

**Consideration of the Auditor-  
General's Report 9: 2017-18**  
***Energy: 2016-17 results of financial  
audits***

**Report No. 9, 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**

<b>Chair</b>	Mr Chris Whiting MP, Member for Bancroft
<b>Deputy Chair</b>	Mr Pat Weir MP, Member for Condamine
<b>Members</b>	Mr David Batt MP, Member for Bundaberg
	Mr James (Jim) Madden MP, Member for Ipswich West
	Mr Brent Mickelberg MP, Member for Buderim
	Ms Jessica (Jess) Pugh MP, Member for Mount Ommaney

### **Committee Secretariat**

<b>Telephone</b>	+61 7 3553 6623
<b>Fax</b>	+61 7 3553 6699
<b>Email</b>	<a href="mailto:sdnraidc@parliament.qld.gov.au">sdnraidc@parliament.qld.gov.au</a>
<b>Technical Scrutiny Secretariat</b>	+61 7 3553 6601
<b>Committee webpage</b>	<a href="http://www.parliament.qld.gov.au/SDNRAIDC">www.parliament.qld.gov.au/SDNRAIDC</a>

### **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 9: 2017-18 - Energy: 2016-17 results of financial audits
CS Energy	CS Energy Limited
Energy Queensland	Energy Queensland Limited
Ergon Energy	Ergon Energy Queensland Pty Ltd
Powerlink	Queensland Electricity Transmission Corporation Limited (trading as Powerlink)
QAO	Queensland Audit Office
Stanwell	Stanwell Corporation Limited

## 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 9: 2017-18 - Energy: 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 energy entities - Stanwell, CS Energy, Powerlink and Energy Queensland, including the entities controlled by these companies and the regulatory submissions to the Australian Energy Regulator for Energex and Ergon.

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

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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 9: 2017-18 - Energy: 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 20 February 2018, the Auditor-General's report was tabled and on 8 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*, section 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

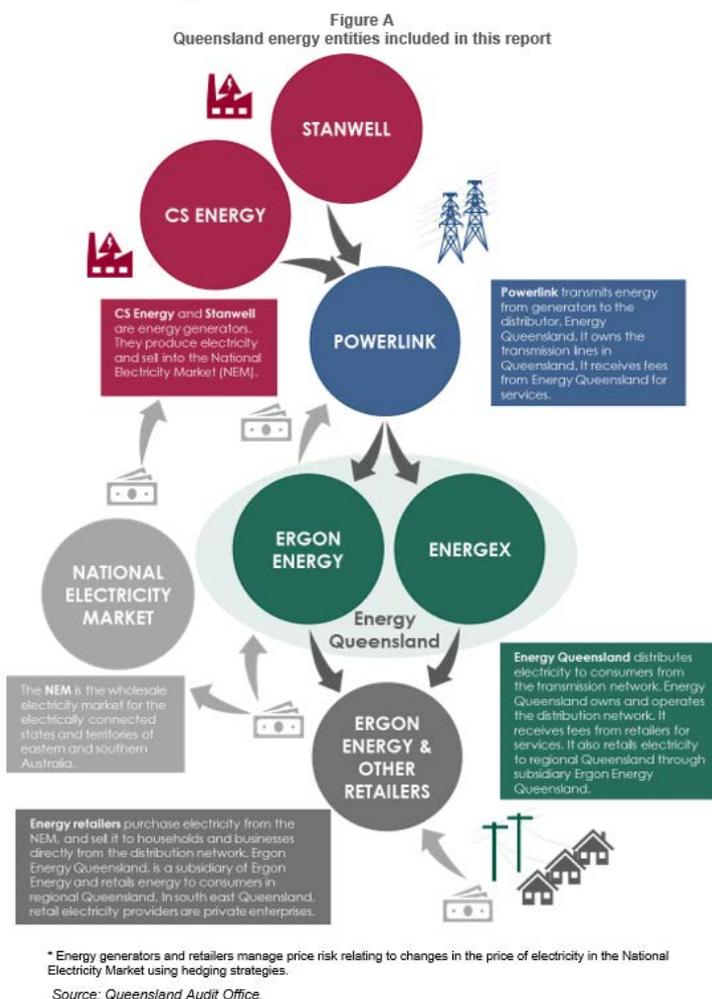
### 2.1 Background

There are four government owned corporations, or 'energy entities', that form the energy sector in Queensland:

- Stanwell Corporation Limited (Stanwell)
- CS Energy Limited (CS Energy)
- Queensland Electricity Transmission Corporation Limited (trading as Powerlink)
- Energy Queensland Limited (Energy Queensland)

The energy sector also includes 31 government owned corporation subsidiaries, but only Ergon Energy Queensland Pty Ltd (Ergon Energy) prepares separate financial statements. The other subsidiaries either have an exemption from the Australian Securities and Investment Commission or are not required under the *Corporations Act 2001* to prepare financial statements.<sup>4</sup>

The following diagram summarises the energy entities and their involvement in the energy supply chain, which comprises generation, transmission, distribution and retail.



Source: Auditor-General's Report No. 9, p 1.

<sup>4</sup> Queensland Audit Office, *Auditor-General's Report 9: 2017-18– Energy: 2016-17 results of financial audits*, (Auditor-General's Report No. 9), p 2.

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

Entity type	Entity	Legislative framework	Legislated deadline
Government owned corporations (GOC)	Stanwell Corporation Limited (Stanwell)	▪ <i>Government Owned Corporations Act 1993</i>	31 August 2017
	CS Energy Limited (CS Energy)	▪ <i>Corporations Act 2001</i>	
	Queensland Electricity Transmission Corporation Limited (Powerlink)	▪ <i>Corporations Regulations 2001</i>	
	Energy Queensland Limited (Energy Queensland)		
Controlled entities	Ergon Energy Queensland Pty Ltd (Ergon Energy Queensland)	▪ <i>Corporations Act 2001</i> ▪ <i>Corporations Regulations 2001</i>	31 October 2017

Source: Auditor-General's Report No. 9, p 1.

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

QAO provided 'unmodified audit opinions' on the financial statements for 2016-17 for all energy sector entities. This means that the financial statements of the examined energy sector entities were prepared in accordance with legislative requirements and Australian Accounting Standards. QAO stated that all entities had 'strong year end close processes that have allowed them to produce high quality financial statements in a timely manner'.<sup>6</sup>

Throughout its analysis, QAO also assessed the strength of internal controls designed, implemented and maintained by entities to ensure reliable financial reporting. QAO found that the 'control environment was suitably designed and implemented for all energy entities'.<sup>7</sup>

QAO did not identify any significant deficiencies (high risk matters) in the control environments across the sector, though it did identify 16 control deficiencies that were low to moderate risk:

*These are matters which should be resolved to ensure a good-quality control environment. These deficiencies mostly related to general information technology controls relating to user access, system capability and system changes. These issues were isolated and are being addressed by management of the entities.*<sup>8</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 energy sector:

- Profits - \$1.9 billion (45% increase from previous year)
- Income - \$10.9 billion (21% increase)
- Expenses - \$8.2 billion (17% increase)
- Net Assets - \$7 billion (9% increase)

<sup>5</sup> Information included in this section is from Auditor-General's Report No. 9, unless otherwise cited.

<sup>6</sup> Auditor-General's Report No. 9, p 2.

<sup>7</sup> Auditor-General's Report No. 9, p 23.

<sup>8</sup> Public briefing transcript, Brisbane, 14 May 2018, p 2.

- Total Assets – \$40.4 billion (7% increase)
- Total Liabilities \$33.4 billion (7% increase)<sup>9</sup>

At the public briefing, QAO advised the committee that increased profits for the energy sector were 'mostly because of increased profits from energy generation—around \$511 million—because of increased demand for energy and record highs in market energy prices'.<sup>10</sup>

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

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

- The control deficiencies identified in the Auditor-General's report and the response by the relevant energy entities.<sup>11</sup>
- The increase in market prices for energy and some of the reasons for this (supply and demand, uncertain carbon policy, particularly hot summer through 2016-17).<sup>12</sup>
- Future challenges and emerging risks for the energy sector (including the value assigned to the coal-fired generation fleet and the effect of the Australian Energy Regulator's pricing regimes on Energy Queensland and Powerlink with respect to their available returns).<sup>13</sup>
- The sustainability of Powerlink.<sup>14</sup>
- Challenges for regional energy distribution networks.<sup>15</sup>
- The useful life of assets of Stanwell and CS Energy.<sup>16</sup>

A copy of the transcript of the public briefing can be accessed on the committee's web page.<sup>17</sup>

#### **Recommendation 1**

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

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<sup>9</sup> Auditor-General's Report No. 9, p 2.

<sup>10</sup> Public briefing transcript, Brisbane, 14 May 2018, p 2.

<sup>11</sup> Public briefing transcript, Brisbane, 14 May 2018, pp 3-4.

<sup>12</sup> Public briefing transcript, Brisbane, 14 May 2018, pp 4, 10.

<sup>13</sup> Public briefing transcript, Brisbane, 14 May 2018, pp 4-5.

<sup>14</sup> Public briefing transcript, Brisbane, 14 May 2018, p 5.

<sup>15</sup> Public briefing transcript, Brisbane, 14 May 2018, p 6.

<sup>16</sup> Public briefing transcript, Brisbane, 14 May 2018, p 6.

<sup>17</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