



Queensland Corrective Services

Financial Statements

for the period 1 January 2018 to 30 June 2018

Queensland Corrective Services Financial Statements

Understanding our financial statements

These financial statements enable readers to assess the Queensland Corrective Services financial results and cash flows for the reporting period 1 January 2018 to 30 June 2018, and its position as at 30 June 2018.

Queensland Corrective Services (“the department”) is a Queensland Government department established under the *Public Service Act 2008* and controlled by the State of Queensland, which is the ultimate parent.

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This statement provides information concerning assets, liabilities and the department’s equity at the end of the reporting period. Assets shown as current are reasonably expected to be converted to cash, sold or consumed in the operations of the department subsequent to the reporting period. Similarly, current liabilities are expected to consume cash subsequent to the reporting period.	
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General information

The head office and principal place of business of the department is:

Level 23
50 Ann Street
BRISBANE QLD 4000

A description of the nature of the department's operations and its principal activities is included in the notes to the financial statements.

For information in relation to the department's financial statements, please call 13 QGOV (13 74 68) or visit the departmental website www.correctiveservices.qld.gov.au.

Statement of Comprehensive Income

for the period 1 January 2018 to 30 June 2018

	Note	2018 Actual \$'000	2018 Adjusted Budget \$'000	Budget Variance* \$'000
OPERATING RESULT				
Income from continuing operations				
Appropriation revenue	6	460,129	471,098	(10,969)
User charges and fees	7	7,227	3,090	4,137
Grants and other contributions	8	2,067	-	2,067
Other revenue	9	6,478	4,480	1,998
Total income from continuing operations		475,901	478,668	(2,767)
Expenses from continuing operations				
Employee expenses	10	238,106	247,036	(8,930)
Supplies and services	11	159,389	162,909	(3,520)
Grants and subsidies		298	-	298
Depreciation and amortisation	16/17	72,938	66,837	6,101
Impairment losses	13	1,234	-	1,234
Other expenses	12	4,205	1,886	2,319
Total expenses from continuing operations		476,170	478,668	(2,498)
Operating result from continuing operations		(269)	-	(269)

* An explanation of major variances is included at note 26.

The accompanying notes form part of these statements.

Statement of Comprehensive Income by Major Departmental Service

for the period 1 January 2018 to 30 June 2018

	Custodial Operations \$'000	Probation and Parole \$'000	Inter- departmental eliminations \$'000	Department Total \$'000
OPERATING RESULT				
Income from continuing operations				
Appropriation revenue	403,276	56,853	-	460,129
User charges and fees	9,196	20	(1,989)	7,227
Grants and other contributions	1,766	301	-	2,067
Other revenue	6,440	38	-	6,478
Total income from continuing operations	420,678	57,212	(1,989)	475,901
Expenses from continuing operations				
Employee expenses	197,536	40,607	(37)	238,106
Supplies and services	146,611	14,730	(1,952)	159,389
Grants and subsidies	250	48	-	298
Depreciation and amortisation	71,783	1,155	-	72,938
Impairment losses	1,084	150	-	1,234
Other expenses	3,863	342	-	4,205
Total expenses from continuing operations	421,127	57,032	(1,989)	476,170
Operating result from continuing operations	(449)	180	-	(269)

The accompanying notes form part of these statements.

Statement of Financial Position

as at 30 June 2018

	Note	2018 Actual \$'000	2018 Adjusted Budget \$'000	Budget Variance* \$'000
Current assets				
Cash and cash equivalents		31,416	19,899	11,517
Receivables	13	21,977	18,226	3,751
Inventories	14	4,869	4,478	391
Other current assets	15	2,265	2,480	(215)
Total current assets		60,527	45,083	15,444
Non-current assets				
Intangible assets	16	1,393	1,564	(171)
Property, plant and equipment	17	2,539,824	2,566,394	(26,570)
Other non-current assets	15	551	517	34
Total non-current assets		2,541,768	2,568,475	(26,707)
Total assets		2,602,295	2,613,558	(11,263)
Current liabilities				
Payables	18	36,471	27,816	8,655
Accrued employee benefits	19	23,564	17,222	6,342
Other current liabilities	20	77	45	32
Total current liabilities		60,112	45,083	15,029
Non-current liabilities				
Payables		-	222	(222)
Other non-current liabilities	20	463	-	463
Total non-current liabilities		463	222	241
Total liabilities		60,575	45,305	15,270
Net assets		2,541,720	2,568,253	(26,533)
Equity				
Contributed equity		2,541,989		
Accumulated deficit		(269)		
Total equity		2,541,720	2,568,253	(26,533)

* An explanation of major variances is included at note 26.
The accompanying notes form part of these statements.

Statement of Assets and Liabilities by Major Departmental Service

as at 30 June 2018

	Custodial Operations \$'000	Probation and Parole \$'000	Department Total \$'000
Current assets			
Cash and cash equivalents	31,416	-	31,416
Receivables	20,518	1,459	21,977
Inventories	4,869	-	4,869
Other current assets	2,117	148	2,265
Total current assets	58,920	1,607	60,527
Non-current assets			
Intangible assets	1,393	-	1,393
Property, plant and equipment	2,530,857	8,967	2,539,824
Other non-current assets	551	-	551
Total non-current assets	2,532,801	8,967	2,541,768
Total assets	2,591,721	10,574	2,602,295
Current liabilities			
Payables	35,454	1,017	36,471
Accrued employee benefits	19,257	4,307	23,564
Other current liabilities	-	77	77
Total current liabilities	54,711	5,401	60,112
Non-current liabilities			
Other non-current liabilities	-	463	463
Total non-current liabilities	-	463	463
Total liabilities	54,711	5,864	60,575
Net assets	2,537,010	4,710	2,541,720

The accompanying notes form part of these statements.

Statement of Changes in Equity

for the period 1 January 2018 to 30 June 2018

	Note	2018 \$'000
Contributed equity		
Balance as at 1 January 2018		-
<i>Transactions with owners as owners</i>		
Appropriated equity injections	6	47,262
Appropriated equity withdrawals	6	(72,716)
Net transfer in from other Queensland Government entities	28	2,567,443
Balance at reporting date		2,541,989
Accumulated deficit		
Balance as at 1 January 2018		-
<i>Operating result</i>		
Operating result from continuing operations		(269)
Balance at reporting date		(269)
Total equity at reporting date		2,541,720

The accompanying notes form part of these statements.

Statement of Cash Flows

for the period 1 January 2018 to 30 June 2018

	Note	2018 Actual \$'000	2018 Adjusted Budget \$'000	Budget Variance* \$'000
Cash flows from operating activities				
<i>Inflows:</i>				
Service appropriation receipts	6	453,769	471,098	(17,329)
User charges and fees		6,491	3,090	3,401
Grants and other contributions		922	-	922
GST input tax credits from ATO		16,019	-	16,019
GST collected from customers		968	-	968
Other		6,478	4,480	1,998
<i>Outflows:</i>				
Employee expenses		(228,507)	(247,036)	18,529
Supplies and services		(157,311)	(162,909)	5,598
Grants and subsidies		(298)	-	(298)
GST paid to suppliers		(16,817)	-	(16,817)
GST remitted to ATO		(971)	-	(971)
Other		(1,955)	(1,886)	(69)
Net cash provided by operating activities		78,788	66,837	11,951
Cash flows from investing activities				
<i>Outflows:</i>				
Payments for property, plant and equipment	17	(47,256)	(65,622)	18,366
Payments for intangibles	16	(173)	-	(173)
Net cash used in investing activities		(47,429)	(65,622)	18,193
Cash flows from financing activities				
<i>Inflows:</i>				
Equity injections		46,026	66,669	(20,643)
<i>Outflows:</i>				
Equity withdrawals		(65,868)	(67,884)	2,016
Net cash used in financing activities	6	(19,842)	(1,215)	(18,627)
Net increase in cash and cash equivalents		11,517	-	11,517
Increase in cash and cash equivalents from restructuring		19,899	19,899	-
Cash and cash equivalents – balance at reporting date **		31,416	19,899	11,517

* An explanation of major variances is included at note 26.

** Cash and cash equivalents at reporting date reflects balances gained from the Department of Justice and Attorney-General of \$19.899 million as part of machinery-of-government change (refer note 28) and the net increase in cash from the department's activities during the reporting period.

The accompanying notes form part of these statements.

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1. First financial statements of the department as a result of machinery-of-government changes

As a result of *Public Service Departmental Arrangements Notice (No.3 and No.4) 2017*, the department was established on 21 December 2017. Under this notice, responsibilities for functions and resources were transferred to the department from the Department of Justice and Attorney-General.

Pursuant to section 80(2) of the *Financial Accountability Act 2009*, for financial reporting purposes, the transfer is deemed to have occurred from the first day of the month following the gazettal date, that is, from 1 January 2018. Although the department was established on 21 December 2017, these financial statements include transactions for the period 1 January 2018 to 30 June 2018 only. Transactions for the period 21 December 2017 to 31 December 2017 are recorded in the financial statements of the Department of Justice and Attorney-General.

The values of assets and liabilities transferred to the department on establishment, as a result of restructuring activities, represent their carrying amounts immediately prior to the changes taking effect. Further details of these transfers are included in note 28.

2. Compliance with prescribed requirements

The department has prepared these financial statements in compliance with section 44 of the *Financial and Performance Management Standard 2009*. These financial statements comply with Queensland Treasury's Minimum Reporting Requirements for reporting periods beginning on or after 1 July 2017.

The department is a not-for-profit entity and these general purpose financial statements are prepared on an accrual basis (except for the Statement of Cash Flows, which is prepared on a cash basis) in accordance with Australian Accounting Standards and Interpretations applicable to not-for-profit entities.

New accounting standards early adopted and/or applied for the first time in these financial statements are outlined in note 29(i).

3. The reporting entity

The financial statements include all income, expenses, assets, liabilities and equity of the department. The department had no controlled entities during the reporting period. All transactions and balances internal to the department have been eliminated in full.

4. Basis of measurement

Historical cost is used as the measurement basis in this financial report, except for land and buildings, which are measured at fair value and inventories, which are measured at the lower of cost and net realisable value.

Historical cost

Under historical cost, assets are recorded at the amount of cash or cash equivalents paid or the fair value of the consideration given to acquire assets at the time of their acquisition. Liabilities are recorded at the amount of proceeds received in exchange for the obligation or at the amounts of cash or cash equivalents expected to be paid to satisfy the liability in the normal course of business.

4. Basis of measurement (continued)

Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions (i.e. an exit price) regardless of whether that price is directly derived from observable inputs or estimated using another valuation technique. Fair value is determined using one of the following three approaches:

- The *market approach* uses prices and other relevant information generated by market transactions involving identical or comparable (i.e. similar) assets, liabilities or a group of assets and liabilities, such as a business.
- The *cost approach* reflects the amount that would be required currently to replace the service capacity of an asset. This method includes the current replacement cost methodology.
- The *income approach* converts multiple future cash flows amounts to a single current (i.e. discounted) amount. When the income approach is used, the fair value measurement reflects current market expectations about those future amounts.

Where fair value is used, the fair value approach is disclosed.

Net realisable value

Net realisable value represents the amount of cash or cash equivalents that currently could be obtained by selling an asset in an orderly disposal.

5. Objectives and principal activities of the department

The department's service objective is to provide safe, modern and responsive correctional services to rehabilitate prisoners and offenders and prevent crime making Queensland safer. The department's strategic objectives are:

- safer correctional environments
- humane management of prisoners and offenders
- partnering and community collaboration
- stop crime

The department, in partnership with other key criminal justice agencies, including the Queensland Police Service and the Department of Justice and Attorney-General, performs a crucial role in community safety and crime prevention. The department performs this role through the humane containment, supervision and rehabilitation of prisoners and offenders.

The department is funded for the departmental services it delivers principally by parliamentary appropriations.

Further information regarding the objectives and principal activities of the department are detailed within the body of the annual report.

6. Appropriation receipts

Reconciliation of payments from consolidated fund to appropriation revenue recognised in operating result 2018 \$'000

Transfers from Department of Justice and Attorney-General (redistribution of public business)	471,098
Lapsed appropriation revenue	(17,329)
Total appropriation receipts (cash)	453,769
Plus: Closing balance of appropriation revenue receivable	6,360
Appropriation revenue recognised in Statement of Comprehensive Income	460,129

Reconciliation of payments from consolidated fund to equity adjustment

Transfers from Department of Justice and Attorney-General (redistribution of public business)	(1,215)
Lapsed equity adjustment	(18,627)
Equity adjustment receipts (cash)	(19,842)
Plus: Closing balance of equity adjustment payable	(5,612)
Equity adjustment recognised in contributed equity	(25,454)

Accounting policy

Appropriations provided under the Appropriation Act 2017 are recognised as revenue or equity when received or when a service rendered is recognised after approval from Queensland Treasury.

Interpretation 1038 Contributions by Owners Made to Wholly Owned Public Sector Entities specifies the principles for recognising contributed equity by the department. Appropriations and non-appropriated equity adjustments (refer to Statement of Changes in Equity) and non-reciprocal transfers of assets and liabilities between wholly-owned Queensland State Public Sector entities as a result of machinery-of-government changes (refer note 28) have been recognised as contributed equity by the department during the reporting period.

7. User charges and fees

Sales of goods and services – prison industries	7,216
Other	11
Total	7,227

Accounting policy

User charges and fees are recognised as revenues when the revenue has been earned and can be measured reliably with a sufficient degree of certainty. This occurs upon delivery of the goods to the customer or completion of the requested services at which time the invoice is raised. Accrued revenue is recognised if the revenue has been earned but not yet invoiced.

8. Grants and other contributions

Services received below fair value	995
National Partnership Agreement on Homelessness	890
Terrorist Offender Assessment (Commonwealth grant)	150
Other	32
Total	2,067

Services received below fair value

Received from:	Item:	
Queensland Police Service	Labour costs	987
Department of Housing and Public Works	Archival services	8
Total		995

8. Grants and other contributions (continued)

Accounting policy

Grants, contributions and donations are non-reciprocal in nature so do not require any goods or services to be provided in return. Corresponding revenue is recognised in the year in which the department obtains control over the grant/contribution (control is generally obtained at the time of receipt).

Contributions of services are recognised only if the services would have been purchased if they had not been donated and their fair value can be measured reliably. Where this is the case, an equal amount is recognised as revenue and an expense.

9. Other revenue	2018 \$'000
Goods and services sold to prisoners	6,329
Insurance compensation – loss of property	59
Interest	40
Miscellaneous	50
Total	6,478

10. Employee expenses

Employee benefits

Wages and salaries	178,088
Employer superannuation contributions	20,130
Annual leave levy	18,835
Sick leave	4,971
Long service leave levy	3,582
Termination benefits	697
Other employee benefits	1,490
Total employee benefits	227,793

Employee related expenses

Workers' compensation premium	7,543
Other employee related expenses	2,770
Total employee related expenses	10,313
Total	238,106

The number of employees as at 30 June 2018, including both full-time, part-time and casual employees, measured on a full-time equivalent basis is 4,937. Key management personnel and remuneration disclosures are detailed in note 21.

Accounting policy

Wages, salaries and sick leave

Wages and salaries due but unpaid at reporting date are recognised in the Statement of Financial Position at the current salary rates. As the department expects such liabilities to be wholly settled within 12 months of reporting date, the liabilities are recognised at undiscounted amounts.

History indicates that on average, sick leave taken each reporting period is less than the entitlement accrued. This is expected to continue in future periods. Accordingly, it is unlikely that existing accumulated entitlements will be used by employees and no liability for unused sick leave entitlements is recognised. As sick leave is non-vesting, an expense is recognised for this leave as it is taken.

10. Employee expenses (continued)

Accounting policy

Annual leave and long service leave

Under the Queensland Government's Annual Leave Central Scheme a levy is made on the department to cover the cost of employees' annual leave (including leave loading and on-costs). The levies are expensed in the period in which they are payable. Amounts paid to employees for annual leave are claimed from the scheme quarterly in arrears.

Under the Queensland Government's Long Service Leave Central Scheme, a levy is made on the department to cover the cost of employees' long service leave. The levies are expensed in the period in which they are payable. Amounts paid to employees for long service leave are claimed from the scheme quarterly in arrears.

Superannuation

Post-employment benefits for superannuation are provided through defined contribution (accumulation) plans or the Queensland Government's QSuper defined benefit plan as determined by the employee's conditions of employment.

Defined contribution plans – Contributions are made to eligible complying superannuation funds based on the rates specified in the relevant enterprise bargaining agreement or other conditions of employment. Contributions are expensed when they are paid or become payable following completion of the employee's service each pay period.

Defined benefit plan – The liability for defined benefits is held on a whole-of-government basis and reported in those financial statements pursuant to AASB 1049 Whole of Government and General Government Sector Financial Reporting. The amount of contributions for defined benefit plan obligations is based upon the rates determined on the advice of the State Actuary. Contributions are paid by the department at the specified rate following completion of the employee's service each pay period. The department's obligations are limited to those contributions paid.

Workers' compensation premiums

The department pays premiums to WorkCover Queensland in respect of its obligations for employee compensation. Workers' compensation insurance is a consequence of employing employees, but is not counted in an employee's total remuneration package. It is not employee benefits and is recognised separately as employee related expenses.

Key management personnel and remuneration disclosures are detailed in note 21.

11. Supplies and services

2018
\$'000

Outsourced works – private prison operations	50,692
Property utilities and maintenance	43,557
Offender expenses	26,543
Contractors and consultants	6,581
Cost of goods/services provided to prisoners	5,667
Operating lease rentals	5,177
Computer expenses	5,080
Shared services and other service contributions	4,042
Motor vehicle costs	3,226
Travel	2,305
Telecommunications	2,269
Printing, postage and stationery	1,526
Legal expenses	736
Other	1,988
Total	159,389

Operating leases are entered into as a means of acquiring access to office accommodation and storage facilities. Lease terms generally extend over a period of five to ten years. The department has no option to purchase the leased item at the conclusion of the lease although the lease provides for a right of renewal, at which time the lease terms are renegotiated.

Operating lease rental expenses comprise the minimum lease payments payable under operating lease contracts. Lease payments are generally fixed, but with annual escalation clauses upon which future year rentals are determined.

11. Supplies and services (continued)

Accounting policy

For a transaction to be classified as supplies and services, the value of goods and services received by the department must be of approximately equal value to the value of the consideration exchanged for those goods or services. Where this is not the substance of the arrangement, the transaction is classified as a grant.

Operating lease payments are representative of the pattern of benefits derived from the leased assets and are expensed in the periods in which they are incurred. Incentives received on entering into operating leases are recognised as liabilities.

Operating lease payments are allocated between operating lease rental expense and reduction of the operating lease incentive liability.

12. Other expenses	2018 \$'000
Insurance premiums – Queensland Government Insurance Fund (QGIF)	1,889
Queensland Audit Office – external audit fees for the audit of the financial statements*	86
Losses – public moneys	12
Special payments – ex-gratia payments	8
Goods and services received free of charge	1,743
Net loss from disposal of capital work in progress	422
Miscellaneous	45
Total	4,205

* Total audit fees quoted by the Queensland Audit Office relating to the financial statements are \$220,000. There are no non-audit services included in this amount.

Accounting policy

Special payments include ex-gratia expenditure and other expenditure that the department is not contractually or legally obligated to make to other parties. There were no special payments greater than \$5,000 during the reporting period.

13. Receivables

Trade debtors	3,418
Less: Allowance for impairment loss	(1,936)
Net trade debtors	1,482
GST receivable	4,453
GST payable	(168)
Net GST	4,285
Advances	272
Less: Allowance for impairment loss	(87)
Net advances	185
Annual leave reimbursements	7,487
Appropriation revenue receivable	6,360
Long service leave reimbursements	1,352
Accrued revenue	562
Other	264
Total	21,977

13. Receivables (continued)

Accounting policy

Receivables are measured at amortised cost which approximates their fair value at reporting date.

Trade debtors are recognised at the amounts due at the time of sale or service delivery (i.e. the agreed purchase/contract price). Settlement of these amounts is required within 30 days from invoice date.

Other debtors generally arise from transactions outside the usual operating activities of the department and are recognised at their assessed values. Terms are a maximum of three months, no interest is charged and no security is obtained.

Credit risk exposure of receivables

Credit risk exposure refers to the situation where the department may incur financial loss as a result of another party to a financial instrument failing to discharge its obligation. The maximum exposure to credit risk at balance date is the gross carrying amount of receivables, inclusive of any allowance for impairment loss. All receivables within terms and expected to be fully collectible are considered of good credit quality based upon recent collection history.

The department manages its credit risk through the use of a credit management strategy. The strategy aims to reduce the exposure to credit default by ensuring that the department invests in secure assets and monitors all funds owed on a timely basis. Exposure to credit risk is monitored on an ongoing basis.

No collateral is held as security and no credit enhancements relate to receivables held by the department. Receivables fall into one of the following categories when assessing collectability:

- within terms and expected to be fully collectable
- within terms but impaired
- past due but not impaired
- past due and impaired

Impairment loss

Impairment loss expense for the current year regarding the department's receivables is \$1.234 million. This is due to a number of loss events associated with uncertain collectability in respect of departmental debtors.

Accounting policy

The allowance for impairment reflects the occurrence of loss events. The most readily identifiable loss event is where a debtor is overdue in paying a debt to the department, according to the due date (normally terms of 30 days). Economic changes impacting the department's debtors, and relevant industry data, also form part of the department's documented risk analysis.

If no loss events have arisen in respect of a particular debtor or group of debtors, no allowance for impairment is made in respect of that debtor/group of debtors. If the department determines that an amount owing by such a debtor does become uncollectible (after an appropriate range of debt recovery actions), that amount is recognised as a bad debt expense and written-off directly against receivables. In other cases where a debt becomes uncollectible but the uncollectible amount exceeds the amount already allowed for impairment of that debt, the excess is recognised directly as a bad debt expense and written-off directly against receivables.

No receivables have had their terms re-negotiated so as to prevent them from being past due, or impaired, and are stated at the carrying amounts as indicated.

13. Receivables (continued)

	2018 \$'000
Ageing of past due but not impaired trade receivables	
Overdue	
1 to 30 days	340
30 to 60 days	73
61 to 90 days	31
Greater than 90 days	34
Total	478

Individually impaired trade receivables position (aged)

Overdue	
60 to 90 days	3
Less: Allowance for impairment	(3)
Carrying amount	-
Greater than 90 days	1,933
Less: Allowance for impairment	(1,933)
Carrying amount	-
Total carrying amount at reporting date	-

Movements in allowance for impairment loss for impaired receivables

Balance at 1 January (transferred from the Department of Justice and Attorney-General)	856
Increase in allowance recognised in operating result*	1,234
Amounts written-off during the reporting period in respect of bad debts**	(67)
Balance at reporting date	2,023

* The movements in allowance above include movements relating to impairment loss for impaired advances.

** All known bad debts were written-off as at 30 June 2018.

14. Inventories

Supplies and consumables – at cost

Bulk fuel	355
Bedding	252
Uniforms, clothing and merchandise	1,468
Total supplies and consumables	2,075

Inventory held for sale – at cost

Raw materials	1,090
Work in progress	182
Finished goods	690
Canteen	832
Total inventory held for sale	2,794
Total	4,869

Accounting policy

Inventories held for sale and supplies and consumables are valued at the lower of cost and net realisable value.

Cost is assigned on a weighted average basis and includes expenditure incurred in acquiring the inventories and bringing them to their existing condition, except for training costs which are expensed as incurred.

Net realisable value is determined on the basis of the department's normal selling pattern. Expenses associated with marketing, selling and distribution are deducted to determine net realisable value.

15. Other current and non-current assets

2018
\$'000

Current

Prepayments	2,072
Biological assets	135
Other	58
Total	2,265

Non-current

Biological assets	551
Total	551

16. Intangible assets

	Software purchased	Software internally generated	Total
	2018 \$'000	2018 \$'000	2018 \$'000
Acquisitions	173	-	173
Transfers in from other Queensland Government entities	94	1,470	1,564
Amortisation	(52)	(292)	(344)
Total carrying amount at reporting date	215	1,178	1,393
Gross	1,352	17,549	18,901
Less: Accumulated amortisation	(1,137)	(16,371)	(17,508)
Total carrying amount at reporting date	215	1,178	1,393

At 30 June the department holds a significant intangible asset, Integrated Offender Management System that has a carrying amount of \$0.735 million and a remaining amortisation period of two years.

Accounting policy

Intangible assets of the department comprise purchased and internally generated computer software. Intangible assets with a historical cost or other value equal to or greater than \$100,000 are recognised in the financial statements. Items with a lesser value are expensed. Any training costs are expensed as incurred.

There is no active market for any of the department's intangible assets. As such, the assets are recognised and carried at historical cost less accumulated amortisation.

Costs associated with the internal development of computer software are capitalised and amortised under the amortisation policy below. No intangible assets have been classified as held for sale or form part of a disposal group held for sale.

All intangible assets are assessed for indicators of impairment on an annual basis. If an indicator of possible impairment exists, the department determines the asset's recoverable amount. Any amount by which the asset's carrying amount exceeds the recoverable amount is recorded as an impairment loss.

Intangible assets are principally assessed for impairment by reference to the actual and expected continuing use of the asset by the department, including discontinuing the use of software. Recoverable amount is determined as the higher of the asset's fair value less costs to sell and its value-in-use.

All intangible assets of the department have finite useful lives and are amortised on a straight line basis over their estimated useful life to the department. Straight line amortisation is used reflecting the expected consumption of economic benefits on a progressive basis over the intangibles useful life. The residual value of the department's intangible assets is zero.

For each class of intangible assets the following useful lives are used.

*Software purchased 3 – 8 years
Software internally generated 5 – 14 years*

17. Property, plant and equipment

	Land	Buildings	Capital works in progress	Plant and equipment	Total
	2018 \$'000	2018 \$'000	2018 \$'000	2018 \$'000	2018 \$'000
Acquisitions	-	-	47,085	171	47,256
Disposals	-	(258)	-	(164)	(422)
Transfers in from other Queensland Government entities	261,795	2,151,452	117,296	35,041	2,565,584
Transfers between classes	-	45,730	(49,064)	3,334	-
Depreciation	-	(69,563)	-	(3,031)	(72,594)
Total carrying amount at reporting date	261,795	2,127,361	115,317	35,351	2,539,824
Gross	261,795	3,705,257	115,317	101,088	4,183,457
Less: Accumulated depreciation	-	(1,577,896)	-	(65,737)	(1,643,633)
Total carrying amount at reporting date	261,795	2,127,361	115,317	35,351	2,539,824

Basis of fair values

Categorisation of fair values	Basis of Valuation	Fair Value Measurement	Last specific appraisal
Land	Indexation	Level 2	31 March 2014
Buildings*	Indexation	Level 3	31 March 2014

* Borallon Training and Correctional Centre was revalued through a specific appraisal on 31 October 2016.

As detailed in note 28, land and building assets were transferred to the department on 1 January 2018 following machinery-of-government changes. Valuations were performed upon land and building assets immediately prior to those changes, with an effective date of 31 December 2017. The value of land and building assets transferred to the department reflected their revalued amounts.

Land

Land assets, largely comprising correctional centres land assets, were revalued by AssetVal Pty Ltd under an index-based valuation, using a market approach, with an effective date of 31 December 2017. As indices were developed for the movements in each relevant property market based on publicly available sales data over the past 12 months, it is a Level 2 fair value measurement. AssetVal Pty Ltd considered whether any material movement in the value of correctional centres land assets had occurred between the valuation date of 31 December 2017 and 30 June 2018 and found no material change in fair value during the reporting period.

Buildings

All of the department's buildings, including land improvements in respect of correctional centres, have been assessed as specialised buildings and land improvements. The valuation of these assets is based on the fact that current use is highest and best use.

Building assets, largely comprising correctional centres, were revalued by AssetVal Pty Ltd under an index-based valuation with an effective date of 31 December 2017. Indices applied were estimated based on price movements of recent actual costs, contract data for similar structure, cost guides, other relevant publications such as Rawlinson's rates for building and construction and the AssetVal Pty Ltd internal database of unit rates. These inputs are considered as significant unobservable inputs in nature, therefore specialised buildings are classified as Level 3 fair value measurements. The basis of derivation of these indices was consistent with the underlying data inputs adopted for the last specific appraisal.

AssetVal Pty Ltd considered whether any material movement in the value of correctional centres building assets had occurred between the valuation date of 31 December 2017 and 30 June 2018 and found no material change in fair value during the reporting period.

17. Property, plant and equipment (continued)

Accounting policy

a) What is fair value?

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions (i.e. an exit price), regardless of whether that price is directly derived from observable inputs or estimated using another valuation technique.

Observable inputs are publicly available data that are relevant to the characteristics of the assets being valued. Observable inputs used by the department include, but are not limited to, published sales data for land and general office buildings.

Unobservable inputs are data, assumptions and judgments that are not available publicly, but are relevant to the characteristics of the assets being valued. Significant unobservable inputs used by the department include, but are not limited to, subjective adjustments made to observable data to take account of the characteristics of the department's assets, internal records of recent construction costs (and/or estimates of such costs) for assets' characteristics/functionality, and assessments of physical condition and remaining useful life. Unobservable inputs are used to the extent that sufficient relevant and reliable observable inputs are not available for similar assets.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset at its highest and best use.

b) Fair value measurement hierarchy

The department does not recognise any financial assets or financial liabilities at fair value.

All assets and liabilities of the department, for which fair value is measured or disclosed in the financial statements, are categorised within the following fair value hierarchy, based on the data and assumptions used in the most recent specific appraisals:

Level 1 represents fair value measurements that reflect unadjusted quoted market prices in active markets for identical assets and liabilities;

Level 2 represents fair value measurements that are substantially derived from inputs (other than quoted prices included within level 1) that are observable, either directly or indirectly; and

Level 3 represents fair value measurements that are substantially derived from unobservable inputs.

c) Basis of capitalisation and recognition thresholds

Items of property, plant and equipment with a historical cost or other value equal to or exceeding the following thresholds in the year of acquisition are reported as property, plant and equipment in the following classes:

Land	\$1
Buildings (including land improvements)	\$10,000
Plant and equipment	\$5,000

Items with a lesser value are expensed in the year of acquisition. Expenditure on property, plant and equipment is capitalised where it is probable that the expenditure will produce future service potential for the department. Subsequent expenditure is only added to an asset's carrying amount if it increases the service potential or useful life of that asset. Maintenance expenditure that merely restores original service potential (lost through ordinary wear and tear) is expensed. Land improvements undertaken by the department are included with buildings.

d) Capital work in progress

Work in progress is recognised at cost. All costs relating to items of property, plant and equipment constructed in-house are recorded as work in progress until completion of the project using all direct costs and, where applicable, reliable attributed indirect costs. Work in progress performed under external contracts is recorded using the invoice amount supplied by the contractor.

17. Property, plant and equipment (continued)

Accounting policy

e) Componentisation of complex assets

The department's complex assets are its correctional centres. Complex assets comprise separately identifiable components (or groups of components) of significant value, that require replacement at regular intervals and at different times to other components comprising the complex asset.

On initial recognition, the asset recognition thresholds outlined above apply to the complex asset as a single item. Where the complex asset qualifies for recognition, components are then separately recorded in line with the department's complex asset component structures. The complex assets are componentised to ensure a more accurate recognition of depreciation expense.

When a separately identifiable component (or group of components) of significant value is replaced, the existing component(s) is derecognised. The replacement component(s) are capitalised when it is probable that future economic benefits from the significant component will flow to the department in conjunction with the other components comprising the complex asset and the cost exceeds the asset recognition thresholds specified above. Replacement components that do not meet the asset recognition thresholds for capitalisation are expensed.

Components are separately recorded and valued on the same basis as the asset class to which they relate. The accounting policy for depreciation of complex assets is disclosed in note 17(l) and estimated useful lives of components included in note 17(m).

f) Cost of acquisition

Historical cost is used for the initial recording of all property, plant and equipment acquisitions. Historical cost is determined as the value given as consideration and costs incidental to the acquisition (such as architects' fees and engineering design fees), plus all other costs incurred in getting the assets ready for use.

Where assets are received free of charge from another Queensland Government entity (whether as a result of a machinery-of-government change or other involuntary transfer), the acquisition cost is recognised as the carrying amount in the books of the other entity immediately prior to the transfer.

Assets acquired at no cost or for nominal consideration, other than from another Queensland Government entity, are recognised at their fair value at date of acquisition.

g) Measurement using historical cost

Plant and equipment is measured at historical cost in accordance with Queensland Treasury's Non-Current Asset Policies for the Queensland Public Sector. The carrying amounts for such plant and equipment is not materially different from their fair value. Separately identified components of assets are measured on the same basis as the assets to which they relate.

h) Measurement of non-current physical assets using fair value

Land and buildings assets are measured at fair value as required by Queensland Treasury's Non-Current Asset Policies for the Queensland Public Sector. These assets are reported at their revalued amounts, being the fair value at the date of valuation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses, where applicable.

The cost of items acquired during the reporting period has been judged by the management of the department to materially represent their fair value at the end of the reporting period.

Property, plant and equipment classes measured at fair value are revalued on an annual basis either by specific appraisals undertaken by an independent professional valuer or internal expert, or by the use of appropriate and relevant indices. For financial reporting purposes, the revaluation process is managed by a team in the department's Finance and Contracts branch, which determines the specific revaluation practices and procedures. The department undertakes annual reviews of the revaluation practices (after each year's revaluation process), and reports to the department's Audit and Risk Management Committee (of which the department's Director, Finance is an invitee) regarding the outcomes of, and recommendations arising from, each annual review.

i) Use of specific appraisals

Revaluations using an independent professional valuer or internal expert appraisals are undertaken at least once every five years. However, if a particular asset class experiences significant and volatile changes in fair value, that class is subject to specific appraisal in the reporting period, where practicable, regardless of the timing of the last specific appraisal. This is arranged by the department's Finance and Contracts branch after consultation with the department's Audit and Risk Management Committee.

The fair values reported by the department are based on appropriate valuation techniques that maximise the use of available and relevant observable inputs, and minimise the use of unobservable inputs, as defined in note 17(a). Materiality is considered in determining whether the difference between the carrying amount and the fair value of an asset is material (in which case, revaluation is warranted).

17. Property, plant and equipment (continued)

Accounting policy

j) Use of indices

Where assets have not been specifically appraised in the reporting period, their previous valuations are materially kept up to date via the application of relevant indices. The department ensures that the application of such indices results in a valid estimation of the assets' fair values at reporting date. AssetVal Pty Ltd supplies the indices used for the various types of assets. Such indices are either publicly available, or are derived from market information available to AssetVal Pty Ltd. AssetVal Pty Ltd provides assurance of its robustness, validity and appropriateness for application to the relevant assets.

Indices used are also tested for reasonableness by comparing the results against other relevant indices, industry indicators and market information. Through this process, which is undertaken annually, the department assesses and confirms the relevance and suitability of indices provided by AssetVal Pty Ltd based on the department's own particular circumstances.

k) Accounting for changes in fair value

Any revaluation increment arising from the revaluation of an asset is credited to the asset revaluation surplus of the appropriate class, except to the extent it reverses a revaluation decrement for the class previously recognised as an expense. A decrease in the carrying amount on revaluation is charged as an expense, to the extent it exceeds the balance, if any, in the revaluation surplus relating to that asset class.

For assets revalued using a cost valuation approach (e.g. current replacement cost), accumulated depreciation is adjusted to equal the difference between the gross amount and carrying amount. This is generally referred to as the 'gross method'.

For assets revalued using a market based valuation approach, accumulated depreciation is eliminated against the gross amount of the asset prior to restating for the revaluation. This is generally referred to as the 'net method'.

l) Depreciation of property, plant and equipment

Land is not depreciated as it has an unlimited useful life.

Property, plant and equipment (excluding land) is depreciated on a straight-line basis so as to allocate the net cost or revalued amount of each asset, less its estimated residual value, progressively over its estimated useful life to the department. For depreciable assets, residual value is determined to be zero, reflecting the estimated amount to be received on disposal at the end of their useful life.

Key Judgment: Straight line depreciation is used as that is consistent with the even consumption of service potential of these assets over their useful life to the department.

Separately identifiable components of complex assets are depreciated according to the useful lives of each component, as doing so results in a material impact on the depreciation expense reported.

Any expenditure that increases the originally assessed capacity or service potential of an asset is capitalised and the new depreciable amount is depreciated over the remaining useful life of the asset to the department

Assets under construction (work in progress) are not depreciated until they reach their service delivery capacity. Service delivery capacity relates to when construction is complete and the asset is first put to use, or is installed ready for use in accordance with its intended application. These assets are then reclassified to the relevant classes within property, plant and equipment.

The depreciable amount of improvements to or on leasehold land, is allocated progressively over the estimated useful lives of the improvements, or the unexpired period of the lease, whichever is the shorter. The unexpired period of a lease includes any option period where exercise of the option is probable.

17. Property, plant and equipment (continued)

Accounting policy

m) Depreciation rates

Key estimates: For each class of depreciable assets, the following useful lives are used (including significant identifiable components):

<u>Class</u>	<u>Useful life</u>	<u>Class</u>	<u>Useful life</u>
<i>Buildings:</i>		<i>Plant and equipment:</i>	
<i>Building Structures</i>	18 – 50 years	<i>Leasehold improvements</i>	3 – 17 years
<i>Fittings and Finishes</i>	10 – 20 years	<i>Computer equipment</i>	3 – 11 years
<i>Building Services</i>	15 – 50 years	<i>Plant and machinery</i>	5 – 40 years
<i>Security Systems</i>	10 years	<i>Other plant and equipment</i>	5 – 45 years

Where appropriate, the depreciation rates applied to assets are determined on an individual basis.

n) Indicators of impairment and determining recoverable amount

All property, plant and equipment assets are assessed for indicators of impairment on an annual basis or, where the asset is measured at fair value, for indicators of a change in fair value/service potential since the last valuation was completed. Where indicators of a material change in fair value or service potential since the last valuation arise, the asset is revalued at the reporting date under AASB 13 Fair Value Measurement. If an indicator of possible impairment exists, the department determines the asset's recoverable amount under AASB 136 Impairment of Assets. Recoverable amount is equal to the higher of the fair value less costs of disposal and the asset's value in use.

For all other remaining assets measured at cost, recoverable amount is equal to the higher of the fair value less costs of disposal and the asset's value in use.

o) Recognising impairment losses

For assets measured at fair value, the impairment loss is treated as a revaluation decrease and offset against the asset revaluation surplus of the relevant class to the extent available. Where no asset revaluation surplus is available in respect of the class of asset, the loss is expensed in the statement of comprehensive income as a revaluation decrement.

For assets measured at cost, an impairment loss is recognised immediately in the statement of comprehensive income.

p) Reversal of impairment losses

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years.

For assets measured at fair value, to the extent the original decrease as expensed through the statement of comprehensive income, the reversal is recognised in income, otherwise the reversal is treated as a revaluation increase for the class of asset through asset revaluation surplus.

For assets measured at cost, impairment losses are reversed through income.

Notes to the financial statements for the period 1 January 2018 to 30 June 2018

18. Payables	2018 \$'000
Trade creditors and accruals	30,859
Equity withdrawal payable	5,612
Total	36,471

Accounting policy

Trade creditors are recognised upon receipt of the goods or services ordered and are measured at the nominal amount i.e. agreed purchase/contract price, gross of applicable trade and other discounts. Amounts owing are unsecured.

19. Accrued employee benefits

Salaries, wages and other related expenses outstanding	11,384
Annual leave levy payable	10,131
Long service leave levy payable	1,972
Other	77
Total	23,564

Accounting policy

No provision for annual leave or long service leave is recognised in the department's financial statements as the liability is held on a whole-of-government basis and reported in those financial statements pursuant to AASB 1049 Whole-of-Government and General Government Sector Financial Reporting.

20. Other current and non-current liabilities

Current

Lease incentives	77
Total	77

Non-Current

Lease incentives	463
Total	463

21. Key management personnel disclosures

Details of key management personnel (KMP)

As from 21 December 2017, the department's responsible Minister is identified as part of the department's KMP, consistent with additional guidance included in the revised version of AASB 124 *Related Party Disclosures*. That Minister is the Minister for Police and Minister for Corrective Services.

The following details for non-Ministerial KMP reflect those departmental positions that had authority and responsibility for planning, directing and controlling the activities of the department from 21 December 2017 to 30 June 2018. Further information about these positions can be found in the body of the Annual Report under the section relating to Executive Management.

Position	Position responsibilities
Commissioner	Overall efficient, effective and economic administration of the department.
Deputy Commissioner	Leads the delivery of probation and parole and custodial services in Queensland.
Executive Director, Specialist Operations	Leads the delivery of specialist services to prisoners, offenders, staff, victims and other stakeholders.
Executive Director, Operational Support Services	Leads the delivery of corporate services within the department, including finance, procurement, human resources, facilities management, business improvement and management of key information systems.
General Manager, Strategy and Governance	Provides strategic advice and support to the Commissioner and Minister on the performance and ongoing development of Queensland's corrective services system.
General Manager, Capability and Development	Leads the design, delivery and review of learning, development and cultural change programs to build the capability of the department's workforce and achieve organisational outcomes to meet current and future business needs.
Chief Inspector	Provides independent scrutiny over the standards and operational practices relating to Queensland's corrective services system.

Remuneration policies

Ministerial remuneration entitlements are outlined in the Legislative Assembly of Queensland's Members' Remuneration Handbook. The department does not bear any cost of remuneration of Ministers. The majority of Ministerial entitlements are paid by the Legislative Assembly, with the remaining entitlements being provided by Ministerial Services Branch within the Department of the Premier and Cabinet. As all Ministers are reported as KMP of the Queensland Government, aggregate remuneration expenses for all Ministers are disclosed in the Queensland General Government and Whole-of-Government Consolidated Financial Statements, which are published as part of the Queensland Treasury's Report on State Finances.

Remuneration policy for the department's other KMP is set by the Queensland Public Service Commission as provided for under the *Public Service Act 2008*. Individual remuneration and other terms of employment (including motor vehicle allowances) are specified in employment contracts.

21. Key management personnel disclosures (continued)

Remuneration expenses for those KMP comprise the following components:

Short-term employee expenses which include:

- salaries, allowances and leave entitlements earned and expensed for the year, or for that part of the year during which the employee occupied a KMP position; and
- non-monetary benefits – consisting of provision of car parking benefits together with fringe benefits tax applicable to the benefit.

Long-term employee expenses include amounts expensed in respect of long service leave entitlements earned.

Post-employment expenses include amounts expensed in respect of employer superannuation obligations.

Termination benefits include payments in lieu of notice on termination and other lump sum separation entitlements (excluding annual and long service leave entitlements) payable on termination of employment or acceptance of an offer of termination of employment.

Remuneration expenses

The following disclosures focus on the expenses incurred by the department attributable to non-Ministerial KMP during the reporting period. As the result of the machinery-of-government change outlined in note 28, the amounts disclosed are determined on the same basis as expenses recognised in the Statement of Comprehensive Income, except for the total remuneration expenses reported by other departments.

1 January 2018 to 30 June 2018 *

Position	Short-term employee expenses		Long-term employee expenses	Post-employment expenses	Total expenses
	Monetary expenses \$'000	Non-monetary benefits \$'000			
Commissioner **	181	3	3	16	203
Deputy Commissioner (acting) from 15 January 2018	106	3	2	9	120
Executive Director, Operational Support Services	106	3	2	11	122
Executive Director, Specialist Operations	87	3	2	9	101
General Manager, Strategy and Governance	96	3	2	9	110
General Manager, Capability and Development	92	-	2	9	103
Chief Inspector	111	3	2	10	126

* Although the department was established 21 December 2017, the remuneration in respect of the key management personnel referred to above is for the reporting period 1 January 2018 to 30 June 2018.

** The position of Commissioner, Queensland Corrective Services transferred from the Department of Justice and Attorney-General. The remuneration for this position as disclosed in the Department of Justice and Attorney-General's financial statements for the period 1 July to 31 December 2017 was \$195,000.

21. Key management personnel disclosures (continued)

Performance payments

No KMP remuneration packages provide for performance or bonus payments.

Accounting policy

KMP and remuneration disclosures are made in accordance with section 3 of the Financial Reporting Requirements for Queensland Government agencies issued by Queensland Treasury.

22. Related party transactions

Transactions with people/entities related to KMP

Based upon KMP declarations, there have been no transactions with related parties that have materially affected the department's operating result and/or financial position.

Transactions with other Queensland Government-controlled entities

The department's primary ongoing sources of funding from Queensland Government for its services are appropriation revenue and equity injections, both of which are provided in cash via Queensland Treasury (refer note 6).

The department also received capital works and building maintenance services at a cost of \$58.106 million from the Department of Housing and Public Works.

Note 8 outlines the services received below fair value provided by Queensland Government entities.

Note 28 outlines the transfer of assets and liabilities from the Department of Justice and Attorney-General arising from machinery-of-government changes.

23. Reconciliation of cash flows

Reconciliation of operating result to net cash provided by operating activities	2018 \$'000
Operating result from continuing operations	(269)
<i>Non-cash items included in operating result:</i>	
Depreciation and amortisation expense	72,938
Doubtful debts written off or provided for	1,234
Loss on sale or disposal of non-current assets	422
<i>Change in assets and liabilities:</i>	
(Increase)/decrease in net receivables	(299)
(Increase)/decrease in appropriation receivable	(6,360)
(Increase)/decrease in annual leave reimbursement receivable	2,120
(Increase)/decrease in long service leave reimbursement receivable	115
(Increase)/decrease in accrued revenue	1,091
(Increase)/decrease in other receivables	928
(Increase)/decrease in prepayments	170
(Increase)/decrease in other assets	12
(Increase)/decrease in inventories	(392)
Increase/(decrease) in accrued employee benefits	6,342
Increase/(decrease) in payables	2,148
Increase/(decrease) in other liabilities	272
(Increase)/decrease in GST input tax credits receivable	(1,680)
Increase/(decrease) in GST payable	(4)
Net cash provided by operating activities	78,788

Accounting policy

Assets and liabilities received or transferred by the department as a result of machinery-of-government changes are set out in note 28.

24. Operating lease and capital commitments

Non-cancellable operating lease commitments 2018 \$'000

Commitments under operating leases at reporting date (inclusive of non-recoverable GST input tax credits) are payable as follows:

Not later than one year	10,731
Later than one year and not later than five years	19,447
Later than five years	5,632
Total	35,810

Capital expenditure commitments

Material classes of capital expenditure commitments at reporting date (inclusive of non-recoverable GST input tax credits) are payable as follows:

Buildings

Payable:

Not later than one year	55,479
Later than one year but not later than five years	1,851
Total	57,330

25. Contingencies

Litigation in progress

As at 30 June 2018, no claims against the department have been filed in the courts.

Effective 21 December 2017, the department joined the Queensland Government Insurance Fund (QGIF). Under the QGIF, the department would be able to claim back (less an excess of \$10,000), the amount paid to successful litigants. This includes any cases that existed as at 21 December 2017 and cases that have arisen since that date.

26. Budgetary reporting disclosures

Following machinery-of-government changes outlined in note 28 and as required by Queensland Treasury policy under such circumstances, the budget figures used in these financial statements reflect the adjusted budget for the reporting period 1 January 2018 to 30 June 2018 as published in the 2018-19 Service Delivery Statements tabled in Parliament.

Explanations of major variances

Statement of comprehensive income

Appropriation revenue

The decrease primarily reflects the whole-of-government reprioritisation program which returned \$6.007 million in funding to the consolidated fund during the current year and deferral of funding of \$15.450 million to 2018-19 to meet the future operational needs of the department. These decreases are partially offset by additional funding to accommodate growth in offender numbers of \$4.787 million and additional depreciation funding of \$6.101 million to match the useful life profiles of the department's property, plant and equipment.

User charges and fees

The increase mainly reflects higher sales from prison industries of \$2.374 million and goods and services provided below fair value to local councils and community associations of \$1.743 million.

26. Budgetary reporting disclosures (continued)

Grants and other contributions

The increase mainly reflects goods and services received below fair value from Queensland Police Service of \$0.987 million and funding for the national partnership against homelessness of \$0.890 million.

Other revenue

The increase mainly reflects higher sales of goods and services to prisoners of \$1.850 million due to higher prisoner numbers.

Other expenses

The increase mainly reflects goods and services provided below fair value to local councils and community associations of \$1.743 million and the write-off of discontinued capital works projects of \$0.422 million.

Statement of financial position

Cash and cash equivalents

The variance reflects the cash flow timing impacts of higher payables of \$8.655 million and accrued employee expenses of \$6.342 million offset by the increase in receivables of \$3.751 million.

Receivables

The variance primarily reflects an increase in appropriation receivable of \$6.360 million to fund higher depreciation expense offset by the decrease in receivables for annual leave taken of \$2.119 million as a result of the timing of payments made to settle employee related receivables at year end.

Payables

The variance relates to increase in equity withdrawal payables of \$5.612 million associated with the return of higher depreciation funding to the consolidated fund and higher trade creditors and accruals of \$3.043 million as a result of the timing of payments to creditors at year end.

Accrued employee benefits

The increase reflects wages and salaries payable of \$3.253 million associated with higher staff numbers and accrued back pay payable to departmental psychologists of \$1.916 million.

Statement of cash flows

Service appropriation receipts

The decrease primarily reflects the whole-of-government reprioritisation program which returned \$6.007 million in funding to the consolidated fund during the current year and deferral of funding of \$15.450 million to 2018-19 to meet the future operational needs of the department. These decreases are partially offset by additional funding to accommodate growth in offender numbers of \$4.787 million.

User Charges

The increase mainly reflects higher sales from prison industries of \$2.374 million.

Payments for property, plant and equipment

This decrease mainly relates to the deferral of capital funding to future financial years to match revised project schedules for the following significant capital projects – Borallon Training and Correctional Centre of \$12.667 million and Brisbane Women's Correctional Centre of \$8.978 million.

Equity injections and equity withdrawals

The variance is associated with the timing of capital funding associated with capital projects referred to above.

27. Trust transactions and balances	2018 \$'000
Prisoners' trust fund	
Revenue	13,161
Expenses	13,111
Net surplus	50
Assets	4,221
Liabilities	4,221
Net assets	-

Accounting policy

The Prisoners' Trust holds money in trust on behalf of offenders in custody in compliance with s.311 of the Corrective Services Act 2006.

The transactions and balances related to the above arrangements are not recognised in the financial statements because the department acts only in a custodial role. The disclosure of these notes are for the information of users. The Queensland Auditor-General performs the audit of the department's trust transactions for the reporting period.

28. Machinery-of-Government transfers

As a result of the *Public Service Departmental Arrangements Notice (No.3 and No.4) 2017*, dated 21 December 2017, the department on establishment has gained certain assets and liabilities from the Department of Justice and Attorney-General, effective from 1 January 2018 as follows:

	2018 \$'000
Assets	
Cash and cash equivalents	19,899
Receivables	18,226
Inventories	4,478
Other current assets	2,480
Total current assets	45,083
Property, plant and equipment	2,565,584
Intangibles	1,564
Other non-current assets	517
Total non-current assets	2,567,665
Total assets	2,612,748
Liabilities	
Payables	27,816
Accrued employee benefits	17,222
Other current liabilities	45
Total current liabilities	45,083
Other non-current liabilities	222
Total non-current liabilities	222
Total liabilities	45,305
Net assets	2,567,443
Equity	
Non-appropriated equity	2,567,443
Total equity	2,567,443

The net increase in assets of \$2.567 billion has been accounted for as an increase in contributed equity as disclosed in the Statement of Changes in Equity. Budgeted appropriation revenue of \$471.098 million was reallocated from the Department of Justice and Attorney-General to the department as part of the machinery-of-government changes, refer also note 6.

29. Summary of other accounting policies

a) Authorisation of financial statements for issue

The financial statements are authorised for issue by the Commissioner and Director, Finance at the date of signing the Management Certificate.

b) Accounting estimates and judgments

The preparation of financial statements necessarily requires the determination and use of certain critical accounting estimates, assumptions, and management judgments that have the potential to cause a material adjustment to the carrying amounts of assets and liabilities within the next financial year. Such estimates, judgments and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in future periods as relevant.

Estimates and assumptions with the most significant effect are outlined in the following financial statement notes:

Receivables – note 13
Valuation of property, plant and equipment – note 17
Depreciation – note 17

Further, the matters covered in each of those notes (except for depreciation and amortisation) necessarily involve estimation uncertainty, with the potential to materially impact on the carrying amount of the department's assets and liabilities in the next reporting period. Reference should be made to the respective notes for more information.

c) Currency and rounding

Amounts included in the financial statements are in Australian dollars and rounded to the nearest \$1,000 or, where that amount is \$500 or less, to zero, unless disclosure of the full amount is specifically required.

d) Cash and cash equivalents

For the purposes of the Statement of Financial Position and the Statement of Cash Flows, cash assets include all cash and cheques received but not banked at reporting date, as well as deposits at call with financial institutions.

Departmental bank accounts are grouped within the whole-of-government set-off arrangement with the Queensland Treasury Corporation (QTC) and do not earn interest on surplus funds, except for Canteen and Prisoner Trust operations which are interest bearing accounts. Interest earned from Canteen and Prisoner Trust operations remains with the department and is used for prisoner amenities. Interest earned on cash deposited with the Commonwealth Bank of Australia earned 2.1% during the reporting period.

The department does not trade in foreign currency and does not undertake any hedging. The department is exposed to interest rate risk through cash deposited in interest bearing accounts.

e) Current/non-current classification

Assets and liabilities are classified as either 'current' or 'non-current' in the Statement of Financial Position and associated notes. Assets are classified as 'current' where their carrying amount is expected to be realised within 12 months after the reporting date. Liabilities are classified as 'current' when they are due to be settled within 12 months after the reporting date, or the department does not have an unconditional right to defer settlement to beyond 12 months after the reporting date.

All other assets and liabilities are classified as non-current.

f) Financial instruments

Financial assets and liabilities are recognised in the Statement of Financial Position when the department becomes party to the contractual provisions of the financial instrument. The department has the following categories of financial assets and financial liabilities.

Cash and cash equivalents – refer Statement of Cash Flows
Receivables at amortised cost – refer note 13
Payables at amortised cost – refer note 18

No financial assets and financial liabilities have been offset and presented on a net basis in the Statement of Financial Position.

The department does not enter into transactions for speculative purposes, nor for hedging.

g) Insurance

The department's non-current physical assets and other risks, including those relating to business interruption following natural disasters, are insured through the Queensland Government Insurance Fund. Premiums are paid on a risk assessment basis. In addition, the department pays premiums to Workcover Queensland in respect of its obligations for employee compensation.

29. Summary of other accounting policies (continued)

h) Taxation

The department is a State body as defined under the Income Tax Assessment Act, 1936 and is exempt from Commonwealth taxation with the exception of Fringe Benefits Tax (FBT) and Goods and Services Tax (GST). FBT and GST are the only taxes accounted for by the department, GST credits receivable from, and GST payable to the ATO, are recognised (refer to note 13).

i) First-year application of new accounting standards or changes in accounting policy

The department did not voluntarily change any of its accounting policies and no Australian Accounting Standards have been early adopted during the reporting period.

Accounting standards applied for the first time

AASB 2016-4 Amendments to Australian Accounting Standards – Recoverable Amount of Non-Cash Generating Specialised Assets for not-for-Profit Entities simplified and clarified the impairment testing requirements under AASB 136 for non-cash generating assets held by NFP entities. This amendment has not changed any reported amounts. References to the Depreciated Replacement Costs have been replaced with Current Replacement Cost in line with these amendments.

j) Future impact of accounting standards not yet effective

At the date of authorisation of the financial report, the expected impacts of new or amended Australian Accounting Standards issued but with future effective dates are set out below:

AASB 9 Financial Instruments and AASB 2014-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2014)

These standards will first apply to the department from its financial statements for 2018-19 with a 1 July 2018 date of transition. The main impacts of these standards on the department are that they will change the requirements for the classification, measurement, impairment and disclosures associated with the department's financial assets. AASB 9 will introduce different criteria for whether financial assets can be measured at amortised cost or fair value.

The department has reviewed the impact of AASB 9 on the classification and measurement of its financial assets.

There will be no change to either the classification or valuation of the cash and cash equivalent item.

Trade receivables will be classified and measured at amortised cost, similar to the current classification of receivables. However, new impairment requirements will result in an allowance being applied to all receivables rather than only on those receivables that are credit impaired. The department will be adopting the simplified approach under AASB 9 and measure lifetime expected credit losses on all trade receivables using a provision matrix approach as a practical expedient to measure the impairment allowance.

Applying this approach, the department has estimated the opening allowance for impairment for trade receivables on 1 July 2018 will not be materially different from the amount currently reported at 30 June 2018 of \$1.936 million (refer note 13).

The amount of impairment for trade receivables owing from other government agencies of \$1.375 million is insignificant and immaterial due to the low credit risk (high quality credit rating) for the State of Queensland. No additional impairment allowance will be raised for these amounts on transition.

Aside from a number of one-off disclosures in the 2018-19 financial statements to explain the impact of adopting AASB 9, a number of new or changed disclosure requirements will apply from that time. Assuming no change in the types of financial instruments that the department enters into, the most likely ongoing disclosure impacts are expected to relate to the credit risk of financial assets subject to impairment, and de-recognition of these items.

AASB 1058 Income of Not-for-Profit Entities and AASB 15 Revenue from Contracts with Customers

These standards will first apply to the department from its financial statements for 2019-20.

The department has commenced analysing the new revenue recognition requirements under these standards and is yet to form conclusions about significant impacts. However the department does not currently have any revenue contracts with a material impact for the period after 1 July 2018, and will monitor the impact of any such contracts subsequently entered into before the new standards take effect. A range of new disclosures will also be required by the new standards in respect of the department's revenue.

29. Summary of other accounting policies (continued)

j) Future impact of accounting standards not yet effective

AASB 16 Leases

This standard will first apply to the department from its financial statements for 2019-20. When applied, the standard supersedes AASB 117 Leases, AASB Interpretation 4 Determining whether an Arrangement contains a Lease, AASB Interpretation 115 Operating Leases – Incentives and AASB Interpretation 127 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

Impact for Lessees

Unlike AASB 117 Leases, AASB 16 introduces a single lease accounting model for lessees. Lessees will be required to recognise a right-of-use asset (representing rights to use the underlying leased asset) and a liability (representing the obligation to make lease payments) for all leases with a term of more than 12 months, unless the underlying assets are of low value.

In effect, the majority of operating leases (as defined by the current AASB 117 and shown at note 24) will be reported on the Statement of Financial Position under AASB 16.

The right-of-use asset will be initially recognised at cost, consisting of the initial amount of the associated lease liability, plus any lease payments made to the lessor at or before the effective date, less any lease incentive received, the initial estimate of restoration costs and any initial direct costs incurred by the lessee. The right-of-use asset will give rise to a depreciation expense.

The lease liability will be initially recognised at an amount equal to the present value of the lease payments during the lease term that are not yet paid. Current operating lease rental payments will no longer be expensed in the Statement of Comprehensive Income. They will be apportioned between a reduction in the recognised lease liability and the implicit finance charge (the effective rate of interest) in the lease. The finance cost will also be recognised as an expense.

AASB 16 allows a 'cumulative approach' rather than full retrospective application to recognising existing operating leases. In accordance with Queensland Treasury's policy, the department will apply the 'cumulative approach', and will not need to restate comparative information. Instead, the cumulative effect of applying the standard is recognised as an adjustment to the opening balance of accumulated surplus (or other component of equity, as appropriate) at the date of initial application.

The department has analysed its existing operating lease commitments at note 24 by type of lessor and type of lease to estimate the expected impacts on transition based on information available at 30 June 2018.

Approximately 99% (\$35.374 million) of the department's operating lease commitments comprise arrangements with other Queensland Government agencies as lessor (i.e. internal-to-government leases). The remaining 1% (\$0.436 million) of operating lease commitments are with lessors external to Queensland Government.

Internal-to-Government leases

The department's leases with internal-to-government lessors are primarily for office accommodation through the Queensland Government Accommodation Office and employee housing under the Government Employee Housing program.

At 30 June 2018, the department has operating lease commitments of \$35.374 million and annual lease payments of \$9.165 million per year principally for office accommodation.

Considering their operations and impact across the whole-of-government, the department is currently awaiting formal guidance from Queensland Treasury as to whether these two arrangements should be accounted for on-balance sheet under AASB 16.

In the event these arrangements are to be accounted for on-balance sheet, the department estimates a right-to-use asset and lease liability on transition of approximately \$42.254 million for office accommodation leases and \$1.838 million for employee housing based on current operating lease commitments. There will be no material financial impact if these arrangements are not accounted for on-balance sheet.

The department also has a number of cancellable motor vehicle leases with QFleet that are not presently included as part of the operating lease commitments note as they do not constitute a lease under AASB 117 and Accounting Interpretation 4. The department is also awaiting confirmation from Queensland Treasury that QFleet arrangements will continue to fall outside the requirements of AASB 16 for on-balance sheet accounting.

All other Australian accounting standards and interpretations with future effective dates are either not applicable to the department's activities, or have no material impact on the department.

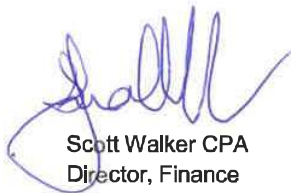
Queensland Corrective Services

Management Certificate

for the reporting period 1 January 2018 to 30 June 2018

These general purpose financial statements have been prepared pursuant to section 62(1) of the *Financial Accountability Act 2009* (the Act), section 42 of the *Financial and Performance Management Standard 2009* and other prescribed requirements. In accordance with section 62(1)(b) of the Act, we certify that in our opinion:

- (a) the prescribed requirements for establishing and keeping the accounts have been complied with in all material respects; and
- (b) the financial statements have been drawn up to present a true and fair view, in accordance with prescribed accounting standards, of the transactions of Queensland Corrective Services for the reporting period 1 January 2018 to 30 June 2018 and of the financial position of the department for the same reporting period; and
- (c) these assertions are based upon an appropriate system of internal controls and risk management processes being effective, in all material aspects, with respect to financial reporting throughout the reporting period.



Scott Walker CPA
Director, Finance



Peter Martin APM
Commissioner

28 August 2018

28 August 2018

INDEPENDENT AUDITOR'S REPORT

To the Accountable Officer of Queensland Corrective Services

Report on the audit of the financial report

Opinion

I have audited the accompanying financial report of Queensland Corrective Services.

In my opinion, the financial report:

- a) gives a true and fair view of the department's financial position as at 30 June 2018, and its financial performance and cash flows for the period then ended
- b) complies with the *Financial Accountability Act 2009*, the Financial and Performance Management Standard 2009 and Australian Accounting Standards.

The financial report comprises the statement of financial position and statement of assets and liabilities by major departmental service as at 30 June 2018, the statement of comprehensive income, statement of comprehensive income by major departmental service, statement of changes in equity and statement of cash flows for the period 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 of Queensland 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 of Queensland 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

Specialised building valuations (\$2,151.5 million)

Depreciation expense (\$69.6 million)

Refer to note 17 in the financial report

Key audit matter	How my audit addressed the key audit matter
<p>Buildings were material Queensland Corrective Services (QCS) at balance date and were measured at fair value using the current replacement cost method.</p> <p>Buildings were transferred to QCS from the Department of Justice and Attorney-General (DJAG) on 1 January 2018 as part of a Machinery of Government change. Prior to their transfer, buildings were revalued as at 31 December 2017 by indexation.</p> <p>For the financial period ended 30 June 2018, QCS buildings were measured at fair value using the current replacement cost method. This comprises:</p> <ul style="list-style-type: none"> • Gross replacement cost, less • Accumulated depreciation <p>Fair Value was derived at balance date by having regard to the movement in the building index since 1 January 2018. Using indexation required significant judgements for:</p> <ul style="list-style-type: none"> • determining indexation factors that reflect the estimated change, since the previous valuation, in the cost inputs used in developing the gross replacement. • assumptions and judgements used in the determination of fair value in intervening period between the transfer of assets from DJAG and the period end to ensure ongoing validity of assumptions and judgements used. <p>The measurement of accumulated depreciation involved significant judgements for forecasting the remaining useful lives of building components.</p>	<p>My procedures for the valuation of Buildings included, but were not limited to:</p> <p>For the assets transferred from the Department of Justice and Attorney-General:</p> <ul style="list-style-type: none"> • Assessing the adequacy of management's review of the valuation process. • Assessing the competence, capability and objectivity of the independent valuation specialist 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 <p>In the current period:</p> <ul style="list-style-type: none"> • Evaluating the reasonableness of management's assessment that the movement in the building index from 1 January 2018 to 30 June 2018 was not material. • Evaluating useful life estimates for reasonableness by: <ul style="list-style-type: none"> • reviewing management's annual assessment of useful lives • assessing that no asset in use has reached or exceeded its useful life • enquiring of management about their plans for assets that are nearing the end of their useful life. • Where changes in useful lives were identified, evaluating whether the effective dates of change applied for depreciation expense were supported by appropriate evidence.

Other information

Other information comprises the information included in the entity's annual report for the period ended 30 June 2018, but does not include the financial report and my auditor's report thereon.

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 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 2009 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, but not for expressing an opinion on the effectiveness of the department's internal control.
- 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.

In accordance with s.40 of the *Auditor-General Act 2009*, for the period ended 30 June 2018:

- a) I received all the information and explanations I required.
- b) In my opinion, the prescribed requirements in relation to the establishment and keeping of accounts were complied with in all material respects.



31 August 2018

J F Welsh
as delegate of the Auditor-General

Queensland Audit Office
Brisbane