

**Consideration of the Auditor-  
General's Report 5: 2017-18**  
***Water: 2016-17 results of financial  
audits***

**Report No. 8, 56<sup>th</sup> Parliament**  
**State Development, Natural Resources**  
**and Agricultural Industry Development**  
**Committee**

**June 2018**

## **State Development, Natural Resources and Agricultural Industry Development Committee**

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### **Acknowledgements**

The committee acknowledges the assistance provided by the Queensland Audit Office.

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## Abbreviations

Auditor-General's report	Auditor-General's Report 5: 2017-18 - Water: 2016-17 results of financial audits
QAO	Queensland Audit Office
Queensland Urban Utilities	Central SEQ Distributor-Retailer Authority (trading as Queensland Urban Utilities)
Seqwater	Queensland Bulk Water Supply Authority (trading as Seqwater)
SunWater	SunWater Limited
Unitywater	Northern SEQ Distributor-Retailer Authority (trading as Unitywater)

## Chair's foreword

This report presents a summary of the State Development, Natural Resources and Agricultural Industry Development Committee's examination of the Auditor-General's Report 5: 2017-18 - Water: 2016-17 results of financial audits.

The committee's task was to consider the Auditor-General's findings in relation to its financial audits of the government's main water sector entities, including bulk water suppliers and distributor-retailers across south-east and regional Queensland.

On behalf of the committee, I thank the Queensland Audit Office for its assistance with the committee's examination.

I commend this report to the House.



**Chris Whiting MP**

Chair

**Recommendation**

**Recommendation 1**

**5**

The committee recommends that the Legislative Assembly note the contents of this report.

## 1 Introduction

### 1.1 Role of the committee

The State Development, Natural Resources and Agricultural Industry Development Committee (committee) is a portfolio committee of the Legislative Assembly which commenced on 15 February 2018 under the *Parliament of Queensland Act 2001* and the Standing Rules and Orders of the Legislative Assembly.<sup>1</sup>

The committee's areas of portfolio responsibility are:

- State Development, Manufacturing, Infrastructure and Planning
- Natural Resources, Mines and Energy, and
- Agricultural Industry Development and Fisheries.

According to s 94(1)(a) of the *Parliament of Queensland Act 2001*, the committee has responsibility within its portfolio areas for:

The assessment of the integrity, economy, efficiency and effectiveness of government financial management by:

- examining government financial documents, and
- considering the annual and other reports of the Auditor-General.

### 1.2 Role of the Auditor-General

The role of the Auditor-General is to provide Parliament with independent assurance of public sector accountability and performance. This is achieved through reporting to Parliament on the results of its financial and performance audits.

A financial audit assesses whether the information contained in the financial statements of public sector entities is accurate, can be relied upon and is prepared in accordance with Australian Accounting Standards and relevant legislative requirements.<sup>2</sup>

The Auditor-General's report titled Report 5: 2017-18 - Water: 2016-17 results of financial audits (Auditor-General's report) was prepared under Part 3 Division 3 of the *Auditor-General Act 2009* and was tabled in the Legislative Assembly in accordance with section 67 of that Act.

### 1.3 Referral of the Auditor-General's report

Standing Order 194B provides the Committee of the Legislative Assembly shall as soon as practicable after a report of the Auditor-General is tabled in the Assembly, refer that report to the relevant portfolio committee for consideration.

A portfolio committee may deal with this type of referral by considering and reporting on the matter and making recommendations about it to the Assembly.<sup>3</sup>

On 14 December 2017, the Auditor-General's report was tabled and on 22 March 2018 it was referred to the committee for consideration and report.

### 1.4 Examination process

The committee received a public briefing on the Auditor-General's report from the Queensland Audit Office (QAO) on 14 May 2018. See Appendix A of this report for a list of witnesses.

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<sup>1</sup> *Parliament of Queensland Act 2001*, s 88 and Standing Order 194.

<sup>2</sup> Queensland Audit Office Practice Statement – Financial statement audit, p 1.

<sup>3</sup> *Parliament of Queensland Act 2001*, s 92(3).

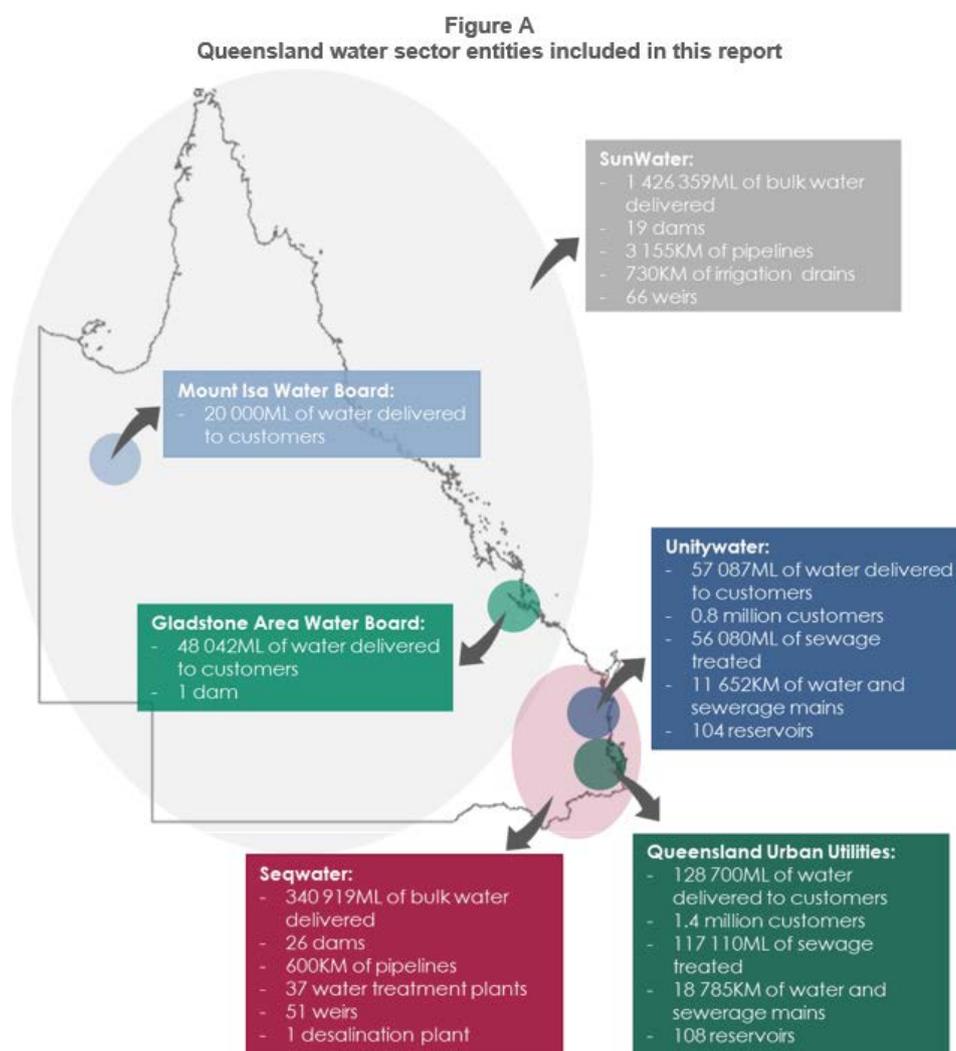
## 2 Examination of the Auditor-General's report

### 2.1 Background

The Auditor-General's report summarises the results of the financial audits of six of the main water sector entities in Queensland:<sup>4</sup>

- Mount Isa Water Board (bulk water supplier)
- Gladstone Area Water Board (bulk water supplier)
- SunWater (bulk water supplier)
- Seqwater (bulk water supplier)
- Queensland Urban Utilities (distributor-retailer)
- Unitywater (distributor-retailer)

The following diagram sets out these entities and their role in the water supply chain in Queensland.



*Source: Auditor-General's Report No. 5, p 1.*

<sup>4</sup> The Auditor-General also examined two controlled entities – Eungella Water Pipeline Pty Ltd and Australian Water Recycling Centre of Excellence Ltd. Smaller water boards and councils were outside the scope of the Auditor-General's report.

The water entities prepare their financial statements in accordance with the following legislative frameworks and reporting deadlines:

Entity	Legislative framework	Legislated deadline
<b>Statutory bodies</b>		
<ul style="list-style-type: none"> <li>▪ Queensland Bulk Water Supply Authority (trading as Seqwater)</li> <li>▪ Northern SEQ Distributor-Retailer Authority (trading as Unitywater)</li> <li>▪ Central SEQ Distributor-Retailer Authority (trading as Queensland Urban Utilities)</li> <li>▪ Gladstone Area Water Board</li> <li>▪ Mount Isa Water Board</li> </ul>	<ul style="list-style-type: none"> <li>▪ <i>Financial Accountability Act 2009</i></li> <li>▪ <i>Financial and Performance Management Standard 2009</i></li> </ul>	31 August 2017
<b>Government owned corporation</b>		
<ul style="list-style-type: none"> <li>▪ SunWater Limited</li> </ul>	<ul style="list-style-type: none"> <li>▪ <i>Government Owned Corporations Act 1993</i></li> <li>▪ <i>Corporations Act 2001</i></li> <li>▪ <i>Corporations Regulations 2001</i></li> </ul>	31 August 2017
<b>Controlled entities</b>		
<ul style="list-style-type: none"> <li>▪ Eungella Water Pipeline Pty Ltd</li> <li>▪ Australian Water Recycling Centre of Excellence Ltd</li> </ul>	<ul style="list-style-type: none"> <li>▪ <i>Corporations Act 2001</i></li> <li>▪ <i>Corporations Regulations 2001</i></li> </ul>	31 October 2017

Source: Auditor-General's Report No. 5, p 40.

## 2.2 Audit conclusions<sup>5</sup>

QAO provided unmodified audit opinions on the financial statements for 2016-17 for all water sector entities. This means that the financial statements of the examined water sector entities were prepared in accordance with legislative requirements and Australian Accounting Standards. QAO stated:

*Water entities used good financial reporting practices to produce high quality financial statements in a timely manner for 2016–17. Entities with issues last year put appropriate processes in place and made information available by the agreed timeframes this year.<sup>6</sup>*

QAO also highlighted that, for the first time in three years, Seqwater's financial report met the legislative deadline.

Throughout its analysis, QAO also examined the effectiveness of the internal controls of water entities to ensure they were suitably designed to prevent, or detect and correct, material misstatements in the financial report.

<sup>5</sup> Information included in this section is from the Queensland Audit Office, *Auditor-General's Report 5: 2017-18 – Water: 2016-17 results of financial audits* (Auditor-General's Report No. 5), unless otherwise cited.

<sup>6</sup> Auditor-General's Report No. 5, p 2.

Generally, QAO found that the control environment for each entity was suitably designed and effective, and that it was able to rely on the internal control systems used to produce financial statements.<sup>7</sup> However, QAO did identify two significant deficiencies (high risk matters) in control activities at SunWater relating to 'individuals' access abilities in the finance system and conflicts in roles and responsibilities in the accounts payable section'.<sup>8</sup> It also identified 13 control deficiencies (low to moderate risk matters) across the sector:

*These are not high risks, but they are matters which should be resolved to ensure a good-quality control environment. These deficiencies mostly relate to general information technology controls relating to user access, system capability and system changes. These issues were isolated and are being addressed by management.*<sup>9</sup>

### **2.2.1 Financial performance, position and sustainability**

As part of its analysis of entities' financial statements, the Auditor-General's report set out a financial snapshot of the Queensland water sector:

- Profits - \$368 million (71% increase from previous year)
- Revenue - \$3.3 billion (6% increase)
- Expenses - \$2.79 billion (0.8% decrease)
- Net Assets - \$7.5 billion (2% increase)
- Total Assets - \$22.6 billion (0.4% decrease)
- Total Liabilities - \$15.1 billion (2% decrease)<sup>10</sup>

At the public briefing, QAO advised the committee that increased profits for the water sector were driven by 'population growth, consumer demand for water and pricing increases across the sector'.<sup>11</sup> QAO noted that Seqwater 'continues to make an operating loss which largely reflects the historical underrecovery of the cost of water and the past acquisition of highly geared businesses, including climate resilient manufactured water assets'.<sup>12</sup>

### **2.3 Issues raised at the public briefing**

At the public briefing, the committee discussed the following issues:

- The control deficiencies identified in the Auditor-General's report with respect to SunWater and the response by SunWater management to address these issues.<sup>13</sup>
- Dividends returned to government and councils from water entities, in particular, the fact that Queensland Urban Utilities and Unitywater make returns to participating councils and that Seqwater does not return a dividend to government.<sup>14</sup>
- Seqwater's improvements in financial reporting.<sup>15</sup>

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<sup>7</sup> Public briefing, Brisbane, 14 May 2018, p 3.

<sup>8</sup> Auditor-General's Report No. 5, p 3.

<sup>9</sup> Public briefing, Brisbane, 14 May 2018, p 3.

<sup>10</sup> Auditor-General's Report No. 5, p 2-3.

<sup>11</sup> Public briefing, Brisbane, 14 May 2018, p 3.

<sup>12</sup> Public briefing, Brisbane, 14 May 2018, p 3.

<sup>13</sup> Public briefing, Brisbane, 14 May 2018, p 5-6.

<sup>14</sup> Public briefing, Brisbane, 14 May 2018, p 6.

<sup>15</sup> Public briefing, Brisbane, 14 May 2018, p 7.

- The use, and ongoing life, of water entity assets (including, in particular, the Gold Coast desalination plant and Western Corridor recycled water assets).<sup>16</sup>
- Future challenges and emerging risks for the water sector (including infrastructure planning for water assets, growth associated with development and contributions made by developers in terms of cash and assets).<sup>17</sup>

A copy of the transcript of the public briefing can be accessed on the committee's web page.<sup>18</sup>

**Recommendation 1**

The committee recommends that the Legislative Assembly note the contents of this report.

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<sup>16</sup> Public briefing, Brisbane, 14 May 2018, p 7.

<sup>17</sup> Public briefing, Brisbane, 14 May 2018, p 8.

<sup>18</sup> <http://www.parliament.qld.gov.au/work-of-committees/committees/SDNRAIDC>

## **Appendix A – Officials at public briefing on 14 May 2018**

### **Queensland Audit Office**

- Ms Daniele Bird, Deputy Auditor-General, Queensland Audit Office
- Ms Rachel Vagg, Sector Director, Queensland Audit Office