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Briefing for audit committee chairs

5 December 2023

Agenda

10:25 am

Welcome

10:30 am–11:10 am

Status of Auditor-General's recommendations and QAO's forward work plan

Patrick Flemming, Assistant Auditor-General

11:10 am–11:40 am

Advice on managing change and update on maturity models

Michelle Reardon, Assistant Auditor-General

11:40 am–11:50 am

Closing remarks

Brendan Worrall, Auditor-General

11:50 am–12:00 pm

Discussion and questions





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Report insights, findings from 2023 status of recommendations & QAO's forward work plan

Patrick Flemming, Assistant Auditor-General



Some headline insights from recent reports

Performance monitoring and reporting

- Culture of accountability and transparency
- Clear objectives and goals
- Quality data
- Multi-agency coordination – shared and clear understanding of outcomes, roles, priorities.

Contract management

- Effective planning includes clearly articulating service need
- Registers help budget for costs, track obligations, reduce variations
- Appropriate systems for training, central documentation, and managing conflicts of interest.

Confidentiality provisions

- Only included where there is strong justification for protecting sensitive information
- Balanced against the need for open and transparent government
- A contract can not override an accounting standard

Reports on the results of our financial audits

- Continuing need for stronger information security practices
- Controls to mitigate cyber security risk exposure
- Risk practices and maturity assessments
- Procurement – conflicts of interest
- Regular and timely assessment of asset condition.



Status of recommendations

We asked



98
entities

To report on



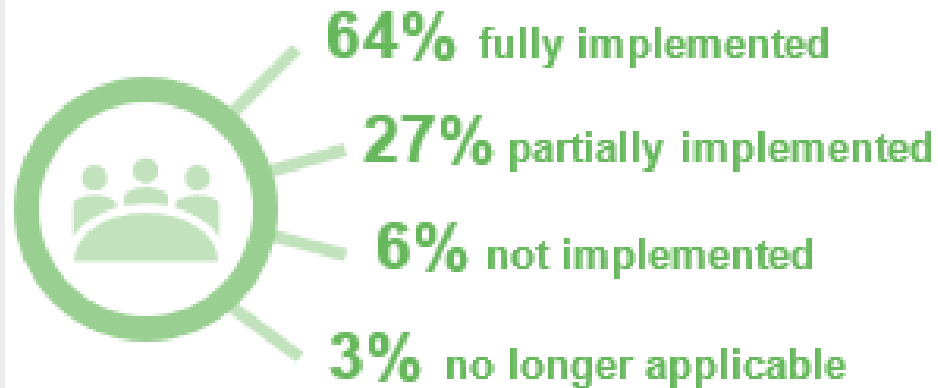
678
individual
recommendations

From



41
reports to
parliament

Results



Some entities remain uncertain about their progress because they do not have effective systems to track it.

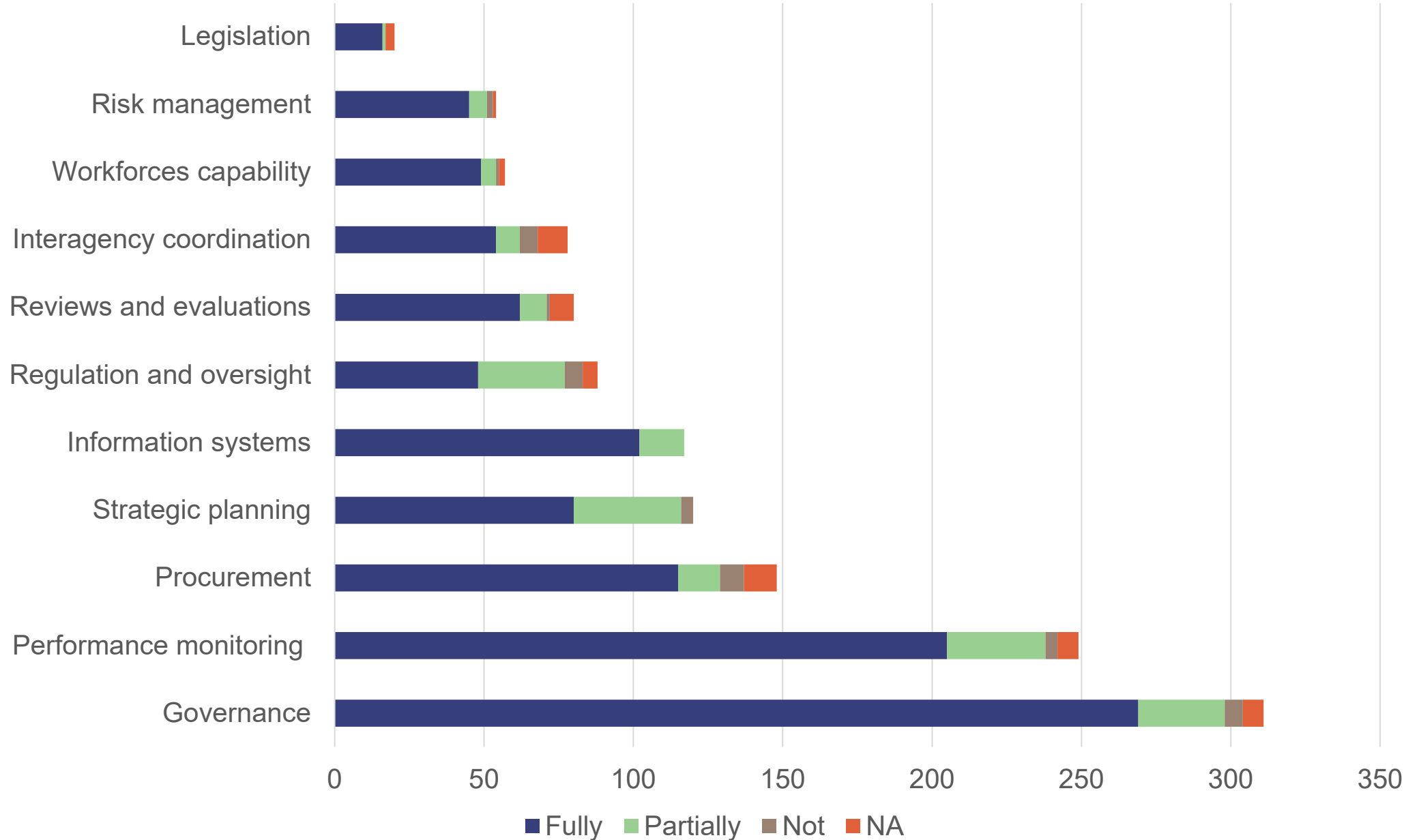
This can make it difficult for audit committees to effectively hold management to account.

 www.qao.qld.gov.au/reports-resources/status-auditor-generals-recommendations

Interactive data dashboard – search by entity, report, year, parliamentary committee

Recommendations by category and status

Common challenges in implementing recommendations



Recommendations to strengthen governance arrangements were a focus in our 2020–21 and 2021–22 reports

➔ Many of these recommendations targeted strengthening the role of audit committees.



While entities reported good progress implementing recommendations from *Effectiveness of audit committees in state government entities* (Report 2: 2020–21), opportunities still exist to align with better practice:

- ➔ clearly defining the committee’s role, so it is appropriate and specific to the entity
- ➔ remaining informed of the entity’s core functions, systems, key risks and issues
- ➔ reviewing their performance annually against their annual workplan.



It is important the actions entities take address the *underlying* issues we identify.



Recommendations should not be closed until the committee receives assurance that the actions taken are imbedded and operating effectively.

Status of
recommendations

Our report *Effectiveness of audit committees in state government entities* also recommended Queensland Treasury provide improved guidance to audit committees.

One of the recommendations →

Mandating that all members of Queensland state government entities are independent of management and not an employee of the entity or another Queensland state government entity.

Queensland Treasury updated the guidelines in October 2023

- Independence requirements for committee composition
 - immediately, the Chair and one other member must be independent
 - by 30 June 2025, majority independent members
 - from 1 July 2025, fully independent membership
- Preparation of a composition report
- Size, expertise, and diversity requirements.



Remaining 2023–24 reports to parliament

Energy 2023	Dec 23	Analyses energy entities' financial performance and position. Insights into the transition to renewable energy and the impact on energy entities' profit and security of energy supply.
Major projects 2023	Dec 23	Insights into the status of major infrastructure projects across Queensland. Analysis of the planning, coordination, and delivery of the state's capital program.
Health 2023	Dec 23	Analyses health entities' financial performance and position. Assessments of financial statement preparation processes, internal controls, and financial sustainability.
Local government 2023	Early 24	Audit results for Queensland's 77 councils and the entities they control, financial sustainability of the sector, and assessment of internal controls.
State entities 2023	Early 24	Audit results for state entities, Queensland Government financial position, key transactions and events. Commences reporting on the extent to which government uses consultants and contractors. Update on government's implementation of Coaldrake recommendations.
Managing Queensland's debt and investments 2023	Early 24	Management of the Queensland Government's debt and investments, including main transactions and investment performance.
Responding to and recovering from cyber security attacks	Early–mid 24	Insights and lessons learned on entities' preparedness to respond to and recover from cyber attacks.
Queensland's regions 2023	Early–mid 24	Analyses data on state and local government service delivery and support for Queensland's regions, including regional growth and sustainability measures.
Education 2023	Mid 24	Audit results for education entities, and their financial performance and position. Insights into recovery from COVID-19, and in meeting the state's education requirements.
Managing Queensland's regional water quality	Mid 24	Effectiveness of state and local government entities in ensuring access to safe water.
Effectiveness of audit committees in local governments	Mid 24	Insights into the effectiveness of audit committees in Queensland's local governments.
Examining the state budget framework	Mid 24	Considers how the framework for preparing the state budget supports government's identified fiscal principles and the objectives and measures identified in economic plans.



This year's local government report

Local government election date: 16 March 2024

Caretaker period commences from late January 2024 – when the election is expected to be called.

- Councils cannot undertake ‘major policy decisions’ during this period and there are additional limits around publishing or distributing election material.
- March 2020 elections resulted in 272 new elected members, which is approximately a 50 per cent change across the state. **It can take time for new councillors to understand their legislative obligations and the council’s own policies and procedures.**



Communities need timely financial information to evaluate their council’s performance

This year, we will table our report *Local government 2023* and supporting interactive dashboard before the election, based on information available at 31 October 2023.



Forward work plan

- Focuses audits where we can most effectively support entities and provide insights
- Provides transparency of the upcoming work program and advance notice to entities
- Entails key component of consultation with entities, ministers, and parliamentary committees.
- In prioritising topics, we consider where there have been particular challenges, strategic risk, and where we think there is the most to learn

Focus areas guide all our audit activity

 Technology risk and opportunities

 Sustainable communities and environment

 Governance of government

 Healthy and safe Queenslanders

 Infrastructure investment

 Economic risk and recovery

On occasion, new topics may be introduced in response to new information. Timing for some topics may also shift. We reflect these changes on our website.

QAO's blog reflects our areas of audit focus.



**What's down
the track**

Looking forward: 2024–2026 audits

2024–25 audits	2025–26 audits	Yearly reports
Attracting industries and events	Improving public sector culture	Status of Auditor-General's recommendations
Lobbying in the Queensland Government	Managing consultants and contractors	Energy
Managing the supply of teachers	Managing labour and skill shortages	Major projects
Delivering mental health services	Providing digital education	Health
Managing waste	Managing the quality and safety of health services	State entities
Managing risk transfer in infrastructure projects	Managing Queensland's greenhouse gas emissions	Queensland's regions
Sustainability of local governments	Managing volunteer services	Education
Planning for Queensland's long-term infrastructure investment	Preparing for natural disasters	Local government
Ensuring information is protected	Preventing prisoners from reoffending	Managing Queensland's debt and investments
	Managing third party cyber security risks	
	Managing road safety	

Discussion and questions





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Advice on managing change & update on maturity models

Michelle Reardon, Assistant Auditor-General



Machinery of government changes



Report 17: 2022–23 *Implementing machinery of government changes*



Comparison of average internal control maturity rating for department that were significantly affected by changes with those that were not

Internal controls

	Developing	Established	Integrated	Optimised
Governance			● ● ★	
Culture			● ● ★	
Risk management			● ● ★	
Financial statements			● ● ★	
Records management		●	● ★	
Information systems			● ● ★	
Asset management			● ● ★	
Grants management			● ● ★	
Procure-to-pay			● ● ★	
Change management			● ● ★	
Monitoring			● ● ★	

- Average maturity rating (departments not impacted by restructures)
- Average maturity rating (departments impacted by restructures)
- ★ Average desired state of maturity (all departments)



Questions to discuss with your clients

Where are they up to with their implementation?

How have they done an assessment of culture?

Have they kept good records that support their implementation project?

Have they assessed where their records are and how they get oversight of them?

Do they have a project plan that considers the immediate implementation, but also the long-term actions required?

Have they had a review by internal audit?



➔ This year we will ask departments to do an assessment of their financial statement preparation using our updated maturity model.

System changes

Projects are aligned to business outcomes

Where projects are aligned closely to business outcomes, they are more likely to deliver benefits and systems that are fit for purpose.

The team has the skills and capacity to match the challenge

Technology projects can be high risk and require capability in advanced technology, change management, project management, and contract management. Time needs to be allocated for teams to take on project responsibilities.

Senior leaders actively lead and challenge

Successful technology projects are normally led by senior leadership teams who understand the projects and ensure they are well run. They have or bring in the skills and competencies to provide independent challenge.

Internal and external teams work towards the same goals

Technology projects regularly rely on external suppliers. To be successful, project leaders ensure internal and external teams are working towards the same outcomes and goals.

Learnings are identified and acted on

Project teams that identify and act on learnings from their project experience, and from the experiences of others, are more likely to be able to change their course when needed.



Four levels of maturity used across QAO tools

Developing

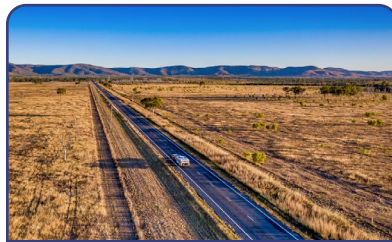
Established

Integrated

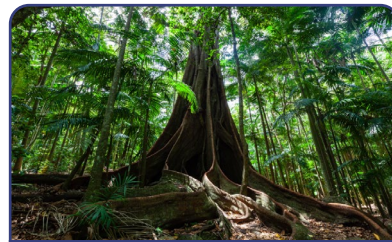
Optimised

Maturities

Current models in place



Local government procure-to-pay



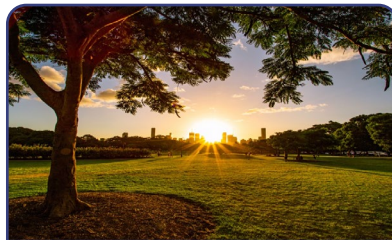
Risk management



Grant management



Change management



Annual internal control assessment



Financial statement preparation

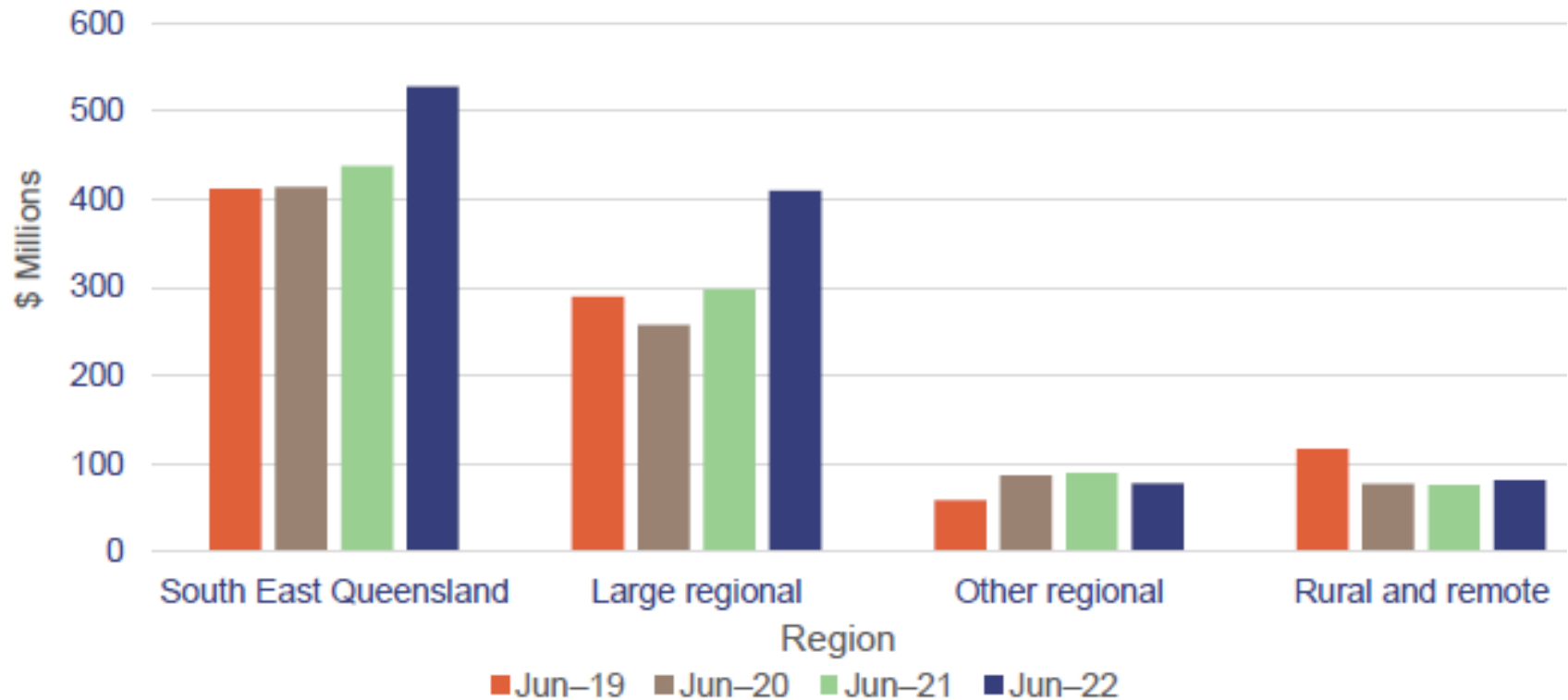


Effective asset management is critical

- 🏠 Ageing assets
- 🔧 Growing anticipated maintenance
- 💰 Increasing construction costs

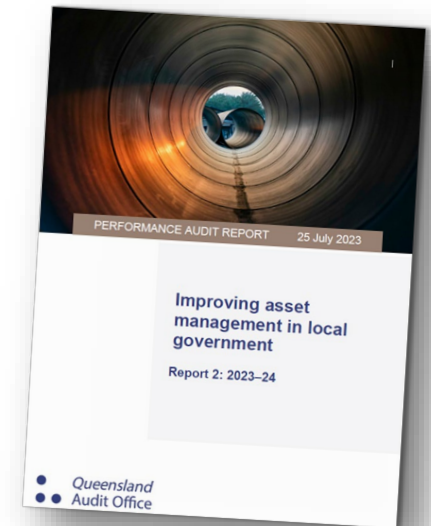
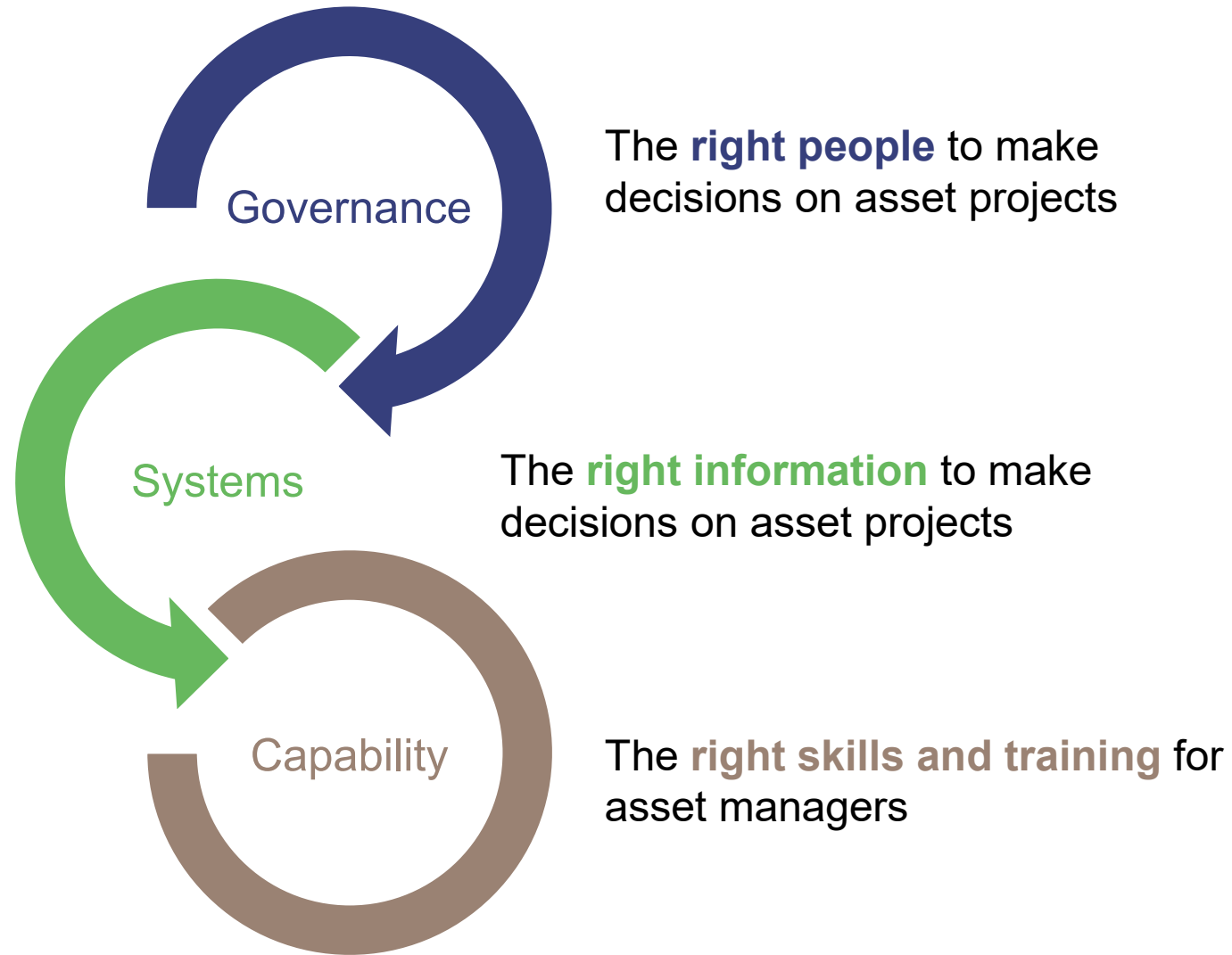
Asset management in health

Growth in anticipated maintenance



General gaps found in asset management

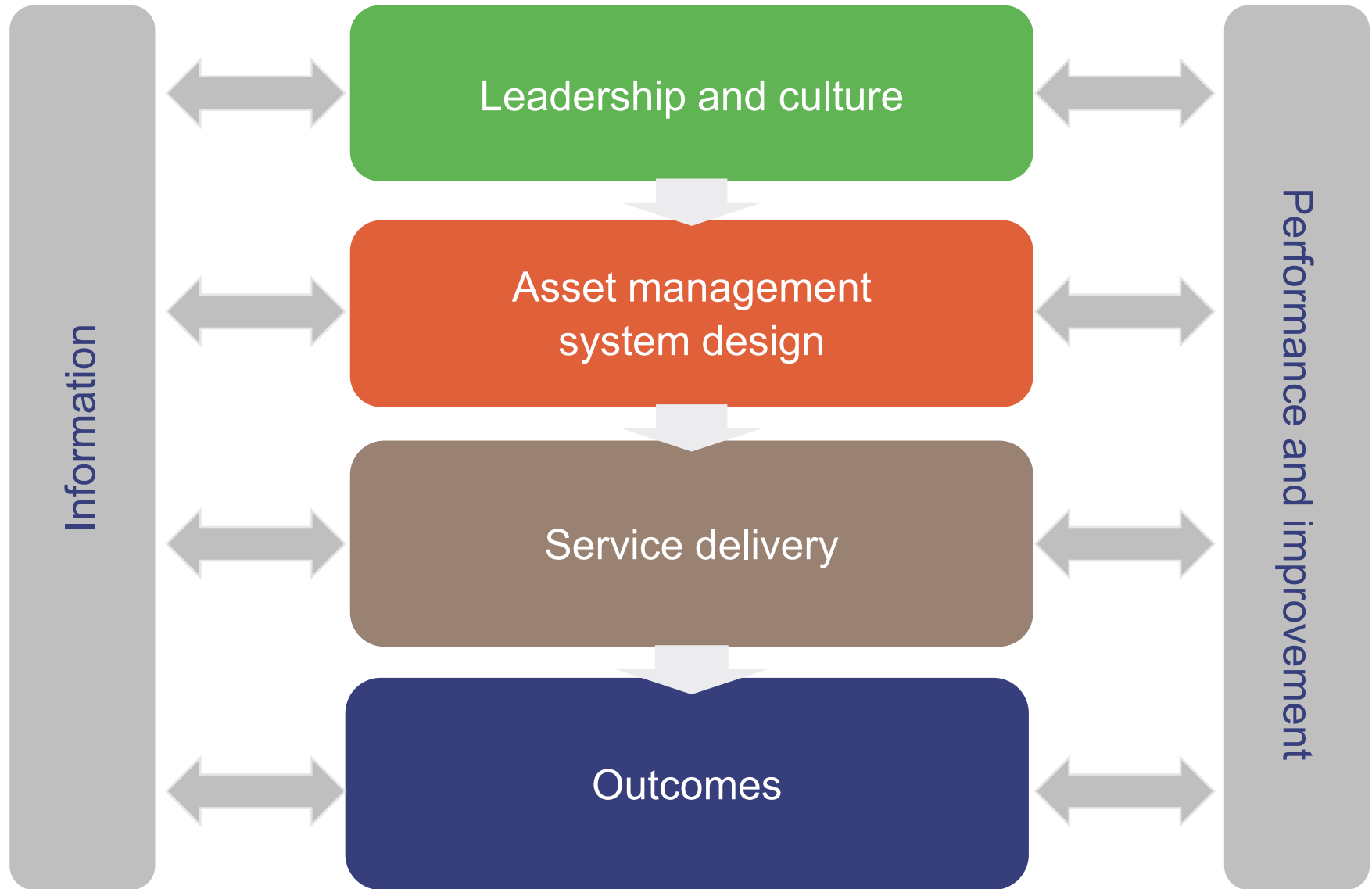
Improving
asset
management





Better practice
asset
management

Strategic asset management framework: Public sector



Source: Asset Institute (a network of multidisciplinary research and industry experts), aligned with ISO 55000 Asset





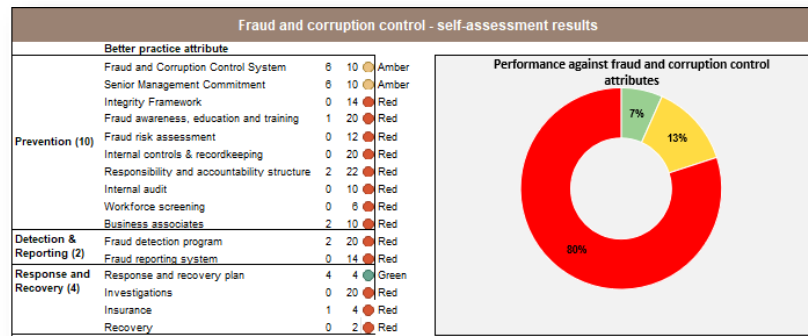
Fraud tools

Fraud risk assessment and planning model

- ✓ Helps entities document their assessments of fraud risk, and how they will control, monitor and report on the risks.
- ✓ Provides a methodology for assessments, helping to examine business environments and develop overarching risks management plans.
- ✓ Assessing risk; controls; treatment; incidents register; review controls, reporting; fraud susceptibility.

Fraud and corruption self-assessment tool

- ✓ Aimed to help entities identify the areas where they can improve their fraud controls.
- ✓ Reflects new minimum requirements
- ✓ Prevention; detection and response; dashboard; priority areas.



Example: 5 x 5 risk matrix

INHERENT RISK RATING		LIKELIHOOD				
		Rare 1	Unlikely 2	Possible 3	Likely 4	Almost certain 5
CONSEQUENCE	5 Catastrophic	High	High	High	Extreme	Extreme
	4 Major	Medium	Medium	High	High	Extreme
	3 Moderate	Medium	Medium	Medium	High	High
	2 Minor	Low	Low	Medium	Medium	High
	1 Insignificant	Low	Low	Low	Medium	Medium

Climate-related risks – financial reporting

Update on
climate and
sustainability
reporting

State government bodies – refer FRRs

- How the risks directly relate to amounts reported in agency's financial statements
- How climate-related risks were addressed in the key assumptions applied when developing accounting estimates and judgement calculations
- Queensland Government publications
- Government owned corporations – liaison with Treasury

Local governments – voluntary

AASB EDSR1 (applying ISSB S1 and S2)

+ Commonwealth Treasury Second Consultation

- Group 1 – government owned corporations registered under National Greenhouse and Energy Register (NGER)
 - all Corporations Act government owned corporations except 3 smaller ports

Discussion and questions





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Closing remarks

Brendan Worrall, Auditor-General



Legislative changes

Professor Coaldrake raised concerns around accountability and transparency – leading back to the theme of good governance.

He identified a loss of capacity in the public sector, accelerated by an overreliance on contractors, and due to regular government restructuring.

He also highlighted issues with lobbying and the impacts when it is inappropriate.

We considered the Coaldrake review recommendations in developing our forward work plan

Area of focus across our work: 'governance of government'.

2023–24 State entities 2023

- Commence reporting on extent departments are using contractors and consultants.
- Status of Coaldrake recommendations.

2024–25 Lobbying in the Queensland Government

- Transparency and compliance of practices.

2025–26: Managing consultants and contractors

- How much is being spent, benefits and value, how effectively they are being managed.

2025–26: Improving public sector culture

- How entities establish their culture, set expectations, promote desired values and behaviours.



A key accountability measure in the *Auditor-General Act 2009* is an independent strategic review of our office at least every 5 years.

Terms of reference

- Recommendations from previous strategic review, and from former Finance and Administration Committee (FAC) report
- The government's response to FAC, and implementation of recommendations
- Reforms being implemented by government in response to the Coaldrake report.

2023 strategic review of QAO



I look forward to sharing the report with our people, clients and stakeholders when it is tabled in parliament by the government.



Questions and discussion



Discussion

Presentation slides will be emailed to you and on our website

www.qao.qld.gov.au/reports-resources/events

Please answer our quick survey so we can improve our events:

www.surveymonkey.com/r/Dec23ACCB



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