Auditor-General of Queensland

Report to Parliament No. 4 for 2009

Results of audits at 31 May 2009

Financial and Compliance Audits

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QUEENSLAND

Prepared under Part 6 Division 3 of the *Financial Administration and Audit Act 1977*

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Auditor-General of Queensland

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The Honourable R J Mickel MP
Speaker of the Legislative Assembly
Parliament House
BRISBANE QLD 4000

Dear Mr Speaker

This report is prepared under Part 6 Division 3 of the *Financial Administration and Audit Act 1977*, and is on results of audits at 31 May 2009. It is the fourth in the series of Auditor-General's Reports to Parliament for 2009.

In accordance with s.105 of the Act, would you please arrange for the report to be tabled in the Legislative Assembly.

Yours sincerely

Glenn Poole
Auditor-General

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1 Executive summary

1.1 Introduction

Each financial year, three reports are presented to Parliament containing the results of financial audits competed during the year.

This report provides the results of the audits of public sector entities with financial statement balance dates other than 30 June 2008 and comments on a number of audit issues which have been identified during the interim audits being undertaken in relation to the 2008-09 financial year. The other results for 2007-08 audits were reported in Auditor-General's Report to Parliament No. 9 for 2008 Results of audits at 31 October 2008 and Auditor-General's Report to Parliament No. 1 for 2009 Results of local government audits.

This report covers 179 public sector entities where an auditor's opinion has been issued since these previous reports were tabled or where an auditor's opinion has not yet been issued. Figure 1A shows the current status of the audits of the 2007-08 financial statements.

Figure 1A : Status of 2007-08 financial statements

Financial reporting period	Total number of entities	Previously reported	Unmodified auditor's opinion issued	Modified auditor's opinion issued	Dormant	Auditor's opinion not yet issued
01.01.2008 to 31.12.2008	104	0	57	18	25	4
01.07.2007 to 30.06.2008	506	448	18	11	1	28
01.07.2007 to 14.03.2008	129	115	0	1*	0	13
Other reporting periods	7	4	3	0	0	0
Total	**746**	**567**	**78**	**30**	**26**	**45**

* All abolished local governments were issued with an emphasis of matter in relation to going concern.

As Figure 1A shows, auditors' opinions have not yet been issued for the 2007-08 financial statements of 45 public sector entities. This represents approximately six per cent of all financial statements on which an opinion was to be issued. QAO is actively working with the public sector entities involved to ensure financial statements are finalised for audit and these auditors' opinions are issued as soon as practicable.

This report also contains the results of audit activity related to the preparation of the financial statements for 2008-09 including an examination of the following issues:

- cost escalation and benefits realisation in major infrastructure projects
- policies relating to the leaseback of land purchased for major infrastructure projects
- the appropriateness of valuation indices being used by public sector entities
- security management systems
- the effectiveness of IT network security
- the level of understanding and compliance with relevant legislation across the public sector.

A large number of entities were examined through these audits. For all the entities audited, all control breakdowns and recommendations for improvement have been reported to management for appropriate action. The implementation of this action will be monitored through subsequent audit activity.

1.2 Significant issues

The completion of audits of specific activities across a range of public sector entities provides the opportunity to take a whole of public sector view on particular issues and provide recommendations for improvements at both a public sector and individual entity level.

The results of audits outlined in this report have identified a general trend where there is an absence of required policy along with governance mechanisms and coordination activity that should accompany those policy outcomes. Recommendations are made in this report from the results of these audits that relate to better whole-of-government coordination on a number of issues. These include the need for a whole-of-government approach for project cost escalation; lease payments and other lease conditions for the land which is subsequently leased after its acquisition; security management systems; and the monitoring of government IT security incidents.

For most of these issues, there is currently no department nominated as a lead agent to provide guidance to other public sector entities and to ensure that these operational risks are being effectively managed.

To improve accountability, lead agencies should be appointed to be responsible for these issues at a whole-of-government level. The lead agencies could liaise with key stakeholders, identify emerging issues, develop whole-of-government policy and monitor policy implementation to ensure a consistent approach.

1.3 Summary of key audit findings

A summary of the key audit findings from the report is provided below. Responses provided by the respective entities to issues raised in the report are provided in Section 7.1.

Infrastructure

Project cost escalation (Section 2.1)

If a robust process for estimating future project cost escalation is not in place for major infrastructure projects, there can be significant cost overruns.

Among the findings of the audit are that the estimating methods for cost escalation varied significantly between entities. Standardised cost escalation policies would assist in ensuring more accurate and consistent estimation of project costs.

Benefits realisation (Section 2.2)

Benefits realisation aims to ensure that the desired business change or policy outcomes to be achieved in the implementation of a major project are clearly defined, are measureable, and provide a compelling case for investment.

The audit found that all entities selected for audit have immature or inadequate benefits management systems in place. There is a need to strengthen policies to ensure that the potential benefits identified at the commencement of the project which supported the investment decision are actually achieved.

Leaseback of land (Section 2.3)

The first phase of developing infrastructure requires land to be obtained for the project. Land that is purchased is often leased back to the previous owners until the infrastructure project is constructed.

The audit found that each entity audited applies individual approved methodologies for determining the leasing arrangements, but there were inconsistencies between methods. These inconsistencies between agency policies result in different levels of lease payments, often at lower than market rates, and occupancy conditions for similar parcels of land in the same region.

In a number of instances disclosed by the audit, the policies provided for land that had been acquired at full market values, ranging from $100,000 to $15.8m, to be leased to the previous owner for nominal rentals often around $1,000 per annum.

Sustainability

Federal Government stimulus package (Section 3.1)

Under the Federal Government stimulus package, departments have been provided funding for specific projects to be completed within a relatively short timeframe. Suitable controls need to be established to ensure adequate governance and accountability is maintained.

The focus of future audit activity will be to assess procurement and probity processes and the achievement of the agreed performance outcomes.

Valuation indices (Section 3.2)

For public sector entities, certain classes of assets are required to be reported at fair value by virtue of prescribed accounting and reporting requirements. Many revaluation techniques (including comprehensive, rolling and indexed valuations) can be used to support the fair value basis of measurement at each balance date.

It was found that formal arrangements were not in place and documented for an annual assessment and testing of the appropriateness of indices previously applied.

While this was the case at the date of audit, all entities audited are in agreement with the audit findings and have or are in the process of implementing audit recommendations. The status of entity progress in implementing these recommendations will be followed up as part of the 2008-09 year end audit.

Follow-up of 2007 asset impairment audit (Section 3.3)

Significant progress has been made since the audit of asset impairment in 2006-07 and all entities followed-up either have implemented or are in the process of implementing the recommendations made during the original audit.

Governance

Audit of security management systems (Section 4.1)

The audit of security management examined physical security of government facilities and the organisational security frameworks of a selection of entities.

Entities audited are too reliant on processes that are largely undertaken in isolation, or are reactive in nature, rather than designed as part of a co-ordinated response to the specific security risks of each entity and its facilities. While the results varied across the entities, there are opportunities to improve security management frameworks, both at a whole-of-government and an entity level.

IT network security (Section 4.2)

The audit of IT network security showed that while security technologies and associated controls had been deployed by the entities audited, network security controls needed to be strengthened.

Except for one entity, the audit identifies that the security level is at a level of a medium size business rather than a state government department holding and processing sensitive information.

IT governance and project management (Section 4.3)

An audit of IT governance at the Department of Education and Training (DET) found that the IT governance framework across the whole of DET is not documented. There is no evidence of a formal IT risk management process and formal and effective business continuity plans are not in place.

The governance framework for the OneSchool project does not set clear directions and control the project in terms of scope, time, cost and quality. The project has significantly exceeded the original delivery time of three years with the overall cost increasing from an estimated $45m to the current estimate of $97m.

Status of IT project management following the 2008 audit (Section 4.4)

A follow-up audit was carried out at the three entities examined during the 2008 audit of IT project management. There has been little progress in addressing the previous audit recommendations by one entity, TransLink Transit Authority, and similar issues are noted in a current project. The other two entities have resolved the project management issues raised in 2008.

Shared services initiative (Section 4.5)

The shared services environment has been evolving over the last six years. While the number of issues raised by audit has decreased over this time, two core issues remain of concern being the risks involved through the continued use of legacy systems and the lack of standardised business processes. These concerns have been raised with senior management over a number of years. The need to refocus the manner in which the shared services initiative has progressed has resulted in an inability to satisfactorily resolve these concerns in the short-term.

Understanding and complying with legislation (Section 4.6)

This audit found that while procedures for compliance with legislation generally exist, systems are not in place at the whole of department level to provide positive assurance to Directors-General about whether their departments comply with their legal obligations. It is recommended that departments centralise responsibility for monitoring compliance with legislation in a similar manner to the operations of a company secretary in private sector companies.

Financial management

Results of 2008 university and grammar school audits (Section 5.1)

The 2008 audits of universities and grammar schools have been completed and unqualified auditor’s opinions issued for their financial statements. Although modified auditor’s opinions were issued for 18 controlled entities of universities, appropriate governance regimes are in place for these entities to maintain their accountability.

Results of other 2007-08 audits and prior year audits (Sections 5.2 and 5.3)

Auditors’ opinions have not yet been issued for the 2006-07 financial statements of two entities and for the 2007-08 financial statements of 45 entities.

2 Infrastructure

Summary

Background

Growth in infrastructure-related spending continues to increase in Queensland. The National Institute of Economic and Industry Research predicted in February 2007 that construction in Queensland would increase by 3.9 per cent in the 2008-09 financial year, compared to a decrease in all other Australian States and Territories. [1]

Audits have been conducted to provide a more comprehensive view of some of the major factors that are influencing infrastructure projects, specifically cost escalation, benefits realisation and leaseback of land. These audits have also examined the adequacy of project management frameworks adopted by the entities principally responsible for Queensland's infrastructure expenditure.

Key findings

- Entities are utilising different methods for cost escalation. Standard cost escalation methodologies should be developed by designated entities.
- All entities selected for the benefits realisation audit have immature or inadequate benefits management systems in place and current policy documents need to be strengthened to incorporate better practice benefits realisation principles.
- When leasing back land acquired for infrastructure projects, each entity audited applies individual approved methodologies, but there are inconsistencies between methods, which results in different levels of lease payments, with some being at below market rates, and occupancy conditions for similar parcels of land in the same region. In a number of instances the policies provide for land which had been acquired at full market values, ranging from $100,000 to $15.8m, to be leased to the previous owner for nominal rentals often around $1,000 per annum.

[1] National Institute of Economic and Industry Research, *Queensland Regional Construction Supply and Demand Analysis 1992-2016 and Quarterly Indicators to June 2010*, August 2008.

2.1 Project cost escalation

2.1.1 Audit overview

Cost escalation is used to estimate the future cost of a project or to translate historical costs to 'current' values. During this process, costs are calculated in current dollars and then escalated to the time when the project is expected to be completed. Cost escalation can be caused by many factors, such as inflation, market conditions, risk allocation clauses in contracts, interest rates and taxes.

When forecasting cost escalation, entities should consider cost escalation in two phases:

- pre-tender phase escalation – the forecast increase in cost between the time the estimate is produced and the tender date
- contract phase escalation – the forecast increase in cost during the contract phase (contract phase escalation may not be required where the contract phase is relatively short, i.e. less than 12 months).

If a robust process for estimating future project escalation is not in place for major infrastructure projects, there can be significant cost overruns. The impact of changes or additions to the project scope also has an impact on adequate cost escalation particularly if the project has gained approval before a full analysis is undertaken of the service need the project is intended to address.

International research found that transport infrastructure projects are particularly prone to cost overruns, and on average actual costs can be 28 per cent higher than original estimated costs.[2]

QAO assessed cost escalation procedures to determine whether they met current better practice.[3] The audit examined procedures at the Department of Main Roads, Department of Education and Training, Department of Health, Department of Public Works and QR Limited.[4] In this regard, QAO initially utilised a questionnaire that sought entities' opinion and information on their current cost escalation practices, and undertook further audit procedures after considering the results.

2.1.2 Audit opinion

There was an absence of a consistent approach to cost escalation across the entities audited. It was also identified that there are significant risks of project cost overruns due to changes in scope, quantity increases and late design changes where insufficient design time is allocated prior to the commencement of construction. Associated with this is the finding that where inadequate time is allotted for pre-development activities, the risk of scope changes after project planning is increased.

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2 Flyvbjerg et al., *How common and how large are cost overruns in transport infrastructure projects?*, 2003.
3 A. Touran and R Lopez, *Modelling cost escalation in large infrastructure project*, 2006.
4 Departments audited prior to the 26 March 2009 machinery of government changes.

Key audit recommendations

It is recommended that:

1. **the Department of Public Works continue to enhance the requirements and guidelines in the Capital Works Management Framework related to the use of the Building Price Index mandated for entities responsible for government building projects**
2. **the Department of Transport and Main Roads develop a standard cost escalation methodology including minimum documentation standards for roads and bridges which is applicable on a whole-of-government basis.**

It is also recommended that the Department of Infrastructure and Planning:

3. **develop a standard cost escalation methodology including minimum documentation standards for civil infrastructure projects which is applicable on a whole-of-government basis**
4. **introduce peer or independent review processes for scope design**
5. **assist public sector entities with the creation of clear project briefs early in the project lifecycle with all critical stakeholders agreeing initial project scope, cost estimation procedures, controls of estimation, and project development timeframe**
6. **ensure that all projects included in the *South East Queensland Infrastructure Plan* (SEQIP) are escalated to estimated final cost and that the cost escalation rate is disclosed.**

Responses to these issues from Treasury Department and the Departments of Infrastructure and Planning, Health, and Transport and Main Roads are included in Section 7.1.1.

2.1.3 Audit findings

- Methodology and use of estimating methods varies significantly between public sector entities audited. For example, the Department of Infrastructure and Planning utilises the Australian Bureau of Statistics (ABS) general construction index for civil infrastructure projects, while QR Limited uses unit rate or basic price.
- The methods used by entities to calculate cost escalation are usually based on the Australian Bureau of Statistics (ABS) rates or a unit rate calculated by either the Department of Public Works or external parties. When utilising ABS rates entities use either the Non-Residential Building Construction Index or the General Construction Index (Qld) rate.
- Entities are using different methods for the escalation of costs during both pre and post tendering phases of the projects. Unit rates and basic price are being used as interchangeable escalation factors. A consistent approach for both pre and post tendering phases is preferable.

- The Department of Public Works building price index methodology, in pre and post escalation calculation, is considered better practice. This Department undertakes the preparation of a building price index based on Queensland tender documents received by the department. This index is generated for projects under $50m through calculation by the Project Services quantity surveying unit. The department then confers with external consultants to assist in the verification of these indices. These indices are prepared and published internally within the department and externally to various entities and consultants. This enables greater transparency and provides more relevant budget information.
- Significant risks to project cost overruns are changes in scope, quantity increases and late design changes due to insufficient design time.[5] The risk is greatly increased when there are inadequate experienced resources available within the current market place. Given the fact that most infrastructure projects have lengthy development life cycles there is a large degree of uncertainty where entities are required to make significant judgements in shortened time frames. This increases the risk of inaccurate cost escalation, which could give rise to cost overruns.
- The allocation of inadequate time in pre-development activities increases the risk of scope changes in the project after the planning phase. Entities have indicated that this is one of their major concerns. A lack of commitment to appropriate pre-development activities such as the analysis of service needs and the identification of optimal design alternatives lead to cost overruns.

2.2 Benefits realisation

2.2.1 Audit overview

Benefits realisation aims to ensure that the desired business change or policy outcomes are clearly defined, are measureable, and provide a compelling case for investment – and ultimately to ensure that the change or policy outcome desired is actually achieved. Benefits realisation should also capture emergent benefits. In order to demonstrate value on an active basis there are three key elements:

- planning effectively for benefits realisation in the investment decision phases (or equivalent) to ensure that business cases are robust, achievable and realistic
- identifying and capturing all forms of value created in appropriate better practice frameworks
- realising the benefits, and going beyond benefits realisation to value creation.

The audit examined the procedures at the Department of Main Roads, Department of Transport, Department of Public Works and QR Limited.[6]

2.2.2 Audit opinion

The concept of cost-benefit analysis has been a key project management element for over 30 years. However, benefits realisation in its current form and context has only been prescribed as better practice by leading authorities since approximately 2005.

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[5] K.T. Yeo Risks, *Classification of Estimates and Contingency Management,* 1991.
[6] Departments audited prior to the 26 March 2009 machinery of government changes.

Therefore, the overall audit finding that all entities selected for audit have immature or inadequate benefits management systems in place was not an unexpected result. Some entities have various elements of benefit realisation present in their current systems but their current policy documents need to be strengthened in certain areas. There is also some confusion between a post evaluation process and benefit realisation.

With this in mind, a number of business improvement opportunities have been identified. All public sector entities should build a robust benefits realisation framework into their infrastructure delivery activities.

Key audit recommendations

It is recommended that the Department of Infrastructure and Planning develop guidelines to enable public sector entities to:

- **ensure that governance bodies such as accountable officers and boards (audit and risk committees) in their oversight activities provide the same focus to the realisation of expected benefits as they do to 'hard' project measures, such as 'on time', 'on budget' and 'in production'**
- **enhance the Project Assurance Framework to ensure it has regard to the better practice principles set out in Managing Successful Programmes document released by the Office of Government Commerce (OGC)**
- **develop base-lining of existing processes so that progress and benefits can be adequately measured**
- **undertake a benefits management maturity assessment to assist preparation of future benefits realisation planning.**

A response on these issues from the Department of Infrastructure and Planning and the Department of Transport and Main Roads is included in Section 7.1.2.

2.2.3 Audit findings

Infrastructure projects can only be considered successful if they deliver intended benefits at an acceptable cost. Therefore, at the whole-of-government level there needs to be a focus on benefits and the active monitoring and reporting of progress towards realising those benefits. The objectives of infrastructure projects benefits management processes are defined to:

1. ensure all material benefits are identified and defined clearly, and linked to strategic outcomes
2. ensure business areas are committed to the identified benefits and their realisation and to encourage ownership and responsibility for 'adding value' through the realisation processes
3. proactively manage the process of benefit realisation, including benefits measurement
4. maintain benefits within realistic boundaries of scope and value to identify their wider impact
5. use the benefits to direct the program and provide a focus for delivery change and to realise benefits in line with overall business direction and strategy

6. ensure benefit realisation is tracked and recorded, and ensure achievements are properly identified and recognised
7. provide alignment and clear linkages between the programmes, desired outcomes and the strategic objectives.

These seven objectives are essential to ensure that an appropriate benefits management process occurs. An efficient benefits management process shows that the organisational change or policy outcome being pursued by the investment has been clearly defined and is measurable, and ultimately is intended to ensure that the change or policy outcome is actually achieved.[7]

The key document that allows benefits to be identified early in the planning process and progressively caters for measurement of those expected benefits is the benefits management plan (BMP). Elements of a BMP may be found in other documents such as business cases. However, to ensure that benefits are identified and given sufficient emphasis, preparation of a discrete BMP is preferable.

The United Kingdom's Office of Government Commerce (OGC) has carried out research which suggests that on average appropriate benefits realisation planning and measurement has a direct impact on future programmes. In the seven cases researched by the OGC in 2009, projects had cost savings of at least 14 per cent due to the implementation of lessons learnt.[8]

2.3 Leaseback of land

2.3.1 Audit overview

An initial phase of the infrastructure spending process is to obtain the land required for the project. Land that is purchased is often leased back to previous owners until the infrastructure project is constructed or can be leased following a public tender process.

This audit included an examination of policies relating to the leaseback of land at the Department of Infrastructure and Planning, Department of Natural Resources and Water, Department of Main Roads and Queensland Water Infrastructure Pty Ltd.[9] These entities had all undertaken large land acquisitions and leaseback within the last two financial years.

2.3.2 Audit opinion

It was noted that each entity applies individual approved methodologies for determining the leasing arrangements, but there were inconsistencies between methods, which results in different levels of lease payments and occupancy conditions for similar parcels of land in the same region. In a number of instances the policies provide for land which had been acquired at full market values ranging from $100,000 to $15.8m to be subsequently leased back to the previous landholders for nominal rentals often around $1,000 per annum.

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[7] Office of Government Commerce, *Managing Successful Programmes*, 2007.
[8] Office of Government Commerce, *Value management in construction Case Study*, 2009.
[9] Departments audited prior to the 26 March 2009 machinery of government change.

Evidence of regular policy review to ensure applicability and appropriateness of current practice could not be provided. Policy regarding the level of documentation of land acquisition also varies significantly between entities audited relative to the volume of acquisitions.

All entities are in compliance with their individual leaseback policy documents and there are no breaches noted.

Key audit recommendations

It is recommended that:

1. **a whole-of-government policy be created by the Department of Environment and Resource Management for the lease payments, tenure and other conditions for land which is subsequently leased after its acquisition. Where the lease conditions for specific land acquisitions do not reflect a commercial rate of return based on the acquisition value of the land, the policy should provide a framework for appropriate approval and disclosure. This policy should include minimum documentation standards for acquisitions and leaseback procedures and a policy review period.**
2. **entities disclose in their financial statements a general description of the lessor's leasing arrangements as required by *Australian Accounting Standard (AASB) 117 Leases***
3. **Treasury Department strengthen the requirements in the *Financial Reporting Requirements for Queensland Government agencies* to disclose property leased at below market rents.**

Responses on these issues from Treasury Department, the Department of Environment and Resource Management and the Department of Infrastructure and Planning are included in Section 7.1.3.

2.3.3 Audit findings

- When public infrastructure schemes are announced well in advance of their targeted completion date, it is often necessary to purchase land in the designated area. If the infrastructure project does not proceed in the immediate future, the vendor may apply for a leaseback or a tenancy agreement until the land is needed by the entity or until arrangements can be made by the previous landowners to acquire a replacement property.
- Detailed testing was completed for more than 50 property purchases ranging in value from $100,000 to $15.8m. In some cases, the audit disclosed that a nominal rent of around $1,000 per annum is being charged for these properties regardless of their market value. It was also noted that although there is general compliance with individual policies, only one of the policies requires that a full market rental be recovered as a consequence of the leaseback arrangements. Figure 2A sets out the policy requirements for each of the entities examined.
- While valuations for the acquisitions have been completed and independently verified, in the majority of cases, the structure of the purchase arrangements provides for the existing landholder to continue in occupancy of the property after the date of settlement with the minimal lease payments as indicated by the respective policies.

- The financial statement disclosures related to the leaseback arrangements were reviewed in conjunction with the examination of the various policies. In this regard, it is concluded that better disclosure should be made of the arrangements and the fact that rental charges are set at rates which are below market expectations.

Figure 2A : Leaseback of land policies

	Department of Natural Resources and Water (DNRW)	Department of Infrastructure and Planning (DIP)	Queensland Water Infrastructure Pty Ltd (QWI)	Department of Main Roads (DMR) [10]
Outgoing allowances	For residential or rural residential properties where tenancy arranged in accordance with *Residential Tenancies Act 1994*, State pays for: • local government rates • fire service levy • ongoing maintenance • building insurance. For business and rural properties, lessee responsible for: • local government rates • fire service levy • ongoing maintenance.	State pays for: • local government rates • fire service levy • ongoing maintenance • building insurance.	State pays for: • local government rates • fire service levy • ongoing maintenance • building insurance.	State pays for: • local government rates • fire service levy • ongoing maintenance • building insurance.
Leaseback rates (ex. GST)	$1,000 per annum for the first three years or market rental, whichever is the lesser. Must not be less than a minimum rent of $500 per annum. The balance of the initial term after three years, or subsequent tenancies, the rent shall be $500 per annum or market rental, whichever is greater.	DIP applies the whole-of-government policy issued by DNRW.	Stage One leaseback rates of three per cent of market value or $1000 per annum, whichever is less, will apply until the land is required for dam construction or until December 2011. Stage Two rates of 25 per cent of market value will apply to the end of the rental period.	Full market rent unless the department determines otherwise. A rent free period from two to four weeks may be offered.

[10] Departments audited prior to the 26 March 2009 machinery of government change.

	Department of Natural Resources and Water (DNRW)	Department of Infrastructure and Planning (DIP)	Queensland Water Infrastructure Pty Ltd (QWI)	Department of Main Roads (DMR) [10]
Tenancy period	For residential and rural properties, no minimum or maximum period defined. For business and rural properties, no minimum defined, however maximum period of five years for leases. Right of first refusal of any further lease included in leases.	DIP applies the whole-of-government policy issued by DNRW.	Defined period of time.	No period defined.
Termination	Entity can terminate based on commencement date of infrastructure project.	DIP applies the whole-of-government policy issued by DNRW.	Termination clause is not included in the policy document.	Termination clause is not included in the policy document.

2.4 Implementation of a project review framework

2.4.1 Audit overview

The Queensland Government relies on various processes to ensure that its major projects achieve value-for-money outcomes. These include project development frameworks, which require the development of robust business cases and place reliance on the delivery capability of entities.

The Department of Infrastructure and Planning (DIP) and Brisbane City Council have identified that the efficient delivery of South East Queensland Infrastructure Plan and Program (SEQIPP) would be enhanced by the implementation of the United Kingdom's Office of Government Commerce (OGC) Gateway process (Gateway).

Gateway was developed by the OGC in 2001. It consists of a series of independent reviews (called 'gates') of a program or project prior to key decision points in the program or project lifecycle. Gateway is designed to be applied to the delivery of policy and program initiatives and projects including service delivery, property constructions and IT enabled business change. Gateway's purpose is to help public sector entities ensure their investment is well spent, meets business objectives and achieves value for money outcomes.

2.4.2 Audit recommendation

It is recommended that the Department of Infrastructure and Planning fully implement the Gateway process to ensure that major projects are administered and facilitated in Queensland in accordance with the individual approved business plans.

A response on this issue from the Department of Infrastructure and Planning is included in Section 7.1.4.

2.4.3 What are the benefits of Gateway?

In 2005-06, the United Kingdom National Audit Office (NAO) estimated cost savings attributable to the OGC Gateway process at £1.1b. This means that across all projects that have progressed through Gateway, the NAO has identified £1.1b of costs that would otherwise have been incurred (i.e. avoided costs) were it not for the projects following recommendations in the various Gateway reports. The evidence from the United Kingdom and other Australian Gateway jurisdictions estimate the costs of conducting Gateway reviews as meagre compared to the outcomes achieved in terms of avoided costs. Cost estimates for Gateway are often in the order of 0.1 per cent of a project's capital value.

3 Sustainability

Summary

Background

In the current economic climate, how public sector entities ensure the sustainability of environmental, social and economic infrastructure is a particular concern. As part of considering sustainability in the public sector, an audit was performed of valuation indices and work previously performed on asset impairment of public sector assets to determine how public sector assets are being represented and valued.

The effect of the Federal Government's stimulus package and how it is being utilised by departments has also been considered. The status of the recommendations made in 2004 during the audit of the Queensland Disaster Management System were followed up with the relevant department due to the importance of this system to the State in light of recent disasters.

Key findings

- Given the short timeframe for specific projects to be completed under the Federal Government stimulus package, prescribed departmental requirements may not be followed. Deviations from the normal procurement policies need to be appropriately documented and approved.
- The audit of valuation indices being used at six public sector entities found that existing asset valuation policies, procedures and practices could be enhanced.
- All entities have either implemented or are in the process of implementing the recommendations made by QAO during the 2007 audit of asset impairment.
- The Department of Emergency Services has taken action to address all recommendations made by QAO following the audit of the Queensland Disaster Management System in 2004.

3.1 Federal Government stimulus package

In February 2009, the Queensland Government entered into an agreement with the Commonwealth of Australia, to ensure maximum additional benefit is derived from new infrastructure and economic stimulus measures.

This agreement, *National Partnership Agreement on the Nation Building and Jobs Plan: Building Prosperity for the Future and Supporting Jobs Now* (the Plan), ensures improved coordination, monitoring and delivery of timely economic stimulus within the Australian economy.

The agreement assists funding of key infrastructure projects including regional roads, traffic 'black spots', rail crossing gates, energy efficient homes, social housing and education development.

The agreement required State departments to:

- deliver infrastructure (both new construction and refurbishment) for identified projects
- agree outcomes with Heads of Treasury and applicable Federal Government agencies
- report to Heads of Treasury every three months on the activities undertaken against agreed outcomes.

As at 31 March 2009, the Queensland Government has been allocated the following estimated funds in relation to the stimulus package.

Figure 3A : Allocation of funds

Department[11]	2008-2009	Total Funding
Education and Training[12]	$183.88m	$2.7651b
Communities[12]	$52.1m	$1.2808b
Main Roads and Transport	$67.2m	$126.10m

The Commonwealth of Australia has also determined the key dates for delivery of these infrastructure projects. This has placed departments under pressure, to varying degrees, due to the shortened delivery timetables and increased level of activities within the relevant State departments.

These departments are currently utilising their existing systems and processes for project management to deliver these projects and to meet the requirements of the Commonwealth. It is important that departments involved maintain governance standards and probity processes while engaging in activities associated with the stimulus package.

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[11] Local governments will be provided $50.3m under the stimulus package arrangements, however these monies represent grants for which there was a pre-existing entitlement.

[12] The Director General, Department of Public Works is the Queensland Coordinator for the Plan. The Department of Public Works is undertaking, for these entities, a governance coordination and program management role.

It is expected that where certain established processes are not to be followed due to the nature and timing of this program, the amended procedures should be documented and approved by a competent authority. In these cases, justification for the decision and the identification of compensating or alternative controls or probity assurance mechanisms should also be made.

The affected Departments are responsible for establishing performance indicators in consultation with the Commonwealth. As part of measuring the attainment of the desired outcomes value-for-money principles need to be kept upper most in mind.

It is intended to examine the way in which the stimulus package funding has been spent on an ongoing basis. The focus of the audit will assess procurement and probity processes and the achievement of the agreed performance outcomes.

3.2 Valuation indices

3.2.1 Audit overview

Australian Accounting Standard 116 Property, Plant and Equipment (AASB 116) requires entities to measure classes of property, plant and equipment using either cost or fair value. For Queensland Government departments, statutory bodies and local governments, certain classes of assets are required to be reported at fair value by virtue of prescribed accounting and reporting requirements applicable to those entities.

When fair value is used, AASB 116 requires revaluations to be made with sufficient regularity to ensure that the amount reported does not differ materially from the fair value of the assets at each balance date.

Many revaluation techniques (including comprehensive, rolling and indexed) valuations can be used to support the fair value basis of measurement at each balance date. Treasury Department's *Non-Current Asset Policies for the Queensland Public Sector*[13] requires comprehensive revaluations to be performed at least every five years with interim revaluations using appropriate indices being applied annually where a cumulative change of five percent or more exists.

While not required to adopt this specific policy (mandatory for departments and statutory bodies only), many local governments have adopted similar policies of regular comprehensive revaluations interspersed with the use of valuation indices in intervening years.

Reporting assets at fair value in the financial report is not a new concept. However, over recent years, Queensland has experienced surging costs in construction and significant increases in land values. Given the Queensland public sector's vast holdings of land, buildings, infrastructure and other assets across the State, there is an increased risk that the current reported fair values may not have kept pace with this growth.

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[13] Treasury Department, *Non-Current Asset Policies for the Queensland Public Sector,* June 2005, released August 2005, revised February 2008.

This risk is addressed in the annual audit of entity financial statements and is satisfactorily resolved unless a resulting qualified auditor's opinion is issued over the reported values of property plant and equipment.

This audit looked at the revaluation process and specifically focused on the appropriateness of valuation indices currently being utilised by six public sector entities.

3.2.2 Audit opinion

The audit found that all six entities audited could enhance, to varying degrees, their existing asset valuation policies, procedures and practices. It was found that formal arrangements were not in place, and documented, for an annual assessment and testing of the appropriateness of indices previously applied.

While this was the case at the date of audit, all entities audited are in agreement with the audit findings and have or are in the process of implementing audit recommendations. The status of entity progress in implementing these recommendations will be followed up as part of the 2008-09 year end audit.

A response from Treasury Department is included in Section 7.1.5.

3.2.3 Audit scope

The audit focused on the appropriateness of valuation indices being used including an analysis of interim valuation policies and procedures, the extent of assessments performed by entities over the indices used and compliance with applicable aspects of legislation and standards relevant to asset revaluations.

The audit covered six public sector entities:[14]

- Brisbane City Council
- Department of Education, Training and the Arts
- Department of Health
- Department of Infrastructure and Planning
- Department of Main Roads
- Department of Public Works.

To gain a perspective on the appropriate use of indices, the movement of non-current asset values for land and buildings was also reviewed in 16 sets of departmental financial statements over the last three financial years.

3.2.4 Audit findings

The audit identified the following areas where all six entities audited could enhance their existing asset accounting policies.

Annual assessment of the appropriateness of indices applied

To maintain the fair value of assets measured under the revaluation model, interim revaluations, using a suitable index, should be performed annually between comprehensive revaluations where there has been a material (five per cent or greater) cumulative change in fair value.

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[14] Departments audited prior to the 26 March 2009 machinery of government changes.

As part of the interim revaluation process, entities currently use a range of indices sourced from various professional bodies, including the Australian Bureau of Statistics. Whilst some entities audited undertake informal comparisons and assessments, none have formal arrangements in place for annually assessing and documenting the appropriateness of the indices used to perform interim revaluations of non-current assets.

Where an entity performs interim revaluations through the use of an index, the entity's valuation policy should require an annual assessment of the appropriateness of the indices used, particularly where the indices supplied are not relatively specific to the asset being valued (e.g. regional indices or an index supplied for each asset). This reduces the risk that indices may not have been supplied for all regions in which the entity controls assets, or for all assets in the class.

The *Non-Current Asset Policies for the Queensland Public Sector* (mandatory for departments and statutory bodies and applicable from 1 July 2005) state that 'agencies should undertake more frequent comprehensive revaluations of those assets which experience significant and volatile changes in fair value'. However, no clarity is currently provided on what is meant by the terms 'significant' or 'volatile'. In the absence of a State-wide definition, each public sector entity's revaluation policy should address what the entity considers to be significant and volatile changes in the fair value of its assets. This should then form the basis for performing comprehensive revaluations of non-current assets more frequently than the periods outlined in its revaluation policy.

Where index movements are considered to be significant or volatile for a particular asset class, and a comprehensive revaluation has not been performed, the entity should document and justify how it has ensured that the reported fair values are materially correct at balance date.

Three of the six audited entities utilised rolling comprehensive revaluations. AASB 116 allows entities to revalue a class of assets on a rolling basis provided the revaluation of the class of assets is completed within a short period and provided the revaluations are kept up to date. In addition, the Non-Current Asset Policies allow comprehensive revaluations to be conducted over more than one year, provided:

- all assets in a class are comprehensively revalued within a five-year period
- those assets not comprehensively revalued in any particular year are subject to an interim revaluation by way of index.

Where an entity performs comprehensive revaluations on a rolling basis, the entity's revaluation policy should clearly outline how it ensures that these requirements are met.

When a rolling comprehensive revaluation process is employed, the results should be compared to the indices applied to the other assets in the class that were not revalued to ensure the entire class is valued appropriately at reporting date. The audit found that on average, those entities utilising a comprehensive rolling revaluation methodology experienced comparatively less volatility in valuation movements over the three year period.

Regardless of the approach being used, all assessments performed should be sufficiently documented and results reviewed by senior management.

Testing indices applied at time of comprehensive revaluation

None of the entities audited have formal arrangements in place for testing the appropriateness of indices previously applied, where a comprehensive revaluation had been performed in the current period.

Entities should assess and document whether the indices previously applied were appropriate, considering the results of any current period comprehensive revaluation. A significant revaluation adjustment (decrement or increment) arising from a comprehensive revaluation may indicate that the index previously used was inappropriate for application to the entity's particular asset class.

To gain a broader perspective on this issue, 16 sets of departmental financial statements over the last three financial years were reviewed. This identified a significant difference in the movement of asset values depending on whether a comprehensive revaluation was conducted or whether an interim revaluation approach was applied. This is generally attributed to the use of general indices as opposed to indices specific to the assets being valued, or specific to the region in which the asset is located.

The entity's revaluation policy should also include arrangements for testing the appropriateness of indices previously applied in years when a comprehensive revaluation has been performed. Where previously applied indices are found not to reflect the true movement in the assets being revalued, documented action should be taken to find and apply more appropriate indices in future intervening periods. In addition, a report outlining the reasons for significant movements in revalued asset classes, compared with prior years, should be provided to those charged with governance annually and reviewed prior to management certification of the financial statements.

3.3 Follow-up of 2007 asset impairment audit

3.3.1 Audit overview

QAO last examined asset impairment in 2006-07 by reviewing the progress that had been made by selected entities in the implementation of *Australian Accounting Standard (AASB) 136 Impairment of Assets*. Specific attention was paid towards the policies and processes in place for the identification of impairment indicators. Findings were reported on in Auditor-General's Report to Parliament No. 5 for 2007.

Within that report, it was noted that for a number of entities an impairment framework was yet to be developed. Limited documentation was maintained in the identification of impairment indicators, calculation of material impairment and impairment indicators had not been considered for assets subject to indexation or rolling valuations. The report also commented that there was minimal evidence that processes associated with the assessment of indicators of impairment and impairment testing were being integrated with the asset strategic planning processes.

A follow-up audit was undertaken to assess the extent to which the following entities have addressed the asset impairment findings arising from Auditor-General's Report to Parliament No. 5 for 2007:[15]

- Brisbane City Council
- Department of Education, Training and the Arts
- Department of Health
- Department of Main Roads
- Department of Public Works (QFleet business unit only).

Three entities operating within the electricity industry, ENERGEX Limited, Ergon Energy Corporation Limited and Queensland Electricity Transmission Corporation Limited (trading as Powerlink) were deferred from the follow-up audit as they are subject to a separate review being undertaken over asset accounting practices. The extent to which these entities have addressed the asset impairment findings will be addressed as part of that review.

3.3.2 Audit opinion

The follow-up audit revealed that all five entities have either implemented, or are in the process of addressing the recommendations. Since the issue of Auditor-General's Report to Parliament No. 5 for 2007, some entities have formulated a specific impairment policy. A high level review of the policy was performed and for one of the five entities (Department of Main Roads), it was noted that it does not mention specific impairment indicators that are applicable to the entity, and does not outline the processes for identifying material impairment losses.

As a matter of better practice, it is recommended that entities incorporate within their asset impairment policy mention of, or reference to, specific impairment indicators that are applicable to the entity and outline the processes for identifying any material impairment losses.

3.4 Queensland Disaster Management System

Auditor-General's Report to Parliament No. 2 for 2004-05 tabled in Parliament on 19 August 2004 presented findings of a performance management systems audit of the Queensland Disaster Management System. The audit examined the framework supporting the governance and risk management processes and practices of the Queensland Disaster Management System. A follow-up audit of recommendations was reported on in Auditor-General's Report to Parliament No. 5 for 2007 tabled on 9 August 2007.

The former Director-General, Department of Emergency Services provided an update on the status of recommendations. These issues are now operational matters for the department and from an audit perspective, are considered to be resolved.

[15] Departments audited prior to the 26 March 2009 machinery of government changes.

Figure 3B : Update on the status of recommendations

Recommendations	Response from the Director-General
Recommendation 1 Development of strategic and operational priorities at the local, district and State levels **Recommendation 2** An associated performance management and monitoring framework	The *Disaster Management Strategic Policy Framework* published by the State Disaster Management Group (SDMG) in October 2005: • outlines the strategic priorities for disaster management in Queensland and reflects best practice as identified in the *COAG Natural Disasters in Australia: Reforming Mitigation, relief and recovery arrangements* report. Eight key areas for effective disaster management, and associated strategies and performance indicators are identified. • Implemented by SDMG. Strategic priorities reflected in the annual operational plans of the State Disaster Coordination Group and State Disaster Mitigation Committee. • SDMG reports annually to the Minister for Emergency Services on implementation of the Framework, incorporating district and local disaster management groups' reports. The *Disaster Management Planning Guidelines for Local Government* (October 2005) provides a framework for reporting, assessment and review of disaster management plans at the local level. This document is complemented by the *Operational Planning Guidelines* which was developed in 2006 to enhance local governments' ability to review the operational elements of their disaster plans. The Department of Emergency Services (DES) is currently working on district-level guidelines that will assist Disaster District Management Groups develop operational priorities. The Queensland Disaster Management Alliance (DM Alliance) between DES and the Local Government Authority of Queensland (LGAQ) was established in July 2005. It focuses on six strategic directions, the implementation of which aims to improve community safety and increase community resilience.
Recommendation 3 Development of a suitable governance structure for the bodies and committees which support the Queensland Disaster Management System	In June 2007, DES began developing a governance process to support the QDMS. As a significant step in this process, the Disaster Management Governance Unit (DMGU) was established within Emergency Management Queensland (EMQ) in March 2008. The DMGU, which has three employees, works to assist the SDMG ensure that governance processes maximise the delivery of disaster management strategies (specifically prevention, preparedness, response and recovery strategies) in Queensland. Since the previous report to QAO, the key State committees; the SDMG, the State Disaster Mitigation Committee and the State Disaster Coordination Group have annually reviewed their respective terms of reference. The SDMG provides an annual report to the Minister for Emergency Services which incorporates the work of these bodies and the local and district disaster management groups. The DM alliance is supported by a Board of Directors which meets twice a year and a Management Committee which meets monthly. The emergency management sector is informed of the work of the DM Alliance via the website www.lgap.asn.au/portal/dt.
Recommendation 4 Development of a more coordinated approach to communication throughout the Queensland Disaster Management System	Communications and Information Protocol for Disasters and Major Incidents reviewed and endorsed in March 2004. Two groups, the Government Information Group and the Public Information Coordination Committee were formed to ensure a whole-of-government coordinated approach to the provision of public information, particularly during emergencies and disasters. Through experience, these groups have evolved into a more flexible Crisis Communications Network. Following Tropical Cyclone Larry, a review of the Queensland Disaster Management Arrangements (QDMA) provided a series of recommendations for improving communications during a disaster. A high level steering committee involving representatives from DES, the Queensland Police Service and the Department of the Premier and Cabinet guided the implementation of the recommendations... All recommendations were implemented and the detail is now core business for the SDMG and participating agencies.

Recommendations	Response from the Director-General
Recommendation 5 Review of the current disaster district boundary framework and its relevance to the regional boundaries established by other public sector lead entities	The Queensland Government reviewed the local government boundaries as part of the Local Government Reform and announced a reduction in the number of local governments from 134 to 73 in July 2008. The SDMG has subsequently reviewed the disaster district boundaries and has prepared a draft regulation for gazettal of the boundaries. Further work in this area depends on the review of government boundaries outside the scope of the disaster management system.
Recommendation 6 Development of monitoring mechanisms to ensure local, district, functional and threat-specific disaster management plans are relevant, up-to-date, Reliable and linked to overall State-wide strategies for disaster management	DES maintains a state-wide register of local and district disaster management plans. Plans are reviewed on a quarterly basis, by both regions and central office, to ensure that they are up to date and reflect contemporary strategies for disaster management. The review strategy has already resulted in the development of a revised guideline for local government plans that reflect identified best practice.
Recommendation 7 Development of a hazard risk profile for Queensland which is based on information from local, district and functional and threat-specific plans	Development of a hazard risk-based approach to disaster management is a process of continuous improvement within DES. Since the previous report to QAO, DES through EMQ has taken the following significant steps: • The Disaster Management Planning Guidelines for Local Government incorporates a process for assessing risk. • The National Disaster Risk Management Studies Program, which enabled the conduct of natural hazard risk studies and best practice risk assessment processes, was reviewed. The outcomes of the review continue to inform the selection process for funding projects under the National Disaster Mitigation Program. • The SDMG, through EMQ, has developed Queensland's Hazardscape. The 'hazardscape' report, currently with the SDMG for endorsement, provides information describing the geographical distribution of the ten natural hazards, most likely to occur in Queensland and the potential interactions between the hazardous environment and the population, critical facilities, lifelines and land-use. In conjunction with Queensland's Hazardscape an interactive Geographical Information System program has been developed which will enable Local and District Level Disaster Management Groups graphically display the hazard information contained in the report overlayed with population, critical infrastructure, lifelines and services and land-use and administrative boundary information to determine and prioritise specific risks. In addition, 'hazardscape' data will be used to inform a state-wide risk assessment and the development of a state risk register.
Recommendation 8 Need for more effective governance over business continuity management at public sector entities	The *Queensland Infrastructure Protection and Resilience Framework* was implemented in July 2005 and subsequently followed by the *Queensland Plan for the Protection of Critical Infrastructure from Terrorism* and the *Queensland Plan for the Protection of Government Assets from Terrorism* in 2006. Overseen by Security, Planning and Coordination, within Department of the Premier and Cabinet, the work required to meet the requirements of these plans has vastly improved governance over business continuity management in public sector entities and key service providers. Under these plans, DES has a role to assist other agencies with their business continuity plans and provides assistance on request.

4 Governance

Summary

Background

Governance incorporates the processes by which public sector entities and their resources are controlled and regulated. The appropriateness of governance of both physical and logical security were a key focus for governance audits this year as was how entities implement the government's legislation, policies and guidelines.

Audits on IT governance and IT project management which commenced last year were expanded with audits at the Department of Education and Training on IT governance and the OneSchool project. Entities audited as part of the 2008 audit of IT project management were revisited to evaluate whether actions recommended during the initial audit have been implemented. The audit of the progress of the shared service initiative continued.

Key findings

- The audit of security management systems found that while there is greater involvement and commitment to security issues by senior management, some security practices are adversely impacted by a lack of formal oversight and control.
- The audit of IT network security found that except for one entity, the level of security is that of a medium size business rather than a state government department holding and processing sensitive information.
- The IT governance framework across DET is not documented. There is no formal IT risk management process and business continuity plans are not in place. The governance framework used for the $97m OneSchool project does not set clear directions and control the project in terms of scope, time, cost and quality.
- Little progress has been made by one entity in addressing the IT governance and project management issues raised in the 2008 audit. Similar issues are noted for this entity in a current project.
- There has been a decrease in the number of control issues raised by audit in relation to the shared service initiative. The continued use of legacy systems and lack of standardisation of business processes are still concerns for audit.
- An audit of how well legislation is understood and complied with across departments found that while procedures for compliance with legislation generally exist within sections of departments, systems are not in place to provide assurance across all activities of the departments.

4.1 Audit of security management systems

4.1.1 Audit overview

Events over the past decade have heightened the importance of an effective organisational security framework. Across the Queensland public sector, accountable officers and chief executive officers are required to comply with a range of legislation that impacts on security management (e.g. *Financial Administration and Audit Act 1977*[16] and the *Workplace Health and Safety Act 1995*).

Entities' systems of risk management should establish the context and identify and assess the range and level of security risks. Effective security management frameworks need to ensure that all security risks are dealt with appropriately.

4.1.2 Audit opinion

The results of the audit indicate that most of the entities audited are addressing security issues in various areas but the overall security management frameworks have not yet achieved current standards of best practice.

While there is a positive trend towards greater involvement by senior management and a commitment to security issues, the effectiveness of some practices is, at times, adversely impacted by a lack of formal oversight and control.

Entities audited are too reliant on processes that are largely undertaken in isolation, or are reactive in nature, rather than designed as part of a co-ordinated response to the specific security risks of each entity and its facilities. While the results varied across the entities, there are opportunities to improve security management frameworks, both at a whole-of-government and an entity level.

One such opportunity is the establishment of a whole-of-government security policy. The implementation of an overarching security policy across Queensland Government entities would ensure high level security planning processes were effectively co-ordinated and ensure the integration of security planning with business planning processes. All current security related frameworks should be consolidated into a new overarching security policy which include the consolidation of the Queensland Counter-Terrorism Strategy into a whole-of-government security strategy.

An agency could then be designated to manage the whole-of-government security strategy and perform a co-ordination role in marshalling resources and providing advice to prevent and respond to security risks.

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[16] *Financial Administration and Audit Act 1977* was the applicable act prescribing financial accountability. This has subsequently been replaced by the *Financial Accountability Act 2009*.

4.1.3 Audit scope

The audit compared selected Queensland Government entities' security management frameworks with recognised better practice. The Australian Government security management framework is considered to be better practice across the public sector for security management and has been used as a benchmark for this audit. This security framework includes the *Australian Government Protective Security Manual*[17] which provides minimum common standards in protective security for all Australian Government agencies. Additionally, the Protective Security Co-ordination Centre manages Australian Government security responsibilities and performs a co-ordinating role marshalling resources to prevent and respond to national security threats.

The focus of the audit was physical and personnel security. Information technology and communications security were excluded from the audit.

Six entities were selected covering both head office and branch office sites:[18]

- Department of Education, Training and the Arts (Brisbane State High School)
- Department of Health (Redcliffe Hospital)
- Department of Child Safety (Loganlea Child Safety Service Centre)
- Department of Main Roads (RoadTek Pine Rivers Construction Site)
- Department of Justice and Attorney-General (Brisbane and Beenleigh Magistrates Courts)
- Legal Aid Queensland (Central Business District Office only).

The six entities audited were assessed against the respective criteria for security management.

4.1.4 Audit findings

Security culture

The audit found minimal evidence of executive level involvement in security planning. Strategic and operational plans have only minor references to security planning. Executive committees do not have standing agenda items to review security matters and there are no security performance reports tabled with these executive committees.

Security risk management culture should be led by the chief executive with timely security risk management information being addressed and actioned by senior management.

Risk management plans

Security risks are largely addressed in detail in divisional risk registers which are not linked to entity wide risks. In three entities, security risk registers and treatment plans could only be identified at the branch or local operational level.

Security risks should be identified in the entity risk management plan with risk treatment plans covering the key security risks. Security planning should be incorporated into entity business planning. In all but one entity, key security risks are not identified in the risk management plan.

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[17] Policy managed by Australian Government's Attorney-General's Department.
[18] Departments audited prior to the 26 March 2009 machinery of government changes.

Security plans

Audit found that, in all entities, security plans have largely been prepared to address Counter Terrorism risks. Three entities have however expanded the scope of their security plan to address wider security strategies. It was found that none of the security plans:

- address the full scope of the entity's security environment
- document entity security objectives and strategies
- document resourcing for all entity security requirements
- document security monitoring and review procedures.

Security plans should document the entity's security environment and security objectives, strategies and resourcing. These plans should be approved by the entity executive management.

Security plans should identify the entity's strategic security objectives and address all security risks, not only risks from Counter Terrorism.

Security risk assessments

The audit found that security risks assessments are not being periodically undertaken on an entity wide basis to determine the current security risk profile. Entities are not documenting residual risks and reviewing them periodically to ensure their treatment was appropriate to the current level of risk. This lack of periodic risk assessment does not facilitate optimisation by entities of security resourcing.

Security risk assessments should be periodically undertaken on an entity wide basis to ensure the security risk profile of the entity is current. Any impacts to the security framework should be addressed, including changes to security policies and training programs.

Security policies

The audit found that security policies are not prepared on an entity wide basis and linked to entity security risks. Security polices are not reviewed subsequent to risk assessments to reflect the current entity risk profile.

The audit found there are no specific delegations for approval of security policies. There are varying levels of coverage for the impact of security on home based work arrangements and a general lack of policy covering security impacts for off-site work arrangements.

Overall it was found that none of the entities had effective processes in place to ensure security policies:

- are addressed on an entity wide basis
- are linked to security risks and treatments
- are subject to approved delegations
- adequately address procedures for home based work and off-site work arrangements.

Entities should consolidate security policies and ensure they are linked to strategic security objectives.

Security management

The audit found that the line management reporting structure of security staff in all entities is not well documented in organisational charts. The role and responsibilities of security staff is also poorly documented in various entity manuals and in position descriptions for security staff.

There should be documented lines of authority for security matters and security roles should be clearly defined to a senior level. Line management and responsibilities for entity security should be documented and approved, including the delegation to approve and vary security policies.

Site security management

The State Government Protective Security Service (SGPSS) have onsite security responsibilities for approximately half of the sites visited. For those sites where SGPSS is engaged, a current operating level agreement (OLA) detailing the services provided is not in place. Each accountable officer has a responsibility to ensure there is a current OLA in place where the provision of security services is undertaken by an external party.

The use of documented site plans that detailed secure and non-secure areas was only in place at one site. An inventory of security equipment in use is not always maintained and maintenance contracts for security equipment could not readily be provided to audit.

There should be current OLAs in place detailing responsibilities and security services provided. Documented site plans should be available detailing secure and non-secure areas.

Entities should ensure there is a current OLA in place where an external security provider is used to ensure the scope of security services provided is agreed in accordance with entity security objectives. All security equipment in use should be recorded and subject to necessary maintenance.

Security monitoring and review

Only one entity have an entity wide security incidence reporting system. Another entity have an effective security incident and reporting system but this has only been adopted at a branch level. The use of security performance reporting benchmarks, including key security performance indicators, is not observed in most entities audited. There is little evidence of analysis of security incidents to determine emerging trends that might require greater attention.

Documented processes for reviewing security matters by senior management should be in place. This should be supported by comprehensive security reporting and evaluation processes.

Entities should have formal entity wide systems to document and review security incidents to ensure all threats are adequately dealt with and that prevention strategies are devised where necessary. Key security matters should be reported to senior management.

Security education and training

Most entities audited have various elements of a security education and training program. However, some areas that are lacking include:

- training that addresses all levels of staff and all areas of the entity
- training that is updated based on a review of the entity security profile
- the incorporation of security training in induction programs
- provision of aggressive behaviour management training where required.

Security training should be provided to all levels and all areas within the entity, with regular refresher courses and specific security training provided as part of staff induction programs.

4.2 IT network security

4.2.1 Audit overview

Queensland Government entities rely on information systems for efficient and effective service delivery. Increasing reliance on computer networks to support financial and business critical applications increases the severity of breakdowns in the confidentiality, integrity and availability of information. The Queensland Government operates a large and diverse range of interconnected computer networks. These networks are also interconnected to the global Internet via many network gateways. This increases the inherent risks and mandates a robust control environment.

Network security ensures that networks continue to operate reliably and information assets accessed through these networks are protected against theft, misuse, disruption and unauthorised access.

Effective network security entails security to protect against external threats and in-depth internal security, and security measures to detect and act upon relevant breaches.

4.2.2 Audit opinion

The audit showed that while a significant number of security technologies and associated controls have been deployed, the resilience of network security controls needs to be strengthened.

The strength of the overall network security environment varies across the eight departments audited and there is a clear indication that continuous improvement towards best practice security standards is required. Except for one entity, the audit identified that the security level is at a level of a medium size business rather than a state government department holding and processing sensitive information. The network security level was below that expected to be used by financial institutions.

One of the departments has seven high risk issues, which range from inadequate processes for web content filtering for inappropriate material to network architecture design that resulted in heightened network security risks.

Significant improvements are required to the controls over network security managed by a shared service provider for three entities audited. Some improvements in the control environment are required at five entities.

Although a review of the whole-of-government security and incident management process was not in the scope of this audit, it is worthwhile to note that there is no centrally co-ordinated reporting and monitoring process for government IT security incidents. In addition, there are no mandatory standards that require entities to report such incidents. In the absence of statistical information, it is not possible to make an assessment of the likelihood of these events occurring. More importantly, it is not possible to assess and develop a co-ordinated response against any significant or regular IT security incidents. The Queensland Government Chief Information Office could be considered as the central point for collecting and analysing this type of data.

Specific recommendations to improve network security have been provided to the management of these entities. All public sector entities should consider the security of their networks in terms for the audit findings in Section 4.2.4.

While the audit did not disclose any formal reports on financial systems as being compromised, security breaches have occurred on the networks of other governments as a result of control weaknesses similar to those identified during the audit.

A response on these issues from the Department of Public Works is included in Section 7.1.6.

4.2.3 Audit scope

The objective of the audit was to analyse computer networks to ascertain whether key controls relating to network security had been designed and implemented and were operating effectively at the time of the audit. Audit procedures were designed to assess whether network security controls implemented were in accordance with mandatory Queensland Government information standards and industry best practice standards.

The primary focus of the audit was the security of external access to entity networks and the identification of in-depth internal security controls. This audit did not include a review of wireless network security.

The scope was limited to the components of entities' networks that related to systems associated with the production of financial statements. The audit was conducted at the following entities:[19]

- CITEC
- Department of Justice and Attorney General
- Department of Main Roads
- Department of Police (including the Public Safety Network Management Centre)
- Department of Transport
- Queensland Corrective Services
- Department of Local Government, Sport and Recreation
- Shared Services Agency.

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[19] Departments audited prior to the 26 March 2009 machinery of government changes.

4.2.4 Audit findings

Inadequate controls over firewalls and Internet gateway

A network firewall is a security measure designed to prevent unauthorised electronic access to a networked computer system. A firewall restricts network communications according to a set of access control rules. The rule set within a firewall examines each message and blocks those that do not meet the security criteria. Firewalls are implemented at the network perimeter to prevent unauthorised Internet users from accessing private networks connected to the Internet. Firewalls form the first line of defence for the network, acting as a key point of control for all network traffic coming into and out of the trusted internal network. Firewalls are also implemented on the internal network and on servers, depending on the network security architecture particularly when there are a large number of internal networks controlled by different parties.

A review of firewalls showed that the rules for all entities audited are not tightly defined to match the network access requirements in accordance with Queensland Government information standards and industry best practice. There are many unnecessary rules and some firewalls contained rules for decommissioned systems and equipment. Broad access to systems operated by other entities was also noted on some firewalls. At one entity, a number of rules provide access from the internal network to other network destinations corresponding to the workstations of former employees. The web content scanner restrictions at one entity permit access to inappropriate websites.

The firewalls and the gateway network architectures are not periodically reviewed or tested to identify any security weaknesses created due to changes in systems or created accidentally. At some of the entities, staff could not identify when the last security analysis of the architecture and firewall rules was performed.

In addition, the IT systems change and configuration processes are not managed effectively. In the event of IT system changes, firewall rules are not amended to reflect the current state of the IT infrastructure. This results in filtering protection offered by the firewall rules not being consistent with actual infrastructure. As a consequence there is an increased risk of unintended access to the network.

To resolve these issues, entities should review the specific weaknesses identified during this audit and update the firewalls and network gateway architecture. In addition, entities should implement a process to periodically review and test firewall rules and associated network architecture to ensure the expected level of network perimeter security is maintained. Formal IT change and configuration management processes should be amended to ensure that firewall configuration is updated with any changes in IT infrastructure.

Intrusion detection and prevention systems not implemented

An intrusion detection or prevention system is a network security device that monitors networks for security breaches. These systems can be designed to detect and delete unwanted messages while allowing all other traffic to pass through the system. Queensland government networks are highly complex and transfer significant amounts of data (financial, confidential and personal) and it is unreasonable to expect network administrators to detect suspected misuse of networks without automated detection systems.

It was noted that only two entities have implemented intrusion detection or prevention systems which have detected and reported a significant number of unauthorised access attempts. Consequently, if a skilled attacker was to succeed with a network level intrusion, it is unlikely to be detected due to the absence of automated network security monitoring. The delayed detection of network intrusions often leads to increased damage to the victim organisation.

Entities should install automated intrusion detection or prevention systems and monitor their networks for potential security breaches.

Security levels required from third party suppliers not clearly defined

Third party services are managed and operated according to service level or operating level agreements. The services that are to be provided, including the level of security to be provided over the information assets that pass through third party infrastructure, need to be clearly defined, understood and monitored.

The audit found that the level of security to be provided by third parties including telecommunications providers is not clearly understood. A review of the operating level agreement (OLA) between a shared service provider and participating entities shows that the security levels required by each entity are not articulated in sufficient detail. The OLA does not require other precautions that are required to protect classified information. It therefore appears that the shared service provider is only required to operate the internal networks to a commercial (in-confidence) level of security rather than at a level for networks transmitting highly protected and sensitive government information.

The audit noted that one entity's data transferred over telecommunications carrier infrastructure primarily is not encrypted. This highlights an increased risk that sensitive data could be observed by the carrier's technicians and in a worst case scenario, the information could be used to disrupt operational activities.

Entities with third party services need to perform an analysis of the level of security required and ensure that it is clearly articulated in agreements. In addition, third party services should be regularly monitored with reference to these agreements. Where entities hold or process information classified at sensitivity levels, additional controls for classified information should be defined within OLAs.

Security weaknesses due to network design

Security is only as strong as the weakest link, so a reliable level of security requires a disciplined and coordinated approach to the design of the whole system.

While all of the networks reviewed are designed to provide security for information passing through the IT infrastructure, the audit highlighted a number of increased security risks. These risks arose due to the way the IT infrastructure had been designed.

At one entity, multiple servers were found to have broad access to the Internet. Separate domains have been created to provide a high level of security for the shared services financial systems, but various administration networks are connected to the internal side of the shared services network, reducing its intended level of security. If a server or application was compromised in an outer network, some network access controls could be bypassed.

One entity's email scanning is performed on the internal network rather than in the protective zone outside of the internal network. It is industry best practice to locate all Internet accessible servers in an isolated network to reduce the risk of illicit access to the internal network. The entity also allows email access via the Internet and controls relating to user accounts (e.g. password composition and account lockout) are poor compared to government standards for internal networks. In addition, the firewall server and several other Internet related servers were implemented as virtual servers operating on the internal IT infrastructure. Therefore, if a server that was supposed to be outside of the internal network was compromised, the security breach could lead to a compromise on the internal network and the internal server infrastructure. Industry best practice is to position email scanning and web servers on a separate network to minimise the risk of a security breach reaching the internal systems.

Audit found that one entity's public web server is hosted on the internal network. It is industry and government best practice to position all Internet accessible services on a separate network to minimise the risk of a security breach reaching the internal information systems. While there are some preventative and detective controls implemented, the server is not protected from a range of web application attacks by the firewall. If an attack against the public web server was successful, it would provide access to the internal network.

Another entity uses a server to log network traffic, including financial information system communication. Access to the logging server could facilitate unauthorised financial transactions by obtaining financial system passwords from the logs on this server. Insecure access points are connected directly to another entity's network, bypassing the firewall.

Suggested methods of ensuring controls are operating effectively have been provided to specific entities. All entities should review their current network security design and update it to ensure network level security controls are effective and appropriate to the entity.

Inadequate network systems documentation

The network design and architecture documentation provides a knowledge base essential for understanding the enterprise network environment. This documentation contributes to efficiencies in system support and maintenance and is an invaluable tool to be used in cases of key personnel being unavailable or disaster situations. In addition, it reduces the risk of security weaknesses being created inadvertently when implementing network changes.

While some documentation of network environments exists at five entities, there is a lack of logical network or systems diagrams at two entities. At one entity, all technical staff interviewed displayed a high level of technical skill, although several staff were not aware of existing design documentation. This lack of readily accessible and complete documentation made it difficult to perform the security analysis of the network level access controls. One entity has only a low level of documentation available and staff were vague about the details of the networks and systems and relied on a casual contract staff member to describe system operation and network details.

Entities should ensure that networks and their gateways are appropriately documented and relevant staff with a need to know have access to documentation.

Inadequate vulnerability management processes

The growing sophistication of attacks on networks increases the risk of identified software vulnerabilities being exploited. Software vulnerabilities are the most common weakness used by hackers to infiltrate computer networks. For this reason, it is essential to establish formal processes and procedures for identifying, assessing and addressing software vulnerabilities.

It was noted that the detection and rectification of software vulnerabilities are not proactively managed at one entity when the system contained known vulnerabilities. Over time, vulnerabilities could increase due to a lack of management processes to ensure software vulnerabilities are identified and rectified. In addition, the shared service provider does not have formal procedures and processes to manage vulnerabilities.

Entities should develop and implement processes to manage software vulnerability risks for all IT security infrastructure.

Network security policy or guidelines not documented

Without a comprehensive documented network security policy, there is an increased risk of a gap between the network access controls required to protect the government's information assets and the controls that are actually deployed. There is also the additional risk that an inconsistent approach to network security management may be undertaken leading to an inefficient use of government resources and capabilities.

It was noted that at four entities, the determination of access control rules for network firewalls is left to network administrators. Management processes or policies do not provide a guideline to inform the technical staff of the necessary security level to implement government security requirements. Network security policy and guidelines need to be documented by all entities to guide the network administrators in achieving the appropriate level of network security for government.

Other issues

The following are other network security issues observed:

- Disaster recovery for key elements of the network gateway have not been implemented at two entities. In the event of a disaster, critical business services would not be restored within an acceptable timeframe.
- Some network equipment is no longer being supported by the vendor at one entity. When vendors discontinue support for certain equipment, it means patches for any new vulnerabilities identified will not be available, increasing the risk of systems being compromised.
- Formal processes for security incident and problem management required for the day to day network connectivity and availability support services efficiently and effectively are not documented and implemented at two entities.

4.3 IT governance and project management

4.3.1 Audit overview

IT governance is the framework of leadership, responsibilities and accountabilities to ensure that processes and standards are in place to direct and control the investment in IT to enable the achievement of organisational strategies and objectives. It encompasses risk management, information security, regulatory compliance, business continuity and project management. IT governance permeates the organisation at all levels of management and across functional groups. In the shared services environment, IT governance is pervasive across organisational boundaries.

This audit involved a high level review of IT governance processes at the Department of Education and Training (DET) and was extended to include a follow-up of a prior year audit on project management processes for OneSchool (a major IT project).

4.3.2 Audit opinion

The IT governance framework across the whole of DET was not documented and there were differing views amongst functional groups and the Corporate and Professional Services (CAPS), DET's shared service provider, of the roles, responsibilities and accountabilities of various stakeholders. Specifically, it was noted that:

- There is no evidence of a formal IT risk management process (or a centralised IT risk register) at strategic and business process levels. In addition, the minutes of the Audit and Risk Management Committee for the previous six months do not show evidence of any IT risks being reported.
- Fully integrated, formal and effective business continuity plans are not in place and there is no coordination or formal oversight of these processes.

- An information security framework was developed in May 2007, but it is not embedded within IT operations. There is no delineation between security management (policy direction) and security operations (compliance and technical security) responsibilities. In addition, there has been no formal reporting of IT security incidents and processes to senior management or to a governance committee since April 2008.
- There is no overarching corporate Program Management Office that consolidates all projects and programs with a view to highlight any inter-dependencies between projects and to ensure compliance with the Department's methodologies and standards. A review of OneSchool completed in November 2008 showed that the project governance framework in place did not set clear directions and control the project in terms of scope, time, cost and quality. In particular, it was noted that:
  - a recognised project management methodology was not consistently applied throughout the lifecycle of the project
  - information on the percentage of work completed was not readily available
  - a clear definition of the cost of specific deliverables or milestones compared with project plans could not be provided to QAO
  - project documentation showed that considerable re-work was being performed within at least one of the projects within OneSchool
  - obtaining expected project documentation for audit proved to be an arduous task, accounting for considerable time of both the project team and QAO.
- A follow-up of the OneSchool project governance showed that management is undertaking corrective action.

A response to these issues from the Department of Education and Training is included in Section 7.1.7.

4.3.3 Audit scope

The scope of this audit was limited to a high-level review of IT governance processes at the Department of Education and Training (DET). The governance processes under review included the framework, alignment of IT with business goals, risk management, information security, business continuity and project management.

In addition, this audit included a follow-up on issues raised in the previous audit of IT project governance of OneSchool within DET.

4.3.4 Audit findings

IT governance

The following IT governance issues were raised with management:

IT governance framework not documented

The IT governance framework across the whole of DET is not documented. The lack of a formally documented governance structure has resulted in various stakeholders having differing views of their roles, responsibilities and accountabilities. This increases the risk of a breakdown of controls and a diminished oversight of IT processes.

It is recommended that an IT governance framework be developed, documented and implemented. The underlying concepts of the framework should include methods used in the strategic alignment of ICT to the business, value delivery, risk management, resource management and performance measurement.

No documented risk management process

There is no evidence of a documented risk management process for IT risks at the strategic and business process levels. In addition, there is no centralised risk register for recording IT risks, which has an impact across the entity.

The risk management process provides a mechanism for identifying, assessing, monitoring and mitigating risks. It is a preventative mechanism that allows management to address a risk before it becomes an issue. Failure to include a comprehensive and consolidated view of all risks in the risk log could result in risks remaining untreated leading to financial loss.

The overall IT risk management processes at all levels of the organisation should be documented and communicated to all key IT service providers. Documentation should include the methods used in identifying IT risks and their impact on the business; assessing the risks in an order of scale; recording the risks, impact and assessments in a central register; reviewing the risk register on a regular basis; escalation processes for risks including criteria for reporting to governance committees; and reporting of risks that have materialised to appropriate levels in senior management.

IT business continuity plans not finalised

IT business continuity plans (BCP), including the disaster recovery plan, have not been finalised. There is limited integration of the Queensland Training Disaster Recovery Plan within the overall DET framework. In addition, there is no senior committee or co-ordinator to perform a liaison role with the business units to ensure a holistic approach is undertaken for IT business continuity across the organisation. In the absence of a fully integrated IT BCP, a disaster could result in an ad-hoc response from management which may not be efficient or effective.

It is recommended that the IT BCP, its sub-components and disaster recovery plan be formalised and tested.

The role of co-ordinating all business unit BCPs should be assigned to one person or section within the entity to ensure that the overall business continuity requirements relating to IT are addressed. In addition, the IT business continuity should be an agenda item on one of the IT committees to maintain regular monitoring on the progress of the framework until it is finalised and implemented.

Lack of standing agenda items for Information Committee

A strategic level IT Governance forum, the Information Committee exists in DET. A review of meeting agenda and minutes of this committee showed that there are no standing agenda items relating to IT risks, security, disaster recovery planning or financial costs compared to budget. The chair of the committee noted that there had been no continuity in discussing issues at the committee during 2008, due to the revolving representation of some member positions.

In the absence of standing agenda items, key topics relating to IT governance, e.g. risks, security and IT spending, and key projects may not be considered by the committee. This could result in a lack of alignment of the committee to the strategic priorities of DET and a lack of effective monitoring.

It is recommended that standing agenda items relating to the specific purpose of this committee should be developed so that reports and papers are presented for consideration. The committee membership list should be reviewed and updated with a view to ensuring that personnel responsible for specific purposes of the Committee (e.g. IT risks and security) are included.

Other issues identified

Other moderate risk issues identified are:

- The design of the DET Information Security Management Framework was formalised and published more than two years ago in May 2007. However, implementation of the operational security responsibilities and compliance function had not been established at the time of the audit in February 2009.
- There has been no reporting of IT security incidents and processes to senior management, or to a governance committee since April 2008. The first Information Security Reference Committee meeting took place in April 2008. The intention was to hold these meetings quarterly, however, no further meetings were scheduled.
- There is no overarching corporate Program Management Office that consolidates all projects and programs with a view to highlight any inter-dependencies between projects. There is no compliance function performed over conformance of projects to the methodologies for projects undertaken. There was no formal project costing and billing model within CAPS.

Management of the OneSchool project

OneSchool, once completed, will provide an eBusiness model for student management, student learning, curriculum management, school personnel management, financial management and school operations. The project commenced in 2004 and is now expected to be completed in 2011–12. This project has undergone changes in focus, direction and approaches during its lifecycle.

QAO completed a high level review of OneSchool against better practice project management principles. The review highlighted that the governance framework does not set clear directions and control the project in terms of scope, time, cost and quality. The main issues that deviated from better practice include:

Project scope not clearly articulated

The scope of the overall program and stages are not clearly articulated. Delivery of the full scope of OneSchool as originally anticipated proved to be challenging, mainly in the area of identifying the technology that would deliver the project requirements. Consequently, the program was re-focussed and divided into smaller projects, which were later broken up into stages. Some projects or stages were established to complete deliverables from previous projects or stages respectively.

OneSchool was originally scheduled to be completed within three years and estimated to cost $45m. It has since progressed with various changes in focus and direction with the total budget estimate standing at approximately $97m in February 2009. Information on the percentage of work completed to-date and work still to be completed is not readily available.

Project Board charter not developed and approved

The first board meeting of the second stage (R2) and the third stage (R3) occurred approximately six months after the completion of the planning and initiation stage of R3. During the formal planning and initiation stage of R3 (June 2007 to December 2007), a Project Co-ordination Committee functioned as the Project Board.

There is no evidence of a formally documented Project Board charter and Board's roles and responsibilities. The reporting relationships, including reporting frequency, between the OneSchool Project Board and senior committees has not been formally documented or defined.

Delays in finalising project plans

In July 2008, 12 months after the commencement of R3, project plans inclusive of project stages, organisation, proposed resources and estimated costs had not been completed. It was noted that these plans were scheduled to be completed at the end of 2007. QAO was advised that the delay in finalising project plans was mainly related to vendor non-performance and the resignation of the DET R3 project manager. As the project plan had not been finalised, the funding model could not be completed and the project team could not perform a detailed comparison of the budget against actual expenditure.

Insufficient contractual arrangements

Technology One (the vendor) commenced with the OneSchool project in June 2007 to undertake Stage 1 (planning and initiation) of the R3 project. DET engaged the vendor to manage the delivery of functional requirements specifications, a whole of lifecycle project plan, the Next Stage Plan and estimated costs. QAO was advised that the vendor met their contractual requirements in terms of delivery of products, however the delivered products required major rework. Failure to specify sufficient detail of the quality of output required in supplier contracts, especially when the contract is on a time and materials basis, resulted in poor quality products being delivered while the supplier still met their contractual obligations.

4.4 Status of IT project management following the 2008 audit

4.4.1 Audit overview

The project management practices of three IT projects were audited and reported on in Auditor-General's Report to Parliament No. 4 for 2008. These projects were chosen for audit because they entailed implementing systems that are used to provide critical services to the Queensland community. The audit found that the maturity of project management practices varied across the three projects audited.

The actions which have been taken by these departments to address the issues raised by audit have been followed up and the status of project management practices is reported below.

4.4.2 Audit opinion

The original audit examined whether the three projects applied project management principles consistently, particularly in the areas of management structures, management of contractors, risk management, and monitoring and assurance practices.

The Queensland Police Records and Information Management Exchange (QPRIME) project was found to be generally well managed. The Integrated Client Management System (ICMS) project at the Department of Child Safety, the Department of Communities and Disability Services Queensland showed evidence of improvement. Significant weaknesses in project management controls were identified for the Automated Fare Collection System (AFCS) project at TransLink Transit Authority.

The follow-up audit showed that the issues raised at the Department of Police have been resolved and there has been significant improvement at the Department of Child Safety, the Department of Communities and Disability Services Queensland in terms of their project management, with audit concerns mainly addressed.

There has been little progress by TransLink in acting to address the issues raised by the 2008 audit and similar issues are noted in a current project. A response from TransLink Transit Authority is included in Section 7.1.8.

4.4.3 Audit findings

The current status of the project management practices is discussed below.

Department of Police

The Department of Police QPRIME project was found to be well managed in 2008. The follow-up audit found that the Department has maintained this standard, and have enhanced the project management practices since the audit through developing an Investment Governance Framework. This framework is a governance system for major projects and is based on the whole-of-government project management methodology and customised for application in the Department of Police. It requires major projects to conform to a series of decision points and exception reporting. The department established an Investment Governance Board in September 2008 which has in its membership senior executive staff, demonstrating the importance being placed on this aspect of its project management.

Department of Child Safety, Department of Communities and Disability Services Queensland

Significant progress has been made by these departments in improving overall project management and addressing the recommendations from the 2008 audit of ICMS. Action is in progress or issues raised have now been resolved.

TransLink Transit Authority

A number of significant project management issues were raised during the 2008 audit of ACFS. In response, TransLink intended to develop a project management centre of excellence which would address most of the issues raised by audit. Specifically, the project management centre of excellence was to:

- provide a documented consistent approach to project management
- implement and maintain an enterprise wide project management methodology to be used throughout the life of each project
- incorporate the requirement to produce a project initiation document for current and future projects
- establish an independent quality assurance function
- provide guidance and oversight for the development of a project plan and project quality plan for current and future projects.

However, none of these actions have been implemented. Consequently, the issues raised as a result of the 2008 audit still require management attention.

This inaction has impacted on the project management of current TransLink projects such as the Real Time Passenger Information System (RTPIS) project. When an audit was conducted on the management of this project, a number of issues were raised with management:

- a formal project plan has not been produced and approved
- a formal project management methodology is not consistently applied to the project
- policies defining the TransLink project management methodology have not been developed
- documentation including a formal project initiation document and project quality plan have not been produced.

4.5 Shared service initiative

4.5.1 Audit overview

The shared service initiative across the Queensland Government was initially implemented in 2003 and has continued to evolve over the past six years. This initiative was designed to deliver cost effective corporate services through standardising business processes, consolidating technology and pooling resources and expertise.

A number of shared service providers including the Shared Service Agency (SSA), Corporate and Professional Services (CAPS) at the Department of Education and Training and the Queensland Health Shared Service Partner (QHSSP) have been established to perform the processing of financial and human resource transactions.

CorpTech was established to manage the implementation of a new standardised suite of finance and human resource (HR) systems across all entities and to provide support to the existing and new systems when implementation is complete.

Formal comment on the shared service initiative has been provided over the past three years in various Auditor-General's reports to parliament. This audit reviews what has been achieved to date and assesses the future direction of this initiative.

4.5.2 Audit findings

The original business case for the shared service initiative projected annual savings of $100m once fully implemented. Full implementation would represent one standard finance and HR solution supported by standard business processes. The original implementation date was 2006 but, due to the size and complexity of the finance and HR solution project, a timetable adjustment was required.

Late 2008 was redesignated as the full implementation date of a standard solution. In April 2007, the Shared Service Program and Policy Office commissioned a strategic review of the finance and HR solution project to ascertain whether it would deliver its original objectives. This review found that there were problems within the governance of the program and that the project timelines would not be met within the original estimated funding requirement. Subsequently, a re-planning exercise was undertaken to determine the optimal method to remedy the situation.

As a result of the re-planning exercise, the project was re-structured. IBM was engaged to implement a SAP HR Solution for the Department of Health and to develop a forward plan for implementing the HR solution for remaining entities on legacy systems. The implementation date (agreed by IBM) of August 2008 for Department of Health was not achieved. There were various changes to this date, and the latest advice is that the go-live date will be before the end of 2009.

There are indications that the SAP HR solution will only be implemented for two entities, with the remaining entities to continue operating on legacy systems. The recent machinery of government changes may provide further impetus for consolidation and standardisation of systems.

Eight legacy SAP Finance systems and eleven legacy HR systems (SAP, Aurion and Lattice) currently operate. Only one department uses the new HR SAP system and 10 departments operate the new SAP ECC5 finance solution. From a high level perspective, there appears to be a refocus on legacy system consolidation and the new system upgrades as a solution strategy. This change poses significant operational challenges to both SSA and CorpTech in that:

- legacy systems must now support medium to long term service delivery to client entities
- the implementation of standardised processes need to be supported across multiple product and technical environments rather than one standard offer solution, limiting the opportunity to achieve processing efficiencies, optimisation and potential savings.

Control deficiencies have been previously reported to parliament in relation to the legacy systems operating across government. The relevant risks to entities and the impact on audit strategies have also been noted. Entities will need to be aware of the risk profiles associated with the continued use of these legacy systems.

Another issue of concern is the lack of standardisation of business processes across the public sector. Current operating level agreements (OLA) formally signed off by all stakeholders and up to date standard Financial Management Practice Manuals will assist in implementing standard business processes. With full fee for service pricing operating, the OLAs are crucial to ensuring all stakeholders are aware of their responsibilities.

Senior management have advised that by 30 June 2009 it is expected that total savings since the shared service initiative commenced are estimated to be approximately $135m. Annual savings of up to $100m are expected by 2012-13. Whilst the original intent of the initiative was to implement one standard whole-of-government solution for finance and HR, it appears that this objective is unlikely to be achieved in the foreseeable future.

Although there has been some improvement, audit raised a number of control issues regarding the individual support providers that make up the shared service initiative. Key issues raised in the 2008-09 audit to date are:

- The overall control environment at CorpTech has improved, with only one high risk issue being reported so far this year, compared to 18 high risk issues reported in 2006-07 and nine high risk issues reported in 2007-08. However, change control management and regular review of user access levels are key controls that continue to require management attention. Management are continuing to address these issues.
- Some high risk issues were noted during the audit of IT network security at CITEC. Senior management advised that CITEC is not able to compel clients to accept specific levels of service in relation to security and internal controls. A joint approach needs to be undertaken by all parties within the contractual relationships to document, communicate and implement security and internal control standards for the information that is processed, transferred and stored within the shared services systems.

- While some improvement was noted in the operation of the SSA, a number of high risk issues relating to bank reconciliations have been identified during the 2008-09 audit. A number of lower risk issues have also been raised around accounts payable, payroll and corporate card expenditure. Most high risk issues have now been resolved and the remaining high risk issue is expected to be resolved by 30 June 2009.

Auditor-General’s Report to Parliament No. 9 for 2007 recommended that a formal management assurance framework be implemented. This would provide for an assurance to user entities as to the existence and effective operation of suitable controls at the shared service providers.

SSA progressively implemented its management assurance framework during 2008-09. It is expected that there will be further improvement in the application and reliance on this framework during 2009-10. A number of business improvement opportunities were identified in relation to CorpTech’s developing management assurance framework by audit and management agreed to implement these improvements. Further comment on these assurance reports will be provided in a future Auditor-General’s report to parliament.

4.6 Understanding and complying with legislation

4.6.1 Audit overview

A fundamental principle of sound public administration is that public sector entities and employees understand and comply with the obligations established under appropriate legislation.

The purpose of this audit was to establish whether there are departmental processes and procedures in place to enable Directors-General to manage, monitor and report on compliance with legislative requirements by their departments.

As accountable officers, Directors-General have the primary responsibility for ensuring that departments are fully compliant with the requirements of legislation and relevant regulations and standards.

A risk for accountable officers is that issues such as staff turnover, changes in machinery of government arrangements and budget limitations for staff training could result in departmental employees being unfamiliar with compliance aspects of legislation. These can adversely affect their department and the associated demands that legislative requirements place upon the department.

The extent of recent machinery of government arrangements highlights the increased risk that Directors-General and departmental staff face in terms of potential unfamiliarity with legislative compliance requirements associated with acquired functions.

Potential consequences of non-compliance for Directors-General and staff are civil action for damages arising from breaches of legislative duties, failure to implement government policy and the additional cost of independent reviews by bodies such as the Ombudsman, the Crime and Misconduct Commission or the Auditor-General.

4.6.2 Audit opinion

While procedures for compliance with legislation were generally found to exist within departments, systems are not in place at the whole of department level to provide positive assurance to Directors-General as to whether their departments have satisfied their legal obligations.

The key findings from the audit are:

- Departments have no overarching policy and framework setting out processes to assess and ensure compliance with legislation at a whole of department level.
- There is little evidence of formal systems being established to record instances of legislative non-compliance or breaches. As a consequence, departmental management does not have whole of department information readily available to identify:
  - the officers or sections responsible for managing compliance with legislation
  - if there have been any significant incidents of legislative non-compliance.
- What constitutes non-compliance with legislation is not well defined so as to ensure that significant breaches are referred to higher levels of authority within departments.
- All departments have processes in place to identify changed compliance requirements arising from new legislation or legislative amendments.
- Not all departments have incorporated the risks of not complying with key aspects of legislation related to their core operations within the department's risk registers.
- All departments comply with the requirements of the *Public Records Act 2002* to have a recordkeeping policy, although some departments are still in the process of having their retention and disposal schedule for department specific records approved by the State Archivist.
- All departments have a records retention policy which meets the requirements of the *Financial Management Standard 1997* (FMS) relating to financial information, including the ability to access information from computer systems that are no longer in service. However, few have procedures in place to confirm that financial records could be retrieved for the full duration of the time periods prescribed.

Better practice is included under Section 4.6.4 to allow departments to consider improving their processes for complying with legislation.

4.6.3 Audit scope

Departments are responsible for administering a broad body of applicable Commonwealth and State legislation. This includes specific legislation under which each department is established, legislation for which they have administrative responsibility and general legislation designed to improve the standard of public administration, regulate management of the public sector, ensure accountability and protect employees.

The audit examined how departments manage compliance with department specific legislation and with the following general legislation:

- *Crime and Misconduct Act 2001*
- *Freedom of Information Act 1992*
- *Industrial Relations Act 1999*
- *Public Records Act 2002*
- *Public Sector Ethics Act 1994*
- *Public Service Act 2008*
- *Workplace Health and Safety Act 1995.*

The recordkeeping and retention requirements of the Public Records Act and the FMS were also chosen for specific review.

Ten departments were chosen for audit:[20]

- Department of Child Safety
- Department of Communities
- Department of Education, Training and the Arts
- Department of Emergency Services
- Department of Health
- Department of Local Government, Sport and Recreation
- Department of Main Roads
- Department of Primary Industries and Fisheries
- Department of Public Works
- Department of Tourism, Regional Development and Industry.

4.6.4 Audit findings

No overarching policy and framework to assess and ensure compliance

The audit found that there is no overarching policy and framework established within departments to assess and ensure legislative compliance at a whole of department level.

At the majority of departments audited, the responsibility for ensuring compliance with legislation has been decentralised to various sections and officers. There is no central list, record or policy document mapping out which section or officer within the department is responsible for particular legislation. This made it difficult to determine who is responsible for managing compliance with individual pieces of legislation and if there has been any significant incidents of non-compliance from a whole of department perspective.

Without an appropriate policy and framework to manage, monitor and report on compliance, there is a risk to Directors-General that their departments may not be satisfying their legal obligations. To mitigate this risk, departments should develop and document an appropriate policy and framework that best suits their needs in ensuring legislative compliance.

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[20] Departments audited prior to the 26 March 2009 machinery of government changes.

All pieces of legislation that place obligations on a department first need to be identified and responsibility for managing compliance formally assigned to an individual officer, departmental area or committee through a central document that clearly maps responsibility for each piece of legislation impacting on the department's operations.

The policy should:

- establish those principles that are to be adopted by the department to ensure the Director-General can be satisfied that all possible measures are being taken by the department and its employees to actively comply with all relevant legislation and other applicable standards
- define the overall compliance framework that will operate within the department to ensure it can manage risks, identify compliance roles and responsibilities for management and employees, and incorporate a consistent approach across all areas of the department.

The compliance framework should include procedures for:

- establishing a list of legislation that impacts on the department and the officers, sections or committees responsible for managing, monitoring and reporting upon individual pieces of legislation
- addressing specific compliance risks for the department
- identifying new and updated legislative requirements
- training staff in the legislative requirements that impact on their job responsibilities
- assessing compliance on an ongoing basis
- establishing a regime to define, report and address non-compliance or breaches
- reviewing compliance reports, incident reports, complaints, breaches and other information to assess how systems of compliance can be improved
- integrating the compliance framework with the department's strategic and operational plans.

Limited reporting of breaches and non-compliance with legislation

The audit found there are limited systems established within departments to record instances of non-compliance or breaches of legislation at a whole of department level and to make information on breaches readily accessible for reporting.

What constitutes a reportable breach of legislation is not well defined by departments. This is necessary to ensure breaches are dealt with consistently and that significant breaches are escalated to higher levels of authority within departments, including to the Director-General where appropriate. In the absence of such guidance, what constitutes a significant breach becomes a matter of individual judgement and creates a risk that breaches will not be dealt with in the same way across all areas of the department and will not be brought to the notice of senior management.

The compliance policy and framework needs to define what constitutes a reportable breach, how breaches are to be recorded and how breach incidents are to be escalated and reported upon within the department. The types of instances of non-compliance that could be dealt with at an operational level and those which are serious enough to be escalated within the department should be identified. When instances of non-compliance arise, information reported to management should also include details of the action taken to address the breach and who is responsible for ensuring the required action is taken.

Formal management reporting on compliance is generally exception-based and limited to individual breaches. Significant legislative requirements that need to be complied with should be identified by the department and a process established to assess, monitor and report to management upon on-going compliance.

As better practice, regular reporting to the Director-General over material compliance or non-compliance with legislative obligations should be provided by the department on an ongoing basis. The frequency of such reporting would need to be determined by each department having regard to the nature of its operations but should occur at least annually.

Lack of overall coordination of compliance management

In comparison with the public sector, private sector companies have in place the role of the company secretary to manage overall legislative compliance processes. While the traditional role of the company secretary is to manage Board processes, the position commonly co-ordinates provision of advice on legal and regulatory matters and has responsibility for ensuring legal requirements are met as well as promoting the compliance framework to safeguard the integrity of the organisation.

In departments, elements of the company secretary's role in terms of legislative compliance are generally undertaken by various departmental sections or functions such as audit committees, risk management committees, legal units and internal audit. During the performance of this audit, it was not clear how these elements are being effectively coordinated within departments to provide assurance to senior management on how compliance with legislation is being managed.

The overall management of legislative compliance should be made the responsibility of an individual officer within the department. This officer would be responsible for maintaining the overarching legislative compliance policy and framework, coordinating reporting on compliance with the significant requirements of legislation from across the department and collating information on non-compliance to identify potential problem and risk areas.

Inconsistent understanding of compliance obligations by employees

During the audit, it was found that departments have varying standards and levels of policies, procedures and training in place to ensure the effective transfer of knowledge and skills to their employees to assist with an understanding of what compliance measures are required.

Compliance procedures should be embedded within operational processes, guidelines, manuals and training programs to ensure staff understand their obligations and the meaning and importance of legislative compliance in their day to day work.

All departments have appropriate processes in place to identify changed compliance requirements that arise from new legislation or legislative amendments.

Risk of non-compliance with legislation

The audit found that not all departments have incorporated the risks of not complying with key aspects of legislation related to their core operations within the department's risk registers.

Departments should consider the risks of legislative non-compliance as part of their risk management process and where significant, these risks should be incorporated into the strategic and operational risk registers. Identified compliance risks should be documented and appropriate strategies be developed to mitigate the likelihood of these risks arising.

Compliance with records retention requirements

The audit also examined processes established by departments for the disposal and retention of public records and whether those processes complied with the requirements of the Public Records Act and the FMS.

The Public Records Act sets out the key legislative requirements for recordkeeping by the Queensland public sector, including the need to have a recordkeeping policy that sets out departmental objectives, key functions and staff responsibilities. The audit found that all departments audited complied with these requirements.

The Public Records Act also requires that departments have an approved schedule for the retention and disposal of department specific records. All departments either have an approved schedule in place or are currently working to finalise a schedule. Public records relating to common administrative functions across government can be disposed of according to the *General Retention and Disposal Schedule for Administrative Records* issued by the State Archivist. All ten departments included in the audit have established processes to comply with the requirements of the schedule.

The FMS contains specific obligations for the retention of financial information and records. All departments have a records retention policy which meets the requirements of the FMS.

The FMS also requires that departments have procedures in place to ensure that financial information is able to be readily retrieved and that the data maintains its integrity and reliability for the time periods specified in the FMS. All departments have policies covering the retention of financial information and records, including the ability to access information from computer systems that are no longer in service. Few, however, have procedures in place to confirm that financial records could be retrieved for the duration of the specific time periods prescribed.

Better practice principles

A number of better practice principles were identified during the audit which if implemented would improve departmental processes for complying with legislation.

Figure 4A : Better practice principles

Better practice
Develop and document an overarching policy and framework to ensure legislative compliance which includes: ● a listing of all legislation applicable to the department and identifying the person/position responsible for each piece of legislation ● a definition of what constitutes reportable breaches ● a mechanism for reporting breaches and escalating significant incidents to higher levels of authority ● a process for ongoing compliance assessments to occur ● regular reporting to the Director-General over material compliance or non-compliance with legislative obligations ● provision of appropriate staff training to ensure legislative responsibilities are well understood.
Document and manage significant and specific risks of legislative non-compliance as part of the department's risk management framework.
Assign oversight of the management of legislative compliance to an individual officer within the department.

5 Financial management

Summary

Background

Financial and compliance audits, apart from resulting in an opinion on whether the financial statements of public sector entities are true and fair, also identify where the functions relating to the financial management of public sector entities are not adequately and properly performed.

This section includes the results of the 2008 audits of Queensland universities and grammar schools, and the status of other audits for which auditors' opinions have recently been issued.

Key findings

- The 2008 audits of universities and grammar schools have been completed and unqualified auditors' opinions issued for their financial statements.
- Although modified auditors' opinions were issued for 18 controlled entities of universities, appropriate governance regimes are in place for these entities to maintain their accountability.
- Auditors' opinions have not yet been issued for the audit of the 2006-07 financial statements for two entities and for the 2007-08 financial statements for 45 entities.

5.1 Results of 2008 university and grammar school audits

5.1.1 Results of 2008 university audits

Introduction

Seven universities are constituted within the Queensland public sector:

- Central Queensland University
- Griffith University
- James Cook University
- Queensland University of Technology
- The University of Queensland
- University of Southern Queensland
- University of the Sunshine Coast.

These universities are statutory bodies subject to the requirements of the FA&A Act and audited by the Auditor-General. They prepare general purpose financial statements in accordance with Australian Accounting Standards. Additional disclosure requirements are prescribed by the Commonwealth Department of Education and Employment and Workplace Relations.

The universities prepare annual reports that include a copy of their audited financial statements. The annual reports are tabled in parliament by the Minister for Education and Training. The universities had a balance date of 31 December 2008 and their financial statements were required to be finalised and audited by 31 March 2009.

In this report, a reference to universities means Queensland public universities.

Audit results

All university audits for 2008 have been completed and unqualified auditor's opinions were issued on their financial statements

In Auditor-General's Report to Parliament No. 4 for 2008, it was reported that the then Minister for Education and Training and the Arts had requested Central Queensland University (CQU) engage the Queensland Treasury Corporation to perform a financial review of its operations because of concerns about its budget projections. CQU made an operating loss in 2007 mainly due to a downturn in the number of full fee paying overseas students, however it made an operating surplus for 2008 after progressing a restructure to address the downturn in student numbers.

Global economic situation

As at 31 December 2008, none of the universities reported a significant impact emanating from the deterioration in the global economic situation. This is to be expected, as the overall economic downturn experienced by Queensland universities was limited during this period. The effect of slowing economic activity on Queensland's universities will continue to be monitored.

Audit results for controlled entities of universities

Under their constituting legislation, universities are empowered to form or participate in ventures that may further their educational objectives. These include forming companies for fundraising and the commercialisation of technology. By their nature, these companies may generate losses for a period of time until the research and development activity results in commercial products that can be licensed or sold, or a decision is made to cease activities.

Where there is a going concern issue, the Australian Auditing Standards require the Auditor-General to provide a modified auditor's opinion or include an emphasis of matter relating to each company's ability to continue as a going concern. The type of auditor's opinion depends on the circumstances in each case. While a range of such opinions were issued for 18 companies, appropriate governance regimes are in place to maintain their accountability.

A list of the companies and the status of their audits is included in Section 6.1 of this report.

5.1.2 Results of 2008 grammar schools audits

Eight public grammar schools are established in Queensland, located in Brisbane, Ipswich, Toowoomba, Rockhampton and Townsville. While associated with the public sector through the provisions of the *Grammar Schools Act 1975*, these schools operate on a fully commercial basis with limited financial benefit being derived from their being public sector entities.

Auditors' opinions on the financial statements of these grammar schools were unqualified and details are provided in Section 6.1 of this report. The schools prepare annual reports that include a copy of their audited financial statements. The annual reports are tabled in parliament by the Minister for Education and Training.

5.2 Results of other 2007-08 audits

5.2.1 Status of audits

For the 2007-08 financial year, the Auditor-General was required to audit the financial statements of 746 public sector entities.

The results of the 2007-08 audits of 119 non-abolished local government entities and an update on the status of 45 of the abolished local governments were included in Auditor-General's Report to Parliament No. 1 for 2009.

Auditor-General's Report to Parliament No. 9 for 2008 included the results of audits of 396 financial statements prepared at 30 June 2008 as well as the results of financial statement audits of the 127 local government entities abolished at 14 March 2008.

Since those two reports were tabled in Parliament, the financial statements of 108 entities have been audited and an auditor's opinion issued. Information about when the financial statements were signed by management and the auditor's opinion issued is provided in Section 6.1 of this report.

The status of 2007-08 financial statements is summarised in Figure 5A.

Figure 5A : Status of 2007-08 financial statement certification

Entity Type	Total	Previously reported	Unmodified auditor's opinion issued	Modified auditor's opinion issued	Dormant	Auditor's opinion not yet issued
Aboriginal Shire councils	12	2	0	3	0	7
Aboriginal Shire councils – Abolished*	3	2	0	0	0	1
By Arrangement	52	41	8	0	0	3
By Arrangement – Under Trust Deed	52	47	5	0	0	0
Controlled entities	194	100	39	20	25	10
Departments	29	29	0	0	0	0
Departmental agencies	7	6	1	0	0	0
Government owned corporations	17	17	0	0	0	0
Joint controlled entities	38	27	5	0	1	5
Joint controlled entities – Abolished*	2	2	0	0	0	0
Joint local governments	2	2	0	0	0	0
Joint local governments – Abolished*	11	11	0	0	0	0
Local governments	30	26	0	2	0	2
Local governments – Abolished*	95	86	0	0	0	9
Statutory bodies	184	155	20	4	0	5
Torres Strait Island councils – Abolished*	18	14	0	1	0	3
Total	**746**	**567**	**78**	**30**	**26**	**45**

* These entities were abolished at 14 March 2008 as part of the local government reform process.

5.2.2 Auditors' opinions issued

Of the 79 entities which were required to prepare financial statements for periods up to and including 31 December 2008 (excluding 25 dormant entities) and the 75 entities previously reported as not having their 2007-08 financial statements finalised, auditors' opinions have now been issued for 108 entities. Details of the 78 unmodified auditors' opinions issued can be found in Section 6.1 of this report.

Modified auditors' opinions were issued for 30 entities. These opinions are discussed in the following paragraphs.

Disclaimer of auditors' opinions were issued for two companies acquired by The University of Queensland on 29 October 2008, Ausonex Pty Ltd and Rapisure Pty Ltd, because they only prepared financial reports for the period 29 October 2008 to 31 December 2008 which contravenes the requirements in s.323D of the *Corporations Act 2001*, and no comparative information was presented which is a breach of AASB 101 *Presentation of Financial Statements*.

A disclaimer of auditor's opinion was issued for Badu Island Council because there was not sufficient and appropriate audit evidence available in order to form an opinion on the final financial report. Most significantly, audit was unable to obtain all the information and explanations required to form an opinion on the completeness and accuracy of: the cash flow statement; statement of changes in equity and the cash and equity positions reported in the balance sheet; employee expenses; employee benefit liabilities; receivables (housing rentals, loans to and debts owed by related parties, other receivables, various enterprise receivables and provision for doubtful debts); and the quarry inventory. The council used grant funding for purposes other than those approved by grant providers and as a consequence there is significant uncertainty whether the council will be able to repay its debts as and when they fall due. The net operating results could not be verified because depreciation expenses were not included in any of the seven trading statements. Unspent grant funds were incorrectly disclosed as a non-current liability, which contradicts the council's reported accounting policy and there was inadequate evidence to support housing additions and housing work in progress. The 2006-07 report was disclaimed on a similar basis and an opinion could still not be expressed on the 2007 comparative figures.

A disclaimer of auditor's opinion was also issued for Mornington Shire Council because there was not sufficient and appropriate audit evidence in order to form an opinion on the financial report. Most significantly, audit was unable to obtain all the information and explanations required to form an opinion on: the completeness and accuracy of council revenue for rate and utility charges, rental income and sales for contract and recoverable works; total staff wages and salaries; annual leave and long service leave liabilities; the existence of the general store inventories; reconciling items in the council's bank reconciliation; the cash flow statement; movements in the Trust Fund; internal oncost transactions; and grants-by-project expenditure.

Eight companies, which are controlled entities of The University of Queensland, received adverse auditors' opinions because their special purpose financial statements had been prepared on a going concern basis. It is highly improbable these companies will be able to continue as a going concern. Details of these entities are included in Section 6.1.

A qualified auditor's opinion was issued for Lockhart River Aboriginal Shire Council because the council did not maintain effective internal controls and account keeping over the operations of the bank agency and the automated teller machine. The council applied internal on-costs which resulted in an overstatement in employee expenses, and supplies and services. This practice also resulted in grants by project disclosure being materially misstated. The council was unable to provide adequate supporting documentation to confirm the completeness and accuracy of employee expenses or employee benefit liabilities. Comparative 2007 figures remain qualified in 2008 for water and sewerage infrastructure assets; road, drainage and bridge infrastructure assets; depreciation expenses; inventories; and provision for doubtful debts. An emphasis of matter was also included in the auditor's report because the council did not adopt their annual report by 30 November 2008, as required by s.531 of the *Local Government Act 1993.*

A qualified auditor's opinion was issued for the Bundaberg Health Services Foundation because the Foundation did not have any controls over the collection of donations prior to entry in its financial records and an opinion could not be expressed on the completeness of donation revenue. An emphasis of matter was also included in the auditor's report because the council did not adopt their annual report by 30 November 2008, as required by s.531 of the *Local Government Act 1993.*

McKinlay Shire Council received a qualified auditor's opinion because the value of roads and streets infrastructure assets, the asset revaluation reserve, roads depreciation and the net result attributable to council were all understated. An emphasis of matter was also included in the auditor's report because the council did not adopt their annual report by 31 March 2009, in accordance with the requirements of s.531 of the *Local Government Act 1993* and the extension of time provided by the Minister.

A qualified auditor's opinion was issued for the PA Foundation because the foundation did not have any controls over the collection of donations prior to entry in its financial records and an opinion could not be expressed on the completeness of donation revenue. The auditor's opinion was also qualified regarding the accuracy of employee benefits expense due to a lack of supporting documentation. The foundation also received an emphasis of matter for failing to provide their financial statements to the Auditor-General by 15 September 2008, in accordance with the requirements of s.46FA of the FA&A Act and the extension of time provided by the Treasurer.

Without qualification to the auditor's opinion for Industrial Supplies Office (Queensland) Limited, two matters of emphasis were included in the independent auditor's report because the company will be wound up in 2009 and therefore is no longer a going concern and because there is significant uncertainty in relation to the valuation of other financial assets.

Emphasis of matter references were included in the independent auditors' reports for Kowanyama and Yarrabah Aboriginal Shire Councils because the councils did not adopt their annual reports by 30 November 2008, as required by s.531 of the *Local Government Act 1993.*

An emphasis of matter was issued for the Mount Isa Water Board because their financial statements were not completed and audited within two months of the end of the financial year.

An emphasis of matter was included in the independent auditor's report for the former Queensland Harness Racing Board because the board was dissolved on 1 July 2008.

The independent auditor's report for Wollemi Australia Pty Ltd included an emphasis of matter because there is significant uncertainty whether the company will be able to continue as a going concern.

An emphasis of matter was also included in the independent auditor's reports for eight companies, which are controlled entities of The University of Queensland, due to inherent uncertainty regarding their continuation as going concerns. Details of these companies are included in Section 6.1.

5.2.3 Unfinalised financial statements

The audits of 2007-08 financial statements for 45 entities have not yet been completed and auditors' opinions issued. These entities are listed in Section 6.1.

5.3 Results of prior year audits

The 2006-07 financial statements of two entities (Mapoon Aboriginal Shire Council and Bayan Mayi-Ji Ltd) were unfinalised when the results of local government audits were last reported in Auditor-General's Report to Parliament No. 1 for 2009. Also, the 2006-07 financial statements of one other entity (Brisbane Festival Limited) was reported as unfinalised when Auditor-General's Report to Parliament No. 9 for 2008 was tabled.

An unmodified auditor's opinion has now been issued for Brisbane Festival Limited.

Financial statements for Bayan Mayi-Ji Ltd have not been provided for audit for the past five years (from 2002-03 to 2006-07). The 2006-07 audit of Mapoon Aboriginal Shire Council has not been finalised.

6 Status of financial statements

Summary

Background

The FA&A Act requires the outcome of all audits to be reported to parliament. This is achieved by providing the status of financial statements at various points in time in Auditor-General's reports to parliament.

The status of 2007-08 audits for which auditors' opinions had not been issued when last reported to parliament are included in Section 6.1 of this report. Section 6.2 provides an amendment to information contained in Auditor-General's Report to Parliament No. 9 for 2008 tabled in parliament on 13 November 2008.

Key findings

- Auditors' opinions for 108 public sector entities have been issued for the 2007-08 financial year since Auditor-General's Report to Parliament No. 9 for 2008 and Auditor-General's Report to Parliament No. 1 for 2009 were tabled.
- Auditors' opinions on the financial statements of 45 entities are yet to be issued.

6.1 Status of 2007-08 financial statements

Auditors' opinions for 108 public sector entities have been issued for the 2007-08 financial year since Auditor-General's Report to Parliament No. 9 for 2008 and Auditor-General's Report to Parliament No. 1 for 2009 were tabled.

Figure 6A : Auditor's opinions issued for the 2007-08 financial year

Auditor's opinion key: U=Unmodified opinion E=Emphasis of matter Q=Qualified opinion A=Adverse opinion D=Disclaimer of opinion

Entity name	Balance date	Financial statements			Timeliness of completion		
		Financial statements signed	Auditor's report signed	Auditor's opinion	< 3 months	3 to 6 months	> 6 months
Aboriginal Shire councils							
Cherbourg Aboriginal Shire Council	30.06.2008	Not completed					
Doomadgee Aboriginal Shire Council	30.06.2008	Not completed					
Hope Vale Aboriginal Shire Council	30.06.2008	Not completed					
Kowanyama Aboriginal Shire Council	30.06.2008	27.03.2009	05.06.2009	E			✓
Lockhart River Aboriginal Shire Council	30.06.2008	22.05.2009	27.05.2009	Q E			✓
Mapoon Aboriginal Shire Council	30.06.2008	Not completed					
Napranum Aboriginal Shire Council	30.06.2008	Not completed					
Pormpuraaw Aboriginal Shire Council	30.06.2008	Not completed					
Wujal Wujal Aboriginal Shire Council	30.06.2008	Not completed					
Yarrabah Aboriginal Shire Council	30.06.2008	02.06.2009	17.06.2009	E			✓
Aboriginal Shire council – abolished							
Umagico Aboriginal Shire Council	14.03.2008	Not completed					
By Arrangement							
BHC Development Services Pty Ltd	30.06.2008	#					
BHC Nudgee Pty Ltd	30.06.2008	#					
BHC Richlands Pty Ltd	30.06.2008	#					
Brisbane Housing Company Limited	30.06.2008	30.10.2008	31.10.2008	U		✓	

There were no material transactions for these companies during the 2007-08 financial year and no accounts were prepared for audit. The Auditor-General resigned as auditor of these entities on 25 November 2008.

Entity name	Balance date	Financial statements			Timeliness of completion		
		Financial statements signed	Auditor's report signed	Auditor's opinion	< 3 months	3 to 6 months	> 6 months
Building and Construction Industry Training Fund (Qld)	30.06.2008	04.09.2008	05.09.2008	U	✓		
Gold Coast Motor Events Co.	31.12.2008	19.02.2009	18.03.2009	U	✓		
Innovis Investments Australia LP	31.12.2008	26.02.2009	06.04.2009	U		✓	
International WaterCentre Joint Venture	31.12.2008	09.03.2009	09.03.2009	U	✓		
QMI Solutions Limited	30.06.2008	21.11.2008	21.11.2008	U		✓	
Queensland Manufacturing Institute Trust	30.06.2008	21.11.2008	21.11.2008	U		✓	
Uninet Enclosure Systems Joint Venture	31.12.2008	16.02.2009	16.02.2009	U	✓		
By Arrangement–Under Trust Deed							
Australian International Campuses Trust	31.12.2008	23.02.2009	23.02.2009	U	✓		
Premier's Disaster Relief Appeal Trust	30.06.2008	09.12.2008	15.12.2008	U		✓	
Premier's Necessitous Circumstances Relief Appeal Fund	12.05.2008	09.12.2008	15.12.2008	U			✓
Queensland Community Foundation	30.06.2008	02.12.2008	10.12.2008	U		✓	
The Cyclone Larry Disaster Relief Fund	30.06.2008	09.12.2008	15.12.2008	U		✓	
Controlled entities							
A.C.N. 123 240 906 Pty Ltd (formerly Fluoro Therapies Pty Ltd)	31.12.2008	Dormant					
Activetorque Pty Ltd	31.12.2008	02.03.2009	06.03.2009	A	✓		
Annotex Pty Ltd	31.12.2008	02.03.2009	06.03.2009	A	✓		
Ausonex Pty Ltd	31.12.2008	09.03.2009	11.03.2009	D	✓		
Aussie Colours Pty Ltd	31.12.2008	04.03.2009	11.03.2009	U	✓		
Australian Canopy Crane Pty Ltd[1]	31.12.2008	Liquidated					
Australian International Campuses Pty Ltd	31.12.2008	23.02.2009	23.02.2009	U	✓		
Australian Tropical Forest Institute Pty Ltd	31.12.2008	Dormant					
Ballastech Pty Ltd	31.12.2008	Dormant					
Barambah Community Services Limited	30.06.2008	Not completed					
Bilexys Pty Ltd	31.12.2008	02.03.2009	06.03.2009	E	✓		
Bireme Pty Ltd	31.12.2008	04.03.2009	06.03.2009	E	✓		
Board of Trustees of the Ipswich Boys' Grammar School Centenary Building Fund	31.12.2008	10.03.2009	12.03.2009	U	✓		

Entity name	Balance date	Financial statements			Timeliness of completion		
		Financial statements signed	Auditor's report signed	Auditor's opinion	< 3 months	3 to 6 months	> 6 months
Boonah and District Art Gallery and Library Trust	30.06.2008	Not completed					
Boonah and District Performing Arts Centre Trust Fund	30.06.2008	Not completed					
Brisbane Business School Pty Ltd	31.12.2008	Dormant					
Brisbane Festival Limited	31.12.2008	25.03.2009	25.03.2009	U	✓		
C Management Services Pty Ltd	31.12.2008	23.02.2009	23.02.2009	U	✓		
Castra Retirement Home Limited	30.06.2008	Not completed					
CCA Therapeutics Pty Ltd	31.12.2008	Dormant					
CILR Pty Ltd	31.12.2008	Dormant					
CiTR Pty Ltd	31.12.2008	20.03.2009	25.03.2009	U	✓		
Corpison Pty Ltd	31.12.2008	02.03.2009	06.03.2009	E	✓		
CQU Travel Centre Pty Ltd	31.12.2008	23.02.2009	23.02.2009	U	✓		
Creative Industries Precinct Pty Ltd	31.12.2008	04.02.2009	04.02.2009	U	✓		
Cyclagen Pty Ltd	31.12.2008	Dormant					
Dendright Pty Ltd	31.12.2008	02.03.2009	06.03.2009	E	✓		
Dendrimed Pty Ltd	31.12.2008	02.03.2009	06.03.2009	E	✓		
Diabax Pty Ltd	31.12.2008	Dormant					
Edward River Crocodile Farm Pty Ltd	30.06.2008	Not completed					
ElaCor Pty Ltd	31.12.2008	27.03.2009	27.03.2009	U	✓		
First Investor Pty Ltd	31.12.2008	Dormant					
GeneCo Pty Ltd	31.12.2008	Dormant					
Gold Coast Events Management Ltd (trading as Queensland Events Gold Coast)	30.06.2008	19.08.2008	19.08.2008	U	✓		
Gold Coast Innovation Centre Ltd	31.12.2008	23.03.2009	23.03.2009	U	✓		
Griffith Medical Research Institute Limited	31.12.2008	29.01.2009	29.01.2009	U	✓		
Health Insitu Pty Ltd	31.12.2008	Dormant					
Herdvac Pty Ltd	31.12.2008	02.03.2009	06.03.2009	A	✓		
IMBcom Asset Management Company Pty Ltd	31.12.2008	Dormant					
IMBcom Asset Trust	31.12.2008	27.02.2009	18.03.2009	U	✓		
IMBcom Pty Ltd	31.12.2008	06.03.2009	18.03.2009	U	✓		

Entity name	Balance date	Financial statements		Auditor's opinion	Timeliness of completion		
		Financial statements signed	Auditor's report signed		< 3 months	3 to 6 months	> 6 months
Industrial Supplies Office (Queensland) Limited	30.06.2008	05.11.2008	12.11.2008	E		✓	
Innovation Centre Sunshine Coast Pty Ltd	31.12.2008	25.02.2009	13.03.2009	U	✓		
JCU Enterprises Pty Ltd	31.12.2008	26.02.2009	26.02.2009	U	✓		
JCU Uninet Pty Ltd	31.12.2008	16.02.2009	16.02.2009	U	✓		
JK Analysis Pty Ltd	31.12.2008	Dormant					
JKTech Pty Ltd	31.12.2008	06.02.2009	10.02.2009	U	✓		
Kalthera Pty Ltd	31.12.2008	Dormant					
Kingaroy Private Hospital Limited	30.06.2008	Not completed					
LanguageMap Pty Ltd	31.12.2008	02.03.2009	06.03.2009	E	✓		
Lazy Acres Caravan Park	30.06.2008	12.12.2008	17.12.2008	U		✓	
Leximancer Pty Ltd	31.12.2008	09.03.2009	11.03.2009	U	✓		
Lightanate Pty Ltd	31.12.2008	Dormant					
Lucia Publishing Systems Pty Ltd	31.12.2008	04.03.2009	11.03.2009	A	✓		
Major Brisbane Festivals Pty Ltd	31.12.2008	26.03.2009	26.03.2009	U	✓		
Med-e-Serv Pty Ltd	31.12.2008	Not completed					
Millipede Forming Pty Ltd	31.12.2008	Dormant					
Monte Carlo Caravan Park Pty Ltd	30.06.2008	18.11.2008	19.11.2008	U		✓	
Monte Carlo Caravan Park Trust	30.06.2008	18.11.2008	19.11.2008	U		✓	
Nephrogenix Discretionary Trust	31.12.2008	Dormant					
Nephrogenix Pty Ltd	31.12.2008	Dormant					
Neurotide Pty Ltd	31.12.2008	03.03.2009	06.03.2009	A	✓		
North Queensland Commercialisation Company Pty Ltd	31.12.2008	Dormant					
Organics Reclaimed Pty Ltd	30.06.2008	Not completed					
Pepfactants Pty Ltd	31.12.2008	02.03.2009	06.03.2009	E	✓		
Polyvacc Pty Ltd	31.12.2008	04.03.2009	10.03.2009	U	✓		
Progel Pty Ltd	31.12.2008	Dormant					
Queensland Music Festival Pty Ltd	30.09.2008	29.01.2009	30.01.2009	U		✓	
QUT Enterprise Holdings Pty Ltd	31.12.2008	25.02.2009	26.02.2009	U	✓		

Entity name	Balance date	Financial statements			Timeliness of completion		
		Financial statements signed	Auditor's report signed	Auditor's opinion	< 3 months	3 to 6 months	> 6 months
QUT Enterprise Holdings Trust	31.12.2008	25.02.2009	26.02.2009	U	✓		
Qutbluebox Pty Ltd	31.12.2008	Dormant					
Qutbluebox Trust	31.12.2008	05.02.2009	05.02.2009	U	✓		
Rapisure Pty Ltd	31.12.2008	02.03.2009	06.03.2009	D	✓		
RRC Company Pty Ltd	31.12.2008	Dormant					
Sarv Pty Ltd	31.12.2008	20.03.2009	25.03.2009	U	✓		
Seno Sano Pty Ltd	31.12.2008	Not completed					
Symbiosis Group Limited	31.12.2008	10.03.2009	11.03.2009	U	✓		
Tenasitech Pty Ltd	31.12.2008	05.03.2009	11.03.2009	A	✓		
UATC Pty Ltd	31.12.2008	Dormant					
Unicare (NQ) Limited	31.12.2008	10.02.2009	10.02.2009	U	✓		
UniHealth (NQ) Limited	31.12.2008	14.02.2009	14.02.2009	U	✓		
UniQuest Asset Trust	31.12.2008	04.03.2009	11.03.2009	U	✓		
UniQuest Pty Limited	31.12.2008	04.03.2009	11.03.2009	U	✓		
University of Queensland Foundation Trust	31.12.2008	20.03.2009	25.03.2009	U	✓		
UQ Holdings Pty Ltd	31.12.2008	20.03.2009	25.03.2009	U	✓		
UQ Investment Trust	31.12.2008	20.03.2009	25.03.2009	U	✓		
UTSAT Pty Ltd	31.12.2008	Dormant					
UWAT Pty Ltd	31.12.2008	Dormant					
Vacquel Pty Ltd	31.12.2008	04.03.2009	11.03.2009	A	✓		
Wave Instruments Pty Limited	31.12.2008	04.03.2009	11.03.2009	A	✓		
WBBROC Project Management Pty Ltd	30.06.2008	11.05.2009	11.05.2009	U			✓
Wollemi Australia Pty Ltd	30.06.2008	19.12.2008	19.12.2008	E		✓	
Woombye Gardens Caravan Park	30.06.2008	12.12.2008	17.12.2008	U		✓	
Xenimet Pty Ltd	31.12.2008	02.03.2009	09.03.2009	E	✓		
Departmental agencies							
Property Services Group	30.06.2008	04.08.2008	05.08.2008	U	✓		

Entity name	Balance date	Financial statements			Timeliness of completion		
		Financial statements signed	Auditor's report signed	Auditor's opinion	< 3 months	3 to 6 months	> 6 months
Joint controlled entities							
Australia TradeCoast Limited	30.06.2008	12.11.2008	17.11.2008	U		✓	
Darling Downs Regional Organisation of Councils Limited[2]	30.06.2008	Liquidated					
Injury Prevention and Control (Australia) Ltd	30.06.2008	Dormant					
International WaterCentre Pty Ltd	31.12.2008	09.03.2009	09.03.2009	U	✓		
North Queensland Local Government Association	31.12.2008	30.04.2009	30.04.2009	U		✓	
Queensland Cyber Infrastructure Foundation Ltd	31.12.2008	24.03.2009	25.03.2009	U	✓		
The Grammar Schools of Queensland Association Inc.	31.12.2008	Not completed					
Western Downs Regional Organisation of Councils[3]	31.10.2008	25.05.2009	25.05.2009	U			✓
Western Queensland Local Government Association	30.06.2008	Not completed					
Western Sub Regional Organisation of Councils	30.06.2008	Not completed					
Whitsunday Hinterland and Mackay Bowen Regional Organisation of Councils Inc.	30.06.2008	Not completed					
Local governments							
Aurukun Shire Council	30.06.2008	Not completed					
Diamantina Shire Council	30.06.2008	Not completed					
McKinlay Shire Council	30.06.2008	02.04.2009	08.05.2009	Q E			✓
Mornington Shire Council	30.06.2008	03.04.2009	27.05.2009	D			✓
Local governments – abolished							
Belyando Shire Council	14.03.2008	Not completed					
Biggenden Shire Council	14.03.2008	Not completed					
Crows Nest Shire Council	14.03.2008	Not completed					
Eidsvold Shire Council	14.03.2008	Not completed					
Gayndah Shire Council	14.03.2008	Not completed					
Monto Shire Council	14.03.2008	Not completed					
Mundubbera Shire Council	14.03.2008	Not completed					
Perry Shire Council	14.03.2008	Not completed					
Pittsworth Shire Council	14.03.2008	Not completed					

Entity name	Balance date	Financial statements			Timeliness of completion		
		Financial statements signed	Auditor's report signed	Auditor's opinion	< 3 months	3 to 6 months	> 6 months
Statutory bodies							
Board of Trustees of the Brisbane Girls' Grammar School	31.12.2008	03.03.2009	03.03.2009	U	✓		
Board of Trustees of the Brisbane Grammar School	31.12.2008	12.03.2009	12.03.2009	U	✓		
Board of Trustees of the Ipswich Girls' Grammar School	31.12.2008	05.03.2009	06.03.2009	U	✓		
Board of Trustees of the Ipswich Grammar School	31.12.2008	10.03.2009	12.03.2009	U	✓		
Board of Trustees of the Rockhampton Girls' Grammar School	31.12.2008	05.03.2009	10.03.2009	U	✓		
Board of Trustees of the Rockhampton Grammar School	31.12.2008	27.02.2009	04.03.2009	U	✓		
Board of Trustees of the Toowoomba Grammar School	31.12.2008	12.03.2009	13.03.2009	U	✓		
Board of Trustees of the Townsville Grammar School	31.12.2008	03.03.2009	04.03.2009	U	✓		
Bollon South Water Authority	30.06.2008	05.11.2008	26.11.2008	U		✓	
Bundaberg Health Services Foundation	30.06.2008	22.12.2008	23.12.2008	Q E		✓	
Central Queensland University	31.12.2008	24.02.2009	24.02.2009	U	✓		
Contract Cleaning Industry (Portable Long Service Leave) Authority	30.06.2008	26.08.2008	29.08.2008	U	✓		
Griffith University	31.12.2008	27.02.2009	27.02.2009	U	✓		
James Cook University	31.12.2008	26.02.2009	26.02.2009	U	✓		
Mount Isa Water Board	30.06.2008	29.01.2009	30.01.2009	E			✓
North Burdekin Water Board	30.06.2008	Not completed					
PA Foundation	30.06.2008	23.12.2008	24.12.2008	Q E		✓	
Palmgrove Water Board	30.06.2008	Not completed					
Professional Standards Council	30.06.2008	17.12.2008	24.12.2008	U		✓	
Queensland College of Teachers	31.12.2008	20.02.2009	25.02.2009	U	✓		
Queensland Harness Racing Board	30.06.2008	30.09.2008	12.11.2008	E		✓	
Queensland Theatre Company	31.12.2008	13.03.2009	13.03.2009	U	✓		
Queensland University of Technology	31.12.2008	25.02.2009	26.02.2009	U	✓		
South Burdekin Water Board	30.06.2008	Not completed					
South Maroochy Drainage Board	30.06.2008	Not completed					
The University of Queensland	31.12.2008	20.03.2009	25.03.2009	U	✓		
University of Southern Queensland	31.12.2008	10.03.2009	10.03.2009	U	✓		

Entity name	Balance date	Financial statements			Timeliness of completion		
		Financial statements signed	Auditor's report signed	Auditor's opinion	< 3 months	3 to 6 months	> 6 months
University of the Sunshine Coast	31.12.2008	12.03.2009	13.03.2009	U	✓		
Wambo Shire River Improvement Trust	30.06.2008	Not completed					
Torres Strait island councils – abolished							
Badu Island Council	14.03.2008	16.01.2009	05.06.2009	D			✓
Bamaga Island Council	14.03.2008	Not completed					
Saibai Island Council	14.03.2008	Not completed					
Ugar Island Council	14.03.2008	Not completed					

1 This company was voluntarily liquidated on 12 August 2008.

2 This company was voluntarily liquidated on 21 July 2008.

3 This company was voluntarily liquidated on 31 October 2008.

6.2 Update from Auditor-General's Report to Parliament No. 9 for 2008

On pages 39 and 40 of Auditor-General's Report to Parliament No. 9 for 2008 tabled in Parliament on 13 November 2008, Queensland Bulk Water Supply Authority, Queensland Bulk Water Transport Authority and South East Queensland Water Corporation Limited (trading as SEQWater) were incorrectly listed under the ministerial portfolio of the Deputy Premier and Infrastructure and Planning. These entities should have been listed under the Natural Resources and Water portfolio. Also on page 40, South East Queensland Water Corporation Limited (trading as SEQWater) was listed as receiving a qualified auditor's opinion, when it should have shown that the Corporation's auditor's opinion included an emphasis of matter.

7 Appendices

7.1 Stakeholders' responses

7.1.1 Project cost escalation (Section 2.1)

Treasury Department response

The Under Treasurer provided the following response:

'…I would like to offer some specific comments in relation to the recommendation that all projects in SEQIPP be escalated to estimated final cost and that the rate of escalation be disclosed.

As you would be aware, the purpose of SEQIPP is to outline the Government's infrastructure priorities to support the SEQ Regional Plan. While SEQIPP is linked to the annual State Budget process, it is a planning document, not a Budget document.

Therefore, the benefits of escalating all SEQIPP projects to estimated final cost are unclear, particularly given that SEQIPP projects range from those in the very early stages of planning to those that have had business cases and funding formally approved by Government.

The key issue, from a Budget management perspective, is to ensure that Budget allocations for all SEQIPP projects which fall within the Forward Estimates period incorporate appropriate allowances for escalation. I can assure you that Treasury works closely with the Department of Infrastructure and Planning and project delivery agencies to ensure that this occurs…'

Department of Infrastructure and Planning response

The Director-General provided the following response:

'In relation to cost escalation, the Department will commence the development of a cost escalation methodology for civil infrastructure projects. In developing the guidelines, the Department will work with the Department of Transport and Main Roads, the Department of Public Works and Queensland Treasury to ensure consistency across the three methodologies.

Also, in relation to cost escalation in the South East Queensland Infrastructure Plan and Program, I wish to advise that your recommendation is currently under discussion.'

Department of Health response

The Acting Director-General provided the following response:

- *'Guidance and improved understanding of cost-escalation is supported.*
- *The Department would welcome a standardised cost escalation methodology and any other additional guidelines and guidance made available.*
- *Queensland Health's indexation of SEQIP-related projects was developed in consultation with Queensland Treasury.*
- *Further to Government's direction for agencies to use the Department of Public Works for the validation of cost estimates, the Department of Public Works' expertise in the costing of building construction projects could be similarly recognised for building construction cost escalation purposes.'*

Department of Transport and Main Roads response

The Director-General provided the following response:

'…A definition of exactly what is meant by "cost escalation" is needed…as there are several different meanings of the terminology across departments….

Recommendation 6, about presenting SEQIPP project cost estimates in outturn dollars, would have disadvantages as it calls for long term estimation, which by its nature is less reliable due to the significantly increased levels of uncertainty.

The final CEO Subcommittee report on the wider implications of the independent report into Main Roads cost estimating practices has been submitted to the CEO Committee…'

7.1.2 Benefits realisation (Section 2.2)

Department of Infrastructure and Planning response

The Director-General provided the following response:

'The Department is committed to ensuring effective delivery of the Government's infrastructure investment and I am encouraged by your support of the Department's role in leading whole-of-government reform through the Project Assurance Framework (PAF) and the implementation of the Gateway process.

In terms of the PAF, I recently wrote to all agency Directors-General informing them of the availability of the updated PAF and reiterating the original principles that agency specific project management arrangements must meet the PAF principles. The Department has dedicated resources to the ongoing refinement of the PAF and liaising with Government agencies to increase awareness of and use of the PAF in developing business cases. It is my understanding that Queensland Treasury developed preliminary benefits management guidance material that addresses your recommendations. The Department will liaise with Queensland Treasury in developing this guidance material for inclusion in the PAF.'

Department of Transport and Main Roads response

The Director-General provided the following response:

'The former Department of Main Roads recognised benefit realisation as a component of the Road System Manager (RSM) Framework for some time now. This will continue to be an important consideration for Department of Transport and Main Roads moving forward.

The department is committed to continued development of its benefit realisation processes and culture, with work currently under way investigating Ex-post Evaluation Methodologies.

Further, a number of initiatives (the Accelerated Road Rehabilitation Program (ARRP) and the Enhanced Road Condition Project (ERCP)) are underway that are seeking to find improvements and measure performance in a number of components, including benefits realisation.

Overall, these recommendations support the department's RSM framework, and the new business model for the Department of Transport and Main Roads will make it an even more effective governance tool for program and project management within the department.

I acknowledge that one of the key drivers in the recent creation of the Department of Transport and Main Roads was to reinforce end-to-end policy and planning outcomes. As such, the Department will utilise the combined resources of the two former agencies to continue to strive toward best practice.'

7.1.3 Leaseback of land (Section 2.3)

Treasury Department response

The Under Treasurer provided the following response:

'Recommendation 1: Response

The interdepartmental Property Management Committee will develop a Government Land policy on the leaseback of land acquired by the State. The Department of Environment and Resource Management will sponsor introduction of the policy to the Committee.

Recommendations 2 and 3

Agencies are required to comply with the Australian Accounting Standards and Treasury's Financial Reporting Requirements. Therefore Treasury agrees that, where appropriate, agencies should disclose in their financial statements a general description of any leasing arrangement to which they are party as a lessor. Any non-compliance with the Standards should be identified during the annual audit process.

Treasury will consider the Auditor-General's recommendation in relation to the required disclosures for property being leased at below market rents when it next reviews the Financial Reporting Requirements.'

Department of Environment and Resource Management

The Director-General provided the following response:

'…A whole-of-government policy which is founded on sound clear principles and achieves consistency across government agencies is welcomed. Accordingly, I support the purpose and outcomes sought in your recommendations.

Your draft recommendations include that:

> *a whole-of-government policy be created by the Department of Environment and Resource Management for the lease payments, tenure and other conditions for land which is subsequently leased after its acquisition. Where the lease conditions for specific land acquisitions do not reflect a commercial rate of return based on the acquisition value of the land, the policy should provide a framework for appropriate approval and disclosure. This policy should include minimum documentation standards for acquisitions and leaseback procedures and a policy review period.*

I would suggest that rather than DERM creating the whole-of-government policy this work may be more appropriately undertaken under the auspices of the Property Management Committee (PMC) and released as a 'Government Land Policy'. This would give the policy greater whole-of-government standing. DERM would provide assistance to the PMC in preparing the policy and sponsor introduction to the Committee. The PMC could authorise and publish the policy providing for broad agency acceptance.'

Department of Infrastructure and Planning response

The Director-General provided the following response:

'In relation to lease back of land, the Department's policy is consistent with the current Department of Environment and Resource Management policy. The Department would support the development of a whole-of-government policy which includes appropriate consultation with relevant Government agencies and entities that acquire land for infrastructure projects.'

7.1.4 Implementation of a project review framework (Section 2.4)

Department of Infrastructure and Planning response

The Director-General provided the following response:

'I am also encouraged by your recommendation that the Department fully implement the Gateway Process to ensure major projects are administered and delivered in accordance with individual approved business plans. Consistent with the recommendation in your Report No 5 to Parliament for 2008, the Department allocated dedicated resources to continue the development and implementation of Gateway initially, for high risk infrastructure projects in south east Queensland. To date, the Department has undertaken 14 reviews. The Department will continue to undertake reviews as well as developing a training capability, lessons learned and benefits realisation framework to ensure that learnings from reviews are consolidated and disseminated across Government, thereby improving whole-of-government project delivery efficiency.'

7.1.5 Valuation indices (Section 3.2)

Treasury Department response

The Under Treasurer provided the following response:

'It is acknowledged that agencies could enhance their existing asset valuation and impairment policies, procedures and practices. To assist agencies undertake their annual revaluation and impairment testing processes Treasury recently released two checklists – Checklist for Revaluations – Interim and Comprehensive Revaluations *and* Checklist for Testing and Adjusting for Impairment – *to help ensure agencies' revaluation and impairment processes reflect better practice.*

These checklists are available on the Treasury web-site and will also be incorporated into the Non-Current Asset Policies for the Queensland Public Sector *with the next update.'*

7.1.6 IT network security (Section 4.2)

Department of Public Works response

The Director-General provided the following response:

'The Department of Public Works agrees with the audit opinion that all agencies need to coordinate regular (annual) external audits of their security processes and controls.

As part of the review of IS18, QGCIO has already identified a potential new requirement for agencies to complete an annual ICT security audit against information security checklists which are currently being developed. Regular audits and centralised reporting to QGCIO will assist with tailored and focused development of security advice and tools to aid agency ICT security implementation…

The Department acknowledges that at this time there is no centrally coordinated reporting and monitoring process for government ICT security incidents. A review of the need for this central reporting will form part of the development of the Information Security Action Plan*, and will consider appropriate locations for the operation of this service.*

The Department acknowledges the list of key issues contained within the audit and will include consideration of actions to address these in the Information Security Action Plan*.*

Firewalls and internet security

The Department agrees with the audit finding that firewall rules should be frequently reviewed and audited. The review of IS18 will consider the need for providing specific audit checks related to firewall configurations included in the planned information security checklist.

Intrusion detection and prevention systems

The Department acknowledges the audit finding that agencies should install automated Intrusion Detection and Prevention (IDP) systems but notes that for these systems to operate effectively they require a considerable investment of skilled human resources in order to monitor, tune, interpret and act upon events. Installing the automated technology is only a part of the solution, and many agencies will struggle to find the required human and financial resources.

Further investigation and analysis of the use of IDP systems within the Queensland Government needs to occur before the deployment of these systems across all agencies will be mandated.

It should be noted that CITEC has been consolidating agency access to the internet, and thus the number of external to government network connections had greatly reduced recently, and agencies will now be able to take advantage of whole-of-Government protections.

Security levels required from third party suppliers

The Department acknowledges that agencies may have difficulty in negotiating adequate levels of security protections from third party suppliers. It is suggested that agencies consider incorporating demonstrated compliance with Queensland Government policies and Information Standards as part of the service levels negotiated with third party suppliers.

QGCIO has developed and made available, through the Information Security Steering Committee, the Queensland Government Network Transmission Security Assurance Framework (NTSAF) *in order to assist agencies to determine appropriate classification based controls for the transmission of information including encryption. This framework is intended to go to formal agency consultation in July 2009 with formal approval expected later in 2009. A requirement to abide by the framework will be included in the reviewed IS18.*

Security weaknesses due to network design

The Department considers that regular audits of agencies should greatly help identify and rectify the issues identified in the report. QGCIO will ensure that there are specific audit checks related to network design, configuration and vulnerability as well as integrity checking included in the information security checklist under development.

Inadequate network systems documentation

QGCIO currently creates and publishes policies, standards, guidelines and a security toolbox that includes templates for some ICT security documentation. This document suite is being reviewed as part of the IS18 review. QGCIO will consider creating more templates and assisting agencies in completing security documentation by providing education sessions if there is sufficient interest from agencies.

Inadequate vulnerability management processes

The Department supports the audit finding that agencies should develop and implement processes to manage software vulnerability risks. This will be considered during the review of IS18.

Network security policy or guidelines not documented

As per the network systems documentation, incorporation of additional advice and guidance to agencies in these areas will be considered in the review of IS18. It should be noted that the QGCIO has recently been consulted on and will shortly finalise, an Information Security Policy Framework *based on the ISO 27000 series which defines the domains of coverage required by information security policy.*

Other issues

Disaster recovery and management of ICT equipment through its lifecycle as well as incident identification, monitoring, reporting and rectification are all addressed to some degree in current QGCIO documentation and each of these areas will be considered in the review of IS18.

The IDES program will address email security and content filtering in a consistent way for all Microsoft Exchange based activities.

The Foundation Infrastructure Project (FIP) is currently evaluating tenders for the supply of enterprise management software for the whole-of-government ICT infrastructure which includes Security Information and Event Management (SIEM) software and Patch Vulnerability Management software.'

7.1.7 IT governance and project management (Section 4.3)

Department of Education and Training response

The Acting Director-General provided the following response:

'In response to the findings a number of key actions have already been taken independently of the audit to improve DET's ICT governance and project management practices.

A concerted effort has been underway since the start of the year to strengthen and formalise a DET ICT governance framework. This framework has now been approved by the Executive Management Group in April 2009 and direction has been given that all current and future ICT projects will align to the approved governance arrangements.

DET has committed to implementing the approved Queensland Government Chief Information Offie (QGCIO) project management methodology based on PRINCE2 and managing successful programs. This body of work commenced last year and will continue throughout the year. The intention is to reach a level three maturity in these areas as defined by QGCIO. It is expected that by DET reaching this level of maturity, it will greatly enhance the appropriate functioning of key ICT governance bodies including individual program and project boards.

The implementation of a DET ICT Portfolio Investment office is underway to commence activities on 1 July 2009. This office will support DET ICT governance bodies through formal processes to manage the DET ICT portfolio. As a part of the implementation of the DET ICT Portfolio Investment office, the terms of reference of key ICT governance bodies have been revised and strengthened to ensure these bodies undertake regular reviews of ICT risks, security issues, business continuity plans and the performance of overall ICT portfolio.'

7.1.8 Status of IT project management following the 2008 audit (Section 4.4)

TransLink Transit Authority response

The Chief Executive Officer provided the following response:

'You report that TransLink had intended to develop a project management centre of excellence to action issues raised, and that none of the actions were implemented. It is worth noting that the creation of the TransLink Transit Authority was a contributing factor to the delay in implementing these actions. The team assigned responsibility for developing the project management centre of excellence was retained by Queensland Transport.

In response to recommendations by QAO following the 2008 audit, TransLink has commenced the development of a Project Management Strategy. The mandate for this work includes:

- *Recognition of TransLink as a leading project managed organisation*
- *The ability of key program personnel to understand their roles in projects, and for them to have a consistent expectation of what project management quality should be provided by partner organisations*
- *Rigour in project selection and continuance through the consistent use of business cases and other project controls*
- *A scalable project management method that can be applied by TransLink to any level of project management experience*

Since completion of the field work for the 2009 Audit, TransLink has formed the TransLink Investment Panel, with its inaugural meeting in April 2009. One purpose of the panel is to review and approve all capital projects that TransLink undertakes. The panel sets budgets and benefit expectations for all projects, and may also set governance and project management rigour expectations. The panel will be the higher authority for the approval of investment to progress project stages.

To support this panel, the TransLink Transit Authority is in the process of restructuring its activities. This restructure will include the establishment of the Investment and Infrastructure Group which will be responsible for investment control, program management and major projects. The director of this group will report directly to the CEO.

With this in mind I would like to address the specific issues concerning the Real Time Passenger Information System project (RTPIS).

A formal project plan and quality plan has not been produced and approved.

In response to the findings by QAO, a formal RTPIS project plan defining stage gates, and a quality plan are currently being drafted, and scheduled to be presented to the project board at the next meeting.

Formal project management methodology was not consistently applied to RTPIS project

As a Division of Queensland Transport the RTPIS project was established and developed using Queensland Transport's in-house methodology On-Q.

The initial stage of the project was primarily about establishing a relationship with potential suppliers and procurement of a real-time system. As a vast majority of real-time system suppliers are internationally based, it was decided to apply and internationally recognised standard to the procurement process, notwithstanding the need to be compliant with State Procurement Policy.

Therefore, the procurement and supporting documentation was developed using AS/NZS 15288, which is complimentary to ISO/IEC 15288.

During the procurement of the real-time system the Queensland Government Chief Information Office (Department of Public Works) determined that PRINCE2 would be the 'standard' by which all government projects would be managed. After the transition to the TransLink Transit Authority and in accordance with this advice, TransLink is in the process of transitioning the RTPIS project to a PRINCE2 framework.

While the above does not contradict the audit findings, 'best of breed' methodologies have been applied to the RTPIS project.

No formal Project Initiation Document (PID) produced for the RTPIS project

TransLink agrees with the findings. Given that the RTPIS transitioned from a project governed by ON-Q to PRINCE2 well after the project initiation stage and during a time when the project was clearly in the process of stage management, a PID was not produced. Developing a retrospective PID would only document historical events, which had been previously addressed during the management of the project.'

8 Acronyms, glossary and references

8.1 Acronyms

AAS	Australian Accounting Standard
AASB	Australian Accounting Standards Board
ABS	Australian Bureau of Statistics
FA&A Act	*Financial Administration and Audit Act 1977*
ICT	Information and communication technology
IT	Information technology
OGC	Office of Government Commerce (United Kingdom)
QAO	Queensland Audit Office
SSA	Shared Services Agency
SSI	Shared services initiative (see Glossary)

8.2 Glossary

Accountability

Responsibility on public sector entities to achieve their objectives, about the reliability of financial reporting, effectiveness and efficiency of operations, compliance with applicable laws, and reporting to interested parties.

Adverse opinion

Type of modified auditor's opinion expressed when the effect of a disagreement with those charged with governance or there is a conflict between applicable financial reporting frameworks so material and pervasive that the financial report taken as a whole is misleading or of little use to the addressee of the auditor's report.

Auditor's opinion

Positive written expression within a specified framework indicating the auditor's overall conclusion on the financial report based on audit evidence obtained.

Benefits management maturity assessment

An assessment of the maturity of a programme or project's benefits using the Office of Government Commerce's "Achieving Success Checklist.

Building price index

Produced by Department of Public Works Quantity Surveyors and is based primarily on tenders for typical Government buildings to a maximum value of $50M (excluding GST). Forecasts are determined by examining recent tenders, future construction activity, reviewing relevant publications and obtaining feedback from contractors and quantity surveying practices. The index reflects the level of competitiveness of tenders, which is largely dependent on the amount of available building work and the availability of resources.

Controlled entities

Entities where another public sector entity has control or ownership because of its shareholding.

Cost-benefit

Weighing the total expected costs against the total expected benefits of one or more actions in order to determine the best option.

Disclaimer of opinion

Type of modified auditor's opinion expressed when a limitation on the scope of the audit exists that is so material and pervasive that an opinion on the financial report is unable to be expressed.

Effectiveness

The achievement of the objectives or other intended effects of activities at a program or entity level.

Efficiency

The use of resources such that output is optimised for any given set of resource inputs, or input is minimised for any given quantity and quality of output.

Emphasis of matter

Included in the independent auditor's report to highlight disclosures made in the notes to the financial statements that more extensively discuss a particular matter impacting on the financial report. An emphasis of matter paragraph is expressly stated to be made 'without qualification' to the auditor's 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.

Federal Government stimulus package

National Partnership Agreement on the Nation Building and Jobs Plan: Building Prosperity for the Future and Supporting Jobs Now

Financial report

A structured representation of financial information. A financial report usually includes accompanying notes derived from accounting records and intended to communicate an entity's economic resources or obligations at a point in time or the changes therein for a period in accordance with a financial reporting framework.

Australian Bureau of Statistics Construction Indexes

Construction industry output price indexes are being developed to measure changes over time in the price of new construction outputs, other than houses. As construction indexes are output indexes the valuation basis of the building output is at basic prices and excludes GST and any subsidies. The price of a building is defined as excluding the price of land, site works (such as demolition, land clearance, roads), external services (such as drainage, water and electricity connection) and design.

Going concern

Means an entity is expected to be able to pay its debts as and when they fall due, and continue to operate without any intention or necessity to liquidate or wind up its operations.

Governance

The role of persons charged with the oversight, control and direction of an entity.

Impairment

When an asset's carrying amount exceeds the amount that can be recovered through use or sale of the asset.

Independent auditor's report

Issued as a result of an audit and contains a clear expression of the auditor's opinion on the entity's financial report.

Materiality

Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements.

Modified auditor's opinion

Expressed either to highlight a matter affecting the financial report or where the auditor is unable to express an unmodified auditor's opinion on the financial report.

Network gateway

A boundary between two networks that often managed by different parties. The network gateway restricts the communications between the two organizations based on security policies. The technologies in a network gateway include firewalls, routers, Ethernet switches, email scanners, web scanners and intrusion detection or prevention systems.

Prescribed requirements

Requirements prescribed by an Act or a financial management standard, but do not include the requirements of a financial management practice manual.

Probity

The standards of ethical behaviour (e.g. honesty, integrity) expected of public servants charged with the stewardship of public funds and the protection of assets.

Qualified opinion

Type of modified auditor's opinion expressed when, except for the effect of a disagreement with those charged with governance, a conflict between applicable financial reporting frameworks or a limitation on scope that is considered material to an element of the financial report, the rest of the financial report can be relied upon.

Shared services initiative

A Government initiative to gain operational efficiencies by centralising facilities for financial processing, human resource and IT infrastructure services.

Unmodified auditor's opinion

An auditor's opinion which has been issued without qualification and has not been modified by including an emphasis of matter paragraph.

8.3 References

Dr H. Doloi, Senior Lecturer in Construction Management and Technology, University of Melbourne, 2009.

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K.T. Yeo, *Risks, Classification of Estimates and Contingency Management*; Journal of Management in Engineering Vol 6, No 4, 1990.

9 Auditor-General's reports

9.1 Tabled in 2009

Report No.	Subject	Date tabled in Legislative Assembly
1	Auditor-General's Report No. 1 for 2009 Results of local government audits **Financial and Compliance Audits**	20 May 2009
2	Auditor-General's Report No. 2 for 2009 Health service planning for the future **A Performance Management Systems Audit**	9 June 2009
3	Auditor-General's Report No. 3 for 2009 Transport network management and urban congestion in South East Queensland **A Performance Management Systems Audit**	23 June 2009
4	Auditor-General's Report No. 4 for 2009 Results of audits at 31 May 2009 **Financial and Compliance Audits**	June 2009

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