

2013 Audit Update

25th and 27th March 2013

Program

- Auditor-General's Address
 - Andrew Greaves
- Reports to Parliament
 - Mark Leishman, Partner, Forensic Advisory (KPMG)
 - Geoff Moran, Director, Performance Audit
- Technical Update
 - Paul Christensen, Director, Audit Policy and Quality

Auditor-General Update

Andrew Greaves
Auditor-General

Strategic plan 2012-16

- Objective
 - Authoritative reporting that is used by the public sector to fulfill its accountability obligations, and improve its performance.
- Strategies
 - More timely and open engagement with the public sector
 - Focus on the things that matter and that will make a difference
 - Better leverage our public sector expertise

Reports to Parliament 2012-13: financial audit

- Results of audits: State public sector entities for 2011-12 (Report 5: 27 Nov 2012)
- Results of audits: Queensland state government financial statements 2011-12 (Report 7: 5 Mar 2013)
- Results of audits: Local government entities for 2011-12 (April 2013)
- Results of audits: Education entities for 2012 (April 2013)
- Results of audits: Internal control (June 2013)

Strategic Audit Plan

- *Auditor-General Act 2009* (s.38A) - publication of a strategic audit plan of audits proposed to be conducted over the three subsequent years.
- The first Strategic Audit Plan 2012-15 is available on the QAO website (www.qao.qld.gov.au)
- Covers the full audit mandate - financial and performance audits

Financial audit areas of emphasis

Figure 2.2 – 2013-14 planned areas of emphasis

Internal control element	Area of emphasis	Objective	Sector
Control environment			
Information system access and security	Wireless security	Assess the level of protection for the network perimeter against unauthorised access and ensure that all access points are managed using enterprise management tools	Local government
Accountability and responsibility	Financial delegation authorities	Review the assignment and acquittal of delegated financial authority and how these delegations are managed	Departments, statutory bodies, universities and local government
Financial statement component	Area of emphasis	Objective	Sector
Income and expenditure			
Fees and charges	Setting of fees and charges	Assess compliance with Financial and Performance Management Standard which requires departments and statutory bodies to establish revenue management systems and a process for determining user charges for goods and services provided	Departments and statutory bodies
Supplies and services	Procurement practices	Assess compliance with State Procurement Policy with particular emphasis on procurement plans, preferred supplier arrangements and potential for kickbacks	Universities
Assets and liabilities			
Receivables	Debt recovery and write off of bad debts	Assess adequacy of processes and procedures over: <ul style="list-style-type: none"> • recovery of debts • provisioning methodology • write off approvals 	Departments

Practice management matters

- Continued focus on audit cost and fees
 - Work with agencies to streamline financial reporting and auditing processes
 - Bring audit effort forward, identify and resolve reporting issues before balance date
- Continued focus on “value add”
 - Sector director model fully implemented
 - Engagement plans and communication strategies in place

Questions?

Performance audit: Fraud risk management

Mark Leishman
Partner, Forensic Advisory, KPMG

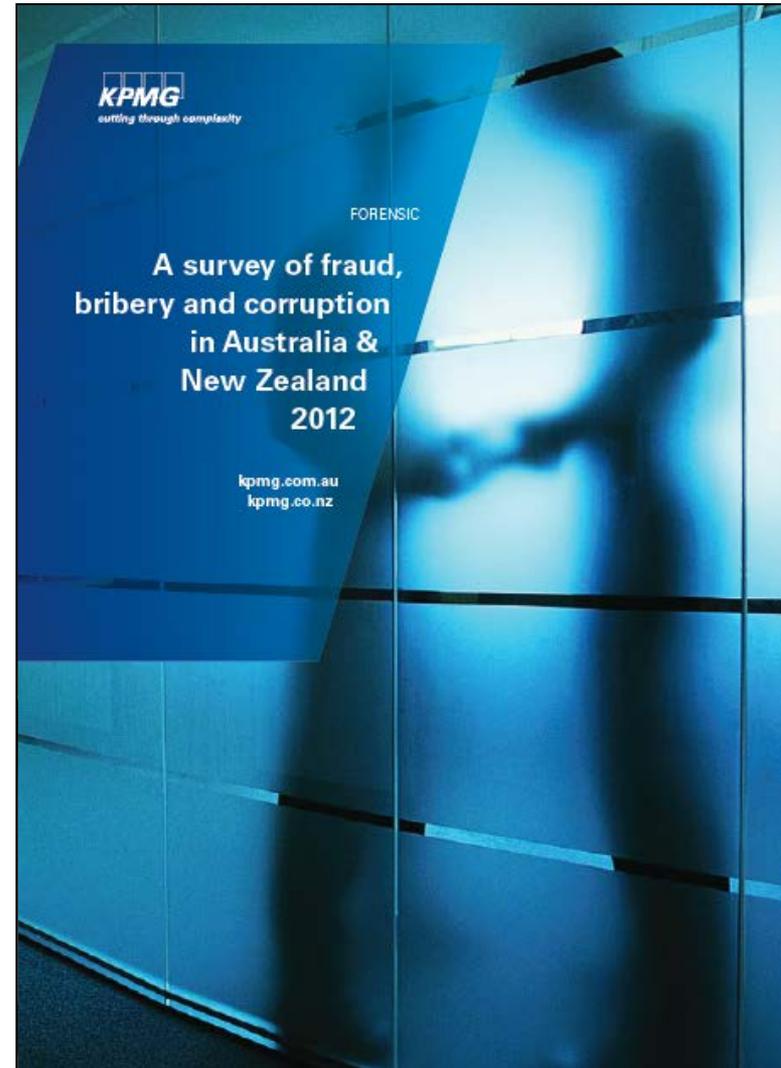
**This first decade of the new century will
forever be known as the decade of
“Fraud and Ponzi Schemes”**

Source: AFP, 16 August 2011

A survey of fraud, bribery and corruption in Australia & New Zealand 2012

About the survey

- 10th biennial survey since 1993
- 281 responding organisations
- Inclusion of Bribery and Corruption issues
- Use of data analytics to review data over the last 15 years
- Actuarial analysis against macro economic factors



Key findings

- Increase in fraud loss of \$27.3m (up 8% from 2010) to \$372.7m in 2012
- 82% increase in frauds exceeding \$1m
- Increase in the number of perpetrators of major frauds over the age of 55
- For major frauds, the typical fraudster is likely to be a staff member
- Collusive fraud is growing, particularly between internal and external parties
- 75% reported experiencing behaviours defined as bribery and corruption
- Improvement in the provision of fraud awareness training

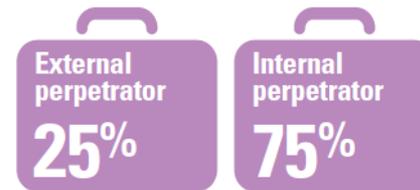
Profile of the fraudster

Who is the face of major fraud?

A male phenomenon



Inside jobs are on the increase, with **75%** of major frauds committed by insiders.



What are the other characteristics of a typical fraudster?



Perpetrators with no known history of fraud



Increase in fraudsters earning close to \$100k



Most common motivations for fraud

Mature masterminds

Are they as trustworthy as they seem?

Over-55s

Incidents

2010



3%

2012



14%

Value

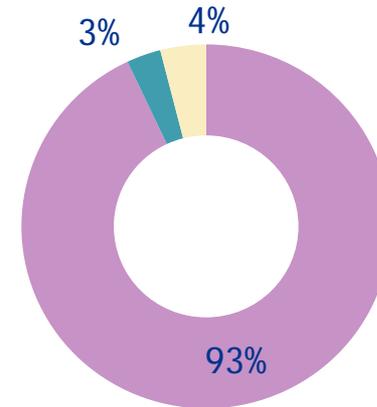


2%



26%

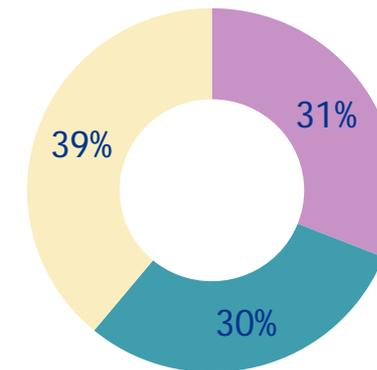
Overall motivators



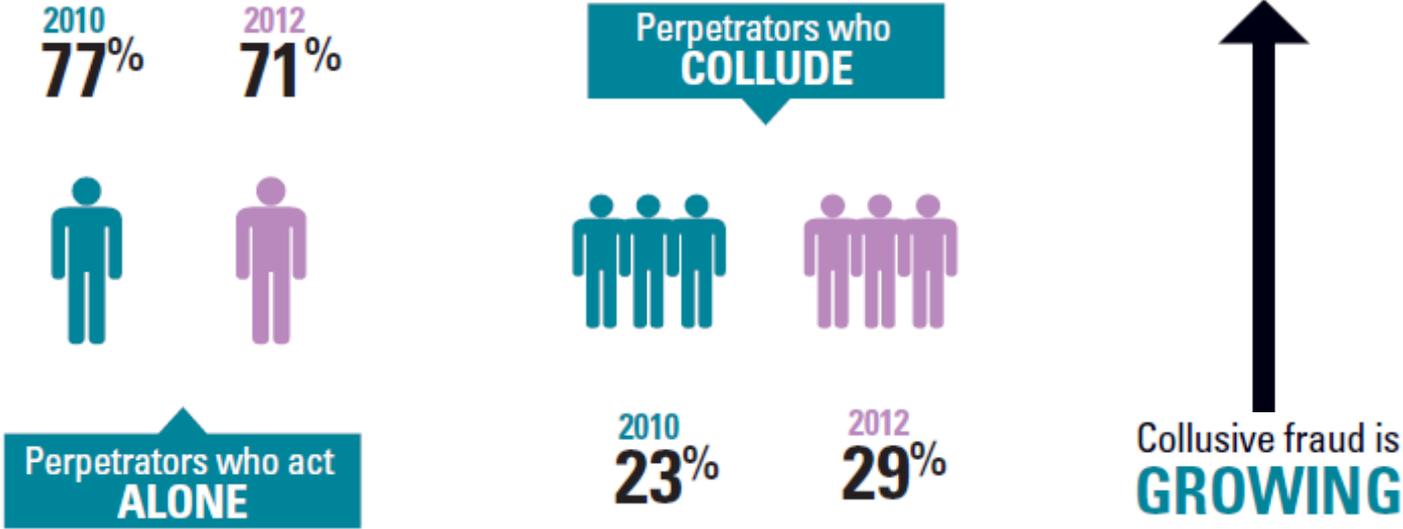
■ Greed/
lifestyle

■ Personal
financial
pressure

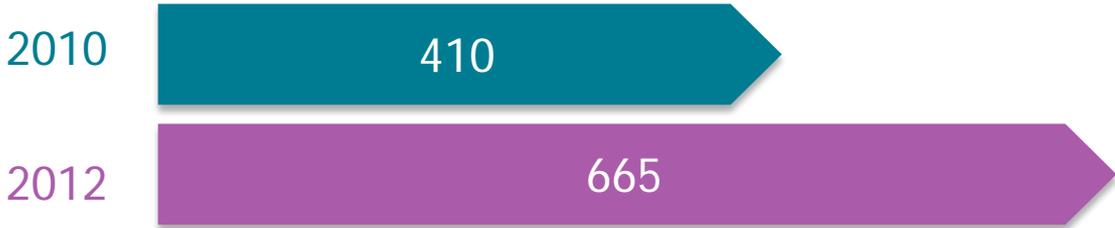
■ Other



The power of collusion



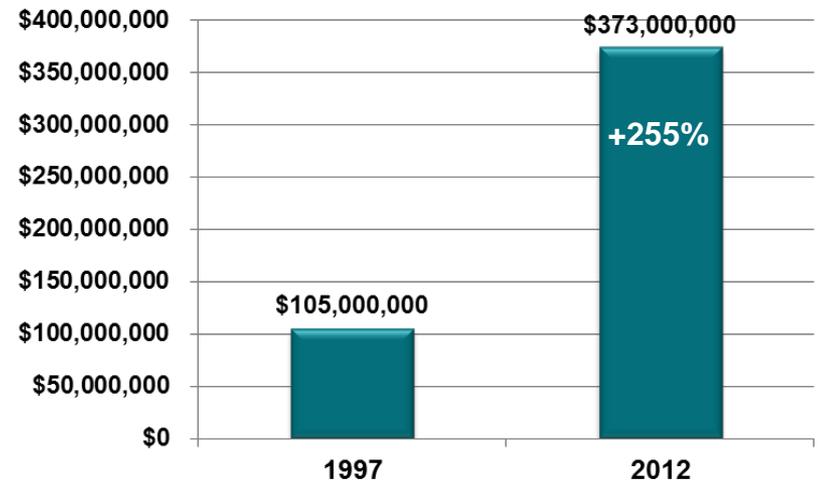
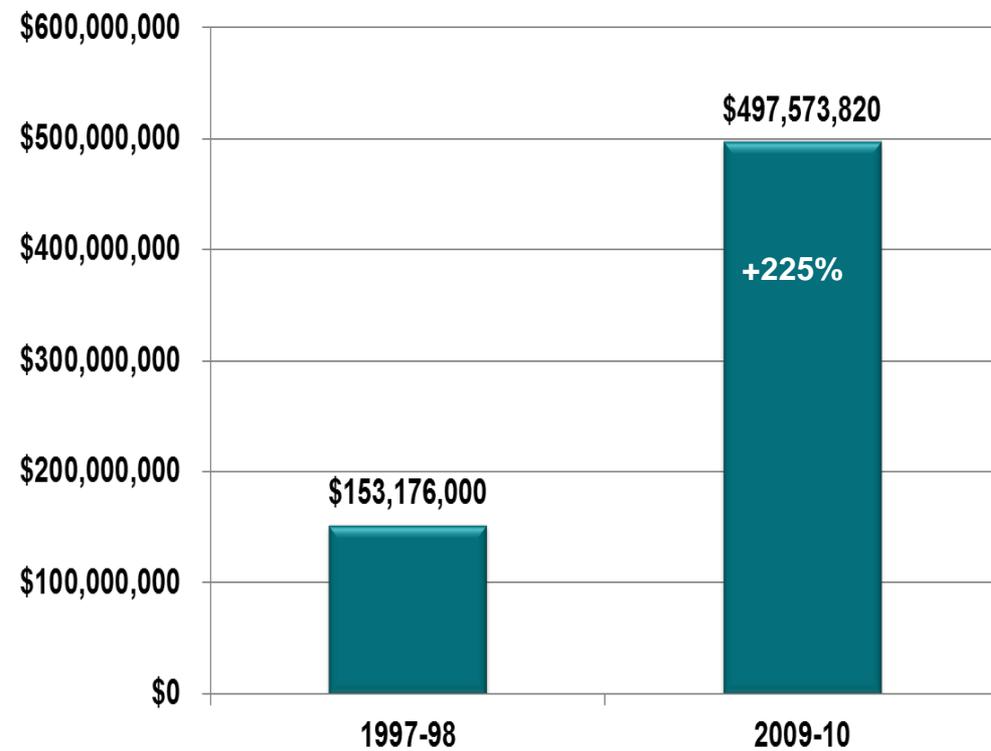
Average time (days) to detect collusive fraud



Is fraud against the Commonwealth increasing?

Fraud losses in 152 Commonwealth agencies

Fraud losses in 281 Aust & NZ organisations



ANAO Survey 1999

AIC Survey 2010

KPMG Survey 2012

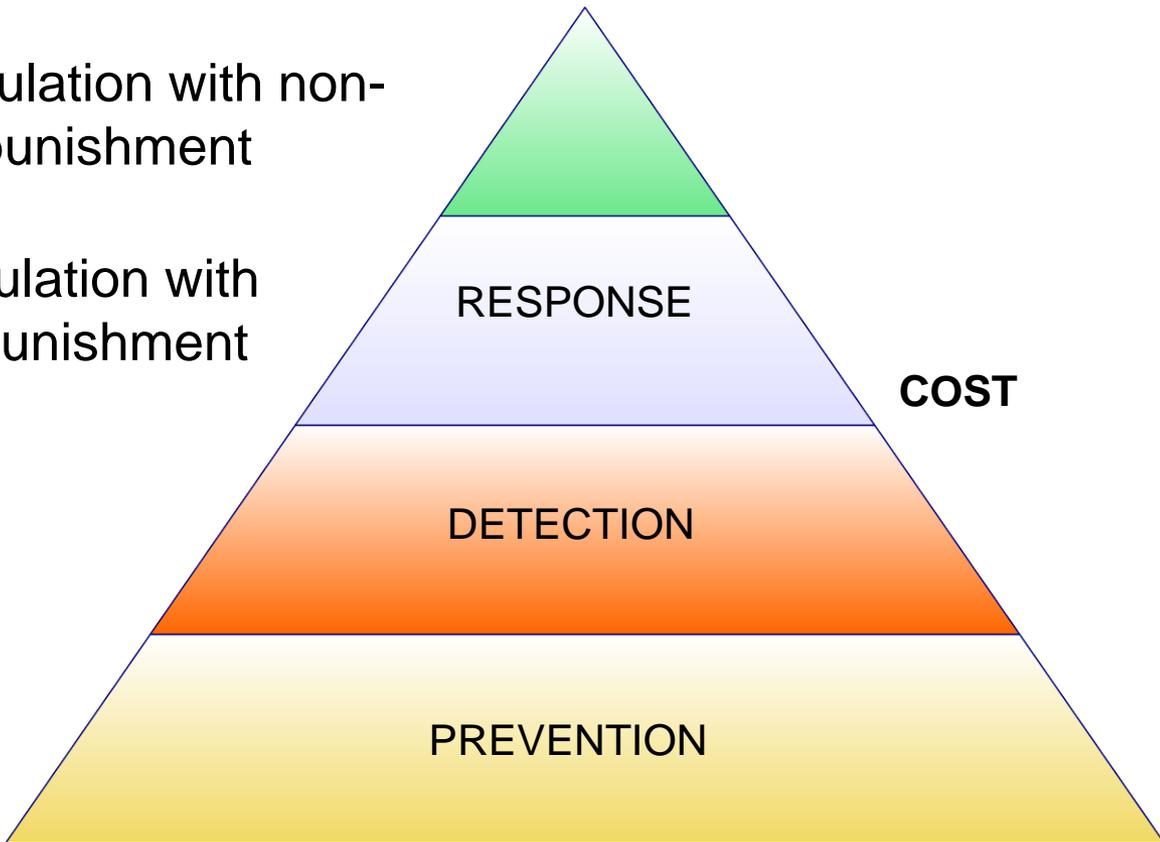
A strategic model for Fraud Control Program development

Command regulation with non-discretionary punishment

Command regulation with discretionary punishment

Enforced self regulation

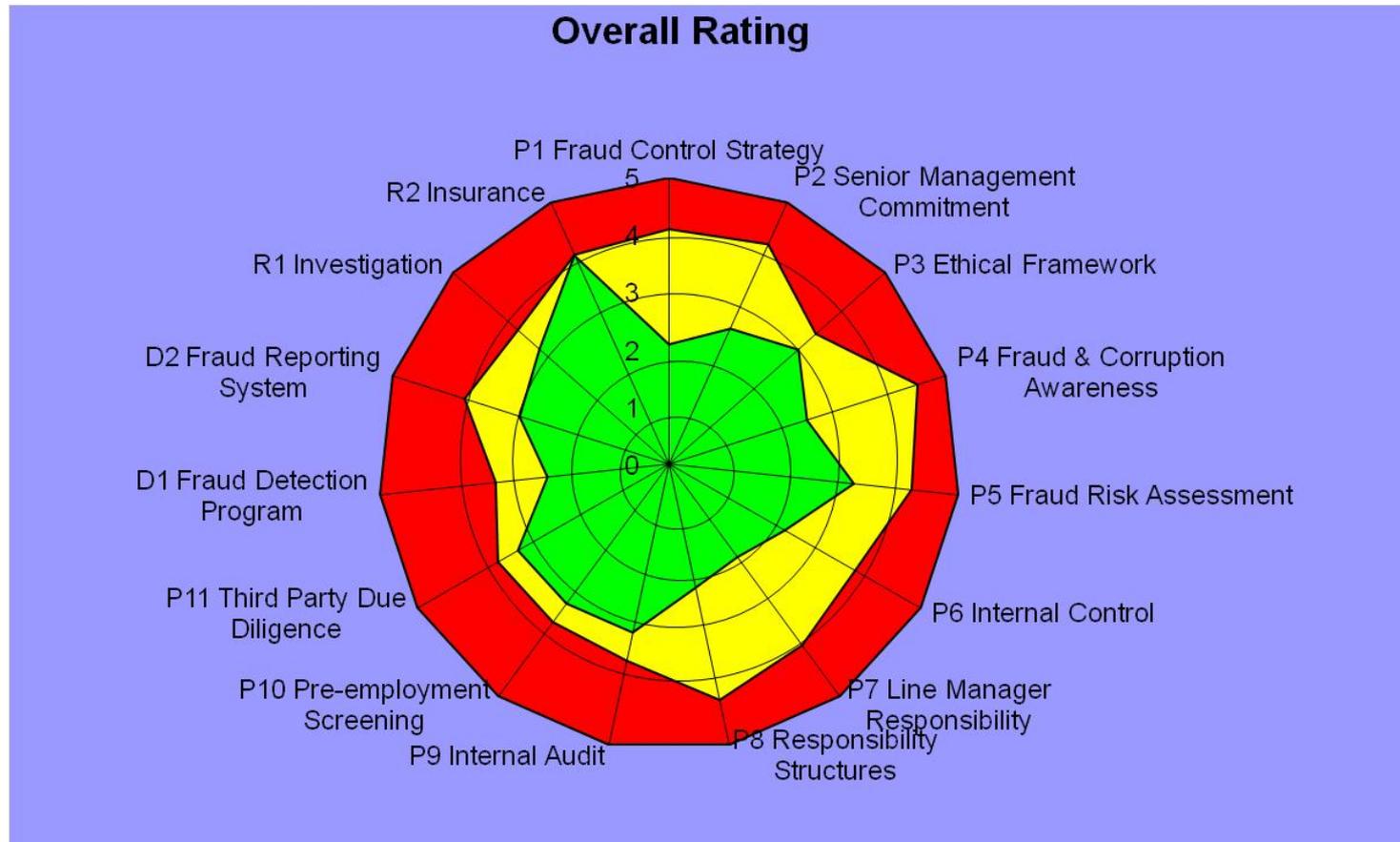
Self regulation



Source: *Responsive Regulation, Transcending the Deregulation Debate*, Ian Ayres and John Braithwaite, 1992, Oxford Uni Press.

Fraud framework assessment - does your agency have a comprehensive fraud control framework?

Example state government agency (facilitated self-rating)





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Performance audit: Fraud risk management

Geoff Moran
Director

The audit

The report was tabled in Parliament on 19 March.

The audit examined whether selected agencies are effectively managing fraud risks. It assessed fraud controls at:

- Queensland Health (including six Hospital and Health Services)
- The Department of Housing and Public Works
- The Public Trustee of Queensland.

Context

Fraud: dishonestly obtaining a benefit by deception or other means.

Surveys report that more than one-third of public sector organisations had experienced fraud.

Less than one quarter of fraud is uncovered by internal controls.

Context

Agencies are operating in an environment of heightened risk.

The opportunity and motivation for fraud increase with major structural change, reform and lack of job security.

Staff reductions may have compromised controls.

Conclusions

- There was no evidence of fraud at the agencies examined.
- Fraud control is not being supported by visible processes.
- Having policies, plans and reporting and investigation procedures is not sufficient - targeted campaign of fraud prevention and detection is needed.
- Culture does not reinforce fraud management as the core responsibility of employees.

Findings



Note: A '3' rating represents the minimum acceptable level; '5' is best practice. The basis for each rating is explained in the Context chapter.

Source: Queensland Audit Office

Recommendations

- All public sector agencies should assess their fraud control program against better practice principles
- They should implement a plan to address deficiencies identified by the self-assessment
- Agencies should:
 - Conduct and regularly update fraud risk assessments
 - Implement routine data analytics over areas identified as inherently susceptible to fraud
 - Use their fraud data to inform ongoing development of fraud control programs.

Questions?

Technical Update

Paul Christensen
Director, Audit Policy and Quality

Session Outline:

- Results of Financial Statement Audits 2011-12
- Accounting Standard Update
- Other matters

Results of financial statement audits 2011-12

- Timeliness of financial statements
 - 76.9% of public sector entities had financial statements prepared and audited within timeframes
 - 67% of councils had statements prepared and audited by 30 November
- Quality of financial statements
(42 most material public sector entities)
 - 88% satisfactory
 - 12% need improvement
 - Combined material adjustments required to the financial statements totaled \$793.26 million

Better practice framework

- Financial report preparation plan
- Preparation of shell financial statements
- Materiality assessment
- Monthly financial reporting
- Rigorous quality control procedures
- Standard of supporting documentation
- Rigorous analytical reviews
- Reviews of controls and financial compliance
- Competency of staff

Common issues and areas of focus

- Asset valuations
 - Timing of valuation process
 - Analysis and explanation of significant movements
 - Disclosure of key information
 - Impairment of non-cash generating assets due to impacts of natural disasters
- Equity adjustments and negative contributed equity
- Use of reserves
- Policy disclosures
- Compliance with FRR disclosure requirements

What's required for 2012-13

- Financial statement timetables
- Strategies for early preparation
 - Early closes and early completion of major tasks
 - Preparation of shell financial statements for review by audit
 - Clearance of complex issues
 - Regular reporting
- Review prior year process
- Ensure availability of key staff
- Clear QA processes in place

Changes to standards for 2012-13

AASB 101 *Presentation of Financial Statements*

- Statement of comprehensive income or Statement of profit or loss and other comprehensive income
- Other comprehensive income to be classified by nature and grouped into those that:
 - will not be reclassified subsequently to profit or loss; and
 - will be reclassified subsequently to profit or loss when specific conditions are met
- Consequential amendments to other standards

Changes to standards in future periods

Standards applying from 1 January 2013

- *AASB 13 Fair Value Measurement*
 - Single standard for measuring fair value of all assets and liabilities (financial and non-financial)
 - Provides guidance on how to determine fair value when required by another standard
 - Expands disclosure requirements, including assumptions and impact of assumptions
- *AASB 119 Employee Benefits*
 - Revised definition of “short-term benefits”
 - Revises accounting for defined benefit plans
 - Timing for recognising provision for termination benefits

Changes to standards in future periods

Standards applying from 1 January 2013

- Suite of six related standards applying to accounting for interests in other entities
- Revised concept of control
- Accounting for of “joint arrangements”
 - Joint operation
 - Joint ventures
- Separate standard containing disclosure requirements

Changes to standards in future periods

Changes applying from 1 July 2013

- AASB 101 amended to clarify requirements for comparative information (retrospective adjustments)
- AASB 124 removes disclosure requirements for KMP for disclosing entities
- AASB 1053 adoption of reduced disclosure requirements for Tier 2 entities

Changes to standards in future periods

Standards applying post 1 July 2014

- *AASB 1055 Budgetary Reporting* (1 July 2014)
 - NFP entities within general government sector
 - Relocates and extends budgetary reporting requirements within AASB 1049
- *AASB 9 Financial Instruments* (1 July 2015)
 - Commencement date deferred from 1 July 2013
 - Basis for classifying financial assets and liabilities measured at amortised cost
 - Further changes likely to follow

EDs and possible future changes

- Exposure Drafts on AASB website
 - 9 open for comment
 - 41 pending
- AASB public sector active projects
 - Control in NFP public and private sector
 - Income of NFP Entities
 - Borrowing costs of NFP public sector entities
 - Service Concession Arrangements: Grantors
- AASB public sector non-active projects

What needs to be done

- Review and assess impact of latest standards
- Update Note 1 for impact of standards issued but not yet applied
- Are systems in place to capture comparative information that will be required next financial year?
- Revise valuation process against AASB 13
- Assess interest in other entities against the new standards
- Continue to monitor and assess developments

Other matters for consideration

- AASB staff papers on carbon tax
 - Accounting by emitters and accounting by government
- Grant acquittals
 - Separate financial statements requiring audit opinions
 - Quality and timeliness of statements
 - Lack of coordination and quality control
 - Lack of clarity in reporting and auditing requirements
- ACNC
 - Move to a new reporting framework for charities

Conclusion

What's it all mean:

- Results were good for 2011-12 but there is still room for improvement
- Minimal changes to standards for 2012-13 but significant changes from 1 January 2013
- AASB focus on public sector requirements
- Increased focus on grant acquittals from QAO and other governments

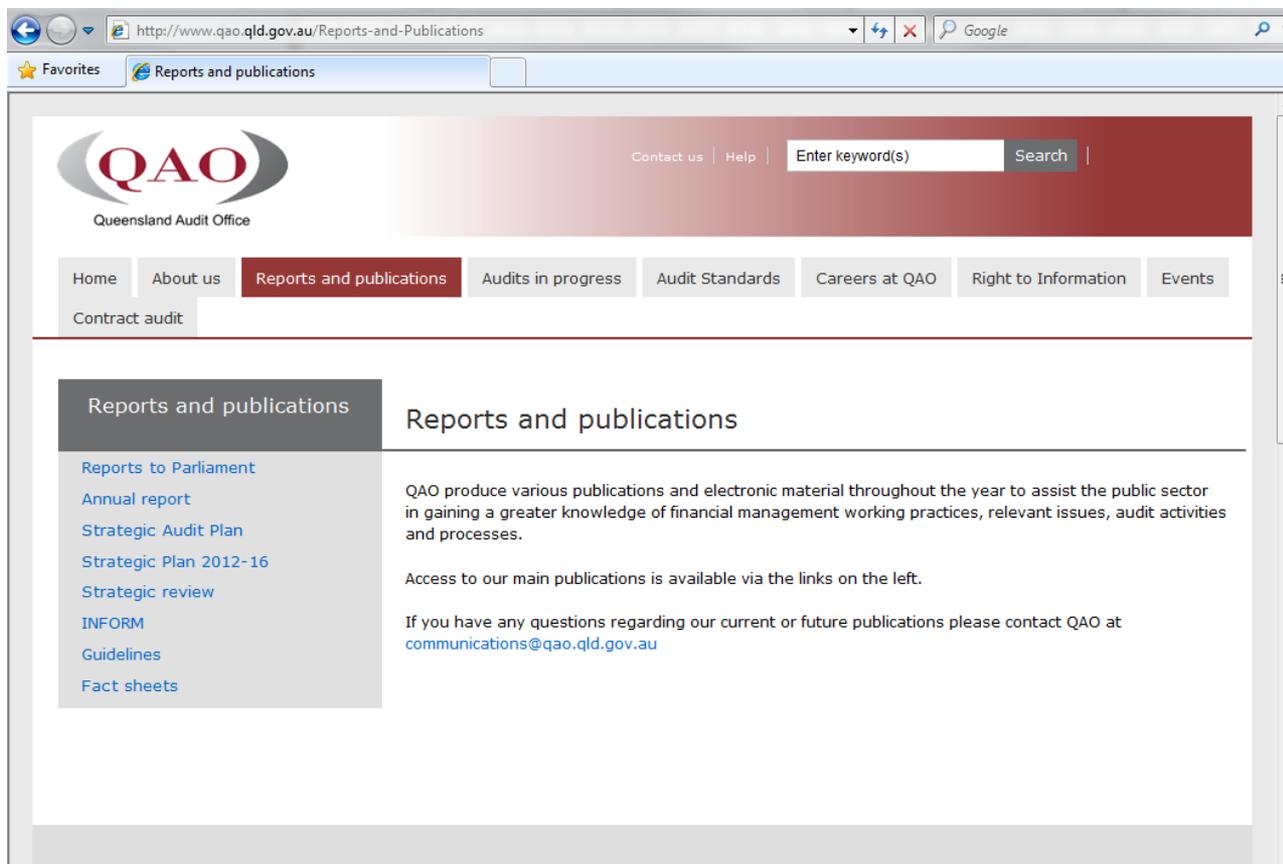
Conclusion

Session close

Questions?

QAO reports and publications

www.qao.qld.gov.au



The screenshot shows a web browser window displaying the QAO website. The address bar shows the URL <http://www.qao.qld.gov.au/Reports-and-Publications>. The page features the QAO logo (Queensland Audit Office) and a search bar with the text "Enter keyword(s)". A navigation menu includes links for Home, About us, Reports and publications (highlighted), Audits in progress, Audit Standards, Careers at QAO, Right to Information, and Events. Below the navigation menu, there is a sub-menu for "Contract audit". The main content area is titled "Reports and publications" and contains a list of links: Reports to Parliament, Annual report, Strategic Audit Plan, Strategic Plan 2012-16, Strategic review, INFORM, Guidelines, and Fact sheets. The text below the links states: "QAO produce various publications and electronic material throughout the year to assist the public sector in gaining a greater knowledge of financial management working practices, relevant issues, audit activities and processes. Access to our main publications is available via the links on the left. If you have any questions regarding our current or future publications please contact QAO at communications@qao.qld.gov.au".