12* (Report 10: 2012–13) around timeliness of financial reporting, the Minister for Local Government, Community Recovery and Resilience shortened the reporting deadlines for Queensland councils. Councils are now required to report their financial results by 31 October (from 30 November) each year and this resulted in councils reporting their 2012–13 financial results to their communities four weeks earlier, on average, than the previous year.

Our engagement and reporting on the local government sector has also resulted in legislative changes so:

- the focus on financial sustainability has increased with the Auditor-General now issuing opinions on financial sustainability ratios
- all councils are now required to establish audit committees.

We tabled our report *Racing Queensland Limited: Audit by arrangement* (Report 1: 2012–13) on 10 July 2012. On 6 May 2013, the government announced it would establish a commission of inquiry into Queensland's racing industry. On 7 February 2014, the government released the inquiry's report, which identified a range of matters that should be referred to the Australian Securities and Investments Commission for investigation. On 1 March 2014, the Attorney-General and Minister for Justice referred information on the actions of several Racing Queensland officials to ASIC to consider whether further action was warranted.

We tabled our report *Results of audit: Education sector entities 2012* (Report 11: 2012–13) on 30 April 2013.

On 8 May 2014, speaking to the TAFE Queensland (Dual Sector Entities) Amendment Bill; Further Education and Training Bill, the Minister for Education, Training and Employment said

…we had to ensure all of the appropriate checks and balances are in place, while taking into account things such as the Auditor-General's reports into the universities, which I receive every year. There is no doubt that over the past couple of years CQU has faced a significant challenge as, for a very long time, it was very heavily dependent on international students. As the global financial crisis started to bite, its bottom line was significantly impacted, which was something else that the Auditor-General pointed out. I acknowledge that this year the university has made significant changes to its financial and administrative arrangements.

Informing Parliament

When Parliament uses our audits to support debate on issues and the passage of new legislation, this delivers some of our most significant effects.

Debate around the Construction and Tourism (Red Tape Reduction) and Other Legislation Amendment Bill referenced the findings from our report *Community benefit funds: Grant management* (Report 12: 2012–13) tabled on 21 May 2013 on the ineffectiveness of administration of the four gaming community benefit funds and equitable distribution of funds across the state.

The Attorney-General said before the Estimates Committee on 15 July 2014

…In (the) 2013–14 period the four funding programs received more than 6,700 applications and collectively distributed in excess of $50 million to more than 2,300 applicants. In 2012–13 the Department of Justice and Attorney-General audit unit and the Queensland Audit Office undertook two significant audits of the programs. A number of recommendations were made to increase efficiency and reduce red tape…The Audit Office said that that process had to change…We took seriously the recommendations in the Auditor-General's report…So we now have legislation in. There will be one body. We are in the final process of selection for the new board. I can assure the committee that it will be Queensland representative. There are—will be rural and regional stakeholders and community groups represented as well as the stakeholders, like the casinos, that ultimately fund the programs...

Unique insights

In 2013–14, we implemented a data strategy to expand our capabilities to apply data analytics across our audit products and increase public value through analytics across data sets. Leveraging our unique ability to access data across systems and agencies, we have provided information to Parliament and the public sector in a way that is not usually readily available.

In relation to the private practice arrangement system, when speaking to a motion in Parliament on 20 March 2014, the Minister for Health stated

The government's solution to this is to support what the Auditor-General does because the Auditor-General is independent, the Auditor-General is respected, the Auditor-General has made these considered recommendations to the Parliament and the Auditor-General has put an extraordinary amount of effort into unweaving what was a very, very complex system which did not have a clear pathway where the data could be discovered. … I encourage the Parliament to support this motion which simply asks for the Parliament to endorse all of the recommendations of the Auditor-General in those reports

Improving performance

Our report *Right of private practice in Queensland public hospitals* (Report 1: 2013–14) highlighted potential missed revenue of $22 million over the 2011–12 financial year. Since we tabled our report, $11.3 million of this amount has been billed through a coordinated recovery effort by the Department of Health and the Hospital and Health Services.

This report also improved accountability of senior medical officers through agreed levels of clinical and non-clinical activity.

Key challenges and priorities for 2014–15

During 2013–14, we sustained the volume of reports we deliver. In an environment of finite and constrained appropriations, our key challenge is to deliver our reports to Parliament on time and at the national benchmark for cost without compromising quality.

Next year we intend to:

- continue strengthening our relationship with Parliament and increasing the number of briefings for MPs and committee staff
- strengthen our strategic audit planning to better target our topics in areas that can add the most value
- review our performance audit methodology, benchmarking ourselves against other audit jurisdictions with a strong technical focus
- refine our report production processes to improve timeliness and cost placing more rigour around our audit scoping, planning and scheduling to be more efficient and effective
- develop a technical competency framework for performance audit against which we can assess our skills and identify gaps for further development
- leverage our panel of contractors and subject matter experts more effectively to achieve better audit outcomes
- increase our use of data analytics to provide more detailed information to agencies and Parliament.

Public sector

Objective

Provide authoritative reporting that is used by the public sector to fulfil its accountability obligations and improve its performance

Strategies

- Focus on the things that matter and that will make a difference
- More timely and open engagement with the public sector
- Better leverage our public sector expertise

Outputs

Reports to public sector entities on their financial statements; and advice and assistance on ways to strengthen their internal control and better manage their financial and operating risks

Outcomes

Acceptance of our recommendations and demonstrable improvements in the public sector resulting from audit activity

Public sector services

With a client base of around 550 state and local government entities, most of which have a 30 June balance date, we need to manage our resources and workload to deliver our audit opinions when they are needed by our clients.

Through our financial audit work, we aim to help our clients improve the systems of financial control so they can produce reliable financial reports, comply with regulatory requirements and improve their operational and financial performance.

Dimension	Measure	2012–13	2013–14	
		Actual	Target	Actual
Financial statement audit opinions				
Quantity	Audit opinions (number)	548	541	530
Cost	Annual fees charged ($ million)	35.40	34.69	37.50
Timeliness	Opinions issued on time (%)	99	95	99
Quality	Client rating (index points)	75	80	76
Impact	Recommendations accepted (%)	90	95	89
Other audit certifications				
Quantity	Other certifications (number)	254	320	318
Cost	Annual fees charged ($ million)	0.19	0.20	2.10

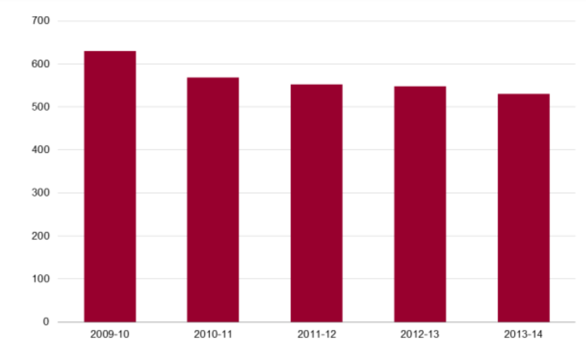
Note: ‘Cost’ for certifications reflects only ‘major’ certifications that required significant additional audit effort.

- We received more total fee revenue than planned this year because of increased demand for our services by public sector agencies and by bringing work forward from 2014–15 as part of smoothing our workload.
- We brought forward our financial audit work program so we were 47 per cent through our work at 30 June 2014, compared to 43 per cent at the same time last year.

Our indicator of success: Acceptance of our recommendations and demonstrable improvements in the public sector resulting from audit activity

- Most recommendations we made in 2012–13 to improve internal controls were implemented by 30 June 2014: only nine per cent of recommendations remain outstanding.
- Improved reliability of financial reporting was demonstrated by fewer qualified audit opinions; public recognition for our assistance in the financial de-amalgamation of affected councils; and supporting 17 Hospital and Health Services (HHS) to complete their first financial reports.
- We reported improvements in systems of financial control in *Results of audit: Internal control systems* (Report 6: 2013-14) and *Results of audit: Education sector entities 2013* (Report 16: 2013-14) and the establishment of internal audit functions and risk management practices in HHS entities.

Outputs at a glance

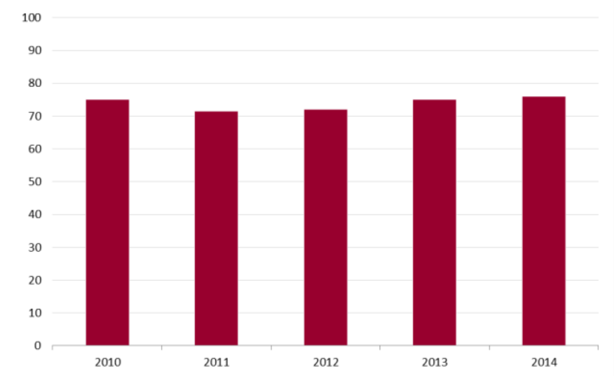


Quantity

The number of audit opinions we issue each year has remained fairly stable over the past three years.

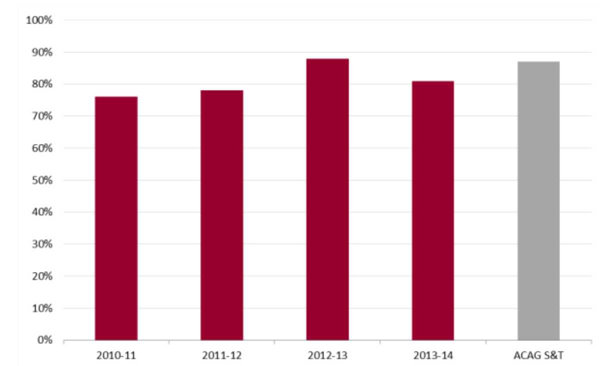
We have experienced significant growth in the number of complex non-incidental audit certifications being requested by our clients.

This has placed significant pressure on our resources as new work of this nature for which it is difficult to anticipate and plan. We expect this activity to continue at this year's levels for some time.



Quality

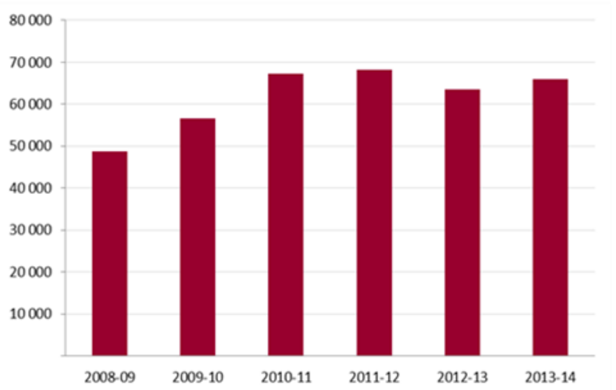
Our overall satisfaction ratings from our financial audit clients marginally improved this year to 76 index points (ip) and for the first time we achieved our target of 80ip in the value category.



Timeliness

We continue to issue more than 80 per cent of our financial statement audit opinions within four months of the end of the financial year.

This is lower than the ACAG average of 89 per cent, mainly because local governments in Queensland are given four months to finalise their statements, while in other jurisdictions, their statutory time frames are three months.



Cost

The overall average cost of our financial audits increased marginally, due to the inclusion of 17 new Hospital and Health Services.

The cost to our continuing clients reduced on average by 2.7 per cent for state entities and 1.9 per cent for local government. This reduction is consistent with a downward trend in fees over the past three years as a result of our concerted efforts to constrain costs and focus our audit effort on high risk areas.

Public sector service output performance

The financial audit and related services we provide to the public sector allow these entities to fulfil their own accountability obligations to report annually, through their Ministers to Parliament, on their operations and on their financial performance and position.

Our key products and services to the public sector, provided on a fee-for-service basis, are:

- financial statement audit opinions and associated reports to governing bodies and management
- other audit certifications for grant acquittals, regulatory notices and controls assurance.

Financial statement audits

Audit opinions provide independent assurance to the users of public sector financial statements that those statements are presented fairly and in accordance with Australian Accounting Standards and applicable legislation. Financial audits are funded by a fee-for-service we charge to the audited entity.

Financial audits produce two major outputs:

- an audit opinion on the financial statements
- a report to the governing body of each audited entity on matters arising from the audit.

Our financial audit opinion is attached to the financial statements and, together, these are included in each entity's annual report, required each year under the *Financial Accountability Act 2009* for most state entities and the *Local Government Act 2009* for most local government entities.

Our reports to governing bodies may include observations and recommendations about the quality of financial reporting processes, strength of internal controls, information technology project management, accounting issues and matters relating to compliance with applicable laws.

Measuring quantity

The number of audit opinions we issue is determined by our audit mandate. We expect this to vary by a relatively small number each year, based on whether and to what extent new entities are created by government, or existing entities are merged or discontinued.

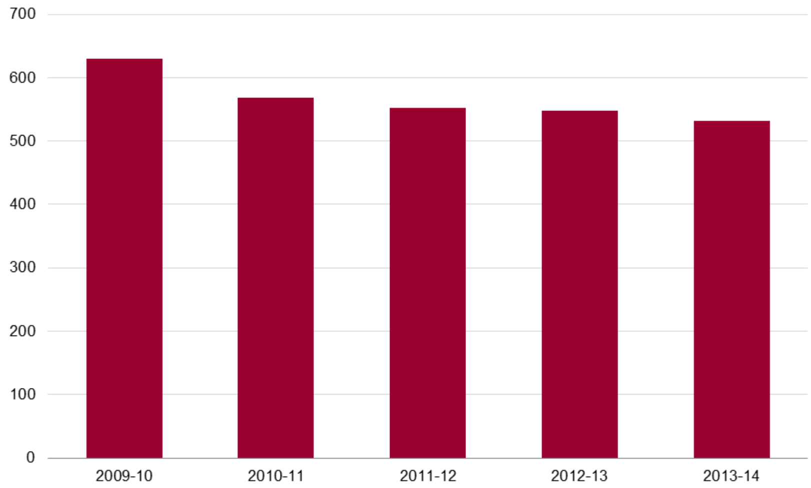
For the 2013–14 year, we issued 530 opinions, 18 fewer than the 548 opinions we issued during 2012–13. The reasons for this were:

- 74 entities were wound up or did not require an opinion this year
- 22 entities were exempted from audit by QAO (the opinion as issued by an approved auditor instead)
- 2 opinions expected to be issued during 2013–14 were issued early during 2012–13
- 8 audits were not finished at 30 June 2014

offset by:

- 75 opinions were issued for new entities, including the 17 new Hospital and Health Services (HHS)
- 5 additional opinions were issued for existing entities
- 8 opinions were issued on prior year statements.

Number of financial audit opinions issued 2009–10 to 2013–14



The number of financial audit clients has remained fairly stable over the past three years, but the mix has shifted, with the 17 new HHS adding significantly to our required audit effort, given their size and complexity.

Measuring cost

We recover the cost of our financial audits by charging an audit fee directly to our audit clients. We agree the fee with the client at the beginning of the audit and adjust it only if we identify any new risks and issues that change the audit scope or planned approach.

This year, we earned $37.5 million in financial audit fees, which was $2.1 million more than we received during 2012–13. Our annual fees were $2.8 million above our budget estimate of $34.7 million.

The extra financial fees received during the year arose in part from the additional revenue we received for the 17 new HHS. This net additional revenue of $2.1 million was not fully factored into our original budget. When the effect of this new revenue source is taken out, the total fee revenue we received from existing clients actually fell when compared to last year and the budget.

Our continuing clients paid less in total for our audit services.

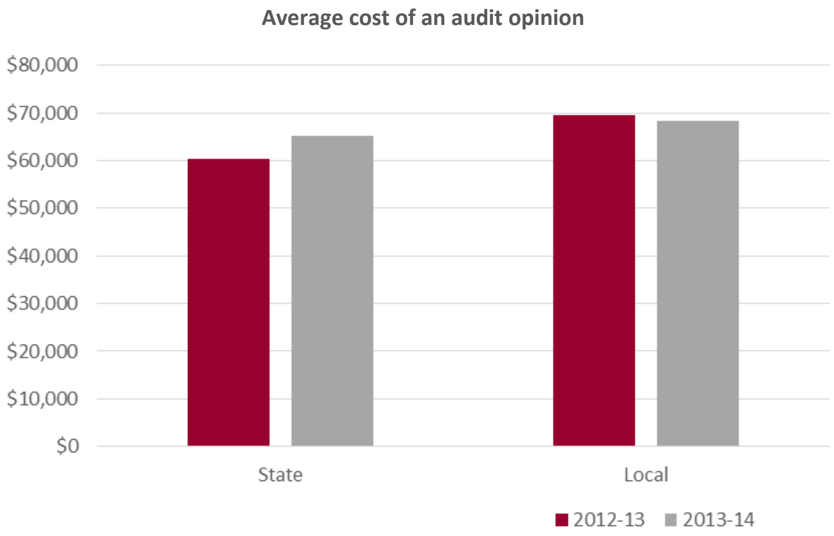
This reduction in total fee revenue across our client base takes on greater significance because, during the year, we also shifted the timing of some of our audit work on our 30 June 2014 clients to balance date, adding an extra $700 000 of revenue that would otherwise have been earned next year.

The shift in timing of our audit effort has been part of our strategy to better smooth our audit workload and to facilitate earlier and more efficient financial reporting by our clients. It has been achieved by working closely with our clients to help them adopt interim 'closes'; to identify and resolve major accounting issues before year end; and to undertake and finalise their major asset valuations at interim balance dates.

The success of our strategy is measured also by how much audit effort we have brought forward. In a year-on-year comparison, we were four per cent further ahead in our work at 30 June 2014 than we were at the same time last year.

Because our total annual fee revenue for any one year varies due to shifts in workload, a better measure of the cost effectiveness of our financial audit services is the life cycle cost of each audit, which typically spans two financial years. This metric reflects what our clients actually pay us for each of our annual financial audits.

We track the average cost of our financial audits of state and local government entities separately, due to the wide geographic dispersion of our local government clients and their different financial reporting risk profiles, which require different audit responses.



Note: average costs include recovery of our direct out of pocket expenses such as travel costs, which average $2 600 per audit.

The average cost per opinion for all state entities increased marginally by $4 800 (eight per cent) from last year, but this was largely due to the 17 new HHS which, on average, cost $205 000.

When the new HHS are excluded and we compare the average between years only on existing clients, it falls to $58 800. This is a reduction of $1 600 (2.7 per cent) in their fees.

Our local government clients also experienced a reduction, on average, of $1 300 (1.9 per cent) in their fees.

Our ability to reduce annual audit fees, against a background of increasing labour rates and fixed operating costs like rent, demonstrates the success of our strategies to rationalise our audit effort to focus on key financial reporting risks; to better leverage technology through computer assisted audit techniques; and to constrain our support costs.

Measuring timeliness

We measure the timeliness of our audit opinions based primarily on whether we issue our audit opinions within the statutory time frames set by legislation for our clients.

We set a target to issue 95 per cent of opinions within statutory deadlines. This year, we again beat our target by achieving 99 per cent. We helped our clients meet their statutory deadlines.

We also issued 44 per cent of our audit opinions within two months of the balance date and 63 per cent within three months. This latter metric is less useful to us as a benchmark because each jurisdiction has differing statutory reporting deadlines and not all jurisdictions audit local government financial statements.

Measuring quality

One proxy measure of the quality of our financial audits is feedback from our financial audit clients. While this measure provides useful information about the perceived quality of our services to clients, it does not directly demonstrate that the service objective has been achieved, so we use this measure as part of a balanced suite of measures. It is also useful in identifying areas of improvement in relation to stakeholder engagement.

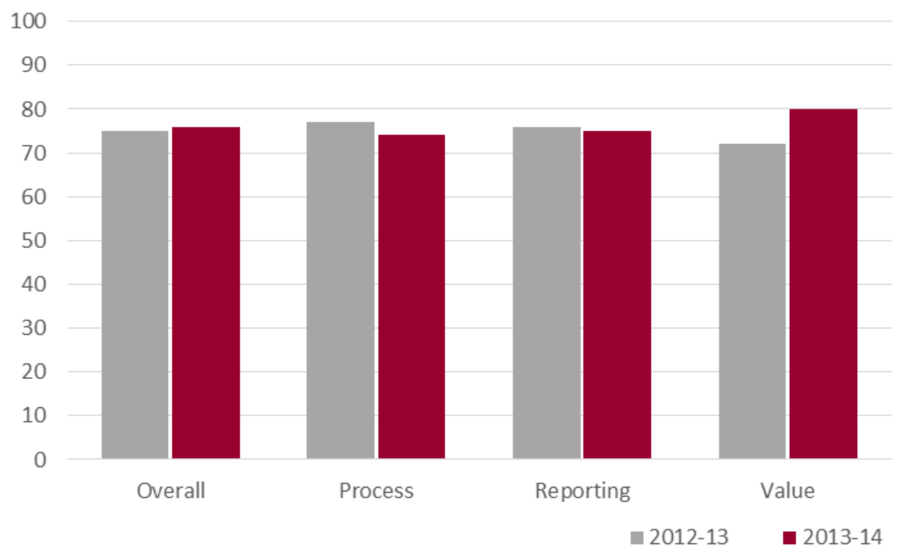
To ensure the objectivity and transparency of the results, our client surveys are conducted on our behalf by an independent research company.

In 2013–14, we received feedback from 203 clients (response rate of 73 per cent) about their 2012–13 or 2013–14 financial audits. State government entities, including departments, government owned corporations and statutory bodies, accounted for 75 per cent of respondents, with the balance being local government entities.

An overall performance index (OPI) is determined by measuring client satisfaction with our audit process, reporting and value to the client's financial operations and aggregating the results.

Our OPI score for 2013–14 was 76 index points (ip), consistent with 75ip last year, meaning respondents were generally positive about their experiences with our work.

Financial audit client satisfaction—overall and by component



The largest improvements were recorded in our clients' satisfaction with the value of our audits to their financial operations. As with the results of our surveys of our performance audit clients, we also achieved a rating of 80 index points (ip) for perceived 'Value' from our audits for the first time, which is our target for overall client satisfaction.

Most respondents in 2013–14 stated they valued the assurance they obtained from the audit of their statutory financial statements, while others valued our recommendations to them to improve their financial management and internal controls.

While it is pleasing to see that our strategies to better engage with our clients and to build our knowledge of their sector and business issues has translated into improved client satisfaction, we nevertheless continue to strive to achieve our target of 80ip. Our result this year still places us at the lower end of the results obtained by our state and territory peers, for which the average OPI was 78.7ip, and the best was 81.0ip.

Measuring impact

As a part of our financial audits, we assess and test aspects of our clients' systems of internal control. Where we identify control weaknesses or breakdowns, we raise these with entity management so that timely corrective action can be undertaken.

During the year, we identified and reported a number of internal control issues, including control issues at shared service providers. The controls over the reliability, availability and security of financial data remain the primary area of audit concern.

We raised 1 026 significant audit issues (1 242 during 2012–13) in our management letters to executive management of our clients. Of these, 605 (59 per cent) related to the local government sector (502 in 2012–13 or 40 per cent).

We also made 657 recommendations for improvement (976 in 2012–13). Of the total recommendations made, 89 per cent were accepted by the client, consistent with 2012–13.

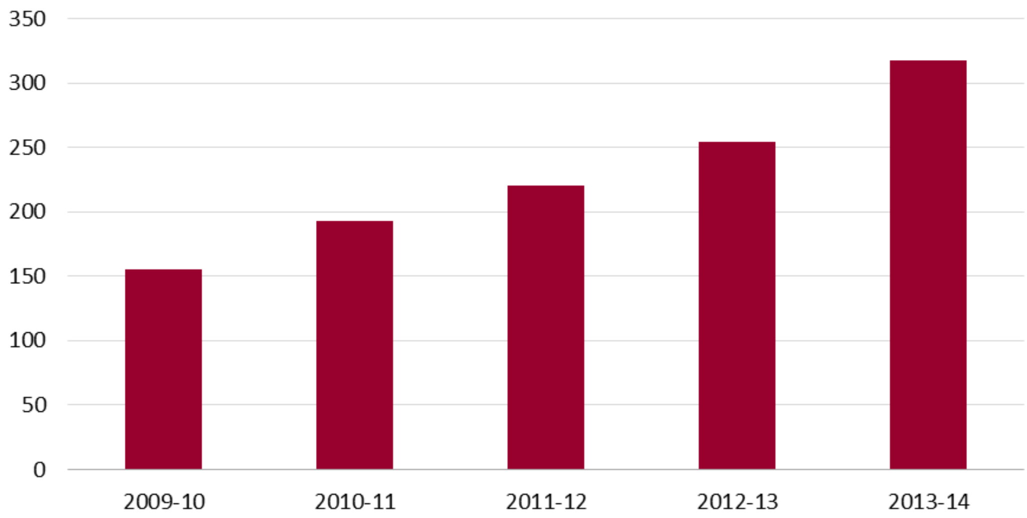
When we exclude our disagreements with management about their financial reporting which required us to issue a qualified audit opinion or an emphasis of matter, the percentage of other recommendations accepted increases to 91 per cent.

We followed up significant audit issues from 2012–13 and found 111 recommendations (nine per cent) were unresolved at year end (109 or eight per cent for 2011–12). Of these, 65 recommendations (five per cent) related to state entities (six per cent in 2012–13) and 46 recommendations (four per cent) related to local government entities (two per cent in 2012–13). These are mainly financial statement issues unresolved at the end of the financial year, but which did not materially affect balances in their financial statements.

Certifications

Certifications typically complement the work performed during the financial audit and therefore are done most efficiently by the external auditor. In many cases, it is a requirement by the funding agency that the external auditor provides such certification.

Number of other audit certificates issued annually 2009–10 to 2013–14



We issued 318 other audit certifications this year, 64 more than the 254 we issued during 2012–13. The increase in the number of other audit certifications issued during 2013–14 was mainly due to the new requirement to certify 71 local government financial sustainability statements.

Some certifications relating to matters such as acquittal of minor grant expenditure are incidental to the financial audit. While we track the number of these certificates that we issue, we do not track their costs separately. The cost of such acquittals are reflected in the financial audit fee.

Other certifications require significantly more resources to be applied and may stand apart from the financial audit process. The most significant of these non-incidental opinions relates to our ongoing acquittal of the State's Natural Disaster Relief and Recovery Arrangements (NDRRA) expenditure to the Australian Government, involving billions of dollars across a number of years.

We certified Queensland's claim for 2013–14 expenditure of $2.65 billion without qualification on 30 June 2014. Claims for $925 million over 2011–2013 financial years we previously qualified, as the pre-existing condition of assets restored or repaired during the relevant periods could not be determined. The financial returns for these years are currently being re-audited in consultation with the Queensland Reconstruction Authority. This process involves gathering additional audit information from all affected local governments and is expected to be completed during 2014–15. Claims for expenditure of approximately $6 billion are also due to be audited and acquitted by 31 March 2015.

This year, we provided separate audit opinions on Regulated Information Notices (RIN) required by the Australian Energy Regulator to be prepared by our clients in the energy sector. For the first time, we audited or reviewed 10 category analysis templates issued by the Australian Energy Regulator that covered historical financial and prospective non-financial regulatory information. We also issued audit opinions for Australian financial services licences (AFSLs), derivative risk statements and other regulatory requirements in the financial services and energy sectors.

We provide separate assurance reports on the systems of internal control implemented by the shared service providers we audit, reporting under ASAE 3402: *Assurance Reports on Controls at a Service Organisation*. We expect that this type of assurance reporting will increase as more government entities share processing and information systems. Similarly, we expect to see an increasing trend in obtaining controls assurance reports from outsourced service providers.

The fees we charged for these non-incidental audit certifications increased significantly last year by $1.9 million, up from $194 000 to $2.1 million. Our work on NDRRA ($926 000) and RIN ($909 000) were the two major components of this revenue uplift. This work is ongoing and will continue to affect our business in the next year.

Public sector service outcomes

Our financial audit services to the public sector aim to:

- improve the reliability of publicly reported financial and non-financial information, providing the public with greater confidence in the system of government
- strengthen entities' systems of financial control, reducing the risk of error and fraud.

Improved reliability of public reporting

We work closely with our audit clients to avoid, where possible, the need to qualify our audit opinion. This year, we issued 42 qualified opinions (eight per cent of opinions issued), compared to 15 qualified opinions in 2012–13 (three per cent).

The increase in the number of qualified opinions relates to 'category 2' water boards which were required for the first time to prepare general purpose financial statements. In prior years, they prepared special purpose financial statements which did not include important information on their asset values. Of the 42 qualified audits, 32 related to these 'category 2' water boards and, for these, we issued 20 disclaimer opinions and 12 qualified opinions.

When we exclude these boards, the number of qualified opinions for all other entities fell to 10, which is an improvement on last year. These qualified opinions related to local governments and their controlled entities.

We noted the improvement in the quality of financial statements and timelier financial statement certification in our report *Results of audit: State public sector entities for 2012–13* (Report 11: 2013–14).

Our report *Results of audit: Local government entities 2012–13* (Report 14: 2013–14) recommended developing an agreed methodology to value local government infrastructure assets and using professional valuers. The Department of Local Government, Community Recovery and Resilience is working with the Office of the Valuer-General to implement these recommendations.

The councils we audit included four councils de-amalgamated from 1 January 2014. We engaged, actively and collaboratively, with the Department of Local Government, Community Recovery and Resilience, Queensland Treasury Corporation, affected councils and transfer committees around the de-amalgamation process. De-amalgamated councils have acknowledged publicly the assistance we provided so the financial de-amalgamation process was timely and accurate.

We also recommended the department and Queensland Treasury Corporation help councils refine assumptions in their long term forecasts. Queensland Treasury Corporation is rolling out an upgraded local government financial forecasting tool.

We helped HHS complete their first financial reports within legislated frameworks. Of these 17 HHS, 12 also adopted our recommended *CFO Assurance Process* and more have indicated they will adopt this for the 2013–14 year end.

We worked with Queensland grammar schools to ensure compliance of their key management personnel disclosure requirements and we removed audit qualifications accordingly.

Strengthened systems of internal control

Our report on *Results of audit: Internal control systems* (Report 6: 2013–14) found most of the 20 government departments have improved the design of their financial reporting controls processes by improved documentation; earlier consultation with the Director-General and audit committees; and improved alignment of significant financial reporting risks with relevant account balances and key internal controls.

Our report *Results of audit: Hospital and Health Services entities 2012–13* (Report 8: 2013–14) identified that all HHS needed to improve their internal controls—in particular, around internal audit and risk management. Since 30 June 2013, all HHS have established an internal audit function. Of the 17 HHS, 13 HHS have matured their risk management processes, establishing risk management policies and procedures and risk registers.

Our report *Results of audit: Education sector entities 2013* (Report 16: 2013–14) found universities and grammar schools produce reliable and timely financial statements. Internal controls over most aspects of financial reporting are sound. Universities can strengthen controls over their financial delegations and procurement processes. Universities and most grammar schools are in a sound financial position.

Key challenges and priorities for 2014–15

During 2013–14, we continued to deliver our regular financial audit program while experiencing a significant, unplanned increase in the demand for our services.

We expect this demand to now become part of 'business as usual' and our challenge is to meet this greater demand in a way that maintains our flexibility to adapt quickly to any unplanned changes in our mandate.

Next year we intend to:

- further develop our data analytics capability and leverage it to improve our audit products
- invest further in our audit directors and managers through development programs focused on building technical expertise and analytical thinking skills
- improve audit scheduling, planning and resourcing to address workload issues
- improve our responsiveness in investigating referrals through the use of a dedicated, specialist team.

Business

Objective

Deliver efficient and effective support services

Strategies

- Optimise the support services required by the business
- Implement a program of systematic organisational performance reviews

Enabling outputs

The practice management, corporate, and other support services that maintain our operations

Outcomes

We perform equal to or better than our top-two ACAG peers

Support services

The delivery of our 'frontline' audit services requires back office logistic and technical support. Our Audit Policy and Standards division takes the lead in technical support, while our three corporate service divisions keep the office running.

Dimension	Measure	2012–13	2013–14
		Actual	Actual
Cost	Support services ($ million)	7.63	6.92
Quantity	Non-audit staff ratio (%)	28	25
	Non-audit cost ratio (%)	18	16

- Our organisation was restructured to better align our efforts and more efficiently deliver our services.
- The human resources and finance service divisions were reviewed for contestability purposes; this confirmed these services were more cost effective delivered in-house.
- Support services costs fell by nine per cent while maintaining service levels.

Our indicator of success: perform equal to or better than our top-two ACAG peers

- For our support services, we compare ourselves against Australian audit offices of similar size and structure. Our percentage of expenditure allocated to support services reduced by two per cent to 16 per cent; now within the range recommended in the QAO strategic review undertaken in 2010.
- Staff numbers employed in support services functions reduced by three per cent to 25 per cent of total staff from the previous year. This was achieved despite a continuing fall in total staff numbers.

Support services performance

We support our audit workforce by maintaining and updating the audit standards and methodologies they apply; and with expert technical advice and assistance on audit policy and accounting standards interpretation.

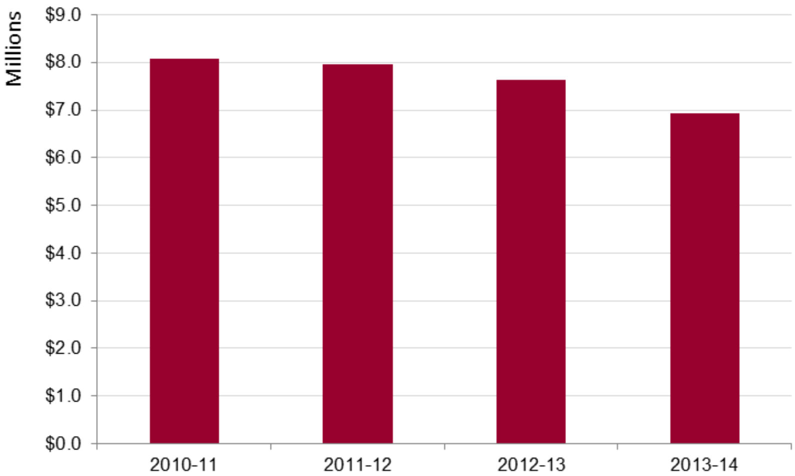
We provide practice management and corporate support for human resources, information technology and finance services. Our goal is to provide internal services that are fit-for-purpose for a large professional services organisation.

Cost of support services

Our total cost of support services for 2013–14 was $6.92 million, representing 16 per cent of our total expenditure (18 per cent in 2012–13).

We achieved more with less this year—our total revenue increased by 10 per cent, reflecting greater staff effort, while our cost to support this achievement fell by around nine per cent.

Support Services costs 2010–11 to 2013–14



A major contributor to cost reduction in our support services has been the optimisation of our corporate support functions which has steadily decreased the number of staff in the areas of finance, human resources and information services. The staff numbers in these areas remained at 12 per cent of all FTE for the year, meaning their numbers fell in direct proportion to the decline in total FTE for the organisation.

Optimising support services

We continued to optimise the support services required by the business by aligning our business model to achieve efficiencies and effectiveness of operations.

Clarifying services

Our leadership team defined our outputs in terms of a single 'whole of business' service model and clarified each service in terms of its customers, expectations, scope, targets and accountabilities for delivery.

Our support services help our auditors deliver the professional capability services to our clients and help the running of the business through our people, physical, financial and information service areas.

Support services				
Audit capability development	People	Physical	Financial	Information
• Management • Technical • Functional	• HR operations • Establishment management • Organisation development • Employee relations • Recruitment management • Workplace health and safety	• Equipment & stores management • Premises • Information and communication technology	• Management accounting • Statutory reporting • Accounts payable and receivable • Financial systems management • Payroll management • Procurement and contract management	• Records management • Information monitoring and reporting • Mail management

This has improved our support services and our overall business, realising efficiency gains and clarifying the scope of projects, optimising our operational performance reporting and serving as the basis for our corporate intranet refresh.

Aligning technology

The technologies that support our audit services limit efficient and effective operations, due to their approaching obsolescence, incongruity and labour drain. We developed a program to align and improve technology and benefits realised in 2013–14.

Production of our reports to Parliament

Our reports to Parliament require significant collaboration amongst our auditors. We identified a number of 'bottlenecks' in our report production process:

- only one auditor could edit a report at one time, adding delays and risking quality
- manual production scheduling caused delays
- outsourced printing added time and cost to production.

We implemented SharePoint 2013 in December 2013, so multiple auditors could collaborate concurrently. This shrunk our report production timeline and increased the number of reports we have been able to table in 2013–14. Feedback from our auditors is that it has greatly enhanced the 'bringing together' of our reports.

We concurrently implemented Project Server 2013 to plan, resource and schedule our reports to Parliament. Auditors have cohesive visibility of their involvement across all reports. This has maximised use of a centralised team we implemented as part of our organisation structure alignment.

We replaced our photocopiers with a new secure in-house print solution to print our reports to Parliament at a lower cost, faster. This reduced the printing device fleet by 89 per cent and increased security by access cards.

We are investing in the requisite skills and capabilities and expect to realise further efficiency benefits over coming years.

Mobility of audit workforce

In supporting a geographically dispersed client base across Queensland, it became clear we needed to free up our auditors with better access to our information technology networks, data and telephony. In 2013–14, we refreshed our mobile technology and expanded its use to our financial and performance auditors to give them full access to our audit tool suite and support services at any location.

We rationalised our permanent presence at 17 client sites by terminating redundant physical network access and retired 'pooled' wireless cards, providing significant net ongoing cost savings and reduced overhead.

Intranet refresh

Supporting our organisation structural alignment to remove 'silos' and increase cross-organisation collaboration, we refreshed our corporate intranet both in design, aligning to our business services model, and technology, by migrating to SharePoint 2013.

We also introduced corporate newsfeeds and blogging as a means of improving our internal business communication.

Our teams have aligned their processes, reference documents and information around the services that they provide, giving our staff better access and efficiency in service delivery.

Auditing tools

We updated our audit methodology tool set for our financial audits to better align with the requirements of the Australian Auditing Standards. This involved improving links between entity information systems and financial audit areas; integration of risk controls with audit procedures; and provided more reporting capability.

Targeting our reporting and measurement

In centralising our reporting to the management accounting team within Finance Services as part of the organisation structural alignment:

- we redesigned our financial reporting outputs around our business services model and strengthened our revenue and expense forecasting and budgeting through activity based approaches
- we enhanced audit practice reporting to monitor audit operations performance better
- we refined human resource reporting to meet our needs better
- our operational performance review reporting process and outputs are now more efficiently produced and have been aligned to our business services model.

Following these improvements to our management reporting, we have started automating the reporting processes from a data repository that holds the 'single point of truth' and expect to realise the benefits of this in improved consistency of information in the next financial year.

Recordkeeping

We are committed to quality recordkeeping to support decision making. Effective record and information management is vital to information quality. We manage information access and storage securely, including sensitive information related to financial and performance audits.

During 2013–14, we undertook activities to comply with the *Public Records Act 2002* and the recordkeeping standards and guidelines issued by lead agencies. These included:

- ongoing quality assurance activities, including data integrity of the electronic records management system
- reviewing and approving our retention and disposal schedule
- implementing a recordkeeping audit program.

We also reviewed, rationalised and updated information management policies, including a suite of policies related to records management, intellectual property and information security.

Information management personnel worked closely with the Information Services project team to refresh the electronic document record management system and align it with our overall technology and business architectures.

We continued educating our workforce on records management protocols with presentations on recordkeeping responsibilities in our staff induction program and regular communication throughout the year to all staff about recordkeeping and other information management requirements.

Key challenges and priorities for 2014–15

During 2013-14, we have taken significant steps to improve our support services. The key challenge to our business continues to be the constraint of our 'legacy' systems affecting our ability to operate in a more integrated and cost effective way.

Next year we intend to:

- invest further in data analytics to improve the efficiency and effectiveness of audit delivery
- refresh our legacy systems, enabling us to work in a more integrated and cost effective manner
- leverage our recent investment in SharePoint collaboration tools.

Workforce

Objective

Maintain a highly motivated, committed and competent workforce

Strategies

- Focus on training, development and performance management
- Optimise our mix of staff and contracted resources
- Strengthen our workforce management practices to engage the required skills

Enabling inputs

Our professional audit and support staff who work together to deliver our services

Outcomes

Increased staff qualifications, relevant experience and improved staff satisfaction

Capacity and capability

Our success as a professional services organisation relies on our workforce's capacity to meet the service demands of our clients; and our workforce's capability to deliver audit services efficiently and effectively that meet quality standards and are valued by each client.

Dimension	Measure	2012–13	2013–14	
		Actual	Target	Actual
Capacity	Effective headcount (number)	221	205	215
	Value of audits outsourced (%)	35	33	35
Competence	Postgraduate qualification (%)	63.9	80.0	64.3
	Development (hours)	52.3	40.0	50.5
Engagement	Satisfaction (%)	50	>50	52
	Separation (%)	17.1	<15	15.1
Wellbeing	Unplanned absences (days)	13.1	<9	9.8
	Injuries (days lost)	12.5	0	0.2

- Headcount numbers at year end include short term contractors to meet peak demand. Our underlying workforce average head count for the year is around 190 staff.
- Almost three-quarters of our audit staff are professionally qualified accountants; more are studying a postgraduate qualification.
- Our investment in professional development has become more targeted as we improved our understanding of staff training needs.
- Two-thirds of our employees took the opportunity to respond to the public sector employee opinion survey and have their say about the workplace and job satisfaction.
- Unplanned absences have been monitored closely by senior leaders and have trended down.

Our indicator of success: Increased staff qualifications, relevant experience and improved staff satisfaction

- We have a better qualified and skilled workforce than last year. We developed and implemented a technical competency framework and related training for financial auditors as part of our wider learning strategy and, for the first time, extended it to our graduates.
- Our employees are more satisfied with their workplace and more engaged. The results of the public sector employee opinion survey showed a marked improvement, ranking us in the top two performance bands for 12 out of 16 workplace factors.
- We have healthier workers who access their leave regularly and our workplaces have stayed safe.

Workforce capacity

Our success as a professional services organisation relies on our workforce's capacity to meet the service demands of our clients including:

- an increasing number of reports to Parliament delivered throughout the year
- a consistently high number of audit opinions for around 550 state and local government entities, with peak demand in July and August each year due to statutory reporting requirements.

To meet this demand, our workforce is organised to deliver a mix of in-house audits—resourced by full time and part time employees and supplemented with contractors in peak demand periods—and contracted-out audits, resourced by professional services firms as part of the strategic outsourcing of our financial audits.

We also source subject matter expertise from professional services firms as required for performance audits.

Workforce management

Workforce management is focused on the effective and efficient management of our internal resources. We determine our workforce requirements during our corporate planning activities and manage in line with these requirements throughout the year.

We manage our workforce in terms of:

- effective headcount—important when allocating our staff (including contractors) in terms of managerial span of control
- effective full time equivalents (FTE)—important when allocating our workload.

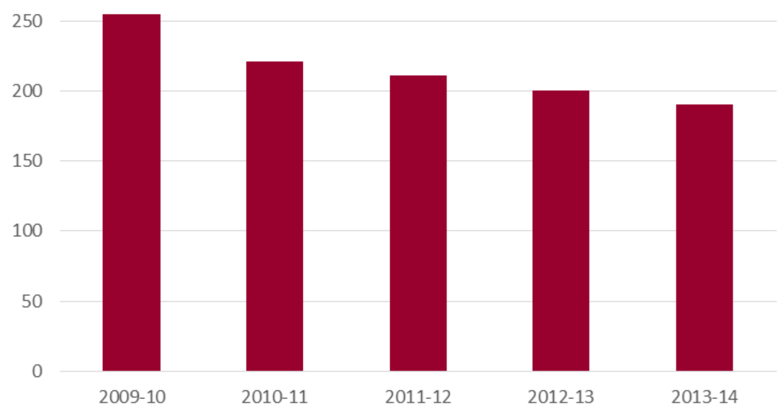
A further workforce measure required for public sector reporting is Minimum Obligatory Human Resource Information (MOHRI) FTE (excluding contractors).

Over the past four years, we have reduced our workforce as we rationalised the audit effort required in our financial audit program and as we streamlined our audit support areas. Both our FTE measures at 30 June each year have reduced significantly since 2009–10.

Workforce numbers at 30 June 2014

Measure	2012–13	2013–2014
Effective headcount	221.0	215.0
Effective FTE	213.9	209.0
MOHRI FTE	191.2	181.9

Average effective FTE 2009–10 to 2013–14



While we had 209 FTE at year end, our average effective FTE for the year has reduced significantly since 2009–10 by 65 FTE: from 255 in 2009–10 to 190 in 2013-14.

Equity and diversity

We support the Queensland Government's commitment to promote and deliver programs for target groups. We ensure equal opportunities through the *Queensland Multicultural Action Plan: 2011–2014* and Queensland Government Reconciliation.

Our workforce includes people from culturally and linguistically diverse backgrounds. In the Equal Employment Opportunity statistical bulletin published by the Public Service Commission in June 2013, 29.5 per cent of our staff identified themselves as coming from a non-English speaking background. We are the highest ranked Queensland public service agency under diversity.

All equity and diversity measures have remained fairly stable over the last five years.

Target groups at 30 June 2014

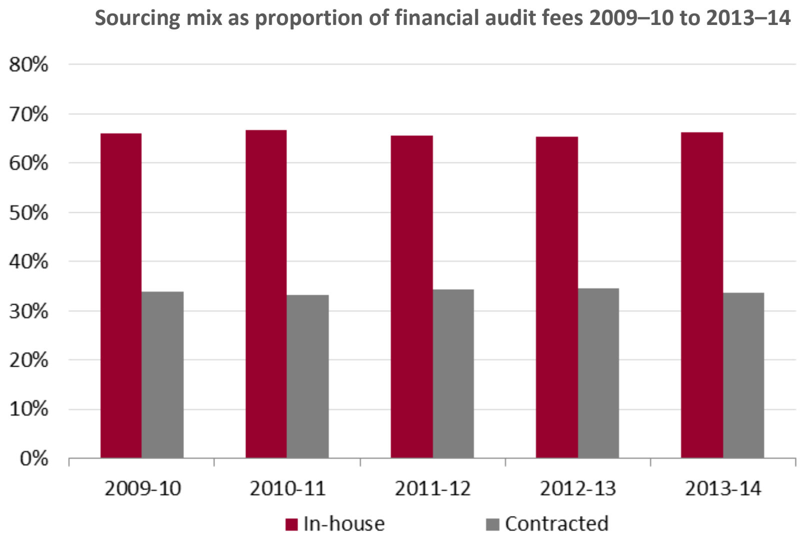
Target group	2012–13	2013–14
Women (%)	46.2	48.7
Non-English speaking background (%)	26.9	31.2
People with a disability (%)	7.9	5.8
Aboriginal and Torres Strait Islanders (%)	—	0.5

Sourcing strategy

We deliver our financial audit mandate through a combination of in-house audits and contracted-out audits. The cost competitiveness of contracted-out audits delivered by audit service providers is assured through our competitive tender processes.

Each year, we review our resource mix to balance our operations in a way that achieves appropriate economies of scale and retains sufficient in-house knowledge and expertise in each sector.

For 2013–14, we used our own staff on 60 per cent of financial audits, which accounted for 65 per cent of audit fees. This ratio has remained largely unchanged over the past five years.



This year, we improved our performance audit workforce capacity by establishing a panel of suitably qualified and experienced contractors to provide services to support the work of the Performance Audit Services division.

During 2013–14, we used half of the 16 contractors on our panel, representing 11 per cent of total performance audit costs. Services procured included data analysis, project evaluation, benefits realisation, performance measurement and audit topic planning.

Workforce capability

As the junction between ability and capacity, we consider our workforce capability in terms of our employees' competence, commitment and wellbeing. By monitoring our capability, we position our workforce with the skills, drive and welfare to contribute their fullest potential to our organisational goals.

Competence

Our ability to deliver our mandate depends on the knowledge and skill of our employees. We invest in our employees by providing:

- study assistance, supporting ongoing learning
- targeted technical and non-technical development programs for personal growth
- technical competency frameworks that clarify career progression and expectations
- clear and continuous feedback to help people perform their work and build on improvement
- secondments between government departments for job variation and skills development.

A foundation *Workforce Plan 2012–14* is under review to align the workforce with new business strategies. The plan for 2013–15 will ensure we have suitable, capable and skilled staff to deliver business outcomes while accommodating a dynamic employment market and public service.

Professional qualifications

Our investment in both technical and soft skills in our people remains a foundation principle. We require our financial audit staff to hold professional accreditation and we encourage other qualifications as an investment in employees' careers. Employees studying for a qualification can attend a monthly study group during business hours to share experiences and coach one another.

Staff qualifications

Postgraduate qualifications	2012–13	2013–14
All staff (%)	63.9	64.3
Audit staff (%)	72.2	74.3

This year, the proportion of our total staff with postgraduate qualifications increased from 63 per cent to 64.3 per cent. This proportion for audit staff increased to 74.3 per cent, as we build toward our internal target of 85 per cent for this group.

Staff training and development

Training needs are assessed via manager and self-assessments, the results of quality reviews and in alignment with organisation priorities. Technical training focuses on accounting and auditing standards, audit tools, methodologies and development opportunities identified through quality assurance reviews. Technical, non-technical and leadership development is delivered by both in-house and external providers.

During 2013–14, our Human Resources and Audit Policy and Standards divisions developed a technical competency framework which aligns with the International Education Standards (IES) issued by the International Accounting Education Standards Board—specifically, IES 8 *Competence requirements for audit professionals*. This framework provides a professional development pathway from graduate to specialist, focusing on high standards of professionalism. We will develop associated training for all levels by 2016.

Investment in professional development

Our targets for professional development in each division of our organisation are based on a training needs analysis. Our target for financial auditors currently is to average more than 50 hours each year. This includes more than 100 hours invested in graduates.

In 2013–14, we again exceeded this target, averaging 50.5 hours. Professional development activities included external training and workshop attendance, internal training and presentations from industry specialists invited to speak to staff on areas of interest relevant to the delivery of our services.

Our investment in professional development included $11 000 supporting seven employees to complete undergraduate study programs and $25 000 supporting 11 employees to complete postgraduate qualifications.

This year, we introduced a policy to reimburse professional membership fees to promote professionalism in the organisation. Under this policy, we reimbursed $44 000 to 75 employees.

Commitment

Flexible working arrangements

We respect each employee’s need to balance his or her work and home lives and support flexible work practices. Employees have access to a number of initiatives including reduced / compressed hours, accumulated time (banked time), leave at half pay and purchased leave. We also have arrangements such as telecommuting and part time work. As at June 2014, 11.7 per cent of permanent employees undertook formal part time arrangements (10.3 per cent in 2012–13).

Staff attitude

We participated in the *Whole of Government Employee Opinion Survey* coordinated by the Public Service Commission in May 2014. The survey results were summarised by 16 workplace factors. We improved in 15 of the 16—one workplace factor remained the same as previously surveyed. For eight of the 16, our results were in the top eleven of the 53 agencies that participated in the survey.

Decision making	Your senior manager	Workplace change	Collaboration
15 per cent	10 per cent	9 per cent	7 per cent

Overall engagement increased by two points to 52 per cent, and job engagement and satisfaction increased by eight points to 75 per cent.

We recognise there is room to improve our employee engagement and there are many benefits in doing so. We are consulting and planning with our workforce to deliver more targeted initiatives to improve in this area.

Separation rates

The rate of voluntary separation for permanent employees during 2013–14 was 10.4 per cent. Overall turnover for permanent employees was 15.1 per cent (compared with 17.1 per cent in 2012–13) and includes separations initiated by employees and by the organisation.

Employees typically cited age retirement or better job opportunity related to remuneration or gaining broader experience as the reasons for separation.

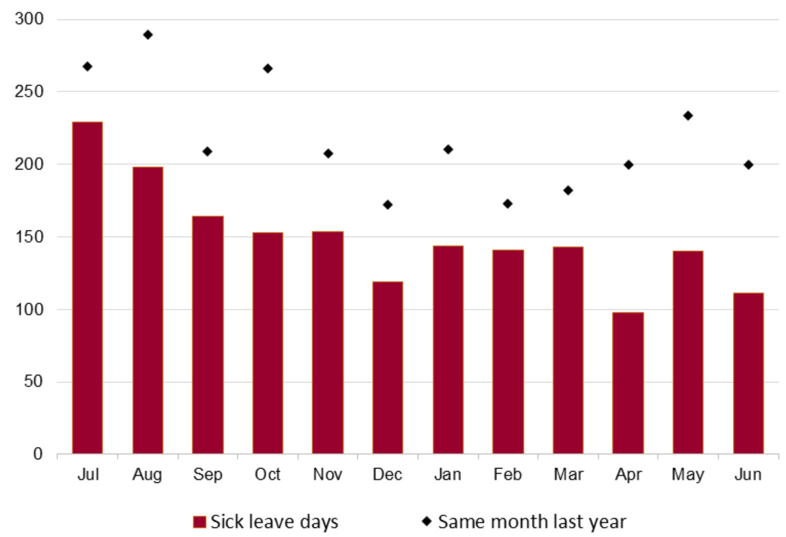
This year, we initiated six redundancies at a total cost of $626 000. Employees who did not accept an offer of a redundancy were offered case management for a set period of time, where reasonable attempts were made to find alternate employment placement.

Wellbeing

Unplanned absences

Sick and carer's paid leave in 2013–14 averaged 9.8 days, compared with 13.1 days per employee in 2012–13. This reduction equates to 2.7 years of additional productivity and aligns with efforts to assist and support both managers and employees in the management of sick leave and other leave types.

Total sick leave days July 2013 to June 2014

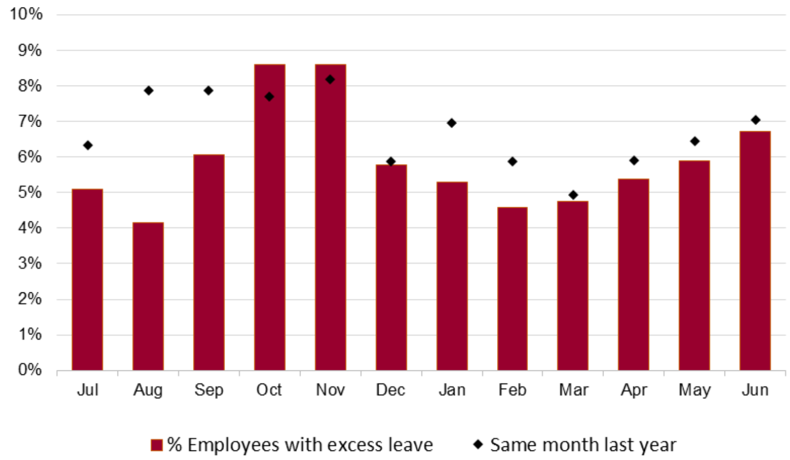


Sick leave is monitored monthly via internal corporate reporting to the Executive Management Group (EMG).

Planned absences

Recreation leave balances increase in May to September each year as a result of the seasonal audit work cycle and the legislative time frames for audits. We monitor recreation leave closely so employees have appropriate and achievable plans in place to reduce their balances before the start of the next audit cycle.

Excess recreation leave July 2013 to June 2014



Workplace incidents and injuries

The number of our workplace incidents has remained stable: there were nine reported matters in 2013–14, compared with eight reported matters in 2012–13. We have had two WorkCover claims lodged for this period, which is an increase from the one claim lodged in 2012–13.

During 2013–14, an internal audit of our Work Health and Safety (WHS) management systems was completed and the EMG accepted a number of recommendations for action. We have made significant progress to enhance the WHS system in consultation with workforce representatives.

We work closely with WorkCover and QSuper to provide employees with assistance and early intervention strategies. These strategies support employees and help to minimise claims. We engage proactively with teams, managers, employees and medical practitioners when employees return to the workplace.

Health and wellbeing program

To help our employees develop and maintain healthier lifestyles, we encourage participation in our health and wellbeing program. During 2013–14, as part of this program, 84 employees received flu vaccinations (82 employees were vaccinated in 2012–13).

Key challenges and priorities for 2014–15

During 2013–14, we undertook a range of activities to build organisational capacity and improve our capability. Our key workforce challenge is to ensure we have the right culture, conditions and focus on capability to attract and retain the skills and experience we need as a professional services organisation.

Next year we intend to:

- engage with our staff to refresh our culture and values
- deliver initiatives focused on enhancing work health, safety and wellbeing for our workforce
- invest further in our managers through development programs focused on building employee coaching and managing skills
- develop technical competencies for the performance audit function to mirror those we developed for our financial auditors
- continuously recruit for financial auditors to maintain access to the skills and experience required throughout the year
- review our conditions of employment to improve our market competitiveness.

Performance

Objective

Recover costs over the medium term through the efficient discharge of our mandate, while maintaining funding separation between our two sources of revenue

Strategies

- Set competitive client fees
- Manage our work in progress within reasonable levels
- Collect debts and pay our creditors promptly
- Continue efficiency improvements across our business

Outcomes

Financial sustainability

Our financial performance

Summary

To ensure our financial sustainability, our goal is to recover costs over the medium term through the efficient discharge of our mandate, while maintaining funding separation between our two sources of revenue.

To achieve this through our financial framework, we focus on:

- setting competitive client fees
- managing our work in progress within reasonable levels
- collecting debts and paying our creditors promptly
- continuing efficiency improvements across our business.

Financial summary for 2013–14

Item	2012–13	2013–14		
	Actual	Plan	Actual	Variance to plan
Audit fees	35.594	34.891	39.596	4.705
Appropriation revenue for services	6.415	6.558	6.430	(0.128)
Other revenue	0.304	0.387	0.398	0.011
Total revenue	**42.313**	**41.836**	**46.424**	**4.588**
Employee expenses	22.358	23.200	21.476	1.724
Contract audits	12.824	12.690	14.057	(1.367)
Rent and office services	2.403	2.441	2.485	(0.044)
Other supplies and services	4.634	3.264	5.358	(2.094)
Other expenses	0.362	0.144	0.438	(0.294)
Depreciation and amortisation	0.125	0.180	0.133	0.047
Total expenditure	**42.707**	**41.919**	**43.947**	**(2.028)**
Operating surplus (deficit)	**(0.393)**	**(0.083)**	**2.477**	**2.560**
Total assets	**9.348**	**8.896**	**11.699**	**2.803**
Total liabilities	**3.353**	**2.937**	**3.227**	**(0.290)**
Net assets	**5.995**	**5.959**	**8.472**	**2.513**

Operating result

We achieved a net operating surplus of $2.477 million, compared to a budgeted loss of $83 000.

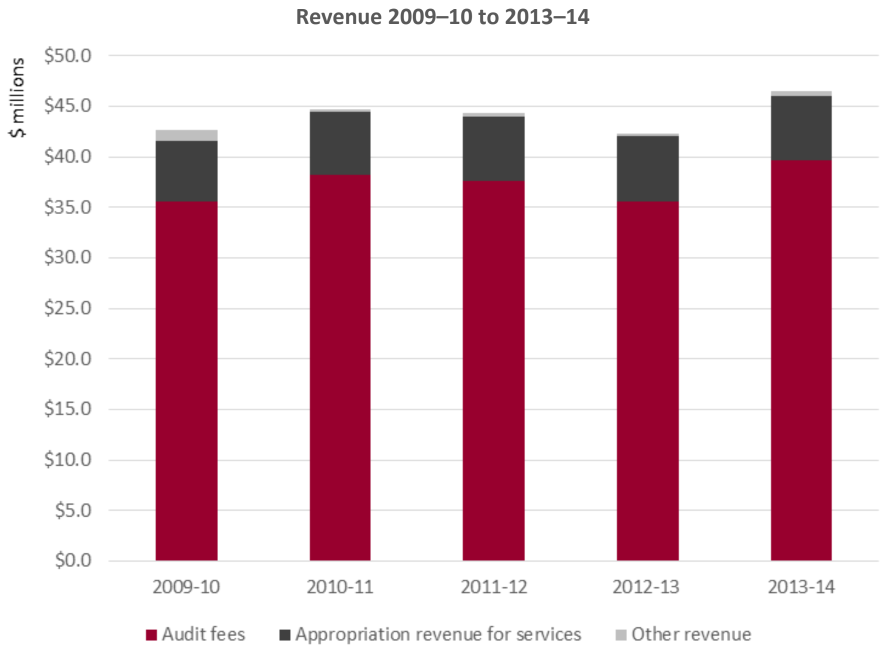
Most of this surplus is attributed to additional financial audit workload delivered during 2013–14, which was achieved by much higher utilisation of audit staff. We achieved more with less.

Both the extra fee revenue and higher staff productivity are not sustainable in the longer term. We plan therefore to use this 'windfall' operating surplus from 2013–14 to fund two large necessary investments. The first is the scheduled replacement of our laptop fleet. The second is the replacement of our core information technology systems for finance, time recording and practice management. These systems have reached the end of their useful life and are no longer able to be upgraded.

Revenue analysis

Total revenue for 2013–14 was $46.424 million, an increase of $4.110 million (9.7 per cent) on the prior year, largely due to higher than planned audit and certification fee revenue of $4.002 million (11.2 per cent).

Appropriation revenue for services and other revenue were also slightly higher this year.



Compared with the published budget in the 2013–14 service delivery statement, audit fees were higher by $4.705 million (13.5 per cent). This was partly due to bringing forward audit work we would normally have undertaken in 2014–15 into 2013–14, as part of our workload 'smoothing' strategy; but mainly because of new unplanned revenue from the acquittal of National Disaster Relief and Recovery Arrangements (NDRRA) expenditure and other non-incidental certifications, and from the audits of the new Hospital and Health Services (HHS).

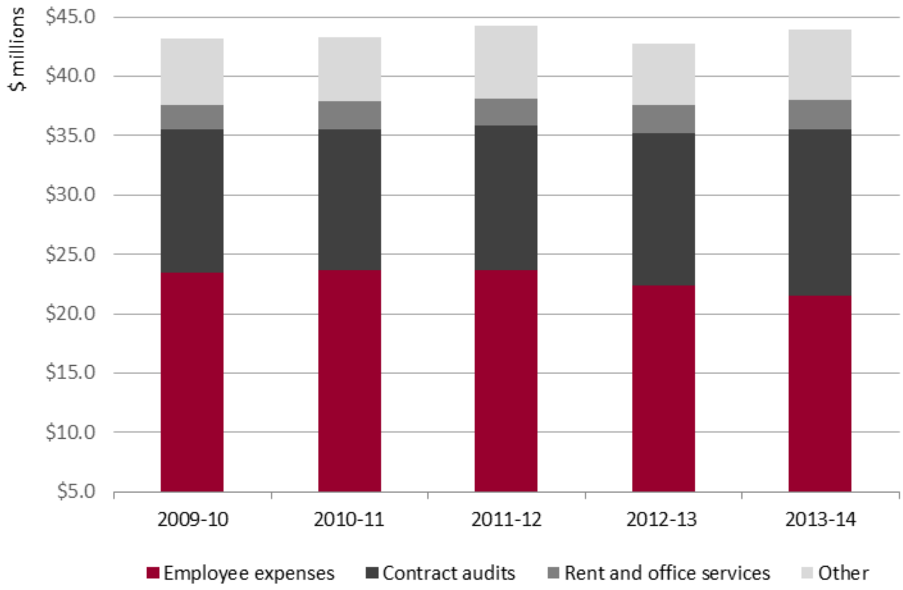
Appropriation revenue for services increased this year by $15 000 (0.2 per cent) to $6.430 million, from the previous year. This funding supports the operations of the statutory Office of the Auditor-General, the conduct of performance audits and services to the Parliament, including reports and advice and assistance.

Other revenue included services received below fair value from the Queensland State Archives, Integrated Public Sector Audit Methodology (IPSAM) licence fees and other general recoveries.

Expenditure analysis

Total operating expenses increased this year by $1.24 million (2.9 per cent) to $43.95 million, compared with $42.71 million in 2012–13.

Operating expenditure 2009–10 to 2013–14



Our expenditure is predominantly labour-related, being employee expenses and payments to audit service providers on our contracted-out audits. Together, these represent 80.8 per cent of total expenditure.

This year, the decline in employee expenses of $882 000 (3.9 per cent) was offset by the increase in other supplies and services expense of $724 000 (15.6 per cent). Contract audits increased by $1.233 million or 9.6 per cent.

The decrease in employee expenses was achieved by reducing staff numbers across audit and non-audit staff, offset by one-off payments totalling $626 000 for voluntary redundancy and retirements. The reduction was also partially offset by enterprise bargaining increases for both senior and general staff.

Key categories within other supplies and services with significant variances to the previous year were employment agency personnel which increased by $371 000 (27.2 per cent) to support the additional audit workload; and consultants and expert advice costs which increased by $590 000 (74.7 per cent), representative of the increased use of subject matter experts in the Performance Audit Services division.

Financial position

Assets and liabilities

Our financial position is sound.

Our assets are largely represented by our bank account balance and accounts receivable for services performed, including our work in progress.

At the end of the financial year, our total assets were valued at $11.699 million, an increase of $2.351 million as compared to the previous year. This was due primarily to higher receivables and work in progress of $2.078 million and cash assets of $280 000, as a result of higher audit fees.

Our total liabilities at 30 June 2014 were valued at $3.227 million which is consistent with the previous year at $3.353 million.

Financial sustainability

Our financial sustainability ratios indicate our financial health is sound and demonstrate we are managing our financial risks.

Net income ratio

Net income ratio measures our ability to meet operating expenses through operating revenue (net operating result to total revenue percentage).

Measure	2009–10	2010–11	2011–12	2012–13	2013–14		Five year
	Actual	Actual	Actual	Actual	Plan	Actual	Average
Net income ratio (%)	(1.2)	3.3	0.3	(0.9)	(0.2)	5.3	1.4

A positive ratio indicates a surplus for the year, while a persistent negative ratio (indicating a deficit) can be concerning.

As a not-for-profit entity, our long term average target is zero (that is, break-even). Periodically, we need small surpluses to set aside funds to invest in our human capital and for future asset replacement.

This year, we achieved a net income ratio of 5.3 per cent which we plan to invest in replacing our laptop fleet and our core information technology systems for finance, time recording and practice management during 2014–15. These systems have reached the end of their useful life and are no longer able to be economically upgraded.

Current ratio

Current ratio measures our ability to pay our short term liabilities using short term assets (current assets to current liabilities percentage).

Measure	2009–10	2010–11	2011–12	2012–13	2013–14		Five year
	Actual	Actual	Actual	Actual	Plan	Actual	Average
Current ratio (%)	2.90	3.89	4.04	3.54	3.99	4.70	3.81

A current ratio of two or more is desirable, making it less likely that we will experience short term cash flow problems so our business will remain financially sustainable.

Our current and average ratios show we have a very strong ability to repay our short term debt with our available short term funds.

Own-source revenue ratio

Own-source revenue ratio measures the proportional reliance on revenue from financial auditing fees (audit fees to total revenue percentage).

Measure	2009–10	2010–11	2011–12	2012–13	2013–14		Five year
	Actual	Actual	Actual	Actual	Plan	Actual	Average
Own-source revenue ratio (%)	83	88	85	84	83	85	85

Our financial audit services must be self-reliant through charging fees to the entities to which we provide our audit opinions. This ratio shows that we have an enhanced capacity to manage directly our own financial sustainability.

Capital replacement ratio

We do not compute a capital replacement ratio as we do not have any significant infrastructure assets that require ongoing renewal and replacement, nor do we have significant capital revenues. We fund the replacement of our information technology assets through our operating surpluses.

Efficiency of operations

Fee rates

The fees we charge for our financial audit services and the cost of our parliamentary services take account of the full costs of our operations—both the direct costs of audit staff and audit contractors and indirect costs including support staff, office accommodation and systems.

We use the full costs of our operations to establish an hourly charge out rate for our auditors. In turn, this rate is applied to expected audit effort to arrive at audit fee and cost estimates.

Tracking our hourly charge out rate over time indicates how well we control the cost of our inputs and is a proxy measure of the economy of our operations.

We have not increased our scheduled hourly rates since 1 October 2011. Our actual average hourly charge out rate for parliamentary and audit services decreased from $156.80 in 2012–13 to $145.97 (6.9 per cent) in 2013–14.

From 1 July 2014, our average hourly rate will reduce by three per cent, reflecting lower employee costs from payroll tax exemption.

Comparison of charge out rates

Measure	2012–13	2013–14	
	Actual	Plan	Actual
Average charge out rate ($/hr)	156.80	154.68	145.97

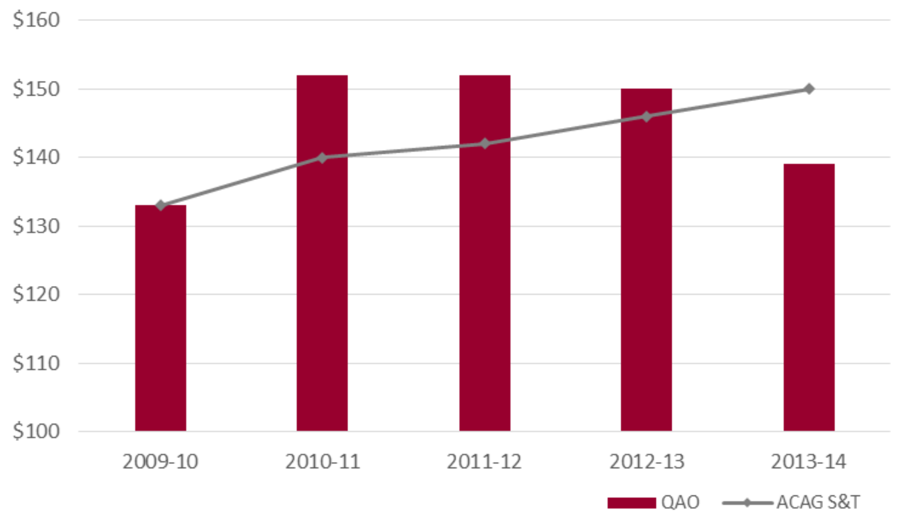
These weighted average fee rates are a direct measure of our efficiency and economy, because they reflect our efforts to reduce our total costs, while maintaining the professional audit workforce we require to deliver our mandated services.

The significant reduction in our actual average fee rate we achieved this year demonstrates that our efforts to constrain costs have had a real and positive effect on our operational efficiency.

Our fee benchmarking with the private sector, through our tendering for outsourced financial audit services, informs us that our hourly rates are very competitive. We benchmark also with other state and territory audit offices (ACAG S&T) and we compare favourably to most other jurisdictions.

The average fee rate used for ACAG benchmarking is lower than our in-house calculation, to allow for better 'like for like' comparison between jurisdictions.

Average hourly fee rates 2009–10 to 2013–14



The clear trend over the past three years has been a decline in our fee rates, while almost all of our peers have seen their average rates steadily increase.

Staff productivity

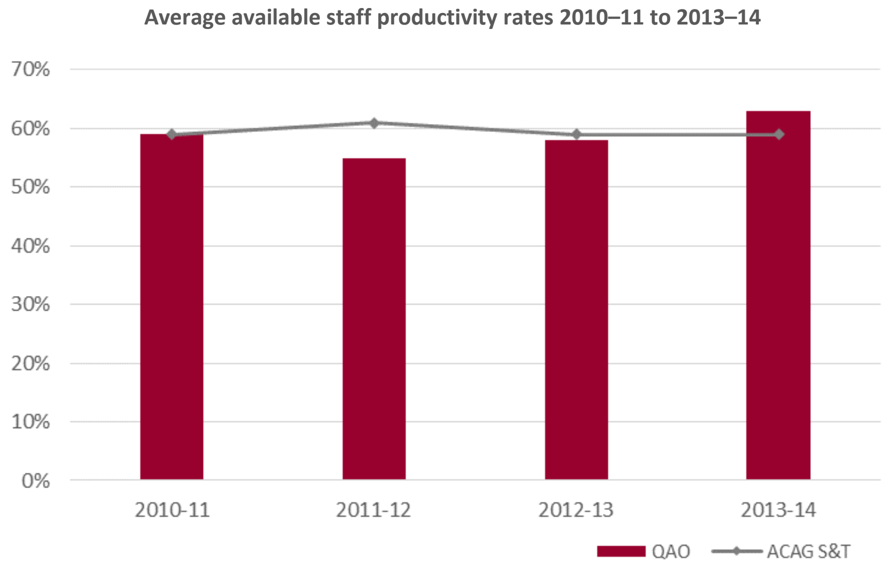
In addition to cost control, the other reason for our lower fee rates is the increasing productivity of our workforce. We measure this by determining the rate at which we convert our inputs into outputs—primarily the proportion of paid staff hours that are directly charged to providing our audit services.

The proportion of staff hours charged to audit services across QAO increased by 4.6 per cent (49.4 per cent in 2012–13). This means our staff were more productive as collectively they spent more of their paid time auditing and less on administration and other non-chargeable activities.

Proportion of all QAO staff hours charged to audit activities

Measure	2012–13	2013–14	
	Actual	Plan	Actual
Total paid staff hours charged to audit activities (%)	49.4	52.4	54.0
Available staff hours (excluding leave) charged to audit activities (%)	59.8	59.9	65.4

We benchmark our staff productivity also against the other Australian state and territory audit offices. The most relevant measure is based on how productive staff are when paid to be at work; their available hours, after excluding leave. In 2013–14, this was 63 per cent which equalled the most productive jurisdiction.



Our workforce productivity has grown steadily over the past three years, against a slight decline in the average for the other state and territory audit offices.

Financial statements

QAO FINANCIAL REPORT

Index

General Information

These financial statements cover the Queensland Audit Office (QAO). QAO is an office established under the *Auditor-General Act 2009* to support the Auditor-General in providing independent public sector auditing services and reporting.

For financial reporting purposes, QAO is a department in terms of the *Financial Accountability Act 2009* and is subsequently consolidated into the Report on State Finances of the Queensland Government.

The head office and principal place of business is:

Level 14, 53 Albert Street
BRISBANE QLD 4000

A description of the nature of the QAO's operations and its principal activities is included in the notes to the financial statements.

For information in relation to QAO's financial report please call (07) 3149 6000, email enquiries@qao.qld.gov.au or visit the QAO's internet site www.qao.qld.gov.au.

Queensland Audit Office ***Statement of Comprehensive Income*** *for the year ended 30 June 2014*	Notes	2014 $'000	2013 $'000
Income from Continuing Operations			
Revenue			
Audit fees		39 596	35 594
Appropriation revenue for services	2	6 430	6 415
Other revenue	3	398	304
Total Revenue		**46 424**	**42 313**
Gains on disposal of assets	4	..	1
Total Income from Continuing Operations		**46 424**	**42 314**
Expenses from Continuing Operations			
Employee expenses	5	21 476	22 358
Supplies and services	7	21 900	19 861
Depreciation and amortisation	8	133	125
Finance/borrowing costs		..	1
Other expenses	9	438	362
Total Expenses from Continuing Operations		**43 947**	**42 707**
Operating Result from Continuing Operations		**2 477**	**(393)**
Other Comprehensive Income		**..**	**..**
Total Comprehensive Income		**2 477**	**(393)**

The accompanying notes form part of these statements.

Queensland Audit Office ***Statement of Financial Position*** *as at 30 June 2014*	Notes	2014 $'000	2013 $'000
Current Assets			
Cash and cash equivalents		2 547	2 267
Receivables and work in progress	10	8 519	6 441
Other current assets	11	336	359
Total Current Assets		**11 402**	**9 067**
Non-Current Assets			
Plant and equipment	12	197	151
Intangible assets	13	90	120
Other financial assets		10	10
Total Non-Current Assets		**297**	**281**
Total Assets		**11 699**	**9 348**
Current Liabilities			
Payables	14	1 700	1 891
Accrued employee benefits	15	727	670
Total Current Liabilities		**2 427**	**2 561**
Non-Current Liabilities			
Provisions	16	800	792
Total Non-Current Liabilities		**800**	**792**
Total Liabilities		**3 227**	**3 353**
Net Assets		**8 472**	**5 995**
Equity			
Contributed equity		5 183	5 183
Accumulated surplus		3 289	812
Total Equity		**8 472**	**5 995**

The accompanying notes form part of these statements.

Queensland Audit Office
Statement of Changes in Equity
for the year ended 30 June 2014

	Accumulated Surplus $'000	Contributed Equity $'000	Total $'000
Balance as at 1 July 2012	1 205	5 183	6 388
Operating Result from Continuing Operations	(393)	..	(393)
Balance as at 30 June 2013	**812**	**5 183**	**5 995**

	Accumulated Surplus $'000	Contributed Equity $'000	Total $'000
Balance as at 1 July 2013	812	5 183	5 995
Operating Result from Continuing Operations	2 477	..	2 477
Balance as at 30 June 2014	**3 289**	**5 183**	**8 472**

The accompanying notes form part of these statements.

Queensland Audit Office
Statement of Cash Flows
for the year ended 30 June 2014

	Notes	2014 $'000	2013 $'000
Cash flows from operating activities			
Inflows:			
Audit fees		41 744	40 263
Appropriation revenue for services receipts		6 430	6 415
Other revenue		123	143
GST input tax credits from ATO		2	..
Outflows:			
Employee expenses		(21 624)	(22 313)
Supplies and services		(24 501)	(21 203)
Finance/borrowing costs		..	(1)
Other expenses		(161)	(200)
GST remitted to ATO		(1 584)	(1 654)
Net cash provided by operating activities	17	**429**	**1 450**
Cash flows from investing activities			
Inflows:			
Sale of plant and equipment		..	1
Outflows:			
Payments for plant and equipment and intangibles		(149)	(227)
Net cash used in investing activities		**(149)**	**(226)**
Cash flows from financing activities		**..**	**..**
Net increase in cash and cash equivalents		280	1 224
Cash and cash equivalents at beginning of financial year		2 267	1 043
Cash and cash equivalents at end of financial year		**2 547**	**2 267**

The accompanying notes form part of these statements.

Queensland Audit Office
Notes to and forming part of the Financial Statements
for the year ended 30 June 2014

Queensland Audit Office
Notes to and forming part of the Financial Statements
for the year ended 30 June 2014

Objectives and principal activities of the Queensland Audit Office (QAO)

QAO's objective is to strengthen public sector accountability by providing independent audit services to public sector clients, and reports to the Parliament and the community.

1. Summary of significant accounting policies

(a) Statement of compliance

QAO is a not-for-profit entity.

The financial statements are general purpose financial statements which have been prepared on an accrual basis in accordance with:

- section 42 of the *Financial and Performance Management Standard 2009*
- applicable Australian Accounting Standards and Interpretations
- Queensland Treasury and Trade's Minimum Reporting Requirements for the year ending 30 June 2014.

The historical cost convention is used, unless otherwise stated. This means that assets are recorded at their initial cost and are not subsequently revalued upwards and liabilities are valued at the amount initially received in exchange for the obligation.

(b) The reporting entity

The financial statements include the value of all income, expenses, assets, liabilities and equities of QAO. QAO has no controlled entities.

(c) Reporting by segments

QAO has one service "Independent Public Sector Auditing Services and Reporting". The purpose of this service is to enhance accountability by independently auditing and reporting whether public moneys and resources have been properly accounted for and administered by all entities within the audit mandate.

As only one service is provided, QAO does not need to disaggregate the financial statements further into separate Statements of Comprehensive Income and Financial Assets and Liabilities by Major Departmental Services in this financial report.

(d) Rounding and comparatives

Amounts included in the financial statements are in Australian dollars and have been rounded to the nearest $1 000 or, where that amount is $500 or less, to zero unless disclosure of the full amount is specifically required.

Comparative information has been restated where necessary to be consistent with disclosures in the current reporting period. Where comparative information has been restated, such restatements are not material and would not require disclosure in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*.

(e) Revenue recognition

QAO charges fees for financial audit services on a full cost recovery basis.

QAO also receives parliamentary appropriation for the following services and functions:

- the operation of the statutory Office of the Auditor-General
- the conduct of performance audits
- reporting to Parliament on the results of financial and performance audits performed
- providing advice and assistance to the Parliament and to central agencies.

(i) Audit fee revenue for services to the public sector

QAO progressively recognises revenue from audit fees as the audit work is undertaken. This includes audit work by contracted audit firms on behalf of QAO.

Audit work undertaken during the year that remains unbilled at 30 June is recorded in current assets in the Statement of Financial Position as 'work in progress'. Refer Note 1(g)(ii).

(ii) Appropriation revenue for services to the Parliament

QAO recognises appropriation revenue in the period the services were performed, which matches the timing of cash transfers made by Queensland Treasury and Trade under the *Appropriation Act 2013*.

(iii) License fee revenue

QAO license the use of its internally generated audit software to other Australian audit offices and charge them an annual fee based on the number of registered users. This fee revenue is recognised when it falls due.

(iv) Services received free of charge or for nominal value

Services received free of charge or for a nominal value are only recognised if the services would have been purchased if they had not been donated and their fair value can be reliably measured. Where this is the case, an equal amount is recognised as revenue and expense.

QAO recognises the archival services it receives free from Queensland State Archives.

(f) Expense recognition

(i) Special payments

No special payments were made during the year (2013 $Nil).

Special payments include ex gratia expenditure and other expenditure that QAO is not contractually or legally obligated to make to other parties.

Queensland Audit Office
Notes to and forming part of the Financial Statements
for the year ended 30 June 2014

(g) Financial assets

(i) Cash and cash equivalents

For the purposes of the Statement of Financial Position and the Statement of Cash Flows, cash assets include all cash and cheques receipted but not banked at 30 June.

(ii) Receivables and work in progress

Receivables represent amounts owed to QAO at the end of the reporting period, where an invoice has been issued, while work in progress represents services performed but not yet invoiced.

Receivables and work in progress are initially recognised at the agreed price. Invoices are due for settlement within fourteen days of invoice date.

The recoverability of receivables and work in progress is regularly reviewed and an allowance for impairment is provided when there is evidence that they are not fully recoverable. There were no bad debts written off during the financial year.

(h) Non-financial assets

(i) Cost of acquisition

All assets are initially recorded at their purchase price plus any costs incurred that are directly attributable to bringing the asset to the location and condition necessary for it to be able to operate as intended.

Administrative and overhead costs and costs of training staff in use of the asset are not included in this cost of acquisition, but instead are expensed when incurred.

If an asset is acquired at no or nominal cost it is recorded at 'fair value' at the date of acquisition.

Fair value is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction.

Internally generated software

Direct costs associated with the development of computer software are recorded as an acquisition cost. Expenditure on research relating to these assets is expensed in the year it is incurred.

Assets under construction (work in progress) are not depreciated until they reach service delivery capacity. That is, when the asset is available for use and is operating in the manner intended by management.

Queensland Audit Office
Notes to and forming part of the Financial Statements
for the year ended 30 June 2014

(h) Non-financial assets (continued)

(ii) Capitalisation thresholds

QAO only recognises assets in the Statement of Financial Position where their initial acquisition costs exceed a set monetary limit with assets below this value being expensed.

Asset class	Threshold
Plant and equipment	\$5 000
Intangible assets	\$100 000

(iii) Measurement after initial recognition

QAO uses the cost model to measure assets after they are recognised, which means QAO carries them at their acquisition cost less accumulated depreciation and any accumulated impairment losses.

The following depreciation/amortisation rates were used:

Asset class	**Depreciation rate**
Plant and equipment	17%-33.3%
Intangibles	**Amortisation rate**
Software purchased	20%
Software internally generated	33.3%

Depreciation of plant and equipment

Plant and equipment is depreciated on a straight line basis to allocate the net cost of each asset, less its estimated remaining value, equally over its estimated useful life.

Amortisation of intangibles

All intangible assets, purchased software and internally generated software have finite useful lives and are amortised on a straight-line basis over the period of the expected benefit to QAO.

Impairment of non-current assets

All non-current physical and intangible assets are assessed for indicators of impairment on an annual basis. If an indicator of possible impairment exists, QAO determines the asset's recoverable amount. Any amount by which the asset's carrying amount exceeds the recoverable amount is recorded as an impairment loss.

The asset's recoverable amount is determined as the higher of the asset's fair value less costs to sell and depreciated replacement cost.

As QAO only controls assets which are carried at cost, any impairment loss is recognised immediately in the Statement of Comprehensive Income.

Queensland Audit Office
Notes to and forming part of the Financial Statements
for the year ended 30 June 2014

(i) Liabilities

(i) Leases

A distinction is made between finance leases and operating leases. Finance leases effectively transfer all risks and benefits of ownership to the lessee. Under an operating lease however, the owner retains substantially all risks and benefits.

QAO has an operating lease for office accommodation. Operating lease payments are recognised in the period they are incurred using a straight line basis over the period of the lease.

QAO has no finance leases.

(ii) Payables

Creditors are recognised at the agreed purchase or contract price including any applicable trade and other discounts when goods and services ordered are received. Amounts owing are unsecured and are generally settled on 30 days terms.

(iii) Provisions

Provisions are distinguished from other liabilities such as trade payables and accruals because there is uncertainty about the timing or amount of the future expenditure required for settlement.

They are recognised as liabilities in the Statement of Financial Position, rather than disclosed via note as a contingent liability, because they represent present obligations where it is probable that an outflow of resources will be required to settle the obligations.

QAO's provision represents the future increases to its office lease. It has been recognised on a straight line basis over the term of the lease which will expire in 2018 (refer Note 16).

(j) Financial instruments

(i) Recognition

QAO recognises its financial assets and financial liabilities in the Statement of Financial Position when it agrees to the contractual provisions of the financial instrument.

(ii) Classification

Financial instruments have been classified into the following categories:

Financial assets

- Cash and cash equivalents – held at fair value through profit or loss
- Receivables and work in progress – held at amortised cost
- Other financial assets – held at fair value through profit or loss

Queensland Audit Office
Notes to and forming part of the Financial Statements
for the year ended 30 June 2014

(j) Financial instruments (continued)

Financial liabilities

- Payables and accrued employee benefits – held at amortised cost

The fair value of short-term receivables and payables is the transaction cost or the face value. There is no applicable interest rate and subsequent measurement is not required as the effect of discounting is not material.

All other disclosures relating to the measurement and financial risk management of financial instruments are included in Note 20.

(k) Employee benefits

Employee benefits are comprised of employer superannuation contributions, annual leave levies and long service leave levies.

Payroll tax and workers' compensation insurance are not counted in an employee's total remuneration package. They are recognised separately as employee related expenses.

(i) Wages, salaries and sick leave

Wages and salaries due but unpaid at 30 June are recognised in the Statement of Financial Position at current salary rates.

QAO expects that these liabilities will be wholly settled within 12 months of the reporting date. They have been recognised at their undiscounted amounts.

Prior history indicates that on average sick leave taken during each reporting period is less than the entitlement accrued. This is expected to continue in future periods. As it is unlikely that existing accumulated sick leave will be used by employees and the leave is non-vesting, no liability for unused sick leave entitlements is recognised.

An expense is recognised for this leave as it is taken.

(ii) Annual leave and long service leave

QAO is a member of the Queensland Government's Annual Leave and Long Service Leave Schemes. A levy is payable to these schemes to cover the cost of employees' annual leave (including leave loading and on-costs) and long service leave. These levies are expensed in the period in which they are payable. Amounts paid to employees for leave taken are claimed from the schemes quarterly in arrears.

QAO does not recognise a provision for annual leave or long service leave in the financial statements. These liabilities are held and reported in the Report on State Finances of the Queensland Government.

(k) Employee benefits (continued)

(iii) Superannuation

QSuper is the superannuation scheme for Queensland Government employees. Employer superannuation contributions are paid to QSuper at rates determined by the Treasurer on the advice of the State Actuary. Contributions are expensed in the period in which they are paid or payable. QAO's obligation is limited to its contribution to QSuper.

The QSuper scheme has defined benefit and defined contribution categories. The liability for defined benefits is held and reported on in the Report on State Finances of the Queensland Government.

(iv) Key executive management personnel and their remuneration

Key executive management personnel encompasses those positions which form part of the Executive Management Group. This group has the authority and responsibility for planning, directing and controlling the activities of QAO during 2013-14.

The remuneration policy for QAO's key executive management personnel is set by the Queensland Public Service Commission as provided for under the *Public Service Act 2008*. The remuneration and other terms of employment for key executive management personnel are specified in individual employment contracts. Refer to Note 6 for the disclosures on key management personnel and remuneration.

QAO does not participate in a performance bonus payment scheme.

(l) Taxation

QAO is a State body as defined under the *Income Tax Assessment Act 1936* and is exempt from Commonwealth taxation except for Fringe Benefits Tax (FBT) and Goods and Services Tax (GST). FBT and GST are the only taxes accounted for by QAO. GST input tax credits receivable from and GST payable to the Australian Tax Office (ATO) are recognised within Note 14.

Revenues, expenses and assets are recognised exclusive of GST, except where the amount of GST incurred is not recoverable from the ATO. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables are shown inclusive of GST. Cash flows are presented on a gross basis. The GST component of investing activities is disclosed as operating cash flows.

(m) Contributed equity

Non-reciprocal transfers of assets and liabilities, if any, between wholly-owned Queensland State Public Sector entities are adjusted to 'Contributed Equity' in accordance with Interpretation 1038 *Contributions by Owners Made to Wholly Owned Public Sector Entities*. Appropriations for equity adjustments are similarly designated.

QAO has no non-reciprocal transfers during the current reporting period.

Queensland Audit Office
Notes to and forming part of the Financial Statements
for the year ended 30 June 2014

(n) Accounting estimates and judgements

The preparation of financial statements necessarily requires the determination and use of certain critical accounting estimates, assumptions and management judgements that have the potential to cause a material adjustment to the carrying amounts of assets and liabilities within the next financial year. Such estimates, judgements and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in future periods as relevant.

Estimates and assumptions that have a potential significant effect are outlined in Note 16 Provisions.

(o) New and revised accounting standards

QAO did not voluntarily change any of its accounting policies during 2013-14. Australian Accounting Standard changes applicable for the first time for 2013-14 have had minimal effect on QAO's financial statements.

QAO is not permitted to early adopt a new or amended accounting standard ahead of the specified commencement date unless approval is obtained from Queensland Treasury and Trade. QAO applies these standards and interpretations in accordance with their respective commencement dates.

Queensland Audit Office
Notes to and forming part of the Financial Statements
for the year ended 30 June 2014

(o) New and revised accounting standards (continued)

At the date of authorisation of the financial report, the expected impact of new or amended Australian Accounting Standards with future commencement dates are set out below.

		Reporting periods beginning on / after
AASB1055	*Budgetary Reporting* This standard requires that the original budgeted statements published in the Queensland Government Budget Service Delivery Statements are included in the financial statements. The budgeted statements will need to be presented consistently with the corresponding (actual) financial statements and will be accompanied by explanations of major variances between the actual amount and the corresponding budgeted financial statements.	1 July 2014
AASB 9 & AASB 2010-7	*Financial Instruments (December 2010)* *Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) (AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 120, 121, 127, 128, 131, 132, 136, 137, 139, 1023 & 1038 and Interpretations 2, 5, 10, 12, 19 & 127)* The impact of these standards is that they change the requirements for the classification, measurement and disclosures associated with financial assets in that they will be more simply classified according to whether they are measured at amortised cost or fair value. Given the nature of QAO's financial statements, this change is not expected to have a material impact on QAO's financial statements.	1 January 2017

All other Australian Accounting Standards and Interpretations with future commencement dates are either not applicable or have no material impact on QAO.

(p) Insurance

QAO's non-current physical assets and other risks are insured through the Queensland Government Insurance Fund (QGIF). Premiums are paid on a risk assessment basis. In addition, premiums are paid to WorkCover Queensland for its employee compensation obligations.

(q) Issuance of financial statements

The financial statements are authorised for issue by the Auditor-General of Queensland and the Chief Financial Officer at the date of signing the Certificate of the Queensland Audit Office.

Queensland Audit Office
Notes to and forming part of the Financial Statements
for the year ended 30 June 2014

		2014 $'000	2013 $'000
2.	**Reconciliation of Payments from Consolidated Fund to Appropriation Revenue for Services Recognised in Statement of Comprehensive Income**		
	Budgeted departmental services appropriation	6 558	6 600
	Lapsed departmental services appropriation	(128)	(185)
	Total	**6 430**	**6 415**
3.	**Other Revenue**		
	General recoveries	123	143
	Storage services received free of charge from Queensland State Archives (refer Note 9)	275	161
	Total	**398**	**304**
4.	**Gains**		
	Gain on sale of plant and equipment	..	1
		..	**1**
5.	**Employee Expenses**		
	Employee Benefits		
	Salaries	15 304	15 806
	Employer superannuation contributions *	2 109	2 215
	Long service leave levy *	360	375
	Annual leave levy *	1 953	1 986
	Fringe benefits tax	71	75
	Other employee benefits – voluntary early retirement	470	821
	Service payment – non-renewal of contract	156	..
	Employee Related Expenses		
	Payroll tax *	1 021	1 057
	Workcover premium *	32	23
	Total	**21 476**	**22 358**

* Refer to Note 1(k)

The number of employees on a full-time equivalent (FTE) basis under the Minimum Obligatory Human Resource Information (MOHRI) classification methodology is:

	2014	2013
Number of employees as at 30 June	182	191

Queensland Audit Office
Notes to and forming part of the Financial Statements
for the year ended 30 June 2014

6. Key Executive Management Personnel and Remuneration

(a) Key Executive Management Personnel

Position	Name	Responsibilities	Current Incumbents	
			Contract classification and appointment authority	**Date appointed to position (date resigned from position)**
Auditor-General	A Greaves	Provides Parliament with independent assurance of public sector accountability and performance as defined in *Auditor-General Act 2009*.	CEO – *Auditor-General Act 2009*	Appointed 17 December 2011
Deputy Auditor-General	A Close	Manages the financial and performance audit functions of QAO as well as the non-audit responsibilities as Chief Operating Officer.	SES4 (s.122) – *Public Service Act 2008*	Appointed 25 March 2013
Deputy Auditor-General	V Manera	Manages the overall audit function of QAO and advises the Auditor-General on matters of audit policy and practice.	SES3 – *Public Service Act 2008*	Appointed 18 October 1993 Separated 18 October 2013
General Manager – Corporate Services	D Mills	Provides expert, strategic business advice and operational/corporate support to the Deputy Auditor-General in relation to the management of QAO operations.	SES2 – *Public Service Act 2008*	Appointed 29 October 2007 Separated 2 May 2014

Queensland Audit Office
Notes to and forming part of the Financial Statements
for the year ended 30 June 2014

6. Key Executive Management Personnel and Remuneration (continued)

Position	Name	Responsibilities	Current Incumbents	
			Contract classification and appointment authority	Date appointed to position (date resigned from position)
Assistant Auditor-General	P Shipperley	Leads and sets the strategic direction for the delivery of audit services to enhance effective public sector accountability.	SES2 – *Public Service Act 2008*	Appointed 3 December 1998 Separated 3 December 2013
Assistant Auditor-General	P Brahman	Leads and sets the strategic direction for the delivery of audit services to enhance effective public sector accountability.	SES2 – *Public Service Act 2008*	Appointed 16 August 2001
Assistant Auditor-General	K Johnson	Leads and sets the strategic direction for the delivery of audit services to enhance effective public sector accountability.	SES2 — *Public Service Act 2008*	Appointed 30 January 2012
Assistant Auditor-General	T Campbell	Leads and sets the strategic direction for the delivery of audit services to enhance effective public sector accountability.	SES2 – *Public Service Act 2008*	Appointed 22 March 2007
Assistant Auditor-General	M Booth	Leads and sets the strategic direction for the delivery of audit services to enhance effective public sector accountability.	SES2 — *Public Service Act 2008*	Appointed 15 October 2011

Further information on these positions can be found in the body of the Annual Report under the section relating to Executive Management.

6. Key Executive Management Personnel and Remuneration (continued)

(b) Remuneration

For the 2013-14 financial year, remuneration of key executive management personnel increased by 2.2% in accordance with Government policy.

Remuneration packages comprise the following components:

- Short term employee benefits which include:
  - Base – consisting of base salary, allowances and leave entitlements paid and accrued for the entire year or for that part of the year during which the employee occupied the specified position
  - Non-monetary benefits – consisting of car parking and the applicable fringe benefits tax.
- Long term employee benefits include long service leave accrued
- Post employment benefits include superannuation contributions
- Redundancy payments are not provided for within individual contracts of employment. Contracts of employment provide only for notice periods or payments in lieu of notice on termination regardless of the reason for termination
- Performance bonuses are not paid under the contracts in place.

Total fixed remuneration is calculated on a "total cost" basis and includes the base and non-monetary benefits, long term employee benefits and post employment benefits.

Queensland Audit Office
Notes to and forming part of the Financial Statements
for the year ended 30 June 2014

6. Key Executive Management Personnel and Remuneration (continued)

1 July 2013 – 30 June 2014

Position (date resigned if applicable)	Name	Short Term Employee Benefits		Long Term Employee Benefits $'000	Post Employment Benefits $'000	Termination Benefits $'000	Total Remuneration $'000
		Base $'000	Non-Monetary Benefits $'000				
Auditor-General	A Greaves	385	15	8	60	..	468
Deputy Auditor-General	A Close	247	12	5	36	..	300
Deputy Auditor-General (18.10.13)	V Manera *	71	..	2	11	..	84
General Manager – Corporate Services (02.05.14)	D Mills *	190	10	3	25	192	420
Assistant Auditor-General (03.12.13)	P Shipperley *	102	6	2	13	156	279
Assistant Auditor-General	P Brahman	191	12	4	27	..	234
Assistant Auditor-General	K Johnson	192	12	4	28	..	236
Assistant Auditor-General	T Campbell	189	12	4	29	..	234
Assistant Auditor-General	M Booth	183	12	4	27	..	226

* In addition to the total remuneration, these employees received employee entitlements to the value of $284 000. These entitlements represent annual leave and long service leave that were accrued in prior periods.

Queensland Audit Office
Notes to and forming part of the Financial Statements
for the year ended 30 June 2014

6. Key Executive Management Personnel and Remuneration (continued)

1 July 2012 – 30 June 2013

Position (date resigned if applicable)	Name	Short Term Employee Benefits		Long Term Employee Benefits $'000	Post Employment Benefits $'000	Termination Benefits $'000	Total Remuneration $'000
		Base $'000	Non-Monetary Benefits $'000				
Auditor-General	A Greaves	351	40	8	58	..	457
Deputy Auditor-General	A Close	63	2	1	9	..	75
Deputy Auditor-General	V Manera	222	10	5	33	..	270
General Manager – Corporate Services	D Mills	199	12	4	34	..	249
Assistant Auditor-General	P Shipperley	186	12	4	28	..	230
Assistant Auditor-General	P Brahman	187	12	4	27	..	230
Assistant Auditor-General	K Johnson	187	12	4	27	..	230
Assistant Auditor-General (20.07.12)	N Jackson	45	..	..	2	..	47
Assistant Auditor-General	T Campbell	186	12	4	28	..	230
Assistant Auditor-General	M Booth	176	12	4	23	..	215

		2014 $'000	2013 $'000
7.	**Supplies and Services**		
	Bureau charges	274	473
	Information technology and minor office equipment	525	525
	Consultants and expert advice	1 379	789
	Payments to contract auditors	14 057	12 824
	Payments to employment agency personnel	1 732	1 361
	Rent and office services	2 485	2 403
	Staff development	235	204
	Travel costs	666	686
	Other administrative costs	547	596
	Total	**21 900**	**19 861**
8.	**Depreciation and Amortisation**		
	Depreciation and amortisation incurred in respect of:		
	Plant and equipment	103	74
	Intangibles	30	51
	Total	**133**	**125**
9.	**Other Expenses**		
	Internal audit fees	32	80
	External audit fees *	43	31
	Bad and impaired debts	..	5
	Insurance premiums – QGIF	87	85
	Storage services received free of charge from Queensland State Archives (refer Note 3)	275	161
	Loss on disposal of plant and equipment	1	..
	Total	**438**	**362**

* Total audit fees due to Grant Thornton Audit Pty Ltd relating to the 2013-14 financial year are $37 000 (2012-13: $35 300). Further assurance services in relation to an audit of the Service Delivery Statement - Key Performance Indicators are valued at a cost of $7 500 (2012-13: $7 000).

In addition, from 1 March 2014 Mr G Coonan of Grant Thornton Audit Pty Ltd in Cairns was appointed as a contract auditor to provide audit services on behalf of QAO. In accordance with the conditions of his appointment neither Mr Coonan nor his staff were directly or indirectly involved in the audit of QAO's financial report. The value of the work performed by Mr Coonan for 2013-14 was $223 000 (2012-13: Nil) and this amount has been recognised in the Statement of Comprehensive Income.

		2014 $'000	2013 $'000
10.	**Receivables and Work in Progress**		
	Audit fee receivables	4 538	2 608
	Work in progress	3 265	3 340
	Annual leave reimbursement	405	379
	Long service leave reimbursement	292	114
	Other receivables	19	..
	Total	**8 519**	**6 441**
	There has been no movement in the allowance for impairment during 2013-14.		
11.	**Other Current Assets**		
	Prepayments		
	Supplies and services	336	359
	Total	**336**	**359**
12.	**Plant and Equipment**		
	Plant and equipment		
	At cost	777	704
	Accumulated depreciation	(580)	(553)
	Total	**197**	**151**
	Plant and Equipment Reconciliation		
	Carrying amount at 1 July	151	119
	Acquisitions	149	106
	Depreciation	(103)	(74)
	Carrying amount at 30 June	**197**	**151**

	2014 $'000	2013 $'000
13. Intangible Assets		
Software internally generated		
At cost	790	670
Accumulated amortisation	(700)	(670)
	90	..
Software purchased		
At cost	759	759
Accumulated amortisation	(759)	(759)
	..	..
Work in progress		
At cost	..	120
Total	**90**	**120**

Intangibles Reconciliation

	Internally Generated		Software Purchased		Work in Progress		Total	
	2014 $'000	**2013 $'000**	**2014 $'000**	**2013 $'000**	**2014 $'000**	**2013 $'000**	**2014 $'000**	**2013 $'000**
Carrying amount at 1 July	..	..	..	51	120	..	120	51
Acquisitions	..	..	..	..	..	120	..	120
Transfer between classes	120	..	..	..	(120)	..	..	..
Amortisation	(30)	..	..	(51)	..	..	(30)	(51)
Carrying amount at 30 June	**90**	**..**	**..**	**..**	**..**	**120**	**90**	**120**

	2014 $'000	2013 $'000
14. Payables		
Creditors	1 438	1 854
GST payable	522	292
GST input tax receivable	(260)	(255)
Net GST payable	262	37
Total	**1 700**	**1 891**

	2014 $'000	2013 $'000
15. Accrued Employee Benefits		
Annual leave levy payable	520	540
Long service leave levy payable	96	98
Taxation expenses	..	19
Other employee benefits	111	13
Total	**727**	**670**
16. Provisions		
Non-current provisions		
Lease contract *	800	792
Total	**800**	**792**
Movements in provision		
Balance at 1 July	792	695
Additional provision recognised	8	97
Balance at 30 June	**800**	**792**

* The provision for lease contracts reflects a requirement to provide for future increases in operating lease rentals for the lease of QAO's premises. The provision was introduced in 2010-11.

	2014 $'000	2013 $'000
17. Reconciliation of Operating Surplus to Net Cash from Operating Activities		
Operating Surplus/(Deficit)	2 477	(393)
Depreciation and amortisation expense	133	125
(Gain)/Loss on disposal plant and equipment	1	(1)
Change in assets and liabilities:		
(Increase)/decrease in receivables	(2 078)	1 260
Decrease in other current assets	23	73
Increase/(decrease) in payables	(431)	476
Increase/(decrease) in accrued employee benefits	71	(92)
Increase/(decrease) in GST payable	225	(95)
Increase in provision	8	97
Net cash from operating activities	**429**	**1 450**

18. Contingencies

QAO had no known contingent assets or liabilities as at 30 June 2014.

	2014 $'000	2013 $'000
19. Commitments for Expenditure		
(a) Non-Cancellable Operating Lease		
Commitments under operating leases at reporting date are inclusive of GST and are payable as follows:		
Not later than one year	2 383	2 280
Later than one year and not later than five years	6 689	9 072
Total	**9 072**	**11 352**

Operating lease commitments relate to QAO's office accommodation with a lease term of eight years four months, with an option to extend for a further five years. The operating lease contract contains a market review clause in the event that QAO exercises its option to renew.

Future increases to operating lease rentals included in commitments have been provided for. Refer Note 16.

	2014 $'000	2013 $'000
(b) Contract Audits		
Commitments for the payment of future auditing services under contracts in existence at reporting date are inclusive of GST and are payable as follows:		
Not later than one year	13 438	12 144
Later than one year and not later than five years	12 401	15 751
Total	**25 839**	**27 895**

These commitments have not been recognised as liabilities in the financial statements as services are yet to be performed under the contracts.

QAO has finalised its tender process for audits commencing 2015. These contracts are currently being executed and have been included as commitments.

20. Financial Instruments

(a) Financial Risk Management

QAO's activities expose it to a variety of financial risks – credit risk, liquidity risk and market risk. Financial risk management is implemented pursuant to Government and QAO policy. These policies focus on the financial performance of QAO. Primary responsibility for the management of financial risk rests with the Chief Financial Officer under the authority of the Executive Management Group with oversight and monitoring by the Audit and Risk Management Committee.

20. Financial Instruments (continued)

QAO's principal financial instruments are:

- cash and cash equivalents
- receivables and work in progress
- payables and accrued employee benefits.

Details of significant accounting policies and methods used with respect to each class of financial instrument are disclosed in Note 1(j).

(b) Categorisation of Financial Instruments

QAO has the following categories of financial assets and financial liabilities:

Category	Notes	2014 $'000	2013 $'000
Financial Assets			
Cash and cash equivalents		2 547	2 267
Receivables and work in progress	10	8 519	6 441
Other financial assets		10	10
Total		**11 076**	**8 718**
Financial Liabilities			
Payables and accrued employee benefits	14,15	2 427	2 561
Total		**2 427**	**2 561**

(c) Credit Risk Exposure

Credit risk exposure refers to the situation where QAO may incur financial loss as a result of another party to a financial instrument failing to discharge their obligation.

The maximum exposure to credit risk at balance date in relation to each category of recognised financial asset is the gross carrying amount of those assets inclusive of any allowance for impairment.

No collateral is held as security and no credit enhancements relate to the financial assets held by QAO.

Exposure to credit risk is monitored on a regular basis. The method for calculating any provisional impairment for risk is based on past experience and current and expected changes in client's economic conditions.

No financial assets have had their terms renegotiated so as to prevent them from being past due or impaired and are stated at the carrying amounts as indicated. Ageing of past due or impaired financial instruments are disclosed in the following tables.

20. Financial Instruments (continued)

2014 Financial Assets Past Due But Not Impaired

	Less than 30 days $'000	30-60 days $'000	Overdue 61-90 days $'000	More than 90 days $'000	Total Financial Assets $'000
Receivables	5 066	188	..	..	5 254
Total	**5 066**	**188**	**..**	**..**	**5 254**

2013 Financial Assets Past Due But Not Impaired

	Less than 30 days $'000	30-60 days $'000	Overdue 61-90 days $'000	More than 90 days $'000	Total Financial Assets $'000
Receivables	2 828	144	129	..	3 101
Total	**2 828**	**144**	**129**	**..**	**3 101**

Individually Impaired Financial Assets

There were no individually impaired financial assets in the current or previous period.

(d) Liquidity Risk

Liquidity risk refers to the situation where QAO may encounter difficulty in meeting obligations associated with financial liabilities.

QAO manages any liquidity risk by ensuring it has sufficient funds available to meet employee and supplier obligations. This is achieved through maximising funds available in QAO's bank account and through an approved credit facility arrangement. The approved overdraft facility held with Queensland Treasury and Trade is $2m. This facility had not been used during the financial year.

QAO's bank account is grouped within the whole-of-government set-off arrangement managed by Queensland Treasury and Trade. The overdraft limit of the whole-of-government group is $75m. The account does not earn interest on surplus funds nor is interest charged on overdrawn funds. Interest earned/charged on the aggregate set-off arrangement accrues to the Consolidated Fund.

QAO operates a credit card facility with a $200 000 limit. At 30 June 2014 $155 000 was available.

20. Financial Instruments (continued)

The following table sets out the liquidity risk of financial liabilities held by QAO.

		2014 Payable in			Total
		<1 year	1-5 years	>5 years	
	Notes	$'000	$'000	$'000	$'000
Financial Liabilities					
Payables and accrued employee benefits	14,15	2 427	..	..	2 427
Total		**2 427**	**..**	**..**	**2 427**

		2013 Payable in			Total
		<1 year	1-5 years	>5 years	
	Notes	$'000	$'000	$'000	$'000
Financial Liabilities					
Payables and accrued employee benefits	14,15	2 561	..	..	2 561
Total		**2 561**	**..**	**..**	**2 561**

(e) Market Risk

QAO does not trade in foreign currency and is not exposed to commodity price changes or interest rate risk in respect of its cash at bank account.

Fair Value

The carrying amounts of receivables and payables, less any allowance for impairment, represent fair value at the balance date.

21. Events after the Reporting Date

No events have occurred after balance date that should be brought to account or noted in this financial report.

Certification

CERTIFICATE OF THE QUEENSLAND AUDIT OFFICE

These general purpose financial statements have been prepared pursuant to s.62(1) of the *Financial Accountability Act 2009* (the Act), s.42 of the *Financial and Performance Management Standard 2009* and other prescribed requirements. In accordance with s.62(1)(b) of the Act we certify that in our opinion:

(a) the prescribed requirements for establishing and keeping the accounts have been complied with in all material respects

(b) the statements have been drawn up to present a true and fair view, in accordance with prescribed accounting standards, of the transactions of the Queensland Audit Office for the financial year ended 30 June 2014 and of the financial position as at the end of that year

(c) these assertions are based on an appropriate system of internal controls and risk management processes being effective, in all material respects, with respect to financial reporting throughout the reporting period.

T LE CPA
Chief Financial Officer
22 July 2014

A GREAVES FCA, FCPA
Auditor-General of Queensland
22 July 2014

Independent Audit Report

Grant Thornton

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Independent Auditor's Report
To the Accountable Officer of Queensland Audit Office

We have audited the accompanying financial report of Queensland Audit Office, which comprises the statement of financial position as at 30 June 2014, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the certificates given by the Auditor-General of Queensland and the Chief Financial Officer of the Queensland Audit Office.

Responsibility of the Accountable Officer for the financial report

The Accountable Officer is responsible for the preparation and fair presentation of the financial report and has determined that the accounting policies used and described in Note 1 to the financial report, which form part of the financial report, are appropriate to meet the requirements of the Financial Accountability Act 2009 and the Financial and Performance Management Standard 2009, including compliance with Australian Accounting Standards. This responsibility includes such internal controls as the Accountable Officer determines are necessary to enable the preparation of the financial report to be free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards which require us to comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error.

GrantThornton

2

In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control, other than in expressing an opinion on compliance with prescribed requirements. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Accountable Officer, as well as evaluating the overall presentation of the financial report including any mandatory financial reporting requirements approved by the Treasurer for application in Queensland.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence
In conducting our audit, we have complied with the applicable independence requirements of the Accounting Professional and Ethical Standards Board.

Auditor's Opinion
In accordance with the Auditor-General Act 2009:

a We have received all the information and explanations which we have required; and

b In our opinion:

i the prescribed requirements in relation to the establishment and keeping of accounts have been complied with in all material respects; and

ii the financial report presents a true and fair view, in accordance with the prescribed accounting standards, of the transactions of the Queensland Audit Office for the financial year 1 July 2013 to 30 June 2014 and of the financial position as at the end of that year.

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

S G Hancox
Partner - Audit & Assurance

Brisbane, 22 July 2014

Performance statement

PERFORMANCE STATEMENT

Year Ended 30 June 2014 Service Delivery Statement

Item	Service standards	2013-14 Actual	2013-14 Target
Service Area: Independent public sector auditing services and reporting			
Direct reporting services to the Parliament			
1	Level of Parliamentary satisfaction (index points)[1]	n/a	80
2	Audit client satisfaction with performance audit services (index points)[2]	77	80
3	Percentage of performance report recommendations agreed to by audited entities[3]	98	95
4	Average costs of reports tabled: • Results of financial audits ($'000)[4] • Results of performance audits ($'000)[5]	 159 446	 180 425
5	Average time taken to produce reports: • Results of financial audits – from applicable balance dates (months)[6] • Results of performance audits from initiation of audits (months)[7]	 5.4 8.1	 5 <8
Financial Audit services to the public sector			
6	Audit entity satisfaction with financial audit services (index points)[8]	76	80
7	Percentage of financial audit recommendations agreed to by audited entities[9]	89	95
8	Average cost of financial audits: • State entities ($'000)[10] • Local government entities ($'000) [10]	 72 64	 65 69
9	Percentage of quality assurance reviews that substantively comply with auditing standards[11]	93	100

Notes:
1. This survey is conducted every 2 years and was not conducted for this year. The last survey conducted was for the 2012-13 year with the result of 74.
2. The level of client satisfaction with performance audit services is from surveys conducted with clients. The actual value is from survey results published in July 2014 for audits finalised in the 2013-14 year.
3. Recommendations agreed to by audited entities, measures the uptake of QAO recommendations from performance audits. This calculations is based on reports tabled in the 2013-14 year.
4. QAO delivered 8 reports during 2013-14 based on the results of financial audits.
5. QAO delivered 10 reports during 2013-14 based on performance audits.
6. The average time taken to produce reports on the results of financial audits is based on the audit clients' year-end balance date as the starting point and the report tabling date as the end point. This calculation is based on reports tabled in the 2013-14 year.
7. The average time taken to produce reports on the results of performance audits is based on an initiation letter being sent to the client as the starting point and the report tabling date as the end point. This calculation is based on reports tabled in the 2013-14 year.

Notes (continued)

8. The level of client satisfaction with financial audit services is from surveys conducted with clients. The actual value is from surveys conducted over the period October 2013 to April 2014 and published in May 2014 for the audit of Queensland public sector entities 2012-13 or 2013 financial statements.
9. Recommendations agreed to by audited entities measures the uptake of QAO recommendations from financial audits. This calculation is for financial audits conducted in 2013-14 year.
10. The average cost of financial audits is aligned with the Australasian Council of Auditors-General (ACAG) macro benchmarking measure. This benchmark is only for state and local government audits and includes both in-house and contracted-out work. This calculation is based on the average cost of an audit which is taken to be the total cost of delivering audits in 2013-14 year divided by the number of audit opinions given during that same period (i.e. 2013-14 year).
11. Quality assurance reviews allow the QAO to assess the appropriateness of our quality control frameworks for financial audits. In 2013-14, 15 files were sampled and assessed and 14 (93%) were identified as meeting minimum requirements (i.e. they substantively comply with auditing standards), with corrective action taken to address quality issues where identified. The files subject to this review were audits with a 2013 year end.

Certification of Performance Statement

For the year ended 30 June 2014

I hereby certify that the performance indicators in this statement are based on proper records, are relevant and appropriate for assisting users to assess the performance of the Queensland Audit Office, and fairly represents the performance of the office for the financial year ended 30 June 2014.

B J Wilson CPA
Executive Officer
26 August 2014

A Greaves FCA, FCPA
Auditor-General of Queensland
26 August 2014

Grant Thornton

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Independent Assurance Report
To the Accountable Officer of the Queensland Audit Office

We have audited the accompanying Performance Statement of the Queensland Audit Office which details the Queensland Audit Office's actual performance of performance indicators against target for the year ended 30 June 2014.

Responsibility of the Accountable Officer for the Performance Statement

The Accountable Officer is responsible for the preparation and fair presentation of the Performance Statement. The accountable officer's responsibility also includes such internal controls as the accountable officer determines are necessary to enable the preparation of the Performance Statement to be free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on the Performance Statement based on our audit. We conducted our audit in accordance with ASAE 3000 Assurance Engagements Other than Audits or Reviews of Historical Financial Information which require us to comply with relevant ethical requirements relating to assurance engagements and plan and perform the audit to obtain reasonable assurance whether the actual and targeted key performance indicators are not materially misstated on the Performance Statement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the performance Statement. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the Performance Statement, whether due to fraud or error.

Our procedures included; agreeing the targeted key performance indicators to the 2013-14 Queensland State Budget – Service Delivery Statements – Queensland Audit Office document; and agreeing actual performance indicator numbers to source data, systems or documents.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our assurance opinion.

GrantThornton

Inherent Limitations

Because of inherent limitations in the evidence gathering procedures and the Queensland Audit Office's internal controls, it is possible that fraud, error or non-compliance may occur and not be detected. An audit is not designed to detect all instances of fraud, error or non-compliance as an audit is not performed continuously throughout the year ended 30 June 2014 and the audit procedures performed are undertaken on a test basis. The assurance conclusion expressed in this report has been formed on the above basis.

Use of Report

This assurance report has been prepared for the Queensland Audit Office in accordance with our engagement letter. We disclaim any assumption of responsibility for any reliance on this report to any persons or users other than the Queensland Audit Office, or for any purpose other than that for which it was prepared.

Independence

In conducting our audit, we have complied with the applicable independence requirements of the Accounting Professional and Ethical Standards Board.

Assurance Opinion

In our opinion the Performance Statement of the Queensland Audit Office presents a true and fair view, in all material respects, of the targeted performance indicators listed in the 2013-14 Queensland State Budget – Service Delivery Statements – Queensland Audit Office document and the Queensland Audit Office's performance against those performance indicators for the year ended 30 June 2014.

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

S G Hancox
Partner - Audit & Assurance

Brisbane, 26 August 2014

Appendices

Appendix A—Audit professional service fees

Firms providing financial audit professional services	Location	2012–13*	2013–14*
Deloitte Touche Tohmatsu	Brisbane	2 404 795	2 941 513
	Parramatta	—	60 000
Crowe Horwath	Brisbane	1 161 619	1 555 037
	Townsville	1 113 618	875 592
	Gold Coast **	542 637	—
	Toowoomba **	151 125	—
KPMG	Brisbane	1 211 712	1 618 586
	Sunshine Coast	—	28 425
	Cairns	791 044	766 377
Ernst & Young	Brisbane	181 712	1 456 656
Moore Stephens (Queensland) Audit Pty Ltd	Townsville	554 638	355 105
	Brisbane	365 746	123 404
PricewaterhouseCoopers	Brisbane	599 733	508 827
	Cairns	—	237 966
	Townsville	256 193	41 675
William Buck (QLD)	Brisbane	375 604	597 735
Thomas Noble & Russell	Lismore	429 944	531 915
BDO Audit Pty Ltd	Brisbane	365 373	450 644
	Maroochydore	—	12 200
Pitcher Partner	Brisbane	489 803	447 622
Prosperity Audit Services	Newcastle	526 760	39 544
	Brisbane	—	340 180
Grant Thornton Audit Pty Ltd	Cairns	—	231 044

Firms providing financial audit professional services	Location	2012–13*	2013–14*
Altius Accountants and Advisors Pty Ltd	Cairns	17 043	223 268
Bennett Partners Pty Ltd	Mackay	238 120	217 540
Bentleys Brisbane (Audit) Pty Ltd	Brisbane	559 360	199 050
UHY Haines Norton	Brisbane	99 107	107 000
HLB Mann Judd (SE Qld Partnership)	Brisbane	59 092	51 515
GPS Audit Pty Ltd	Brisbane	127 425	43 210
Priestleys Chartered Accountants	Brisbane	49 945	28 350
Walsh Accounting	Barcaldine	82 148	27 961
MSI Taylor Audit Services Pty Ltd	Brisbane	19 430	12 680
Lawler Hacketts Audit	Brisbane	—	6 240
PGL Financial Services	Brisbane	89 528	—
AAT Accountants Pty Ltd	Brisbane	65 130	—
PKF	Brisbane	26 720	—
Audit Solutions Qld	Toowoomba	16 150	—
Energy Edge Pty Ltd	Brisbane	12 500	—
Focus Professional Group	Cotton Tree	5 223	—
Total		**12 988 977**	**14 136 861**

* All amounts represent the payments made during the year to firms providing financial audit professional services.

** These firms consolidated with the Brisbane office during 2013-14.

Firms providing performance audit professional services	Location	2012–13*	2013–14*
Vilridge Pty Ltd	Brisbane	22 000	198 495
KPMG	Brisbane	381 764	97 869
Ernst & Young	Brisbane	131 632	57 758
Wallis	Melbourne	—	45 000
Australian Council for Educational Research	Camberwell	—	34 405
Word Map Pty Ltd	Melbourne	—	33 984
Work Futures Australia Pty Ltd	Brisbane	1 710	33 445
Ross Garland and Associates	Brisbane	—	29 848
NCC Group Pty Ltd	Brisbane	—	27 500
Avaelis Pty Ltd	Brisbane	—	24 345
Audit and Assurance Consulting Services Pty Ltd	Peregian	—	13 075
Writebusiness	Brisbane	—	12 000
Ashgrove Environmental	Brisbane	—	7 900
Brendan Lee Consulting	Brisbane	—	6 525
Northern Nursing & Employment Agency	Brisbane	—	5 283
Paul Tridgell Pty Ltd	Brisbane	30 685	—
Griffith University	Brisbane	8 100	—
Queensland University of Technology	Brisbane	545	—
Total		**576 436**	**627 432**

* All amounts represent payments made during the year to firms providing performance audit professional services.

Appendix B—Compliance checklist

Summary of requirement		Basis for requirement	Annual report reference
Letter of compliance	A letter of compliance from the accountable officer or statutory body to the relevant Minister	ARRs – section 8	First internal page
Accessibility	Table of contents Glossary	ARRs – section 10.1	p.3 p.117
	Public availability	ARRs – section 10.2	Inside front cover
	Interpreter service statement	Queensland Government Language Services Policy ARRs – section 10.3	Inside front cover
	Copyright notice	*Copyright Act 1968* ARRs – section 10.4	Inside front cover
	Information Licensing	QGEA – Information Licensing ARRs – section 10.5	Inside front cover
General information	Introductory Information	ARRs – section 11.1	p.6, 9
	Agency role and main functions	ARRs – section 11.2	p.9
	Operating environment	ARRs – section 11.3	p.9
	Machinery of government changes	ARRs – section 11.4	n/a
Non-financial performance	Government's objectives for the community	ARRs – section 12.1	n/a
	Other whole of government plans / specific initiatives	ARRs – section 12.2	n/a
	Agency objectives and performance indicators	ARRs – section 12.3	p.9, 21, 39, 49, 55, 105
	Agency service areas, and service standards	ARRs – section 12.4	p.9, 21, 39, 49, 55, 105
Financial performance	Summary of financial performance	ARRs – section 13.1	p.65

	Summary of requirement	Basis for requirement	Annual report reference
Governance – management and structure	Organisational structure	ARRs – section 14.1	p.13
	Executive management	ARRs – section 14.2	p.12, 15
	Related entities	ARRs – section 14.3	n/a
	Government bodies	ARRs – section 14.4	p.15
	Public Sector Ethics Act 1994	*Public Sector Ethics Act 1994* (section 23 and Schedule) ARRs – section 14.5	p.16
Governance – risk management and accountability	Risk management	ARRs – section 15.1	p.15
	External scrutiny	ARRs – section 15.2	p.18
	Audit committee	ARRs – section 15.3	p.15
	Internal audit	ARRs – section 15.4	p.17
	Public sector renewal	ARRs – section 15.5	n/a
	Information systems and recordkeeping	ARRs – section 15.6	p.53
Governance – human resources	Workforce planning, attraction and retention, and performance	ARRs – section 16.1	p.55
	Early retirement, redundancy and retrenchment	Directive No.11/12 Early Retirement, Redundancy and Retrenchment ARRs – section 16.2	p.61
Open data	Open data	ARRs – section 17	p.121
Financial statements	Certification of financial statements	FAA – section 62 FPMS – sections 42, 43 and 50 ARRs – section 18.1	p.102
	Independent auditors report	FAA – section 62 FPMS – section 50 ARRs – section 18.2	p.103
	Remuneration disclosures	Financial Reporting Requirements for Queensland Government Agencies ARRs – section 18.3	p.89

FAA *Financial Accountability Act 2009*

FPMS Financial and Performance Management Standard 2009

ARRs Annual report requirements for Queensland Government agencies

Appendix C—Glossary

Term	Meaning
Audit	An official examination and verification of accounts and records, especially of financial accounts.
Audit, financial	Depending on the audit subject (consolidated fund, public sector agency, ministerial expenditure, whole of government financial statements), the Auditor-General must give an opinion whether public money was recorded, managed and protected properly. Usually this involves auditing the *financial statements* and preparing an *audit opinion*.
Audit, performance	A performance audit may consider all or any particular activities of a public sector entity and may be conducted as a separate audit or as part of another audit, including an audit of another public sector entity; the audit's object includes deciding whether the objectives of the public sector entity are being achieved economically, efficiently and effectively and in compliance with all relevant laws.
Audit mandate	The scope of the Auditor-General's authority and powers in terms of the types of audits that may be carried out, the entities subject to audit, and the access to personnel, property and information. Part 3 of the *Auditor-General Act 2009* defines the audit mandate.
Audit opinion	An audit opinion will generally address whether the Auditor-General has received all the information and explanations the role requires and whether the Auditor-General considers the financial statements have been properly drawn up and are accurate and compliant with prescribed requirements to give a true and fair view of an entity's financial operations and position.
Auditor-General	In Queensland, the Auditor-General is appointed by the Governor in Council for a fixed, non-renewable term of seven years.
Auditor-General Act 2009	The Queensland law which establishes the position of the Queensland Auditor-General and the Queensland Audit Office; confers the functions and powers necessary to carry out independent audits of the Queensland public sector and related entities; provides for the strategic review of the Queensland Audit Office; and provides for the independent audit of the Queensland Audit Office (published at www.legislation.qld.gov.au).
Australasian Council of Auditors-General (ACAG)	Established in 1993, ACAG enables sharing information between members, supports the development of effective and efficient auditing methods and practices by members and represents externally, where appropriate, the collective opinion of the Auditors-General on financial accounting and auditing standards and related issues—membership of ACAG is open to the Auditors-General of all audit jurisdictions within Australia, New Zealand, Fiji and Papua New Guinea (see www.acag.org.au).

Term	Meaning
Australian Accounting Standards Board (AASB)	The Australian Accounting Standards Board, an independent, statutory agency established by the Australian Government, develops standards and guidance for preparers of financial statements (see www.aasb.gov.au).
Certification	Certifications complement a financial audit. Some certifications (such as acquittal of minor grant expenditure) are incidental to the financial audit. Other certifications require significantly more resources to be applied and may stand apart from the financial audit process.
Entity, public sector	The *Auditor-General Act 2009* defines a public sector entity as a department, a local government, a statutory body, a government owned corporation (GOC) or a controlled entity.
Financial Accountability Act 2009	The Queensland law which provides for accountability in the administration of the State's finances and financial administration of departments and statutory bodies.
Financial Performance and Management Standard 2009	Subordinate Queensland legislation which provides a framework for an accountable officer of a department, or a statutory body, to develop and implement systems, practices and controls for the efficient, effective and economic financial and performance management of the department or statutory body.
Financial statements	The Australian Accounting Standards Board defines financial statements as comprising: • a statement of financial position as at the end of the period • a statement of profit or loss and other comprehensive income for the period • a statement of changes in equity for the period • a statement of cash flows for the period • notes, comprising a summary of significant accounting policies and other explanatory information • comparative information in respect of the preceding period.
Full time equivalents (FTE)	The total headcount adjusted for the impact of part time working arrangements.
Headcount	The total number of permanent employees, temporary employees, contracted-in and seconded 'in' resources; it excludes employees seconded 'out' and on leave without pay.

Term	Meaning
Index points (ip)	The Client Survey questionnaire of Australian audit offices contained three main groups of questions covering different areas of an audit office's performance: audit process quality; audit reporting quality; and the value of the audit office's financial audit services. For each area, an aggregate performance index has been constructed, averaging individual question indices for questions that address the area. The index for a question is the mean (average) response for the question across respondents (using a 5-point response scale) transformed into a 0 to 100 point scale. The higher the index score, the more positive is the average respondent's perception of the audit office's performance. Index scores of 51–100 indicate that, on average, respondents have provided a favourable assessment of the audit office's performance. An overall performance index has also been calculated. This index is the average of the aggregate indices for each area of performance.
Minimum Obligatory Human Resource Information (MOHRI) FTE	The total number of permanent employees and temporary employees, who are either full time or part time. It excludes employment agency or contracted-in resources, and employees seconded 'out' or on leave without pay for longer than eight weeks.
Parliamentary committees	The *Parliament of Queensland (Reform and Modernisation) Amendment Act 2011* established portfolio committees to cover all areas of government activity, examine Appropriation Bills, other legislation and public accounts and public works. Parliament generally refers the Auditor-General's reports to a relevant parliamentary committee for review and response. The portfolios of parliamentary committees are Agriculture, Resources and Environment; the Legislative Assembly; Education and Innovation; Ethics (and a Select Committee on Ethics); Finance and Administration; Health and Community Services; Legal Affairs and Community Safety; Parliamentary Crime and Corruption; State Development, Infrastructure and Industry; and Transport, Housing and Local Government.
Queensland Audit Office (QAO)	The Queensland Audit Office supports the role of the Auditor-General of Queensland in providing Parliament with an independent assessment of the financial management activities of public sector entities.
Referrals	Anyone with information or concerns about financial mismanagement in public sector entities in Queensland can refer the matter for consideration, review and possible investigation by the Auditor-General.
Reports to Parliament	Under section 54 of the *Auditor-General Act 2009*, the Auditor-General may prepare a report on any audit conducted under the Act. The Act requires the Auditor-General to report to the Legislative Assembly on auditing standards, and on audits of the consolidated fund accounts or public sector entities, those requested by the Legislative Assembly and audits of matters relating to property held by a public sector entity. These reports are published at www.qao.qld.gov.au upon tabling in Parliament.
Strategic audit plan	Section 38A of the *Auditor-General Act 2009* requires the publication of a strategic audit plan of proposed audits over a three-year period, reviewed and updated annually and published at www.qao.qld.gov.au.

Appendix D—Index

Further information

As required by annual reporting guidelines, further information is available online at www.qao.qld.gov.au related to the following:

- Consultancies
- Overseas travel
- Queensland Cultural Diversity Policy

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