



Consideration of the Auditor- General's Report 8: 2018-19 *Water: 2017-18 results of financial audits*

Report No. 29, 56th Parliament
State Development, Natural Resources and
Agricultural Industry Development Committee

May 2019

State Development, Natural Resources and Agricultural Industry Development Committee

Chair	Mr Chris Whiting MP, Member for Bancroft
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 8: 2018-19 - Water: 2017-18 results of financial audits
QAO	Queensland Audit Office
Queensland Urban Utilities/QUU	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 8: 2018-19 - Water: 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 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

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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 8: 2018-19 - Water: 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 15 November 2018, the Auditor-General's report was tabled and 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*, s 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 six of the main water sector entities in Queensland:

- Seqwater
- SunWater
- Gladstone Area Water Board
- Mount Isa Water Board
- Queensland Urban Utilities
- Unitywater⁴

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

Entity type	Entity	Legislative framework	Legislated deadline
Statutory bodies	Queensland Bulk Water Supply Authority (trading as Seqwater) Northern SEQ Distributor–Retailer Authority (trading as Unitywater) Central SEQ Distributor–Retailer Authority (trading as Queensland Urban Utilities) Gladstone Area Water Board Mount Isa Water Board	<ul style="list-style-type: none"> • <i>Financial Accountability Act 2001</i> • <i>Financial and Performance Management Standard 2009</i> Unitywater and Queensland Urban Utilities only: <ul style="list-style-type: none"> • <i>South-East Queensland Water (Distribution and Retail Restructuring) Act 2009</i> 	31 August 2018
Government-owned corporations (GOC)	SunWater Limited	<ul style="list-style-type: none"> • <i>Government Owned Corporations Act 1993</i> • <i>Corporations Act 2001</i> • <i>Corporations Regulations 2001</i> 	31 August 2018

Source: Auditor-General's Report No. 8, p 44.

2.2 Audit conclusions

QAO provided unmodified audit opinions on the financial statements for 2017-18 for all water sector entities. This means that the financial statements of the water entities were prepared in accordance with legislative requirements and Australian accounting standards, and that readers can rely upon the financial statements.⁵

⁴ Auditor-General's Report No. 8, p 2.

⁵ Auditor-General's Report No. 8, p 3.

All entities met the statutory reporting deadline. QAO stated:

*All but one of the water entities had good financial reporting practices. This enabled them to produce high quality financial statements in a timely manner for 2017–18.*⁶

QAO noted that five of the six water entities committed to continue prior year's efforts to improve asset valuation and financial reporting practices.⁷

At the public hearing, the QAO noted that the one entity that did not show improvement in financial reports and processes was the Mount Isa Water Board. It was further noted that this was purely due to management not being timely with regard to presentation and delivery of their asset valuation.⁸

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.

QAO observed there had been improvements in the effectiveness of internal controls since its last audit:

This year we noted an increased effort in the sector to resolve prior year deficiencies. All deficiencies identified in 2016–17 (including the two significant deficiencies noted at SunWater) have been resolved.

*We assessed the control environments of five of the six water entities as effective, and we were able to rely on the internal control systems used to produce financial statements. As a result of significant deficiencies identified in 2016–17, we did not rely on SunWater's internal controls in 2017–18.*⁹ *Management has since resolved these issues.*¹⁰

*In 2017–18, Unitywater undertook a review to improve internal controls across its 'asset capitalisation to dispose process' to address gaps and identified weaknesses. This resulted in a number of changes over controls and the overarching control framework underpinning the process.*¹¹

At the public hearing, the QAO advised that although all water entities met their statutory deadline, the QAO continues to encourage them to consider bringing forward audit committee endorsement and board approval of their financial statements in 2018-19 to assist in the effective resolution of potential issues occurring between year-end and the signing of the financial report.¹²

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 - \$346.8 million (6% decrease from previous year)
- Revenue - \$3.3 billion (<1% increase)
- Expenses - \$2.8 billion (<1% increase)
- Net Assets - \$7.9 billion (5% increase)
- Total Assets - \$23.3 billion (3% increase)

⁶ Auditor-General's Report No. 8, p 3.

⁷ Auditor-General's Report No. 8, p 7.

⁸ Public Hearing, Brisbane, 25 February 2019, p 9.

⁹ Auditor-General's Report No. 8, p 5.

¹⁰ Auditor-General's Report No. 8, p 34.

¹¹ Auditor-General's Report No. 8, p 36.

¹² Public Hearing, Brisbane, 25 February 2019, p 7.

- Total Liabilities - \$15.3 billion (1% increase)¹³

At the public hearing, QAO advised that returns to the state government increased to \$47.8 million in 2017-18 from \$8 million in the previous year.

2.3 Issues raised at the public hearing

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

2.3.1 The participation returns for local governments from the water entities

The committee were particularly interested in the participation return figures included in the report and how they break down into participation returns and tax equivalents. The committee noted that in some areas there can be a third tranche of payments for the financial borrowings that were used to purchase assets and queried whether the figures captured all of the money returned to councils from their water businesses. The QAO provided further clarity around the figures provided in the report.¹⁴

2.3.2 The significant increases in costings for dam improvement programs

The committee were interested in whether any of the projects currently underway were included in the original forecast provided by SunWater of \$900 million. The QAO advised that the increase in forecasts from \$900 million to \$1.3 billion was provided by SunWater. The QAO stated that future projects include the Burdekin Dam wall raising and hydro-electric power stations and the Paradise and Fairburn dams spillway improvements. The QAO noted that these projects will have a significant influence on SunWater's results going forward and that some of these projects have already commenced. The QAO advised that these things are taken into account when looking at the asset base of the entities in terms of the cash flow forecasts and these figures are used to estimate whether the assets are recoverable. The committee were interested to know whether business cases had been done on all of these projects. In response, the QAO advised that business cases had been done on some but not necessarily all of the projects mentioned.¹⁵

2.3.3 Dividends paid by SunWater

Specifically, the committee were interested in why SunWater paid \$39.7 million in dividends this year, when SunWater did not declare any dividends last year because it retained the money for future improvements. In answer, the QAO stated that last year SunWater was directed to hold back dividends and use the money for improvement projects, whereas this year they were instructed to pay dividends. The QAO further noted that in addition, the government would be providing another \$100 million for future improvement projects.¹⁶

2.3.4 The utilisation of assets held by water entities

The committee asked the QAO about utilisation of assets, with particular regard to Seqwater and its debt to asset value ratios. The committee was particularly interested in the operating loss experienced by Seqwater, which partly reflects the past acquisition of highly geared businesses. The committee discussed the likely costs to Seqwater in utilising their assets, should various trigger points be reached.¹⁷

2.3.5 Developer contributions to water entities in the form of cash or donated assets

The committee expressed interest into how these assets relate to operating profits of water entities and whether the developer contributions adequately cover the cost of additional infrastructure required as a consequence of development. The QAO advised that the developer contributions should

¹³ Auditor-General's Report No. 5, p 3.

¹⁴ Public Hearing, Brisbane, 25 February 2019, p 8.

¹⁵ Public Hearing, Brisbane, 25 February 2019, p 9.

¹⁶ Public Hearing, Brisbane, 25 February 2019, p 9.

¹⁷ Public Hearing, Brisbane, 25 February 2019, p 10.

cover the costs of additional infrastructure required. With regard to lower levels of revenue, the QAO advised that the decrease in development activity has led to a decrease in contributions, which in turn has led to less revenue.¹⁸

A copy of the transcript of the public hearing can be accessed on the committee's web page.¹⁹

Recommendation 1

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

¹⁸ Public Hearing, Brisbane, 25 February 2019, p 12.

¹⁹ <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