



Tasmanian
Audit Office

Accounting and Auditing Developments

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15 June 2017

Outline

- **Financial Reporting developments**
 - New standards
 - Update on accounting treatments
 - Decluttering of financial statements
- **Audit update**
 - Submission of financial statements
 - Enhanced auditor reporting
 - Fraud risk



New standards

AASB 124
Related Party Disclosures

Enhanced Auditor Reporting

2016-17

AASB 9
Financial Instruments

2018-19

AASB 15
Revenue and AASB 1058 Income of NFPs

AASB 16
Leases

2019-20

RDR
Reporting entities

Further out

Changing accounting standards ...

Australian Accounting Standard	Effective Date – Year beginning on or after	30 June Year-end	Comparatives required
AASB 124/2015-6 Extending Related Party Disclosures NFP	1 July 2016	30 June 2017	No
AASB 9 <i>Financial Instruments</i>	1 January 2018	30 June 2019	Yes
AASB 15 <i>Revenue from Contracts with Customers</i>	1 January 2018 (For-profit) 1 January 2019 (Not-for-profit)*	30 June 2019 30 June 2020*	Yes (some practical expedients)
AASB 1058 <i>Income of NFP Entities</i>	1 January 2019	30 June 2020	Yes (some practical expedients)
AASB 16 <i>Leases</i>	1 January 2019	30 June 2020	Yes

AASB 124 Related Party Disclosures



AASB 124 *Related Party Disclosures*

Objective

- To ensure that an entity's financial statements contain the disclosures necessary to **draw attention** to the **possibility** that its financial position and financial performance **may have been affected** by related party transactions.

Not about increasing accountability or probity



AASB 124



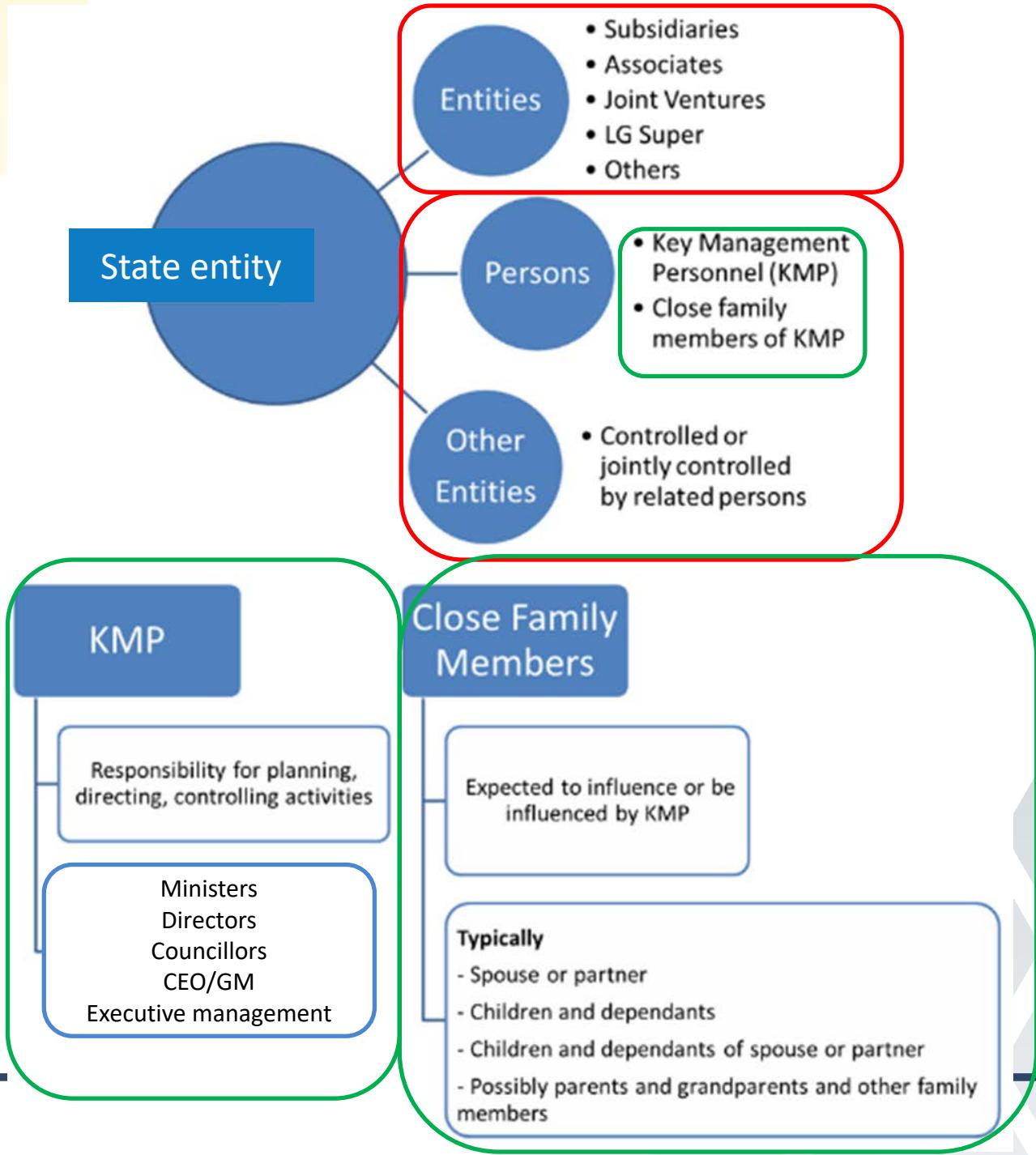
Defines related parties

Defines key management personnel (KMP)

Requires disclosure of related party transactions and relationships

Specific disclosures for KMP compensation

Related parties



AASB 124 – main steps



Step 1: Identify related parties

Step 2: Identify transactions and outstanding balances with related parties

Step 3: Determine materiality

Step 4: Disclose material related party transactions, outstanding balances and KMP compensation

AASB 124 – Are you ready?

- Do those charged with governance and senior executives (KMP) understand what is required by the related party disclosure requirements?
- Have declarations been obtained from all KMP as to related party relationships and transactions (excluding ordinary citizen transactions)?
- Do those charged with governance review the declarations to assess that they are reasonable and complete?
- Has a pro-forma disclosure based on those transactions been prepared?
- Have the pro-forma disclosures been reviewed by TAO?
- Have the other disclosures required by the standard been considered?

AASB 9 - *Financial Instruments*



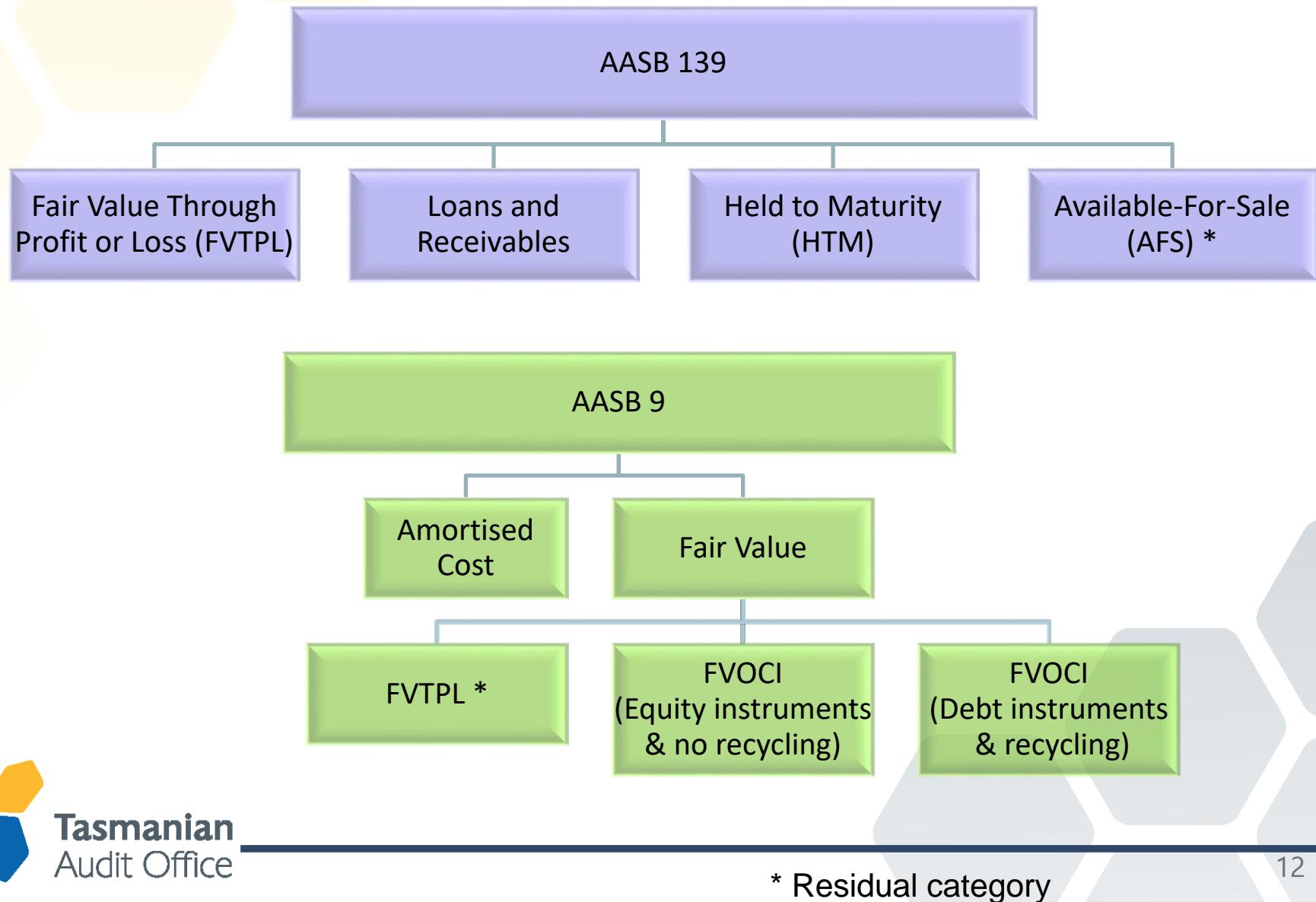
AASB 9 - *Financial Instruments*

Objective

- Establish principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of the entity's future cash flows.



Categories of Financial Assets

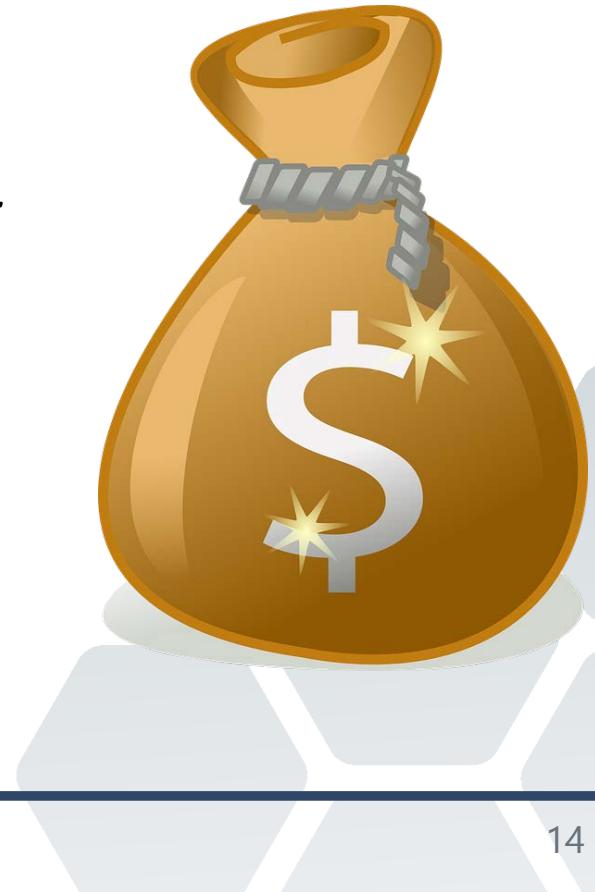


AASB 9 – Please consider...

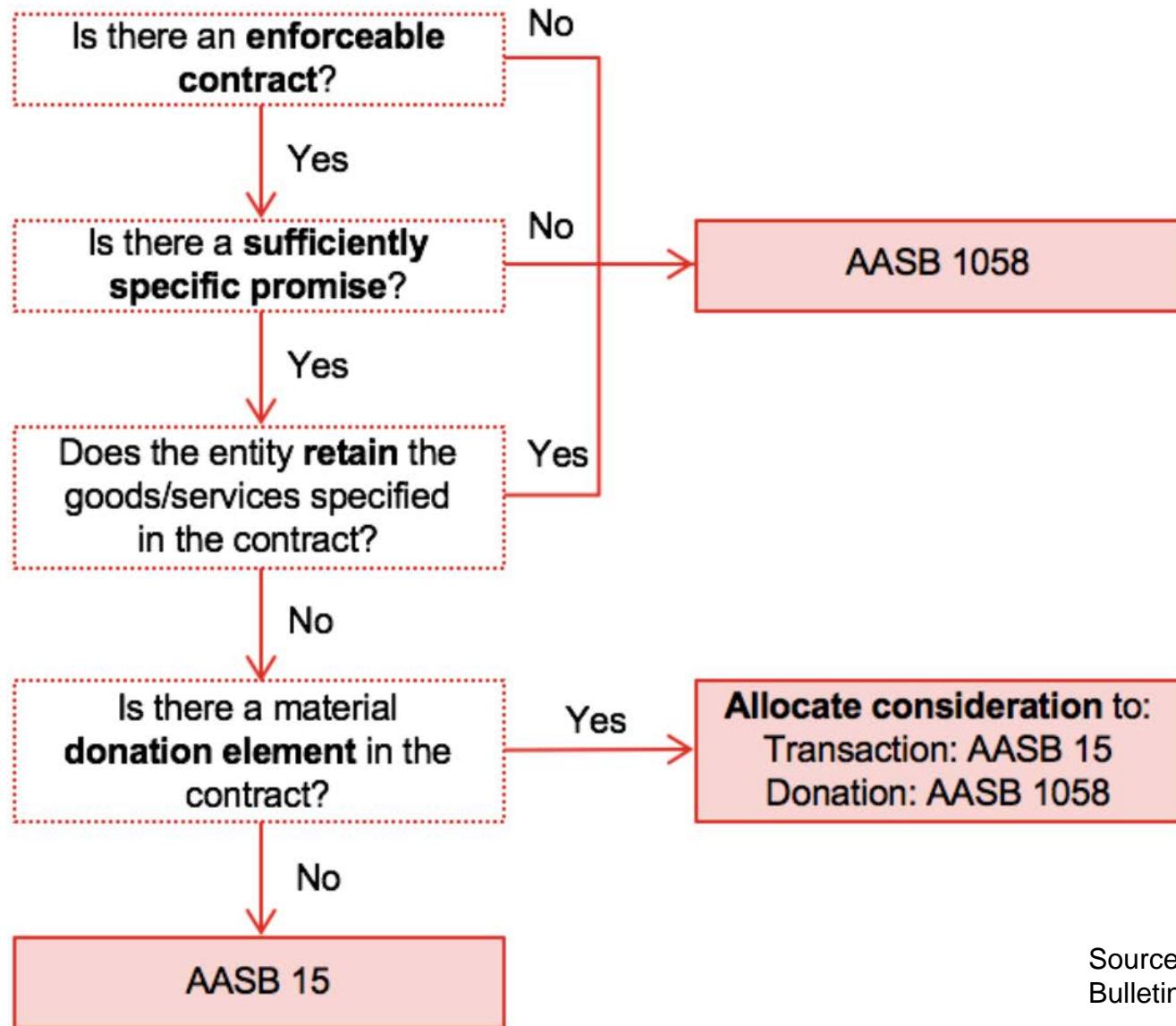
- What happens to your existing available for sale financial assets?
- Do you have a large investment portfolio?
- Trade and statutory receivables - use of simplified approach.
- General provisions for impairment – methodology and basis to support.
- Consequences on reported earnings.
- Hedging – effectiveness is simpler to prove; changes to reduce volatility; new requirement to discount forecast transactions; updated hedge documentation requirements; increased disclosures.

Revenue

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



Which accounting standard should I use?



Source: PwC IFRS
Bulletin January 2017

AASB 15 *Revenue from Contracts with Customers*

Objective

- Report useful information about the nature, amount, timing and uncertainty of revenue and cash flows arising from a **contract** with a customer.



AASB 15

The 5 Revenue Steps

Step 1

Identify the contract

Step 2

Identify separate performance obligations

Step 3

Determine transaction price

Step 4

Allocate transaction price to performance obligation

Step 5

Recognise revenue when each performance obligation satisfied

AASB 1058 *Income of Not-for-profit Entities*

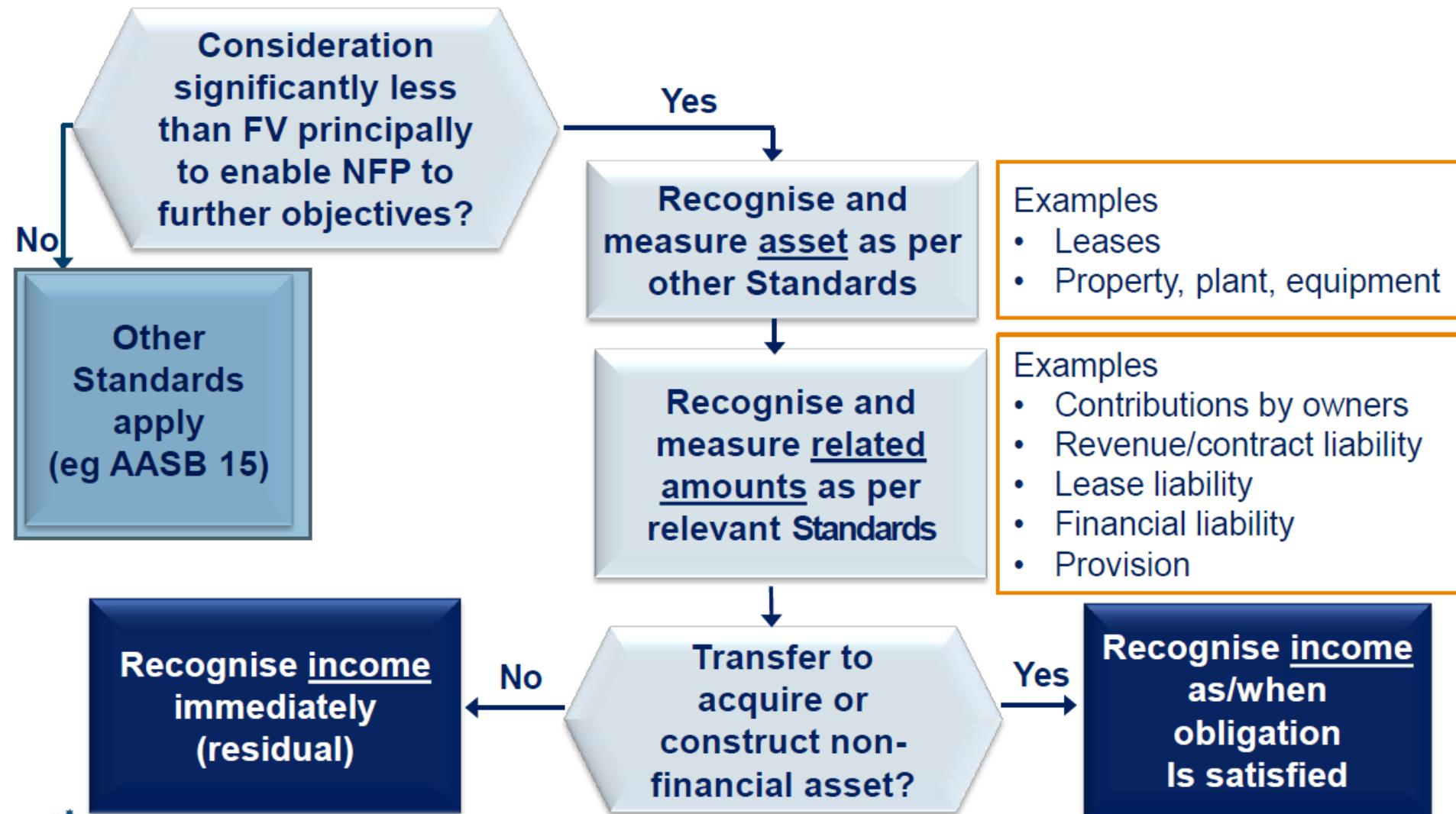
Objective

- Establishes principles that apply to:
 - (a) transactions where the consideration to acquire an asset is significantly less than fair value principally to enable the NFP to further its objectives
 - (b) the receipt of volunteer services.

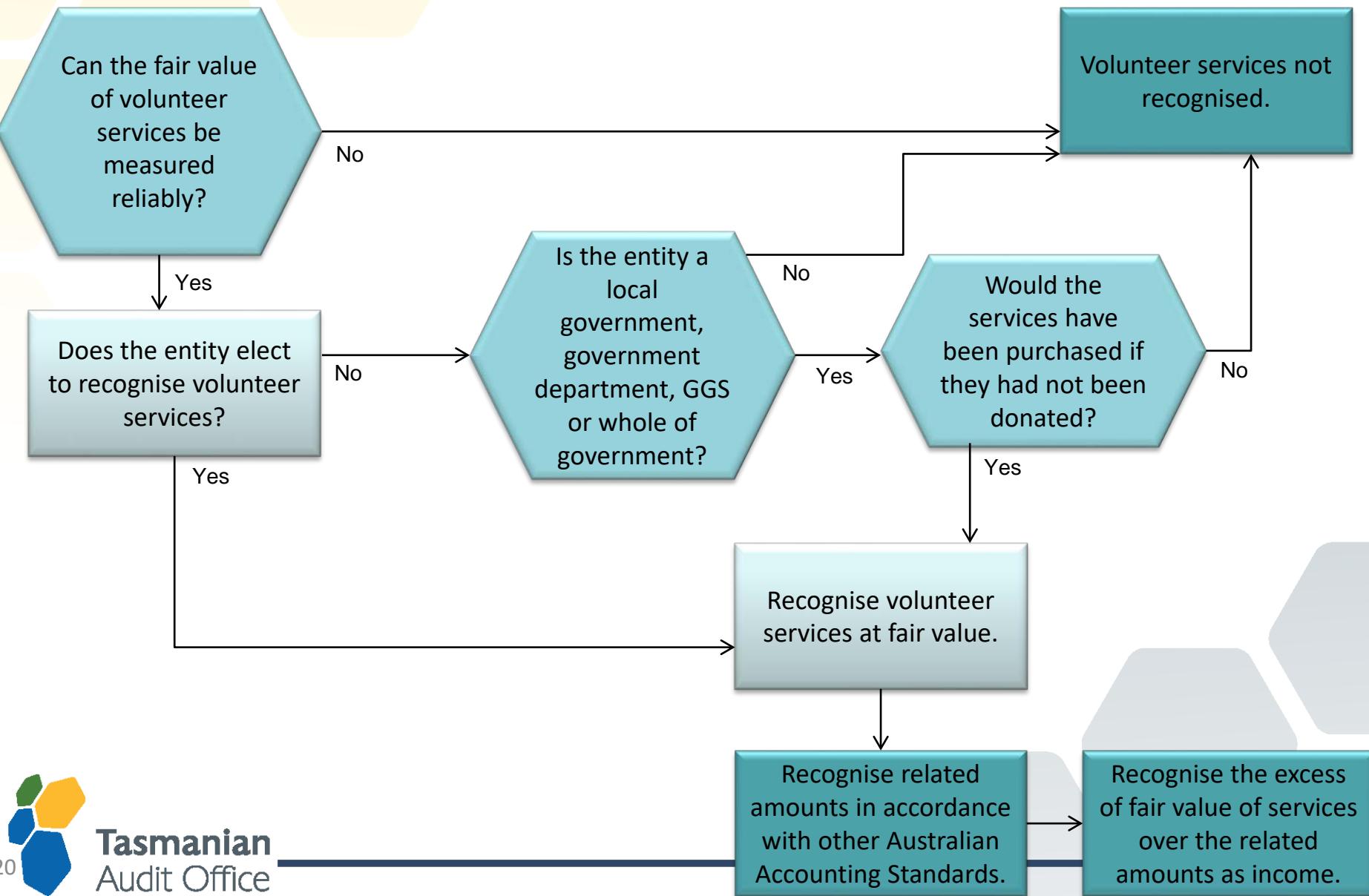


AASB 1058

Transactions other than volunteer services



AASB 1058 - Volunteer services



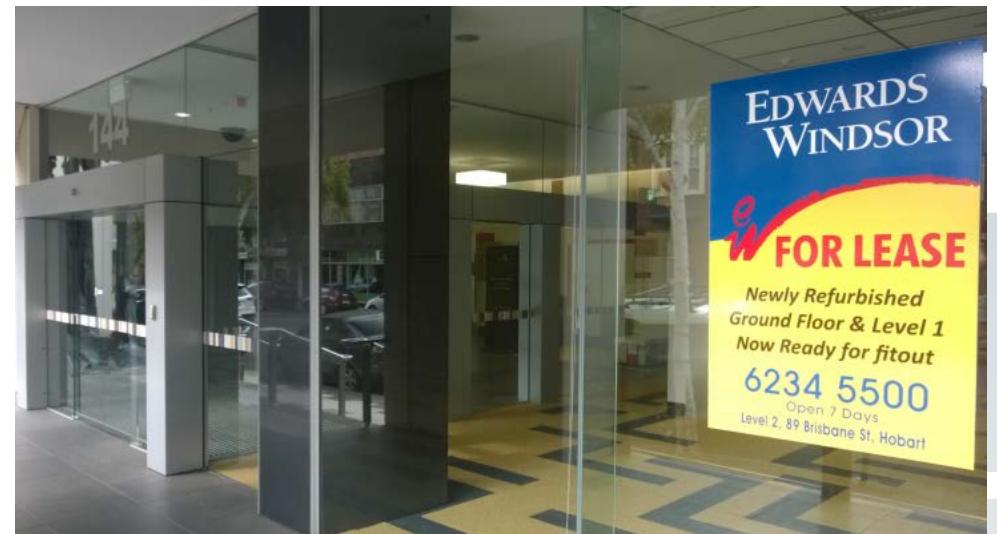
AASB 1058 – Key Areas

- Assets received below fair value
- Volunteer services
- Transfers received to acquire or construct non-financial assets
- Grants
- Non-contractual statutory income
- Peppercorn leases

AASB 15 and 1058 – Are you ready?

- What are your revenue, income and grant sources?
- Which sources involve activities in a different financial year to when the money is received?
- How will your accounting change, e.g. from up-front to deferral?
- Do you have systems to determine how much to recognise and how much to defer?
- Will you be preparing comparatives in the first year of application?
- Consider future agreements?

AASB 16 Leases



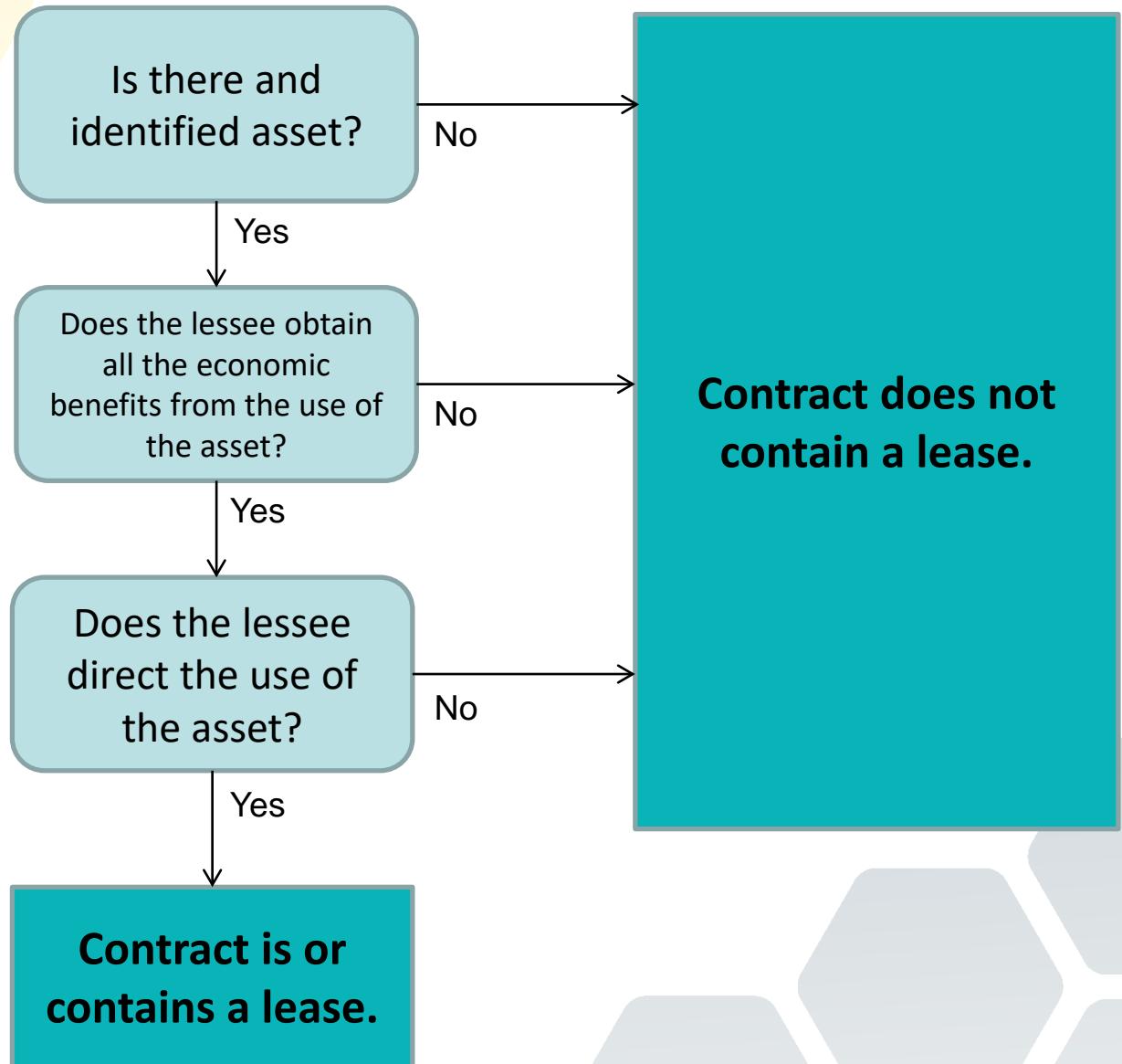
Objective

- To ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

What is a lease?

A lease is a **contract** or part of a contract that conveys the **right to control the use** of an **identified asset** for a period of time in exchange for consideration.

Does a contract contain a lease?



AASB 16 Leases – what is changing ...

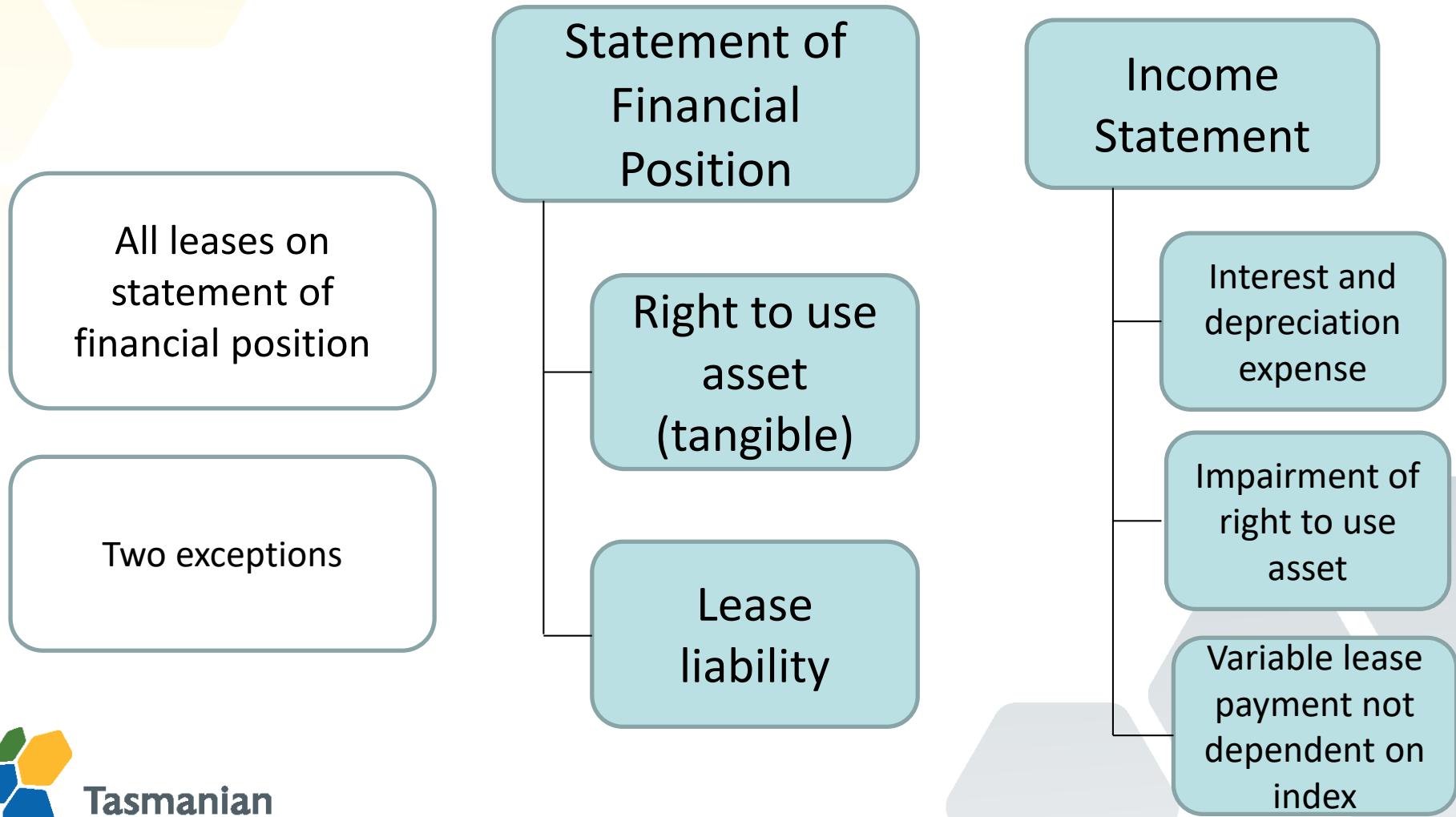
No changes to accounting for lessors

Same accounting treatment as for finance leases

- Determine term
- Determine rental payments (cash flows)
- Determine discount rate

Operating leases – fundamental change

AASB 16 Operating leases



AASB 16 Leases – *What's excluded?*

Short-term
leases

Low value
assets

Account for leases similar to operating leases – with lease payments recognised as an expense on a straight line basis over the lease term.



Leases – are you ready?

- What operating leases do you have?
- Do any of them get excluded under the less than 12-month and low value (\$7 500 AUD) exemptions?
- Are you reasonably certain of exercising any options –even if at market value?
- How do your lease rentals change (e.g. CPI, fixed, market reviews)?
- When do your lease rentals change?
- Do you have an accounting system that can undertake the detailed calculations for rental adjustments?
- How will your balance sheet change with the extra assets/liabilities?
- How will your net result/profit change?

New standards – overall considerations

- Need for comparatives brings forward start date.
- Staff training.
- Briefings by management to Audit Committees and TCWG on impact of new standards.
- Project implementation plans for new standards.
- Accounting policy manuals updated?
- Processes established to collect comparative information in a timely manner – effectively a year before standard is applied.
- Are your systems sufficient to meet the disclosure requirements?

Update on accounting treatments



Found assets



- Previously treated as revenue
- Now treated as a prior period error, where material:
 - include a third balance sheet or appropriate note disclosures
 - ensure the adjustments are recorded at the commencement of the preceding accounting period – balances should be recorded as if the error had never occurred
 - adjust comparative information for material prior period errors
 - disclose information required by AASB 101 and AASB 108

Underlying result calculation in local government

*'Underlying surplus ... amount that is the **recurrent** income (not including income received specifically for **new or upgraded assets, physical resources received free of charge or other income of a capital nature**) of a council for a financial year less the recurrent expenses of the council for the financial year.'*



Underlying result: revenue exclusions

- Roads to Recovery funding (some exceptions)
- Insurance claims or reimbursements
- Monies received from the sale of land for unpaid rates
- Donations or bequests



Underlying result: expenses exclusions

- Asset revaluation decrements (or reversal of previous decrements)
- Disposal/write-off of assets as a result of natural disasters, other unforeseen events or for abnormal reasons
- Redundancy program costs
- Major impairment write-downs



Decluttering financial statements



Improving presentation of financial statements

- Moving accounting policies to the relevant notes
- Grouping similar information together
- Changing the order of the notes in level of importance to the user

1: Focus on users

A note at the beginning of the financial statements explains which information is considered material and the grouping of notes.

Notes to the Financial Statements

The notes to the financial statements include information that is required to understand the financial statements and is material and relevant to the operations, financial position and performance of the Company. Information is considered material and relevant if, for example:

- the amount in question is significant because of its size or nature
- it is important for understanding the results of the Company
- it helps explain the impact of significant changes in the Company
- it relates to an aspect of the Company's operations that is important to its future performance.

The notes have been grouped into sections to help readers understand how the Company strategy is reflected in the financial performance and position of the Company.

These sections comprise:

- A: Financial performance
- B: Asset platform and operating liabilities
- C: People
- D: Funding structure, financial assets and risk management
- E: Additional information.

2: Group policies and notes

**Financial
Performance
section is
introduced**

**Revenue
notes are
grouped
together into
'Revenue and
other income'
category**

A – Financial performance

This section provides further information in respect to the financial performance of the Company for the year ended 30 June 2016. The focus is on revenue, expenses and cashflow disclosures. Certain operational expenses such as impairments are disclosed in the notes with the associated operating asset or liability in Section B: 'Asset platform operating liabilities'. Employee-related expenses are disclosed in Section C: 'People'.

A1 Revenue and other income

Revenue is measured at the fair value of the consideration received or receivable. The following is a breakdown of the Company's revenue from continuing operations for the period:

	2016 \$'000	2015 \$'000
Operating revenue		
Revenue from the provision of services	203,923	193,529
Revenue from the sale of goods	13,401	11,939
Operating revenue	217,324	205,468
Investment revenue¹	2,573	2,931
Other revenue²	1,013	
Other gains³	14	
Total operating revenue	220,924	208,552

1. Interest income.

2. Insurance recoveries.

3. Gain on disposal of property, plant and equipment. No other gains or losses were incurred in respect of loans and receivables or held-to-maturity investments, other than impairment recognised or reversed in respect of trade receivables as disclosed in note B1: 'Receivables and other assets'.

Recognition and measurement

Revenue from the provision of services

Revenue from passengers and freight services is recognised on a voyage-by-voyage basis at the time of a vessel's departure. Cash received for future voyages is treated as revenue received in advance and disclosed as a liability in the statement of financial position until the time of a vessel's departure.

Revenue from the sale of goods

Revenue from the sale of goods is recognised on a point-in-time basis when the customer has received the goods and has a present right to receive payment.

Revenue from investment assets

Revenue from investment assets is recognised at the date when the investment asset is sold.

Revenue from other assets

Revenue from other assets is recognised when there is a present right to receive payment.

Revenue from insurance recoveries

Revenue from insurance recoveries is recognised when there is a present right to receive payment.

Revenue from other gains

Revenue from other gains is recognised when there is a present right to receive payment.

Revenue from disposals of property, plant and equipment

Revenue from disposals of property, plant and equipment is recognised when there is a present right to receive payment.

Accounting policies are grouped and moved to the relevant note

Footnotes are used to explain composition of line items

Source: TT-Line Company Pty Ltd Annual Report 2015-16

3: Reduce immaterial disclosures

Superannuation

The Retirement Benefits Fund (RBF) defined benefits scheme covers eligible employees who commenced prior to 15 May 1999. The defined benefits scheme was closed to new members from that date.

The benefit is calculated as a function of the members' salaries, level of contributions and length of service.

Each year, at the reporting date, the State Actuary conducts a valuation of the past service and accrued liabilities within the defined benefits scheme. Any shortfall between the defined benefit obligation and the fair value of RBF assets relevant to those members determines the value of any unfunded superannuation liability, and is shown as a liability in the statement of financial position. Actuarial gains and losses are recognised in the statement of comprehensive income through other comprehensive income.

For all employees who are not members of the RBF defined benefits scheme, the MAIB contributes at least the minimum level of superannuation required by the Commonwealth *Superannuation Guarantee (Administration) Act 1992*. Contributions are made to nominated accumulation schemes and are expensed when they fall due.

	2016 \$'000	2015 \$'000
Due within 12 months		
Annual leave	236	212
Long service leave	35	29
Retirement Benefits Fund	38	49
	309	290
Due in more than 12 months		
Long service leave	375	355
Retirement Benefits Fund	6,535	4,563
	6,910	4,918
Total employee benefits	7,219	5,208

Prior to decluttering,
the entity used 5 pages
to reproduce
information provided by
the actuary in relation
to its defined benefits
superannuation liability.

This liability
represented less than
1% of total liabilities.

Source: Motor Accidents Insurance Board Annual Report 2015-16

4: Remove irrelevant notes

Liabilities

Current liabilities

Trade and other payables

Trust funds and deposits

Provisions

Interest-bearing loans and borrowings

Total current liabilities

24	4,198	4,338
25	1,809	1,305
26	2,111	2,338
27	-	-
	<hr/> 8,118	<hr/> 7,981

Note 27 Interest-bearing loans and borrowings

*Current
Borrowings*

Considering that the entity had no borrowings, there was no need for the line item and corresponding note to be included in the financial statements

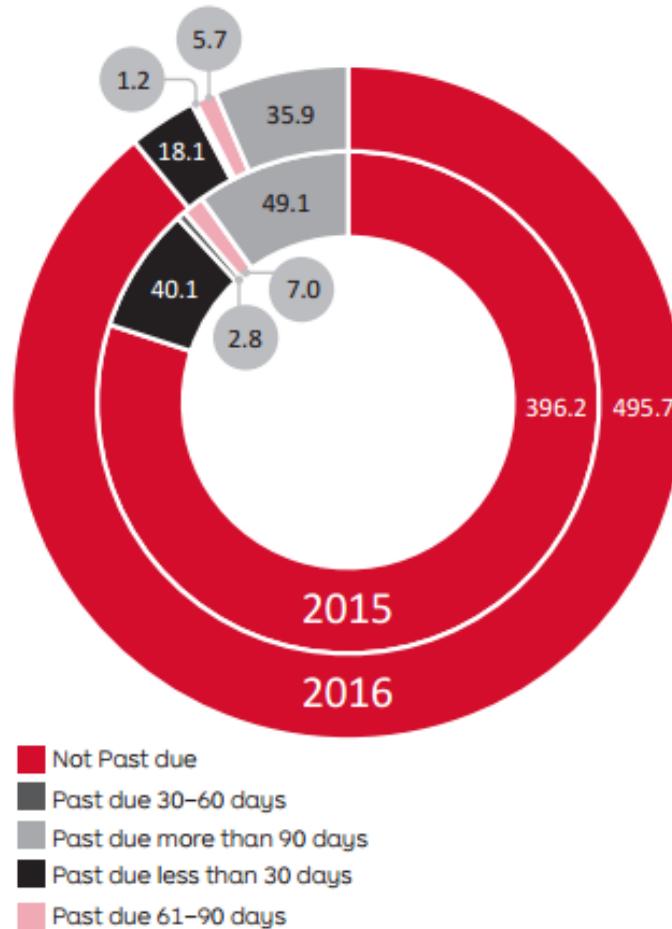
5: Re-write technical wording

- Use simple, clear language
- Simplify accounting descriptions e.g. “Trade and other receivables” can be “Receivables”
- Remove jargon
- Remove words that add no value

Step 6: Use charts, graphs and ratios

- Simplify tables, layout and format
- Revisit page orientation, use of columns, highlighting, headings, font size and colour to identify key messages

Total current trade and other receivables are aged as follows (\$m):



Source: Australia Post Annual Report 2015-16

Audit update



Submission of financial statements

Current position

Audit Act 2008, section 17(1) :

- Submit financial statements within 45 days after the end of each financial year
- Financial statements must be **complete in all material respects.**

Audit Act 2008, section 19(3):

- The Auditor-General must finalise the audit opinion for a State entity within 45 days of receiving financial statements from the accountable authority.

Within 45 Days from year end

Within 45 Days from submission

Financial statements must be certified by the Accountable Authority when submitted.

Submission of financial statements

New position

Audit Act 2008, section 17(1) :

- Submit financial statements within 45 days after the end of each financial year
- Financial statements must be **complete in all material respects.**

Audit Act 2008, section 19(3):

- The Auditor-General must finalise the audit opinion for a State entity within 45 days of receiving financial statements from the accountable authority.

Within 45 Days from year end

Financial statements certified by:

- Accountable Authority; or
- a suitably senior finance officer

Financial Statements Preparation and Submission Checklist to be submitted with the financial statements

Within 45 Days from submission

Financial statements must be certified by the Accountable Authority prior to the issuance of the audit opinion



Enhanced auditor's reports

Changes by section of the audit report

Section	Key change
Audit opinion	<ul style="list-style-type: none">• Audit opinion to the front of the report followed by the basis of opinion section
Going concern	<ul style="list-style-type: none">• Description of the responsibilities of management and the auditor for going concern• Material Uncertainty Related to Going Concern - new section where a material uncertainty exists and is adequately disclosed in the financial statements, instead of emphasis of matter paragraph
Key audit matters (KAMs)	<ul style="list-style-type: none">• Inclusions of Key Audit Matters (KAM) in their auditor's reports• Matters communicated with those charged with governance, those matters that required significant auditor attention• Areas of higher assessed risk, significant auditor judgements, involving significant management judgements and the effects of significant events or transactions• Most significant matters for inclusion in the auditor's report
Other information	<ul style="list-style-type: none">• New inclusion in the audit report to cover auditor's work conducted on other information in the financial report/annual report
Auditor responsibilities	<ul style="list-style-type: none">• Changes to statement on independence• Enhanced description of responsibilities of the auditor and management.

Enhanced auditor's reports

30 June 2017

30 June 2018

30 June 2019

**Inclusion of
KAMs in
auditor's
reports**

Government businesses (including TasWater and University)

Government departments

Councils and other
state entities

Recent frauds

Brisbane City Council pays \$450,000 to fraudsters

Google and Facebook have confirmed that they fell victim to an alleged \$100m (£77m) scam.

Invoice email scam now targeting Australian businesses

Small business hit by \$500,000 invoice scam: ACCC issues warning

Council fraud: Two other councils targeted by scams before Brisbane was duped

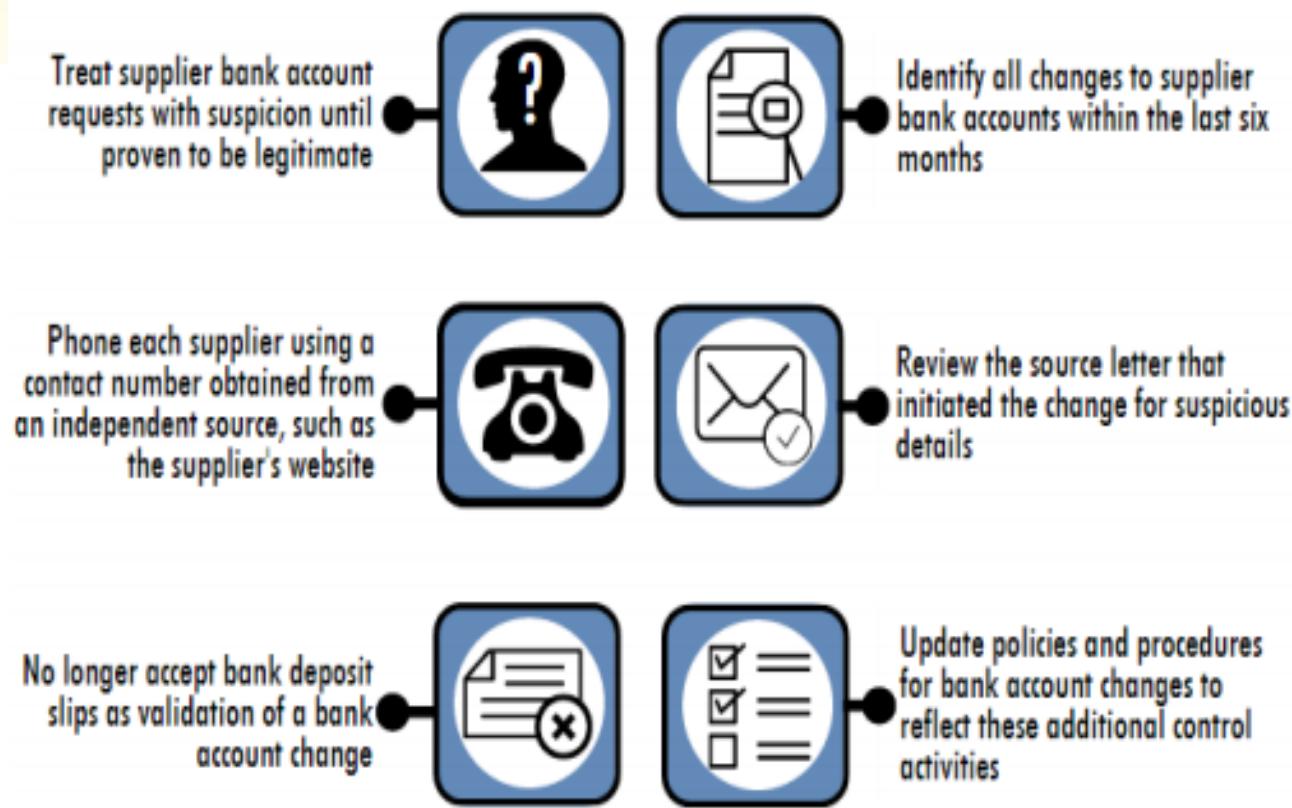
Townsville City Council loses almost \$300K to scammers who also ripped off Brisbane

\$450,000 invoice fraud a lesson for any official authorising payments

Fake boss, invoice scam nets \$500,000 from WA businesses



Change of supplier bank details



Questions



Thank you