

Queensland Audit Office

Brief for Audit Committee Chairs



30 July 2015

Welcome

Poopalasingam Brahman, Assistant Auditor-General QAO



Our new strategic plan



Strategic Plan 2015-2019

Vision: Better public services World-class audit

Purpose: Independent assurance Unique insights

Values:



Engage



Challenge



Deliver



Care

Objectives	Strategic risks	Strategies	Indicators of achievement
<ul style="list-style-type: none"> Our clients use the information we provide to improve accountability and performance. Our services are trusted and valued as independent, authoritative and timely. Our people are developed to be the best in their field and are supported by efficient and effective operations. 	<ul style="list-style-type: none"> Our key stakeholders question our independence or competence. We do not effectively manage our stakeholders' expectations. We do not adapt our services in response to our stakeholders' changing needs. We do not uphold our professional ethical and quality standards. We cannot access or develop the capabilities we need. Our operations do not deliver our services efficiently and effectively. 	<ul style="list-style-type: none"> Pursuing opportunities to achieve greater autonomy. Developing new ways to better engage with our stakeholders. Adapting our audit approaches to provide greater value to our stakeholders. Developing our workforce to better leverage a data rich future. Better use of new technology and standardised processes to improve our operations. Engaging with our staff to embed our values. 	<ul style="list-style-type: none"> Our clients increasingly value our relationship and the services we provide. Our clients realise benefits from the work we do and information we provide. Our people are highly professional, capable and engaged. Our organisation demonstrates ongoing improvements in efficiency and effectiveness.

Agenda

Session 1 – Daniele Bird, Michael Keane & David Toma

- Our strategic audit program
- Insights for internal control systems
- Insights for fraud management from Local Government

Session 2 – Damon Olive, Rachel Vagg & Pat Flemming

- Simplification of financial reporting
- Technical update
- Asset valuations
- Residual values: A case study

Our strategic audit program

Strategic Audit Plan 2015-18

Daniele Bird, Assistant Auditor-General QAO



Our strategic audit program

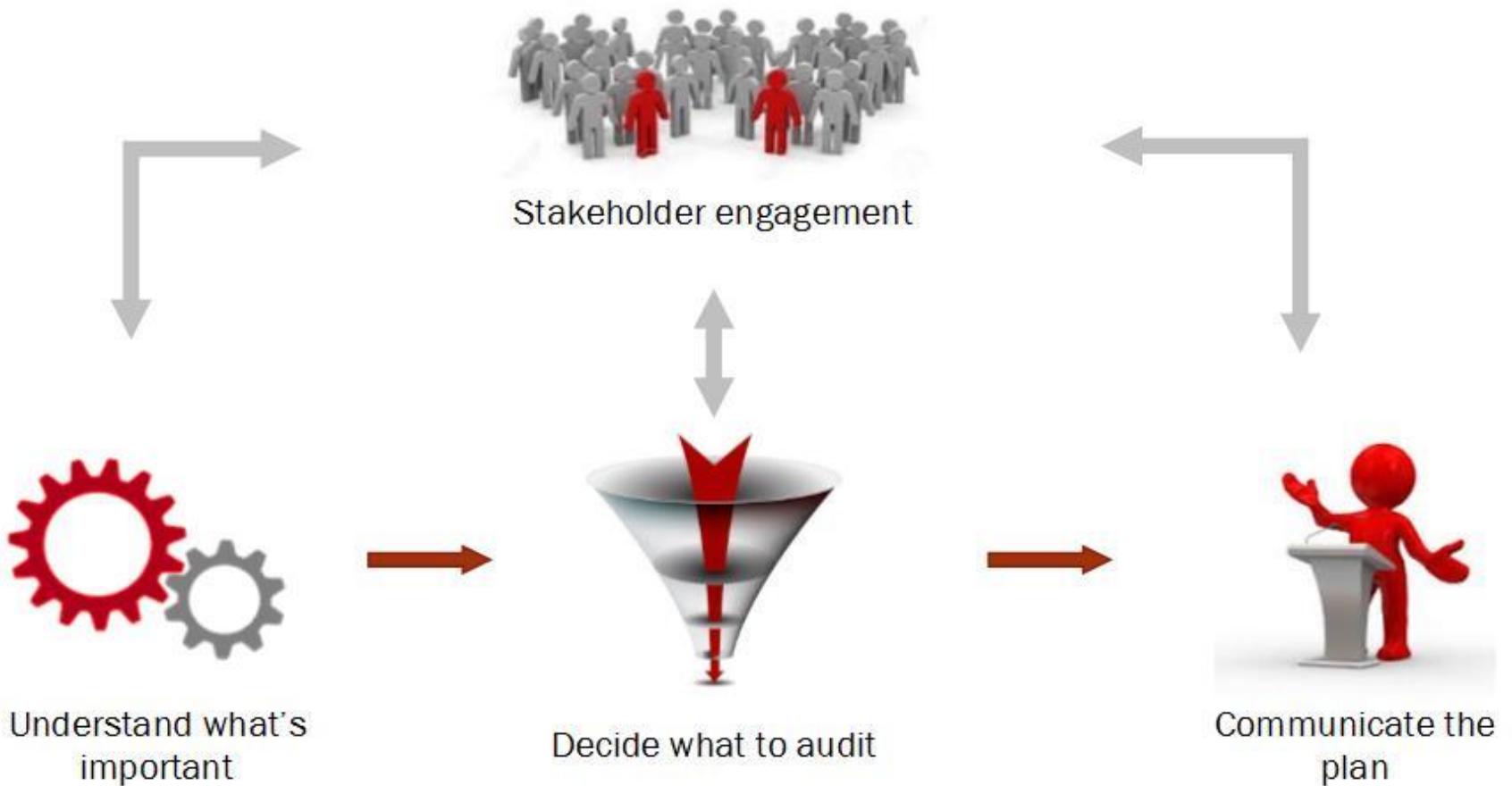
QAO aims to facilitate better public services and strengthened accountability through:

- Reports on results of financial audits
- Reports on performance audits
- Strategic audit plan
- Investigations to matters referred
- Other advice and assistance



Our strategic audit program

We take a consultative approach to determine what we audit.



Our strategic audit program

2015-16 Performance Audits

- Agriculture science research and development programs
- Flood management of river catchments
- Early childhood education
- Cloud computing
- Hospital utilisation
- Management of privately operated prisons
- Follow-up of Community Benefit Funds: grants management
- Royalties for the region
- Major transport infrastructure projects
- Effectiveness of the National Heavy Vehicle Regulator
- Forecasting long term sustainability in local government

Our strategic audit program

2016-17 Performance Audits (proposed)

- Integrated transport planning in south-east Queensland
- Development applications and approvals in local government
- Social housing transfer initiatives
- Prevention and response to domestic violence
- Agricultural pest and disease management
- Security of critical water infrastructure
- Aboriginal and Torres Strait Islander education and employment outcomes
- Teacher performance in public schools
- Government advertising
- Strategic procurement – value for money
- Patient management and administration systems
- Management of mental health

Our strategic audit program

Areas of control focus in financial audits for education, general government and health sectors:

2015-16 financial year

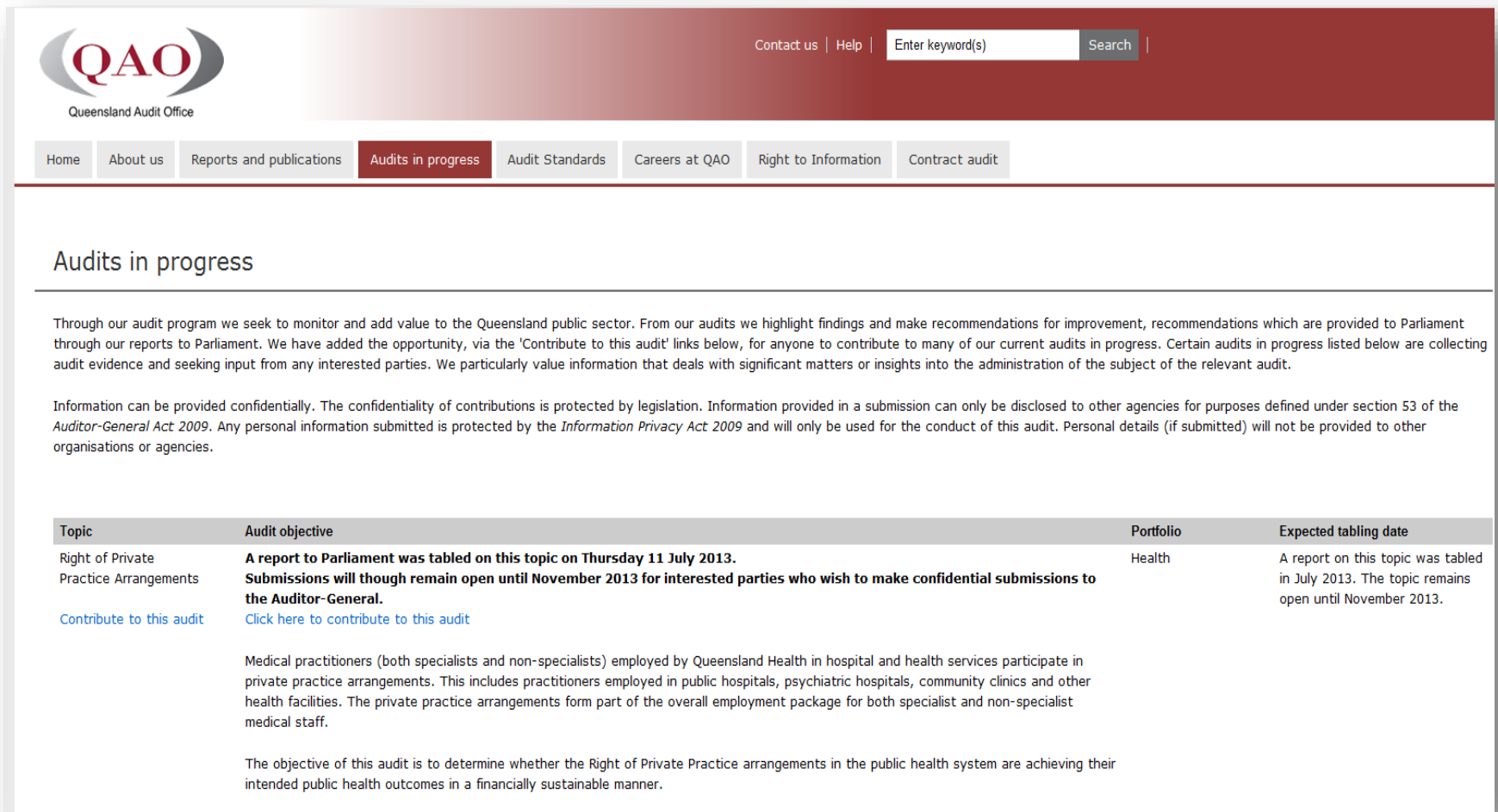
- Organisational structure and accountability

2016-17 financial year

- Fraud risk

Our strategic audit program

More information can be found on our website.



The screenshot shows the Queensland Audit Office (QAO) website. At the top left is the QAO logo with the text 'Queensland Audit Office'. To the right is a navigation menu with 'Contact us', 'Help', a search box containing 'Enter keyword(s)', and a 'Search' button. Below the navigation is a horizontal menu with 'Home', 'About us', 'Reports and publications', 'Audits in progress' (highlighted), 'Audit Standards', 'Careers at QAO', 'Right to Information', and 'Contract audit'. The main content area is titled 'Audits in progress' and contains a paragraph about the audit program's purpose, a paragraph about confidentiality, and a table with one row of audit information.

Queensland Audit Office

Contact us | Help | Search |

Home | About us | Reports and publications | **Audits in progress** | Audit Standards | Careers at QAO | Right to Information | Contract audit

Audits in progress

Through our audit program we seek to monitor and add value to the Queensland public sector. From our audits we highlight findings and make recommendations for improvement, recommendations which are provided to Parliament through our reports to Parliament. We have added the opportunity, via the 'Contribute to this audit' links below, for anyone to contribute to many of our current audits in progress. Certain audits in progress listed below are collecting audit evidence and seeking input from any interested parties. We particularly value information that deals with significant matters or insights into the administration of the subject of the relevant audit.

Information can be provided confidentially. The confidentiality of contributions is protected by legislation. Information provided in a submission can only be disclosed to other agencies for purposes defined under section 53 of the *Auditor-General Act 2009*. Any personal information submitted is protected by the *Information Privacy Act 2009* and will only be used for the conduct of this audit. Personal details (if submitted) will not be provided to other organisations or agencies.

Topic	Audit objective	Portfolio	Expected tabling date
Right of Private Practice Arrangements Contribute to this audit	A report to Parliament was tabled on this topic on Thursday 11 July 2013. Submissions will though remain open until November 2013 for interested parties who wish to make confidential submissions to the Auditor-General. Click here to contribute to this audit Medical practitioners (both specialists and non-specialists) employed by Queensland Health in hospital and health services participate in private practice arrangements. This includes practitioners employed in public hospitals, psychiatric hospitals, community clinics and other health facilities. The private practice arrangements form part of the overall employment package for both specialist and non-specialist medical staff. The objective of this audit is to determine whether the Right of Private Practice arrangements in the public health system are achieving their intended public health outcomes in a financially sustainable manner.	Health	A report on this topic was tabled in July 2013. The topic remains open until November 2013.

Our strategic audit program

Insights for audit committees:

- Preparation for planned audits
- Follow up of previous audit report recommendations
- Contributions to future audit topics

Insights for internal control systems

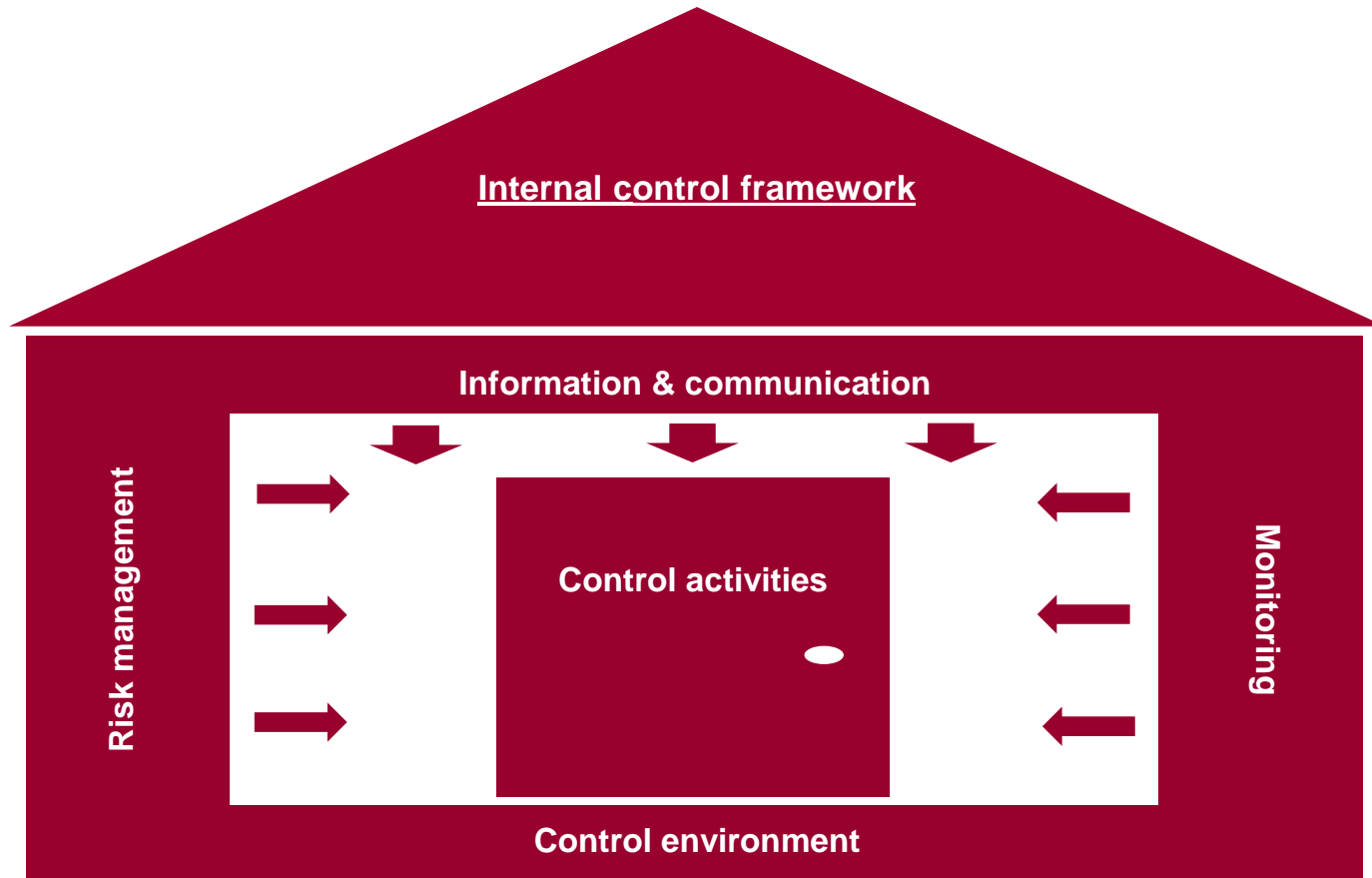
Results of audit: Internal control systems
2014–15 (Report 1: 2015-16)

Michael Keane, Sector Director QAO



Insights for internal control systems

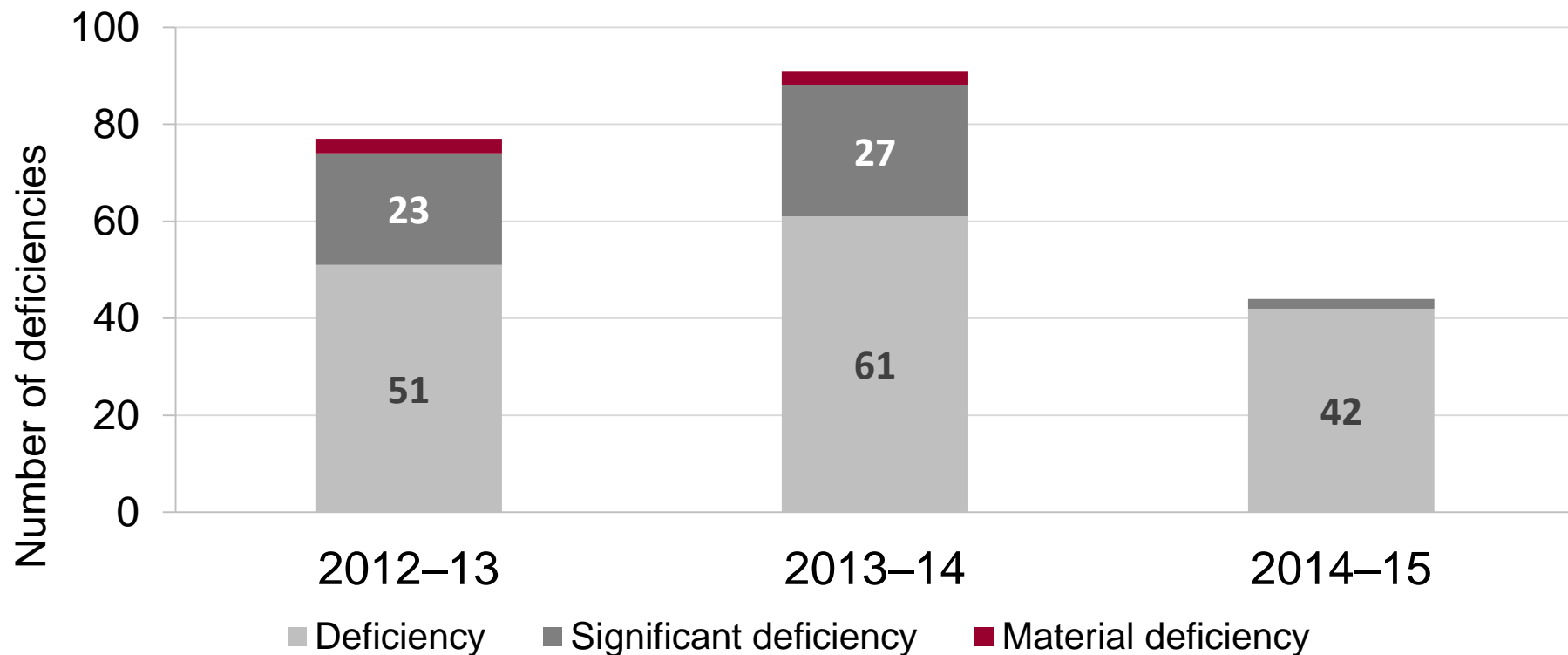
QAO assesses each entity against an integrated control framework.



Insights for internal control systems

Overall themes:

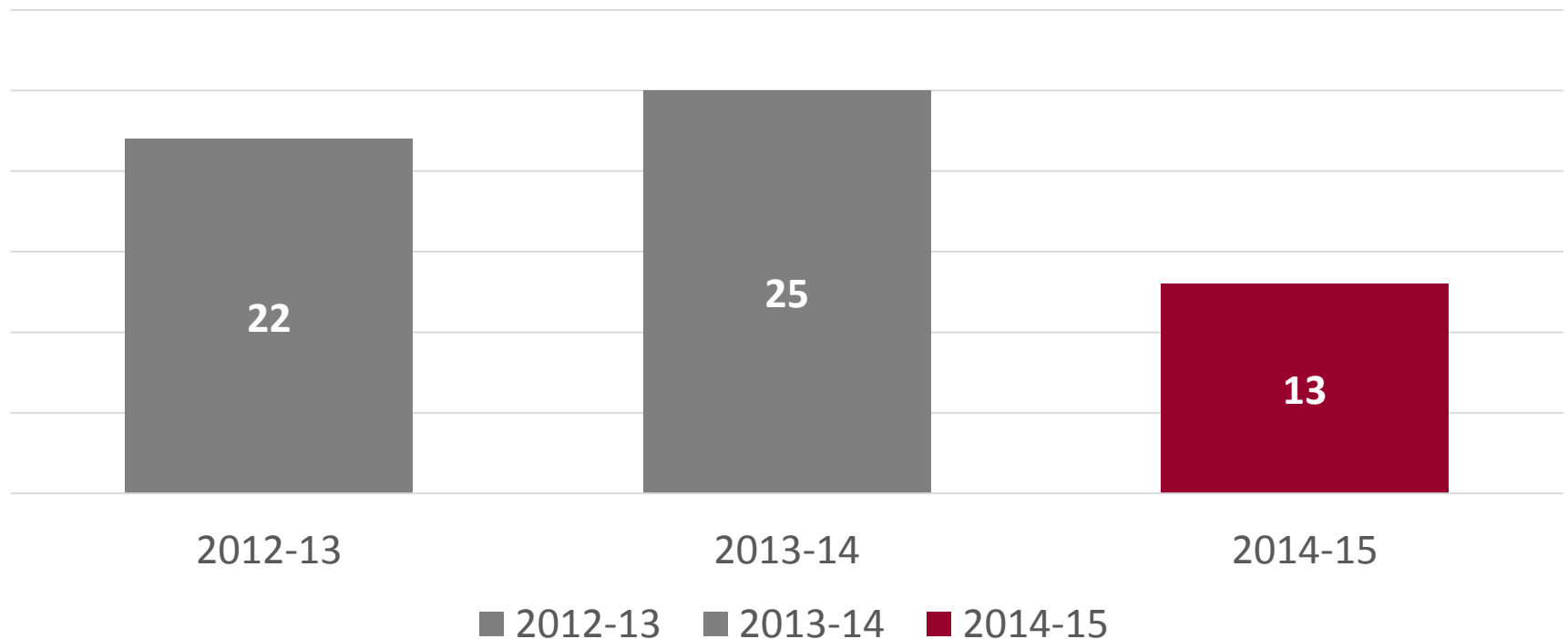
- Inconsistently applied controls
- User access to information systems
- Inadequate review and monitoring of payroll reports



Insights for internal control systems

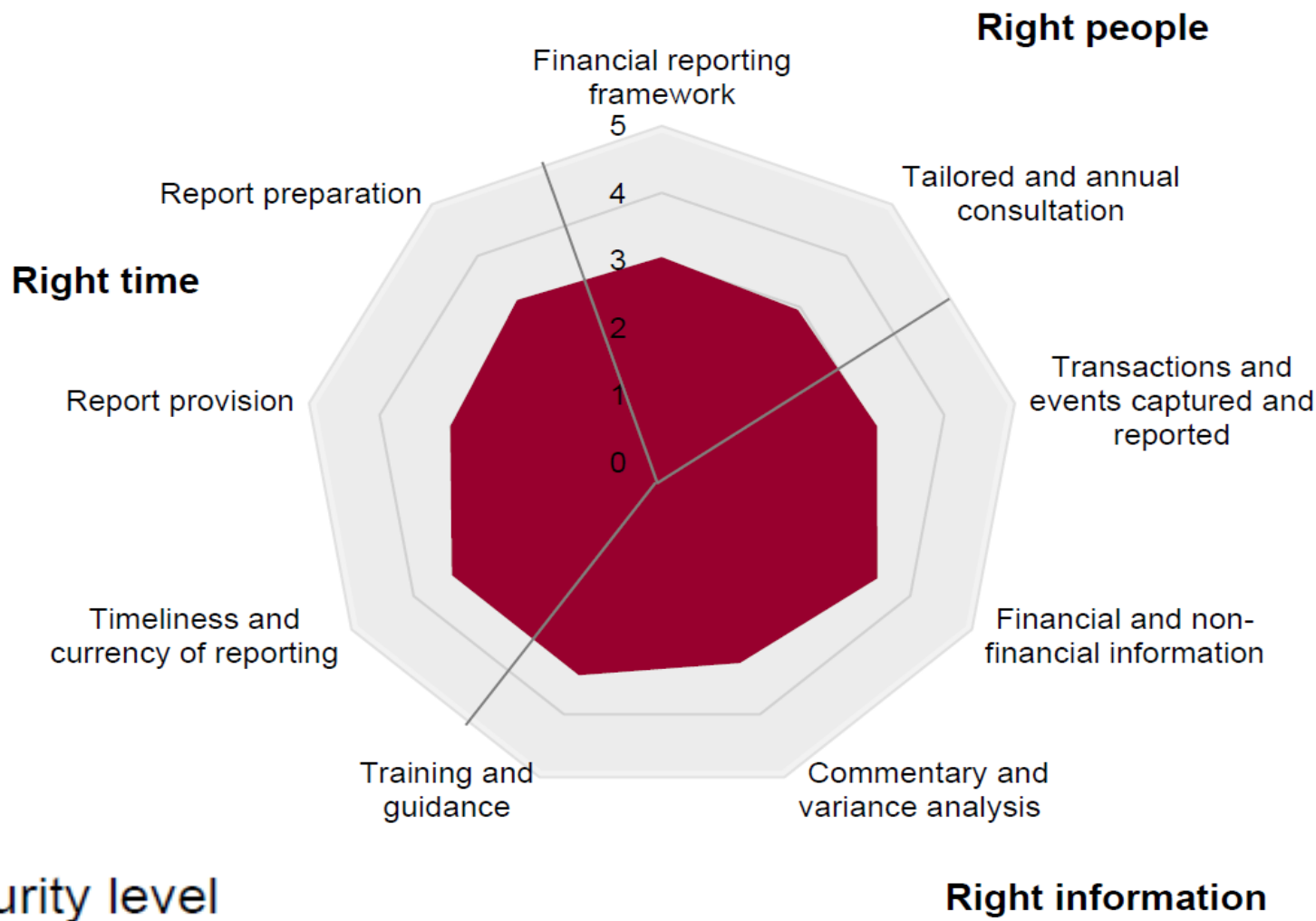
Information systems themes:

- Review of user roles and activities
- Management of privileged user accounts
- Inappropriate access
- Vulnerability to attack



Insights for internal control systems

Our area of focus; internal financial management reporting.



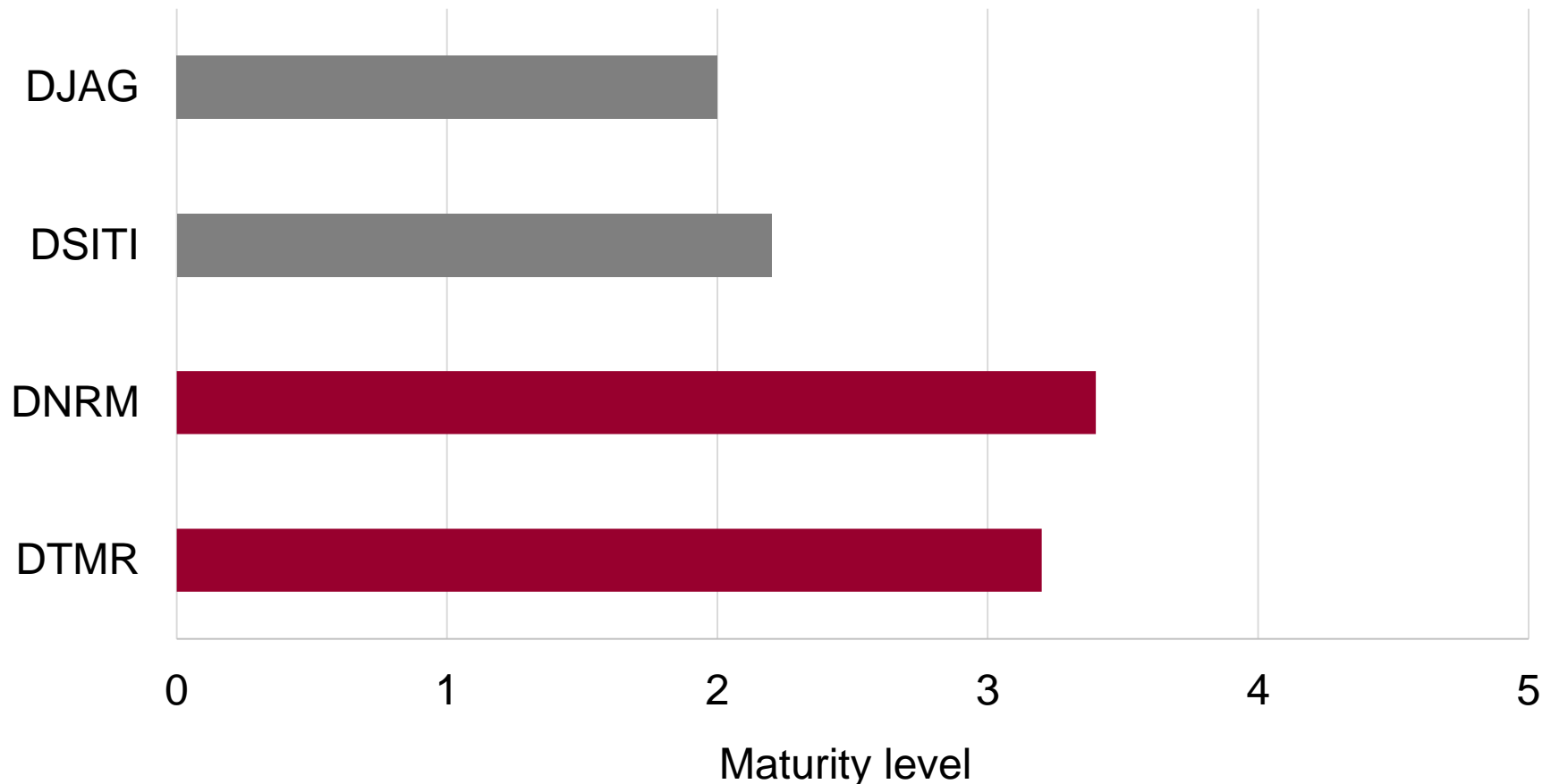
Insights for internal control systems

Opportunities for improvement in internal financial management reporting:

- Continuous improvement
- Better leverage technology solutions
- Combine financial and non-financial information

Insights for internal control systems

We expected to see mature capability for departments in IT disaster recovery planning but found varying levels.



Insights for internal control systems

Departments should:

- update and approve disaster recovery plans
- define disaster recovery targets for all business units
- increase the frequency of disaster recovery testing to twice yearly
- obtain and monitor periodic reports on testing
- use emerging technology for backup and recovery testing
- develop a plan to improve maturity and manage to that plan

Insights for internal control systems

Questions you should consider:

- How many control issues relate to IT controls?
- Is reporting being considered as part of any system upgrades?
- Are you confident your agency can recover from an IT disaster?

Insights for fraud management from Local Government

**Fraud Management in Local Government
(Report 19: 2014-15)**

David Toma, Audit Manager QAO



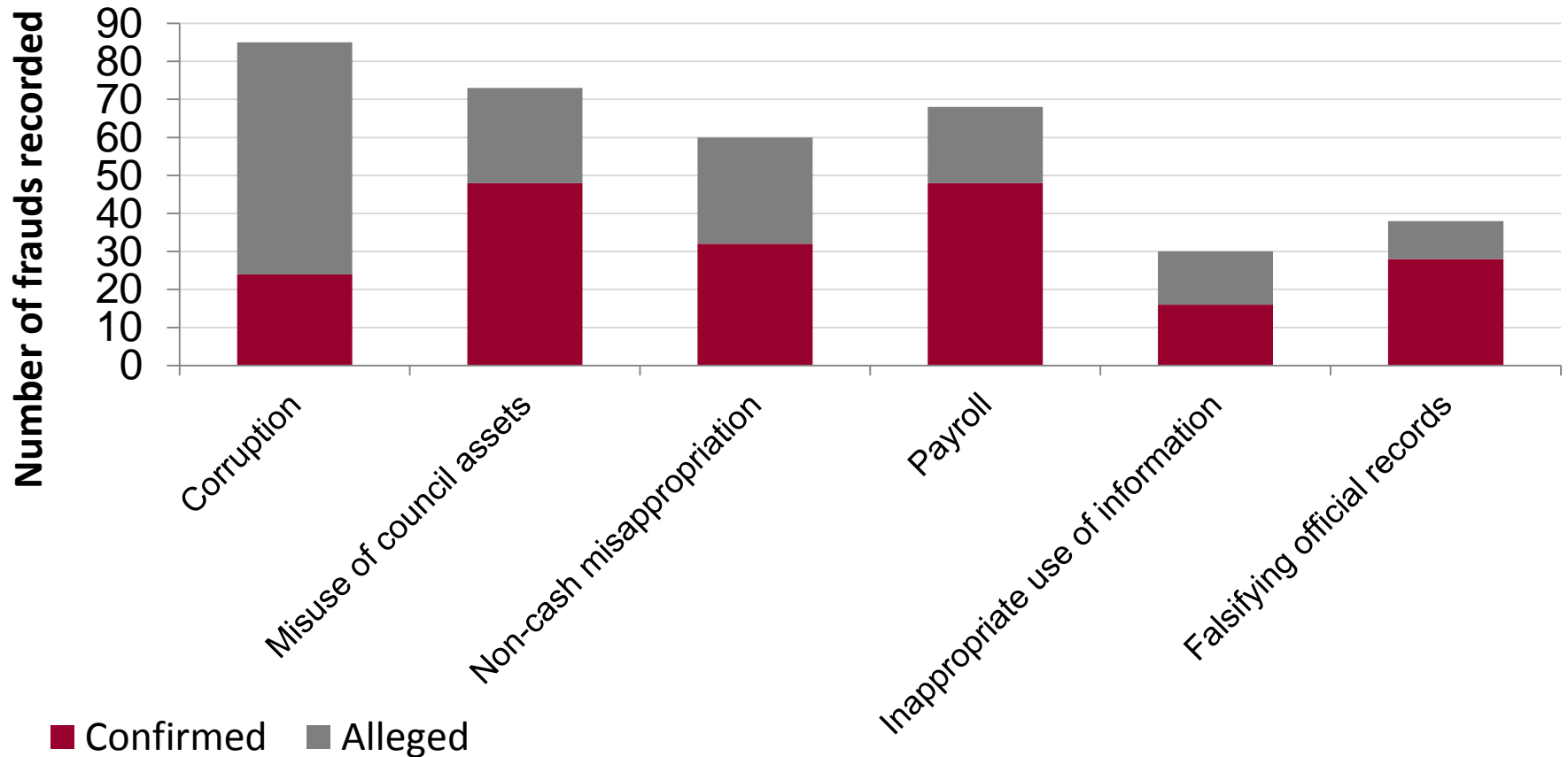
Insights for fraud management

- **Set the tone** for zero tolerance from the top
- **Fraud and corruption control plans consistent** with the Australian Standard and revise at least every two years
- Regular **fraud risk assessments** and identify most susceptible areas
- Enhance a **data analytics capability** to detect fraud that is targeted to the results of fraud risk assessments

Insights for fraud management

Understanding extent and types of fraud can inform targeted strategies

Common fraud types 2009 to 2014



Insights for fraud management

Council compliance results against selected elements of a fraud and corruption control plan.

Standard Initiatives	Councils with a plan %	Councils without a plan %	Variance %
Planning			
Fraud and corruption definition	96	51	45
Fraud policy	78	26	52
Prevention			
Fraud risk assessments	74	26	48
Detection			
Fraud detection program	65	24	41
Internal fraud reporting process	87	24	63

Insights for fraud management

Case Studies

- Fraud risk assessment
- Supplier vetting
- Senior officer overriding controls
- Circumvention and lack of procurement controls
- Undeclared conflicts of interest
- Related party procurement data analytics

Appendices

- Appendix C – Fraud risk susceptibility analysis
- Appendix D – Red flag indicators

Session 1 wrap-up

Q & A



Queensland Audit Office

Agenda

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Session 2 – Damon Olive, Rachel Vagg & Pat Flemming

- Simplification of financial reporting
- Technical update
- Asset valuations
- Residual values: A case study

Simplification of financial reporting

Damon Olive, Sector Director QAO



Simplification of financial reporting

Recap of the disclosure overload problem from our last forum.

Department of Education, Training & Employment		
Year	No. of pages in annual financial statements	No. of pages for notes in audited financial statements
2004	31	36
2014	60	40

Disclosures doubled in 10 years

Simplification of financial reporting

Recap of the disclosure overload problem from our last forum.

We recommended that audit committees:

- Request removal of:
 - accounting policy that doesn't apply
 - unnecessary carry forward information
- Promote only material disclosures
- Tailoring – information for decision making

Simplification of financial reporting

The results for DETE:

Department of Education, Training & Employment		
Year	No. of pages in audited financial statements	No. of notes in audited financial statements
2004	31	36
2014	60	40
2015*	56	31
Reduction from 2014	7%	23%

*Based on pro-forma financial statements

Simplification of financial reporting

Other departments we sampled achieved 19% less pages and 24% less notes on average.

Entity	Pages reduced %	Notes reduced %
NRM	46	32
Health	21	30
JAG	29	47
HPW	21	34
TMR [^]	29 [^]	29 [^]
NPSR	13	18
DSITI	21	11
DCCSDS	11	38
QT	9	7

[^] excludes 1055 disclosures

Simplification of financial reporting

Employee benefits note “before” and “after”:

(y) Employee Benefits

Employer superannuation contributions, annual leave levies and long service leave levies are regarded as employee benefits.

Workers' compensation insurance is a consequence of employing employees, but is not counted in an employee's total remuneration package. It is not employee benefits and is recognised separately as employee related expenses.

Wages, Salaries and Sick Leave

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

As the department expects such liabilities to be wholly settled within 12 months of reporting date, the liabilities are recognised at undiscounted amounts.

Prior history indicates that on average, sick leave taken each reporting period is 1.5% of total salary. This is expected to continue in future periods. Accordingly, it is unlikely that there will be a significant amount of sick leave used by employees and no liability for unused sick leave entitlement is recognised.

As sick leave is non-vesting, an expense is recognised for the amount of sick leave taken during the reporting period.

Annual Leave

The Queensland Government's Annual Leave Scheme, established on 30 June 2008 for departments, employees of the department. Under this scheme, a levy is made on the department's employees (loading and on-costs). The levies are expensed in the period in which they are paid or payable and employees for annual leave are claimed from the scheme quarterly in arrears.

No provision for annual leave is recognised in the department's financial statements as the liability is held on a whole-of-government basis and reported in those financial statements pursuant to AASB 1049 *Whole of Government and General Government Sector Financial Reporting*.

Long Service Leave

Under the Queensland Government's Long Service Leave Scheme, a levy is made on the department to cover the cost of employees' long service leave. The levies are expensed in the period in which they are payable. Amounts paid to employees for long service leave are claimed from the scheme quarterly in arrears.

No provision for long service leave is recognised in the department's financial statements, the liability being held on a whole-of-government basis and reported in those financial statements pursuant to AASB 1049 *Whole of Government and General Government Sector Financial Reporting*.

Superannuation

Employer superannuation contributions are paid to QSuper, the superannuation scheme for Queensland Government employees, 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. The department'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 on a whole-of-government basis and reported in those financial statements pursuant to AASB 1049 *Whole of Government and General Government Sector Financial Reporting*.

1(s) Employee benefits

Wages and salaries due but unpaid at reporting date are recognised in the Statement of Financial Position at the current salary rates. As the department expects such liabilities to be wholly settled within 12 months of reporting date, the liabilities are recognised at undiscounted amounts.

Under the Queensland Government's Annual Leave Scheme, established on 30 June 2008 for departments, employees of the department. Under this scheme, a levy is made on the department's employees (loading and on-costs) and long service leave levies are expensed in the period in which they are paid or payable and employees for annual leave are claimed from the scheme quarterly in arrears.

Employer superannuation contributions are paid to QSuper, the superannuation scheme for Queensland Government employees, at rates determined by the Treasurer on the advice of the State Actuary. The QSuper scheme has defined benefit and defined contribution categories. The liability for defined benefits is held on a whole-of-government basis and reported in those financial statements pursuant to AASB 1049 *Whole of Government and General Government Sector Financial Reporting*.

The department's obligation is limited to its contribution to QSuper.

Tailored Disclosures - 50% shorter

Sunshine Model statement Disclosures

Simplification of financial reporting

Other entities we sampled achieved 21% less pages and 22% less notes on average.

Entity	Pages reduced %	Notes reduced %
QIC	25	21
QTC	24	25
Stadiums Qld	13	29
Metro South HHS	19	14
Public Trustee	4	4
Qld Rail Ltd	39	39
QAO	38	33

Simplification of financial reporting

The role of audit committees moving forward:

- Understand the basis for disclosures removed
- Identify other opportunities
- Improving the readability

Technical update

Rachel Vagg, Director QAO



Technical update

What's new in auditing

- Assurance reports
- Refresh of performance auditing standard
- Long form audit reports

Technical update

Long form audit reports

- New order of reporting
- Going concern
- Auditor's responsibilities expanded
- Headings
- Other matters
- Key audit matters

Technical update

Long form audit reports

*Key audit matters are those matters that, in our professional judgment, were of **most significance** in our audit of the financial report of the current period.*

Technical update

Budgetary Reporting (AASB1055) was introduced in 2014-15 financial statements



Technical update

Looking next year and beyond:

- Disclosure relief for AASB13
- Related parties
- Financial instruments
- Exposure Drafts
 - Service Concession Arrangements
 - Income for Not-For Profits

Asset valuations

Rachel Vagg, Director QAO

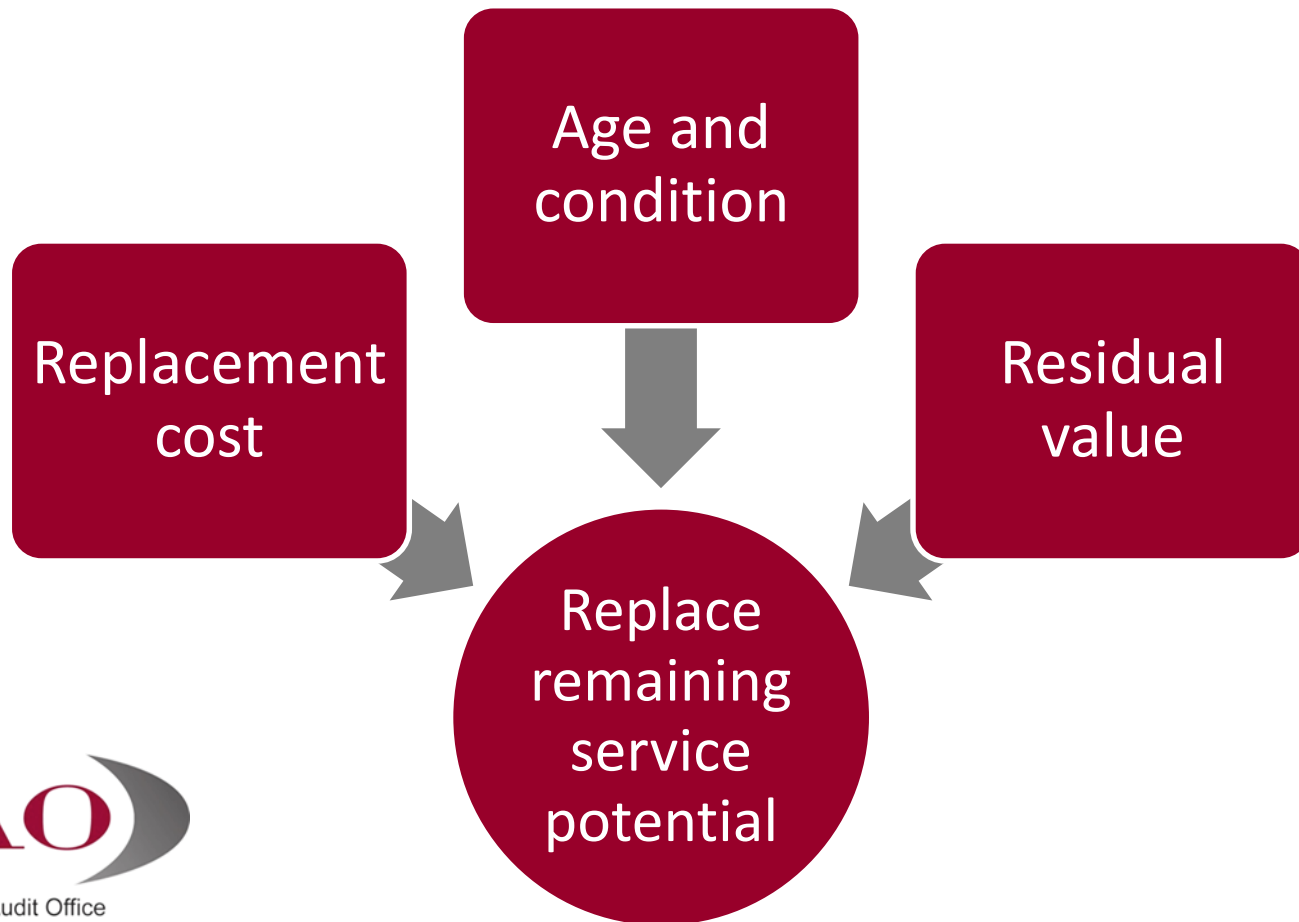


Asset valuations

- Are your asset valuations up to date?
- Do you understand your asset valuation?
- Does your entity have material residual values?

Asset valuations

Understanding depreciated replacement cost:



Asset valuations

Residual value components must be identified.

- Most likely to be nil for public infrastructure
- What if some parts of the asset are reused?
- What if the asset is likely to last indefinitely?

Residual values: A case study

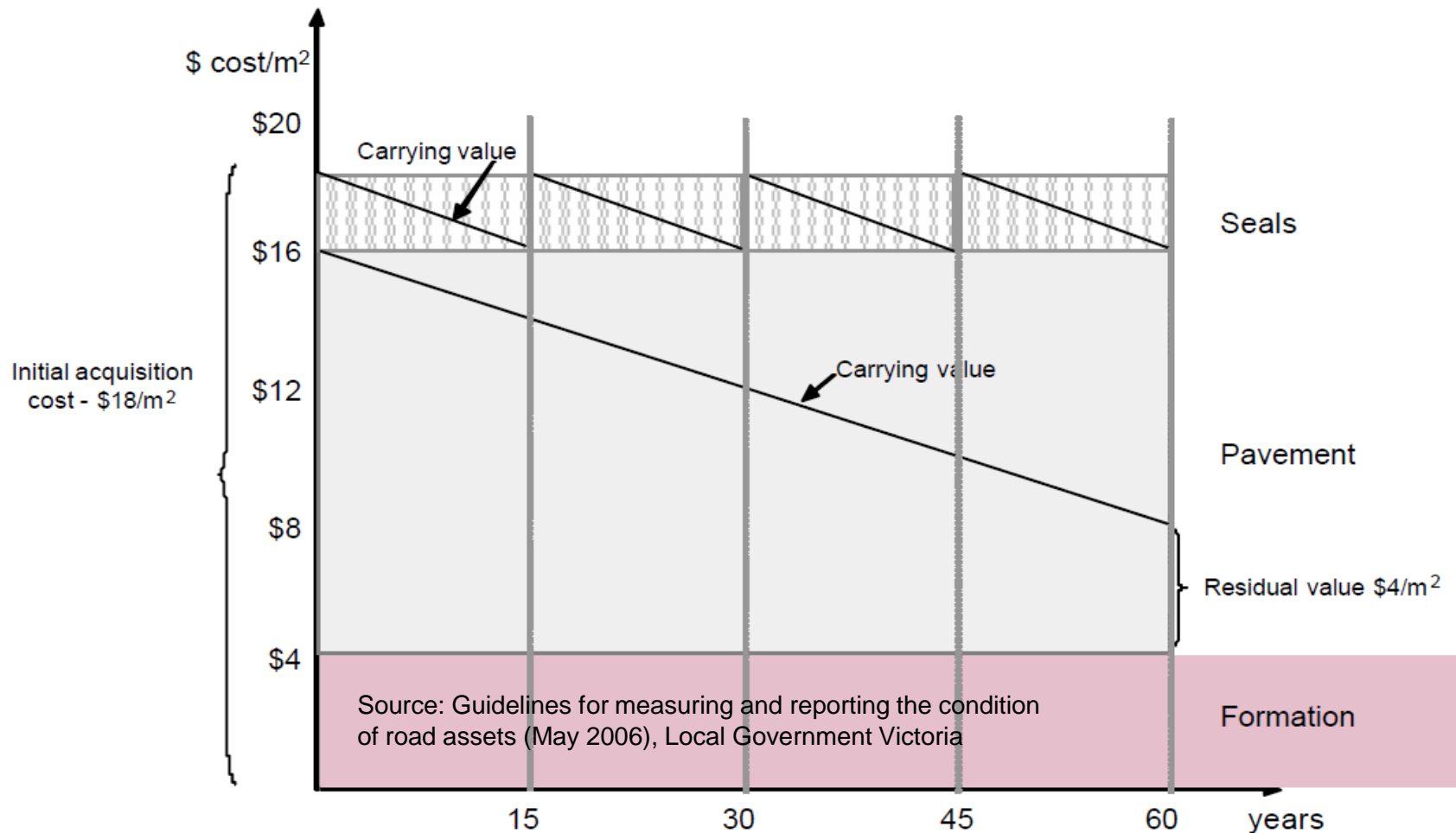
Pat Flemming, Sector Director QAO



Residual values: A case study

Reuse of material vs residual values

- An example of depreciation of a sealed road by components



Residual values: A case study

The components of a building:



Residual values: A case study

Components of a roof:



Session 2 wrap-up

Q & A



Queensland Audit Office

Summary and conclusions

Andrew Greaves, Auditor-General



Summary and conclusions

Follow us on LinkedIn, visit our website or contact:

- Poopalasingam.Brahman@qao.qld.gov.au
- Daniele.Bird@qao.qld.gov.au
- Michael.Keane@qao.qld.gov.au
- David.Toma@qao.qld.gov.au
- Damon.Olive@qao.qld.gov.au
- Rachel.Vagg@qao.qld.gov.au
- Patrick.Flemming@qao.qld.gov.au



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