



Water: 2018–19 results of financial audits

Report 4: 2019–20



Our ref: PRJ01511

24 October 2019

The Honourable C Pitt MP
Speaker of the Legislative Assembly
Parliament House
BRISBANE QLD 4000

Dear Speaker

Report to parliament

This report is prepared under Part 3 Division 3 of the *Auditor-General Act 2009*, and is titled *Water: 2018–19 results of financial audits (Report 4: 2019–20)*.

In accordance with s.67 of the Act, would you please arrange for the report to be tabled in the Legislative Assembly.

Yours sincerely

A handwritten signature in blue ink, appearing to read "Brendan Worrall".

Brendan Worrall
Auditor-General

Contents

| | |
|--|-----------|
| Report on a page | 1 |
| Actions for entities | 2 |
| 1. Entities in the water sector | 3 |
| 2. Results of our audits | 4 |
| 3. Financial performance of water entities | 10 |
| Appendices | 21 |
| A. Full responses from agencies | 22 |
| B. Legislative context | 25 |
| C. Audit opinions for entities preparing financial reports | 27 |
| D. Entities not preparing financial reports | 28 |
| E. Our assessment of financial statement preparation | 29 |
| F. Financial results | 32 |
| G. Flows to and from government | 34 |
| H. Glossary | 36 |

Report on a page

This report includes the results of our financial audits of five water entities: Seqwater, Sunwater, Queensland Urban Utilities, Unitywater, and Mount Isa Water Board.

Their financial reports are reliable and comply with relevant laws and standards. The financial statements were prepared in a timely manner and were of good quality.

A sixth water entity, Gladstone Area Water Board, did not meet its legislative timeframe as they did not have directors in place at the time the financial statements were due to be signed.

Internal controls are generally effective

Controls and processes are in place to enable entities to prepare reliable financial statements. We made 22 recommendations to support further improvement in controls and processes. Areas for improvement include strengthening controls on information systems, and reporting revenue and assets received from developers on a timelier basis.

Targeted fraud attempts continue across all public sector entities. There was a successful fraud in a water entity where employee bank account details were changed as a result of phishing. Management has now strengthened controls over changes to employee bank accounts.

The sector is continuing its efforts to ensure asset valuations are accurate and timely, and we encourage these processes to continue.

Financial results are steady

The overall sustainability of the entities remains stable. There is regulation and oversight to ensure entities can charge their customers appropriate prices to earn sufficient revenue over time to meet their costs. Seqwater's financial performance continues to improve as urban bulk water prices continue to move closer to cost recovery levels.

Continuing drought conditions and asset improvement programs that involve significant infrastructure investment may impact on the sustainability and funding of the entities in the longer term.

Infrastructure challenges

Sustainable water supply continues to be a challenge for the sector, with the majority of Queensland in drought—particularly in south west Queensland.

Extreme weather conditions increase the need to prioritise water security projects, which will require investment in the near future by the state and the water entities.

Seqwater's drought response includes the possible use of Western Corridor Recycled Water Scheme and Gold Coast Desalination Plant when specific drought triggers are reached. There will be additional costs to use those assets and this may impact Seqwater's financial sustainability.

Sunwater's dam improvement program is likely to impact its financial performance, cash flows and returns to the state government.



Actions for entities

Reflect drought impact in financial statements

We encourage all entities to assess the impact of extreme weather events on the measurement of their transactions and balances and their financial statement disclosures. This should help a reader to understand the importance of drought events to water entities, and the impact on their financial position and performance.

Secure employee and supplier information

Entities must verify changes to employee and supplier bank account details through sources independent of the change request.

Entities need to secure information systems to prevent unauthorised access that may result in fraud or error. Security measures could include encryption of information, restriction of user access, regular monitoring by management, and appropriate segregation of duties.

We encourage entities to explore a controls monitoring solution to bring in real-time data on key financial processes. This will enable stakeholders (such as management, or those charged with governance) to identify exceptions that need to be managed, have ongoing oversight across several different control activities and make real-time decisions to address important issues or risks.

Deliver timely asset valuations

We recommend entities continue ensuring sufficient resources are allocated to complete and deliver asset valuation models, and that assumptions underlying asset valuations are appropriately supported.

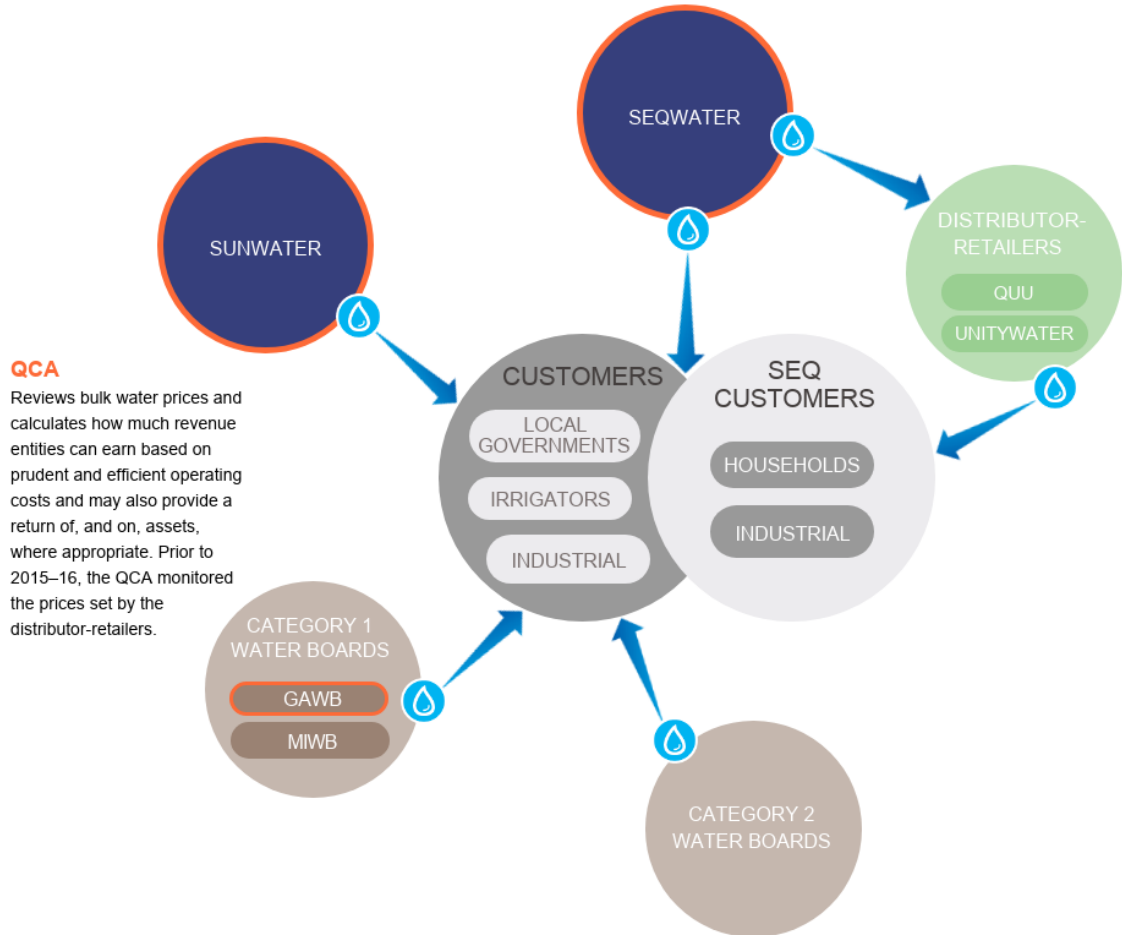
Endorse and approve financial statements earlier

We continue to encourage water entities to bring forward audit committee endorsement and board approval of financial statements. This will assist in ensuring potential issues are effectively resolved between year end and signing date.



1. Entities in the water sector

Figure 1A
Major state and local government owned entities of the Queensland water sector



Notes: GAWB—Gladstone Area Water Board; MIWB—Mount Isa Water Board; QUU—Queensland Urban Utilities; and QCA—Queensland Competition Authority.

Source: Compiled by the Queensland Audit Office.



2. Results of our audits

This chapter delivers an overview of our audit opinions for each entity in the water sector and evaluates the timeliness and quality of their financial reporting. It also provides conclusions on our areas of audit focus.

Chapter snapshot



Chapter summary

As with last year, we focused on how water entities use complex models to measure their assets. We also assessed the adoption of the new revenue and lease standards, which came into effect on 1 July 2018 and 1 July 2019 respectively.

We have made 22 recommendations to address deficiencies and business improvement opportunities.

All five water entities received unmodified opinions in 2018–19, meaning their financial statements present a true and fair view of the entities' financial position and performance. Gladstone Area Water Board is yet to be certified.

Audit opinion results

We issued unmodified audit opinions for the five entities we audited. Readers can rely on the results in the audited financial statements.

DEFINITION

We express an unmodified opinion when the financial statements are prepared in accordance with the relevant legislative requirements and Australian accounting standards.

Gladstone Area Water Board was granted an extension to its legislative timeframe for finalising its audited financial statements. Three new directors (including a new chair) were appointed on 22 August 2019 before the planned approval of the financial statements. An extension was granted on 10 September 2019 by the Minister for Natural Resources, Mines and Energy, which provided for the annual report (including the financial statements) to be lodged by 30 November 2019. Management is working towards a 30 November 2019 certification date.

The audit opinions we issued are provided in [Appendix C](#).

Action for water entities

Endorse and approve financial statements earlier



We continue to encourage water entities to bring forward audit committee endorsement and board approval of financial statements. This will assist in ensuring potential issues are effectively resolved between year end and signing date.

Entities not preparing financial statements

Not all Queensland public sector water entities produce financial statements. The full list of entities not preparing financial statements and the reasons are provided in [Appendix D](#).

Effectiveness of financial statement preparation

Water entities implemented year end processes that resulted in the timely delivery of draft financial statements. The financial statements were of good quality, but two entities made immaterial changes in 2018–19.



Figure 2A summarises our assessment of water entities' financial statement preparation processes. Our assessment of year end processes, timeliness, and quality is provided in [Appendix E](#).



Financial reporting maturity model

We are developing a new reporting tool for assessing financial statement preparation—the financial reporting maturity model. This model will allow for an assessment of public sector entities' processes for preparing financial reports, which can be adapted for entities of different sizes and circumstances.

We will include a self-assessment tool to help entities evaluate themselves against their expected maturity level and highlight improvement areas.

Areas of audit focus

We focus on areas with a higher risk of fraud or error in the financial statements. Risk increases when there is a higher degree of complexity or subjectivity, or when there are significant changes or developments. In the water sector, these areas of focus were:

- asset valuation and impairment assessments
- recognition of developer contributions (cash payments and/or donated assets)
- implementation of new accounting standards.

Asset valuation and impairment assessments

All entities use complex models to estimate the value of their assets. These models are based on assumptions and can be subjective.

Property, plant and equipment subject to revaluation or impairment make up 93.9 per cent of total assets.

We concluded that readers can rely on the value of property, plant and equipment reported in each entities' financial statements. We assessed the:

- adequacy of management's annual review of the valuation process
- appropriateness of the valuation methodology applied
- competence, capability, and objectivity of the experts used
- assumptions used in the process.

Action for water entities**Deliver timely asset valuations**

Since 2016–17, the sector has improved its completion and delivery of these models. Seqwater continues to lead the sector in the early completion of asset valuations.

We recommend entities continue to ensure:

- sufficient resources are allocated to complete and deliver asset valuation models
- assumptions underlying asset valuations are appropriately supported.

Recognition of developer contributions

Distributor-retailers (Unitywater and Queensland Urban Utilities) receive donated assets (water infrastructure, such as pipes) and cash contributions from developers. Cash contributions are referred to as infrastructure charges and are applied to fund the cost of providing new or upgraded trunk infrastructure. Developer contributions make up 10 per cent of the water sector's total revenue. These increase the capacity of the water and sewerage networks needed to support new developments. When a developer provides an asset, it is recorded as revenue and as a donated asset.

The value of donated assets is based on their physical length and corresponding unit rates. These are recognised when a connection certificate is issued for completed works that are compliant with laws and regulations. Revenue recognition is affected when developers are late in submitting engineer-certified drawings or when the values are inaccurate. As a result, the assets and revenue may be recorded in the incorrect period or not at all.

We concluded that readers of the financial statements can rely on the reporting of donated assets by each distributor-retailer. We assessed the:

- accuracy of physical lengths and unit rates of donated assets
- completeness and timely capitalisation (adding an asset to the balance sheet) of the donated assets that were recognised.

Implementation of new accounting standards

AASB 16 *Leases*

This accounting standard will introduce a single lease accounting model in 2019–20. The estimated increase in assets and corresponding liabilities for the sector is \$56.5 million. The outcome of adopting this standard will be known in 2019–20.

AASB 15 *Revenue from Contracts with Customers*

At adoption date (1 July 2018), the effect of this accounting standard on the sector was limited to the recognition of donated assets and irrigation revenue.

Distributor-retailers previously recognised donated assets when they become liable for the assets' ongoing maintenance. AASB 15 requires donated assets (and the associated revenue) to be recognised when connection certificates are issued to the developer.

In the past, irrigation revenue was deferred to match related repairs and maintenance expenditure. The standard now requires revenue to be recognised when the customer receives and benefits from the supply, transportation, or allocation of water.

The entities' combined post-tax increases to retained earnings relating to donated assets and irrigation revenue was \$14.4 million and \$12.2 million, respectively.



We concluded that readers of the financial statements can rely on the entities' preliminary assessment of AASB 16 and the implementation of AASB 15. We reviewed the:

- accuracy and completeness of entities' lease assessments
- entities' assessment and implementation on significant revenue streams.

Internal controls

We assessed whether the systems and processes (internal controls) that entities use to prepare financial statements are reliable. We report any deficiencies in the design or operation of those internal controls to management for action. The deficiencies are rated as either significant deficiencies (those of higher risk that require immediate action by management) or deficiencies (those of lower risk that can be corrected over time).

Overall, to the extent that we tested them, we found the internal controls water entities have in place to ensure reliable financial reporting are generally effective but can be improved.

Management is working to resolve the deficiencies identified in 2018–19.

Identified internal control matters

In 2018–19, we reported one significant deficiency, 12 deficiencies in internal controls, and 10 business improvement opportunities across the sector. The significant deficiency involved a fraud that resulted from a change to an employee's bank account details. The other deficiencies relate to other business processes.

Significant deficiency—employee information security

There was a payroll fraud at Queensland Urban Utilities resulting from a phishing email from a source posing as an employee. The email requested changes to bank account details. The details were subsequently processed and a payment was made to an unauthorised bank account. Management has strengthened processes for monitoring payroll transactions and reporting, including approvals for employee information changes.

Action for water entities

Secure employee and supplier information



Entities must verify changes to employee and supplier bank account details through sources independent of the change request.



Entities need to secure information systems to prevent unauthorised access that may result in fraud or error. Security measures could include:

- encryption of information
- restriction of user access
- regular monitoring by management
- appropriate segregation of duties.



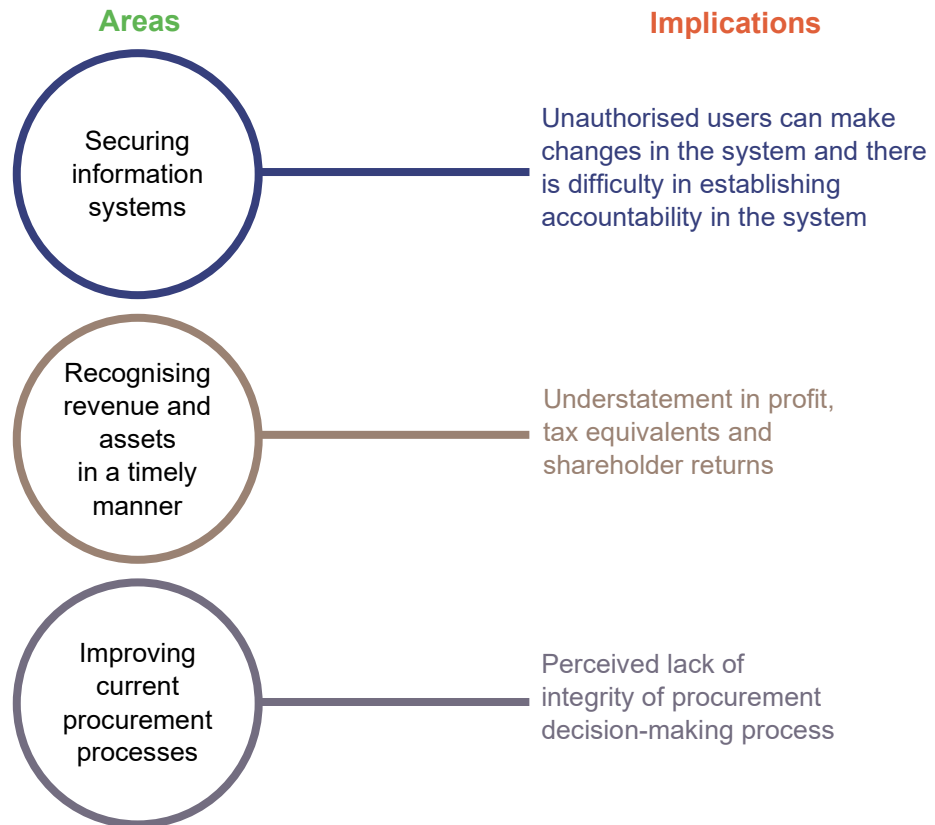
We encourage entities to explore a controls monitoring solution to bring in real-time data on key financial processes. This will enable stakeholders (such as management, or those charged with governance) to:

- identify exceptions that need to be managed
- have ongoing oversight across several different control activities
- make real-time decisions to address important issues or risks.

Control deficiencies and improvement suggestions

We reported a total of 22 deficiencies and improvement opportunities to those charged with governance. Figure 2B presents the underlying areas in which the deficiencies and improvement opportunities were identified, and the implications for the entities.

Figure 2B
Areas and implications for entities



Source: Compiled by Queensland Audit Office.

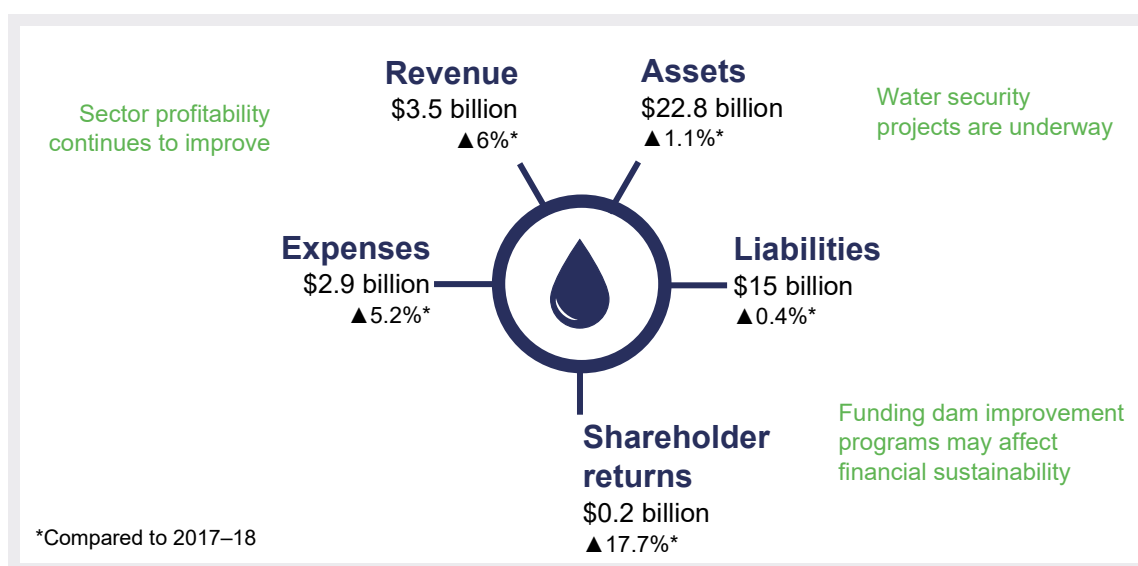
Management is working to resolve the control deficiencies and is considering the benefits of our business improvement suggestions.



3. Financial performance of water entities

This chapter analyses the financial results and future sustainability of the five water entities.

Chapter snapshot



Source: Compiled by Queensland Audit Office from water entities' financial statements.

Chapter summary

Current water infrastructure projects are primarily located in north Queensland and along the east coast, including the Rookwood Weir and Haughton Pipeline Duplication Projects. The Granite Belt Irrigation Project aims at expanding irrigation for agricultural and horticultural industries in the Southern Downs.

In 2018–19, the combined shareholder returns of entities increased. Seqwater continues to make an operating loss, attributed to the historical under-recovery of the cost of providing bulk water services, and interest expense associated with loans incurred from the merger with other bulk water entities and investments into drought resilient infrastructure.

Sunwater's upcoming expenditure for its large dam improvement program is likely to impact its financial performance, cash flows and returns to state government.

While still profitable, Queensland Urban Utilities' (QUU) developer contributions are declining, reflecting the impact of the cooling of the Brisbane region's property market.

Understanding financial performance

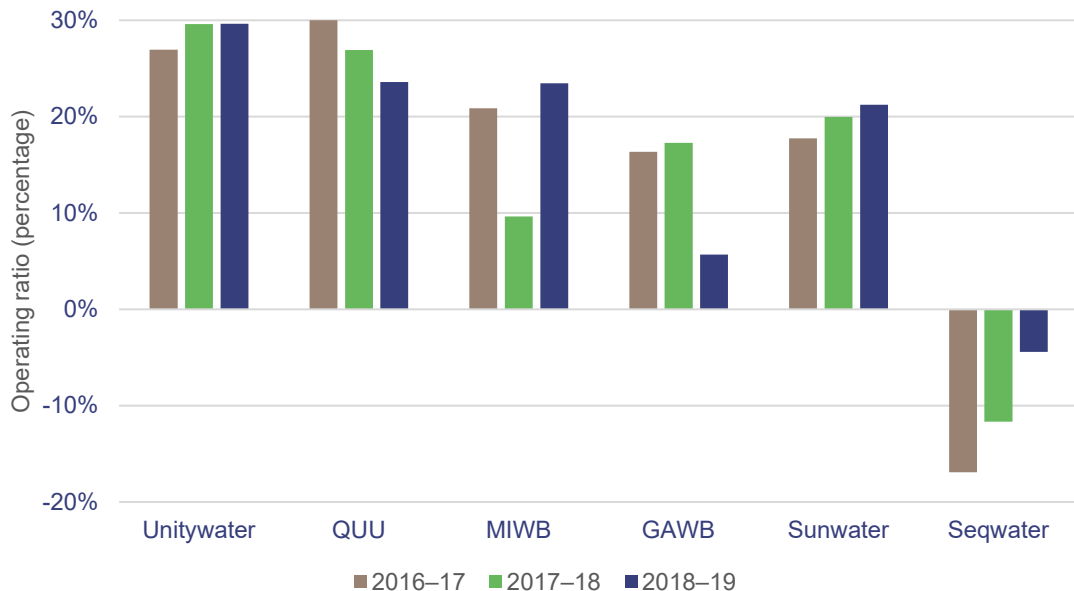
Operating ratio

DEFINITION

The **operating ratio** is the operating result before tax (revenue less expenses), expressed as a percentage of total revenue. It shows the capacity to meet operating expenses from operating revenue, with a positive ratio indicating that funds are also available for capital expenditure and shareholder returns.

Operating ratios should be positive over the medium to long term if an entity is to remain financially sustainable. A negative or low ratio indicates that an entity needs to ensure enough revenue is generated to fund future operating and capital commitments.

Figure 3A
Operating ratio for water entities



Notes: QUU—Queensland Urban Utilities; MIWB—Mount Isa Water Board.

Source: Compiled by Queensland Audit Office from water entities' financial statements.

Four of the five water entities achieved operating profits in 2018–19.

QUU's profit declined due to decreased developer contributions, which are outside of its control. MIWB's profit fluctuated due to an increase in water consumption and by asset values not being written down as much as they were in the previous year (comprehensive asset revaluation in 2017–18). Sunwater's profit increased due to higher operational revenue and lower employee costs.

Seqwater continues to make an operating loss, largely reflecting its historical under-recovery of the cost of delivering bulk water services as a result of the price path policy. The price path policy is the phasing in over time of the recovery of the investment in the South East Queensland Water Grid in response to the Millennium Drought. However, its operating result improved in 2018–19 due to urban bulk water prices moving closer to cost recovery levels, with all customers expected to reach the common price in 2020–21.

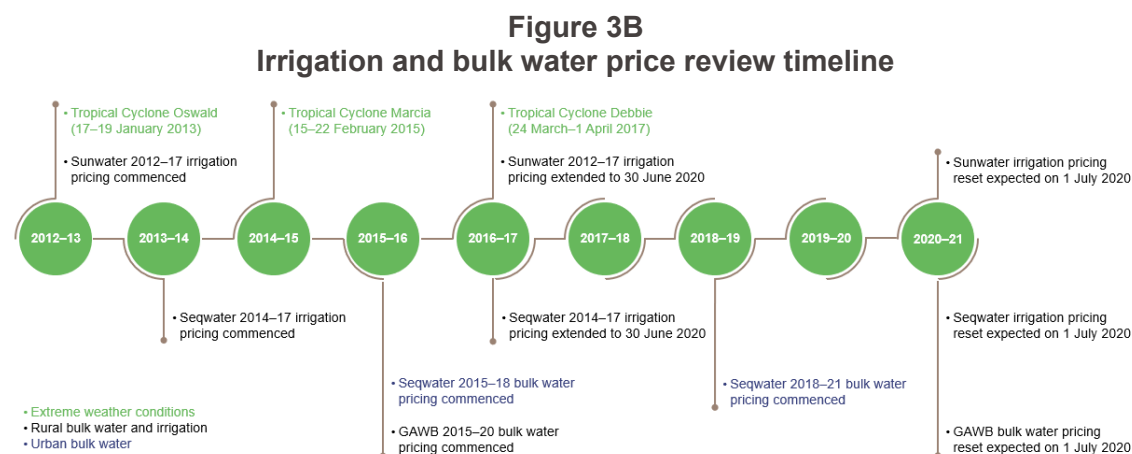
Pricing for South East Queensland

In 2008, the state government established the South East Queensland (SEQ) bulk water price path, with the objective of all SEQ council areas reaching a common bulk water price. The price path operates by setting a common price that reflects the cost of supplying water, and slowly transitioning all customers to the common price. In 2018–19, eight out of the 11 SEQ council areas paid the common price. All SEQ councils will pay the common price from 2020–21.

In 2017–18, the state government implemented the Queensland Competition Authority’s (QCA) price recommendation, which continues to ‘smooth’ price increases for all SEQ council areas. QCA recommends prices to recover the price path debt, being the accumulated previous under-recoveries of the cost of water, providing Seqwater with revenue to repay the water grid manager debt by 2028.

Irrigation pricing outside South East Queensland

Sunwater’s water irrigation (supplied to agricultural growers throughout regional Queensland) represents 19.7 per cent (21 per cent in 2017–18) of total revenue from operations. Figure 3B shows the extreme weather conditions that have occurred since Sunwater’s current irrigation price path began on 1 July 2012 (extended to 30 June 2020).



Note: GAWB—Gladstone Area Water Board, which was not audited.

Source: Queensland Audit Office from Queensland Competition Authority.

Costs in irrigation schemes vary due to electricity usage, operational costs, and future capital expenditure. Sunwater recovers these costs through the prices it charges irrigation customers and through a government subsidy—community service obligation (that is, government payments to entities to provide services that do not fully recover costs). The prices charged to irrigation customers are set by the state government, after having considered recommendations from the QCA.

Sunwater’s community service obligation for irrigation decreased by 31.3 per cent and 14.9 per cent in 2018–19 and 2017–18, respectively, due to prices moving closer to cost recovery and schemes transferring to Local Management Arrangements.

In 2019–20, QCA is expected to complete its review of Sunwater’s irrigation price path for 1 July 2020 to 30 June 2024. Current prices are based on the costs from QCA’s 2012 review of irrigation pricing and do not reflect cost increases across a number of areas (electricity, flood repair, insurance, and so on). The occurrence of extreme weather conditions and their impact on operating costs highlight the importance of this review.

Shareholder returns

DEFINITION

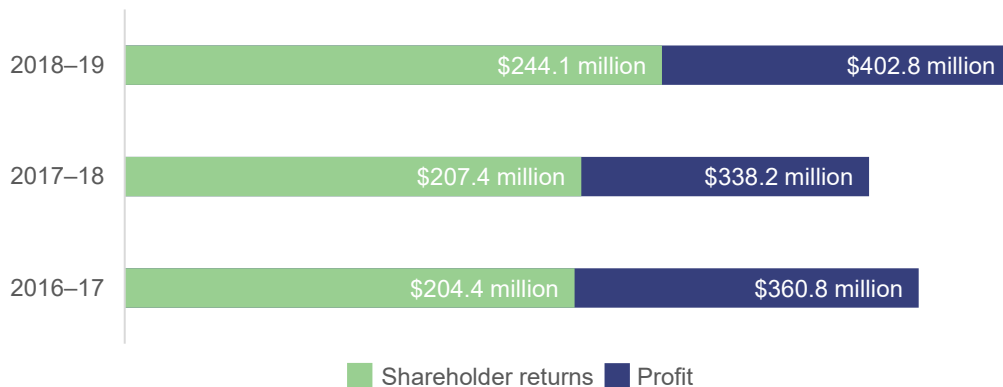
Shareholder returns refer to either dividends (for a statutory body or government owned corporation) or participation returns (for distributor-retailers).

Dividends are the portion of a statutory body or government owned corporation's profits that it pays to its shareholders.

Participation returns are the portion of a distributor-retailer's profits that it pays to its participating local governments in accordance with a participation agreement.

The water sector's combined shareholder returns have increased as a result of increasing operating profits (Figure 3C).

Figure 3C
Water sector operating results and shareholder returns



Note: Profit is after tax equivalents.

Source: Compiled by Queensland Audit Office from water entities' financial statements.

During 2018–19:

- Total dividends to the state government were \$56.1 million (increase of \$15.2 million from 2017–18). Dividends as a percentage of profit have remained consistent year-on-year except for 2016–17, when Sunwater kept 100 per cent of its profits to contribute to future dam improvement projects.
- Total participation returns to participating local governments were \$188 million (increase of \$21.5 million from 2017–18). Participation returns remained stable year-on-year except for 2017–18, when Unitywater made a one-off tax adjustment to align the useful lives of certain asset classes for both accounting and tax purposes, which reduced its profits.

Details on flows to and from government are provided in [Appendix G](#).

Understanding financial position

In 2018–19, total assets and liabilities increased by \$241.8 million (1.1 per cent) and \$58.6 million (0.4 per cent) respectively. The overall increase in total assets was largely due to the following movements in property, plant and equipment:

- distributor-retailers constructing \$376.1 million of infrastructure assets and receiving donated assets of \$175.4 million
- bulk water suppliers' \$200 million investment into bulk water infrastructure improvements, refurbishments and construction projects
- offset by depreciation of \$558.2 million and impairment of \$28.5 million.

Four of the five entities increased their liabilities during 2018–19. For example:

- QUU borrowing \$39.4 million to fund short-term liquidity requirements
- Sunwater deferring \$29.7 million of revenue for the Rookwood Weir Project.

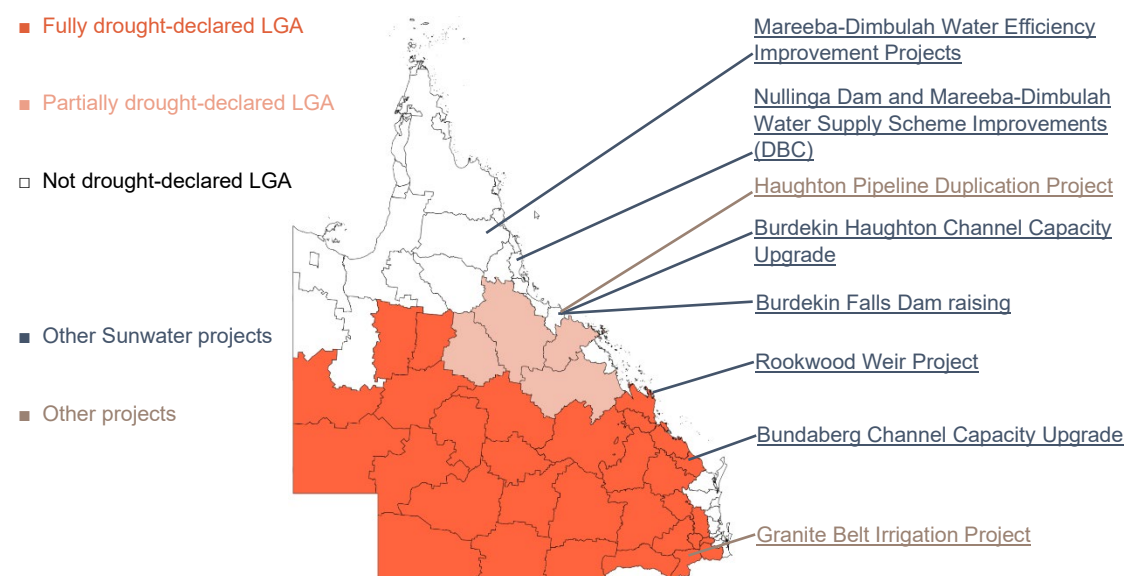
Future challenges and emerging risks

Business cases have been completed for projects to stimulate regional development, primarily in north Queensland and along the east coast.

Drought-declared areas

The state government has declared drought in 66.1 per cent of the state, after lack of rainfall across central and southern Queensland.

Figure 3D
Queensland drought-declared areas and related regional development projects



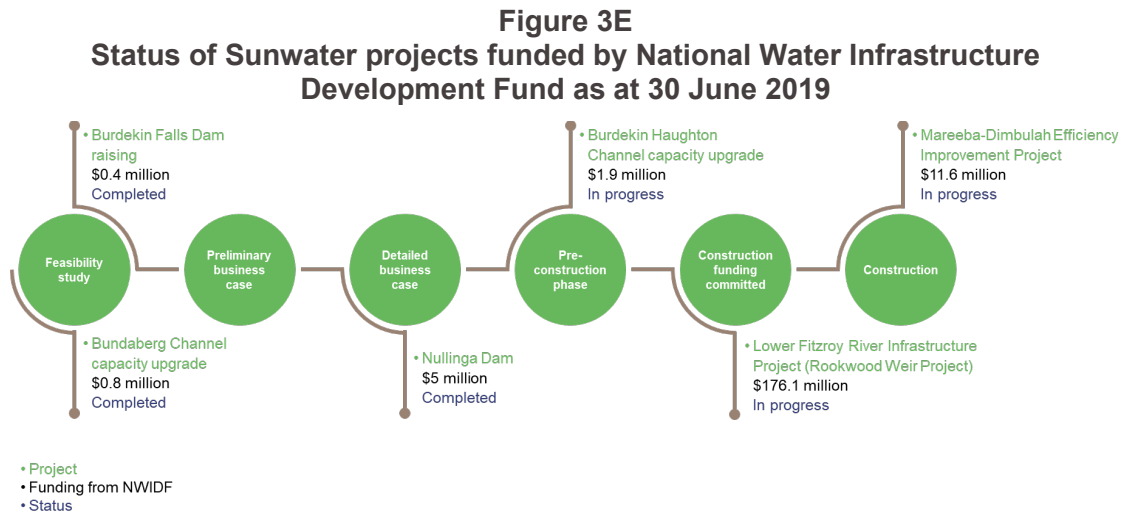
Note: Drought-declared areas are as at 1 September 2019. Project locations are only approximate. LGA—local government areas. DBC—Detailed Business Case.

Source: Compiled by Queensland Audit Office from Department of Environment and Science and Department of Infrastructure, Transport, Cities and Regional Development information.

National Water Infrastructure Development Fund

The National Water Infrastructure Development Fund (NWIDF) is intended to accelerate the assessment of water infrastructure proposals that could stimulate regional economic activity through building projects. Through the state government, Queensland entities used \$25.5 million to finalise 15 water infrastructure feasibility studies under Part 1 of this scheme in 2018–19.

Figure 3E presents the status of the seven feasibility studies involving Sunwater.



Source: Compiled by Queensland Audit Office from the NWIDF website.

DEFINITION

A **feasibility study** includes a range of detailed technical, environmental, and economic assessments on a specific water infrastructure project site, enabling investment decisions to be made ahead of construction.

A **preliminary business case** aims to progress the concept documented in the feasibility study by generating options and assessments for a preferred option/s for more detailed analysis.

A **detailed business case** aims to provide evidence for investing in the projects.

Part 2 of this scheme relates to co-funding the construction of water infrastructure projects. The NWIDF committed funding in June 2018 for Mareeba-Dimbulah Efficiency Improvement Project (\$11.6 million). It also committed funding (pending bilateral schedule agreement) of up to \$176.1 million for the construction of the Rookwood Weir, on the Fitzroy River, west of Rockhampton.

Most of the project investments approved to date have been in north Queensland and along the east coast. It will be several years before these projects are completed.

Rookwood Weir Project

The Rookwood Weir Project (RWP) is a component of the Lower Fitzroy River Infrastructure Project (which includes upgrades to and construction of roads and bridges and associated infrastructure). The RWP is located 66 kilometres from Rockhampton on the Fitzroy River. It is expected to be capable of supplying 76,000 megalitres (ML) per annum of high priority water for customers.

The Australian Government (through the NWIDF) and the Queensland Government have committed to jointly funding construction of the Rookwood Weir for \$352.2 million. Sunwater progressed preparatory works for the RWP in 2018–19, with first construction activities expected to start in the second half of 2019.

At the RWP's completion, it is expected to support agricultural and industrial development in the area.

Haughton Pipeline Duplication Project

As a result of a monsoon trough in January–February 2019, the Ross River Dam was filled to approximately 245 per cent before water was released. The dam's level decreased to 79 per cent at 23 September 2019 and continues to decline. Townsville City Council currently imposes water conservation measures on the watering of lawns and gardens.

The Haughton Pipeline Duplication Project was funded by the state government, which provided \$225 million to Townsville City Council (which includes \$10 million for the Water Smart Package). It is expected to be completed by March 2020. Project completion will allow pumping of additional bulk water from the Burdekin Haughton Water Supply Scheme to the Ross River Dam during periods of very low rainfall. As at 30 June 2019, Sunwater was also in the pre-construction phase of increasing the Haughton Channel's capacity. These projects are expected to address the anticipated population growth of Townsville in the 2030s and the requirements of industries in the region.

Granite Belt Irrigation Project

Some of Queensland's important agricultural and horticultural areas are located in the Southern Downs, which continues to experience decreased rainfall.

As at 16 September 2019, water levels for the three dams in the region were:

- Connolly Dam (owned and operated by Southern Downs Regional Council)—33.8 per cent
- Storm King Dam (owned and operated by Southern Downs Regional Council)—20.5 per cent
- Leslie Dam (owned and operated by Sunwater)—six per cent.

In January 2019, the Stanthorpe and Granite Belt Chamber of Commerce completed a feasibility study of the Granite Belt Irrigation Project, funded by the NWIDF. The project's cost was assessed at \$84 million, which includes the construction of the 12,074 ML Emu Swamp Dam, 117 kilometre pipeline, and other costs. It is expected that irrigation water supply in the area will increase by approximately 40 per cent as a result of this project.

The state government's funding conditions include:

- the proponent, Granite Belt Water, being able to secure access to sufficient water entitlements. This will involve discussions with local stakeholders and securing environmental approvals
- appropriately qualified and expert engineers reviewing and endorsing the design of the dam and distribution network
- the state government having input into the choice of expert reviewers and the design and delivery process
- the proposed owner, Granite Belt Water, providing information about the ongoing viability of the proposal and the business to allow the state government to undertake due diligence assessments
- that if construction contracts cannot be signed for \$84 million, the viability of the project will be reconsidered.

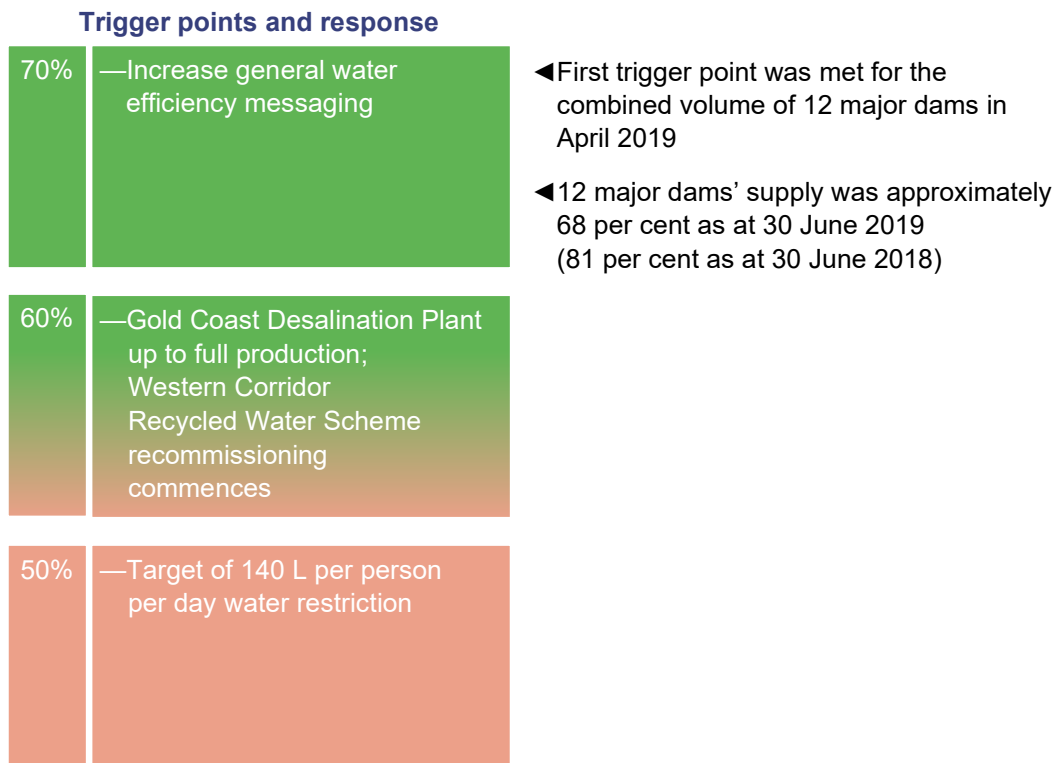
This project is aimed at expansion of irrigated agriculture and horticulture in the region.



Maintaining water security in South East Queensland

As at 30 June 2019, SEQ was not yet experiencing the water supply difficulties facing other Queensland regions. However, Seqwater is preparing for the possibility of drought. Its Water Security Program (long-term water plan), includes a plan for drought response with triggers (Figure 3F) for actions when the combined level of the region’s 12 major dams reaches a certain level.

Figure 3F
Drought response triggers



Source: Compiled by Queensland Audit Office from Seqwater’s information.

Seqwater manages and maintains the Gold Coast Desalination Plant (the Desalination Plant) and the Western Corridor Recycled Water Scheme (the Western Corridor Scheme).

Figure 3G details the operating and maintenance costs for these assets.

Figure 3G
Manufactured water assets—annual maintenance and operating costs



Notes: *compared to 2017–18. These costs will increase significantly as production ramps up.

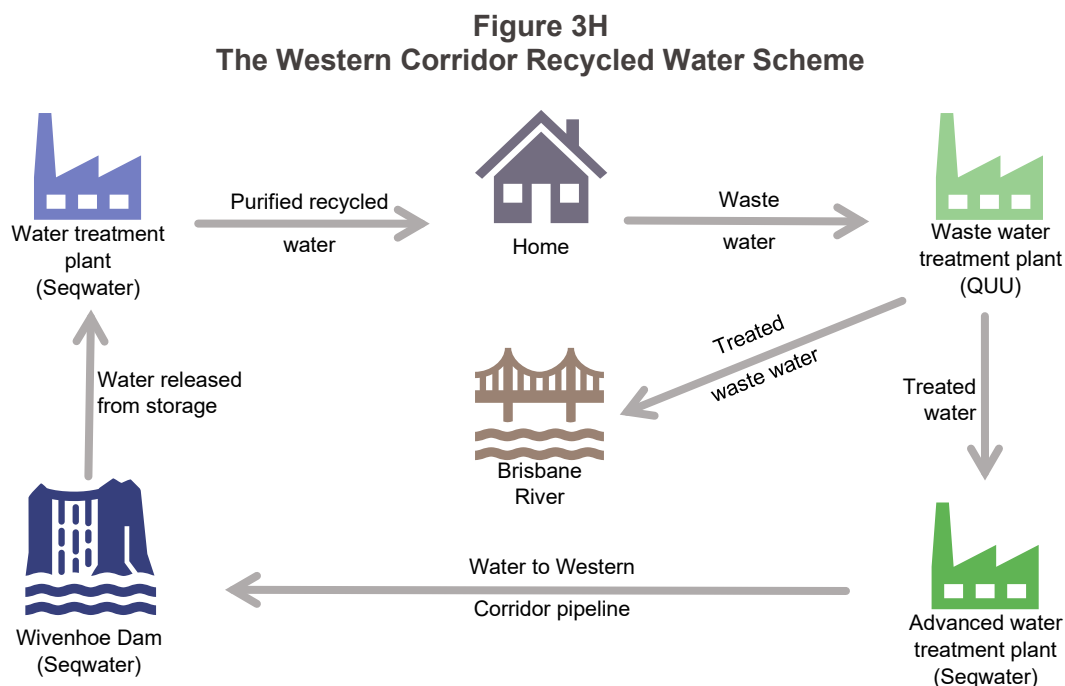
Source: Compiled by Queensland Audit Office from Seqwater data.

At full capacity, the Desalination Plant and the Western Corridor Scheme can produce 313 ML per day (133 ML and 180 ML respectively)—approximately a third of Seqwater’s daily water production in 2018–19. The Desalination Plant currently operates in a state of readiness to deliver 100 per cent of its capacity within 72 hours. The Western Corridor Scheme reached a fully decommissioned state in March 2015.



In 2018–19, the Desalination Plant produced 6,535 ML of water (13.5 per cent of its total capacity), representing two per cent of the total water Seqwater supplied. This provided an alternate water source when other parts of the grid were taken offline for maintenance and upgrades. Operating costs increased this year due to increased production. The use of drought resilient water sources, such as the Desalination Plant, will increase if drought conditions occur in South East Queensland.

Figure 3H provides an overview of the Western Corridor Scheme.



Source: Compiled by Queensland Audit Office from Seqwater information.

The Western Corridor Scheme:

- remained in care and maintenance mode throughout 2018–19
- includes three advanced water treatment plants (Bundamba, Gibson Island and Luggage Point), approximately 220 km of pipelines, and nine pumping stations.

As part of the care and maintenance mode, the Luggage Point Advance Water Treatment Plant remains operational to prepare and gain learnings for the future if the Western Corridor Scheme is fully recommissioned. It produced 1,717 ML in 2018–19 for Seqwater’s industrial customer.

Seqwater included a probability weighting for drought (likelihood of drought occurrence) as an assumption in its asset valuation as at 30 June 2019. It includes consideration of the cost to fund these drought responses, if required, and the potential for price rises.

Action for water entities

Reflect drought impact in financial statements



We encourage all entities to assess the impact of extreme weather events on the measurement of their transactions and balances, and their financial statement disclosures. This should help a reader to understand of the importance of drought events to water entities, and of the impact on their financial position and performance.

Dam improvements

Each dam owner is responsible for dam improvement in Queensland. Bulk water suppliers must ensure they manage dam safety risks in accordance with the provisions of the *Water Supply (Safety and Reliability) Act 2008*.

DEFINITION

A dam improvement program includes an ongoing series of inspections, engineering assessments, and comprehensive risk assessments for all referable dams, including changes in design standards, hydrologic data and methods, industry best practice, and regulatory requirements.

A dam is a referable dam if a failure impact assessment demonstrates there would be people at risk if the dam were to fail.

Hydrology is the scientific study of the movement, distribution, and quality of water.

Dam improvements are a significant cost to entities and are funded through:

- additional borrowings
- additional funding from the state or federal government
- the current and future water price.

Dam improvement has been a major focus for Sunwater since it began its dam improvement programs in 2005.

These programs are likely to significantly influence Sunwater's financial performance and net flows to the government over the next decade.

Figure 3I
Significant Sunwater dam improvement programs

| Project | Status |
|--------------------|--|
| Burdekin Falls Dam | <ul style="list-style-type: none"> • Detailed business case (led by Building Queensland) begun on 30 June 2019 for Burdekin Falls Dam Spillway and Saddle Dam improvements |
| Fairbairn Dam | <ul style="list-style-type: none"> • Stage 1—completed December 2016 • Stage 2—in progress, scheduled for completion by early 2021 • Stage 3—in progress, scheduled for completion by late 2020 |
| Leslie Dam | <ul style="list-style-type: none"> • Preliminary business case in progress at 30 June 2019 |
| Teemurra Dam | <ul style="list-style-type: none"> • Preliminary business case in progress at 30 June 2019 |
| Paradise Dam | <ul style="list-style-type: none"> • Primary and Secondary Spillway Improvement business case completed at 30 June 2019 |

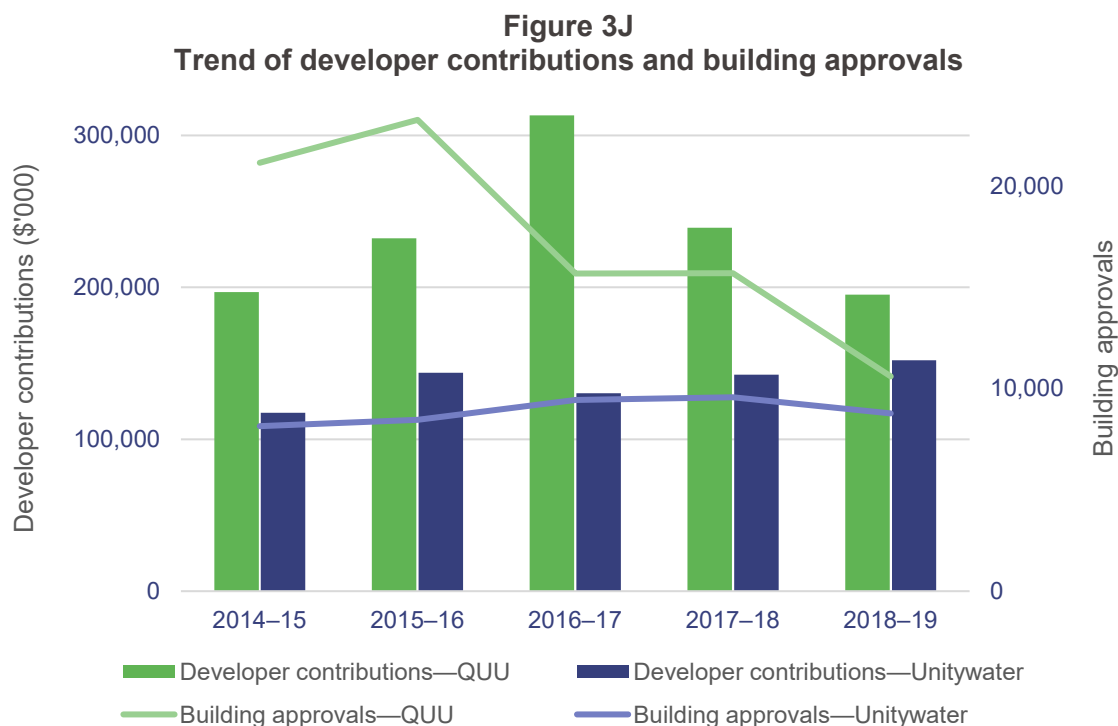
Source: Compiled by Queensland Audit Office from Sunwater information.



Developer contributions

Developer contributions come in the form of cash and/or donated assets. Distributor-retailers use developer contributions to expand existing capacity and meet future network requirements. In 2018–19, developer contributions of \$347.2 million were recognised (a decrease of \$34.7 million from 2017–18).

Figure 3J shows a consistent decline in QUU’s developer contributions since 2016–17.



Note: Building approvals do not include alterations, additions, and conversions. QUU—Queensland Urban Utilities.

Source: Compiled by Queensland Audit Office from Queensland Government Statistician’s Office, Unitywater, and QUU data.

The decline in QUU’s developer contributions resulted from:

- a reduced level of apartment projects due to an oversupply in the market
- QUU and Brisbane City Council ending their student accommodation stimulus program.

Unitywater’s developer contributions have remained stable (aligned with building approvals). This reflects the difference in demographics between the two regions.



Appendices

| | | |
|-----------|--|-----------|
| A. | Full responses from agencies | 22 |
| B. | Legislative context | 25 |
| C. | Audit opinions for entities preparing financial reports | 27 |
| D. | Entities not preparing financial reports | 28 |
| E. | Our assessment of financial statement preparation | 29 |
| F. | Financial results | 32 |
| G. | Flows to and from government | 34 |
| H. | Glossary | 36 |



A. Full responses from agencies

As mandated in Section 64 of the *Auditor-General Act 2009*, the Queensland Audit Office gave a copy of this report with a request for comments to the:

- Premier and Minister for Trade
- Deputy Premier, Treasurer and Minister for Aboriginal and Torres Strait Islander Partnerships
- Minister for Natural Resources, Mines and Energy
- Director-General, Department of Natural Resources, Mines and Energy
- Chief executive officers for
 - Seqwater
 - Sunwater
 - Queensland Urban Utilities
 - Unitywater
 - Mount Isa Water Board
 - Gladstone Area Water Board
 - Queensland Competition Authority
- Under Treasurer, Queensland Treasury.

This appendix contains the formal responses we received.

The heads of these agencies are responsible for the accuracy, fairness, and balance of their comments.



Comments received Chief Financial Officer, Queensland Urban Utilities



Office of the Chief Financial Officer
Level 2, 15 Green Square Close
Fortitude Valley QLD 4006

GPO Box 2765
Brisbane QLD 4001

16 October 2019

Mr B Worrall
Auditor-General of Queensland
Queensland Audit Office
PO Box 15396
CITY EAST QLD 4002

Dear Mr Worrall,

MANAGEMENT RESPONSE TO DRAFT WATER REPORT: 2018-19 RESULTS OF FINANCIAL AUDITS

Thank you for providing a copy of the draft Water: 2018-19 results of financial audits report.

Queensland Urban Utilities ("QUU") is pleased to have received an unmodified audit opinion for the 2018-19 financial year, confirming that the financial report provides a true and fair view of QUU's financial position, financial performance and cash flows and that it complies with the relevant accounting standards.

The significant deficiency referred to in the draft Water Report related to an isolated fraud incident resulting in a \$2,840.49 payment to an unauthorised bank account. QUU's payroll team were targeted by an offender posing to be on of QUU's General Manager's via a phishing email. The fraudulent email requested a change in the employee's bank account details. The request was subsequently processed resulting in a payment to an unauthorised bank account.

Management immediately undertook detailed investigations to review the end to end control environment and corrective actions have been implemented. Furthermore, an external investigation has been initiated with KPMG which focussed on process failures and assessments of any related fraud risk. Corrective actions suggested from this investigation will be assessed and implemented by management. QUU has been able to partially recover \$951.63 of the \$2,840.49. QUU process weekly pays for approximately 1000 staff. This event represented the first payroll fraud event since the establishment of QUU and there were no other significant deficiencies identified.

Further details have been included in the attached Annexure. QUU continues to strive to achieve ratings of fully "Effective" in all areas in future audits and is working with the QAO to resolve all audit conclusions raised in the Closing Report dated 5 August 2019.

Yours sincerely,

Ruth Coulson
Chief Financial Officer



To report a fault or emergency
Contact us 24/7 on 13 23 64



For more information visit
www.urbanutilities.com.au



General enquiries
From 7am-7pm weekdays 13 26 57

Annexure



| Deficiency | Consequence | Actions taken | Controls Implemented | Outstanding |
|---|-------------------------------|---|---|---|
| <p>Subsequent to year end, a payroll fraud event occurred resulting in financial loss to QUU.</p> <p>Note: QUU process pays weekly for approximately 1,000 staff.</p> | <p>Significant deficiency</p> | <ul style="list-style-type: none"> A thorough internal investigation has been carried out, confirming this was an isolated case. Immediate corrective actions and controls have been implemented, including training and awareness around social engineering fraud and review of processes, reporting and approvals for master data changes. KPMG have been engaged to carry out a more detailed investigation focussed on process failures and assessment of any related fraud risk. QUU have worked closely with the Commonwealth bank to seek recovery of lost funds and proceed with the fraud investigation. | <ul style="list-style-type: none"> All bank account changes made by QUU's outsourced payroll provider must be forwarded to the QUU Payroll Manager for validation. Payroll Manager to validate email notification against completed form that employee sent. Only emails sent from the employee's work email address are accepted. Payroll to confirm if employee is on leave – if they are, contact the employee to ensure the change request came from them. When speaking to employee ensure Payroll will carry out an identity check, including date of birth, address and emergency contact details. Employees who have access to ESS will be required to manage their own changes. All email queries/requests that are received from a personal email address must be forward to the payroll services inbox. External access to this form was removed from QUU website. Training and awareness on social engineering fraud has been provided to payroll team. | <p>KPMG audit findings will be reviewed and suggested actions implemented</p> |



B. Legislative context

Framework

Water entities prepare their financial statements in accordance with the following legislative frameworks and reporting deadlines.

Figure B1
Legislative frameworks for the water sector

| Entity type | Entity | Legislative framework | Legislated deadline |
|-------------------------------------|--|--|---------------------|
| Statutory bodies | <ul style="list-style-type: none"> Queensland Bulk Water Supply Authority (trading as Seqwater) Northern SEQ Distributor-Retailer Authority (trading as Unitywater) Central SEQ Distributor-Retailer Authority (trading as Queensland Urban Utilities) Gladstone Area Water Board Mount Isa Water Board | <ul style="list-style-type: none"> <i>Financial Accountability Act 2009</i> Financial and Performance Management Standard 2009 Unitywater and Queensland Urban Utilities only: <ul style="list-style-type: none"> <i>South-East Queensland Water (Distribution and Retail Restructuring) Act 2009</i> | 31 August 2019 |
| Government owned corporations (GOC) | <ul style="list-style-type: none"> Sunwater Limited | <ul style="list-style-type: none"> <i>Government Owned Corporations Act 1993</i> <i>Corporations Act 2001</i> Corporations Regulations 2001 | 31 August 2019 |

Source: Compiled by the Queensland Audit Office.

Accountability requirements

The *Financial Accountability Act 2009* requires statutory bodies to:

- achieve reasonable value for money by ensuring their operations are carried out efficiently, effectively, and economically
- establish and maintain appropriate systems of internal control and risk management
- establish and keep funds and accounts that comply with the relevant legislation, including Australian accounting standards.



Queensland Government financial statements

Each year, Queensland Government entities must table their audited financial statements in parliament.

These financial statements are used by a broad range of parties including parliamentarians, taxpayers, employees, local governments, and users of government services. For these statements to be useful, the information reported must be relevant and accurate.

The Auditor-General's audit opinion on these entities' financial statements assures users that the statements are accurate and in accordance with relevant legislative requirements.

We express an unmodified opinion when the financial statements are prepared in accordance with the relevant legislative requirements and Australian accounting standards. We modify our audit opinion when financial statements do not comply with the relevant legislative requirements and Australian accounting standards and are not accurate and reliable.

Sometimes we include an emphasis of matter in our audit reports to highlight an issue that will help users better understand the financial statements. An emphasis of matter does not change the audit opinion.



C. Audit opinions for entities preparing financial reports

The following table details the audit opinions we issued, in accordance with Australian auditing standards for 2018–19.

Figure C1
Our opinions for water sector financial reports for 2018–19

| Entity type | Entity | Date audit opinion issued | Type of audit opinion issued |
|----------------------------|--|---------------------------|------------------------------|
| Bulk water suppliers | Seqwater | 29 August 2019 | Unmodified |
| | Sunwater | 13 August 2019 | Unmodified |
| Water distributor-retailer | Central SEQ Distributor-Retailer Authority (trading as Queensland Urban Utilities) | 19 August 2019 | Unmodified |
| | Northern SEQ Distributor-Retailer Authority (trading as Unitywater) | 29 August 2019 | Unmodified |
| Category one water boards | Gladstone Area Water Board | Refer to note below | Refer to note below |
| | Mount Isa Water Board | 26 August 2019 | Unmodified |

Note: Three new directors (including a new chair) were appointed on 22 August 2019, immediately prior to the planned financial statement approval. Management is working towards a 30 November 2019 certification date and we expect to issue an unmodified opinion.

Source: Compiled by the Queensland Audit Office.



D. Entities not preparing financial reports

When entities are part of a group and are secured by a deed of cross guarantee (with other entities in that group agreeing to cover debts), they are not required to prepare financial statements. Small companies that meet specific criteria under the *Corporations Act 2001* also do not have to prepare financial statements.

The Auditor-General will not issue audit opinions for the following controlled public sector entities for 2018–19, as they have not produced a financial report.

Figure D1
Water sector entities not preparing financial reports in 2018–19

| Public sector entity | Reason for not preparing financial reports |
|---|---|
| Bulk water supplier | |
| Controlled entities of Sunwater Limited | |
| North West Queensland Water Pipeline Pty Ltd | Deed of cross guarantee ASIC order |
| Eungella Water Pipeline Pty Ltd | Deed of cross guarantee ASIC order |
| Burnett Water Pty Ltd | Deed of cross guarantee ASIC order |
| Distributor-retailer | |
| Controlled entity of Northern SEQ Distributor-Retailer Authority (trading as Unitywater) | |
| Unitywater Properties Pty Ltd | Non-reporting (exemption under <i>Corporations Act 2001</i>) |

Source: Compiled by the Queensland Audit Office.

E. Our assessment of financial statement preparation

In assessing the effectiveness of financial statement preparation processes, we considered three components—the year end close process, the timeliness of financial statements, and the quality of financial statements.

We assess these financial statement preparation processes against the following criteria.

Year end close process

State public sector entities should have a robust year end close process to enhance the quality and timeliness of the financial reporting processes. This year, we assessed processes for year end financial statement preparation against the following targets:

- prepare pro-forma financial statements by 31 March
- resolve known accounting issues by 30 April
- complete non-current asset valuations by 31 May
- complete early-close processes
- conclude all asset stocktakes by 30 June.

These targets were developed based on advice previously issued by the Under Treasurer in 2014, and on better practice identified in other jurisdictions.

| Rating scale | Assessment criteria—year end close process |
|-------------------------|--|
| ● Fully implemented | All key processes completed by the target date |
| ● Partially implemented | Three key processes completed within two weeks of the target date |
| ● Not implemented | Fewer than two key processes completed within two weeks of the target date |



Timeliness of draft financial statements

We assess the timeliness of draft financial statements by considering whether entities prepared them according to the timetables set by management. This includes providing auditors with the first complete draft of financial statements by the agreed date. A complete draft is one that management is ready to sign in which no material errors or adjustments are expected.

| Rating scale | Assessment criteria—timeliness of draft financial statements |
|--------------------|---|
| ● Timely | Acceptable draft financial statements received on or prior to the planned date |
| ● Generally timely | Acceptable draft financial statements received within two days after the planned date |
| ● Not timely | Acceptable draft financial statements received greater than two days after the planned date |

Quality of draft financial statements

We assess the quality of draft financial statements in terms of adjustments made between the first draft of the financial statements and the final version we receive. This includes adjustments to current year, prior year, and other disclosures. This is an indicator of how effective the review of the financial statements is at identifying and correcting errors.

| Rating scale | Assessment criteria—quality of draft financial statements |
|------------------------------|---|
| ● No adjustments | No adjustments were required |
| ● No significant adjustments | Immaterial adjustments were made to financial statements |
| ● Significant adjustments | Material adjustments were made to financial statements |



Result summary

This table summarises our assessment of the six entities' financial statement preparation processes.

Figure E1
Our assessment of water sector financial statement preparation for 2018–19

| Entity | Year end close process | Timeliness of draft financial statements | Quality of draft financial statements |
|------------|------------------------|--|---------------------------------------|
| Seqwater | ● | ● | ● |
| Sunwater | ● | ● | ● |
| QUU | ● | ● | ● |
| Unitywater | ● | ● | ● |
| MIWB | ● | ● | ● |

Notes: QUU—Queensland Urban Utilities; MIWB—Mount Isa Water Board.

Source: Compiled by the Queensland Audit Office.



F. Financial results

Figure F1
For the year ended 30 June 2019

| Amounts in \$'000 | | | | | | | | | |
|-------------------|------------|-------------|-----------|-----------|-------------------|---------------------|---------------|----------------|--------------------------|
| Entity | Assets | Liabilities | Revenue | Expenses | Net profit (loss) | Shareholder returns | Finance costs | New borrowings | Repayments of borrowings |
| Seqwater | 11,649,926 | 9,968,311 | 988,247 | 1,032,049 | (32,949) | – | 507,712 | – | – |
| Sunwater | 1,042,496 | 585,516 | 343,820 | 270,865 | 51,224 | 51,224 | 14,365 | – | 38 |
| QUU | 6,027,769 | 2,588,080 | 1,377,659 | 1,052,508 | 226,555 | 153,000 | 96,820 | 39,400 | – |
| Unitywater | 3,902,190 | 1,865,263 | 730,579 | 513,918 | 151,800 | 34,981 | 73,940 | 47,000 | 47,000 |
| GAWB | – | – | – | – | – | – | – | – | – |
| MIWB | 171,249 | 34,117 | 25,107 | 19,217 | 6,156 | 4,925 | 73 | – | 268 |

Note: Gladstone Area Water Board's (GAWB) financial statements are yet to be signed.

Figure F2
For the year ended 30 June 2018

| Amounts in \$'000 | | | | | | | | | |
|-------------------|------------|-------------|-----------|-----------|-------------------|---------------------|---------------|----------------|--------------------------|
| Entity | Assets | Liabilities | Revenue | Expenses | Net profit (loss) | Shareholder returns | Finance costs | New borrowings | Repayments of borrowings |
| Seqwater | 11,695,512 | 9,980,948 | 913,512 | 1,020,030 | (75,701) | – | 509,469 | – | – |
| Sunwater | 1,012,721 | 562,426 | 287,747 | 230,310 | 39,661 | 39,661 | 14,723 | – | 16 |
| QUU | 5,902,274 | 2,550,041 | 1,348,322 | 985,199 | 253,281 | 165,801 | 96,112 | – | – |
| Unitywater | 3,777,942 | 1,858,898 | 696,248 | 490,211 | 119,405 | 713 | 77,523 | 37,002 | 37,000 |
| GAWB | 768,463 | 371,544 | 71,019 | 58,742 | 8,683 | 6,948 | 9,940 | 30,000 | – |
| MIWB | 163,351 | 30,328 | 22,284 | 20,141 | 1,516 | 1,213 | 93 | – | 815 |



Figure F3
For the year ended 30 June 2017

| Amounts in \$'000 | | | | | | | | | |
|-------------------|------------|-------------|-----------|-----------|-------------------|---------------------|---------------|----------------|--------------------------|
| Entity | Assets | Liabilities | Revenue | Expenses | Net profit (loss) | Shareholder returns | Finance costs | New borrowings | Repayments of borrowings |
| Seqwater | 11,386,146 | 9,892,007 | 880,294 | 1,029,246 | (105,513) | – | 538,936 | – | – |
| Sunwater | 996,551 | 541,539 | 287,927 | 236,874 | 36,048 | – | 15,194 | 40,000 | 1,548 |
| QUU | 5,800,675 | 2,536,456 | 1,382,100 | 965,269 | 291,449 | 164,873 | 97,561 | – | – |
| Unitywater | 3,619,542 | 1,819,190 | 669,523 | 489,199 | 135,507 | 36,888 | 79,848 | 78,876 | 78,878 |
| GAWB | 721,748 | 339,938 | 60,506 | 50,621 | 6,870 | 5,496 | 8,902 | 11,500 | – |
| MIWB | 158,310 | 31,044 | 22,536 | 17,841 | 3,282 | 2,626 | 175 | – | 732 |

Source: Compiled by Queensland Audit Office from the water entities' financial statements.



G. Flows to and from government

The following tables reflect the flows to and from government by entity.

Figure G1
For the year ended 30 June 2019

| Amounts in \$'000 | | | | | | | |
|----------------------------|---------------|-----------------|------------------|------------------|----------|----------------|------------------|
| | Seqwater | Sunwater | QUU | Unitywater | GAWB* | MIWB | Total |
| Inflows | | | | | | | |
| CSO* | 2,074 | 8,118 | – | – | – | – | 10,192 |
| Grants | 11,721 | 40,772 | 235 | 3,998 | – | – | 56,726 |
| Other | – | – | 9,544 | 14,384 | – | – | 23,928 |
| Total | 13,795 | 48,890 | 9,779 | 18,382 | – | – | 90,846 |
| Outflows | | | | | | | |
| Shareholder returns | – | (51,224) | (153,000) | (34,981) | – | (4,925) | (244,130) |
| Income tax equivalents | 10,853 | (21,731) | (98,596) | (64,861) | – | (267) | (174,602) |
| Competitive neutrality fee | – | (2,292) | – | – | – | – | (2,292) |
| Interest | – | – | (2,031) | (58,265) | – | – | (60,296) |
| Other | – | – | (6,893) | (2,276) | – | – | (9,169) |
| Total | 10,853 | (75,247) | (260,520) | (160,383) | – | (4,648) | (490,489) |

Notes: *CSO—community service obligation. GAWB's financial statements are yet to be signed. Income tax equivalents include deferred tax components.

Figure G2
For the year ended 30 June 2018

| Amounts in \$'000 | | | | | | | |
|----------------------------|---------------|-----------------|------------------|------------------|-----------------|----------------|------------------|
| | Seqwater | Sunwater | QUU | Unitywater | GAWB | MIWB | Total |
| Inflows | | | | | | | |
| CSO* | 2,069 | 9,006 | – | – | – | – | 11,075 |
| Grants | 11,923 | 2,648 | – | 4,053 | 1,135 | – | 19,759 |
| Other | – | – | 8,685 | 15,206 | – | – | 23,891 |
| Total | 13,992 | 11,654 | 8,685 | 19,259 | 1,135 | – | 54,725 |
| Outflows | | | | | | | |
| Shareholder returns | – | (39,661) | (165,801) | (713) | (6,948) | (1,213) | (214,336) |
| Income tax equivalents | 30,817 | (17,776) | (109,842) | (86,632) | (3,594) | (627) | (187,654) |
| Competitive neutrality fee | – | (2,217) | – | – | (2,430) | – | (4,647) |
| Interest | – | – | (2,092) | (60,122) | – | – | (62,214) |
| Other | – | – | (7,487) | (3,734) | – | – | (11,221) |
| Total | 30,817 | (59,654) | (285,222) | (151,201) | (12,972) | (1,840) | (480,072) |

Notes: *CSO—community service obligation. Income tax equivalents include deferred tax components.

The following tables reflect the revenue streams paid to local government by the respective distributor-retailers.

Figure G3
For the year ended 30 June 2019

| Amounts in \$'000 | | | | | | |
|-------------------|---------------------------------|----------------------|-----------------------|---------------|--------------|----------------|
| | Local government | Participation return | Income tax equivalent | Interest | Other | Total |
| QUU | Brisbane City Council | 130,060 | 73,259 | – | 2,934 | 206,253 |
| | Ipswich City Council | 18,700 | 10,533 | – | 19 | 29,252 |
| | Lockyer Valley Regional Council | 1,381 | 778 | 693 | 23 | 2,875 |
| | Scenic Rim Regional Council | 1,595 | 898 | 690 | 13 | 3,196 |
| | Somerset Regional Council | 1,264 | 712 | 648 | 65 | 2,689 |
| | Total | 153,000 | 86,180 | 2,031 | 3,054 | 244,265 |
| Unitywater | Moreton Bay Regional Council | 20,373 | 23,153 | 33,987 | 143 | 77,656 |
| | Sunshine Coast Regional Council | 13,121 | 14,912 | 21,807 | 2,103 | 51,943 |
| | Noosa Shire Council | 1,487 | 1,690 | 2,471 | 30 | 5,678 |
| | Total | 34,981 | 39,755 | 58,265 | 2,276 | 135,277 |

Notes: Income tax equivalents excludes deferred tax components.

Figure G4
For the year ended 30 June 2018

| Amounts in \$'000 | | | | | | |
|-------------------|---------------------------------|----------------------|-----------------------|---------------|--------------|----------------|
| | Local government | Participation return | Income tax equivalent | Interest | Other | Total |
| QUU | Brisbane City Council | 140,942 | 79,433 | – | 4,946 | 225,321 |
| | Ipswich City Council | 20,264 | 11,421 | – | 50 | 31,735 |
| | Lockyer Valley Regional Council | 1,497 | 844 | 713 | 94 | 3,148 |
| | Scenic Rim Regional Council | 1,728 | 974 | 710 | 32 | 3,444 |
| | Somerset Regional Council | 1,370 | 771 | 669 | 117 | 2,927 |
| | Total | 165,801 | 93,443 | 2,092 | 5,239 | 266,575 |
| Unitywater | Moreton Bay Regional Council | 415 | 42,029 | 35,070 | 1,238 | 78,752 |
| | Sunshine Coast Regional Council | 268 | 27,069 | 22,502 | 2,476 | 52,315 |
| | Noosa Shire Council | 30 | 3,067 | 2,549 | 20 | 5,666 |
| | Total | 713 | 72,165 | 60,121 | 3,734 | 136,733 |

Notes: Income tax equivalents excludes deferred tax components.

Source: Compiled by Queensland Audit Office from the water entities' financial statements.

H. Glossary

| Term | Definition |
|--|---|
| Accountability | The responsibility of public sector entities to achieve their objectives of delivering reliable financial reporting, effective and efficient operations, compliance with applicable laws, and reports to interested parties. |
| Acquisition | Establishing control of an asset, undertaking the risks, and receiving the rights to future benefits as would be conferred with ownership, in exchange for the cost of acquisition. |
| Asset valuation | The process of determining the fair value of an asset. |
| Audit committee | A committee intended to provide assistance to the accountable officer or statutory body in discharging their obligations. Duties and responsibilities can involve oversight of all or a combination of the following: <ul style="list-style-type: none"> effectiveness and reliability of internal controls quality and integrity of accounting and reporting practices effectiveness of performance management legal and regulatory compliance auditors' qualifications and independence performance of the internal audit function and external auditors. |
| <i>Auditor-General Act 2009</i> | An Act of the State of Queensland that establishes the responsibilities of the Auditor-General, the operation of the Queensland Audit Office, the nature and scope of audits to be conducted, and the relationship of the Auditor-General with parliament. |
| Audit opinion | A written expression of the auditor's overall conclusion on the financial statements, based on audit evidence obtained. |
| Australian accounting standards | The rules by which financial statements are prepared in Australia. These standards ensure consistency in measuring and reporting on similar transactions. |
| Australian Accounting Standards Board (AASB) | An Australian Government agency that develops and maintains accounting standards applicable to entities in the private and public sectors of the Australian economy. |
| Bulk water | The supply of large quantities of water (other than irrigation water) to customers. |
| Bulk water suppliers | Water entities that provide bulk water services to water service providers. |
| Capital expenditure | Expenditure to acquire assets or improve the service potential of existing assets that is capitalised to the balance sheet (which means that the cost of the assets can be allocated over the years for which the asset will be in use). |
| Category one water board | For-profit water authorities established under the <i>Water Act 2000</i> , including Gladstone Area Water Board and Mount Isa Water Board. |



| Term | Definition |
|-------------------------------------|--|
| Category two water board | Not-for-profit water authorities, other than category one authorities. |
| Channel irrigation | An irrigation channel is an open channel that transports water in order to irrigate agricultural land. |
| Channel irrigation schemes | A scheme where the water is delivered via a channel rather than being taken from the river. |
| Community service obligations (CSO) | Government payments to 'for-profit' entities to provide services that are not sustainable otherwise. |
| Competitive neutrality | Is the policy that a public sector business, or agency, should not have a competitive advantage (or disadvantage) over the private sector solely due to their government ownership. |
| Contributed equity | Investment in an entity by shareholders. |
| Control environment | The structures, policies, attitudes, and values that influence daily operations. A component of internal control that provides the foundation for other elements of internal control. |
| Controls monitoring solution | Is an integration of multiple business processes into a single reporting platform intended to continuously identify exceptions to be explored and addressed by appropriate stakeholders. |
| Controlled entities | The capacity of an entity to dominate decision-making, directly or indirectly, in relation to the financial and operating policies of another entity so as to enable that other entity to operate with it in achieving the objectives of the controlling entity. |
| Dam improvement program | A dam improvement program incorporates an ongoing series of inspections, engineering assessments, and comprehensive risk assessments for all referable dams, including changes in design standards, hydrologic data and methods, industry best practice, and regulatory requirements. |
| Deficiency | When internal controls are ineffective or missing and are unable to prevent, or detect and correct, misstatements in the financial statements. A deficiency may also result in non-compliance with policies and applicable laws and regulations, and/or inappropriate use of public resources. |
| Depreciation | The systematic allocation of a fixed asset's capital value as an expense over its expected useful life, to take account of normal usage, obsolescence, or the passage of time. |
| Detailed business case | Aims to provide evidence for investing in whatever the business case is about. |
| Developer contributions | Developer contributions are payments (cash contributions) or water and sewerage infrastructure (donated assets) provided by developers to distributor-retailers, intended to increase the capacity of water and sewerage networks that are needed to support new developments. |



| Term | Definition |
|--|--|
| Distributor-retailers | Entities established under the <i>South-East Queensland Water (Distribution and Retail Restructuring) Act 2009</i> to purchase and distribute water; deliver water and wastewater services; charge customers for relevant services; manage customer enquiries, service requests and complaints; perform functions relating to trade waste and seepage; and perform particular planning and development assessment functions under the <i>Planning Act 2016</i> . |
| Dividends | A portion of a statutory body or government owned corporation's profits that it pays to its shareholders. |
| Drought assets | Assets that are constructed in response to severe drought, such as the Gold Coast Desalination Plant and Western Corridor Recycled Water Scheme. These assets do not form part of the integral water source and/or core supply of water. |
| Emphasis of matter | A paragraph included with an audit opinion to highlight an issue that the auditor believes the users of the financial statements need to be aware of. The inclusion of an emphasis of matter paragraph does not modify the audit opinion. |
| Fair value | The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. |
| Feasibility study | Includes a range of detailed technical, environmental and economic assessments on specific water infrastructure project sites to enable investment decisions ahead of construction. |
| <i>Financial Accountability Act 2009</i> | An Act of the State of Queensland that establishes accountability for the administration of the state's finances and financial administration of departments and statutory bodies, as well as annual reporting to parliament by departments and statutory bodies. |
| Financial and Performance Management Standard 2009 | Subordinate legislation of the State of Queensland that 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 statement | Report on an entity's financial performance over a period of time and financial position at a point in time, prepared in accordance with a financial reporting framework. A financial statement includes a profit and loss statement, balance sheet, cash flow statement, statement of changes in equity, and accompanying notes disclosing how amounts have been recognised and measured. |
| Financial sustainability | Entities' ability to repay their liabilities as and when they fall due during the next financial year. |
| Fraud | Any act or omission, including a misrepresentation, that knowingly or recklessly misleads, or attempts to mislead, a party to obtain a financial or other benefit or to avoid an obligation. |
| Going concern | An entity that is a going concern is expected to be able to pay its debts as and when they fall due, and to continue to operate without any intention or necessity to liquidate or wind up its operations. |
| Governance | The arrangements in place at an entity to plan, direct, and control its activities to achieve its strategic and operational goals. |



| Term | Definition |
|---------------------------|---|
| High priority water | A water allocation (an authority to take water, and an entitlement to a share of the available water resource in a catchment) that is stated to be a high priority in the water allocations register (an accurate and secure register that records water allocation ownership and other attributes of water allocations). |
| Impairment | When an asset's carrying amount exceeds the amount that can be recovered through use or sale of the asset. |
| Irrigation water | The supply of water or drainage services for irrigation of crops or pastures. |
| Legislative deadline | In this context, the date prescribed by legislation for a public sector entity to finalise its financial statements or annual report. |
| Management | Those with the executive responsibility for conducting an entity's operations. |
| Materiality | Relates to the size or nature of the item or error judged against the circumstances of its omission or misstatement. Information is material if its omission or misstatement could influence the economic decisions of users. |
| Misstatement | A difference between the amount, classification, presentation, or disclosure of a reported financial statement item and the amount, classification, presentation, or disclosure that is required for the item to be in accordance with the applicable financial reporting framework. Misstatements can arise from error or fraud. |
| Megalitre (ML) | One million litres. A standard Olympic-size swimming pool contains 2.5 ML or 2,500,000 litres of water. |
| Net assets | Total assets less total liabilities. |
| Non-current assets | An entity's long-term investments, where the full value will not be realised within the financial year. These assets are capitalised rather than expensed, meaning that the cost of the asset can be allocated over the number of years for which the asset will be in use, instead of allocating the entire cost to the financial year in which the asset was purchased. |
| Participation returns | A portion of a distributor-retailer's profits, which it pays to its participating local governments in accordance with a participation agreement. |
| Phishing | A fraudulent scamming attempt to obtain sensitive information from an end user (for example, username, passwords, and credit card information). For example, asking a user to click on a link that results in malicious software being installed. |
| Preliminary business case | Aims to progress the concept documented in a feasibility study by generating options and assessments for a preferred option/s for more detailed analysis. |
| Price path | A mechanism used to adjust the building blocks of an entity's revenue requirement. |
| Public sector entity | A department, statutory body, government owned entity, local government, or a controlled entity. |
| Referable dams | A dam is referable if a failure impact assessment demonstrates there would be people at risk if the dam were to fail. |



| Term | Definition |
|---|--|
| Revaluation movement (increments or decrements) | The act of recognising a reassessment of the carrying amount of a non-current asset to its fair value as at a particular date. It excludes recoverable amount write-downs and impairment losses. |
| Risk management | The systematic identification, analysis, treatment, and allocation of risks. The extent of risk management required will vary depending on the potential effect of the risks. |
| Rural bulk water | The supply of bulk water to customers in rural areas. |
| Significant deficiency | A deficiency, or combination of deficiencies, in internal control that requires immediate remedial action. |
| Surplus | Total income exceeds total expenses resulting in a profit. |
| Total participation returns | The sum of participation returns, income tax equivalents, and competitive neutrality fees paid to participating local governments. |
| Trunk infrastructure | Local infrastructure is categorised as either 'trunk infrastructure' (that is, higher-level infrastructure that is shared between multiple developments) or 'non-trunk infrastructure' (that is, infrastructure that is not shared with other developments and is generally internal to a development site). The classification of infrastructure as trunk or non-trunk guides what infrastructure conditions a local government can impose on a development application. Developers are responsible for providing and funding all non-trunk infrastructure while the funding of trunk infrastructure is shared between a number of developers and the local government. |
| Unit rate | A unit rate is the combined cost of materials, labour and overhead allocated to each unit of production. It is used to estimate the cost of constructing an equivalent asset. |
| Unmodified audit opinion | An unmodified opinion is expressed when the financial statements are prepared in accordance with the relevant legislative requirements and Australian accounting standards. |
| Useful life | The number of years an entity expects to use an asset (not the maximum period possible for the asset to exist). |
| Water smart package | Provides vouchers or rebates for water-efficient irrigation systems, low-flow shower heads, drought resistant turf and compost bins. |



Report cost

This report cost \$92,000 to produce.

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ISSN 1834-1128.



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T: (07) 3149 6000
M: qao@qao.qld.gov.au
W: qao.qld.gov.au
53 Albert Street, Brisbane Qld 4000
PO Box 15396, City East Qld 4002

