Queensland Audit Office

Strategic Audit Plan 2012-2015

September 2012

Contents

1 | Content of this Plan

1.1 Introduction

The Auditor-General, supported by Queensland Audit Office, undertakes an independent statutory role for the Parliament, delivering financial and performance auditing services to all public sector entities. The results of these audits are reported to the Parliament to provide it with necessary assurance about the reliability of financial reporting by, and the performance of, the public sector.

The *Auditor-General Act 2009* (the Act) establishes this independent audit mandate, which is a cornerstone of public sector accountability. The Act provides for the publication, before the end of each financial year, of a strategic audit plan of audits proposed to be conducted over the three subsequent years.

This plan fulfils that requirement. Part two sets out our areas of focus for the financial audit program and our program of proposed performance audits, demonstrating how the delivery of our full audit mandate is coordinated and integrated. An overview of performance audit topics by portfolio committee is provided in Appendix A to highlight audit coverage across these areas.

1.2 Our mandate

Audited entities

We audit all State and local government public sector entities, and any entities that they control. We can exempt entities from annual financial audits by the QAO for periods of up to three years, but only if the audit is small and low risk.

At the request of a public sector entity or entities, we may also undertake audits of non-public sector entities, with their agreement.

Our mandate was extended in August 2011 to allow us to audit matters relating to property, money or other assets given to non-public sector entities, including deciding whether they have been applied economically, efficiently and effectively for the purposes for which they were given. If such an audit is carried out, the Auditor-General must prepare a report to the Legislative Assembly setting out the reasons for conducting the audit and results of the audit.

Audit services to public sector entities

Financial auditing

Financial audits provide the users of financial statements of public sector entities with independent assurance that they are reliable and comply with prescribed requirements. The independent auditor report accompanying the financial statements adds credibility to the financial information reported therein; also allowing each entity to discharge its accountability obligation to produce an annual report each year.

Financial audits are funded by fees charged to each audited entity.

Performance auditing

Performance audits determine whether the objectives of public sector entities are being achieved economically, efficiently and effectively and in compliance with all relevant laws.

Performance audits are funded from consolidated revenue.

Services to the Parliament

The results of all annual financial audits, performance audits and any other audits or investigations we undertake are reported to the Parliament.

We expect to table five reports on the results of our financial audits during 2012-13:
- Results of financial audits of State public sector entities with 30 June 2012 balance dates – primarily government departments, government owned corporations and statutory bodies
- Results of audit of the 2011-12 Whole of Government financial statements
- Results of financial audits of local government sector entities
- Results of financial audits of education sector entities
- Interim results from the financial audits of State public sector entities with 30 June 2013 balance dates.

We plan also to table nine reports on the results of performance audits:
- Tourism industry development
- Management of water infrastructure assets
- Management of eHealth Program
- Fraud Risk Management by departments
- National Partnership Agreement on Homelessness
- On-line service delivery
- Management of abandoned mines
- Enforcement and recovery of local government infringement fines
- Grants management

We do not plan to undertake or report separately any performance management system audits.

We will also table one follow-up report, examining progress achieved by entities in implementing audit recommendations from reports tabled during 2010.

1.3   Our strategic audit planning framework

We balance our 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.

To arrive at our proposed performance audit program we first undertake a process that:
- **generates a comprehensive list of potential audit topics** – through environmental scanning; from intelligence gathered from external representations, including consultation with relevant government agencies, requests made to us by members of Parliament and the public; and from systemic issues identified during our financial audits
- **analyses and rates these topics** – in terms of their materiality and the risk associated with each topic in terms of its economic, social and/or environmental impacts
- **prioritises topics** – taking into account the time elapsed since any relevant prior audit coverage; and recent and planned coverage by other independent officers and review agencies such as the Ombudsman, and the Crime and Misconduct Commission.

We plan our three-year program of coverage from the list of high priority topics, after taking account of our full audit mandate, including whether a topic can be best addressed through a performance audit, through the financial audit program, or through other means such as sharing of good practices and benchmark data.

The Auditor-General has the discretion to replace and/or reschedule topics or themes detailed in the strategic audit plan to accommodate changing priorities. Some change to this plan is inevitable, in order to respond to a range of factors which influence the performance of public entities. These factors include emerging issues, changes in the needs of the Parliament, changing government priorities, natural disasters and areas of public interest.

2 | Proposed audit program

2.1   Introduction

This section sets out our program of proposed audit coverage for the next three years, as required by the Act.

It deals first with our financial audit services, which have as their primary focus financial regularity, compliance, probity and propriety.

We then outline our performance audit services, where focus extends to economy, efficiency and effectiveness.

2.2   Financial audit focus 2012-15

Each year we provide around 570 audit opinions on the financial statements of public sector entities.

We undertake these audits in accordance with Australian auditing standards, which require us first to analyse each entity's internal control structure and assess the risks associated with their financial reports. We design our audit procedures, which include tests of selected controls, to address these risks.

We do not examine or test each area of control in the same depth, or to the same degree, each year. Some areas we test annually and for others we rotate our coverage. The extent of examination and testing is determined annually by our assessment of the associated risk.

Where we rotate coverage of controls, we coordinate our efforts within or across sectors. This allows us to identify systemic issues that may require a whole of government, or sector-wide response.

The public sector has high standards of accountability in relation to the probity and propriety of its activities; as well as an expectation that it will minimise waste and misuse of public resources. Our financial audits also encompass consideration of these matters. Where we identify significant risks in this regard, we design additional audit procedures to ascertain whether these risks have materialised.

Area of financial audit emphasis planned for 2012-13

Having regard to the above, as part of our financial audits, we propose to undertake in-depth reviews of the following areas during 2012-13.

Figure 2.1 – 2012-13 planned areas of emphasis

Internal control element	Area of emphasis	Objective	Sector
Control environment			
Information system change controls	Patch management of financial systems	'Patches' for financial systems are managed to maintain system availability and security	Universities

Financial statement component	Area of emphasis	Objective	Sector
Income and expenditure			
Supplies and services; Reimbursement of official expenses	Use of credit cards	Controls over credit card use—including the issue and safekeeping of cards; acquittal and authorisation of expenditure—operate effectively to ensure that expenditure incurred on government issued credit cards is for legitimate government business and is economical	Departments
Grants and other non-reciprocal transfers	Discretionary grants	Controls over grants—including initial vetting and approval of grantee and grant purpose, verification and acquittal of expenditure by grantee—operate to ensure that expenditure is for a legitimate purpose and was applied to that purpose	Local government
Assets and liabilities			
Cash at bank Financial assets	Treasury management	Controls over the investment of surplus cash balances operate to maximise investment returns within an acceptable risk tolerance, while maintaining sufficient liquidity to meet operational needs	Universities
Property, plant and equipment	Valuation of infrastructure assets	Controls over valuation processes operate to ensure that the asset replacement cost, condition assessment and useful life estimates are determined consistently over time	Local government

Area of financial audit emphasis proposed for 2013-15

Details of area of emphasis audits are planned for 2013-15 are presented in Figure 2.2 and 2.3:

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	Access adequacy of processes and procedures over: • recovery of debts • provisioning methodology • write off approvals	Departments

Figure 2.3 – 2014-15 planned areas of emphasis

Internal control element	Area of emphasis	Objective	Sector
Control environment			
Business continuity controls	IT disaster recovery	IT disaster recovery plans are in place, up to date, and tested to establish their efficacy in the event of a significant business disruption	Departments and statutory bodies
Risk assessment	Risk registers	Assess the existence, completeness and currency of financial and fraud risk registers	Departments, statutory bodies, universities and local government

Financial statement component	Area of emphasis	Objective	Sector
Income and expenditure			
Supplies and services	Travel expenditure	Assess compliance with policies and procedures to manage travel expenditure	Local government
Assets and liabilities			
Property, plant and equipment	Portable and attractive items	Assess compliance with Queensland Treasury's non-current asset policies for the Queensland Public Sector which requires a register of portable and attractive items be maintained by agencies to physically control such assets that are susceptible to theft or loss	Departments and statutory bodies

2.3 Performance audit focus 2012-15

Performance audits report directly on the economy, efficiency and effectiveness of government programs, services, functions or activities. They may be undertaken in a single entity, or across a number of entities.

Where considered relevant a performance audit may include as part of its scope, a review of performance management systems.

Performance audits planned for 2012-13

The performance audits to be completed and tabled during 2012-13 are summarised in Figure 2.4.

Figure 2.4 – 2012-13 planned performance audits

Topic	Audit category	Target tabling 2012-13
Tourism industry development	Service delivery	2nd quarter
Management of water infrastructure assets	Infrastructure	2nd quarter
Management of eHealth Program	Infrastructure (including ICT)	3rd quarter
Fraud risk management by departments	Financial regularity, governance and compliance	3rd quarter
National Partnership Agreement on Homelessness	Social and environment	3rd quarter
On-line service delivery	Financial regularity, governance and compliance	3rd quarter
Management of abandoned mines	Social and environment	4th quarter
Enforcement and recovery of local government infringement fines	Financial regularity, governance and compliance	4th quarter
Grant management (follow the dollar)	Financial regularity, governance and compliance	4th quarter

Tourism industry development

Tourism is a key driver of economic prosperity in Queensland. It directly contributes $7.8 billion and indirectly an additional $9.2 billion to the Queensland economy and accounts for 3.2 per cent of Queensland's Gross State Product. Tourism is also the State's second largest export earner, generating around $3.7 billion annually. The industry directly employs 118 000 people or 5.3 per cent of all persons employed. To ensure sustainable development of the tourism industry in Queensland, the State Government developed a Queensland Tourism Strategy through consultation with the Queensland Tourism Industry Council, local government representatives, tourism operators and community stakeholders.

The audit will determine whether the Queensland Tourism Strategy and action plans are effective in delivering on the Government's growth agenda.

Management of water infrastructure assets

In 2008 the Queensland Government established the $6.9 billion South East Queensland Water Grid to ensure secure and sustainable water supply for future droughts and population growth. Operating since 1 July 2008, the Grid connects the region's water supplies and treatment facilities, providing the coordinated management of the water supply chain. The Grid integrates existing water sources with additional pipes and dams as well as climate resilient water supplies (drought assets) which include the Western Corridor Recycled Water Scheme and the Gold Coast Desalination Plant.

In 2010, the Queensland Water Commission released the South East Queensland Water Strategy, which is a blueprint for maintaining water security in South East Queensland into the future.

The audit will determine whether south east Queensland's water infrastructure assets are being effectively managed and maintained to contribute to a secure and sustainable water supply and meet agreed levels of service.

Queensland Health eHealth Program

In early 2008, Australian Health Ministers commissioned the development of a National eHealth Strategy to support health reform in direct response to increasing cost and demand pressures on Australia's healthcare system, and to address the shortage of healthcare workers. To achieve this, the Ministers recognised the need to move away from a reliance on tools such as pen, paper and human memory to an environment where consumers, care providers and healthcare managers can reliably and securely access and share health information in real time across geographic and health sector boundaries.

Queensland Health has received State funding approval of $243 million for the implementation of an eHealth Program over a 4 year period, which commenced in the financial year 2007-08. The Program's long term goal is to deliver an integrated electronic medical record (ieMR) to Queensland Health hospitals, which will only be accessible by authorised clinicians and supporting staff.

The audit will determine whether the eHealth Program is being effectively managed by Queensland Health and if it will achieve its planned objectives, outcomes and benefits.

Fraud risk management

Fraud continues to be an ever-present threat to the Australian community, posing significant challenges to organisations in its prevention and detection. Government and government programs are not immune from these threats. Making sure that appropriate fraud controls are in place continues to be an important function in government entities. Notwithstanding the financial and personal cost of fraud, the reputational damage to entities can be direct and long-lasting.

The audit objective is to determine whether fraud risks are being managed effectively. Specifically, the audit will assess the:
- how organisations prevent fraud from occurring in the first instance
- how organisations discover fraud as soon as possible after it has occurred
- how organisations respond appropriately to an alleged fraud when detected

Fraud risk assessments will be undertaken at three government entities using forensic data techniques.

National Partnership Agreement on Homelessness

The National Partnership Agreement on Homelessness (NPAH) commenced in 2008-09 and finishes in 2012-13, so is in the third year of the four year agreement. It is a subset of the *National Affordable Housing Strategy*. All states and territories have signed up and each has an Implementation Plan with agreed targets and performance indicators. These are reported nationally to the COAG Reform Council and are aligned to Commonwealth payments.

The NPAH has $800 million allocated over four years - $400 million Commonwealth and $400 million State/Territory money. These funds can be spent only on new or expanded services and capital. There are four core outputs that all jurisdictions have agreed to deliver by 2012-13:

- implementation of the A Place to Call Home initiative
- street to home initiatives for chronic homeless people (rough sleepers)
- support for private and public tenants to help sustain their tenancies, including through tenancy support, advocacy, case management, financial counselling and referral services
- assistance for people leaving child protection services, correctional and health facilities, to access and maintain stable, affordable housing.

The audit will determine whether the Queensland Government is meeting its obligations under the National Partnership Agreement on Homelessness and whether this is making a difference for homeless people. This audit will be undertaken concurrently with other audit offices in Australia.

On-line service delivery

The use of the internet to perform transactions that were previously performed in-person, or through the submission of forms through mail and fax, is continuing to increase. The Internet has provided opportunities to make these services available to customers on-line, thereby enabling people to conduct transactions at any time, in any place. The establishment of Smart Services Queensland (SSQ) has provided the opportunity for government to provide seamless on-line services across multiple agencies.

This audit will assess whether the public sector has optimised its use of information technology for the delivery of services on-line. Specifically the audit will assess:

- how available and accessible are public sector services which could be delivered online
- how reliable and secure are online services
- how cost-effective is online service delivery

Management of abandoned mines

After a mining operation ceases production, the land disturbed by the mining is rehabilitated to one or more sustainable post-mining land uses. Abandoned mines are ones for which mining leases or titles no longer exist and responsibility for rehabilitation cannot be allocated to those responsible for the original mining activities. There are thousands of abandoned mine sites across Australia and the management of these mines is a complex task involving the co-operation of government, community and industry. When contaminants are present in mine sites, they have the potential to threaten the environment and people's health.

The audit will determine whether Queensland Government is effectively managing abandoned mines, including whether

- there is an appropriate program to manage mine rehabilitation
- contamination issues are dealt with appropriately
- performance is monitored and reported publicly.

Enforcement and recovery of Local Government infringement fines

The 73 councils in Queensland have the power to make, implement and enforce local laws. This power is provided under the *Local Government Act 2009* and the *City of Brisbane Act 2010.* A local law is a law adopted by a council that reflects community needs and ensures the good rule of the local government area.

Local laws have the ability to:

- establish permit or licence regimes for activities councils want to regulate
- create offences for unacceptable behaviour
- allow for the issue of compliance or abatement notices.

Councils have the authority to issue infringement notices. The *State Penalties Enforcement Act 1999* lists a number of rules relating to the issuing of infringement notices. An administering authority has the right to withdraw an infringement notice.

The audit will determine whether councils are effectively and efficiently enforcing infringement notices and recovering infringement fines.

Grant management (follow the dollar)

Grants and other funding are provided by government to support the achievement of goals and objectives consistent with government policy. Grant funding can be provided to government entities including local government, non-government organisations and individuals.

Grants may be covered by legislation or regulation or be subject to Cabinet, Ministerial or administrative discretion. Grant programs in Queensland may be diverse in their structure, purpose and risk, and range in their accountability requirements from highly complex to relatively simple.

As all Queensland government grant programs involve the use of public money, grant providers are accountable for funds allocated under various grant programs.

The audit will determine whether grant funding is being effectively managed and achieving its planned objectives, outcomes and benefits.

Proposed audit themes for 2013-14

Performance audit reports to be tabled in the 2013-14 period will be drawn from among the audit themes listed in Figure 2.5.

Figure 2.5 – 2013-14 proposed audit themes

Topic	Audit Category
Effectiveness of Drink Safe Precincts	Service delivery
Ambulance response times	Service delivery
Supply of specialist teachers in secondary schools.	Service delivery
Government procurement (realisation of target benefits in savings and cost avoidance)	Financial regularity, governance and compliance
Security of ICT management and control systems (traffic management)	Infrastructure (including ICT)
PPP - Sunshine Coast University Hospital (follow the dollar)	Infrastructure
Disability access and services	Social and environment
Renewable energy	Social and environment
Employment grant program outcomes	Financial regularity, governance and compliance
Preparedness for Commonwealth Games	Financial regularity, governance and compliance

Proposed audit themes for 2014-15

Performance audit reports to be tabled in the 2014-15 period will be drawn from among the audit themes listed in Figure 2.6.

Figure 2.6 – 2014-15 proposed audit themes

Topic	Audit Category
Safer Roads Sooner program outcomes	Service delivery
Access to quality child care services	Service delivery
Delivery of coordinated community services (No Wrong Door program)	Service delivery
Service delivery by Hospital and Health Services	Service delivery
Vocational and educational training outcomes	Service delivery
Transport economic regulatory reform (e.g. licensing of heavy vehicles, maritime safety)	Financial regularity, governance and compliance
Managing building and maintenance contracts	Financial regularity, governance and compliance
Procurement of ICT contract resources	Financial regularity, governance and compliance
Recovery and enforcement of outstanding speeding fines	Financial regularity, governance and compliance
Bushfire preparedness – implementation of 2009 Victorian Bushfires Royal Commission recommendations	Social and environment

2.4 Follow-up of prior audits

Prior reports to parliament proposed for follow-up will be selected from those detailed below.

Figure 2.7 – Reports to parliament subject to follow-up in 2012-13

Report to Parliament	Title	Date Tabled
No. 3: 2010	Administration of magistrates court services in Queensland	13/04/2010
No. 5: 2010	Using performance information to improve service delivery	18/05/2010
No. 6: 2010	Using student information to inform teaching and learning	20/05/2010
No. 9: 2010	Sustainable management of national parks and protected areas	05/10/2010
No. 11: 2010	Implementation and enforcement of local laws	09/11/2010

Figure 2.8 – Reports to parliament subject to follow-up in 2013-14

Report to Parliament	Title	Date Tabled
No. 1: 2011	Management of offenders subject to supervision in the community	25/02/2011
No. 6: 2011	Systems to coordinate delivery of the Toward Q2: Tomorrow's Queensland target - Halve the proportion of Queensland children living in a household without a working parent	06/07/2011
No. 7: 2011	National Partnership Agreement for Natural Disaster Reconstruction and Recovery	22/09/2011
No. 9: 2011	Acquisition and public access to the Museum, Art Gallery and Library collections	11/10/2011
No. 10: 2011	Regulating waste	Nov 2011

Figure 2.9 – Reports to parliament subject to follow-up in 2014-15

Report to Parliament	Title	Date Tabled
No. 1: 2012	Improving student attendance	May 2012
No. 4: 2012	Managing employee unplanned absence	May 2012

Appendix A

Performance audit program 2012-15 - by portfolio committee

Portfolio Committee	2012-13	2013-14	2014-15
Agriculture, Resources and Environment	Management of water infrastructure assets Management of abandoned mines	Effectiveness of Renewable Energy Schemes	
Education and Innovation		Supply of specialist teachers in high schools Employment grant programs	Access to quality child care services Vocational and educational training outcomes
Finance and Administration	Fraud risk management On-line service delivery Grant management (follow the dollar)	Government procurement	Managing building and maintenance contracts Procurement of ICT contract resources Recovery and enforcement of outstanding fines
Health and Community Services	Electronic Medical Records (eHealth) Program National Partnership Agreement on Homelessness	Disability access and services PPP – Sunshine Coast University Hospital	Service Delivery by Hospital and Health Services Delivery of coordinated community services
Legal Affairs and Community Safety		Effectiveness of Drink Safe Precincts Ambulance response times	Safer Roads Sooner Program Bushfire preparedness
State Development, Infrastructure and Industry	Tourism industry development	Preparedness for Commonwealth Games	
Transport, Housing and Local Government	Enforcement and recovery of local government infringement fines	Security of ICT management and control systems (traffic management)	Transport economic regulatory reform