

56 Independent Auditor's report



INDEPENDENT AUDITOR'S REPORT

To the Capital Markets Board of Queensland Treasury Corporation

Report on the audit of the financial report

Opinion

I have audited the accompanying financial report of Queensland Treasury Corporation.

In my opinion, the financial report:

- a) gives a true and fair view of the entity's financial position as at 30 June 2021, and its financial performance and cash flows for the year then ended
- b) complies with the *Financial Accountability Act 2009*, the Financial and Performance Management Standard 2019 and Australian Accounting Standards
- c) also complies with International Financial Reporting Standards as disclosed in Note 2(a).

The financial report comprises the balance sheet as at 30 June 2021, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes to the financial statements including summaries of significant accounting policies and other explanatory information, and the management certificate given by the Chairman and Chief Executive.

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 entity 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 matter

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. These matters were addressed in the context of the audit of the financial report as whole, and in forming the auditor's opinion thereon, and I do not provide a separate opinion on these matters.

Establishment of the Queensland Future Fund – Debt Retirement Fund (\$7.7 billion as at 30 June 2021)

(Refer Notes 1 and 16)

Key audit matter	How my audit procedures addressed this key audit matter
<p>Financial instruments at fair value through profit or loss for State Investment Operations are a material balance and include assets invested in the Queensland Future Fund (QFF) – Debt Retirement Fund (DRF) as at 30 June 2021.</p> <p>During the year, the DRF was seeded with initial investments totalling \$7.7 billion. These initial investments occurred through a series of asset transfers involving several government entities and, in some instances, required the restructuring of existing government operations.</p> <p>The assets were ultimately transferred into an unlisted unit trust, the Debt Retirement Trust (DRT), managed by QIC Limited. Units in the DRT are held by QTC on behalf of Queensland Treasury.</p> <p>In return, QTC issued a Fixed Rate Note (FRN) payable to Queensland Treasury. The initial value the FRN represented the fair value of the individual assets transferred into the DRT.</p>	<p>My procedures included, but were not limited to:</p> <ul style="list-style-type: none"> obtaining an understanding of the legislative framework for the establishment of the DRF obtaining an understanding of the ownership and governance structure for the DRF and the initial investments made into the DRF evaluating documentation supporting initial investments made into the DRF, including ensuring that asset transfers were appropriately authorised and complied with directions given by the Treasurer under the QFF Act assessing and confirming the appropriateness of the accounting treatment of each transaction associated with the establishment of the DRF including: <ul style="list-style-type: none"> accounting for the recognition and derecognition of assets transferred between government entities in accordance with prescribed accounting requirements the fair value of investments at the date of their initial transfer into the DRF comply with the requirements of AASB 9 <i>Financial Instruments</i> and AASB 13 <i>Fair Value</i> accounting for the recognition of the FRN by QTC and confirming the fair value of the FRN as at 30 June 2021 confirming the appropriateness of disclosures in QTC's financial statements. <p>As the auditor of the DRT, I engaged an auditor's expert to assess the value of the Queensland Titles Registry (QTR) operations transferred to the DRF. Work performed by the auditor's expert included:</p> <ul style="list-style-type: none"> obtaining an understanding of the valuation methodology applied to the transfer of the QTR operations assessing the reasonableness of techniques applied in valuing the Queensland Titles Registry (QTR) operations assessing the reasonableness of key assumptions and inputs used in valuing the QTR operations concluding on the reasonableness of the valuation applied to the QTR operations. <p>As the auditor of QTC, I assessed the work performed by the auditor's expert to form an opinion on the value of the units issued by DRT to QTC. This included:</p> <ul style="list-style-type: none"> evaluating their qualifications, competence, capabilities and objectivity assessing the nature, scope and objectives of the work completed for appropriateness evaluating the findings and conclusions for relevance, reasonableness and consistency with other audit evidence obtained.

Valuation, presentation and disclosure of financial instruments at fair value through profit or loss for State Investment Operations (\$37.8 billion as at 30 June 2021)

(Refer Notes 16, 17 and 18)

Key audit matter	How my audit addressed this key audit matter
<p>Financial assets at fair value through profit or loss held by State Investments Operations (SIO) (which incorporates the Long Term Assets (LTA) and the Queensland Future Fund (QFF)) represent investments in unlisted unit trusts ('the trusts') managed by QIC Limited (QIC). The trusts in turn invest in various asset classes, some of which are illiquid in nature ('underlying investments').</p> <p>The fair value of these underlying investments is based on the hard-close unit prices as at 30 June 2021 as advised by QIC to QTC on 9 August 2021.</p> <p>In some instances, the prices advised by QIC are based on unaudited valuation statements provided by the external managers of the underlying investments that relate to a date prior to 30 June 2021. Significant judgement is required to determine whether the unaudited valuations advised by QIC are materially consistent with the fair value as at 30 June 2021, or if an adjustment is required.</p> <p>QIC continues to monitor and provides updated advice to QTC on the potential impact on the value of these investments arising from the subsequent receipt of updated valuations from external managers and audited financial statements.</p> <p>Additionally, there is a high level of subjectivity in classifying the investments in the appropriate level within the fair value hierarchy for the following reasons:</p> <ol style="list-style-type: none"> Some of the underlying assets are considered illiquid in nature (i.e. these are not readily convertible to cash). SIO is the sole investor in some of the trusts, and as a result there are restrictions that may be imposed by QIC on SIO to liquidate the investments. 	<p>My procedures included but were not limited to:</p> <ul style="list-style-type: none"> evaluating the audited assurance report on controls over investment management services for the period 1 July 2020 to 30 June 2021 to obtain confirmation that the controls at QIC are appropriately designed and implemented, and operating effectively assessing the representation letter provided by QIC to QTC confirming the following processes were performed by QIC: <ul style="list-style-type: none"> checks performed over pricing of the underlying assets at 30 June 2021 checks performed post balance date on prices for highly illiquid investments confirming the value of the investments reported at 30 June 2021 by: <ul style="list-style-type: none"> agreeing the reported value in QIC's confirmation to the financial statements obtaining a confirmation from QIC on any changes to the value initially reported and assessing the impact of changes in value to the financial statements. Where the change in prices is materially different to the prices initially determined at 30 June 2021, we request management to recognise the change in the prices to reflect the correct valuation obtaining an understanding of the underlying investments in the trusts and the pricing mechanism adopted by QIC. This in turn determines the appropriate fair value hierarchy disclosure in the financial statements of QTC under AASB13 <i>Fair Value Measurement</i> evaluating the fair value hierarchy disclosure in note 18 to ensure the classification is in accordance with my understanding of the underlying investment and pricing mechanism, and in accordance with AASB13 <i>Fair Value Measurement</i>.

Other information

Other information comprises financial and non-financial information (other than the audited financial report).

Those charged with governance are responsible for the other information.

My opinion on the financial report does not cover the other information and accordingly I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial report, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or my knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact.

I have nothing to report in this regard.

Responsibilities of the entity for the financial report

The Board 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 Board determines is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

The Board is also responsible for assessing the entity'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 entity or to otherwise cease operations.

Report on other legal and regulatory requirements

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, but not for expressing an opinion on the effectiveness of the entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the entity.
- Conclude on the appropriateness of the entity'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 entity'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 entity 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 Board 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 Board, 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 2021:

- I received all the information and explanations I required.
- 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 entity's transactions and account balances to enable the preparation of a true and fair financial report.



Brendan Worrall
Auditor-General

19 August 2021

Queensland Audit Office
Brisbane