



Tasmanian
Audit Office

Client Information Session
May 2017



Introduction

Time	Topic	Presenter
30 min	Audit Update part 1 <ul style="list-style-type: none">• Submission of financial statements• Enhanced audit opinions• Performance reporting• Use of experts	Rod Whitehead, Auditor-General
30 min	Audit Update part 2 <ul style="list-style-type: none">• Audit findings 2015-16• Underlying results - local government• Decluttering financial statements	Jara Dean, Assistant Auditor-General Financial Audit
45 min	Accounting Standards Update <ul style="list-style-type: none">• Revenue (AASB 15 & 1058)• Leases (AASB 16)• Financial Instruments (AASB 9)• Other matters of interest	Jeff Tongs, Director Technical and Quality
30 min	Break	
1 hour	Related Party Disclosures (AASB 124)	Ric De Santi, Deputy Auditor-General
30 min	Recent Performance Audits <ul style="list-style-type: none">• Use of fuel cards• Other performance audits	Rob Luciani, Manager Technical and Quality Simon Andrews, Manager Performance Audit



Housekeeping matters



Audit Update – Part 1

- Submission of financial statements
- Enhanced audit opinions
- Performance reporting
- Use of experts

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

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



Within 45 Days from submission

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**.

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

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 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

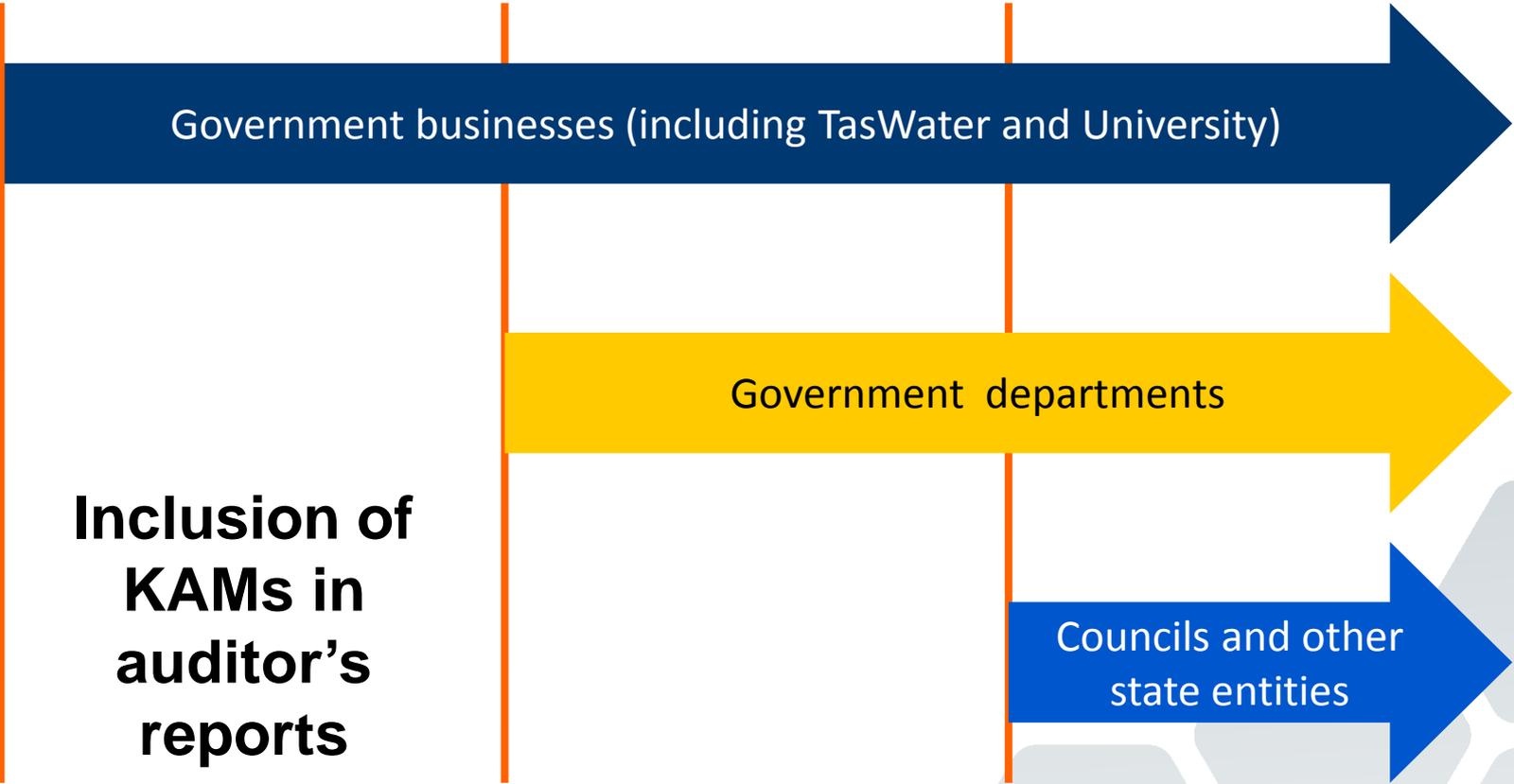
Section	Key change
Audit opinion	<ul style="list-style-type: none">• Audit opinion to the front of the report followed by the basis of opinion section
Going concern	<ul style="list-style-type: none">• Description of the responsibilities of management and the auditor for going concern• Material Uncertainty 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

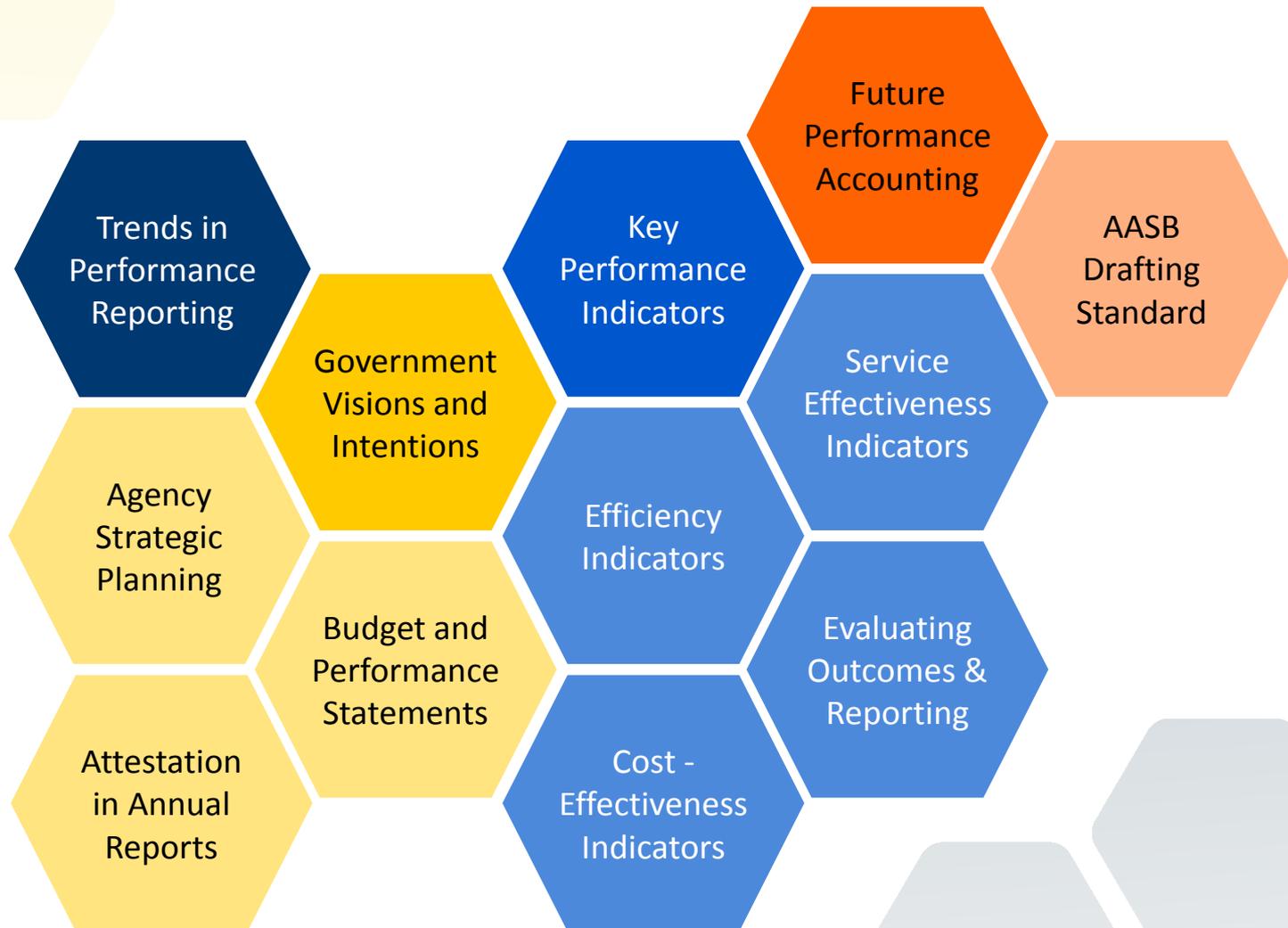
30 June 2019



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



Performance reporting



Performance reporting

	WA	ACT	C'lth	Qld	Vic	Tas
<u>Government planning</u>						
Long-term strategic plans link with Government direction	✓	✓	✓	✓	✓	?
Plans include performance measurement	✓	✓	✓	✓	✓	✗
<u>Budget statements</u>						
Include KPIs	✓	✓	✓	✓	✓	✓
Include targets	✓	✓	✓	✓	✓	✓
Include minimum KPI requirements (effectiveness, efficiency, cost or a balanced set)	✓	✓	✓	✓	✓	✗

Performance reporting

	WA	ACT	C'lth	Qld	Vic	Tas
<u>Entity reporting</u>						
Performance reporting in annual reports	✓	✓	✓	✓	✓	✓
Annual reporting consistent with planning documents (budget or strategic plan)	✓	✓	✓	✓	✓	✓
Planned KPIs reflected in annual reports	✓	✓	✓	✓	✓	✓
Planned targets reflected in annual reports	✓	✓	✓	✓	✓	✓
Analysis required (KPIs, material variances between budget targets and actual results)	✓	✓	✓	✓	✓	✓
Changes to KPIs require explanation	✓	✓	✓	✓	✓	✗
Framework allows for performance information to be audited	✓	✓	✓ ¹	✗	✗	✗

1. Minister's discretion

Use of experts



Use of experts

Who is an expert?

- An individual or organisation
- Possessing expertise in a field *other than accounting or auditing*
- Whose work in that field is used by:
 - the **entity** to assist the **entity in preparing the financial report** (management's expert ASA 500, para 5 (d))
 - the **auditor** to assist the **auditor in obtaining sufficient appropriate audit evidence** (auditor's expert (ASA 620, para 6 (a))

Use of experts

Examples of experts:

- Valuers
- Treasury specialists
- Actuaries
- Surveyors
- Engineers
- Environmental consultants
- IT specialists
- Lawyers
- Tax advisers

Taxation - outside the area of accounting and auditing?

It will depend upon:

- how new the tax law is
- the level of complexity
- the level of professional judgement
- the absence of rulings, etc.
- is it compliance or advice



Use of experts



"I know nothing about the subject,
but I'm happy to give you my expert opinion."

GS 005 *Using the Work of a Management's Expert*

- Identifies when management experts are used
- Considers the nature of that work
- Determining whether to use the work of management's expert as audit evidence
- Information to be used as audit evidence.
- Provides further audit guidance in addition to *ASA 500 Audit Evidence*

Use of experts

1. Competence and capability of the expert

- What qualifications do they have?
- What experience to they have?
- Do they have to comply with ethical and technical standards?
- Do they undertake professional development?
- Do they have a knowledge of accounting standards?
- Do they have the ability to complete the work?

Use of experts

2. Objectivity of the expert

- Is the expert an employee or external consultant?
- Are there any conflicts of interest?
- Is there a familiarity threat?
- Is there an advocacy threat?
- Does the expert have any financial interest in/with the entity?
- Are there any business/personal relationships with the expert?
- Does the expert provide other services to the entity?
- Will there be a possible bias in the work of the expert?

Use of experts

3. Understanding the work of the expert (what have they done)
 - Has an engagement letter/letter of instruction been issued?
 - Does the expert have an understanding of the entity/sector and/or financial and economic conditions?
 - Can you discuss/review the expert's work?
 - Can we discuss/review the expert's work?
 - Can you/we rely on the expert's work (any disclaimers, restrictions or limitations on use)?

Use of experts

4. Evaluating the appropriateness and adequacy of the work - assumptions, methods and source data
 - Do you have knowledge in the field of expertise?
 - Has the expert used a generally accepted approach(s)/ method(s)?
 - Did the expert use complex or specialised models?
 - Does the approach comply with financial reporting framework requirements (accounting standards)?
 - Have you considered the origin, relevance, accuracy and completeness of source data?
 - Are the assumptions reasonable?

Use of experts

5. Evaluating the appropriateness and adequacy of the work - findings/conclusions

- What changed from the draft report?
- Are prior period estimates accurate?
- Have you considered other corroborative evidence?
- Are the findings/conclusions consistent with your expectations?

Use of experts

Question: Why use an auditor's expert when management are already using an expert?

Answer: The decision to use an auditor's expert is up to the professional judgment of the auditor

ASA 620 Using the Work of an Auditor's Expert



Audit Update – Part 2

- Audit findings 2015-16
- Underlying results - local government
- Decluttering financial statements

Audit findings 2015-16

YEAR
2016

209 matters
60 entities

YEAR
2015

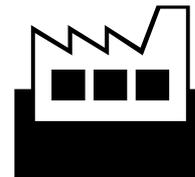
277 matters
63 entities



Audit findings by risk rating/sector



5



3



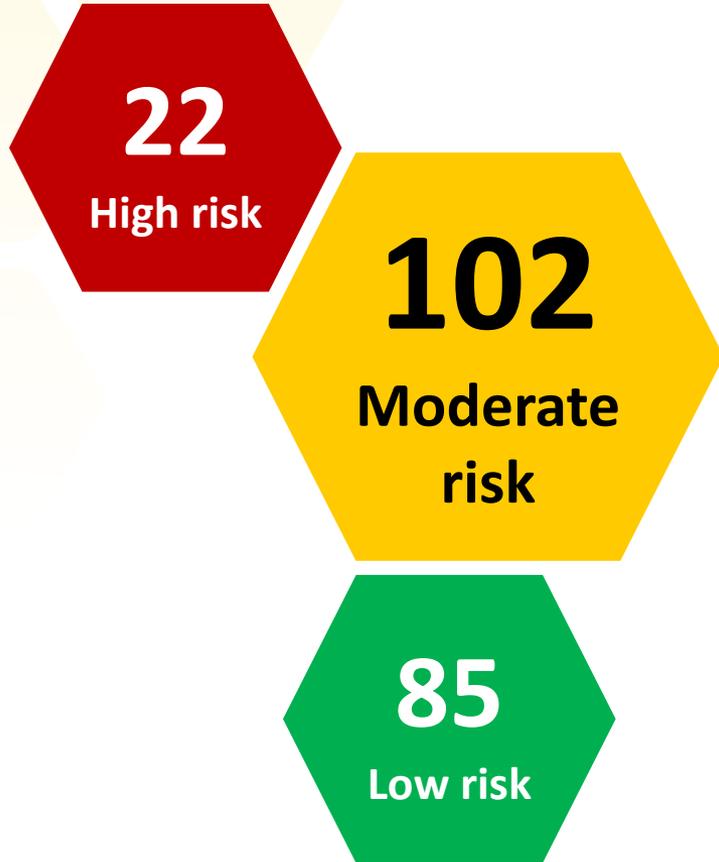
13

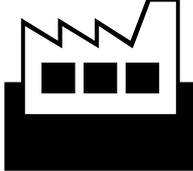
Other

1

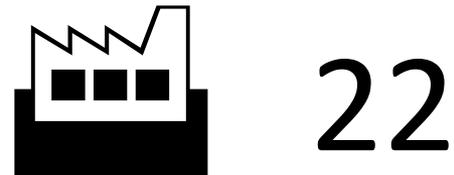


Audit findings by risk rating/sector



	22
	22
	47
Other	11

Audit findings by risk rating/sector



Recent fraud

Your money gone: Brisbane City Council scammed of \$450,000 of ratepayer cash

Brisbane City Council pays \$450,000 to fraudsters

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



Change of supplier bank details

Treat supplier bank account requests with suspicion until proven to be legitimate



Identify all changes to supplier bank accounts within the last six months



Phone each supplier using a contact number obtained from an independent source, such as the supplier's website



Review the source letter that initiated the change for suspicious details



No longer accept bank deposit slips as validation of a bank account change



Update policies and procedures for bank account changes to reflect these additional control activities



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 calculation in local government

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*‘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

Found assets

- Previously treated as revenue
- Now treated as a prior period error, where material:
 - include a third balance sheet [AASB 101; paras 10(f) and 40A]
 - 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

Improving presentation of financial statement

- 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 and 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 revenue ¹	2,573	2,931
Other revenue ²	1,013	1,013
Other gains ³	14	14
Total operating revenue	220,924	208,555

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 an accrual basis at the date of sale.

Revenue from the sale of services is recognised when the benefits will flow to the Company and the amount of revenue can be reliably measured over time, referring to the effective interest rate method that exactly discounts the cash flows through the expected life of the asset to its net carrying amount.

Revenue from the sale of services is recognised when the benefits will flow to the Company and the amount of revenue can be reliably measured.

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

2: Group policies and notes (continued)

Cash Management

Note 21 Cash and cash equivalents

Consolidated Consolidated Council Council

Note 22 Inter

2015

Note 24 Management indicators relating to cash management

	Benchmark	2016	2015	2014	2013
(a) Net financial liabilities		\$'000	\$'000	\$'000	\$'000
Liquid assets less		12,249	15,932	11,821	13,908
Total liabilities		11,776	11,343	12,076	11,010
Net financial liabilities	0	473	4,589	(255)	2,898

This measure shows whether Council's total liabilities can be met by its liquid assets. An excess of total liabilities over liquid assets means that, if all liabilities fell due at once, additional revenue would need to fund the shortfall.

Management indicators note was moved to the section of the financial statements which has information relevant to what the ratio attempts to measure

All information relevant to cash management are grouped together

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.

Step 3: Reduce immaterial disclosures

For this entity, with nearly \$60m in liabilities and \$250m in net assets, the level of contingent liabilities is not material.

E2 Auditors' remuneration

The auditor of the Company is the Tasmanian Audit Office. Fees charged for the audit of the current year's financial report were \$69,200 (2015: \$68,890).

E3 Contingent assets and liabilities

There were no material contingent assets or liabilities at 30 June 2016 (2015: nil).

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	-	-
	<u>8,118</u>	<u>7,981</u>

Note 27 Interest-bearing loans and borrowings

Current
Borrowings

.	.
<u>.</u>	<u>.</u>
.	.
<u>.</u>	<u>.</u>

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

Rates and charges (example)

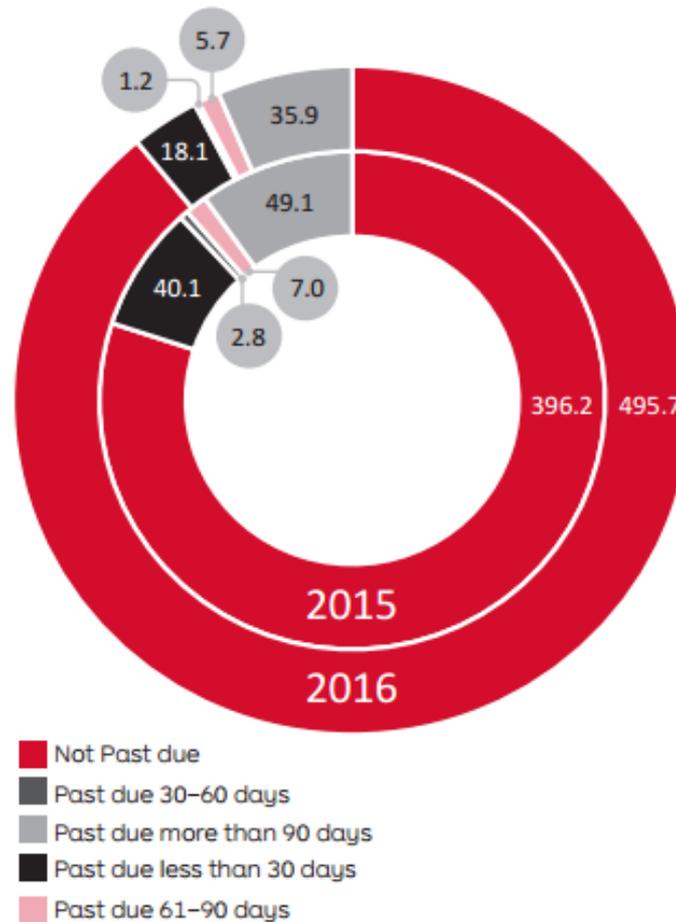
*Rates and charges are recognised as revenue when the **significant risks and rewards related to the corresponding assets have been transferred** to Council either at the commencement of the rating period or, where earlier, upon receipt of the rates and charges.*

*Revenue for rates and charges is recognised **upon issue of the levies** within the respective rating period or, where earlier, upon receipt of the rates and charges.*

Step 6: Use charts, graphs and ratios

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

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



Source: Australia Post Annual Report 2015-16

Questions



Thank you

