



Consideration of the Auditor- General's Report 9: 2018-19 *Energy: 2017-18 results of financial audits*

Report No. 25, 56th Parliament
State Development, Natural Resources and
Agricultural Industry Development Committee

March 2019

State Development, Natural Resources and Agricultural Industry Development Committee

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Deputy Chair	Mr Pat Weir MP, Member for Condamine
Members	Mr David Batt MP, Member for Bundaberg
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Abbreviations

Auditor-General's report	Auditor-General's Report 9: 2018-19 - Energy: 2017-18 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: 2018-19 - Energy: 2017-18 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 energy entities - Stanwell, CS Energy, Powerlink, Energy Queensland and Ergon Energy Queensland, and the regulatory notices 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.¹

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.²

The Auditor-General's report titled Report 9: 2018-19 - Energy: 2017-18 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.³

On 22 November 2018, the Auditor-General's report was tabled and on 14 February 2019 it was referred to the committee for consideration and report.

1.4 Examination process

On 25 February 2019, the committee held a public hearing on the Auditor-General's report and heard from officers from the Queensland Audit Office (QAO). See Appendix A of this report for a list of officers at this hearing.

¹ *Parliament of Queensland Act 2001*, section 88 and Standing Order 194.

² Queensland Audit Office Practice Statement – Financial statement audit, p 1.

³ *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 the Queensland Government's energy entities, including

- Stanwell
- CS Energy
- Powerlink
- Energy Queensland
- Ergon Energy Queensland⁴

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	• <i>Government Owned Corporations Act 1993</i>	31 August 2018
	CS Energy Limited	• <i>Corporations Act 2001</i>	
	Queensland Electricity Transmission Corporation Limited (trading as Powerlink Queensland)	• <i>Corporations Regulations 2001</i>	
	Energy Queensland Limited (EQL)		
Controlled entities	Ergon Energy Queensland Pty Ltd	• <i>Corporations Act 2001</i> • <i>Corporations Regulations 2001</i>	31 October 2018

Source: Auditor-General's Report No. 9, p 38.

2.2 Audit conclusions

QAO provided unmodified audit opinions on the financial statements for 2017-18 for all energy sector entities. It also provided assurance over the Regulatory Information Notices that Energex and Ergon provide to the Australian Energy Regulator (AER).

This means that the financial statements of the examined energy entities were prepared in accordance with legislative requirements and Australian accounting standards, and that readers can rely on the financial statements. QAO stated that 'most entities have implemented year-end close processes that have allowed them to produce quality financial statements in a generally timely manner.'⁵

QAO advised that all audits were completed within legislative and AER deadlines, though the timeliness and quality of the financial statements in 2017-18 across the sector was lower than the previous year.⁶

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

⁴ Auditor-General's Report No. 9, p 1.

⁵ Auditor-General's Report No. 9, p 2.

⁶ Auditor-General's Report No. 9, p 2.

financial report. QAO found that the 'control environment was suitably designed and implemented for all energy entities'.⁷

QAO did not identify any significant deficiencies (high risk matters), though it did identify eight control deficiencies (low to moderate risk matters) across the sector in 2018. According to QAO, the energy entities have accepted its recommendations and have either addressed, or are working on addressing, these deficiencies.⁸

At the public hearing, the QAO noted that the timeliness and quality of financial statements in 2017-18 across the sector was lower than the previous year. The QAO stated that this was because during the year, CS Energy and Stanwell experienced complex accounting issues that were not resolved prior to year-end.⁹

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 - \$1.7 billion (9% decrease from previous year)
- Income - \$10.7 billion (stable)
- Expenses - \$9 billion (2% increase)
- Net Assets - \$7.5 billion (6% increase)
- Total Assets – \$40.1 billion (1% decrease)
- Total Liabilities \$37.2 billion (2% decrease)¹⁰

At the public hearing, QAO advised that the overall decrease in profits was mostly due to reduced profits in transmission and distribution which were collectively down \$256 million in that year resulting from lower determinations from the Australian Energy Regulator.¹¹

2.3 Issues raised at the public hearing

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

2.3.1 The debt to equity ratio of the Queensland energy sector.

The committee noted the debt to equity ratio of 76 per cent and were interested in how this figure compares to other state sectors throughout Australia. The QAO advised that although Queensland has a different mix of assets to other Australian states, the debt to equity ratio is consistent nationwide.¹²

2.3.2 The timeliness and quality of financial statements from previous years

The committee were interested in the timeliness and quality of financial statements from previous years in relation to CS Energy and Stanwell. In particular, the review functions of the QAO in ensuring the resolution of these issues.¹³

⁷ Auditor-General's Report No. 9, p 31.

⁸ Auditor-General's Report No. 9, p 34.

⁹ Public Hearing, Brisbane, 25 February 2019, p 2.

¹⁰ Auditor-General's Report No. 9, p 3.

¹¹ Public Hearing, Brisbane, 25 February 2019, p 3.

¹² Public Hearing, Brisbane, 25 February 2019, p 3.

¹³ Public Hearing, Brisbane, 25 February 2019, p 5.

2.3.3 The opportunities and challenges presented by renewable energy sources

The QAO noted that the growth of renewable energy may present challenges for future QAO audits as new products come to market.¹⁴

2.3.4 The inception of a new renewable energy entity

The committee expressed interest in the new entity and how this will affect existing energy entities. In particular, the committee were interested in the inception of CleanCo and how the mix of renewables and coal generation assets may affect the valuations of the coal generation assets and in turn affect the long-term financial stability of entities such as CS Energy and Stanwell. The committee were also interested in whether a more diversified generation base would result in greater financial stability for CS Energy and Stanwell in the long term. The QAO advised that whilst this was generally a policy decision, the entities' future forecasts and the effect of these on expected revenue streams had been considered as part of the audit.¹⁵

2.3.5 The higher cost of electricity to Regional Queensland

The committee were concerned about the effect of higher electricity costs to regional Queenslanders, particularly within the agricultural sector. The committee were specifically interested in the methods identified in the audit to assist with reducing the cost of this electricity. The QAO informed the committee about the community service obligation that the state provides to distributors to equalise electricity prices in regional Queensland, noting that it is a substantial amount of money. The QAO noted that the obligation payment is intended to remove any additional cost that may otherwise be levied as a consequence of distance in terms of the distribution and transmission lines to reach more remote communities.¹⁶

A copy of the transcript of the public hearing can be accessed on the committee's web page.¹⁷

Recommendation 1

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

¹⁴ Public Hearing, Brisbane, 25 February 2019, p 5.

¹⁵ Public Hearing, Brisbane, 25 February 2019, p 5.

¹⁶ Public Hearing, Brisbane, 25 February 2019, p 6.

¹⁷ <http://www.parliament.qld.gov.au/work-of-committees/committees/SDNRAIDC>

Appendix A – Officers at public hearing on 25 February 2019

Queensland Audit Office

- Mr Brendan Worrall, Auditor-General, Queensland Audit Office
- Mr Damon Olive, Sector Director, Energy and Natural Resources, Queensland Audit Office
- Mr Vaughan Stemmett, Sector Director, Water and Infrastructure, Queensland Audit Office