# INDEPENDENT AUDITOR'S REPORT

To the Accountable Officer of the Department of Communities, Disability Services and Seniors

## Report on the audit of the financial report

### Opinion

I have audited the accompanying financial report of the Department of Communities, Disability Services and Seniors.

In my opinion, the financial report:

1. gives a true and fair view of the department's financial position as at 30 June 2020, and its financial performance and cash flows for the year then ended
2. complies with the *Financial Accountability Act 2009,* the Financial and Performance Management Standard 2019 and Australian Accounting Standards.

The financial report comprises the balance sheets and statement of assets and liabilities by major departmental service as at 30 June 2020, the income statements, statement of changes in equity, statements of cash flows and income statement by major departmental service for the year then ended, notes to the financial statements including summaries of significant accounting policies and other explanatory information, and the management certificate.

### Basis for opinion

I conducted my audit in accordance with the *Auditor-General Auditing Standards,* which incorporate the Australian Auditing Standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of my report.

**I** am independent of the department in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to my audit of the financial report in Australia. I have also fulfilled my other ethical responsibilities in accordance with the Code and the *Auditor-General Auditing Standards.*

I believe that the audit evidence **I** have obtained is sufficient and appropriate to provide a basis for my opinion.

### Key audit matters

Key audit matters are those matters that, in my professional judgement, were of most significance in my audit of the financial report of the current period. I addressed these matters in the context of my audit of the financial report as a whole, and in forming my opinion thereon, and **I** do not provide a separate opinion on these matters.

***Valuation of Specialised Buildings ($181.610 million)****Refer to notes C4-4 and C4-7 in the financial report.*

## Key audit matter

## How my audit addressed the key audit matter

## The Department of Communities, Disability Services and Seniors' building assets were valued using a market value approach where relevant and current replacement cost method where the market value approach could not be used. Buildings reported at current replacement cost represented 96% of the total building assets.

The department's assets were valued on an annual basis according to the valuation methodology adopted for each category by comprehensively valuing the assets at regular intervals and applying indices in the years between comprehensive valuations.

The department derived the gross replacement cost of its specialised buildings at balance date using unit prices that required significant judgements for:

* Identifying the components of buildings with separately identifiable replacement costs (known as unit categories)
* Developing a unit rate for each of these components, including:
* Estimating the current cost for a modern substitute (including locality factors and on-costs), expressed as a rate per unit
* Identifying whether the existing building contains obsolescence or less utility compared to the modern substitute, and if so, estimating the adjustment to the unit rate required to reflect this difference
* Indexing unit rates for subsequent increases in input costs.

## **My procedures for the valuation of specialised buildings included, but were not limited to:**

* Obtaining an understanding of the methodology used and assessing its design, integrity and appropriateness using common industry practices.
* Assessing the competence, capability and objectivity of the experts used by the department.
* Reviewing the scope and instructions provided to the valuer, and obtaining an understanding of the methodology used and assessing its appropriateness with reference to common industry practices.

**For this year all specialised buildings were comprehensively revalued. For these assets:**

* Assessing the appropriateness of the building components used for measuring gross replacement cost with reference to DCDSS's asset management plans, the unit costs of its recent projects, and common industry practices.
* For unit rates:
* Assessing the competence, capability and objectivity of the experts used by the entity to develop the models.
* Obtaining an understanding of the methodology used, and assessing its appropriateness with reference to common industry practices.
* On a sample basis, evaluating the relevance, completeness and accuracy of source data used to derive the unit rate of the:
* modern substitute (including locality factors and on-costs)
* adjustment for excess quality or obsolescence.

### Responsibilities of the department for the financial report

The Accountable Officer is responsible for the preparation of the financial report that gives a true and fair view in accordance with the *Financial Accountability Act 2009*, the Financial and Performance Management Standard 2019 and Australian Accounting Standards, and for such internal control as the Accountable Officer determines is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

The Accountable Officer is also responsible for assessing the department's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless it is intended to abolish the department or to otherwise cease operations.

### Auditor's responsibilities for the audit of the financial report

My objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, I exercise professional judgement and maintain professional scepticism throughout the audit. **I** also:

* Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
* Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances. This is not done for the purpose of expressing an opinion on the effectiveness of the department's internal controls, but allows me to express an opinion on compliance with prescribed requirements.
* Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the department.
* Conclude on the appropriateness of the department's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the department's ability to continue as a going concern. If **I** conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify my opinion. I base my conclusions on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the department to cease to continue as a going concern.
* Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

I communicate with the Accountable Officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

From the matters communicated with the Accountable Officer, I determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. I describe these matters in my auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, I determine that a matter should not be communicated in my report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## Statement

In accordance with s.40 of the *Auditor-General Act 2009,* for the year ended 30 June 2020:

1. I received all the information and explanations I required.
2. I consider that, the prescribed requirements in relation to the establishment and keeping of accounts were complied with in all material respects.

### Prescribed requirements scope

The prescribed requirements for the establishment and keeping of accounts are contained in the *Financial Accountability Act 2009,* any other Act and the Financial and Performance Management Standard 2019. The applicable requirements include those for keeping financial records that correctly record and explain the department's transactions and account balances to enable the preparation of a true and fair financial report.

John Welsh

as delegate of the Auditor-General

26 August 2020

Queensland Audit Office