



Grant Thornton

An instinct for growth™

John Palm
Manager Finance and Administration
Queensland Competition Authority
Level 27
145 Ann Street
BRISBANE QLD 4000

**Grant Thornton Australia
Limited**
King George Central
Level 18
145 Ann Street
Brisbane QLD 4000
GPO Box 1008
Brisbane QLD 4001
T +61 7 3222 0200

14 July 2020

Dear John

REVIEW OF QUEENSLAND COMPETITION AUTHORITY'S FEE COSTING MODEL

Introduction and scope

As discussed and arranged with the Queensland Competition Authority (QCA), we have conducted a review of the fee costing model used to calculate the cost of performing its various functions and services.

Specifically the aim of this review was to determine whether the model used by the Authority is aligned with Section 3 of the *Queensland Competition Authority Regulation 2007*. The section relevant to this review provides that:

“The fee payable to the authority for providing a service or performing the function mentioned in schedule 1 is the amount –

- a) The authority considers to be reasonable; and
- b) That is not more than the reasonable cost of providing the service or performing the function.”

The information contained in this report is based primarily on the QCA financial model current at the date of this report. No opinion is given on whether the Authority's estimated or actual costs for a particular year have been reasonably allocated in determining the fees for a particular regulated entity or for all regulated entities.

This is not an assurance engagement, and as such, an assurance opinion has not been provided.

The focus of this review was on:

1. Time allocations by user
2. Consultant cost coding
3. Costs against fees in terms of coding
4. Sample test of the original documentation supporting costs charged to particular services of functions.

ABN-41 127 556 389 ACN-127 556 389

Grant Thornton Australia Ltd ABN 41 127 556 389 ACN 127 556 389 'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires. Grant Thornton Australia Limited is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL and its member firms are not agents of, and do not obligate one another and are not liable for one another's acts or omissions. In the Australian context only, the use of the term 'Grant Thornton' may refer to Grant Thornton Australia Limited ABN 41 127 556 389 and its Australian subsidiaries and related entities. Liability limited by a scheme approved under Professional Standards Legislation.

www.grantthornton.com.au

#3562712v1

The framework

In assessing the reasonable cost that can be charged to the regulated entities, QCA employs a series of methods to ensure its obligations are met in terms of charging a reasonable fee for the services performed. Costs incurred by QCA can be broadly categorised under the following headings:

Directly attributable labour – QCA staff record their time in a finance system on a weekly basis to identify the time spent working on specific projects and regulated entities. Most of this time is charged back at cost to the relevant entity where deemed appropriate.

Directly attributable non-labour – In the work that QCA undertakes there is a portion of costs that are non-labour but can be directly attributed to a project or regulated entity. Where these costs are deemed appropriate, they are charged back to the relevant regulated entity.

Specialist services – QCA engages with external consultants or service providers. Where these are in direct relation to a project or regulated entity, they are charged back at cost. Where these are not directly relevant to a regulated entity, they will be either treated as corporate overheads or excluded from the charge-back calculation.

Corporate overheads – QCA incurs a range of costs in the course of its work which are not attributable directly to a regulated entity. However, they are necessary to continue its business. For the most part, these overheads are allocated to the regulated entities serviced over the period. This allocation is completed using proportional labour costs spent per entity as a driver.

Non-recoverable costs – QCA consider some costs not reasonable to charge back to stakeholders. The QCA tracks these costs and absorbs them. They are not charged back to the regulated entities.

Findings and recommendations

In the process of our review, we found that the costing process and model used by the QCA is appropriate and achieves the goal of calculating reasonable costs in order to charge these back to the regulated entities.

In particular:

1. Directly attributable labour is recorded by individuals and monitored by HR to ensure accuracy. These are charged back at cost to the relevant entity. This is a reasonable and appropriate method of calculating costs for this category.
2. Directly attributable non-labour costs are recorded by the authority and these are charged back to the entity to which they relate. This process has been assessed as appropriate for the goal of calculating reasonable costs which are not labour in nature to be charged back to the relevant regulated entity.
3. Specialist services include costs such as consulting or legal fees. These are charged back to the entity or project to which they relate where appropriate, and where not appropriate they are treated as a corporate overhead. This process has been assessed as appropriate.
4. Corporate overheads, where deemed appropriate, are charged back to the regulated entities. This is done using labour costs as a driver, meaning that overheads are charged back to regulated entities in proportion to the services completed on each regulated entity. This is an accepted practice and has been deemed appropriate for calculating reasonable cost.
5. Non-recoverable costs are identified by QCA management. Where it is deemed that QCA has incurred a cost that is not appropriate to charge back to the serviced entities, the cost is absorbed by QCA. This is an appropriate treatment of costs and an important part of the process which ensures that QCA does not charge regulated entities for unreasonable costs.

In summary, the QCA's fee costing model at the time of this report and surrounding processes are appropriate in the calculation of reasonable costs to be charged back to the entities that the QCA regulate.

Statement of responsibility

This report is prepared on the basis of the limitations set out below:

The matters raised in this report came to our attention during the course of our review, as a result of our testing performed. Testing is conducted on a sample basis, over a specific period of time, and our report therefore provides commentary regarding the operating effectiveness of the actual processes tested. The possibility therefore exists that our report may not include all weaknesses that exist or improvements that may be made where these relate to processes not tested as part of this review.

Our review is not a substitute for management's responsibility to maintain adequate controls over all levels of operations and their responsibility to prevent and detect irregularities, including fraud.

QCA management should therefore not rely solely on our report to identify all weaknesses that may exist.

Our comments should be read in the context of the scope of our work as detailed in the engagement letter. Where possible, management representations are independently verified, though some findings within this report may have been prepared on the basis of management representations which have not been independently tested.

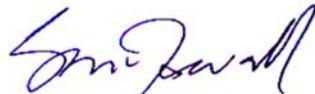
This report has been prepared solely for the use of the QCA's Board and Management and should not be quoted in whole or in part without our prior written consent. No responsibility to any third party is accepted as the report has not been prepared, and is not intended, for any other purpose.

In closing

We would like to take this opportunity to thank the Queensland Competition Authority management and personnel for their cooperation and assistance during the course of this fee and cost model review.

Yours sincerely

GRANT THORNTON AUSTRALIA LIMITED



Stuart McDowall

Partner

D: +61 7 3222 0282

M: +61 402 044 916

E: stuart.mcdowall@au.gt.com