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1 August 2025

Dear Sharon

REVIEW OF QUEENSLAND COMPETITION AUTHORITY'S FEE COSTING MODEL

Introduction and scope

Grant Thornton Australia Limited ("Grant Thornton") have conducted a review of the fee costing model used by Queensland Competition Authority (QCA) 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 QCA is aligned with section 3(1) of the *Queensland Competition Authority Regulation 2018.* The section relevant to this review provides that:

> *"For section 245(2) of the Act, the fee payable to the authority for providing a service or performing a 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 QCA'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:

- time allocations by user;
- consultant cost coding;
- costs against fees in terms of coding; and
- sample testing of the original documentation supporting costs charged to particular services or functions.

This review was performed in July 2025 and covered the period 1 July 2024 to 30 June 2025.

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. Majority of 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 aligned with section 3(1) of the *Queensland Competition Authority Regulation 2018* as it is appropriate and achieves the goal of calculating reasonable costs to charge these back to the regulated entities.

In particular:

1. Directly attributable labour is recorded by individuals and monitored by Finance and 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 QCA 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.

Additional Observations

It was noted during sample testing that some employees appeared on a pay run for a project code without appearing on the corresponding time allocation or import spreadsheets. It was confirmed with QCA that this was due some employees not completing their time allocations for that period and as such defaulting to their base project code in the system. While it was confirmed that these instances did not impact project cost allocations due to employees being resourced full time to the specific project, it is recommended that QCA consider reviewing the current process to ensure increased compliance so that all employees are completing time allocations in an accurate and timely manner.

NOTE: Management has acknowledged the issue raised and is considering the implementation of additional controls to reduce this risk.

Statement of responsibility

This report is prepared based on the limitations set out below:

The matters raised in this report came to our attention during our review, as a result of our testing performed. Testing is conducted on a sample basis, over a specific period, 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.

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 based on management representations which have not been independently tested.

Suggestions for improvement should be assessed by QCA for their full commercial impact before they are implemented.

This report has been prepared solely for the use of QCA. 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 this review.

Yours sincerely

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