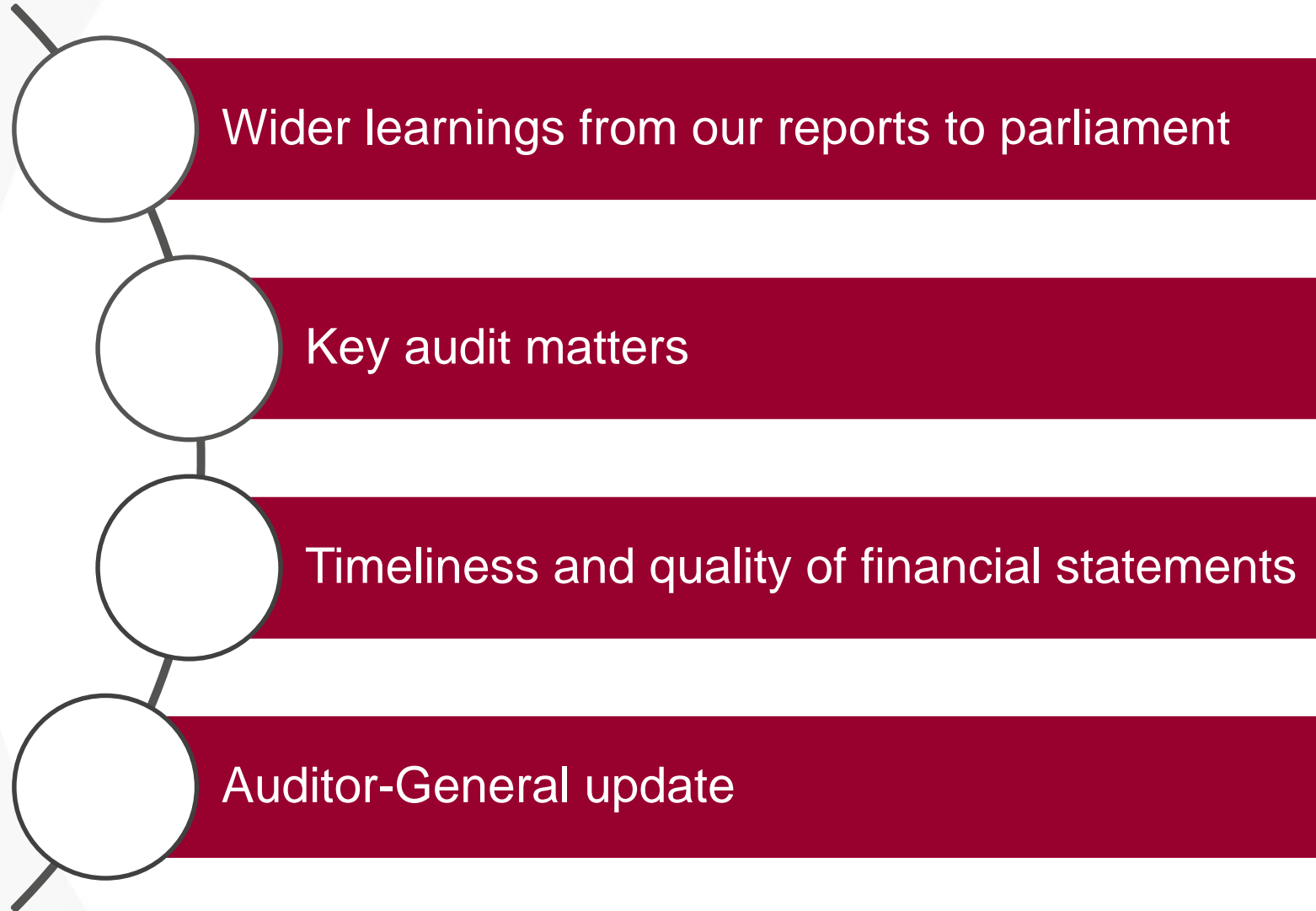


Briefing for Audit Committee Chairs

7 December 2016

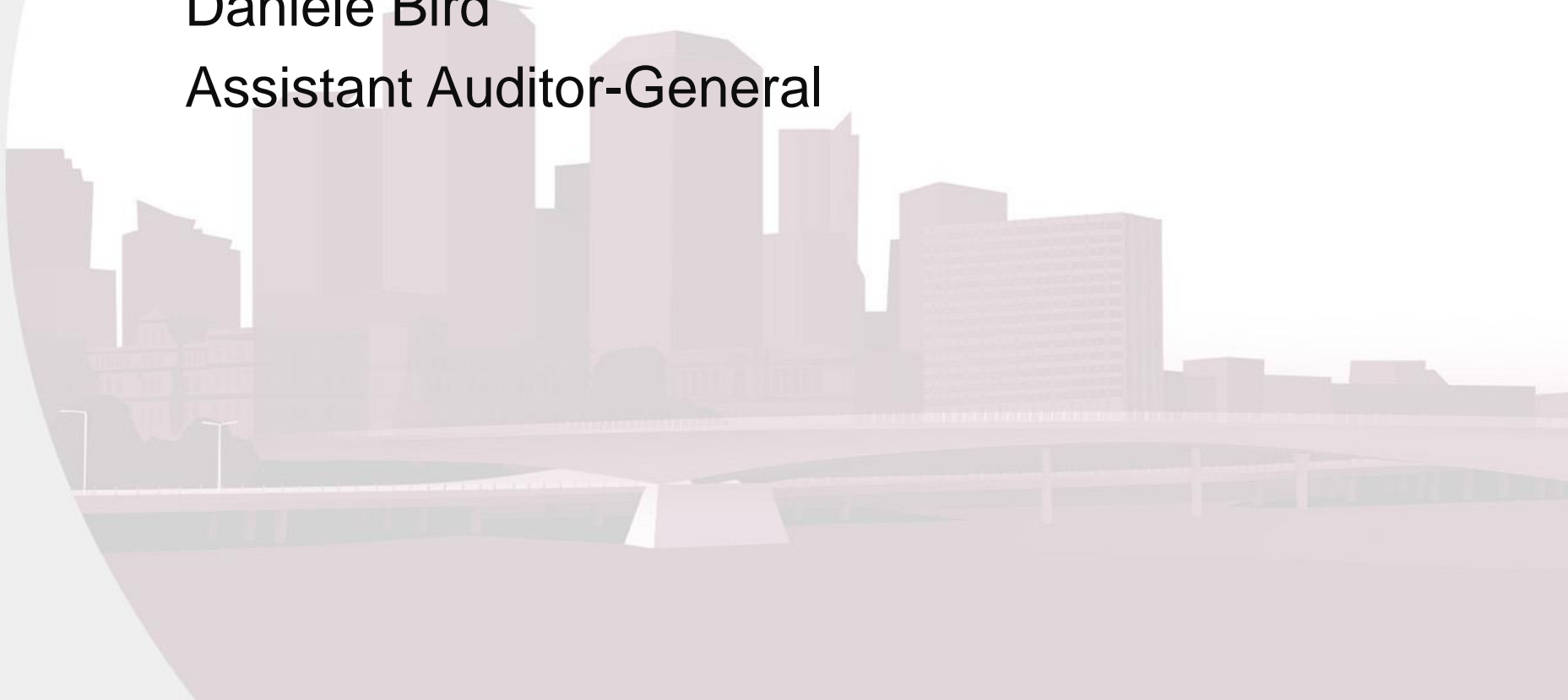


Better public services



Wider learnings from our reports to parliament

Daniele Bird
Assistant Auditor-General



Strategic procurement (Report 1: 2016-17)



Develop strategies to maximise value for money

- Long-term procurement plans
- Combined buying power
- Fit-for-purpose capabilities

Realise financial benefits through:

- Price negotiation
- Supplier optimisation
- Product/service rationalisation
- Demand management
- Reducing transactional costs

Continuously
improve systems,
processes and data

Good quality data is essential for informed decisions

- Understand how much you spend, on what and with whom
- Finance systems need to serve the needs of multiple users:
 - Finance officers
 - Payroll officers
 - Procurement officers
- Categorising spend at the point-of-data entry to a common standard will improve the quality

Department of Transport and Main Roads has significantly improved its data quality

Figure CS1
DTMR spend Level 3 and 4 examples — 2014–15

Level 3	Level 4	Amount \$
Aggregates	Natural aggregate	54 487 608
Concrete & mortars	Ready mix concrete	7 704 149
Asphalts	Asphalt	24 570 006
Passenger air transportation	Commercial airplane travel	179 464 582
	Chartered airplane travel	589 823
Passenger road transportation	Vehicle rental	66 671
	Taxicab services	1 082 102
	Chartered bus services	2 801 319

With categorised procurement data, an agency can:

- Analyse category spend to inform procurement strategies
- Search for products to inform purchasing decisions
- Analyse off-contract spend to identify contract leakage

Spend analysis

- We can use spend analysis to understand:
 - A department's procurement spend by category, which vendors it uses, when payments occur, and what transaction types it uses
- Can analyse:
 - Categories
 - Suppliers
 - Seasonal spend
 - Transactions types

Opportunities

- new supply arrangements and better use of existing ones
- reducing transactional costs
- managing end of year demand

Departments should be able to identify
significant opportunities to realise benefits

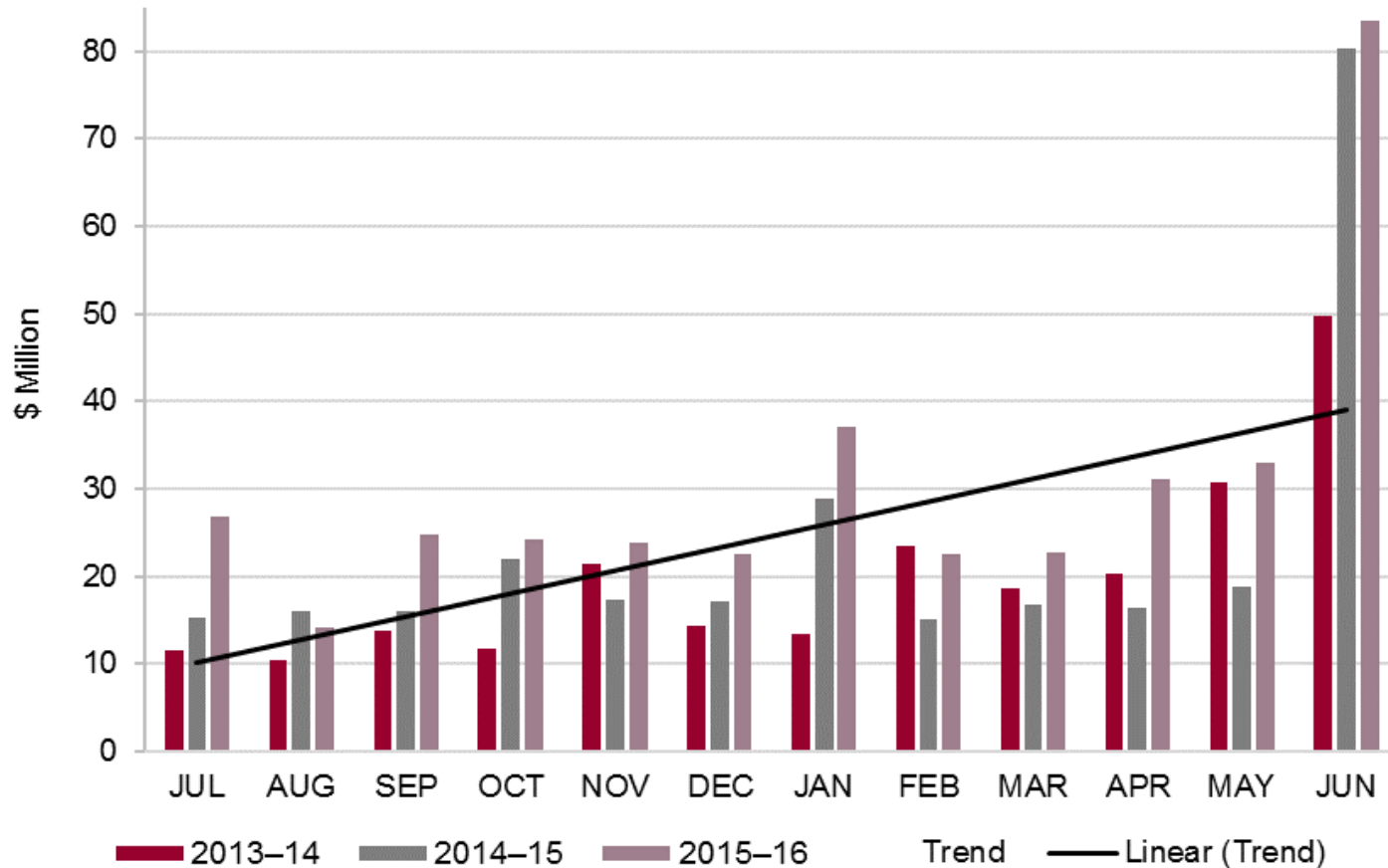
\$9 million could be saved per year if departments converted 70 per cent of direct invoice transactions under \$5000 to corporate card

Financial year	Number of direct invoice transactions < \$5 000	Foregone savings (\$'s)	Number of transactions less than cost of processing
2013–14	825 683	8 380 682	118 164
2014–15	893 946	9 073 552	122 306
2015–16	890 178	9 035 307	125 547
Totals	2 609 807	26 489 541	366 017

Benefits could be realised if departments better manage demand for June expenditure

- Categories in which we observed monthly spend peak in June
 - Management, business professionals and administrative services
 - Office equipment and supplies
 - Information technology broadcasting and telecommunications
 - Computer services

Seasonal analysis of IT broadcasting and telecommunications

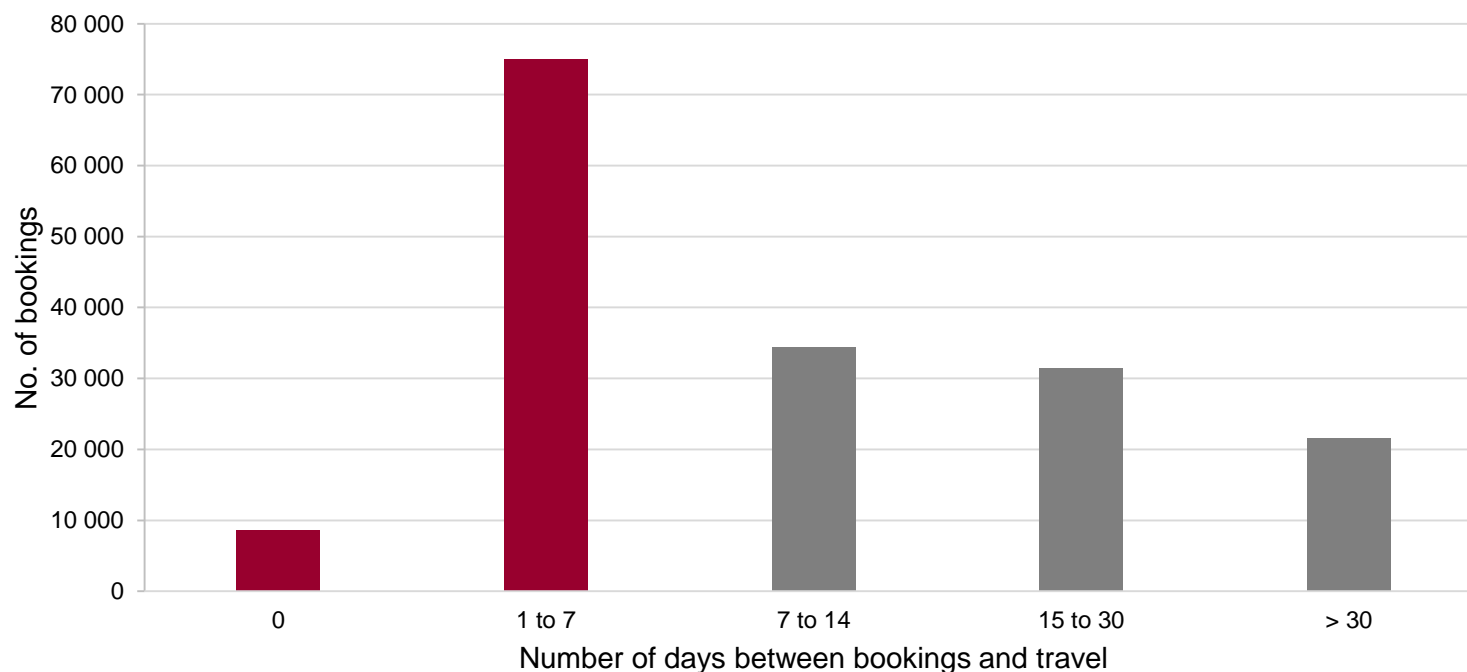


PTD delivered real financial and non-financial benefits within the air travel, car hire and accommodation category

- Benefits realised by:
 - Negotiating better prices
 - Changing how public sector staff book travel
- Changes included:
 - Book earlier
 - Book restrictive fares
 - Choose the cheapest carrier despite loyalty programs

Booking travel in advance could yield more financial benefits

- In 2014-15, of 170,882 travel bookings:
 - 86% of occasions, public sector entities choose the lowest fare
 - 49% booked within the week of travel; 5% on day of travel

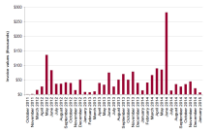


Department of Education and Training uses strategic procurement initiatives to deliver benefits

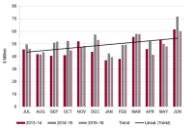
- Strategies include:
 - negotiating with suppliers
 - reducing transactional costs
 - establishing its own supply arrangements
- These strategies have enabled DET to achieve greater value for money to meet increasing demand
 - From June 2013 to December 2015, DET saved \$19.4 million by using its own supply arrangement for IT devices



Access our Strategic Procurement performance audit **report** at: www.qao.qld.gov.au/reports-parliament



Advances in **data analytics** have made the goal of unlocking spend information to support strategic procurement decisions more attainable



Need access to **quality spend information** over time to develop strategies and make informed decisions



Categorising procurement spend at the point of data entry to a common standard will improve the **quality of procurement data**



Monitoring and reporting performance (Report 3: 2016-17)

Our original audit found that departments had not implemented the Queensland Performance Management Framework well

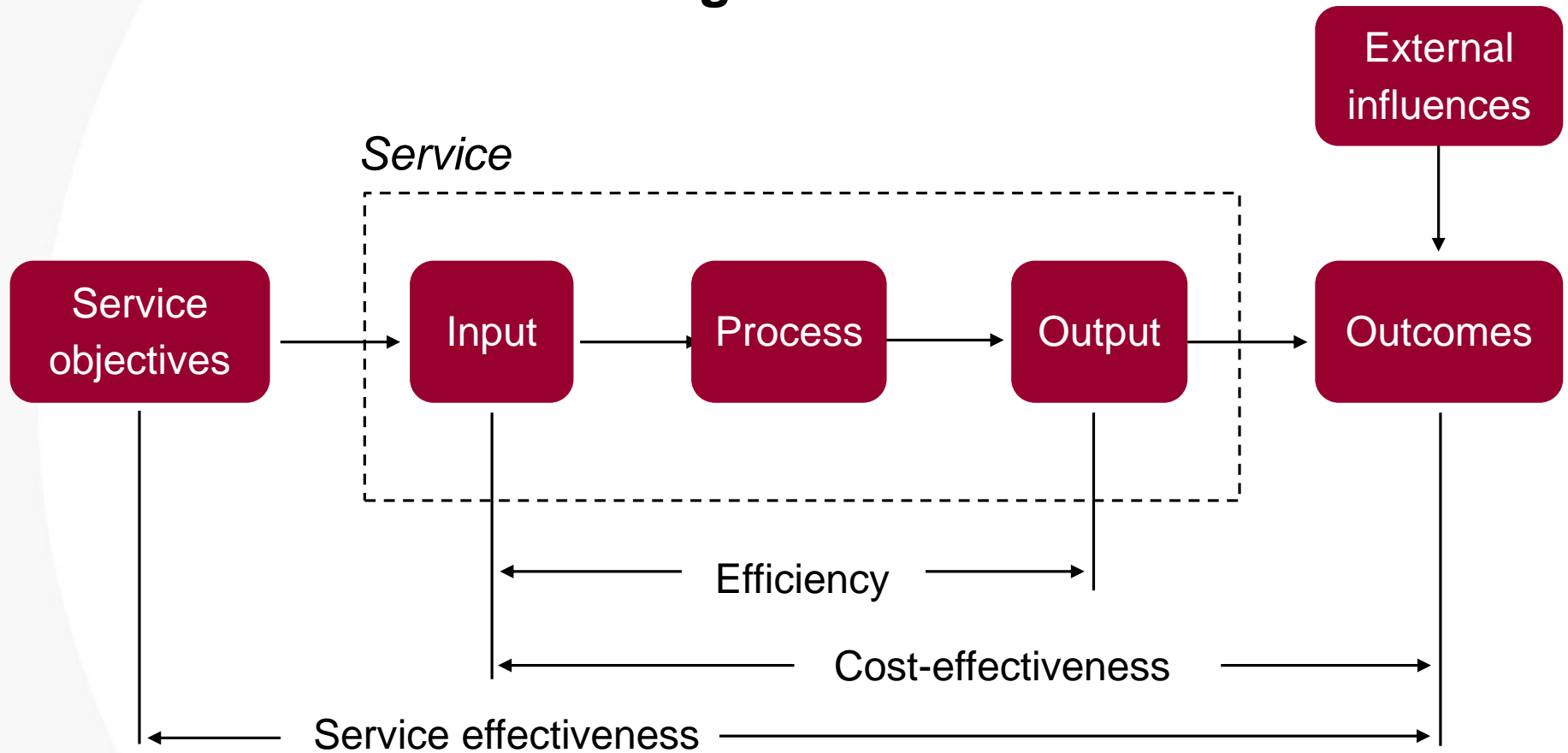
Fair and balanced to facilitate accountability



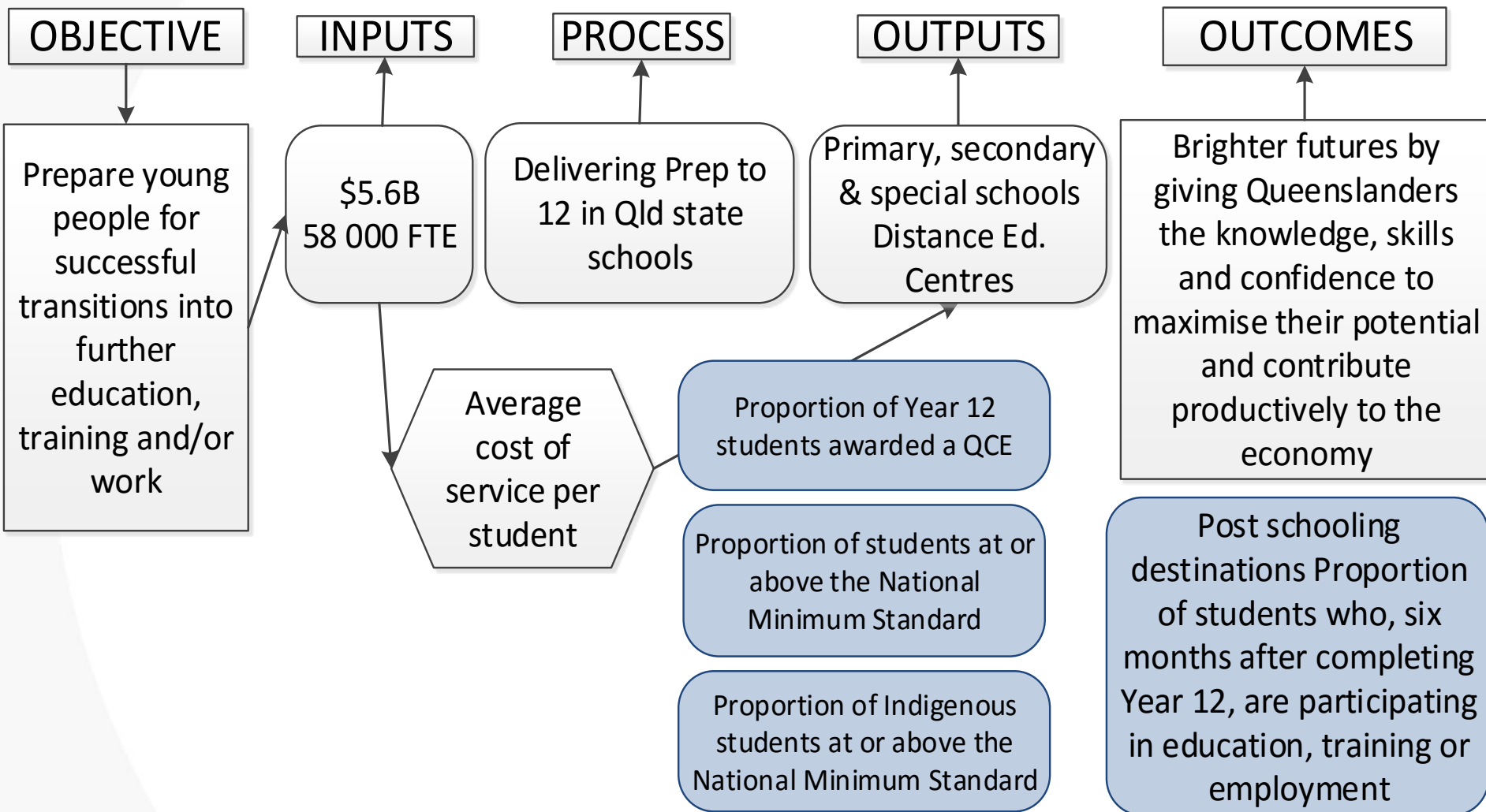
Determine outcomes to achieve

Demonstrate efficiency, effectiveness, and economy

Service logic model

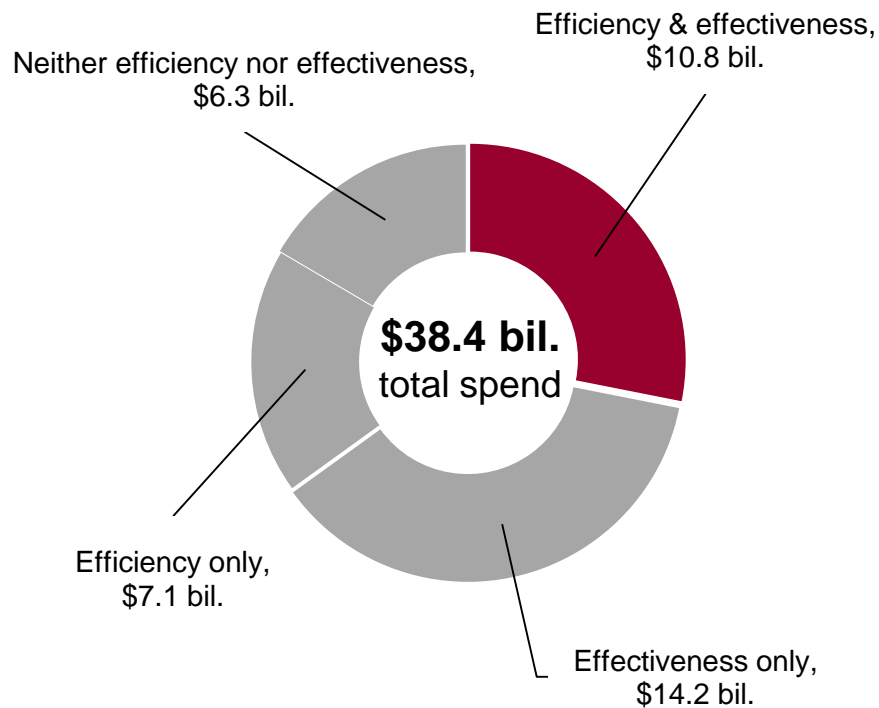


School education

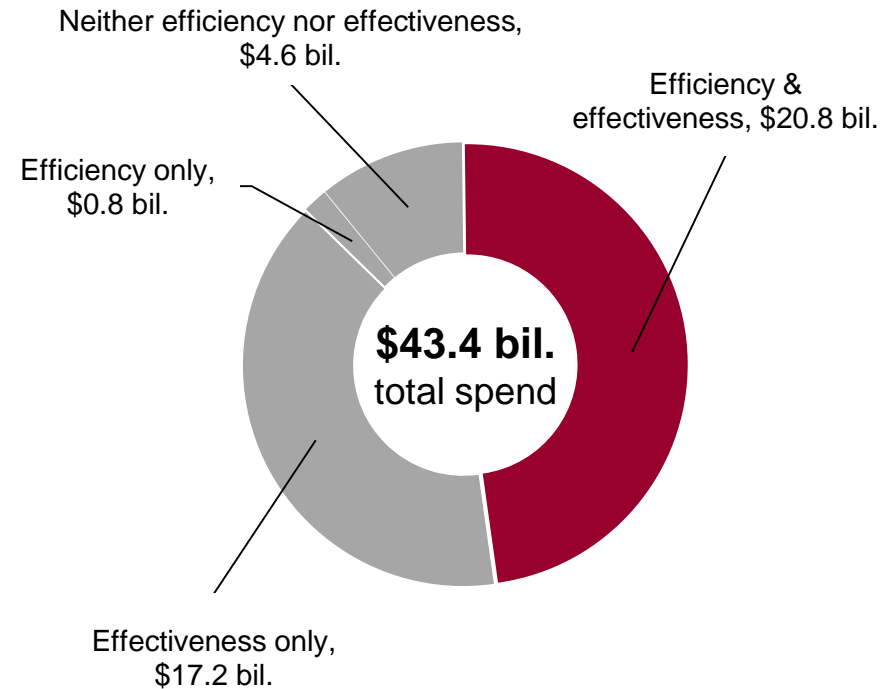


Our follow-up conclusions

Measures of efficiency and effectiveness now cover 48 per cent of government spend, up from 28 per cent in 2013–14



2013–14 budget



2016–17 budget

No clear strategy for whole-of-government public reporting

Departments still reporting these measures in their SDS

Whole-of-government reporting can:

- ✓ focus on a small set of results important for citizens
- ✓ share information across agency boundaries
- ✓ increase transparency

Current controls over performance data are weak or absent

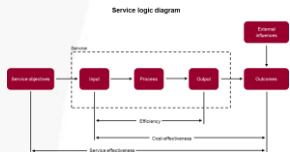
This has led to:

- inaccurate external reporting
- insufficient assurance that reported performance adequately reflects actual performance.

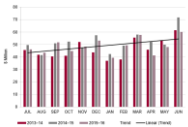


Access our monitoring and reporting performance **report** at:
www.qao.qld.gov.au/reports-parliament

Agencies applying a service logic approach achieve more than just the ability to develop efficiency and effectiveness measures



Measures of efficiency and effectiveness for material service areas are needed to account for how well public funds are being spent



Processes to ensure the quality of the information publically reported need to be robust



Q&A

Key audit matters

Karen Johnson
Assistant Auditor-General



Identify and disclose related party transactions for ALL public sector entities:

- Australian Government
- State Government
- Local Councils
- Other not-for-profit public sector entities

Applies from **1 July 2016**

No comparatives required in first year



QAO has worked extensively with Treasury to:

- provide explanatory guidance on application to the public sector
- guide how related party information will be collected

Our general assessment is that the level of preparedness varies within the Queensland public sector

We continue to engage with Treasury and DPC to determine the position of ministers as KMP and collection thresholds that may apply

Qld Treasury has a guiding question:

- *If a stranger became aware of circumstance of your relationship with that family member, is it reasonable that the stranger would conclude that your relationship with that person would bias your decision-making?*

Ordinary citizen transactions are not considered to be quantitatively or qualitatively material.

How often?

- Collect this information at least annually
- Information will need to be collected from KMP who leave the entity
- Consider acting arrangements

- Briefing by management on their Related Party Disclosure policy
- Your assessment if the policy and procedures in place are sufficient and appropriate to identify KMP and all related parties and their transactions
- Review of declarations
- Trial run and establishment of materiality principles

Takeaway message




Red Flags

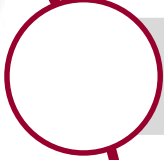
- 'Inactive' vendors changed to ' active'
- Changes to bank account details
- Changes to vendor contact details
- Changes to vendor payment terms

Look out for contributions to social engineering – are we disclosing too much?

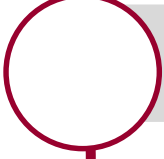
Immediate recommendations



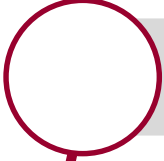
All vendor change requests should be treated with suspicion until proven legitimate



Identify all changes to vendor bank account and contact details, commencing with recent changes and working back 6 months




Phone each vendor using a contact number from an independent source



Review the source letter for the likely errors and escalate “at risk” changes



No longer accept bank deposit slips as validation of bank account changes



Extend validation processes as part of vendor master file change processes

Frauds — our recommendation

All supplier bank account change requests should be treated with suspicion until proven to be legitimate



Identify all changes to your vendor bank account and contact details, commencing with recent changes and working back at least six months

Phone each supplier using a contact number obtained from an independent source, such as the supplier's website



Review the source letter that initiated the change for the likely errors identified at point 4 above, highlighting 'at risk' vendor changes

No longer accept bank deposit slips as validation of a bank account change



To the extent these validation process have not been part of your normal vendor master file change processes, we recommend they are introduced immediately

Staff

- Emails to EL
- Alert issued to staff and contractors
- Fraud response
- ACAG

Agencies

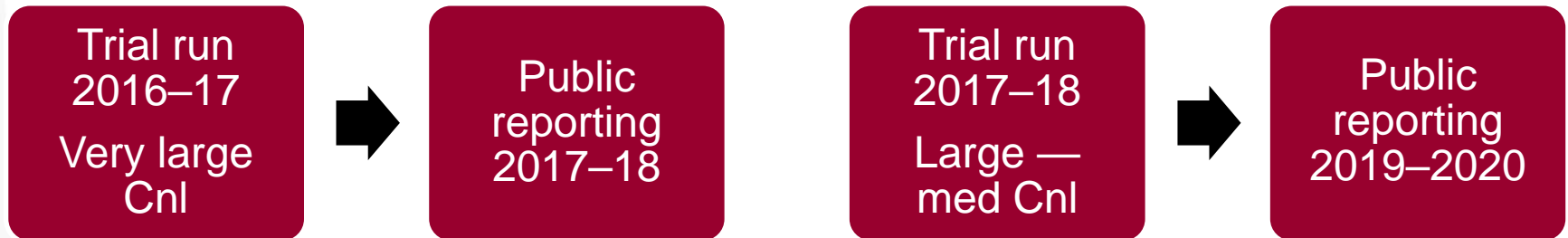
- Email to all CFOs regardless of size
- Audit committee briefs
- Discussion with QSS
- *Insights* article — September

- **Operating procedures** – roles, responsibilities and controls
- **Regular training:**
 - fraud awareness - Identifying and reporting on fraud
 - escalation procedures for incidents and follow up actions
 - promptly review vendor master changes
- **Regular cleansing of vendor master data**
- **Use of business intelligence** to identify red flags

State government



Local government



What do we think could be a KAM?

- Infrastructure valuation at CRC
- Infrastructure valuation at DRC
- Depreciation/useful lives assessments
- Employee entitlements
- Onerous contracts
- Provisions and long tail (insurance) liabilities
- Financial instruments valuation
- Revenue recognition
- Contingencies
- Internal control deficiencies

Key audit matter

Those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These

Valuation of Buildings at current replacement cost (\$X)

(Refer Note(s) X and X)

Buildings are material to <insert client name> and are measured at fair value. Because of their specialised nature, market value is not an appropriate basis of

The comprehensive revaluation model used to value these specialised buildings involves the use of significant assumptions and judgements in the key inputs to its basis of calculation, as follows:

Assessed key inputs to the comprehensive valuation model

The allocation of each building to one of the standardised building types based on its asset type (use) to assist in calculating the key cost drivers for determining its replacement cost

How our audit addressed this key audit matter — key procedures included:

For a sample of buildings across each of the standardised building types, we assessed the:

- reasonableness of the allocation, based on our understanding of the buildings' current use.
- consistency of the allocation, by comparing to the building's allocation in prior years and allocations of buildings with a similar use in the current year.

Q&A

New look to FA reports to parliament

Pat Flemming
Assistant Auditor-General (acting)



New look and feel to financial audit reports

PORTS



RAIL



INPUTS

COMMERCIAL FACILITY MANAGEMENT

Channels, berths and wharves
- \$1.8b

CARGO HANDLING

Major plant and plant & equipment
- \$607m

PASSENGER TRANSPORT

Rollingstock, track infrastructure and structures (incl. below rail)
- \$5.9b

NETWORK ACCESS

Below rail infrastructure
- \$3.9b

PROCESSES

Maintaining facilities



Coordinating vessel access



Planning for development



Receiving commodities



Storing commodities



Mixing / processing commodities



Loading commodities onto ship



Boarding passengers



Transporting passengers between stations



Disembarking passengers



Maintaining facilities



Third party rollingstock



Planning for development



OUTPUTS

310 million of throughput tonnage across all four port corporations

\$1.11 revenue / tonne

72 million tonnes of coal exported through GPCL cargo handling facility

\$3.46 revenue / tonne

52.44 million passenger trips on the Citytrain network

96% on-time running

\$16.16 revenue per Citytrain trip

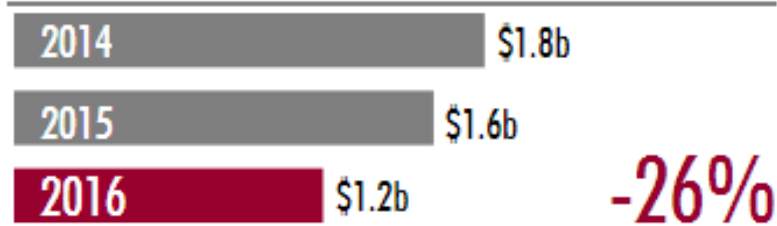
20 billion gross tonne kilometres (GTKs) hauled on QR's regional network

\$10.69 access revenue per thousand GTK

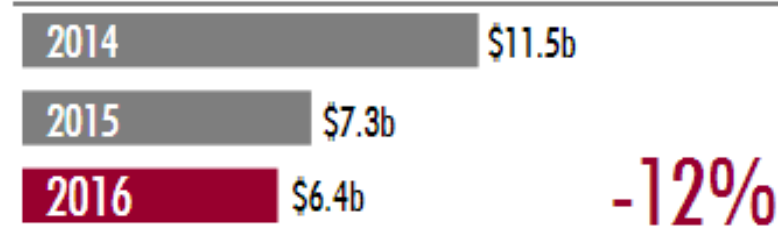
OUTCOMES

Transport of goods, commodities & people

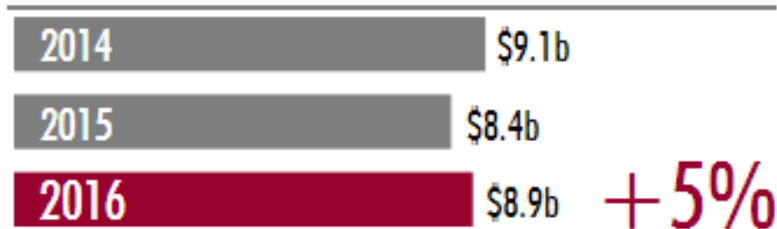
PROFIT



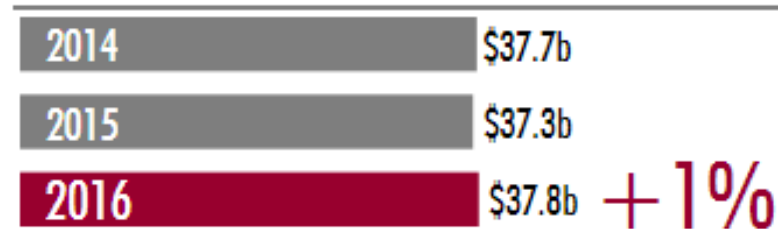
NET ASSETS



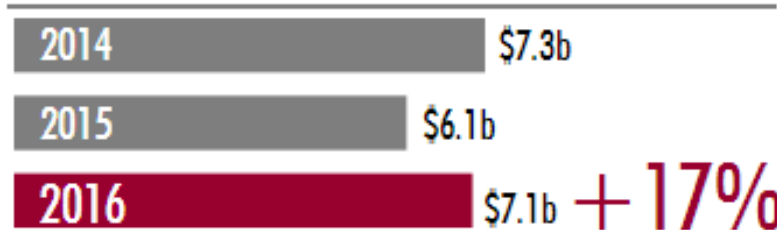
REVENUE



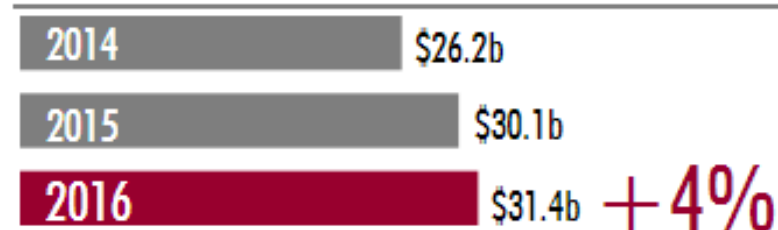
TOTAL ASSETS



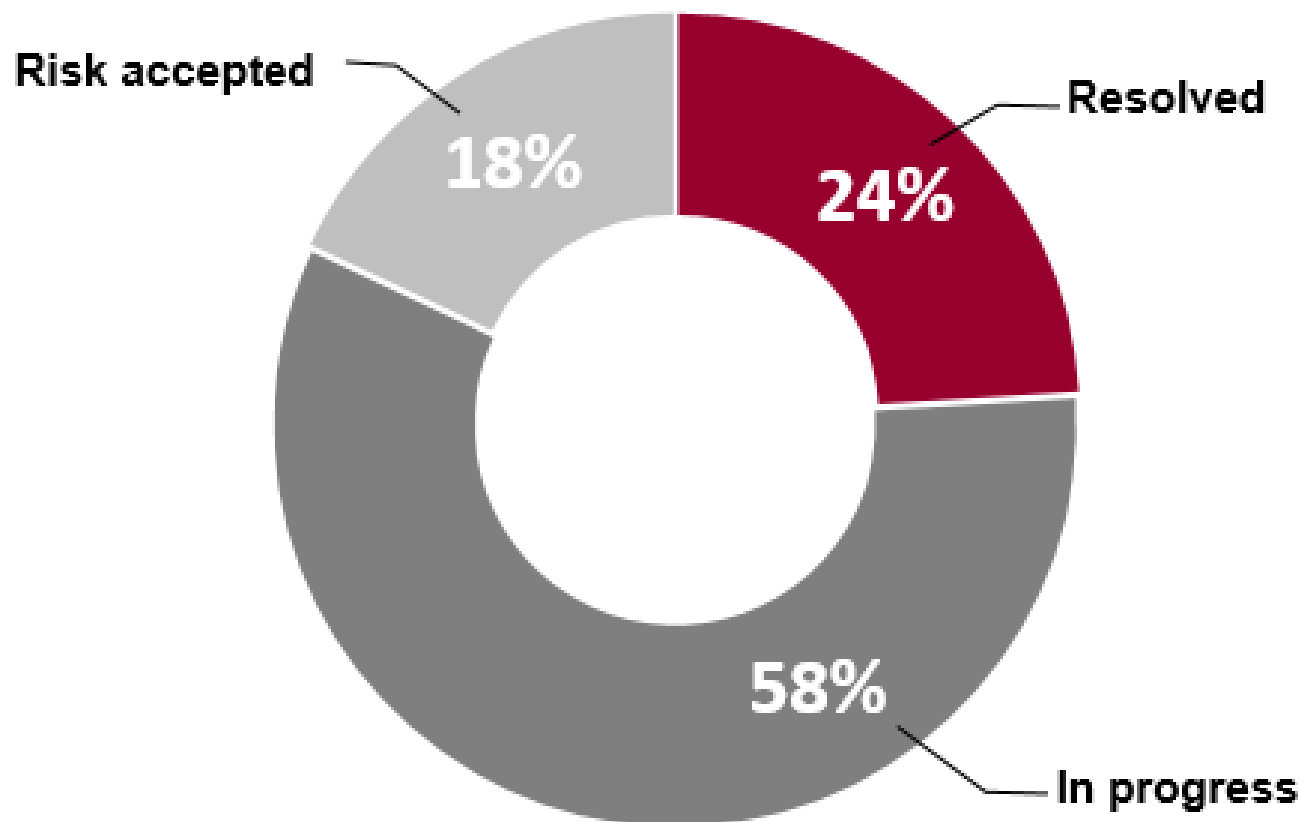
EXPENDITURE



TOTAL LIABILITIES

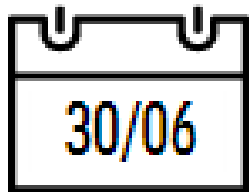


Internal Control Issues



New look and feel to FA reports

YEAR-END



83%
effective

TIMELINESS



83%
effective

QUALITY



67%
effective

- ✓ **Year end close process**
- ✓ **Timeliness of preparation of financial statements**
- ✓ **Quality of financial statements**

- Non-current asset valuations by 31 March
- Pro forma financial statements by 30 April
- Resolving accounting issues by 30 April
- Completing hard or soft close processes
- Concluding all asset stocktakes by 30 June

Our rating	Year end close process assessment
● Effective	All five key processes were completed by the planned date
● Generally effective	Three of the five key processes were completed within two weeks of the planned date
● Ineffective	Less than three of the five key processes were completed within two weeks of the planned date

Our rating	Timeliness of draft financial statements assessment
● Effective	Acceptable draft financial statements were received on or prior to the planned date
● Generally effective	Acceptable draft financial statements were received within two days after the planned date
● Ineffective	Acceptable draft financial statements were received greater than two days after the planned date

- Total revenue
- Total expenditure
- Net assets

Our rating	Quality of draft financial statements assessment
● Effective	No adjustments were required
● Generally effective	Adjustments for any of the three key financial statement components were less than 5 per cent
● Ineffective	Adjustments for any of the three key financial statement components were greater than 5 per cent

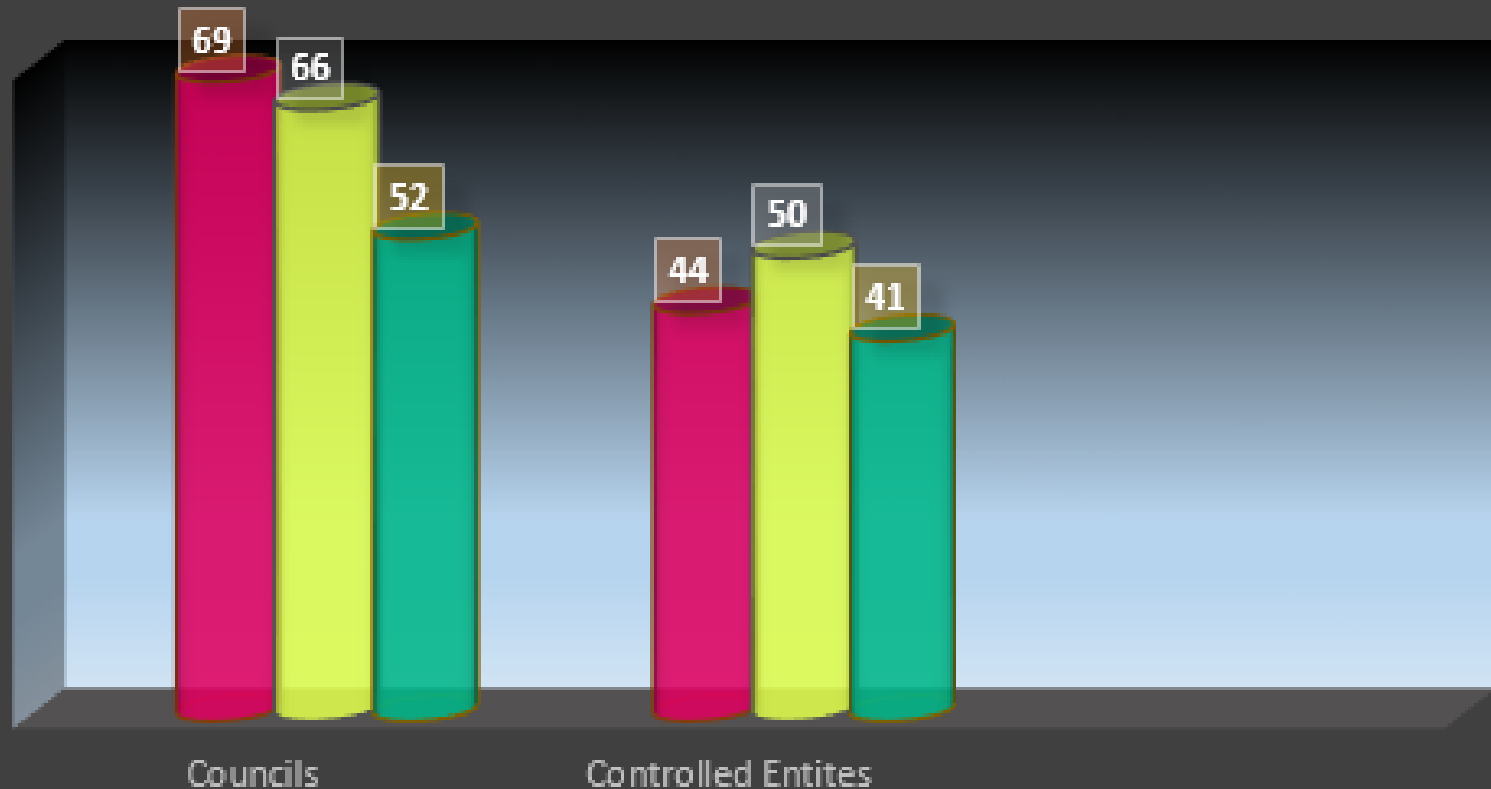
Each COSO element assessed

Rating	Internal controls assessment
● Effective	No deficiencies identified in internal controls
● Generally effective	Deficiencies identified in internal controls
● Ineffective	Significant deficiencies identified in internal controls

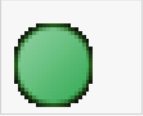
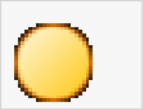
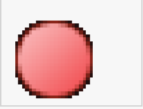
Timeliness of LG financial statements

SIGNED BY 31 OCTOBER

■ 2016 ■ 2015 ■ 2014




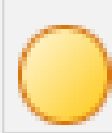

Improvement in LG Timeliness

	By 24/10/16	By 28/10/15
	54	50
	25 to 31/10/16	29 to 31/10/15
	15	16
	1/11/16 onwards	1/11/15 onwards
	8	11




Timeliness

Assessment	Proposed	Existing
	Before 19 Oct	Before 25 Oct
	19 to 31 October or meet approved ministerial extension	25 to 31 October or meet approved Ministerial extension
	After 31 Oct	After 31 Oct


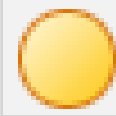
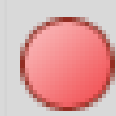
- New traffic light – key milestones agreed between council and audit

Year end processes	
Assessment	Proposed
	All achieved
	3 to 4 milestones achieved
	Less than 3 milestone achieved

Quality of financial statements

Assessment	Proposed	Existing
	Adjustments < 1% Across three components	Adjustments < 2% Across three components
	At least one component — adjustment between 1% and 5% No component >5%	At least one component — Adjustment between 2% and 5% No component >5%
	Adjustment >5% on at least one component	Adjustment >5% on at least one component

Effectiveness of internal controls

Assessment	Proposed	Existing
	No significant deficiency and less than 3 deficiencies in one element	No significant deficiency
	1 significant deficiency or 3 or more deficiencies in one element	2 significant deficiencies
	More than 1 significant deficiency	More than 2 significant deficiencies

Q&A

Auditor-General update

Anthony Close
Auditor-General (acting)



Challenges and obstacles

Looking five to ten years into the future, what are the major challenges or obstacles facing the auditing of the performance of government service delivery?

- In answering this question, please consider not only the performance audit process but also the environment within which performance audits are undertaken

Solutions

Looking five to ten years into the future, what solutions would you propose to meet these challenges or obstacles to the auditing of the performance of government service delivery?

- In answering this question, please consider not only the performance audit process but also the environment within which the performance audits are undertaken.

Participant demographics

	Providers	Clients
Australia	52	64
Overseas	11	
Total	63	64

Participant activity summary

Participants	Challenges — providers	Challengers — clients	Solutions — providers	Solutions — clients
Brainstorming	63	64	63	64
Statements submitted	>400	>400	>400	>400
Statements summarised	115	114	102	106
Sorting	22	24	20	22
Rating	23/25	26/26	21/21	22/22

All statements were rated on two scales

Challenges

Importance: 1 (irrelevant) -> 5 (extreme)

Difficulty to mitigate: 1 (easy) -> 5 (extreme)

Solutions

Improvement potential: 1 (none) -> 5 (revolutionary)

Required investment: 1 (negligible cost) -> 5 (too costly to realistically consider)

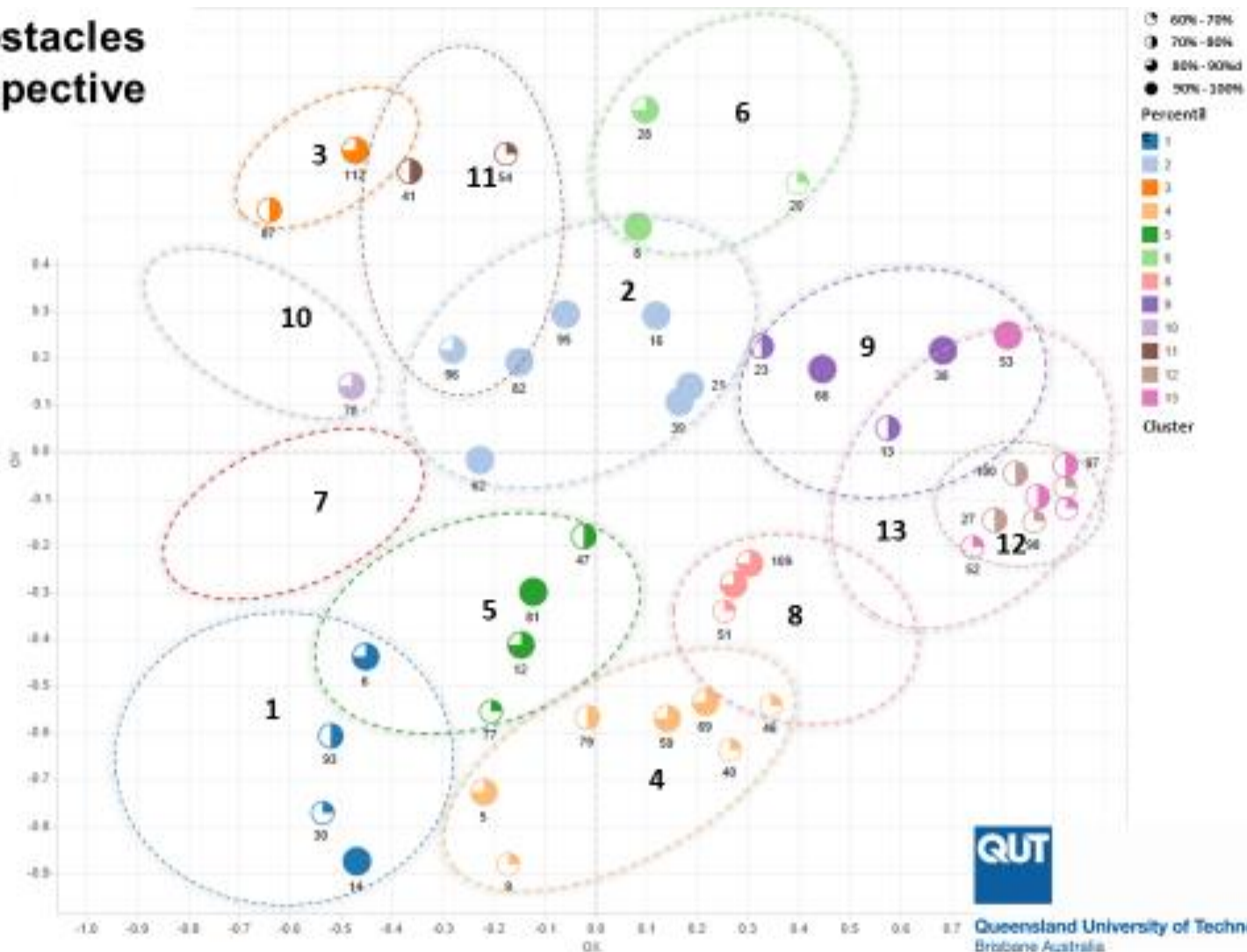
Four studies in one research project

	Challenges and obstacles	Solutions
Providers	1	2
Clients	3	4

Future of performance audit

Challenges and obstacles — the clients' perspective

Challenge index percentile (60%–100%)



Challenges: The client's perspective

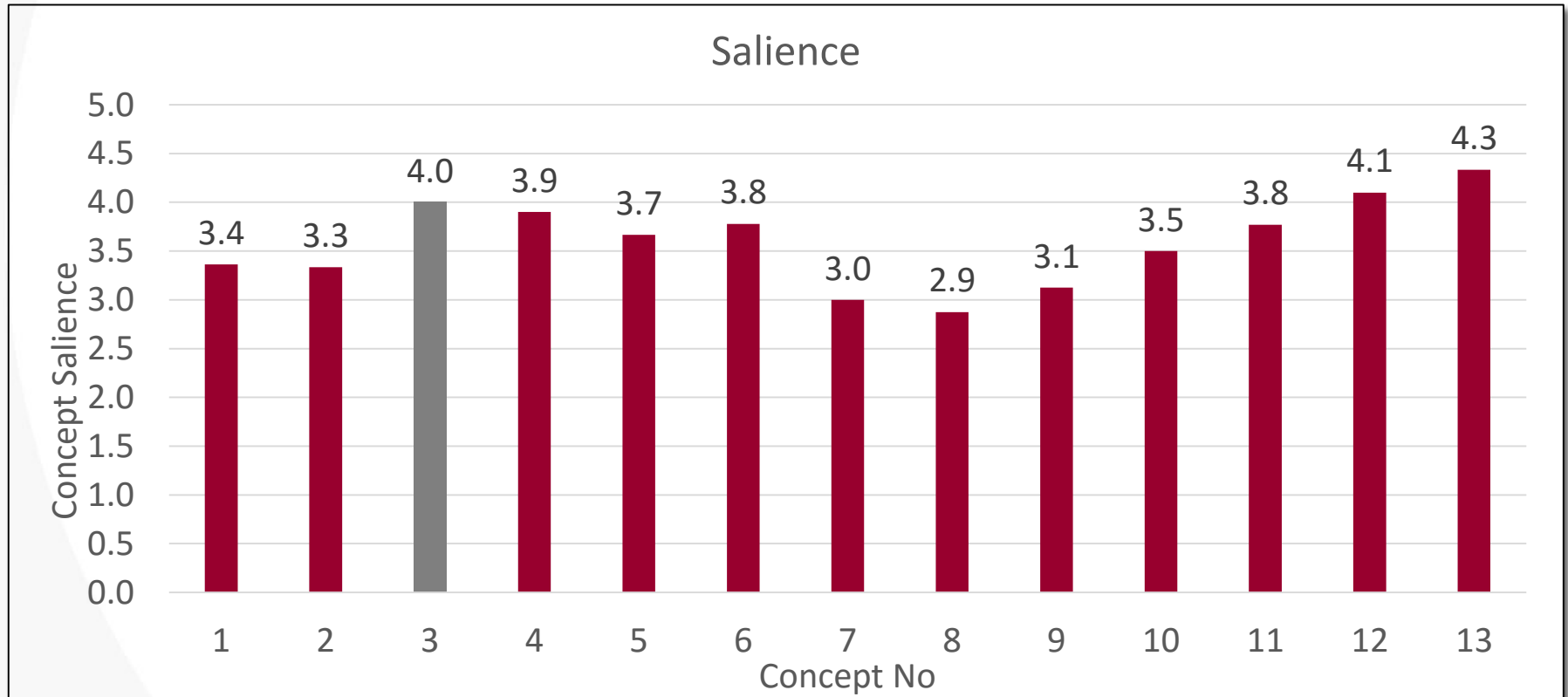
1. **Clients who do not support** the purpose, conduct or outcomes of the performance audit
2. Performance audits undertaken **without a competent understanding** of the client's business and operating environment
3. **Poorly defined public sector entity business outcomes** and weak performance management systems
4. Client — performance auditor relationships which are **not collaborative or constructive**
5. **Client who are skeptical** about the value of performance audits
6. **Drawing meaningful conclusions** from disparate, deficient and sometimes dubious data and imposition of unanticipated client data collection workloads

Challenges: The client's perspective

7. **Maintaining the independence** of performance audits in a system when resources are controlled externally
8. **Failure to cogently communicate** the right information to the right people at the right time
9. **Differentiating performance audits** from the traditional financial audit product demands a different mindset, different capabilities, and different approaches
10. Evolving and **shifting client policy** and operating imperatives
11. Growing pressures and **complexity of the government service delivery** environment
12. Shortage of skilled and **experienced performance auditors**
13. **Under-developed audit office culture** to support performance auditing

Concept salience

= *Average Importance* rated by audit clients



How effective is your agency's performance information?



Q&A

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