



# Water: 2016–17 results of financial audits

**Report 5: 2017–18**



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Front cover image is an edited photograph of Queensland Parliament, taken by QAO.

ISSN 1834–1128

## Reference to comments

In accordance with section 64 of the *Auditor-General Act 2009*, we provided a copy of this report to Minister for Main Roads, Road Safety and Ports and Minister for Energy, Biofuels and Water Supply; Minister for State Development and Minister for Natural Resources and Mines; the Director-General, Department of Energy and Water Supply; the Chief Executive Officer, Queensland Competition Authority and the Under Treasurer, Queensland Treasury. In reaching our audit conclusions, we have considered their views and represented them to the extent we deemed relevant and warranted in preparing this report.

Responses were received from the Department of Premier and Cabinet, Queensland Treasury, and SunWater Limited. The responses are in Appendix A.

## Report cost

This audit report cost \$100 000 to produce.

Your ref:  
Our ref: Water RfP



14 December 2017

Mr Neil Laurie  
The Clerk of the Parliament  
Parliament House  
BRISBANE QLD 4000

Dear Mr Laurie

**Report to Parliament**

This report is prepared under Part 3 Division 3 of the *Auditor-General Act 2009*, and is titled *Water: 2016–17 results of financial audits* (Report 5: 2017–18).

In accordance with s.67 of the Act, would you please arrange for the report to be tabled. In accordance with s59A of the Parliament of Queensland Act and Standing Order 31, I request that this document be tabled during the period that the Legislative Assembly is dissolved.

Yours sincerely

A handwritten signature in dark ink, appearing to read 'B. Worrall', is positioned above the printed name of the Auditor-General.

Brendan Worrall  
Auditor-General

## Report structure

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### **CHAPTER 1**

Provides a sector overview to assist with understanding the audit findings and conclusions.

### **CHAPTER 2**

Delivers the audit opinion results and evaluates the timeliness and quality of reporting.

### **CHAPTER 3**

Analyses the financial performance, position and sustainability of the entities.

### **CHAPTER 4**

Assesses the strength of the internal controls designed, implemented and maintained by entities in the water sector.

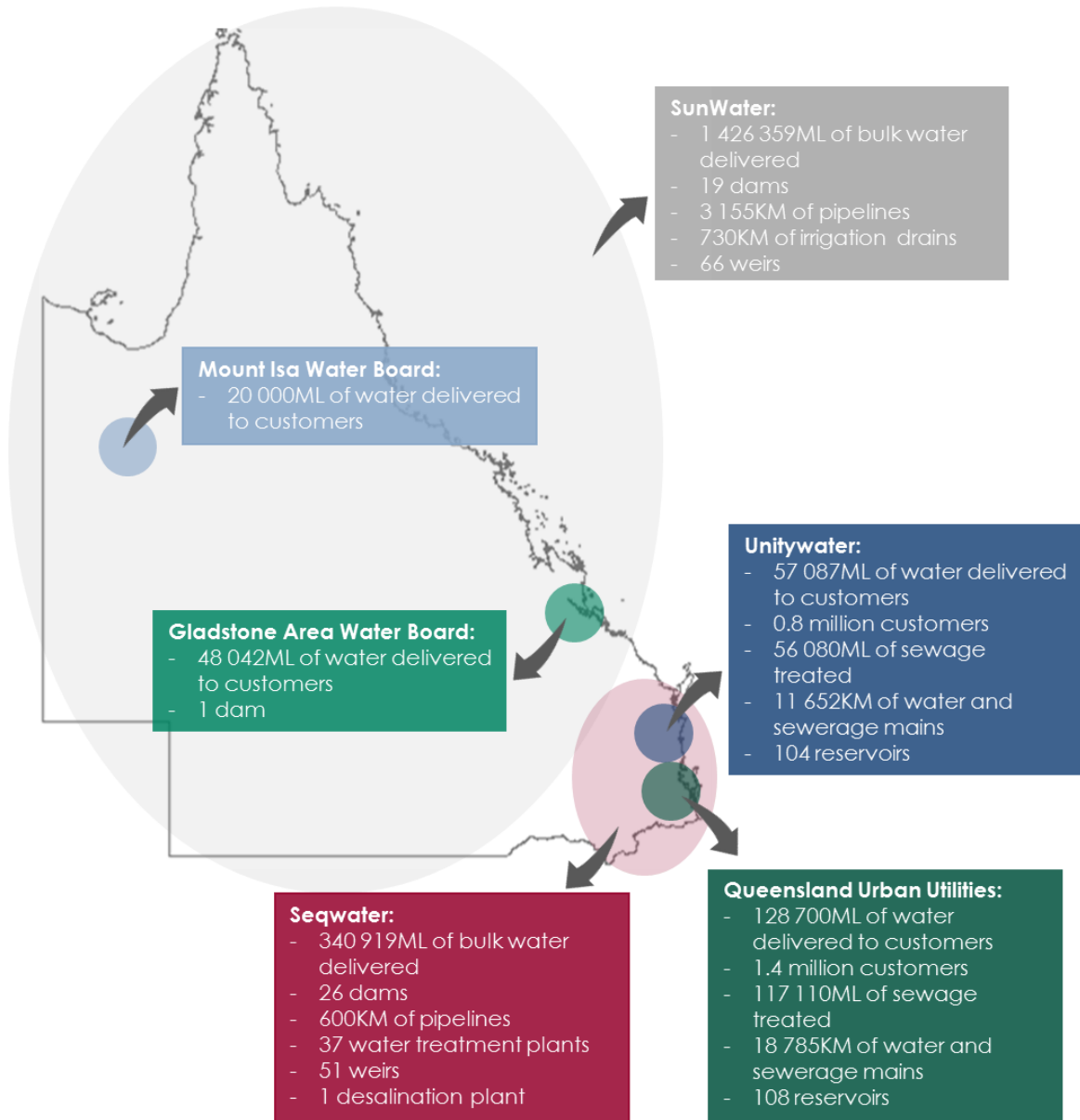
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# Summary

**Figure A**  
**Queensland water sector entities included in this report**



Source: Queensland Audit Office.

River Improvement Trusts, Water Authorities, Water Boards and Drainage Boards provide services to local councils and small communities. Local governments source and sell water to their ratepayers from a number of surface and groundwater sources. The results from our financial audits of these smaller water boards and councils are outside the scope of this report.

## Results of our audits

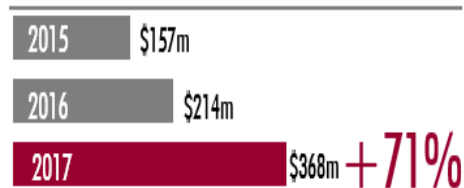
We issued unmodified audit opinions on all financial statements this year within the statutory deadline of 31 August 2017. We do this when the financial statements are prepared in accordance with the relevant legislative requirements and Australian accounting standards, and can be relied upon.

Water entities used good financial reporting practices to produce high quality financial statements in a timely manner for 2016–17. Entities with issues last year put appropriate processes in place and made information available by the agreed timeframes this year.

Seqwater met the statutory reporting deadline this year for the first time in three years, after the quality of the asset valuation process improved.

## Financial performance, position, and sustainability

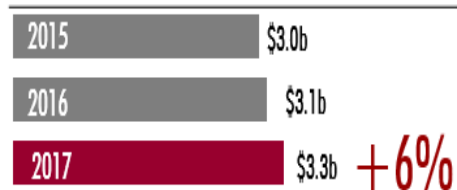
### PROFIT



For the third consecutive year, the water sector has reported an increase in its operating profits, with four entities having profits after income tax greater than prior years. This has been driven by population growth, consumer demand for water, and pricing increases across the sector.

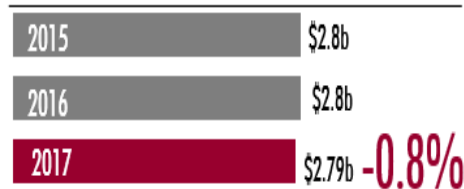
Entities have worked towards maintaining and containing expenses through implementing cost reduction strategies.

### REVENUE



Returns to the state government have reduced in the current year to \$8 million (\$168 million in 2015–16). The state has not requested a dividend from SunWater and its profit of \$36 million has been retained. SunWater will use the retained profits for dam safety works. Due to operating losses, Seqwater has continued to make no dividend payments to the state in 2016–17.

### EXPENSES

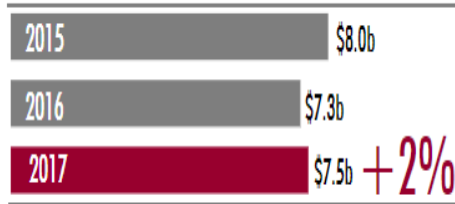


The returns made by the distributor-retailers of water to their participating local governments amounted to \$202 million for 2016–17 (2016: \$170 million), up \$31.5 million from 2015–16.

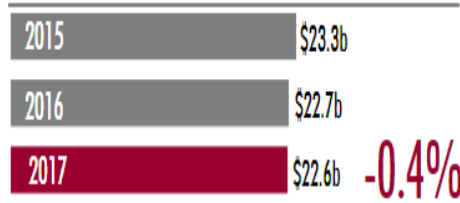
Source: Queensland Audit Office.



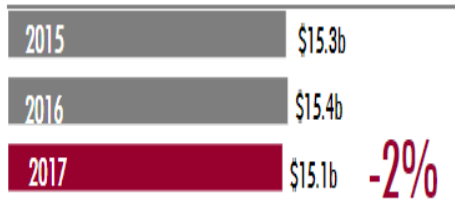
## NET ASSETS



## TOTAL ASSETS



## TOTAL LIABILITIES



Source: Queensland Audit Office.

Asset and liability balances have remained generally consistent with the prior year.

All water entities are financially sustainable, although Seqwater's sustainability is dependent on the pricing methodology set by the state government. This methodology requires Queensland Competition Authority (QCA) to provide revenue allowances sufficient to meet the cost to supply bulk water and to repay water grid manager debt by 2028.

A significant contributor to the reduction in total liabilities this year is that this is the first year Seqwater has paid its interest costs for all its debt, rather than capitalising these costs associated with water grid manager debt—which in the past increased its debt.

As part of the water sustainability programs being implemented, entities are investing in water saving and storage infrastructure programs along with the Queensland Government. The 2017–18 State Budget committed \$225 million over four years to implement the findings of the Townsville Water Security Taskforce.

## Internal controls

This year we identified two significant deficiencies in control activities at SunWater relating to individuals' access abilities in the finance system and conflicts in roles and responsibilities in the accounts payable section. Management is on track to resolve the issues by the date agreed with the Audit, Finance and Risk Committee.

We assessed the control environments of all remaining entities as effective, and we were able to rely on the internal control systems used to produce financial statements.

# Auditor-General reports to parliament

## Reports tabled in 2017–18

Number	Title	Date tabled in Legislative Assembly
1.	Follow-up of Report 15: 2013–14 Environmental regulation of the resources and waste industries	September 2017
2.	Managing the mental health of Queensland Police employees	October 2017
3.	Rail and ports: 2016–17 results of financial audits	December 2017
4.	Integrated transport planning	December 2017
5.	Water: 2016–17 results of financial audits	December 2017

## Contact the Queensland Audit Office

