



FINANCIAL AUDIT REPORT

28 January 2021

Water 2020

Report 9: 2020–21

As the independent auditor of the Queensland public sector, including local governments, the Queensland Audit Office:

- provides professional audit services, which include our audit opinions on the accuracy and reliability of the financial statements of public sector entities
- provides entities with insights on their financial performance, risk, and internal controls; and on the efficiency, effectiveness, and economy of public service delivery
- produces reports to parliament on the results of our audit work, and on our insights, advice, and recommendations for improvement
- conducts investigations into claims of financial waste and mismanagement raised by elected members, state and local government employees, and the public
- shares wider learnings and best practice from our work with state and local government entities, our professional networks, industry, and peers.

We conduct all our audits and reports to parliament under the *Auditor-General Act 2009* (the Act). Our work complies with the *Auditor-General Auditing Standards* and the Australian standards relevant to assurance engagements.

- Financial audit reports summarise the results of our audits of over 400 state and local government entities.
- Performance audit reports cover our evaluation of some, or all, of the entities' efficiency, effectiveness, and economy in providing public services. Depending on the level of assurance we can provide, these reports may also take the form of:
 - Audit insights, which provide some evaluation and share our insights or learnings from our audit work across government
 - Audit briefs, which set out key facts, involve some evaluation, and may include findings and recommendations
 - Audit overviews, which help clients and stakeholders understand complex issues and subjects.

Learn more about our publications on our [website](#).

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

28 January 2021

This report is prepared under Part 3 Division 3 of the *Auditor-General Act 2009*.



Brendan Worrall
Auditor-General



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ISSN 1834-1128

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Report on a page

This report summarises the audit results of six entities in Queensland’s water sector: Seqwater, Sunwater, Urban Utilities, Unitywater, Gladstone Area Water Board, and Mount Isa Water Board.

Liabilities from the 2011 South East Queensland floods class action

Seqwater’s financial statements should have included a liability and expense as a result of an unfavourable court judgement relating to the 2011 South East Queensland floods class action. We assessed this unrecorded liability and expense to be of significant value. Sunwater appropriately recorded its share of the liability and expense, at \$330 million.

Financial statements are reliable

Apart from this non-recorded liability and expense, all entities’ financial reports are reliable and comply with relevant laws and standards. They were prepared in a timely manner and were of good quality.

Information security continues to be a challenge

This year, we identified more weaknesses in the systems and processes (internal controls) entities use to prepare financial statements. Security of information systems is an issue in four of the six entities, and continues to be the most common weakness across the public sector.

Profits and shareholder returns have declined

The combined profit of the sector was reduced by the liability related to the class action. As a result, shareholder returns were lower than in previous financial years.

Continuing asset improvement programs involving significant infrastructure investment are likely to impact on the sector’s returns to shareholders over the next decade.

Drought and the need to provide a sustainable supply of water are posing challenges

The sustainable supply of water continues to be a challenge for the sector, with the majority of Queensland in drought—particularly South West Queensland. Extreme weather conditions increase operating costs and the need to prioritise water security projects.



Recommendations for entities

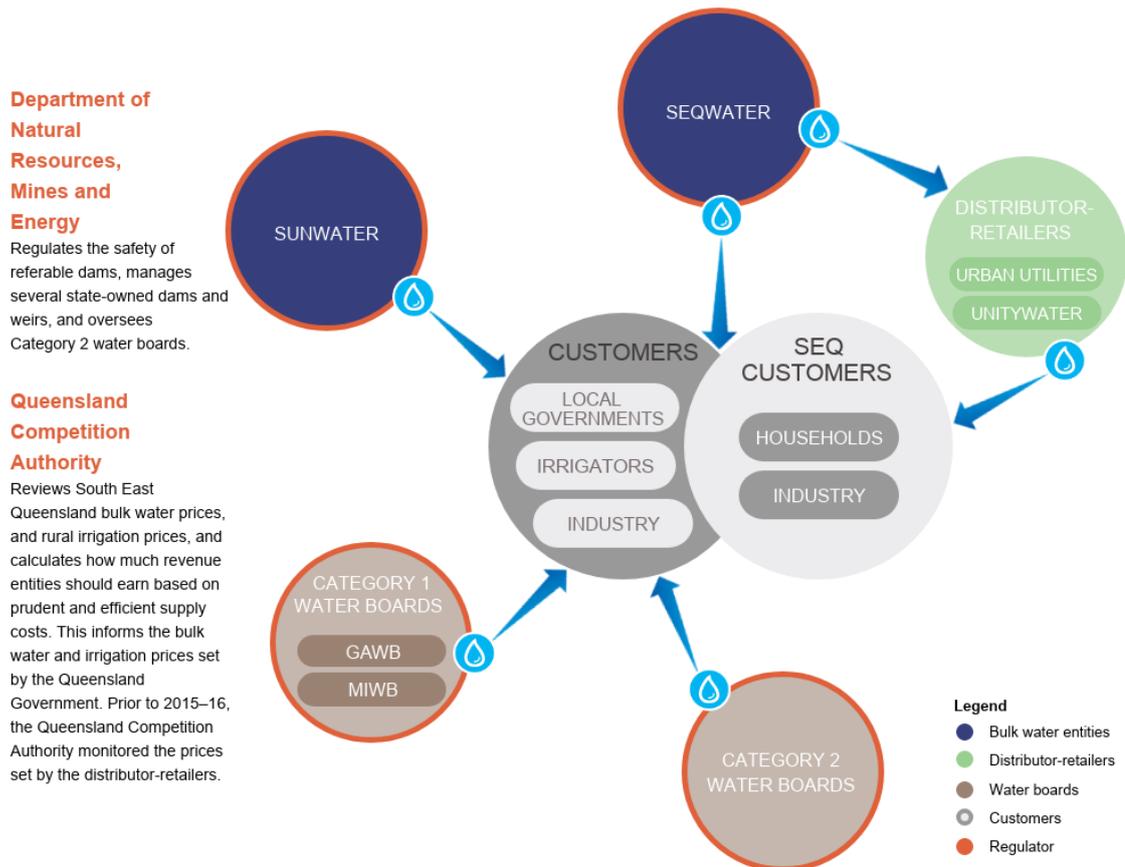
We have identified the following recommendations:

Strengthen the security of information systems (all entities)	
<u>REC 1</u>	<p>We recommend all entities strengthen the security of their information systems. They rely heavily on technology, and increasingly, they have to be prepared for cyber attacks. Any unauthorised access could result in fraud or error, and significant reputational damage.</p> <p>Their workplace culture, through their people and processes, must emphasise strong security practices to provide a foundation for the security of information systems.</p> <p>Entities should:</p> <ul style="list-style-type: none"> • provide security training for employees so they understand the importance of maintaining strong information systems, and their roles in keeping them secure • assign employees only the minimum access required to perform their job, and ensure important stages of each process are not performed by the same person • regularly review user access to ensure it remains appropriate • monitor activities performed by employees with privileged access (allowing them to access sensitive data and create and configure within the system) to ensure they are appropriately approved • implement strong password practices and multifactor authentication (for example, a username and password, plus a code sent to a mobile), particularly for systems that record sensitive information • encrypt sensitive information to protect it • patch vulnerabilities in systems in a timely manner, as upgrades and solutions are made available by software providers to address known security weaknesses that could be exploited by external parties. <p>Entities should also self-assess against all of the recommendations in our report—<i>Managing cyber security risks</i> (Report 3: 2019–20)—to ensure their systems are appropriately secured.</p>
Improve timely recognition of donated assets (distributor-retailers)	
<u>REC 2</u>	<p>Distributor-retailers (Urban Utilities and Unitywater) need to:</p> <ul style="list-style-type: none"> • engage more closely with developers to determine whether assets are complete (ready to use) • obtain engineering drawings and other information in a timely manner • closely monitor development application registers for completeness of recorded assets • identify and address causes of delays in processing engineering drawings.
Understand complex employee arrangements (all entities)	
<u>REC 3</u>	<p>As part of the negotiation process for enterprise agreements, entities should ensure they understand how these arrangements interact with employee contracts.</p>



1. Overview of entities in this sector

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



Notes:

- Seqwater, Sunwater and the water boards also directly supply water to local councils who operate their own retail businesses. Like distributor-retailers, these local councils on-sell water to households or industries. Local councils are excluded from this report.
- South East Queensland (SEQ) customers refers to household and industry customers in the Brisbane, Ipswich, Somerset, Lockyer Valley, Scenic Rim, Moreton Bay, Sunshine Coast and Noosa council areas.
- Category 1 water boards are for-profit authorities established under the *Water Act 2000*. GAWB—Gladstone Area Water Board; MIWB—Mount Isa Water Board.
- Category 2 water boards are other not-for-profit authorities and are outside the scope of this report.
- Responsibility for regulation of the safety of referable dams, management of state-owned dams and weirs, and oversight of Category 2 water boards transferred from the former Department of Natural Resources, Mines and Energy from 12 November 2020.

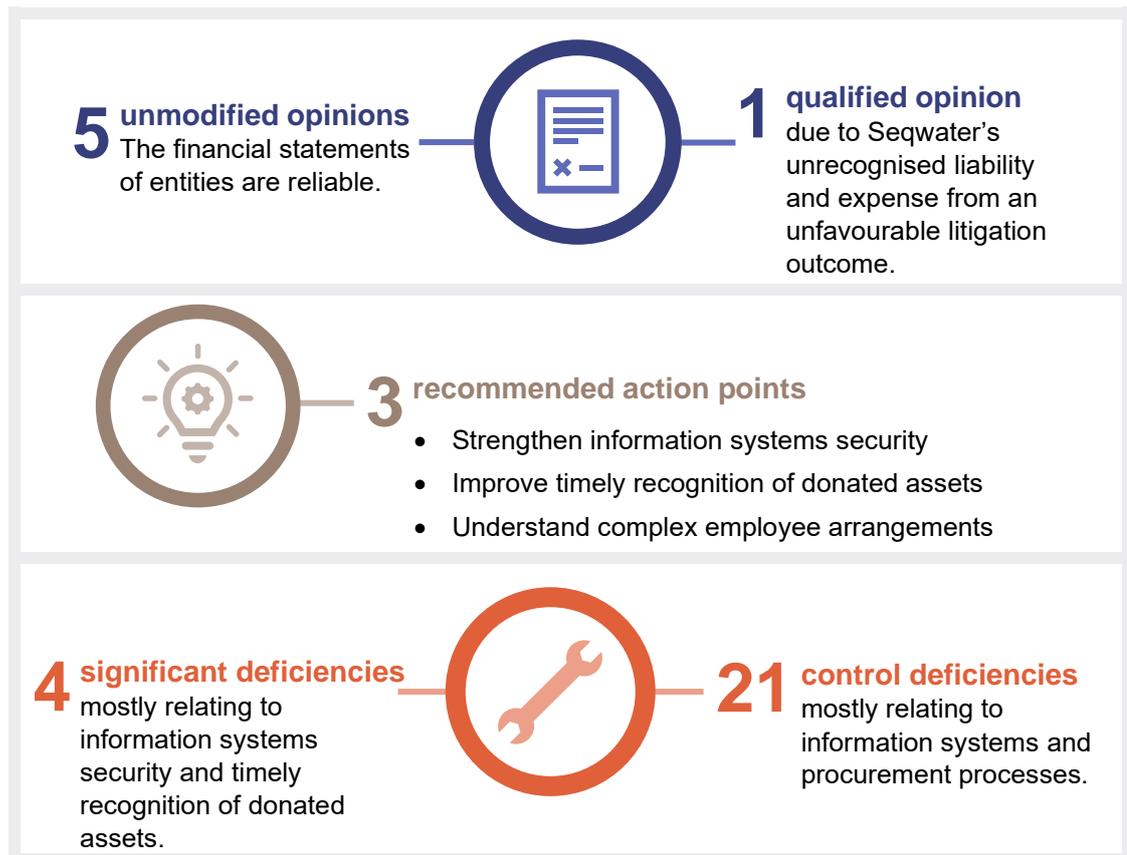
Source: Compiled by the Queensland Audit Office.



2. Results of our audits

This chapter provides an overview of our audit opinions for each entity in the water sector. It also provides conclusions on the effectiveness of the systems and processes (internal controls) entities use to prepare financial statements.

Chapter snapshot



Audit opinion results

We issued unmodified audit opinions for five of the six water entities. Seqwater received a qualified opinion for not recording a liability and matching expense as a result of the unfavourable court judgement relating to the 2011 South East Queensland floods class action.

All entities met their legislative deadlines, and readers can rely on the results in the audited financial statements (except for the qualification on Seqwater's financial statements, meaning its profit was overstated). The audit opinions we issued are listed in Appendix C.

DEFINITION

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

We express a **qualified opinion** when financial statements are fairly presented, with the exception of a specified area.



Liabilities from the 2011 South East Queensland floods

A class action relating to the 2011 South East Queensland floods was brought against Seqwater, Sunwater, and the Queensland Government through the Supreme Court of New South Wales (the Court). A judgement was handed down in favour of the plaintiff in November 2019 and the Court determined the percentage of liability to be allocated between Seqwater (50 per cent), Sunwater (30 per cent) and the Queensland Government (20 per cent) in May 2020. Both Seqwater and Sunwater are appealing the judgement and have insurance policies that apply to this situation.

The judgement created a financial obligation for the group members that can be estimated and is likely to require payment. Under the accounting standards, Seqwater should have recognised a liability and a matching expense. Sunwater has appropriately recognised a \$330 million liability and expense.

Audit opinion issued since our last report

We previously reported that the Gladstone Area Water Board was granted an extension for finalising its 2018–19 financial statements. We subsequently issued an unmodified opinion for these financial statements on 13 November 2019.

The Gladstone Area Water Board's current directors were unable to sign the 2018–19 financial statements in a timely manner due to the timing of their appointment. They had not been in their positions during that whole financial year. The former directors exceeded their terms by an average of two years and continued to hold office until new directors were appointed. We will examine board appointment processes across the Queensland Government in our planned 2020–21 report on appointing and renewing government boards.

Entities not preparing financial statements

Not all Queensland public sector water entities produce financial statements. Appendix D provides a full list of those not preparing financial statements, and the reasons.

Mature financial statement preparation processes are in place

We worked with the water entities as they undertook a self-assessment of their financial statement preparation processes using the maturity model on our [website](#). They assessed the majority of their processes as 'integrated' or 'optimised'—the highest levels of maturity. This means that they have assessed that their processes supporting the preparation of financial statements are efficient and provide high quality information in a regular, timely manner.

Most entities identified an opportunity to further automate the preparation of financial statements. Nevertheless, the common electronic spreadsheets and word processing tools they currently use are still fit for purpose. The entities recognise that they need to balance the cost of investing in automation against the benefits to be derived.

Internal controls are generally effective

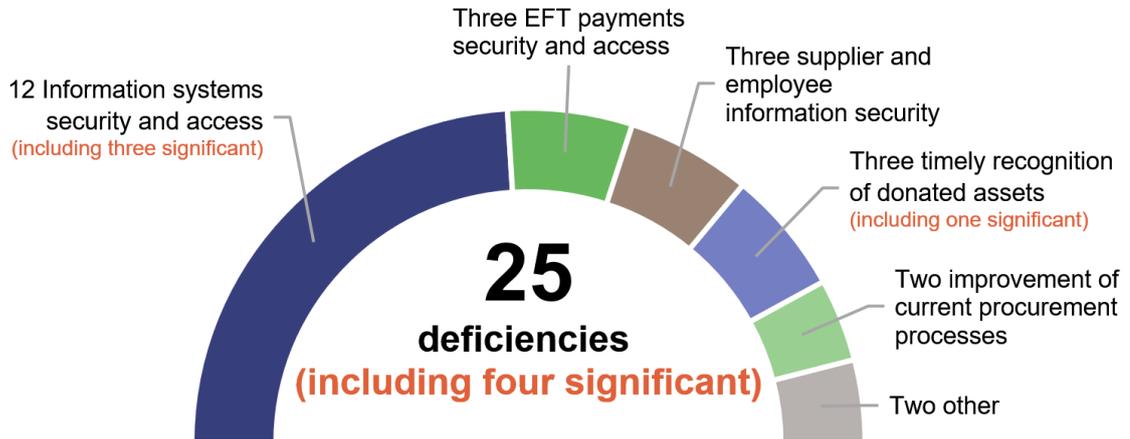
We assessed whether the systems and processes (internal controls) entities use to prepare financial statements are reliable. We have reported any deficiencies in the design or operation of those internal controls to the management of the entities for their action. The deficiencies are rated as either *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, we found the internal controls water entities have in place to ensure reliable financial reporting are generally effective but could be improved.

In 2019–20, we reported four significant deficiencies and 21 deficiencies in internal controls across the sector. Figure 2A shows the types of deficiencies we identified.

Figure 2A
Overview of internal control issues raised in 2019–20



Note: EFT—electronic funds transfer.

Source: Compiled by the Queensland Audit Office.

We have received responses from each entity on their planned corrective action to the internal control issues raised. We are satisfied with the responses and proposed implementation time frames.

Strengthen information systems security and access

Water entities rely on information technology systems to operate their business and prepare financial statements, so they must have strong controls over who has access to the systems and the information within. Weaknesses in information technology controls increase the risk of undetected errors or potential financial loss, including fraud.

For some years, the most common internal control weakness across the public sector has been the security of information systems. This year, we recommended four of the six water entities strengthen the security of their information systems. They are not the only ones who need to do this.

All entities across the public sector need their people and processes to have strong security practices—so that information systems are promptly updated, to respond to changes within their entity and remain protected from external threats.

This year there has been a significant and sustained increase in external attacks, as cyber criminals attempt to take advantage of changes in working arrangements necessitated by the COVID-19 pandemic. This has emphasised the importance of secure information systems.



Recommendation for all entities**Strengthen the security of information systems (REC 1)**

We recommend all entities strengthen the security of their information systems. They rely heavily on technology, and increasingly, they have to be prepared for cyber attacks. Any unauthorised access could result in fraud or error, and significant reputational damage.

Their workplace culture, through their people and processes, must emphasise strong security practices to provide a foundation for the security of information systems.

Entities should:

- provide security training for employees so they understand the importance of maintaining strong information systems, and their roles in keeping them secure
- assign employees only the minimum access required to perform their job, and ensure important stages of each process are not performed by the same person
- regularly review user access to ensure it remains appropriate
- monitor activities performed by employees with privileged access (allowing them to access sensitive data and create and configure within the system) to ensure they are appropriately approved
- implement strong password practices and multifactor authentication (for example, a username and password, plus a code sent to a mobile), particularly for systems that record sensitive information
- encrypt sensitive information to protect it
- patch vulnerabilities in systems in a timely manner, as upgrades and solutions are made available by software providers to address known security weaknesses that could be exploited by external parties.

Entities should also self-assess against all of the recommendations in *Managing cyber security risks* (Report 3: 2019–20) to ensure their systems are appropriately secured.

Improve timely recognition of donated assets

Distributor-retailers collect infrastructure charges (developer contributions) from developers. These are calculated based on the size and type of development. Developer contributions are settled through cash contributions or donated assets (for example, water and sewerage infrastructure). These contributions are intended to increase the capacity of the water and sewerage networks that are needed to support new developments. They are reported as revenue by the distributor-retailers when a connection certificate is issued for completed works that are compliant with laws and regulations.

Recognition of revenue from donated assets is affected when developers are late in submitting engineer-certified drawings or when the values are inaccurate. As a result, the revenue and assets may be recorded in the incorrect period or not at all.

We noted the following control weaknesses affecting the timely recognition of donated assets:

- unrecorded assets that had been constructed but were waiting for a connection certificate
- missing engineering drawings for issued connection certificates
- delays in processing the engineering drawings.

Details on the trend of developer contributions and building approvals are provided in Appendix E.

Recommendation for distributor-retailers

Improve timely recognition of donated assets (REC 2)

Distributor-retailers need to:

- engage more closely with developers to determine whether assets are complete (ready to use)
- obtain engineering drawings and other information in a timely manner
- closely monitor development application registers for completeness of recorded assets
- identify and address causes of delays in processing engineering drawings.

Understand complex employee arrangements

In 2019–20, Sunwater and Seqwater became aware that several employee entitlements (for example, salaries, superannuation, and overtime) may be covered by both individual employment contracts and enterprise agreements. Due to the legal complexity of the interactions between the relevant enterprise agreements and the employee contracts, some employee entitlements may have been underpaid.

As at 30 June 2020, Sunwater and Seqwater increased employee entitlements by \$5.3 million and \$1.6 million respectively, covering current and former employees (inclusive of other associated costs, for example, payroll tax). In respect of Seqwater, those additional employee entitlements do not include the interaction between the relevant enterprise agreements and employment contracts because they are still assessing the arrangements. They expect to resolve this matter in 2020–21.

Recommendation for all entities

Understand complex employee arrangements (REC 3)

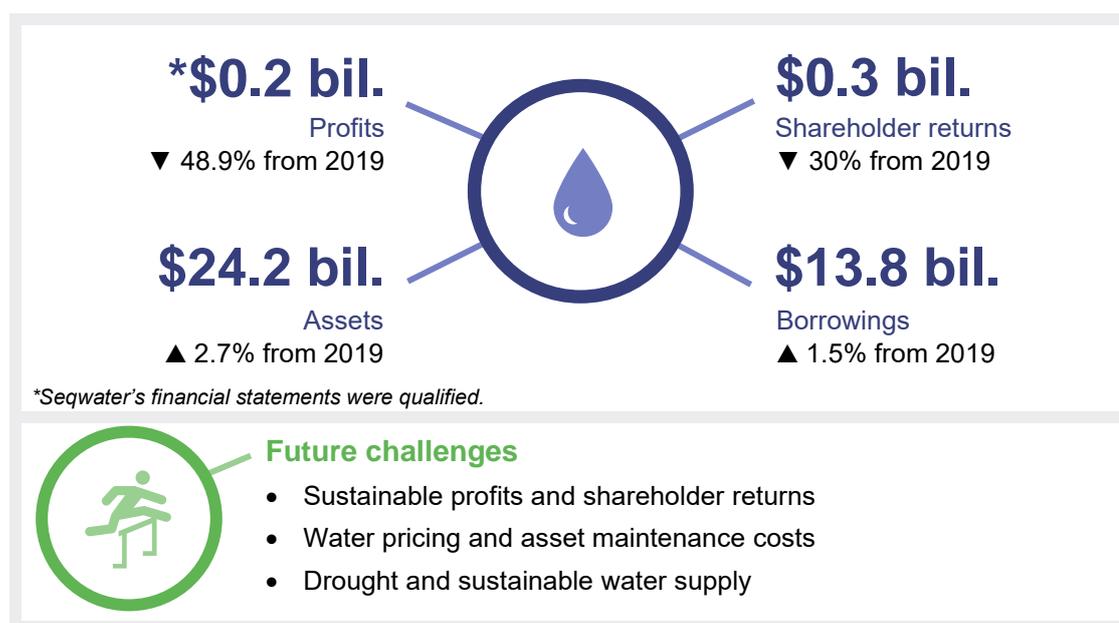
As part of the negotiation process for enterprise agreements, entities should ensure they understand how these arrangements interact with employee contracts.



3. Financial results and challenges

This chapter analyses the key financial results and challenges faced by the sector.

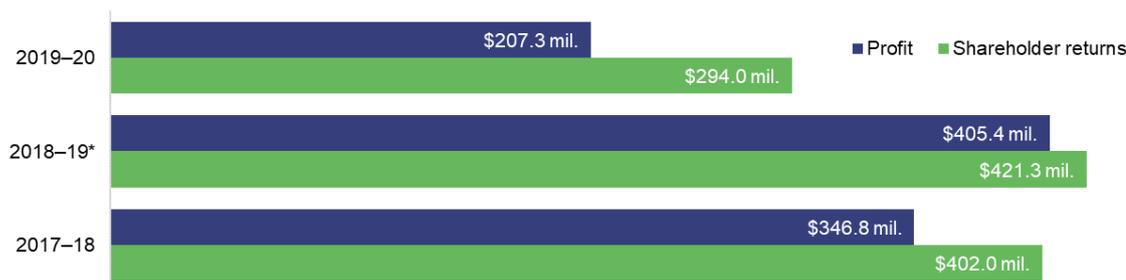
Chapter snapshot



Sustainable profits and shareholder returns

The water sector's profits decreased by 48.9 per cent in 2019–20 (see Figure 3A). The largest impact to the sector's profits was the \$330 million expense and matching liability recognised by Sunwater arising from the class action. By Seqwater not recognising its share of the expense (and associated liability), the sector's reported profits for 2019–20 were higher than they should be. Returns to the Queensland Government were lower than in previous financial years due to the sector's reduced profit. Seqwater and Sunwater hold insurance policies relevant to the class action, but may need to raise additional funding if they are unable to meet their class action liability when payment is required. The sector's total shareholder returns of \$294 million are made up of dividends, participation returns and income tax equivalents. Details on financial flows to and from government are provided in Appendix I.

Figure 3A
Operating results and shareholder returns



Notes: Profit is after tax equivalents.

*Updated to include Gladstone Area Water Board results.

Source: Compiled by the Queensland Audit Office from financial reports.

The sector was not directly affected by the financial impact of COVID-19, but it extended assistance to its customers to help with their water bills through interest-free payment extensions, flexible payment plans, and suspended price increases.

Water pricing and asset maintenance costs

In response to COVID-19, the Queensland Government decided in May 2020 to set rural irrigation water prices for 2020–21 at 2019–20 levels or to pass on any price reductions recommended by the Queensland Competition Authority. The Queensland Government also confirmed that it will continue to absorb irrigators' share of dam safety costs as a longer-term price policy setting, rather than seek to recover these costs through irrigation prices. The 2020–21 Queensland Budget also committed \$81.6 million over the next three years to support irrigators where it sets the prices for water provided by Sunwater and Seqwater. Commencing from 1 July 2021, this funding will include a 50 per cent discount on irrigation prices for fruit and vegetable growers and a 15 per cent discount for all other irrigators.

Drought and sustainable water supply

Queensland has been experiencing extreme weather conditions, with 41 councils drought declared (67.4 per cent of the state). Prolonged drought has led to reduced water storage levels, increased operational costs, and the need for increased capital investment in water security projects. Details of drought-declared areas are provided in Appendix F.

Maintaining water supply in South East Queensland

Seqwater's *Water Security Program* includes drought responses that are triggered when the combined total of the region's 12 major dams reduces to predetermined levels.

Seqwater's drought response was triggered in November 2019, when dam levels fell to 60 per cent. In 2019–20, the Gold Coast Desalination Plant doubled water production to 13,804 megalitres (28.4 per cent of its total capacity) to the South East Queensland water grid, increasing the plant's operating and maintenance costs to \$19.3 million (an increase of 5.9 per cent from 2018–19).

Seqwater, in consultation with the Queensland Government, deferred the decision to fully restart the Western Corridor Recycled Water Scheme until after the 2020–21 summer. This was because rainfall received over February 2020 added more than 10 per cent to the South East Queensland water grid and the Bureau of Meteorology forecasted increased rainfall over the summer. The scheme's assets therefore largely remained in 'care and maintenance' mode (were not used) throughout 2019–20, however, it produced water for industrial customers, such as power stations, to reduce the draw down on drinking water storages.

Dam improvement programs and safety regulation

Each dam owner is responsible for dam improvements and must ensure they manage safety risks in accordance with the provisions of the *Water Supply (Safety and Reliability) Act 2008*. The Department of Regional Development, Manufacturing and Water is the safety regulator (responsibility transferred from the former Department of Natural Resources, Mines and Energy from 12 November 2020) and in 2020–21 we plan to prepare a report to parliament on the effectiveness of its regulation.

Sunwater and Seqwater regularly monitor and assess their dams. They can be decades old, so improvement programs are critical in bringing underlying infrastructure in line with current design and safety standards. The dam owners' assessments aim to maintain public safety and secure water supply while delivering value for money.

Dam improvements are a significant cost to entities and are funded through additional borrowings, funding from the state or federal government, and current and future water prices.

Paradise Dam, located south-west of Bundaberg, is owned by Sunwater. In April 2020, a Commission of Inquiry into Paradise Dam safety released its final report. The report notes uncertainties regarding the dam's construction. In May 2020, work started on lowering the dam wall by 5.8 metres to improve its stability and the safety of downstream communities while the best, long-term solution is developed.

Appendix G provides details of significant dam improvement programs for Seqwater and Sunwater.

Infrastructure projects to ensure sustainable water supply

The sector has several projects underway to address the issue of water supply in drought areas across Queensland. For communities that are experiencing severe drought, interim solutions are in place to help them receive continuous supplies of water.

For example, Southern Downs Regional Council continues to have severe water restrictions of 120 litres per person per day. Stanthorpe has relied on full-time water carting (costing about \$800,000 a month), since the Storm King Dam levels decreased in January 2020.

Long-term water security projects include the:

- Rookwood Weir Project—Construction has begun on a weir that will provide up to 76,000 megalitres (ML) of extra water supply and provide opportunities for increased agricultural and industrial development in Central Queensland, and boost urban water security for the Livingstone and Gladstone communities.
- Houghton Pipeline Duplication Project—Construction continues for a duplicate pipeline for the Townsville area.
- Granite Belt Irrigation Project—Pre-construction activities have begun for a dam at Emu Swamp for the Stanthorpe area.

All other long-term water security projects are in the early stages of planning or feasibility studies. These projects are important to ensuring sustainable water supply during drought, but they take significant time and resources to plan and construct.

The sector's returns to shareholders are likely to be impacted as asset improvement programs continue to involve significant infrastructure investments.

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A. Full responses from entities

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
- Treasurer and Minister for Investment
- Minister for Regional Development and Manufacturing and Minister for Water
- Director-General, Department of the Premier and Cabinet
- Under Treasurer, Queensland Treasury
- Director-General, Department of Regional Development, Manufacturing and Water
- Chief executive officers for
 - Seqwater
 - Sunwater
 - Urban Utilities
 - Unitywater
 - Mount Isa Water Board
 - Gladstone Area Water Board
 - Queensland Competition Authority

This appendix contains their detailed responses to our audit recommendations that we received.



Comments received from Acting Director-General, Department of Regional Development, Manufacturing and Water



Comments received from Acting Under Treasurer, Queensland Treasury



Our Ref: 05896-2020

Queensland Treasury

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

Email: qao@qao.qld.gov.au

Dear Mr Worrall

Thank you for providing the Queensland Audit Office (QAO) draft Water 2020 Report (the Report) summarising the audit results of six entities in Queensland's water sector.

A key objective for the Queensland Government is ensuring that these enterprises operate as efficiently as possible and can work to support Government's commitments to the economy and community, including in relation to dam safety, irrigation and prices.

I note that the QAO provided unmodified audit opinions of the 2019-20 financial statements for all but one of Queensland's water entities, and that the qualification of that audit opinion related to a specific set of circumstances.

I also note the QAO's observations regarding future challenges for the sector, including Queensland's recent experience of extreme weather conditions, with 41 councils drought declared. In particular, the Report acknowledges the impact of prolonged drought on water storage levels, operational costs, and the need for capital investment in water security projects. While these challenges have contributed to lower financial returns for these entities in 2019-20, ongoing support provided to the water sector by the Queensland Government remains crucial to help sustain our economic recovery.

The performance, sustainability and internal control environments of State water entities will continue to be monitored to ensure continued improvement, prudent investment and the delivery of water services.

Thank you for the opportunity to review and respond on the Report. If you require any further information, please contact Ms Bridget Smith, A/Director, Commercial Group, Queensland Treasury, on _____ or _____ who will be pleased to assist.

Yours sincerely


Graham Fraine
Acting Under Treasurer

7 / 7 / 2021

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B. Legislative context

Frameworks

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) Central SEQ Distributor-Retailer Authority (trading as Urban Utilities) Northern SEQ Distributor-Retailer Authority (trading as Unitywater) Gladstone Area Water Board Mount Isa Water Board 	<ul style="list-style-type: none"> <i>Water Act 2000</i> <i>South East Queensland Water (Restructuring) Act 2007</i> <i>Financial Accountability Act 2009</i> Financial and Performance Management Standard 2019 <i>Statutory Bodies Financial Arrangements Act 1982</i> <p>Unitywater and Urban Utilities only:</p> <ul style="list-style-type: none"> <i>South-East Queensland Water (Distribution and Retail Restructuring) Act 2009</i> 	31 August
Government owned corporations	<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

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 the operations of the statutory body 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.

C. Audit opinions for entities preparing financial reports

Each year, Queensland state public sector entities must table their audited financial statements in parliament.

These financial statements are used by a broad range of parties including parliamentarians, taxpayers, employees, 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. We express a *qualified opinion* when financial statements are fairly presented, with the exception of a specified area.

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

The following table details the types of audit opinions we issued in accordance with Australian auditing standards for the 2020 financial year.

Figure C1
Audit opinions issued in 2019–20

Entity type	Entity	Date audit opinion issued	Type of audit opinion issued
Bulk water suppliers	Queensland Bulk Water Supply Authority (trading as Seqwater)	17 August 2020	Modified*
	Sunwater Limited	24 August 2020	Unmodified
Water distributor-retailers	Central SEQ Distributor-Retailer Authority (trading as Urban Utilities)	17 August 2020	Unmodified
	Northern SEQ Distributor-Retailer Authority (trading as Unitywater)	20 August 2020	Unmodified
Category 1 water boards	Gladstone Area Water Board	20 August 2020	Unmodified
	Mount Isa Water Board	24 August 2020	Unmodified

Note: * Seqwater was qualified in 2019–20 due to unrecorded liability and expense from the litigation in progress relating to the 2011 South East Queensland floods.

Category 1 water boards are for-profit authorities established under the *Water Act 2000*.

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 each entity in that group agreeing to cover debts of the others), they are not required to prepare financial reports. In addition, dormant or small companies that meet specific criteria under the *Corporations Act 2001* are not required to prepare financial reports.

The Auditor-General will not issue audit opinions for the following controlled public sector entities for 2019–20, as they were not required to prepare financial statements.

Figure D1
Water sector entities not preparing financial reports in 2019–20

Public sector entity	Reason for not preparing financial statements
Bulk water supplier	
Controlled entities of Sunwater Limited	
North West Queensland Water Pipeline Pty Ltd	Deed of cross guarantee ASIC instrument
Eungella Water Pipeline Pty Ltd	Deed of cross guarantee ASIC instrument
Burnett Water Pty Ltd	Deed of cross guarantee ASIC instrument
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>)

Note: ASIC—Australian Securities and Investments Commission.

Source: Compiled by the Queensland Audit Office.

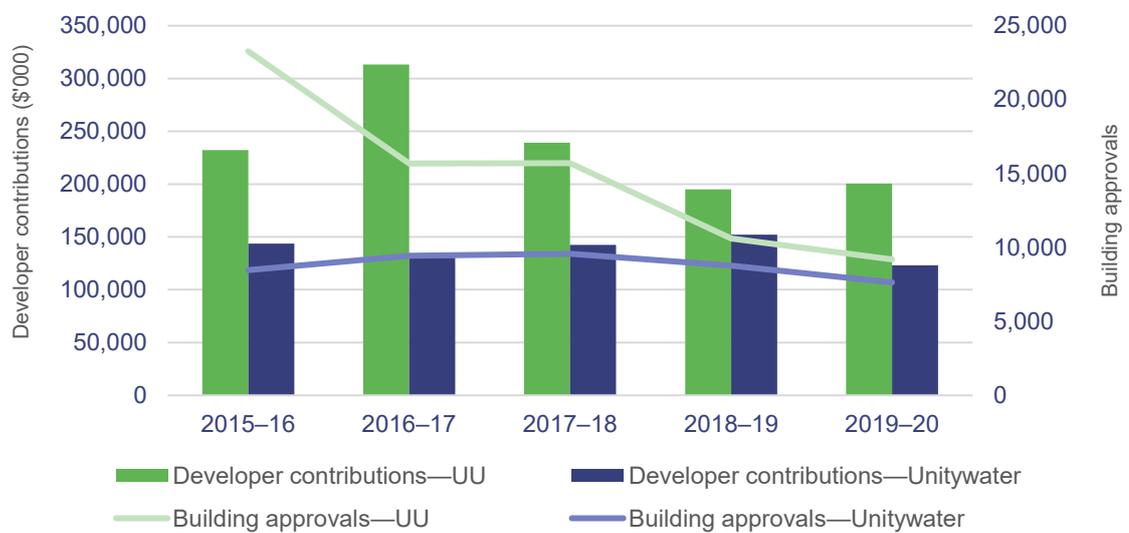


E. Developer contributions

Distributor-retailers collect infrastructure charges (developer contributions) from developers. These are calculated based on the size and type of development. Developer contributions are settled through cash contributions or donated assets (for example, water and sewerage infrastructure). These contributions are intended to increase the capacity of the water and sewerage networks that are needed to support new developments.

In 2019–20, developer contributions of \$323.9 million were recognised, a decrease of 6.7 per cent from 2018–19. The decline is linked to a decrease in building approvals.

Figure E1
Trend of developer contributions and building approvals



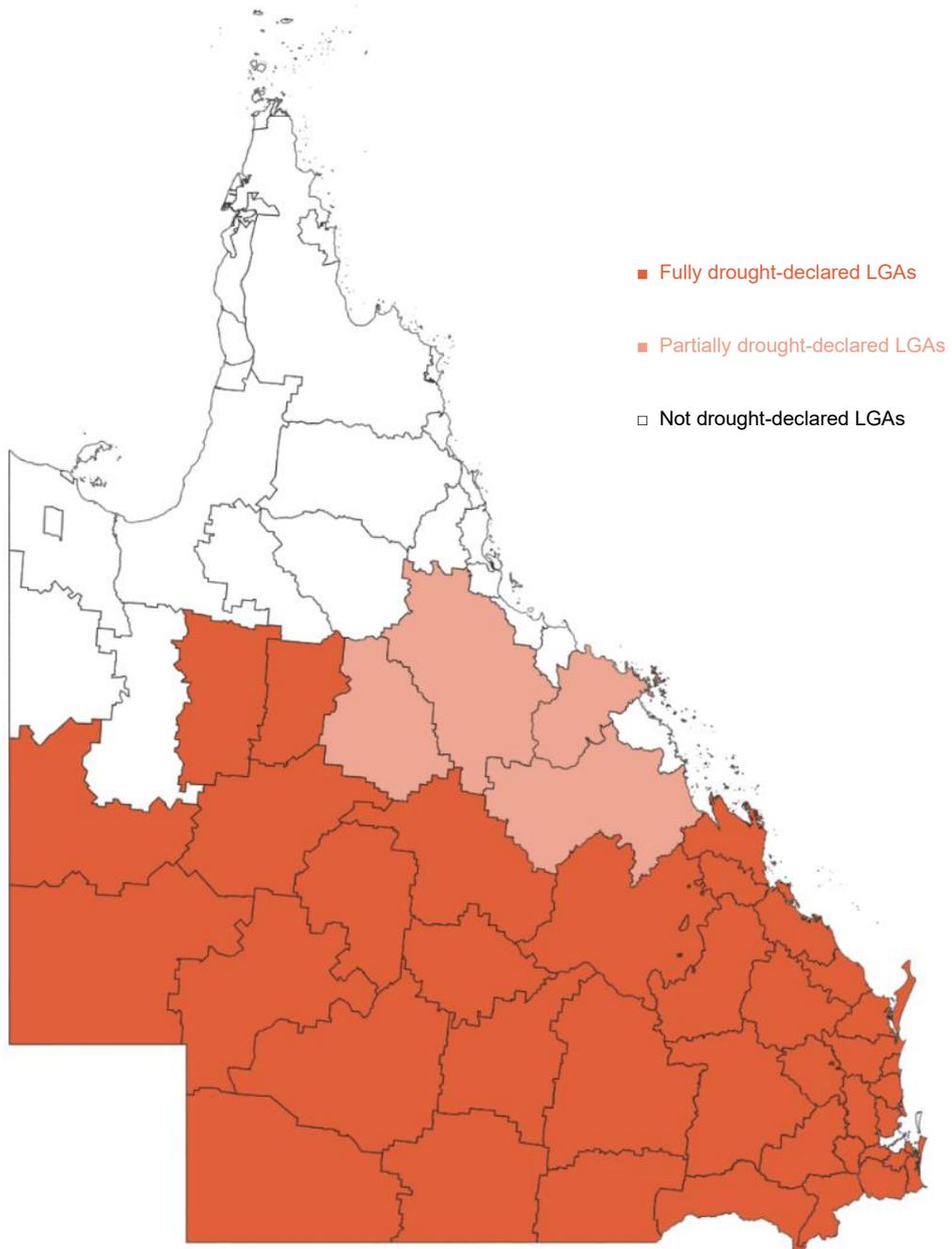
Note: Building approvals do not include alterations, additions, and conversions. UU—Urban Utilities.

Source: Compiled by the Queensland Audit Office from Queensland Government Statistician's Office, Urban Utilities, and Unitywater data.

F. Drought map

Figure F1 shows Queensland local government areas that are fully, partially, and not drought-declared as at 1 August 2020.

Figure F1
Queensland drought-declared areas



Note: LGA—local government areas.

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

G. Dam improvement programs

Figure G1
Significant Seqwater dam improvement programs

Project	Status
Lake Macdonald Dam Upgrade	<ul style="list-style-type: none"> • Upgrade Stage 2—detailed design completed in October 2019. • Early construction activities began in late 2020.
Ewen Maddock Dam	<ul style="list-style-type: none"> • Upgrade Stage 2A—construction began March 2020. Expected completion is 18 months, subject to weather and site conditions.
Somerset Dam	<ul style="list-style-type: none"> • Detailed business case in progress and planning work is set to continue through 2021. The detailed business case will determine final delivery methodology; the commencement of any works will be dependent upon government approvals. • Construction is expected to take approximately four to five years.
North Pine Dam	<ul style="list-style-type: none"> • Planning is in place for a dam upgrade to increase capacity to withstand extreme floods. • Business case development will commence in 2021. The business case will determine the delivery methodology and construction timeframes.

Source: Compiled by the Queensland Audit Office from Seqwater information.



Figure G2
Significant Sunwater dam improvement programs

Project	Status
Burdekin Falls Dam	<ul style="list-style-type: none"> • A detailed business case for Burdekin Falls Dam improvement and raising project is expected to be completed in late 2021. • Detailed planning for construction of the improvement works is scheduled to commence on completion of the detailed business case. • An Environmental Impact Statement (EIS) for the raising project is occurring in parallel to the detailed business case. The EIS is expected to be completed by 2023.
Fairbairn Dam	<ul style="list-style-type: none"> • Stage 1—spillway upgrade, completed December 2016. • Stage 2—replication of Stage 1 on the next section of the spillway is in progress, scheduled for completion by late 2020 (weather permitting). • Stage 3—construction of new concrete gravity sidewalls was completed in December 2019.
Leslie Dam	<ul style="list-style-type: none"> • Preliminary business case is in progress, with further studies to be completed in 2020–21 to determine the extent of works required.
Teemburra Dam	<ul style="list-style-type: none"> • A preliminary business case was started in 2019–20 to review the need for dam improvement works and assess the best options, including a detailed dam safety review and risk assessment.
Coolmunda Dam	<ul style="list-style-type: none"> • A preliminary business case was started in 2019–20. Pending the results, the project may involve spillway repairs, wall strengthening, and drainage improvements.
Paradise Dam	<ul style="list-style-type: none"> • Detailed business case is underway (led by Building Queensland) to identify the best long-term solution for Paradise Dam. • Essential spillway works started in May 2020 and are expected to reach completion in early 2021, which will significantly reduce the safety risk.
Fred Haigh Dam	<ul style="list-style-type: none"> • Stage 1a—was completed in November 2019. It included repairing scour damage from previous flooding. • Stage 1b—is scheduled to be complete in 2020–21. It will build on these works and risk assessments to decide if further work is required.

Source: Compiled by the Queensland Audit Office from Sunwater information.



H. Financial results

Figure H1
For the year ended 30 June 2020

Amounts in \$'000									
Entity	Assets	Liabilities	Revenue	Expenses	Net profit (loss)	Shareholder returns	Finance costs	New borrowings	Repayments of borrowings
Seqwater*	11,721,213	9,971,458	1,080,284	1,025,269	37,098	17,917	466,202	–	–
Sunwater	1,108,484	857,068	345,362	632,001	(202,642)	(83,997)	14,498	–	87
UU	6,415,992	2,896,710	1,437,433	1,114,228	223,619	258,585	94,946	285,600	–
Unitywater	4,052,307	1,896,095	730,046	525,320	143,394	94,180	70,264	87,021	87,021
GAWB	761,868	345,003	63,638	62,640	697	1,264	10,071	–	23,000
MIWB	172,906	33,128	26,442	19,327	5,152	6,084	64	–	281

Note: * Seqwater was qualified in 2019–20 due to unrecorded liability and expense from the litigation in progress relating to the 2011 South East Queensland floods.

Notes for Figures H1–H3: Shareholder returns are made up of dividends, participation returns and income tax equivalents (which include deferred tax components). UU—Urban Utilities; GAWB—Gladstone Area Water Board; MIWB—Mount Isa Water Board.

Figure H2
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)	(10,853)	507,712	–	–
Sunwater	1,042,496	585,516	343,820	270,865	51,224	72,995	14,365	–	38
UU	6,027,769	2,588,080	1,377,659	1,052,508	226,555	251,596	96,820	39,400	–
Unitywater	3,902,190	1,865,263	730,579	513,918	151,800	99,842	73,940	47,000	47,000
GAWB	791,497	370,833	64,608	60,929	2,644	3,151	10,182	–	–
MIWB	171,249	34,117	25,107	19,217	6,156	4,658	73	–	268

Figure H3
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)	(30,817)	509,469	–	–
Sunwater	1,012,721	562,426	287,747	230,310	39,661	57,437	14,723	–	16
UU	5,902,274	2,550,041	1,348,322	985,199	253,281	275,643	96,112	–	–
Unitywater	3,777,942	1,858,898	696,248	490,211	119,405	87,345	77,523	37,002	37,000
GAWB	768,463	371,544	71,019	58,742	8,683	10,542	9,940	30,000	–
MIWB	163,351	30,328	22,284	20,141	1,516	1,840	93	–	815

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

I. Financial flows to and from government

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

Figure I1
For the year ended 30 June 2020

Amounts in \$'000							
	Seqwater	Sunwater	UU	Unitywater	GAWB	MIWB	Total
Inflows							
CSO*	1,971	7,784	–	–	–	–	9,755
Grants	12,500	21,681	407	3,799	85	–	38,472
Utility charges and other revenue	–	–	10,462	18,793	–	–	29,255
Total	14,471	29,465	10,869	22,592	85	–	77,482
Outflows							
Shareholder returns	(17,917)	83,997	(258,585)	(94,180)	(1,264)	(6,084)	(294,033)
Competitive neutrality fee	–	(2,294)	–	–	(2,263)	–	(4,557)
Interest	(465,868)	(10,628)	(91,797)	(69,921)	(7,425)	(61)	(645,700)
Other*	(5,053)	(2,738)	(8,107)	(1,783)	(196)	(59)	(17,936)
Total	(488,838)	68,337	(358,489)	(165,884)	(11,148)	(6,204)	(962,226)

Notes for Figures I1–I3: *CSO—community service obligation (government payments to entities for services that would not otherwise be sustainable). UU—Urban Utilities; GAWB—Gladstone Area Water Board; MIWB—Mount Isa Water Board. Shareholder returns are made up of dividends, participation returns and income tax equivalents (which include deferred tax components). 'Other' includes payroll tax, rates.

Figure I2
For the year ended 30 June 2019

Amounts in \$'000							
	Seqwater	Sunwater	UU	Unitywater	GAWB	MIWB	Total
Inflows							
CSO*	2,074	8,118	–	–	–	–	10,192
Grants	11,721	40,772	235	3,998	85	–	56,811
Utility charges and other revenue	–	–	9,544	14,384	–	–	23,928
Total	13,795	48,890	9,779	18,382	85	–	90,931
Outflows							
Shareholder returns	10,853	(72,955)	(251,596)	(99,842)	(3,151)	(4,658)	(421,349)
Competitive neutrality fee	–	(2,292)	–	–	(2,443)	–	(4,735)
Interest	(507,701)	(11,525)	(94,062)	(73,940)	(7,323)	(73)	(694,624)
Other*	(4,486)	(2,392)	(6,893)	(2,276)	(654)	(76)	(16,777)
Total	(501,334)	(89,164)	(352,551)	(176,058)	(13,571)	(4,807)	(1,137,485)



Figure I3
For the year ended 30 June 2018

Amounts in \$'000							
	Seqwater	Sunwater	UU	Unitywater	GAWB	MIWB	Total
Inflows							
CSO*	2,069	9,006	–	–	–	–	11,075
Grants	11,923	2,648	–	4,053	85	–	18,709
Utility charges and other revenue	–	–	8,685	15,206	–	–	23,891
Total	13,992	11,654	8,685	19,259	85	–	53,675
Outflows							
Shareholder returns	30,817	(57,437)	(275,643)	(87,345)	(10,542)	(1,840)	(401,990)
Competitive neutrality fee	–	(2,217)	–	–	(2,430)	–	(4,647)
Interest	(509,453)	(12,005)	(94,566)	(76,186)	(7,102)	(93)	(699,405)
Other*	(4,037)	(2,257)	(7,487)	(3,734)	(695)	(55)	(18,265)
Total	(482,673)	(73,916)	(377,696)	(167,265)	(20,769)	(1,988)	(1,124,307)

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

Figure I4
For the year ended 30 June 2020

Amounts in \$'000						
	Local government	Participation return	Income tax equivalent*	Interest	Other	Total
UU	Brisbane City Council	135,161	66,071	–	7,278	208,510
	Ipswich City Council	19,433	9,499	–	568	29,500
	Lockyer Valley Regional Council	1,436	702	672	112	2,922
	Scenic Rim Regional Council	1,657	810	669	71	3,207
	Somerset Regional Council	1,313	642	630	78	2,663
	Total	159,000	77,724	1,971	8,107	246,802
Unitywater	Moreton Bay Regional Council	19,131	25,477	32,903	364	77,875
	Sunshine Coast Regional Council	12,321	16,409	21,112	1,410	51,252
	Noosa Shire Council	1,396	1,859	2,392	9	5,656
	Total	32,848	43,745	56,407	1,783	134,783

Notes for Figures I4–I6: 'Income tax equivalents' excludes deferred tax components. 'Other' includes supplies and services, land tax.

Figure I5
For the year ended 30 June 2019

Amounts in \$'000						
	Local government	Participation return	Income tax equivalent*	Interest	Other	Total
UU	Brisbane City Council	130,060	73,259	–	6,197	209,516
	Ipswich City Council	18,700	10,533	–	489	29,722
	Lockyer Valley Regional Council	1,381	778	693	58	2,910
	Scenic Rim Regional Council	1,595	898	690	53	3,236
	Somerset Regional Council	1,264	712	648	96	2,720
	Total	153,000	86,180	2,031	6,893	248,104
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

Figure I6
For the year ended 30 June 2018

Amounts in \$'000						
	Local government	Participation return	Income tax equivalent*	Interest	Other	Total
UU	Brisbane City Council	140,942	79,433	–	6,858	227,233
	Ipswich City Council	20,264	11,421	–	325	32,010
	Lockyer Valley Regional Council	1,497	844	713	114	3,168
	Scenic Rim Regional Council	1,728	974	710	55	3,467
	Somerset Regional Council	1,370	771	669	135	2,945
	Total	165,801	93,443	2,092	7,487	268,823
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

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

J. 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.
<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.
Australian accounting standards	The rules by which financial statements are prepared in Australia. These standards ensure consistency in measuring and reporting on similar transactions.
Bulk water suppliers	Water entities that provide bulk water services (large quantities of water) to water service providers or customers.
Category 1 water board	For-profit water authorities established under the <i>Water Act 2000</i> , including Gladstone Area Water Board and Mount Isa Water Board.
Category 2 water board	Not-for-profit water authorities, other than category 1 authorities.
Class action	A class action is a court proceeding where the claims of a group or 'class' of persons are brought by one or a small number of named representatives.
Community service obligations (CSO)	Government payments to for-profit entities to provide services that are not sustainable otherwise.
Competitive neutrality	This 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.
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 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. Hydrology is the scientific study of the movement, distribution, and management of water.
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.

Term	Definition
Detailed business case	Aims to provide evidence for investing in whatever the business case is about. It evaluates the viability of the highest ranked option/s with surety of outcomes across all evaluation criteria and develops investment implementation plans.
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> .
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.
Financial sustainability	Entities' ability to repay their liabilities as and when they fall due during the next financial year.
Irrigation water	The supply of water or drainage services for irrigation of crops or pastures.
Material	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 of financial statements.
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.
Preliminary business case	This aims to progress the concept documented in a feasibility study by generating options and assessments for a preferred option/s for more detailed analysis.
Significant deficiency	A deficiency, or combination of deficiencies, in internal control that requires immediate remedial action.
Shareholders	Shareholders are the owners of an entity. The Queensland Government is the shareholder of a statutory body or government owned corporation (GOC). Participating local governments are the shareholders of distributor-retailers.
Shareholder returns	Shareholder returns is made up of income tax equivalents, dividends and participation returns. Dividends is a portion of a statutory body or GOC's profits that it pays to its shareholders. Participation returns is a portion of a distributor-retailer's profits, which it pays to its participating local governments in accordance with a participation agreement.
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.





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